Nick Slape (CEO) and Louise Britnell (CFO) will host a video conference on 24 February 2022 at 9am (UK time) to present the full year 2021 results and a Q&A session.
The video conference will be held via BlueJeans video conferencing.
To request access to the call please email investorrelations@co-operativebank.co.uk for the mandatory entry details.
Participants can join the conference via:

The BlueJeans mobile app; available from your respective app store (video and audio)
Direct from a web browser (video and audio)
Or by telephone (audio only)

Additional materials are available on the Bank's investor relations website which can be found at the following address:
www.co-operativebank.co.uk/about-us/investor-relations/

BASIS OF PRESENTATION

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

Underlying basis: The statutory results are adjusted to remove certain items that do not promote an understanding of historical or future trends of earnings or cash flows, which therefore allows a more meaningful comparison of the Group's underlying performance.
Alternative performance measures: The Group uses a number of alternative performance measures, including underlying profit or loss, in the discussion of its business performance and financial position.

2021 Annual Report and Accounts

24 February 2022

The Co-operative Bank ("the Bank") is pleased to provide an update on its performance in the twelve months ended 31 December 2021. Additional materials can be found at the following link: www.co-operativebank.co.uk/about-us/investor-relations/

- **Statutory profit before tax of £31.1m and underlying profit of £41.0m;** (an increase of £134.9m and £105.0m vs FY 20)
- **Income tax credit of £166.2m;** including exceptional tax credit of £115m relating to the recognition of historical losses
- **Underlying cost:income ratio of 88%;** (improved from 114% in FY 20)
- **Statutory cost:income ratio of 91%;** (improved from 126% in FY 20)
- **Balance sheet growth;** net residential lending of £2.4bn (an increase of 185% compared with FY 20)
- **Organic capital growth with a CET1 ratio of 20.7%;** (150bps increase compared to FY 20)
    - approval received to convert non-distributable reserves to distributable reserves
- **Proud to be the number one ethical banking brand in the UK;** market leading ESG score of 9.2 from Sustainalytics

Nick Slape, Chief Executive Officer, said,

"2021 has been a milestone year for The Co-operative Bank, in which we have delivered against the ambitious turnaround plan set three years ago to significantly improve the financial strength and stability of the Bank. I am delighted to report our first full year of profit in 10 years, signalling a return to sustainable profitability, with a statutory profit before tax of £31.1m. These positive results demonstrate that our position on ethical and social matters is not only good for our communities, but also delivers strong commercial outcomes.

In 2021 our Environmental Social and Governance (ESG) credentials have received external validation from Sustainalytics, a leading ESG ratings agency, which identified the Bank as the UK's best ESG rated high street bank. In August, we launched our sixth Values and Ethics poll, a unique consultation of the environmental and social issues that are important to our customers and colleagues. We will use their responses to inform and update our unique Ethical Policy – which guides how we do business and the causes we support – and will be relaunched later this year.

Our return to profitability and balance sheet growth at improved margins gives us a strong platform for further growth in the years ahead. As ethics and sustainability become increasingly important to consumers, we are working to enhance our product range and services in 2022 as now, more than ever, there is an important role for an ethical bank like us in the marketplace. We are working more efficiently and effectively and in the year ahead we will complete the in-housing of all mortgage servicing as we continue to take steps to transform our operations, focused on delivering for our customers. This, along with increased cost efficiency gives me the confidence that the Bank's business model, refreshed strategic vision and our stable management team take us forward into our 150th year of ethical banking in a strong position.

I would like to extend my thanks to our valued customers for their continued loyalty and to the Board, the management team and all colleagues for their commitment and determination."

INCOME STATEMENT (£m)

	12 months ended 31 December	
	2021	2020
Net interest income	323.9	266.9
Other operating income	37.6	40.4
Total income	361.5	307.3
Operating expenditure	(319.4)	(349.6)
Impairment	(1.1)	(21.6)
Underlying profit / (loss)	41.0	(63.9)
Strategic change	(28.8)	(25.9)
Restructuring costs	-	(19.9)
Net customer redress credit / (charge)	2.1	(2.0)
Non-operating income	16.8	8.0
Statutory profit / (loss) before tax	31.1	(103.7)
Tax	166.2	8.0
Statutory profit / (loss) after tax	197.3	(95.7)

Key ratios:		
Customer net interest margin (bps) [1]	161	146
Bank net interest margin (bps) [2]	125	117
Underlying cost:income ratio (%) [3]	88	114
Statutory cost:income ratio (%)[4]	91	126
Asset quality ratio (bps) [5]	1	12

1. Annualised net interest income over average customer assets
2. Annualised net interest income over average interest earning assets
3. Operating expenditure over total income
4. Total statutory expenditure over total statutory income
5. Annualised impairment charge over average customer assets

PERFORMANCE HIGHLIGHTS

Statutory profit before tax of £31.1m and underlying profit of £41.0m

- Total income of £361.5m which includes net interest income and other operating income, has increased 18% in comparison to the 12 months ended 31 December 2020.
- Net interest income has increased by 21% to £323.9m (FY 20: £266.9m) and customer net interest margin (NIM) has increased by 15 basis points (bps) from 146bps to 161bps reflecting balance sheet growth at improving margins.
- Other operating income has reduced by 7% to £37.6m (FY 20: £40.4m), 2020 includes a one off gain relating to renewed supplier partnerships.
- Underlying operating expenditure has reduced by 9% to £319.4m (FY 20: £349.6m). The reduction follows continued action to simplify the Bank and reflects the benefits realised from the restructuring activity completed in 2020. Total statutory costs have reduced by 13% to £346.1m (FY 20: £397.4m).
- Impairment losses of £1.1m; this reflects improving economic conditions partially offset by the impact of balance sheet growth (FY 20 losses: £21.6m).
- Strategic project costs charged to the income statement total £28.8m (FY 20: £25.9m). 2021 spend has been targeted primarily at SME investment, mortgage system transformation and IT simplification.
- £2.1m net customer redress credit (FY20: £2.0m charge) relates to a provision release from the substantive completion of our PPI remediation programme.
- £16.8m non-operating income (FY 20: £8.0m) includes the impact of non-recurring items. £14.4m relates to a refund of historical ATM business rates. There is also a £7.2m charge for a fixed asset write off due to a reduction in our head office space which will further reduce costs from 2022 onwards.

Income tax credit of £166.2m

- £115m relates to our return to sustainable profitability. We have recognised a proportion (20%) of our previously unrecognised deferred tax assets in relation to historical losses. We now expect to receive significant value from these historical losses over many years and expect to recognise further assets in future years.
- A further tax credit has been recognised due to the increase in corporation tax from 19% to 25% and its associated impact on deferred tax assets. The magnitude of this impact is reduced due to the utilisation of deferred tax assets against the profits chargeable to corporation tax for the year-to-date.

Balance sheet growth

- Total assets have increased by £3.7bn since FY 2020 largely due to £2.4bn net mortgage lending and higher cash balances. Legacy assets have reduced by 9% to £0.7bn.
- Total liabilities have increased by £3.5bn since FY 2020. In the year the Bank has drawn a further £3.5bn TFSME funding taking total drawing to £5.2bn. Customer deposits are £0.8bn higher than at 31 December 2020.
- The loan-to-deposit ratio of 99.1% has increased by 7.5pp year-to-date (FY 2020: 91.6%), predominantly driven by growth in lending supported by TFSME funding.

Organic capital growth with a CET1 ratio of 20.7%

- CET1 ratio of 20.7% (2020: 19.2%); up 150bps year-to-date driven by a reduction in RWAs and the accumulation of profit generated.
- Total capital ratio of 25.4% (2020: 23.7%).
- Risk Weighted Assets (RWAs) of £4.4bn (2020: £4.7bn); down £0.3bn driven by final settlement of the 2020 Optimum transaction (reducing RWAs by £117m) and by the Bank's Surrendered Loss Debtor (reducing RWAs by £48m) and reduced FVAHR (Fair value adjustment for hedged risk) (reducing RWAs by £134m).
- Approval to convert non-distributable reserves to distributable reserves received; unlocks ability to optimise capital structure in the future.

Proud to be the number one ethical banking brand in the UK

- Environmental and social issues have always mattered to us, and how we operate, and because we embed this throughout all of our corporate governance, we have been recognised as the UK's best ESG-rated high street bank with a market-leading score of 9.2 from Sustainalytics, a leading independent provider of ESG and corporate governance ratings.
- We've been operationally beyond carbon neutral for 14 years and have both continued to send zero waste to landfill, and increased the amount of waste we recycle.
- Committed to tackling the climate-nature emergency; proud industry ambassadors of Zero Hour, the campaign for the Climate and Ecological Emergency Bill.
- Ethical policy refresh launched with c.50,000 customers sharing their views on the ethical issues that are important to them today. These findings will inform an update to our Policy in Q2 2022, guiding how we do business.
- We continue to decline business banking customers involved in fossil fuel extraction and have done for 23 years.

