The co-operative bank

Annual Report and Accounts 2022

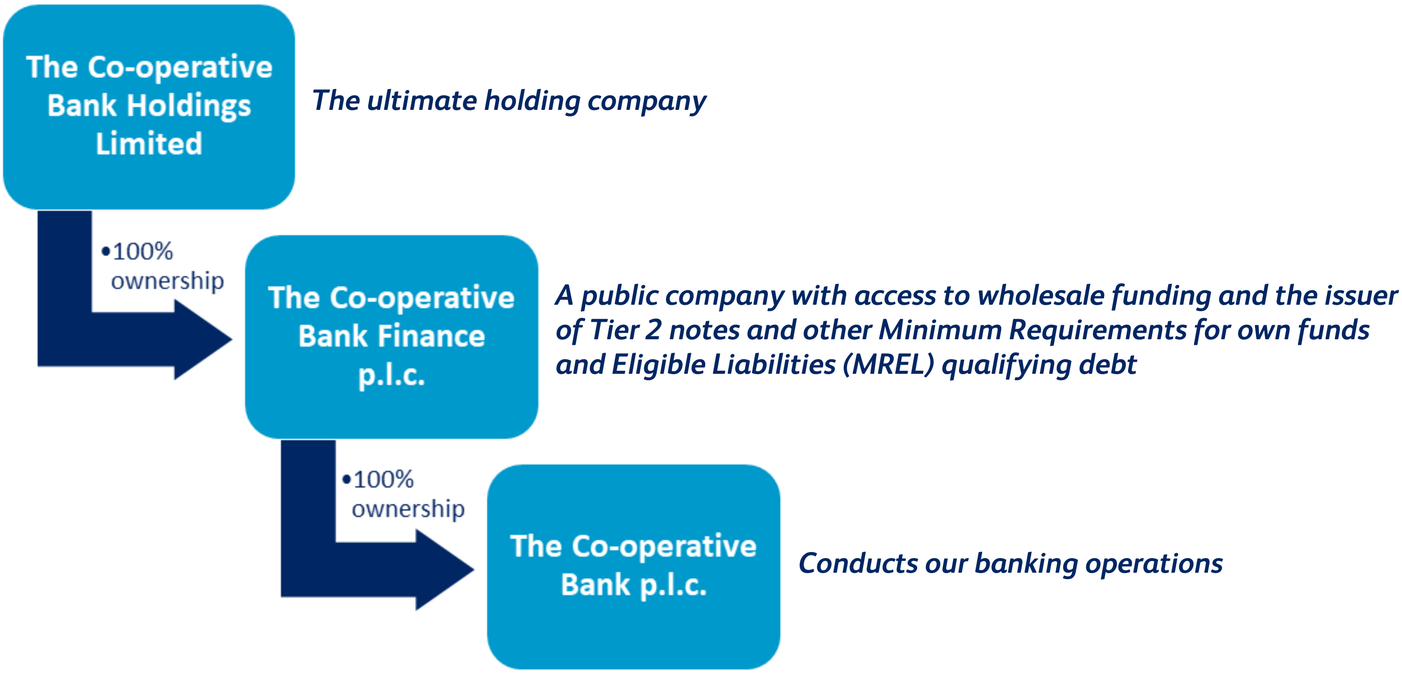
The Original Ethical Bank

Contents

Our Group structure

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

Further detail on the group structure is provided on page 70.



View information about The Co-operative Bank at:

www.co-operativebank.co.uk/investorrelations

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

@CooperativeBank

@TheCooperativeBank

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The Co-operative Bank plc

Company information

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

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

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

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

Registrar for The Co-operative Bank Holdings Limited
Computershare Investor Services plc
The Pavilions
Bridgwater Road
Bristol
BS13 8AE

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

The Co-operative Bank at a glance

Our story

The Co-operative Bank's story began 150 years ago in 1872, as the Loans and Deposits department of Co-operative Wholesale Society, and we have worked hard ever since to provide our customers with a real alternative to the larger retail banks. We always put our customers at the heart of what we do and we are committed to the values and ethics of the co-operative movement. The Co-operative Bank was the first UK high street bank to introduce a customer-led Ethical Policy which sets out the way we do business. This policy has been shaped by 370,000 customer responses since 1992.

Our values

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

Our purpose

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

Our vision

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

Core customer segments

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

Our strategy

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

In 2021, we refreshed our purpose and vision to reflect our ambition to be a leader on environmental, social and governance (ESG) matters in the UK banking industry. For more information on how we are delivering against our strategic priorities see pages 18 to 20.

Retail

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

Read more on page 54

82.7%	98.1%	83.0%
of core income	of core assets	of core liabilities

SME

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

Read more on page 58

17.3%	1.9%	17.0%
of core income	of core assets	of core liabilities

Business highlights

Full capital compliance and profits exceeding £130m

We delivered significant progress for The Co-operative Bank in what has been a transformative year. 2022 was the first year of our 'Growth and Efficiency' phase of the strategic plan (the Plan) and represents a critical year in our transformation. We improved our profitability substantially and returned to full compliance with regulatory capital requirements including all buffers for the first time in ten years. We also delivered key milestones in our Simplification programme - our multi-year strategic programme to rationalise our IT infrastructure which will deliver significant efficiencies and enable growth options over the longer term.

Statutory profit before tax	Underlying profit[1]	Net interest margin	Statutory cost:income ratio	Asset quality ratio
£132.6m	£136.0m	1.66%	73%	3bps
31 December 2021: £31.1m	31 December 2021: £41.0m	31 December 2021: 1.25%	31 December 2021: 91%	31 December 2021: 1bps

1. The underlying profit/(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 51.

Organically capital-generative with strong liquidity

We have generated 350bps of proforma CET1[2] growth in the year.

Common Equity Tier 1 (CET1)	Total Capital Ratio	Liquidity Coverage Ratio[4]	Risk Weighted Assets
19.8%	23.8%	265.3%	£4.8bn
31 December 2021: 20.7%	31 December 2021: 25.4%[3]	31 December 2021: 205.3%	31 December 2021: £4.4bn
Regulatory minimum: 13.3%		Regulatory minimum: 100%	

2. Proforma references the removal of regulatory impacts such as PS11/20 and software intangibles.
3. 2021 Total Capital Ratio includes a benefit of approximately 0.6% from the change in treatment of software intangibles outlined in the European Banking Authority (EBA) Technical Standards.
4. Calculated in line with Pillar 3 requirements based on a rolling 12 month average.

De-risking one of our pension schemes

The Bank section of Pace has completed a full "buy-in" with a specialist UK insurer to insure scheme benefits through purchase of a bulk annuity insurance policy. The Scheme, and by extension the Bank as principal employer, is fully protected against the primary investment and longevity risks associated with the pension benefit. See page 52 for more detail on the financial impacts of the transaction.

- **Net retirement benefit asset reduced by £681.4m in the year, of which c. £395.0m relates to accounting impact of specific "buy-in" transaction**
- **£0.9bn of Pace Defined Benefit (DB) accounting liabilities at 31 December 2022 fully insured following this transaction**
- **No impact on capital in the year as a result of the transaction**
- **No further cash contributions expected in respect of Pace**

Successful issuance of £250m fixed rate reset callable notes due in 2027 by The Co-operative Bank Finance plc

- **MREL-qualifying debt**
- **First issuance under our Green, Social and Sustainability (GSS) Financing Framework**

Putting our customers first

Our customers are at the heart of everything we do and they shape all of our actions.

Continuing to provide lending to those who need it…

Total gross lending

£3.2bn

31 December 2021: £5.1bn

…and a range of savings and current accounts

Retail franchise deposits

£15.0bn

31 December 2021: £15.5bn

SME deposits

£3.4bn

31 December 2021: £3.5bn

Our mortgage book is stable, low risk and well positioned in a higher rate environment

- Stable mortgage book as we have actively managed new business volumes
- 53.5 % average core mortgage book loan-to-value (LTV)
- 0.13 % of secured accounts are greater than three months in arrears

Our franchise and SME deposits remain resilient

- Retail current account average balances increased by 4.5 %
- Marketing campaign highlighted our ethical difference
- Two savings products launched on updated platform this year (with another due in Q1 2023)

Non-financial highlights

Serving our customers

Current account customer satisfaction (NPS)	Average speed to answer (Retail, Annual)	Average speed to answer (Retail, Q4)	Average speed to answer (SME, Annual)	Average speed to answer (SME, Q4)
+28	**c.15 mins**	**c.9 mins**	**c.14 mins**	**c. 8mins**
(3rd place in the market)				
31 December 2021: +19	2021:	Q4 2021:	2021:	Q4 2021:
(4th place in the market)	c.17 mins	c.19 mins	c.22 mins	c.28 mins

- Our NPS score increased by 9 points in the year, which reflects the improvements we have taken to reduce customer call wait times (see below). However, we are committed to ensuring this score improves in future. To meet this commitment, we have updated our key performance indicators to place a more specific target on the matters that our customers tell us are important to them.
- Our average speed to answer (ASA) times reflect the difficulties we faced throughout 2022 but also show the steps taken to improve our customer experience. We have increased headcount in our contact centres by c. 200 colleagues at a cost of c.£2m in 2022 to reduce call waiting times and demonstrate our commitment to our customer service levels.
- As a result of these actions, our ASA in Q4 2022 is a significant improvement on our Q4 2021 results. We continue to look for improvements and target an ASA of less than five minutes.
- We are taking steps to upgrade parts of our branch network to ensure customers who prefer to bank with us via this channel have the access to support and services they need.

Supporting our colleagues

Percentage of senior roles held by women	Gender pay gap (median)	Ethnicity pay gap (median)	FSCB cultural survey overall result
41.3%	**29.3%**	**12.5%**	**75**
31 December 2021: 41.0%	2021: 28.7%	Reported for the first time in 2022	2021: 75 Described further on page 95

- Median gender pay gap has deteriorated. We have set long-term areas of focus to support career progression and gender balance at all levels through our five point diversity plan, details of which can be found in our Women In Finance Charter and Pay Gap Reporting on the Bank's website.
- We have reported our ethnicity pay gap for the first time in 2022. We will monitor this metric in future to understand movements, drivers, and the impact of actions taken to reduce the pay gap.
- In the Financial Services Culture Board (FSCB) survey customer focus remained our highest-ranked cluster in the survey. We continue to score strongly when it comes to the Group's purpose and values being meaningful to colleagues.
- Other people metrics show the Group has continued in 2022 to perform resiliently in a challenging environment. They demonstrate a positive reaction our commitment to hybrid working and ensuring our colleagues can work where they feel most comfortable, whether that is in our offices or at home.

Helping our customers to protect the planet

As signatories of the United Nations Principles for Responsible Banking and ambassadors for Zero Hour, the campaign for the Climate and Ecology Bill, we've made a public commitment to take action to protect our planet, and to help our customers to behave more sustainably too. Having set our commitment to achieve net zero by 2050, here are some of the ways we're bringing our customers along on that journey…

The bank for greener businesses

We've teamed up with sustainability platform Zellar to help our business customers to measure, manage and improve their green business credentials by making sustainability simple and actionable.

The bank for greener home owners

We've introduced two Green Additional Borrowing options for existing mortgage customers in 2022 which will help them to make energy saving improvements to their properties.

We've also worked with the Energy Saving Trust (EST) to introduce an online tool that creates a personalised Energy Saving Improvement Plan. This shows the energy savings that can be made following specific home improvements, allowing home-owners to understand the financial benefits of making their homes more energy efficient.

Sustainability information at your fingertips

Retail customers using our mobile app can now access articles and information on sustainability through the mobile Sustainability Hub. It's found under the 'More' menu on the app.

Putting ethics into action in our 150th year

Supporting our communities has been an important element of our celebrations to mark 150 years of ethical banking, with over £1.5m donated to charities by the bank, our colleagues and customers, and over 4,000 hours of colleague time volunteered this year.

Further from home, the Bank responded to the humanitarian appeals following the start of the war in Ukraine and the devastating floods in Pakistan by launching major appeals. Together with our colleagues and customers, we raised over £540,000 to support the efforts of the Disaster Emergency Committee in these regions.

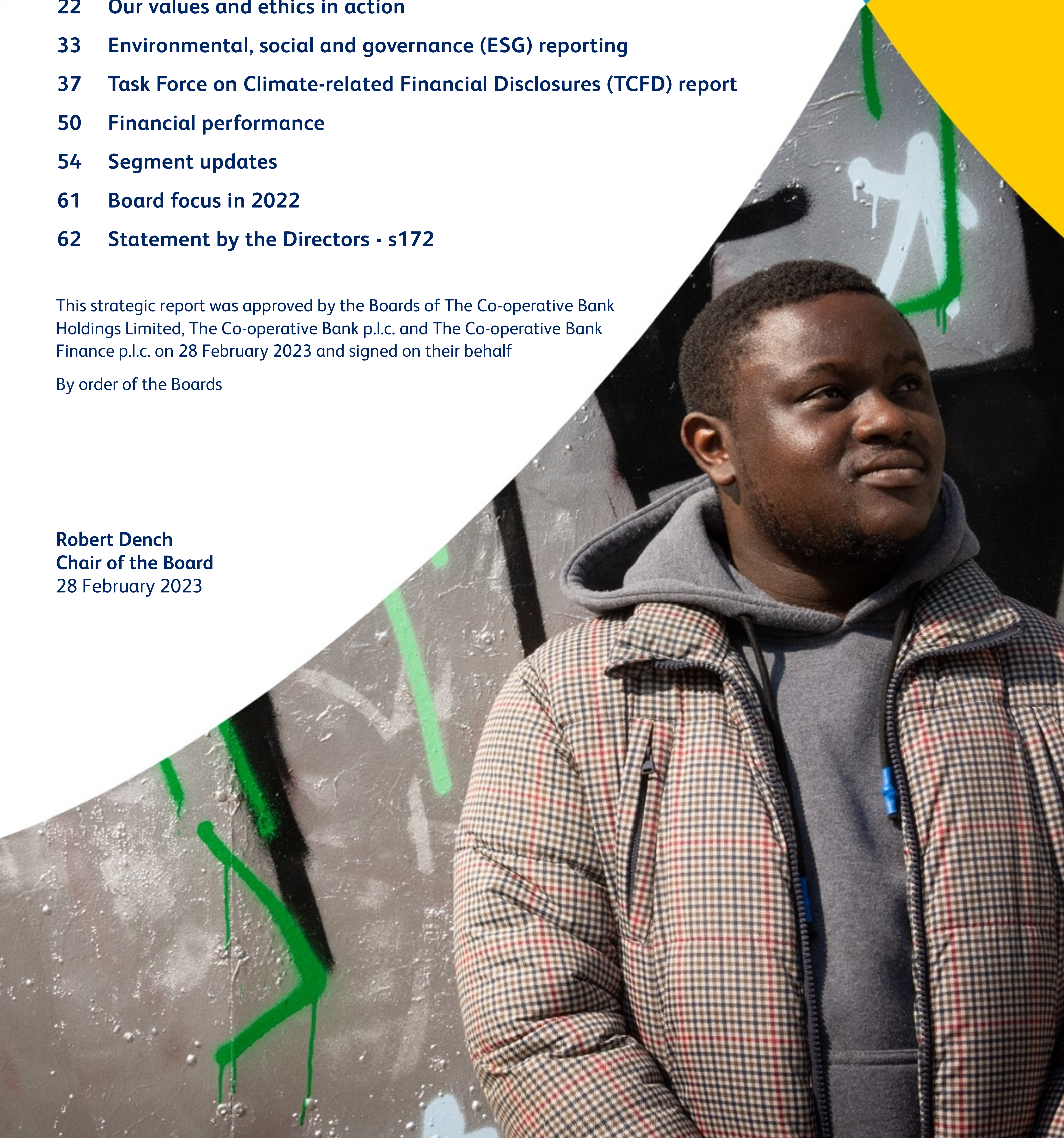
We have been proud to continue our campaigns and use our voice to drive positive social and environmental change. Supporting Centrepoint in their mission to end youth homelessness by 2037, working with Refuge to provide better support for victims of economic abuse and standing alongside human rights defenders with Amnesty have been key campaigns. We've also continued our work as an ambassador for Zero Hour, the campaign for the Climate and Ecology Bill, helping them to drive awareness of the proposed bill within communities and government.

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 28 February 2023 and signed on their behalf

By order of the Boards

Robert Dench
Chair of the Board
28 February 2023



Welcome to our Annual Report and Accounts for 2022

Chair of the Board's welcome

I am pleased to present The Co-operative Bank's Annual Report and Accounts for 2022.

I am really enjoying the enormous privilege of leading the Board and being part of what has been a huge effort by all colleagues to rebuild and rejuvenate the Bank. There is always much more to do but we can now look forward with some confidence to a period of sustained profitability. I am sure all colleagues, past and present, get a real sense of pride for what has been achieved.

These achievements are underpinned by the culture, values and ethics which permeate the organisation. In 1980 I worked for a bank which provided 'white label' banking products to The Co-operative Bank, which was soon to be led by Terry Thomas (later, Lord Thomas of Macclesfield). He used to speak to me about his idea of building on the collegiate culture of the co-operative movement and using it to embed a set of values and ethics into the Bank. Since then those values have driven how we do business, who we do business with, how we choose our suppliers and the type of person we recruit.

Today we reinforce the tone from the top through a Board-level Values and Ethics Committee to guide the business and to work with Co-operatives UK so as to ensure we are leaders in this area. Our work on sustainability and ESG sets us up as a clear banking alternative for our customers. We have, for the second year running, been rated by Sustainalytics as the UK's best ESG rated high street bank and have obtained a AAA ESG rating from MSCI. Our unique culture continues to ensure the goodwill of customers and colleagues and to drive us in our efforts to be responsible and caring in the way we fulfil our broader social responsibilities. I would urge everyone to look at our brand campaign, "The Bank you can hold to account," which demonstrates the key aspect of our cultures and our three core aims, which are to help the planet, people and the community.

Everyone in the UK faces real challenges brought about by the macroeconomic environment and its impact on inflation, interest rates and general confidence. All of us are impacted by these things. Our personal banking and support teams are working hard to recognise and help people who are under stress. Early recognition of problems and asking for help are key. Colleagues are similarly impacted, and so to help in some way, we made one-off cash payments of £300 to support those earning under £30,000 per year in July and then in September 2022 made an out-of-cycle salary increase of £1,000 to everyone earning less than £80,000. Minimum pay has been increased in line with the Real Living Wage and junior colleagues now receive twice yearly bonus payments.

"Our work on sustainability and ESG sets us up as a clear banking alternative"

More broadly, we are very active in our work with charity partnerships and this was recognised by Moneyfacts, who chose us as the Best Charity Banking Provider for the seventh year running. Our SME business continues to grow as we support UK businesses who share our values and ethics. In 2022 we launched a new mobile banking app, an award-winning Request to Pay app in partnership with BankiFi, 'Go Get Paid', and a new partnership with Zellar which guides SME businesses and their own customers to greener choices, thereby further encouraging sustainability.

We continue to support other co-operatives and charities through The Hive (http://archive.uk.coop/the-hive/about/what-hive) facilitating real progress in their communities and positioning us as the natural ethical banking choice for SMEs in the UK.

A natural turnover of Board members will see its makeup change over the next few years. This allows us to think about how it may best be populated as we move away from restructuring into a more normal business rhythm. Sally-Ann Hibberd, who contributed well to recent successes, stepped down with the Board's heartfelt thanks in July 2022. She was replaced by Raj Singh in September 2022, who brings with him a lot of experience, particularly in respect of all aspects of risk. At executive level, the external recruitment of a new CIO, Gary Delooze (subject to regulatory approval) and the internal promotion of Gary McDermott to be our new Corporate and Strategic Development Director will help drive us on to the next stage of our development.

This has been a tremendously satisfying year for all of us at the Bank and it has been a great pleasure to see how colleagues have risen to, and dealt with, the many challenges faced. The Board has once again played a major role in guiding, challenging and supporting the business and I thank them all for their time, energy and commitment to this wonderful business.

Bob Dench
Chair of the Board

Improved financial performance across all key profitability measures

Chief Executive's review

2022 was a milestone year for The Co-operative Bank. We have made significant progress in the delivery of our strategy and I am delighted to report profit before tax of £132.6m and that we are also now fully compliant with all of our regulatory capital requirements including buffers on a sustainable basis a year ahead of schedule.

We delivered a substantially improved financial performance in 2022 with statutory profit before tax having increased by £101.5m compared to 2021. The difference between statutory and underlying profit also converged with the difference decreasing from a net expense of £9.9m in 2021 to £3.4m in 2022.

We made excellent progress in our core business segments, supported by improving deposit margins following increases in the base rate to 3.5% (by December 2022). Customer assets were stable in the year following repayments of Bounce Back loans (BBLs) and actively managed mortgage applications in order to preserve Bank margins. We delivered £3.2bn of gross lending in the year with levels of maturities and other movements being similar year-on-year. Average completion margins over the year reduced to 77bps from 193bps in 2021, due to 2021 benefitting from a significant increase in mortgage market activity following the stamp duty moratorium and with 2022 impacted by rising swap rates outpacing gross customer rates.

Core customer liabilities reduced by £1.1bn to £20.0bn, following a small unwind of excess balances that customers built up over the pandemic. Marginal increases towards the end of the period are the result of the release of two new savings products as well as our 'Refer a Friend' current account incentive.

Our return to sustainable profitability has allowed us to recognise additional deferred tax assets in respect of previously unrecognised historical losses and we now have an asset of £120.6m that will be used to shelter future profits. We expect to recognise further assets in the future. There was an income statement tax charge in the year of £110.5m which includes £58.4m for a write-down of the deferred tax asset in respect of tax losses that had been previously supported by the Pace net retirement benefit deferred tax liability, and a reduction in the value of deferred tax assets of £43.3m following the change in tax rates.

Low risk balance sheet

In 2022 we improved our proforma CET1[1] ratio by 350bps organically, to 19.8%, driven by year end profits. This is well above the regulatory CET1 minimum of 13.3%. In 2022 we achieved a significant milestone as we became fully compliant with regulatory capital requirements including buffers on a sustainable basis for the first time in nearly ten years. This achievement is one year ahead of our Plan which reflects the strong financial performance and sustained focus on risk management over many years. Early in 2022 we issued further MREL-qualifying debt of £250m and this was the first issuance under our Green, Social and Sustainability (GSS) Financing Framework. As we look to 2023 we will consider an issuance of MREL-qualifying debt in order to optimise our capital stack.

Our funding structure remains robust with LCR at 265.3%. 77% of funding is from customer liabilities with 23% from wholesale funding, the majority (£5.2bn) being low-cost government funding from the Bank of England (BoE) Term Funding Scheme with additional incentives for SMEs (TFSME) which matures in 2024/25. We plan to start repaying the TFSME in 2023 which would be refinanced through a combination of retail and wholesale funding.

It is pleasing to see external recognition of the significant progress made to improve the Bank's financial profile, with credit rating upgrades from Moody's in December 2022. The Bank's long-term deposit rating with Moody's is now one notch off investment grade (Ba1) with a positive outlook - a credit rating the Bank has not achieved since 2012. Our rating with Fitch also improved to BB (previously B+).

1. Proforma references the removal of regulatory impacts such as PS11/20 and software intangibles

During the year the Pace Trustee completed a full "all-risks buy-in" transaction of the Bank Section of the Pace Pension Scheme. The Scheme, and by extension the Bank as Principal Employer, is fully protected against the primary investment and longevity risks associated with the pension benefits. The transaction was funded out of existing Scheme assets, without the need for additional contributions from the Bank. This has further de-risked the Bank's balance sheet and capital whilst also enhancing protection of benefits for members.

Strong ethical leadership

The Bank is rooted in distinct co-operative values and ethics which underpin how we run our business, providing customers with a real ethical alternative to other high street banks. 2022 marked our 150th anniversary of ethical banking and I am extremely proud of the way in which our Bank remains committed to our co-operative heritage in all that we do. Governments, businesses and consumers are consistently prioritising social and environmental issues, further emphasising the important part that our ESG credentials play in our ability to perform financially and operationally.

The Bank's long-standing commitment to ethical banking has made us a natural leader in ESG in the UK banking sector and beyond. This position was endorsed in 2022 by Sustainalytics, a leading ESG ratings agency, which recognised The Co-operative Bank as the UK's best ESG rated high street bank for the second year running. Throughout the year, we celebrated an impressive ESG Risk Rating of AAA from rating agency MSCI[1] which makes us the joint market leader as well as being recognised with the Most Ethical Bank UK Award 2022 by the Capital Finance International (CFI).

In 2022 we launched our sixth customer-led Ethical Policy, 30 years on from the first iteration. Our Ethical Policy is the heartbeat of our business and it outlines our commitments to our planet, people and our communities. It identifies the causes we support and guides the way we use our customers' money. The refreshed policy was implemented following c.50,000 customer responses to our Values & Ethics Poll, which was conducted at the end of 2021. In this latest poll, 83% of respondents told us that our Ethical Policy is why they choose to bank with us.

In October, I was delighted to co-host a parliamentary reception in the House of Lords with our partner Zero Hour, championing environmental change through bringing together leaders of ethical business to support the Climate and Ecology Bill. In my speech, I exposed the true impact of the banking industry on the climate-nature crisis. Since the Paris Agreement was signed in 2015, global banks have funnelled $4.6 trillion into fossil fuels[2]. Our Ethical Policy dictates that we do not take part in these financing activities, and we haven't done so for over 20 years, but we have the opportunity to lead the industry and influence the behaviour of our banking peers and change their minds about financing fossil fuels. The event initiated a call to action to businesses, banks and parliamentarians to join the campaign and to act more quickly to protect the climate.

Supporting the co-operative movement is still as important to us today a it was back in 1872. Since the introduction of the Hive programme, which enables co-operatives in their early stages to access business support, advice, training and mentoring, we have committed £2.5m in collaboration with Co-operatives UK. Further to that, we have once again sponsored both the Co-op of the Year Awards and 2022 Co-ops Congress, bringing together those who are working to build a better society and help co-operatives thrive in a challenging macroeconomic environment. We continue to provide free business banking to co-operatives and have supported over 1,200 co-operative businesses, credit unions and social enterprises in total over 2022, honouring our history and our belief in the importance of the co-operative movement.

We remain committed to helping to end youth homelessness through our close work with Centrepoint, a youth homelessness charity. Our colleagues and customers have raised over £2m for them since 2017 through sponsored activities and our support has helped to fund their national helpline and important mental health services. I am pleased to say that in the latter half of 2022, we developed our new 'Bridge to Banking' initiative in conjunction with Centrepoint. This initiative aims to make banking more accessible for their service users who are experiencing homelessness and will be launched early this year. Access to banking is a key factor in enabling individuals to exit the cycle of homelessness.

In 2022, we also raised over £150k for our key charity partners, including Oxfam, Hospice UK and the Woodland Trust through our Everyday Rewards scheme and we were proud to continue our work to end economic abuse with our partners at Refuge. In December, we supported Refuge to publish the recommendations of the Online Banking Commission on Economic Abuse, a first of its kind commission co-chaired by The Co-operative Bank which built on the findings of our Know Economic Abuse campaign. The commission brought together banks with members of the Violence Against Women and Girls Sector to understand the effects of online banking on survivors of abuse. We are proud to have pushed forward for greater change within the industry and to have successfully installed the recommended changes to our digital customer journeys to support our customers to disclose instances of economic abuse, so that we can take action to support them.

Looking to the years ahead, we want to improve our ethical and environmental credentials further. In 2022, we recycled 74% of our operational waste against a target of 60% and therefore in 2023 we will aim to recycle even more with a new target of 75%. We are developing a robust programme of work to reduce our Scope 1, 2 and 3 emissions as we strive to decarbonise our bank and achieve Net Zero status by 2050. It is important for us as a bank to drive positive social and environmental change and we will strive to lead this change with our partners on the issues that matter most to our customers.

People with purpose

All that we have achieved in the past year has been down to the dedication and support of our staff and the service they provide to our customers, aligned to our values and ethics.

1. The Co-operative Bank was given an AAA ESG Risk Rating by MSCI in 2022

2. Via Bank Green's Report - Banking on Climate Chaos 2022 - Banking on Climate Chaos

In November we celebrated those members of staff that go the extra mile at our 150th birthday celebration event in Manchester. Staff were nominated by their peers and with over 1000 nominations it showed how proud our colleagues are of each other by giving them the opportunity to be recognised.

During the year we have increased our headcount at the Bank which has enabled us to overcome some operational pressures in our contact centres. We also adapted to new ways of working and supported those who wish to continue to working from home. Accordingly, we reduced our head office space in Manchester due to new hybrid working patterns and as a result also decided to reduce our office space in London too, which will secure a future reduction in costs.

This year we have taken a new approach to listening to and acting on colleague feedback by introducing monthly Pulse surveys. Thanks to this approach we've been able to understand colleague sentiment better than ever before. In these feedback loops we consistently receive suggestions for opportunities to better serve our customers. These surveys can make a real difference to the Bank and to other colleagues simply by making our teams' voices heard.

I am proud of the dedication and commitment that our team show on a daily basis by providing excellent customer service and products. The work that each member of staff gives has been recognised externally, being awarded the 'Moneyfacts Branch Network of the Year' for the fifth consecutive year. We also won the 'Moneyfacts Best Charity Banking Provider' for the seventh year running. These awards and nominations reflect the diligence and talent within our business and our relentless commitment to serving our customers well.

Investing in the future of the Bank

In 2021 we refreshed and extended our strategy to cover a period from 2022 through to 2026. The refresh set out the ways in which we will continue to build the future of the Bank to ensure it remains as a thriving, ethical bank at the heart of its community, right where it started 150 years ago. We are currently in the first phase of our refreshed strategy, 'Growth and Efficiency'.

In 2022 and 2023 we have and will continue to focus on 'Growth and Efficiency'. We made significant progress on the refreshed strategic plan (the Plan) and have already launched two new savings products on the Bank's mainframe in 2022 and a further ISA product went live at the end of February 2023. This is the first time we have launched new products on the Bank's mainframe in seven years. We will continue to invest in our Simplification programme where we will rationalise our mortgages and savings platforms and bring our mortgage servicing operations back in-house from Capita. Key elements of the mortgage platform have been tested successfully and we look forward to welcoming colleagues from Capita into the Bank at the start of March 2023 as we complete the in-housing process under the Transfer of Undertakings (Protection of Employment) (TUPE) regulations. The delivery of mortgage re-platforming is expected to be substantially complete in 2023 in line with our external communications throughout the year.

We have invested significant amounts into our digital and telephony channels to combat increased wait times and improve the levels of service for our customers following operational challenges. As we move forward we will be investing further in optimising our property footprint. The Nottingham branch relocated to a more appropriate site in the city and opened its doors at the start of December. We will also be refurbishing some of our branches as we believe our branch network remains central to many of our customers and their communities.

From 2024 to 2026 we will embed the changes made in the first stage of the transformation plan and expand our franchise growth further enabled by simpler systems and processes and continued product and channel development. You can read more about our transformation plans on page 21.

In recent months we have been reviewing the roles and responsibilities of our Executive team and looking at how we evolve our structure to continue supporting the needs of the business as we drive growth in our bank in an efficient way. In the past, structure changes were necessary to support the Bank's recovery and cost reduction. Now we're in a much stronger position to remove technical debt, diversify income streams and enhance our ethical difference.

The Executive team changes are all about supporting a new phase for the Bank, which takes us away from recovery mode to focus on growth, stability and efficiency.

Outlook

We made considerable progress this year with increased profitability and strengthening the Bank's capital position through a further capital issuance. Whilst the mortgage market remains intensely competitive with tightening margins, we have improved our deposit margins following base rate increases. Throughout the year we experienced operational issues in our call centre but following our actions to invest in recruitment we are now on track to deliver answering times of less than 5 minutes. We delivered improved financial performance across all key profitability measures and continued to invest in the development of our franchise.

Despite these considerable achievements, there is still work to do as we build a simpler, more efficient bank with co-operative values underpinning its operations. Looking towards 2023, our focus remains on growth and efficiency as we aim to progress our multi-year transformation programme. Our Simplification programme remains a key focus in 2023 and we remain confident of delivery in early 2024. We also aim to optimise our capital resources as we consider opportunities to utilise or return excess CET1, once other more cost effective sources of capital are issued. I am confident about the future and our ability to deliver our strategic goals and, despite current economic uncertainty, we can deliver sustainable and strong results for our stakeholders.

Nick Slape
Chief Executive Officer

UK retail banking market overview

In a year defined by economic uncertainty and a cost of living crisis, The Co-operative Bank continues to provide an ethical alternative in the highly competitive UK mortgage market.

Economic and political overview

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

The economy recovered at the start of 2022 however has started to deteriorate in recent months due to the cost of living crisis

In December 2021, the Bank of England (BoE) increased the base rate from the historic low level of 0.1% to 0.25% in order to tackle rising inflation. Since then, they have increased base rate a further nine times and it now sits at 4.0%. Inflation peaked at 11.1% in October 2022, the highest level recorded in the last 40 years, driven by rising wholesale gas prices as a result of geopolitical events. This has led to increasing utility and fuel prices for households and business, which in turn has increased the cost of everyday goods. The government introduced an energy guarantee in October in order to reduce the increase in energy prices which helped lessen the impact on households, however government support is expected to be reduced in April 2023. GDP contracted in Q3 as the cost of living crisis and rising inflation started to squeeze household income, supressing demand and household consumption, however a technical recession was avoided in Q4 as GDP remained flat in the quarter. Unemployment reached record low levels of 3.5% in the three months to August 2022, below the pre-pandemic level of 3.9%. This was caused by a tight labour market where vacancies peaked at 1.29m and an increasing number of individuals became inactive due to long term illness or early retirement. House prices continued to increase in 2022 as supply remained limited and changing consumer preferences pushed prices up.

We expect that base rate has reached its peak and inflation is expected to fall in 2023, however is expected to stay above the 2% target until 2024. This elevated level of inflation is expected to result in a technical recession in 2023 as households continue to see incomes squeezed reducing demand. This elevated level of inflation is expected to cause a continued recession in 2023 as households see incomes squeezed, reducing demand. We expect an uplift in unemployment as the economy deteriorates putting further pressure on businesses as demand reduces. High mortgage rates and the economic downturn are expected to lead to a fall in house prices following strong growth over the last two years. There are both upside and downside risks to these expectations, and the Bank continues to monitor the evolving economic outlook and the impacts on its customers.

The Co-operative Bank's business model, described further on page 17, is low-risk, with the majority of assets being low loan-to-value mortgages. As a result, we are well placed to withstand a downturn in the economy. However, we remain alert to economic risks generally and more information is provided in our principal risk categories disclosed on pages 111 to 128.

UK mortgage and savings market

2022 has seen Bank of England Base Rate increased at each meeting of the Monetary Policy Committee (MPC). Successive base rate increases, continued inflationary pressures and various fiscal policy announcements have fuelled speculation around terminal rates, driving significant volatility in the swap markets (a key component of mortgage fixed rate pricing) over the course of the year.

The market response to rising rates was initially muted. Mortgage providers were slow to pass on increased rates to customers. By contrast, the Bank passed on these swap rate rises to protect margins, which resulted in lower than budgeted applications across the latter part of Q1 and into Q2. Competitors were also slow to pass on rising rates to their savings customers. Whilst the Bank started to pass back base rate rises to demand customers following the March rate rise a number of larger banks were slower to react.

June and July onwards saw a shift in market behaviour where continued upward rate pressure started to feed through to mortgage rates. Widespread market withdrawals to stem demand and protect operational capacity allowed the Bank to pick up mortgage applications at higher margins. Upward rate pressure also drove more activity in the savings market with increasing movement at the top of the market.

Fiscal policy announcements in September created further market uncertainty. Savings rates continued to climb and mortgage rates were at the highest levels observed in several years, with lenders also offering significantly reduced product ranges. The reversal of mini-budget announcements in October has since restored a level of stability. The Bank was among the first to re-introduce sub-5% mortgage rates, however the pace of reductions across the wider market has been slow, across both mortgages and savings. With rates still elevated, it is expected that mortgage purchase demand and demand for longer tenor products will fall, and the shift towards re-mortgages will drive increased price competition over the coming months.

Regulatory environment

Prudential

In 2020, the BoE published Policy Statement 11/20 (PS11/20) which covers changes to the modelling of secured credit risk, in particular in relation to the assessment of probability of default and loss given default, with an implementation date of 1 January 2022. As a result of the Policy Statement, the Bank is required to redevelop its secured internal rated based (IRB) models. This activity has progressed over 2022 alongside regular engagement with the PRA. Development of secured IRB models is expected to complete in the first quarter of 2023, at which point the revised models will be subject to regulatory review and approval. In order to meet the implementation date a post model adjustment has been applied as the requirements will increase RWAs.

In November 2022, the Prudential Regulation Authority (PRA) published Consultation paper 16/22 (CP16/22) to implement the remaining revisions to the Basel 3 framework that have yet to be implemented within the UK. This is known as Basel 3.1, with an implementation date of 1 January 2025. The proposals make significant changes to the calculations of risk-weighted assets (RWAs) across both standardised and IRB approaches. Furthermore, the requirement introduces a standardised RWA floor, which is phased in between 2025 to 2030 and will cap the benefit of the IRB approach at 72.5% of standardised RWAs by 2030. The PRA confirmed that there are no new Pillar 2 proposals in CP16/22, however they intend to review their Pillar 2A methodologies by 2024.

Conduct

Financial Conduct Authority (FCA) Consumer Duty

The FCA is introducing a new Consumer Duty designed to increase the current level of consumer protection in the retail financial services market. The Consumer Duty introduces:

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

The Consumer Duty will apply to all new and existing products and services that remain open for sale or renewal from the end of July 2023 and all other products and services by end of July 2024.

The FCA's publication has signalled a "paradigm shift in its expectations" of firms and will impact all areas of our business. Moving from a rules-based, prescriptive approach to a more data-led, outcomes focussed approach it will require firms to consider the impact of their products and services on their customers. There is a programme of work that will strengthen and enhance our customer values and ensure the Bank is comprehensively aligned to the new regulations.

Regulatory Framework Review

HM Treasury laid the Financial Services and Markets Bill (the Bill) before Parliament on 20 July 2022. The Bill is a keystone for delivering the government's plans for the future regulatory framework, building on the strengths of the UK's existing model of regulation established by the Financial Services and Markets Act 2000 (FSMA). The Bill, which is currently passing through the House of Commons, implements proposals from the Future Regulatory Framework (FRF) Review including giving HM Treasury and the regulators powers to rewrite EU-derived legislation relating to financial services, complementing a separate Retained EU Law Bill. The Bill also gives the regulators a secondary objective for growth and international competitiveness.

Material Changes to Regulation

In the Autumn Statement, the Chancellor highlighted financial services as one the UK's five key growth sectors. In a written statement to Parliament on 9 December 2022, the Chancellor set out a collection of announcements taking forward the government's ambition for the UK to be the world's most innovative and competitive global financial centre.

This builds on the government's vision for financial services, as set out in the Chancellor's speech at Mansion House in 2021, for an open, sustainable, and technologically advanced financial services sector that is globally competitive and acts in the interests of communities and citizens, creating jobs, supporting businesses, and powering growth across all four nations of the UK.

The government is already taking forward work to deliver its vision through the Bill and this set of announcements is the next step in that work. The Bill hands very broad powers to the government and the regulators to shape future regulatory policy and rework the rules the UK has inherited from the EU. This includes repealing EU-derived laws and replacing them with regulator-set rules. A policy statement now provides more detail on what this "lift and shift" process will look like.

The government's approach to reforming the financial services regulatory landscape recognises and protects the foundations on which the UK's success as a financial services hub is built with agility, consistently high regulatory standards, and openness. This will ensure the sector benefits from dynamic, proportionate regulation and that consumers and citizens benefit from high quality services, appropriate consumer protection and from a sector that embraces the latest technology.

The government explains that it will deliver the reforms programme by splitting retained EU law into tranches. The first tranche covers recent reviews into wholesale markets, listing rules and securitisation. The second tranche will include rules on PRIIPs, payments, short selling and capital requirements. The government expects to move "swiftly" through the implementation programme and make significant progress on both tranche 1 and 2 by the end of 2023. Any in-flight policy change will be "targeted".

The Bank will be, as will all other banks, impacted at varying degrees in relation to the proposed changes in regulation and we expect the changes to rules and the remit of the FCA and PRA will be significant, and as a result the impacts on customers is equally significant. The government is committed to enabling consumers to access the benefits of new products and technologies, while ensuring they remain protected. To support this, the government has also published its first consultation on proposals to modernise the Consumer Credit Act – simplifying the regime to encourage innovation in the credit sector and cutting costs for consumers and businesses.

Future non-compliance or failure to adopt new regulation may result in the causing of customer harm, see customer attrition and ultimately lead to regulatory enforcement action.

Payments

Further regulatory change relates to the BoE's Real-Time Gross Settlement (RTGS) service, which not only operates CHAPS but is the central bank infrastructure that holds accounts for banks, building societies and other institutions. The balances in these accounts can be used to move money in real time between these account holders; this delivers final and risk-free settlement. The BoE's programme of work to deliver a renewed RTGS service is well underway, with Transition State 2.1 which has a current delivery date of April 2023 (expected to change due to moves in both SWIFT & European Central Bank's ISO20022 migrations dates). As well as replicating the functionality provided today, the new RTGS service will deliver a range of new features and capabilities for payments and settlements between financial institutions. Transition state 3 is in plan for 2024 and will focus on upgrades to treasury & settlement activity.

The UK payments industry is moving to ISO 20022, the emerging global standard for payments messaging. This standard creates a common language for payments data across the globe. The BoE's RTGS renewal programme will move CHAPS / RTGS onto the new messaging standard, and New Payment Architecture will replace Faster Payments with new payment type(s) that are ISO20022 compliant, with a decision on BACS expected in April 2023.

Climate change

The Prudential Regulation Authority's Supervisory Statement 3/19 - Enhancing banks' and insurers' approaches to managing the financial risks from climate change, required regulated entities to embed the consideration of the financial risks from climate change in their governance arrangements, incorporate the financial risks from climate change into existing financial risk management practice, use long term scenario analysis to inform strategy setting and risk assessment and identification, and develop an approach to disclosure on the financial risks from climate change. The Bank remains compliant with these requirements.

The risks and opportunities arising from climate change are now a key focus across the Group, with climate change risk being dealt with as a thematic risk within the Risk Management Framework.

Consumer trends

2022 consumer trends have been driven largely by increases in the cost of living. With issues in the supply of goods and a surge in demand for fuel, inflation rates have soared above the BoE's medium-term 2% target. As a result, consumers are retaining less disposable income and have decreased purchasing power. To aid our customers over this difficult period, we have partnered with Citizens' Advice and have a specialist financial support team who can tailor support to individuals' needs, alongside relaunching our emergency hardship fund to provide a short-term solution for some of our most vulnerable customers.

Trends arising as a consequence of the COVID-19 pandemic such as increased digital banking led to consumers continuing to focus on banks' digital offerings, with many having a preference for app- or online-based banking as opposed to traditional methods, particularly with simple transactions. Recognising that 92% of customer interactions with the Bank are completed through a digital channel (up 13% from pre-pandemic levels), we have started the rollout of our new mobile banking app with improvements to usability, accessibility and navigation, alongside adding in eight new product acquisition journeys into the app. 24 of our branches have also hosted digital drop-ins across the year providing education and support to our customers and addressing their digital queries.

Also continuing from 2021, authorised push payment scams have seen further increase with many fraudsters taking advantage of the cost of living crisis. We have continued providing fraud education and support for customers with our updated fraud campaign ensuring those who do not receive our regular fraud emails are getting letters and brochures, as well as having multiple fraud prevention banners displayed across our mobile app and online banking platforms. In addition, we have partnered with Stop Scams UK and are participating in their Project 159 initiative which is a short-code phone service that connects most UK banking customers safely with their bank in the event that they suspect a scam is taking place.

Government support measures, including Bounce Back loans (BBLs), have also been subject to suspected fraud with the Department of Business, Energy and Industrial Strategy estimating that 7.5 % of loans made were fraudulent. We only made BBLs available to existing customers which reduced the chance of fraud. Only 2.3 % of the Bank's drawn BBL values were suspected of being fraudulent.

Amid the ongoing climate emergency, consumers are becoming more aware of the business practices of their banks and are looking to invest their money with banks that align to their values. Ethical banking is the core of our approach to banking, and initiatives this year such as adding Green Additional Borrowing options to the existing mortgage range whereby existing customers can take additional borrowing to help fund 'green' home improvements demonstrates our commitment to our customers.

As discussed in Our Values and Ethics in Action report on pages 22 to 32, we have also refreshed our customer-led Ethical Policy and have boosted our voice and emphasised our ethical standpoint through our new brand campaign in order to increase our market hold of customers who align to our values.

Developments in Technology

Over the last year the recovery from the COVID-19 pandemic and the need to move to a lower cost, more agile operating model have been key to driving banking technology decisions. Increased investment in technology across the UK has made the technology job market more competitive and led to challenges attracting and retaining staff. Digital-only banks and Fintechs continue to drive increasing customer expectations from all UK banks. Customers continue using cards for payments over cash, with contactless now accounting for three quarters of all debit card payments. UK regulators are also responding to an increase in Cyber security threats, increased fraud losses, increased use of digital banking and the move to cloud provision and are placing more emphasis on technology resilience and customer treatment. Regulators are also looking at significant banking regulatory changes in "a once in a generation opportunity to become nimble, agile and proportionate" with the post-Brexit Financial Services and Markets Bill, as discussed above.

At The Co-operative Bank, we have continued to invest in our digital transformation journey, moving to a flexible, cloud based provision with re-usable components whilst increasing online capabilities for retail and business banking customers. Underpinning this change is our simplification strategy where we are working with key partners to reduce the complexity of our technological estate and ensuring our technology continues to be efficient to change, cost effective, regulatory compliant and secure. We are also investing in technology to enable our colleagues to perform at their best, allowing them to work efficiently and effectively whether they work from home, at one of our centres or utilising a hybrid approach.

Use of digital banking continues to grow in the UK. Whilst digital banking usage at a laptop or computer remains flat, mobile banking usage continues to rise. A recent YouGov survey shows a 10 % increase over 12 months in the number of people using mobile banking every day. The Bank continues to improve customer digital experiences, with a new retail digital banking app enabling us to deliver future improvements in a more agile manner. Through our work with partners and various joint ventures, we have reduced our speed to market and delivered better experiences and outcomes for our customers.

The Bank's digital transformation and simplification journey means we are on track to deliver a modern, low risk, cost effective and flexible platform to unlock efficiencies, improve resilience and ensure our customers are protected with continually developing security defences. The Bank's Simplification programme (the migration of customers and accounts from our legacy Britannia estate) continues to progress well, despite a number of delays in 2022, with c.50 % of Britannia savings accounts already removed from our legacy systems. When it completes, the Simplification programme will have reduced the size of our IT application estate by 20 %, enabled us to have exited four data centres and removed approximately 40 % of the Bank's technical debt. The programme will enable the Bank to refocus capabilities and talent to support new and innovative solutions to ensure the Bank remains competitive and able to meet its ethical targets in future years.

For more information on our strategic project investment in technology, please refer to page 21.

Our business model and strategy

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

The Co-operative Bank came together 150 years ago to stand up for the ideal of co-operative values and principles and to build a better society for all. We are a UK bank, with all of our operations based in the UK. We lend money to fund home ownership in the UK and to support local small and medium-sized businesses. We support charitable causes close to our customers' hearts. Read more about the difference we have made over the past year on pages 22 to 32.

In 1992 we became the first bank to have a customer-led Ethical Policy, and we remain the only bank in the UK to have a customer-led Ethical Policy that guides the business decisions we take on a day-to-day basis. As the original ethical bank, we represent a real alternative for those aligned to our values. In 2022, we have continued to build on the tenets established in 2021, in which we refreshed our purpose and vision to reflect our ambition to lead the industry as the number one UK bank for environmental, social and governance (ESG).

Our business model

Where our funding comes from

- Retail customer deposits
- Business customer deposits
- Wholesale funding

What we do with our funding

- Provide mortgages to homeowners and landlords
- Provide unsecured lending via credit cards or loans through intermediaries

How we generate sustainable profits

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

People with purpose

To get the most value from our business, we maximise the key inputs and relationships. The areas that contribute to our success include our trusted brand and the choices we make to deploy our capital resources.

Our stakeholders are also vital, including our highly engaged colleagues; our strong relationships with regulators; mutually rewarding partnerships with key suppliers and our collaboration with charity partners where we work together for positive action.

Delivering our strategic priorities

2022 was a transformational year for the Bank and we achieved a number of key milestones in our refreshed strategy, such as the implementation of the Green, Social and Sustainability (GSS) Financing Framework and work completed in our Simplification programme. We will complete a strategic review in 2023; our current strategy continues to be built and shaped around our stakeholders and is aligned to two strategic phases.

Our goals and strategic priorities are aligned to our Group-wide balanced scorecard. See our ‘Measuring Performance’ section overleaf for a range of refined KPIs we use to evaluate our achievements against our strategic priorities.

To ensure we continue to uphold our Values and Ethics, ESG priorities form a significant part of our strategy. The products we have developed and are developing offer green propositions for our customers, both retail and SME. We are opening doorways to banking for underrepresented groups (such as through our work with Centrepoint) and while other banks have closed branches, we have taken steps to upgrade our branch network.

As we enter the second half of the first phase outlined below, ‘Growth and Efficiency’, we are proud of the milestones we have reached and look forward to continuing to provide an ethical alternative to our customers.

Solid Foundations

Supporting the co-operative Customer First movement to drive targeted segment growth

Celebrating our colleagues and the difference they make to communities and customers

Implementing digitalisation and automation to improve efficiency

Phase 1: ‘Growth and Efficiency’ 2022-2023

Simplifying and transforming, removing final legacy growth inhibitors and upgrading IT software

Diversifying retail customer proposition and launching products to attract younger customers

Developing the ESG bond framework to build options around ‘green investment’

Developing our business offering to SME customers with access to sustainability services

Phase 2: ‘Embed and Expand’ 2024-2026

Maintain leading voice for ethical banking in the UK

Strong and stable franchise growth with continued ESG based product and channel development

Key financial performance measures in line with larger UK retail banks. Business outcomes aligned to our ethics and values

Measuring performance

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

Our KPIs sit under five categories which take a range of stakeholders into consideration and reflect focus on different perspectives; delivering strong performance ***now***, supporting strong performance in the ***future***, enabling ***growth and efficiency*** decisions; all underpinned by our ***ethical culture***.

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

In 2022 we have refined our balanced scorecard approach to:

- simplify and update our KPIs for the current phase of our strategy;
- improve linkage between Bank-wide, functional and individual performance measures, and
- provide greater transparency on how KPIs are measured and evaluated.

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

For more information on how KPI performance directly impacts the remuneration awarded to Executive Directors and other colleagues, please refer to the Directors' Report on Remuneration to the Shareholder on page 100.

FINANCE

Profit before tax (£m)

2022: £132.6m

2021: £31.1m

Definition: Earnings before tax as per IFRS

Why we measure: Maintaining sustainable profitability is key to demonstrating long-term value to our shareholders.

Common Equity Tier 1 (CET1) ratio (%)

2022: 19.8 %

2021: 20.7 %

Definition: CET1 capital / risk weighted assets

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

Adjusted return on tangible equity (RoTE) (%)

2022: 13.7 %

2021: 4.7 %

Definition: Underlying profit minus current tax minus AT1 coupon payable / CET1 resources

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

CUSTOMER

Customer perception - Trustpilot

We have started to track this metric in 2023 and will be looking to report in our future Annual Reports.

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

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

Number of complaints per 1,000 customers

H2 22: 4.6

H2 21: 4.1

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

Why we measure: We aim to continuously improve the service we offer to customers and hold ourselves to account for reducing instances of when things go wrong.

Number of active customer accounts

2022: 1,020,007

2021: 1,041,799

Definition: Number of customer accounts that meet the Competition and Markets Authority (CMA) definition of active.

Why we measure: Our goal is to attract customers that want to bank with the number one ethical bank in the UK and is a measure of clear success.

TRANSFORMATION

Delivery of key project and strategic milestones

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

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

PEOPLE

Engagement survey

We have changed our People metric for 2023 as we are using a new assessment, and will be looking to report this in our future Annual Reports.

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

Why we measure: Colleague engagement is a reflection of job satisfaction; we aim to provide an excellent environment in which colleagues can fulfil their full potential and serve our customers.

ESG

Green, Social and Sustainable (GSS) financing framework lending

2022: £727m

2021: £934m

Definition: Lending to Retail and SME customers that meets the requirements of our GSS framework including energy efficient and affordable housing

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

ESG Ratings

2022:

- **Sustainalytics: 8.3**
- **MSCI: AAA**
- **ISS: 1st decile**

2021:

- **Sustainalytics: 9.2**
- **MSCI: A**
- **ISS: 2nd decile**

Definition: Ratings from ESG rating agencies

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

Scope 1 and 2 emissions (tCO_2e)

2022: 2,122

2021: 3,150

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

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

Our transformation agenda

As customer expectations continue to evolve, the Bank has continued to place emphasis on expanding digital capabilities as well as optimising back office processes. In 2022, significant progress was made across key multi-year transformation initiatives relating to mortgages and savings, as well as further enhancements to our SME proposition. New digital sales and servicing journeys have been introduced across mobile and online banking channels to meet the changing needs of our customers. Through our investment programmes, we have focussed on the following during 2022:

Simplifying the Bank

After initial delays and a period of re-planning, we have continued to make progress in our multi-year transformation programme. The Simplification programme will consolidate and modernise our mortgages and savings technology estates and associated operational processes. 2023 is a pivotal year for the programme, in which we will complete our savings migration plans and launch the new mortgage platform followed by bulk book migrations, with the programme due to complete in early 2024.

The delivery of this programme will enable further digital services to be developed and remove legacy inhibitors. We have released two new savings products, the first in seven years, in 2022, and in addition the new mortgage platform has been built with configuration and testing well advanced. Building on the foundations put in place in 2022 we have continued to develop our target mortgage platform to enable account migrations. Preparation for account migration activity is progressing well, with savings migration now underway. We are well-advanced with our migration plans and have begun development and testing activities. Meanwhile, we have removed c. 50 % of our Britannia savings accounts from legacy systems. We will continue to deliver against key milestones within this programme in 2023.

Evolving our SME proposition

We completed the delivery of the SME transformation programme funded in part through the Capability and Innovation Fund. This programme has introduced same-day account onboarding journeys for the majority of our business customers, the rollout of a new SME mobile banking app and launched additional products to better serve the business banking market.

The Group's transformation agenda has focussed on simplification, digitalisation, regulatory compliance, removing growth blockers and risk reduction.

Continuing our ethical digital journey

We have increased functionality and invested in improvements to our digital customer journeys, with customers utilising digital as their primary service channel. We have built an all-new retail mobile banking app, which will allow us to increase our speed to market in 2023 and beyond. We will continue to improve our digital estate, re-engineering key components to be more agile and resilient whilst delivering new capabilities for our customers.

In 2023, we will continue to expand capabilities within our mobile and online banking channels. We will also focus on the colleague-facing systems that support our contact centre to address operational inefficiencies and improve the customer experience within this channel.

Maintaining compliance and reducing risk

We have continued to deliver regulatory change successfully whilst mitigating potential risks to the Bank and its customers. This includes:

- compliance with payment scheme rules through the successful completion of SWIFT standard upgrades. An ongoing payments gateway outsourcing initiative is in progress to enable the Bank to meet the future needs of changing payments regulations (e.g. new payments architecture);
- continued to improve our credit risk and fraud systems to reduce risk and better protect our customers;
- investing further in strengthening of our security defences, reducing the likelihood of a successful cyberattack and associated operational risks;
- upgrading the Bank's core mainframe platform and ongoing remediation of the legacy technology estate to reduce operational risks and
- tier 1 (critical business services including payments, treasury and financial reporting) service availability was maintained at an average of 99.9 %.

Our values and ethics in action

Evolving our values and ethics

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

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

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

In 2021 we conducted our sixth values and ethics poll, which asked our customers to share their views on a range of issues including the environment, poverty and inequality, human rights and animal welfare. c.50,000 customers, colleagues and stakeholders participated in the 2021 poll.

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

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

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

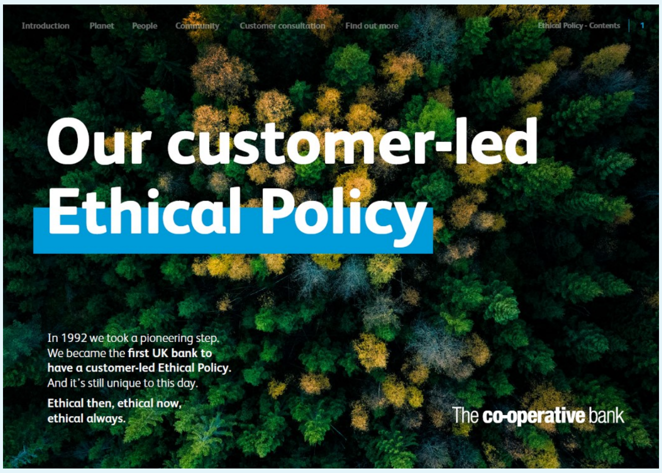
What's changed?

Since 1992, our Ethical Policy has been very clear on the business activities The Co-operative Bank will not support through funding or provision of banking services, and we have added some new exclusions to the Ethical Policy. Our customers also told us they wanted to hear about the activities we will support and how we plan to make a positive impact. When we updated the Ethical Policy we were delighted to add these details.

New exclusions:

- Exploration for fossil fuels has been added as an excluded activity to strengthen our commitment not to finance the extraction or production of fossil fuels.
- An exclusion on activities related to deep sea mining has been added to help protect this unique and biodiverse habitat.
- We've strengthened our commitments to protecting forests and peatlands by adding an exclusion on companies involved in activities that degrade irrecoverable carbon stores - by which we mean peatlands and forests of the Amazon and Congo basin, the forests of North America and Siberia, and in mangroves and wetlands elsewhere, including peatland areas within the UK.
- We've strengthened our commitment to animal welfare by adding activities that use exotic / speciality leather alongside our fur exclusion. This could include alligator and crocodile, snake, seal or other rare endangered species.

You can read the full updated Ethical Policy and the full results of the values and ethics poll here on our website: https://www.co-operativebank.co.uk/values-and-ethics/



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

An important element of our Ethical Policy is our commitment to report annually on our performance on values and ethics and the decisions we take under our Ethical Policy. The following pages contain this report.

Implementing the Ethical Policy

Every business application is screened against our Ethical Policy

Since 1992, when we launched our Ethical Policy we have ensured that all new and existing business customers complete an Ethical Questionnaire as part of the application process for a new account or service. Customers are screened based on their responses to make sure we are not providing banking services to any business whose activities conflict with the views of our customers. In 2022, 234 businesses were referred for enhanced screening and as a result, 8 applicants were not accepted as Co-operative Bank customers.

Number of customers referred for screening by issue

In 2022, business customer applications were referred for enhanced screening for the following reasons. Our 2021 figures are shown in brackets for comparison. As we updated the Ethical Policy in June 2022, applications for the first half of the year were screened against the previous version of the Ethical Policy.

No. of customers referred for screening by issue	Referrals 2022(2021)	Declines 2022 (2021)
Labour standards and human rights	**117** (143)	**1** (2)
Social inclusion	**0** (0)	**0** (0)
Irresponsible payment of tax	**1** (0)	**0** (0)
Irresponsible gambling	**15** (11)	**1** (0)
Irresponsible marketing	**4** (4)	**0** (0)
Protecting the environment:		
Climate change	**15** (29)	**6** (6)
Chemicals	**4** (8)	**0** (0)
Waste	**0** (1)	**0** (0)
Biodiversity	**28** (50)	**0** (0)
Protecting animal welfare	**47** (73)	**0** (1)
Other	**2** (9)	**0** (1)
Total	**233** (328)	8 (10)

Human rights:

We declined banking services to an organisation involved in the sale and transfer of **weapons** to international customers.

Climate change:

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

Irresponsible gambling:

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

Managing customer risk

Our Risk Policy requires the closure of accounts for risk related issues, such as when customers are involved in or receive profits from organised crime or illegal activities such as the sex trade, drugs or human trafficking, as well as where there are regulatory requirements. In 2022 we closed 502 customer accounts (425 in 2021) due to risk related issues, including suspicion of money laundering and failure to provide documentation to satisfy Customer Due Diligence requirements.

Planet

Sustainability and environmental protection have been central to our Ethical Policy for 30 years. We are committed to sustainable business practices - in our own operations, actions and decisions – and in how we enable our personal and business customers to make more sustainable choices.

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

Our pathway to net zero

We are committing to reaching net zero on our Scope 1 & 2 direct emissions by 2030, and to transitioning our Scope 3 lending portfolios to align to net zero by 2050 at the latest.

As we have refused to provide banking services to business whose activities contribute to global climate change for over 20 years, it is our mortgage lending (Scope 3, Category 15) that has the largest climate impact. We will therefore focus on supporting the net zero transition of the UK housing sector and our customers' homes. We will continue to finance renewable energy projects and to play our role in facilitating a just transition in the real economy through engagement with our customers, and through offering products and services that support decarbonisation.

In setting these targets we are adopting the Net Zero Banking Alliance definition of net zero alignment as a 90% reduction in emissions from the base year across targeted categories, with a strategy to ensure carbon removals of remaining emissions. Our targeted reductions in financed emissions will be consistent with a maximum temperature rise of 1.5˚C above pre-industrial levels and will align with scenarios from credible, well-recognised sources.

These commitments build on our ongoing work to reduce our Scope 1 & 2 operational greenhouse gas emissions across our branches and offices, as shown in the data tables on page 49. This programme will continue in 2023 and beyond as part of our net zero programme.

We're operationally beyond carbon neutral

The Co-operative Bank has been operationally '**beyond carbon neutral**' since 2007. We achieve this by offsetting our carbon emissions, plus an additional 10% to address the impact our business activities have had in the past.

We will offset 982 **tonnes** of operational greenhouse gas emissions (893 tonnes + 10%) for 2022, comprising our Scope 1 and 2 emissions plus business travel. To meet our 'beyond carbon neutral' goal, our offsetting programme delivers finance to projects which are reducing emissions now, supporting the transition to a low carbon global economy. We work with climate and development experts, Climate Impact Partners, to deliver this programme. All of their projects are independently verified to assure emission reductions are occurring. The offsetting for our 2021 emissions supported two amazing projects.

Kulera REDD+ and Cookstoves, Malawi – through the combination of forest protection and the distribution of clean cookstoves, the project delivers significant emission reductions, protects an important area of biodiversity value, and address the health risks of indoor pollution. The project targets the conservation of approximately 170,000 hectares of forest and works with 45,000 households to reduce fuelwood use, develop sustainable livelihoods, increase community resilience to climate change and protect biodiversity.

Canales Wind, Guatamala – the project brings renewable wind power generation to an area where no other electricity generation was taking place. Carbon finance supports the wind turbines, wind measuring stations, an operations building and an electrical substation. This all helps to provide affordable, clean energy, decent work and economic growth and vital infrastructure to the region.

Our responsible business

In 2022 we joined the growing community of businesses that use **Ecosia** as the default search engine on all colleague laptops. Ecosia use the profits from searches to plant trees in the areas around the world where they're needed most.

We've also continued to reduce our impact on the environment by reducing waste, reusing materials and recycling. In 2020 we introduced our zero waste to landfill strategy and we have maintained our zero waste to landfill status since then for operational waste across all sites where we have full control of waste management.

In 2022, colleagues from across our branches and offices recycled 74% of waste, with the remaining 26% sent to energy recovery facilities. This is an amazing improvement on our starting year in 2020, when only 41% of waste was recycled.

The bank you can hold to account

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

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

In recognition of this and with a mission to lift the lid on the damage other banks are doing to our planet, in September we launched a multi-channel brand campaign, taking over train stations and shopping centres and appearing on TV with a bold and disruptive advert.

Helping our customers make more sustainable choices

Our business customers told us they wanted help making sustainability management simple, so we teamed up with sustainability platform Zellar to help them manage, measure and improve their sustainability journey from one place.

Zellar is a community of people who are passionate about helping UK businesses become more sustainable. The platform has been designed to empower employees and business owners to rise to the challenge of climate change by making sustainability simple and actionable.

With personalised guidance, Zellar helps our small business customers to understand where they are now, as well as how they can change and improve on their journey to going green. Their mission is to make climate action practical, affordable and accessible for business owners, helping them to save both time and money.

From access to certified offset projects to detailed emissions tracking, Zellar provides the right tools and guidance to help SME businesses reach net zero and beyond.

Campaigning: Support for the Zero Hour campaign

In 2021 we joined forces with the Zero Hour campaign to use our voice, and the voices of our customers, colleagues, and partners, to call for greater protection for the environment and nature. In 2022, we've continued to work as an ambassador of Zero Hour, the campaign for the Climate and Ecology (CE) Bill, a piece of legislation that is needed to take real action against the progression of the climate-nature crisis.

Taking the Zero Hour campaign to the House of Lords and beyond

In a rapidly changing world, current UK law is failing to tackle the climate-nature crisis. The Climate and Ecology Bill has been proposed to address the gap between the best available science and current environmental legislation. The Bill aims to provide a legally binding plan to secure a liveable future that tackles the climate crisis and reverses the depletion of nature.

As ambassadors for the Zero Hour campaign for the CE Bill, we were proud to co-host a parliamentary reception in the House of Lords in October 2022, 'Championing environmental action: Standing with leaders of ethical business'. The event called on businesses, banks and parliamentarians to join the campaign and play their part in protecting biodiversity and the environment.

We were delighted to be joined by MPs and Peers from across the political spectrum, as well as representatives from other banks and like-minded businesses, scientists and environmentalists. As support for the CE Bill gathers political momentum, we'll continue to use our voice to share our customers' concerns for the environment and nature.

As well as taking the CE Bill to the heart of UK government, we've also worked with the Zero Hour campaign to sponsor Town Hall events in key constituencies with the aim of engaging the local community and encouraging MPs to back the Bill. To date we've held successful events in Tewkesbury and Totnes with further events planned in 2023.

People

We are committed to acting in a way that supports individuals in being able to live freely, equitably and safely with consideration of both their physical and mental health. This includes how we treat our individual customers and colleagues and our support for human rights and equity around the world.

Supporting our customers through difficult times

Pressures following the COVID-19 pandemic and the growing cost of living crisis are having a big impact on many of our customers. All colleagues that come into contact with customers have received training to help them to identify and assist vulnerable customers and we've developed some great partnerships with organisations who can step in to offer support.

This includes our ground-breaking partnership with **Citizens Advice**, whose services are on hand for customers who need advice on anything from access to benefits and managing debt to dealing with housing issues. In 2022 we referred 751 customers to the service, many of whom received immediate practical support. We also work with debt support charities and can provide help to customers who are struggling to repay their loans or mortgage repayments.

Protecting customers from fraud and scams

We're part of the national **Take Five To Stop Fraud** campaign led by UK Finance and the UK Government to tackle fraud and in 2022 we were pleased to become a partner of **Stop Scams UK** and to join their **159** phone service.

In 2022, we received 13,669 calls on our dedicated 159 number, of which 1,661 related to a scam and with 12 % needing further support from fraud investigators.

We've continued to introduce and update our security features, and to do as much as we can to combat fraud and scams. This has included updating our two factor authorisation process to protect customers when shopping online by requiring the Verified by Visa passcode.

While these measures have prevented frauds against our customers, fraud losses increased in 2022 compared to 2021, and 87.2 % of net operational losses arose from fraud (2021: 85.3 %).

Working with the Customer Union for Ethical Banking

The Customer Union for Ethical Banking is an independent body representing customers of The Co-operative Bank. The Customer Union is formally recognised by the Bank and we appreciate their mandate to hold the Bank to account and ensure we continue to act as an ethical bank with customer-led values.

During 2022 we met with representatives of the Customer Union regularly. We consulted with them on the development of the updated Ethical Policy and were grateful for the support and insight they provided.

We look forward to continuing this positive engagement in 2023.

Looking after our people

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

Championing diversity and equality

Having signed up to HM Treasury's Women in Finance Charter back in 2016, when female representation at senior leadership level stood at 32%, we have made good progress in achieving a more equally gender balanced senior leadership.

In 2020 we successfully reached our target to increase female representation at senior leadership level to **40%**. We then updated that target to **45%** of senior roles filled by women by the end of 2023, and throughout 2022 we have continued our work to achieve gender balance. By the end of 2022, **41.3%** of senior roles were filled by women. As we progress towards our target our focus remains on our successful gender diversity plan.

We have also continued our focus on ensuring equality of pay across our organisation, addressing our ethnicity pay gap for the first time in 2022, alongside gender pay.

For the third consecutive year our mean gender pay gap has improved and now sits at **25.0%** (down from 25.8% in 2021). Our median pay gap continues to present a challenge, reporting at **29.3%** (up from 28.7% in 2021).

Like many financial services firms, we employ more women, particularly in our customer facing and customer support roles. This leads to a gender split in different disciplines and at different levels across the organisation which impacts the median pay gap. While this does not indicate that women are paid less than men in these roles (we conduct equal pay audits to ensure this isn't the case) it does show that we must continue our long term focus on career progression and gender balance at all levels of our organisation.

Our mean ethnicity pay gap currently stands at **16.0%** (2021: 14.7%). We recognise that we need to increase representation of ethnically diverse colleagues in senior roles and are committed to doing more to attract ethnically diverse colleagues into these roles. These figures do not indicate that ethnically diverse colleagues are paid less than non ethnically diverse colleagues in the same roles. Our equal pay audits ensure that this isn't the case.

Our colleague networks

Our five inclusion networks are run by colleagues for colleagues. All of our networks are inclusive and open to all.

Proud Together - represents LGBTQ+ colleagues across the Bank and offers support and information. The network leads on our support for Manchester Pride and works to highlight key LGBQT+ events such as World Aids Day and the International Day Against Homophobia, Transphobia and Biphobia.

Elevate - the Bank's gender inclusion network, offering support to colleagues on gender-based issues and topic areas, supporting women in the workplace and supporting all colleagues in promoting the wellbeing and career progression of women at all levels of the Bank.

Reach - our network that celebrates our Race, Ethnicity and Cultural Heritage. Its aim is to further develop an environment that supports a truly diverse and inclusive workplace for everyone, where we can all feel comfortable in sharing our stories and talking about our differences.

Access - supporting colleagues with disabilities, long-term health conditions, mental health conditions and caring responsibilities. The network seeks to raise awareness of the challenges colleagues face and break the stigma by normalising conversations about mental and physical health.

Futures - The Bank's newest inclusion network, recognising the challenges people can face at the start of their career. The network aims to engage, retain, and grow internal talent.

Looking after our people

A Real Living Wage employer

The Co-operative Bank has been an accredited Real Living Wage employer since 2015, ensuring that all our colleagues are paid a fair wage that reflects the real cost of living.

A leading employer in Greater Manchester

We became the first financial services organisation to achieve membership of the Greater Manchester Good Employment Charter back in 2020, joining the movement to improve employment standard across the North West. As part of our commitment to continuous improvement, in 2022 we formalised flexible working arrangements for colleagues and introduced a baby loss policy to further support colleagues at a very difficult time.

Our co-operative workplace

We recognise the right of our employees to join a trade union if they wish, as detailed in our Freedom of Association Policy. We continue to work in close consultation with our recognised trade union, Unite, on proposals for change and fund two full time union representatives.

An inclusive employer

We continue to promote equality of opportunity and aim to create a workforce that is representative of our society. Recognising that embracing difference enhances the capability of The Co-operative Bank, we support initiatives such as the Race at Work Charter and the Halo Code, which champions the right of colleagues to embrace all Afro-hairstyles. We are proud to be a Disability Confident certified employer.

Colleague learning and development

We offer our colleagues a mix of on-the-job and formal training, with role-specific inductions and upskill training in our high volume areas.

All new starters take part in a comprehensive induction session that provides a chance to meet members of our executive team, as well as showcasing our history and heritage; values, behaviours and ethics; Bank strategy and scorecard; our union partners and our customer and colleague propositions.

We also provide technical training for new and upskilling colleagues in our customer facing areas to ensure they have the right skills and knowledge to support customers and their banking needs. This is aligned to a training and competency framework that follows regulatory and business processes.

Training resources are accessible to all colleagues at any time for self-directed personal development via a dedicated platform.

We have a robust risk and mandatory training programme that provides colleagues with core knowledge training which all colleagues must undertake. This training demonstrates to our regulators that we have a robust framework and process in place that gives colleagues a good understanding of the financial sector and the principles that govern us. All colleagues must complete this training at the beginning of their employment and on an annual basis thereafter or as required.

Training hours delivered

In 2022 a total of 190,979 hours of training were undertaken across the Bank by colleagues. This amounts on average to 68.5 hours per colleague.

Nurturing new and existing talent

Since early 2021, over 100 colleagues have enrolled onto an **apprenticeship**. Programmes are offered to both new and existing colleagues in subjects including Customer Service, Digital, Projects, Finance and Mortgages, providing an excellent route for career progression.

In September we welcomed the latest cohort to our **graduate programme**, an accelerated development scheme designed to support talented graduates in reaching their full potential. Our two or three year programmes provide graduates with a breadth of experience with programmes available across Digital, Finance, Product, Risk, SME and Technology.

We also welcomed five **summer interns**, who joined us for an exciting eight-week programme during their summer break. Our internship programme gives University students the opportunity to develop their knowledge and skills while gaining a real insight into banking. We hope to see them return and join our graduate programme in future years.

Community

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

Building the co-operatives of the future

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

In June 2022 we were proud to sponsor **Co-op Congress.** This annual event, run by Co-operatives UK, brings together those who are working to build a better society and helping co-ops thrive.

We were delighted to take part in a number of panel sessions during the event. These included sessions on how technology can help to build a stronger co-operative economy and why it's important for co-operatives to support the Zero Hour campaign for the Climate and Ecology Bill.

Following the success of this event we were delighted to support the first ever Co-operatives UK **National Youth Summit** in July, which brought together young people, leaders, change-makers and creators to empower the younger generation through the principles of co-operation. From job security to mental health and co-operative and ethical working, it explored how co-ops can give the young people of today the tools they'll need to become the leaders of tomorrow.

Specialist business support for co-ops

Since 2016, we've committed £2.5 million to support co-operatives nationally and we're proud to continue funding our Business Support for Co-ops programme through our partnership with Co-operatives UK. This unique programme gives co-operative businesses from all sectors of the economy access to the expert advice and guidance they need to thrive, including specialist technical advice, peer mentoring, training and introductory workshops. In 2022, 217 groups were supported by the programme. This included 101 groups that completed the incorporation journey to become a co-operative, along with those that received direct support, completed the UnFound Accelerator programme or attended webinars. In total 1,862 groups have now been supported since the programme started in 2016.

£2.5m

funding given so far

1,862

groups supported So far

Help and support for our business customers

In 2022 we've continued to develop our suite of products and services for SME customers, including our charity and co-operative customers.

We've added the exciting new partnership with sustainability platform Zellar to give our business customer access to the tools they need to reach their sustainability goals. This now sits alongside business services that ensure prompt payment, merchant services, business insurance and our Business Concierge.

We've partnered with independent charity Citizens Advice to ensure our customers have access to their range of support services whenever they need them.

The free Citizens Advice consumer helpline is available to business customers who need help with consumer problems, such as switching a small business to a new energy supplier or support with business energy bills.

Funding the causes that matter to you

We support our charity and community customers by awarding grants to support their special projects. All Community Directplus account holders can apply for up to £1,000 from our **Customer Donation Fund**, with grants distributed twice a year.

In 2022 we donated **£24,740** to **27** community projects across the UK, and since the scheme started in 2003, we've donated **£1,010,785** to **1,149** community organisations.

Everyday Rewards customers have raised over £1.5m for national charities

Everyday Rewards gives eligible current account customers the option to donate their monthly rewards to one of five charities. Thanks to the generosity of these customers **£151,659** was donated to these charities in 2022.

In total, **over £1.5m** has now been donated to our selected charities since Everyday Rewards was launched in 2016.

Your mortgage has given hope to homeless young people

There are many reasons why a young person can become homeless. They may be facing family problems, have issues with their mental health or have struggled to cope after leaving care. And they might not always be visible. Many homeless young people end up sleeping on buses or sofa surfing with friends.

Centrepoint is a national charity with a mission to end youth homelessness by 2037, and we've been proud to partner with them since 2017, with over £2m raised so far.

According to Centrepoint's research round 122,000 young people ask for help with homelessness every year.

We donate £5 to Centrepoint for every completed mortgage and product switch through our retail and Platform brands. That means that your mortgage has made a huge difference to homeless young people this year, with these donations helping to fund the national Centrepoint Helpline and the services for vulnerable young people in Greater Manchester.

Engaging with our communities

Our colleagues are dedicated to supporting their local communities and have done this through volunteering and fundraising in 2022.

Every Co-operative Bank colleague has the opportunity to take two paid volunteering days every year. In 2022, **495** colleagues took part in the programme, donating a total of **4,170** hours to their local communities.

In 2022, colleagues raised £36,000 for their favourite local and national charities and a further £18,500 for our charity partner, Centrepoint. The Bank donated an additional £20,000 to these charities through our colleague matched funding scheme.

Community volunteering stories

The Bread and Butter Thing

The Bread and Butter Thing are a fantastic charity in Greater Manchester that collect surplus food goods from supermarkets and factories that would usually go to waste and distribute them at a discounted price through local community hubs. They currently redistribute goods amounting to 250,000 meals every week and ensure that surplus food goes to people who need it most. Our Executive and other teams volunteered at the warehouse throughout the year.

The Big Issue North

The Big Issue (TBI) North is a charity which supports homeless and vulnerably-housed people by enabling them to earn a form of income. Our Balloon Street colleagues volunteered at TBI North in November and had an eye-opening experience. After being introduced to different vendors from throughout Manchester the volunteers heard their stories about how they came to sell The Big Issue. Our colleagues have now supported several of the magazine's street vendors in Manchester, working with them to develop their communication skills.

Big Issue North Trust (Registered Charity Number 1056041)

Our Environmental, Social and Governance Report

Environmental

Our Ethical Policy sets out our commitment to protecting the environment.

In 2022 we continued to reduce our operational greenhouse gas emissions by analysing the energy use at our branches and offices and identifying where energy was being wasted. We continue to source our electricity from renewable energy suppliers.

Since 2007 we have offset our operational carbon emissions plus an additional 10% to address the impact of our business activities in the past and we will offset our 2022 emissions in line with this commitment. We continue to keep business travel to a minimum, using public transport rather than cars wherever possible.

Our Task Force on Climate-related Financial Disclosures (TCFD) report on pages 37 to 49 contains more detail on how we consider climate change and the environment in our strategic and financial planning, risk management and governance, and includes further environmental metrics and targets such as our carbon intensity ratio.

Further information on how we are protecting the planet can be found on pages 24 and 25.

Our Environmental Data

Carbon offsetting - beyond carbon neutral [1]

Source of emissions	tCO2e
Fuel combustion	489
'Non-renewable' electricity consumption [2]	237
Refrigerant leakages	71
Business travel	96
Offset to be carbon neutral	**893**
Plus 10% for past activity	89.3
Offset to be beyond carbon neutral	**982**

PVC-free credit and debit cards

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

1. This data or calculation has not been verified by SGS, an independent 3rd party who provide assurance over ESG metrics.
2. Total electricity consumption GHG emissions are calculated using a location-based methodology. They are calculated using the UK average GHG emissions figure, as published by the Department for Business, Energy & Industrial Strategy. All electricity sourced directly by The Co-operative Bank is REGO backed renewable electricity. Where locations are not included in the direct supply agreement (totalling 6.85 % of total electricity consumption in 2022) due to inclusion in landlord service provision, a market-based approach assuming a non-renewable electricity source is used to calculate GHG emissions from these locations. This allows us to accurately offset the emissions generated. Renewable electricity is zero rated for carbon offsetting, therefore all electricity purchased directly by The Co-operative Bank is excluded from the offsetting calculation.

Our Environmental Reporting

We measure our direct GHG emissions in carbon dioxide equivalent (tCO2e) using the latest UK government guidance. Our direct GHG footprint encompasses energy consumption and refrigerant leakages, which are classified as Scope 1 and 2 emissions. Scope 3 emissions, where the bank has an indirect impact via our value chain, are not currently reported, with the exception of business travel (category 6).

We have made disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations on page 37 to 49.

In 2020 we signed up to the UN Principles for Responsible Banking and in 2021 we submitted our 18 month report to document our progress within the programme. We'll continue this commitment as we develop our sustainability targets, building on the co-operative values and ethics that are the foundations of our bank.

Social impact

Co-operative principles remain at the heart of our business and we strive to demonstrate co-operative values in everything we do. As a national brand, we recognise our wider impact within UK society and work in partnership and co-operation with charities and community organisations to drive positive social change.

This table sets out some of our positive social impacts, such as our charity and volunteering activity, our business support for charities and co-operatives and the additional support we've offered to customers in 2022.

	2022	2021	2020	2019	2018
Total charity donations[1]	**£1,126,402**	£1,105,583	£1,564,783	£997,996	£995,098
Number of co-operatives that bank with us[1, 2]	**1,130**	907	787	805	750
Number of charities that bank with us[1, 2]	**3,619**	3,891	4,128	4,416	5,000
Number of credit unions that bank with us[1, 2]	**142**	157	163	194	218
Support for the co-operative movement through funding for The Hive[1]	**£400,000**	£400,000	£625,000	£158,700	£451,196
Supporting our local communities through colleague volunteering[1]	**4,170 hours**	1,980 hours[3]	611 hours[3]	4,759 hours	4,329 hours
% of colleagues who have taken part in a volunteering activity[1]	**18%**	10 %[3]	4 %[3]	27 %	20 %
Number of customers we've helped to buy their first home	**3,178**	6,403	4,209	3,304	3,517
Number of customers supported through our partnership with Citizen's Advice	**751**	566	536	418	437

Contribution to national wealth

In 2022 our contribution to the national wealth, or 'economic value generated and distributed', was **£395 million.** Of this, our community investment was **£1.1 million**. Economic value is distributed as salaries to employees, donations to charitable causes, and, if relevant, profit and reserves to our owners. No dividend was paid by the Group in 2022.

£395m
economic value

£1.1m
community investment

1. Only 2021 and 2022 data for these KPIs has been verified by SGS.
2. Since 2018 seen a reduction in the credit union sector due to adjusting our proposition and changes in how charity status is recorded. This is being closely managed with customers being supported by Relationship Managers and a continued focus on our community banking proposition.
3. Opportunities for corporate volunteering were impacted by government restrictions due to COVID-19 in 2020 and 2021.

Governance

Key Governance Data

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

In 2022 we have strengthened our internal governance by introducing an additional executive level committee into our values and ethics governance structure to improve executive oversight and accountability.

The Board level Values and Ethics Committee continues to provide oversight and governance of the Bank's ESG and ethical activities. With input from the Executive Committee, the Values and Ethics Committee reviews our ESG reporting. This includes the recommendations of the Financial Stability Taskforce on Climate-related Financial Disclosures (TCFD) as we implement these into our reporting (see pages 37 to 49). You can read the Chair of the Committee's report for 2022 on pages 91 to 93.

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

Non-customers continue to view The Co-operative Bank as the top ethical banking brand[1]. The governance and oversight structure we implement with the help of our Values and Ethics Committee is key to this.

	2022	2021	2020	2019	2018
Total number of business current accounts opened	**8,703**	**12,606**	12,116	7,473	-
Total number of applications referred for further Ethical Policy screening (see page 23 for more information)[2]	**233**	**328**	438	223	138
Total number of applications declined due to a conflict with the Bank's Ethical Policy	**8**	10	21	4	4

Our Statements and Policies

Modern slavery and human trafficking statement

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

Freedom of association

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

Anti bribery and corruption policy

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

Taxation policy

We are signatories to the HM Revenue and 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.

1. Q4 2022 non-customer ethical perception score of 27 %. Ranked 1st with a 7 % gap to the 2nd place bank, which has a score of 20 %.
2. Only 2022 and 2021 data for these KPIs has been verified by SGS.

Alignment to the Sustainable Development Goals

Our responsible banking commitments

As signatories of the UN Principles for Responsible Banking, we are committed to aligning our strategy and activities with the United Nation's Sustainable Development Goals (SDGs) and the Paris Climate Agreement.

The activities of our Bank can make an impact on all 17 goals. We have therefore taken steps to consider the impact and influence we have on the SDGs within a framework of our impact on our planet, on people and on our communities. This exercise has identified the ten SDGs where we feel we can make the most positive contribution.

