The Co-operative Bank Holdings Ltd and The Co-operative Bank p.l.c.

# Pillar 3 Disclosures 2021

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The glossary for this document can be found at  $\underline{www.co-operative bank.co.uk/investor relations/financial results}$ 

#### 1. OVERVIEW

#### 1.1 Background

The Co-operative Bank Holdings Limited (Holding Company) owns 100% of The Co-operative Bank Finance p.l.c. (Finance Company) which owns 100% of The Co-operative Bank p.l.c. (Bank Company). The Pillar 3 disclosures as at 31 December 2021 have been prepared on a basis to cover the reporting requirements for both the fully consolidated Holding Company and its controlled entities (Group) and Bank Company on an individual entity basis. The main part of the document covers the reporting requirements of the Group. Where reference is made to the Bank this reflects the activities of the Bank and Group collectively, unless otherwise stated. Appendix 2 specifically covers the Bank Company individual entity reporting.

These disclosures have been prepared to give information on the basis of calculating capital requirements and on the management of risks faced by the Group in accordance with the rules laid out in the Capital Requirements Regulation (Part Eight) unless otherwise stated and should be read in conjunction with the Group and Bank's combined 2021 Annual Report and Accounts (ARA) and in particular the risk management section. This is available on the Investor Relations section of the Bank's website: <a href="https://www.co-operativebank.co.uk/investorrelations/financialresults">www.co-operativebank.co.uk/investorrelations/financialresults</a>

The European Union Capital Requirements Directive (CRD) came into effect on 1 January 2007. Commonly referred to as Basel II, the legislative framework introduced capital adequacy standards and an associated supervisory framework in the European Union (EU). This was replaced by the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (together collectively known as CRD IV) which came into force on 1 January 2014. CRD IV disclosures in this and related documents are based on the Bank's interpretation of final published rules, including related European Banking Authority (EBA) technical standards.

In the UK, implementation of the Directive has been through rules introduced by the Prudential Regulation Authority (PRA). These are known as Pillar 3 disclosures because they complement the minimum capital requirements in Pillar 1 and the supervisory review process in Individual Capital Requirements (ICR) and capital buffers. The Pillar 3 disclosures are aimed at promoting market discipline by providing information on risk exposures and the management of those risks. The Group is neither a Globally Systemically Important Institution (G-SII) nor an Other Systemically Important Institution (O-SII) so it has not adopted the additional Guidelines that apply to these larger organisations.

# 1.2 Basis and frequency of disclosures

In meeting these disclosure requirements, recommendations made by the Enhanced Disclosure Task Force (EDTF) which seeks to give enhanced information above and beyond the minimum Pillar 3 disclosure requirements have been considered.

Basel III was implemented in the UK from 1 January 2014, through both CRD IV and through the PRA's policy statement PS7/13 www.bankofengland.co.uk/prudential-regulation/publication/2013/strengthening-capital-standards-implementing-crd-4. The term CRD IV is used throughout these disclosures as a collective term for CRD IV, CRR and the PRA's policy statement.

These disclosures may differ from similar information in the 2021 Annual Report and Accounts prepared in accordance with International Financial Reporting Standards (IFRS), with the information included in Pillar 3 being prepared in accordance with CRD IV; the information in these disclosures may therefore not be directly comparable with that information. All figures are as at 31 December 2021 unless otherwise stated.

Full disclosures are issued on an annual basis and published on the same day as publication of the Annual Report and Accounts.

#### 1.3 Location and verification

This report was prepared and approved in line with the Group's Pillar 3 policy, which is updated on a yearly basis. No significant changes have been made to the Pillar 3 policy compared to the prior year.

Internal suppliers of data attest to its accuracy and at the same time, consistency checks and reconciliations were performed with the 2021 Annual Report and Accounts and regulatory returns where applicable. The disclosures have been subject to internal verification and reviewed by the Audit Committee on behalf of the Board but have not been, and are not required to be, subject to independent external audit. The Pillar 3 report is published on the Bank's website: <a href="https://www.co-operativebank.co.uk/investorrelations/financialresults">www.co-operativebank.co.uk/investorrelations/financialresults</a>

# 1.4 Scope of disclosure

The Pillar 3 disclosures in this document relate to the Group, apart from Appendix 2 which sets out the disclosures required for the Bank Company on an individual basis (it should also be noted that the Bank Company is also required to report on Capital Buffers, Remuneration Policy and Credit Risk Mitigation (CRM); however these disclosures are the same for both the consolidated Group and the individual Bank Company, so the relevant sections should be read as applicable to both). Regulatory returns are made at both a consolidated Group level and an individual Bank Company level under the Bank Company's PRA firm reference number (121885).

#### 1.5 Non-disclosure

In accordance with EBA guidelines on materiality, proprietary and confidentiality and on disclosure frequency, the following disclosures have not been included on the grounds that the Group considers them to be immaterial:

- CRR Article 442(d), (h) split of geographical exposures. The Group's exposures are predominantly within the UK and therefore the geographical split has not been disclosed;
- CRR Article 447 regarding equity disclosures (Exposure At Default (EAD) of £22.8m as at 31 December 2021 and £22.1m as at 31 December 2020). Further details of the Equity holding can be found in Note 17 and 35 of the 2021 ARA and relates mainly to one significant holding of Visa International preference shares.