Outlook

We have made substantial progress in 2021 as the Original Ethical Bank. We delivered improved financial performance across all key measures and continued to invest in the development of our franchise. We were rated the number 1 bank in the UK for ESG by Sustainalytics. Our latest financial outlook for 2022 is as follows:

- Bank net interest margin of approximately 140bps; reflecting improved base rate outlook and impact of capital issuance plans.
- Total statutory costs of approximately £350m; a stable overall cost base despite increased inflationary pressure.
- Asset quality ratio of less than 5bps; low levels of impairment are a result of our low-risk portfolio.
- CET1 ratio of approximately 17%; c.3pp reduction largely due to the impact of PS11/20 (subject to regulatory approval).
- Customer assets of £21bn to £22bn with growth in line with market growth more widely.
- Adjusted return on tangible equity of approximately 8%; profitability and improved performance drives shareholder value.

We have achieved a lot this year, but there is still a lot to do as we build a simpler, more efficient bank with co-operative values at its heart. I am confident about the future and our ability to deliver our strategic goals despite economic uncertainty remaining.

SEGMENTAL PROFIT / (LOSS) (£m)

The Group revised its reportable segments in the period, following an exercise to improve its internal management reporting of income and cost allocations. As a result, the operating costs of all business functions are allocated to the income-generating businesses, to support further understanding of the profitability of those businesses and accordingly the Treasury function, whose income and cost was previously reported separately, has been fully allocated to customer segments and is no longer reported separately. The Group therefore now identifies two segments: Retail Banking and SME Business Banking and has re-presented comparatives on this basis.

2021	Core			Legacy & central items	Group
	Retail	SME	Total		
Net interest income / (expense)	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)	(4.5)	(319.4)
Credit impairment gains / (losses)	0.9	(1.1).	(0.2)	(0.9)	(1.1)
Underlying profit / (loss)	46.2	7.7	53.9	(12.9)	41.0

2020 Re-presented	Core			Legacy &	Group
	Retail	SME	Total	central items	
Net interest income / (expense)	230.7	41.5	272.2	(5.3)	266.9
Other operating income	24.1	16.2	40.3	0.1	40.4
Operating income / (expense)	254.8	57.7	312.5	(5.2)	307.3
Operating expenses	(289.5)	(54.8)	(344.3)	(5.3)	(349.6)
Credit impairment losses	(15.6)	(3.2)	(18.8)	(2.8)	(21.6)
Underlying loss	(50.3)	(0.3)	(50.6)	(13.3)	(63.9)

SEGMENTAL ASSETS AND LIABILITIES (£m)

2021	Core			Legacy &	Group
	Retail	SME	Total	central items	
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	6,505.9	27,571.3

2020 Re-presented	Core			Legacy &	Group
	Retail	SME	Total	central items	
Segment assets	17,360.7	447.8	17,808.5	7,791.0	25,599.5
Segment liabilities	17,300.0	2,964.4	20,264.4	3,860.7	24,125.1

SELECTED KEY PERFORMANCE INDICATORS

% (unless otherwise stated)	2021	2020	Change
CET1 ratio	20.7	19.2	1.5
Total capital ratio	25.4	23.7	1.7
Risk weighted assets (£m)	4,373	4,684	(311)
Leverage ratio (PRA) [1]	3.8	4.0	(0.2)
Liquidity coverage ratio	241.8	193.4	48.4
Loan to deposit ratio	99.1	91.6	7.5
Average core mortgage LTV	56.8	56.1	0.7
Core mortgage accounts > 3 months in arrears	0.13	0.18	0.05
NPL as a % of total exposures	0.3	0.4	(0.1)

1. Calculated as per PRA definition, excluding Bank of England reserves

Investor enquiries:
investorrelations@co-operativebank.co.uk
Gary McDermott, Treasurer and Head of Investor Relations: +44 (0) 7811 599495

Media enquiries:
Daniel Chadwick, Communications: +44 (0) 7724 701319
Nicki Parry, Communications: +44 (0) 7734 002983
Sam Cartwright, Maitland/AMO: +44 (0) 7827 254 561

The person responsible for arranging the release of this announcement on behalf of The Co-operative Bank Finance p.l.c and The Co-operative Bank p.l.c. is Catherine Green, Company Secretary.

About The Co-operative Bank

The Co-operative Bank p.l.c. provides a range of banking products and services to about 3.1m retail customers and c.96k small and medium sized enterprises ('SME'). The Bank is committed to values and ethics in line with the principles of the co-operative movement. The Co-operative Bank is the only high street bank with a customer-led ethical policy, which gives customers a say in how their money is used. Launched in 1992, the policy has been updated on five occasions, with new commitments added in January 2015 to cover how the Bank operates its business, products and services, workplace and culture, relationships with suppliers and other stakeholders and campaigning.

The Co-operative Bank p.l.c. is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The Co-operative Bank p.l.c. eligible customers are protected by the Financial Services Compensation Scheme in the UK, in accordance with its terms.

Note: This announcement contains inside information.

PRIMARY FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

£million

	Year ended 31 December	
	2021	2020
Interest income calculated using the effective interest rate method	422.7	415.3
Other interest and similar income	11.2	(5.2)
Interest income and similar income	433.9	410.1
Interest expense and similar charges	(110.0)	(143.2)
Net interest income	323.9	266.9
Fee and commission income	58.4	56.5
Fee and commission expense	(33.2)	(33.0)
Net fee and commission income	25.2	23.5
Income from investments	0.3	0.3
Other operating income/(expense) (net)	28.9	24.6
Operating income	378.3	315.3
Operating expenses	(348.7)	(395.4)
Net customer redress credit/(charge)	2.6	(2.0)
Total operating expenses	(346.1)	(397.4)
Operating profit/(loss) before net credit impairment losses	32.2	(82.1)
Net credit impairment losses	(1.1)	(21.6)
Profit/(loss) before taxation	31.1	(103.7)
Income tax	166.2	8.0
Profit/(loss) for the financial year	197.3	(95.7)

The results above are for the consolidated Group and wholly relate to continuing activities. More information regarding the basis of preparation can be found in the Annual Report and Accounts, which have been made available on our website.

The profit for the financial year is wholly attributable to equity shareholders.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

£million

	Year ended 31 December	
	2021	2020
Profit/(loss) for the financial year	197.3	(95.7)
Items that may be recycled to profit or loss:		
Changes in cash flow hedges:		
Net changes in fair value recognised directly in equity	-	5.5
Transfers from equity to income or expense	(9.2)	3.1
Income tax	1.4	(2.8)
Changes in fair value through other comprehensive income:		
Net changes in fair value recognised directly in equity	30.6	(20.5)
Transfers from equity to income or expense	(32.8)	22.3
Income tax	0.3	(1.1)
Items that may not subsequently be recycled to profit or loss:		
Changes in net retirement benefit asset:		
Defined benefit plans gains/(losses) for the year	182.7	(49.8)

Income tax	(92.8)	1.5
Other comprehensive income/(expense) for the financial year, net of income tax	80.2	(41.8)
Total comprehensive income/(expense) for the financial year	277.5	(137.5)

The results above are for the consolidated Group. More information regarding the basis of preparation can be found in the Annual Report and Accounts, which have been made available on our website.

CONSOLIDATED BALANCE SHEET

£million	31 December 2021	31 December 2020
Assets		
Cash and balances at central banks	5,696.9	3,877.8
Loans and advances to banks	191.5	536.2
Loans and advances to customers	21,002.1	18,682.5
Fair value adjustments for hedged risk	(90.5)	134.1
Investment securities	1,201.4	1,148.5
Derivative financial instruments	248.5	189.9
Property, plant and equipment classified as held-for-sale	0.2	0.3
Equity shares	22.8	22.1
Investment properties	1.9	1.9
Other assets	12.7	188.9
Prepayments	20.3	13.2
Property, plant and equipment	22.2	35.2
Intangible assets	68.5	63.4
Right-of-use assets	46.9	53.7
Deferred tax assets	36.8	-
Net retirement benefit asset	841.1	651.8
Total assets	29,323.3	25,599.5
Liabilities		
Deposits by banks	5,527.6	2,066.4
Customer accounts	21,135.9	20,365.8
Debt securities in issue	203.3	728.8
Fair value adjustment for hedged risk	(7.5)	-
Derivative financial instruments	148.2	340.1
Other liabilities	38.7	33.7
Accruals and deferred income	37.0	35.0
Provisions	33.9	46.4
Other borrowed funds	402.1	408.2
Lease liabilities	44.1	53.6
Deferred tax liabilities	-	38.3
Net retirement benefit liability	8.1	8.8
Total liabilities	27,571.4	24,125.1
Capital and reserves attributable to the Group's equity holders		
Ordinary share capital	0.9	0.9
Share premium account	313.8	313.8
Retained earnings	1,946.0	(1,410.2)
Other reserves	(508.8)	2,569.9
Total equity	1,751.9	1,474.4
Total liabilities and equity	29,323.3	25,599.5

The financial positions above are for the consolidated Group. More information regarding the basis of preparation can be found in the Annual Report and Accounts, which have been made available on our website.