How our objectives and actions align to the SDGs

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

Aligns to SDG targets 5.5, 8.3 and 10.2

We encourage the construction of buildings in an energy-efficient manner, reducing emissions and electricity consumption from non-renewable sources and fuels. We also offer products to help our customers to undertake renovations that will result in at least a two notch improvement in Energy Performance Certificate (EPC) rating, which will help to **mitigate climate change**.

Aligns to SDG targets 7.3, 11.6 and 13.2

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

Aligns to SDG targets 3.4 and 5.5

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

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

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

Aligns to SDG targets 1.2, 3.8, 4.4 and 11.1

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

Aligns to SDG targets 1.2, 10.2 and 11.1

Task Force on Climate-related Financial Disclosures (TCFD) report

Overview

The Co-operative Bank has been ahead of the curve in disclosing our climate-related commitments. We have not financed fossil fuel extraction, production or infrastructure since 1998 and one of the three pillars of our refreshed Ethical Policy is 'Planet'. Our second year of reporting climate-related disclosures in line with TCFD recommendations demonstrates how we embed climate-related issues throughout the Bank from Board to branch.

While the impact of climate change on the Group's financial statements has been assessed as not material, we are continually identifying and assessing climate-related risks and opportunities to ensure we are positioned as the ethical banking alternative for our customers and stakeholders. See our ESG report on page 33 for more detail on environmental commitments.

In 2022 we have built on work performed in 2021 and enhanced our disclosures, particularly metrics and targets, but recognise that there is work to be done to develop modelling and assessment capabilities and use scenario analysis and a data-driven approach to manage climate-related risks as they arise.

Our stakeholders

How considering the needs of our stakeholders drives our climate-related goals, reporting and disclosures

Our customers
Offering products and services to help our customers be greener

Our colleagues
Ensuring colleagues are empowered to consider climate change throughout their work

Our communities
Mitigating the impacts of climate change through our ethical operations

Our suppliers
Operating a green, ethical supply chain

Our shareholders and investors
Providing sustainable value and an ethical alternative

Our regulators
Transparency, honesty, and openness

Core elements of the TCFD

Governance - The organisation's governance around climate-related risks and opportunities

Strategy - The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning

Risk management - The processes used by the organisation to identify, assess, and manage climate-related risks

Metrics and targets - The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Our objectives and focus in 2023 and beyond…

- **ensure Executive pay is aligned to ESG commitments with specific performance measures including incorporating Scope 3 GHG emissions into our Group-wide scorecard;**
- **embedding climate change risk within the Group's suite of risk metrics and tolerances (including Board Risk Appetite Metrics);**
- **develop products that support the UK's transition to a low-carbon economy, including the continued financing of low-carbon industries, climate-related retail products and investments into green securities, supporting the greening of the Group's balance sheet;**
- **utilising the outputs of the scenario analysis and model development to set risk tolerances and inform strategic decision-making across the Group, including risk management objectives that are based on the Group's resilience to climate change risk;**
- **alignment of time horizons between climate-related risks and climate-related opportunities to ensure that climate is factored appropriately into financial and strategic planning, and**
- **continue to identify metrics and targets that allow the Group to measure its performance against its ESG strategy, risk management, and governance.**

2022 in review

In our 2021 Annual Report and Accounts we said we would...	In 2022 we:
Governance	
• Consider the frequency and format of Board updates about climate-related matters to ensure appropriate Board oversight of all developments in this area.	• Ensured climate-related matters were monitored by the Board through its committees which met throughout the year to address climate change risks and approve climate-related strategies (such as our Values, Ethics & Sustainability strategy).
• Enhance the expertise of the Board in terms of climate-related matters through specialist Board training. Experience of climate-related matters, amongst others, will also be a consideration when assessing any candidate's suitability for appointment to the Board.	• Received externally facilitated ESG and climate training for the Board in September 2022.
• Further develop climate change risk within the Group's governance framework, to ensure decisions at all levels consider the impact on the climate and that senior management, the Executive team and the Board are incentivised to tackle climate change risk.	• Ensured all reports submitted to the Board and Board committees disclosed risks, including climate-related risks where relevant
• Link 2022 Executive pay to delivery of our ESG commitments. Specific ESG performance measures, including climate-related ones such as undertaking a strategic review of our Scope 3 emissions by the end of 2022 and reducing our operational GHG emissions intensity ratio, form part of the 2022 Group-wide scorecard to which all colleagues', including Executive, remuneration is linked.	• Approved the 2022 Annual Incentive Plan (AIP) which links Executive pay to the delivery of the Bank's ESG commitments. This includes maintenance of ESG scores and ESG product development. Further details can be found in the Directors' Report on Remuneration to the Shareholder on pages 100 to 109.
• Establish a Values, Ethics & Sustainability Committee, which will review all climate-related issues and report into the Executive Committee, and onto the Values and Ethics Committee of the Board as required.	• Established the Values, Ethics & Sustainability Executive Committee to lead the implementation of the Bank's values, ethics, sustainability and ESG strategies.
• Further embed climate-related considerations in the Group's culture, including providing training, to ensure these are factored in to all our key business decisions.	• Approved the Values, Ethics & Sustainability strategy and refreshed our Ethical Policy that address how key business decisions will consider climate-related issues.

In our 2021 Annual Report and Accounts we said we would...	In 2022 we:
Risk Management	
• Continue to undertake annual risk assessments against all principal risk categories to identify where these risk categories are impacted by climate change risk. Climate change risk will continue to be assessed in the context of the Group's current suite of principal risks, as well as the wider Risk Management Framework.	• Continued to recognise the importance of climate change risk and its impact on other risk categories, and therefore continued to embed climate change within our existing Risk Management Framework and suite of risks and monitored climate change risk as part of the Bank Risk Report. The Group's risk taxonomy was simplified in the year with climate change remaining a thematic risk. Climate change risk continues to be discussed in all risk oversight committees, particularly the Executive Risk Oversight Committee (EROC).
• Update our risk event process to identify any climate-related risks and to consider the impact on any existing climate-related risks.	• Leveraged work completed in 2021 whereby Risk Framework Owners (RFOs) updated their risk policies for potential climate change risk impacts, in order to identify material exposures relating to climate change risk.
• Review our credit provisioning process to identify how climate change risk can be further embedded and whether any post model adjustments (PMAs) may be required.	• Introduced our first climate-related judgemental post model adjustment in respect of the transition risk associated with the Group's Buy-To-Let customers having to meet minimum EPC ratings on rental properties on our expected credit losses. Climate change risk was assessed to not have a material impact on our credit provisions at this time.
• Continue to develop processes for identifying, assessing and managing climate-related risks to ensure these are integrated into overall risk management in line with any published guidance or regulations.	• Continued development of a robust horizon scanning process to identify the impact of climate-related risks on the Group's operations and other risks and managed significant climate-related risks identified through our Executive Risk Oversight Committee. We delivered day-to-day management of climate-related risk through our risk oversight committee structure.
• Continue to develop and refine approach to scenario analysis, including consideration of more dynamic modelling, and assess this via the annual ICAAP process.	• Assessed all material exposures relating to financial risks arising from climate change in our 2022 ICAAP.

In our 2021 Annual Report and Accounts we said we would...	In 2022 we:
Strategy	
• Align short, medium and long term definitions for climate-related risks and opportunities.	• Continued to work towards aligning its time horizons for climate-related risks and opportunities
• Further embed consideration of climate-related risks and opportunities as part of the strategic planning process and develop monitoring milestones.	• Continued to monitor the impact of climate-related risks and opportunities on the Group's business but as climate change is not currently identified as material to the current strategic and financial plans, it is not a key element in our planning process.
• Develop a plan of action for how climate change risk is built into financial planning processes as part of the 2023 planning cycle.	• Assessed climate change risk as not currently material to the Group's financial planning process. We will continue to monitor it over the life of the current financial plan to ensure that we can adjust our processes as necessary to incorporate climate-related risks.
• Develop products that support the UK's transition to a low-carbon economy, including the continued financing of low-carbon industries and the establishment of a climate-related retail and SME product range.	• Entered a partnership with Zellar, launched a Renewable Energy Funding Scheme for business customers and developed green additional borrowing options for retail mortgage customers. We have deployed £318m of green asset financing for green mortgage lending (EPC A&B rated) since our inaugural £250m green bond.
• Utilise the outputs of the scenario analysis and model development to set risk tolerances and inform strategic decision-making across the Group, including risk management objectives that are based on the Group's resilience to climate change risk.	• Continued to define climate change risk as not material to our strategic decision-making. We are working to produce a materiality matrix for climate-related risks and opportunities.
• Continue to embed modelling capability for retail secured in 2022 and consider developing modelled solutions for other core customer lending portfolios (retail unsecured and SME) at a future date as exposure across these two portfolios grows.	• Considered modelling capability in retail secured, but future secured retail model development is being considered across 2023 and 2024 to incorporate in-development Hybrid IRB models. The development of modelled solutions for other core customer lending portfolios is ongoing.
Metrics and targets	
• Include new ESG measures within the 2022 Group-wide scorecard to ensure this remains a focus and providing a direct link to Executive remuneration in the future.	• Refined our Group-wide scorecard with more focussed, specific ESG measures that impact variable remuneration for all employees, including Executives. We will continue to identify and assess the best metrics to measure our performance against our ESG targets.
• Perform data gathering during 2022 in order that we are in a position to disclose our Scope 3 emissions in our 2022 Annual Report and Accounts.	• Continued to perform data gathering. Whilst we are not able to report our Scope 3 GHG emissions except business travel, we are establishing an implementation plan to be able to report these in future annual reports. However, due to the commitments outlined in our Ethical Policy, our exposure to Scope 3 emissions from investment activities is limited.
• Consider what metrics can we identify to assess climate-related opportunities.	• A suite of environmental metrics has been identified against which we can measure our performance. These are identified in the 'Metrics and Targets' section on pages 48 to 49 or are explained in more detail in our Sustainability Report which is published alongside this report.
• Review industry guidance and regulatory developments to consider what metrics could or should be disclosed in our 2022 Annual Report and Accounts.	• Have reviewed guidance issued throughout the year, such as the TCFD 2022 Overview, in identifying our metrics and targets.

Governance

Key Disclosures:
Describe the Board's oversight of climate-related risks and opportunities

Describe management's role in assessing and managing climate-related risks and opportunities

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

Board

The Board has collective responsibility for the long-term success of the Bank. It is responsible for approving the Bank's strategic plan, including its Values, Ethics & Sustainability strategy and strategic approach to managing climate change risks, and long-term objectives. The Board sets the Bank's values and standards and ensures that its obligations to its shareholders are met. Further details on the Board's role and the Bank's governance framework can be found in the corporate governance section on page 65.

Co-operative values and the Bank's customer-led Ethical Policy are incorporated in the Articles of Association and established at the heart of our constitution. The Board is responsible for providing oversight and approval of the Ethical Policy and for approving the Bank's Values, Ethics & Sustainability strategy. Further detail of our environmental, social and governance reporting can be found on pages 33 to 36.

Values and Ethics Committee

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

This includes oversight of the customer-led Ethical Policy that guides the decisions taken by the Bank on a day-to-day basis. In 2022, the Committee recommended to the Board for approval the updated policy which was refreshed and centres around three core pillars – Planet, People and Community – the first of which sets out the Bank's commitment to protecting and enhancing the environment, biodiversity and animal welfare, and continuing to be a sustainable and ethical business through seeking to become a lifetime carbon neutral company. Further details on the Ethical Policy can be found on pages 22 to 32.

The Committee also oversaw the development of the 2023-2025 Values, Ethics & Sustainability strategy which will deliver initiatives and activities that underpin the three core pillars of the Ethical Policy. Further details can be found within the Values and Ethics Committee report on pages 91 to 93.

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

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

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

Risk Committee

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

During the year, the Risk Committee recommended to the Board for approval the Risk Management Framework Policy, within which financial risks arising from climate change continued to be recognised as a thematic risk. This is in order that climate change is holistically embedded within the RMF and its impact upon, and contribution towards, many of the Group's existing principal risk types across the whole risk profile of the organisation is considered. This provides assurance to the Committee that all areas of the business have an understanding of how climate change risk could impact their business areas, including taking any necessary mitigating actions.

The Risk Committee reviewed and recommended the 2022 ICAAP to the Board for approval. Part of the Committee's review of the ICAAP involved an assessment of the risks within the Bank's operations and activities including specific consideration of climate risk. The outputs of the Individual Capital Requirement (ICR) assessment undertaken as part of the ICAAP were also reported to the Committee, which included consideration of the Bank's immediate exposure to physical climate change risks (flood, subsidence, coastal erosion) and transitional risks (current/potential EPC ratings) relative to national averages.

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

Joint Audit Committee

The Board delegates responsibility to the Joint Audit Committee to monitor, review and report to the Boards on the formal arrangements established by the Boards in respect of the financial and narrative reporting of the Group, the internal controls and the RMF, the internal audit and the external audit processes.

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

Remuneration Committee

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

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

During the year, the Committee approved the 2022 Annual Incentive Plan (AIP) which links Executive pay to the delivery of the Bank's ESG commitments. Specific ESG performance measures form part of the Bank-wide scorecard to which all colleague remuneration, including executive, is linked.

Nomination Committee

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

During the year, the Committee reviewed and recommended to the Board for approval the appointment of a Corporate and Strategic Development Director in 2023, who will have accountability for driving ESG long-range strategic thinking and alignment to acquisition and funding, and a Chief People and Sustainability Officer with responsibility for ESG, values and ethics, and sustainability.

Addressing our Climate Strategy

In 2022, the Board approved the Values, Ethics & Sustainability strategy, refreshed to align with the relaunched Ethical Policy. The strategy includes a number of initiatives that the Bank will focus on between 2023 and 2025, including the development of green focussed products and services, and building a pathway to achieve Net Zero status in partnership with consultancy firm, Carbon Intelligence.

During the year, the Values and Ethics Committee approved the Bank's 2021 Sustainability Report. The report was published on the Bank's website and select data within the report was independently assured by specialist ESG assurance providers, SGS.

The 2021 Sustainability Report outlined the Bank's ESG targets and noted the commitment by the Bank, as a signatory of the UN Principles for Responsible Banking, to align its strategy and practices with the vision for the future set out in the Sustainable Development Goals (SDGs) and the Paris Climate Agreement. As such, the Bank encourages the construction of buildings in an energy-efficient manner, reducing emissions and electricity consumption from non-renewable sources and fuels.

The 2021 Sustainability Report also provided further detail around the Bank's role as an ambassador of Zero Hour, the campaign for the Climate and Ecological Bill which aims to tackle the climate and nature emergency.

The Bank's 2022 Sustainability Report is published alongside the 2022 Annual Report and Accounts and contains further information on our ESG targets and commitments than is included in this report.

Addressing Climate Risk Management

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

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

The corporate governance framework is continuously reviewed to ensure it includes sufficient focus on ESG topics, including climate risks and opportunities. In 2022, the Bank established the Values, Ethics & Sustainability Executive Committee to lead the implementation of the Bank's values, ethics, sustainability and ESG strategies and escalate any risk surrounding the delivery of these strategies to the Executive Committee and, where appropriate, the Values & Ethics Committee.

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

Board Training

The Board received externally facilitated ESG and climate training in September 2022 which provided insight and key information to educate the Board on the current market themes and expectations upon businesses in respect of both ESG and climate change. Topics discussed during the training included the embedding and controlling of climate risk within organisations, measuring social impact and value, and stakeholder expectations in respect of data and reporting around ESG and climate related matters.

Management

The Chief Risk Officer has Senior Management Function responsibility under the Senior Managers and Certification Regime for identifying and managing financial risks arising from climate change and oversight of ongoing compliance with TCFD regulation. This includes:

- embedding the consideration of financial risks from climate change in governance arrangements;
- incorporating the financial risks from climate change into risk management practices;
- using long-term scenario analysis to inform strategy setting, risk identification and assessment, and
- developing approaches to disclosure of the financial risks from climate change in line with the TCFD framework.

Other Executive Responsibilities

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

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

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

Risk management

Key Disclosures:

Describe the organisation's processes for identifying and assessing climate-related risks

Describe the organisation's processes for managing climate-related risks

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

Definitions

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

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

Physical Risks – risk of losses arising from acute and chronic shifts in climate patterns which can lead to damage to assets, business disruption and changes in individuals' health and incomes, driving financial losses and impaired asset values. For banks, these could manifest themselves primarily as credit, market, operational and reputational risks.

Governance framework

The Group has ensured that climate change risks are embedded across the Group's risk governance framework.

Board:

- Reviews, challenges, and approves the Group's strategic plan, including its ESG strategy and strategic approach to managing climate change risk.

Risk Committee (RC):

- Reviews and approves the results of climate-related scenario analysis and stress testing. Challenges the Group's ongoing management of climate change risk.

Executive Risk Oversight Committee (EROC):

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

Risk Oversight:

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

Assessing climate change risk

In 2022, as part of the ICAAP, the Group assessed its material exposures relating to financial risks arising from climate-related risks. This assessment was based on both scenario analysis (for the retail secured portfolio) and qualitative assessments to understand the short, medium and long term financial risks to the Group's business model (for retail unsecured, corporate and other risks).

The 2022 climate change assessment concluded that no additional capital requirement is required at this stage for the financial impacts of climate change.

Horizon scanning

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

The Group acknowledges the updates to the implementation guidance on TCFD recommendations in October 2021 that came into force in April 2022 and continues to evidence compliance with the prevailing regulations.

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

Managing risk

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

The Group monitors emerging risks (including climate change risk) as part of the Bank Risk Report, which is produced by the risk function and is reviewed and challenged by both RC and EROC. Climate change risk is also monitored through the Group's statutory and sustainability reporting, ICAAP and ILAAP.

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

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

Scenario analysis

In 2021, the Group engaged with an external provider to perform a point-in-time 'static' assessment of the Group's exposure to the physical and transition risks of climate change on its mortgage portfolio. A model has also been built for the continuous assessment of these risks against key credit risk parameters in the mortgage portfolio. The assessment took a view of the physical and transition risks in the residential mortgage portfolio as at 30 June 2021, relative to national averages. The results of the assessment is split in two parts: physical and transition risks. No new analysis was undertaken in 2022.

Physical risks – the assessment considered the flooding, subsidence and coastal erosion risks to which the properties in the residential mortgage portfolio are exposed. The process for sourcing physical climate risk data involved matching of the physical address of each property to spatial coordinates (longitude and latitude) using AddressBase. The spatial coordinates of each property were then mapped to geospatial files showing locations of flood plains and areas with subsidence and coastal erosion.

The results showed that the flood and subsidence risk of the properties in the Group's residential mortgages is broadly in line with the national average, whilst only one property in the portfolio is at a risk of coastal erosion.

Transition risks – the assessment considered the current and potential EPC ratings of the properties in the residential mortgage portfolio. The process for sourcing EPC data involved matching the address of each property in the Group's residential mortgages portfolio to addresses contained in the EPC register, of which 74% of properties were matched, which is much higher than the national average.

The results showed that the energy performance of the properties in the Group's portfolio is lower than the overall EPC register.

Future secured retail model development is being considered across 2023 and 2024 to incorporate in-development Hybrid IRB models and wider updates.

The Group has also monitored its exposure to physical risks on its retail secured book, but has determined that reasonably possible credit losses associated with climate risk in this area (e.g. flooding damage to secured properties) remain unlikely to be material, particularly when considering discounting of any future dated impacts. As such, no further PMAs have been recognised in respect of this risk.

Strategy

Key Disclosures:
Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term

Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Our refreshed Ethical Policy has 'Planet' as one of its three pillars and climate is at the heart of our ESG strategy. As the original ethical bank, we actively refuse to provide banking services to businesses who damage the planet and our new marketing campaign raised awareness of where the money customers deposit in their bank is invested and the impacts this is having on the environment. Climate change and protecting the environment was the most important issue for our customers in our 2021 Values and Ethics Poll, and we are committed to sustainable business practices.

Whilst climate is central to our ESG strategy, there is more work to do build climate-related risks and opportunities into out strategic planning processes. We will endeavour to strengthen our green customer propositions across our core portfolios and align time horizons for risks and opportunities to ensure they are adequately represented in our strategic and financial planning. In 2023 and 2024 we are revisiting our retail secured modelling capabilities to incorporate in-development Hybrid IRB models.

Climate-related risks

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

Physical risks

Example events: Increased severity of extreme weather events such as cyclones and floods; increased severity of damage to physical assets including property and disruption to business, services, supply chains and transport links leading to market volatility. Changing climate patterns, affecting ecosystems, food production and living conditions; rising temperatures affecting working and living conditions and local infrastructure and rising sea levels driving subsidence and flooding.
Key Risks impacted: Operational, credit, capital, market, pension, liquidity and funding
Time horizon: Short-long term
Impact on the Group and its customers:
- Business disruption including workforce requirement changes
- Asset impairment as a result of damage caused to property against which the Group secures mortgages and other loans
- Increased operating costs due to logistical challenges caused by weather events and climate pattern shifts and increased insurance premiums.

Transition risks

Example events: Increased cost of greenhouse gas emissions through taxation and other fiscal policy; enhanced emissions reporting or other climate-related reporting obligations and additional regulatory requirements for firms to meet mandated minimum climate standards or policy.
Key Risks impacted: Credit, capital, operational, reputational
Time horizon: Short-medium term
Impact on the Group and its customers:
- Higher carbon prices increasing the cost of living and business operations, greater credit risk across the balance sheet.
- Increased cost of climate-related compliance and reporting.

Example events: Additional scrutiny from media and the government on businesses, supply chains, and financiers; shifts in consumer preferences to greener products and services and competitors forced to move away from practices that adversely impact the environment.
Risks impacted: Reputational, liquidity and funding, capital, operational
Time horizon: Short-medium term
Impact on the Group and its customers:
- Reduced demand for Group products and services.
- Risk that the Group's position as an ethical bank becomes diluted by competition shifting towards greater climate consciousness.

Example events: Substitution of existing products and services with lower emissions options; investment in new technologies to reduce emissions or improve energy efficiency of physical sites and households and additional costs associated with the transition to lower emissions.
Risks impacted: Operational, capital
Time horizon: Short-medium term
Impact on the Group and its customers:
- Rising cost of embedding new climate-friendly technologies.
- Devaluation and diminished utility of existing technology.

Example events: Bottlenecking in the housing market due to limited supply and increased demand for energy efficient and low flood risk properties; changing customer behaviour to less carbon-dependent alternatives and greater volatility in cost and sourcing of carbon heavy raw materials.
Risks impacted: Market, credit, pension, capital, liquidity and funding
Time horizon: Short-medium term
Impact on the Group and its customers:
- Asset impairment or net interest margin volatility due to changes in the housing market.
- Additional funding costs as a result of price volatility.
- Abrupt shifts in operating costs such as energy costs.

Climate-related opportunities

Climate is central to our customer propositions across our core portfolios and continues to be an important component of our strategy.

Retail secured

What we've done:

- We've deployed a total of £441m of eligible green assets with a valid EPC at completion in 2022, of which £318m were originated since 6 April 2022 (the day following the settlement date of our inaugural £250m green bond). This represents >100 % of the net proceeds from this transaction which thereby fulfils our intention to utilise at least 75 % of net proceeds for the future origination of eligible green assets (as communicated ahead of issuance).
- We've launched Green Additional Borrowing options for existing retail customers to fund home improvements. Uptake has to date been low.

What we'd like to do:

- In 2023 we'll look to release new green mortgage products under the GSS Financing Framework and continue to provide options for our customers.

Retail unsecured

What we've done:

- We were the first UK high street bank to be part of the Bank.Green Fossil Free Banking Alliance, helping customers choose sustainable and climate-conscious banking options.
- Our current accounts and savings accounts do not fund businesses that damage the environment. Our marketing campaign highlighted the unethical practices that other banks invest their customers' money in.

What we'd like to do:

- Continue to raise awareness of the impact on the planet and environment of where customers chose to bank.

SME

What we've done:

- We entered a partnership with Zellar, a sustainability platform, to help make sustainability easier for our business customers.
- We've launched a Renewable Energy Funding Scheme for business customers.

What we'd like to do:

- Our aim in 2023 is to help our business customers further measure, manage, and improve their sustainability.

Our 'Planet' Pillar

The Bank's environmental commitments drive our interactions and relationships with our stakeholders.

Customers

Our customers drive the decisions we make in choosing who to provide banking services to and climate is at the centre of those decisions.

New climate-related activities that we will not finance or provide banking services to entities who perform them includes:

- exploration for fossil fuels;
- deep-sea mining activities;
- activities that degrade irrecoverable carbon stores such as peatlands, forests, mangroves and wetlands, and
- production of exotic or speciality leather alongside fur.

Colleagues

'Ethical' continues to be the most important descriptor colleagues ascribed to the Bank in the 2022 FSCB survey, and in 2022 the highest proportion of colleagues since participation began ascribed it this quality.

Suppliers

All of our suppliers must be assessed against our Sustainable Procurement and Supplier Policy, otherwise we will not engage them.

Communities

We offset carbon emissions (and an additional 10 %) to support initiatives that provide vital renewable energy and infrastructure to communities and environments in Guatemala and Malawi (see page 24 for more detail).

Shareholders and investors

We aim to provide sustainable value to shareholders and investors without having a negative impact on the environment.

Regulators

We strive to be pro-active in achieving compliance with climate reporting and be clear and transparent in disclosures, such as through this report.

Metrics and targets

Key Disclosures:
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process

Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

As part of its commitment to disclose metrics and targets as part of its ESG strategy, the Group completes a sustainability checklist. The environmental section of the checklist is disclosed in this report. The social and governance sections of the checklist can be found in full in the Sustainability Report that can be found on the Bank's website. Each metric or target on the checklist has been assigned a green, amber or red rating based on the following definitions:

Green
We're in a good position on this metric.

Amber
We're making progress but still have work to do.

Red
This is an area for development.

Climate preparedness

Environmental policy

Our Ethical Policy outlines our commitments to protecting the environment.

Rating: Green

GHG reduction programme

Our GHG reporting and targets are outlined overleaf.

Rating: Green

Renewable energy programmes

100% of the electricity we buy directly is sourced from renewable energy.

Rating: Green

Green procurement policy

We assess existing suppliers against our Sustainable Procurement and Supplier Policy which determines how our suppliers must operate to work with us.

Rating: Green

Credit and loan standards

Each business account application is screened against our Ethical Policy. We do not accept those whose activities conflict or breach our Ethical Policy. See page 23 for detail on how many applications and accounts we have declined or closed in 2022.

Rating: Green

Scope 1 & 2 GHG Reporting

Scope 1 & 2 emissions are reported in line with Greenhouse Gas Protocol Corporate Standards and the Task Force on Climate-related Financial Disclosures (TCFD).

Rating: Green

Scope 3 GHG Reporting

We are in the process of establishing an implementation plan for Scope 3 emissions reporting. Currently only business travel (category 6) is reported.

Rating: Amber

Environmental management system (EMS) certification

The Bank is working towards implementation of an EMS with appropriate certifications.

Rating: Red

Quantitative performance

Carbon intensity and trend

See overleaf. Our carbon intensity ratio has decreased to 0.8 tCO_2e since 2021 (1.3 tCO_2e) and decreased against our 2019 baseline.

Rating: Green

Renewable energy use

100% of the electricity we buy directly is sourced from renewable energy.

Rating: Green

Responsible asset management

Each business account application is screened against our Ethical Policy. We do not accept those whose activities conflict or breach our Ethical Policy and close existing accounts where businesses have been identified as having breached our Ethical Policy. See page 23 for more detail on how many applications and accounts we have declined or closed in 2022.

Rating: Green

Sustainable financial initiatives

Since 2007 we've been supporting and lending to small, localised hydro and wind farms, the majority being in the North of England and Scottish Isles. In 2022 our lending to the renewable energy sector stood at £7.9m.

Rating: Green

Environmental metrics and targets

Scope 1 & 2 greenhouse gas emissions by source [1]

	Total emissions (tCO2e)			
Source of emissions	**2022**	**2021**	**2020**	**2019**
Fuel combustion	**489**	805	845	876
Electricity consumption [2]	**1,562**	2,181	2,786	5,811
Refrigerant leakages	**71**	164	230	312
TOTAL [3]	**2,122**	3,150	3,861	6,999
Carbon intensity (tCO2e/FTE) [4, 5]	**0.8**	1.3	1.3	2.4

Additional environmental metrics and targets

	2022	2022	2021	2020	2019
% waste to landfill [6]	0 %	**0%**	0 %	0 %	25 %
Business travel (tCO2e) [5]	Under 100	**96**	27	100	423
Lending to renewable energy sector	Ongoing investment	**£7.9m**	£9.5m	£19m	£24m
Office paper usage (reams) [5]	4,000 max	**4,314**	3,847	1,973	20,246
Direct procurement of electricity from renewables [2]	100 %	**100%**	100 %	100 %	100 %

1. Only 2021 and 2022 data has been verified by SGS, an independent 3rd party who provide assurance over ESG metrics.
2. Total electricity consumption GHG emissions are calculated using a location-based methodology. They are calculated using the UK average GHG emissions figure, as published by the Department for Business, Energy & Industrial Strategy. All electricity sourced directly by The Co-operative Bank is REGO backed renewable electricity. Where locations are not included in the direct supply agreement (totalling 6.85 % of total electricity consumption in 2022) due to inclusion in landlord service provision, a market-based approach assuming a non-renewable electricity source is used to calculate GHG emissions from these locations. This allows us to accurately offset the emissions generated. Renewable electricity is zero rated for carbon offsetting, therefore all electricity purchased directly by The Co-operative Bank is excluded from the offsetting calculation.
3. Restated to exclude business travel from this table. Only 2021 and 2022 data has been verified by SGS.
4. Calculated using the average number of full time equivalent (FTE) employees for each year.
5. This data or calculation has not been verified by SGS.
6. Includes sites where the Bank has full control of waste management only.

Financial performance

In 2022 we achieved a second consecutive year of profitability whilst focussing on developing a simplified mortgage and savings platform. The overall financial performance reflects improvement in the underlying profitability of our segments driven by improving Bank margins.

Alternative performance measures

The Group uses a number of alternative performance measures, including underlying profit or loss, to monitor its financial performance relative to the Group's five-year strategy. The statutory result, a profit before tax of £132.6m, which is defined by accounting rules, is also monitored for the Group overall.

Underlying performance

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

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

Year ended 31 December 2021	Core				
£m	Retail	SME	Total	Legacy & central items	Group
Net interest income	284.8	47.4	332.2	(8.3)	**323.9**
Other operating income	20.3	16.5	36.8	0.8	**37.6**
Operating income	**305.1**	**63.9**	**369.0**	**(7.5)**	**361.5**
Credit impairment losses	0.9	(1.1)	(0.2)	(0.9)	**(1.1)**
Operating costs – staff	(86.1)	(21.4)	(107.5)	(2.5)	**(110.0)**
Operating costs – non-staff	(165.9)	(32.5)	(198.4)	(1.6)	**(200.0)**
Continuous improvement projects	(7.8)	(1.2)	(9.0)	(0.4)	**(9.4)**
Operating expenses	(259.8)	(55.1)	(314.9)	(4.5)	**(319.4)**
Underlying profit/(loss)	46.2	7.7	53.9	(12.9)	**41.0**

The Group has made an underlying profit of £136.0m (2021: £41.0m). Income generated by core segments of £507.7m is 38 % higher than in 2021, driven by improving deposit margins following increases in the base rate to 3.5 % which has contributed to a higher net interest margin of 1.66 % (2021: 1.25 %). Other operating income in core segments has increased by 12.5 % to £41.4m as a result of customer transactions returning to more normalised levels across 2022.

Credit impairment losses increased by >100 % in 2022 compared to 2021. This reflects a deterioration in the Bank's macro-economic forecasts along with adjustments for affordability across secured and unsecured portfolios as a result of cost of living pressures.

Underlying operating expenses increased by 11.8% from £319.4m to £357.0m. Non-staff operating costs have increased by £14.5m (7.3%) to £214.5m following higher marketing spend in 2022, a higher rate of fraud and 2021 benefits relating to releases of provisions for branch closures and PPI. Staff costs also increased by 9.5% to £120.4m. This is due to the actions taken to support colleagues with the rising cost of living and the impact of recruitment within our call centres.

Income statement – reconciliation to IFRS basis

Year ended 31 December £m	2022	2021
Underlying profit	**136.0**	41.0
Exceptional project expenditure	**(12.4)**	(28.8)
Other exceptional gains	**9.0**	18.9
Statutory profit before tax	**132.6**	31.1

The statutory profit before tax reported for 2022 improved by £101.5m compared to 2021. Growth in income outweighing the increased operating expenditure has significantly improved the financial performance of the Group in 2022. Exceptional project expenditure in 2022 relates to the Simplification programme where we will move three IT platforms to one, as well as bringing our mortgage servicing operations in-house.

Other exceptional gains relates to the partial sale of Visa shareholdings as well as an exceptional profit on disposal of a small legacy loan book in the first quarter of 2022. It reduced by £9.9m as a result of a one-off gain in 2021 related to a refund of ATM rates and lower levels of PPI being released compared to 2022.

Taxation

The Group has a tax charge for the period of £110.5m (2021: £166.2m credit). The Group's continuing profitability has resulted in a current tax charge of £5.7m (2021: £nil) and confidence in sustainable future profits has allowed the Group to recognise further deferred tax assets to shelter future taxable profits.

The pension "buy-in" has resulted in a reduction in deferred tax liabilities (£110.6m). There has also been a tax charge of £58.4m in the income statement for a write-down of the deferred tax asset in respect of tax losses that had been previously supported by the Pace net retirement benefit deferred tax liability. Further information is provided in note 30.

The UK rate of corporation tax will increase from 19% to 25% with effect from 1 April 2023 and because this legislative change had been enacted, the increase was reflected in the Group's deferred tax balances at 31 December 2021. In February 2022, further legislation was enacted to reduce the banking surcharge from 8% to 3%, and to increase the threshold below which it is not chargeable to £100m (previously £25m) from 1 April 2023. The impact is a reduction in the value of deferred tax assets, and a £43.3m charge to the income statement. Further information is provided in notes 2, 11 and 29.

(audited) Year ended 31 December £m	2022	2021
Current tax		
Current year	**5.7**	-
Total current tax charge	**5.7**	-
Deferred tax		
Current year	**2.7**	(115.9)
Adjustments in respect of previous year	**0.4**	-
Impact of rate changes	**43.3**	(50.3)
Write-down of previously recognised deferred tax asset	**58.4**	-
Total deferred tax charge/(credit)	**104.8**	(166.2)
Total tax charge/(credit)	**110.5**	(166.2)

Balance sheet

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

As at 31 December 2021 £m	Core			Legacy & central items	Group
	Retail	SME	Total		
Assets	19,756.0	441.7	20,197.7	9,125.6	29,323.3
Liabilities	17,604.4	3,461.0	21,065.4	6,506.0	27,571.4

Core segment assets remained stable at £20.2bn as we have actively managed new business volumes to preserve Bank margins. Core segment liabilities reduced by £1.1bn over the same period, following a small unwind of excess balances which customers had built up over the pandemic.

Legacy and central assets decreased by 13.6 % (£1.2bn) as the legacy business continues to run-off and we re-deploy the capital for the benefit of our core business. Legacy and central liabilities increased by 5.0 % (£0.3bn) in the year and although legacy liabilities represent the customers which the Group is seeking to exit, such deposit balances can fluctuate month-on-month.

In December 2022, the Trustee of the Bank Section of the Co-operative Pension Scheme (Pace) completed a full “buy-in” transaction with Rothesay Life Plc, a specialist UK insurer, to insure scheme benefits through purchase of a bulk annuity insurance policy. This insurance policy was purchased using existing scheme assets with no additional contributions from the Group. Through this “buy-in” transaction, and in conjunction with a pre-existing partial “buy-in” with Pension Insurance Corporation plc (PIC) completed in April 2020, all Pace DB liabilities in respect of pension benefits are matched by insurance assets of equivalent value. The insurance premium paid to purchase the insurance asset exceeded the value of pension benefits insured, resulting in an estimated accounting loss of c.£395.0m, which is recorded in other comprehensive income.

Previously, the Bank recognised a deferred tax liability (Pace DTL) in connection with the Pace net retirement benefit asset. Deferred tax assets (DTAs) were also recognised, to the extent permissible under applicable tax rules, to offset the Pace DTL. The c.£395.0m reduction in the net retirement benefit asset led to a £110.6m reduction in the Pace DTL, recognised in the defined benefit pension reserve, and a £58.4m write-down of the deferred tax asset in respect of tax losses that had been previously supported by the Pace DTL, recognised as an income tax charge in the Group’s profit for the financial year. The impacts to the Pace DTL and the offsetting DTAs had the effect, in aggregate, of increasing the Group’s net DTA by £52.2m.

The Pace “buy-in” transaction had no impact on Group CET1, because the net retirement benefit asset attributable to Pace, net of Pace DTLs, and the related DTAs were previously disallowed for CET1 under capital requirement regulations.

£m	2022 proforma excluding Pace "buy-in"	Pace "buy-in" Impacts			2022 Reported
		Pension	Deferred Tax	Total	
Net Retirement Benefit Asset	554.7	(395.0)	-	(395.0)	**159.7**
Deferred tax assets	115.2	-	52.2	52.2	**167.4**
Total assets	**28,475.6**	**(395.0)**	**52.2**	**(342.8)**	**28,132.8**
Defined Benefit Pension Reserve	306.7	(395.0)	110.6	(284.4)	**22.3**
Total equity and liabilities	**28,475.6**	**(395.0)**	**52.2**	**(324.8)**	**28,132.8**
Profit before tax	132.6	-	-	-	**132.6**
Income tax	(52.1)	-	(58.4)	(58.4)	**(110.5)**
Profit/(Loss) for the financial year	**80.5**	**-**	**(58.4)**	**(58.4)**	**22.1**
CET1 before deductions	1,627.5	(395.0)	52.2	(342.8)	**1,284.7**
Regulatory CET1 deductions	(675.1)	395.0	(52.2)	342.8	**(332.3)**
CET1 after deductions (reported)	952.4	-	-	-	**952.4**
CET1%	**19.8%**	**-**	**-**	**-**	**19.8%**

Capital as at 31 December

£m	2022	2021
CET1 and total Tier 1 capital	**952.4**	906.8
Tier 2 capital	**194.2**	202.2
Total capital resources	**1,146.6**	1,109.0
Other MREL-qualifying funds	**452.7**	199.9
MREL-qualifying resources	**1,599.3**	1,308.9

Total capital and MREL-qualifying resources

CET1 resources increased by £45.6m since 31 December 2021, and MREL-qualifying resources increased by £290.4m to £1,599.3m predominantly due to the successful £250m MREL issuance under our inaugural Green, Social and Sustainability Framework, which was completed in April 2022. During the year, the Group became fully compliant with its capital requirements plus total buffers on a sustainable basis for the first time since 2013.

£m unless stated	2022	2021
Capital ratios and other capital metrics		
CET1 ratio	**19.8%**	20.7 %
Total Capital Ratio	**23.8%**	25.4 %
Total Capital Requirement (TCR)	**628.5**	615.9
Overall Capital Requirement (OCR)	**797.1**	725.2
Risk Weighted Assets		
Credit risk	**4,312.9**	3,878.6
Operational risk	**503.3**	494.8
Total Risk Weighted Assets	**4,816.2**	4,373.4

The reported CET1 ratio of 19.8 % (2021: 20.7 %) remains well above the regulatory minimum. The Group has a Total Capital Requirement (TCR) of 13.1 % of Risk Weighted Assets (RWAs), which is required to be met by a minimum of 9.8 % of CET1 capital resources, and a maximum of 3.3 % Tier 2 capital resources. At the end of 2022, the Group had Pillar 1 requirements equivalent to 8.0 % (2021: 8.0 %) of total RWAs and an Individual Capital Requirement (ICR) equivalent to 5.05 % of total RWAs (2021: 6.08 %).

The Group's current interim MREL requirement is equivalent to TCR plus £400m, resulting in a total MREL requirement of £1,028.5m. The Group's current MREL resources total £1,599.3m, providing significant headroom to current MREL requirements. MREL requirements will become two times TCR from 1 January 2023.

The Group currently has an Overall Capital Requirement (OCR) of 3.5 % of RWAs above the TCR. It has exceeded its target of meeting the PRA buffer by the end of 2023, achieving full capital compliance on a sustainable basis, and the surplus to OCR contributes towards meeting this. The PRA buffer is a Bank-specific requirement which is assessed as part of the ICAAP and reflects the impact of an economic stress not already captured in the Capital Requirements Directive (CRD) IV buffer.

Risk Weighted Assets (RWAs)

Total RWAs, which include both credit and operational RWAs, increased throughout the year by £442.8m despite a stable balance sheet. The majority of this movement is due to the impact of regulatory adjustments to secured risk weights for PS11/20. In retail, credit RWAs increased by £515.8m and in SME, RWAs increased by £30.7m.

Leverage ratio

The PRA leverage ratio (i.e. CET1 resources divided by leverage exposures) of 4.0 % (2021: 3.8 %) has increased, mainly as a result of higher CET1 resources and lower exposures. The Group is not bound by a minimum leverage ratio currently, since its retail deposits are less than £50bn.

Liquidity

Liquidity remains strong and significantly above the 100 % regulatory minimum which is driven by the TFSME drawdown of £5.2bn. As a result, the Group's Liquidity Coverage Ratio (LCR) increased 60 percentage points to 265.3 % (2021: 205.3 %) calculated on a 12 month rolling average in line with Pillar 3 requirements. However, on a spot basis, the LCR has started to reduce and therefore we expect the 12 month average to start decreasing into 2023.

Segment update: retail

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

Segmental income - retail

£m	Year ended 31 December 2022	2021	Change
Net interest income	**397.0**	284.8	39.4 %
Other operating income	**22.7**	20.3	11.8 %
Operating income	**419.7**	305.1	37.6 %
Operating expenses	**(288.6)**	(259.8)	(11.1 %)
Credit impairment gains/(losses)	**(5.2)**	0.9	(>100 %)
Underlying profit/(loss)	**125.9**	46.2	>100 %

Segmental assets and liabilities - retail

£m	At 31 December 2022	2021	Change
Secured	**19,604.3**	19,507.9	0.5 %
Unsecured	**237.0**	248.1	(4.5 %)
Customer assets - lending	**19,841.8**	19,756.0	0.4 %
Customer liabilities - deposits	**16,607.8**	17,604.4	(5.7 %)
Risk Weighted Assets (credit)	**3,142.6**	2,626.8	19.6 %

Lending

The mortgage market in 2022 was very competitive with market rates (swaps) outpacing customer rates, squeezing new business margins. Market rates experienced significant volatility in the second half of 2022 which contributed to the Group taking a cautious approach to new business lending and opting to protect margins where appropriate. This resulted in a lower volume of completions compared to 2021 with net residential lending of £96m. Our mortgage book margins have remained largely stable at 147bps (2021: 154bps) with average completion margins reducing from 193bps to 77bps compared to 2021. Whilst completion margins remain low, the comparatively low volume of business at these margins has protected the blended book margin.

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

1. Other movements predominantly relates to repayments

Our mortgage book remains low-risk and resilient despite the challenges that have arisen throughout 2022. Average loan-to-value (LTV) is 53.5 % (2021: 56.8 %), which continues to provide significant protection from potential house price reductions.

A significant proportion of our customers have sought longer term financial certainty, opting for longer tenor mortgages, with 76.9 % of our completions during the year being five-year tenor business. However, the blended tenor across our whole mortgage portfolio of mortgages with a five-year fixed term only increased from 59 % to 67 % due to lower volumes during the period.

Our unsecured balances decreased by £11.1m to £237.0m (2021: £248.1m), continuing trends seen in 2021 of reduced spending on credit cards due to uncertain economic conditions.

Deposits

Total deposits reduced by 5.7% since 2021 to £16.6bn, following a small unwind of excess balances which customers had built up over the pandemic. Our individual current account average balance increased to £4,785 (2021: £4,580) and remains higher than before the outbreak of COVID-19. The decrease in term deposits reflects the impact of our strategy to price down expensive deposits and focus on building long-term relationships with our customers. However, as we look to refinance the TFSME, we will ensure our deposits are optimised to provide sufficient funding for the Bank's growth strategy.

We focussed on our franchise priorities in 2022 and launched two new savings products, select access saver and fixed term deposit, as well as our 'Refer a Friend' initiative which offered an incentive to switch to our current account offering. The initial impact has seen current account completions increase by 515% in Q4 compared to Q3 and deposits on the two new savings products total £264.5m.

Our franchise deposit balances reduced by 3.5% to £15.0bn (2021: £15.5bn) which was anticipated as part of the unwind of the COVID-19 balances which had built up during the pandemic. Retail current account balances of £5,848m remained stable when compared to the prior period (2021: £5,977m). Our focus is on attracting and retaining customers whose values and purpose are aligned with our ethical brand and co-operative heritage.

At the end of 2022, the BoE increased the base rate from 3.00% to 3.50%. This has subsequently increased to 4.00% in February 2023. As a result of this, our on sale savings rates are under review as we seek to ensure savings reflect latest market conditions and are aligned to our pricing principles.

£m unless otherwise stated	2022	2021	Change
Deposits			
Current accounts	**5,848**	5,977	(2.2%)
Savings	**9,114**	9,527	(4.3%)
Total franchise	**14,962**	**15,504**	**(3.5%)**
Term deposits	**1,646**	2,100	(21.6%)
Total	**16,608**	**17,604**	**(5.7%)**

Growth in franchise (%)	**(3.5%)**	7.0%	
Prime customers (% of total)	**48.6%**	48.0%	
Acquisitions of new customers (number)	**38,560**	45,625	
Net switching (number)	**(16,971)**	(11,145)	
Total current accounts (number)	**1,229k**	1,248k	

Customer service

We started 2022 with strong new business performance and throughout 2022 we continued serving our customers from our award-winning branches and through our established competitive products as well as new customer offerings.

Financial markets have been turbulent in 2022 with the banking industry impacted by increased inflation and volatility in UK interest rates. We have continued our focus on supporting our customers through the current cost of living crisis and can access the advice and services they need through our dedicated financial support teams. Our emergency hardship fund has been relaunched which was first established in 2020 at the start of the COVID-19 pandemic.

We continued to improve our interaction with customers coming to the end of their mortgage term throughout 2022, and across the year 17 mortgage product launches were delivered, helping our customers respond to market challenges and volatility. We engaged proactively and were in regular communication with our customers and developed enhancements to our customer propositions, including maximum loan size and LTI changes. As a result of this, c.18k existing mortgage customers benefited from a new product with us and we helped c.3k first time buyers get onto the property ladder.

During the year we won the 'Moneyfacts Branch Network of the Year' award for the fifth consecutive year, which is a tribute to our branch network for their commitment and dedication to servicing our customers.

The Bank continues to prioritise actions to address wait times in our contact centres and acknowledges the inconvenience that this can cause customers who wish to use this channel. We have seen improvement in our average speed to answer (ASA) within retail when compared to historic high wait times experienced in 2021 and we remain on track to achieve our target of less than five minutes ASA, although for much of the year we were outside our ten minute target for 2022. We have increased investment in recruitment to bring in more employees to reduce call waiting times and are targeting further reductions. Importantly the Bank has continually protected its phone lines for its most vulnerable customers, where customers may have experienced fraud or be in financial difficulty.

Digital is now established as our primary channel of choice for retail customers. In 2022, 92% of customers interacted with the Bank via a digital channel and 67% of our current account customers actively use digital channels. We are engaging with more customers than ever before across our digital channels and we have seen significant improvement in service stability and availability.

One of our values and ethics commitments is to provide services to typically under-served markets overlooked by other high street banks. We have launched our Bridge to Banking initiative with Centrepoint to make banking more accessible for their service users who are experiencing homelessness. Access to banking is a key factor in enabling these individuals to exit the cycle of homelessness. Additionally, we have responded to the ongoing crisis in Ukraine and successfully supported the launch of the government's 'Homes for Ukraine' scheme, aligning to guidance issued by UK Finance and ensuring processes are in place to support customers in need.

As part of our commitment to our customers and to the planet, we offer two Green Additional Borrowing options for existing mortgage customers, which will help customers carry out any energy saving improvements needed on their property. We have made progress in launching new products and services on the Bank's mainframe for the first time in seven years.

We saw lots of competition in the industry for current account customers to switch, which is why we adjusted our 'Refer a Friend' incentive throughout the year. This incentive gave customers the opportunity to introduce like-minded friends to our ethical banking proposition. This incentive has now closed but there are plans to reintroduce this in 2023.

Customers continued to support our communities through the Everyday Rewards current account charity payments scheme, which involves the donation of their Everyday Reward incentives. 2022 saw £152k donated to our designated charities, bringing the total amount donated since launch in 2016 to over £1.5m.

Our award-winning branches at the heart of their communities

At The Co-operative Bank we are dedicated to helping and supporting our local and wider communities. With this in mind at the start of 2022, the branch network agreed to embed a new exciting community objective. Each colleague in the branch network has been tasked with organising and participating in one community event. This objective not only fits within our Values & Ethics but is also a chance for us to engage with and display our enthusiasm around our new Ethical Policy covering People, Community and Planet.

We have completed many events in 2022 throughout our branch network. These events include talks at local schools, fraud workshops supporting the vulnerable and elderly, SME meetings, community projects, football charity days and work with refugee centres. Branches have also joined their local Business Improvement District in order to build links and relationships within local business communities.

Plymouth – supporting our local charities

Plymouth Mayflower Specials is a charity based in Plymouth and run by a couple who help support young adults with intellectual disabilities to take part in a range of sports, develop their confidence, make new friends and become part of the family. They run local and national games and tournaments for the athletes to compete in.

The Bank's Plymouth branch has had links in the past with this charity and chose to support them again this year. Staff attended the launch of the 2022 games and met some of the lovely people who were taking part. It was clear how much these games meant to the club's members and how much support they receive, with physical activity and support for mental wellbeing too.

At the event, branch staff had the honour of meeting the Lady Mayoress of Plymouth, who was so impressed with their support and enthusiasm that she invited them for tea and cake with her!

The launch event was held in the local YMCA centre that was open to the public to attend and an article was published in the local newspaper and on the Plymouth Mayflower Specials website.

Colchester branch – supporting refugees

During Q4 2022 the Bank's Colchester branch started to build relationships with their local council, who are supporting refugees from Afghanistan with accommodation and to ensure they receive the benefits they are entitled to, and to ensure benefits are paid out, the refugees needed a UK bank account

It started with a discussion around the ethics of our Bank and the types of banking accounts we can offer, along with identification needed for applications. The council's main priority was to make the process as simple as possible. With support from the council and following full explanations of all available options, it was clear that a basic bank account would be the best option for the refugees with a view to upgrade to other facilities once they were established here. We confirmed that we would be able to support the refugees with a basic bank account with the identification that each of the refugees would be able to supply.

We then discussed how this could work due to language barriers and helped arrange banking services using interpreters supplied by the council. This meant we were able to explain options clearly, to help bring about the best customer outcomes for the refugees, and ensure that they understood the products they were offered.

This relationship has been a success and we have supported a number of refugees with their applications. Most accounts have now been completed and the Colchester team are now in a position to support each of those customers with their banking needs including setting up security, digital and online banking and providing education around fraud and scams, especially as some of the customers have never had a bank account before.

The whole team have all been part of the new partnership and we have received some wonderful feedback from the council who are continuing to introduce new customers to our Bank and will be continuing to build our relationship further in 2023.

Sunderland Branch – supporting customers

Sunderland branch held a Fraud and Scam Awareness Day in Branch in April. The team were eager to support customer awareness to current fraud and scam threats. We have been educating customers to stop and take a moment to think about the situation they are in before parting with personal information or money. We asked them to challenge and question to find out more before making financial decisions, and protect themselves by contacting the Bank if they think they have or about to fall victim to a scam, so we can report it to Action Fraud. To support our Fraud and Scam Awareness Day and highlight the importance of being fraud-aware, we set up a Fraud Awareness Hub within the banking hall stocked full of Take 5 and Fraud Awareness leaflets. The Hub was staffed throughout the day by members of the team. The activity within the branch has been met with great appreciation from our Sunderland customers who are pleased that we are taking steps as a bank to protect our customers.

Segment update: SME

We provide straightforward, value for money products to our SME customers, including transactional banking, overdrafts, credit cards and loans. Our SME banking business has continued to grow in the year and we have launched an array of exciting new services and products to help our customers digitise their banking whilst retaining a customer-first focus through our dedicated relationship managers. Our SME business only provides services to UK-based customers.

Segmental income - SME

	Year ended 31 December		
£m	2022	2021	Change
Net interest income	**69.3**	47.4	46.2 %
Other operating income	**18.7**	16.5	13.3 %
Operating income	**88.0**	63.9	37.7 %
Operating expenses	**(63.6)**	(55.1)	(15.4 %)
Credit impairment losses	**(1.6)**	(1.1)	(45.5 %)
Underlying profit/(loss)	**22.8**	7.7	>100 %

Segmental assets and liabilities - SME

	At 31 December		
£m	2022	2021	Change
Customer assets - lending	**388.2**	441.7	(12.1 %)
Customer liabilities - deposits	**3,396.8**	3,461.0	(1.9 %)
Risk Weighted Assets (credit)	**195.1**	164.4	18.7 %

The SME business remains a core focus for liability growth as it represents a cost-effective source of funding. Our lending reduced in 2022 compared to 2021 by 12.1 % , as did liabilities, which reduced by 1.9 % to £3,396.8m. The reduction was anticipated as part of the small unwind of excess COVID-19 balances which customers had built up during lockdown as these deposits were used to repay Bounce Back loan balances. Throughout 2022 we have opened 8,703 new current accounts (2021: 12,606) and 2,670 new savings accounts (2021: 4,090).

£m unless otherwise stated	2022	2021
SME deposits		
Current accounts	2,737	2,865
Savings	660	596
Total franchise	**3,397**	**3,461**
New current accounts opened (number)	8,703	12,606
New savings accounts opened (number)	2,670	4,090

An SME Customer Case Study

The Khoja Shia Ithna-asheri Muslim Community of London

The Bank was approached to provide funding for a local charity – The Khoja Shia Ithna-asheri Muslim Community of London – to assist with the purchase of a new head office in Uxbridge. Our experienced relationship manager in London and the South East was engaged to discuss options, formulate a proposition and assist the charity using our Charity Lending Fund. We provided support throughout the transaction and the acquisition of the site has provided the charity with much needed space to enable them to continue their growth. They have ambitious plans for the site with the longer term aim of creating a 'mini village', offering recreational space including a library and gym. They also plan to set up an Entrepreneur and Business Hub at the site.

"It was an absolute pleasure to work with The Co-operative Bank on this landmark project in the history of our growing community. We felt they really took the time to understand the objectives of our charity, our vision for Hujjat Harefield and extended their full support throughout the process. Thanks for making our project possible and we look forward to building on this fantastic relationship."

Cllr Abbas Merali

Our relationship manager for London and the South East said: "It is fantastic that through our Charity Lending Fund we have been able to help The Khoja Shia Ithna-asheri Muslim Community of London with the purchase of this site in Uxbridge and secure their future in the area for many years to come. The site offers them flexibility and the space to continue to grow the charity's activities. Working with charities such as The Khoja Shia Ithna-asheri Muslim Community of London allows the Bank to offer funding which helps support the growth of the charities sector and local economy, and provides an opportunity to build a lasting relationship. I am looking forward to working with The Khoja Shia Ithna-asheri Muslim Community of London as they continue their growth journey."

Our SME proposition

In 2022, we successfully upgraded our online banking platform which delivers an improved digital service for our customers by improving customer journeys, enhancing the user interface and providing a platform for future service enhancements. We also launched a new referral process with our new sustainability partner, Zellar, as we build out the range of value added products and services available to our SME customers. Zellar is a software platform for SMEs to measure, manage and improve their sustainability journey, providing bespoke plans and support for SMEs to improve their sustainability practices and reach Net Zero.

Products

Our new business current account, designed specifically for customers who want to bank digitally, was released in January 2022 and intended to sit alongside our new mobile application and improved onboarding journey as a holistic digital banking proposition for SMEs.

We launched 'Go Get Paid' in partnership with BankiFi to help customers stay on top of their cash flow by enabling them to request payments and manage invoices. This service is available to all UK SMEs, not just Bank customers, and is helping customers receive invoice payments with 59% of invoices settled within one day of payment request.

Developing customer experience

In 2022 we made improvements in our pledge to make banking more simple and efficient for customers by launching a new secure chat service. This enables customers to authenticate through an app and interact directly with a Bank colleague to help those complete actions on their account, which also adds an additional service channel to augment our telephony contact centre. We have continued to make iterative improvements to our onboarding processes, with the average application for sole traders and single directors now taking 6 days in 2022 with 63% opened within four days and strong customer NPS of +68 for our digital onboarding journey.

There have been many updates to our mobile app throughout the year which now enables us to offer SME mobile customers a variety of features, and we continued to make improvements to our mobile app. As at the end of 2022 over 29,000 customers have registered for our SME mobile app service.

We continued to support customers through our Customer Donation Fund, which provides project funding for our community banking customers to fund local community projects. In 2022, we reached the milestone of donating over £1m to our community customers since inception of the Customer Donation Fund in 2003. The Bank also continues to support our customers who took out Bounce Back loans through our dedicated business support team and are continuing to see robust performance and repayments of these loans.

The Bank continues to prioritise actions to address wait times in our contact centres, and acknowledges the inconvenience that this can cause customers who wish to use this channel. The Bank, like many other firms, has experienced difficulties in maintaining a consistent level of service and we have invested in managing these issues throughout the year. We have focussed on recruitment within our contact centres which has seen an improvement on our average speed to answer calls from our customers. Importantly the Bank has continually protected its lines for its most vulnerable customers, where customers may have experienced fraud or be in financial difficulty.

Continuing to support our customers through the aftermath of COVID-19

The high quality of the portfolio means we are performing ahead of industry averages and only 2.4% of our Bounce Back loan balances are in arrears. We made our first claim under the CBILS guarantee in Q4 2022 and are continuing to see robust performance of the CBILS portfolio. Both schemes are now closed to new borrowers.

	CBILS	Bounce Back loans
Outstanding balance at 31 December 2022	£58m	£163m
Loans repaid in full at 31 December 2022	£9m	£47m
Claims made under guarantee as at 31 December 2022	£191k	£18m
Claims settled as at 31 December 2022	£nil	£15m

Board focus in 2022

The Board has focussed on the following items in 2022:

- The introduction of a hybrid working model following the lifting of COVID-19 restrictions and in particular how the Bank's culture and values & ethics would be maintained under such a model.

- Discussions of the strategic development of the Bank following sustainable profits throughout 2022, including increased investment in marketing, contact centre resources and upgrading the branch network. It also considered strategic opportunities, both organic and inorganic, available to the Group to ensure its continued growth.

- Improvement of the Group's capital position to ensure compliance with capital requirements and the long-term success of the Group, including the issuance of a further £250m fixed rate reset callable notes due in 2027 and a return to compliance with full capital requirements plus all buffers during the year.

- Oversight of the Simplification programme which the Board dedicated a significant amount of time to. A Board Sub-Committee was stood up and met monthly to monitor and challenge progress against the programme plan, as well as the integration of mortgage services into the business with the first colleagues joining the Bank during 2022. The Board also considered other IT related matters such as the remediation of IT infrastructure, the approval of the cyber security strategy and management of technology risks to ensure a secure banking environment for customers.

- The continued implementation of the strategy to simplify and transform the Bank's balance sheet and reduce risk and uncertainty. Aligned to this strategy, the Board considered opportunities to reduce the risks to which the Bank section of the Co-operative Pension Scheme (Pace) is exposed, and supported the trustee of Pace's successful completion of a full 'buy-in' transaction of the Bank section.

- Operational resilience and business continuity remained key areas of focus for the Board during 2022. The Board also received regular updates on the project to ensure compliance with the Resolvability Assessment Framework, approving the self-assessment and Resolution & Resolvability Report in November 2022.

- Setting of the regulatory agenda, including the annual review and approval of the RMF and the Group's risk appetite.

- Oversight of franchise growth across both retail and SME aligned to our customer first principles, enhancing the Bank's offering to its SME customers via the introduction of improved digital banking facilities.

- Review and approval of the Annual Report and Accounts, the quarterly trading updates and half-year Interim Financial Report and associated financial information, receiving regular updates from the Chair of the Joint Audit Committee. It also approved the Group's tax strategy and continuing adoption of the HMRC Code of Practice on Taxation for Banking.

- Approval of the updated Ethical Policy, which had been refreshed following consultation with customers and colleagues, the Values, Ethics & Sustainability Strategy 2023-2025, and events to celebrate the 150th anniversary of the Bank.

- 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 Financial Services Culture Board survey.

- Review and discussion of people matters, including approving the remuneration policy and variable pay. The Board also oversaw changes to the Executive team, including the appointment of a Chief Information Officer who will join the Bank in Q2 2023. The Board also oversaw the appointment of a new Independent Non-Executive Director in September 2022.

In addition, the Board has overseen the continued commitment to co-operative values including those matters specifically referred to on pages 62 to 63 with regard to Section 172 obligations.

Statement by the Directors - s172

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

The successful delivery of the 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 17.

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

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

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

and

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

As part of the review process, the Directors consider the long-term consequences of the Plan. In doing so, the Board oversees the strategic priorities over the short term and long term, including the level of funding required to deliver the strategic priorities and the availability of capital to meet requirements over the period. The Board also considers how the Group's values and ethics have been incorporated in the Plan and its alignment with our customer-led Ethical Policy (as seen on the Bank's website), compliance with the requirements of Co-operatives UK and maintenance of its reputation for high standards of business conduct. Further information on our customer-led Ethical Policy and how this informs strategic activity can be found on pages 22 to 32.

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

Further information on the Group's engagement with its employees and how it promotes an ethical workplace can be found in the Directors' Report, on pages 94 to 99 and in the strategic report on pages 26 to 28. During the year, the Directors continued to spend time reviewing the arrangements put in place by management to ensure safe working conditions for employees and wider support for employees during a time of economic uncertainty. As set out within the Joint Audit Committee report on page 82, there is a process through which employees can formally raise a concern at work on a confidential basis. There is an annual review by the Joint Audit Committee which considers, amongst other things, whether the policy remains appropriate and effective.

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

The Directors consider how the Group maintains positive relationships with all of its stakeholders, including suppliers, customers and others. A key part of promoting the long-term success of the organisation is the way in which our values and ethics are intrinsically linked to our brand, and why our customers choose to join us. During 2022 the Group was proud to launch its refreshed Ethical Policy that had been updated following consultation with customers and its employees.

The Directors recognise the impact of the supply chain on the long-term success of the Group and the way in which our suppliers impact our customer and colleague experience. During the year, the Group continued its review of all its supplier contracts. Extensive financial and operational diligence was performed to consider a range of alternative options when reaching decisions around use of suppliers, including consideration of how the suppliers' objectives align with those of the Group and of our customers. Our customer-led Ethical Policy also guides with whom we choose to do business. More information on our approach to supplier selection and management more widely can be found in the Directors' Report on page 98.

The principal risks and uncertainties described in the risk management report on pages 111 to 128 set out a number of risks which could impact the long-term success of the Group and consideration of how other stakeholders impact those risks, or are impacted by those risks. In many cases, good communication with, and understanding of, these stakeholders aligns closely with a strong Risk Management Framework and a positive risk culture. As a result, the Board actively seeks information to assist the Directors in reaching conclusions about the risks faced by the Group and how these are reflected within the strategy.

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

Throughout the strategic report, we have outlined how the Group and its staff consider the way in which we impact the environment and the society around us. The Board mandates that when matters are discussed, the papers supporting these discussions specifically consider the alignment to our values and ethics. The Board's role in promoting and embedding the continuous commitment to these co-operative values is set out in more detail on pages 91 to 93. Our purpose is to pioneer banking that makes a positive difference to the lives of our customers and communities and the five-year Plan places significant emphasis on how we intend to serve that purpose and the Board-approved priorities that will be funded to make a positive difference, and how performance against these expectations will be monitored via the Group's scorecard metrics. During the year, targets have been set, both qualitatively and quantitatively, in relation to the impact on the environment and social matters.

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

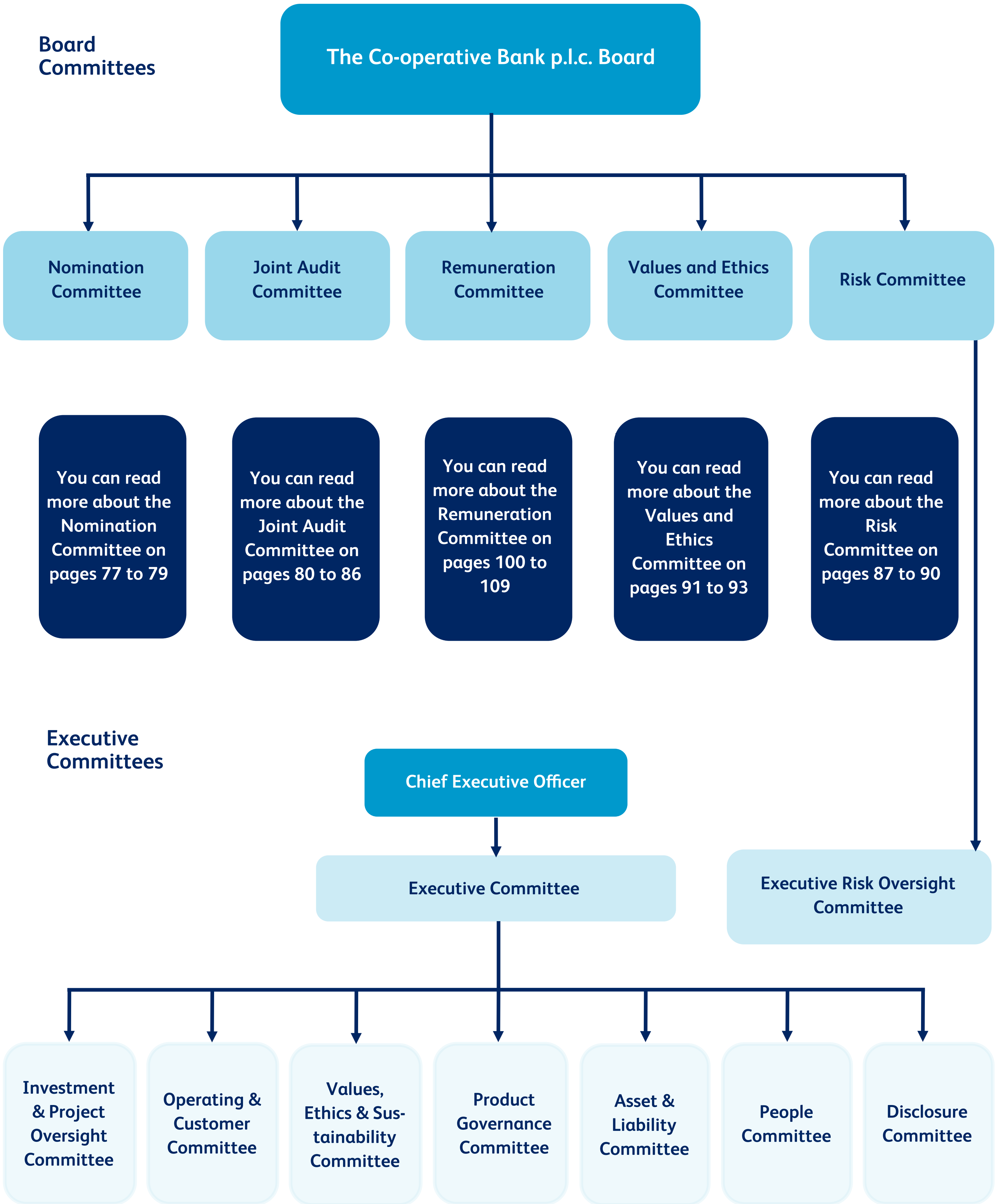
The Bank Company and Finance Company are owned by a single shareholder. The Group structure is set out on page 1 of this report. Their Boards ensure that matters are referred to their respective shareholders in line with each company's Articles of Association (which are publically available on the Companies House website free of charge at find-and-update.company-information.service.gov.uk) and relevant statutory requirements. The Group's Disclosure Committee reviews all information shared with the shareholders to determine whether it is inside information that needs to be publicly disclosed to comply with the European Market Abuse Regulation 596/2014 (MAR), which became part of UK law through the Market Abuse (Amendment) (EU Exit) Regulations 2018 in the context of the Bank's covered bonds (from time to time as such bonds are in issuance) and the Finance Company's listed £200m fixed rate callable subordinated Tier 2 notes due in 2029, £200m fixed rate reset callable notes due in 2025 and £250m fixed rate reset callable notes due in 2027. Further information on relations with shareholders can be found in the ownership section of the corporate governance report on page 70 and on the investor relations page of the Bank's website. As a privately-owned bank, the Board acknowledges that its ultimate shareholders may, at their discretion, consider potential strategic opportunities if and when they may arise and that there is a possibility of consolidation within the UK retail banking industry in the future. There can be no certainty that any opportunities may arise and, if so, whether a transaction process would commence, or whether any potential interested parties could be identified or would participate in such a process. The Board is committed to the interests of all its stakeholders and to the delivery of its Plan.

The Board is committed to prudent capital returns in the future, and paying regard to stakeholder feedback amongst other factors, intends to implement a stable and sustainable ordinary dividend policy. See page 94 for further detail.

Corporate governance report

Corporate governance framework

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



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

Board of Directors

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

Key

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

N VE

Bob Dench

Chair of the Board

Independent: On appointment

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

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

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

External appointments: None

R A N RE

Derek Weir

Senior Independent Director

Independent: Yes

Appointed: July 2014 (Bank Board), January 2016 (Chair of Risk Committee), April 2018 (Senior Independent Director)

Skills and experience: Extensive banking experience. Strong strategic, risk management, regulatory and stakeholder management experience.

Career history: Derek has over 30 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.

External appointments: Non-Executive Director of Motherwell Football Club Community Trust. Director of Kerrach Limited and Halo Urban Regeneration Company Limited.

A R VE RE

Glyn Smith

Non-Executive Director

Independent: Yes

Appointed: October 2016 (Bank Board and Chair of Audit Committee)

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

Career history: Glyn 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.

External appointments: Senior Independent Director and Chair of the Audit and Risk Committee of Reclaim Fund Ltd and Chair of West Bromwich Building Society Pension Trustee.

VE
R
A
RE

Sue Harris

Non-Executive Director

Independent: Yes

Appointed: May 2019 (Bank Board)

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

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

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

RE
R
N
VE

Sir Bill Thomas

Non-Executive Director

Independent: Yes

Appointed: October 2013 (Bank Board), January 2018 (Chair of Remuneration)

Skills and experience: IT, systems and digital expertise. Strong leadership skills with extensive commercial and operational experience working domestically and internationally in both public and private sector organisations. Significant experience in digital transformation programmes.

Career history: Sir Bill is a former Senior Vice President and General Manager of Hewlett-Packard Enterprise EMEA. He served as a corporate officer on the Executive Committee of EDS plc as Executive Vice President. 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 is the former Chair of Clarkson plc and of the Royal Navy and Royal Marines Charity.

External appointments: Chair of Spirent Communications plc. Advisor to Mandiant (a Google company). Non-Executive Director and Chair of Node 4 Limited (private equity-owned IT services). Chair of Jungle Creations Limited (private equity owned on-line publisher and digital marketing consultancy). Partner in Hopton Estates.

R
A

Raj Singh

Non-Executive Director

Independent: Yes

Appointed: September 2022 (Bank Board)

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

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

External appointments: Independent Non-Executive Director of Allied Irish Banks, p.l.c., and member of the Risk and Sustainability committees. Independent Non-Executive Director and member of the Audit Committee of Vanguard Group (Ireland) Limited. Independent Non-Executive Director of AXA UK PLC (subject to regulatory approval). Independent advisor for Accredere AG Switzerland.

RE

Richard Slimmon

Non-Executive Director

Independent: No

Appointed: January 2021 (Bank Board)

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

Career history: Richard has worked in investment banking for nearly three decades focussing on providing strategic advice to companies in the financial services sector. He has held a number of senior roles at Deutsche Bank and Merrill Lynch in their respective Financial Institutions Groups.

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

R

N

Sebastian Grigg

Non-Executive Director

Independent: No

Appointed: January 2021 (Bank Board)

Skills and experience: Investment banking experience.

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

External appointments: Director of South Molton Street Capital Limited. Elected hereditary member of the House of Lords.

Nick Slape

Chief Executive Officer

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

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

Career history: Nick has worked in the financial services sector in the UK and overseas for more than 30 years and throughout his career he has worked at a number of investment banks including Lehman Bros, Dresdner Bank, Deutsche Bank and Merrill Lynch. Most recently he spent five years as Chief Financial Officer of the Commercial Division at Lloyds Banking Group. He was appointed as Chief Financial Officer in December 2018, appointed to the Board in December 2019, and assumed full CEO responsibilities in October 2020.

External appointments: None

Louise Britnell

Chief Financial Officer

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

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

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

External appointments: None

Corporate governance report

Ownership

The Co-operative Bank p.l.c. (Bank Company) is a public limited company with no listed securities at present, although it has the capability to issue listed securities on the London Stock Exchange. Its equity is not listed. On 11 February 2019, The Co-operative Bank Finance Limited (Finance Company), became the immediate parent of the Bank Company, re-registering as a public company on 18 March 2019 under the name of The Co-operative Bank Finance p.l.c.

The Finance Company is a public limited company with Fixed Rate Reset Callable Subordinated Tier 2 Notes with a contractual maturity date of 2029 and Fixed Rate Reset Callable MREL-qualifying notes with a contractual maturity date of 2025 that are listed on the London Stock Exchange. Its equity is not listed. As at 31 December 2022, 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.

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

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

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

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

On 9 September 2021, Blue Mountain Cayman SPC for and on behalf of Balloon SP sold its entire holding of A shares to JCF BC Manchester Acquisition Ltd. Blue Mountain's B shares were redeemed and cancelled. JCF BC Manchester Acquisition Ltd was issued with B shares, having met the Qualifying Conditions.

As at 28 February 2023, 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%
JCF BC Manchester Acquisition Ltd	12.05%

Values and ethics

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

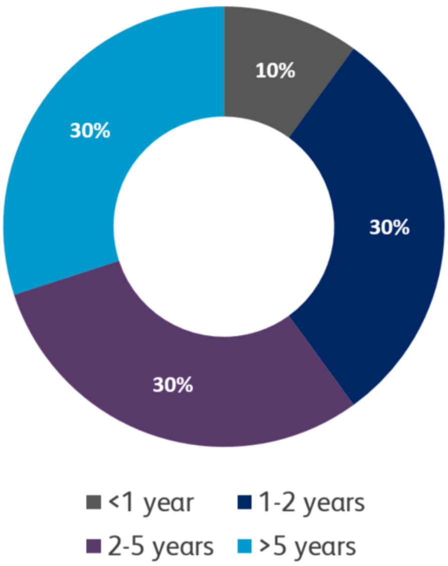
- how it relates to, communicates with, balances the interests of, and otherwise deals with its stakeholders; and
- how it applies the profits of the Group, in accordance with the dividend policy set out in its Articles of Association.

Board composition

During the year, there have been changes to the Board of the Holding Company, to the Board of the Finance Company and to the Board of the Bank Company (the Boards). Details of the members of the Boards, their biographies and length of service are set out from page 66.

Sally-Ann Hibberd stepped down from the Boards as a Non-Executive Director on 31 July 2022. On 12 September 2022, Raj Singh joined the Boards as a Non-Executive Director.

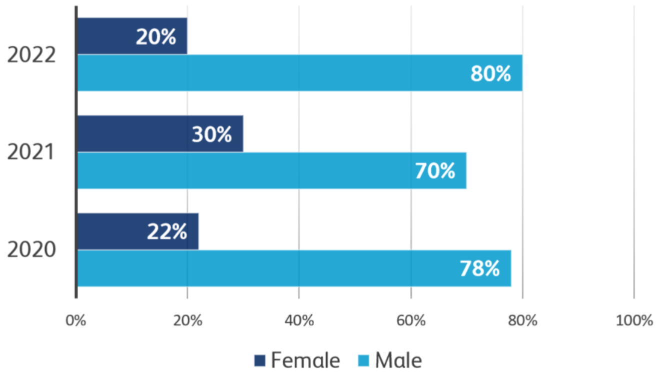
Length of tenure as Director of Bank as at 31 December 2022



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

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

Gender split of Directors



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

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

The Board and shareholders have approved a schedule of Matters Reserved for the Board and authorities delegated to the Chief Executive Officer. Both the Matters Reserved for the Board and the Chief Executive Officer's delegated authorities have been revisited by the Board and have been re-adopted for 2022. Implementation of the strategy set by the Board of the Bank Company and the management and day-to-day running of the Bank is delegated to the Chief Executive Officer, with oversight by the Board, with the exception of the Matters Reserved for the Board. The Board has approved the division of responsibilities between the Chair and Chief Executive Officer, and this can be found on the Bank's website, along with the Matters Reserved for the Board.

Board changes

During 2022, one Director was appointed to the Boards of the Holding Company, the Finance Company and the Bank Company, and one Director 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
Sir Bill Thomas	Non-Executive	Independent	1 Sep 2017	1 Feb 2019	28 Oct 2013
Glyn Smith	Non-Executive	Independent	1 Sep 2017	1 Feb 2019	10 Oct 2016
Sue Harris	Non-Executive	Independent	7 May 2019	7 May 2019	7 May 2019
Raj Singh	Non-Executive	Independent	12 Sep 2022	12 Sep 2022	12 Sep 2022
Richard Slimmon	Non-Executive	Not independent	11 Jan 2021	11 Jan 2021	11 Jan 2021
Sebastian Grigg	Non-Executive	Not independent	11 Jan 2021	11 Jan 2021	11 Jan 2021
Nick Slape	Chief Executive Officer	N/A	9 Dec 2019	9 Dec 2019	9 Dec 2019
Louise Britnell	Chief Financial Officer	N/A	1 Mar 2021	1 Mar 2021	1 Mar 2021

1. Chair since 14 March 2018

Members of the Boards stepping down since 1 January 2022		Independent	Appointed to Holding and Bank Company Boards	Appointed to Finance Company Board	Ceased to be a Director of these Boards
Sally-Ann Hibberd	Non-Executive	Independent	1 Aug 2019	1 Aug 2019	31 Jul 2022

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 2023. 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 66 to 69 and can also be found on our website at:

www.co-operativebank.co.uk/about-us/our-business/directors

Attendance

The following table sets out the attendance at the scheduled Holding Company, Finance Company and Bank Company Board and Bank Committee meetings during 2022:

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

1. Business as usual scheduled meetings.
2. The Director concerned was entitled to attend because he/she was a member of the Board or Committee at the time of the meeting.

Number of Bank Company Board and Committee meetings in 2022

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

Board meetings	14
Joint Audit Committee meetings	9
Risk Committee meetings	6
Values and Ethics Committee meetings	5
Remuneration Committee meetings	7
Nomination Committee meetings	7

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

Information to Directors

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

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

Board Committees

The Bank Board has established Board Committees, namely: the Risk Committee, the Values and Ethics Committee, the Remuneration Committee and the Nomination Committee. There is a Joint Audit Committee of the Holding Company, Finance Company and Bank Company.

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

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

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

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

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

- Resolvability Assessment Framework
- Consumer Duty;
- Market Abuse Regime;
- Senior Managers and Certification Regime;
- Values and ethics; and
- Climate change.

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

Nomination Committee	**77**
Joint Audit Committee	**80**
Risk Committee	**87**
Values and Ethics Committee	**91**
Remuneration Committee	**100**

Board effectiveness

Performance evaluation

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

The Bank Board, its Committees and individual Directors were subject to an external performance review which started during the fourth quarter of 2022. As the Bank does not have a premium equity listing and does not voluntarily comply with the Financial Reporting Council's (FRC) 2018 UK Corporate Governance Code (the Code), it is not required to conduct an annual evaluation nor an externally facilitated board evaluation. However, in line with good governance, it is set out within the Matters Reserved for the Board of the Bank, and the terms of reference for each of the Committees, that they should arrange periodic reviews of their own performance.

The process to appoint an external facilitator was led by the Board and Nomination Committee. A suitable longlist of candidates for the external evaluation was presented to the Nomination Committee in July 2022 by the Company Secretary following initial conversations held with each provider to outline the Bank's high level requirements. Two providers were shortlisted and interviewed by the Chair, Senior Independent Director and Company Secretary, and the Chartered Governance Institute UK & Ireland (CGI) were engaged to undertake the review.

In preparing the shortlist, it was recognised that the chosen facilitator should be able to provide the right skillset to address the particular issues concerning the Board, should have the ability to tailor the review to the Bank's requirements, and ensure it was based on a framework consistent with regulatory expectations, the Code, the FRC's 2018 Guidance on Board Effectiveness and the CGI's Good Practice for External Board Reviewers. In selecting the CGI, the Bank was satisfied that they had no connection with the Boards of the company nor any of its individual Directors.

The assessment comprised a series of one-to-one interviews with all Directors and members of senior management and observation by the CGI of Board and Committee meetings in November 2022. The outcomes of the external assessment are due to be provided to the Board in the first quarter of 2023.

The outputs from the individual Director evaluations will be provided to the individual Directors and the Chair (Senior Independent Director in respect of the Chair) for their individual and continuing development.

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, individual training needs are reviewed periodically. Throughout 2022, the Board held collective training sessions, which took place in October and November 2022. In addition to formal training sessions, the Directors, where appropriate, have one-to-one sessions with members of the Executive. An electronic 'Document Library' is available as a resource to enable all Directors to access, revisit and review copies of presentations and materials from formal development sessions.

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

Senior Managers and Certification Regime (SMCR)

The Group continues to deliver robust compliance with its governance over the Senior Managers and Certification Regime (SMCR) as set out in the Directors' Report on page 98. Directors have been briefed extensively and received specific training in September 2022 on the considerations that those individuals captured by the SMCR will need to make following the implementation of Consumer Duty in July 2023.

Climate change

The Group delivers compliance with the Task Force on Climate-related Financial Disclosures (TCFD) and further details are set out on pages 37 to 49. The Directors received training on climate change in September 2022.

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 2022 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 2022 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 70.

Transfer of shares

The shareholder of the Bank Company and Finance Company may transfer any shares in any manner which is permitted by law and is from time to time approved by the Board of the Bank Company and Finance Company respectively. The A ordinary shares in the Holding Company are freely transferable save that they may not be transferred to a commercial competitor without the sanction of a special resolution of the Holding Company. Restrictions on the transfer of the B redeemable preference shares can be found within the Holding Company's Articles of Association and further details are shown in the corporate governance report on page 70.

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

Voting rights

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

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

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

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

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

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

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

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

Nomination Committee report

Increased diversity underpins the succession planning for senior Executive appointments

Dear Stakeholder

During 2022, the Nomination Committee oversaw the restructure of the Executive team and the creation of a new Chief Information Officer (CIO) role and that of Corporate and Strategic Development Director. After benchmarking these positions against the external market, the CIO was recruited externally and the Corporate and Strategic Development Director was chosen from within the Bank. The restructuring of the Executive team and the creation of these new positions will be crucial in enabling the Bank to take full advantage of opportunities emerging from our pivot away from recovery towards emerging challenges and opportunities.

It was also pleasing to be able to welcome Raj Singh to the Board as a Non-Executive Director. Raj brings with him international risk experience, as well as being well practiced in sustainability which forms a key part of our identity. Sally-Ann Hibberd stepped down from the Board at the end of July 2022. She leaves with the thanks of the Board for her very full contribution towards the recovery of the Bank.

The Nomination Committee was pleased to oversee the engagement of the Chartered Governance Institute UK & Ireland (CGI) to conduct an external Board performance review, which commenced in Q4 2022.

Robert Dench, Nomination Committee Chair, 28 February 2023

Purpose of the Nomination Committee

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

During 2022, the Nomination Committee met seven times with continued focus on succession planning in order to strengthen the Executive Committee and the Board to meet the needs of the business and to be responsive to the regulatory environment in which the Group operates.

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	
Sebastian Grigg	11 Jan 2021	

Full regard to the benefits of diversity in all its elements, including gender diversity, ethnicity, disability and LGBTQ, is given, with an aspirational target of 40 % diverse membership of the Board. The Group encourages the executive search consultancies engaged in the search process to reflect diversity in the lists of candidates nominated for the consideration of the Board, encouraging ethnically diverse longlists and 50:50 male:female shortlists. As at the end of 2022, the number of women on the Board was two.