No disclosures have been omitted on the grounds of proprietary or confidential information.

#### 1.6 Pillar 3 requirements disclosed in the 2021 Annual Report and Accounts

# 1.6.1 Management body recruitment (Article 435 (2) (a-c))

The number of directorships held by members of the management body, their actual knowledge, skills and expertise have been disclosed in the 2021 Annual Report and Accounts, corporate governance section, while the policy on diversity with regard to selection of members of the management body and recruitment policy has been disclosed in the 2021 Annual Report and Accounts, Nomination Committee report.

## 1.6.2 Risk governance and information flow (Article 435 (2) (d-e))

Details of the number of times the Risk Committee has met in the year have been disclosed in the 2021 Annual Report and Accounts, corporate governance report, and an overview of the committee structure that facilitates information flow on risk to the management body has been disclosed in the 2021 Annual Report and Accounts, risk management section (1.7 governance).

#### 1.6.3 Remuneration (Article 450)

Disclosures on remuneration to satisfy the requirements of CRD IV and the PRA Remuneration Code have been set out in the 2021 Annual Report and Accounts, Directors' report on remuneration.

#### 1.7 Regulatory position

The Total Capital Requirement (TCR) requirement from the PRA sets out the Group's capital requirements, these being:

- a Pillar 1 requirement equivalent to 8.0% of total Risk Weighted Assets (RWAs); and
- an Individual Capital Requirement (ICR) equivalent to 6.1% of total RWAs (for a combined 14.1% of total RWAs).

The TCR requirement of 14.1% is required to be met by a minimum 10.6% of CET1 capital resources, in the absence on additional Tier 1 capital, and a maximum of 3.5% Tier 2 capital resources.

In addition to the TCR requirement, the Group has a CRD IV buffer requirement of 2.5 % of RWAs or £109.3m above the TCR amount. The Group has a surplus to its TCR plus CRD IV buffer, however remains in a deficit position to its total capital buffers.

The Group has a surplus to its Minimum Requirements for own funds and Eligible Liabilities (MREL) requirement which is £400m above TCR and to the 2.5 % buffer requirement.

There are no current or foreseen material restrictions or legal impediments to the movement of capital or to the repayment of liabilities between UK based consolidated entities, with the exception of:

- Securitisation vehicles and covered bond LLP with assets being ring-fenced within such entities; and
- FCA-regulated entities where minimum capital requirements apply.

## 1.8 Summary of key capital ratios

Key capital ratios are included below:

Table 1 - CRD IV key capital ratios

	2021	2020
Common Equity Tier 1 ratio	20.7%	19.2%
Total capital ratio	25.4%	23.7 %
Risk Weighted Assets (£m)	4,373.4	4,683.7
Leverage ratio (EBA basis)	3.1%	3.4%

Further details on capital and leverage positions can be found in section 3 of this document.

#### 2. CHANGES TO DISCLOSURES

No new sections have been included in the main Pillar 3 document. There is no requirement to show the IFRS 9 transitional table in 2021 as the value is £nil (there was only a £1m minimal movement in 2020, which did not impact key ratios).

#### 3. CAPITAL ADEQUACY

# 3.1 Assessing the adequacy of internal capital

Capital resources are held to protect depositors, to cover inherent risks, to absorb unexpected losses, and to support the development of the business. The Group manages and calculates its capital adequacy in accordance with CRD IV.

Financial planning and stress testing are used to assess capital adequacy within:

- The financial planning process;
- The ICAAP; and
- Forecasting exercises.

The financial planning process is completed annually, with regular updates throughout the year to assess capital resources and requirements on a forward-looking basis. This process takes into consideration strategic direction and its impact on both resources and requirements.

The ICAAP has historically been completed annually, analysing the major drivers of risks to the business and the amounts and types of capital that should be held to ensure that the Group is able to continue to meet its liabilities as they fall due.

Stress testing is embedded within the financial planning process, with stressed scenarios and sensitivities applied to the latest forecasts at least on an annual basis or more frequently where required. This enables senior management and the Board to assess the latest plan or forecast under adverse scenarios to ensure the Group remains within risk appetite. Where outcomes fall outside of risk appetite, either management actions are identified and embedded to bring the position back within the risk appetite, or the risk is accepted.

## 3.2 Capital adequacy

Compliance with Pillar 1, ICR and capital buffers plus MREL requirements is discussed in section 1.7 Regulatory position.

The Group's total capital ratio has increased to 25.4% (2020: 23.7%) as at 31 December 2021, alongside the CET1 ratio increasing to 20.7% (2020: 19.2%) whilst the leverage ratio has declined to 3.1% (2020: 3.4%). The total capital ratio and CET1 ratio have been driven by lower Risk Weighted Assets (see table 8). The leverage ratio decline has been predominantly driven by higher exposures.