CONSOLIDATED STATEMENT OF CASH FLOWS

£million

	Year ended 31 December	
	2021	2020
Cash flows (used in)/from operating activities:		
Profit/(loss) before taxation	31.1	(103.7)
Adjustments for non cash movements:		
Pension scheme adjustments	(5.6)	(9.3)
Net credit impairment losses	1.1	21.6
Depreciation, amortisation and impairment of property, equipment, right of use assets and intangibles	36.6	40.2
Other non-cash movements including exchange rate movements	121.5	78.7
Changes in operating assets and liabilities:		
Increase in deposits by banks	3,461.2	922.7
(Increase)/decrease in prepayments and accrued income	(7.1)	8.5
Increase/(decrease) in accruals and deferred income	2.0	(24.0)
Increase in customer accounts	769.2	1,367.8
Decrease in debt securities in issue	(525.5)	(143.9)
Decrease in loans and advances to banks	13.6	6.7
Increase in loans and advances to customers	(2,356.6)	(813.1)
Net movement of other assets and other liabilities	118.0	(205.6)
Net cash flows from operating activities	1,659.5	1,146.6
Cash flows (used in)/from investing activities:		
Purchase of tangible and intangible assets	(28.9)	(16.8)
Purchase of investment securities	(873.2)	(969.6)
Proceeds from sale of property and equipment	1.8	2.6
Proceeds from sale of shares and other interests	2.0	38.6
Proceeds from sale and maturity of investment securities	774.9	1,422.5
Purchase of equity shares	(0.5)	-
Proceeds from sale of investment properties	0.1	-
Dividends received	0.3	0.3
Net cash flows (used in)/from investing activities	(123.5)	477.6
Cash flows (used in)/from financing activities:		
Proceeds from issuance of Tier 2 notes	-	197.7
Interest paid on Tier 2 notes and senior unsecured debt	(37.0)	(19.0)
Lease liability principal payments	(11.0)	(10.0)
Net cash flows (used in)/from financing activities	(48.0)	168.7
Net increase in cash and cash equivalents	1,488.0	1,792.9
Cash and cash equivalents at the beginning of the year	4,229.5	2,436.6
Cash and cash equivalents at the end of the year	5,717.5	4,229.5
Comprising of:		
Cash and balances at central banks	5,609.8	3,802.5
Loans and advances to banks	107.7	427.0
	5,717.5	4,229.5

RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

£million

	2021					2020
	Lease liabilities	Other borrowed funds	Total	Lease liabilities	Other borrowed funds	Total
Balance at the beginning of the year	53.6	408.2	461.8	71.2	204.2	275.4
Changes from financing cashflows						
Proceeds from issuance of Tier 2 notes	-	-	-	-	197.7	197.7
Interest paid on Tier 2 notes and senior unsecured debt	-	(37.0)	(37.0)	-	(19.0)	(19.0)
Lease liability principal payments	(11.0)	-	(11.0)	(10.0)	-	(10.0)
Total changes from financing cash flows	42.6	371.2	413.8	61.2	382.9	444.1
Other changes						
Interest payable on lease liabilities and Tier 2 notes	1.7	37.0	38.7	2.4	20.8	23.2
Other non cash movement	-	(6.1)	(6.1)	-	4.5	4.5
Derecognition of lease liabilities	(0.2)	-	(0.2)	(10.0)	-	(10.0)
Balance at the end of the year	44.1	402.1	446.2	53.6	408.2	461.8

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

£million

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	-	-	-	-	(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

2020	Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Capital re-organisation reserve	Defined benefit pension reserve	Retained earnings	Total equity
At 1 January 2020	0.9	313.8	4.1	16.7	410.0	1,737.5	443.4	(1,314.5)	1,611.9
Total comprehensive income /(expense) for the year	-	-	0.7	5.8	-	-	(48.3)	(95.7)	(137.5)
At 31 December 2020	0.9	313.8	4.8	22.5	410.0	1,737.5	395.1	(1,410.2)	1,474.4

SELECTED NOTES TO THE FINANCIAL STATEMENTS

All amounts are stated in £m unless otherwise indicated.

NOTE 1: SEGMENTAL INFORMATION

The Group provides a wide range of banking services within the UK. The Executive Committee (ExCo) has been determined to be the chief operating decision-maker of the Group. The Group's operating segments reflect its organisational and management structures in place at the reporting date. ExCo reviews information from internal reporting based on these segments in order to assess performance and allocate resources. The segments are differentiated by whether the customers are individuals or corporate entities. The Group revised its reportable segments in the period, following an exercise to improve its internal management reporting of income and cost allocations. As a result, the operating costs of all business functions are allocated to the income-generating businesses, to support further understanding of the profitability of those businesses and accordingly the Treasury function, whose income and cost was previously reported separately, has been fully allocated to customer segments and is no longer reported separately. The Group therefore now identifies two segments: Retail Banking and SME Business Banking and has re-presented comparatives on this basis.

	Core				
2021	Retail	SME	Total	Legacy & unallocated	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
Net credit impairment losses	0.9	(1.1)	(0.2)	(0.9)	(1.1)
Operating expenses	(259.8)	(55.1)	(314.9)	(4.5)	(319.4)
Underlying profit	46.2	7.7	53.9	(12.9)	41.0
Strategic change					(28.8)
Restructuring programme					-
Gain on shares revaluation and sale					2.4
Covered bond premium expense					-
Loss on asset sales					-
Other exceptional items					16.5
Statutory profit before tax					31.1

Re-presented

	Core			Legacy &	
2020	Retail	SME	Total	unallocated	Group
Net interest income	230.7	41.5	272.2	(5.3)	266.9
Other operating income	24.1	16.2	40.3	0.1	40.4
Operating income	254.8	57.7	312.5	(5.2)	307.3
Net credit impairment losses	(15.6)	(3.2)	(18.8)	(2.8)	(21.6)
Operating expenses	(289.5)	(54.8)	(344.3)	(5.3)	(349.6)
Underlying loss	(50.3)	(0.3)	(50.6)	(13.3)	(63.9)
Strategic change					(25.9)
Restructuring programme					(19.9)
Gain on shares revaluation and sales					16.7
Covered bond premium expense					(5.2)
Loss on asset sales					(3.5)
Other exceptional items					(2.0)
Statutory loss before tax					(103.7)

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.

		Removal of:			
2021	IFRS statutory	Volatile items[1]	Strategic projects	Non recurring[2]	Underlying basis
Net interest income	323.9	-	-	-	323.9
Other operating income/(expense)	54.4	(2.4)	-	(14.4)	37.6
Operating income	378.3	(2.4)	-	(14.4)	361.5
Operating expenses	(348.7)	-	28.8	0.5	(319.4)
Net customer redress release	2.6	-	-	(2.6)	-
Net credit impairment losses	(1.1)	-	-	-	(1.1)
Statutory profit before tax	31.1	(2.4)	28.8	(16.5)	41.0
Cost:income ratio[3]	91%				88%

1. Relates to gain on equity shares revaluation and sales (£2.4m, including £0.2m dividend).
2. Comprises refunds of historical ATM business rates paid (£14.4m) and residual PPI impacts (£2.1m).
3. Cost:income ratio is calculated as (operating expenses plus net customer redress release)/(operating income).

Re-presented

		Removal of:			
2020	IFRS statutory	Volatile items[1]	Strategic projects	Non recurring[2]	Underlying basis
Net interest income	266.9	-	-	-	266.9
Other operating income/(expense)	48.4	(16.7)	-	8.7	40.4

Operating income	315.3	(16.7)	-	8.7	307.3
Operating expenses	(395.4)	-	25.9	19.9	(349.6)
Net customer redress charge	(2.0)	-	-	2.0	-
Net credit impairment losses	(21.6)	-	-	-	(21.6)
Statutory loss before tax	(103.7)	(16.7)	25.9	30.6	(63.9)
Cost:income ratio[3]	126%				114%

1. Relates to the revaluation gain on equity shares (£16.7m, including £0.3m dividend).
2. Comprises restructuring programme costs (£19.9m), the premium paid on the Covered bond repurchase (£5.2m), the net loss recognised on the sale of Optimum mortgage assets (£3.5m) and legacy customer redress charges (£2.0m).
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.

2021	Core			Legacy &	Group
	Retail	SME	Total	central items	
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	6,505.9	27,571.3

2020	Core			Legacy &	Group
Re-presented	Retail	SME	Total	central items	
Segment assets	17,360.7	447.8	17808.5	7,791.0	25,599.5
Segment liabilities	17,300.0	2,964.4	20,264.4	3,860.7	24,125.1

NOTE 2: RELATED PARTY TRANSACTIONS

Parent, subsidiary and ultimate controlling party

As at 31 December 2021, 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 the last 12 months, 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. The contractual features of the senior unsecured debt are set out in the Annual Report and Accounts, which have been made available on our website.