Principal responsibilities of the Nomination Committee

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

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

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

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

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

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

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

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

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

Key areas discussed and reviewed by the Nomination Committee in 2022

Board composition	Review of the structure, size and composition of the Board along with the skills, knowledge and experience of its members to ensure that Directors remain able and have sufficient time to discharge their duties and responsibilities effectively and to the high standard required.
Board and senior Executive succession planning	During 2022 the Nomination Committee considered nominations at both Board and senior Executive level and reviewed succession plans. The Nomination Committee oversaw the appointment of Raj Singh to the Boards as a Non-Executive Director with effect from 12 September 2022. The process for his appointment was led by the Bank's external recruitment agency, who were asked to ensure a strong and diverse pool of candidates was identified. A three stage selection process was undertaken to ensure candidate suitability, capability and fit. The Nomination Committee considered and discussed the appointment of a Chief Information Officer, a Corporate and Strategic Development Director and the overall structure of the Executive team to ensure the team was appropriate in terms of size, skillset and capacity to enable future growth. Succession planning for the Board, Executives and Material Risk Takers was reviewed in detail in July 2022, including identification of internal successors and potential external candidates for senior vacancies and will continue in 2023. This included an assessment of strategic talent, the identification of successors for Executive members and their deputies, and a proposed programme of Board and Executive training and development informed by the completion of skills assessments undertaken by members of both the Board and Executive.
Diversity policy	The Board re-adopted the Board Diversity Policy, as recommended by the Nomination Committee in July 2022, bearing in mind the FCA's 2022 Policy Statement regarding diversity and inclusion on Boards and Executive Management.
Committee membership	During the year, the Nomination Committee considered committee composition across all Board Committees. The Committee recommended Raj Singh's appointment to the Risk Committee and Joint Audit Committee, both of which took effect from the date of his appointment to the Board. Following Sally Ann-Hibberd stepping down from the Boards on 31 July 2022, the Committee recommended Sue Harris be appointed to the Remuneration Committee. This appointment took effect from 26 July 2022.
Performance evaluation	The Directors conducted their first skills self-assessment in late 2015 and the Board has completed one periodically since then. A skills self-assessment was undertaken towards the end of 2021 and a summary Board skills matrix was produced and reviewed by the Committee to underpin the Directors' annual appraisal process, conducted by the Chair, and to inform generic skills gaps and individual development needs for 2022. The training needs identified for 2022 included anti-money laundering, market abuse, climate change and the Senior Manager and Certification Regime for which the Board received training in September and November 2022. Additionally, the Board received a presentation from Co-operatives UK in September 2022 and additional training sessions on Consumer Duty and the Resolvability Assessment Framework in September and October 2022 respectively. Further details of the Nomination Committee's oversight of the external performance review which commenced in Q4 2022 can be found in the corporate governance report.
Election and re-election	The Committee reviewed the position of Directors offering themselves for election and re-election at the 2022 AGM.

Joint Audit Committee report

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

Dear Stakeholder

The Joint Audit Committee provides oversight and informed challenge over the systems of financial reporting and control, accounts preparation and internal and external audit processes. During 2022, it maintained its focus on the key accounting judgements for the Group which included, amongst others, the impact of continued profit on the Group's accounting policies and the balance of narrative reporting to ensure it reflected the positive progress the Group has made while also noting the key risks and challenges it continues to face. In line with the relevant regulations, the Group is required to carry out a tender process for external audit services at least every 10 years. Throughout the year, the Committee received updates from management on the approach to the tender and a Steering Group, comprising a majority of Independent Non-Executive Directors, and chaired by myself, was established. We were pleased to have conducted a thorough, open and transparent audit tender process. Further details on the outcome of this process can be found in the RNS announcement issued on 18 January 2023 and on page 83. The Committee has continued to oversee the Group's Concern at Work (Whistleblowing) arrangements.

Glyn Smith, Joint Audit Committee Chair, 28 February 2023

Purpose of the Joint Audit Committee

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

Committee membership	Date of appointment	Date of resignation
Glyn Smith (Chair)	10 Oct 2016[1]	
Derek Weir	9 Dec 2014	
Sue Harris	7 May 2019	
Sally-Ann Hibberd	5 May 2020	31 July 2022
Raj Singh	12 Sep 2022	

1. Chair since 26 October 2016

Meetings of the Joint Audit Committee are generally attended by all Non-Executive Directors. The Chief Executive Officer, Chief Financial Officer, invited members of the Finance and Risk teams and the Director of Internal Audit also attend, none of whom attends as of right. The external auditor attends Joint Audit Committee meetings, and private meetings are held with internal and external auditors and with the risk function as necessary to afford them the opportunity of discussions without the presence of management. The Committee met nine 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 2022

Financial and narrative reporting

Principal responsibilities:

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

Monitor the integrity of the financial statements.

Review and challenge where necessary:

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

Key areas discussed and reviewed in 2022:

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 2022, the review process included a detailed review of significant accounting judgements and accounting policies and formal reporting from the external auditor. The Joint Audit Committee receives regular updates relating to key accounting judgements made and changes to existing, or implementation of new, accounting policies. The Joint Audit Committee also reviews the financial statements process to ensure that financial reporting risk is adequately managed.

Key judgements discussed as part of the 2022 accounts process are detailed on page 84, including reports by the external auditor throughout the year.

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

The Joint Audit Committee reviewed and challenged the quarterly financial reports for the first and third quarters of 2022, the Interim Financial Report and the Annual Report and Accounts and recommended them to the Boards for onward circulation to the shareholders. As part of this review, it conducted quarterly going concern assessments. The Joint Audit Committee discussed the going concern conclusions in detail, and the way in which the basis of conclusion was disclosed in the financial reports.

The Joint Audit Committee received updates on key regulatory developments that could impact the financial reporting process, such as the introduction of a suite of reforms under BEIS regulation for future reporting periods.

Internal controls and risk management systems

Principal responsibilities:

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

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

Key areas discussed and reviewed in 2022:

During 2022 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, Internal Audit and the Chief Risk Officer attended Joint Audit Committee meetings throughout the year.

During 2022 the Joint Audit Committee considered in detail the outcome of an internal audit of the Group's material IT change & outsourcing arrangements and approved actions addressing findings; the report was then submitted to the regulator.

During 2022 the Joint Audit Committee considered reports on risk management, internal controls and other reports from management in relation to the Risk Management Framework or in relation to the Annual Report and Accounts.

Principal responsibilities of the Joint Audit Committee	Key areas discussed and reviewed by the Joint Audit Committee in 2022

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 Group's Raising a Concern at Work (Whistleblowing) Policy.

Annual review of the Concern at Work report.

The Joint Audit Committee received regular updates on incidents reported under the Group's Raising a Concern at Work (Whistleblowing) Policy. In November 2022, the Joint Audit Committee carried out an annual review of the Concern at Work report and review and re-approval of the Policy.

Terms of reference

Review the Joint Audit Committee's terms of reference and monitor its execution.

The Joint Audit Committee conducted an annual review of its terms of reference and reviewed its deliveries against these.

Internal audit

Review and approve the Charter of the internal audit function and ensure that the function has the necessary resources and access to information to enable it to fulfil its mandate, has unrestricted scope and is equipped to perform in accordance with appropriate professional standards for internal auditors.

Ensure the Director of Internal Audit has direct access to the Chair of the Board and to the Chair of the Joint Audit Committee, and is accountable to the Joint Audit Committee, ensuring that Internal Audit is independent of the Executive and able to exercise independent judgement.

Review and assess the annual Internal Audit work plan and the reasons for any significant change or delay to this plan, ensuring that it includes the evaluation of the effectiveness of the risk, compliance and finance functions.

Receive reports on the results of the internal auditor's work.

Review and monitor management's responsiveness to the internal auditor's findings and recommendations.

Meet with the Director of Internal Audit at least once a year without the presence of management.

Monitor and review the effectiveness of the Group's internal audit function, in the context of the overall risk management system and consider whether an independent, third party review of internal audit effectiveness and processes is appropriate.

Approve the appointment or termination of appointment of the Director of Internal Audit.

The Joint Audit Committee reviewed the internal audit function's self-assessment against the Chartered Institute of Internal Audit's Guidance on Effective Internal Audit in Financial Services.

During 2022, the Committee provided a review and challenge of the Internal Audit Charter, the resources of the function and the plan of activities taking place during the year.

In accordance with the Group's Internal Audit Charter, an external assessment is conducted at least every four years. During 2022, the Committee considered the usefulness of smaller, more frequent external assessments of internal audits and it was agreed that an external firm would be engaged to review a small sample of audit files every six months as part of the Internal Audit function's quality assurance controls.

The Joint Audit Committee regularly received and challenged changes to the Internal Audit plan to ensure an appropriate level of oversight. The Committee continued to monitor the '6 (months) + 6' approach to the Internal Audit Plan, which had been introduced during 2020.

The Joint Audit Committee receives all 'red' rated internal audit reports and invites management to present findings and remedial actions.

During the year, in camera sessions were held with the Director of Internal Audit. The Chair of the Committee also met with the Director of Internal Audit between meetings.

Principal responsibilities of the Joint Audit Committee

Key areas discussed and reviewed by the Joint Audit Committee in 2022

External audit

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

Ensure that at least once every ten years the audit services contract is put out to tender and oversee the selection process. The Joint Audit Committee oversees the appointment of a new audit partner every five years, in line with the requirements of auditor independence rules.

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

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

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

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

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

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

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

During 2022, the audit services contract was put out to mandatory tender and the Joint Audit Committee oversaw the selection process. A Steering Group, chaired by the Joint Audit Committee Chair and comprising a majority of Independent Non-Executive Directors was formed to ensure that there was sufficient Board level oversight and input throughout the tender process. The Steering Group made its recommendation to the Joint Audit Committee at a meeting in December 2022. Following a detailed discussion at that meeting, the Joint Audit Committee resolved to recommend to the Board for approval that PricewaterhouseCoopers LLP (PwC) be appointed as the Group's external auditor from the reporting period beginning 1 January 2024 (subject to their appointment at the 2024 AGMs).

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

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

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

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

The Joint Audit Committee reviewed and approved the policy for the supply of non-audit services by the external auditor in February 2022.

The Joint Audit Committee reviewed the independence of the external auditor and the objectivity of the audit engagement partner and audit staff using self-assessments from the external auditor and based on a review conducted by Internal Audit to review the independence and objectivity of the external auditor and their effectiveness, which the Committee considered in November 2022 and February 2023.

In line with regulatory requirements, the Joint Audit Committee received a review opinion from the external auditor around the profit reported in the 2022 Interim Financial Report.

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

1. Significant accounting matters considered by the Joint Audit Committee

In relation to the 2022 financial statements, the Joint Audit Committee considered the following significant accounting issues, matters and judgements. The disclosure and presentation of these matters were discussed and debated with management and the external auditors, Ernst & Young LLP (EY).

1.1 Going concern

The Group has used the most recent Board-approved five-year Financial Plan as the basis of its assessment in evaluating whether adopting the going concern basis of accounting is appropriate for the Group, Bank, Holding Company, Bank Company, Finance Group and Finance Company. This assessment included a detailed review of the forecast liquidity position, capital ratios, regulatory capital considerations and projected profitability, which management expects to be reasonable and sustainable over the Financial Plan period, despite the impact of higher interest rates, higher inflation and the consequent affordability constraints. The assessment also considered further, more pessimistic scenarios that could possibly occur. Appropriate consideration has been given to the principal risks and uncertainties that could impact future performance and the most relevant regulatory requirements.

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

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

1.2 Impairment of loans and advances to customers

The ongoing macroeconomic uncertainty due to the residual impacts of the COVID-19 pandemic, the Russian invasion of Ukraine and the cost of living crisis has resulted in continued scrutiny of the forecasting of credit impairment losses. The Joint Audit Committee reviewed detailed papers prepared by management, focussing particularly on:

- the impact of the Group's economic forecasts when applied to the credit impairment models, and the appropriateness of any judgemental adjustments subsequently applied to counteract changes in modelled impairment provisions incongruent with the specific risk profile of the Group's credit exposures;
- the replacement of COVID-19-specific post model adjustments with affordability adjustments designed to quantify additional risks associated with customers with heightened exposure to the impacts of the cost of living crisis;
- the replacement of a material judgemental overlay on the Group's main secured portfolio with a more targeted suite of post model adjustments designed to more appropriately address the issues around confidence in historical default data;
- the overall ECL coverage ratios and benchmarking comparisons to support conclusions reached on provision adequacy, and
- the potential impacts of climate change risk on the Group's credit exposures.

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

1.3 Pensions

The Joint Audit Committee considered the accounting treatment of both of the principal defined benefit pension schemes, Pace and the Britannia Pension Scheme, with the particular focus given to the accounting impacts of the £1.1bn "buy-in" of the Pace scheme. The key judgements also considered by the Joint Audit Committee included the continued ability of the pension surplus to be recognised on balance sheet and the pension assumptions adopted within the IAS 19 valuation, including changes in assumptions used relative to previous years.

1.4 Deferred tax assets in respect of future taxable profits

The Group accumulated a significant amount of losses during its turnaround process, which will be used in the future to offset corporation tax charges that the Group would otherwise pay on its taxable profits. The Joint Audit Committee reviewed papers prepared by management that confirmed it remained appropriate to recognise a deferred tax asset in respect of future taxable profits, and considered that the most recent five-year Financial Plan remained the most reasonable basis and time horizon for estimating these profits.

1.5 Effective interest rate

Management presented papers documenting the assumptions behind behavioural lives and economic assumptions used in estimating the carrying value of the Group's fixed rate mortgage portfolio under the effective interest rate (EIR) method. The Joint Audit Committee reviewed the impact of changes in customer behaviour during 2022 on the EIR assumptions at the year end and concurred with the appropriateness of the year end value of the EIR asset and the judgemental assumptions set out within the paper.

1.6 Other accounting matters

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

- the impairment review of tangible and intangible assets;
- provisions and contingent liabilities associated with legal and conduct matters, and
- the accounting impacts of a termination of a lease for one of the Group's major occupancy sites.

1.7 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.

1.8 Fair, balanced and understandable

The Joint Audit Committee considered whether the 2022 Annual Report and Accounts are fair, balanced and understandable. The Joint Audit Committee satisfied itself that there was a robust process of review and challenge to ensure balance and consistency. This process included internal verification of the document and senior level review of the document both on an individual and committee basis prior to a meeting of the Joint Audit Committee held to review and consider the Annual Report and Accounts in advance of approval by the Board.

2. Governance over accounting policy and judgements

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

3. Performance evaluation

3.1 External audit

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

The Joint Audit Committee is conscious of the requirement to conduct a mandatory tender at least every ten years and rotate auditors at least every 20 years. An audit tender process commenced in 2022 with PwC being appointed as the Bank's statutory auditor for the year ending 31 December 2024 subject to their appointment at the 2024 AGMs. Prior to this the last audit tender undertaken was concluded in 2014 and EY was appointed as the Bank's statutory auditor with effect from the 2014 financial year.

Michael-John Albert of EY is the Senior Statutory Auditor and was appointed to this role with effect from the 2019 financial year.

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

Total auditor's remuneration for the year amounted to £2.8m (2021: £2.5m). 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 2022, the external auditor provided the Joint Audit Committee with a management letter summarising its main observations and conclusions arising from the 2021 year end audit, and any recommendations for enhancements to reporting and controls. Mitigating actions were identified for implementation. Internal Audit has been monitoring and tracking the implementation of these actions, with regular reporting to the Joint Audit Committee on progress made.

3.2 Internal controls

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

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

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

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

3.3 Internal audit

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

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

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

Periodically an independent external quality assessment (EQA) is conducted. The last EQA was performed in 2021 and the function was rated as Generally Conforms to the IIA Standards. No high priority issues were raised and all of the suggested areas for improvement were considered for action. Where actions were agreed these have now been completed. Further enhancements are considered as part of the internal audit function's continuous improvement workstreams.

The Joint Audit Committee assesses the coverage of the audit plan over key risks and areas of the Group. The plan is approved by the Joint Audit Committee and shared with the regulator. Internal Audit uses a dynamic risk assessment through a Full Coverage Variable Intensity Approach (FCVI). This approach means that all material areas of the Group are subject to assurance activity each year, at different levels of intensity based on risk. Internal Audit produces an annual control opinion covering all activities of the Group, and has concluded that the control framework effectively identifies and mitigates the majority of risks across the Group. Internal Audit has identified improvements in the control framework during 2022 and whilst there are specific areas that still require strengthening, plans are in place to address these and Internal Audit's view is that these align with the Group's priorities for 2023.

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.	**161**
The Co-operative Banking Holdings Limited	**173**
The Co-operative Bank Finance p.l.c.	**176**

Risk Committee report

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

Dear Stakeholder

During 2022, the Committee spent significant time focusing on the cost of living challenges being faced by our customers. Enhanced reporting was introduced including details of steps taken by management to proactively identify and support our customers that might be experiencing financial difficulty. This will remain a key area of focus for the Risk Committee as management continue to monitor and report on economic developments. The Bank's capital and liquidity management was reviewed throughout the year and the Risk Committee was pleased that the Bank was able to announce in October 2022 that it had attained full compliance with total capital requirements plus buffers. Other areas of focus during 2022 included the Bank's cyber security arrangements, the ongoing steps being taken to simplify and update our IT estate, fraud prevention and development of the Bank's hybrid risk models.

Derek Weir, Risk Committee Chair, 28 February 2023

Purpose of the Risk Committee

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

Committee membership	Date of appointment	Date of resignation
Derek Weir (Chair)	30 Sep 2014[1]	
Sir Bill Thomas	1 Jan 2014	
Glyn Smith	10 Oct 2016	
Sally-Ann Hibberd	1 Aug 2019	31 July 2022
Sue Harris	29 Jul 2020	
Sebastian Grigg	11 Jan 2021	
Raj Singh	12 Sep 2022	

1. Chair since 26 January 2016

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

Derek Weir, Sir Bill Thomas, Sue Harris, Glyn Smith and Richard Slimmon 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 2022 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 2022, the external auditor attended the Risk Committee as an observer and contributed when requested by the Chair.

Principal risks and the level of acceptable risks are determined by reference to what is stipulated in the risk appetite statements, aiming to ensure that there is an adequate system of risk management and that the levels of capital and liquidity held are consistent with the risk profile of the business. Exposure to credit and other risk types such as market, liquidity, operational, pension, reputational, financial risk from climate change and other risks that are inherent in our industry such as strategy, product range and geographical coverage, and the processes for managing those risks, are described in detail on pages 111 to 128.

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 2022
Risk Management Framework (RMF)	
Review and challenge the design, implementation and effectiveness of the RMF and make recommendations to the Board for approval. At least annually, review and approve all new policies and those which have changed materially, supporting the RMF. Ensure the remit of the risk management function has: • adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards; and • adequate independence, being free from management or other restrictions. Review the capability to identify, assess, and manage new risk types.	The Risk Committee considered a proposal put forward by management which aimed to simplify the RMF, in particular the number of principal risks the Bank had, while maintaining a robust set of controls. The Risk Committee considered these changes over the course of several meetings and ultimately recommended them to the Bank Board for approval. The Bank Risk Report was further enhanced during 2022 to ensure it highlighted the key risks the Bank was facing and the data provided to the Risk Committee was more meaningful. 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. The Risk Committee also reviewed any breaches of Board level risk appetites. 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 2022. The Chief Risk Officer has reviewed risk weightings applying to Executive remuneration structures and provided analysis to support Remuneration Committee activities in this area.

Principal responsibilities of the Risk Committee

Key areas discussed and reviewed by the Risk Committee in 2022

Risk appetite, limits and tolerances

Principal responsibilities of the Risk Committee

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.

Key areas discussed and reviewed by the Risk Committee in 2022

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

The Risk Committee reviewed, challenged and recommended to the Board for approval, the risk appetite during 2022.

The Risk Committee reviewed and challenged the utilisation of delegated lending within the boundaries of the Lending Discretion Framework during 2022.

The Risk Committee reviewed, challenged and recommended sections of the ICAAP to the Board for approval and received updates on the ILAAP and Recovery Plan which were not scheduled for submission to the regulator during 2022.

A regular progress update was provided on model risk to each business as usual meeting of the Risk Committee during 2022.

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

Business strategy

Principal responsibilities of the Risk Committee

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.

Key areas discussed and reviewed by the Risk Committee in 2022

The Risk Committee, throughout 2022, discussed and monitored the principal risks and uncertainties faced.

The risk function reviewed progress against the five-year Plan, as approved by the Boards in September 2021.

Risk monitoring

Principal responsibilities of the Risk Committee

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

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

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

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

Consider risks posed by the current and prospective macroeconomic and financial environment, drawing on financial stability assessments such as those published by the BoE, the PRA, the FCA and other authoritative sources that may be relevant for the Group's risk policies when preparing advice for the Board.

Key areas discussed and reviewed by the Risk Committee in 2022

The Risk Committee monitors all principal risks to the business using the Bank Risk Report which provides a holistic view of risk, including significant and emerging risks and risk appetite trends. The Risk Committee also receives and challenges reporting on areas such as credit risk and has introduced cost of living affordability monitoring.

During 2022, the Risk Committee reviewed reports on potential breaches of risk appetite and proposed actions to resolve them.

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

The Risk Committee has received regular reporting to help it review IT and cyber risks 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 PRA and the FCA and the plans agreed with regulators published to the market from time to time.

Principal responsibilities of the Risk Committee	Key areas discussed and reviewed by the Risk Committee in 2022
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 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 2022 Risk Assurance Plan which provides coverage of principal risks including conduct, regulatory, fraud and AML. The Chief Risk Officer and Director of Compliance attended Risk Committee meetings during the year providing regular reporting analysis. They also attended regular in camera sessions with the Risk Committee to ensure relevant topics could be discussed in detail without management in attendance. During 2022 the Risk Committee considered a report which reviewed the remit, independence and effectiveness of the risk and compliance functions.
Bribery prevention, anti-money laundering/terrorist financing and Code of Conduct	
Review and challenge the adequacy and effectiveness of the systems and procedures for the prevention of bribery and annually review and approve the Group'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 approved the Anti-Bribery and Corruption Control Standard which was updated to also include controls for the prevention of Internal Fraud. The Risk Committee considered reporting from the Money Laundering Reporting Officer during the year. The Risk Committee reviewed and recommended the Code of Conduct and Personal Investment Dealing Policy to the Board during the year.
Risk reporting	
Receive reports, findings and recommendations from the Executive Risk Oversight Committee, noting significant issues. In co-operation with the Joint Audit Committee, review and approve the statements to be included in the Annual Report and Accounts concerning internal controls and risk management.	Through the reporting from the Chief Risk Officer, the Risk Committee continued to have access to the findings and recommendations of the Executive Risk Oversight Committee on matters referred to the Risk Committee or to the Board. The Risk Committee also received a paper summarising key discussion topics from the Executive Risk Oversight Committee at each BAU meeting. In July 2022, the Risk Committee approved the terms of reference for the Executive Risk Oversight Committee and discussed the results of its self-effectiveness review.
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 2022 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 has defined our Bank for 30 years and makes us a natural leader on environmental and social issues in the UK banking industry

Dear Stakeholder

In 2022, The Co-operative Bank proudly celebrated 150 years of ethical banking. Throughout this year, we have had the opportunity to reflect on the heritage of our Bank, which has been rooted in the co-operative movement, with an unwavering commitment to co-operative values and ethics throughout its 150-year history. These values of self-help, self-responsibility, democracy, equality, equity and solidarity remain embedded in our work; from the products and services we deliver to support our customers' needs, to how we drive positive social and environmental change and campaign on the issues that are important to our colleagues and customers.

Our commitment to co-operative values and ethics continues to position the Bank as a natural leader in Environmental, Social and Governance (ESG) issues. We were pleased to see improvements in our ESG risk ratings again this year, most notably with Sustainalytics who rated us as the UK's best ESG rated high street bank for the second year running with a score of 8.3. We were also awarded a AAA ESG risk rating from MSCI and made improvements on our rating from ISS, demonstrating our forward-looking approach to the impact of our business.

The Bank's unique customer-led Ethical Policy continues to guide how we do business and I was extremely proud to see the launch of our refreshed Policy in June, reaffirming and strengthening the ethical commitments we continue to make to our customers. The refreshed Ethical Policy has an updated structure around our customers' concerns for the planet, for people and for our communities. Our Policy now specifically outlines what we will campaign for; stating the positive steps we're taking on issues ranging from biodiversity to social justice, whilst reflecting the evolution in our customers' views since we first conducted our poll of customers' priorities back in 1992.

Our Planet

We know how important protecting the environment is to our customers, and so, we are committed to sustainable practices across our business and we seek to operate in ways that minimise further environmental harm, whilst taking actions that measurably improve biodiversity and the environment. In 2022, we were particularly proud to co-host a parliamentary reception with our partners – Zero Hour, championing the Climate and Ecology Bill by bringing together leaders of ethical businesses to call for the protection of nature and biodiversity.

The Bank continues to be operationally 'beyond carbon neutral' and has been for over a decade, achieved by offsetting our carbon emissions, plus an additional 10 % to address the impact our business activities have had in the past. Throughout 2022, we've been working to establish The Co-operative Bank's target date for the achievement of net zero carbon emissions across our operations and lending portfolio, and the pathway we'll follow to achieve this. We've set ambitious plans to decarbonise the Bank by committing to reaching net zero on our direct emissions by 2030, and to be Scope 3 net zero by 2050. We will provide progress updates in our future Sustainability Reports.

Our People

We are committed to acting in a way that that supports individuals in being able to live freely, equitably and safely. This includes how we treat our individual customers and colleagues and our support for human rights and equality around the world. I was particularly pleased to see the Bank reaffirm its campaigning voice this year, taking a stand on the causes that our customers believe are the most important issues facing our society today. With the help of our colleagues and customers we have continued to drive positive social change through our partnerships with Refuge, by supporting survivors of domestic and economic abuse; Amnesty International UK, by standing in solidarity with those facing human rights abuses in the UK and abroad; and Centrepoint, by advocating for those experiencing homelessness.

In a year that has seen devastating humanitarian crises across the world, the Bank has responded at pace to support international relief efforts through our growing partnership with the Disasters Emergency Committee. Together with our colleagues, customers and suppliers we have raised over £540,000, which has enabled lifesaving aid to reach the most vulnerable people affected by the conflict in Ukraine and the floods in Pakistan.

Our Community

We are committed to being a good local, corporate and world citizen, working to improve all communities: domestic, international and remote. We are determined to build stronger, more resilient communities and will continue to invest in them and their calls for wider change. As financial pressures continue to impact households we will ensure that we are doing all we can to support our customers and colleagues through these challenging times. Our partnership with independent charity Citizens Advice ensures our customers have access to a range of support services whenever they need them. The impact on our colleagues is being continually monitored, informing our decisions around remuneration. A number of one off payments were made to colleagues throughout 2022, to help with inflated energy and food bills, in addition to dedicated wellbeing advice offered through our 24/7 Employee Assistance Programme.

Of course, we know that the pressures of the cost of living crisis are affecting businesses as well as individuals, which is why this year, more than ever, our commitment to co-operative businesses and the wider movement has remained a key priority. In 2022, we renewed our sponsorship of The Hive, a support programme for new and existing co-operatives, taking our total investment since 2016 to £2.5m. We recognise the importance of the co-operative sector in building a fairer and more resilient economy which is why we were also proud to be able to sponsor Coops Congress and the first ever National Youth Summit on Co-operation.

Reflecting on 2022

It is with great pride that I continue to hold the position of the Chair of the Values and Ethics Committee, overseeing the activities of the Bank which empower the voices of our colleagues and customers. It is important that we continue to have Board level oversight of the Bank's values, ethics and sustainability activities, ensuring effective delivery and governance of the commitments made in our Ethical Policy, which our customers have mandated us to act upon.

I would like to thank our customers for their commitment and generosity in supporting our valued charity partners over the last 12 months. I must also express my thanks to our amazing colleagues, who consistently go the extra mile to help each other, to help our customers and to make a difference in our communities. You are the spirit of The Co-operative Bank. Thank you to you all.

Sue Harris, Chair of the Values and Ethics Committee, 28 February 2023

Purpose of the Values and Ethics Committee

The purpose of the Values and Ethics Committee is to recommend to the Board, for its approval and adoption, the co-operative values and ethical policies of the Group, and to report at least annually to the Board on the Bank's compliance with its Statement to Co-operatives UK and with the Bank's values, ethics and sustainability strategies.

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

The values and ethics of the co-operative movement have always been central to our customers, and in 1992 we became the first UK bank to have a customer-led Ethical Policy. The policy has now been in place for over 30 years and is refreshed periodically, most recently in 2022. It remains unique in UK banking because it is shaped by our customers and embodies the values of the co-operative movement.

The Values and Ethics Committee's terms of reference require it to meet four times a year. In line with its terms of reference, the Values and Ethics Committee focussed on review of performance against co-operative values and its ethical policies, implementation of the 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 Values and Ethics Committee has expanded its remit to ensure appropriate oversight of compliance with the Group's ESG and sustainability aims, and oversight of the activities undertaken by the Values, Ethics & Sustainability Executive Committee.

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

1. Chair since 1 August 2019

The 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 2022

Values and ethical policies

Recommend to the Board for approval and adoption the co-operative values and ethical policies of the Group.

Represent, monitor and advise the Board on matters concerning the interests of all stakeholders in their dealings with the Group in line with the Articles of Association having regard to:

i) applicable legal and regulatory requirements;

ii) the need to be commercially sustainable and profitable; and

iii) the desirability of maintaining and enhancing image and public reputation.

The Values and Ethics Committee oversaw the Group's continued adherence to the Ethical Policy which was refreshed in June 2022 to reflect changing priorities and the findings of a customer and colleague consultation which took place during the summer of 2021. The Values and Ethics Committee also received regular reports on external ESG ratings.

The Values and Ethics Committee recommended for the Board's approval the Values, Ethics & Sustainability Strategy 2023-2025 and flagship initiatives which underpin the core pillars of the Ethical Policy.

The Values and Ethics Committee discussed the Group's activities to support positive social change, including our commitment to eliminate youth homelessness, support for those suffering from economic abuse, support for the Disasters Emergency Committee's Ukraine Humanitarian Appeal and Pakistan Floods Appeal and the Group's support of the Climate and Ecological Emergency Bill.

Statement to Co-operatives UK

Monitor compliance with the Statement[1] to Co-operatives UK and report on this at least annually to the Board.

1. The statement underpins our commitment to promote co-operative activities and to operate in line with co-operative values.

The Values and Ethics Committee monitored the Group's compliance with its statement to Co-operatives UK at each meeting. Regular meetings continue between management and Co-operatives UK to monitor compliance with the statement.

The Values and Ethics Committee monitored progress against the commitment to the partnership with Co-operatives UK for The Hive, a business support programme to promote social and economic development and enterprise in accordance with co-operative values.

The Values and Ethics Committee has reviewed a number of key initiatives during 2022, more details of which can be found on the following pages:

Supporting co-operatives	**29**
Tackling youth homelessness in partnership with Centrepoint	**30**
Supporting the Zero Hour campaign	**25**
Reducing our environmental impact	**24**

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 2022.

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

Dividends

The Directors do not recommend payment of a dividend for 2022.

The Board is committed to prudent capital returns in the future, and paying regard to stakeholder feedback amongst other factors, intends to implement a stable and sustainable ordinary dividend policy, based on progression towards a target pay-out ratio against underlying profits, and funded from organically-generated capital from year-to-year. Due consideration will also be given to further distribution of surplus capital, as appropriate, over time and dependent on the preceding optimisation of the Group's capital resources composition through issuance of replacement capital instruments.

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

The ability of the Group to pay a dividend is also subject to constraints including the availability of distributable reserves, legal and regulatory restrictions and the Group's financial and operating performance. Distributable reserves are determined as required by the Companies Act 2006 by reference to a company's individual financial statements. As at 31 December 2022, the Group's parent company, The Co-operative Bank Holdings Ltd (HoldCo), does not have distributable reserves and would be reliant on repatriating capital from subsidiaries, subject to legal and regulatory restrictions, before dividends could be paid.

The profitability of HoldCo, and its ability to sustain dividend payments, is primarily dependent upon the continued receipt of dividends and interest from its main operating subsidiary, the Bank. At 31 December 2022, the Bank had a CET1 capital ratio that exceeded minimum regulatory requirements and internal risk appetite levels. The Group actively manages the capital of its subsidiaries, which includes monitoring their respective regulatory capital ratios and, on a consolidated basis, that of the Group against approved risk appetite levels.

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

The business review and future developments, key performance indicators, principal risks and uncertainties are referred to in the strategic report or the information on pages 111 to 128. Financial risk management objectives and policies can be found as detailed below:

	Pages
Detailed financial performance review	50 to 53
Risk management objectives and policies	111 to 115
Principal risks and uncertainties	116 to 128

Post balance sheet events

There are no post balance sheet events to report.

Going concern

The assessment of the appropriateness of the going concern basis of accounting for The Co-operative Bank Holdings Limited, The Co-operative Bank Finance p.l.c. and The Co-operative Bank p.l.c. ('the Companies') in the 2022 Annual Report and Accounts has been subject to thorough consideration, involving analysis and discussion by management, Executive and Board Committees and the Board, in line with our governance process.

The Directors have assessed the going concern status using a framework focussing on forecast capital, liquidity and profitability as set out within the Group's most recent Board-approved five-year Financial Plan. The Directors have also considered the principal risks and uncertainties, along with the most relevant regulatory requirements, including future anticipated capital requirements, in addition to any other relevant and material information. After making enquiries of management and considering the five-year forecast, in particular for the period ended 30 June 2024, the Directors have a reasonable expectation that the Companies will have adequate resources to remain in operational existence.

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

Political donations

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

Directors' details

Details of Directors, including appointments and resignations during the financial year, and changes since the end of the financial year, are provided on page 71 within the corporate governance report. Details of the Directors offering themselves for election and re-election at the 2023 Annual General Meeting are provided on page 72.

Directors' third party and pension scheme indemnity provisions

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

Related parties

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

Corporate responsibility

Corporate responsibility activities are outlined on pages 91 to 93.

CO_2 emissions

The greenhouse gas emissions report is detailed on page 49.

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 2022, there are no anti-bribery matters to disclose and no material risks have been identified. The Group has a comprehensive Internal Fraud and Anti-Bribery & Corruption Control Standard, part of which requires due diligence on new third party suppliers and treasury counterparties during the onboarding process and is supplemented by annual due diligence of existing suppliers. In addition, annual training is provided to all colleagues on their anti-bribery and corruption obligations.

Our people

Our commitment to our customer-led Ethical Policy continues to shape our evolving approach to ensuring an ethical workplace. 'People' remains one of the core pillars of our 2022 Ethical Policy as we're committed to acting in a way that helps people live their lives freely, equitably and safely. This includes how we treat our colleagues as well as how we treat our customers.

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

We completed the Financial Services Culture Board cultural assessment survey in 2022. 69% of colleagues took part in the survey and our overall culture result was 75 (out of 100), maintaining our 2020 and 2021 scores. The results had some very positive messages around culture. Customer focus remained our highest-ranked cluster in the survey. On values and ethics we continue to score strongly when it comes to the Group's purpose and values being meaningful to colleagues. Other people metrics show the Group has continued in 2022 to perform resiliently in a challenging environment and demonstrate a positive reaction to the evolution of place of work.

Leadership and succession planning

Good leadership is integral to shaping the right culture for the Group. In 2022 we embedded and further expanded our internal leadership development offering with a range of opportunities available for leaders to select from, including regular fundamental knowledge and skills sessions for people managers; a programme of masterclasses and leader drop-ins run by senior leaders focussed on the Group's core leadership capabilities; updated leader guides, and a Group-wide mentoring programme.

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

Our leadership focus sits alongside our performance management framework that looks at both what is achieved and, equally importantly, how it is achieved. This approach to performance, along with a focus on nurturing talent across the Group and robust succession planning, means we have been able to continue to offer progression through internal moves to support structure and operating model changes.

Entry talent and development

We continued to run our existing graduate scheme programmes throughout 2022, with a number of graduates successfully securing permanent roles within the Group. We also re-introduced an internship programme over the summer offering placement opportunities to a small cohort of talented individuals.

We have 89 colleagues studying towards an apprenticeship programme across a variety of areas, including accountancy and taxation, customer service, credit risk, human resources, risk and compliance, IT, mortgages and management qualifications.

We remain focussed on supporting the development of all our people through the provision of high-quality development opportunities. In 2022 this included the continued development of an entry level talent cohort of internal colleagues who have been identified as leaders of the future who are on the Group's Aspire leadership programme. This is all underpinned by a strong induction programme, supported role-based training and a suite of mandatory training modules including risk, conduct and inclusion and diversity.

Inclusion and diversity

The Co-operative Bank came together 150 years ago to stand up for the ideal of co-operative values and principles to build a better society for all. Our fair, diverse and inclusive culture is underpinned by our inclusion networks, run by colleagues for colleagues. Each network has its own area of focus and associated activities, but they collaborate wherever possible. All networks are open to all colleagues regardless of their demographics, and all actively welcome allies. We have worked closely with our inclusion networks throughout 2022: Access, supporting colleagues with disabilities, long-term health conditions and caring responsibilities; Reach, our race, ethnicity and cultural heritage network; Proud Together, our LGBT network; Elevate, our women's career network; and Futures, our early careers network.

The networks seek to:

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

Throughout 2022 the networks have come together to support their members across a range of activities, and have used their collective resources to collaborate on events and activities to support their members and non-members across a range of areas, all aimed at making the Group a great place to work.

Our commitment to HM Treasury's Women in Finance Charter remains as strong in 2022 as it was in 2016 when we were one of the first banks to sign up to the charter and had 32% female representation at senior leadership level. In 2020 we successfully reached our committed target to increase female representation in our senior leadership to 40%. Our success in meeting our target has been largely through the work we have done through recent years in encouraging and supporting women to put themselves forward for progression opportunities alongside their male colleagues.

2022 has therefore been focussed on embedding this success as well as a focus on driving our commitments further forward. As proud as we are of our success to date, we set ourselves an aspirational target of achieving 45% women in senior roles by the end of 2023. I am pleased to report we have 41.3% women in senior roles at our Bank at the end of 2022. As we progress towards our target our focus remains on our successful diversity and inclusion plan.

This year for the first time, we are reporting our ethnicity pay gap data alongside our gender pay gap data.

For the 3rd consecutive year our mean gender pay gap has improved and now sits at 25.0%, down from 25.8% in 2021. Whilst our mean gender pay gap has once again improved, we still have further work to do to reduce this gap and disappointingly, our gender median pay gap has increased to 29.3%. Our mean ethnicity pay gap currently stands at 16.0% (median 12.5%). We are confident that in the long-term our focussed work on inclusion and balance will result in these gaps narrowing. The Group has put in place a five point diversity plan to ensure our gender and ethnicity pay gaps reduce. See our Women In Finance Charter and Pay Gap Reporting for more detail on the five point plan on the Bank's website. We promote equality of opportunity and aim to create a workforce that is representative of our society, knowing that embracing difference enhances the capability of The Co-operative Bank. To support this we remain a signatory of the Race Charter and Halo Code and are a Disability Confident certified employer.

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

A great place to work

Since early 2020, the pandemic has caused a transformation in the way people can carry out their roles, as well as changes to colleagues' expectations. The Group's strategy on people and place has evolved and is flexible to meet these changes. We have taken the opportunity over the last two years to review our office utilisation pre-pandemic against our future requirements, creating a new hybrid working model across as many sites as possible. Our approach to place of work continues to be monitored and will evolve over time. We remain committed to seeking to get the balance right to meet colleague and operational needs and we continue to be a member of the Greater Manchester Good Employment Charter.

We work closely with our trade union Unite. Regular informal and formal consultations take place with the union and they are fully consulted where organisational change and other issues may affect colleagues.

In 2022 we continued with our commitment as part of our Ethical Policy to pay colleagues no less than the real living wage as set out by the Living Wage Foundation. The Foundation announced a significant increase in the Real Living Wage during 2022, on the back of this we implemented a change in our minimum annual salaries effective from October 2022 ahead of the Living Wage Foundation deadline of 1 May 2023. Making this change early was done as part of a set of broader changes and interventions from the Bank's throughout 2022 to help support colleagues as the cost of living rises:

- in July 2022, we made a £300 one off cost of living payment for colleagues who earn £30,000 or less;
- we have mechanisms in place for an ongoing review of salaries to ensure they reflect market rates;
- for our lower paid colleagues, we brought forward part of their bonus payments for 2022 to help with cash flow during the winter months;
- we introduced a payroll advance system to help when colleagues were faced with unexpected costs;
- we provide a discount scheme, available on retailers and services UK-wide including supermarkets, and
- in September, we uplifted colleague annual (full time equivalent) pay by £1,000, in addition to our normal salary review cycle.

These are the latest measures we are implementing to help colleagues and further demonstrates our ongoing commitment to support colleagues during this challenging time. As well as financial support, there are also a number of wellbeing support mechanisms available to all colleagues during this challenging time. We recognise that health and wellbeing at work are vital. We have continued to provide wellbeing services for colleagues including 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 as well as access to GP and physiotherapy services for colleagues and their families.

HR key performance indicators

Gender diversity (Headcount) as at 31 December

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

2021	Female No.	Female %	Male No.	Male %	Grand total No.
Board[1]	3	27 %	8	73 %	11
Executive management team[2]	2	40 %	3	60 %	5
Other employees	1,503	58 %	1,079	42 %	2,582
Grand total	**1,508**	**58%**	**1,090**	**42%**	**2,598**

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

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

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

2021	Full time	Part time	Grand total
Female	954	554	1,508
Male	1,036	54	1,090
Grand total	**1,990**	**608**	**2,598**

Senior Managers and Certification Regime (SMCR) and whistleblowing

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

Engagement with suppliers

In 2022 the Group delivered efficiencies in its third party supplier base through proactive management of renewals and exploring strategic opportunities. The Group prioritised third party risk management aimed at improving processes to ensure resilience and to obtain early indicators of supplier issues. The procurement team continues to maximise outcomes and obtain best value from our suppliers through supporting the reduction in the cost of delivering change for the Group.

The Group encountered growing pressure on third party spend in 2022 due to heightened inflation, with some suppliers attempting to recover cost increases in their supply chain. The Group's focus has been on reducing its exposure to fluctuating cost pressures through negotiation of transparency, duration and term, indexing, periodic limits to price escalations and frequency of price adjustments. The fallout of COVID-19 has presented a number of new and unexpected challenges to the Group and its supply chain. As a result of these pressures the Group has experienced staff shortages which it has overcome by identifying alternatives quickly and through targeted recruitment.

The Group has invested in investigating new tools to automate some of its procurement processes and has initiated work to address the increased workload arising from additional supplier monitoring, which is required under PRA regulatory changes.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare Group, Finance Group, Bank, Holding Company, Finance Company and Bank Company financial statements for each financial year. Under that law they have elected to prepare the Group, Finance Group, Bank, Holding Company, Finance Company and Bank Company financial statements in accordance with UK-adopted international accounting standards.

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

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

- select suitable accounting policies in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in UK-adopted international accounting standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial performance;
- state that the Group, Finance Group, Bank, Holding Company, Finance Company and Bank Company have complied with UK-adopted international accounting standards, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group, Finance Group, Bank, Holding Company, Finance Company and Bank Company will continue in business.

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

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

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

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

Disclosure of information to the auditor

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

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

Corporate governance statement

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

The Directors recognise the need for sound corporate governance arrangements at all levels of the Group and continue to review, as required, the Group's governance arrangements to ensure that the necessary high standards are promoted, paying particular attention to The Companies (Miscellaneous Reporting) Regulations 2018 (the Corporate Governance Regulations) which came into effect for accounting periods beginning on or after 1 January 2019; the recommendations of the Brydon Review issued on 18 December 2019; a forward looking view of the introduction of UK SOX for accounting periods ending December 2023 onwards; 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 28 February 2023 and is signed on its behalf:

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

Robert Dench
Chair of the Board

28 February 2023

Directors' Report on remuneration to the shareholder

Recognising and rewarding our colleagues for working exceptionally hard to support our customers

Dear Stakeholder

I am pleased to present an overview of the key developments relating to remuneration in 2022 together with The Co-operative Bank Pillar 3 remuneration disclosure for 2022. Our full Executive Directors' remuneration policy can be found at: www.co-operativebank.co.uk/about-us/capital-requirements-directive-compliance/

Looking back on 2022

As for all businesses, 2022 has proved to be another challenging year. The Group has continued to respond and adapt to challenges brought about by a number of external factors, including the turbulence in financial markets, with high inflation and volatility in UK interest rates and specifically the ongoing cost of living crisis for our colleagues and customers. Throughout, the Group has remained committed to continuing the reward strategies and variable pay disciplines we put in place in 2019. In the face of a particularly competitive external labour market this has helped us motivate and retain colleagues throughout the year. The Group's approach is underpinned by consideration of cost, fairness, government guidance and other stakeholder interests.

During 2021 we made a number of changes to our Executive team and implemented a retention strategy for key people across the organisation. I'm pleased that these changes have resulted in stability in the Executive team throughout 2022. The Remuneration Committee has continued to closely monitor Executive performance in 2022 against the Group's balanced scorecard, whilst also considering the impact of the broader economic difficulties and the risks they may introduce to delivering against the Group's short and longer-term plans.

The annual results are taken into consideration by the Remuneration Committee when reviewing variable pay. By the end of the year, overall performance achieved was 99.7 % against all measures, where target performance is 100 % and maximum performance 200 %. Within the scorecard, Finance measures had a weighting of 50 %, Building our Future measures had a weighting of 20 %, whilst the other three areas had a weighting of 10 % each. In this regard, the overall performance reflects the following achievement in each area:

- performance for our customers was measured at 15.0 %;
- performance for our people was measured at 12.2 %;
- in building our future, performance was measured at 12.3 %;
- our financial performance was measured at 50.0 %, and
- risk and control performance was measured at 10.2 %.

Integral to this focus on performance is the Remuneration Committee's continued attention to risk issues and considerations.

Scorecard performance – what does it measure?

The scorecard sets out five performance areas:

- our customers;
- our people;
- building our future;
- our financial performance, and
- risk and control performance.

For 2022 we maintained the same five key areas of our scorecard from previous years. More detail on the 2022 scorecard is available on page 101.

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

Once the final performance for 2022 was determined, the Remuneration Committee oversaw the distribution of variable pay, including annual bonuses for all employees and long-term incentive awards to selected key leaders, for the 2022 performance year. Awards varied subject to both corporate performance, by reference to the Group-wide scorecard, and individual performance against agreed personal objectives including both 'what' colleagues achieved and behaviours in terms of 'how' they achieved this. Appropriate consideration was also given to the underlying performance of the Group, in accordance with regulatory requirements. A 20 % uplift has therefore been made to recognise that the cost metric had suffered due to approved levels of spend beyond agreed budget. The Remuneration Committee were satisfied that this was appropriate in light of the strength of the of the profit metric achieved.

The Committee believes that the final scorecard result and subsequent bonus pool are a fair reflection of delivery against a number of key financial and non-financial objectives across 2022, with our colleagues once again working exceptionally hard to support our customers throughout the year. All awards remained within the parameters set out in the approved policy.

Other developments

As the cost of living crisis in the UK has developed throughout 2022 the Remuneration Committee has overseen and empowered management to support colleagues where possible, with a particular focus on our lower paid colleagues. This has included:

- a £300 one-off payment in July for all colleagues paid a salary of £30,000 or below;
- a £1,000 increase to base salary for all colleagues paid a salary below £80,000 effective from September;
- an increase in minimum pay across the Bank in line with the Real Living Wage. Throughout 2022 this has risen from £18,200 to £19,840;
- the introduction of twice yearly bonus payments for a large proportion of our junior colleagues, the first of which was paid in October this year;
- a £200 cost of living payment in January 2023 for over 95 % of colleagues;
- a minimum payment of 8 %, delivered through salary increases and one-off payments throughout 2023 for performing colleagues at certain grades. This population includes over 85 % of colleagues, and
- additional changes agreed as part of Annual Salary Review Discussions.

The retention strategy for key colleagues has also remained under constant review throughout the year to ensure that it remains fit for purpose in an ever changing and challenging external environment.

Remuneration Committee agenda for 2023

In 2023 the Remuneration Committee will continue to oversee the development and implementation of the Group's remuneration policy and practices, including the determination and distribution of variable pay, comprising annual bonuses for all employees and long-term incentive awards to selected staff. We remain committed to ensuring that our reward framework continues to align Executive performance with shareholder expectations, as well as with the customer experience, while ensuring that pay remains competitive to retain the right talent and aligned to the strategy of the Group over the short and long term. Chairs of the Risk, Joint Audit and Values & Ethics Committees are all Remuneration Committee members ensuring that different perspectives are fully considered on remuneration related decisions.

In 2023, whilst seeking to appropriately align incentive plans with key financial targets, we will ensure that we maintain our ethical difference as a bank with our customers and potential customers. Diversity remains a key area of focus for the Group and for the first time, in 2022, we published our Ethnicity Pay Gap alongside our Gender Pay Gap. The Remuneration Committee will continue to monitor progress in these areas and review the Group's pay gaps on an annual basis to ensure that our reward policies remain neutral and inclusive for all.

In 2022 the Group maintained its position as an environmental, social and governance (ESG) leader amongst high street banks. This position was endorsed in 2022 by Sustainalytics, a leading ESG ratings agency, which recognised The Co-operative Bank as the UK's best ESG rated high street bank for the second year running. Work has also been completed to ensure that for 2023 Executive pay will continue to be linked to delivery of our ESG commitments. Specific ESG performance measures form part of the Group-wide scorecard to which all colleagues', including Executive, remuneration is linked. These performance measures include, for example, an increase in Green, Social and Sustainability framework eligible lending, reduction in Scope 1 and 2 emissions.

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

Sir Bill Thomas
Remuneration Committee Chair

28 February 2023

The Co-operative Bank Pillar 3 Disclosures as at 31 December 2022

Introduction

The following disclosure explains how the Group has complied with the regulatory requirements under the PRA's remuneration rules and the FCA's remuneration code for dual-regulated banks (PRA and FCA remuneration rules).

Remuneration governance

The Group has an established Remuneration Committee consisting of Non-Executive Directors. The Remuneration Committee met seven times in 2022. Its responsibilities include recommending to the Board for approval the overarching principles and parameters of the remuneration policy across the Group, and applying the necessary oversight to ensure that a coherent approach to remuneration is implemented for all employees, whilst ensuring that arrangements are consistent with effective risk management.

The members of the Remuneration Committee are as follows:

Committee membership	Date of appointment	Date of resignation
Sir Bill Thomas (Chair)	26 Sep 2017[1]	
Derek Weir	26 Sep 2017	
Glyn Smith	27 Mar 2019	
Sally-Ann Hibberd	11 Dec 2019	31 Jul 2022
Richard Slimmon	11 Jan 2021	
Sue Harris	26 Jul 2022	

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 include financial and non-financial measures so as not to encourage undue/inappropriate risk;
- ensure that the remuneration of senior management is informed, but not driven by, reference to independently sourced market data on comparable organisations, and is set in a manner broadly consistent with the systems used to determine pay for employees elsewhere in the Group, taking into account quantum, market comparators and affordability;
- determine the specific conditions for annual bonus and long-term incentive awards so that these are financially prudent, directly aligned to approved strategic plans and thus support and drive long-term sustainability, and
- establish measures which explicitly reward the ongoing support for co-operative values and ethics.

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

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

The Remuneration Committee is satisfied that the Group's remuneration approach is in line with regulatory requirements.

The Group is a Level 2 firm based on the proportionality guidance issued for the purpose of the PRA and FCA remuneration rules.

Material Risk Taker criteria

The Remuneration Committee oversees remuneration for staff identified as Material Risk Takers (MRTs). In 2022, 43 MRTs were identified within the Group, according to the qualitative and quantitative criteria set out under the PRA and FCA remuneration rules and the Group's own assessment of individuals who can create material risks through their professional activities. The Group has a robust process for identifying MRTs. The Remuneration Committee reviews the MRT list on an annual basis.

The remuneration of MRTs is subject to the requirements set out in the PRA and FCA remuneration rules.

Link between pay and performance

Components of remuneration

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

The Group's variable pay arrangements aim to reward individual and collective performance achieved in a manner consistent with its values and ethics and within its risk appetite. Senior colleagues (Executive Committee members and certain other senior colleagues) are eligible for grants under a Long-Term Incentive Plan (LTIP), as provided under our approved policy. The Committee granted such awards in 2022. A one-off Management Incentive Plan (MIP), which was implemented in late 2018, continued to operate, aligning certain senior colleagues with long-term value creation, subject to maintaining sound risk management. Full details can be found in the 2018 Directors' remuneration report in the 2018 Annual Report and Accounts. The Senior Leader Retention award granted in 2021 also continues to operate.

Fixed remuneration

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

Variable remuneration

Both the annual bonus and long-term variable pay arrangements incorporate the use of a balanced scorecard of financial and non-financial measures which are directly aligned to the Group's Plan and includes metrics that measure performance related to:

- our customers (including brand strength and digital adoption);
- our people (including culture);
- building our future (including performance against the Group's key strategic priorities);
- our finances (including performance against our key performance indicators (KPIs) including profitability, operating costs and CET1 ratio), and
- our 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 Group's regulators).

This scorecard includes non-financial measures to ensure that there is compliance with the Risk Management Framework and no encouragement of inappropriate risk taking. Furthermore, awards may not be made if underlying capital conditions are not met. Variable remuneration awarded to employees whose roles have a material impact on the Group's risk profile meets with the requirements of the PRA and FCA remuneration rules. This includes appropriate deferral of awards and the awards being subject to malus (cancellation or reduction of unvested awards) and clawback (recoupment of paid and/or vested awards) provisions as set out in the PRA and FCA remuneration rules. In line with the Remuneration Code, the Bank does not award new hires guaranteed variable remuneration, unless it is exceptional, it occurs in the context of hiring, is limited to the first year of service and the Bank has a sound and strong capital base. In addition any severance payments made to this population will take into consideration a number of factors, including but not limited to, total remuneration, contractual obligations (such as payment in lieu of notice) and tenure.

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

- an overview of risk indicators used to monitor risk, including key metrics, tolerances, outcomes for the year to date and any trends or significant movements, covering all the Group'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 Group;
- an outlook on emerging issues that are likely to present new risks to the Group over the next year, areas requiring further enhancement and any planned changes to be made during the next performance year;
- a discussion of any risk events and issues identified, and
- a commentary on other, difficult to quantify risks, such as significant regulatory correspondence and cultural or behavioural issues.

The Group bonus pool is determined taking into account the following:

- performance against financial and non-financial measures in the Group balanced scorecard;
- status of risk appetite metrics and consideration of their potential future impact;
- risk events which have already happened and which are reported through to Remuneration Committee via the Group's People Committee and Risk Adjustment Forum, and
- discretionary adjustment by the Remuneration Committee, having regard to the Group's overall performance and the experience of shareholders and customers.

Individual adjustments to variable pay may then be made, having regard to material risk events that have been reported to the Remuneration Committee, which looks at the role and accountability of the individual in relation to the relevant risk event.

Individual performance assessment, deferral, malus and clawback

Bonus allocations to individuals are calculated as a percentage of base salary, determined according to an individual's overall performance rating for the performance period, assessed based on a set of financial and non-financial measures and including risk management considerations 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. The final outcomes for senior control functions are approved by the Remuneration Committee.

Deferral of incentive awards is a key mechanism to retain talent which is primarily achieved through annual incentive deferral. In line with regulatory requirements the following is applied to employees' (including MRTs') annual incentives where necessary:

- the deferral of at least 40-60% of their variable remuneration over a period of at least four years;
- the delivery of at least 50% of their variable remuneration in the form of shares or share-linked instruments. This element of deferred remuneration is also subject to a 12 month retention period;
- risk adjustment of any variable remuneration award, including malus/clawback on the Annual Incentive Plan, Deferred Bonus Plan, Management and Long-Term Incentive Plan awards. For any award made on or after 1 January 2015, clawback may apply for up to seven years following the award, and
- malus and clawback may be exercised in the event of a material misstatement of the Group's audited financial results, material error in assessing a performance condition, a material failure of risk management, reputational damage to the Group, a material downturn in financial performance, misbehaviour, misconduct or material error by an individual or any other similar circumstances the Remuneration Committee deems appropriate.

Ratio between fixed and variable remuneration

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

Quantitative remuneration disclosure

1. Remuneration Awarded for the Financial Year *(audited)*

		Management Body (MB) Supervisory function	MB Management function	Other senior management	Other identified staff
Fixed remuneration	**Number of identified staff**	**9.0**	**2.0**	**5.0**	**26.8**
	Total fixed remuneration	**1.6**	**1.5**	**1.7**	**4.1**
	Of which: cash-based	1.6	1.5	1.7	4.1
	(Not applicable in the UK)				
	Of which: shares or equivalent ownership interests	-	-	-	-
	Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
	Of which: other instruments	-	-	-	-
	(Not applicable in the UK)				
	Of which: other forms	-	-	-	-
	(Not applicable in the UK)				
Variable remuneration	**Number of identified staff**	-	**2.0**	**5.0**	**24.8**
	Total variable remuneration	-	**2.1**	**1.4**	**1.6**
	Of which: cash-based	-	0.8	0.5	0.8
	Of which: deferred	-	0.2	0.1	0.1
	Of which: shares or equivalent ownership interests	-	-	-	-
	Of which: deferred	-	-	-	-
	Of which: share-linked instruments or equivalent non-cash instruments	-	1.3	0.9	0.8
	Of which: deferred	-	0.8	0.5	0.4
	Of which: other instruments	-	-	-	-
	Of which: deferred	-	-	-	-
	Of which: other forms	-	-	-	-
	Of which: deferred	-	-	-	-
Total remuneration		**1.6**	**3.6**	**3.1**	**5.7**

2. Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) *(audited)*

	MB Supervisory function	MB Management function	Other senior management	Other identified staff
Guaranteed variable remuneration awards				
Guaranteed variable remuneration awards - Number of identified staff	-	-	-	-
Guaranteed variable remuneration awards - Total amount	-	-	-	-
Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
Severance payments awarded in previous periods, that have been paid out during the financial year				
Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	-	-	-	-
Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	-	-	-	-
Severance payments awarded during the financial year				
Severance payments awarded during the financial year - Number of identified staff	-	-	-	**1**
Severance payments awarded during the financial year - Total amount	-	-	-	**0.1**
Of which paid during the financial year	-	-	-	0.1
Of which deferred	-	-	-	-
Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
Of which highest payment that has been awarded to a single person	-	-	-	-

3. Deferred Remuneration *(audited)*

Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year
MB Supervisory function	-	-	-	-
Cash-based	-	-	-	-
Shares or equivalent ownership interests	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	-	-	-	-
Other instruments	-	-	-	-
Other forms	-	-	-	-
MB Management function	2.2	0.1	2.1	-
Cash-based	0.3	-	0.3	-
Shares or equivalent ownership interests	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	1.9	0.1	1.8	-
Other instruments	-	-	-	-
Other forms	-	-	-	-
Other senior management	1.5	0.1	1.4	-
Cash-based	0.1	-	0.1	-
Shares or equivalent ownership interests	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	1.4	0.1	1.3	-
Other instruments	-	-	-	-
Other forms	-	-	-	-
Other identified staff	2.3	0.5	1.8	-
Cash-based	0.2	-	0.2	-
Shares or equivalent ownership interests	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	2.1	0.5	1.6	-
Other instruments	-	-	-	-
Other forms	-	-	-	-
Total amount	6.0	0.7	5.3	-

3. Deferred Remuneration (continued) *(audited)*

Deferred and retained remuneration	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
MB Supervisory function	-	-	-	-
Cash-based	-	-	-	-
Shares or equivalent ownership interests	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	-	-	-	-
Other instruments	-	-	-	-
Other forms	-	-	-	-
MB Management function	-	**0.1**	-	**0.1**
Cash-based	-	-	-	-
Shares or equivalent ownership interests	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	-	**0.1**	-	**0.1**
Other instruments	-	-	-	-
Other forms	-	-	-	-
Other senior management	-	-	-	**0.1**
Cash-based	-	-	-	-
Shares or equivalent ownership interests	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	-	-	-	**0.1**
Other instruments	-	-	-	-
Other forms	-	-	-	-
Other identified staff	-	**(0.1)**	-	**0.5**
Cash-based	-	-	-	-
Shares or equivalent ownership interests	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	-	**(0.1)**	-	**0.5**
Other instruments	-	-	-	-
Other forms	-	-	-	-
Total amount	-	-	-	**0.7**

4. Remuneration of 1 million EUR or more per year *(audited)*

EUR	Identified staff that are higher earners as set out in Article 450(i) CRR
1.0m to below 1.5m	1
1.5m to below 2.0m	-
2.0m to below 2.5m	-
2.5m to below 3.0m	-
3.0m to below 3.5m	1
3.5m to below 4.0m	-
4.0m to below 4.5m	-
4.5m to below 5.0m	-
5.0m to below 6.0m	-
6.0m to below 7.0m	-
7.0m to below 8.0m	-

5. Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) *(audited)*

	Management body remuneration			Business areas						
	MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
Total number of identified staff										**43.0**
Of which: members of the MB	9.0	2.0	**11.0**							
Of which: other senior management					2.0		2.0	1.0		**5.0**
Of which: other identified staff					4.0		13.0	10.0		**27.0**
Total remuneration of identified staff	1.6	3.6	**5.2**		2.4		4.2	2.2		
Of which: variable remuneration	-	2.1	**2.1**		1.0		1.4	0.6		
Of which: fixed remuneration	1.6	1.5	**3.1**		1.4		2.8	1.6		

Chief Executive Officer and Chief Financial Officer remuneration *(audited)*

The total remuneration for Nick Slape (CEO) during 2022 was £2.4m. The total remuneration for Louise Britnell (CFO) during 2022 was £0.6m. This was made up of the following:

Fixed remuneration	CEO £000s	CFO £000s
Basic salary	**930**	**280**
Allowances and benefits	**256**	**43**
	1,186	**323**
Variable remuneration		
2022 bonus	**1,198**	**315**
Total	**2,384**	**638**

Risk management

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1. RISK MANAGEMENT OBJECTIVES AND POLICIES

1.1 OUR APPROACH TO RISK MANAGEMENT

Responsibility for risk management resides at all levels within the Group 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 Group's Risk and Control Self-Assessment (RCSA), and are responsible for reporting the performance, losses, near-misses and status of risks through governance.
- 2nd line - the risk function acts as the 2nd line of defence (2LOD). The Risk Framework Owners (RFOs) are responsible for setting Risk Policies, Control Standards, Group-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).

Significant risks

Levels of consumer fraud continue to be a concern across the banking industry. Frauds committed against our customers were a significant contributor to our operational losses during 2022. In response, we have made significant progress in updating and implementing new systems to make it harder to defraud our customers with further implementation of upgrades planned into 2023.

Increased demands around managing consumer fraud and the migration of customers away from the Group's heritage systems to a new, improved platform caused Average Speed to Answer (ASA) metrics to fall outside of internal SLAs. Over the course of 2022 the Group deployed FTE recruitment and retention strategies, innovative use of Interactive Voice Response (IVR) and optimisation of fraud controls to correct this position. We are now confident that we have the right technology and people in place to meet ASA targets through 2023.

We have been on a significant journey of simplification, remediation and improvement in recent years, but as with many other financial institutions, the Group has instances of end-of-life IT systems that provide key services: also known as technical debt. As IT systems continue to move to their end of life, the ability to recover quickly from IT incidents reduces and exposes the Group to a widened range of cyber risks; in the context of an evolving external fraud threat, we acknowledge the potential for heightened vulnerabilities. To ensure the Group has the capability to manage change risk effectively and deliver the remediation plan for technical debt, we have invested heavily in 2022, particularly in the flagship Simplification programme. Simplification has experienced some delays in 2022, mainly due to the complexity of programme deliverables and resourcing issues. Significant time and effort has therefore been invested into re-planning the programme within extended Board oversight, in addition to ensuring the right people are in place, to allow for a safe and successful migration of customers to the new platform (see Change Risk on page 116 for further details).

The Group remains committed to continuing the progress made so far into 2023.

The Group welcomes the introduction of the FCA's Consumer Duty which comes into force in July 2023 for on sale products. This requirement for firms to act to deliver good outcomes for retail customers is entirely aligned to our ethical principles. A significant body of work is underway and will continue over the coming months, across all elements of the Group to implement a more outcomes, data-led approach with a continuous cycle of monitoring to enable the Group to identify where things are not operating as expected for customers and to act quickly to minimise the risk of harm.

Key credit risks relate to the rising cost of living, the associated affordability pressures for our customers and the risk of material credit losses to the Group. Macroeconomic uncertainty and geopolitical events (triggered to a large extent and exacerbated by the ongoing conflict in Ukraine) have impacted many economies around the world that are still recovering from the effects of the COVID-19 pandemic. In the UK, the economic effects have materialised in the form of a 4-decades-high level of inflation and multiple Bank of England base rate increases. This has resulted in both individuals and UK based businesses facing overall higher day-to-day costs equating to a challenging climate for both UK retail and SME banking customers.

To date, arrears remain low, the Group's portfolios remain robust and previously strong HPI growth is expected to mitigate against losses resulting from house price deterioration in a rising rate environment. However, we understand that the increased risk of material credit losses and operational readiness to manage the volumes of customers requiring support will continue to demand sharp focus going into 2023. To this end, close monitoring of each portfolio for signs of stress arising through the affordability stretch is undertaken through specifically developed monitoring and early warning indicators.

How the conflict in Ukraine affects our risk profile

The Group has no direct and limited indirect exposure to Russia or Ukraine which minimises the immediate financial impact of the conflict on the delivery of our strategy. However, the conflict has impacted our risk profile in the following ways:

- compliance with financial crime and anti-money laundering regulation – implementing the complex and evolving sanctions regimes introduced in response to the conflict, in all business processes including payments, supplier management and provision of support to those impacted by the conflict, and
- the conflict in Ukraine has increased the risk of cyberattacks from state sponsored groups or individual threat actors. We continue to invest in cyber defences and address known vulnerabilities in response to the heightened threat of cyberattack against UK institutions, infrastructure and our customers.

The conflict has already shown the signs of significant and long-lasting effects on geopolitics and the global economy, exacerbating the increases to energy costs and food prices which has created affordability stress for consumers and business alike. We will continue to monitor the evolution of the conflict to ensure we are able to continue to support our customers appropriately.

Key 2022 achievements and looking ahead

In 2022, we undertook an effectiveness review of the Risk Management Framework (RMF). In recognition that the Group has reduced and simplified its operations significantly over the last five years, there were a number of changes proposed to ensure the RMF is suitable for the organisation's current and future operating model. This includes rationalisation of the Principal Risk taxonomy to ensure it is representative of the Group's most significant risks and more in line with our peers. We believe implementing these changes safely will enable greater focus on the most material risks to the Group whilst also allowing for continued embedding of climate change and operational resilience as thematic risks (see pages 44 to 45 of the TCFD report for more detail on how Climate Change Risk is evaluated, managed and monitored by the Group).

Whilst 2022 was a challenging year it was also a hugely successful year in respect of the Group's capital position. In Q4 2022, we received the final results of the Capital Buffers component of the PRA's Supervisory Review and Evaluation Process (SREP) for 2022. The SREP outcome means the Group has now attained full compliance with total capital requirements plus capital buffers, and expects to maintain compliance with minimum requirement for own funds and eligible liabilities (MREL) plus capital buffers on a sustainable basis, following end-state requirements becoming binding from 1st January 2023.

This is the first time we have been sustainably capital compliant since 2013 and represents an important milestone in our turnaround. This demonstrates strong progress in the Group's improvements to financial stability and stress resilience within a changing economic environment. In December 2022, we received a 1 notch upgrade to our long term credit rating from Moody's to Ba1 (from Ba2) representing another step towards returning to investment grade rating. Returning to sustainable capital compliance was a key driver of this and we look forward to building on this success further.

Our active management of risk has provided a platform for the success of the business in 2022 as demonstrated by another year of resilient financial performance. Although the Group is operating in a challenging external environment that is expected to persist for some time, and we remain mindful of the significant challenges of delivering strategic change successfully (centred around the Simplification programme), the effectiveness of the Group's fully embedded RMF provides us with confidence that our risks will be managed prudently and we will remain sustainably profitable.

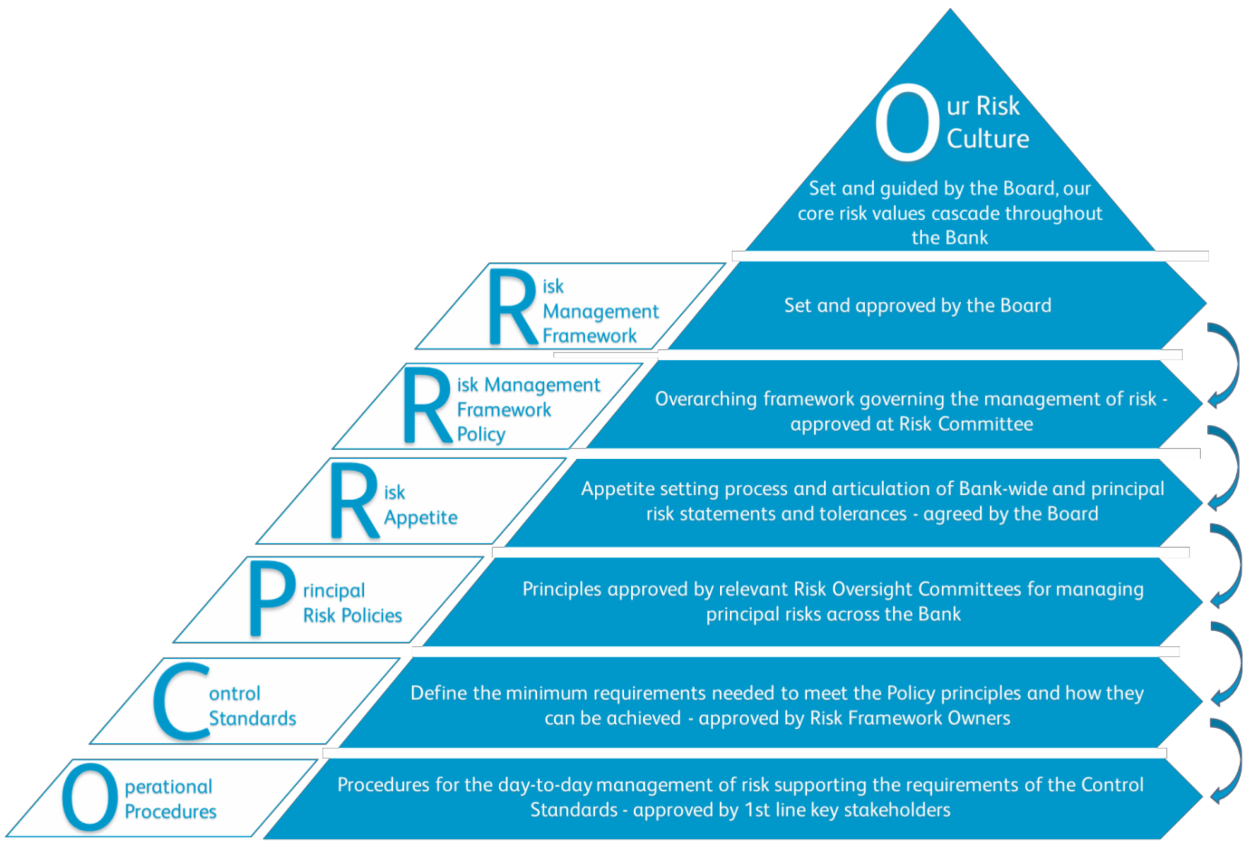
1.2 OVERVIEW

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

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

Material risks and issues, whether realised or emerging, inclusive of those documented in relation to the RMF itself are described along the lines of principal risks within section 1.8.

1.3 OUR RISK MANAGEMENT FRAMEWORK (RMF)



1.4 RISK MANAGEMENT STRATEGY AND APPETITE

The Board has primary responsibility for identifying the key business risks faced and approving the risk management strategy through the setting of risk appetite, which defines the type and amount of risk the Group 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 key risk appetite metrics (KRAMs) which are tracked, monitored and reported to the appropriate risk committees (refer to section 1.7). The risk appetite framework has been refreshed for 2023 and is now further aligned to our strategic objectives and imperatives and the KRAMs will highlight where the Group is outside appetite and the achievement of the strategy is at risk. In addition a further set of key risk indicators (KRIs) are in place and reported monthly, for each of the risk types defined within the RMF.

1.5 OUR RISK CULTURE

A critical supporting factor of the RMF is the risk culture in the Group; 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 Group's Executive team who lead by example with consistent and clear communication of their commitment to managing risk at all levels of the business. Risk management is included in every colleague's objectives each year and is embedded within the Group scorecard against which performance is measured.

The Group has committed to embedding a strong culture of risk management and provides regular training and opportunities for colleagues to refresh knowledge on the RMF and opportunities for leaders to share knowledge and experience in respect of risk management in their roles. Culture is measured through continued monitoring of the Risk section of the CEO scorecard, the RMF dashboard which includes metrics on Risk process adherence through RMF-focussed 2nd line of defence assurance reviews and through 2nd line of defence oversight and feedback.

A Group-wide risk culture survey was conducted at the end of 2021 in order to assess the underlying behaviours and attitudes towards risk at all levels in the organisation. The results of the survey were extremely positive and pointed to a culture sustained by an open and honest risk environment, where colleagues are encouraged and not afraid to do the right thing and understand their responsibilities with regard to risk. Improvements identified in specific areas were actioned during 2022 and will continue during 2023.

We remain fully committed to delivering a challenging change agenda successfully in 2023. We recognise that the volume of large change programmes – with particular focus on the Simplification programme – carry significant execution risks. We have therefore invested significant time and effort into re-planning the programme in addition to ensuring the right people are in place to allow for a safe and successful migration of customers to the new platform.

1.6 EVOLUTION OF THE RMF IN 2022

We continually seek to enhance and further embed the RMF to ensure efficient and effective risk ownership and management within risk appetite, supporting appropriate customer outcomes and the delivery of its strategic plan (the Plan). The focus during 2022 has been to continue to embed the RMF through changing structures, responsibilities and Group strategies, to adapt where required ensuring stability and effectiveness, but also to simplify where possible without detriment to the management of risk or the risk culture. The secondary driver was to consider where simplification could be achieved in order to focus resource on significant and material risk-related activities.

During the year, a number of initiatives have introduced further efficiencies to the RMF without any reduction in the effectiveness of managing risk. This has been possible due to the maturity of the RMF and the level of embedding that has been achieved:

- continued training for those new to roles (e.g. Risk Framework Owners and Risk Managers) with improved mandatory training and targeted topic-based training, (e.g. Root Cause Analysis);
- continued improvements to key operational risk processes, for example, focus on Root Cause Analysis for the more material Risk Events and the reduction in frequency of appropriate updates;
- the improvements to the risk appetite framework;
- the removal of the gap analysis process for refreshed Control Standards due to the level of embedding of the RCSA process;
- the initiation of a review of key controls to improve the quality and efficiency of key control testing and focus on the most significant controls that mitigate our key risks; and
- the risks relating to operational resilience have been incorporated into the RMF and managed thematically.

In recognition that the Group has reduced and simplified its operations significantly over the last five years, there were a number of changes proposed (effective from 1 January 2023) to ensure the RMF is suitable for the organisation's current and future operating model. This includes rationalising the Principal Risk taxonomy to ensure it is representative of the Banks most significant risks and changes to how risk metrics are constructed and reported. We will continue to simplify and evolve the RMF in 2023 with a specific focus on continuing with the key control initiative whilst driving commitment and understanding of risk management at all levels of the organisation.

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 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.

Each committee in the Group'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 Chair: Bob Dench	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) Chair: Derek Weir	RC is responsible for reviewing and reporting its conclusions to the Board on the Bank's risk appetite and propose for approval by the Board and oversee the implementation of a Risk Management Framework, taking a forward-looking perspective and anticipating changes in business conditions.
Executive Risk Oversight Committee (EROC) Chair: CRO	EROC is responsible for oversight of the risk profile of the Group (within the agreed Board risk appetite). EROC reviews and challenges the risks associated with the Group's business strategy, plans and overall management of risks. EROC achieves some of its objectives through delegating responsibility to sub-committees: OCROC, MROC, PROC and CROC. EROC will escalate, where appropriate, to the Board via the RC.
Executive Committee (ExCo) Chair: CEO	ExCo is responsible for defining and implementing the Board-approved strategy successfully by monitoring and managing delivery against plan and applying appropriate risk management actions to emerging risks.
Asset and Liability Committee (ALCo) Chair: CFO	ALCo is primarily responsible for overseeing the management of capital, market, earnings, liquidity and funding risks. Its responsibilities include identifying, managing and controlling the balance sheet risks in executing its chosen business strategy, ensuring the capital and liquidity position is managed in line with appropriate policies and that adequate capital is maintained at all times. In order to closer align the function of key committees, ALCo is to become a subcommittee of the Board Risk Committee. This change will further reinforce the mitigation of financial risks through embedding a structure whereby key asset and liability management decisions are set within a risk governance setting.
Model Risk Oversight Committee (MROC) Chair: Director of Capital, Impairment and Model Development	MROC ensures, on an ongoing basis, that the model rating systems and material models are operating effectively. This includes providing Executive level review and challenge of the model risk and the impact of model risks on the Group's business model and strategies. MROC also provides oversight of the Group's IRB permissions, including the exemptions where the Group applies the Standardised Approach to calculate Pillar 1 capital requirements.
Credit Risk Oversight Committee (CROC) Chair: Director of Credit Risk	CROC is responsible for monitoring significant credit risks and issues within the entire credit lifecycle, the controls and management actions being taken to mitigate them and to hold to account the Executives responsible for actions. CROC reviews the credit risk strategy on an ongoing basis, making recommendations to EROC as appropriate.
Operational, Compliance & Financial Crime Risk Oversight Committee (OCROC) Chair: Director of Compliance, Director of Operational Risk	OCROC is responsible for monitoring significant operational risks and issues including significant conduct, regulatory, product, reputational, fraud and 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) Chair: Director of Capital, Impairment and Model Development	PROC is responsible for oversight of all aspects of pension arrangements which the Group either sponsors or participates in, to ensure cost, risk, capital, investment and employee requirements are met.

1.8 PRINCIPAL RISK CATEGORIES

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.

Operational risk

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

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

Key themes:
Operational risk levels remain elevated due to high levels of fraud seen industry wide, and a reliance on both manual processes and legacy IT systems. The impact on our customers from inflation and interest rate increases has been closely monitored during 2022 and will remain a key focus throughout 2023. The most significant operational risk themes are outlined below.

Change risk – There were a number of programmes launched to safely ensure compliance with regulatory developments and to implement improvements to the Group's systems over the course of 2022 with a high volume of activities planned across 2023 and beyond. Whilst these developments represent opportunities to provide an improved service to our customers, remove system vulnerabilities and limitations and reduce technical debt, we recognise that large projects will inevitably carry significant risks. In light of recent fines in the industry levied by the PRA and FCA after root cause analysis it is clear how critical effective planning, robust governance and having the necessary level of operational resilience in place is to delivering major change. We have invested significant time and effort into planning activity to mitigate the risks of non-compliance, late or failed delivery and to ensure that the intended objectives of these various programmes are achieved.

Delivering these significant developments is core to the Group's strategy, particularly the migration of heritage Britannia and WMS Platform IT infrastructures to a single mainframe for mortgages and savings (Simplification). In recognition of the strategic importance of the programme, a temporary Board sub-committee was set up in December 2021 to oversee and support the management team to deliver the programme successfully. The Group has experienced delays in 2022, particularly across the mortgage re-platforming aspect of the programme, in part due to complexity of programme deliverables but also due to resourcing issues. We have therefore invested significant time and effort into completing re-planning activity during 2022, ensuring the right people are now in place. Executive and Board sub-committee focus has and will continue to be applied to the project, with clear accountability on ownership and delivery. Our regulators are receiving frequent updates and multiple controls have been put in place to drive visibility, transparency and accountability of this project to ensure a safe and successful migration of customers to the new platform. Completion of this programme will mean a significant reduction to the Group's operational risk profile and technical debt exposure during 2023. Robust programme monitoring and oversight of key developments has been, and will continue to be, in place across all three lines of defence.

Fraud – Fraud losses continued to be a significant contributing factor to operational losses in 2022 with impersonation fraud representing the most significant proportion of the fraud typologies perpetrated against our customers. Card fraud losses have greatly reduced since implementation of a PSD2 card not present solution in September though overall losses for the year will still be outside tolerance.

We provide targeted education to our customers through all available channels and introduced a number of preventative measures during the year including improved scam warnings and customer messages. The Group is a signatory to the industry 159 fraud reporting initiative which assists customers who believe that they may have been or are being targeted by fraudsters and also provides a direct route to our fraud team.

A behavioural biometrics tool (Trusteer) has been rolled out to reduce the impact of losses arising from account take over frauds. Trusteer Release 2 is now alerting with additional step up on higher risk on-line activity. Although tactical controls have been implemented in SME the delivery of Detica (SME payment screening) in H1 2023 will provide further protection against authorised push payment loss.

Technical debt – As with many other financial institutions, the Group has instances of end-of-life IT systems that provide key services. To reduce the associated risks and minimise the impact of any disruptions, the Group has a strategy to remove the highest risk legacy systems and has added additional resilience arrangements to protect IT services until replacement. Funding for this strategy has been approved for 2023 and is subject to regular monitoring and reporting against progress.

Cybercrime – As with other technology dependent financial institutions, the Group and its customers are exposed to both actual and attempted cyberattacks from parties, with malicious and/or criminal intent. These risks increase as the Group increases its reliance on digital products, services, key functions and distribution channels.

There is greater exposure to cyberattacks where systems are reliant on legacy technologies, as highlighted in the technology debt section above. The Group is subject to the risk that a cyberattack may result in temporary loss of availability of systems for its colleagues and/or customers and potential disclosure of confidential information. This can cause business disruption and legal exposures that may have adverse effects on the Group's financial condition, operating results, reputation and brand.

To minimise cyber threats, the Group has a Board-approved cyber strategy that is regularly refreshed. The strategy drives the annual cyber investment for security tools, processes and capability to counter the ever-evolving cyber threat landscape in addition to remediating its legacy IT estate. The most recent external benchmarking activity has evidenced an improvement year-on-year in the maturity of the Group's cyber framework, while acknowledging the risks associated with legacy systems. Where specific risks arise, bespoke solutions are evaluated and deployed to minimise exposures to cyber threats until older IT systems are replaced. In addition, annual testing aligned to the Bank of England's CBEST cyber assessment framework is completed with industry-accredited third parties to understand technical control effectiveness and enhancements.

Third party supplier management – The Group continues to be dependent on suppliers to support or provide key banking services. Since the COVID-19 pandemic, we have taken steps to improve the control environment with no significant disruptions experienced from suppliers. The Group is now materially compliant with revised guidelines on outsourcing arrangements that came into force in the first quarter of 2022. While further improvements are required to mature controls and risk management over all suppliers, the Policies and Controls standards as part of the RMF have been updated to reflect the new requirements, with identified gaps subject to monitoring and reporting. In addition, an external 3rd party has been engaged to support management in their assessment of supplier risk management, aligned to industry best practise and to deliver further improvements.

We continue to work closely with Capita to ensure a seamless re-integration of mortgage servicing operations back in-house, ensuring that resourcing levels are appropriate to support our customers during a tough economic period. An agreement was reached with Capita to extend the mortgage services under the existing contract for three months to 28 February 2023. This extension was to provide comfort that the Group has appropriate IT, operational and systems access requirements in place to allow for a safe and sustainable migration.

Anti-money laundering (AML) – Significant progress has been made in improving the suspicious activity report (SAR) SLA and AML resource levels, with appropriate management focus and action being taken throughout 2022, improving the end of year position.

The migration of customer data feeds from the Group's heritage Britannia screening system into the implemented NetReveal screening system was complete in December 2022, this migration will provide improvements to AML controls and address some of the previous limitations of legacy AML systems. The Group is managing the risk through application of manual and system based workarounds. System upgrades will remain a key Group focus into 2023.

The Group's dedicated regulatory risk team within 2LOD maintain industry developments via a fully embedded horizon scanning process. Emerging risk, including regulatory changes, external regulatory breaches and industry developments remain a key focus of the Group's 2LOD AML advice and oversight team. The team are attendees on industry-led working groups, to ensure a consistent approach to regulatory change is fully understood and aligned to our industry peers.