Total interest paid for the year on the MREL-qualifying debt to certain funds managed by SP Coop Investments Ltd and Anchorage Illiquid Opportunities Offshore Master V L.P. was £1.2m (2020: £6.7m). At 31 December 2021, the total outstanding balance payable (including accrued interest) to these related parties was £nil (2020: £98.2m).

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 2021 in this regard was £402.1m (2020: £408.2m) including accrued interest. The interest paid by Bank Company to Finance Company on the internal MREL instrument was £37.0m (2020: £19.0m).

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:

	2021	2020
Deposits and investments at the beginning of the year	0.5	1.1
Net movement	1.1	(0.6)
Deposits and investments at the end of the year	1.6	0.5

In addition, there were £0.1m (2020: £0.4m) relating to loans to key management personnel, arising in the normal course of business.

Key management personnel

	2021	2020
Total remuneration receivable by key management personnel	8.6	7.1

In 2021, the total number of key management personnel was 18 (2020: 19). Further information about the remuneration of senior management personnel and material risk takers is included in the Directors' remuneration report.

NOTE 3: EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events to report.

RISK MANAGEMENT

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. 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).

COVID-19 update

The COVID-19 pandemic continues to present further risks in both the short and medium term, creating additional challenges and increasing the likelihood of principal risks manifesting, given the external environment and the increased pressure to operate our internal processes remotely. The Group has continued to respond dynamically to these challenges whilst maintaining the fundamental principles and a consistent approach to risk management.

The initial strategy to deal with the pandemic in 2020 included intensive incident management to plan and respond to changes required to our procedures and operational activities. In 2021, the Group continued to monitor its early warning indicators and other key metrics closely for signs of stress. The Group adapted again as restrictions started to ease throughout the first half of 2021 and into the second half of the year. New COVID-19 variants, surges of infections, ongoing caution and the threat of reinstated restrictions have reaffirmed the need for organisations to be on almost constant alert and be prepared to respond to these types of challenges swiftly and decisively. The Group continues to monitor and manage the impacts of COVID-19 thematically through its RMF, ensuring decisive action is supported by robust governance.

The Group's response during 2021 to the risks posed by the COVID-19 pandemic included (but is not limited to):

- Continuing support for our customers through the maintenance of government support measures including payment deferrals, overdraft buffers, removal of late fees on certain products and participation in the CBILS and Bounce-Back loan scheme;
- Continued participation in the Term Funding Scheme with additional incentives for SMEs (TFSME) government scheme;
- Creating capacity to meet intense demand as a result of the UK population reassessing their housing needs and substantially grow the Group's residential lending levels to £2.4bn in 2021, from £841m in 2020;
- Transforming the way we respond to the needs of our SME customers by providing tailored support and innovative solutions such as the 'request to pay' app from Incomeing, Business Concierge services, relaunch of the business banking website and 'Breathing Space' for sole traders;
- Enhancements to our customer call triaging processes and systems, prioritising calls effectively in response to customer demand during uncertain times;
- Making changes to our operating model, reflecting recent societal trends towards a more flexible workplace. This has included improving our working from home proposition, including trialling homeworking for some of our contact centre roles whilst also making homeworking a permanent option for our back office colleagues. The Group continues to review role structures closely to attract and retain staff;
- Updating our Financial Plan regularly to reflect the changes in market economics so as to react more quickly to changes in market conditions, including changes to our capital and liquidity forecasts, income and cost projections and the level of investment spend in light of potential deterioration in economic benefit in the short to medium term; and
- Evaluating the potential impacts on financial reporting risks, establishing the potential impact of changes to the recognition or valuation of assets and liabilities in light of COVID-19 under accounting standards and applicable UK laws and regulations, including potential impacts on provisions, income recognition and the associated valuation of assets and their risk weights for capital purposes.

The COVID-19 vaccination programme and the relaxation of restrictions earlier this year was encouraging, particularly in relation to the effect on market conditions in 2021. However, the duration and severity of the risks arising from COVID-19 are still developing, particularly the uncertainty in relation to the rise of new variants of the virus. We therefore believe the effects have not yet fully crystallised; these remain potentially wide-ranging in impact across the financial services industry both in the short and medium term. The Group continues to assess risk factors both internally and externally such as the credit risk portfolio, the regulatory environment, the macroeconomic environment and peer bank performance.

1.2 Overview

The Board oversees and approves the Group's RMF and is supported by the Risk Committee (RC) of the Group. 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 Board of the Holding Company is to review and challenge the Group's risk appetite and RMF. It should also approve the Holding Company's risk appetite and risk policy, which shall be aligned to the RMF.

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

Material risks and issues, whether realised or emerging, inclusive of those documented in relation to the RMF itself are described along the lines of principal risks within section 1.8.

1.3 Our Risk Management Framework (RMF)

Further information can be found in the full Annual Report and Accounts, which has been made available on our website.

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

1.5 Our risk culture

A critical supporting factor of the RMF is the risk culture in the 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 organisation. 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 survey will help identify any areas where improvements are required and shape the next stage of development for the RMF.

1.6 Evolution of the RMF in 2021

The Group continually seeks to enhance and further embed its RMF to ensure efficient and effective risk ownership and management within risk appetite, supporting appropriate customer outcomes and the delivery of its Plan. The focus during 2021 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 further strengthened and embedded the RMF, bringing with them an increased commitment to and understanding of risk management amongst all Group colleagues. In order to support this, simplification initiatives have also been implemented. These have been possible due to the maturity of the RMF and the level of embedding that has been achieved: Continued improvements to key operational risk processes, for example, the risk acceptance process in order to drive further efficiencies;

- In line with structural changes and Group-wide simplification, continued clarity of the alignment of first line ownership of principal risks to the Senior Managers and Certification Regime to create an integrated and consistent accountability matrix;
- 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, the risk acceptance process in order to drive further efficiencies;
- The move to a bi-annual cycle for refresh of Risk Policies and Control Standards (unless significant change is required outside cycle); and
- The risks relating to climate change have been incorporated into the RMF and managed thematically (see section 1.9 for more detail).

The Group will continue to simplify and evolve the RMF in 2022 whilst continuing to drive 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.

The committees which directly oversee the effective management and oversight of the RMF are highlighted in the table below.

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	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)	RC is responsible for reviewing and reporting its conclusions to the Board on the Group'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)	EROC is responsible for oversight of the risk profile of the Group (within the agreed Board risk appetite). The Committee 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)	ExCo is responsible for defining and implementing the Board-approved strategy successfully by monitoring and managing delivery against plan and applying appropriate risk management actions to emerging risks.
Asset and Liability Committee (ALCo)	ALCo is primarily responsible for overseeing the management of capital, market, earnings, liquidity and funding risks. Its responsibilities include identifying, managing and controlling the balance sheet risks in executing its chosen business strategy, ensuring the capital and liquidity position is managed in line with appropriate policies and that adequate capital is maintained at all times.
Model Risk Oversight Committee (MROC)	MROC ensures, on an ongoing basis, that the model rating systems and material models are operating effectively. This includes providing Executive level review and challenge of the model risk and the impact of model risks on the 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)	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)	OCROC is responsible for monitoring significant operational risks and issues including significant conduct, regulatory, product, reputational, fraud and AML risks and issues, the controls and management actions being taken to mitigate them and to hold to account the Executives responsible for actions. OCROC oversees the current and emerging operational risk profile, ensuring key risk exposures are managed within risk appetite and reported to EROC as appropriate, including the monitoring of adherence to the RMF alongside a process for continuous improvement.
Pension Risk Oversight Committee (PROC)	PROC is responsible for oversight of all aspects of pension arrangements which the 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 increased levels of fraud and a number of issues such as reliance on manual processes and legacy IT systems. The COVID-19 pandemic, which poses risks to multiple operational areas, has further elevated operational risks, especially related to supplier and people risks. The most significant operational risk themes are outlined below.

The Group continues to strengthen its systems and control environment by leveraging the RMF.

Fraud - Fraud losses have been a significant contributing factor to operational losses in 2021. Like many in the industry, the Group has had to respond to the ever-changing tactics of fraudsters and the impact of authorised push payment fraud. Adherence to the requirements of the Contingent Reimbursement Model, Payment Service Regulations and FOS have culminated in high volume and value refunds impacting fraud and operational risk for the Group.

The Group understands the importance of investing in its fraud controls and is progressing with both strategic and tactical solutions to improve controls and moderate fraud loss. These solutions include the delivery of Confirmation of Payee in early 2021, which in line with other participating industry members, has had a positive impact in identifying fraud at the point of a new payment set up, also providing additional protection for customers from authorised push payment scams. The Group has also signed up to Ofcom's Do Not Originate initiative to reduce telephone number spoofing and, whilst both have had a positive effect, fraudsters continue to look for ways to circumvent controls and take advantage of customer insecurities through methods such as safe account scams.

Social engineering is an ongoing, evolving threat. Enhancements to digital payment warnings and telephony questions are examples of changes that have been delivered in 2021 to reduce the volume of customers becoming victims of fraud. Future initiatives, due to be delivered in early 2022, include the rollout of a PSD2-compliant card not present solution which will reduce card fraud losses and investment in an SME payment fraud screening solution.

The Group invested in a behavioural biometrics solution in 2021 with development planned through 2022 to reduce the impact of account takeovers on our customers. The roadmap of initiatives will support a strengthened position for the Group within the industry against a challenging fraud landscape.

Technology debt - As with many other financial institutions, the Group is reliant in some areas on end-of-life IT systems to 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 add additional contingency arrangements to protect IT services until replacement. Funding for this strategy has been approved for 2022 and will be subject to regular monitoring and reporting against progress.

Cyber crime - As with other financial institutions, reflecting the increased use of technology in financial services, the Group and its customers are at risk of actual or attempted cyber attacks from parties with criminal or malicious intent, including attacks designed to overload the Group's systems. These risks increase as the Bank moves to digitise its products, services, key functions and distribution channels, and as cyber attacks become more sophisticated and prevalent. There is the potential for greater exposure to cyber attacks where systems are reliant on legacy technologies, as highlighted in the technology debt section above. In addition to the risk of fraudulent activity in connection with customer accounts resulting in customer detriment, the Group is also subject to the risk that any cyber attack may result in temporary loss of operational availability of systems to its colleagues and/or customers and disclosure of confidential information. This has the potential to cause business disruption and legal exposure which may have adverse effects on the Group's financial condition, operating results, reputation and brand. The Group continues to invest in its 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.

COVID-19 impact on our people and external labour market - Staff availability across the Group continues to be impacted by the COVID-19 pandemic and the challenging external labour market resulting in increases in staff sickness and attrition rates in concurrence with compression of staff leave. This is closely monitored by absence reporting to identify any operational impacts.

Staff capacity has been impacted by an increase in more complex customer-related queries, challenges posed where systems were not available for homeworking (especially in regard to training newly-recruited staff) and an increase in fraud checks to protect our customers in response to an increase in fraud risk seen across the industry.

These factors have contributed to an increased length of average call handling times which has consequently increased the challenge of managing call volumes. In response the Group has promoted a secure message email service, promoted the use of interative voice response (IVR) and recruited, contracted and flexed existing resource whilst also utilising overtime measures to manage customer demand.

In response to industry-wide challenges around recruitment and retention, the Group has made changes to the workplace model, launching homeworking roles for some contact centre colleagues in addition to making permanent homeworking options available for back office colleagues.

The Group's front-line recruitment options have been enhanced by launching a working from home role for new to Bank colleagues and expanding our recruitment catchment area for staff from regional areas to nationwide.

Third party supplier management - The Group continues to be dependent on suppliers to support or provide key banking services. This has presented a heightened risk exposure due to the COVID-19 pandemic. The Group has taken steps to improve the control environment with no significant disruptions experienced from suppliers. The Group assembled a dedicated task force to ensure compliance with the EBA-published revised Guidelines on Outsourcing Arrangements when these come into force in the first quarter of 2022. This activity will ensure that control enhancements are embedded into existing supplier processes for material and outsourced suppliers.

During the year, IBM gave notice of a major restructure, which resulted in the divestment of critical services outsourced by the Group to a newly created subsidiary, Kyndryl. The Group navigated this change in consultation with its regulators and secured a contractual relationship with its new critical service provider.

In December, the Group gave formal notice to Capita, our current mortgage servicing operations provider, that we will be moving this activity back in-house by December 2022. We believe it is the right time for the Group to welcome its mortgage servicing activity and colleagues back into the business to ensure provision of a consistent end-to-end service for mortgage customers. We are working closely with Capita to ensure a safe re-integration and support for the incoming team to enable a seamless transition for our mortgage customers.

Anti-money laundering (AML) - Enhancements to rule sets used within Group systems to monitor and alert where transactions are unusual or suspicious have resulted in an improved risk profile throughout 2021. System assurance completed within the same period provided an overall satisfactory result.

System upgrades, along with migration of customer feeds, remain a key focus into 2022 in order to drive enhancements to AML controls. The Group recognises there are limitations across existing AML systems mainly relating to legacy systems. Planning is currently underway for an upgrade to address these limitations; in the meantime the Group is managing the risk through the application of manual and system based workarounds.

Conduct risk and compliance - We have reacted to our customers' need for forbearance, ensuring they are treated fairly, and provided support to customers that require assistance in line with regulatory expectations.

The Group has met our SME customers' needs for forbearance via the 'Pay As You Grow' measures announced by the Chancellor in September 2020, enabling the Group to provide essential flexibility during an incredibly tough period for many of our SME customers.

There is a greater need to support our vulnerable customers and assess how we service them given the additional risk factors presented by the COVID-19 pandemic. In response the Group has made changes to enhance training, awareness, management information and governance aligning to the FCA's new vulnerable customer guidance.

The Group also delivered customer-focussed changes related to 'Breathing Space' which assists individuals and sole traders with problem debt. Confirmation of Payee was also introduced in 2021 to protect our customers from fraud as outlined in the fraud section above.

The Group was actively engaged with the FCA's Consumer Duty consultation supporting enhancements to consumer protection, with further engagement via the consultation process planned prior to the anticipated implementation in 2022.

There are key regulator developments due to be delivered in 2022 to improve the Group's resilience and protect the customer from fraud:

- Climate Change
- LIBOR to SONIA
- PSD2 – Card Not Present
- FCA and PRA Building Operational Resilience: Impact Tolerances
- PRA Outsourcing and third party risk management

Payments risk - In 2021 there were no material breaches of payment scheme rules. Payment risk remains a key area of focus and the Group will continue to assess the risks from its legacy systems.

The Group will invest in improvements to the customer journey, improve the resilience of the underlying infrastructure and architecture and provide further oversight of payment risk through additional governance in 2022.

Operational resilience - Approaches to disciplines such as business continuity and disaster recovery are being revisited to take a more holistic approach to ensuring continuity for Bank services under operational resilience. Operational resilience has been introduced as a thematic principal risk within the Risk Management Framework and remained a targeted area of focus for the Group in 2021. The programme of work that has been set up to deliver key regulatory requirements and establish an enduring model (including the timely identification of important business services and scenario testing) is on track for completion in the first half of 2022.

Emerging risks:

Technology and security - Distancing measures brought in as a consequence of the COVID-19 pandemic are accelerating the pace of technological change, raising the need for remote operations and new service delivery systems. The integration of new technologies with existing infrastructure to ensure safer, improved and more secure systems will increase the demand for resource and will require appropriate redesign of existing activities and accountabilities.

COVID-19 - Although the UK's vaccination programme has provided a much welcomed reduction in rates of cases and hospitalisations in comparison to the previous year, it is expected that the ongoing effects of the COVID-19 pandemic will continue to disrupt and cause uncertainty for our customers, which has the potential to affect the Group's credit risk profile and capital position.

New COVID-19 variants, surges of infections, the effects of consequential lockdown measures, societal shifts in working patterns and ongoing caution have resulted in significant sectoral impacts, particularly in relation to areas such as international travel and transport. Whilst the Group has limited exposure to these affected sectors, potential impacts will be carefully monitored and managed thematically through the Group's RMF to ensure decisive action.

Climate change - In order to ensure that it is holistically embedded across the RMF and integrated through the Group's current suite of principal risks, climate change risk has been assessed as a 'thematic risk' which impacts on other risk types. The Group understands the potential operational impact of climate-related physical or transition risks and the way the physical risks in particular may manifest in the form of disruption to business services (including potential impacts to workforce availability), supply chains and transport links. The Group also remains cognisant of ever-evolving climate related regulatory requirements and reporting obligations. The Group's progress against the four key areas the PRA expects firms to focus on to deliver compliance with PS11/19 (governance, risk management, scenario analysis and disclosure) is detailed in section 1.9 – Climate change risk.

Regulatory change - Regulatory impacts are anticipated in 2022 to further combat the challenges posed by financial crime, improve customer outcomes and respond to the changes to the regulatory landscape from the PRA, FCA, HMT and the BoE including:

- HMT – Access to Cash – HMT has published a consultation on 'Access to Cash' which is the next step in legislating to protect access to cash and ensuring that the UK's cash infrastructure is sustainable for the long term;
- FCA Consumer Duty – The proposed Consumer Duty reasserts the FCA's intention 'to set a higher expectation for the standard of care that firms give consumers' which will have far-reaching implications for the financial services industry;
- Further parliamentary scrutiny of the position of mortgage prisoners requiring the Group's engagement and consideration;
- A continuation of the FCA's assertive and robust approach to engagement especially in respect of financial crime with a focus on management of cash received through the post office distribution channel;
- The introduction of a financial crime levy requirement of an amount determined by an institution's UK revenue and size; and
- Potential increases in capital requirements linked to CRR II/V changes and potential review of impairment modelling requirements.