We have seen examples in the industry in the final quarter of 2022 where the FCA has demonstrated that they will take appropriate action where institutions do not undertake necessary measures to identify, assess, monitor, and manage money laundering risks. The Group's 2LOD AML advice and oversight team are reviewing the Group's AML systems and controls to ensure our financial crime defences remain robust, adequate and effective to mitigate the risk that the Group is used to facilitate the laundering of the proceeds of crime, the financing of terrorist or proliferation activity or to breach financial sanctions legislation.

Conduct risk and compliance – We welcome the FCA Consumer Duty and the increase in the level of consumer protection it will introduce. As an ethical bank, we already strive to ensure that we act in good faith, avoid causing foreseeable harm and support customers in pursuing their financial objectives. Consumer Duty is a further opportunity to strengthen and sharpen our conduct frameworks to evidence that the Group is delivering good outcomes.

The needs of our customers continue to evolve as they adapt to living with COVID-19 but face new economic pressures due to the cost of living. We have continued to react and support our customers' need for forbearance in light of the increased cost of living, in full consideration of the FCA's latest guidance for borrowers. We have also responded to the ever-changing tactics of fraudsters with technology and process changes to disrupt transactions, whilst ensuring our customers are treated fairly and receive good outcomes.

The Group continues to invest in digital channels in line with customer preferences, but recognises the diverse needs of our customers. In addition, we have maintained commitment to our other channels through the relocation of our Nottingham branch to a more accessible location, and investments in increased contact centre resource. We continue to operate dedicated phone lines to meet the needs of our most vulnerable customers, including in year adoption of the 159 fraud contact initiative.

The changing needs and requirement to support our vulnerable customers increases annually, with the FCA estimating c.50% of the UK population exhibit vulnerable characteristics. In response the Group has invested in digital changes enhancing accessibility and ease of use. It has also reintroduced the non-repayable emergency hardship fund for those customers who are in severe need of support, extended our partnership with Citizens Advice by introducing digital self-service links and signed up to the industry Financial Abuse Code.

In October 2018, Mortgage Agency Services Number Five Limited (MAS 5), a subsidiary of the Group, received a complaint from a mortgage customer regarding changes made to MAS 5's standard variable rate between 2009 and 2012. An application for a judicial review of FOS's jurisdiction decision, on the grounds that the Group considered this part of the complaint to be time-barred, was dismissed in July 2022. The Group remains satisfied that these historical variations were applied fairly and in accordance with the terms and conditions of the mortgage contract. Until such a time as the FOS communicates to the Group its final decision on the merits of the complaint, it is not possible to predict the scope and ultimate outcome on the Group. No provision is held in respect of this matter – see Note 31 of the Group and Bank consolidated financial statements for further detail regarding this contingent liability.

The Group appreciates the issues faced by mortgage borrowers who find themselves trapped, providing targeted communication to customers and offering a process that assesses re-mortgage eligibility. The Group continues to engage with industry bodies, the FCA and political groups to discuss and find solutions to these issues.

Payments risk – In 2022 there were no material breaches of payment scheme rules, as the Group implemented key infrastructure and consumer focussed changes, such as Confirmation of Payee updates. Payment risk remains a key area of focus and the Group will continue to invest to improve the Bank's payment systems and architecture, which continues to evolve to serve the real-time on-demand requirements of its customers. Preparations for the Bank of England's (BoE) Real Time Gross Settlement (RTGS) service, which not only operates CHAPS but is the infrastructure that holds accounts for banks, building societies and other institutions, are well underway for initial transition states in 2023.

Operational resilience – Operational resilience was added to the Risk Management Framework (RMF) as a Thematic Risk in 2022 and is defined as the risk of the Group suffering operational disruptions arising from the inability to prevent, adapt, respond to, recover and learn from previous events. operational resilience events are expected to occur however the Group's appetite is to have plans in place that mitigate and/or minimise disruptions, ensuring reduced harm to customers, maintaining the safety and soundness of the Group and limiting impacts to the wider financial sector. The Group has no appetite for any breach of regulation in relation to operational resilience and will, at all times, seek to achieve and maintain compliance with all relevant legal and regulatory requirements.

The Group has, in line with regulatory expectations, completed a programme of work to identify the Important Business Services (IBS), set impact tolerances for the maximum tolerable disruption, map and document the components of each IBS and complete scenario testing. Where vulnerabilities have been identified, remediation plans are in place and are being tracked and monitored along with operational resilience Key Risk Indicators (KRIs). We will continue to monitor the effectiveness of operational resilience risk management through RMF activity, dedicated operational resilience reporting in governance, dedicated assurance reviews completed as part of the three lines of defence risk management model and a multi-year scenario testing plan.

Top and emerging risks:

Cost of living – The rising cost of living for our customers continues to require critical focus to ensure that the operational and loss consequences to the Group are well understood. Analysis looking at the current affordability position of our mortgage customers indicates a robust portfolio with a strong LTV position; however, we recognise that increased affordability issues will require a greater level of operational readiness to manage the volume of customers potentially requiring support. In an effort to support customers we have commenced test and learn activity for contacting potentially 'at risk' mortgage customers which will develop over time.

Economic and Geopolitical risk – 2022 was a turbulent year with the impacts of the ongoing conflict in Ukraine felt globally. The impact of this instability was realized in the UK in the form of increased interest rates, and challenges around affordability of key essentials which was exacerbated by domestic political uncertainty. Whilst the latter half of Q4 has seen a more stable domestic position, we will continue to monitor impacts on our customers resulting from further political disruption. There is also heightened geopolitical and global economic risk in the event of a conflict in Taiwan which could create further instability in the UK.

Regulatory changes:

The Group is committed to delivering a high volume of significant regulatory changes in 2023 and beyond to enhance customer protection and outcomes, and strong financial resilience. Key changes from the PRA, FCA, HMT and the BoE include:

- FCA Open Banking – FCA's aim to remove the barriers identified to the continued growth of Open Banking and support competition and innovation in the sector. The FCA proposes several changes to the Strong Customer Authentication Regulatory Technical Standard (SCA-RTS);
- FCA Consumer Duty – The new Consumer Duty is designed to increase the current level of consumer protection across the retail financial services market, including the introduction of a new 12th Principle, supported by enhanced cross-cutting rules and outcomes;
- PRA Consultation Paper (CP) on implementation of the Basel 3.1 standards – The proposals in the CP propose further reforms in the measurement of risk weighted assets (RWAs). It sets out proposed changes to improve the measurement of risk in internal models and standardised approaches, to reduce excessive variability in the calculation of risk weights, thereby making firms' capital ratios more consistent and comparable. In addition, the proposals aim to facilitate effective competition by narrowing the gap between risk weights calculated under internal models, which are typically used by the larger firms, and standardised approaches. The CP also contains revised proposed criteria for determining which firms would be in scope of the 'strong and simple' prudential framework that the PRA is developing. The proposed implementation date for the changes is 1 January 2025, with transitional arrangements that give firms significant time to adjust to the new framework;
- FCA Credit Information Market Study – The FCA launched the study because it had concerns about the quality of credit information, strength of competition in the market, and the extent of consumer engagement and understanding. The regulator's goal is to improve the quality of credit information, so that lending decisions better reflect people's underlying financial circumstances. The Group anticipates further engagement and changes in processes and reporting with the relevant credit rating agencies; and
- Regulatory Reform – In December, the Chancellor of the Exchequer announced the 'Edinburgh Reforms', set to drive growth and competitiveness in the financial services sector. These represent one of the most substantial packages of financial services regulatory change in recent years, and together with the Financial Services and Markets Bill, will set the UK regulatory agenda for many years to come.

The Group recognises that the high volume of regulatory change carries significant execution risks and represents a significant resource demand across the business. In 2022, we experienced some issues in relation to delivering regulatory change on time, missing the deadline for Card Not Present (CNP) transactions and informing our regulators that we will miss the FCA Open Banking deadline set for 2023. We remain fully committed to delivering a challenging regulatory change agenda successfully in 2023 and have therefore invested significant time and effort into planning and building the capability to mitigate the risks of non-compliance or late or failed delivery.

Mitigating actions:
Ongoing management, oversight and reporting of key risks and controls by the Group's three lines of defence and the adoption of a thematic approach to managing operational resilience and climate change. Management, oversight and reporting of risk through the Group's risk governance structure. The management of risk and controls continues to be reflected within all colleagues' performance objectives and key measures of performance against the RMF are included in the Group's scorecard.

Key indicators:
In the current year, 87.2 % of net losses arose from external fraud (2021: 85.3 %).

Capital risk

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

Key themes:
Capital compliance – From 1 January 2023, the Group's MREL is set at 2xTCR (end-state requirement), from its transitional requirement of TCR+£400m as at the end of 2022.

In April 2022, the Group successfully completed a £250m MREL-qualifying senior debt issuance (following the £200m issuance completed in Q4 2020 and £200m Tier 2 subordinated notes issuance in 2019), with the majority of these notes placed with third-party investors. The Group has accrued CET1 resources of £952.4m in 2022, providing it with total MREL-qualifying resources of £1,599.3m. Whilst debt issuances created downward pressure on net interest income, they represent the continued strengthening of the Group's MREL position and resilience to deteriorations in external and/or internal factors.

In October 2022, we notified the market that we expect to sustainably achieve MREL plus total capital buffers compliance for the foreseeable future, following the PRA's review of the Group's Pillar 2 capital requirements in 2022. This was a full year ahead of schedule, where previously we had committed to returning to sustainable capital buffers compliance by the end of 2023. This includes absorbing the impact of the increase in the UK-specific countercyclical buffer (CCyB) rate from 0 % to 1 % in December 2022 and the FPC's planned increase from 1 % to 2 % in June 2023. The activity undertaken to de-risk the Group over recent years, our approach to risk management and return to profitability all mean that the Group is well-positioned to remain compliant with all capital requirements.

Our structured debt continues to trade well in secondary markets and in December 2022 we received a 1 notch upgrade to our long term credit rating from Moody's to Ba1 (from Ba2), positioning the Group well to execute further capital markets transactions in the future if necessary. Our shareholders remain supportive of our business and we remain strongly committed to maintaining full capital compliance.

Risk weighted assets – Our risk weighted assets (RWAs) at 31 December 2022 total £4,816.2m. RWAs reflect our risk adjusted assets factoring in probability of default, loss given default and exposure at default. This calculation is used to derive the capital requirement of the Group. Increases in RWAs are driven either by increases in the underlying assets or increases in the risk weighting (or density) assigned to these assets. Significant changes in RWAs are typically driven by changes in modelling requirements, for banks that have permission to use the Internal Ratings Based (IRB) approach. The Group, alongside other IRB institutions, has faced challenges with respect to the development of its Secured IRB models to ensure compliance with PS11/20.

From 1 January 2022, the Group raised a model adjustment to reflect the expected impact of PS11/20 on its Secured RWAs, whilst model development remained ongoing. This PMA was revised in December 2022 to reflect progress in the development of compliant models. The Bank expects to submit its LGD and PD models to the PRA for approval in H1 2023. The implementation of these models is expected to drive an increase in RWAs versus live models, although this increase is reflected in the model adjustment in place as at 31 December 2022.

The macroeconomic environment – Adverse changes in the macroeconomic environment drive capital risk through increases in capital requirements and/or reductions in capital resources. Throughout 2022, we have observed a deterioration in macroeconomic variables, with record-high inflation peaking at 11.1 % in September, dampened house price growth within the second half of the year, increasing unemployment and contractions in GDP as the UK faces into a period of negative growth. Fiscal volatility, coupled with the ongoing invasion of Ukraine by Russian forces, has compounded these conditions and we continue to closely monitor the impacts that all factors may have on our capital position.

However, continued profitability coupled with the Group's low-risk balance sheet provide resilient foundations on which to enter a period of macroeconomic downturn. The issuance of £250m MREL-qualifying senior notes in April 2022 alongside the Group's return to sustained MREL plus total capital buffers compliance also minimise the risks to capital adequacy arising from market uncertainties.

Mitigating actions:
Whilst we now expect to sustain profitability in future periods, we are reliant on the successful implementation of our strategy, which is subject to significant oversight and monitoring, including by the Board. Recognising that our income profile is concentrated around interest income, we are committed to diversifying our income streams through 2023 and the life of the financial plan.

The Group has embedded capital risk monitoring across the organisation and closely manages its current and future capital position from a TCR, MREL and leverage ratio perspective. Capital management activities at all levels of the Group are overseen by the 2nd and 3rd lines of defence. The Group engages with its regulators to regularly update them on its capital position and we remain committed to maintaining this engagement following our return to sustainable capital buffers compliance.

Emerging risks:
Financial regulatory changes – On 30 November 2022, the PRA released CP16/22 – Implementation of the Basel 3.1 standards. The PRA has proposed a series of changes to the current approach to calculating capital requirements to be phased in from 1 January 2025. This represents the most significant changes to the prudential regulatory capital framework since the implementation of Basel III in 2014. The Group has reviewed the proposals outlined in CP16/22 and is currently in the process of completing a full assessment of the impacts to its capital position, with the successful implementation of Basel 3.1 being key risk focus for the Group across 2023 and 2024.

The PRA has also outlined that it intends to consider its approach to setting Pillar 2 capital requirements in light of the implementation of Basel 3.1. The PRA will provide further details as it progresses with its Pillar 2A review (expected in 2024). With respect to Pillar 2B, consideration will be given as to the impact of changes in the size of firms' Combined Buffer due to changes in Pillar 1 RWAs, when setting the PRA Buffer.

The Group has begun a detailed process to assess these impacts and is engaging with wider industry bodies to consider its responses during the consultation period, which ends on 31 March 2023. The Group is prepared to implement the proposed changes and remains cognisant of the magnitude of the development required. The Group will update the market of potential impacts following the release of the PRA's final policy statement on the implementation of Basel 3.1 standards.

Market uncertainty – As noted, material uncertainties remain with respect to the global macroeconomic environment and the Russian invasion of Ukraine. We continue to monitor these risks and will take actions to mitigate risks to our capital position if conditions deteriorate further.

Target capital ratios:
The Board's view of the ongoing level of CET1 capital required by the Group in the medium term to maintain and grow the business, deploy in suitable investment opportunities, meet current and future regulatory requirements and cover uncertainties is around 15%, subject to the preceding completion of steps to optimise the Group's capital resources composition in the context of its regulatory requirements, including issuance of replacement capital instruments.

This takes into account, amongst other things:

- The minimum Pillar 1 CET1 capital requirement of 4.5% of risk weighted assets;
- The Group's individual capital requirement set by the PRA of 5.05%, of which a minimum of 2.84% must be met through CET1 capital;
- The Group's Capital Requirements Directive IV buffers of 3.5%, in aggregate;
- The Group's PRA Buffer; and
- The desire to maintain a stable and sustainable ordinary dividend policy in the context of underlying profitability from year-to-year.

Should Additional Tier 1 capital instruments not be issued as part of the optimisation of capital resources, this medium-term target CET1% ratio would rise to c.17%.

Key indicators:
CET1 ratio – 2022: 19.8 % (2021: 20.7 %)
Total capital resources – 2022: £1,146.5m (2021: £1,109.0m)
Leverage ratio (PRA) – 2022: 4.0 % (2021: 3.8 %)

Credit risk

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

Key themes:
Managing the profile of lending to new and existing customers is key to the ongoing management of the Group's exposure to credit risk. This involves the continual optimisation of its strategies across all portfolios, using both internal and external customer performance data, as well as ensuring the appropriate oversight of their performance.

Retail secured and unsecured portfolios – The Group's strategy continues to focus on growth in new mortgage business volumes principally through mortgage intermediaries. Nevertheless, the Group recognises that it remains heavily reliant on interest income from its mortgage portfolio and is therefore still committed to seeking opportunities to diversify its income streams and yield whilst remaining cognisant of the credit implications of this approach. The monitoring of the unsecured portfolio is a key risk focus of the Group, especially given prevailing macroeconomic conditions. In response to this, the Group has instigated an unsecured cost of living task force to review key components of customer management, arrears strategies and processes to ensure they remain fit for purpose throughout 2023. In addition to this, a suite of new unsecured stress early warning indicators have been developed in order to more closely monitor potential changes to the Group's asset quality.

Key risks in 2022 and moving into 2023 relate to the macroeconomic impacts from rising inflation and heightened interest rates; especially for those customers coming off their existing fixed rates. Unemployment is also likely to increase in 2023, and all these factors could lead to more customers facing financial difficulty or falling into arrears. The annual affordability calculator refresh has incorporated rising costs into the affordability calculation for new secured and unsecured credit applications.

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

Whilst the Group's portfolio is low risk and underpinned by robust credit strategies, the cost of living crisis is impacting everyone across the UK, and we have undertaken an updated affordability assessment of our Platform residential secured portfolio to understand what impact the rising cost of living as well as rate increases for customers with rate maturities in 2024 and 2025 will have to their household disposable income. This has enabled us to identify those customers most at risk of falling into a negative disposable income position and therefore needing support. Positively, as the charts below show, the average level of disposable income for the current portfolio is £1,261 per month and 93 % of these customers have a disposable income estimated to be more than £250, based on their current mortgage rate. Applying a rate shock to customers with products maturing in the next 2 years, average disposable income reduces to £1,060 per month (maturing in 2023) and £1,036 (maturing in 2024). Customers considered "at risk" based on their refreshed net disposable income (less than minus £100) have been profiled compared to those not at risk. Additionally, in cases where such customers had both a disposable income of <£250, and an LTV of >50 %, a stage 2 SICR transfer was applied. Importantly, from a loss perspective, there were no customers maturing before 2025 with both an LTV higher than 90 % and identified as being "at risk".

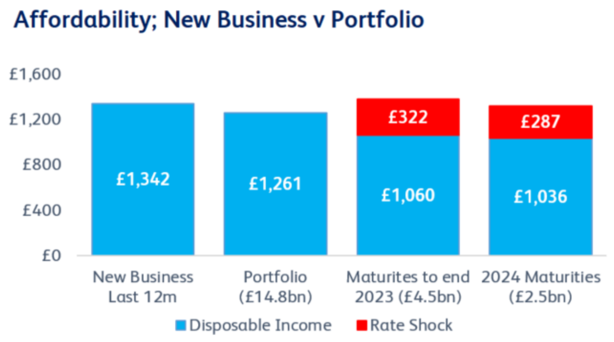


Figure 1.1 - Disposable income: New Business and Estimated Portfolio Average

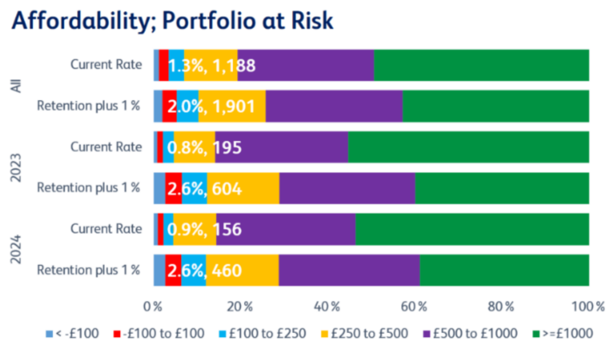


Figure 1.2 - Portfolio: Assessed Disposable Income* (% / vol <-£100)

Note: Rate shock calculated for maturities up to the end of 2024 at current rates +1% (5.68-5.99%). Analysis considers Platform Residential mortgages only due to availability of more recent, detailed application data

The Group also tracks a series of early warning indicators specifically relating to the cost of living crisis, and whilst there are currently no concerning trends, there are some areas that require close monitoring due to normalising spending habits as the UK comes out of the COVID-19 pandemic.

To support customers facing financial difficulty earlier, the Group operates a pre-arrears contact strategy to unsecured customers, with roll out recently begun for secured. 95% LTV lending has been managed through higher score cut-offs and restricting flats/maisonettes as acceptable collateral. A significant proportion of 95% LTV applications are also reviewed by the Group's underwriting team. The Group's secured portfolio is slightly less exposed to both river/sea and surface flood risk when compared to the UK property portfolio as a whole. In addition, the risk to the Group's secured portfolio from subsidence is also slightly lower than the UK as a whole.

Emerging risks:
The housing market has continued to remain buoyant in 2022, however there are signs house price growth is slowing as we go into 2023 and this will be closely monitored.

There is a risk that the cost of living crisis and an increasing interest rate environment will result in customers being unable to sustain their credit obligations. To date, the Group's secured and unsecured assets remain high quality, with arrears volumes remaining low and stable.

Although our criteria on lending against high rise properties has meant limited exposure to cladding issues across our mortgage portfolios, we continue to monitor ongoing developments and to take actions to mitigate our risks as required.

SME portfolio – The SME portfolio offers significant future growth potential within chosen sectors, and the focus during 2022 has been on developing the Risk Management Framework to support a selective growth strategy, combined with continuing to closely monitor the existing portfolio as customers re-establish their businesses within a post-COVID-19 environment.

Customers within the SME portfolio that are experiencing financial difficulties are being supported with tailored forbearance solutions where appropriate, as they attempt to manage their businesses during a period of economic instability and uncertainty. Proactive engagement with customers, including those with Bounce Back loan (BBLs) scheme and Coronavirus Business Interruption Loan Scheme (CBILS) facilities has so far minimised any material increase in those necessitating recovery action. This will remain an area of close scrutiny, as a prolonged economic downturn may mean increased uncertainty around the longer term viability of SME businesses.

SME customers are having to manage the impact of rising inflation, higher interest rates and the need to increase wages against a backdrop of high employment and a shortage of skills in some sectors. We have further developed the use of internal and external Early Warning Indicator reports to support close monitoring and ensure that strategies are in place to identify and contact 'at risk' customers. Where vulnerability is identified, adjustments are made, as necessary, to support the best outcome for the customer.

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

During 2022, there has been an increased focus on affordability assessments throughout the loan lifecycle and a robust sensitivity analysis undertaken at origination to account for rising costs and interest rates. Training has been undertaken in 1st and 2nd line teams relating to the identification of early warning indicators that may suggest financial difficulty and also around the importance of prompt signposting of customers to external sources of advice.

Emerging risks:
Where SME businesses are not able to pass on the impact of rising costs to their own customers, it is expected that there will be an increase in businesses failing. This may be exacerbated by those government loan scheme customers that have exhausted the Pay as You Grow solutions that have been available to them. All attempts at early intervention will continue so that flexibility may be made available for viable businesses. In this regard, resourcing levels of business support teams will remain under review to ensure we are able to meet this increasing challenge in the year ahead.

Treasury – The Group's treasury portfolio is held primarily for liquidity management purposes and, in the case of derivatives, for the purpose of managing market risk. The Group monitors the risk to earnings and capital arising as a result of any of its treasury counterparties defaulting on their legal and/or contractual obligations through its Treasury Credit Risk Policy and Control Standards.

There have been minimal movements (including credit rating downgrades) in the low-risk profile of the treasury portfolio during the year and the Group has not experienced any historical defaults. The exposures remain predominantly concentrated to counterparties rated AA- or higher, suggesting a very low probability of default. The Group's credit monitoring has not identified any material changes in the creditworthiness of its treasury counterparties despite recent geopolitical tension, macroeconomic and market instability manifesting through the early signs of global recession, although this will continue to be monitored closely as the impacts may materialise in the medium to long term.

Mitigating actions:
Credit risk is managed within an agreed set of risk appetite measures for each portfolio, which are monitored through a clearly defined Risk Management Framework. All credit exposure mandates are approved within a clearly defined credit approval authority framework. Regular monitoring of rating actions, market events and financial results must be undertaken and counterparties may be placed on the Watchlist: a list of counterparties that require additional management focus over and above that provided in the normal course of business. This could be due to an actual default, an increased likelihood of default or an event that has the potential to result in a marked change in risk profile.

Emerging risks:
Current macroeconomic and market instabilities represent a challenging external environment for all banks, globally. Potential headwinds to future performance may translate to increased credit risk in the future. This is particularly relevant to UK banks where significant market reaction following the government's controversial mini-budget in October (albeit somewhat calmed since the immediate fall-out), has fuelled record levels of inflation, applying further pressure to household finances and the cost-bases of many businesses which could impact the asset quality of a number of banks in the UK and cause deterioration in institution credit quality. Expanding interest margins and strong balance sheets observed by market commenters are generally expected to counter the impact of economic slowdown and cushion an expected rise in problem loans.

Key indicators:
Impairment charge: £6.4m (2021: £1.1m)
Core mortgage accounts 3 months in arrears (by balance): 0.09% (2021: 0.09%)

Liquidity and funding risk

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

Key themes:
The Group maintained a strong level of liquidity through 2022 against regulatory minimum, but also recognising the potential for changes in customer profiles and market conditions given the uncertain economic backdrop. The BoE liquidity support to the industry through TFSME has provided the Group with an additional funding source to support its lending activities, funding profile and liquidity resources.

The Group remains predominantly customer-funded, with strong retail and SME deposit franchises. Customer behaviour and balances have remained relatively stable despite emerging cost of living challenges and rising rate environment. We have responded to base rate rises by increasing customer rates across our deposit range (on sale and closed products), ensuring all customers receive higher interest on their balances.

Wholesale funding comprises secured and unsecured debt issuances as well as participation in the BoE TFSME. The availability of TFSME, alongside strong customer deposit performance, has continued to reduce the Group's wholesale funding activity in 2022, with the only activity being an MREL transaction to support the Group's capital resources.

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

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

Emerging risks:
Whilst the Group's liquidity and funding position is strong, we recognise that cost of living challenges, rising rate environment and market volatility relating to broader economic, domestic and geopolitical factors may impact the level of liquidity and funding risk in the future. The impact of wholesale market conditions on the Group's liquidity and funding position is limited as we have maintained surplus liquidity following use of TFSME in 2021. Given the strength of its liquidity, the Group plans to make initial TFSME repayments without reliance on wholesale market intervention, in turn minimising potential risks to NIMs and the Group's existing funding base. The Group recognises the potential for uncertainty in customer behaviour as the economic situation evolves, considering such risks in its management of liquidity resources.

Key indicators:
Loan to deposit ratio: 104.1 % (2021: 99.1 %). The Group's loan to deposit ratio has increased in 2022 as it has continued to support customer lending and manage its deposit base.
Primary liquidity resources: £5,586.9m (2021: £5,924.0m). While the Group has maintained an elevated level of liquidity through 2022, primary liquidity resources have reduced compared to 2021 where the year end position included TFSME drawings.
Liquidity Coverage Ratio: 265.3 % (2021: 205.3 %). LCR maintained significantly above regulatory minimum.

Market risk

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

Key themes:
The Group's business model and market risk framework mean that its main exposure to market risk is through potential mismatches in the profiles of customer assets and deposit liabilities. Underlying economic uncertainties and market volatilities have continued to present challenging conditions in which to manage the Group's market risk exposures. Market risks associated with fixed term mortgages are a continued area of focus, including managing pipeline risk and monitoring prepayment behaviour. We have established a new structural hedge in 2022, reflecting that a proportion of our demand savings balances are evidenced to be non-sensitive to interest rates. Alongside existing hedge structures for current accounts and other non-interest bearing balances, this provides additional natural hedge to mortgage origination, and a smoother income profile, while acknowledging the lag effect of the investment profile in the current rising rate environment.

Mitigating actions:
The Group has a clear market risk framework, with risk limits in place to monitor and manage exposures and impacts of market movements. The Group seeks to hedge market risks where appropriate, including matching of assets and liabilities where appropriate, as well as use of derivative instruments (interest rate swaps) to manage remaining exposures. The framework has continued to provide a robust structure in 2022, adapted to changing conditions and continued to appropriately manage the Group's overall exposure to market risk.

Emerging risks:
The Group recognises the potential for further volatility in market conditions, in response to economic and domestic and geopolitical conditions. Specific risks to be managed include customer behaviours across lending products, (particularly with respect to customer repayment options on Bounce Back loans), mortgage prepayment rates, as well as mortgage market conditions and pipeline risk as mortgage markets and performance respond to underlying economic conditions, higher base rate expectations and rate volatility.

The impact of severe events due to changing climate patterns or rapid shifts in climate change-related regulation around the world has the potential to cause sharp adjustments to market prices as well as interest rates and exchange rates. Increased market risk as well as operational risk could also arise as a result of disruption to business services, supply chains and transport links.

Key indicators:
PV01: measures the sensitivity of future cash flows to a one basis point shift in interest rates. See Market risk – section 4.2 on page 149.

Model risk

Definition:
Model risk is the potential for adverse consequences caused by models. Model risk can lead to financial loss, regulatory penalty or fine, poor business or strategic decision-making, incorrect financial reporting, damage to a bank's reputation or adverse customer outcomes.

Key themes and emerging risks:
The Group has permission to adopt the IRB approach for the majority of its exposures, which provides a significant capital benefit to the organisation relative to the Standardised Approach. A robust IRB attestation is completed annually to ensure permission is retained. The Group maintains an active dialogue with the PRA regarding adapting the secured models in line with regulatory expectations of PS11/20. Capital risk implications of major regulatory changes are covered in the capital risk section on page 129. The model remediation programme, instigated in 2022, remains in place with submission of revised models to the PRA anticipated by end of March 2023.

Retail current account and credit card IRB models were implemented in 2022 with new developments for these models planned with PRA submission in 2024, in line with the IRB roadmap wave 4 Basel 3.1 implementation.

The COVID-19 pandemic presented unprecedented conditions that proved challenging to model accurately, particularly in the case of the Group's IFRS 9 models. The Group relied on the use of model adjustments to reflect these challenges. Defaults are expected to increase as the UK enters a prolonged recession and the cost of living crisis continues to manifest; as such the Group continues to rely on post model adjustments (PMAs) to mitigate these risks, reflecting concerns to specific sectors and to address model limitations in the high inflationary environment. Development of second generation IFRS 9 models remains an important priority.

Finally, as part of our close consideration of climate change risks as part of our ongoing strategic planning exercises (described in more detail in our TCFD report on pages 37 to 49), the Group now maintains a modelled solution for assessing these risks across its largest portfolio in retail secured. This model is used to assess the impacts of climate change scenarios on credit losses, capturing both physical and transition climate risks and used for ongoing assessment in ICAAP cycles which informs future financial planning and risk monitoring.

Mitigating actions:
The Group operates a robust model governance framework, including independent model validation of all models, including new models, as well as ongoing monitoring of model performance and periodic risk appetite and policy refreshes.

The Group commits to providing Executive level review and challenge of model risk through its Model Risk Oversight Committee (MROC) which ensures that the model rating systems and material models are operating effectively and the impact of model risks on the Group's business model and strategies is assessed regularly. This also includes oversight of the Group's IRB permissions, including the exemptions where the Group applies the Standardised Approach to calculate Pillar 1 capital requirements.

The Group has in place a mechanism to determine PMAs to adjust impairment stock where it is determined that direct model outputs do not adequately reflect all risks within a portfolio, or subset of a portfolio. To mitigate the risk of capital requirements underestimation as a result of non-compliant IRB models, the Group applies PMAs where necessary.

Emerging risks:
In 2022 the PRA published CP16/22 which lays out the proposal that firms should implement an enhanced Model Risk Management Framework. Whilst the Group is well placed for compliance with the majority of the consultation paper, some refinement of the Group's Model Risk management will be required. Particular focus will be given to the change to the definition of models and hence greater emphasis on the Group's currently defined non-models.

Key indicators:
A range of indicators continue to be used to assess this principal risk. These include, but are not limited to, the number of models that are not IRB compliant, the volume of models rated with a 'Red' RAG status in terms of model performance or rated 'Not Fit for Purpose' following periodic model review.

Pension risk

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

Key themes and emerging risks:
The Group is the Principal Employer of the Bank section of The Co-operative Pension Scheme (Pace) and the Britannia Pension Scheme (BPS). Both schemes remain in surplus on an accounting basis and were also determined to be in surplus on the statutory funding basis at the time of their last completed triennial valuations, as at 2019 and 2020 respectively. We continue to assess the funding and accounting positions of both schemes, with a particular focus on any potential erosion of capital resources due to additional funding requirements.

Risks to the Group arise from the valuation of each scheme on each of the statutory funding and low risk target (a secondary funding measure for Pace) bases, a deterioration in which could give rise to additional cash contributions into the schemes in the future, and the accounting basis, which could give rise to immediate erosion of CET1 resources if the schemes were determined to be in deficit on the accounting basis.

Risks may arise if actual experience differs from the assumptions employed in valuations on each 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. The Group remains cognisant of the potential future impact of climate-related physical or transition risks on pension asset valuations.

There is also a risk that the Group's covenant weakens, potentially resulting in a perceived deterioration in scheme funding and a request from the trustees for additional cash contributions.

In September 2022, the Government announced its 'Growth Plan 2022', which was intended to tackle rising energy costs, bring down inflation and help businesses and households. Market reaction to the announcement led to a sudden and significant rise in interest rates and collateral calls on Liability Driven Investment (LDI) funds, which typically include derivatives. The significant levels of de-risking that the trustees have implemented, in consultation with the Bank, in recent years meant that both Pace and BPS had relatively low levels of leverage, segregated LDI mandates and liquidity available within their LDI funds and across their wider investment portfolios. This meant that the schemes demonstrated resilience and were able to withstand the pressures faced without reduction in the level of hedging or funding level of either scheme.

Mitigating actions:
In December 2022, the Pace Trustee completed a full "buy-in" transaction with Rothesay Life Plc, as specialist UK insurer, to insure scheme benefits through a bulk annuity insurance policy. Through this transaction, and in conjunction with a pre-existing partial "buy-in" with Pension Insurance Corporation plc (PIC) completed in April 2020, this means that the Bank Section of Pace, and by extension the Bank as Principal Employer, is fully insured against the primary investment and longevity risks it is exposed to.

The majority of the BPS' inflation and interest rate risks are hedged through the scheme's LDI strategy, minimising the overall volatility in the scheme. The BPS Trustee monitors leverage and collateral headroom in its segregated LDI portfolio, together with sources of liquidity in its wider portfolio, to ensure the scheme funding level can remain resilient in the face of rising interest rates.

The Group regularly monitors and stresses its pension scheme assets to understand potential for adverse impact of volatilities.

The scheme trustees are responsible for managing pension assets and do so in line with their Responsible Investment policies, taking advice from appointed investment consultants and investment managers. Whilst pension assets are exposed to general market conditions including interest rates, inflation and credit spreads, which could deteriorate under longer-term climate stress, the low-risk liability driven investment strategy, with high levels of interest rate and inflation protection (in BPS) and insurance assets (in Pace), are considered to go some way to mitigating the overall risk to the funding levels of the schemes posed by climate change.

Key indicators:
The schemes are both in a surplus position on an accounting and applicable funding bases. Further information is included in note 30 to the consolidated financial statements.

Reputational risk

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

Key themes:
It is critical to the success of our Plan that reputational risks are identified, managed and mitigated. We continued to maintain a strong 'customer first' culture in 2022 and responding to our customers' needs during the cost of living crisis.

Our Ethical Policy defines how we act as a business, the causes we support and the ways we use (and won't use) our customers' money. We continue to seek the views of our customers via the Ethical Policy which was updated this year, in conjunction with the Bank celebrating 150 years of ethical banking. This latest update to our Ethical Policy reflects the priorities of our changing world and is structured around our customers concerns for our planet, for people and for our communities.

This year also saw the launch of our new advertisement campaign "The Bank you can hold to account", which was positively received. With values and ethics at our core and a unique customer-led Ethical Policy, we are committed to using our customers' money to do good for the planet, people and communities.

Our unwavering commitment to co-operative values and ethics and our unique customer-led Ethical Policy have established us as a leading ambassador in environmental and social issues today. We have been recognised as the UK's best ESG rated high street bank by leading ESG analytics experts, Sustainalytics – our renewed ESG risk rating was 8.3, compared to 9.2 last year. In addition, we have also received an MSCI ESG rating of AAA (improved from an A rating), which reinforces our strong ESG position, and an improved ESG rating from rating agency ISS, who have now awarded us with their 'Prime' ESG label. This means that our tradeable bonds and shares now fall under their 'Responsible Investment' category. We will continue to champion the commitments to our Ethical Policy and drive our credentials within the developing ESG frameworks in 2023.

The Group continues to use the 'co-operative' name as we continue to concentrate on the strong and constructive relationship with Co-operative UK. The Group demonstrates its commitment to the co-operative values through our partnership with The Hive which began in 2016 and the programme has already helped over 1,000 new and existing co-operatives and groups. Through our partnership, we are helping to build a resilient and successful co-operative economy. We have invested £2m into this programme since our partnership began and this has led to positive feedback from Co-operatives UK. The Group can experience media coverage and social media content relating to matters such as speculation relating to the Group's ownership, call wait times in the contact centre and digital outages. The Group continues to focus on the successful delivery of the Plan and supporting our customers.

Mitigating actions:
An active dialogue has been maintained with all key stakeholders throughout the year. The Group continues to invest in channel offerings, including enhancing digital capabilities allowing customers to bank more flexibly and at their own convenience. Investing in technology to improve resilience has remained a focus, whilst utilising multiple communication channels to keep customers informed during outages.

Emerging risks:
Given the high level of scrutiny regarding financial institutions' treatment of customer and business conduct from regulatory bodies, the media and politicians, from time to time the Group may be exposed to conduct issues, legal proceedings and regulatory investigations that could give rise to reputational risk. Where appropriate, the Group discloses such exposures as contingent liabilities in note 31 to the Group and Bank financial statements.

Key indicators:
A range of indicators continue to be used to assess changes in this principal risk. These include, but are not limited to, the number and nature of reputational risks, social media sentiment and adverse Ombudsman decisions made against the Group.

1.9 RISK PROFILE OF THE GROUP

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

Retail	**Business activities:** • Deposits • Lending to retail (secured, credit cards and overdrafts)	**Loans and advances to customers (L&A to customers)[1] (£m)** 19,890.2	**RWAs (£m)** Credit risk: 3,142.6 Operational risk: 394.1
SME	**Business activities:** • Corporate lending including business banking • Deposits to the SME sector	**L&A to customers[1] (£m)** 385.3	**RWAs (£m)** Credit risk: 195.1 Operational risk: 119.3
Legacy and central	**Business activities:** • Closed books of corporate, unsecured and residential (Optimum) lending and all treasury-related activity. Activity relating to bank-wide operations or not associated with a particular segment.	**L&A to customers[1] (£m)** 646.4 **Other assets[2] (£m)** 1,864.0	**RWAs (£m)** Credit risk L&A: 364.8 Non-customer assets[3]: 610.4 Operational risk: (10.1)

1. L&A to customer balances include other accounting adjustments and total £20,921.9m (2021: £21,002.1m) as disclosed in note 14 to the Group and Bank financial statements.
2. Combination of loans and advances to banks, investment securities, derivative financial instruments and other assets.
3. RWAs include central items such as treasury, other assets and deferred tax assets.

2. CAPITAL RISK

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

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

The strategic report and the 2022 Pillar 3 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 (within the UK), and customer segments.

3.1.1 Credit exposure
The Group quantifies its exposure to credit risk via the calculation of expected credit losses (ECLs) on a forward-looking basis for certain financial instruments and exposures related to loan commitments and financial guarantee contracts – further information on the policies adopted in the quantification of the Group's ECLs is outlined in the Explanatory Information section and specific judgements made by the Group (e.g. use of forward-looking information and post-model adjustments) are disclosed in note 2 to the Group and Bank financial statements.

The table below reconciles the Group's drawn and undrawn credit exposures subject to ECL assessment to accounting balances across statutory balance sheet reporting lines:

(audited) 31 December 2022	Loans and advances to banks	Loans and advances to customers	Investment securities	Derivative financial instruments	Other assets	Total
Risk management section	3.2.3	3.2.1	3.2.2	3.2.4	3.2.6	
Note in Group and Bank financial statements	13	14	15	16	18	
Analysis of credit risk exposure						
Gross accounting balances	387.1	20,962.2	942.7	520.1	14.3	**22,826.4**
Less: accounting adjustments[1]	-	(83.2)	-	-	-	**(83.2)**
Gross customer balances	387.1	20,879.0	942.7	520.1	14.3	**22,743.2**
Credit commitments	-	1,989.1	-	-	-	**1,989.1**
Gross customer exposure	**387.1**	**22,868.1**	**942.7**	**520.1**	**14.3**	**24,732.3**
Less customer balances measured at FVTPL[1]	-	(95.0)	(3.0)	(520.1)	-	**(618.1)**
Net customer exposure subject to ECL calculation	**387.1**	**22,773.1**	**939.7**	**-**	**14.3**	**24,114.2**
Allowance for losses						
Collectively modelled ECL	-	12.0	-	-	0.1	**12.1**
Individually assessed ECL	-	3.7	-	-	-	**3.7**
Judgemental adjustment	-	23.1	-	-	-	**23.1**
Operational adjustment	-	1.5	-	-	0.1	**1.6**
Total ECL	**-**	**40.3**	**-**	**-**	**0.2**	**40.5**

1. Accounting adjustments include the FV element above the customer balance amount for those loans measured at FVTPL.

(audited) 31 December 2021	Loans and advances to banks	Loans and advances to customers	Investment securities	Derivative financial instruments	Other assets	Total
Risk management section	3.2.3	3.2.1	3.2.2	3.2.4	3.2.6	
Note in Group and Bank financial statements	13	14	15	16	18	
Analysis of credit risk exposure						
Gross accounting balances	191.5	21,039.5	1,201.4	248.5	12.8	**22,693.7**
Less: accounting adjustments[1]	-	(99.0)	-	-	-	**(99.0)**
Gross customer balances	191.5	20,940.5	1,201.4	248.5	12.8	**22,594.7**
Credit commitments	-	2,059.5	-	-	-	**2,059.5**
Gross customer exposure	**191.5**	**23,000.0**	**1,201.4**	**248.5**	**12.8**	**24,654.2**
Less customer balances measured at FVTPL[1]	-	(102.9)	(2.5)	(248.5)	-	**(353.9)**
Net customer exposure subject to ECL calculation	**191.5**	**22,897.1**	**1,198.9**	**-**	**12.8**	**24,300.3**
Allowance for losses						
Collectively modelled ECL	-	9.7	-	-	0.1	**9.8**
Individually assessed ECL[2]	-	2.5	-	-	-	**2.5**
Judgemental adjustment	-	24.6	-	-	-	**24.6**
Operational adjustment	-	0.6	-	-	-	**0.6**
Total ECL	**-**	**37.4**	**-**	**-**	**0.1**	**37.5**

1. Accounting adjustments include the FV element above the customer balance amount for those loans measured at FVTPL.
2. Includes £1.9m credit adjustment to a FVTPL loan that has been presented as a loss allowance to provide a fuller picture of the Group's expected credit losses.

All exposures except those within loans and advances to customers are categorised as stage 1 (2021: stage 1) and none of these exposures transferred between stages during the year. The exposures within loans and advances to customers are analysed further in the credit risk management section below.

3.2 Credit risk management

3.2.1 Loans and advances to customers

Loans and advances to customers make up the vast majority of the Group's credit risk exposure. These exposures are concentrated solely within the UK (see section 4 - Market risk for further information on the foreign currency balances) and are managed and reported internally within the following business segments;

- Retail – further categorised into secured residential and unsecured products;
- SME; and
- Legacy and central – primarily legacy corporate loans.

Below is a summary of the exposures within loans and advances to customers analysed by business segment.

(audited) 31 December 2022	Core Retail	Core SME	Legacy & central items	Total
Risk management section	3.2.1.1	3.2.1.2	3.2.1.3	
Analysis of credit risk exposure				
Gross accounting balances	19,918.3	393.2	650.7	20,962.2
Less: accounting adjustments[1]	(77.0)	(5.0)	(1.2)	(83.2)
Gross customer balances	19,841.3	388.2	649.5	20,879.0
Credit commitments	1,826.6	127.5	35.0	1,989.1
Gross customer exposure	**21,667.9**	**515.7**	**684.5**	**22,868.1**
Less customer balances measured at FVTPL[1]	(1.6)	(2.9)	(90.5)	(95.0)
Net customer exposure subject ECL to calculation	**21,666.3**	**512.8**	**594.0**	**22,773.1**
Allowance for losses				
Collectively modelled ECL	9.8	0.8	1.4	12.0
Individually assessed ECL	-	1.3	2.4	3.7
Judgemental adjustment	18.0	4.8	0.3	23.1
Operational adjustment	0.3	1.0	0.2	1.5
Total ECL	**28.1**	**7.9**	**4.3**	**40.3**

1. Accounting adjustments include the FV element above the customer balance amount for those loans measured at FVTPL.

(audited) 31 December 2021	Core Retail	Core SME	Legacy & central items	Total
Risk management section	3.2.1.1	3.2.1.2	3.2.1.3	
Analysis of credit risk exposure				
Gross accounting balances	19,833.3	445.1	761.1	21,039.5
Less: accounting adjustments[1]	(77.3)	(3.4)	(18.3)	(99.0)
Gross customer balances	19,756.0	441.7	742.8	20,940.5
Credit commitments	1,846.7	93.0	119.8	2,059.5
Gross customer exposure	**21,602.7**	**534.7**	**862.6**	**23,000.0**
Less customer balances measured at FVTPL[1]	(1.6)	(3.7)	(97.6)	(102.9)
Net customer exposure subject ECL to calculation	**21,601.1**	**531.0**	**765.0**	**22,897.1**
Allowance for losses				
Collectively modelled ECL	7.5	0.7	1.5	9.7
Individually assessed ECL[2]	-	1.6	0.9	2.5
Judgemental adjustment	17.8	4.2	2.6	24.6
Operational adjustment	0.2	0.2	0.2	0.6
Total ECL	**25.5**	**6.7**	**5.2**	**37.4**

1. Accounting adjustments include the FV element above the customer balance amount for those loans measured at FVTPL.
2. Includes £1.9m credit adjustment to a FVTPL loan that has been presented as a loss allowance to provide a fuller picture of the Group's expected credit losses.

3.2.1.1 Retail - secured residential mortgage and unsecured credit risk

The retail business segment is comprised of two main portfolios:

- Retail secured – predominantly prime residential and buy-to-let (BTL) mortgages; and
- Retail unsecured – comprised of two sub-portfolios of credit cards and overdrafts.

Movement in gross customer exposure and allowance for losses

The tables below reconcile the opening and closing credit risk exposure and allowance for losses by stage (including assets Purchased or Originated Credit Impaired (POCI)). Stage transfers have been disclosed on the basis of the underlying exposure's staging at the beginning and end of the year only (e.g. if a case transferred from stage 1 to stage 2 and then returned to stage 1 during the year, the stage transfer would not be captured in the below).

(audited) Gross customer exposure	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2022	20,979.7	501.3	49.5	70.6	**21,601.1**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(3,185.9)	3,185.9	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	(18.2)	(9.0)	27.2	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	138.2	(138.2)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	4.0	3.9	(7.9)	-	**-**
Net changes arising from stage transfers	**(3,061.9)**	**3,042.6**	**19.3**	**-**	**-**
Other changes:					
New assets originated or purchased	3,441.1	-	-	-	**3,441.1**
Other changes to risk parameters	37.2	0.1	0.1	-	**37.4**
Redemptions and repayments	(3,291.5)	(89.7)	(16.3)	(11.3)	**(3,408.8)**
Net increases/(decreases) in exposure	**(2,875.1)**	**2,953.0**	**3.1**	**(11.3)**	**69.7**
Assets written off	(1.4)	(1.2)	(1.8)	(0.1)	**(4.5)**
Gross exposure at 31 December 2022	**18,103.2**	**3,453.1**[1]	**50.8**[2]	**59.2**	**21,666.3**

1. Reasons for stage 2 classification, 44 % quantitative SICR triggers (primarily PD deterioration), 3 % qualitative SICR triggers and 53 % staging overide SICR triggers.
2. Of stage 3 balances, 70 % in active default and 30 % in a cure period.

(audited) Gross customer exposure	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2021	18,272.6	1,226.6	55.2	84.8	**19,639.2**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(237.5)	237.5	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	(11.1)	(12.9)	24.0	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	756.0	(756.0)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	6.5	3.9	(10.4)	-	**-**
Net changes arising from stage transfers	**513.9**	**(527.5)**	**13.6**	**-**	**-**
Other changes:					
New assets originated or purchased	5,402.6	-	-	-	**5,402.6**
Other changes to risk parameters	(310.3)	-	-	-	**(310.3)**
Redemptions and repayments	(2,897.6)	(196.2)	(17.6)	(14.2)	**(3,125.6)**
Net increases/(decreases) in exposure	**2,708.6**	**(723.7)**	**(4.0)**	**(14.2)**	**1,966.7**
Assets written off	(1.5)	(1.6)	(1.7)	-	**(4.8)**
Gross exposure at 31 December 2021	**20,979.7**	**501.3**[1]	**49.5**[2]	**70.6**	**21,601.1**

1. Reasons for stage 2 classification, 74 % quantitative SICR triggers (primarily PD deterioration), 25 % qualitative SICR triggers and 1 % backstop SICR triggers.
2. Of stage 3 balances, 65 % in active default and 35 % in a cure period.

The key changes in gross customer exposure and associated ECL between stages 1 and 2 during the year are broadly driven by the replacement of the Platform overlay with the more targeted historical data confidence PMA, the removal of the majority of remaining COVID-19 PMAs and the introduction of PMAs focused on specific affordability risks alongside the worsening economic impact on the model including lower HPI. Further details can be found in section 2.2.1 Estimation of expected credit losses.

(audited) Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2022	19.2	2.2	4.0	0.1	**25.5**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(4.7)	13.9	-	-	**9.2**
To credit impaired (stage 1 or 2 to 3)	-	(0.1)	2.2	-	**2.1**
To 12 month ECL (stage 2 or 3 to 1)	-	(0.5)	-	-	**(0.5)**
From credit impaired (stage 3 to 2 or 1)	-	0.1	(0.4)	-	**(0.3)**
Net changes arising from stage transfers	**(4.7)**	**13.4**	**1.8**	**-**	**10.5**
Other charges/(releases):					
New assets originated or purchased	4.6	-		-	**4.6**
Other changes to risk parameters	(6.9)	1.2	0.1	0.1	**(5.5)**
Redemptions and repayments	(2.7)	(0.3)	(0.7)	-	**(3.7)**
Net income statement charge/(release)	**(9.7)**	**14.3**	**1.2**	**0.1**	**5.9**
Assets written off	(1.0)	(1.0)	(1.3)	-	**(3.3)**
Loss allowance at 31 December 2022	**8.5**	**15.5**	**3.9**	**0.2**	**28.1**
Coverage ratio	**0.0%**	**0.4%**	**7.7%**	**0.3%**	**0.1%**

(audited) Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2021	17.2	7.7	4.2	0.2	**29.3**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(0.3)	1.3	-	-	**1.0**
To credit impaired (stage 1 or 2 to 3)	(0.1)	(0.3)	2.5	-	**2.1**
To 12 month ECL (stage 2 or 3 to 1)	0.9	(4.4)	-	-	**(3.5)**
From credit impaired (stage 3 to 2 or 1)	-	-	(0.5)	-	**(0.5)**
Net changes arising from stage transfers	**0.5**	**(3.4)**	**2.0**	**-**	**(0.9)**
Other charges/(releases):					
New assets originated or purchased	6.2	-	-	-	**6.2**
Other changes to risk parameters	(1.2)	0.1	-	-	**(1.1)**
Redemptions and repayments	(2.4)	(0.9)	(0.8)	(0.1)	**(4.2)**
Net income statement charge/(release)	**3.1**	**(4.2)**	**1.2**	**(0.1)**	**-**
Assets written off	(1.1)	(1.3)	(1.4)	-	**(3.8)**
Loss allowance at 31 December 2021	**19.2**	**2.2**	**4.0**	**0.1**	**25.5**
Coverage ratio	**0.1%**	**0.4%**	**8.1%**	**0.1%**	**0.1%**

3.2.1.1.1 Retail - secured residential mortgages

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

Origination and account management

Mortgages are loans to customers secured by a first charge over a residential property. Under the Group's current business model, the vast majority of new mortgages are originated via intermediaries under the Platform brand. Of the mortgage completions (including ports) in the year to 31 December 2022, 98.9% (2021: 98.4%) were originated through intermediaries and 1.1% (2021: 1.6%) were further advances or variations associated with historically advanced direct business.

The Group primarily advances a combination of prime residential and buy-to-let mortgages. Historically, these loans have been advanced on a capital repayment basis, where the loan is repaid over the term of the loan, or interest-only, where the capital element of the loan is repayable only at the end of the term. All new advances since 2012 are on a capital repayment basis with the exception of BTL lending and existing interest-only loans for customers moving home.

All POCI cases are historical (mainly through the Britannia acquisition) and it is not the Group's practice to generate Retail POCI assets.

During the term of the mortgage, interest-only mortgages are managed in the same way as capital repayment mortgages, however the Group has communication strategies in place to remind customers that they must ensure they have a satisfactory repayment plan in place on loan maturity.

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

The value of new completions in the year, together with associated average LTVs and interest-only percentage is shown below.

(unaudited)	2022			2021		
Origination	Advanced amount	Average LTV %	Interest-only %	Advanced amount	Average LTV %	Interest-only %
Britannia and Co-operative Bank prime	**36.4**	**52.3**	**2.8**	84.3	55.3	3.3
Platform prime	**2,962.7**	**72.4**	**-**	4,843.3	74.2	-
Total prime residential	**2,999.1**	**72.1**	**0.1**	4,927.6	73.9	0.1
Buy-to-let	**191.3**	**56.1**	**69.7**	237.5	59.5	68.1
Total completions (including ports)	**3,190.4**	**71.2**	**4.3**	5,165.1	73.3	3.2

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

(audited) Origination by age	2022	2021
<1 year	**3,190.4**	5,137.0
1-4 years	**9,909.7**	8,727.4
4-7 years	**4,209.0**	3,309.1
7+ years	**2,295.2**	2,334.4
Total	**19,604.3**	**19,507.9**

Portfolio analysis

The following tables show the secured retail residential balances analysed by a number of key risk metrics that the Group uses to monitor its credit risk exposure.

Loan-to-value (LTV) and repayment type

The table shows gross customer balances analysed by indexed LTV bandings and repayment type. The book has grown by £0.1bn over the year along with a movement into the less than 50 % LTV band. The proportion of interest-only mortgages has declined by 1.1 % to 8.8 %, with the majority of interest-only mortgages being buy-to-let.

(audited)	2022			2021		
LTV %	Capital repayment	Interest-only	Total	Capital repayment	Interest-only	Total
Less than 50 %	**6,641.3**	**1,118.0**	**7,759.3**	5,441.7	1,046.8	6,488.5
50 % to 60 %	**3,508.8**	**432.4**	**3,941.2**	2,957.7	539.1	3,496.8
60 % to 70 %	**3,747.7**	**160.3**	**3,908.0**	3,651.4	284.8	3,936.2
70 % to 80 %	**2,864.8**	**15.3**	**2,880.1**	3,481.3	62.4	3,543.7
80 % to 90 %	**974.8**	**0.9**	**975.7**	1,900.7	2.6	1,903.3
90 % to 100 %	**138.9**	**0.2**	**139.1**	137.4	0.8	138.2
Greater than or equal to 100 %	**0.6**	**0.3**	**0.9**	0.4	0.8	1.2
	17,876.9	**1,727.4**	**19,604.3**	17,570.6	1,937.3	19,507.9

The contractual maturities of the interest-only balances are shown below.

(unaudited)	< 1 year	1-5 years	5-10 years	10-20 years	20+ years	Total
2022	**37.8**	**210.7**	**439.9**	**804.4**	**234.6**	**1,727.4**
2021	52.4	249.9	486.9	882.9	265.2	1,937.3

Mortgage type

The table below shows gross customer balances for mortgages analysed by lending type. The growth in mortgages has been in prime residential mortgages, with a limited net decline in buy-to-let. There has been a decrease in the average LTV with mortgage lending.

(unaudited)	2022			2021		
	Gross customer balance	Average LTV %	Interest only %	Gross customer balance	Average LTV %	Interest only %
Prime residential	**18,178.2**	**54.0**	**3.1**	18,054.7	57.3	4.1
Buy-to-let	**1,395.2**	**47.2**	**81.5**	1,416.0	51.4	82.8
Self-certified	**20.4**	**30.9**	**92.8**	25.7	34.0	92.6
Almost prime	**8.5**	**28.3**	**35.6**	10.2	31.5	35.4
Non-conforming	**2.0**	**47.4**	**76.1**	1.3	58.3	18.8
	19,604.3	**53.5**	**8.8**	19,507.9	56.8	9.9

UK regional distribution

The table below shows the analysis of LTVs and gross customer balances by UK regions (Economic Planning Regions). The London and South East remains the largest regional sector with all LTV's declining over the year.

(audited)	2022		2021	
	£m	LTV %	£m	LTV %
London & South East	**7,546.7**	**53.7**	7,470.1	56.4
Northern England	**4,504.4**	**54.2**	4,459.9	58.0
Midlands & East Anglia	**4,054.0**	**52.5**	4,103.2	56.4
Wales & South West	**2,412.2**	**52.0**	2,390.9	56.0
Other	**1,087.0**	**55.5**	1,083.8	57.6
	19,604.3	**53.5**	19,507.9	56.8

Collateral

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

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

The table below analyses the indexed value of property collateral (capped at 100 % of LTV) held against the retail residential secured book.

(audited)	2022				2021			
IFRS 9 stage	Gross customer exposure	Collateral	Cover %	Loss allowance	Gross customer exposure	Collateral	Cover %	Loss allowance
Stage 1	**16,897.3**	**16,897.3**	**100.0**	**5.7**	19,691.3	19,691.3	100.0	16.2
Stage 2	**3,406.5**	**3,406.3**	**100.0**	**10.6**	478.7	478.6	100.0	0.4
Stage 3	**46.4**	**46.4**	**100.0**	**0.2**	44.8	44.8	100.0	0.2
POCI	**56.4**	**56.4**	**100.0**	**-**	67.4	67.4	100.0	-
	20,406.6	**20,406.4**	**100.0**	**16.5**	20,282.2	20,282.1	100.0	16.8

Risk grade (PDs)

The table below analyses the credit risk exposure by PD of retail secured mortgages. All PDs are calculated using the Internal Ratings Based (IRB) approach under CRD IV (12-month PDs). The risk distribution has reduced between the periods with the vast majority of the book with a grade under 1 %.

(audited) 2022 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
≤ 0.04 %	-	-	-	-	**-**
> 0.04 % ≤ 0.07 %	8,355.5	649.2	0.6	13.5	**9,018.8**
> 0.07 % ≤ 0.31 %	292.8	9.7	-	4.4	**306.9**
> 0.31 % ≤ 1.00 %	8,055.5	2,314.2	1.4	31.0	**10,402.1**
> 1.00 % ≤ 3.00 %	169.3	330.3	1.3	1.4	**502.3**
> 3.00 % ≤ 15.32 %	3.6	70.5	0.4	1.6	**76.1**
> 15.32 % ≤ 100.00 %	20.6	32.6	10.9	2.1	**66.2**
= 100.00 %	-	-	31.8	2.4	**34.2**
Gross customer exposure	**16,897.3**	**3,406.5**	**46.4**	**56.4**	**20.406.6**
Less: allowance for losses	(5.7)	(10.6)	(0.2)	-	**(16.5)**
Net customer exposure	**16,891.6**	**3,395.9**	**46.2**	**56.4**	**20,390.1**

(audited) 2021 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
≤ 0.04 %	-	-	-	-	-
> 0.04 % ≤ 0.07 %	7,768.6	120.5	-	15.3	7,904.4
> 0.07 % ≤ 0.31 %	249.4	8.1	-	3.9	261.4
> 0.31 % ≤ 1.00 %	11,175.6	119.0	1.6	38.1	11,334.3
> 1.00 % ≤ 3.00 %	435.4	167.7	1.1	2.6	606.8
> 3.00 % ≤ 15.32 %	43.7	32.4	0.2	2.0	78.3
> 15.32 % ≤ 100.00 %	18.6	31.0	6.8	2.5	58.9
= 100.00 %	-	-	35.1	3.0	38.1
Gross customer exposure	19,691.3	478.7	44.8	67.4	20,282.2
Less: allowance for losses	(16.2)	(0.4)	(0.2)	-	(16.8)
Net customer exposure	19,675.1	478.3	44.6	67.4	20,265.4

Forbearance

Forbearance is when a lender, for reasons relating to the actual or apparent financial stress of a borrower, grants a concession whether temporarily or permanently to that borrower, where the concession may involve restructuring the contractual terms of a debt. Forbearance facilities may be made to customers in arrears or financial difficulty or those unable to meet outstanding financial commitments to the Group. The identification of financial difficulty is a key part of the forbearance process – customers may be identified as potentially in financial difficulty through various customer contact points and can be confirmed through more thorough financial assessment.

The table below analyses secured residential mortgage balances by type of forbearance and the associated loss allowance.

(unaudited) 2022 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Concessions	31.2	17.7	16.5	1.3	**66.7**	**0.2**
Arrangements	2.6	5.3	7.0	1.6	**16.5**	**0.1**
Term extension	0.1	-	0.5	-	**0.6**	**-**
I/O capitalisation/switch	0.8	0.2	0.6	-	**1.6**	**-**
Term expired	-	-	3.5	0.3	**3.8**	**-**
Payment deferral	2.6	2.6	-	0.2	**5.4**	**-**
Deceased grace period	0.3	0.5	5.7	-	**6.5**	**-**
Total forborne balances	**37.6**	**26.3**	**33.8**	**3.4**	**101.1**	**0.3**

(unaudited) 2021 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Concessions	26.8	4.8	16.0	1.5	49.1	0.1
Arrangements	4.6	2.8	6.6	1.9	15.9	-
Term extension	-	-	0.6	-	0.6	-
I/O capitalisation/switch	1.7	0.4	0.1	-	2.2	-
Term expired	-	-	5.0	0.5	5.5	-
Payment deferral	7.0	1.1	0.4	0.3	8.8	-
Deceased grace period	0.7	0.4	5.2	-	6.3	-
Total forborne balances	40.8	9.5	33.9	4.2	88.4	0.1

3.2.1.1.2 Retail - unsecured

The retail unsecured book comprises credit cards and overdrafts.

Origination and account management

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

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

Portfolio analysis

The following table shows unsecured lending gross customer balances and exposures (including undrawn commitments) by product type and associated allowance for losses. The gross customer exposure represents the Group's maximum exposure to credit risk on these assets. Drawn balances have seen a minimal reduction over the year alongside the undrawn exposure. However, worsening economics and affordability measures have seen the ECL increase on both credit cards and overdrafts.

(audited)	Gross customer balance		Gross customer exposure		Allowance for losses	
	2022	2021	2022	2021	2022	2021
Credit cards	225.4	235.8	1,074.7	1,126.8	7.5	5.6
Overdrafts	11.6	12.3	185.0	192.1	4.1	3.1
	237.0	248.1	1,259.7	1,318.9	11.6	8.7

Risk grade (PD)

The table below analyses the credit risk exposure by PD of retail unsecured products. All PDs are calculated using the Internal Ratings Based (IRB) approach under CRD IV (12-month PDs). The majority of the book is in grades under 1 %.

(audited) 2022 Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
≤ 0.04 %	132.8	0.7	-	-	**133.5**
> 0.04 % ≤ 0.07 %	91.9	0.1	-	-	**92.0**
> 0.07 % ≤ 0.12 %	-	-	-	-	**-**
> 0.12 % ≤ 0.31 %	719.7	2.1	-	-	**721.8**
> 0.31 % ≤ 0.50 %	122.9	3.6	-	0.5	**127.0**
> 0.50 % ≤ 1.00 %	11.6	0.8	-	-	**12.4**
> 1.00 % ≤ 5.00 %	93.7	11.3	-	1.2	**106.2**
> 5.00 % ≤ 10.00 %	2.4	1.0	-	-	**3.4**
> 10.00 % ≤ 20.00 %	30.6	25.8	-	1.1	**57.5**
> 20.00 % ≤ 50.00 %	0.3	0.6	-	-	**0.9**
> 50.00 % < 100.00 %	-	0.6	-	-	**0.6**
100.00 %	-	-	4.4	-	**4.4**
Gross customer exposure	**1,205.9**	**46.6**	**4.4**	**2.8**	**1,259.7**
Less: allowance for losses	(2.8)	(4.9)	(3.7)	(0.2)	**(11.6)**
Net customer exposure	**1,203.1**	**41.7**	**0.7**	**2.6**	**1,248.1**

(audited) 2021 Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
≤ 0.04 %	68.6	-	-	-	**68.6**
> 0.04 % ≤ 0.07 %	-	-	-	-	**-**
> 0.07 % ≤ 0.12 %	349.6	-	-	-	**349.6**
> 0.12 % ≤ 0.31 %	201.7	0.1	-	0.1	**201.9**
> 0.31 % ≤ 0.50 %	410.1	0.2	-	1.0	**411.3**
> 0.50 % ≤ 1.00 %	75.3	0.4	-	-	**75.7**
> 1.00 % ≤ 5.00 %	162.9	9.0	-	1.8	**173.7**
> 5.00 % ≤ 10.00 %	19.5	7.4	-	0.3	**27.2**
> 10.00 % ≤ 20.00 %	0.4	2.6	-	-	**3.0**
> 20.00 % ≤ 50.00 %	0.3	2.4	-	-	**2.7**
> 50.00 % < 100.00 %	-	0.5	-	-	**0.5**
100.00 %	-	-	4.7	-	**4.7**
Gross exposure	**1,288.4**	**22.6**	**4.7**	**3.2**	**1,318.9**
Less: allowance for losses	(3.0)	(1.8)	(3.8)	(0.1)	**(8.7)**
Net exposure	**1,285.4**	**20.8**	**0.9**	**3.1**	**1,310.2**

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 that they have chosen to represent them. Accounts classified as forborne remain so until the period of financial difficulty has passed and the account has demonstrated it can operate under sustainable terms or ownership is transferred to a third party.

The table below analyses unsecured loan balances by forbearance type and the associated gross allowance for losses coverage.

(unaudited) 2022 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Arrangements	0.1	0.2	0.1	-	**0.4**	**0.1**
Hardship	-	0.1	0.7	-	**0.8**	**0.7**
Temporary reducing overdraft	0.2	0.2	0.9	-	**1.3**	**0.6**
Total forborne exposures	0.3	0.5	1.7	-	**2.5**	**1.4**

(unaudited) 2021 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Arrangements	0.2	0.2	0.2	-	0.6	0.2
Hardship	0.1	0.1	0.7	-	0.9	0.7
Temporary reducing overdraft	0.4	0.1	1.2	-	1.7	0.7
Total forborne exposures	0.7	0.4	2.1	-	3.2	1.6

3.2.1.2 SME credit risk

The SME segment comprises business loans that are considered core to the operation of the Group. There have not been significant movements in gross customer exposure and allowance for losses over the year.

The tables below reconcile the opening and closing credit risk exposure and allowance for losses by stage. Stage transfers have been disclosed on the basis of the underlying exposure's staging at the beginning and end of the year only (e.g. if a case transferred from stage 1 to stage 2 and then returned to stage 1 during the year, the stage transfer would not be captured in the below).

(audited) Gross customer exposure – SME	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2022	114.5	411.4	3.9	1.2	**531.0**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(37.7)	37.7	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	(1.1)	(12.8)	13.9	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	113.9	(113.9)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	-	0.1	(0.1)	-	**-**
Net changes arising from stage transfers	**75.1**	**(88.9)**	**13.8**	**-**	**-**
Other changes:					
New assets originated or purchased	136.8	-	-	-	**136.8**
Other changes to risk parameters	-	-	-	(0.1)	**(0.1)**
Redemptions and repayments	(64.1)	(89.8)	(0.4)	-	**(154.3)**
Net increases/(decreases) in exposure	**147.8**	**(178.7)**	**13.4**	**(0.1)**	**(17.6)**
Assets written off	(0.1)	(0.3)	(0.2)	-	**(0.6)**
Gross exposure at 31 December 2022	**262.2**	**232.4[1]**	**17.1[1]**	**1.1**	**512.8**

1. Reasons for stage 2 classification: 96 % 'at risk sector' staging overlay, 3 % backstop SICR triggers and 1 % quantitative SICR triggers.
2. Of stage 3 balances, 100 % in active default.

(audited) Gross customer exposure – SME	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2021	89.4	455.8	4.0	1.3	**550.5**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(124.3)	124.3	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	(0.1)	(2.2)	2.3	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	30.3	(30.3)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	**-**
Net changes arising from stage transfers	**(94.1)**	**91.8**	**2.3**	**-**	**-**
Other changes:					
New assets originated or purchased	154.8	-	-	-	**154.8**
Other changes to risk parameters	-	-	-	(0.1)	**(0.1)**
Redemptions and repayments	(35.6)	(136.0)	-	-	**(171.6)**
Net increases/(decreases) in exposure	**25.1**	**(44.2)**	**2.3**	**(0.1)**	**(16.9)**
Assets written off	-	(0.2)	(2.4)	-	**(2.6)**
Gross exposure at 31 December 2021	**114.5**	**411.4[1]**	**3.9[2]**	**1.2**	**531.0**

1. Reasons for stage 2 classification: 96 % 'at risk sector' staging overlay, 3 % backstop SICR triggers and 1 % quantitative SICR triggers.
2. Of stage 3 balances, 100 % in active default.

The movement in exposures between stage 2 and stage 1 reflect two main drivers. Firstly, all originations are now classified as Stage 1 reflecting that they have been made under current economic conditions. Secondly, as Bounce Back loans now have repayment history these have been moved to stage 1 if the repayment history is good and they are not within at-risk sectors. Stage 3 exposures have increased driven by the movement of Bounce Back loans (BBLs) into default. However, given the government guarantee on these loans there is no corresponding increase in ECL required.

(audited) Allowance for losses – SME	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2022	0.4	4.2	1.6	0.5	**6.7**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(0.1)	1.2	-	-	**1.1**
To credit impaired (stage 1 or 2 to 3)	-	(0.1)	0.3	-	**0.2**
To 12 month ECL (stage 2 or 3 to 1)	0.7	(0.8)	-	-	**(0.1)**
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	**-**
Net changes arising from stage transfers	**0.6**	**0.3**	**0.3**	**-**	**1.2**
Other charges/(releases):					
New assets originated or purchased	0.4	-	-	-	**0.4**
Other changes to risk parameters	0.2	1.7	(0.3)	(0.5)	**1.1**
Redemptions and repayments	(0.1)	(0.7)	-	-	**(0.8)**
Net income statement charge/(release)	**1.1**	**1.3**	**-**	**(0.5)**	**1.9**
Assets written off	(0.2)	(0.2)	(0.3)	-	**(0.7)**
Loss allowance at 31 December 2022	**1.3**	**5.3**	**1.3**	**-**	**7.9**
Coverage ratio	**0.5%**	**2.3%**	**7.6%**	**-**	**1.5%**

(audited) Allowance for losses – SME	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2021	0.3	4.2	2.7	0.9	**8.1**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	-	1.4	-	-	**1.4**
To credit impaired (stage 1 or 2 to 3)	-	-	1.1	-	**1.1**
To 12 month ECL (stage 2 or 3 to 1)	0.2	(0.9)	-	-	**(0.7)**
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	**-**
Net changes arising from stage transfers	**0.2**	**0.5**	**1.1**	**-**	**1.8**
Other charges/(releases):					
New assets originated or purchased	0.1	-	-	-	**0.1**
Other changes to risk parameters	(0.1)	0.5	0.2	(0.4)	**0.2**
Redemptions and repayments	(0.1)	(0.8)	-	-	**(0.9)**
Net income statement charge/(release)	**0.1**	**0.2**	**1.3**	**(0.4)**	**1.2**
Assets written off	-	(0.2)	(2.4)	-	**(2.6)**
Loss allowance at 31 December 2021	**0.4**	**4.2**	**1.6**	**0.5**	**6.7**
Coverage ratio	**0.3%**	**1.0%**	**41.0%**	**41.7%**	**1.3%**

Origination and account management
At origination the sector based key credit criteria detail the requirements that must be met by the majority of borrowers. Exceptions to that are monitored via a key risk indicator. The Bank operates a strict policy with regards to reporting single name concentrations.

There are a number of triggers which, when met, will result in the customer being classed as watchlist, and classed as higher risk or default and will be subject to closer monitoring. These triggers include payments past due, cash flow pressures, the need for payment concessions, a potential insolvency event, unsatisfactory account operation or other signs of financial distress.

Portfolio analysis

Lending sectors
The following table shows the Group's SME lending exposures by industry sector. The gross customer exposure represents the Group's maximum exposure to credit risk on these assets and excludes the principal element of loans measured at FVTPL of £2.9m (2021: £3.7m).

(audited)	2022		2021	
Split by industry	Gross customer exposure	of which CBILS/Bounce-Back loans	Gross customer exposure	of which CBILS/Bounce-Back loans
Business banking	**200.9**	**168.1**	260.3	226.1
Commercial real estate	**98.4**	**1.9**	88.4	3.6
Retail/wholesale	**40.1**	**6.9**	18.3	7.8
Food/hotel	**32.2**	**13.6**	31.8	15.7
Care	**17.3**	**8.9**	18.4	10.4
Charities	**14.6**	**2.4**	17.7	2.6
Financial/legal	**14.2**	**0.5**	7.0	2.0
Education	**9.0**	**4.1**	7.8	2.4
Renewable energy	**7.9**	**-**	9.5	0.1
Housing association	**1.7**	**-**	2.0	-
Other	**76.5**	**22.3**	69.8	29.2
	512.8	**228.7**	531.0	299.9

Loan-to-value (LTV) and repayment type
The table shows gross customer exposure analysed by indexed LTV bandings, Coronavirus Business Interruption Loan Scheme (CBILS) and BBLs and other unsecured. Excludes fair value assets.

(audited)		
LTV %	2022	2021
≤50 % LTV	**111.2**	78.5
>50 % ≤ 80 % LTV	**70.2**	69.0
>80 % ≤ 100 % LTV	**10.0**	7.3
>100 % LTV	**39.0**	18.1
Secured	**230.4**	172.9
CBILS & Bounce-Back loans	**228.7**	299.9
Unsecured	**53.7**	58.2
Gross customer exposure	**512.8**	531.0

Collateral
Various forms of collateral are used to mitigate the Group's exposure to credit risk. These can vary depending on the lend type and include property collateral, debentures (England and Wales), floating charges (Scotland), cash cover and personal guarantees. Government guarantees apply to the CBILS and BBLs books (80 % and 100 % respectively).

Property valuations are obtained when the facility is first approved. Thereafter the Group's lending procedures require collateral values to be reviewed annually to assess whether a material change has occurred. As a minimum a property must be revalued no less than every five years; or more frequently where a customer's facilities exceed £2.5m (when a maximum 3 yearly revaluation is required) and when lending exposures are considered to be higher risk (typically annually or when a material change has occurred that is likely to affect the value and/or recoverability of the debt). In certain circumstances, such as syndicated lending arrangements, multi-party facility letters may preclude revaluations at the customer's expense of all the assets as frequently as this and a decision is required by all syndicate lenders as to whether they wish to cover the cost if more frequent updates are required.

The table below analyses the market value of the property collateral (capped at 100 % of LTV) held against assets across all sectors. As noted above the Group also has non-property collateral to utilise.

(audited)	2022				2021			
IFRS 9 stage	Gross customer exposure	Collateral	Cover %	Loss allowance	Gross customer exposure	Collateral	Cover %	Loss allowance
Stage 1	**131.0**	**125.9**	**96.1**	**0.3**	41.8	40.9	97.8	-
Stage 2	**95.6**	**94.1**	**98.4**	**1.5**	127.3	125.9	98.9	0.9
Stage 3	**2.7**	**2.0**	**74.1**	**0.8**	2.6	2.6	100.0	0.9
POCI	**1.1**	**1.1**	**100.0**	**-**	1.2	1.2	100.0	0.5
	230.4	**223.1**	**96.8**	**2.6**	172.9	170.6	98.7	2.3

Risk grade
The table below analyses the credit risk exposure by credit grade of SME customers.

(audited) 2022 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	217.8	188.4	-	-	**406.2**
Internal Ratings Based (IRB)	1.2	-	-	-	**1.2**
Strong	-	-	-	-	**-**
Good	42.5	41.7	-	-	**84.2**
Satisfactory	0.5	0.8	-	-	**1.3**
Weak	-	0.6	-	1.1	**1.7**
Default	0.2	0.9	17.1	-	**18.2**
Gross customer exposure	**262.2**	**232.4**	**17.1**	**1.1**	**512.8**
Less: allowance for losses	(1.3)	(5.3)	(1.3)	-	**(7.9)**
Net customer exposure	**260.9**	**227.1**	**15.8**	**1.1**	**504.9**

(audited) 2021 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	86.8	318.5	-	-	405.3
Internal Ratings Based (IRB)	11.3	22.9	0.3	-	34.5
Strong	-	-	-	-	-
Good	16.3	62.2	0.1	-	78.6
Satisfactory	-	3.6	-	-	3.6
Weak	-	0.7	-	1.2	1.9
Default	0.1	3.5	3.5	-	7.1
Gross customer exposure	114.5	411.4	3.9	1.2	531.0
Less: allowance for losses	(0.4)	(4.2)	(1.6)	(0.5)	(6.7)
Net customer exposure	114.1	407.2	2.3	0.7	524.3

Forbearance
Forbearance concessions may be made to customers who are in financial difficulty or are likely to fall into financial difficulty if a concession is not agreed or for those unable to meet outstanding financial commitments to the Group. The identification of financial difficulty may occur either through the use of early warning indicator reporting or various customer contact points and will be confirmed through more thorough financial assessment.

The table below analyses gross customer exposures subject to forbearance.

(unaudited) 2022 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Forborne exposure	2.2	3.1	8.4	-	**13.7**	**0.6**

(unaudited) 2021 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Forborne exposure	6.4	25.1	1.6	-	33.1	1.2

3.2.1.3 Legacy risk

The legacy portfolio consists of books which the Group no longer considers to be part of its core operations. These include the following closed portfolios:

- Corporate – primarily long-term, low-margin sectors such as registered social landlords (RSLs) and private finance initiatives (PFI). These are considered to be low-risk in nature.
- Unsecured – the Group's closed personal loan book. The professional and career development loan (PCDL) book was sold during the year.
- Optimum – the Group's legacy sub-prime and self-certification mortgage book.

Movement in gross customer exposure and allowance for losses

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

(audited) **Gross customer exposure – Legacy**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At 1 January 2022	732.7	10.2	14.2	7.9	**765.0**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(1.5)	1.5	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	(0.3)	(0.3)	0.6	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	0.5	(0.5)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	**-**
Net changes arising from stage transfers	**(1.3)**	**0.7**	**0.6**	**-**	**-**
Other changes:					
New assets originated or purchased	-	-	-	-	**-**
Other changes to risk parameters	(6.1)	(0.8)	(0.4)	-	**(7.3)**
Redemptions and repayments	(157.1)	(3.6)	(0.6)	(1.1)	**(162.4)**
Net increases/(decreases) in exposure	**(164.5)**	**(3.7)**	**(0.4)**	**(1.1)**	**(169.7)**
Assets written off	-	-	(1.2)	(0.1)	**(1.3)**
Gross exposure at 31 December 2022	**568.2**	**6.5**[1]	**12.6**[2]	**6.7**	**594.0**

1. Reasons for stage 2 classification: 72 % 'at risk sector' staging overlay, 19 % quantitative triggers (primarily PD deterioration) and 9 % qualitative SICR triggers.
2. Of stage 3 balances, 98 % in active default and 2 % in a cure period.

(audited) **Gross customer exposure – Legacy**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At 1 January 2021	820.1	36.0	4.4	9.6	870.1
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(2.5)	2.5	-	-	-
To credit impaired (stage 1 or 2 to 3)	(0.3)	(11.8)	12.1	-	-
To 12 month ECL (stage 2 or 3 to 1)	9.9	(9.9)	-	-	-
From credit impaired (stage 3 to 2 or 1)	-	0.2	(0.2)	-	-
Net changes arising from stage transfers	7.1	(19.0)	11.9	-	-
Other changes:					
New assets originated or purchased	-	-	-	-	-
Other changes to risk parameters	0.1	(2.1)	0.1	-	(1.9)
Redemptions and repayments	(94.6)	(4.5)	(1.7)	(1.7)	(102.5)
Net increases/(decreases) in exposure	(87.4)	(25.6)	10.3	(1.7)	(104.4)
Assets written off	-	(0.2)	(0.5)	-	(0.7)
Gross exposure at 31 December 2021	732.7	10.2[1]	14.2[2]	7.9	765.0

1. Reasons for stage 2 classification: 58 % 'at risk sector' staging overlay, 21 % backstop SICR triggers, 10 % quantitative triggers (primarily PD deterioration) and 10 % SICR qualitative triggers.
2. Of stage 3 balances, 99 % in active default and 1 % in a cure period.

(audited) Allowance for losses – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2022	1.6	0.4	1.3	-	**3.3**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	-	-	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	-	(0.1)	-	-	**(0.1)**
To 12 month ECL (stage 2 or 3 to 1)	-	(0.1)	-	-	**(0.1)**
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	**-**
Net changes arising from stage transfers	**-**	**(0.2)**	**-**	**-**	**(0.2)**
Other charges/(releases):					
New assets originated or purchased	-	-	-	-	**-**
Other changes to risk parameters	0.1	-	1.6	0.1	**1.8**
Redemptions and repayments	(0.3)	(0.1)	-	-	**(0.4)**
Net income statement charge/(release)	**(0.2)**	**(0.3)**	**1.6**	**0.1**	**1.2**
Assets written off	-	-	(0.2)	-	**(0.2)**
Loss allowance at 31 December 2022	**1.4**	**0.1**	**2.7**	**0.1**	**4.3**

(audited) Allowance for losses – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2021	1.6	1.1	0.6	0.1	**3.4**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	-	-	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	-	(0.3)	0.9	-	**0.6**
To 12 month ECL (stage 2 or 3 to 1)	0.1	(0.3)	-	-	**(0.2)**
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	**-**
Net changes arising from stage transfers	**0.1**	**(0.6)**	**0.9**	**-**	**0.4**
Other charges/(releases):					
New assets originated or purchased	-	-	-	-	**-**
Other changes to risk parameters	(0.1)	0.3	0.1	-	**0.3**
Redemptions and repayments	-	(0.2)	-	(0.1)	**(0.3)**
Net income statement charge/(release)	**-**	**(0.5)**	**1.0**	**(0.1)**	**0.4**
Assets written off	-	(0.2)	(0.3)	-	**(0.5)**
Loss allowance at 31 December 2021[1]	**1.6**	**0.4**	**1.3**	**-**	**3.3**

1. Excludes £1.9m credit adjustment to a FVTPL loan that has elsewhere been presented as a loss allowance to provide a fuller picture of the Group's expected credit losses.

Origination and account management

The Legacy book is comprised of only closed books with no further loans being advanced. The books are risk managed in the same way as the core retail and SME books described in section 3.2.1.1 and 3.2.1.2.

Portfolio analysis

The following table shows the Group's legacy customer balances, gross exposures and loss allowance by broad asset class. The gross customer exposure represents the Group's maximum exposure to credit risk on these assets. The PCDL book was sold during the year.

(audited)	Gross customer balance		Gross customer exposure		Allowance for losses	
	2022	2021	2022	2021	2022	2021
Corporate – PFI	**347.9**	381.9	**381.9**	499.6	**3.4**	2.0
Corporate – RSL	**257.1**	280.8	**257.1**	280.9	**0.1**	0.1
Corporate – other	**25.3**	41.6	**26.3**	43.6	**0.2**	2.4
Corporate – total	**630.3**	704.3	**665.3**	824.1	**3.7**	4.5
Less FVTPL	**(90.5)**	(97.6)	**(90.5)**	(97.6)	**-**	(1.9)
Corporate – total	**539.8**	606.7	**574.8**	726.5	**3.7**	2.6
Unsecured – personal loans	**1.1**	3.8	**1.1**	3.8	**0.1**	0.5
Unsecured – PCDLs	**-**	14.3	**-**	14.3	**-**	-
Secured – Optimum	**18.1**	20.4	**18.1**	20.4	**0.5**	0.2
	559.0	645.2	**594.0**	765.0	**4.3**	3.3

Collateral
The use of collateral to mitigate credit risk exposure for the legacy corporate and Optimum books is similar in approach to the core SME and retail secured books respectively. These exclude the corporate deals held at fair value with collateral capped at 100 % of LTV.