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 risks posed by the COVID-19 pandemic 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:

Analysis of operational net losses is disclosed in our Pillar 3 report (table 34). In the current year, 85.3% of net losses arose from external fraud (2020: 65.7%).

CAPITAL RISK

Definition:

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

Key themes:

Risk Weighted Assets (RWAs) - Our RWAs at 31 December 2021 total £4,373.4m. RWAs reflect our risk adjusted assets factoring in probability of default (PD), loss given default (LGD) and exposure at default (EAD). 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, is currently developing its suite of secured IRB models to be compliant with PS11/20.

The PRA guidance in relation to cyclicality in PD is expected to have a material impact and drive greater consistency across the industry. Model redevelopment is expected to increase our RWAs in 2022 and the Group is expecting its CET1 ratio to decrease by c.3% by the end of 2022, of which the majority relates to the impacts of PS11/20.

The macroeconomic environment - We have previously indicated that the ability to maintain sufficient capital resources now and in the future was dependent on the return to profitability and issuances of MREL-qualifying debt within external capital markets. Here, we highlight that the successful implementation of the Group's strategy and its return to profitability are contingent upon a range of external factors, including market conditions, the general business environment, regulation (including currently unexpected regulatory change), the activities of its competitors and consumers and the legal and political environment. All of these factors have been subject to greater uncertainty as a result of the COVID-19 pandemic.

Capital issuance - The introduction of the MREL framework in the UK requires the Group to issue additional MREL-qualifying capital to meet future requirements. The quantum, form and timing of these capital issuances will be influenced by investor appetite in an evolving economic environment as well as the Group's capital requirements which are subject to uncertainty largely as a result of the expected RWA impacts of PS11/20 and secured model development as outlined above. The 2020 MREL issuance, along with favourable financial results, continuing robustness in credit profile and external credit rating agency upgrades in 2021 have led to the Group's structured debt trading at favourable levels on the secondary market. This gives us further confidence we are well-positioned to deliver our issuance plans in 2022 to meet MREL end-state requirements and demonstrating capital resilience.

Mitigating actions:

The Group achieved profitability in 2021, which facilitates organic capital growth. Whilst this profitability is assessed to be sustainable, it is reliant on successful implementation of the Group's strategy, which is subject to significant oversight and monitoring, including by the Board. Recognising that its income profile is concentrated around interest income, the Group is committed to diversifying its income streams through 2022 and the life of the Plan. In addition, the Group expects to issue new capital in 2022 in order to meet MREL end-state requirements and provide further comfort in respect of capital adequacy.

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

Emerging risks:

Financial regulatory changes - The response to the COVID-19 pandemic has resulted in a number of immediate changes to the regulatory landscape, including reducing the Countercyclical Capital Buffer and amending the Group's Individual Capital Requirement (ICR) to a nominal amount. Alongside the change in IRB model requirements for the secured portfolio (noted above), which is well underway, one of the most significant changes to the regulatory environment is the Basel III reform, which has been delayed but remains a significant regulatory change for banks in the medium term.

Key indicators:

CET1 ratio – 2021: 20.7% (2020: 19.2%)
Total capital resources – 2021: £1,109.0m (2020: £1,110.3m)
Leverage ratio (EBA) – 2021: 3.1% (2020: 3.4%)

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. 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 seeking opportunities to diversify its income streams and yield whilst remaining cognisant of the credit implications of this approach. The SME business offers significant future growth potential and continues to be a key cornerstone of the Group's strategy. The financial health of our SME customers will be closely monitored within the context of continued economic uncertainty in 2022 and beyond. 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.

During 2020, and as a direct result of the COVID-19 pandemic, a number of measures were introduced across the different portfolios in order to support our customers, including payment deferrals and, for SME, the participation in both the Bounce-Back loan and CBILS schemes. With these measures being industry-wide, the credit performance of our customers was initially masked from both an internal and external perspective. This continued through 2021, not least as a result of government support measures such as the Coronavirus Job Retention Scheme, which provided temporary easing of the impact of the pandemic on unemployment and a challenge in undertaking affordability assessments. 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. Additionally, the Group's credit monitoring has not identified any material changes in the creditworthiness of its treasury counterparties as a result of the COVID-19 pandemic, although this will continue to be monitored closely as the impacts may materialise in the medium to long term.

Key risks in 2022 relate to the macroeconomic impacts from rising inflation and Bank interest rates. Unemployment is likely to remain low with businesses facing a challenge of recruiting in a competitive environment with increased national insurance contributions and increases in the cost of living likely to impact service ability. The annual affordability calculator refresh will incorporate these rising costs into the affordability calculation for applications. In addition, the ongoing uncertainty for many SME customers as a result of Brexit and the COVID-19 pandemic is likely to continue. These risks in turn may result in increased arrears across the portfolios, hence crystallising in increased losses to the Group.

Mitigating actions:

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

The impact of the significant measures put in place has had an uncertain impact on credit scoring of retail customers. The Group has taken a prudent approach and increased score cut-offs (minimum scores needed to be accepted) across all the residential LTV segments to manage the quality of applications and mitigate the risk of house price deterioration stemming from the economic uncertainty. In addition, the use of income received from the Coronavirus Job Retention Scheme has been under continuous review and, in line with industry standard, was no longer accepted for mortgage affordability assessments from September 2020. To further mitigate against the risk from affordability, any mortgage pipeline cases using furloughed income, along with all applications from self-employed customers, are referred to the Group's underwriting team for manual review. Re-entry into 95% LTV lending was managed through a lower risk appetite limit (compared to pre-pandemic levels), as well as 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 housing market has remained relatively buoyant in 2021, despite the end of the stamp duty moratorium which ended in September 2021.
The profile of customers making use of measures such as payment deferrals has been closely monitored, with performance feeding into future arrears forecasting. The performance of SME customers is also being closely monitored with data from the credit reference agency Experian supporting this. There are also strategies in place to identify and contact 'at risk' customers.

Emerging risks:

There is a risk that as the government's Coronavirus Job Retention Scheme (furlough) came to an end in September customers cannot sustain their payments due to unemployment. So far, the Group's secured and unsecured assets remain high quality, with arrears volumes remaining stable.

There are significant uncertainties around the requirement for buy-to-let landlords to obtain and provide Energy Performance Certificates (EPC) and impacts to properties affected by cladding risks.

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.

As anticipated, the volume of SME customers that drew down support from the Bounce-Back loan schemes and are unable to meet their payment obligations is increasing. The availability of 'Pay As You Grow' (PAYG) options provide businesses with extended support and flexibility around repayments and this will remain under close review as PAYG options expire. Aside from the Bounce-Back loans, SME customers are generally performing well within continued uncertainty as businesses adjust to a post-Brexit environment and continued impacts from COVID-19.

The Group recognises that the physical and transition risks arising from climate change represents a major source of credit risk in the medium to long term, mainly due to increased severity of damage to physical assets against which the Group secures mortgages. Asset impairment as a result of damage to property, in addition to increased demand for energy efficient and low flood risk properties and other factors may impact the Group's future profitability which in turn could create knock-on capital risk. The table under the climate change risk section on page 103 provides further examples of climate risk events manifesting, the linkage to principal risks, and consequent potential impacts on The Co-operative Bank, its customers and other stakeholders.

Key indicators:

2021 impairment charge: £1.1m (2020: £21.6m). See our Annual Report and Accounts for further information, which is published on our website.
3 months in arrears: 0.09% (2020: 0.12%)

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 2021 against regulatory minimum but also recognising the potential for changes in customer profiles and market conditions given the continued uncertainties of COVID-19. 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, continuing to grow retail and SME franchise deposits. Customer behaviours and balances have remained relatively stable despite periods of further COVID-19 restrictions and other economic factors. Trends toward demand deposits, with reduced appetite for term products, continues, reflecting both historically low interest rates and higher average balances which continue to be maintained following COVID-19.

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 2021, with no new issuances in the period and maturity of the outstanding Moorland Covered Bond notes.

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 the Group 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, the Group recognises that the continued market volatility relating to the COVID-19 pandemic and broader economic 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 the Group has made use of TFSME in 2021, reducing the reliance on external markets. The Group recognises the potential for uncertainty in customer behaviour as COVID-19 measures are unwound and the economic situation evolves, considering such risks in its management of liquidity resources.

Key indicators:
Loan to deposit ratio: 99.1%(2020: 91.6%). The Group's loan to deposit ratio has increased in 2021 as the Group has drawn down on TFSME funding to support positive net lending to our customers.
Primary liquidity resources: £5,924.0m (2020: £4,099.4m). Increased primary liquidity resources include TFSME drawings.
Liquidity Coverage Ratio: 241.8% (2020: 193.4%). LCR maintained significantly above regulatory minimum, including TFSME drawings.

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 between the profiles of customer assets and deposit liabilities. This risk has continued to be impacted as a result of the COVID-19 pandemic, including the extended stamp duty moratorium as well as underlying economic uncertainties. Market conditions, with historically low interest rates through 2021 but increasing uncertainty as to future base rate rises, have presented challenging conditions in which to manage the Group's market risk exposures. In addition, the Group has continued to progress LIBOR to SONIA transition requirements.

Mitigating actions:
The Group has a clear market risk framework with risk appetite 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 possible, as well as use of derivative instruments (interest rate swaps). The framework has provided a structure in 2021 to adapt to changing conditions and continue 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 ongoing COVID-19 developments and the broader economic outlook and rate environment. Specific risks to be managed include the final activities to complete SONIA transition, customer behaviours across lending products, but particularly with respect to customer repayment options on Bounce-Back loans, mortgage prepayment rates, as well as mortgage market conditions and pipeline risk as the impact of the stamp duty moratorium unwinds and mortgage markets and performance respond to underlying economic conditions 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. More information is available in our Annual Report and Accounts, which is available on our website.

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 with EAD and LGD models submitted and PD model submission scheduled for June 2022. Capital risk implications of major regulatory changes are covered in the capital risk section on pages 94 to 95. The Group has initiated a model remediation programme which incorporates a detailed milestone plan for the development. Following PRA approval of the credit card models in November 2021, the redeveloped current account and credit card models are in the process of being implemented. A proposed model development for the unsecured retail models in 2022 is now paused following the PRA update of the IRB roadmap wave 4 submission timeline, now in line with 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 and this remained so in 2021 as the macroeconomic environment improved. In addition, the effects of the COVID-19 pandemic on the suppression of defaults, with the possibility of defaults increasing following the withdrawal of government support schemes, still has the potential to impact on the performance of key models. IFRS 9 model development activity will proceed in 2022 with a rebuild of the credit card PD model the key priority.

Finally, as part of the Group's close consideration of climate change risks as part of its ongoing strategic planning exercises in 2021 (described in more detail in section 1.9), the Group has committed to a proportionate scenario analysis of the financial risks arising from climate change, and has therefore engaged with an external party to develop an in-house 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 and inclusion as part of future financial planning, risk monitoring, product development and ICAAP cycles. The Group will continue to embed this modelling capability in 2022 and provide oversight of the methodology and outputs through its robust model governance framework.

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 post-model adjustments (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 temporary model adjustments (TMAs) where required.

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 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 triennial valuations, as at 2019 and 2020 respectively. The Group continues to assess the funding and accounting positions of both schemes, including impacts of COVID-19, 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 the valuation on either basis, in particular as a result of changes to market

and economic conditions and longer lives of members. Risks may also arise due to volatility in the valuation of scheme investments. The Group remains cognisant of the potential future impact of climate-related physical or transition risks on pension asset valuations. 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 investment strategies employed by both of the Group's defined benefit schemes, together with high levels of interest rate and inflation protection through hedging strategies, are considered to go some way to mitigating the overall risk to the funding levels of the schemes posed by climate change.

There is also a risk that the Group's covenant weakens, potentially resulting in a perceived deterioration in scheme funding and a request from the Trustee for additional cash contributions. In addition, there is a risk that the Trustee seeks to fully insure the scheme's liabilities with a third party insurance company. Such a transaction would usually involve payment of a single insurance premium met from the scheme's own assets and, in some cases, an additional contribution from the corporate sponsor. Such a contribution would give rise to an immediate erosion of CET1 resources of an equivalent amount. Under the Payment Agreement relating to the Pace escrow account, the Trustee is not entitled to request a cash contribution for this purpose until March 2023 at the earliest, following which time the amount the Trustee is entitled to request is a maximum of £45.0m, rising to £75.0m by 2027. For further information refer to note 30 to the Group and Bank consolidated financial statements.

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

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

REPUTATIONAL RISK

Definition:
Reputational risk is the risk of damage to the 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 the Group's Plan that reputational risks are identified, managed and mitigated. The Group continued to maintain a strong 'customer first' culture in 2021, responding to our customers' needs during the COVID-19 pandemic with branches remaining open and the introduction of an agile governance structure enabling safe customer-focussed decisions to be made quickly.

In 2021 the Group's unwavering commitment to co-operative values and ethics and its unique customer-led Ethical Policy have made it a natural leader in environmental and social issues today. The Group has been recognised as the UK's best ESG rated high street bank by leading experts, Sustainalytics – with an ESG risk score of just 9.2. This scoring officially cements our long-standing commitment to our co-operative values[1]. The Group recognises the importance of maintaining its market-leading ESG position, particularly in respect to the intrinsic link this has to the Ethical Policy and the importance of both concepts to our customers. We will continue to champion the commitments to our Ethical Policy and drive our credentials within the developing ESG frameworks in 2022.

Assessing the Group's future risk profile in relation to climate change risks is challenging due to the dependency on a significant number of variables, some of which are known and some which are uncertain or unknown at this point. What is clear is that there is significant reputational risk that could arise from actions by colleagues, customers, suppliers and other key stakeholders not meeting the Group's standards in relation to the climate agenda. At the same time potential for reputational risk will continue to increase as additional climate-related regulatory requirements and reporting obligations come into force. The Group will continue to assess its own environmental impact, further enhance and improve its commitment to protect the environment and closely monitor its regulatory requirements and reporting obligation with respect to climate change.

The Group continues to use the 'co-operative' name as the Group adheres to and supports the co-operative movement. 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 £1.7m 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.

The impact of the COVID-19 pandemic has continued in 2021 and the banking industry has transitioned to 'business as usual' as temporary financial measures ceased. This represented a key area of focus and throughout the pandemic the Group has maintained effective communications and dialogue with all of its customers and regulators.

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] https://www.co-operativebank.co.uk/assets/pdf/bank/investorrelations/The-Co-operative-Bank-ESG-Rating-by-Sustainalytics.pdf

1.9 Climate change risk

Introduction:

The Group has been committed to tackling climate change since the inception of our Ethical Policy in 1992, as we remain focussed on safeguarding the environment both now and in the future. Across the industry, banks are taking action to ensure that we are all able to support the global transition towards a low-carbon economy. The PRA expects firms to consider how climate-related risks might impact all aspects of their risk profiles and take action in specific areas, as set out in PS11/19 and SS3/19 (Enhancing banks' and insurers' approaches to managing the financial risks from climate change) and be able to evidence this by December 2021.

Definition

Climate change presents a real risk to the global economy, with the financial impacts of climate change arising through two main sources: i) physical risks and ii) transition risks. The table on page 103 provides details of the principal risks that the Group has considered against the physical and transition risks arising from the climate change.

i. Physical risks arise from both acute and chronic shifts in climate patterns, which can lead to damage to assets, business disruption and changes in individuals' health and incomes, driving financial losses and impaired asset values. For banks, these could manifest themselves primarily as credit, market, operational and reputational risks. The Group has assessed the risks of exposure to flooding, subsidence and coastal erosion in the mortgage portfolio at a fixed point in time (further details are published in our Annual Report and Accounts, which is available to view on our website).

ii. Transition risks relate to the risk of loss in the transition to a low carbon economy. This is influenced by factors such as regulation, legislation and guidelines to reduce the impact or level of climate change, as well as developments in technology and changing consumer and market sentiment. These may drive changes in the value of assets and liabilities for banks and insurers, increase the cost of business for SMEs and result in changes to consumer spending habits which could have a material impact on the profitability of certain industries. There is also the risk of climate-related lawsuits, which could impact firms and/or customers. As with physical risks, the Group has used a point-in-time assessment to understand the energy performance of the properties in the mortgage portfolio (further details are published in our Annual Report and Accounts, which is available to view on our website).

In 2021, the Group has also developed a model for assessing the impact of the physical and transition risks of climate change across its mortgage portfolio, with quantitative methods also considered for assessing risks to its corporate and unsecured retail portfolios. Further details are published in our Annual Report and Accounts, which is available to view on our website.

Our approach to climate change risk

Key steps taken to date

The Group completed a number of actions across 2020 and 2021 to embed the understanding and mitigation of climate change risks across the organisation. In our 2020 Annual Report and Accounts, we shared details of the actions taken to that point, including:

- Assigning the Chief Risk Officer SMF responsibility for climate change risk, which includes performing the initial risk assessment and oversight of the formulation and delivery of plans to identify and address the financial impacts of climate change; and
- Establishing a Climate Change Working Group, made up of representatives from across the business, firstly to ensure a common understanding of how climate-related risks might impact all aspects of the Group's risk profile and secondly to ensure a comprehensive implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The working group has established four key workstreams: governance and strategy, risk management, scenario analysis and disclosures.