(audited)	2022				2021			
IFRS 9 stage	Gross customer exposure	Collateral	Cover %	Loss allowance	Gross customer exposure	Collateral	Cover %	Loss allowance
Corporate								
Stage 1	**311.2**	**290.9**	**93.5**	**0.3**	383.1	350.9	91.6	0.5
Stage 2	**3.7**	**3.7**	**100.0**	**-**	5.5	5.5	100.0	0.1
Stage 3	**-**	**-**	**-**	**-**	-	-	-	-
POCI	**-**	**-**	**-**	**-**	-	-	-	-
	314.9	**294.6**	**93.6**	**0.3**	388.6	356.4	91.7	0.6
Optimum								
Stage 1	**7.3**	**7.3**	**100.0**	**0.1**	9.0	9.0	100.0	-
Stage 2	**2.0**	**2.0**	**100.0**	**0.1**	1.5	1.5	100.0	-
Stage 3	**2.1**	**2.0**	**95.2**	**0.2**	2.0	1.9	95.0	0.2
POCI	**6.7**	**6.7**	**100.0**	**0.1**	7.9	7.9	100.0	-
	18.1	**18.0**	**99.4**	**0.5**	20.4	20.3	99.5	0.2
	333.0	**312.6**	**93.9**	**0.8**	409.0	376.7	92.1	0.8

Risk grade
The table below analyses the credit risk exposure by credit grade of legacy corporate lending. The credit grades for legacy unsecured and Optimum assets has not been disclosed on the grounds of materiality.

(audited) 2022- Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	10.6	0.4	-	-	**11.0**
IRB	206.5	-	-	-	**206.5**
Strong	327.5	-	-	-	**327.5**
Good	15.6	3.8	-	-	**19.4**
Satisfactory	-	-	-	-	**-**
Weak	-	-	-	-	**-**
Default	-	-	10.4	-	**10.4**
Gross customer exposure	**560.2**	**4.2**	**10.4**	**-**	**574.8**
Less: allowance for losses	(1.3)	-	(2.4)	-	**(3.7)**
Net customer exposure	**558.9**	**4.2**	**8.0**	**-**	**571.1**

(audited) **2021 Credit grade**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Standardised	22.4	1.5	-	-	23.9
IRB	228.0	-	-	-	228.0
Strong	441.5	-	-	-	441.5
Good	16.1	5.5	-	-	21.6
Satisfactory	-	-	-	-	-
Weak	-	-	-	-	-
Default	-	-	11.5	-	11.5
Gross customer exposure	708.0	7.0	11.5	-	726.5
Less: allowance for losses	(1.5)	(0.2)	(0.9)	-	(2.6)
Net customer exposure	706.5	6.8	10.6	-	723.9

Forbearance

The table below analyses gross customer exposures subject to forbearance. The overall reduction reflects the on-going run-off of these closed books.

(unaudited) **2022** **Forbearance category**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Allowance for losses**
Corporate forbearance	-	-	10.4	-	**10.4**	**2.4**
Retail unsecured forbearance	-	-	0.1	-	**0.1**	**-**
Optimum forbearance	-	-	1.5	1.4	**2.9**	**0.1**
Total forborne exposures	-	-	12.0	1.4	**13.4**	**2.5**

(unaudited) **2021** **Forbearance category**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Allowance for losses**
Corporate forbearance	8.9	-	11.5	-	**20.4**	**1.0**
Retail unsecured forbearance	0.3	0.2	0.1	-	**0.6**	**0.2**
Optimum forbearance	-	0.2	0.8	2.3	**3.3**	**-**
Total forborne exposures	9.2	0.4	12.4	2.3	**24.3**	**1.2**

3.2.2 Investment securities credit risk

No allowance for losses has been recognised for investment securities in either 2022 or 2021. All are classified as low-to-medium risk and within stage 1 (2021: stage 1). The Group has applied the low credit risk exemption available within IFRS 9 to treasury assets with an external rating of investment grade. For further information see the Explanatory Information to the consolidated financial statements, section 1.3.j.ii.

Credit risk mitigation

There are policies in place with regard to the management and valuation of collateral which is used as a form of credit risk mitigation. Only cash deposits, UK government bonds or other debt securities issued by a central government or qualifying multi-lateral development bank with a minimum rating of AA, or a mortgage backed security issued by the Group or one of its subsidiaries, a third-party issued Prime MBS or a AAA-rated Covered Bond; are accepted as collateral. The Group has documented procedures that all securities received as collateral are valued on a daily basis and collateral calls made in line with the relevant legal agreement.

Impaired assets

The Group has applied the low credit risk exemption available within IFRS 9 to treasury assets with an external rating of investment grade. No investment security assets were deemed to be impaired.

3.2.3 Loans and advances to banks

No allowance for losses has been recognised for loans and advances to banks in either 2022 or 2021. These exposures are considered to all be of low-to-medium risk and the ECL has been deemed to be immaterial.

3.2.4 Derivative financial instruments

During 2022, the majority of new derivative transactions continued to be cleared through a central clearing counterparty. In accordance with IFRS 13, a net credit value adjustment of £0.0m was recorded (31 December 2021: £0.1m) in relation to non-collateralised swaps.

The exposure for the ECL calculation is nil as the balance sheet is all measured through FVTPL.

3.2.5 Wholesale credit risk

The treasury asset portfolio is held primarily for liquidity management purposes and, in the case of derivatives, for the purpose of managing market risk. Exposures to the UK government and the BoE account for 82% (2021: 87%) of all treasury exposures. The remaining exposures are split 1% (2021: 1%) to residential mortgage-backed securities, 10% (2021: 6%) to financial institutions and 7% (2021: 6%) to non-domestic sovereign and qualifying multi-lateral development bank bonds. No allowance for losses has been recognised in either 2022 or 2021.

3.2.5.1 Direct exposures

Within the treasury asset portfolio there are a number of risk mitigation techniques available including netting and collateralisation agreements. Other methods such as disposal and credit derivatives may be used periodically to mitigate the credit risk associated with particular transactions.

Treasury operates a risk-based approach which monitors counterparty limits and exposure. Both the counterparties and assets held are monitored against a Board-approved matrix of risk tolerance and associated indicators. The scope of this monitoring activity includes rating actions, market events and financial results as they are announced. These factors may influence a change in risk status and possible escalation requiring management actions and inclusion on the watchlist.

The portfolio and watchlist is monitored weekly for appropriate risk status bandings and any associated management actions, whilst exposures are monitored daily to ensure appropriate oversight of trading activity within agreed counterparty limits. As at 31 December 2022, there were no red (highest-risk) exposures outstanding (2021: £nil).

3.2.5.2 Indirect exposures

Treasury monitoring extends beyond direct risk incurred through counterparty trading, to the underlying exposures, which the counterparties may maintain on their own balance sheets.

Where secondary sovereign exposure or contagion risk is deemed to undermine the performance of the counterparty, remedial management actions are taken in respect of the counterparty limits and exposure.

3.2.6 Other assets

An allowance for losses has been recognised for other assets under IFRS 9. There is currently a small provision of £0.2m at the end of 2022 (2021: £0.1m). The exposures are currently considered to be of low risk.

3.2.7 Amounts due from group undertaking

The Finance Company has recognised a £618.7m (2021: £448.7m) receivable due from Bank Company. This is the internal MREL debt related to the external MREL-qualifying Tier 2 debt and senior unsecured debt issued by the Group, which is measured at FVTPL and therefore is not assessed for credit risk. See note 25 to the Group and Bank financial statements for information on the MREL-qualifying instruments and note 26 to the Finance Company financial statements for the fair value of the instruments.

4. MARKET RISK

Market risk is the risk of loss as a result of the value of financial assets or liabilities (including off-balance sheet instruments) being adversely affected by movements in market rates or prices.

4.1 Overview *(unaudited)*

Market risk loss can be reflected in near-term earnings by a reduction in net interest income or, in the longer term, because of changes in the economic value of future cash flows. As the Group does not have a trading book, the main sources of market risk include: fixed rate mortgages and savings products, the Group's holdings of bonds in its liquidity portfolio, and the degree to which these are hedged using derivative instruments.

With no trading book and net currency positions below the required threshold, no Pillar 1 market risk exists. All market risk exposures are addressed under the Pillar 2 framework, captured in the Group's ICR requirement.

The main market risk measure utilised by the Group is PV01, which measures the sensitivity of the net present value (NPV) of future cash flows to a one basis point (bp) shift in interest rates. The PV01 measures the effect of both parallel and specific point of yield curve stress testing (i.e. non-linear yield curve shifts) by one bp. The residual interest rate risk is hedged using predominantly SONIA based swaps. Where exposures to floating rate indices do not match between floating rate, or hedged to floating rate assets and liabilities, there is also a resultant basis risk.

Market risk exposures have been maintained well within risk appetite in 2022, interest rate risk when expressed in terms of PV01 averaged £(50)k during 2022 with a lowest of £(86)k and a largest of £8k (2021: £27k / £(85)k / £110k respectively). The Group-wide market risk position was managed to a short asset position ahead of the year end, with total net sensitivity across the Group's balance sheet reflected in a total PV01 of £8k (2021: £(81)k).

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	2022	2021
Total PV01 (£k)	**8**	(81)
Average PV01 for the year (£k)	**(50)**	27
Largest PV01 for the year (£k)	**8**	110
Lowest PV01 for the year (£k)	**(86)**	(85)
Average basis risk (£m)	**3.4**	2.4
Swap spread PV01 (£k)	**(414)**	(730)
Average swap spread PV01 (£k)	**(606)**	(636)
FX notional (£m)	**(0.5)**	(0.3)
Average FX notional (£m)	**(0.5)**	(0.4)

Interest rate risk

Sensitivity of the Group's NPV to a one basis point parallel shift in interest rates (i.e. the PV01) is employed to manage directional interest rate risk and yield curve risk, with limits set at an overall level for directional risk and against individual time buckets for yield curve risk. To supplement these limits, stress testing of exposures against historical yield curve shifts is undertaken to assess the sensitivity to the most extreme curve steepening and curve flattening movements, to a 99% confidence, observed over appropriate historical periods.

Behavioural assumptions are considered in the treatment of non-interest bearing balances (NIBBs), other non-rate sensitive deposits (Retail demand deposits), and with regard to customer prepayments within the residential mortgage portfolios.

Risk exposures are formally reported at least monthly, with interest rate risk and effectiveness of hedging monitored at a minimum of weekly frequency. Interest rate risk is hedged using derivative instruments and investment securities to external wholesale markets as appropriate.

During 2022, the largest absolute PV01 exposure of £8k was observed in May 2022.

Basis risk
The definition of basis risk is the risk of loss as a result of the balance sheet being adversely affected by the movement between different index rates.

Basis risk is mainly driven by the mix of exposures to SONIA, base, and administered rates. BoE reserve balances and tracker mortgages generate base rate assets, with administered rate exposures including mortgages and savings products.

Basis risk management seeks to limit volatility to earnings and capital resources from moves in either direction. The assumed potential loss of earnings reflects the downside risk comparing prevailing spreads against historical extremes. The basis risk position primarily reflects the net SONIA-base rate exposure.

HQLA swap spread risk
Swap spread risk is defined as the sensitivity of the combined economic value of HQLA securities and their associated derivative hedges to changes in the spread between benchmark sovereign bond yields and swap rates. These assets are used for liquidity purposes within the treasury portfolio.

Swap spread risk is managed by calculating the sensitivity of its hedged fixed rate bond portfolio to a one bp divergence in yields between the fixed rate bond and its hedge (PV01).

Swap spread risk has reduced through 2022 reflecting the portfolio size and composition in terms of security type and duration.

Foreign exchange risk
The exposure to foreign exchange risk is primarily limited to customer hedging transactions and incidental customer transactions. To manage this risk, an overall maximum notional net sterling position limit is set for overnight exposures. This is supported by applying sub-limits to currencies by tier to reflect their liquidity.

The balance sheet is predominantly sterling as the table below shows. The assets comprise loans to banks and the unlisted equity shares. All values shown in the sterling equivalent.

(unaudited)	2022					2021				
	£	$	€	Other	Total	£	$	€	Other	Total
Assets[1]										
Total assets	28,107.9	18.4	6.0	0.5	**28,132.8**	29,290.4	31.6	1.0	0.3	29,323.3
Liabilities[1]										
Total liabilities	26,835.4	(1.0)	(0.4)	(0.2)	**26,833.8**	27,573.7	(1.6)	(0.6)	(0.1)	27,571.4
Net assets	1,272.5	19.4	6.4	0.7	**1,299.0**	1,716.7	33.2	1.6	0.4	1,751.9

1. All currencies are consistent between the Group and Bank Company reporting. Shown as the sterling equivalent.

At 31 December 2022, the Group's open currency position was £(0.5)m (2021: £(0.3)m). Currency positions are managed against both an overall limit and individual currency limits.

Other sources of market risk
Other sources of market risk include:
- Prepayment risk: the risk that an asset or liability repays more quickly or slowly than anticipated, resulting in a mismatch between the asset, liability and associated hedge;
- Pipeline risk: the risk that the sales profile for fixed rate products does not match hedging assumptions, resulting in a mismatch between product sales and the hedge amount, which can result in a rebalancing cost;
- Explicit option risk: the sensitivity to the overall direction of interest rates, speed of change of rates and market prices for positions which contain explicit options e.g. caps, floors, and swaps;
- Repricing and implicit optionality in products: the risk that options embedded or implied within retail or commercial products have an impact on market value or earnings with changing interest rates; and
- Equity price risk: the risk that the fair value of equities decreases as a result of changes in the level of equity indices and individual stocks. Non-trading equity price risk exposure arises from equity securities classified as fair value through profit and loss. This mainly relates to the Group's shareholding of Visa B series preferred stock. A 10% increase in the value of equity shares at 31 December 2022 would equate to an increase of £1.1m (2021: £2.3m). An equivalent decrease would reduce the value by the same degree.

4.3 Hedge accounting
The Group is exposed to interest rate risk arising from changes in market interest rates. A variety of strategies are employed to mitigate interest rate risk with the overall objective of hedging interest rates paid and received, predominantly back to SONIA.

To reduce the reporting volatility introduced as a result of entering into derivatives for economic hedging purposes, the Group applies hedge accounting. The hedge accounting strategies applied are as follows:

Strategy	Hedging instruments and underlying hedged items	Objective of strategy
1) Macro fair value hedge	Interest rate risk on fixed rate mortgages and customer loans.	In the Group's mortgage macro fair value hedge, macro hedge accounting is used to recognise fair value changes related to changes in net interest rate risk in the fixed rate mortgages and customer loans and therefore reduce the profit or loss volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone.
	Interest rate risk on non-interest bearing current accounts and equity.	In the Group's NIBBs macro fair value hedge, macro hedge accounting is similarly used to recognise fair value changes related to changes in net interest rate risk in non-interest bearing current accounts and therefore reduce the profit or loss volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone.
2) Micro fair value hedge	Interest rate risk on certain fixed rate treasury assets and liabilities.	Micro fair value hedge accounting is used to recognise fair value changes related to changes in interest rate risk in certain treasury assets/liabilities and therefore reduce the profit or loss volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone.

Interest rate risk on fixed rate mortgages and customer deposits (macro fair value hedge)
The Group is exposed to interest rate risk on non- interest bearing (primarily current accounts) due to changes in SONIA. The interest rate risk is managed by entering into pay float/receive fixed interest rate swaps, held in a layered portfolio (the 'layer approach'). The hedging strategy is in line with the requirements of the UK-endorsed version of IAS 39 'Financial Instruments: Recognition and Measurement', which unlike the version issued by the IASB does not prohibit hedging customer deposits and its associated effectiveness testing using a layer approach in a macro fair value hedge. The effectiveness of the hedging relationship is tested both at inception and throughout its life and if at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued.

Interest rate risk on fixed rate treasury assets and liabilities (micro fair value hedge)
The Group enters into micro fair value hedges in relation to certain fixed rate treasury assets and liabilities to manage changes in interest rate risk. The interest rate risk is managed by entering into interest rate swaps. Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged.

To mitigate volatility in the income statement generated by these economic hedge relationships, micro fair value hedge accounting is applied.

The hedging relationship is established prospectively by matching the notional value of derivatives with the principal (or part of the principal) of the instrument being hedged (micro hedge) and running a prospective effectiveness test which compares changes in the values of the hedged item and hedging instrument for a one hundred basis point move in the underlying yield curves.

A prospective test for the portfolio is performed at each month end for future designation. Retrospectively, the interest rate risk component of the hedged item is calculated using a spreadsheet valuation. The change in the valuation of the interest rate component of the hedged item is compared to the change in value of the swaps and the resulting ratio determines the effectiveness. If effective (between 80%-125%) then these positions will be designated in micro fair value hedge relationships.

Possible sources of ineffectiveness include imperfect economic hedges as the derivatives are not always an exact match for the risk in the hedged item and SONIA leg compounded average fixing for the next period.

Reset risk on variable rate loans and mortgages (macro cash flow hedge)
The Group retired its macro cash flow hedge on 31 December 2020, replacing it with the NIBBs macro fair value hedge referred to above. The remaining swap was de-designated from the cash flow hedge and re-designated to the new NIBBs macro fair value hedge at its inception. The cash flow hedge reserve is amortised through net interest income over the remaining life of the swaps.

Quantitative hedge accounting information

The following table sets out the maturity profile and average price/rate of micro hedge accounting strategies applied by the Group.

(audited) 2022	Maturity Up to 1 month	1-3 months	3 months to 1 year	1 year to 5 years	> 5 years	Total
Fair value hedges (interest rate swap)						
Notional	**-**	**-**	**-**	**234.0**	**278.8**	**512.8**
Average fixed interest rate	**-**	**-**	**-**	**1.41%**	**1.40%**	

(audited) 2021	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	-	-	-	220.0	577.5	797.5
Average fixed interest rate	-	-	-	0.12 %	0.65 %	

The following tables show details of the hedging instruments used by the Group.

(audited) 2022	Carrying amount Notional	Assets	Liabilities	Balance sheet line items	Changes in fair value used for calculating hedge ineffectiveness
Fair value hedges (interest rate risk)					
Interest rate swaps	8,300.4	468.4	58.7	Derivative financial instruments	392.2
Cash flow hedges					
Interest rate swaps	-	-	-	Derivative financial instruments	-

(audited) 2021	Carrying amount Notional	Assets	Liabilities	Balance sheet line items	Changes in fair value used for calculating hedge ineffectiveness
Fair value hedges (interest rate risk)					
Interest rate swaps	10,351.5	145.7	37.1	Derivative financial instruments	115.4
Cash flow hedges					
Interest rate swaps	-	-	-	Derivative financial instruments	-

The following table contains details of the hedged exposures covered by the Group's hedging strategies.

(audited)	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item		Balance sheet line items	Change in fair value of hedged item for assessment of effectiveness	Cash flow hedge reserve	
2022	Assets	Liabilities	Assets	Liabilities			Continuing hedges	Discontinued hedges
Macro fair value hedges (interest rate risk)								
Fixed rate mortgages	5,907.8	-	(430.7)	-	Loans and advances to customers	(277.1)	N/A	N/A
NIBBs	-	4,407.6	-	(34.6)	Customer Accounts	27.1	N/A	N/A
Micro fair value hedges (interest rate risk)								
Fixed rate bonds	133.6	-	(23.7)	-	Investment securities – FVOCI	(18.9)	N/A	N/A
Fixed rate bonds	-	-	-	-	Debt securities in issue	-	N/A	N/A
Fixed rate bonds	-	-	-	-	Other borrowed funds	-	N/A	N/A
Fixed rate gilts	152.6	-	(30.9)	-	Investment securities – FVOCI	(18.0)	N/A	N/A
Cash flow hedges (interest rate risk)								
Floating rate mortgages	-	-	-	-	Loans and advances to customers	-	N/A	(14.8)

(audited)	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item		Balance sheet line items	Change in fair value of hedged item for assessment of effectiveness	Cash flow hedge reserve	
2021	Assets	Liabilities	Assets	Liabilities			Continuing hedges	Discontinued hedges
Macro fair value hedges (interest rate risk)								
Fixed rate mortgages	3,665.0	-	(90.5)	-	Loans and advances to customers	(220.2)	N/A	N/A
NIBBs	-	4,453.5	-	(7.5)	Customer Accounts	6.0	N/A	N/A
Micro fair value hedges (interest rate risk)								
Fixed rate bonds	140.8	-	(4.8)	-	Investment securities – FVOCI	(11.1)	N/A	N/A
Fixed rate bonds	-	-	-	-	Debt securities in issue	-	N/A	N/A
Fixed rate bonds	-	203.5	-	0.1	Other borrowed funds	7.1	N/A	N/A
Fixed rate gilts	455.2	-	(12.9)	-	Investment securities – FVOCI	(31.6)	N/A	N/A
Cash flow hedges (interest rate risk)								
Floating rate mortgages	-	-	N/A	N/A	Loans and advances to customers	-	-	(21.7)

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 £(51.7)m (2021: £11.3m).

The following table illustrates the effectiveness of the designated hedging relationships as well as the impact on the income statement (IS) and other comprehensive income (OCI).

(audited) 2022	Gain/(loss) recognised in OCI	Hedge ineffectiveness recognised in the IS	IS line item that includes hedge ineffectiveness	Amounts reclassified from reserves to IS as: Hedged cash flows will no longer occur	Hedged item affected IS	IS line item that includes reclassified amount
Interest rate risk						
Macro fair value						
Fixed rate mortgages	N/A	(1.2)	Other operating (expense)/income net	N/A	N/A	N/A
NIBBs	N/A	(0.4)		N/A	N/A	N/A
Micro fair value						
Fixed rate bonds	N/A	0.1	Other operating (expense)/income net	N/A	N/A	N/A
Fixed rate gilts	N/A	0.2	Other operating (expense)/income net	N/A	N/A	N/A
Cash flow hedges (interest rate risk)						
Floating rate mortgages	-	-	Other operating (expense)/income net	N/A	-	Net interest income on financial instruments not in a hedging relationship (drip of terminated IRS)

(audited) 2021	Gain/(loss) recognised in OCI	Hedge ineffectiveness recognised in the IS	IS line item that includes hedge ineffectiveness	Amounts reclassified from reserves to IS as: Hedged cash flows will no longer occur	Hedged item affected IS	IS line item that includes reclassified amount
Interest rate risk						
Macro fair value						
Fixed rate mortgages	N/A	0.2	Other operating (expense)/income net	N/A	N/A	N/A
NIBBs	N/A	(0.1)		N/A	N/A	N/A
Micro fair value						
Fixed rate bonds	N/A	0.4	Other operating (expense)/income net	N/A	N/A	N/A
Fixed rate gilts	N/A	(0.1)	Other operating (expense)/income net	N/A	N/A	N/A
Cash flow hedges (interest rate risk)						
Floating rate mortgages	-	-	Other operating (expense)/income net	N/A	-	Net interest income on financial instruments not in a hedging relationship (drip of terminated IRS)

(audited)	2022	2021
Cash flow hedge reserve as at 1 January	**14.7**	22.5
Net changes in fair value recognised directly in equity	-	-
Transfers from equity to income or expense	(6.9)	(9.2)
Income tax	2.8	1.4
Cash flow hedge reserve as at 31 December	**10.6**	14.7

4.4 LIBOR transition

The Group has exposure to legacy LIBOR-linked products, primarily across its legacy retail secured and corporate portfolios. LIBOR was phased out at the end of 2021, and the work to transition the Group's affected exposures to appropriate replacement rates now been materially completed.

During year the Group successfully transitioned the majority of its retail secured and corporate LIBOR exposures to replacement rates; there remains a relatively small population of 'tough legacy' contracts (i.e. those that do not allow for variation of benchmark rates), for which solutions continue to be developed. The primary risks to which the Group is exposed through the transition work are operational risk associated with the execution of the transitions and conduct risk arising from potential detrimental customer outcomes, particularly with regard to the tough legacy exposures. The FCA will phase out all temporary synthetic LIBOR by the end of March 2024, which exposes the Group to additional risk in relation to LIBOR on tough legacy exposures where the interest rates are currently based on the synthetic LIBOR benchmark rates. The Group has worked actively to mitigate these risks, including by engaging extensively with relevant regulatory bodies and the wider industry to ensure its approach adheres to market best practice.

The table below outlines the Group's exposure at 31 December 2022 to significant IBORs subject to reform that are yet to be transitioned to an alternative benchmark rate. The carrying amounts of financial assets are presented gross of any expected credit losses (ECLs).

	31 December 2022			31 December 2021		
	Non-derivatives		Derivatives	Non-derivatives		Derivatives
	Financial assets	Financial liabilities	Financial assets	Financial liabilities	Financial liabilities	Financial assets
	Carrying value	Carrying value	Carrying value	Carrying value	Carrying value	Carrying value
GBP LIBOR	105.9	-	68.7	704.6	-	326.0

Of the above balances, £5.7m (2021: £30.5m) are classed as tough legacy, where the balances will remain on a synthetic LIBOR rate until a solution for transfer is identified. The remaining balances will have completed their transition to an alternative rate by the end of the first half of 2023.

The Group also has responsibility for the migration of certain legacy LIBOR retail secured assets sold to unconsolidated structured entities or other third parties but where it continues to hold legal title. The gross outstanding balances of these LIBOR assets not recognised on the Group's balance sheet are £142.6m (2021: £964.8m), of which £22.7m (2021: £244.6m) are classed as tough legacy.

5. LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is the risk that obligations cannot be met as they fall due or can only be met at excessive cost.

5.1 Overview

The Bank manages liquidity and funding risk through a mature and comprehensive risk framework, which includes a clearly defined risk appetite, policy, limit structure and monitoring, stress testing and governance.

The Bank aims to ensure that it maintains, at all times, sufficient liquidity resources to meet obligations as they fall due, in normal and stressed conditions. Liquidity resources should be appropriate in both quantum and composition to support this objective. This is achieved through a framework of forecasting and stress-testing of cashflows, setting and monitoring against appropriate risk limits supported by metrics including encumbrance, concentration risk, funding and risk profiles.

The Board is responsible for setting liquidity and funding risk appetite. The Asset and Liability Committee (ALCo), chaired by the CFO, oversees the management of liquidity and funding risk within this defined appetite. Day-to-day management of the liquidity buffer and wholesale funding management is performed by Treasury, who also own the Bank's Liquidity Contingency Plan. These activities are overseen by an independent second line risk team, which own the Liquidity and Funding Policy, set limits and monitor business compliance with them. The Bank operates a 3 lines of defence model, with Internal Audit providing further independent challenge, oversight and assurance of liquidity management.

Management of the liquid asset buffer is centralised in the Treasury function, which also includes wholesale funding operations. Broader management of funding and liquidity includes contributions from across the Bank, including finance, products, risk oversight and internal audit.

The Bank's liquidity position is monitored on a daily basis, including a suite of liquidity EWIs (supporting the LCP framework), and reported to senior management. Formal governance of the full suite of liquidity reporting is prepared on a monthly basis and reported to ALCo, with escalation to EROC and Risk Committee. Liquidity reporting is maintained in line with the requirements of the Bank's L&F Control Standard which ensures appropriate controls are in place to meet the objectives of the Policy.

Liquidity and Funding Risk is managed in line with the Bank's Liquidity Risk Appetite and Liquidity and Funding policy which is owned by Second Line. These ensure the Bank maintains appropriate liquidity resources to meet anticipated outflows on a business as usual and stressed basis, as well as meeting the regulatory Liquidity Coverage ratio. Additional limits are set to manage the composition of the liquid asset buffer, to ensure it is high-quality and appropriately diversified.

The Bank's LCP, part of the wider recovery plan framework, is approved on an annual basis, and is tested regularly. The LCP establishes early warning indicators to identify and monitor a liquidity stress, escalation and governance requirements, and actions that could be considered to preserve or raise incremental liquidity to ensure sufficient liquidity is maintained to meet stressed cashflows.

Stress and sensitivity testing is a core component of the Bank's liquidity and funding risk management framework. The Bank monitors its liquidity position against internally defined stress scenarios, including as a minimum market-wide, Bank-specific and combined stress tests, measured across appropriate time horizons. Stress testing assesses the appropriateness of the Bank's liquid asset buffer as well as contingency action capacity. Stress testing results are reported to ALCo, who approve changes to the stress testing framework, ahead of Board approval as part of the ILAAP.

The Bank's Board ensures through its annual review and approval of risk appetite, risk appetite measures and limits and ILAAP, that material liquidity risks continue to be appropriately identified, quantified (including stress testing), monitored and managed.

The Bank's liquidity risk appetite and liquidity risk framework aims to ensure the Bank maintains sufficient liquidity resources at all times to meet cashflows as they fall due, in normal and stressed conditions. This is monitored against the Bank's internal stress scenarios, where a Combined stress typically represents the most severe requirement. In addition the Bank's risk appetite aims to always maintain a level of liquid assets to exceed the minimum regulatory Liquidity Coverage Ratio requirements, including any applicable Pillar 2 add-ons, and a Net Stable Funding Ratio exceeding the minimum regulatory requirement. Consistent with regulatory requirements, full NSFR disclosures will be included from the full year 2023 Pillar 3 report.

5.2 Liquidity risk metrics

The Group monitors a suite of liquidity metrics which includes the following:

(unaudited) Metric	2022	2021	
LCR	265.3 %	205.3 %	• Represents a surplus to regulatory minima of 100 % • Aligns to the risk strategy to maintain a prudent liquidity position • Pillar 1 12 month rolling average (as reported in Pillar 3). 2021 value represented to align.
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	136.3 %	141.4 %	• Based on current interpretation of requirements and guidance
Customer loan/deposit ratio	104.1 %	99.1 %	• Ratio of customer loans (excluding credit commitments) to customer deposits
Encumbrance ratio	30.0 %	26.7 %	• According to the EBA definition asset encumbrance ratio is calculated as the carrying amount of encumbered assets and collateral divided by total assets and collateral

An asset is defined as encumbered if it has been pledged as collateral against an existing liability or to collateralise an exposure that the Group may have, restricting access to that asset in the event of resolution or bankruptcy. An encumbered asset would be no longer available to use in secured funding, to satisfy collateral needs, or to be sold to reduce the funding requirement. The encumbrance tables are presented in the Pillar 3 disclosures (AE1-AE4). The year end asset encumbrance ratio is 30.2 %.

5.3 Liquid asset portfolios

Total liquidity resources as at 31 December 2022 were £7,482.5m (2020: £8,082.8m). There is a focus on maintaining a high percentage of liquid assets which are high-quality and the table below analyses the liquidity portfolio by product and unencumbered liquidity value. The liquidity portfolio is categorised into primary and secondary (other liquid assets and contingent liquidity).

Primary liquid assets include cash and balances at central banks and other high-quality government bonds (all are eligible under regulations (High-Quality Liquid Assets)).

Secondary liquidity comprises unencumbered liquid investment securities not included as part of primary liquidity, as well as other forms of contingent liquidity sources (mortgage and corporate collateral).

(unaudited) Liquidity – primary & secondary	2022	2021
Operational balances with central banks	5,045.3	5,479.8
Gilts	24.0	-
Central government and multilateral development bank bonds	517.6	444.2
Total primary liquid assets	**5,586.9**	**5,924.0**
Other liquid assets	248.1	299.7
Contingent liquidity	1,647.5	1,859.1
Total secondary liquid assets	**1,895.6**	**2,158.8**
Total liquidity	**7,482.5**	**8,082.8**
Average balance	7,738.1	7,574.7

A combination of these asset pools is used to manage liquidity, with primary liquidity used predominantly for short-term cash flow movements, while other liquidity is used for creating longer-term liquidity. Regular realisation through repo transactions and outright sales provide assurance that these asset pools remain sufficiently liquid. The disclosures above are based on what is eligible for liquidity purposes and so does not exactly match the balance sheet.

5.3.1 Wholesale funding

Wholesale funding is used to supplement retail and commercial deposits to diversify the source of funds. There are a variety of long-term wholesale funding sources outstanding, including Tier 2 subordinated debt, MREL-qualifying debt, repos (including BoE indexed long-term repo), BoE TFSME drawings and Silk Road Finance Number Six plc MBS, as summarised in the table below.

(unaudited) Wholesale funding	2022	2021
Subordinated debt	**646.9**	**402.1**
Secured funding	**5,419.1**	**5,405.3**
Repos	**31.8**	**304.5**
	6,097.8	**6,111.9**

The wholesale funding position has seen a reduction in the use of repos offset by the issuance of further MREL debt in 2022. Gilt repos make up £24.2m of total repo funding. The following table sets out contractual wholesale funding by maturity, with the maturity based on call dates. Silk Road Finance Number Six plc MBS is due for repayment in 2023. The funding below is included within other borrowed funds, deposits by banks and debt securities in issue on the balance sheet.

(unaudited) Wholesale funding maturity	2022	2021
Repayable in less than 1 month	**68.8**	291.0
Repayable between 1 and 3 months	**0.2**	15.1
Repayable between 3 and 6 months	**8.8**	5.3
Repayable between 6 and 9 months	**181.9**	-
Repayable between 9 and 12 months	**-**	-
Repayable between 1 and 2 years	**2,148.1**	203.6
Repayable between 2 and 5 years	**3,690.0**	5,596.9
Repayable in more than 5 years		-
	6,097.8	6,111.9

5.4 Liquidity gap

Details of contractual maturities for assets and liabilities underpin the management of liquidity risk. However, management recognises that customer behaviour differs to contractual maturity, therefore as part of the planning process, behavioural run-off of customer assets and liabilities over time are estimated. The assumptions used to create these estimates and the estimates themselves are recommended for approval by ALCo as part of its responsibility to manage the Plan. Gross cash flows include interest and other revenue cash flows. Other assets and liabilities include non-financial items and these are excluded from the maturity analysis. The following table is an analysis of gross undiscounted contractual cash flows of financial assets and liabilities held at the balance sheet date.

(audited) 2022 – Contractual cash flows - Assets	Carrying value	Gross nominal flow	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years
Cash and balances at central banks	5,270.4	5,270.4	5,270.4	-	-	-	-	-	-	-
Loans and advances to banks[1]	387.1	393.0	281.3	68.4	0.3	0.3	0.3	1.2	3.7	37.5
Loans and advances to customers	20,921.9	35,410.3	356.5	222.8	345.6	355.6	362.0	1,473.5	4,948.3	27,346.0
Investment securities	942.7	1,119.3	2.6	51.8	14.9	26.9	26.8	88.7	545.7	361.9
Derivative financial instruments	520.1	464.0	29.0	43.5	48.7	41.5	32.0	99.0	122.2	48.1
Other assets	90.6	-	-	-	-	-	-	-	-	-
Total recognised assets	**28,132.8**	**42,657.0**	**5,939.8**	**386.5**	**409.5**	**424.3**	**421.1**	**1,662.4**	**5,619.9**	**27,793.5**

(audited) 2022 – Contractual cash flows - Liabilities	Carrying value	Gross nominal flow	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years
Deposits by banks	5,683.4	6,042.2	495.9	23.7	36.2	36.6	37.0	1,885.3	3,527.5	-
Customer accounts[2]	20,107.3	20,118.0	18,554.4	93.7	417.1	365.9	221.9	334.8	130.2	-
Debt securities in issue	181.9	188.1	0.7	1.4	2.1	183.9	-	-	-	-
Derivative financial instruments	103.5	105.5	7.1	9.1	12.5	12.2	8.0	20.8	20.9	14.9
Other borrowed funds	646.9	767.0	-	-	26.0	-	26.0	442..5	272.5	-
Lease liabilities	31.0	39.8	-	1.5	1.4	1.4	1.4	5.1	11.0	18.0
Other liabilities	79.8	-	-	-	-	-	-	-	-	-
Total recognised liabilities	**26,833.8**	**27,260.6**	**19,058.1**	**129.4**	**495.3**	**600.0**	**294.3**	**2,688.5**	**3,962.1**	**32.9**
Unrecognised loan commitments[3]	1,989.1	1,989.1	1,989.1	-	-	-	-	-	-	-
Total liabilities	**28,822.9**	**29,249.7**	**21,047.2**	**129.4**	**495.3**	**600.0**	**294.3**	**2,688.5**	**3,962.1**	**32.9**

(audited) 2021 – Contractual cash flows - Assets	Carrying value	Gross nominal flow	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years
Cash and balances at central banks	5,696.9	5,696.9	5,696.9	-	-	-	-	-	-	-
Loans and advances to banks[1]	191.5	191.7	107.6	59.1	-	-	-	-	-	25.0
Loans and advances to customers	21,002.1	31,642.8	378.6	213.8	328.4	334.1	338.7	1,363.2	4,424.1	24,261.9
Investment securities	1,201.4	1,969.3	15.2	29.6	44.9	45.4	101.0	248.4	781.2	703.6
Derivative financial instruments	248.5	196.6	1.2	5.6	4.0	3.9	4.1	12.4	40.5	124.9
Other assets	982.9	-	-	-	-	-	-	-	-	-
Total recognised assets	**29,323.3**	**39,697.3**	**6,199.5**	**308.1**	**377.3**	**383.4**	**443.8**	**1,624.0**	**5,245.8**	**25,115.4**

(audited) 2021 – Contractual cash flows - Liabilities	Carrying value	Gross nominal flow	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years
Deposits by banks	5,527.6	5,550.3	313.2	16.1	1.6	1.7	1.7	6.7	5,209.3	-
Customer accounts[2]	21,135.9	21,158.0	19,187.7	228.7	522.5	431.2	252.2	434.1	101.6	-
Debt securities in issue	203.3	207.3	0.2	0.4	0.7	0.7	0.7	204.6	-	-
Derivative financial instruments	148.2	264.9	4.4	10.7	7.5	7.1	7.1	24.3	50.7	153.1
Other borrowed funds	402.1	501.6	-	-	18.5	-	18.5	37.0	427.6	-
Lease liabilities	44.1	50.5	-	1.5	1.5	1.6	1.6	6.4	13.9	24.0
Other liabilities	110.2	-	-	-	-	-	-	-	-	-
Total recognised liabilities	**27,571.4**	**27,732.6**	**19,505.5**	**257.4**	**552.3**	**442.3**	**281.8**	**713.1**	**5,803.1**	**177.1**
Unrecognised loan commitments[3]	2,059.5	2,059.5	2,059.5	-	-	-	-	-	-	-
Total liabilities	**29,630.9**	**29,792.1**	**21,565.0**	**257.4**	**552.3**	**442.3**	**281.8**	**713.1**	**5,803.1**	**177.1**

1. Loans and advances to banks with a contractual maturity of over 5 years includes £37.5m (2021: £25.0m) in the Pace escrow account. Refer to note 30 to the Group and Bank consolidated financial statements for more information.
2. The carrying value of customer accounts for the Bank is £20,107.9m (2020: £21,136.0m) and the gross nominal flow is £20,118.6m (2021: £21,158.1m). The additional £0.6m (2021: £0.1m) is within the less than 1 month band. All other balances and timing bands are consistent with the Group.
3. Includes financial guarantee and swap break costs.

The principal difference between the gross nominal value and the accounting carrying value set out above is due to discounting. Discounting has a greater impact on cash flows in later years, and a minimal impact on cash flows within 1 year. Therefore the contractual cash flows on assets and liabilities expected in less than one year are a fair representation of the contractual maturity of current assets and liabilities at carrying value in the balance sheet.

5.5 Financial instruments in the balance sheet subject to netting arrangements

The Group has netting agreements in place with counterparties to manage the associated credit risks. Such arrangements primarily include repo and reverse repo transactions and over-the-counter (OTC) derivatives. These netting agreements enable the counterparties to offset liabilities against available assets received in the ordinary course of business and/or in the event of the counterparty's default. The offsetting right is a legal right to settle, or otherwise eliminate, all or a portion of an amount due by applying an amount receivable from the same counterparty against it, thus reducing credit exposure.

The table below shows the net exposure for sale and repurchase agreements and derivative contracts after any netting benefits and collateral.

(unaudited) 2022	Gross amount[1]	Master netting arrangements	Financial collateral[2]	Net amount
Financial assets				
Derivative financial instruments	520.1	(69.5)	(437.6)	13.0
Total financial assets	**520.1**	**(69.5)**	**(437.6)**	**13.0**
Financial liabilities				
Derivative financial instruments	103.5	(69.5)	(31.7)	2.3
Sale and repurchase agreements	31.8	-	(31.8)	-
Total financial liabilities	**135.3**	**(69.5)**	**(63.5)**	**2.3**

1. As reported on balance sheet.
2. The financial collateral disclosed is limited to the amount of the related financial asset or related financial liability (i.e. over-collateralisation, where it exists, is not reflected in the table).

(unaudited) 2021	Gross amount[1]	Master netting arrangements	Financial collateral[2]	Net amount
Financial assets				
Derivative financial instruments	248.5	(140.9)	(12.8)	94.8
Total financial assets	248.5	(140.9)	(12.8)	94.8
Financial liabilities				
Derivative financial instruments	148.2	(140.9)	(2.8)	4.5
Sale and repurchase agreements	304.5	-	(304.5)	-
Total financial liabilities	452.7	(140.9)	(307.3)	4.5

3. As reported on balance sheet.
4. 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

In our opinion:

- the financial statements of The Co-operative Bank p.l.c (the "Bank Company") and its subsidiaries (together the "Bank") give a true and fair view of the state of the Bank and of the Bank Company's affairs as at 31 December 2022 and of the Bank's profit for the year then ended;
- the Bank financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Bank Company financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements (as defined in the table below) of the Bank Company and the Bank for the year ended 31 December 2022, which comprise:

Bank	Bank Company
Consolidated balance sheet as at 31 December 2022	Balance sheet as at 31 December 2022
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 Bank Company financial statements (except for the columns marked as "unaudited" in Note 31 of the Group and Bank financial statements, which are referenced in Note 24 of the Bank Company financial statements), including a summary of significant accounting policies, including those disclosed within the explanatory information on pages 284 to 293
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, including those disclosed within the explanatory information on pages 284 to 293	
Tables within the Directors' Report on remuneration to the shareholder identified as "audited" on pages 105 to 109 and information in the risk management section of the Business Review, identified as "audited" on pages 130 to 159	

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and as regards to the Bank Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank and Bank Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Bank and Bank Company's ability to continue to adopt the going concern basis of accounting included:

How we evaluated the Directors' assessment

Risk Assessment Procedures

- Through discussions with Management and review of supporting evidence, including correspondence between the Bank and its Regulators, we updated our understanding of the Bank's capital requirements.
- We obtained an understanding of the Directors' basis for use of the going concern basis of accounting through reviewing the going concern assessment and underlying forecasts and assumptions, and through inquiries of Management and those charged with governance.
- We have independently identified factors that may indicate events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern, which include:
    - The Bank's ability to remain in compliance with binding regulatory capital requirements, which became more onerous from 1 January 2023, including consideration of whether the Bank would need to complete further debt or equity issuances in order to maintain compliance.
    - The Bank's ability to achieve its Financial Plan, noting the prevailing economic uncertainty and high interest and inflationary environment, as well as the Bank's completion of its Simplification project and related strategic programmes, continue to put stress on the Bank and introduce greater uncertainty as to the achievability of these forecasts.
    - The Bank's compliance with regulatory liquidity requirements.
- In this context, risks to the Bank and the Bank Company's ability to continue as a going concern were identified and we have designed our audit procedures to evaluate the likelihood of these risks occurring and their impact on the Bank and the Bank Company's going concern status should they arise. We also considered going concern to be a key audit matter.

Management's Method

- We confirmed our understanding of the Directors' going concern assessment process, including the Financial Statement Close Process, and the process by which the Financial Plan is created and approved. We engaged with Management early to ensure all key factors that we considered to be material were considered in the Bank's going concern assessment.
- We obtained Management's Board approved Financial Plan covering the period of Management's going concern assessment to 30 June 2024.
- Using our understanding of the business, we evaluated the forecasting method adopted by the Directors in assessing going concern, including considering plausible alternative downside scenarios and concluded that the method adopted was appropriate.
- We tested whether the forecasts used in the going concern assessment were mathematically accurate.
- We inquired of Management as to their knowledge of events or conditions beyond the period of Management's assessment and read published announcements from the Prudential Regulation Authority ("PRA") that we considered had the potential to impact the Bank's capital resource and/or requirements.

Assumptions

- We evaluated the relevance and reliability of the underlying data used in the going concern assessment and tested assumptions to third party evidence, where appropriate.
- We met with the PRA during the audit and noted the PRA's perspectives on risks and areas of focus.
- We evaluated the long-term forecast with reference to Management's historical forecasting accuracy and performed stress testing to consider the reasonableness of the base rate assumptions and resultant impact on net interest margin, operating costs, customer deposit growth and the coupon rate assumed on forecast debt/equity issuances over the going concern period. We utilised the support of EY auditor specialists as appropriate in the completion of these procedures.
- We reconciled the Bank's liquidity position to its regulatory liquidity reporting returns and challenged the assumptions within the Bank's liquidity forecasts over the going concern period, considering the Bank's current position and availability of additional liquidity should it be required.

Stress testing and Management plans for future actions

- We evaluated Management's assumptions by performing independent stress testing to determine whether a reasonable alternative stressed scenario, or combination of scenarios, would result in a breach of binding regulatory requirements.
- With the support of our Prudential Regulation specialists, we assessed the reasonableness of the Bank's Risk Weighted Asset assumptions, including any adjustments required relating to the Bank's evolving capital requirements.
- We evaluated the plausibility of Management's downside assumptions with reference to the work performed by EY economists in assessing the Bank's forecast economic scenarios and considered the results of these procedures in performing our independent stress testing.
- We evaluated Management's plans for future actions within the control of the Bank and Bank Company to maintain a surplus to binding regulatory capital requirements over the going concern period in order to determine if such actions are feasible in the current circumstances.

Disclosures

- We considered whether the disclosures (as described within accounting policies on page 198 of the Consolidated Financial Statements) sufficiently and appropriately reflect the events relating to the uncertainties identified in the going concern assessment, and Management's plans in response to these.

Our key observations

Our evaluation of the Directors' going concern assessment covers the period to 30 June 2024.

MREL requirements are the highest binding regulatory requirement the Bank is required to meet over the going concern period, and under the prevailing guidance these requirements increased from 1 January 2023, which falls within the assessed going concern period. If the Bank breaches these regulatory requirements it would be required to seek regulatory forbearance.

Over the assessed going concern period, the Bank has forecast that it will maintain headroom above its binding regulatory MREL requirements using base case assumptions, and also in a scenario where the Bank is unable to complete all the debt/equity issuances included within the Financial Plan.

We have also concluded that the Bank's forecasts and expected outcome over the going concern period are reasonable.

The Bank retains significant headroom to its binding liquidity requirements over the going concern period and we therefore do not consider that the Bank's liquidity requirements give rise to a material uncertainty.

Conclusion

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Bank and Bank Company's ability to continue as a going concern for the period to 30 June 2024.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Bank or Bank Company's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of the Bank and the Bank Company
Key audit matters	• Credit impairment provisions • Valuation of the deferred tax asset relating to the Bank's future profitability • Going concern • Valuation of the defined benefit pension scheme surplus in the Pace and Britannia pension schemes • Risk of fraud in the recognition of income using the Effective Interest Rate ("EIR") Method
Materiality	• Overall materiality for the Bank and the Bank Company of £13.0m which represents 1.0 % of Bank equity (2021: £12.0m representing 0.7 % of Bank equity).

An overview of the scope of the audit

Tailoring the scope

The Bank is principally managed from one location in Manchester, with certain functions such as Treasury and some corporate activities operated from London. All audit work performed for the purposes of the audit was undertaken by the Bank audit team.

Climate change

Stakeholders are increasingly interested in how climate change will impact the Bank and the Bank Company. The Bank and Bank Company has determined that the most significant future impacts from climate change on their operations will be from physical and transition risks. These are explained on pages 37 to 49 in the required Task Force for Climate related Financial Disclosures report. All of these disclosures form part of the "Other Information," and are therefore unaudited. They are not disclosed within the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other Information".

In planning and performing our audit we assessed the potential impacts of climate change on the Bank and Bank Company's business to determine whether they had a material impact on the financial statements.

The Bank and Bank Company have explained in Note 1.2 within the Basis of Preparation how they have reflected the impact of climate change in their financial statements. Note 1.2 explains that where forward-looking information is relied on in preparing the financial statements, the Bank and Bank Company have given due consideration, where appropriate and quantifiable, to potential future impacts of climate-related risk, but recognises that governmental and societal responses to climate change risks are still developing and thus their ultimate impacts on the Bank and the Bank Company are inherently uncertain and cannot be fully known. In Note 2.2.1.c to the financial statements supplementary narrative explanations of the impact of reasonably possible changes in key assumptions and estimates related to climate risk have been provided and significant judgements and estimates relating to climate change have been described.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on pages 37 to 49 and the significant judgements and estimates disclosed in Note 2 and whether these have been appropriately reflected the financial statements, following the requirements of UK adopted international accounting standards. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

Based on our work we have considered the impact of climate change on the financial statements to principally impact the Loan Impairment Provisions key audit matter. Details of our procedures and findings are included in our Loan Impairment Provisions key audit matters below. We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures and found the impact of climate risk on the going concern assessment to be immaterial.

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.

In addition to the key audit matters in the table below our response to the going concern key audit matter is set out in the Conclusions relating to going concern section of this report.

Risk	Our response to the risk
Credit impairment provisions *Please refer to the Audit Committee Report (page 84); Accounting policies (page 288); and Note 14 of the Bank Financial Statements (page 212).* At 31 December 2022, the Bank reported total gross loans of £20,962.2m (2021: £21,039.5m) and credit impairment provisions of £40.3m (2021: £37.4m). The determination of expected credit losses ("ECL") continues to be highly subjective and judgemental. Key judgements and estimates in respect of the timing and measurement of ECL include: - The appropriateness of staging criteria selected by the Bank to determine whether a significant increase in credit risk ("SICR") has arisen; - Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; - Inputs and assumptions used to estimate the impact of non-linearity arising from the Bank's use of multiple economic scenarios including appropriate weightings for the various scenarios; - Completeness and valuation of Post Model Adjustments ("PMAs"); - Measurement of individually assessed provisions; and - Accuracy and adequacy of the financial statement disclosures. We also considered potential consequences of climate change as an emerging risk to the Bank loan portfolio and assessed the impact of this on the Bank's ECL provision. We considered the Bank's assessment of the impact of climate risk on its ECL provision in the completion of these procedures. The level of judgement and estimation remains elevated as a result of the cost of living crisis, driven by high inflation and elevated interest rates, which led to greater uncertainty in forecasting future economic scenarios, the weightings to be applied to these scenarios and the determination of SICR. As such, the level of risk of material misstatement associated with credit impairment provisions has increased relative to the prior year.	We understood and evaluated the design effectiveness of key controls over the impairment process and tested the operating effectiveness of the controls which we intended to rely on covering the reconciliation of model data and the determination of arrears status. We assessed the methodology for determining the SICR criteria and independently tested the staging allocation by reperforming this across the entirety of the secured and unsecured portfolios and a risk based sample of the corporate loan portfolio, with reference to the Bank's SICR thresholds and cure periods. We also performed sensitivity analysis including stage escalations for sectors or exposures with higher risk characteristics. This included exposures with a heightened climate change risk, such as those properties on flood plains or locations which are most likely to be economically impacted by changes in industry trends as a result of the increased focus on climate risk. With the support of EY credit risk modelling specialists we determined which of the Bank's ECL models were material, and for material models reviewed the underlying model methodology. We risk rated the models and performed substantive procedures on a risk focused basis. This included a model design review, model implementation and validation testing, sensitivity analysis, benchmarking and the recalculation of the Probability of Default, Loss Given Default, Exposure at Default and final ECL. We performed testing over the integrity of the key data elements used in developing and validating the Bank's IFRS 9 models and assumptions. We challenged the completeness of these data elements and then tested the data within the models back to source evidence. We also tested other information used by the Bank to calculate the provision, such as collateral valuations. With the support of EY economist specialists, we assessed the base case and alternative economic scenarios, including the Bank's Stagflation scenario. We performed this assessment by challenging probability weightings and comparing to other scenarios from external sources, as well as EY internally developed forecasts. We assessed whether forecasted macro-economic variables including GDP, unemployment, interest rates, and indexation applied to collateral valuations, were appropriate. Having determined the appropriateness of the economic forecasts and associated probability weightings, we assessed the extent of non-linearity arising from the Bank's model outputs. With the support of EY credit risk modelling specialists, we performed sensitivity analysis over the underlying macro-economic factors included within the ECL models to assess how they would perform in a more volatile economic environment, and the resulting impact on ECL.

Risk	Our response to the risk
	With the help of EY credit risk modelling specialists, we assessed whether the inventory of PMAs used by the Bank was complete. In performing this evaluation, we considered the impact of external factors, including the cost of living crisis, climate change, the impact of the conflict in Ukraine and Russia and other emerging risks. In addition, we considered the findings from our model design and implementation reviews and the Bank's lack of historic loss data on the secured portfolio. We critically analysed new PMAs created in the year and reviewed the continued justification for existing PMAs where relevant. We tested the material PMAs by assessing the appropriateness of the Bank's methodologies, validating data inputs and independently recalculating the PMAs, which included an assessment of the underlying calculation methodology. For the more significant PMAs we developed alternative assumptions to form an independent range of the quantum of each PMA, which we compared to the PMA recorded by the Bank. For a sample of higher risk individually assessed corporate provision cases, and also certain Stage 2 corporate cases where the Bank includes a PMA to reflect risks not captured by the underlying models, we obtained an understanding of the latest developments in the borrower's situation and the factors impacting the measurement of provisions including factors arising from the pandemic and climate risk. With the support of EY valuation specialists we independently assessed the underlying collateral used in the Bank's cash flow calculations. In each case we tested key data inputs and considered alternative scenarios in challenging the Bank's estimate. We assessed the adequacy and appropriateness of disclosures made within the financial statements, including the disclosures provided in relation to the credit risk related impacts of the economic uncertainty, current cost of living crisis and climate risk. In line with the requirements of ISA 540 (Revised) – Auditing Accounting Estimates and Related Disclosures, we performed a stand back analysis to assess the overall adequacy of the ECL coverage and approach. In completing this analysis, we considered the nature and credit quality of the overall loan books, used data analytic tools to highlight risk areas in the loan portfolios, performed benchmarking across similar institutions considering both staging percentages and provision coverage, assessed the impact of the cost of living crisis on individual and company exposures and behaviours and evaluated the overall reasonableness of economic recovery assumptions.

Key observations communicated to the Audit Committee

We communicated that we are satisfied the Bank's ECL provisions were reasonably estimated and materially in compliance with IFRS 9.

We highlighted to the Committee that there remains increased uncertainty in determining forecast losses due to the prevailing uncertain economic environment.

We highlighted to the Audit Committee that although we observed model deficiencies, the resulting ECL was reasonable after incorporating appropriate Post Model Adjustments, which in aggregate we considered to be reasonably estimated.

We considered the multiple economic scenarios, and associated weightings, incorporated in the IFRS 9 models to be materially appropriate.

Risk	Our response to the risk
Valuation of the deferred tax asset relating to the Bank's future profitability *Please refer to the Audit Committee Report (page 84); Accounting policies (page 292); and Note 29 of the Bank Financial Statements (page 221).* As the Bank continues to be profitable, with forecasts suggesting that this will be maintained, it has continued to recognise a £120.6m (2021: £114.7m) deferred tax asset to reflect the extent that the Bank's historic losses could be utilised against future anticipated taxable profits and has also recognised £46.8m (2021: £nil) of deferred tax assets in respect of capital allowances on fixed assets on the same basis. Judgement therefore exists relating to the likelihood that the Bank will achieve its forecast results and generate sufficient taxable profits against which losses can be utilised, which is based on estimates of future profitability that are inherently uncertain as they are sensitive to future economic, market and other conditions which are difficult to predict. Key estimates which underpin these forecasts include: - Revenue and cost forecasts; - Macroeconomic and model assumptions; - Duration and reliability of forecasts used especially in the outer years. The recognition of deferred tax also considers the interpretation of changes to applicable tax rates and laws. As the Bank has demonstrated a proven track record of generating profits over a 24 month period, leading to a greater expectation that profits will continue to be earned over future periods, we consider the risks associated with the recognition of this deferred tax asset to have decreased relative to the prior year. For 2022 we have considered the risk to be most prevalent in the valuation risk of the asset.	We considered the length of the forecasts that it would be appropriate to use in calculating the deferred tax asset, with reference to the Bank's historic performance and levels of forecasting accuracy. We also benchmarked the period used by the Bank against that used by peer organisations. We critically assessed the forecast assumptions which underpin the deferred tax asset calculation and tested these for consistency with assumptions used throughout the Bank's financial reporting process. We developed an alternative range of assumptions to apply to the Bank's profit forecasts. These assumptions were determined using external market information, considering the Bank's historical forecasting accuracy and assessing the achievability of future revenue growth and cost reduction plans. Applying these alternative assumptions to the Bank's forecasts enabled us to calculate an independent range against which we assessed the Bank's forecasts. With the support of EY taxation specialists, we assessed the recognition and valuation of the deferred tax asset against the applicable tax rates and laws. In conjunction with our EY modelling specialists we assessed the clerical accuracy of calculations impacted by key model assumptions within the Bank's forecasting model. We also utilised the support of our tax audit team to develop an independent tax model to assess the model used by the Bank to calculate the deferred tax asset. In line with the requirements of ISA 540 (Revised) – Auditing Accounting Estimates and Related Disclosures, we performed a stand back analysis to assess the overall reasonableness of the deferred tax asset recognised by the Bank. In completing this analysis, we considered the Bank's improved performance in 2022 and the likelihood that sufficient future profits will be generated against which historic losses can be used, and assessed the impact of reasonable alternative assumptions on the Bank's profit forecasts. We assessed the appropriateness of the related disclosures in the 2022 Annual Report and Accounts, including the details provided of the assumptions used and the sensitivities disclosed.

Key observations communicated to the Audit Committee
We highlighted to the Audit Committee that we considered the length of forecasts used by the Bank in calculating the deferred tax asset was appropriate and aligned to the Bank's Board-approved five-year financial planning period. We communicated that the Bank's reported deferred tax asset fell within our range of alternative values and therefore we were satisfied that this was reasonably estimated. We also concluded to the Audit Committee that the deferred tax asset was materially calculated in line with applicable tax rates and laws.

Risk	Our response to the risk
Valuation of the defined benefit pension scheme surplus in the Pace and Britannia pension schemes *Please refer to the Audit Committee Report (page 84); Accounting policies (page 292); and Note 30 of the Bank Financial Statements (page 222).* At 31 December 2022, the Bank reported a defined benefit pension scheme surplus of £159.7m (2021: £841.1m). This consisted of assets of £930.2m and liabilities of £913.4m relating to the Pace pension scheme and Britannia pension scheme assets of £557.4m and liabilities of £414.5m. The valuation of the liabilities of each of these pension schemes is subject to the following significant assumptions and is performed by an external firm of pension actuaries: - Discount rate; - Inflation; - Revaluation of deferred pensions; and - Mortality. In the current year, the Bank completed a "buy-in" of the Pace pension scheme and purchased an insurance product designed to match the underlying cash flows of the pension liability. The costs incurred in the purchase of this insurance product were fully settled using the Pace pension scheme assets. However, the Britannia scheme continues to contain an element of Level 3 illiquid investment funds that are harder to value, which increases the risk of incorrect valuation. The audit risk associated with the Bank's pension schemes has remained consistent with the prior year, with the completion of the "buy-in" transaction and the de-risking of the Pace pension scheme mitigating some of the increased risk arising from the market uncertainty driving volatility in the valuation of assets within the scheme. In 2022, we have considered the Bank's accounting treatment of the "buy-in" as part of this key audit matter.	We have critically assessed the Bank's accounting for the pension "buy-in" transaction, and the recording of the loss incurred through the Statement of Other Comprehensive Income, for compliance with the requirements of IAS 19 – Employee Benefits. We obtained input from our IFRS technical accounting team in the completion of this assessment. In conjunction with our taxation specialists, we also assessed the impact of the "buy-in" transaction on the deferred tax liabilities that had previously been recognised in relation to the Pace pension surplus. With the support of EY pension actuaries, we considered the appropriateness of the assumptions supporting the valuation of the scheme liabilities through the development of an independent range of reasonable assumptions against which to assess those used by the Bank and its external actuarial experts. This included the revaluation of the Pace insurance product held as an asset within the Pace pension scheme. We assessed the impact on pension liabilities of changes in financial, demographic and longevity assumptions and whether these were in line with our expectations. We also tested the completeness and accuracy of member data on which these assumptions are based. Alongside EY valuation specialists, we challenged the appropriateness of the Bank's asset valuation methodology, including the judgements made in determining significant assumptions used in the valuation of illiquid Level 3 pension assets within the Britannia pensions scheme, 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 pension disclosures made, and their compliance with the accounting standards including the appropriateness of the key assumptions and sensitivities disclosed.

Key observations communicated to the Audit Committee
We highlighted to the Audit Committee that the Bank had appropriately accounted for the Pace "buy-in" transaction in recording the loss through the Statement of Other Comprehensive Income as an actuarial revaluation, and that the reduction in associated deferred tax liabilities had also been appropriately reported. We also highlighted 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 communicated that there is subjectivity in the valuation of the scheme liabilities due to the use of significant assumptions in calculating the balance. Overall, we were satisfied that on an overall basis, the assumptions made by the Bank were within a reasonable range. We also noted that the asset pools of the Britannia pension scheme contained an element of "hard to value" Level 3 illiquid funds. We are satisfied that the Bank's methods for valuing these assets, and the valuations themselves, were materially appropriate.

Risk	Our response to the risk
Risk of fraud in the recognition of income using the effective interest rate method *Please refer to the Audit Committee Report (page 84) and Accounting policies (page 285) of the Bank Financial Statements.* The Bank records interest income on its mortgage portfolio under the effective interest rate ("EIR") method. The EIR method of revenue recognition spreads the income statement recognition of income and expense cash flows that are, in substance, integral to the overall yield of the financial instrument over its modelled life. The method involves Management judgement in both determining the initial EIR and recording the present value of adjustments arising in subsequent periods when cash flows are reforecast. As such, it represents a risk of fraud in revenue recognition through Management override of internal controls. The Bank's EIR models are most sensitive to changes in the behavioural life assumptions and future interest rate expectations which is difficult to predict (particularly in the context of the future economic and customer impact of the cost of living crisis). Judgement is also applied in determining the nature of fees eligible to be deferred as a result of being integral to the yield of the products. The key assumptions particularly in relation to modelled forecast cash flows may be measured incorrectly due to the use of inaccurate or incomplete data, erroneous formulae or inappropriate assumptions. We consider the level of audit risk associated with the risk of fraud in the recognition of income using the effective interest rate method to have increased during the year, due to the high interest rate environment impacting customer behaviour and increasing the volatility in the Bank's EIR calculations.	We developed an independent range against which we evaluated the key assumptions used by the Bank in the EIR models, being the behavioural lives of assets and the forecasting of standard variable rates to which mortgages revert following the conclusion of their fixed rate term. We assessed customer behavioural assumptions in the context of the Bank's own historic and recent experience and also established the consistency of forecast standard variable rates with market derived base rate forecasts and the Bank's expectations of future interest margins. We considered the cost of living crisis and high interest rate environment on customer behaviour. We tested the completeness, appropriateness and compliance with the requirements of the accounting standards of fees deferred and amortised in the EIR models by independently assessing the Bank's income streams to determine whether they form an integral part of the effective yield and therefore should be included or omitted from the Bank's model. We tested the completeness of data within the Bank's EIR models by selecting a sample of loans from the Bank's underlying source systems and checking these were included in the model. We tested the accuracy of the data within the models through agreement of the model data to the Bank's source systems and underlying customer documentation. We tested the clerical and methodical accuracy of the EIR calculations by recalculating the EIR balance for a sample of mortgages and agreeing this to the Bank's modelled output.

Key observations communicated to the Audit Committee
We communicated our key observations to the Audit Committee that the approach to determining the EIR at 31 December 2022 was appropriate and reasonable in the context of current observable market behaviours and economic conditions. We concluded that the resulting EIR adjustments made to income fell within our independent range of outcomes and were materially in compliance with the requirements of IFRS 9.

The key audit matters identified in the current year are consistent with those included in our 2021 independent auditor's report.

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 £13.0m (2021: £12.0m), which is 1.0% (2021: 0.7%) of the Bank's equity. We believe that the Bank's equity provides us with the most appropriate basis on which to set materiality, as we see this as a proxy for regulatory capital, which is a key focus for users of the financial statements given its importance to the Bank's solvency. We also considered that although the Bank has now been profitable for two consecutive years, it has not yet reached a normalised level of profit on which to base our materiality calculation.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 75% (2021: 75%) of our planning materiality, namely £9.8m (2021: £9.0m). We have set performance materiality at this percentage following the results of our audit risk assessment and assessment of the effectiveness of the Bank's control environment.

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 £0.7m (2021: £0.6m), 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 159, other than the financial statements and our auditor's report thereon. The Directors are responsible for the Other Information contained within the Annual Report and Accounts.

Our opinion on the financial statements does not cover the Other Information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Bank and the Bank Company and 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 Statement of Directors' Responsibilities set out on page 98, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank and Bank Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank or the Bank Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Bank and Management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant are:
  - Companies Act 2006.
  - Financial Reporting Council ("FRC") rules and guidance.
  - Tax Legislation (governed by HM Revenue and Customs).
  - Financial Conduct Authority ("FCA") rules.
  - CRD IV (Basel III) and Prudential Regulation Authority ("PRA") rules.
- We understood how the Bank is complying with those frameworks by attending the Bank's Risk Committee and Audit Committee, reviewing relevant Board and management committee minutes and reports, holding discussions with the Bank's legal team and internal audit, amongst others. We inquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations. We also reviewed the Bank's Complaints Management Policy and Whistleblowing Policy.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, those charged with governance, internal audit and the Audit Committee. We also utilised the support of EY forensics specialists in the performance of this risk assessment.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reports on the aforementioned legal and regulatory frameworks as well as reviewing the correspondence exchanged between the Bank and its Regulators, and gaining an understanding of any regulatory investigations and enforcement actions being undertaken. We also met with the Bank's Regulators at least annually in the performance of the audit. We focused our testing on key areas of risk and estimation, as referred to in the key audit matters section above.
- The Bank operates in the financial services industry, which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team, including auditor's specialists, to ensure the team had the appropriate competence and capabilities, and utilised the support of auditor's specialists as appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed as auditors by the Bank at the AGM on 30 May 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. Our first engagement letter was signed on 17 July 2014. The period of total uninterrupted engagement including previous renewals and reappointments is nine years, covering the years ending 31 December 2014 to 31 December 2022.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank or the Bank Company and we remain independent of the Bank and the Bank Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Bank Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank Company and the Bank Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael-John Albert (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
28 February 2023

Opinion

We have audited the financial statements of The Co-operative Bank Holdings Limited (the "Holding Company") and its subsidiaries (together the "Group") for the year ended 31 December 2022 which comprise the Group Income Statement, the Group and Holding Company Balance Sheet, Group Statement of Cash Flows, the Group Statement of Comprehensive Income, the Group and Holding Company Statement of Changes in Equity, the related notes 1 to 37 (except for the columns marked as "unaudited" in Note 31), including a summary of significant accounting policies, including those disclosed within the explanatory information on pages 284 to 293, the tables within the Directors' Report on remuneration to the shareholder identified as "audited" on pages 105 to 109 and the information in the risk management section of the Business Review, identified as "audited" on pages 130 to 159. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the Group and of the Holding Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Holding Company financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Holding Company's ability to continue as a going concern for a period of 18 months to 30 June 2024. Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Other Information

The Other Information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. The Directors are responsible for the Other Information contained within the Annual Report and Accounts.

Our opinion on the financial statements does not cover the Other Information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Group and the Holding Company and 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 Statement of Directors' Responsibilities set out on page 98, 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 the Holding Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Holding Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Group and Management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Holding Company and determined that the most significant are:
    - Companies Act 2006.
    - Financial Reporting Council ("FRC") rules and guidance.
    - Tax Legislation (governed by HM Revenue and Customs).
    - Financial Conduct Authority ("FCA") rules.
    - CRD IV (Basel III) and Prudential Regulation Authority ("PRA") rules.
- We understood how The Co-operative Bank Holdings Limited is complying with those frameworks by attending the Group's Risk Committee and Audit Committee, reviewing relevant committee minutes and reports, holding discussions with the Group's legal team and internal audit, amongst others. We inquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations. We also reviewed the Group's Complaints Management Policy and Whistleblowing Policy.

- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, those charged with governance, internal audit, and the Audit Committee.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reports on the aforementioned legal and regulatory frameworks as well as reviewing the correspondence exchanged between the Group and its Regulators, and gaining an understanding of any regulatory investigations and enforcement actions being undertaken. We also met with the Group's Regulators at least annually in the performance of our audit. We focused our testing on key areas of risk and estimation, as referred to in the key audit matters section above.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the 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
28 February 2023

Opinion

In our opinion:

- the financial statements of The Co-operative Bank Finance p.l.c (the "Finance Company") and its subsidiaries (together the "Finance Group") give a true and fair view of the state of the Finance Group and of the Finance Company's affairs as at 31 December 2022 and of the Finance Group's profit for the year then ended;
- the Finance Group's financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Finance Company financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements (as defined in the table below) of the Finance Company and the Finance Group for the year ended 31 December 2022, which comprise:

Finance Group	Finance Company
Consolidated balance sheet as at 31 December 2022	Balance sheet as at 31 December 2022
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 (except for the columns marked as "unaudited" in Note 31 of the Group and Bank financial statements, which are referenced in Note 23 of the Finance Company financial statements), including a summary of significant accounting policies, including those disclosed within the explanatory information on pages 284 to 293
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, which are referenced in Note 23 of the Finance Group financial statements), including a summary of significant accounting policies, including those disclosed within the explanatory information on pages 284 to 293	
Tables within the Directors' Report on remuneration to the shareholder identified as "audited" on pages 105 to 109 and information in the risk management section of the Business Review, identified as "audited" on pages 130 to 159	

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and as regards to the Finance Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Finance Group and Finance Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. The going concern status of the Finance Group and the Finance Company is also dependent on The Co-operative Bank p.l.c.'s (the "Bank's") ability to continue as a going concern. Our evaluation of the Directors' assessment of the Finance Group and Finance Company's ability to continue to adopt the going concern basis of accounting included:

How we evaluated the Directors' assessment

Risk Assessment Procedures

- Through discussions with Management and review of supporting evidence, including correspondence between the Bank and its Regulators we updated our understanding of the Bank's capital requirements.
- We obtained an understanding of the Directors' basis for use of the going concern basis of accounting through reviewing the going concern assessment and underlying forecasts and assumptions, and through inquiries of Management and those charged with governance.
- We have independently identified factors that may indicate events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern, which include:
    - The Bank's ability to remain in compliance with binding regulatory capital requirements, which became more onerous from 1 January 2023, including consideration of whether the Bank would need to complete further debt or equity issuances in order to maintain compliance.
    - The Bank's ability to achieve its Financial Plan, noting the prevailing economic uncertainty and high interest and inflationary environment, as well as the Bank's completion of its Simplification project and related strategic programmes, continue to put stress on the Bank and introduce greater uncertainty as to the achievability of these forecasts.
    - The Bank's compliance with regulatory liquidity requirements.
- In this context, risks to the Bank's and the Bank Company's ability to continue as a going concern were identified and we have designed our audit procedures to evaluate the likelihood of these risks occurring and their impact on the Bank and the Bank Company's going concern status should they arise. We also considered going concern to be a key audit matter.

Management's Method

- We confirmed our understanding of the Directors' going concern assessment process, including the Financial Statement Close Process, and the process by which the Financial Plan is created and approved. We engaged with Management early to ensure all key factors that we considered to be material were considered in the Bank's going concern assessment.
- We obtained Management's Board approved Financial Plan covering the period of Management's going concern assessment to 30 June 2024.
- Using our understanding of the business, we evaluated the forecasting method adopted by the Directors in assessing going concern, including considering plausible alternative downside scenarios and concluded that the method adopted was appropriate.
- We tested whether the forecasts used in the going concern assessment were mathematically accurate.
- We inquired of Management as to their knowledge of events or conditions beyond the period of Management's assessment and read published announcements from the Prudential Regulation Authority ("PRA") that we considered had the potential to impact the Bank's capital resource and/or requirements.

Assumptions

- We evaluated the relevance and reliability of the underlying data used in the going concern assessment and tested assumptions to third party evidence, where appropriate.
- We met with the PRA during the audit and noted the PRA's perspectives on risks and areas of focus.
- We evaluated the long-term forecast with reference to Management's historical forecasting accuracy and performed stress testing to consider the reasonableness of the base rate assumptions and resultant impact on net interest margin, operating costs, customer deposit growth and the coupon rate assumed on forecast debt/equity issuances over the going concern period. We utilised the support of EY auditor specialists as appropriate in the completion of these procedures.
- We reconciled the Bank's liquidity position to its regulatory liquidity reporting returns and challenged the assumptions within the Bank's liquidity forecasts over the going concern period, considering the Bank's current position and availability of additional liquidity should it be required.

Stress testing and Management plans for future actions

- We evaluated Management's assumptions by performing independent stress testing to determine whether a reasonable alternative stressed scenario, or combination of scenarios, would result in a breach of binding regulatory requirements.

- With the support of our Prudential Regulation specialists, we assessed the reasonableness of the Bank's Risk Weighted Asset assumptions, including any adjustments required relating to the Bank's evolving capital requirements.
- We evaluated the plausibility of Management's downside assumptions with reference to the work performed by EY economists in assessing the Bank's forecast economic scenarios and considered the results of these procedures in performing our independent stress testing.
- We evaluated Management's plans for future actions within the control of the Bank and Bank Company to maintain a surplus to binding regulatory capital requirements over the going concern period in order to determine if such actions are feasible in the current circumstances.

Disclosures

- We considered whether the disclosures (as described within accounting policies on page 198 of the Consolidated Financial Statements) sufficiently and appropriately reflect the events relating to the uncertainties identified in the going concern assessment, and Management's plans in response to these.

Our key observations

Our evaluation of the Directors' going concern assessment covers the period to 30 June 2024.

MREL requirements are the highest binding regulatory requirement the Bank is required to meet over the going concern period, and under the prevailing guidance these requirements increased from 1 January 2023, which falls within the assessed going concern period. If the Bank breaches these regulatory requirements it would be required to seek regulatory forbearance.

Over the assessed going concern period, the Bank has forecast that it will maintain headroom above its binding regulatory MREL requirements using base case assumptions, and also in a scenario where the Bank is unable to complete all the debt/equity issuances included within the Financial Plan.

We have also concluded that the Bank's forecasts and expected outcome over the going concern period are reasonable.

The Bank retains significant headroom to its binding liquidity requirements over the going concern period and we therefore do not consider that the Bank's liquidity requirements give rise to a material uncertainty.

Conclusion

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Finance Group and Finance Company's ability to continue as a going concern for the period to 30 June 2024.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Finance Group or Finance Company's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of the Finance Group and the Finance Company
Key audit matters	• Credit impairment provisions • Valuation of the deferred tax asset relating to the Finance Group's future profitability • Going concern • Valuation of the defined benefit pension scheme surplus in the Pace and Britannia pension schemes • Risk of fraud in the recognition of income using the Effective Interest Rate ("EIR") Method • Valuation of the Finance Company's investment in subsidiary
Materiality	• Overall materiality for the Finance Company of £13.0m which represents 1.0 % of Bank equity (2021: £12.0m representing 0.7 % of Bank equity). • Overall materiality for the Finance Company of £4.9m, which represents 0.5 % of the Finance Company's assets (2021: £3.7m representing 0.5 % of the Finance Company's assets).

An overview of the scope of the audit

Tailoring the scope

The Finance Group is principally managed from one location in Manchester, with certain functions such as Treasury and some corporate activities operated from London. All audit work performed for the purposes of the audit was undertaken by the Finance Group audit team.

Climate change

Stakeholders are increasingly interested in how climate change will impact the Finance Group and the Finance Company. The Finance Group and Finance Company has determined that the most significant future impacts from climate change on their operations will be from physical and transition risks. These are explained on pages 37 to 49 in the required Task Force for Climate related Financial Disclosures report. All of these disclosures form part of the "Other Information," and are therefore unaudited. They are not disclosed within the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other Information".

In planning and performing our audit we assessed the potential impacts of climate change on the Finance Group and Finance Company's business to determine whether they had a material impact on the financial statements.

The Finance Group and Finance Company have explained in Note 1.2 within the Basis of Preparation how they have reflected the impact of climate change in their financial statements. Note 1.2 explains that where forward-looking information is relied on in preparing the financial statements, the Finance Group and Finance Company have given due consideration, where appropriate and quantifiable, to potential future impacts of climate-related risk, but recognises that governmental and societal responses to climate change risks are still developing and thus their ultimate impacts on the Finance Group and the Finance Company are inherently uncertain and cannot be fully known. In Note 2.2.1.c to the financial statements supplementary narrative explanations of the impact of reasonably possible changes in key assumptions and estimates related to climate risk have been provided and significant judgements and estimates relating to climate change have been described.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on pages 37 to 49 and the significant judgements and estimates disclosed in Note 2 and whether these have been appropriately reflected the financial statements, following the requirements of UK adopted international accounting standards. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

Based on our work we have considered the impact of climate change on the financial statements to principally impact the Loan Impairment Provisions key audit matter. Details of our procedures and findings are included in our Loan Impairment Provisions key audit matters below. We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures and found the impact of climate risk on the going concern assessment to be immaterial.

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.

In addition to the key audit matters in the table below our response to the going concern key audit matter is set out in the Conclusions relating to going concern section of this report.

Risk	Our response to the risk
Credit impairment provisions *Please refer to the Audit Committee Report (page 84); Accounting policies (page 288); and Note 5 of the Finance Group Financial Statements (page 280).* At 31 December 2022, the Finance Group reported total gross loans of £20.962.2m (2021 £21,039.5m) and credit impairment provisions of £40.3m (2021: £37.4m). The determination of expected credit losses ("ECL") continues to be highly subjective and judgemental. Key judgements and estimates in respect of the timing and measurement of ECL include: - The appropriateness of staging criteria selected by the Finance Group to determine whether a significant increase in credit risk ("SICR") has arisen; - Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; - Inputs and assumptions used to estimate the impact of non-linearity arising from the Finance Group's use of multiple economic scenarios including appropriate weightings for the various scenarios; - Completeness and valuation of Post Model Adjustments ("PMAs"); - Measurement of individually assessed provisions; and - Accuracy and adequacy of the financial statement disclosures. We also considered potential consequences of climate change as an emerging risk to the Finance Group's loan portfolio and assessed the impact of this on the Finance Group's ECL provision. We considered the Finance Group's assessment of the impact of climate risk on its ECL provision in the completion of these procedures. The level of judgement and estimation remains elevated as a result of the cost of living crisis, driven by high inflation and elevated interest rates, which led to greater uncertainty in forecasting future economic scenarios, the weightings to be applied to these scenarios and the determination of SICR. As such, the level of risk of material misstatement associated with credit impairment provisions has increased relative to the prior year.	We understood and evaluated the design effectiveness of key controls over the impairment process and tested the operating effectiveness of the controls which we intended to rely on covering the reconciliation of model data and the determination of arrears status. We assessed the methodology for determining the SICR criteria and independently tested the staging allocation by reperforming this across the entirety of the secured and unsecured portfolios and a risk based sample of the corporate loan portfolio, with reference to the Finance Group's SICR thresholds and cure periods. We also performed sensitivity analysis including stage escalations for sectors or exposures with higher risk characteristics. This included exposures with a heightened climate change risk, such as those properties on flood plains or locations which are most likely to be economically impacted by changes in industry trends as a result of the increased focus on climate risk. With the support of EY credit risk modelling specialists we determined which of the Finance Group's ECL models were material, and for material models reviewed the underlying model methodology. We risk rated the models and performed substantive procedures on a risk focused basis. This included a model design review, model implementation and validation testing, sensitivity analysis, benchmarking and the recalculation of the Probability of Default, Loss Given Default, Exposure at Default and final ECL. We performed testing over the integrity of the key data elements used in developing and validating the Finance Group's IFRS 9 models and assumptions. We challenged the completeness of these data elements and then tested the data within the models back to source evidence. We also tested other information used by the Finance Group to calculate the provision, such as collateral valuations. With the support of EY economist specialists, we assessed the base case and alternative economic scenarios, including the Finance Group's Stagflation scenario. We performed this assessment by challenging probability weightings and comparing to other scenarios from external sources, as well as EY internally developed forecasts. We assessed whether forecasted macro-economic variables including GDP, unemployment, interest rates, and indexation applied to collateral valuations, were appropriate. Having determined the appropriateness of the economic forecasts and associated probability weightings, we assessed the extent of non-linearity arising from the Finance Group's model outputs. With the support of EY credit risk modelling specialists, we performed sensitivity analysis over the underlying macro-economic factors included within the ECL models to assess how they would perform in a more volatile economic environment, and the resulting impact on ECL. With the help of EY credit risk modelling specialists, we assessed whether the inventory of PMAs used by the Finance Group was complete. In performing this evaluation, we considered the impact of external factors, including the cost of living crisis, climate change, the impact of the conflict in Ukraine and Russia and other emerging risks. In addition, we considered the findings from our model design and implementation reviews and the Bank's lack of historic loss data on the secured portfolio. We critically analysed new PMAs created in the year and reviewed the continued justification for existing PMAs where relevant.

Risk	Our response to the risk
	We tested the material PMAs, by assessing the appropriateness of the Finance Group’s methodologies, validating data inputs and independently recalculating the PMAs, which included an assessment of the underlying calculation methodology. For the more significant PMAs we developed alternative assumptions to form an independent range of the quantum of each PMA, which we compared to the PMA recorded by the Finance Group. For a sample of higher risk individually assessed corporate provision cases, and also certain Stage 2 corporate cases where the Finance Group includes a PMA to reflect risks not captured by the underlying models, we obtained an understanding of the latest developments in the borrower’s situation and the factors impacting the measurement of provisions including factors arising from the pandemic and climate risk. With the support of EY valuation specialists we independently assessed the underlying collateral used in the Finance Group’s cash flow calculations. In each case we tested key data inputs and considered alternative scenarios in challenging the Finance Group’s estimate. We assessed the adequacy and appropriateness of disclosures made within the financial statements, including the disclosures provided in relation to the credit risk related impacts of the economic uncertainty, current cost of living crisis and climate risk. In line with the requirements of ISA 540 (Revised) – Auditing Accounting Estimates and Related Disclosures, we performed a stand back analysis to assess the overall adequacy of the ECL coverage and approach. In completing this analysis, we considered the nature and credit quality of the overall loan books, used data analytic tools to highlight risk areas in the loan portfolios, performed benchmarking across similar institutions considering both staging percentages and provision coverage, assessed the impact of the cost of living crisis on individual and company exposures and behaviours and evaluated the overall reasonableness of economic recovery assumptions.

Key observations communicated to the Audit Committee

We communicated that we are satisfied the Finance Group’s ECL provisions were reasonably estimated and materially in compliance with IFRS 9.

We highlighted to the Committee that there remains increased uncertainty in determining forecast losses due to the prevailing uncertain economic environment.

We highlighted to the Audit Committee that although we observed model deficiencies, the resulting ECL was reasonable after incorporating appropriate Post Model Adjustments, which in aggregate we considered to be reasonably estimated.

We considered the multiple economic scenarios, and associated weightings, incorporated in the IFRS 9 models to be materially appropriate.

Risk	Our response to the risk
Valuation of the deferred tax asset relating to the Finance Group's future profitability *Please refer to the Audit Committee Report (page 84); Accounting policies (page 292); and Note 21 of the Finance Group Financial Statements (page 282).* As the Finance Group continues to be profitable, with forecasts suggesting that this will be maintained, it has continued to recognise a £120.6m (2021: £114.7m deferred tax asset to reflect the extent that the Bank's historic losses could be utilised against future anticipated taxable profits and has also recognised £46.8m (2021: £nil) of deferred tax assets in respect of capital allowances on fixed assets on the same basis. Judgement therefore exists relating to the likelihood that the Finance Group will achieve its forecast results and generate sufficient taxable profits against which losses can be utilised, which is based on estimates of future profitability that are inherently uncertain as they are sensitive to future economic, market and other conditions which are difficult to predict. Key estimates which underpin these forecasts include: - Revenue and cost forecasts; - Macroeconomic and model assumptions; - Duration and reliability of forecasts used especially in the outer years. The recognition of deferred tax also considers the interpretation of changes to applicable tax rates and laws. As the Finance Group has demonstrated a proven track record of generating profits over a 24 month period, leading to a greater expectation that profits will continue to be earned over future periods, we consider the risks associated with the recognition of this deferred tax asset to have decreased relative to the prior year. For 2022 we have considered the risk to be most prevalent in the valuation risk of the asset.	We considered the length of the forecasts that it would be appropriate to use in calculating the deferred tax asset, with reference to the Finance Group's historic performance and levels of forecasting accuracy. We also benchmarked the period used by the Finance Group against that used by peer organisations. We critically assessed the forecast assumptions which underpin the deferred tax asset calculation and tested these for consistency with assumptions used throughout the Finance Group's financial reporting process. We developed an alternative range of assumptions to apply to the Finance Group's profit forecasts. These assumptions were determined using external market information, considering the Finance Group's historical forecasting accuracy and assessing the achievability of future revenue growth and cost reduction plans. Applying these alternative assumptions to the Finance Group's forecasts enabled us to calculate an independent range against which we assessed the Finance Group's forecasts. With the support of EY taxation specialists, we assessed the recognition and valuation of the deferred tax asset against the applicable tax rates and laws. In conjunction with our EY modelling specialists we assessed the clerical accuracy of calculations impacted by key model assumptions within the Finance Group's forecasting model. We also utilised the support of our tax audit team to develop an independent tax model to assess the model used by the Finance Group to calculate the deferred tax asset. In line with the requirements of ISA 540 (Revised) – Auditing Accounting Estimates and Related Disclosures, we performed a stand back analysis to assess the overall reasonableness of the deferred tax asset recognised by the Finance Group. In completing this analysis, we considered the Finance Group's improved performance in 2022 and the likelihood that sufficient future profits will be generated against which historic losses can be used, and assessed the impact of reasonable alternative assumptions on the Finance Group's profit forecasts. We assessed the appropriateness of the related disclosures in the 2022 Annual Report and Accounts, including the details provided of the assumptions used and the sensitivities disclosed.

Key observations communicated to the Audit Committee

We highlighted to the Audit Committee that we considered the length of forecasts used by the Finance Group in calculating the deferred tax asset was appropriate and aligned to the Finance Group's Board-approved five-year financial planning period.

We communicated that the Finance Company's reported deferred tax asset fell within our range of alternative values and therefore we were satisfied that this was reasonably estimated.

We also concluded to the Audit Committee that the deferred tax asset was materially calculated in line with applicable tax rates and laws.

Risk	Our response to the risk
Valuation of the defined benefit pension scheme surplus in the Pace and Britannia pension schemes *Please refer to the Audit Committee Report (page 84); Accounting policies (page 292); and Note 22 of the Finance Group Financial Statements (page 282).* At 31 December 2022, the Finance Group reported a defined benefit pension scheme surplus of £159.7m (2021: £841.1m). This consisted of assets of £930.2m and liabilities of £913.4m relating to the Pace pension scheme and Britannia pension scheme assets of £557.4m and liabilities of £414.5m. The valuation of the liabilities of each of these pension schemes is subject to the following significant assumptions and is performed by an external firm of pension actuaries: - Discount rate; - Inflation; - Revaluation of deferred pensions; and - Mortality. In the current year, the Finance Group completed a "buy-in" of the Pace pension scheme and purchased an insurance product designed to match the underlying cash flows of the pension liability. The costs incurred in the purchase of this insurance product were fully settled using the Pace pension scheme assets. However, the Britannia scheme continues to contain an element of Level 3 illiquid investment funds that are harder to value, which increases the risk of incorrect valuation. The audit risk associated with the Finance Group's pension schemes has remained consistent with the prior year, with the completion of the "buy-in" transaction and the de-risking of the Pace pension scheme mitigating some of the increased risk arising from the market uncertainty driving volatility in the valuation of assets within the scheme. In 2022, we have considered the Finance Group's accounting treatment of the "buy-in" as part of this key audit matter.	We have critically assessed the Finance Group's accounting for the pension "buy-in" transaction, and the recording of the loss incurred through the Statement of Other Comprehensive Income, for compliance with the requirements of IAS 19 – Employee Benefits. We obtained input from our IFRS technical accounting team in the completion of this assessment. In conjunction with our taxation specialists, we also assessed the impact of the "buy-in" transaction on the deferred tax liabilities that had previously been recognised in relation to the Pace pension surplus. With the support of EY pension actuaries, we considered the appropriateness of the assumptions supporting the valuation of the scheme liabilities through the development of an independent range of reasonable assumptions against which to assess those used by the Finance Group and its external actuarial experts. This included the revaluation of the Pace insurance product held as an asset within the Pace pension scheme. We assessed the impact on pension liabilities of changes in financial, demographic and longevity assumptions and whether these were in line with our expectations. We also tested the completeness and accuracy of member data on which these assumptions are based. Alongside EY valuation specialists, we challenged the appropriateness of the Finance Group's asset valuation methodology, including the judgements made in determining significant assumptions used in the valuation of illiquid Level 3 pension assets within the Britannia pensions scheme, 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 pension disclosures made, and their compliance with the accounting standards including the appropriateness of the key assumptions and sensitivities disclosed.

Key observations communicated to the Audit Committee

We highlighted to the Audit Committee that the Finance Group had appropriately accounted for the Pace "buy-in" transaction in recording the loss through the Statement of Other Comprehensive Income as an actuarial revaluation, and that the reduction in associated deferred tax liabilities had also been appropriately reported. We also highlighted 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 communicated that there is subjectivity in the valuation of the scheme liabilities due to the use of significant assumptions in calculating the balance. Overall, we were satisfied that on an overall basis, the assumptions made by the Finance Group were within a reasonable range. We also noted that the asset pools of the Britannia pension scheme contained an element of "hard to value" Level 3 illiquid funds. We are satisfied that the Finance Group's methods for valuing these assets, and the valuations themselves, were materially appropriate.

Risk	Our response to the risk
Risk of fraud in the recognition of income using the effective interest rate method *Please refer to the Audit Committee Report (page 84) and Accounting policies (page 285) of the Finance Group Financial Statements.* The Finance Group records interest income on its mortgage portfolio under the effective interest rate ("EIR") method. The EIR method of revenue recognition spreads the income statement recognition of income and expense cash flows that are, in substance, integral to the overall yield of the financial instrument over its modelled life. The method involves Management judgement 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 which is difficult to predict (particularly in the context of the future economic and customer impact of the cost of living crisis). Judgement is also applied in determining the nature of fees eligible to be deferred as a result of being integral to the yield of the products. The key assumptions particularly in relation to modelled forecast cash flows may be measured incorrectly due to the use of inaccurate or incomplete data, erroneous formulae or inappropriate assumptions. We consider the level of audit risk associated with the risk of fraud in the recognition of income using the effective interest rate method to have increased during the year, due to the high interest rate environment impacting customer behaviour and increasing the volatility in the Finance Group's EIR calculations.	We developed an independent range against which we evaluated the key assumptions used by the Finance Group in the EIR models, being the behavioural lives of assets and the forecasting of standard variable rates to which mortgages revert following the conclusion of their fixed rate term. We assessed customer behavioural assumptions in the context of the Finance Group's own historic and recent experience and also established the consistency of forecast standard variable rates with market derived base rate forecasts and the Finance Group's expectations of future interest margins. We considered the cost of living crisis and high interest rate environment on customer behaviour. We tested the completeness, appropriateness and compliance with the requirements of the accounting standards of fees deferred and amortised in the EIR models by independently assessing the Finance Group's income streams to determine whether they form an integral part of the effective yield and therefore should be included or omitted from the Finance Group's model. We tested the completeness of data within the Finance Group's EIR models by selecting a sample of loans from the Finance Group's underlying source systems and checking these were included in the model. We tested the accuracy of the data within the models through agreement of the model data to the Finance Group's source systems and underlying customer documentation. We tested the clerical and methodical accuracy of the EIR calculations by recalculating the EIR balance for a sample of mortgages and agreeing this to the Finance Group's modelled output.

Key observations communicated to the Audit Committee
We communicated our key observations to the Audit Committee that the approach to determining the EIR at 31 December 2022 was appropriate and reasonable in the context of current observable market behaviours and economic conditions. We concluded that the resulting EIR adjustments made to income fell within our independent range of outcomes and were materially in compliance with the requirements of IFRS 9.

Risk	Our response to the risk
Valuation of the Finance Company's investment in subsidiary *Please refer to the Accounting policies (page 293) and Note 9 of the Finance Group Financial Statements (page 280).* At 31 December 2022, the Finance Company reported an investment in subsidiary of £333.0m (2021: £333.0m). The Finance Company holds an investment in the Bank Company on its balance sheet, which is recorded at cost less impairment under IAS 27. Management is therefore required to perform an annual impairment assessment over this investment. This involves significant subjectivity and estimation in relation to the future performance of the Bank.	We have reviewed the Finance Company's assessment of impairment in its investment in the Bank Company and have reviewed the factors identified, including: - The indicative share price of the Bank Company based on available third party information; - Performance of the Bank Company versus its budget and its ability to generate future profits; - The Bank Company's credit rating; - The Bank Company's ability to continue as a going concern; - The valuation of the Bank Company's MREL debt on the market. In addition, we performed an independent assessment of any indicators of impairment and considered whether there were any additional matters not considered by the Finance Company. Our independent assessment has examined the financial position of the Bank Company at the year-end, incorporating the Bank Company's performance in the year and consideration of the fair value of the Bank Company's assets in the event the Bank Company was broken up. We have also benchmarked the Bank Company's price to book valuations against peer organisations and have considered developments from the point at which the initial cost value of the investment was determined, to assess whether the underlying value has reduced.
Key observations communicated to the Audit Committee	
We communicated to the Audit Committee that we concluded the Finance Company's investment in subsidiary was not impaired.	

The key audit matters identified in the current year are consistent with those included in our 2021 independent auditor's report.

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 Company to be £13.0m (2021: £12.0m), which is 1.0% (2021: 0.7%) of the Bank's equity. As the Finance Group consolidates the activity of the Bank, and neither the consolidated results of the Finance Group, or the focus of the users of these accounts, substantially differ from those of the Bank, we have therefore concluded that the basis of materiality should remain consistent. We see equity as a proxy for regulatory capital, which is a key focus for users of the Bank's financial statements given its importance to the Bank's solvency. We also considered that although the Finance Group has now been profitable for two consecutive years, it has not yet reached a normalised level of profit on which to base our materiality calculation.

We determined materiality for the Finance Company to be £4.9m (2021: £3.7m), which is 0.5% (2021: 0.5%) of the Finance Company's 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 Company.

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 75% (2021: 75%) of our planning materiality, namely £9.8m (2021: £9.0m).

For this reason, performance materiality for the Finance Company was also set at 75% (2021: 75%) of materiality, namely £3.7m (2021: £2.8m).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.7m (2021: £0.6m) relating to the Finance Group and £0.2m (2021: £0.2m) relating to the Finance Company, 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 159, other than the financial statements and our auditor's report thereon. The Directors are responsible for the Other Information contained within the Annual Report and Accounts.

Our opinion on the financial statements does not cover the Other Information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Finance Group and the Finance Company and 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 Statement of Directors Responsibilities set out on page 98, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Finance Group and Finance Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Finance Group or the Finance Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Finance Group and Management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Finance Group and determined that the most significant are:
    - Companies Act 2006.
    - Financial Reporting Council ("FRC") rules and guidance.
    - Tax Legislation (governed by HM Revenue and Customs).
    - Financial Conduct Authority ("FCA") rules.
    - CRD IV (Basel III) and Prudential Regulation Authority ("PRA") rules.
- We understood how the Finance Group is complying with those frameworks by attending the Finance Group's Risk Committee and Audit Committee, reviewing relevant Board and management committee minutes and reports, holding discussions with the Finance Group's legal team and internal audit, amongst others. We inquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations. We also reviewed the Finance Group's Complaints Management Policy and Whistleblowing Policy.
- 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, those charged with governance, internal audit and the Audit Committee. We also utilised the support of EY forensics specialists in the performance of this risk assessment.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reports on the aforementioned legal and regulatory frameworks as well as reviewing the correspondence exchanged between the Finance Group and its Regulators, and gaining an understanding of any regulatory investigations and enforcement actions being undertaken. We also met with the Finance Group's Regulators at least annually in the performance of the audit. We focused our testing on key areas of risk and estimation, as referred to in the key audit matters section above.
- The Finance Group operates in the financial services industry, which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team, including auditor's specialists, to ensure the team had the appropriate competence and capabilities, and utilised the support of auditor's specialists as appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed as auditors by the Finance Group at the AGM on 30 May 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. Our first engagement letter was signed on 17 July 2014. The period of total uninterrupted engagement including previous renewals and reappointments is nine years, covering the years ending 31 December 2014 to 31 December 2022.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Finance Group or the Finance Company and we remain independent of the Finance Group and the Finance Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Finance Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Finance Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Finance Company and the Finance Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael-John Albert (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
28 February 2023

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

THE CO-OPERATIVE BANK HOLDINGS LIMITED CONSOLIDATED FINANCIAL STATEMENTS (GROUP)
THE CO-OPERATIVE BANK P.L.C. CONSOLIDATED FINANCIAL STATEMENTS (BANK)
CONSOLIDATED INCOME STATEMENT

For year ended 31 December 2022

£million

		Group and Bank	
	Note	2022	2021
Interest income calculated using the effective interest rate method		**581.2**	422.7
Other interest and similar income		**88.7**	11.2
Interest income and similar income	6	**669.9**	433.9
Interest expense and similar charges	6	**(211.6)**	(110.0)
Net interest income		**458.3**	323.9
Fee and commission income	7	**64.4**	58.4
Fee and commission expense	7	**(32.6)**	(33.2)
Net fee and commission income		**31.8**	25.2
Income from investments		**0.2**	0.3
Other operating income (net)	8	**21.4**	28.9
Operating income		**511.7**	378.3
Operating expenses	9	**(373.7)**	(348.7)
Net customer redress release	28	**1.0**	2.6
Total operating expenses		**(372.7)**	(346.1)
Operating profit before net credit impairment losses		**139.0**	32.2
Net credit impairment losses	14	**(6.4)**	(1.1)
Profit before tax		**132.6**	31.1
Income tax	11	**(110.5)**	166.2
Profit for the financial year		**22.1**	197.3

The results above are for the consolidated Group and Bank and wholly relate to continuing activities. More information regarding the basis of preparation can be found in note 1 of the consolidated financial statements.

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

The notes on pages 197 to 240 form part of these consolidated Group and Bank financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For year ended 31 December 2022

£million

	Group and Bank	
	2022	2021
Profit for the year	**22.1**	197.3
Items that may be recycled to profit or loss:		
Changes in cash flow hedges:		
Transfers from equity to income or expense	**(6.9)**	(9.2)
Income tax	**2.8**	1.4
Changes in fair value through other comprehensive income:		
Net changes in fair value recognised directly in equity	**121.6**	30.6
Transfers from equity to income or expense	**(131.3)**	(32.8)
Income tax	**1.5**	0.3
Items that may not subsequently be recycled to profit or loss:		
Changes in net retirement benefit asset:		
Defined benefit plans (losses)/gains for the year	**(693.8)**	182.7
Income tax	**231.1**	(92.8)
Other comprehensive (expense)/income for the year, net of income tax	**(475.0)**	80.2
Total comprehensive (expense)/income for the year	**(452.9)**	277.5

The results above are for the consolidated Group and Bank. More information regarding the basis of preparation can be found in note 1 of the consolidated financial statements.

The notes on pages 197 to 240 form part of these consolidated Group and Bank financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2022

£million

		Group		Bank	
	Note	2022	2021	2022	2021
Assets					
Cash and balances at central banks	12	**5,270.4**	5,696.9	**5,270.4**	5,696.9
Loans and advances to banks	13	**387.1**	191.5	**387.1**	191.5
Loans and advances to customers	14	**20,921.9**	21,002.1	**20,921.9**	21,002.1
Fair value adjustments for hedged risk	14	**(430.7)**	(90.5)	**(430.7)**	(90.5)
Investment securities	15	**942.7**	1,201.4	**942.7**	1,201.4
Derivative financial instruments	16	**520.1**	248.5	**520.1**	248.5
Equity shares	17	**11.1**	22.8	**11.1**	22.8
Other assets	18	**14.1**	12.7	**14.1**	12.7
Prepayments	19	**21.4**	20.3	**21.4**	20.3
Property, plant and equipment	20	**22.8**	24.3	**22.8**	24.3
Intangible assets	21	**90.0**	68.5	**90.0**	68.5
Right-of-use assets	22	**33.0**	46.9	**33.0**	46.9
Current tax assets		**1.8**	-	**1.8**	-
Deferred tax assets	29	**167.4**	36.8	**167.4**	36.8
Net retirement benefit asset	30	**159.7**	841.1	**159.7**	841.1
Total assets		**28,132.8**	29,323.3	**28,132.8**	29,323.3
Liabilities					
Deposits by banks	23	**5,683.4**	5,527.6	**5,683.4**	5,527.6
Customer accounts		**20,107.3**	21,135.9	**20,107.4**	21,136.0
Fair value adjustment for hedged risk		**(34.6)**	(7.5)	**(34.6)**	(7.5)
Debt securities in issue	24	**181.9**	203.3	**181.9**	203.3
Derivative financial instruments	16	**103.5**	148.2	**103.5**	148.2
Other liabilities	26	**42.8**	38.7	**42.8**	38.7
Accruals and deferred income	27	**32.5**	37.0	**32.5**	37.0
Provisions	28	**33.2**	33.9	**33.2**	33.9
Other borrowed funds	25	**646.9**	402.1	**646.9**	402.1
Lease liabilities	22	**31.0**	44.1	**31.0**	44.1
Net retirement benefit liability	30	**5.9**	8.1	**5.9**	8.1
Total liabilities		**26,833.8**	27,571.4	**26,833.9**	27,571.5
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	**-**	-
Retained earnings	33	**1,968.1**	1,946.0	**1,245.7**	1,223.6
Other reserves	34	**(983.8)**	(508.8)	**27.6**	502.6
Total equity		**1,299.0**	1,751.9	**1,298.9**	1,751.8
Total liabilities and equity		**28,132.8**	29,323.3	**28,132.8**	29,323.3

The financial positions above are for the consolidated Group and Bank. More information regarding the basis of preparation can be found in note 1 of the consolidated financial statements.

The notes on pages 197 to 240 form part of these consolidated Group and Bank financial statements.

Approved by the Board of The Co-operative Bank Holdings Limited on 28 February 2023:

Robert Dench Chair of the Board	Nick Slape Chief Executive Officer

Approved by the Board for The Co-operative Bank p.l.c. on 28 February 2023:

Robert Dench Chair of the Board	Nick Slape Chief Executive Officer

CONSOLIDATED STATEMENT OF CASHFLOWS

For year ended 31 December 2022

£million

	Note	Group 2022	Group 2021	Bank 2022	Bank 2021
Cash flows (used in)/from operating activities:					
Profit before tax		**132.6**	31.1	**132.6**	31.1
Adjustments for non cash movements:					
Pension scheme adjustments		**(12.7)**	(5.6)	**(12.7)**	(5.6)
Net credit impairment losses		**6.4**	1.1	**6.4**	1.1
Depreciation, amortisation and impairment		**35.3**	36.6	**35.3**	36.6
Other non-cash movements including exchange rate movements		**135.6**	121.5	**135.6**	121.5
Changes in operating assets and liabilities:					
Increase in deposits by banks		**155.8**	3,461.2	**155.8**	3,461.2
Increase in prepayments		**(1.1)**	(7.1)	**(1.1)**	(7.1)
(Decrease)/increase in accruals and deferred income		**(4.5)**	2.0	**(4.5)**	2.0
(Decrease)/increase in customer accounts		**(1,028.8)**	769.2	**(1,028.8)**	769.2
Decrease in debt securities in issue		**(21.4)**	(525.5)	**(21.4)**	(525.5)
(Increase)/decrease in loans and advances to banks		**(28.5)**	13.6	**(28.5)**	13.6
Decrease/(increase) in loans and advances to customers		**32.5**	(2,356.6)	**32.5**	(2,356.6)
Net movement of other assets and other liabilities		**(28.6)**	118.0	**(28.6)**	118.0
Income tax paid		**(6.8)**	-	**(6.8)**	-
Net cash flows (used in)from operating activities		**(634.2)**	1,659.5	**(634.2)**	1,659.5
Cash flows from/(used) investing activities:					
Purchase of tangible and intangible assets		**(48.0)**	(28.9)	**(48.0)**	(28.9)
Purchase of investment securities		**(465.7)**	(873.2)	**(465.7)**	(873.2)
Proceeds from sale of property and equipment		**0.4**	1.9	**0.4**	1.9
Proceeds from sale of shares and other interests		**20.4**	2.0	**20.4**	2.0
Proceeds from sale and maturity of investment securities		**679.0**	774.9	**679.0**	774.9
Purchase of equity shares		**(0.8)**	(0.5)	**(0.8)**	(0.5)
Dividends received		**0.2**	0.3	**0.2**	0.3
Net cash flows from/(used) investing activities		**185.5**	(123.5)	**185.5**	(123.5)
Cash flows from/(used in) financing activities:					
Proceeds from MREL issuance		**248.4**	-	**248.4**	-
Interest paid on Tier 2 notes and senior unsecured debt		**(44.5)**	(37.0)	**(44.5)**	(37.0)
Lease liability principal payments		**(14.6)**	(11.0)	**(14.6)**	(11.0)
Net cash flows from/(used in) financing activities		**189.3**	(48.0)	**189.3**	(48.0)
Net (decrease)/increase in cash and cash equivalents		**(259.4)**	1,488.0	**(259.4)**	1,488.0
Cash and cash equivalents at the beginning of the year		**5,717.5**	4,229.5	**5,717.5**	4,229.5
Cash and cash equivalents at the end of the year		**5,458.1**	5,717.5	**5,458.1**	5,717.5
Comprising of:					
Cash and balances with central banks	12	**5,183.8**	5,609.8	**5,183.8**	5,609.8
Loans and advances to banks	13	**274.3**	107.7	**274.3**	107.7
		5,458.1	5,717.5	**5,458.1**	5,717.5

CONSOLIDATED STATEMENT OF CASHFLOWS – RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASHFLOWS ARISING FROM FINANCING ACTIVITIES

For year ended 31 December 2022

£million

	Group and Bank					
	2022			2021		
	Lease liabilities	Other borrowed funds	Total	Lease liabilities	Other borrowed funds	Total
Balance at the beginning of the year	44.1	402.1	**446.2**	53.6	408.2	461.8
Changes from financing cashflows						
Proceeds from MREL issuance	-	248.4	**248.4**	-	-	-
Interest paid on Tier 2 notes and senior unsecured debt	-	(44.5)	**(44.5)**	-	(37.0)	(37.0)
Lease liability principal payments	(14.6)	-	**(14.6)**	(11.0)	-	(11.0)
Total changes from financing cash flows	**29.5**	**606.0**	**635.5**	42.6	371.2	413.8
Other changes						
Interest payable on lease liabilities and Tier 2 notes	1.2	48.1	**49.3**	1.7	37.0	38.7
Other non cash movement	-	(7.2)	**(7.2)**	-	(6.1)	(6.1)
Remeasurements/(derecognition) of lease liabilities	0.3	-	**0.3**	(0.2)	-	(0.2)
Balance at the end of the year	**31.0**	**646.9**	**677.9**	44.1	402.1	446.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2022

£million

	Attributable to equity holders of the Group								
2022	**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 2022	0.9	313.8	2.9	14.7	-	(1,011.4)	485.0	1,946.0	**1,751.9**
Total comprehensive (expense)/income for the year	-	-	(8.2)	(4.1)	-	-	(462.7)	22.1	**(452.9)**
At 31 December 2022	**0.9**	**313.8**	**(5.3)**	**10.6**	**-**	**(1,011.4)**	**22.3**	**1,968.1**	**1,299.0**

	Attributable to equity holders of the Bank							
2022	**Share capital**	**Share premium**	**FVOCI reserve**	**Cash flow hedging reserve**	**Capital redemption reserve**	**Defined benefit pension reserve**	**Retained earnings**	**Total equity**
At 1 January 2022	25.6	-	2.9	14.7	-	485.0	1,223.6	**1,751.8**
Total comprehensive (expense)/income for the year	-	-	(8.2)	(4.1)	-	(462.7)	22.1	**(452.9)**
At 31 December 2022	**25.6**	**-**	**(5.3)**	**10.6**	**-**	**22.3**	**1,245.7**	**1,298.9**

	Attributable to equity holders of the Group								
2021	**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 2021	0.9	313.8	4.8	22.5	410.0	1,737.5	395.1	(1,410.2)	1,474.4
Total comprehensive (expense)/income for the year	-	-	(1.9)	(7.8)	-	-	89.9	197.3	277.5
Reserve reorganisation[1]	-	-	-	-	(410.0)	(2,748.9)	-	3,158.9	-
At 31 December 2021	0.9	313.8	2.9	14.7	-	(1,011.4)	485.0	1,946.0	1,751.9

	Attributable to equity holders of the Bank							
2021	**Share capital**	**Share premium**	**FVOCI reserve**	**Cash flow hedging reserve**	**Capital redemption reserve**	**Defined benefit pension reserve**	**Retained earnings**	**Total Equity**
At 1 January 2021	25.6	2,416.9	4.8	22.5	410.0	395.1	(1,800.6)	1,474.3
Total comprehensive (expense)/income for the year	-	-	(1.9)	(7.8)	-	89.9	197.3	277.5
Reserve reorganisation[1]	-	(2,416.9)	-	-	(410.0)	-	2,826.9	-
At 31 December 2021	25.6	-	2.9	14.7	-	485.0	1,223.6	1,751.8

1. Refer to note 33 and 34 of the Group and Bank consolidated financial statements

The notes on pages 197 to 240 form part of these consolidated Group and Bank financial statements.

All amounts are stated in £m unless otherwise indicated.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

1.1 General information

The Annual Report and Accounts presents information in relation to The Co-operative Bank Holdings Limited (the "Holding Company"), its direct subsidiary, The Co-operative Bank Finance p.l.c (the "Finance Company") and its indirect subsidiaries including the main trading company, The Co-operative Bank p.l.c (the "Bank Company"). Together, these entities are referred to as the "Group".

The Finance Company and the Bank Company are also required to produce their own individual and consolidated financial statements and these are included within this Annual Report and Accounts as referenced below. In the financial statements of the Finance Company and of the Bank Company, the Directors refer to disclosures produced in relation to the Group, where there is no difference in the information required to be presented to that disclosed for the Group.

The financial statements presented within the 2022 Annual Report and Accounts comprise:

Pages 189 to 240. The consolidated financial statements and notes of Holding Company and its subsidiaries (the consolidated financial statements of the Group). These are presented together with the consolidated financial statements and notes of the Bank Company and its subsidiaries (the consolidated financial statements of the "Bank"). Unless otherwise stated, references to the Group also apply to the Bank. Where differences arise, this is explicitly stated.

Pages 241 to 264. The individual financial statements and notes of Bank Company.

Pages 265 to 270. The individual financial statements and notes of Holding Company.

Pages 271 to 283. The consolidated and individual financial statements and notes of Finance Company and its subsidiaries (together, the "Finance Group").

1.2 Basis of preparation

The financial statements of the Group and Bank have been prepared and approved by the Directors of the respective companies in accordance with UK adopted international accounting standards.

The financial statements comprise all audited sections of the accounts. Where indicated, the risk management section forms part of the audited accounts.

The Holding Company and Bank Company are incorporated in the UK and registered in England and Wales.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of items held at fair value through other comprehensive income (FVOCI), derivative contracts, investment properties and certain other financial assets and financial liabilities held at fair value through profit or loss (FVTPL).

In preparing these financial statements, the Group has given consideration to the recommendations laid out by the Task Force on Climate-related Financial Disclosures (TCFD), and where relevant has incorporated assessment of the climate-related risks outlined in the TCFD report on pages 37 to 49 into judgements associated with recognition, measurement, presentation and disclosure, where so permitted by UK adopted international reporting standards. At 31 December 2022, the Group considers its present financial exposure to climate-related risk to be low and accordingly has made limited reference to the impacts of climate-related risk in the notes to the financial statements, though consideration has been given in particular to the possible financial impacts of climate-related risks on its expected credit losses, as disclosed in Note 2.2.1.c. Where forward-looking information is relied on in preparing the financial statements the Group has given due consideration, where appropriate and quantifiable, to potential future impacts of climate-related risk, but recognises that governmental and societal responses to climate change risks are still developing and thus their ultimate impacts on the Group are inherently uncertain and cannot be fully known. This assessment has considered information in respect of the period ending 30 June 2024 (the "assessment period") to cover a period of 18 months from the year-ended 31 December 2022.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 Going concern

IAS 1 (Presentation of Financial Statements) requires Directors to make an assessment of a company's ability to continue as a going concern, and whether it remains appropriate to adopt the going concern basis of accounting in preparing the entity's financial statements. IAS 1 states that the information should cover at least 12 months from the end of the reporting period but not be limited to that period, and Financial Reporting Council (FRC) guidelines state that the information should consider a period of at least 12 months from the date the financial statements are authorised for issue. This assessment has therefore considered information in respect of the period ending 30 June 2024.

When considering the going concern status of the Group, the Directors have referenced the FRC published guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks (the '2016 Guidance').

The assessment has been considered against the backdrop of the principal risks faced by the Group as outlined in the risk management section, and included a detailed review of the forecast profitability, liquidity, capital resources, capital adequacy ratios and the associated binding minimum regulatory requirements as set out in the most recent long-term forecast reviewed by the Directors, which takes into account the Group's plans in respect of business activity, such as loan book growth, and capital distributions. Whilst the Directors consider threats to its ability to continue as a going concern from most of the principal risks to be remote, in recent periods the Group has considered future compliance with minimum binding regulatory capital requirements to be a key source of uncertainty. These 'end-state requirements' (which exclude CRD IV and PRA buffers) rose to two times the Group's Total Capital Requirement (TCR) from 1 January 2023, whereas requirements as at December 2022 were TCR+£400.0m.

Following the successful issuance of £250.0m of MREL-qualifying instruments in the first half of 2022 and increased profits, the Group's improved and sustainable capital position means the Group has further resilience against unexpected shocks; to a greater degree than at the end of 2021, and to the extent that the Directors expect that the Group could comfortably meet its end-state requirements throughout the assessment period without any further capital issuances.

Whilst the Group's capital levels are still sensitive to shocks to RWAs (and associated capital requirements) or the Group's own profitability (thereby eroding capital resources), the degree of headroom is considered sufficiently high that the risk of breaching requirements is remote. Reverse stress testing was performed to determine the level of RWA inflation (excluding any resource impact) and/or one-off losses that would need to occur in order for the Group to breach its end-state requirements, as outlined in the following table:

MREL breach	RWA inflation	P&L Charge	Combined
No further capital issuance	£1.2bn	£319.0m	£0.6bn and £160.0m

The Group could mitigate the risk of non-compliance by undertaking further capital issuances, as it has done successfully in the recent past.

As such, the Directors do not consider there to be a material uncertainty with regard to the Group's ability to remain compliant with its minimum binding regulatory capital requirements. Liquidity was also considered as part of the assessment but due to the current and projected levels of liquidity (both within the assessment period and beyond) this has not been deemed a significant risk to the Group's going concern status.

After considering the matters above, the Directors have a reasonable expectation that the Group will continue as a going concern with no material uncertainties over the assessment period. Accordingly, the accounts for period ended 31 December 2022 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 284. 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).

1.4.1 New accounting policies

No amendments to IFRS that became effective during the year resulted in new accounting policies, or changes to existing accounting policies that had a significant impact on the Group's financial position or performance.

For the Groups' consideration of other standards in issue but not yet effective refer to the explanatory information section 2.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial information requires management to make judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The critical judgements and estimates are the same for both the Group and Bank.

Assumptions and estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The critical judgements and estimates which have a significant impact on the financial statements are described below.

2.1 Critical judgements

2.1.1 Recognition of IAS 19 pension valuation surplus
Subsidiaries of the Group act as the principal employers of the Britannia Pension Scheme (BPS), a closed defined benefit (DB) scheme, and the Bank Section of The Co-operative Pension Scheme (Pace), a hybrid scheme, consisting of a closed DB element and a defined contribution (DC) element.

Both BPS and the DB element of Pace are accounted for as DB pension schemes and the surplus arising on both schemes is recognised as a net retirement benefit asset. In order to recognise the DB asset in full, the Group must have an unconditional right to return of any surplus arising on wind up of the schemes, either in the form of reduced future DC contributions or in a form of a refund. The trustees do not have the unilateral power to augment member benefits or wind up the scheme without cause. Surplus contributions would be used to reduce future funding risk (and therefore reduce future contributions) or be refunded to the Group. Accordingly, the full value of the defined benefit scheme surplus is recognised on the Group's balance sheet as an asset.

In December 2022, the Pace Trustee completed a full "buy-in" transaction with Rothesay Life Plc, a specialist UK insurer, to insure scheme benefits through purchase of a bulk annuity insurance policy, building on a similar, smaller transaction completed in 2020. The insurance policies, which now make up the vast majority of Pace's assets, are valued in such a way that they match the associated liability that has been insured. The transaction resulted in a significant reduction in the carrying value of Pace's assets; however, it also has the impact of reducing volatility of the net asset recognised on the Bank's balance sheet and reduces the Group's exposure to risk through the scheme. Further details are disclosed in note 30 of the Group and Bank consolidated financial statements.

2.1.2 Unconsolidated structured entities
The Group is the sponsor for two unconsolidated structured entities, Warwick Finance Residential Mortgages Number Three p.l.c. and Warwick Finance Residential Mortgages Number Four p.l.c. (the Warwick SPEs), and holds legal title to the mortgages in exchange for a fee for a further three unconsolidated structured entities, Avon Finance No. 1 p.l.c., Avon Finance No 2 p.l.c. and Stratton Mortgage Funding 2021-1 p.l.c. (the Avon and Stratton SPEs). The Warwick SPEs were created for the purposes of selling Optimum (The Group's legacy retail secured mortgage portfolio) in the most capital efficient manner. The Avon SPEs were re-securitisations of former Warwick mortgages following the unwinding of earlier Warwick transactions during 2020. Following the sale of Optimum mortgages to a third party at the end of 2020, the Stratton SPE was established by a third party buyer as an unconsolidated structured entity in 2021 to securitise the mortgages. The Group performs a re-assessment of the requirement to consolidate the Warwick, Avon and Stratton SPEs on at least an annual basis, or more frequently as relevant. The Warwick, Avon and Stratton SPEs are not included within the consolidated results of the Group as its ongoing interest represents a less than de minimis variability of return. Further details are disclosed in note 36 of the Group and Bank consolidated financial statements.

2.1.3 Recognition of deferred tax assets in respect of future taxable profits
The Group recognises deferred tax assets to the extent there are sufficient taxable temporary differences and estimated probable future taxable profits against which unutilised capital allowances and historical tax losses can be utilised. Following initial recognition in 2021 of additional deferred tax assets in respect of future taxable profits, the Group considers the likelihood of future taxable profits remains sufficiently probable to warrant continued recognition of these assets, based on a) the continued sustainable profit made by the Group during 2022, and b) the Board-approved Financial Plan anticipating that the Group will continue to be profitable over the five-year plan period.

The value of deferred tax assets recognised by the Group is disclosed in note 29 of the Group and Bank consolidated financial statements.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

2.2 Key sources of estimation uncertainty

2.2.1 Estimation of expected credit losses (ECLs)

The Group's estimation of credit risk within its lending business is inherently uncertain and subject to high degree of expert judgement. Further information on the Group's credit risk management practices and risk exposures are outlined in the risk management section 3.2, and the policies adopted in quantifying ECLs are outlined in the explanatory information section 1.3.j. The following section considers the key judgemental assumptions used within the estimation process and assessments of their variability.

a) Collective impairment provisions – economic scenario selection and weighting sensitivity

The Group's approach to scenario selection and weighting is outlined in the explanatory information section 1.3.j.v. The scenarios and weights used within the Group's ECL modelling process are shown below:

Scenario weights	2022	2021
Upside	**20%**	30 %
Base	**40%**	30 %
Mild downside	**30%**	30 %
Downside (low rate)	**5%**	10 %
Downside (high rate)	**5%**	0 %

The Group has introduced an additional downside 'stagflation' economic scenario reflecting a high interest rate stressed macroeconomic environment, influenced by the rapid rises in the Bank of England base rate that have been observed during the year. This contrasts with the Group's other downside scenario, in which inflation subsides and interest rates revert quickly to lower levels. The Group has also made a further weighting shift away from the upside scenario given the challenging economic outlook. If the 2021 weighting were applied to the 2022 modelled ECL, it would decrease by £0.2m.

The table below demonstrates the varying size of the modelled ECL if 100 % weighting were applied to each of the scenarios.

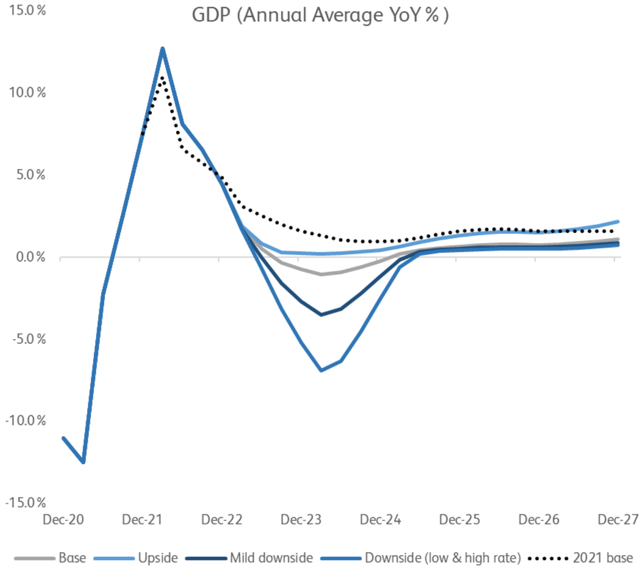
		Core				
2022	% applied in model	Retail secured	Retail unsecured	SME	Legacy & central items	Total
Upside	20 %	0.7	7.2	0.8	1.3	10.0
Base	40 %	1.5	7.2	0.8	1.3	10.8
Mild downside	30 %	3.0	7.4	1.0	1.4	12.8
Downside (low rate)	5 %	6.1	7.5	1.2	1.6	16.4
Downside (high rate)	5 %	9.5	8.0	1.2	1.6	20.3
Weighted average		**2.4**	**7.3**	**0.9**	**1.4**	**12.0**

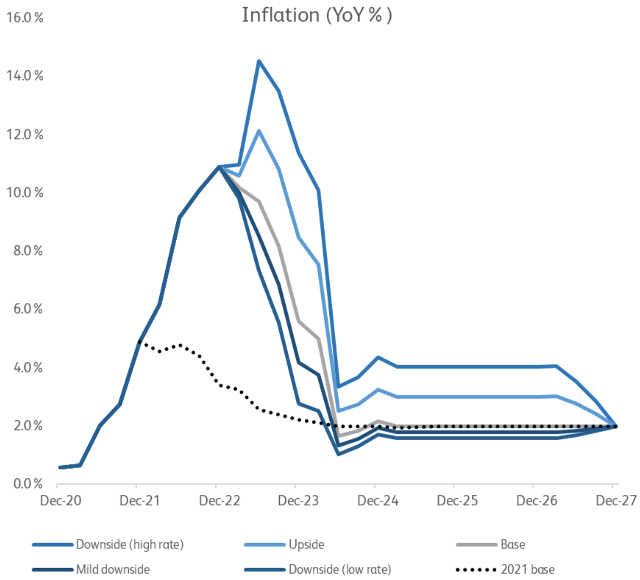
The staging of individual loans contributing to the ECLs within the above table reflects the base case position only and no allowances for stage transfers have been made in fully weighted alternative scenarios; these should therefore not be considered reliable forecasts of expected losses under such economic conditions. In practice, if any such scenario were experienced in isolation it would be reasonable to expect customers to transfer between stages, which would affect the total ECL. It should also be noted that the above considers only modelled ECLs and not the impact of any judgemental adjustments. In practice, certain judgemental adjustments implemented by the Group may offset the modelled movements above to reduce the sensitivity of the overall ECL.

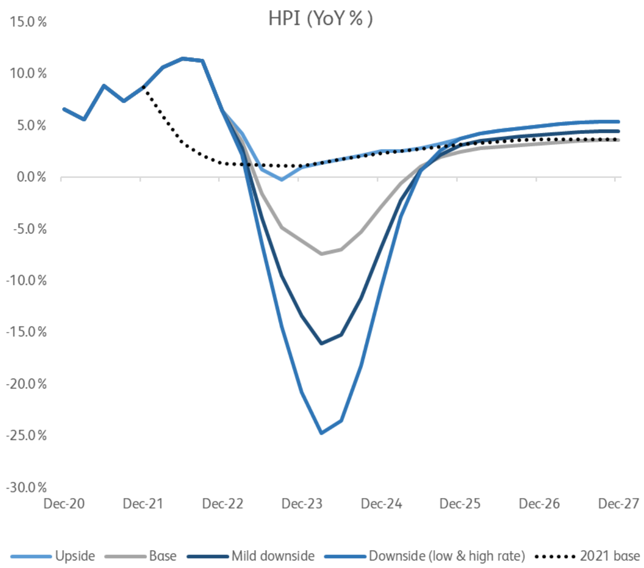
2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

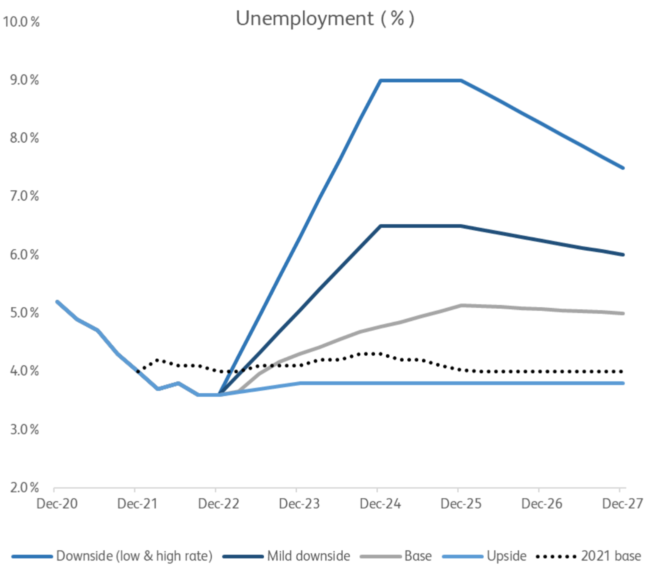
b) Collective impairment provisions – macroeconomic variables and sensitivities

The key forecast variables used within the Group's range of economic scenarios are depicted in the graphs below, and also summarised in the subsequent table as the annual and average over the five-year forecast period used within all scenarios.









After the initial scenario deviation, GDP and HPI growth rates return to long run growth rates. Levels remain representative of upside/downside outcomes that result from initial differences in growth rates in the early years of the scenarios. The downside scenarios differ with respect to interest rates and inflation, however the other variables are aligned.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

	2023	2024	2025	2026	2027	5 year average[4]	Dec-22 to peak	Dec-22 to trough
GDP[1]								
Upside	0.2 %	0.4 %	1.3 %	1.5 %	2.2 %	1.1 %	7.0 %	0.0 %
Base	(0.8 %)	(0.2 %)	0.7 %	0.8 %	1.1 %	0.3 %	2.2 %	(1.1 %)
Mild downside	(2.7 %)	(1.2 %)	0.5 %	0.6 %	0.9 %	(0.3 %)	0.0 %	(3.9 %)
Downside (low rate)	(5.2 %)	(2.6 %)	0.4 %	0.5 %	0.7 %	(1.1 %)	0.0 %	(7.6 %)
Downside (high rate)	(5.2 %)	(2.6 %)	0.4 %	0.5 %	0.7 %	(1.1 %)	0.0 %	(7.6 %)
Inflation[2]								
Upside	8.5 %	3.3 %	3.0 %	3.0 %	2.0 %	4.6 %	21.2 %	0.0 %
Base	5.6 %	2.2 %	2.0 %	2.0 %	2.0 %	3.4 %	14.5 %	0.0 %
Mild downside	4.2 %	1.9 %	1.8 %	1.8 %	2.0 %	3.0 %	12.3 %	0.0 %
Downside (low rate)	2.8 %	1.7 %	1.6 %	1.6 %	2.0 %	2.6 %	10.1 %	0.0 %
Downside (high rate)	11.4 %	4.4 %	4.0 %	4.0 %	2.0 %	5.8 %	28.3 %	0.0 %
HPI[2]								
Upside	1.0 %	2.5 %	3.7 %	4.9 %	5.4 %	3.3 %	18.8 %	0.0 %
Base	(6.1 %)	(2.8 %)	2.5 %	3.3 %	3.6 %	(0.0 %)	0.0 %	(9.0 %)
Mild downside	(13.4 %)	(6.8 %)	3.1 %	4.1 %	4.5 %	(1.9 %)	0.0 %	(19.2 %)
Downside (low rate)	(20.7 %)	(10.8 %)	3.7 %	4.9 %	5.4 %	(3.7 %)	0.0 %	(29.3 %)
Downside (high rate)	(20.7 %)	(10.8 %)	3.7 %	4.9 %	5.4 %	(3.7 %)	0.0 %	(29.3 %)
Unemployment[3]								
Upside	3.8 %	3.8 %	3.8 %	3.8 %	3.8 %	3.8 %	0.2 %	0.0 %
Base	4.3 %	4.8 %	5.1 %	5.1 %	5.0 %	4.7 %	1.6 %	0.0 %
Mild downside	5.0 %	6.5 %	6.5 %	6.3 %	6.0 %	5.9 %	2.9 %	0.0 %
Downside (low rate)	6.3 %	9.0 %	9.0 %	8.3 %	7.5 %	7.7 %	5.4 %	0.0 %
Downside (high rate)	6.3 %	9.0 %	9.0 %	8.3 %	7.5 %	7.7 %	5.4 %	0.0 %
Base rate[3]								
Upside	4.5 %	4.0 %	3.5 %	3.5 %	3.5 %	3.9 %	1.0 %	0.0 %
Base	4.0 %	3.5 %	3.0 %	3.0 %	3.0 %	3.4 %	0.5 %	(0.5 %)
Mild downside	3.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.4 %	0.0 %	(1.5 %)
Downside (low rate)	1.5 %	1.0 %	1.0 %	1.0 %	1.0 %	1.3 %	0.0 %	(2.5 %)
Downside (high rate)	5.5 %	5.0 %	4.0 %	3.0 %	3.0 %	4.2 %	2.0 %	(0.5 %)

1. Annual average YoY %
2. Year-end YoY %
3. Year-end %
4. Average of quarterly positions

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

The key parameters of the above scenarios are outlined in the table below:

	GDP	Inflation	HPI	Unemployment	Base rate
Upside	Broadly flat quarterly GDP growth in 2023 results in 0.2 % annual growth and 0.4 % growth in 2024. Positive quarterly growth throughout forecast.	Inflation remains higher than the base throughout, peaking at 12.1 % in Q2 2023, falling to 3.3 % by the end of 2024 but not reaching the 2.0 % target until the end of 2027.	House prices grow 1.0 % in 2023, and a further 2.5 % in 2024. Positive quarterly growth across the forecast.	Unemployment deteriorates slightly to 3.8 % by Q4 2023, then remains flat over the remainder of the forecast period.	Base rate rises to 4.0 % in February 2023, peaking at 4.5 % in May 2023. Base rate cut 50ps in 2024 and 50bps in 2025, ending 2027 at 3.5 %.
Base	GDP contracts 0.8 % in 2023, and a further 0.2 % in 2024. The UK is in a recession in 2022 and 2023.	Inflation ends 2023 at 5.6 %, falling below the 2.0 % target in 2024 and remains at 2.0 % from 2025.	House prices forecast to fall 6.1 % in 2023 and 2.8 % in 2024, with peak to trough fall of 10.0 % by Q3 2024.	Unemployment rises to 4.3 % in 2023 and 4.8 % in 2024, peaking at 5.1 % by 2025.	Base rate to peak at 4.0 % and cut 50ps in 2024 and 50bps in 2025, ending 2027 at 3.0 %.
Mild downside	GDP contracts 2.7 % in 2023 as the economy enters into six quarter recession with peak to trough fall of 4.0 %. Positive quarterly growth returns in Q1 25.	Inflation stays below the base throughout, falling to 4.2 % by Q4 2023 and below 2.0 % in Q2 2024. Inflation returns to 2.0 % by end of 2027.	House prices decline 13.4 % in 2023 and 6.8 % in 2024 with a peak to trough fall of 20.0 %. Quarterly growth returns in Q1 2025.	Unemployment rises to 5.0 % in Q4 2023, and peaks at 6.5 % in Q4 2024.	No further rises in base rate, cut from 3.5 % to 3.0 % in November 2023 and further to 2.0 % by November 2024 and remains there throughout.
Downside (low rate)	GDP contracts by 5.2 % in 2023 as the economy enters into a more severe six quarter recession with peak to trough fall of 8.0 %. Positive quarterly growth returns in Q1 2025.	Inflation remains below the base throughout, falling to 2.8 % by Q4 2023 and falls below 2.0 % in Q2 2024. Inflation returns to 2.0 % by end of 2027.	House prices decline 20.7 % in 2023 and 10.8 % in 2024 as prices fall in each quarter, peak to trough fall of 30.0 %. Quarterly growth returns in Q1 2025.	Unemployment rises to 6.3 % in Q4 2023, and peaks at 9.0 % in Q4 2024.	Base rate cut 50bps each quarter in 2023, reaching 1.5 % by end 2023. One further cut to 1.0 % in November 2024 and remains flat throughout the scenario.
Downside (high rate)	GDP contracts by 5.2 % in 2023 as the economy enters into a more severe six quarter recession with peak to trough fall of 8.0 %. Positive quarterly growth returns in Q1 2025.	Inflation remains higher than the base throughout, peaking at 14.5 % in Q2 2023, falling to 4.4 % by the end of 2024 but not reaching the 2.0 % target until the end of 2027.	House prices decline 20.7 % in 2023 and 10.8 % in 2024 as prices fall in each quarter, peak to trough fall of 30.0 %. Quarterly growth returns in Q1 2025	Unemployment rises to 6.3 % in Q4 2023, and peaks at 9.0 % in Q4 2024.	Base rate rises rapidly in first year of scenario, reaching 5.5 % in 2023 with the aim to reduce inflation. Base rate cut to 3.0 % by 2027.

The key changes to the base forecasts over those in use at 31 December 2021 are:

- **GDP** – negative annual average in 2023 and 2024 due to supressed demand from rising cost of living, compared to positive growth throughout.
- **Inflation** – higher in short term as a result of geopolitical events.
- **HPI** – fall in HPI in 2023 and 2024 from rising mortgage rates and lower disposable income compared to positive growth throughout.
- **Unemployment** – higher across the forecast period due to lower economic output (GDP).
- **Base rate** – accelerated rate rises relative to 2021 forecasts (1.0 % peak in 2024 for 2021 forecast, vs 4.0 % in 2023 in 2022 forecast).

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Sensitivities

The table below illustrates the changes to the ECL that would result from reasonably possible variations in the macroeconomic variables to which the modelled ECL is most sensitive. This is applied on a single-factor basis as an absolute percentage increase to that variable within the base ECL, with all other non-illustrated variables remaining constant, and includes the impact of consequent transitions between stage 1 and 2.

	Core				
2022	Retail secured	Retail unsecured	SME	Legacy & central	Total
HPI +15 %	(3.5)	-	-	-	**(3.5)**
HPI -15 %	9.2	-	-	-	**9.2**
Unemployment rate +2 %	-	0.2	-	-	**0.2**
Unemployment rate -2 %	-	(0.2)	-	-	**(0.2)**
GDP growth +2 %	-	-	(0.4)	-	**(0.4)**
GDP growth -2 %	-	-	0.6	0.1	**0.7**

The sensitivities on the above parameters should be considered in isolation; aggregation of the results for different parameters would not produce meaningful information, and these sensitivities should not be extrapolated due to the non-linearities of their interactions with the ECL models.

c) Collective impairment provisions – judgemental adjustments

The Group applies judgemental adjustments to its modelled outputs to capture risk characteristics for assets subject to collective provisioning but for which a specific risk characteristic is not captured within the collective models. These are typically implemented by the Group in the form of Post Model Adjustments (PMAs). The Group reviews judgemental adjustments on a quarterly basis to determine whether adjustments should be stood up, remeasured or retired. An overview of material judgemental adjustments is disclosed below:

	Core				
2022	Retail secured	Retail unsecured	SME	Legacy & central	Total
Affordability PMAs	2.5	1.5	3.2	0.1	**7.3**
COVID-19 PMAs	-	-	1.6	-	**1.6**
Historical data confidence PMAs	8.3	-	-	-	**8.3**
Platform overlay	-	-	-	-	**-**
Other PMAs	3.2	2.5	-	0.2	**5.9**
Total judgemental adjustments[1]	**14.0**	**4.0**	**4.8**	**0.3**	**23.1**

	Core				
2021 Re-presented[1]	Retail secured	Retail unsecured	SME	Legacy & central	Total
Affordability PMAs	-	-	-	-	-
COVID-19 PMAs[2]	-	1.6	3.8	0.8	6.2
Historical data confidence PMAs	-	-	-	-	-
Platform overlay	16.2	-	-	-	16.2
Other PMAs	-	-	0.4	1.8	2.2
Total judgemental adjustments[1]	16.2	1.6	4.2	2.6	24.6

1. Judgemental adjustments exclude operational model adjustments of £1.6m (2021: £0.6m) in respect of individually insignificant model corrections where management judgement does not have a substantial impact on the quantification of the adjustment. The 2021 comparative figures have been re-presented accordingly.
2. Excludes further uplifts within the Platform PMA due to the impacts of COVID-19.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key features of the judgemental adjustments are summarised in the table below:

	Nature of judgement	Application within ECL calculation	Criteria for removal
Affordability PMAs	All models considered to understate cost of living impacts on customer credit risk	Customers identified as being at a higher vulnerability to cost of living impacts based on a combination of stressed affordability tests (secured), consumer indebtness levels (unsecured) and sector (SME) are uplifted from stage 1 to stage 2	Evidence of real wage growth and reduced level of inflation with stable arrears position
COVID-19 PMAs	Primarily that in certain isolated instances the Group may not successfully be able to claim on guarantees under the Bounce Back Loan Scheme (BBLS)	Primarily that BBLS are not included with modelled ECL due to 100% government guarantee; therefore an ECL is calculated based on observed default rates and projected failed claim rates	Primarily sustained evidence of successful claims on arrears cases
Historical data confidence PMAs	Secured model understates risk due to book's relative immaturity and limited default experience	Stress factors are applied to modelled PDs and LTVs and additional stage 2 triggers based on consumer indebtedness levels are applied to uplift certain stage 1 customers to stage 2	3-4 years after the end of a period of significant financial stress
Platform overlay	Secured model understates risk due to book's relative immaturity and limited default experience	Target coverage of 10bps (set by reference to benchmarking and observed loss rates on other portfolios) applied after application of other PMAs, primarily to stage 1 exposures	Removed during 2022 – replaced by historical data confidence PMAs
Other PMAs	There are certain other areas where models do not adequately capture certain identified risk factors, such as the potential exposure to cladding and EPC remediation. No PMA is individually significant	Various, depending on the nature of the PMA	Various, depending on the nature of the PMA

The key changes in judgemental adjustments during the year are broadly the replacement of the Platform overlay with the more targeted historical data confidence PMA, the removal of the majority of remaining COVID-19 PMAs and the introduction of PMAs focused on specific affordability risks. Other PMAs, whilst individually insignificant, have increased modestly during the year in aggregate – on the secured portfolio, the Platform PMA was previously considered substantial enough that it broadly covered certain minor exposures (i.e. cladding and EPC remediation risks), which have now been individually addressed. On the unsecured portfolio, a PMA for PD understatement on credit cards has been reclassified from a COVID-19 PMA to an other PMA and an equivalent has been introduced in respect of a similar understatement on overdraft exposures.

Impact of climate change on ECL

The Group has identified credit losses as one of the main areas in which it could be exposed to the financial impacts of climate change risk, either where its lending practices could expose it to physical risks (e.g. secured collateral value impacted by flooding caused by extreme weather events) or transition risks (e.g. where SME customers are threatened by the need to transition to greener working practices).

The Group's IFRS 9 models do not explicitly consider the potential impacts of such risks and during the year the Group has introduced its first climate-related judgemental adjustment in respect of the transition risk associated with the Group's BTL customers having to meet minimum EPC ratings on rental properties. This PMA is intended to address the increased credit risk arising from BTL customers either having to invest heavily in order to meet the minimum EPC rating, and/or losing income as a consequence of being unable to meet the minimum EPC rating and rent out the property. As noted in the above table this exposure is not currently individually significant.

The Group has also continued to monitor its exposure to physical risks on its retail secured book, but has determined that reasonably possible credit losses associated with climate risk in this area (e.g. flooding damage to secured properties between now and 2050) remain unlikely to be material, particularly when considering discounting of any future dated impacts and stage 1 exposures (accounting for c. 84% of the Group's retailed secured book) only considering expected losses within the next 12 months. As such, no further PMAs have been recognised in respect of this risk. Further considerations around the Group's exposure to climate risk are outlined in the TCFD report on pages 37 to 49.

d) Individual impairment provisions

Individually assessed provisions are made for loans that are considered to be individually significant (typically corporate loans). At 31 December 2022, ECLs of £3.7m (2021: £2.5m) were recognised in respect of individually assessed exposures. Such provisions are not sensitive to changes in macroeconomic variables but would instead typically be most sensitive to changes in underlying collateral values; however, given the prevalence of fully provided unsecured loans and low LTV exposures within a small population of individually assessed exposures, the provision is not particularly sensitive to movements in collateral value. A 20% decrease in collateral values associated with individually assessed exposures would not give rise to an increase in ECLs (2021: £0.2m).

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

2.2.2 Estimate of the defined benefit pension valuation
Actuarial valuations of the defined benefit pension schemes are conducted as determined by the pension scheme trustees, at an interval of not more than three years. The accounting valuation of scheme liabilities is prepared biannually for the Group's reporting purposes, by a qualified actuary. Results before tax and net assets 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 of the Group and Bank consolidated financial statements.

2.2.3 Effective interest rate (EIR)
When calculating the EIR to apply to an asset or liability held at amortised cost, the Group estimates future cash flows considering all contractual terms of an instrument. In most cases, the future cash flows arising from an asset or liability will be dependent on a number of variables, such as the proportion of mortgage customers who do not switch product after a discount period ends, or future interest rates set by the market. Therefore, it follows that management is required to apply significant judgement in creating assumptions about the value of these variables in the future.

In calculating the EIR adjustment to apply to mortgage balances, where the Group considers the blended EIR for both fixed and variable rates during the expected life of the instrument, the most significant two assumptions in terms of impact and volatility are:

a) Standard variable rate
The assumed standard variable rate (SVR), which will be in effect at the end of a fixed rate product term, determines expected income to be received post-reversion. This is determined with reference to expected Bank of England base rate changes, with a proportion of future increases assumed to pass through to the Group's standard variable rate.

As a measure of the sensitivity of these models, a 50bp increase or decrease to the forecast SVR (currently 5.87% (2021: 4.49%) with rises tracking the base rate assumptions used within the Group's central base rate forecast) following the expiry of the fixed rate period would result in a £2.0m (2021: £2.3m) increase or decrease respectively in the EIR asset within the loans and advances to customers balance as at 31 December 2022.

b) Timing of redemptions (behavioural lives)
Once a customer reaches the expiry of the fixed rate period on the fixed product, interest is charged at the Group's SVR, which is higher than the product fixed rate. The amount of time that the customer stays on SVR affects the total lifetime income from the customer, which affects the EIR adjustment.

The Group typically expects 9% (2021: 10%) of fixed rate advances to become chargeable for at least one month of SVR, and then remain on the SVR rate for an average of 5 months (2021: 6 months). As a measure of the sensitivity of this variable, if the average time spent on SVR increases or decreases by 1 month, the EIR asset would increase or decrease by £3.8m (2021: £2.6m) respectively.

2.2.4 Measurement of deferred tax assets in respect of future taxable profits
As described in section 2.1.3, the Group continues to recognise a deferred tax asset in respect of future taxable profits. The Group has limited the recognition of deferred taxes to £120.6m (2021: £114.7m) in respect of historical tax losses that it expects to utilise to reduce future tax charges based on the Group's most recent Board-approved five-year plan. The Group has also recognised £46.8m (2021: £nil) of deferred tax assets in respect of capital allowances on fixed assets that it expects to utilise to reduce future tax charges based on the same five-year plan. The plan is inherently sensitive to the assumptions underpinning the Group's five-year forecasts, including macroeconomic conditions (such as changes to interest rates, future tax rates, the ongoing impacts of the cost of living and geopolitical crises and potential climate-related risks) and more idiosyncratic elements (such as the Group's ability to meet cost targets and successfully execute its strategy). As such, the expected utilisation of the deferred tax asset may vary significantly, potentially leading to a material increase or decrease in the deferred tax assets recognised in future periods.

The five-year estimation horizon has been chosen so that the DTA recognition period is aligned to the Group's normal planning cycle. If the period were reduced to four years, the deferred tax asset would reduce by £43.7m (2021: £43.1m). This judgement may be revisited and the forecast period extended in future as the Group develops a track record of profitability, which would increase the size of the asset recognised at that point. The Group has a further £492.7m (2021: £459.9m) of unrecognised deferred tax assets associated with historical trading losses. Whilst there is no expiry date for the utilisation of tax losses, the utilisation of losses is restricted to 50% or 25% of taxable profits depending upon when those tax losses were incurred.

3. SEGMENTAL INFORMATION

The Group provides a wide range of banking services within the UK. The Executive Committee (ExCo) has been determined to be the chief operating decision-maker of the Group. The Group's operating segments reflect its organisational and management structures in place at the reporting date. ExCo reviews information from internal reporting based on these segments in order to assess performance and allocate resources. The segments are differentiated by whether the customers are individuals or business entities. The operating costs of all business functions are allocated to the income-generating businesses. Treasury balances have not been allocated to segments to maintain clarity on underlying customer product balances.

The Group previously presented certain exceptional line items as adjustments to underlying profit at a Group level. Such items have now been classified as either operating expenses or non-operating income and aggregated within Legacy & unallocated. Prior period comparative information has been re-presented.

	Group and Bank				
	Core			Legacy & unallocated	
2022	**Retail**	**SME**	**Total**		**Total**
Net interest income	397.0	69.3	**466.3**	(8.0)	**458.3**
Other operating income	22.7	18.7	**41.4**	(0.3)	**41.1**
Operating income/(expense)	**419.7**	**88.0**	**507.7**	**(8.3)**	**499.4**
Operating expenses	(288.6)	(63.6)	**(352.2)**	(20.5)	**(372.7)**
Net credit impairment (losses)/gains	(5.2)	(1.6)	**(6.8)**	0.4	**(6.4)**
Non-operating income	-	-	-	12.3	**12.3**
Profit before tax	**125.9**	**22.8**	**148.7**	**(16.1)**	**132.6**

	Group and Bank				
Re-presented	Core			Legacy & unallocated	
2021	**Retail**	**SME**	**Total**		**Total**
Net interest income	284.8	47.4	332.2	(8.3)	323.9
Other operating income	20.3	16.5	36.8	0.8	37.6
Operating income/(expense)	305.1	63.9	369.0	(7.5)	361.5
Operating expenses	(259.8)	(55.1)	(314.9)	(31.2)	(346.1)
Net credit impairment gains/(losses)	0.9	(1.1)	(0.2)	(0.9)	(1.1)
Non-operating income	-	-	-	16.8	16.8
Profit before tax	46.2	7.7	53.9	(22.8)	31.1

The table below represents the reconciliation of the underlying basis and the segmental note to the consolidated income statement. The underlying basis is the basis on which information is presented to the chief operating decision maker and excludes the items below which are included in the statutory results.

	Group and Bank				
		Removal of:			
2022	**IFRS statutory**	**Volatile items[1]**	**Strategic projects**	**Non recurring[2]**	**Underlying basis**
Net interest income	458.3	-	-	-	**458.3**
Other operating income	53.4	(8.2)	-	(4.1)	**41.1**
Operating income	**511.7**	**(8.2)**	**-**	**(4.1)**	**499.4**
Operating expenses	(373.7)	-	12.4	4.3	**(357.0)**
Net customer redress release	1.0	-	-	(1.0)	**-**
Net credit impairment losses	(6.4)	-	-	-	**(6.4)**
Profit before tax	**132.6**	**(8.2)**	**12.4**	**(0.8)**	**136.0**
Cost:income ratio[3]	**73%**				**71%**

1. In the period ended 31 December 2022, this comprises gain on shares revaluation.
2. In the period ended 31 December 2022, this comprises gains on the sale of a small legacy loan book, release of PPI provision and other exceptional costs.
3. Cost:income ratio is calculated as (operating expenses plus net customer redress release)/(operating income).

3. SEGMENTAL INFORMATION (continued)

2021	Group and Bank IFRS statutory	Removal of: Volatile items[1]	Strategic projects	Non recurring[2]	Underlying basis
Net interest income	323.9	-	-	-	323.9
Other operating income	54.4	(2.4)	-	(14.4)	37.6
Operating income	378.3	(2.4)	-	(14.4)	361.5
Operating expenses	(348.7)	-	19.0	10.3	(319.4)
Net customer redress release	2.6	-	-	(2.6)	-
Net credit impairment losses	(1.1)	-	-	-	(1.1)
Profit before tax	31.1	(2.4)	19.0	(6.7)	41.0
Cost:income ratio[3]	91 %				88 %

1. In the period ended 31 December 2021, this comprises gain on shares revaluation.
2. In the period ended 31 December 2021, this comprises refunds of historical ATM business rates paid, residual PPI impacts and other exceptional costs.
3. Cost:income ratio is calculated as (operating expenses plus net customer redress release)/(operating income).

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

	Group and Bank				
	Core				
2022	Retail	SME	Total	Legacy & unallocated	Total
Segment assets	19,841.3	388.2	20,229.5	7,903.3	28,132.8
Segment liabilities	16,607.8	3,396.8	20,004.6	6,829.2	26,833.8

	Group and Bank				
	Core				
2021	Retail	SME	Total	Legacy & unallocated	Total
Segment assets	19,756.0	441.7	20,197.7	9,125.6	29,323.3
Segment liabilities	17,604.4	3,461.0	21,065.4	6,506.0	27,571.4

4. AUDITOR'S REMUNERATION

	Group and Bank 2022 £'000	2021 £'000
Fees payable to the Bank's auditor for the audit of the annual accounts	**2,309**	2,122
Audit expenses	**50**	50
Fees payable to the Bank's auditor for other services:		
Audit of the accounts of group undertakings	**86**	79
Audit-related assurance services	**191**	175
Other assurance services	**150**	81
Total audit fees and expenses for the financial year	**2,786**	2,507
All other services provided by the auditor	**-**	-
Total auditor's remuneration	**2,786**	2,507

5. DIRECTORS' EMOLUMENTS

	Group and Bank 2022	2021
Total remuneration receivable by Directors	**5.2**	5.8

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 £2.8m (2021: £2.9m).

For more details, please refer to the Directors' Report on remuneration.

6. NET INTEREST INCOME

Interest income and similar income

	Group and Bank							
	2022				2021			
	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	**482.5**	**-**	**-**	**482.5**	410.9	-	-	410.9
Loans and advances to banks	**81.2**	**-**	**-**	**81.2**	4.6	-	-	4.6
Investment securities	**1.6**	**15.9**	**-**	**17.5**	0.8	6.4	-	7.2
Net interest income on net defined benefit pension asset	**-**	**-**	**16.8**	**16.8**	-	-	9.1	9.1
	565.3	**15.9**	**16.8**	**598.0**	416.3	6.4	9.1	431.8
On financial assets at fair value through profit or loss:								
Loans and advances to customers	**-**	**-**	**4.9**	**4.9**	-	-	5.6	5.6
Net interest income/(expense) on financial instruments hedging assets	**-**	**-**	**51.1**	**51.1**	-	-	(37.6)	(37.6)
Net interest income on financial instruments not in a hedging relationship	**-**	**-**	**15.9**	**15.9**	-	-	34.1	34.1
Total net interest income	**565.3**	**15.9**	**88.7**	**669.9**	416.3	6.4	11.2	433.9

Interest expense and similar charges

	Group and Bank					
	2022			2021		
	Amortised cost	Other	Total	Amortised cost	Other	Total
On financial liabilities not at fair value through profit or loss:						
Customer accounts	**(60.8)**	**-**	**(60.8)**	(28.4)	-	(28.4)
Subordinated liabilities, debt securities in issue and other deposits	**(136.2)**	**-**	**(136.2)**	(62.0)	-	(62.0)
Interest on lease liabilities	**-**	**(1.2)**	**(1.2)**	-	(1.7)	(1.7)
Net interest expense on unfunded pension obligations	**-**	**(0.2)**	**(0.2)**	-	(0.1)	(0.1)
	(197.0)	**(1.4)**	**(198.4)**	(90.4)	(1.8)	(92.2)
On financial liabilities at fair value through profit or loss:						
Net interest (expense)/income on financial instruments hedging liabilities	**-**	**(3.5)**	**(3.5)**	-	8.9	8.9
Net interest expense on financial instruments not in a hedging relationship	**-**	**(9.7)**	**(9.7)**	-	(26.7)	(26.7)
Total interest expense and similar charges	**(197.0)**	**(14.6)**	**(211.6)**	(90.4)	(19.6)	(110.0)

7. NET FEE AND COMMISSION INCOME

The net fee and commission income for the Group and Bank relates to items not at fair value through profit or loss. Details of the accounting policies is provided in the explanatory information on page 284.

8. OTHER OPERATING INCOME/(EXPENSE) (NET)

	Group and Bank	
	2022	2021
Profit on sale of investment securities	**0.2**	1.0
Gain on sale of shares	**-**	2.0
Gain on sale of loans and advances to customers	**4.5**	0.5
Fair value movement on loans and advances to customers designated at fair value	**(18.0)**	(10.5)
Income from derivatives and hedge accounting	**18.8**	14.3
Income/(expense) from assets and liabilities held at fair value through profit or loss[1]	**8.3**	(1.0)
Foreign currency transactions	**8.2**	7.9
Exceptional refund of ATM rates	**0.1**	14.4
Other operating (expense)/income	**(0.7)**	0.3
	21.4	28.9

1. Income/(expense) from assets and liabilities held at fair value through profit and loss of £8.3m (2021: £1.0m) includes a £7.9m gain on equity shares (2021: £0.2m gain).

8. OTHER OPERATING INCOME/(EXPENSE) (NET) (continued)

Included in the table above, in 2022 hedge ineffectiveness generated a loss of £1.6m (2021: £0.4m) in relation to fair value hedging programmes.

9. OPERATING EXPENSES

	Group and Bank	
		Re-presented[1]
	2022	2021
Staff costs	**126.4**	117.5
Depreciation, amortisation and impairment of fixed assets[2]	**35.3**	36.6
Technology costs	**44.5**	51.5
Outsourced operations	**58.8**	59.9
Professional services and IT consultancy costs	**33.0**	19.6
Property costs	**8.9**	8.6
Credit checking and screening	**7.3**	5.4
Regulatory levies	**3.6**	3.5
Other expenses	**55.9**	46.1
Total operating expenses	**373.7**	348.7

1. The capitalisation of operating costs incurred in the generation of intangible assets were previously reflected as a reduction of 'other expenses' but have now been re-presented as a reduction in the appropriate cost lines. Prior period comparative information has been re-presented, resulting in an increase in Other expenses of £22.1m and a reduction in staff costs of £12.3m, Technology costs of £4.8m, Outsourced operations of £3.7m, Professional services and IT consultancy costs of £1.2m and Credit checking and screening of £0.1m. There is no net impact to total operating costs.
2. Mainly comprises amortisation of intangible assets of £22.8m (2021: £23.6m).

10. STAFF COSTS

	Group and Bank	
		Re-presented[1]
	2022	2021
Wages and salaries	**88.0**	91.4
Social security costs	**11.7**	9.4
Pension costs:		
Defined benefit plans – other costs	**-**	0.2
Defined contribution plans	**7.0**	6.9
Other staff costs[2]	**19.7**	9.6
Total staff costs	**126.4**	117.5

1. As explained in note 9, the Group has re-presented its disclosure of operating costs. As a consequence of this change, prior period Wages and salaries disclosed within this note have been reduced by £12.3m.
2. Other staff costs mainly comprises costs paid to temporary contractors and severance costs.

Average number of employees

The average headcount of people employed during the year is as follows:

	No of employees	
	2022	2021
Full time	**2,134**	2,034
Part time	**543**	596
	2,677	2,630

11. INCOME TAX

	Group and Bank	
	2022	2021
Current tax		
Current year	**5.7**	-
Total current tax charge	**5.7**	-
Deferred tax		
Current year	**2.7**	(115.9)
Adjustments in respect of previous year	**0.4**	-
Impact of rate changes	**43.3**	(50.3)
Write-down of previously recognised deferred tax asset	**58.4**	-
Total deferred tax charge/(credit)	**104.8**	(166.2)
Total tax charge/(credit)	**110.5**	(166.2)

In addition to the above, included within other comprehensive income is a deferred tax credit of £235.4m (2021: £91.1m charge). This includes a deferred tax credit of £231.1m in relation to retirement benefits which comprises £120.5m due to the revaluation of the net retirement benefit asset in the period and £110.6m as a result of the Pace pension scheme "buy-in" transaction. The deferred tax charge of £58.4m in the income statement relates to the write-down of the deferred tax asset in respect of tax losses that had been previously supported by the Pace net retirement benefit deferred tax liability. Please refer to note 30 of the Group and Bank consolidated financial statements for further information.

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

	Group and Bank	
	2022	2021
Profit before tax	**132.6**	31.1
Tax charge calculated at a rate of 19% (2021: 19%)	**25.2**	5.9
Effects of:		
Write-down of previously recognised deferred tax asset	**58.4**	-
Impact of tax rate changes on deferred tax	**43.3**	(50.3)
Movement in unrecognised deferred tax	**(16.9)**	(90.5)
Expenses not deductible for tax purposes	**1.8**	0.1
Impact of banking surcharge on deferred tax	**(1.9)**	(31.5)
Adjustment in respect of prior periods	**0.4**	-
Banking surcharge	**0.3**	-
Non-taxable income	**(0.3)**	(0.3)
Depreciation of expenditure not qualifying for capital allowances	**0.2**	0.4
Total tax charge/(credit)	**110.5**	(166.2)

The movement in unrecognised deferred tax represents the utilisation of historical tax losses as well as their expected utilisation against future probable taxable profits.

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. The banking surcharge also applies to Bank Company. A reduction of the banking surcharge from 8% to 3% and an increase of the surcharge allowance from £25.0m to £100.0m (effective 1 April 2023) were substantively enacted on 2 February 2022. From 1 April 2023, the combined rate of tax on banking profits in excess of £100.0m will be 28%. Deferred tax has been calculated by reference to the appropriate rate based on the forecast reversals of the related temporary differences. The Group's effective tax rate remains difficult to predict due to the movement in recognised deferred tax assets and the effect of the changes in tax rates. Further detail on deferred tax is provided in note 2 and in note 29 of the Group and Bank consolidated financial statements.

12. CASH AND BALANCES AT CENTRAL BANKS

	Group and Bank	
	2022	**2021**
Cash in hand	**11.0**	11.7
Items in transit	**(15.8)**	(17.3)
Balances with the Bank of England other than mandatory reserve deposits	**5,188.6**	5,615.4
Included in cash and cash equivalents	**5,183.8**	5,609.8
Mandatory reserve deposits with the Bank of England	**86.6**	87.1
Total cash and balances at central banks	**5,270.4**	5,696.9

Mandatory reserve deposits are not available for use in day-to-day operations, are non-interest bearing and are not included in cash and cash equivalents. Items in transit represent unpresented cheques awaiting clearance. An expected credit loss of £nil was recorded as at 31 December 2022 (2021: £nil) in relation to cash and balances at central banks.

13. LOANS AND ADVANCES TO BANKS

	Group and Bank	
	2022	**2021**
Items in course of collection from other banks	**(0.7)**	0.2
Placements with other banks[1]	**275.0**	107.5
Included in cash and cash equivalents	**274.3**	107.7
Other loans and advances to banks	**112.8**	83.8
Total loans and advances to banks	**387.1**	191.5

1. The Bank currently holds no repo and reverse repo transactions that are subject to obligatory netting arrangements.

An expected credit loss of £nil was recorded as at 31 December 2022 (2021: £nil) in relation to loans and advances to banks. For further details on pledged and transferred assets, refer to note 31 of the Group and Bank consolidated financial statements. This reflects that the Bank is lending to highly rated banks from a credit perspective.

14. LOANS AND ADVANCES TO CUSTOMERS

a) Analysis of the balance sheet

	Group and Bank	
	2022	**2021**
Gross loans and advances	**20,962.2**	21,039.5
Less: allowance for losses	**(40.3)**	(37.4)
Total loans and advances to customers net of allowance for losses	**20,921.9**	21,002.1

Loans and advances to customers include £93.3m (2021: £118.1m) of financial assets designated at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency; of these, £53.4m (2021: £56.0m) are secured by real estate collateral.

For further details on pledged and transferred assets, refer to note 31 of the Group and Bank consolidated financial statements. For stage allocation and analysis, refer to credit risk section of the risk management report.

The significant reduction in the Fair Value Adjustment for Hedged Risk (FVAHR) to (£430.7m) (2021: (£90.5m)) is due to a material increase in swap rates at 31 December 2022 compared to prior year. This relates to mortgage assets, so is reported on the asset side of the balance sheet, whether it is a debit or a credit. Further information on the Bank's hedging programmes is included in section 4.3 of the risk management report.

b) Concentration of exposure

Exposure is only within the UK. Further information on the concentration of exposure is included within section 3.2 of the risk management disclosures.

14. LOANS AND ADVANCES TO CUSTOMERS (continued)

c) Analysis of allowance for impairment losses

	Group and Bank			
	Retail	SME	Legacy & unallocated	Total
At 1 January 2022	25.5	6.7	5.2	**37.4**
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	9.2	1.1	-	**10.3**
To credit impaired (stage 1 or 2 to 3)	2.1	0.2	(1.5)	**0.8**
To 12 month ECL (stage 2 or 3 to 1)	(0.5)	(0.1)	(0.1)	**(0.7)**
From credit impaired (stage 3 to 2)	(0.3)	-	-	**(0.3)**
Net changes arising from stage transfers	**10.5**	**1.2**	**(1.6)**	**10.1**
Other charges/(releases):				
New assets originated or purchased	4.6	0.4	-	**5.0**
Other changes to risk parameters[1]	(5.5)	1.1	3.4	**(1.0)**
Redemptions and repayments	(3.7)	(0.8)	(0.4)	**(4.9)**
Net other charges	**5.9**	**1.9**	**1.4**	**9.2**
Assets written off	(3.3)	(0.7)	(0.7)	**(4.7)**
Portfolio sale	-	-	(1.6)	**(1.6)**
At 31 December 2022	**28.1**	**7.9**	**4.3**	**40.3**

1. Includes the impact of any asset sales.

	Group and Bank			
	Retail	SME	Legacy & unallocated	Total
At 1 January 2021	29.3	8.1	5.5	42.9
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	1.0	1.4	-	2.4
To credit impaired (stage 1 or 2 to 3)	2.1	1.1	0.6	3.8
To 12 month ECL (stage 2 or 3 to 1)	(3.5)	(0.7)	(0.2)	(4.4)
From credit impaired (stage 3 to 2)	(0.5)	-	-	(0.5)
Net changes arising from stage transfers	(0.9)	1.8	0.4	1.3
Other charges/(releases):				
New assets originated or purchased	6.2	0.1	-	6.3
Other changes to risk parameters[1]	(1.1)	0.2	0.9	-
Redemptions and repayments	(4.2)	(0.9)	(0.3)	(5.4)
Net other charges	-	1.2	1.0	2.2
Assets written off	(3.8)	(2.6)	(1.3)	(7.7)
Portfolio sale	-	-	-	-
At 31 December 2021	25.5	6.7	5.2	37.4

1. Includes the impact of any asset sales.

d) Analysis of income statement

	Group and Bank	
	2022	2021
Net other charges	**(9.2)**	(2.2)
Amounts recovered against amounts previously written off	**0.4**	0.2
Adjustment to recognise interest on stage 3 assets based on their net carrying value	**0.8**	0.8
Portfolio sale/financial guarantees impairment releases	**1.6**	0.1
Net impairment loss for the year as shown in the income statement	**(6.4)**	(1.1)

14 LOANS AND ADVANCES TO CUSTOMERS (continued)

e) Finance lease receivables

	Group and Bank	
	2022	2021
Gross investment in finance leases may be analysed as follows:		
No later than one year	**1.4**	2.2
Later than one year and no later than five years	**4.1**	5.8
Later than five years	**0.3**	3.5
Gross investment in finance leases	**5.8**	11.5
Unearned future finance income on finance leases	**(0.6)**	(2.5)
Net investment in finance leases	**5.2**	9.0
The net future finance leases may be analysed as follows:		
No later than one year	**1.2**	1.7
Later than one year and no later than five years	**3.7**	4.7
Later than five years	**0.3**	2.6
	5.2	9.0

The unguaranteed residual value of the finance leases is £nil (2021: £nil). Finance lease arrangements are with customers in a range of sectors including transport, retail and utilities.

15. INVESTMENT SECURITIES

Analysis of investment securities

	Group and Bank							
	2022				2021			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
Investment securities (listed)	**56.4**	**883.3**	**3.0**	**942.7**	67.3	1,131.6	2.5	1,201.4

An expected credit loss of £nil was recorded as at 31 December 2022 (2021: £nil) in relation to investment securities.

Movement in investment securities

	Group and Bank							
	2022				2021			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
At the beginning of the year	**67.3**	**1,131.6**	**2.5**	**1,201.4**	77.4	1,067.6	3.5	1,148.5
Acquisitions	**-**	**465.7**	**-**	**465.7**	-	873.2	-	873.2
Disposals and maturities	**(11.0)**	**(667.8)**	**-**	**(678.8)**	(10.1)	(763.8)	-	(773.9)
Fair value through other comprehensive income	**-**	**(9.7)**	**-**	**(9.7)**	-	(2.3)	-	(2.3)
Fair value through profit or loss	**-**	**(36.9)**	**0.5**	**(36.4)**	-	(42.7)	(1.0)	(43.7)
Amortisation of discount and premium	**-**	**(1.4)**	**-**	**(1.4)**	-	(0.3)	-	(0.3)
Movement in interest accrual	**0.1**	**1.8**	**-**	**1.9**	-	(0.1)	-	(0.1)
At the end of the year	**56.4**	**883.3**	**3.0**	**942.7**	67.3	1,131.6	2.5	1,201.4

The movement in investment securities classified as FVOCI attributed to the FVTPL line represents the fair value movements on instruments within a designated hedge relationship that have been effectively hedged and thus recycled from the FVOCI reserve to profit or loss. The Group's hedge accounting activities are disclosed in further detail within section 4.3 of the risk management.

Certain investment securities have been pledged by the Group, see note 31 of the Group and Bank consolidated financial statements for further details on encumbered and pledged assets.

The ECL in relation to investment securities measured at Amortised cost and Fair value through other comprehensive income is nil (2021: nil). This reflects the high credit quality of these investment securities and the Bank's current list of Treasury counterparties. The Group applies the 'low credit risk exemption' to investment securities as detailed further in explanatory information 1.3.j.ii.

15 INVESTMENT SECURITIES (continued)

Analysis of investment securities by issuer

	Group and Bank	
	2022	**2021**
Investment securities issued by public bodies:		
Government securities	**121.7**	442.2
Other public sector securities	**133.6**	140.8
Total investment securities issued by public bodies	**255.3**	583.0
Other debt securities:		
Other floating rate notes	**595.3**	511.8
Mortgage backed securities	**92.1**	106.6
Total other debt securities	**687.4**	618.4
Total investment securities	**942.7**	1,201.4

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

16. DERIVATIVE FINANCIAL INSTRUMENTS

Various derivatives have been entered into to manage interest rate risk, some of which are held in a qualifying hedge accounting relationship (see the risk management section 4.3 for more details on interest rate risk management strategies). Positive and negative fair values have not been netted off as there is no legal right of offset.

Non-trading derivatives

Non-trading transactions comprise derivatives held for hedging purposes to manage the asset and liability positions of the Group. Derivatives used to manage interest rate related positions include interest rate swaps and caps. The foreign exchange rate positions are managed using foreign exchange forward and swap transactions.