Details of how the Group has continued to embed climate change risk through the four key workstreams in 2021 are below.

Governance and strategy

The Group recognises that ensuring climate change risks are embedded across the Group's governance framework is critical to supporting climate-conscious decision-making. The Group has provided training to the Board, Executive team and senior management teams to build awareness and understanding of climate change risks, including the potential impact of these risks. More information can be found within our Annual Report and Accounts, which has been made available on our website.

The Group has considered climate change opportunities and risks as part of its strategic planning exercises in 2021, in the context of its broader ESG strategy. We have targeted programmes in place to reduce the environmental impacts of our operations including recycling a greater proportion of operational waste with zero waste to landfill, reducing our operational greenhouse gas emissions intensity ratio and sourcing 100% electricity from renewable sources as well as focussing on maintaining our carbon neutrality. The Group will continue to support environmental campaigns and add its voice to calls to address the climate and ecological emergency.

Other strategic considerations include product development and diversification in retail and supporting our SME customers to promote a healthy environment whilst recognising the need to mitigate the financial risks arising from climate change through continuous 'greening' of the balance sheet.

Risk management

Climate change risk has been assessed in the context of the Group's current suite of principal risks, as well as the wider Risk Management Framework. Whilst climate change risk has its own definition and risk appetite statement, in 2020, it was decided to establish climate change as a 'thematic risk', in order to ensure that it was holistically embedded across the RMF and integrated through the Group's current suite of principal risks. This decision was reviewed and reconfirmed in 2021. 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.

To this effect, each principal risk in the Group was assessed for sources of physical and transition risk factors through dedicated risk framework owner review. For absolute clarity, risk framework owners were asked to confirm whether climate change has an impact on their principal risk-type or provide rationale for why it does not. Impacted principal risk policies and control standards were then refreshed to reflect any climate change risks identified. The Group has also assessed its exposure to climate change risk as part of the 2021 Internal Capital Adequacy Assessment Process, to understand whether the impacts to its principal risks should be capitalised. The 2022 Internal Capital Adequacy Assessment Process will further build upon this assessment, with greater emphasis placed upon the quantitative elements.

The Group monitors emerging risks (including climate change risk) as part of the Group Risk Report, which is produced by the risk function and is reviewed and challenged by both the EROC and the RC. Climate change risk is also monitored through the Climate Change Working Group, as well as 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. Exercises such as the annual ICAAP provide further opportunities for the Group to conduct strategic risk assessments relating to climate change risk and assist materiality determinations.

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 Executive, prioritised and tracked through to compliance with oversight provided by the Climate Change Working Group, Risk Oversight and EROC. The Group's Director, 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 and continues to evidence compliance with the prevailing regulations.

Scenario analysis

The Group has 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. Further details of these two components of the scenario analysis workstream are outlined below.

a) Static assessment results:

This 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 this assessment is split in two parts: physical and transition risks.

i) Physical risks

The assessment has 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.

ii. Transition risks

The assessment has 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.

b) Modelled solution:

The Group has committed to a proportionate scenario analysis of the financial risks arising from climate change, and has therefore engaged with an external party to develop an in-house modelled solution for assessing these risks across its retail secured portfolio, for ongoing assessment and inclusion as part of future financial planning, risk monitoring, product development and ICAAP cycles. The Group also considered developing modelled solutions for its other core customer lending portfolios (retail unsecured and SME); however, it was decided that this should be reconsidered at a future date as the Group's exposure across these two portfolios grows, with a focus on the Group's largest portfolio (retail secured). For the purposes of the 2022 ICAAP, a non-modelled quantitative assessment will be considered to assess the Group's exposure to climate change risk in its other portfolios.

The model developed for retail secured is used to assess the impacts of different climate change scenarios on credit losses, capturing both physical and transition climate risks. This allows the Group to demonstrate compliance with the requirements of the PRA's Supervisory Statement 3/19 and is largely aligned to the requirements of the Climate Biennial Exploratory Scenario 2021 exercise by the BoE ('CBES'). The analysis covers the residential mortgages within the secured portfolio (direct, Platform residential and Platform buy-to-let) and are based on the three climate scenarios from the BoE and guidance issued by the BoE as part of CBES, outlined below:

- Early policy action – the transition to a carbon-neutral economy starts early so is more gradual and moderate. The Paris Agreement target of global warming staying below 2°C is met.
- Late policy action – the global climate goal is met but the transition is delayed until 2030 and must be more sudden to compensate.
- No additional policy action – no policy action beyond that which has already been enacted is delivered, leading to severe physical risks.

The scenario assessment process includes the consideration of a number of macroeconomic variables, including GDP, HPI and unemployment, as well as the appropriate physical and transition risks which are aligned to the 2021 CBES guidance issued by the BoE.

The Group will continue to embed its modelling capability in 2022, with the outputs of these models to be included in the 2022 ICAAP, to provide an assessment of the impact of climate change risk on the residential secured portfolio. The Group will also seek ways to build out its own internal non-modelled quantitative assessments of its exposures to climate change risk in its other lending portfolios, and revaluate the merits of a modelled solution, particularly with respect to SME and corporate lending. Quantitative impacts of the outputs of the scenario analysis will be reviewed by the Climate Change Working Group and, with consideration of the materiality of the risk posed, used to inform future strategic initiatives at the Group.

Climate-related disclosures

The Group has recognised the importance of ensuring that accountability for its own management of climate change risk is clearly defined through its climate-related objectives and performance against those objectives. The Group is also committed to ensuring the public disclosure of this performance to re-enforce this accountability. Furthermore, for 2022, part of Executive remuneration will be measured against the Group's ESG performance, ensuring that climate change risk is considered alongside financial and risk management metrics. Further detail about changes to the Group-wide scorecard to reflect ESG performance can be found in the Directors' Report on remuneration to the shareholder in the Annual Report and Accounts, which is available on our website.

Climate-related objectives

The Group introduced and clearly defined these goals as part of its 2020 Sustainability Report, with further progression outlined in the 2021 Sustainability Report. Historically, the Group has issued its Values & Ethics Report to share details of its ESG credentials (and by extension its climate-related actions).

The Group has set a number of targets as part of its ongoing strategic planning process, into which the Group's ESG and climate-related objectives are now embedded. A summarised view of these targets is provided in our strategic report and our full Sustainability Report for 2021, which is available on the Bank's website.

Work remains ongoing to continue to build additional metrics and monitoring of climate change risks. This work includes, but is not limited to:

- Embedding climate change risk within the Group's suite of risk metrics and tolerances (including Board and EROC Risk Appetite Metrics), e.g. in 2021, the Group's Asset and Liability Committee agreed that the Group should set itself a minimum requirement for the ESG ratings assigned to its treasury counterparties and, where no rating is available, the counterparty would be considered a 'high' ESG risk (except for sovereign exposure);
- 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; and
- Further develop climate change risk within the Group's governance framework, to ensure decisions at all levels consider the impact on the climate and senior management, the Executive team and the Board are incentivised to tackle climate change risk.

END

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements with respect to the business, strategy and plans of the Group (including its updated long-term forecast) and its current targets, goals and expectations relating to its future financial condition and performance, developments and/or prospects. In particular, it includes, but is not limited to, targets under the summary section of this presentation and the "Outlook" section of the key highlights, and outlook section of the Chief Executive's review in the annual report and accounts. Forward looking statements sometimes can be identified by the use of words such as 'may', 'will', 'seek', 'continue', 'aim', 'anticipate', 'target', 'projected', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'achieve', 'predict', 'should' or in each case, by 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 future financial position of the Group and its commitment to its plan and other statements that are not historical facts, including statements about the Group or its directors' and/or management's beliefs and expectations. Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant stated or implied assumptions and subjective judgements, which may or may not prove to be correct. There can be no assurance that any of the matters set out in forward-looking statements are attainable, will actually occur, will be realised, or are complete or accurate. Past performance is not necessarily indicative of future results. Differences between past performance and actual results may be material and adverse.

For these reasons, recipients should not place reliance on, and are cautioned about relying on, forward–looking statements as actual achievements, financial condition, results 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, uncertainties and contingencies because they are based on current plans, estimates, targets, projections, views and assumptions and are subject to inherent risks, uncertainties and other factors both external and internal relating to the Group's plan, strategy or operations, many of which are beyond the control of the Group, which may result in it not being able 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. No representations or warranties, expressed or implied, are given by or on behalf of the Group as to the achievement or reasonableness of any projections, estimates, forecasts, targets, prospects or returns contained herein. Accordingly, undue reliance should not be placed on forward-looking statements.

Any forward-looking statements made in this document speak only as of the date of this document and it should not be assumed that these statements have been or will be revised or updated in the light of new information or future events and circumstances arising after today. The Group expressly disclaims any obligation or undertaking to provide or release publicly any updates or revisions to any forward-looking statements contained in this document as a result of new information or to reflect any change in the expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based, except as required under applicable law or regulation.