	Group and Bank Fair value			
	2022		2021	
	Assets	Liabilities	Assets	Liabilities
Derivatives held for non-trading purposes				
Derivatives designated as fair value hedges:				
Interest rate swaps	**468.4**	**(58.7)**	145.7	(37.1)
Derivatives held for non-trading purposes for which hedge accounting has not been applied:				
Interest rate swaps	**51.3**	**(44.6)**	102.8	(111.1)
Forward currency transactions	**0.4**	**(0.1)**	-	-
OTC interest rate options	**-**	**(0.1)**	-	-
Total derivative assets/(liabilities) held for non-trading purposes	**520.1**	**(103.5)**	248.5	(148.2)
Total recognised derivative assets/(liabilities)	**520.1**	**(103.5)**	248.5	(148.2)

Detailed hedge accounting disclosures are covered within section 4.3 of the risk management.

In line with industry standards, credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are applied to non-collateralised swaps representing the fair value measurement of counterparty risk. The net credit adjustment across the portfolio at 31 December 2022 was immaterial (2021: net credit of £0.1m). CVAs and DVAs are not applied to derivatives that are fully cash collateralised.

17. EQUITY SHARES

	Group and Bank	
	2022	2021
Listed	**0.2**	0.3
Unlisted[1]	**10.9**	22.5
	11.1	22.8

1. Unlisted equity share investments include holdings of shares in Bankifi Technology Limited, Zellar Limited, SWIFT, and Visa Inc. Series B Preferred Stock.

During the year, the Group's holdings of Visa Inc. Series Preferred Stock was subject to a conversion adjustment, reducing the value of the preferred stock holding and awarding the Group with a commensurate amount of listed liquid A shares. These series A shares were disposed of during the year.

18. OTHER ASSETS

	Group and Bank	
	2022	2021
Amounts recoverable within one year	**14.1**	12.7
	14.1	12.7

There are no assets due to be received after one year.

19. PREPAYMENTS

	Group and Bank	
	2022	2021
Amounts recoverable within one year	**20.7**	20.1
Amounts recoverable after more than one year	**0.7**	0.2
	21.4	20.3

20. PROPERTY, PLANT AND EQUIPMENT

		Group and Bank					
2022	Land and buildings	Leasehold improve-ments	Computers and other equipment	Assets in the course of construction	Investment properties	Assets classified as held for sale	Total
Cost							
At 1 January 2022	4.7	9.4	50.1	0.5	1.9	0.2	**66.8**
Additions	0.3	-	0.5	3.7	-	-	**4.5**
Disposals	-	-	(2.7)	-	-	(0.2)	**(2.9)**
Impairment	-	-	-	(0.1)	-	-	**(0.1)**
Remeasurements	-	-	-	-	0.2	-	**0.2**
Transfer between categories	-	-	1.7	(1.7)	-	-	-
At 31 December 2022	**5.0**	**9.4**	**49.6**	**2.4**	**2.1**	**-**	**68.5**
Accumulated depreciation							
At 1 January 2022	0.6	3.0	38.9	-	-	-	**42.5**
Charge for the year	0.4	0.7	4.2	-	-	-	**5.3**
Disposals	-	-	(2.1)	-	-	-	**(2.1)**
Impairment	-	-	-	-	-	-	-
At 31 December 2022	**1.0**	**3.7**	**41.0**	**-**	**-**	**-**	**45.7**
Net book value							
At 31 December 2022	**4.0**	**5.7**	**8.6**	**2.4**	**2.1**	**-**	**22.8**
At 1 January 2022	4.1	6.4	11.2	0.5	1.9	0.2	24.3

20. PROPERTY, PLANT AND EQUIPMENT (continued)

2021	Group and Bank Land and buildings	Leasehold improve-ments	Computers and other equipment	Assets in the course of construction	Investment properties	Assets classified as held for sale	Total
Cost							
At 1 January 2021	4.7	19.2	52.2	0.1	1.9	0.3	78.4
Additions	-	-	0.2	0.6	-	-	0.8
Disposals	-	(9.8)	(2.5)	-	(0.1)	(0.1)	(12.5)
Impairment	-	-	-	-	-	-	-
Remeasurements	-	-	-	-	0.1	-	0.1
Transfer between categories	-	-	0.2	(0.2)	-	-	-
At 31 December 2021	4.7	9.4	50.1	0.5	1.9	0.2	66.8
Accumulated depreciation							
At 1 January 2021	0.5	5.0	35.5	-	-	-	41.0
Charge for the year	0.1	1.3	4.5	-	-	-	5.9
Disposals	-	(3.3)	(1.1)	-	-	-	(4.4)
Impairment	-	-	-	-	-	-	-
At 31 December 2021	0.6	3.0	38.9	-	-	-	42.5
Net book value							
At 31 December 2021	4.1	6.4	11.2	0.5	1.9	0.2	24.3
At 1 January 2021	4.2	14.2	16.7	0.1	1.9	0.3	37.4

The net book value of land and buildings comprises freehold properties of £3.9m (2021: £4.1m).

21. INTANGIBLE ASSETS

	Group and Bank 2022 Internally generated assets	Other intangible assets	Assets in the course of construction	Total	2021 Internally generated assets	Other intangible assets	Assets in the course of construction	Total
Cost								
At 1 January	**216.0**	**30.3**	**21.1**	**267.4**	206.4	21.5	11.5	239.4
Additions	**-**	**-**	**45.0**	**45.0**	0.4	4.7	23.0	28.1
Disposals	**-**	**-**	**(0.6)**	**(0.6)**	-	-	-	-
Impairment	**-**	**-**	**(0.1)**	**(0.1)**	-	-	(0.1)	(0.1)
Transfer between categories	**16.5**	**-**	**(16.5)**	**-**	9.2	4.1	(13.3)	-
At 31 December	**232.5**	**30.3**	**48.9**	**311.7**	216.0	30.3	21.1	267.4
Accumulated amortisation								
At 1 January	**180.6**	**18.3**	**-**	**198.9**	160.6	15.4	-	176.0
Charge for the year	**19.7**	**3.1**	**-**	**22.8**	20.0	3.6	-	23.6
Increment of useful life	**-**	**-**	**-**	**-**	-	(0.7)	-	(0.7)
Disposals	**-**	**-**	**-**	**-**	-	-	-	-
At 31 December	**200.3**	**21.4**	**-**	**221.7**	180.6	18.3	-	198.9
Net book value								
At 31 December	**32.2**	**8.9**	**48.9**	**90.0**	35.4	12.0	21.1	68.5
At 1 January	**35.4**	**12.0**	**21.1**	**68.5**	45.8	6.1	11.5	63.4

Assets in the course of construction include £45.5m (2021: £21.1m) of IT and technology project-related spend.

Other intangible assets are predominantly comprised of purchased software licenses.

22. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Right-of-use assets

	Group and Bank	
		Re-presented[1]
	2022	2021
Cost		
At 1 January	**68.8**	68.6
Additions	**6.9**	1.5
Disposals	**(19.0)**	(1.3)
At 31 December	**56.7**	68.8
Accumulated depreciation		
At 1 January	**21.9**	14.9
Charge for the year	**6.8**	7.0
Disposals	**(5.5)**	-
Impairment	**0.5**	-
At 31 December	**23.7**	21.9

Net book value		
At 31 December	**33.0**	46.9
At 1 January	**46.9**	53.7

1. The Group has re-presented its disclosure of right of use assets such that remeasurements of lease liabilities leading to increases or decreases in the right of use asset are treated as additions or disposals respectively. There is no change in the carrying amount of right of use assets a result of this re-presentation.

During the year the Group fully exited from one of its major occupancies and exercised break options to shorten the term of tenancy in a further two major leasehold occupations, giving rise to a significant reduction in right of use assets.

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	
	2022	2021
Amounts falling due:		
Within one year	**5.7**	6.2
One to two years	**5.1**	6.4
Two to five years	**11.0**	13.9
Over five years	**18.0**	24.0
	39.8	50.5

The discounted lease liability as at 31 December 2022 was £31.0m (2021: £44.1m) and the interest expense on lease liabilities for the year was £1.2m (2021: £1.7m). The weighted average incremental borrowing rate applied to lease liabilities during the year was 2.9 % (2021: 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 £14.6m (2021: £11.0m).

Other lease related income and expenses

The expense related to short-term leases (less than 12 months) and low-value assets for the year was £nil (2021: £0.4m) and £0.1m (2021: £0.1m), respectively. The expense for the year relating to variable lease payments not included in the lease liability was £nil (2021: £nil).

Subleases

During 2022, £0.6m (2021: £0.5m) was received from subleasing right-of-use assets. Future undiscounted minimum payments receivable in respect of subleased assets classified as operating leases at 31 December 2022 is £0.6m (2021: £0.6m).

23. DEPOSITS BY BANKS

	Group and Bank	
	2022	2021
Deposits from other banks[1]	**5,683.4**	5,527.6

1. Obligatory netting arrangements are in place for repo and reverse repo transactions. The amount reduced by netting is £nil (2021: £nil).

Included within deposits by banks are liabilities to third parties where the Group has transferred certain assets but has not divested itself of the risks and rewards of ownership and has therefore retained those assets on its balance sheet. Further details on these arrangements, including carrying amounts are disclosed in note 31 of the Group and Bank consolidated financial statements.

Included within deposits by banks are drawings of £5.2bn (2021: £5.2bn) from the Bank of England TFSME scheme (interest charged at Base Rate to maturity, longest deposit has an original maturity of just over five years). The entire balance at the end of 2022 is non-current, first repayments being scheduled for 2024.

24. DEBT SECURITIES IN ISSUE

Debt securities in issue comprise:

- £250m of AAA securities issued in 2019 through Silk Road Finance Number Six p.l.c. at a margin of 0.85% above compounded daily SONIA and a maturity date of September 2023. The carrying amount as at the balance sheet date is £181.9m (2021: £203.3m).

In November 2021, the secured covered bond of £483.1m at a coupon of 4.75% was redeemed at par.

25. OTHER BORROWED FUNDS

	Group and Bank				
	Issue date	Call date	Maturity date	2022	2021
Tier 2-qualifying liabilities					
9.5% fixed rate reset callable subordinated notes	April 2019	April 2024	April 2029	200.0	200.0
MREL-qualifying liabilities					
9.0% fixed rate reset callable senior unsecured notes	Nov 2020	Nov 2024	Nov 2025	200.0	200.0
6.0% fixed rate reset callable notes	April 2022	April 2024	April 2026	250.0	-
Fixed rate subordinated notes				**650.0**	400.0
Issue costs, discounts and accrued interest				5.5	2.3
Fair value hedge accounting adjustment				(8.6)	(0.2)
				646.9	402.1

Other borrowed funds comprise various subordinated liabilities issued to meet the Group's Minimum Requirements for own funds and Eligible Liabilities and Tier 2 capital requirements. The Tier 2 qualifying liabilities rank junior to the MREL-qualifying liabilities, which rank pari passu amongst themselves. All instruments are listed on the London Stock Exchange.

New MREL-qualifying instruments of £250.0m were issued during the year.

26. OTHER LIABILITIES

	Group and Bank	
	2022	2021
Amounts falling due within one year		
Amounts due to beneficiary banks	**22.7**	24.7
Other creditors	**20.1**	14.0
	42.8	38.7

There are no liabilities falling due after one year.

27. ACCRUALS AND DEFERRED INCOME

	Group and Bank	
	2022	2021
Amounts falling due within one year		
Accruals	**29.8**	31.6
Deferred income	**1.1**	3.2
	30.9	34.8
Amounts falling due after one year		
Accruals	**0.9**	0.4
Deferred income	**0.7**	1.8
	1.6	2.2
	32.5	37.0

28. PROVISIONS

	Group and Bank				
2022	Property	PPI	Conduct/legal	Other	Total
At 1 January 2022	15.2	1.0	0.1	17.6	**33.9**
Provided/(released) in the year:					
Net interest income	-	-	1.0	-	**1.0**
Right-of use asset	2.8	-	-	-	**2.8**
Operating expenses	2.3	-	-	19.3	**21.6**
Net customer redress release	-	(1.0)	-	-	**(1.0)**
Utilised during the year	(11.8)	-	-	(13.3)	**(25.1)**
At 31 December 2022	**8.5**	**-**	**1.1**	**23.6**	**33.2**
Amounts falling due within one year	3.6	-	1.1	19.6	**24.3**
Amounts falling due after one year	4.9	-	-	4.0	**8.9**
Total provisions	**8.5**	**-**	**1.1**	**23.6**	**33.2**

	Group and Bank				
2021	Property	PPI	Conduct/legal	Other	Total
At 1 January 2021	22.8	8.6	1.1	13.9	46.4
(Released)/provided in the year:					
Operating expenses	(1.4)	-	0.1	13.4	12.1
Net customer redress release	-	(2.6)	-	-	(2.6)
Utilised during the year	(6.2)	(5.0)	(1.1)	(9.7)	(22.0)
At 31 December 2021	15.2	1.0	0.1	17.6	33.9
Amounts falling due within one year	4.3	1.0	0.1	15.9	21.3
Amounts falling due after one year	10.9	-	-	1.7	12.6
Total provisions	15.2	1.0	0.1	17.6	33.9

Property
The Group has a number of leasehold properties for which dilapidation provisions are recorded to the extent that the Group has incurred an obligation to restore a property to a defined state of repair and/or any dilapidation clauses within the contract have been invoked. During the year the Group surrendered the lease on a major occupancy which has significantly reduced the outstanding provision during the year.

Payment Protection Insurance (PPI)
The Group has concluded its remediation activity under its legacy PPI redress programme and has released the remaining provision.

Conduct/legal provisions
The Group provided £1.0m in the year (2021: £0.1m) in respect of ongoing customer remediation work and various legal claims arising in the ordinary course of business.

28. PROVISIONS (continued)

Other
£22.9m (2021: £16.8m) of other provisions are recognised in respect of employee remuneration, of which £6.7m (2021: £3.3m) are classed as share-based payment arrangements under IFRS 2. The main such arrangements are:
- Long Term Incentive Plans (LTIP) – cash-settled share-based payment arrangement for certain Material Risk Takers which vests over three years from grant date. Payment is deferred for up to 7 years from the grant date.
- Deferred Bonus Plan – cash-settled share-based payment arrangement for certain Material Risk Takers which is fully vested on grant date. Payment is deferred for up to 9 years from the grant date.
- Management Incentive Plan (MIP) – cash-settled share-based payment arrangement for certain Material Risk Takers which would only pay out on the completion of a qualifying ‘exit event’ (e.g. a public offering of the Group’s shares).

The fair value of the LTIP and Deferred Bonus Plan are linked to the Group’s share price, which is based on estimates provided by a range of third-party valuers. No share options are granted under these schemes. The income statement impact of share-based payment arrangements during the year was £1.8m (2021: £2.0m).

Further details on these schemes are disclosed in the Directors’ Report on remuneration.

29. DEFERRED TAX

Deferred taxes are calculated using the appropriate tax rate in respect of each temporary difference.

An increase in the UK corporation rate from 19 % to 25 % (effective 1 April 2023) was substantively enacted on 24 May 2021. The banking surcharge also applies to Bank Company. A reduction of the banking surcharge from 8 % to 3 % and an increase of the surcharge allowance from £25.0m to £100.0m (effective 1 April 2023) were substantively enacted on 2 February 2022. From 1 April 2023, the combined rate of tax on banking profits in excess of £100.0m will be 28 %. The deferred tax assets and liabilities at 31 December 2022 have been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences.

	Group and Bank						
2022	Losses	Capital allowances on fixed assets	Retirement benefits	Cash flow hedges	Unrealised appreciation on investments	FVOCI	Total
At 1 January 2022	192.4	138.4	(277.6)	(7.5)	(7.3)	(1.6)	**36.8**
(Charged)/credited to income statement	(71.8)	(39.4)	1.8	0.3	4.3	-	**(104.8)**
Credited to other comprehensive income	-	-	231.1	2.7	-	1.6	**235.4**
At 31 December 2022	**120.6**	**99.0**	**(44.7)**	**(4.5)**	**(3.0)**	**-**	**167.4**

	Group and Bank						
2021	Losses	Capital allowances on fixed assets	Retirement benefits	Cash flow hedges	Unrealised appreciation on investments	FVOCI	Total
At 1 January 2021	38.2	116.2	(176.0)	(8.9)	(5.9)	(1.9)	(38.3)
Credited/(charged) to income statement	154.2	22.2	(8.8)	-	(1.4)	-	166.2
(Charged)/credited to other comprehensive income	-	-	(92.8)	1.4	-	0.3	(91.1)
At 31 December 2021	192.4	138.4	(277.6)	(7.5)	(7.3)	(1.6)	36.8

The deferred tax asset above includes an offset for those deferred tax liabilities that are permissible to be offset.

The deferred tax credit to other comprehensive income in respect of retirement benefits of £231.1m comprises £120.5m due to the revaluation of the net retirement benefit asset in the period and £110.6m as a result of the Pace pension scheme “buy-in” transaction. The deferred tax charge of £58.4m in the income statement relates to the write-down of the deferred tax asset in respect of tax losses that had been previously supported by the Pace net retirement benefit deferred tax liability. Please refer to note 30 of the Group and Bank consolidated financial statements for further information.

Deferred tax assets totalling £502.5m (2021: £468.7m) have not been recognised where doubt exists over the availability of sufficient future taxable profits. Deferred tax assets of £492.7m (2021: £459.9m) and £9.8m (2021: £8.8m) have not been recognised in respect of trading losses of £1,943.1m (2021: £1,835.9m) and other temporary differences of £35.0m (2021: £26.6m) respectively.

29. DEFERRED TAX (continued)

The movement in the unrecognised deferred tax asset in respect of losses is explained by the write-down of the deferred tax asset as a result of the Pace pension scheme "buy-in" transaction as well as the movement on the losses recognised based on future profitability.

Whilst there is no expiry date for the utilisation of tax losses, the utilisation of losses is restricted to 50 % or 25 % of taxable profits depending upon when those tax losses were incurred.

Further detail on deferred tax is provided in note 2 of the Group and Bank consolidated financial statements.

30. RETIREMENT BENEFITS

The Group is the Principal Employer of the Bank section of The Co-operative Pension Scheme (Pace), a hybrid scheme, consisting of a closed defined benefit element (Pace DB) and a defined contribution element (Pace DC). In addition, the Group is the Principal Employer of the Britannia Pension Scheme (BPS, via a subsidiary of the Bank) which is a defined benefit scheme, closed to new entrants and to future accrual. The Group operates two unfunded defined benefit pension schemes, the Britannia Supplementary Pension and Life Assurance Plan (BSPLAP) and the Pension Promise. The relevant disclosures have been aggregated with the disclosures of the main schemes unless otherwise stated.

The amounts recognised in the income statement are as follows:

		Group and Bank	
	Note	2022	2021
Interest expense on defined benefit obligation		**(43.1)**	(33.5)
Interest income on plan assets		**59.9**	42.6
Total net interest income on net defined benefit pension asset	6	**16.8**	9.1
Net interest expense on unfunded schemes	6	**(0.2)**	(0.1)
Administrative expenses included in operating expenses		**(3.9)**	(3.8)
Net credit to the income statement – DB		**12.7**	5.2
Net charge to the income statement – DC	10	**(7.0)**	(6.9)
Total pension credit/(charge) included in the income statement		**5.7**	(1.7)

The amounts recognised in other comprehensive income are as follows:

	Group and Bank	
	2022	2021
Return on scheme assets[1]	**(1,525.0)**	(11.4)
Gain arising from changes in financial assumptions	**957.3**	141.7
(Loss)/gain arising from changes in demographic assumptions	**(1.3)**	12.5
Experience (loss)/gain	**(126.7)**	39.6
Actuarial gain on unfunded schemes	**1.9**	0.3
(Charge)/credit recorded in other comprehensive income	**(693.8)**	182.7

1. Includes c.£395.0m estimated accounting loss on completion of full "buy-in" transaction. Refer to "characteristics of the defined benefit plans and risks associated with them" below.

The amounts recognised in the balance sheet are as follows:

	Group and Bank	
	2022	2021
Retirement benefit net surplus	**159.7**	841.1
Retirement benefit liabilities	**(5.9)**	(8.1)
Total amounts recognised in the balance sheet	**153.8**	833.0
Represented by:		
Funded DB schemes (Pace DB and BPS)	**159.7**	841.1
Unfunded DB schemes	**(5.9)**	(8.1)
Total amounts recognised in the balance sheet	**153.8**	833.0

30. RETIREMENT BENEFITS (continued)

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 future accrual, the certainty over pension liabilities increases over time and this increased certainty is reflected in the investment strategies (noted below). Pension obligations are valued separately for accounting and funding purposes. The accounting valuation of liabilities is prepared biannually for the Group's reporting purposes by a qualified actuary, in accordance with accounting standards. This accounting valuation of pension obligations is compared with the fair value of plan assets, giving rise to a net asset or liability in respect of DB pensions at the balance sheet date for the Group's financial reporting purposes. The funding valuation is conducted by the trustees, in consultation with the Group, and is conducted by a qualified actuary at least once every three years (and is updated for monitoring purposes on an annual basis). The latest concluded actuarial funding valuations were conducted in respect of Pace DB as at April 2019 (concluded in 2020) and for BPS as at April 2020 (concluded in 2021).

The purpose of the funding valuation is to determine the amount of cash an employer needs to contribute to the scheme to repair any deficit. The funding valuation will generally be different to the accounting valuation, not only because of the different measurement dates, but also because accounting standards require that companies employ best estimate assumptions, and therefore the accounting surplus will generally be higher than that reported in the more prudent funding valuation, as is noted in BPS.

In December 2022, the Pace Trustee completed a full “buy-in” transaction with Rothesay Life Plc, a specialist UK insurer, to insure scheme benefits through purchase of a bulk annuity insurance policy. This insurance policy was purchased using existing scheme assets with no additional contributions from the Group. Through this “buy-in” transaction, and in conjunction with a pre-existing partial “buy-in” with Pension Insurance Corporation plc (PIC) completed in April 2020, all Pace DB liabilities in respect of pension benefits are matched by an insurance asset of equivalent value. As a result, the principle investment and longevity risks associated with the scheme have been substantially mitigated, and there is the potential to complete a full “buy-out” of the scheme and issue individual annuity policies to members in the future.

The premium paid to Rothesay to purchase the insurance asset exceeded the value of pension benefits insured, resulting in an estimated accounting loss of c.£395.0m, which is recorded in Other Comprehensive Income. Refer to the Statement of Comprehensive Income in the Group and Bank consolidated financial statements.

The Group has recognised a net pension asset of £142.9m in respect of BPS for the year ended 31 December 2022 (2021: £240.4m), and £16.8m in respect of Pace DB (2021: £600.7m). The reduction in the Pace DB net pension asset includes the c£395.0m estimated accounting loss arising on the full “buy-in” transaction noted above.

Funding position of Pace DB

As part of the project to sectionalise Pace, which concluded in 2018, it was agreed with the Pace Trustee and the Co-op that the Group would contribute £100.0m into the Bank section of Pace over a ten-year period from 1 January 2018, of which £25.0m had been paid as at 31 December 2019.

At April 2019, the date of the last concluded funding valuation, the surplus for Pace DB (the Bank section of the Co-operative Pension Scheme) was £72.0m. Acknowledging this surplus, it was agreed that no further contributions would be paid directly into Pace DB, but that the remaining, previously agreed contributions due from 1 January 2020 would be payable into an escrow arrangement. Pace would have a right to these monies in the event of Bank insolvency or a failure by the Bank to make contributions in the future under the terms of the Payment Agreement. This Payment Agreement enables the Trustee to request a contribution if required, from March 2023 onwards, to repair a deficit against the low risk target basis (a secondary funding measure for Pace) or to enable Pace to meet the premium payable above scheme assets in order to fully insure scheme liabilities with a third party insurance company.

The full “buy-in” transaction with Rothesay Life Plc in December 2022, as noted above, fully insures scheme benefits through a bulk annuity insurance policy. In conjunction with this transaction, the Group and the Pace Trustee agreed that no further contributions into this escrow arrangement would be required. At 31 December 2022, £37.5m in cash was pledged in this escrow arrangement, over which the Pace Trustee retains a security interest under the terms of the Payment Agreement noted above.

30. RETIREMENT BENEFITS (continued)

In addition, the Group continues to provide security to Pace DB in the form of AAA-rated RMBS notes, subject to a haircut, decreasing over time in line with contributions paid into the Scheme. This security becomes enforceable in the event of Group insolvency or the failure to adhere to the terms of the security deed. At 31 December 2022, the Group was obliged to provide security of £244.9m in the form of AAA-rated RMBS notes. Post haircut, this amounted to £191.0m.

Contributions are also paid in respect of employed members of Pace DC. Members can choose to pay up to a maximum core contribution of 8% of salary ‘double-matched’ up to a maximum member contribution of 5%. So, for members paying 5% or more, an employer contribution of 10% of salary is paid into the Scheme.

Funding position of BPS
The actuarial valuation of BPS as at 5 April 2020, completed by the Scheme Actuary in accordance with the scheme specific funding requirements of the Pensions Act 2004, showed BPS had a surplus of £3.4m. As a result, it was agreed with the Trustee that no further deficit recovery contributions would be required at this time, that expense reimbursement contributions of £1.4m p.a. would be maintained, and that the provision of security to the scheme was to be maintained. This security is in the form of £175.6m AAA-rated RMBS notes, subject to a 22% haircut at 31 December 2022. 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.

BPS employs a Liability-Driven Investments (LDI) strategy, which includes the use of derivatives, to hedge the majority of inflation risk and interest rate risk the scheme is exposed to. If the value of liabilities were to increase as a result of changes in interest rates or inflation, the value of 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.

Pace, and by extension the Group as Principal Employer, is fully insured against the primary investment and longevity risks the scheme would otherwise be exposed to, through the bulk annuity insurance policies with Rothesay Life plc and PIC, as described above.

The actuary considers two aspects in respect of mortality rates; firstly, the level of mortality actually experienced by each scheme, and secondly, the future improvement expected in mortality rates. Both aspects may differ between males and females. The assumptions used by the actuary are set out in section b) below.

Investment strategy
The performance of plan assets is also a risk managed by the trustees (described as investment risk) and, as noted within the investment strategy, the performance is managed and monitored by comparison to scheme benchmarks advised by the scheme’s investment advisor, where appropriate. The benchmarks take account of actual performance by comparing performance to that of a relevant comparable yardstick. For LDI assets, the performance benchmark comparison is the value of liabilities. For return-seeking investments the benchmark is comprised of comparable investment indices. The trustees also monitor whether performance is being delivered by taking on greater risk than appetite; this is monitored by comparing the actual asset allocation to the target allocation documented in the Statement of Investment Principles, maintained by each scheme. The weighted average duration of the defined benefit obligation of both BPS and Pace DB is 14 years.

b) Summary of scheme assets and liabilities, key assumptions and sensitivities
The pension assets and liabilities for DB schemes in the balance sheet comprise:

	Group and Bank					
	2022			2021		
Schemes	Asset	Liability	Net	Asset	Liability	Net
Pace DB	**930.2**	**(913.4)**	**16.8**	2,128.7	(1,528.0)	600.7
Britannia Pension Scheme	**557.4**	**(414.5)**	**142.9**	905.8	(665.4)	240.4
Total schemes	**1,487.6**	**(1,327.9)**	**159.7**	3,034.5	(2,193.4)	841.1

30. RETIREMENT BENEFITS (continued)

Changes in the present value of the defined benefit obligation are as follows:

	Group and Bank	
	2022	2021
Defined benefit obligation at the beginning of the year	**2,193.4**	2,437.3
Interest expense	**43.1**	33.5
Benefits paid	**(79.3)**	(83.6)
Remeasurements:		
Effect of changes in demographic assumptions	**1.3**	(12.5)
Effect of changes in financial assumptions	**(957.3)**	(141.7)
Effect of other experience items	**126.7**	(39.6)
Defined benefit obligation at the end of the year	**1,327.9**	2,193.4

The key assumptions used to determine the funded and unfunded pension obligations for accounting purposes are set out in the following tables:

	Group and Bank	
	2022	2021
Discount rate	**5.00%**	2.00 %
Revaluation in deferment (CPI) - BPS	**2.70%**	2.70 %
Revaluation in deferment (CPI) - Pace DB	**2.60%**	2.50 %
Future pension increases where capped at 5.0 % per annum (CPI)	**2.70%**	2.70 %
Future pension increases where capped at 3.0 % per annum (CPI)	**2.20%**	2.10 %
Future pension increases where capped at 5.0 % per annum, minimum 3.0 % (CPI)	**3.40%**	3.40 %
Future pension increases where capped at 6.0 % per annum (RPI)	**3.20%**	3.20 %
Future pension increases where capped at 5.0 % per annum (RPI)	**3.10%**	3.10 %
Future pension increases where capped at 2.5 % per annum (RPI)	**2.20%**	2.20 %

The average life expectancy (in years) for mortality tables used to determine defined benefit schemes liabilities at the 2022 year end is:

	Group and Bank	
	Male	Female
Life expectancy (BPS)		
Member retiring today (member age 60)	**85.0**	**87.7**
Member retiring in 20 years (member age 40 today)	**86.1**	**88.9**
Life expectancy (Pace)		
Member retiring today (member age 60)	**85.4**	**87.9**
Member retiring in 20 years (member age 40 today)	**86.1**	**89.0**

The measurement of the Group's defined benefit liabilities are sensitive to changes in certain key assumptions, which are described below. The methods used to carry out the sensitivity analyses presented below for the material assumptions are the same as those the Group has used previously. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remained the same. This approach is not necessarily realistic, since some assumptions are related; for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will increase also, whilst the annuity policies held by Pace are designed to offset changes in liabilities. However, it enables the reader to isolate one effect from another.

Discount rate	This has been selected following actuarial advice received by the Group, taking into account the duration of the liabilities. An increase in the discount assumption of 0.5 % would result in a £89.9m decrease in the present value of the defined benefit obligation. A decrease in the discount assumption of 0.5 % would result in a £100.6m increase in the present value of the defined benefit obligation.
Inflation	Inflation is a significant assumption as it is used to determine salary-related benefits and pension increases before and after retirement. A decrease in the inflation assumption of 0.5 % would result in a £66.2m decrease in the present value of the defined benefit obligation. An increase in the inflation assumption of 0.5 % would result in a £70.4m increase 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 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 £38.2m.

30. RETIREMENT BENEFITS (continued)

Changes in the fair value of the defined benefit plan assets are as follows:

	Group and Bank	
	2022	2021
Fair value of plan assets at the beginning of the year	**3,034.5**	3,089.1
Interest income	**59.9**	42.6
Employer contributions	**1.4**	1.4
Benefit payments from plan assets	**(79.3)**	(83.6)
Administrative expenses paid from plan assets	**(3.9)**	(3.6)
Return on plan assets (excluding interest income)[1]	**(1,525.0)**	(11.4)
Fair value of plan assets at the end of the year	**1,487.6**	3,034.5

1. Includes c.£395.0m estimated accounting loss on completion of full "buy-in" transaction. Refer to "characteristics of the defined benefit plans and risks associated with them" above.

c) Investment strategy for the DB schemes

The investment strategy is controlled by the trustee of each scheme in consultation with the 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:

- For Pace DB - to use insurance policies to match member benefits and substantially mitigate the primary funding risks faced by the scheme;
- For BPS - to implement an investment strategy that initially targets an expected return of around 1.3 % p.a. (net of fees) above the return on a portfolio of gilts for BPS. The primary objective is that the scheme has sufficient and appropriate assets to meet the costs incurred by the scheme in paying its benefits as they fall due on a technical provisions basis (technical provisions being the funding valuation basis reflecting a prudent valuation). If funding improves as a result of better than expected investment return or other reason, the expectation is to use the opportunity to reduce investment risk where appropriate.

The investment strategy of BPS reflects the strong funding position and closed nature of the scheme 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			
	2022	% of total	2021	% of total
Government bonds	**331.2**	**22%**	1,457.0	48 %
Corporate bonds	**-**	**-**	37.8	1 %
Derivatives	**-**	**-**	44.9	1 %
Cash and similar	**17.1**	**1%**	129.1	4 %
Other[1]	**(156.9)**	**(10%)**	(308.2)	(9 %)
Total liability-driven investment (LDI) portfolios	**191.4**	**13%**	1,360.6	45 %
Debt instruments	**292.4**	**20%**	446.1	15 %
Investment grade credit	**-**	**-**	740.7	25 %
Asset backed securities	**-**	**-**	65.2	2 %
Annuities[2]	**907.6**	**61%**	302.3	10 %
Property funds (UK)	**61.4**	**4%**	75.8	2 %
Cash and other	**34.8**	**2%**	43.8	1 %
Total assets	**1,487.6**	**100%**	3,034.5	100 %

1. Other comprises liabilities under repo contracts.
2. Annuities comprise the bulk annuity insurance policies with Rothesay Life and PIC.

30. RETIREMENT BENEFITS (continued)

The table below shows the value of the assets in each category which have a quoted market price:

	Group and Bank	
	2022	**2021**
Liability-driven investments	**174.3**	1,250.7
Debt instruments	**174.4**	346.2
Other	**-**	695.8
Total	**348.7**	2,292.7
Total %	**23%**	76 %

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

a) Contingent liabilities and other commitments arising from customer transactions
The tables below provide the contractual amounts and risk weighted amounts of contingent liabilities and commitments. The contractual amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The risk weighted amounts have been calculated in accordance with the CRD V rules.

The contingent liabilities, as detailed below, arise in the normal course of banking business and it is not practical to quantify their future financial effect.

	Group and Bank			
	2022		2021	
	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	**3.3**	**1.2**	4.1	2.0
Other commitments arising from customer transactions				
Undrawn formal standby facilities, credit lines and other commitments to lend (includes revocable and irrevocable commitments)[1]	**1,974.8**	**309.7**	1,960.5	383.7
	1,978.1	**310.9**	1,964.6	385.7

1. Undrawn loan commitments include revocable commitments which represent unused credit card limits of £849.4m (2021: £891.0m).

b) Contingent liabilities associated with exit events
A management retention award was introduced during 2021 which is contingent on certain qualifying transactions (e.g. a public offering of the Group's shares), which are not deemed probable at the balance sheet date and therefore no provisions have been recognised. The unrecognised maximum value of the scheme at 31 December 2022 was £4.8m (2021: £4.8m).

c) Conduct risk matters
Given the high level of scrutiny regarding financial institutions' treatment of customers and business conduct from regulatory bodies, the media and politicians, there is a possibility that certain aspects of the current or historical business, including, amongst other things, mortgages and relationship banking, may be determined by the FCA and other regulatory bodies or the courts as, in their opinion, not being conducted in accordance with applicable laws or regulations, or fair and reasonable treatment.

There may be regulatory investigations and action in the future in relation to conduct and other issues that the Group is not presently aware of, including investigations and actions against it resulting from alleged mis-selling of financial products or the ongoing servicing of those financial products. The outcome of any ongoing disputes and legal, regulatory or other investigations or proceedings is currently uncertain. The Group is currently investigating a small number of matters that may give rise to a requirement to remediate affected customers, but either considers the possibility of future economic outflow to be remote, not yet able to be reliably estimated, or immaterial.

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

d) Legal proceedings

Various other legal proceedings exist involving claims by and against the Bank, which arise in the ordinary course of business, including debt collection, mortgage enforcement, consumer claims and contractual disputes. It is not expected that the ultimate resolution of any of these proceedings will have a material adverse effect on the operating results, cash flows or the financial position and as such contingent liabilities have not been disclosed for these claims. Provisions have been recognised for those cases where there is an ability to reliably estimate the probable loss where the probable loss is not de minimis.

Historical changes to SVR rates

In October 2018, Mortgage Agency Services Number Five Limited ("MAS 5"), a subsidiary of the Group, received a complaint from a mortgage customer regarding changes made to MAS 5's standard variable rate between 2009 and 2012.

The complaint was referred to the Financial Ombudsman Service ("FOS") and on 26 August 2021, the FOS found that it had jurisdiction to consider the complaint. MAS 5 commenced legal action to request permission for a judicial review of FOS's finding on the grounds that the Group considers this part of the complaint to be outside of FOS's jurisdiction by reason of being time-barred under DISP 2.8.2. On 15 June 2022, a judicial review hearing took place in relation to this claim. The judgement was published on 27 July 2022 and the Group's application for judicial review was dismissed.

As the judicial review concerned a decision on whether or not the events are within the FOS's jurisdiction and not on the merits of the underlying complaint, it is still not currently possible to predict the scope and ultimate outcome on the Group until such a time as the FOS communicates to the Group its final decision on the merits of the complaint. The Group remains satisfied that these historical variations were applied fairly and in accordance with the terms and conditions of the mortgage contract. Given that further contingent events are required to establish whether the Group has any liability, the criteria for provision recognition under IAS 37 have not been met, and there is no current obligation under accounting standards to provide an estimate of any potential financial impact.

e) Mortgage securitisation representations and warranties

In connection with the mortgage securitisations (the Warwick, Avon and Stratton SPEs - refer to note 36 for further information), various representations and warranties relating to the mortgage loans are made, including in relation to ownership, compliance with legislation and origination procedures. If the representations and warranties are breached subject to any applicable materiality determination, repurchase of the affected mortgage loans or in some circumstances compensation to the securitisation vehicle may be required.

There is a risk that a number of the underlying matters that could give rise to conduct and legal provisions could result in breaches of such representations and warranties. Accordingly, there is a risk that compensation or repurchasing affected mortgage loans may be required in amounts that may reduce liquidity. The Group considers this risk to be remote.

The extent cannot be estimated to which the matters described above will be impacted, or how future developments may have a material adverse impact on the Group's net assets, operating results or cash flows in any particular period.

f) Unconsolidated structured entities

Details of the interests in unconsolidated structured entities are disclosed in note 36. There has been no significant change in the nature of the transactions in these entities during the year.

g) Encumbered and pledged assets

The Group pledges certain assets as collateral to third parties as part of its day to day activities. The carrying value of amounts pledged to each counterparty types, as well as a high level summary of the terms of the arrangements are provided below.

2022	Cash and balances at central banks	Loans and advances to banks	Loans and advances to customers	Investment securities	Total
TFSME	-	-	6,982.2	-	**6,982.2**
Pension scheme contingent security	-	70.1	493.5	-	**563.6**
Payment scheme collateral	280.0	53.2	41.1	41.6	**415.9**
Interest rate swap collateral	-	171.2	-	80.3	**251.5**
Securitisations	-	13.9	211.8	-	**225.7**
Other	-	20.1	-	147.0	**167.1**
Total assets pledged	**280.0**	**328.5**	**7,728.6**	**268.9**	**8,606.0**

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

2021	Cash and balances at central banks	Loans and advances to banks	Loans and advances to customers	Investment securities	Total
TFSME	-	-	7,103.9	-	7,103.9
Pension scheme contingent security	-	51.6	492.4	-	544.0
Payment scheme collateral	280.0	49.5	48.8	41.8	420.1
Interest rate swap collateral	-	2.8	-	156.1	158.9
Securitisations	-	12.1	246.6	-	258.7
Other	-	30.2	-	146.3	176.5
Total assets pledged	280.0	146.2	7,891.7	344.2	8,662.1

- **TFSME** – residential mortgages pledged as collateral against the Group's drawings from the Bank of England's Term Funding Scheme.
- **Pension scheme contingent security** – contingent security provided by the Group to its defined benefit pension schemes. Security has been pledged primarily in the form of retained securitisation notes (which do not appear on the Group's consolidated balance sheet), cash generated from the amortisation of the notes, which can be substituted for further high quality investment securities, and £37.7m cash held in the Pace escrow account including accrued interest, which the Bank has the right to withdraw. These assets can only be accessed by the trustees in the event that the Group was unable to meet future contribution obligations, as may be agreed with the relevant scheme trustee, insolvency or the failure to adhere to the terms of the security deeds. Refer to note 30 of the Group and Bank consolidated financial statements.
- **Payment scheme collateral** – collateral posted as part of the Group's involvement in transactional payment schemes, including Visa and BACS.
- **Interest rate swap collateral** – collateral posted by the Group against derivative contract exposures as part of its interest rate risk hedging activities.
- **Securitisations** – residential mortgages pledged as collateral against investment securities issued by Group securitisation subsidiaries. Noteholders would have recourse to the underlying assets in the event of the Group's default. The Group may issue investment securities from the securitisations externally to investors for liquidity purposes, or may retain these internally to be used as collateral in other arrangements. Where such securities are retained internally, they are eliminated on consolidation and do not appear on the Group's balance sheet.
- **Other** – primarily relates to investment securities pledged to cover essential operational continuity costs that would be incurred if the Group was put into resolution.

h) Transferred assets not derecognised

In certain circumstances the Group sells assets to third parties in arrangements where the risk and reward has not been fully transferred. In these instances, the Group retains the asset on its balance sheet, but reflects a liability to the third party for the amount due under the arrangement. These primarily relate to repurchase agreements (repos) and are quantified below:

	2022		2021	
	Assets not derecognised	Associated liabilities	Assets not derecognised	Associated liabilities
Repurchase agreements				
Loans and advances to customers	**-**	**-**	6.3	-
Investment securities	**31.8**	**-**	301.0	-
Deposits by banks	**-**	**31.8**	-	304.5
Total	**31.8**	**31.8**	307.3	304.5

The financial instruments disclosed in the above table are measured at amortised cost.

32. RELATED PARTY TRANSACTIONS

Parent, subsidiary and ultimate controlling party

As at 31 December 2022, 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.

During 2021, certain funds managed by Anchorage Illiquid Opportunities Offshore Master V L.P and SP Coop Investments Ltd have sold the entirety of their holdings in the Tier 2 and senior unsecured debt issued by The Co-operative Bank Finance p.l.c. and hence during 2022 they did not receive any interest payments in this respect.

32. RELATED PARTY TRANSACTIONS (continued)

A loan was recognised by Finance Company and Bank Company to achieve structural subordination of the MREL-qualifying debt (the "internal MREL"). The terms of the internal MREL are the same as those of the external MREL-qualifying debt. The total amount due from Bank Company to Finance Company at 31 December 2022 in this regard was £646.9m (2021: £402.1m) including accrued interest. The interest paid by Bank Company to Finance Company on the internal MREL instrument was £44.5m (2021: £37.0m).

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	
	2022	2021
Deposits and investments at the beginning of the year	**1.6**	0.5
Net movement	**0.9**	1.1
Deposits and investments at the end of the year	**2.5**	1.6

In addition, there were £0.4m (2021: £0.1m) relating to loans to key management personnel, arising in the normal course of business.

Key management personnel

	Group and Bank	
	2022	2021
Total remuneration receivable by key management personnel	**9.3**	8.6

In 2022, the total number of key management personnel was 19 (2021: 18). Further information about the remuneration of senior management personnel and Material Risk Takers is included in the Directors' Report on remuneration.

33. SHARE CAPITAL

	Group			
	2022		2021	
	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 (2021: 9,029,130,200) with a nominal value of £0.0001 per share and 83 B shares (2021: 83) with a nominal value of £0.01 per share. The holders of the ordinary A shares do not hold any voting rights but are entitled to participate in distributions and to receive a dividend on liquidation. The B shares entitle shareholders to one vote for every share held and also to certain governance, notification and approval rights with respect to the Holding Company, but have no rights to distributions, other than on exit in an amount of £25.0m in aggregate, subject to achieving a minimum valuation threshold.

	Bank			
	2022		2021	
	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 of the year		**-**		2,416.9
Reserve reorganisation		**-**		(2,416.9)
At the end of the year		**-**		-

The number of ordinary shares in issue in the Bank Company at 31 December 2022 was 511,456,510 (2021: 511,456,510) with a nominal value of £0.05 per share. The ordinary shareholders have one vote for every share held.

33. SHARE CAPITAL (continued)

During 2021, the Bank Company and Finance Company each undertook a reserve reorganisation via a court-approved capital reduction and cancelled their respective share premium accounts as well as the Bank Company's capital redemption reserve. The balances in these accounts were consequently transferred to retained earnings within the respective company. The share premium account in the Holding Company was unaffected by the reserve reorganisation.

34. OTHER RESERVES

	Group		Bank	
	2022	**2021**	**2022**	**2021**
Fair value through other comprehensive income reserve	**(5.3)**	2.9	**(5.3)**	2.9
Cash flow hedging reserve	**10.6**	14.7	**10.6**	14.7
Capital re-organisation reserve	**(1,011.4)**	(1,011.4)	**-**	-
Defined benefit pension reserve[1]	**22.3**	485.0	**22.3**	485.0
	(983.8)	(508.8)	**27.6**	502.6

1. The £462.7m movement in the defined benefit pension reserve included the impact of a full "buy-in" transaction undertaken by the Trustee of the Pace pension scheme and associated movements in the net deferred tax asset. Refer to notes 29 and 30 of the Group and Bank consolidated financial statements for further information.

Descriptions of the nature and purpose of each reserve are summarised below:

- **Fair value through other comprehensive income reserve** - represents the unrealised gains and losses arising from changes in the fair value of financial assets classified as FVOCI.
- **Cash flow hedging reserve** - originally represented the effective portion of gains and losses on designated cash flow hedging instruments that would have been recycled to the income statement when the hedged items affect profit or loss. The Group's cash flow hedge was retired during 2021 as disclosed in the risk management section 4.3 and the reserve is gradually being unwound.
- **Capital re-organisation reserve** - a reserve created as a consolidation consequence of restructuring activity in 2017, primarily reflecting the difference between the Holding Company's investment in subsidiary and the Bank's share capital and share premium at the time of the restructure. The significant reduction in the reserve during the year reflects the impact of the reserve reorganisation disclosed in note 33, which reduced the Bank's share premium to nil.
- **Defined benefit pension reserve** - a distributable reserve representing the cumulative OCI movements associated with retirement benefit assets since those assets were initially recognised on the balance sheet. The reserve is for presentational purposes only and is used to separate the impacts of pension-related OCI movements from the Group's wider retained earnings.

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				
2022	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	**5,270.4**	**-**	**-**	**-**	**-**	**5,270.4**
Loans and advances to banks	**387.1**	**-**	**-**	**-**	**-**	**387.1**
Loans and advances to customers	**20,827.9**	**-**	**93.3**	**0.7**	**-**	**20,921.9**
Investment securities	**56.3**	**883.4**	**-**	**3.0**	**-**	**942.7**
Derivative financial instruments	**-**	**-**	**-**	**51.7**	**468.4**	**520.1**
Equity shares	**-**	**-**	**-**	**11.1**	**-**	**11.1**
Other assets	**12.4**	**-**	**-**	**-**	**-**	**12.4**
Total financial assets	**26,554.1**	**883.4**	**93.3**	**66.5**	**468.4**	**28,065.7**
Financial liabilities						
Deposits by banks	**5,683.4**	**-**	**-**	**-**	**-**	**5,683.4**
Customer accounts	**20,107.3**	**-**	**-**	**-**	**-**	**20,107.3**
Debt securities in issue	**181.9**	**-**	**-**	**-**	**-**	**181.9**
Derivative financial instruments	**-**	**-**	**-**	**44.8**	**58.7**	**103.5**
Other borrowed funds	**646.9**	**-**	**-**	**-**	**-**	**646.9**
Other liabilities	**39.9**	**-**	**-**	**-**	**-**	**39.9**
Total financial liabilities	**26,659.4**	**-**	**-**	**44.8**	**58.7**	**26,762.9**

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				
2021	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	5,696.9	-	-	-	-	5,696.9
Loans and advances to banks	191.5	-	-	-	-	191.5
Loans and advances to customers	20,884.0	-	117.4	0.7	-	21,002.1
Investment securities	67.3	1,131.6	-	2.5	-	1,201.4
Derivative financial instruments	-	-	-	102.8	145.7	248.5
Equity shares	-	-	-	22.8	-	22.8
Other assets	11.4	-	-	-	-	11.4
Total financial assets	26,851.1	1,131.6	117.4	128.8	145.7	28,374.6
Financial liabilities						
Deposits by banks	5,527.6	-	-	-	-	5,527.6
Customer accounts	21,135.9	-	-	-	-	21,135.9
Debt securities in issue	203.3	-	-	-	-	203.3
Derivative financial instruments	-	-	-	111.1	37.1	148.2
Other borrowed funds	402.1	-	-	-	-	402.1
Other liabilities	36.1	-	-	-	-	36.1
Total financial liabilities	27,305.0	-	-	111.1	37.1	27,453.2

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

	Bank					
		Measured at fair value				
2022	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	**5,270.4**	**-**	**-**	**-**	**-**	**5,270.4**
Loans and advances to banks	**387.1**	**-**	**-**	**-**	**-**	**387.1**
Loans and advances to customers	**20,827.9**	**-**	**93.3**	**0.7**	**-**	**20,921.9**
Investment securities	**56.3**	**883.4**	**-**	**3.0**	**-**	**942.7**
Derivative financial instruments	**-**	**-**	**-**	**51.7**	**468.4**	**520.1**
Equity shares	**-**	**-**	**-**	**11.1**	**-**	**11.1**
Other assets	**12.4**	**-**	**-**	**-**	**-**	**12.4**
Total financial assets	**26,554.1**	**883.4**	**93.3**	**66.5**	**468.4**	**28,065.7**
Financial liabilities						
Deposits by banks	**5,683.4**	**-**	**-**	**-**	**-**	**5,683.4**
Customer accounts	**20,107.4**	**-**	**-**	**-**	**-**	**20,107.4**
Debt securities in issue	**181.9**	**-**	**-**	**-**	**-**	**181.9**
Derivative financial instruments	**-**	**-**	**-**	**44.8**	**58.7**	**103.5**
Amounts owed to Finance Company	**646.9**	**-**	**-**	**-**	**-**	**646.9**
Other liabilities	**39.9**	**-**	**-**	**-**	**-**	**39.9**
Total financial liabilities	**26,659.5**	**-**	**-**	**44.8**	**58.7**	**26,763.0**

	Bank					
		Measured at fair value				
2021	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	5,696.9	-	-	-	-	5,696.9
Loans and advances to banks	191.5	-	-	-	-	191.5
Loans and advances to customers	20,884.0	-	117.4	0.7	-	21,002.1
Investment securities	67.3	1,131.6	-	2.5	-	1,201.4
Derivative financial instruments	-	-	-	102.8	145.7	248.5
Equity shares	-	-	-	22.8	-	22.8
Other assets	11.4	-	-	-	-	11.4
Total financial assets	26,851.1	1,131.6	117.4	128.8	145.7	28,374.6
Financial liabilities						
Deposits by banks	5,527.6	-	-	-	-	5,527.6
Customer accounts	21,136.0	-	-	-	-	21,136.0
Debt securities in issue	203.3	-	-	-	-	203.3
Derivative financial instruments	-	-	-	111.1	37.1	148.2
Amounts owed to Finance Company	402.1	-	-	-	-	402.1
Other liabilities	36.1	-	-	-	-	36.1
Total financial liabilities	27,305.1	-	-	111.1	37.1	27,453.3

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

a) Use of financial assets and liabilities
The use of financial instruments is essential to the Group's and Bank's business activities, and financial instruments constitute a significant proportion of the balance sheet. The main financial instruments used and the purposes for which they are held, are outlined below:

- **Loans and advances to customers and Customer accounts**
  The provision of banking facilities to customers is the primary activity of the Group and Bank, and loans and advances to customers and customer accounts are major constituents of the balance sheet. Loans and advances to customers include retail mortgages, corporate loans, credit cards, unsecured retail lending and overdrafts. Customer accounts include retail and corporate current and savings accounts.

- **Loans and advances to banks and Investment securities**
  Loans and advances to banks and investment securities underpin liquidity requirements and generate incremental net interest income.

- **Deposits by banks**
  Deposits include the drawdown of Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME).

- **Debt securities in issue**
  Notes secured by mortgage assets have been issued externally through Silk Road Finance Number Six p.l.c.

- **Derivatives**
  A derivative is a financial instrument that derives its value from an underlying rate or price such as interest rates, exchange rates and other market prices. Derivatives are an efficient means of managing market risk and limiting counterparty exposure, and are used mainly for hedging purposes and to meet the needs of customers.

  The most frequently used derivative contracts are interest rate swaps, options, caps, floors, currency swaps and forward currency transactions. Terms and conditions of such contracts are determined mainly by standard industry documentation. Derivatives are subject to the same market and credit risk control procedures as are applied to other wholesale market instruments and are aggregated with other exposures to monitor total counterparty exposure, which is managed within approved limits for each counterparty.

- **Other borrowed funds**
  Other borrowed funds comprise MREL-qualifying Tier 2 and senior unsecured debt. Amounts owed to Finance Company comprise the related internal MREL debt, achieving structural subordination of the external debt. The features of the instruments are explained in note 25. The external and internal debt was issued to meet MREL requirements.

- **Foreign exchange**
  Foreign exchange dealings are undertaken to facilitate customer requirements and to economically hedge balance sheet exposure to foreign currencies. The risk is managed formally within position limits which are set by the Assets and Liabilities Committee (ALCo), to which authority is delegated by the Board.

b) Valuation of financial assets and liabilities measured at fair value
The carrying value of financial assets and liabilities measured at fair value are determined in compliance with the accounting policies set out in the explanatory information and analysed in the following tables by the three level fair value hierarchy defined as follows:
- Level 1 – Quoted market prices in active markets;
- Level 2 – Valuation techniques using observable inputs; and
- Level 3 – Valuation techniques using unobservable inputs.

There were no transfers between the levels during the year.

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

		Group and Bank			
		Fair value at end of the reporting period using:			
2022	Category	Level 1	Level 2	Level 3	Total
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	**-**	**92.1**	**1.2**	**93.3**
Loans and advances to customers	FVTPL – mandatorily measured	**-**	**-**	**0.7**	**0.7**
Investment securities	FVOCI	**858.5**	**-**	**24.9**	**883.4**
Investment securities	FVTPL – mandatorily measured	**-**	**-**	**3.0**	**3.0**
Equity shares	FVTPL – mandatorily measured	**0.2**	**-**	**10.9**	**11.1**
Derivative financial assets		**-**	**520.1**	**-**	**520.1**
Non-financial assets:					
Investment properties		**-**	**-**	**2.1**	**2.1**
Total assets carried at fair value		**858.7**	**612.2**	**42.8**	**1,513.7**
Derivative financial liabilities		**-**	**103.5**	**-**	**103.5**
Total liabilities carried at fair value		**-**	**103.5**	**-**	**103.5**

		Group and Bank			
		Fair value at end of the reporting period using:			
2021	Category	Level 1	Level 2	Level 3	Total
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	116.0	1.4	117.4
Loans and advances to customers	FVTPL – mandatorily measured	-	-	0.7	0.7
Investment securities	FVOCI	1,104.0	-	27.6	1,131.6
Investment securities	FVTPL – mandatorily measured	-	-	2.5	2.5
Equity shares	FVTPL – mandatorily measured	0.3	-	22.5	22.8
Derivative financial assets		-	248.5	-	248.5
Non-financial assets:					
Investment properties		-	-	1.9	1.9
Total assets carried at fair value		1,104.3	364.5	56.6	1,525.4
Derivative financial liabilities		-	148.2	-	148.2
Total liabilities carried at fair value		-	148.2	-	148.2

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 £89.8m as at 31 December 2022 (2021: £110.8m) which are fair valued through profit or loss using observable inputs. Loans held at fair value are valued at the sum of all future expected cash flows, discounted using a yield curve based on observable market inputs.

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 £24.9m (FVOCI) and £3.0m (FVTPL – mandatorily measured) as at 31 December 2022 (2021: FVOCI: £27.6m and FVTPL £2.5m). 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.

- **Equity shares**
  Equity shares primarily comprise of US Dollar-denominated convertible preference shares in Visa Inc., with any movements in fair value being recognised through profit or loss. The fair value of the Visa Inc. shares has been calculated by taking the period end NYSE share price and discounting for illiquidity and clawback. If the illiquidity premium to the discount rate was increased by an absolute 10 %, it would result in a reduction in the overall fair value of the equity shares of £1.3m as at 31 December 2022.

- **Other assets**
  At 31 December 2022 the Group recognised no financial assets, classified as other assets, at fair value.

- **Investment properties**
  Investment properties within level 3 are valued by using recent valuations of individual assets within the portfolio, index linked to the balance sheet date using the relevant house price index.

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

		Group and Bank				
2022	Fair value at the beginning of the year	Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at the end of the year
Loans and advances to customers	**2.1**	**-**	**(0.1)**	**-**	**(0.1)**	**1.9**
Investment securities	**30.1**	**-**	**(2.4)**	**(0.3)**	**0.5**	**27.9**
Equity shares	**22.5**	**0.8**	**(20.5)**	**-**	**8.1**	**10.9**
Investment properties	**1.9**	**-**	**-**	**-**	**0.2**	**2.1**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**
	56.6	**0.8**	**(23.0)**	**(0.3)**	**8.7**	**42.8**

		Group and Bank				
2021	Fair value at the beginning of the year	Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at the end of the year
Loans and advances to customers	2.6	-	(0.4)	-	(0.1)	2.1
Investment securities	3.5	27.6	-	-	(1.0)	30.1
Equity shares	21.8	0.5	-	-	0.2	22.5
Investment properties	1.9	-	(0.1)	-	0.1	1.9
Other assets	47.8	-	(47.8)	-	-	-
	77.6	28.1	(48.3)	-	(0.8)	56.6

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

c) Fair values of financial assets and liabilities not carried at fair value

The carrying values of financial assets and liabilities measured at amortised cost are determined in compliance with the accounting policies in the explanatory information to the consolidated financial statements and their fair values are analysed in the following tables by the three level fair value hierarchy set out above. There were no transfers between level 1 and 2 during the year.

	Group					
		Fair value				
2022	Total carrying value	Level 1	Level 2	Level 3	Items where fair value approximates carrying value	Total
Financial assets						
Cash and balances at central banks	**5,270.4**	**-**	**-**	**-**	**5,270.4**	**5,270.4**
Loans and advances to banks	**387.1**	**-**	**7.5**	**-**	**379.6**	**387.1**
Loans and advances to customers	**20,827.9**	**-**	**-**	**18,961.1**	**676.3**	**19,637.4**
Investment securities	**56.3**	**-**	**-**	**55.7**	**-**	**55.7**
Other assets	**12.4**	**-**	**-**	**-**	**12.4**	**12.4**
Financial liabilities						
Deposits by banks	**5,683.4**	**-**	**5,289.4**	**-**	**388.4**	**5,677.8**
Customer accounts	**20,107.3**	**-**	**-**	**1,522.5**	**18,554.0**	**20,076.5**
Debt securities in issue	**181.9**	**-**	**-**	**182.1**	**-**	**182.1**
Other borrowed funds	**646.9**	**-**	**618.7**	**-**	**-**	**618.7**
Other liabilities	**39.9**	**-**	**-**	**-**	**39.9**	**39.9**

	Group					
		Fair value				
2021	Total carrying value	Level 1	Level 2	Level 3	Items where fair value approximates carrying value	Total
Financial assets						
Cash and balances at central banks	5,696.9	-	-	-	5,696.9	5,696.9
Loans and advances to banks	191.5	-	-	-	191.5	191.5
Loans and advances to customers	20,884.0	-	-	20,042.5	810.3	20,852.8
Investment securities	67.3	-	-	69.1	-	69.1
Other assets	11.4	-	-	-	11.4	11.4
Financial liabilities						
Deposits by banks	5,527.6	-	5,504.5	-	21.6	5,526.1
Customer accounts	21,135.9	-	-	2,099.6	19,035.6	21,135.2
Debt securities in issue	203.3	-	-	205.1	-	205.1
Other borrowed funds	402.1	-	448.7	-	-	448.7
Other liabilities	36.1	-	-	-	36.1	36.1

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

	Bank					
		Fair value				
2022	Total carrying value	Level 1	Level 2	Level 3	Items where fair value approximates carrying value	Total
Financial assets						
Cash and balances at central banks	**5,270.4**	-	-	-	5,270.4	**5,270.4**
Loans and advances to banks	**387.1**	-	7.5	-	379.6	**387.1**
Loans and advances to customers	**20,827.9**	-	-	18,961.1	676.3	**19,637.4**
Investment securities	**56.3**	-	-	55.7	-	**55.7**
Other assets	**12.4**	-	-	-	12.4	**12.4**
Financial liabilities						
Deposits by banks	**5,683.4**	-	5,289.4	-	388.4	**5,677.8**
Customer accounts	**20,107.4**	-	-	1,522.5	18,554.2	**20,076.7**
Debt securities in issue	**181.9**	-	-	182.1	-	**182.1**
Other borrowed funds	**646.9**	-	618.7	-	-	**618.7**
Other liabilities	**39.9**	-	-	-	39.9	**39.9**

	Bank					
		Fair value				
2021	Total carrying value	Level 1	Level 2	Level 3	Items where fair value approximates carrying value	Total
Financial assets						
Cash and balances at central banks	5,696.9	-	-	-	5,696.9	5,696.9
Loans and advances to banks	191.5	-	-	-	191.5	191.5
Loans and advances to customers	20,884.0	-	-	20,042.5	810.3	20,852.8
Investment securities	67.3	-	-	69.1	-	69.1
Other assets	11.4	-	-	-	11.4	11.4
Financial liabilities						
Deposits by banks	5,527.6	-	5,504.5	-	21.6	5,526.1
Customer accounts	21,136.0	-	-	2,099.6	19,035.7	21,135.3
Debt securities in issue	203.3	-	-	205.1	-	205.1
Other borrowed funds	402.1	-	448.7	-	-	448.7
Other liabilities	36.1	-	-	-	36.1	36.1

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 Finance Company**
  The Group issued Tier 2 and senior unsecured notes which are recognised in other borrowed funds as detailed in note 25 of the consolidated financial statements. The internal MREL is recognised by Bank Company as amounts owed to the Finance Company (parent). The fair value of the notes is based on quoted market prices.

Level 3 – Valuation techniques using unobservable inputs
This is used for financial instruments valued using models where one or more significant inputs are not observable.

The proportion of financial assets valued based on significant unobservable inputs are analysed as follows:

- **Loans and advances to customers**
  The fair value of loans and advances to customers in total is 94.3% of the carrying value as at 31 December 2022 (2021: 99.9%).

  Fixed rate loans and advances to customers are revalued to fair value based on future interest cash flows (at funding rates) and principal cash flows discounted using an appropriate market rate. The market rate applied in the calculation is the average market rate for new originations of loans with similar characteristics to the book of loans being valued, and reflects the rising interest rate environment. This rate is assumed to encompass the time value of money, plus a risk premium to account for the inherent uncertainty in the timing and amount of future cash flows arising from a book of loan assets.

  Forecast principal repayments are based on redemption at the earlier of maturity or re-pricing date with some overlay for historical behavioural experience where relevant. The eventual timing of future cash flows may be different from the forecast due to unpredictable customer behaviour. It is assumed that there would be no other factors which market participants would take into account when assessing the fair value of the loan assets. It is assumed that there is no fair value adjustment required in respect of interest rate movement on standard variable rate loan assets, as the interest rate being charged is assumed to be equal to the market rate for those loan assets. The assumptions around the timing of the cash flows make these unobservable inputs which give rise to the level 3 classification.

  Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

- **Investment securities**
  Investment securities comprise of:
  RMBS measured at amortised cost of £56.3m as at 31 December 2022 (2021: £67.3m), being a 5% regulatory holding of the rated notes of the Warwick SPEs unconsolidated structured entities. The remaining 95% is privately held therefore there are no available market prices. An in-house model is used that sources independent market data for disclosure purposes only.

- **Customer accounts**
  The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on future interest cash flows (at funding rates) and principal cash flows, discounted using an appropriate market rate.

d) Fair value of transferred assets and associated liabilities
For more information on the nature of transferred assets and associated liabilities, including the nature of risk and rewards to which the Group is exposed, refer to note 31 of the Group and Bank consolidated financial statements.

The fair value of transferred assets and their associated liabilities is equivalent to their carrying value.

36. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group is the sponsor for two unconsolidated structured entities (the Warwick SPEs), and holds legal title to the mortgages in exchange for a fee for a further three unconsolidated structured entities (the Avon and Stratton SPEs). The Warwick SPEs were created for the purposes of selling Optimum (the Group's legacy retail secured mortgage portfolio) in the most capital efficient manner. The Avon SPEs were re-securitisations of former Warwick mortgages following the unwinding of earlier Warwick transactions during 2020. Following the sale of Optimum mortgages to a third party at the end of 2020, the Stratton SPE was established by a third party buyer as an unconsolidated structured entity in 2021 to securitise the mortgages.

The tables below represent the continuing involvement in these securitisations in which Group assets have been transferred to the SPEs. The Group holds both notes issued by and a residual interest in the Warwick SPEs, and receives a fee for its holding of legal title for assets in Avon and Stratton SPEs. The notes and residual interests are reported as investment securities and the fee is accounted for as fee income. Rated notes in Warwick SPEs have been classified as amortised cost and the residual interest in Warwick SPEs have been classified as fair value through profit or loss. The maximum exposure to loss is the carrying value of these instruments.

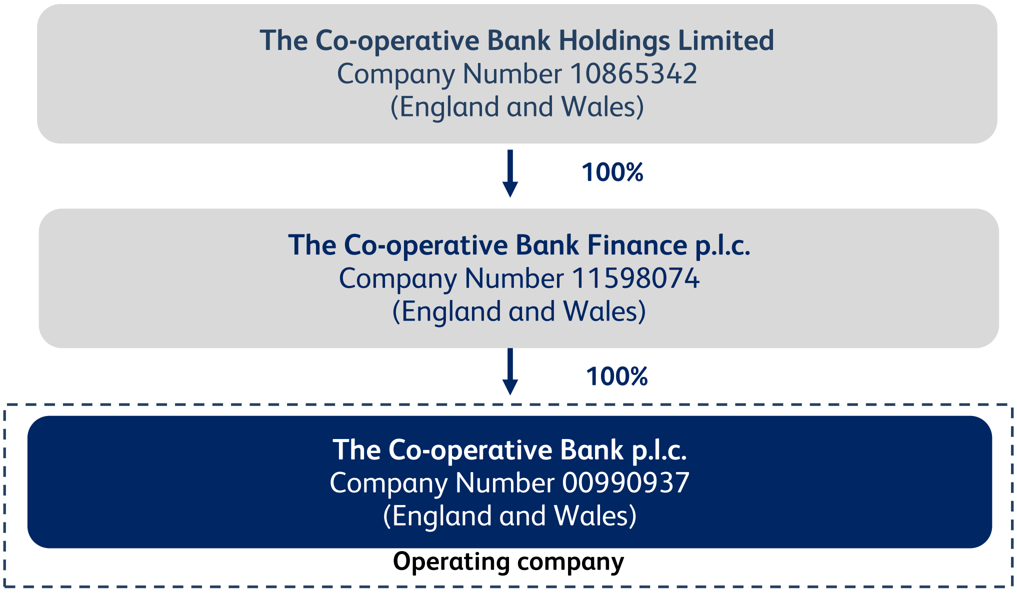
	Group and Bank				
	Carrying amount of continuing involvement in statement of financial position		Fair value of continuing involvement		Maximum exposure to loss
	Assets	Liabilities	Assets	Liabilities	
2022	**59.3**	**-**	**58.7**	**-**	**59.3**
2021	69.9	-	71.7	-	69.9

	Group and Bank			
	Gain or loss recognised at transfer date	Gain recognised on sale	Interest income recognised in the year	Fair value movement recognised in OCI
2022	**-**	**-**	**3.4**	**-**
2021	-	-	1.5	-

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 2022

£million

	Note	2022	2021
Assets			
Cash and balances at central banks	3	**5,270.4**	5,696.9
Loans and advances to banks	4	**312.5**	124.7
Loans and advances to customers	5	**20,919.1**	20,998.3
Fair value adjustments for hedged risk		**(430.7)**	(90.5)
Investment securities	6	**1,826.0**	2,149.8
Derivative financial instruments	7	**488.4**	241.2
Equity shares	8	**11.1**	22.8
Investments in subsidiaries/group undertakings	23	**15.0**	14.7
Other assets	9	**14.1**	12.7
Prepayments	10	**21.4**	20.3
Property, plant and equipment	11	**22.8**	24.3
Intangible assets	12	**90.0**	68.5
Right-of-use assets	13	**33.0**	46.9
Amounts owed by Co-operative Bank undertakings	25	**65.1**	33.2
Current tax assets		**1.8**	-
Deferred tax assets	19	**167.5**	36.8
Net retirement benefit asset	20	**159.7**	841.1
Total assets		**28,987.2**	30,241.7

	Note	2022	2021
Liabilities			
Deposits by banks	14	**5,683.4**	5,527.6
Customer accounts		**20,107.9**	21,136.4
Fair value adjustment for hedged risk		**(34.6)**	(7.5)
Debt securities in issue	15	**-**	-
Derivative financial instruments	7	**103.5**	148.2
Amounts owed to Co-operative Bank undertakings	25	**1,041.1**	1,127.1
Other liabilities	16	**42.3**	38.0
Accruals and deferred income	17	**32.4**	36.8
Provisions	18	**33.1**	33.8
Amounts due to Finance Company	25	**646.9**	402.1
Lease liabilities	13	**31.0**	44.1
Net retirement benefit liability	20	**5.9**	8.1
Total liabilities		**27,692.9**	28,494.7

	Note	2022	2021
Capital and reserves attributable to the Bank Company's equity holders			
Ordinary share capital	21	**25.6**	25.6
Retained earnings	22	**1,241.1**	1,218.8
Other reserves	22	**27.6**	502.6
Total equity		**1,294.3**	1,747.0
Total liabilities and equity		**28,987.2**	30,241.7

Net profit attributable to equity shareholders was £22.3m (2021: profit £215.5m).

The notes on pages 247 to 264 form part of the Bank Company financial statements.

Approved by the Board of The Co-operative Bank p.l.c. on 28 February 2023:

Robert Dench
Chair of the Board

Nick Slape
Chief Executive Officer

STATEMENT OF CASHFLOWS

For year ended 31 December 2022

£million

	Note	2022	2021
Cash flows (used in)/from operating activities:			
Profit before tax		**132.9**	49.4
Adjustments for non cash movements:			
Pension scheme adjustments		**(12.7)**	(5.6)
Net credit impairment losses		**6.4**	1.1
Depreciation, amortisation and impairment		**35.3**	36.6
Impairment (reversal)/charge of investment in subsidiaries		**(0.3)**	28.6
Other non-cash movements including exchange rate movements		**134.4**	121.4
Changes in operating assets and liabilities:			
Increase in deposits by banks		**155.8**	3,461.2
Increase in prepayments		**(1.1)**	(7.1)
(Decrease)/increase in accruals and deferred income		**(4.4)**	2.0
(Decrease)/increase in customer accounts		**(1,028.7)**	769.2
Decrease in debt securities in issue		**-**	(485.7)
Increase in loans and advances to banks		**(19.9)**	(23.8)
Decrease/(increase) in loans and advances to customers		**31.5**	(2,358.6)
(Increase)/decrease in amounts owed by Co-operative Bank undertakings		**(31.9)**	1,302.9
Decrease in amounts owed to Co-operative Bank undertakings		**(86.0)**	(1,342.7)
Net movement of other assets and other liabilities		**(3.8)**	49.3
Income tax paid		**(6.8)**	-
Net cash flows (used in)/from operating activities		**(699.3)**	1,598.2
Cash flows from/(used in) investing activities:			
Purchase of tangible and intangible assets		**(48.0)**	(28.9)
Purchase of investment securities		**(471.6)**	(886.5)
Proceeds from sale of property and equipment		**0.4**	1.9
Proceeds from sale of shares and other interests		**20.4**	2.0
Proceeds from sale and maturity of investment securities		**750.8**	849.9
Purchase of equity shares		**(0.8)**	(0.5)
Dividends received		**0.2**	0.3
Net cash flows from/(used in) investing activities		**251.4**	(61.8)
Cash flows from/(used in) financing activities:			
Proceeds from MREL issuance		**248.4**	-
Interest paid on Tier 2 notes and senior unsecured debt		**(44.5)**	(37.0)
Lease liability principal payments		**(14.6)**	(11.0)
Net cash flows from/(used in) financing activities		**189.3**	(48.0)
Net (decrease)/increase in cash and cash equivalents		**(258.6)**	1,488.4
Cash and cash equivalents at the beginning of the year		**5,709.5**	4,221.1
Cash and cash equivalents at the end of the year		**5,450.9**	5,709.5
Comprising of:			
Cash and balances with central banks	3	**5,183.8**	5,609.8
Loans and advances to banks	4	**267.1**	99.7
		5,450.9	5,709.5

STATEMENT OF CASHFLOWS – RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASHFLOWS ARISING FROM FINANCING ACTIVITIES

For year ended 31 December 2022

£million

	2022			2021		
	Lease liabilities	Amounts owed to Finance Company	Total	Lease liabilities	Amounts owed to Finance Company	Total
Balance at the beginning of the year	44.1	402.1	**446.2**	53.6	408.2	461.8
Changes from financing cashflows						
Proceeds from MREL issuance	-	248.4	**248.4**	-	-	-
Interest paid on Tier 2 notes and senior unsecured debt	-	(44.5)	**(44.5)**	-	(37.0)	(37.0)
Lease liability principal payments	(14.6)	-	**(14.6)**	(11.0)	-	(11.0)
Total changes from financing cash flows	**29.5**	**606.0**	**635.5**	42.6	371.2	413.8
Other changes						
Interest payable on lease liabilities and Tier 2 notes	1.2	48.1	**49.3**	1.7	37.0	38.7
Other non cash movement	-	(7.2)	**(7.2)**	-	(6.1)	(6.1)
Remeasurements/(derecognition) of lease liabilities	0.3	-	**0.3**	(0.2)	-	(0.2)
Balance at the end of the year	**31.0**	**646.9**	**677.9**	44.1	402.1	446.2

STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2022

£million

2022	Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Defined benefit pension reserve	Retained earnings	Total equity
	Attributable to equity holders of the Bank Company							
At 1 January 2022	25.6	-	2.9	14.7	-	485.0	1,218.8	**1,747.0**
Total comprehensive (expense)/income for the year	-	-	(8.2)	(4.1)	-	(462.7)	22.3	**(452.7)**
At 31 December 2022	**25.6**	**-**	**(5.3)**	**10.6**	**-**	**22.3**	**1,241.1**	**1,294.3**

2021	Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Defined benefit pension reserve	Retained earnings	Total equity
	Attributable to equity holders of the Bank Company							
At 1 January 2021	25.6	2,416.9	4.8	22.5	410.0	395.1	(1,823.6)	1,451.3
Total comprehensive (expense)/income for the year	-	-	(1.9)	(7.8)	-	89.9	215.5	295.7
Reserve reorganisation	-	(2,416.9)	-	-	(410.0)	-	2,826.9	-
At 31 December 2021	25.6	-	2.9	14.7	-	485.0	1,218.8	1,747.0

The notes on pages 247 to 264 form part of the Bank Company financial statements.

All amounts are stated in £m unless otherwise indicated.

1. BASIS OF PREPARATION

The Co-operative Bank p.l.c. (Bank Company), registration number 00990937, was incorporated in the UK and is a limited company registered in England and Wales. The registered office address of the Bank Company is PO BOX 101, 1 Balloon Street, Manchester, M60 4EP.

The Bank Company financial statements have been prepared under the historic cost convention and approved by the Directors in accordance with UK adopted international accounting standards and the provisions of the Companies Act 2006.

Accounting policies outlined in note 1 of the Group and Bank consolidated financial statements and the explanatory information on pages 284 to 293 also apply to the Bank Company. The preparation of financial information requires management to make judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The critical judgements and estimates for the Bank Company are the same as those set out in note 2 of the Group and Bank consolidated financial statements.

2. NET PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE BANK COMPANY

By including the Bank Company financial statements here together with the consolidated Bank financial statements, the Bank Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these financial statements.

	2022	2021
Net profit attributable to equity shareholders of the Bank Company	**22.3**	215.5

3. CASH AND BALANCES AT CENTRAL BANKS

	2022	2021
Cash in hand	**11.0**	11.7
Items in transit	**(15.8)**	(17.3)
Balances with the Bank of England other than mandatory reserve deposits	**5,188.6**	5,615.4
Included in cash and cash equivalents	**5,183.8**	5,609.8
Mandatory reserve deposits with the Bank of England	**86.6**	87.1
Total cash and balances at central banks	**5,270.4**	5,696.9

Mandatory reserve deposits are not available for use in day-to-day operations, are non-interest bearing and are not included in cash and cash equivalents. Items in transit represent unpresented cheques awaiting clearance. An expected credit loss of £nil was recorded as at 31 December 2022 (2021: £nil) in relation to cash and balances at central banks.

4. LOANS AND ADVANCES TO BANKS

	2022	2021
Items in course of collection from other banks	**(0.7)**	0.2
Placements with other banks[1]	**267.8**	99.5
Included in cash and cash equivalents	**267.1**	99.7
Other loans and advances to banks	**45.4**	25.0
Total loans and advances to banks	**312.5**	124.7

1. The Bank currently holds no repo and reverse repo transactions that are subject to obligatory netting arrangements.

An expected credit loss of £nil was recorded as at 31 December 2022 (2021: £nil) in relation to loans and advances to banks. For further details on pledged and transferred assets, refer to note 31 of the Group and Bank consolidated financial statements. This reflects that the Bank is lending to highly rated banks from a credit perspective.

5. LOANS AND ADVANCES TO CUSTOMERS

a) Analysis of the balance sheet

	2022	2021
Gross loans and advances	**20,959.5**	21,035.7
Less: allowance for losses	**(40.4)**	(37.4)
Total loans and advances to customers net of allowance for losses	**20,919.1**	20,998.3

Loans and advances to customers include £93.3m (2021: £117.6m) of financial assets at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency. Of these, £53.4m (2021: £56.0m) are secured by real estate collateral.

For further details on transferred assets, refer to note 24 of the Bank Company financial statements. Further details are set out in note 27, Analysis of credit risk exposure of the Bank Company financial statements.

b) Concentration of exposure

Exposure is only within the UK. Further information on the concentration of exposure is included within section 3.2 of the risk management disclosures.

c) Analysis of allowance for impairment losses

	Retail	SME	Legacy & unallocated	Total
At 1 January 2022	25.5	6.7	5.2	**37.4**
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	9.2	1.1	-	**10.3**
To credit impaired (stage 1 or 2 to 3)	2.1	0.2	(1.5)	**0.8**
To 12 month ECL (stage 2 or 3 to 1)	(0.5)	(0.1)	(0.1)	**(0.7)**
From credit impaired (stage 3 to 2)	(0.3)	-	-	**(0.3)**
Net changes arising from stage transfers	**10.5**	**1.2**	**(1.6)**	**10.1**
Other charges/(releases):				
New assets originated or purchased	4.6	0.4	-	**5.0**
Other changes to risk parameters[1]	(5.5)	1.1	3.5	**(0.9)**
Redemptions and repayments	(3.7)	(0.8)	(0.4)	**(4.9)**
Net other charges	**5.9**	**1.9**	**1.5**	**9.3**
Assets written off	(3.3)	(0.7)	(0.7)	**(4.7)**
Portfolio sale	-	-	(1.6)	**(1.6)**
At 31 December 2022	**28.1**	**7.9**	**4.4**	**40.4**

1. Includes the impact of any asset sales.

	Retail	SME	Legacy & unallocated	Total
At 1 January 2021	29.3	8.1	5.4	42.8
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	1.0	1.4	-	2.4
To credit impaired (stage 1 or 2 to 3)	2.1	1.1	0.6	3.8
To 12 month ECL (stage 2 or 3 to 1)	(3.5)	(0.7)	(0.2)	(4.4)
From credit impaired (stage 3 to 2)	(0.5)	-	-	(0.5)
Net changes arising from stage transfers	(0.9)	1.8	0.4	1.3
Other charges/(releases):				
New assets originated or purchased	6.2	0.1	-	6.3
Other changes to risk parameters[1]	(1.1)	0.2	0.8	(0.1)
Redemptions and repayments	(4.2)	(0.9)	(0.2)	(5.3)
Net other charges	-	1.2	1.0	2.2
Assets written off	(3.8)	(2.6)	(1.2)	(7.6)
Portfolio sale	-	-	-	-
At 31 December 2021	25.5	6.7	5.2	37.4

1. Includes the impact of any asset sales.

5. LOANS AND ADVANCES TO CUSTOMERS (continued)

d) Analysis of income statement

	2022	2021
Net other charges	**(9.3)**	(2.2)
Amounts recovered against amounts previously written off	**0.4**	0.2
Adjustment to recognise interest on stage 3 assets based on their net carrying value	**0.8**	0.8
Portfolio sale/financial guarantees impairment releases	**1.6**	0.1
Net impairment losses for the year as shown in the income statement	**(6.5)**	(1.1)

Provisions are analysed by segment in the risk management disclosures.

e) Finance lease receivables

	2022	2021
Gross investment in finance leases may be analysed as follows:		
No later than one year	**1.3**	1.5
Later than one year and no later than five years	**4.1**	5.7
Later than five years	**0.3**	3.5
Gross investment in finance leases	**5.7**	10.7
Unearned future finance income on finance leases	**(0.6)**	(2.5)
Net investment in finance leases	**5.1**	8.2
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	**3.7**	4.6
Later than five years	**0.3**	2.6
	5.1	8.2

The unguaranteed residual value of the finance leases is £nil (2021: £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

	2022				2021			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
Listed	**763.7**	**883.3**	**3.0**	**1,650.0**	830.4	1,131.6	2.5	1,964.5
Unlisted	**176.0**	**-**	**-**	**176.0**	185.3	-	-	185.3
Gross and net investment securities	**939.7**	**883.3**	**3.0**	**1,826.0**	1,015.7	1,131.6	2.5	2,149.8

Movement in investment securities

	2022				2021			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
At the beginning of the year	**1,015.7**	**1,131.6**	**2.5**	**2,149.8**	1,087.5	1,067.6	3.5	2,158.6
Acquisitions	**5.9**	**465.7**	**-**	**471.6**	13.3	873.2	-	886.5
Disposals and maturities	**(82.8)**	**(667.8)**	**-**	**(750.6)**	(85.1)	(763.8)	-	(848.9)
Fair value through other comprehensive income	**-**	**(9.7)**	**-**	**(9.7)**	-	(2.3)	-	(2.3)
Fair value through profit or loss	**-**	**(36.9)**	**0.5**	**(36.4)**	-	(42.7)	(1.0)	(43.7)
Amortisation of discount and premium	**-**	**(1.4)**	**-**	**(1.4)**	-	(0.3)	-	(0.3)
Movement in interest accrual	**0.9**	**1.8**	**-**	**2.7**	-	(0.1)	-	(0.1)
At the end of the year	**939.7**	**883.3**	**3.0**	**1,826.0**	1,015.7	1,131.6	2.5	2,149.8

The movement in investment securities classified as FVOCI attributed to the FVTPL line represents the fair value movements on instruments within a designated hedge relationship that have been effectively hedged and thus recycled from the FVOCI reserve to profit or loss. The Group's hedge accounting activities are disclosed in further detail within section 4.3 of the risk management.

6. INVESTMENT SECURITIES (continued)

Certain investment securities have been pledged by the Bank Company, see note 24 of the Bank Company financial statements for further details on encumbered and pledged assets.

The ECL in relation to investment securities measured at Amortised cost and Fair value through other comprehensive income is nil (2021: nil). This reflects the high credit quality of these investment securities and the Bank's current list of Treasury counterparties. The Group applies the 'low credit risk exemption' to investment securities as detailed further in explanatory information 1.3.j.ii.

Analysis of investment securities by issuer

	2022	2021
Investment securities issued by public bodies:		
Government securities	**121.7**	442.2
Other public sector securities	**133.6**	140.8
Total investment securities issued by public bodies	**255.3**	583.0
Other debt securities:		
Other floating rate notes	**595.3**	511.8
Mortgage backed securities	**975.4**	1,055.0
Total other debt securities	**1,570.7**	1,566.8
Total investment securities	**1,826.0**	2,149.8

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

7. DERIVATIVE FINANCIAL INSTRUMENTS

Various derivatives have been entered into to manage interest rate risk, some of which are held in a qualifying hedge accounting relationship (see the risk management section for more details on interest rate risk management strategies). Positive and negative fair values have not been netted off as there is no legal right of offset.

Non-trading derivatives
Non-trading transactions comprise derivatives held for hedging purposes to manage the asset and liability positions of the Group. Derivatives used to manage interest rate related positions include interest rate swaps and caps. The foreign exchange rate positions are managed using foreign exchange forward and swap transactions.

	Fair value			
	2022		2021	
	Assets	Liabilities	Assets	Liabilities
Derivatives held for non-trading purposes				
Derivatives designated as fair value hedges:				
Interest rate swaps	**468.4**	**(58.7)**	145.7	(37.1)
Derivatives held for non-trading purposes for which hedge accounting has not been applied:				
Interest rate swaps	**19.6**	**(44.6)**	95.5	(111.1)
Forward currency transactions	**0.4**	**(0.1)**	-	-
OTC interest rate options	**-**	**(0.1)**	-	-
Total derivative assets/(liabilities) held for non-trading purposes	**488.4**	**(103.5)**	241.2	(148.2)
Total recognised derivative assets/(liabilities)	**488.4**	**(103.5)**	241.2	(148.2)

Detailed hedge accounting disclosures are covered within section 4.3 of the risk management. In line with industry standards, credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are applied to non-collateralised swaps representing the fair value measurement of counterparty risk. The net credit adjustment across the portfolio at 31 December 2022 was immaterial (2021: net credit of £0.1m). CVAs and DVAs are not applied to derivatives that are fully cash collateralised.

8. EQUITY SHARES

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 17 of the Group and Bank consolidated financial statements.

9. OTHER ASSETS

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 18 of the Group and Bank consolidated financial statements.

10. PREPAYMENTS

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 19 of the Group and Bank consolidated financial statements.

11. PROPERTY, PLANT AND EQUIPMENT

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 20 of the Group and Bank consolidated financial statements.

12. INTANGIBLE ASSETS

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 21 of the Group and Bank consolidated financial statements.

13. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 22 of the Group and Bank consolidated financial statements.

14. DEPOSITS BY BANKS

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 23 of the Group and Bank consolidated financial statements.

15. DEBT SECURITIES IN ISSUE

During 2021, the secured covered bond of £483.1m at a coupon of 4.75% was redeemed at par. The Bank Company has no current debt securities in issue.

16. OTHER LIABILITIES

	2022	2021
Amounts falling due within one year		
Amounts due to beneficiary banks	**22.7**	24.7
Other creditors	**19.6**	13.3
	42.3	38.0

There are no liabilities falling due after one year.

17. ACCRUALS AND DEFERRED INCOME

	2022	2021
Amounts falling due within one year		
Accruals	**29.7**	31.4
Deferred income	**1.1**	3.2
	30.8	34.6
Amounts falling due after one year		
Accruals	**0.9**	0.4
Deferred income	**0.7**	1.8
	1.6	2.2
	32.4	36.8

18. PROVISIONS

2022	Property	PPI	Conduct/legal	Other	Total
At 1 January 2022	15.3	1.0	0.1	17.4	**33.8**
Provided/(released) in the year:					
Net interest income	-	-	1.0	-	**1.0**
Right-of use asset	2.8	-	-	-	**2.8**
Operating expenses	2.3	-	-	19.0	**21.3**
Net customer redress release	-	(1.0)	-	-	**(1.0)**
Utilised during the year	(11.9)	-	-	(12.9)	**(24.8)**
At 31 December 2022	**8.5**	**-**	**1.1**	**23.5**	**33.1**
Amounts falling due within one year	3.6	-	1.1	19.5	**24.2**
Amounts falling due after one year	4.9	-	-	4.0	**8.9**
Total provisions	**8.5**	**-**	**1.1**	**23.5**	**33.1**

2021	Property	PPI	Conduct/legal	Other	Total
At 1 January 2021	22.6	8.6	1.1	13.7	46.0
(Released)/provided in the year:					
Operating expenses	(1.4)	-	0.1	13.3	12.0
Net customer redress charge	-	(2.6)	-	-	(2.6)
Utilised during the year	(5.9)	(5.0)	(1.1)	(9.6)	(21.6)
At 31 December 2021	15.3	1.0	0.1	17.4	33.8
Amounts falling due within one year	4.4	1.0	0.1	15.7	21.2
Amounts falling due after one year	10.9	-	-	1.7	12.6
Total provisions	15.3	1.0	0.1	17.4	33.8

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 28 of the Group and Bank consolidated financial statements.

19. DEFERRED TAX

Deferred taxes are calculated using the appropriate tax rate in respect of each temporary difference.

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. A reduction of the banking surcharge from 8% to 3% and an increase of the surcharge allowance from £25.0m to £100.0m (effective 1 April 2023) were substantively enacted on 2 February 2022. From 1 April 2023, the combined rate of tax on banking profits in excess of £100.0m will be 28%. The deferred tax assets and liabilities at 31 December 2022 have been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences.

2022	Losses	Capital allowances on fixed assets	Retirement benefits	Cash flow hedges	Unrealised appreciation on investments	FVOCI	Total
At 1 January 2022	192.4	138.4	(277.6)	(7.5)	(7.3)	(1.6)	**36.8**
(Charged)/credited to income statement	(71.8)	(39.3)	1.8	0.3	4.3	-	**(104.7)**
Credited to other comprehensive income	-	-	231.1	2.7	-	1.6	**235.4**
At 31 December 2022	**120.6**	**99.1**	**(44.7)**	**(4.5)**	**(3.0)**	**-**	**167.5**

2021	Losses	Capital allowances on fixed assets	Retirement benefits	Cash flow hedges	Unrealised appreciation on investments	FVOCI	Total
At 1 January 2021	38.2	116.3	(176.0)	(8.9)	(5.9)	(1.9)	(38.2)
Credited/(charged) to income statement	154.2	22.1	(8.8)	-	(1.4)	-	166.1
(Charged)/credited to other comprehensive income	-	-	(92.8)	1.4	-	0.3	(91.1)
At 31 December 2021	192.4	138.4	(277.6)	(7.5)	(7.3)	(1.6)	36.8

The deferred tax asset above includes an offset for those deferred tax liabilities that are permissible to be offset.

The deferred tax credit to other comprehensive income in respect of retirement benefits of £231.1m comprises £120.5m due to the revaluation of the net retirement benefit asset in the period and £110.6m as a result of the Pace pension scheme "buy-in" transaction. The deferred tax charge of £58.4m in the income statement relates to the write-down of the deferred tax asset in respect of tax losses that had been previously supported by the Pace net retirement benefit deferred tax liability. Please refer to note 30 of the Group and Bank consolidated financial statements for further information.

Deferred tax assets totalling £498.4m (2021: £465.4m) have not been recognised where doubt exists over the availability of sufficient future taxable profits. Deferred tax assets of £488.6m (2021: £456.6m) and £9.8m (2021: £8.8m) have not been recognised in respect of trading losses of £1,926.6m (2021: £1,818.7m) and other temporary differences of £35.0m (2021: £26.6m) respectively.

The movement in the unrecognised deferred tax asset in respect of losses is explained by the write-down of the deferred tax asset as a result of the Pace pension scheme "buy-in" transaction as well as the movement on the losses recognised based on future profitability.

Whilst there is no expiry date for the utilisation of tax losses, the utilisation of losses is restricted to 50% or 25% of taxable profits depending upon when those tax losses were incurred.

Further detail on deferred tax is provided in note 2 of the Group and Bank consolidated financial statements.

20. RETIREMENT BENEFITS

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 30 of the Group and Bank consolidated financial statements.

21. SHARE CAPITAL

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 33 of the Group and Bank consolidated financial statements.

22. OTHER RESERVES

	2022	2021
Fair value through other comprehensive income reserve	**(5.3)**	2.9
Cash flow hedging reserve	**10.6**	14.7
Defined benefit pension reserve	**22.3**	485.0
	27.6	502.6

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 34 of the Group and Bank consolidated financial statements.

23. INVESTMENTS IN SUBSIDIARIES/GROUP UNDERTAKINGS

	2022	2021
At the beginning of the year	**14.7**	43.3
Impairment reversal/(charge)	**0.3**	(28.6)
At the end of the year	**15.0**	14.7

Subsidiary undertakings

Subsidiary undertakings which are registered in England and operating in the UK:

Subsidiary's name	Address reference	Type of activity	Shareholding 2022	Shareholding 2021
Second Roodhill Leasing Limited	1	Leasing	**100%**	100 %
Third Roodhill Leasing Limited	1	Leasing	**100%**	100 %
Fourth Roodhill Leasing Limited	1	Leasing	**100%**	100 %
Moorland Covered Bonds LLP	1	Mortgage acquisition and guarantor of covered bonds	**100%**	100 %
Co-operative Bank Financial Advisers Limited	1	Inactive	**100%**	100 %
Mortgage Agency Services Number One Limited	1	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:

Subsidiary's name	Address reference	Type of activity	Shareholding 2022	Shareholding 2021
Britannia International Limited	2	Former deposit-taking	**100%**	100 %

Britannia International Limited surrendered its Class 1 Deposit-Taking License to the Isle of Man Financial Supervision Commission during 2015. Any remaining customer accounts were closed and placed into a scheme to manage these funds.

23. INVESTMENTS IN SUBSIDIARIES/GROUP UNDERTAKINGS (continued)

Securitisation vehicles
The results of the following securitisation vehicles are consolidated into the results of the Bank as they are controlled by Bank Company. The Bank Company held no shares in the securitisation vehicles listed below at 31 December 2022 (2021: no shares).

Subsidiary's name	Address reference	Type of activity	% consolidated 2022	% consolidated 2021
Silk Road Finance Number Five p.l.c.	3	Securitisation company	**100%**	100 %
Silk Road Finance Number Six p.l.c.	3	Securitisation company	**100%**	100 %

Securitisation vehicles are registered in England and operate in the UK.

All of the above companies are related parties to the Bank Company, refer to note 25 of the Bank Company financial statements for the related party disclosures.

During 2022, Co-operative Commercial Limited, Britannia Treasury Services Limited and Silk Road Finance Number Four p.l.c. have been dissolved.

Joint ventures
The Bank Company has investments in the following joint ventures:

Subsidiary's name	Ownership 2022	Ownership 2021
Britannia New Homes (Scotland) Limited (Dormant)	**50%**	50 %

Britannia New Homes (Scotland) Limited has its registered office at 140 West George Street, Glasgow, G2 2HG.

Dormant companies
The Bank Company has investments in the following dormant subsidiaries all of which are registered in England:

Subsidiary's name	Address reference	Type of activity	Shareholding 2022	Shareholding 2021
Britannia Pension Trustees Limited	1	Pension scheme participant	**100%**	100 %
BPS Principal Employer Limited	1	Holding company	**100%**	100 %
The Co-operative Bank Pension Trust Limited	1	Former pension scheme participant	**100%**	100 %

Address reference	Registered office at:
1	PO Box 101, 1 Balloon Street, Manchester, M60 4EP
2	Estera Trust (Isle of Man) Limited, 33-37 Athol Street, Douglas, Isle of Man, IM1 1LB
3	35 Great St. Helen's, London, EC3A 6AP
4	Fourth Floor, 3 George's Dock, IFSC, Dublin 1, Ireland

The following subsidiaries benefit from an audit exemption according to section 479A of the Companies Act 2006:
• Second Roodhill Leasing Limited;
• Third Roodhill Leasing Limited;
• Fourth Roodhill Leasing Limited; and
• Co-operative Bank Financial Advisers Limited.

24. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Bank Company in relation to the following contingent liabilities referred to in note 31 of the Group and Bank consolidated financial statements:

- Contingent liabilities and other commitments arising from customer transactions;
- Conduct risk matters;
- Legal proceedings; and
- Mortgage securitisation representations and warranties.

a) Commitments to financially support subsidiary undertakings

Bank Company has committed to financially support the subsidiary undertakings including the subsidiaries benefiting from an audit exemption according to section 479A of the Companies Act 2006 listed in note 23 of the Bank Company financial statements.

b) Encumbered and pledged assets

The Bank Company pledges certain assets as collateral to third parties as part of its day to day activities. The carrying value of amounts pledged to each counterparty types are provided below. The terms of the arrangements are the same as those disclosed in note 31 of the Group and Bank consolidated financial statements.

2022	Cash and balances at central banks	Loans and advances to banks	Loans and advances to customers	Investment securities	Total
TFSME	-	-	6,982.2	-	**6,982.2**
Pension scheme contingent security	-	37.7	-	423.3	**461.0**
Payment scheme collateral	280.0	53.2	-	77.8	**411.0**
Interest rate swap collateral	-	171.2	-	80.3	**251.5**
Other	-	20.1	-	147.0	**167.1**
Total assets pledged	**280.0**	**282.2**	**6,982.2**	**728.4**	**8,272.8**

2021	Cash and balances at central banks	Loans and advances to banks	Loans and advances to customers	Investment securities	Total
TFSME	-	-	7,103.9	-	7,103.9
Pension scheme contingent security	-	25.0	-	424.4	449.4
Payment scheme collateral	280.0	49.5	-	84.7	414.2
Interest rate swap collateral	-	2.8	-	156.1	158.9
Other	-	30.2	-	146.3	176.5
Total assets pledged	280.0	107.5	7,103.9	811.5	8,302.9

c) Transferred assets not derecognised

In certain circumstances the Bank Company sells assets to third parties in arrangements where the risk and reward has not been fully transferred. In these instances, the Bank Company retains the asset on its balance sheet, but reflects a liability to the third party for the amount due under the arrangement. These primarily relate to assets sold under repurchase agreements (repos) and mortgages originated by the Bank Company which have been sold to Group securitisation vehicles, as disclosed in the table below.

	2022		2021	
	Assets not derecognised	Associated liabilities	Assets not derecognised	Associated liabilities
Repurchase agreements				
Loans and advances to customers	**-**		6.3	
Investment securities	**31.8**		301.0	
Deposits by banks		**31.8**		304.5
Securitisations				
Loans and advances to customers	**1,028.5**		1,115.8	
Amounts owed to Co-operative Bank undertakings		**1,028.5**		1,115.8
Total	**1,060.3**	**1,060.3**	1,423.1	1,420.3

The financial instruments disclosed in the above table are measured at amortised cost.

25. RELATED PARTY TRANSACTIONS

The ultimate parent undertaking of the Bank Company as at 31 December 2022 was The Co-operative Bank Holdings Limited.

At 31 December 2022, the Group had two significant shareholders, SP Coop Investments Ltd and Anchorage Illiquid Opportunities Offshore Master V L.P., each holding over 20 % of the B shares of the Holding Company. See note 32 of the Group and Bank consolidated financial statements for details of related party transactions with these two significant shareholders.

The B Shareholders Agreement grants certain rights to shareholders, where the B shareholders are entitled to appoint up to two Directors to the Board of the Holding Company, and the Holding Company is entitled to appoint up to two Directors to the Board of the Bank Company, who are designated as B Directors of the Holding Company and Bank Company. Further information of the rights of the A and B shareholders and the B Shareholders Agreement are detailed in the ownership section of the corporate governance report.

The following tables show the balances with The Co-operative Bank p.l.c. undertakings, Finance Company and Holding Company at the end of the year:

Amounts owed by Co-operative Bank undertakings	2022	2021
Amounts owed by Co-operative Bank subsidiaries (excluding special purpose entities)	**2.6**	2.9
Amounts owed by Co-operative Bank subsidiaries - special purpose entities	**62.5**	30.3
	65.1	33.2
Investment securities held by Co-operative Bank in subsidiaries - special purpose entities	**883.3**	948.4
	948.4	981.6

Amounts owed to Holding Company, Finance Company and Co-operative Bank undertakings	2022	2021
Amounts owed to Co-operative Bank subsidiaries (excluding special purpose entities)	**12.6**	11.3
Amounts owed to Co-operative Bank subsidiaries - special purpose entities	**1,028.5**	1,115.8
Amount owed to Finance Company (parent company)	**646.9**	402.1
	1,688.0	1,529.2
Cash balances deposited with the Bank Company by Co-operative Bank subsidiaries (excluding special purpose entities)	**0.5**	0.5
Cash balances deposited with the Bank Company by the Holding Company	**0.2**	0.2
	1,688.7	1,529.9

Details of the amount owed to Finance Company are given in note 26 of the Finance Company financial statements.

Amounts owed by related party undertakings are deemed to have no ECL on the grounds that whilst the Group remains a going concern, funds could be moved within the group to meet any financial obligations, and therefore the Loss Given Default associated with the exposure would be nil.

The following tables show the value of transactions with The Co-operative Bank p.l.c. undertakings and Finance Company during the year:

2022	Interest and fees income for Bank Company	Interest and fees expense for Bank Company
Transactions with Co-operative Bank subsidiaries (excluding special purpose entities)	**-**	0.1
Transactions with Co-operative Bank subsidiaries - special purpose entities	**53.6**	50.0
Transactions with Finance Company (parent company)	**-**	48.1
	53.6	**98.2**

2021	Interest and fees income for Bank Company	Interest and fees expense for Bank Company
Transactions with Co-operative Bank subsidiaries (excluding special purpose entities)	0.1	-
Transactions with Co-operative Bank subsidiaries - special purpose entities	59.3	48.4
Transactions with Finance Company (parent company)	-	37.0
	59.4	85.4

25. RELATED PARTY TRANSACTIONS (continued)

The terms and conditions of the loan agreements concluded between the Bank Company and its subsidiaries stipulate that the loans are not secured and are repayable on demand.

Details of the Bank Company's transactions with Directors, key management personnel and close family are as set out in note 32 of the Group and Bank consolidated financial statements.

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values in this note are stated at the balance sheet date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. The tables below analyse the balance sheet carrying values of financial assets and liabilities by classification.

		Measured at fair value				
2022	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	**5,270.4**	**-**	**-**	**-**	**-**	**5,270.4**
Loans and advances to banks	**312.5**	**-**	**-**	**-**	**-**	**312.5**
Loans and advances to customers	**20,825.1**	**-**	**93.3**	**0.7**	**-**	**20,919.1**
Investment securities	**939.6**	**883.4**	**-**	**3.0**	**-**	**1,826.0**
Derivative financial instruments	**-**	**-**	**-**	**20.0**	**468.4**	**488.4**
Equity shares	**-**	**-**	**-**	**11.1**	**-**	**11.1**
Amounts owed by Co-operative Bank undertakings	**65.1**	**-**	**-**	**-**	**-**	**65.1**
Other assets	**12.4**	**-**	**-**	**-**	**-**	**12.4**
Total financial assets	**27,425.1**	**883.4**	**93.3**	**34.8**	**468.4**	**28,905.0**
Financial liabilities						
Deposits by banks	**5,683.4**	**-**	**-**	**-**	**-**	**5,683.4**
Customer accounts	**20,107.9**	**-**	**-**	**-**	**-**	**20,107.9**
Derivative financial instruments	**-**	**-**	**-**	**44.8**	**58.7**	**103.5**
Amounts owed to Co-operative Bank undertakings	**1,041.1**	**-**	**-**	**-**	**-**	**1,041.1**
Other liabilities	**39.4**	**-**	**-**	**-**	**-**	**39.4**
Amounts due to Finance Company	**646.9**	**-**	**-**	**-**	**-**	**646.9**
Total financial liabilities	**27,518.7**	**-**	**-**	**44.8**	**58.7**	**27,622.2**

		Measured at fair value				
2021	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	5,696.9	-	-	-	-	5,696.9
Loans and advances to banks	124.7	-	-	-	-	124.7
Loans and advances to customers	20,880.7	-	116.9	0.7	-	20,998.3
Investment securities	1,015.7	1,131.6	-	2.5	-	2,149.8
Derivative financial instruments	-	-	-	95.5	145.7	241.2
Equity shares	-	-	0.5	22.3	-	22.8
Amounts owed by Co-operative Bank undertakings	33.2	-	-	-	-	33.2
Other assets	11.4	-	-	-	-	11.4
Total financial assets	27,762.6	1,131.6	117.4	121.0	145.7	29,278.3
Financial liabilities						
Deposits by banks	5,527.6	-	-	-	-	5,527.6
Customer accounts	21,136.4	-	-	-	-	21,136.4
Derivative financial instruments	-	-	-	111.1	37.1	148.2
Amounts owed to Co-operative Bank undertakings	1,127.1	-	-	-	-	1,127.1
Other liabilities	35.4	-	-	-	-	35.4
Amounts due to Finance Company	402.1	-	-	-	-	402.1
Total financial liabilities	28,228.6	-	-	111.1	37.1	28,376.8

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

Fair value disclosures throughout this note have been calculated in accordance with IFRS 13, which values assets individually rather than as a portfolio or as part of a business combination.

a) Use of financial assets and liabilities
Refer to note 35 of the Group and Bank consolidated financial statements for details of the use of financial instruments.

b) Valuation of financial assets and liabilities measured at fair value
The carrying value of financial assets and liabilities measured at fair value are determined in compliance with the accounting policies in note 1 of the Group and Bank consolidated financial statements and analysed in the following tables by the three level fair value hierarchy defined as follows:
- Level 1 – Quoted market prices in active markets;
- Level 2 – Valuation techniques using observable inputs; and
- Level 3 – Valuation techniques using unobservable inputs.

There were no transfers between the levels during the year.

		Fair value at end of the reporting period using:			
2022	**Category**	**Level 1**	**Level 2**	**Level 3**	**Total**
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	**-**	**92.1**	**1.2**	**93.3**
Loans and advances to customers	FVTPL – mandatorily measured	**-**	**-**	**0.7**	**0.7**
Investment securities	FVOCI	**858.5**	**-**	**24.9**	**883.4**
Investment securities	FVTPL – mandatorily measured	**-**	**-**	**3.0**	**3.0**
Equity shares	FVTPL – mandatorily measured	**0.2**	**-**	**10.9**	**11.1**
Derivative financial assets		**-**	**488.4**	**-**	**488.4**
Non-financial assets					
Investment properties		**-**	**-**	**2.1**	**2.1**
Total assets carried at fair value		**858.7**	**580.5**	**42.8**	**1,482.0**
Derivative financial liabilities		**-**	**103.5**	**-**	**103.5**
Total liabilities carried at fair value		**-**	**103.5**	**-**	**103.5**

		Fair value at end of the reporting period using:			
2021	**Category**	**Level 1**	**Level 2**	**Level 3**	**Total**
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	115.5	1.4	116.9
Loans and advances to customers	FVTPL – mandatorily measured	-	-	0.7	0.7
Investment securities	FVOCI	1,104.0	-	27.6	1,131.6
Investment securities	FVTPL – mandatorily measured	-	-	2.5	2.5
Equity shares	FVTPL – mandatorily measured	0.3	-	22.5	22.8
Derivative financial assets		-	241.2	-	241.2
Non-financial assets					
Investment properties		-	-	1.9	1.9
Total assets carried at fair value		1,104.3	356.7	56.6	1,517.6
Derivative financial liabilities		-	148.2	-	148.2
Total liabilities carried at fair value		-	148.2	-	148.2

Refer to note 35 of the Group and Bank consolidated financial statements for details of the use of key considerations in the calculation of fair values for financial assets and liabilities measured at fair value.

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

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

2022	Fair value at the beginning of the year	Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at the end of the year
Loans and advances to customers	**2.1**	**-**	**(0.1)**	**-**	**(0.1)**	**1.9**
Investment securities	**30.1**	**-**	**(2.4)**	**(0.3)**	**0.5**	**27.9**
Equity shares	**22.5**	**0.8**	**(20.5)**	**-**	**8.1**	**10.9**
Investment properties	**1.9**	**-**	**-**	**-**	**0.2**	**2.1**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**
	56.6	**0.8**	**(23.0)**	**(0.3)**	**8.7**	**42.8**

2021	Fair value at the beginning of the year	Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at the end of the year
Loans and advances to customers	2.6	-	(0.4)	-	(0.1)	2.1
Investment securities	3.5	27.6	-	-	(1.0)	30.1
Equity shares	21.8	0.5	-	-	0.2	22.5
Investment properties	1.9	-	(0.1)	-	0.1	1.9
Other assets	38.3	-	(38.3)	-	-	-
	68.1	28.1	(38.8)	-	(0.8)	56.6

c) Fair values of financial assets and liabilities not carried at fair value

The carrying values of financial assets and liabilities measured at amortised cost are determined in compliance with the accounting policies in note 1 of the Group and Bank consolidated financial statements and their fair values are analysed in the following tables by the three level fair value hierarchy set out above. There were no transfers between levels during the year.

		Fair value				
2022	Total carrying value	Level 1	Level 2	Level 3	Items where fair value approximates carrying value	Total
Financial assets						
Cash and balances at central banks	**5,270.4**	**-**	**-**	**-**	**5,270.4**	**5,270.4**
Loans and advances to banks	**312.5**	**-**	**7.5**	**-**	**305.0**	**312.5**
Loans and advances to customers	**20,825.1**	**-**	**-**	**18,961.5**	**676.1**	**19,637.6**
Investment securities	**939.6**	**-**	**-**	**934.9**	**-**	**934.9**
Amounts owed by Co-operative Bank undertakings	**65.1**	**-**	**-**	**-**	**-**	**-**
Other assets	**12.4**	**-**	**-**	**-**	**12.4**	**12.4**
Financial liabilities						
Deposits by banks	**5,683.4**	**-**	**5,289.4**	**-**	**388.4**	**5,677.8**
Customer accounts	**20,107.9**	**-**	**-**	**1,522.5**	**18,554.6**	**20,077.1**
Amounts owed to Co-operative Bank undertakings	**1,041.1**	**-**	**-**	**992.2**	**12.6**	**1,004.8**
Other liabilities	**39.4**	**-**	**-**	**-**	**39.4**	**39.4**
Amounts due to Finance Company	**646.9**	**-**	**618.6**	**-**	**-**	**618.6**

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

		Fair value				
2021	Total carrying value	Level 1	Level 2	Level 3	Items where fair value approximates carrying value	Total
Financial assets						
Cash and balances at central banks	5,696.9	-	-	-	5,696.9	5,696.9
Loans and advances to banks	124.7	-	-	-	124.7	124.7
Loans and advances to customers	20,880.7	-	-	20,039.6	810.3	20,849.9
Investment securities	1,015.7	-	-	1,013.0	-	1,013.0
Amounts owed by Co-operative Bank undertakings	33.2	-	-	-	33.2	33.2
Other assets	11.4	-	-	-	11.4	11.4
Financial liabilities						
Deposits by banks	5,527.6	-	5,504.5	-	21.6	5,526.1
Customer accounts	21,136.4	-	-	2,099.6	19,036.2	21,135.8
Amounts owed to Co-operative Bank undertakings	1,127.1	-	-	1,122.4	11.4	1,133.8
Other liabilities	35.4	-	-	-	35.4	35.4
Amounts due to Finance Company	402.1	-	448.7	-	-	448.7

Key considerations in the calculation of fair values of financial instruments measured at amortised cost are as follows:

Level 1 – Quoted market prices in active markets
Financial instruments with quoted prices for identical instruments in active markets. The best evidence of fair value is a quoted market price in an actively traded market.

Level 2 – Valuation techniques using observable inputs
Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

The valuation techniques used to value these instruments employ only observable market data and relate to the following assets and liabilities:

- **Loans and advances to banks/Deposits by banks**
  Loans and advances to banks comprise of interbank placements and items in the course of collection.

  The amortised cost value of all loans and advances to banks are deemed to be a close approximation of their fair value due to their short maturity. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

- **Amounts owed by Co-operative Bank undertakings**
  Amounts owed by Co-operative Bank undertakings comprise of debt securities and subordinated debt held in the Bank Company's own securitisation vehicles. Fair value is based on available market prices; where these are not available quoted market prices for similar debt securities, with adjustments to take into account the subordination of the particular loan note, have been used to estimate fair value.

- **Amounts owed to Finance Company**
  Amounts owed to Finance Company comprise the internal MREL debt related to the external MREL-qualifying Tier 2 and senior unsecured debt. The fair value of the notes is based on quoted market prices.

Level 3 – Valuation techniques using unobservable inputs
This is used for financial instruments valued using models where one or more significant inputs are not observable.

The proportion of financial assets valued based on significant unobservable inputs are analysed as follows:

- **Loans and advances to customers**
  The fair value of loans and advances to customers in total was 94.3 % of the carrying value as at 31 December 2022 (2021: 99.9 %).

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

Fixed rate loans and advances to customers are revalued to fair value based on future interest cash flows (at funding rates) and principal cash flows discounted using an appropriate market rate. The market rate applied in the calculation is the average market rate for new originations of loans with similar characteristics to the book of loans being valued, and reflects the current rising interest rate environment. This rate is assumed to encompass the time value of money, plus a risk premium to account for the inherent uncertainty in the timing and amount of future cash flows arising from a book of loans assets.

Forecast principal repayments are based on redemption at the earlier of maturity or re-pricing date with some overlay for historical behavioural experience where relevant. The eventual timing of future cash flows may be different from the forecast due to unpredictable customer behaviour. It is assumed that there would be no other factors which market participants would take into account when assessing the fair value of the loan assets. It is assumed that there is no fair value adjustment required in respect of interest rate movement on standard variable rate loan assets, as the interest rate being charged is assumed to be equal to the market rate for those loan assets.

Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

- **Investment securities**
  Investment securities comprise:
  - RMBS measured at amortised cost of £56.3m as at 31 December 2022 (2021: £67.3m), being a 5% regulatory holding of the rated notes of the Warwick SPEs unconsolidated structured entities. The remaining 95% is privately held therefore there are no available market prices. An in-house model is used that sources independent market data for disclosure purposes only.
  - RMBS measured at amortised cost of £883.3m as at 31 December 2022 (2021: £948.4m), being retained notes of the Silk Road Five and Six securitisations. As there are no available market prices, an in-house model is used that sources independent market data for disclosure purposes only.

- **Customer accounts**
  The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on future interest cash flows (at funding rates) and principal cash flows, discounted using an appropriate market rate.

- **Amounts owed to Co-operative Bank undertakings**
  Amounts owed to Co-operative Bank undertakings comprise of deemed loans owed to the Bank Company's own securitisation vehicles; these have been modelled using expected cash flows, based on redemption profiles, discounted at a market rate.

d) Fair value of transferred assets and associated liabilities

For more information on the nature of transferred assets and associated liabilities, including the nature of risk and rewards to which the Bank Company is exposed, refer to note 24 of the Bank Company financial statements.

The fair value of transferred assets and associated liabilities is shown in the table below.

	Fair value			
	2022		2021	
	Assets not derecognised	Associated liabilities	Assets not derecognised	Associated liabilities
Repurchase agreements				
Loans and advances to customers	**-**		6.3	
Investment securities	**31.8**		301.0	
Deposits by banks		**31.8**		304.5
Securitisations				
Loans and advances to customers	**992.1**		1,122.4	
Amounts owed to Co-operative Bank undertakings		**992.1**		1,122.4
Total	**1,023.9**	**1,023.9**	1,429.7	1,426.9

The difference between the fair value of transferred assets and associated liabilities was £nil (2021: £2.8m)

27. ANALYSIS OF CREDIT RISK EXPOSURE

(audited) 31 December 2022	Loans and advances to banks	Loans and advances to customers	Investment securities	Derivative financial instruments	Other assets	Total
Note in Bank Company financial statements	4	5	6	7	9	
Analysis of credit risk exposure						
Gross accounting balances	312.5	20,959.5	1,826.0	488.4	14.3	**23,600.7**
Less: accounting adjustments[1]	-	(83.2)	-	-	-	**(83.2)**
Gross customer balances	**312.5**	**20,876.3**	**1,826.0**	**488.4**	**14.3**	**23,517.5**
Credit commitments	-	1,989.1	-	-	-	**1,989.1**
Gross customer exposure	**312.5**	**22,865.4**	**1,826.0**	**488.4**	**14.3**	**25,506.6**
Less: customer balances measured at FVTPL[1]	-	(95.0)	(3.0)	(488.4)	-	**(586.4)**
Net customer exposure subject to ECL calculation	**312.5**	**22,770.4**	**1,823.0**	**-**	**14.3**	**24,920.2**
Allowance for losses (total ECL)	**-**	**40.4**	**-**	**-**	**0.2**	**40.6**

1. Some FVTPL balances are contained within the accounting adjustments.

(audited) 31 December 2021	Loans and advances to banks	Loans and advances to customers	Investment securities	Derivative financial instruments	Other assets	Total
Note in Bank Company financial statements	4	5	6	7	9	
Analysis of credit risk exposure						
Gross accounting balances	124.7	21,035.7	2,149.8	241.2	12.8	**23,564.2**
Less: accounting adjustments[1]	-	(99.0)	-	-	-	**(99.0)**
Gross customer balances	**124.7**	**20,936.7**	**2,149.8**	**241.2**	**12.8**	**23,465.2**
Credit commitments	-	2,059.5	-	-	-	**2,059.5**
Gross customer exposure	**124.7**	**22,996.2**	**2,149.8**	**241.2**	**12.8**	**25,524.7**
Less: customer balances measured at FVTPL[1]	-	(102.4)	(2.5)	(241.2)	-	**(346.1)**
Net customer exposure subject to ECL calculation	**124.7**	**22,893.8**	**2,147.3**	**-**	**12.8**	**25,178.6**
Allowance for losses (total ECL)[2]	**-**	**37.4**	**-**	**-**	**0.1**	**37.5**

1. Some FVTPL balances are contained within the accounting adjustments.
2. L&A to customers includes £1.9m FVTPL credit adjustments.

All balances except L&A to customers are stage 1 (2021: 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 2022	21,826.2	922.9	67.4	77.3	**22,893.8**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(3,225.1)	3,225.1	-	-	**-**
To credit impaired (stage 1 or 2 or 3)	(19.6)	(22.1)	41.7	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	252.6	(252.6)	-	-	**-**
From credit impaired (stage 3 to 2)	4.0	4.0	(8.0)	-	**-**
Net changes arising from stage transfers	**(2,988.1)**	**2,954.4**	**33.7**	-	**-**
Other charges/(releases):					
New assets originated or purchased	3,577.9	-	-	-	**3,577.9**
Other changes to risk parameters	31.1	(0.7)	(0.3)	(0.1)	**30.0**
Redemptions and repayments	(3,512.6)	(183.1)	(17.3)	(11.9)	**(3,724.9)**
Net other charges/(releases)	**(2,891.7)**	**2,770.6**	**16.1**	**(12.0)**	**(117.0)**
Assets written off	(1.5)	(1.5)	(3.2)	(0.2)	**(6.4)**
At 31 December 2022	**18,933.0**	**3,692.0**	**80.3**	**65.1**	**22,770.4**

27. ANALYSIS OF CREDIT RISK EXPOSURE (continued)

Gross customer exposure	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2021	19,180.3	1,718.1	63.5	93.1	21,055.0
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(364.3)	364.3	-	-	-
To credit impaired (stage 1 or 2 or 3)	(11.5)	(26.9)	38.4	-	-
To 12 month ECL (stage 2 or 3 to 1)	796.2	(796.2)	-	-	-
From credit impaired (stage 3 to 2)	6.5	4.1	(10.6)	-	-
Net changes arising from stage transfers	426.9	(454.7)	27.8	-	-
Other charges/(releases):					
New assets originated or purchased	5,557.4	-	-	-	5,557.4
Other changes to risk parameters	(310.2)	(2.1)	0.1	(0.1)	(312.3)
Redemptions and repayments	(3,026.7)	(336.4)	(19.4)	(15.7)	(3,398.2)
Net other charges/(releases)	2,647.4	(793.2)	8.5	(15.8)	1,846.9
Assets written off	(1.5)	(2.0)	(4.6)	-	(8.1)
At 31 December 2021	21,826.2	922.9	67.4	77.3	22,893.8

Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2022	21.2	6.8	6.9	0.6	**35.5**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(4.8)	15.1	-	-	**10.3**
To credit impaired (stage 1 or 2 or 3)	-	(0.3)	2.5	-	**2.2**
To 12 month ECL (stage 2 or 3 to 1)	0.7	(1.4)	-	-	**(0.7)**
From credit impaired (stage 3 to 2)	-	0.1	(0.4)	-	**(0.3)**
Net changes arising from stage transfers	**(4.1)**	**13.5**	**2.1**	**-**	**11.5**
Other charges/(releases):					
New assets originated or purchased	5.0	-	-	-	**5.0**
Other changes to risk parameters	(6.6)	2.9	1.4	(0.3)	**(2.6)**
Redemptions and repayments	(3.0)	(1.1)	(0.7)	-	**(4.8)**
Net other (releases)/charges	**(8.7)**	**15.3**	**2.8**	**(0.3)**	**9.1**
Assets written off	(1.2)	(1.2)	(1.8)	-	**(4.2)**
At 31 December 2022	**11.3**	**20.9**	**7.9**	**0.3**	**40.4**

Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2021	19.1	13.0	7.5	1.1	40.7
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)[1]	(0.1)	(0.6)	4.5	-	3.8
To 12 month ECL (stage 2 or 3 to 1)	1.2	(5.6)	-	-	(4.4)
From credit impaired (stage 3 to 2)	-	-	(0.5)	-	(0.5)
Net changes arising from stage transfers	0.8	(3.5)	4.0	-	1.3
Other charges/(releases):					
New assets originated or purchased	6.3	-	-	-	6.3
Other changes to risk parameters[2]	(1.4)	0.9	0.3	(0.4)	(0.6)
Redemptions and repayments	(2.5)	(1.9)	(0.8)	(0.1)	(5.3)
Net other charges/(releases)	3.2	(4.5)	3.5	(0.5)	1.7
Assets written off	(1.1)	(1.7)	(4.1)	-	(6.9)
At 31 December 2021	21.2	6.8	6.9	0.6	35.5

1. ECL analysis represents L&A to customers but excludes £1.9m FVTPL credit adjustments.
2. Includes the impact of any asset sales.

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)

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

BALANCE SHEET

At 31 December 2022

£million

	Note	2022	2021
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 (2021: £nil).

The notes on pages 269 to 270 form part of the Holding Company financial statements.

Approved by the Board on 28 February 2023:

Robert Dench
Chair of the Board

Nick Slape
Chief Executive Officer

STATEMENT OF CASHFLOWS

For year ended 31 December 2022

£million

	2022	2021
Cash flows used in operating activities:		
Profit before tax	-	-
Net cash flows used in operating activities	-	-
	-	
Net cash flows used in investing activities	-	-
Net cash flows from financing activities	-	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of the year	-	-
Cash and cash equivalents at the end of the year	-	-

The notes on pages 269 to 270 form part of the Holding Company financial statements.

STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2022

£million

	Attributable to equity holders of the Holding Company			
2022	Share capital	Share premium	Merger relief reserve	Total Equity
At 1 January 2022	0.9	313.8	18.5	**333.2**
Total comprehensive income for the year	-	-	-	**-**
At 31 December 2022	**0.9**	**313.8**	**18.5**	**333.2**

	Attributable to equity holders of the Holding Company			
2021	Share capital	Share premium	Merger relief reserve	Total Equity
At 1 January 2021	0.9	313.8	18.5	333.2
Total comprehensive income for the year	-	-	-	-
At 31 December 2021	0.9	313.8	18.5	333.2

The notes on pages 269 to 270 form part of the Holding Company financial statements.

All amounts are stated in £m unless otherwise indicated.

1. BASIS OF PREPARATION

The Co-operative Bank Holdings Limited (Holding Company), registration number 10865342, was incorporated in the UK and is a limited company registered in England and Wales. The registered office address of the Holding Company is PO BOX 101, 1 Balloon Street, Manchester, M60 4EP.

The Holding Company financial statements have been prepared under the historic cost convention and approved by the Directors in accordance with UK adopted international accounting standards and the provisions of the Companies Act 2006.

On including its financial statements within the Group's Annual Report and Accounts, the Holding Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes.

Accounting policies outlined in note 1 of the Group and Bank consolidated financial statements and the explanatory information on pages 284 to 293 also apply to the Holding Company.

The preparation of financial information requires management to make judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The critical judgement applicable to the Holding Company is set out below.

Impairment of investment in subsidiaries
Management have performed an assessment of indicators of impairment including a review of the 2022 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

	2022	2021
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

	2022	2021
Investments in subsidiaries/group undertakings	**333.0**	333.0

At 31 December 2022, the Holding Company owned 100 % of the share capital of The Co-operative Bank Finance p.l.c. The principal activity of The Co-operative Bank Finance p.l.c. is that of a holding company and issuer of subordinated debt.

4. SHARE CAPITAL

2022	No. of A shares (millions)	A shares value	No. of B shares	B shares value	Total share capital
Share capital allotted, called up and fully paid					
At the beginning and at the end of the year	**9,029.1**	**0.9**	**83**	**-**	**0.9**

2021	No. of A shares (millions)	A shares value	No. of B shares	B shares value	Total share capital
Share capital allotted, called up and fully paid					
At the beginning and at the end of the year	9,029.1	0.9	83	-	0.9

Share premium account

	2022	2021
At the beginning and at the end of the year	**313.8**	313.8

5. RELATED PARTY TRANSACTIONS

Parent, subsidiary and ultimate controlling party
The ultimate parent undertaking of the Group is The Co-operative Bank Holdings Limited.

As at 31 December 2022, 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:

	2022	2021
Amounts owed by The Co-operative Bank p.l.c.	**0.2**	0.2

The subsidiaries of The Co-operative Bank p.l.c. as detailed in note 23 of the Bank Company financial statements, all Directors and key management personnel of the Group, are all considered to be related parties of the Holding Company (further details are available in note 32 of the consolidated Group and Bank financial statements).

6. EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events to report.

Consolidated Financial Statements of The Co-operative Bank Finance p.l.c. (Finance Group and Finance Company)

The Co-operative Bank Holdings Limited
Company Number 10865342
(England and Wales)

↓ **100%**

Issuer of MREL-qualifying debt

The Co-operative Bank Finance p.l.c.
Company Number 11598074
(England and Wales)

↓ **100%**

The Co-operative Bank p.l.c.
Company Number 00990937
(England and Wales)

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

CONSOLIDATED INCOME STATEMENT

For year ended 31 December 2022

£million

	Note[1]	Finance Group 2022	Finance Group 2021
Interest income calculated using the effective interest rate method		**581.2**	422.7
Other interest and similar income		**88.7**	11.2
Interest income and similar income	6	**669.9**	433.9
Interest expense and similar charges	6	**(211.6)**	(110.0)
Net interest income		**458.3**	323.9
Fee and commission income	7	**64.4**	58.4
Fee and commission expense	7	**(32.6)**	(33.2)
Net fee and commission income		**31.8**	25.2
Income from investments		**0.2**	0.3
Other operating income (net)	8	**21.4**	28.9
Operating income		**511.7**	378.3
Operating expenses	9	**(373.7)**	(348.7)
Net customer redress release	28	**1.0**	2.6
Total operating expenses		**(372.7)**	(346.1)
Operating profit before net credit impairment losses		**139.0**	32.2
Net credit impairment losses	14	**(6.4)**	(1.1)
Profit before tax		**132.6**	31.1
Income tax	11	**(110.5)**	166.2
Profit for the financial year		**22.1**	197.3

1. These notes references relate to Group and Bank consolidated financial statements.

The results above wholly relate to continuing activities.

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

The notes on pages 279 to 283 form part of these consolidated Finance Group financial statements.

THE CO-OPERATIVE BANK FINANCE P.L.C. CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (FINANCE GROUP AND FINANCE COMPANY-ONLY)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For year ended 31 December 2022

£million

	Finance Group	
	2022	**2021**
Profit for the year	**22.1**	197.3
Items that may be recycled to profit or loss:		
Changes in cash flow hedges:		
Transfers from equity to income or expense	**(6.9)**	(9.2)
Income tax	**2.8**	1.4
Changes in fair value through other comprehensive income:		
Net changes in fair value recognised directly in equity	**121.6**	30.6
Transfers from equity to income or expense	**(131.3)**	(32.8)
Income tax	**1.5**	0.3
Items that may not subsequently be recycled to profit or loss:		
Changes in net retirement benefit asset:		
Defined benefit plans (losses)/gains for the year	**(693.8)**	182.7
Income tax	**231.1**	(92.8)
Other comprehensive (expense)/income for the year, net of income tax	**(475.0)**	80.2
Total comprehensive (expense)/income for the year	**(452.9)**	277.5

The notes on pages 279 to 283 form part of these consolidated Finance Group financial statements.

THE CO-OPERATIVE BANK FINANCE P.L.C. CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS (FINANCE GROUP AND FINANCE COMPANY-ONLY)
BALANCE SHEET

At 31 December 2022

£million

	Note	Finance Group 2022	Finance Group 2021	Finance Company 2022	Finance Company 2021
Assets					
Cash and balances at central banks	3	**5,270.4**	5,696.9	**-**	-
Loans and advances to banks	4	**387.1**	191.5	**-**	-
Loans and advances to customers	5	**20,921.9**	21,002.1	**-**	-
Fair value adjustments for hedged risk	5	**(430.7)**	(90.5)	**-**	-
Investment securities	6	**942.7**	1,201.4	**-**	-
Derivative financial instruments	7	**520.1**	248.5	**-**	-
Equity shares	8	**11.1**	22.8	**-**	-
Investments in subsidiaries/group undertakings	9	**-**	-	**333.0**	333.0
Other assets	10	**14.1**	12.7	**-**	-
Prepayments	11	**21.4**	20.3	**-**	-
Property, plant and equipment	12	**22.8**	24.3	**-**	-
Intangible assets	13	**90.0**	68.5	**-**	-
Right-of-use assets	14	**33.0**	46.9	**-**	-
Amounts owed by Bank Company	26	**-**	-	**618.6**	448.7
Current tax assets		**1.8**	-	**-**	-
Deferred tax assets	21	**167.4**	36.8	**-**	-
Net retirement benefit asset	22	**159.7**	841.1	**-**	-
Total assets		**28,132.8**	29,323.3	**951.6**	781.7
Liabilities					
Deposits by banks	15	**5,683.4**	5,527.6	**-**	-
Customer accounts		**20,107.4**	21,136.0	**-**	-
Fair value adjustment for hedged risk		**(34.6)**	(7.5)	**-**	-
Debt securities in issue	16	**181.9**	203.3	**-**	-
Derivative financial instruments	7	**103.5**	148.2	**-**	-
Other liabilities	18	**42.8**	38.7	**-**	-
Accruals and deferred income	19	**32.5**	37.0	**-**	-
Provisions	20	**33.2**	33.9	**-**	-
Other borrowed funds	17, 27	**646.9**	402.1	**658.8**	405.3
Lease liabilities	14	**31.0**	44.1	**-**	-
Net retirement benefit liability	22	**5.9**	8.1	**-**	-
Total liabilities		**26,833.9**	27,571.5	**658.8**	405.3
Capital and reserves attributable to the Finance Group/Finance Company's equity holders					
Ordinary share capital	24	**0.9**	0.9	**0.9**	0.9
Retained earnings	25	**1,577.8**	1,555.7	**291.9**	375.5
Other reserves	25	**(279.8)**	195.2	**-**	-
Total equity		**1,298.9**	1,751.8	**292.8**	376.4
Total liabilities and equity		**28,132.8**	29,323.3	**951.6**	781.7

Net loss attributable to equity shareholders of Finance Company was £83.6m (2021: profit of £50.6m).

The notes on pages 279 to 283 form part of these consolidated Finance Group and Finance Company individual financial statements.

Approved by the Board on 28 February 2023:

Robert Dench	Nick Slape
Chair of the Board	Chief Executive Officer

CONSOLIDATED STATEMENT OF CASHFLOWS

For year ended 31 December 2022

£million

	Note	Finance Group 2022	Finance Group 2021
Cash flows (used in)/from operating activities:			
Profit before tax		**132.6**	31.1
Adjustments for non cash movements:			
Pension scheme adjustments		**(12.7)**	(5.6)
Net credit impairment losses		**6.4**	1.1
Depreciation, amortisation and impairment		**35.3**	36.6
Other non-cash movements including exchange rate movements		**135.6**	121.5
Changes in operating assets and liabilities:			
Increase in deposits by banks		**155.8**	3,461.2
Increase in prepayments		**(1.1)**	(7.1)
(Decrease)/increase in accruals and deferred income		**(4.5)**	2.0
(Decrease)/increase in customer accounts		**(1,028.8)**	769.2
Decrease in debt securities in issue		**(21.4)**	(525.5)
(Increase)/decrease in loans and advances to banks		**(28.5)**	13.6
Decrease/(increase) in loans and advances to customers		**32.5**	(2,356.6)
Net movement of other assets and other liabilities		**(28.6)**	118.0
Income tax paid		**(6.8)**	-
Net cash flows (used in)/from operating activities		**(634.2)**	1,659.5
Cash flows from/(used in) investing activities:			
Purchase of tangible and intangible assets		**(48.0)**	(28.9)
Purchase of investment securities		**(465.7)**	(873.2)
Proceeds from sale of property and equipment		**0.4**	1.9
Proceeds from sale of shares and other interests		**20.4**	2.0
Proceeds from sale and maturity of investment securities		**679.0**	774.9
Purchase of equity shares		**(0.8)**	(0.5)
Dividends received		**0.2**	0.3
Net cash flows from/(used in) investing activities		**185.5**	(123.5)
Cash flows from/(used in) financing activities:			
Proceeds from MREL issuance		**248.4**	-
Interest paid on Tier 2 notes and senior unsecured debt		**(44.5)**	(37.0)
Lease liability principal payments		**(14.6)**	(11.0)
Net cash flows from/(used in) financing activities		**189.3**	(48.0)
Net (decrease)/increase in cash and cash equivalents		**(259.4)**	1,488.0
Cash and cash equivalents at the beginning of the year		**5,717.5**	4,229.5
Cash and cash equivalents at the end of the year		**5,458.1**	5,717.5
Comprising of:			
Cash and balances with central banks	3	**5,183.8**	5,609.8
Loans and advances to banks	4	**274.3**	107.7
		5,458.1	5,717.5

The Finance Company's cash and cash equivalents as at 31 December 2022 was £nil (2021: £nil). There were no changes in cash and cash equivalents for the Finance Company for the year ended 31 December 2022.

CONSOLIDATED STATEMENT OF CASHFLOWS - RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASHFLOWS ARISING FROM FINANCING ACTIVITIES

For year ended 31 December 2022

£million

	Finance Group					
	2022			2021		
	Lease liabilities	Other borrowed funds	Total	Lease liabilities	Other borrowed funds	Total
Balance at the beginning of the year	44.1	402.1	**446.2**	53.6	408.2	461.8
Changes from financing cashflows						
Proceeds from MREL issuance	-	248.4	**248.4**	-	-	-
Interest paid on Tier 2 notes and senior unsecured debt	-	(44.5)	**(44.5)**	-	(37.0)	(37.0)
Lease liability principal payments	(14.6)	-	**(14.6)**	(11.0)	-	(11.0)
Total changes from financing cash flows	**29.5**	**606.0**	**635.5**	42.6	371.2	413.8
Other changes						
Interest payable on lease liabilities and Tier 2 notes	1.2	48.1	**49.3**	1.7	37.0	38.7
Other non cash movement	-	(7.2)	**(7.2)**	-	(6.1)	(6.1)
Remeasurements/(derecognition) of lease liabilities	0.3	-	**0.3**	(0.2)	-	(0.2)
Balance at the end of the year	**31.0**	**646.9**	**677.9**	44.1	402.1	446.2

STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2022

£million

	Attributable to equity holders of the Finance Group								
2022	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 2022	0.9	-	2.9	14.7	-	(307.4)	485.0	1,555.7	**1,751.8**
Total comprehensive (expense)/income for the year	-	-	(8.2)	(4.1)	-	-	(462.7)	22.1	**(452.9)**
At 31 December 2022	**0.9**	**-**	**(5.3)**	**10.6**	**-**	**(307.4)**	**22.3**	**1,577.8**	**1,298.9**

	Attributable to equity holders of the Finance Company								
2022	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 2022	0.9	-	-	-	-	-	-	375.5	**376.4**
Total comprehensive expense for the year	-	-	-	-	-	-	-	(83.6)	**(83.6)**
At 31 December 2022	**0.9**	**-**	**-**	**-**	**-**	**-**	**-**	**291.9**	**292.8**

	Attributable to equity holders of the Finance Group								
2021	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 2021	0.9	332.1	4.8	22.5	410.0	2,109.5	395.1	(1,800.6)	1,474.3
Total comprehensive (expense)/income for the year	-	-	(1.9)	(7.8)	-	-	89.9	197.3	277.5
Reserve reorganisation[1]	-	(332.1)	-	-	(410.0)	(2,416.9)	-	3,159.0	-
At 31 December 2021	0.9	-	2.9	14.7	-	(307.4)	485.0	1,555.7	1,751.8

	Attributable to equity holders of the Finance Company								
2021	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 2021	0.9	332.1	-	-	-	-	-	(7.2)	325.8
Total comprehensive income for the year	-	-	-	-	-	-	-	50.6	50.6
Reserve reorganisation[1]	-	(332.1)	-	-	-	-	-	332.1	-
At 31 December 2021	0.9	-	-	-	-	-	-	375.5	376.4

1. Refer to note 33 of the Group and Bank consolidated financial statements

The notes on pages 279 to 283 form part of these consolidated Finance Group financial statements.

All amounts are stated in £m unless otherwise indicated.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The Co-operative Bank Finance p.l.c. (the "Finance Company"), registered number 11598074, was incorporated in the UK and is a limited company registered in England and Wales. The registered office address of the Finance Company is PO BOX 101, 1 Balloon Street, Manchester, M60 4EP.

The consolidated and individual financial statements of the Finance Company and its subsidiaries (together, the "Finance Group") have been prepared under the historic cost convention as modified by the revaluation of items held at fair value through other comprehensive income, derivative contracts, investment properties and certain other fair value instruments held at fair value through profit or loss and approved by the Directors in accordance with UK adopted international accounting standards and, as regards the Finance Company financial statements, in accordance with the provisions of the Companies Act 2006.

Accounting policies outlined in note 1 of the Group and Bank consolidated financial statements and the explanatory information on pages 284 to 293 also apply to the Finance Group and Finance Company.

Critical judgements and key estimation uncertainty
The preparation of financial information requires management to make judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The critical judgements and estimates for the Finance Group are the same as those set out in note 2 of the Group and Bank consolidated financial statements. The critical judgements set out below are relevant to the Finance Company only.

Impairment of investment in subsidiaries
The carrying value of Finance Company's investment in Bank Company at 31 December 2022 was £333.0m (2021: £333.0m).

Management have performed an assessment of indicators of impairment including a review of the 2022 performance and forecast performance of the Bank Company. The conclusion of this review was that the Finance Company's investment in the Bank Company was not impaired.

Impairment of amounts due from Bank Company
Amounts due from Bank Company comprise the internal MREL debt relating to the external MREL-qualifying Tier 2 and senior unsecured debt, which are held at FVTPL and as such are not considered for ECL.

2. NET PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE FINANCE COMPANY

On including the Finance Company financial statements here together with the consolidated Finance Group financial statements, the Finance Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these financial statements.

3. CASH AND BALANCES AT CENTRAL BANKS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 12 of the Group and Bank consolidated financial statements.

4. LOANS AND ADVANCES TO BANKS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 13 of the Group and Bank consolidated financial statements.

5. LOANS AND ADVANCES TO CUSTOMERS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 14 of the Group and Bank consolidated financial statements.

6. INVESTMENT SECURITIES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 15 of the Group and Bank consolidated financial statements.

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 16 of the Group and Bank consolidated financial statements.

8. EQUITY SHARES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 17 of the Group and Bank consolidated financial statements.

9. INVESTMENTS IN SUBSIDIARIES/GROUP UNDERTAKINGS

	Finance Company	
	2022	2021
At the beginning and at the end of the year	**333.0**	333.0

At 31 December 2022, the Finance Company owned 100 % of the share capital of The Co-operative Bank p.l.c.

The Co-operative Bank p.l.c. has a number of subsidiary companies of its own, details of which are outlined in note 23 of the Bank Company financial statements.

10. OTHER ASSETS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 18 of the Group and Bank consolidated financial statements.

11. PREPAYMENTS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 19 of the Group and Bank consolidated financial statements.

12. PROPERTY, PLANT AND EQUIPMENT

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 20 of the Group and Bank consolidated financial statements.

13. INTANGIBLE ASSETS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 21 of the Group and Bank consolidated financial statements.

14. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 22 of the Group and Bank consolidated financial statements.

15. DEPOSITS BY BANKS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 23 of the Group and Bank consolidated financial statements.

16. DEBT SECURITIES IN ISSUE

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 24 of the Group and Bank consolidated financial statements.

17. OTHER BORROWED FUNDS

	Finance Group		Finance Company	
	2022	2021	**2022**	2021
Fixed rate subordinated notes	**650.0**	400.0	**650.0**	400.0
Issue costs	**(3.3)**	(3.0)	**-**	-
Accrued interest	**8.8**	5.3	**8.8**	5.3
Fair value hedge accounting adjustment	**(8.6)**	(0.2)	**-**	-
	646.9	402.1	**658.8**	405.3

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 and Finance Company. Therefore for details of the fixed rate subordinated notes, we refer to the disclosures in note 25 of the Group and Bank consolidated financial statements.

18. OTHER LIABILITIES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 26 of the Group and Bank consolidated financial statements.

19. ACCRUALS AND DEFERRED INCOME

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 27 of the Group and Bank consolidated financial statements.

20. PROVISIONS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 28 of the Group and Bank consolidated financial statements.

21. DEFERRED TAX

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 29 of the Group and Bank consolidated financial statements.

22. RETIREMENT BENEFITS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 30 of the Group and Bank consolidated financial statements.

23. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 31 of the Group and Bank consolidated financial statements.

24. SHARE CAPITAL

	Finance Group and Finance Company			
	2022		2021	
	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 of the year		**-**		332.1
Reserve reorganisation		**-**		(332.1)
At the end of the year		**-**		-

25. OTHER RESERVES

	Finance Group	
	2022	2021
Fair value through other comprehensive income reserve	**(5.3)**	2.9
Cash flow hedging reserve	**10.6**	14.7
Capital re-organisation reserve	**(307.4)**	(307.4)
Defined benefit pension reserve	**22.3**	485.0
	(279.8)	195.2

26. RELATED PARTY TRANSACTIONS

Parent, subsidiary and ultimate controlling party
The ultimate parent undertaking of the Finance Group is The Co-operative Bank Holdings Limited. On 11 February 2019, The Co-operative Bank Finance p.l.c. became the immediate parent of the Bank Company with Holding Company remaining the ultimate parent company of the Bank Company.

The subsidiaries of The Co-operative Bank p.l.c. as detailed in note 23 of the Bank Company financial statements, and all Directors and key management personnel of the Group, are also considered to be related parties of the Holding Company (further details are available in note 32 to the consolidated Group and Bank financial statements and note 25 of the Bank Company financial statements).

Amounts owed by Bank Company
Amounts owed by Bank Company comprise the internal MREL debt related to the external MREL-qualifying Tier 2 and senior unsecured debt. The terms of the internal MREL are equivalent to those of the external MREL-qualifying Tier 2 and senior unsecured debt. The carrying value of the amount owed by Bank Company comprises the following:

	Finance Company	
	2022	2021
Fixed rate subordinated notes at par value	**650.0**	400.0
Accrued interest	**8.8**	5.3
Fair value of the internal loan	**(40.2)**	43.4
	618.6	448.7

27. ANALYSIS OF CREDIT RISK EXPOSURE

Finance Group
The Directors have considered the information disclosed in the consolidated financial statements of the Bank Company and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Bank Company and the Finance Group, we refer to the disclosures in note 27 of the Bank Company financial statements.

Finance Company
Amounts due from Bank Company comprise the internal MREL debt relating to the external MREL-qualifying Tier 2 and senior unsecured debt, which are held at FVTPL and as such are not considered for ECL. The fair value of internal MREL-qualifying instruments is disclosed in note 28 below.

28. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Finance Group
The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group and the Finance Group, we refer to the disclosures in note 35 of the Group and Bank consolidated financial statements.

Finance Company
The amount due from Bank Company was carried at fair value through profit and loss with a value of £618.6m as at 31 December 2022. The valuation technique employed for this financial asset is as described in note 35 of the Group and Bank consolidated financial statements. This instrument is level 2 under the fair value hierarchy and did not transfer to another level during the year. The fair value disclosures for the other borrowed funds are identical to those set out in note 35 of the Group and Bank consolidated financial statements.

29. EVENTS AFTER THE BALANCE SHEET DATE

For Finance Group events after the balance sheet date, refer to note 37 of the Group and Bank consolidated financial statements. For Finance Company there are no post balance sheet events to report.

Explanatory Information

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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.

1.2 Revenue recognition

a) Interest income and expense

Interest income and expense on financial instruments measured at amortised cost or fair value through other comprehensive income (FVOCI) is recorded within net interest income and recognised on an Effective Interest Rate (EIR) basis except for:

- Purchased or originated credit impaired assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and
- Financial assets which are not purchased or originated credit impaired assets but have become credit impaired (reside within stage 3), for which interest income is calculated by applying the EIR to their amortised cost (i.e. net of the expected credit loss provision).

The EIR basis is inclusive of directly attributable origination and incremental transaction costs and fees including arrangement and broker fees, valuation and solicitor costs, discounts and premiums where appropriate. Commitment fees received are deferred and included in the EIR calculation upon completion or taken in full at the date the commitment period expires and completion does not occur. Early redemption charges are recognised on a cash basis as received, as it is not possible to reliably estimate the receipt of such fees.

Interest income and expense on financial instruments managed on a fair value basis or mandatorily measured at FVTPL is recorded within other interest and similar income.

b) Fees and commissions

Fee and commission income is predominantly made up of arrangement fees for loans and advances (not included in the EIR), account servicing and card fees. All fee and commission income is recognised on a point-in-time basis as the performance obligation is satisfied at the time the fees are charged. There are no future performance obligations or variable considerations involved per the contracts.

The Group acts as principal in the majority of contracts with customers, with the exception of the following contracts where the Group acts as agent:
- Funeral care and insurance services – Income is recognised net of fees payable to other parties in the arrangement; and
- Certain personal lending transactions where the Group acts as agent – Income is received and recognised on a net basis.

The Group offers cash back incentives on certain credit card arrangements and treats them as an expense. These arrangements do not provide customers with a separate performance obligation or a material/significant right in advance, or constitute part of a contract.

c) Dividend income
Dividend income is recognised when the right to receive the payment is established, which is generally when the Directors approve the dividend as final. Interim dividends are recognised in the income statement when the dividend is paid.

1.3 Financial instruments
a) Recognition
Financial assets and financial liabilities are initially recognised in the balance sheet at fair value when the Group becomes party to the contractual provisions of the instrument:
- Loans and advances are initially recognised when they are advanced to customers;
- Deposits, debt securities issued and other borrowed funds are recognised on the date at which they are originated; and
- Regular way purchases and sales of financial assets are recognised on the trade date at which the commitment to purchase or sell the asset is made.

Subsequently, financial instruments are classified as follows: amortised cost, fair value through profit or loss, or fair value through other comprehensive income.

b) Financial instruments measured at amortised cost
Financial assets measured at amortised cost are those for which the business model objective is to hold to collect the contractual cash flows, and the contractual cash flows are solely payments of principal and interest (SPPI). Such financial assets are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Unless designated at FVTPL, the classification and subsequent measurement of the financial asset is based on the business model and contractual cash flows of the asset.

The IFRS 9 business models reflect how financial assets are managed in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Factors considered in determining the business model for a group of assets include both past experience and future plans for these assets.

Solely payments of principal and interest are those consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risk (including liquidity risk), costs (including administrative costs) and a profit margin that is consistent with a basic lending arrangement. If the SPPI contractual cash flow test is not passed, then the related financial asset is measured at fair value through profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Amortised cost is the default category for financial liabilities.

Amortised cost financial instruments are subsequently measured at the amount at which the financial instrument was measured at initial recognition, less principal repayments, plus or minus the cumulative amortisation using the effective interest method of the difference between that initial amount and the maturity amount and adjusted for any loss allowance.

c) Financial instruments designated at FVTPL
Financial instruments may be designated at FVTPL, however this irrevocable decision must be applied at inception. Financial instruments are classified in this category if they meet one or more of the criteria set out below:
- Designation removes or significantly reduces an accounting mismatch;
- The financial instrument is part of a group of financial assets and liabilities or a group of financial liabilities managed and performance evaluated on a fair value basis; or
- The financial liability contains one or more non-closely related embedded derivatives.

The Group has designated a small portion of loans and advances to customers at FVTPL as by doing so significantly reduces an accounting mismatch.

Financial assets at fair value through profit or loss are subsequently measured at fair value. The fair value gains and losses for those debt instruments which have not been designated with a hedge accounting relationship are recognised within the income statement for the year and recorded within other operating income/(expense) (net).

d) Financial instruments measured at FVTPL

FVTPL is the default category for financial assets, which includes Equity instruments not designated as FVOCI.

Subsequent measurement is identical to that disclosed above for financial instruments designated at FVTPL.

e) Financial assets measured at FVOCI

Debt instrument financial assets measured at FVOCI are those for which the business model objective is hold to collect the contractual cash flows and sell, and the contractual cash flows of the financial asset are solely payments of principal and interest. FVOCI financial assets are subsequently measured at fair value, with movements in fair value being recognised in other comprehensive income, except for the recognition of impairment gains and losses, interest income and foreign exchange gains and losses on the debt instrument's amortised cost, which are recognised in the income statement.

When the debt instrument is derecognised, cumulative gains and losses previously recorded in other comprehensive income are reclassified from equity to the income statement and recognised in other operating income/(expense) (net).

An equity instrument may be designated irrevocably at fair value through other comprehensive income at inception. When this election is applied, cumulative gains and losses are recognised in other comprehensive income but are not transferred to profit or loss on derecognition of the equity instrument. The Group has made no such elections in respect of equity instruments.

f) Reclassifications

Debt instruments are only reclassified when the business model for managing such assets is changed. Such changes as a result of external or internal changes must be significant, demonstrable to external parties, and are expected to be rare in occurrence. Financial liabilities cannot be reclassified.

g) Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) are reclassified on the balance sheet as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the assets. The liability to the transferee is also included on the balance sheet, in deposits by banks. The difference between sale and repurchase price is accrued over the life of the agreements.

Securities purchased under agreements to re-sell (reverse repos) are classified as loans and advances to banks on the balance sheet, as appropriate.

h) Derivative financial instruments and hedge accounting

Derivatives are used to hedge interest and exchange rate exposures related to non-trading positions. Instruments used for hedging purposes include swaps, forward rate agreements, options and combinations of these instruments.

Derivative financial instruments are stated at fair value using valuation techniques such as discounted cash flow models. All derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative. The gain or loss on remeasurement to fair value is recognised immediately in the income statement except where derivatives qualify for cash flow hedge accounting.

The IAS 39 Financial Instruments criteria for documentation and hedge effectiveness are required to be met where the Group applies hedge accounting. The Group applies hedge accounting under the UK-endorsed version of IAS 39.

i. Cash flow hedges

Where derivatives are designated as hedges of the exposure to variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the portion of the fair value gain or loss on the derivative that is determined to be an effective hedge is recognised directly in equity. The ineffective part of any gain or loss is recognised in the income statement immediately.

The accumulated gains and losses recognised in equity are reclassified to the income statement in the periods in which the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised at that time remains in equity until the forecast transaction is eventually recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately reclassified to the income statement.

ii. Fair value hedges

Where a derivative is designated as the hedging instrument to hedge the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the value of the derivative are recognised immediately in the income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk. Fair values are based on quoted market prices in active markets or, where these are not available, using valuation techniques such as discounted cash flow models. If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is prospectively discontinued. Any adjustment up to that point, to a hedged item for which the EIR method is used, is amortised to profit or loss as part of the recalculated EIR of the item over its remaining life.

iii. Fair value hedge accounting for a portfolio hedge of interest rate risk

As part of the risk management process, portfolios are identified where interest rate risk is to be hedged. The portfolios may comprise only assets, only liabilities or both assets and liabilities. Each portfolio is analysed into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur.

Using this analysis, the percentage to hedge is decided and designated as the hedged item is an amount of assets or liabilities from each portfolio equal to this.

The change in fair value of the portfolio relating to the risk that is being hedged is measured monthly. Provided that the hedge has been highly effective, the change in fair value for the hedged risk of each hedged item is recognised in the income statement with the cumulative movement in its value being shown on the balance sheet as a separate item, fair value adjustment for hedged risk, either within assets or liabilities as appropriate. If the hedge no longer meets the criteria for hedge accounting, this amount is amortised to the income statement over the remaining useful life of the hedged item on an appropriate basis.

The fair value of each hedging instrument is measured and this is included in derivative financial instruments in either assets or liabilities as appropriate, with the change in value recorded in the income statement. Any hedge ineffectiveness is recognised in the income statement as the difference between the change in fair value of the hedged item for the hedged risk and the change in fair value of the hedging instrument.

i) Embedded derivatives

A derivative may be embedded in another liability, known as the host contract. Where the economic characteristics and risks of an embedded derivative are not closely related to those of the host contract (and the host contract is not carried at fair value through profit or loss), the embedded derivative is separated from the host and held on-balance sheet at fair value. Movements in fair value are recognised in the income statement, whilst the host contract is accounted for according to the relevant accounting policy for that particular liability.

Embedded derivatives are not considered in the context of financial assets, with the classification and measurement of the entire instrument is instead based on the contractual terms of the financial asset and the related business model.

j) Impairment of financial assets

The below describes the Group's general accounting policies around the assessment of credit losses. Considerations around estimation uncertainty is discussed in further detail in note 2 to the Group's consolidated financial statements.

Under IFRS 9, the expected credit loss (ECL) is assessed on a forward-looking basis for debt instruments carried at amortised cost and FVOCI, for exposures related to loan commitments, and for financial guarantee contracts. Credit risk is measured using probability of default (PD), the exposure at default (EAD) and loss given default (LGD).

Financial instruments are classified within stage 1 on initial recognition. If a significant increase in credit risk (SICR) since recognition is identified but the financial instrument is not credit impaired, then the financial instrument transitions to stage 2. A financial instrument transitions to stage 3 when it becomes credit impaired. Financial instruments within stage 1 have a loss allowance reflecting a 12 month ECL whereas financial instruments within stage 2 and 3 have a loss allowance reflecting a lifetime ECL. Financial instruments which are purchased or originated credit impaired attract a lifetime ECL until derecognition irrespective of staging criteria. For stage 3 assets, interest is calculated on balances net of any associated ECLs.

The expected life of a financial instrument is estimated based on the shorter of the contractual and behavioural life. For retail credit cards and corporate charge cards, expected life is based on the behavioural life with the contractual life applied to other portfolios.

i. Constitution of the expected credit loss provision

The ECL provision is calculated based on collective and individual assessments. Judgemental adjustments are applied to reflect risk characteristics for assets subject to collective provisioning but for which a specific risk characteristic is not captured within the collective models. The origination, measurement and release of material judgemental adjustments are initially reviewed and approved by the Chief Risk Officer on a quarterly basis, and subject to further analysis and challenge through the Group's accounting judgement review process before ultimate being presented to the by the Group's Joint Audit Committee.

ii. Significant increase in credit risk (SICR)

A financial instrument is considered to have experienced a SICR since initial recognition when one or more quantitative or qualitative or backstop criteria have been met. The quantitative criterion is a PD based measure which varies based on a number of considerations, including product type, age and PD at origination, with a backstop of 30 days past due. Qualitative drivers of a significant increase in credit risk include exposures determined to be higher risk and subject to closer credit risk monitoring.

The 'low credit risk exemption' available within IFRS 9 applies to certain highly rated treasury assets, which the Group classifies as those that are rates as investment grade. Accordingly, at each balance sheet date, it is assumed that credit risk on all such financial assets has not increased significantly since initial recognition. The 'low credit risk exemption' has not been applied to any other type of financial asset.

iii. Definition of default and credit impaired financial instruments

The Group considers all defaulted instruments to be credit impaired and vice versa. Qualitative criteria applied in the definition of default include:

- Bankruptcy/insolvency for all portfolios;
- Certain types of forbearance and unlikeliness to pay factors for all portfolios except for Treasury; and
- Fraud, litigation/possession and term expiry for retail secured portfolios.

The Group uses the 90 days past due backstop for all portfolios in evaluating whether or not an instrument has defaulted, both for the purposes of ECL calculation and internal credit risk management.

If an instrument does not meet the default criteria for a defined period of months (after a probationary period of 6-12 months) then an instrument is no longer considered to be in default. This period has been set with regard to the probability of an instrument returning to default status after cure.

iv. Calculation of the ECL

The ECL is calculated as the discounted multiple of PD, EAD and LGD, which are all based on historical analysis, adjusted for the future view of forward-looking macroeconomic information.

v. Incorporation of forward-looking information

ECLs are probability-weighted amounts, which are determined by evaluating a range of possible economic scenarios of varying probabilities in order to capture non-linearities and asymmetries within the ECL calculation:

- A base scenario, which is consistent with the economic forecasts used by the Group in its financial planning process, is determined by reference to a combination of the Bank of England (BoE)'s Monetary Policy Reports, HM Treasury consensus and expert judgement.
- Alternative scenarios, reflecting outlooks of differing severity or optimism, are modelled by the application of multipliers to base scenario forecasts and by reference to stress scenarios published by the BoE.
- The relative weighting of each scenario is determined by reference to probability-weighted distribution of economic forecasts published by the BoE in its Monetary Policy Reports.
- All scenarios and weightings are regularly benchmarked against available industry data.

Once the scenarios and weightings have been determined, ECLs are calculated by applying each scenario to the Group's ECL models and multiplying the result by the respective scenario weighting. The assessment of SICR is performed using the remaining lifetime PD under each scenario, multiplied by the scenario weighting, along with the qualitative and backstop indicators set out in ii) above.

This assessment determines whether the whole financial instrument should be in stage 1, 2 or 3 and consequently whether a weighted 12 month or a lifetime expected credit loss should be recognised. The Group may from time-to-time override model-derived staging with judgemental adjustments where it considers the model output to understate (or overstate) the credit risk of a particular instrument (or portfolio of instruments).

The Group does not typically apply macroeconomic forecasts to individually-assessed ECL calculations due to the limited and very specific nature of these cases.

vi. Segmentation of portfolios

Financial assets are grouped together where ECL calculations are performed on a collective basis. Regression analysis has been performed to determine how financial assets should be grouped such that risk characteristics of assets within a group are homogeneous and the risk characteristics of each group are statistically significant to another.

vii. Write-off and recoveries

A write-off is made when all or part of a claim is deemed uncollectable or forgiven after all the possible collection procedures have been completed and the amount of loss has been determined. Write-offs are charged against previously established provisions for impairment. Any additional recoveries from borrowers, counterparties or other third parties made in future periods are offset against the impairment charge in the income statement once they are received.

viii. Modification

When renegotiating or otherwise modifying the contractual cash flows of loans to customers, e.g. by applying forbearance, the Group considers whether or not the new terms are substantially different to the original terms.
If the new terms are not substantially different to the original terms, the modification in contractual cash flows does not result in derecognition. The gain or loss on modification of the contractual cash flow associated with the recognition of the revised gross carrying amount is recognised in the income statement.

When the contractual cash flows of financial assets are renegotiated or otherwise modified and the new terms are substantially different to the original terms, the original asset is derecognised, and a new asset is recognised at fair value with a new EIR. At the date of recognition of the new asset, an assessment is made as to whether the asset was credit impaired on recognition. The difference between the carrying amount derecognised and that re-recognised is included in the income statement as a gain or loss on derecognition.

k) Derecognition of financial instruments

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

Collateral provided under standard repurchase agreements, securities lending and borrowing transactions is not derecognised because substantially all of the risks and rewards are retained on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Financial assets associated with certain internal securitisation transactions are not derecognised because the Bank Company retains substantially all of the risks and rewards on the transferred financial assets.

When a financial asset is derecognised in its entirety, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in the income statement.

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Any difference between the carrying amount of a financial liability derecognised and the consideration paid is recognised in the income statement.

1.4 Property, plant and equipment

Assets are recognised where there is substantial exposure to all the risks and rewards of those assets. Items of property, plant and equipment are stated at cost less any accumulated depreciation and impairment losses. Depreciation is recognised on a straight line basis at the following maximum default rates, which are estimated to reduce the assets to their realisable values at the end of their useful lives which is 40 years for long leasehold land and buildings, 10 years for freehold and leasehold improvements, 5 years for computers and other equipment, 10 years for furniture and equipment and the life of lease for short leasehold buildings.

All items of property, plant and equipment are reviewed for indications of impairment on a regular basis and at each balance sheet date. If impairment is indicated, the asset's recoverable amount (being the greater of fair value less cost to sell and value in use) is estimated. Value in use is calculated by discounting the future cash flows generated from the continuing use of the asset. If the carrying value of the asset is greater than the recoverable amount, the shortfall is recognised in the income statement.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal, less costs to sell, with the carrying amount and are recognised net within operating expenses in the income statement.

1.5 Intangible assets
Intangible assets (including those which are internally generated) are initially recognised when they are separable or arise from contractual or other legal rights, where it is probable that future economic benefits attributable to the assets will flow from their use and the cost can be measured reliably.

The cost of internally generated assets only include employee costs to the extent that they are directly attributable to the development of the identified asset (indirect and general overhead costs are excluded). Internally generated assets are amortised from the date which they become available for use.

Intangible assets are stated at cost less accumulated amortisation and provisions for impairment, if any, and are amortised over their useful lives, which is 3 to 9 years for computer software and 3 to 5 years for licences.

Intangible assets are reviewed for impairment when there are indications that impairment may have occurred.

1.6 Leases
a) Bank as a Lessee
At the commencement date, the right-of-use asset is measured at cost which comprises the amount of the initial measurement of the lease liability, an estimate of dismantling/restoration of the underlying asset, any incremental costs directly attributable to the lease inception and any premiums or other advance payments made to the lessor. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability arising from a reassessment of lease term, revision to lease break assumptions or in-substance fixed lease repayments. The depreciation and impairment accounting policies applied to the right-of-use assets are consistent with those applied to the respective tangible asset categories.

The lease liability is measured initially at the present value of unpaid lease payments, excluding VAT. At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date, discounted at the Group's incremental borrowing rate at that time.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and adjusted to reflect any reassessment of lease term, revision to lease break assumptions or in-substance fixed lease repayments. The interest expense is recognised within interest expense and similar charges in the income statement.

The following accounting policy choices have been applied:
- The requirements of IFRS 16 have not been applied to leases of less than 12 months and those of low value (such costs are recognised on a straight line or other systematic basis);
- Lease liabilities are discounted at the Group's incremental borrowing rate; and
- Non-lease components are not separated from lease components within the lease liability.

b) Bank as Lessor
Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating. Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases.

1.7 Cash and cash equivalents
Cash and cash equivalents comprises cash balances and balances with a maturity of three months or less from the origination date, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

1.8 Income tax

a) Overview

Tax for the year comprises current and deferred tax, which is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in the statement of comprehensive income.

b) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

c) Deferred tax

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised and is supported by the Board-approved Financial Plan. Further information is included in note 2, sections 2.1.3 critical judgements and 2.2.4 key sources of estimation uncertainty.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset if and only if the entity has a legally enforceable right to set off current tax assets and liabilities, and the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on the same company

1.9 Retirement benefits

a) Defined contribution

A defined contribution (DC) scheme is a plan into which the Group and employees pay fixed contributions which are invested on their behalf by the trustee of the scheme. The Group has no legal or constructive obligation to pay any further contributions. The Group participates in the DC element of The Co-operative Pension Scheme (Pace DC), which is ring-fenced from the defined benefit section of the Pace scheme noted below. The cost of the employer contributions to the Group's DC plan is recognised as an expense in the income statement in the period in which they fall due.

b) Defined benefit

A defined benefit (DB) scheme is a pension plan that defines the amount of guaranteed pension benefit that an employee will receive on retirement based on a number of factors including the salary and years of service.

The assets of a DB scheme are included at their fair value. The fair value of annuity policies held by a DB scheme that exactly matches the amount and timing of benefits payable under the plan is deemed to be the present value of the related obligations. Scheme liabilities are measured on an actuarial basis using the projected unit credit method in accordance with IAS 19 Employee Benefits (IAS 19). The liabilities are discounted to present value using rates equivalent to market yields on high-quality corporate bonds at the balance sheet date with terms to maturity approximating to the terms of the related pension liability. A high-quality corporate bond is usually taken to mean a bond that has been rated at the level of AA or equivalent status.

The Group's income statement includes the past service costs, net interest income or expense and scheme administration expenses. Past service costs represent the change in the present value of the defined benefit obligation arising from plan amendments or curtailment and are recognised when the plan amendment or curtailment occurs. Net interest income or expense is calculated by applying the discount rate at the beginning of the period to the net defined benefit asset or liability.

Remeasurements, comprising actuarial gains and losses, and the return on plan assets (excluding amounts included in net interest income or expense) are reflected immediately in the balance sheet with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurements relate to the effects of differences between previous actuarial assumptions and what has actually occurred, and changes in forward-looking actuarial assumptions. They will not subsequently be reclassified to profit and loss.

The Group's balance sheet includes the net scheme surplus or deficit, being the difference between the fair value of the schemes' assets and the present value of scheme liabilities at the balance sheet date. Surpluses are recognised as an asset to the extent the Group has an unconditional right under the scheme rules to receive economic value through reduced contributions in the future or refunds from the schemes, in accordance with IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

1.10 Government grants
Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that the grant will be received and the Group will comply with the conditions attached to it.

Government grants related to costs are deducted from the relevant costs to be compensated in the same period. Government grants to compensate for the cost of the assets are released to profit and loss within depreciation and amortisation expense over the expected useful life of the asset.

1.11 Foreign currency
The functional and presentational currency is pounds sterling. Transactions in foreign currencies are translated at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate prevailing at that date. Foreign currency differences arising on translation are recognised in the income statement, except for foreign currency differences arising on translation of FVOCI equity instruments or a qualifying cash flow hedge, which are recognised directly in the statement of other comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling at the exchange rates prevailing at the dates the values were determined.

1.12 Investments in subsidiaries and group undertakings
Investments in subsidiaries are initially measured at cost and subsequently measured at cost less impairment.

1.13 Provisions
A provision is recognised in the balance sheet if there is a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate, if the expected future cash flows can be reliably estimated.

In the case of restructuring provisions, a constructive obligation arises when a plan is sufficiently detailed and is formalised and when the plan is deemed to have been communicated to relevant stakeholders impacted by the restructure. Restructuring provisions include only direct expenditure arising from the restructuring plan which is both necessary for restructuring and not associated with ongoing activities.

1.14 Share premium
Share premium is the amount by which the fair value of the consideration received exceeds the nominal value of shares issued. Expenses and commissions paid on the issue of shares are written off against the share premium of the same issue.

1.15 Netting arrangements
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to do so and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2. Standards and interpretations issued but not yet effective

Major new IFRSs: The IASB has published a new standard, IFRS 17 (Insurance Contracts). The new standard will require 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 will become effective for reporting periods beginning on or after 1 January 2023, following endorsement by the UK Endorsement Board. The Group is unaffected by the new standard as it does not issue insurance contracts; the Group only acts as a broker for insurance companies when offering insurance products to its customers and any associated revenue is accounted for under IFRS 15.

Other: The IASB has issued a number of other minor amendments to IFRSs due to take effect for periods commencing 1 Jan 2023. The Group does not anticipate any of these amendments will have a significant impact on the Group.

Caution about forward-looking statements

This document contains forward-looking statements with respect to the business, strategy, plans and/or results of the Group and its current targets, goals and expectations relating to its future financial condition, performance, developments and/or prospects. Forward-looking statements sometimes use words such as ‘may’, ‘will’, ‘seek’, ‘continue’, ‘aim’, ‘anticipate’, ‘target’, ‘projected’, ‘expect’, ‘estimate’, ‘intend’, ‘plan’, ‘goal’, ‘believe’, ‘achieve’, ‘predict’, ‘should’ or, in each case, their negative or other variations or comparable terminology, or by discussion of strategy, plans, objectives, goals, future events or intentions. Examples of such forward-looking statements include, without limitation, statements regarding the Group’s future financial position and commitments in connection with the plan and other statements that are not historical facts, including statements about the Group’s or its Directors’ and/or management’s beliefs and expectations.

Limitations inherent to forward-looking statements

The Group cautions readers that these forward-looking statements are not historical facts or guarantees of future performance and that actual results or other financial condition or performance measures could differ materially from those contained in the forward-looking statement. By their nature, forward-looking statements involve known and unknown risks and uncertainty because they are based on current plans, estimates, targets, projections, views and assumptions and are subject to significant inherent risks, uncertainties and other factors both external and internal relating to the Group’s plan, strategy or operations that are beyond the Group’s control, which may result in the Group being unable to achieve the current targets, predictions, expectations and other anticipated outcomes expressed or implied by these forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. Accordingly, undue reliance should not be placed on forward-looking statements.

Forward-looking statements speak only as at today

Any forward-looking statements made or contained in this Annual Report and Accounts speak only as of the date of this Annual Report and Accounts and it should not be assumed that they have been revised or updated in the light of new information of future events or circumstances arising after the date of these documents. Except as required by the Prudential Regulation Authority, the Financial Conduct Authority, the London Stock Exchange or applicable law, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in these documents as a result of new information or to reflect any change in the Group’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The reader should, however, consider any additional disclosures that the Group has made or may make in documents it has published or may publish via the Regulatory News Service of the London Stock Exchange.

No offer of securities

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