The current regulatory treatment of software intangibles will be reversed from the 1 January 2022. Therefore, for internal management and planning purposes the full deduction of intangible resources has been made, reversing the partial deduction made under the EBA rules introduced in 2020. Under this basis, the total capital ratio decreases by 0.7%, CET1 by 0.6% and the leverage ratio by 0.2%.

The leverage ratio basis of calculation is being updated in 2022 to exclude balances with Bank of England reserve. Under this basis the leverage ratio moves to 3.8 % and 3.6 % when the full deduction of the intangible software is made.

The Group is not currently subject to a minimum leverage ratio requirement as it has retail deposit levels below £50bn, the threshold at which it becomes a binding requirement.

Total RWAs have declined by £310.3m from £4,683.7m in 2020 to £4,373.4 in 2021. See table 8 for further details.

#### 3.2.1 MREL requirements

The Group has MREL-qualified resources of £1,308.9m with a surplus over the interim MREL requirement.

The end-state MREL requirements for mid-tier banks, which includes the Group, are from the 1 January 2023. End-state MREL requirements for the banking sector have been confirmed as 2 x TCR plus the CRD IV. The Group continues to evaluate our MREL issuance schedule to optimise the delivery of our strategic commitments in combination with our organically generated capital.

# 3.3 Capital ratios

Table 2 - Capital ratios

Table 2 - Capital Tatios		
	2021	2020
Common Equity Tier 1 ratio	20.7%	19.2%
Tier 1 ratio	20.7%	19.2%
Total capital ratio	25.4%	23.7 %

For Pillar 1 capital requirements, the minimum CET1 ratio is 4.5%, minimum Tier 1 (T1) ratio is 6.0% and minimum total capital ratio is 8.0%, all of which the Group is in excess of at 31 December 2021. The Group has £200m of Tier 2 (T2) capital

in issue as at 31 December 2021 and meets its minimum total capital ratio of 8.0% requirement out of CET1 and Tier 2 resources.

#### 3.4 Capital buffers

The Group is not classified as a Global Systemically Important Institution (G-SII), and hence does not have a requirement to hold a G-SII buffer. The Group is also not defined as an Other Systemically Important Institution (O-SII) by the PRA and hence does not have a requirement to hold an O-SII buffer; furthermore HM Treasury has also confirmed that it will set the UK O-SII buffer at 0%.

The capital conservation buffer introduced from 1 January 2016 is now at its final requirement of 2.5 %.

The Group is required to calculate its institution-specific countercyclical buffer (CCyB) dependent upon the geographic location of obligors. The European Commission published a regulatory technical standard (EU Regulation No 1152/2014) in 2014 to define the location of obligor. Under this methodology, the Group's exposures can all be classified as UK. The UK countercyclical buffer rate is therefore directly applicable to the Group. The rate at 31 December 2021 was 0.0 % (2020: 0.0 %) following its reduction in 2020. The rate will increase to 1.0 % from December 2022.

The table below shows the countercyclical capital buffer requirement, referenced to exposures calculated under the standardised approach (SA) and the internal ratings based approach (IRB).

Table 3 - Countercyclical capital buffer

	- country on	on capitani									
2021	Gei 	General credit exposures		Trading book exposures			vn funds requirement - Of which exposures:				
Country:	SA £m	IRB £m	SA £m	Internal models £m	SA £m	General credit £m	Trading book £m	Securi- tisation £m	Total £m		CCyB %
	All individual c	ountries gre	ater than o	r equal to 2	% own fund:	s requireme	nt weightir	ng			
UK	944.5	22,655.6	-	-	106.6	298.9	-	8.2	307.1	100%	0%
Total	944.5	22,655.6	-	-	106.6	298.9	-	8.2	307.1	100%	0%

2020		eral credit exposures		ding book exposures	Banking book	Own funds requirement - Of which exposures:					
Country:	SA £m	IRB £m	SA £m	Internal models £m	SA £m	General credit £m	Trading book £m	Securi- tisation £m	Total £m	Own funds weight %	ССуВ %
	All individual co	untries greate	r than or e	qual to 2% o	own funds re	equirement	weighting				
UK	944.0	21,046.1	-	-	80.9	318.4	-	9.6	328.0	100%	0%
Total	944.0	21,046.1	-	-	80.9	318.4	-	9.6	328.0	100%	0%

Amount of institution specific countercyclical capital buffer	2021	2020
Total risk exposure	4,373.4	4,683.7
Countercyclical buffer rate	0.0%	0.0 %
Countercyclical buffer requirement	0.0	0.0

#### 3.5 Capital resources

The following table shows the capital resources of the Group.

Table 4 - Total capital resources

	2021 £m	2020 £m
Common Equity Tier 1 (CET1): instruments and reserves	£m	£M
Permanent share capital and the related share premium account	314.7	314.7
·	1,748.7	
Retained earnings <sup>3</sup>		(1,314.5)
Fair value through other comprehensive income, available for sale and cash flow hedge reserves	17.6	27.3
Defined benefit pension reserve	485.0	395.1
Other reserves <sup>1,3</sup>	(1,011.4)	2,147.5
Independently reviewed profits net of any foreseeable charge or dividend	197.3	-
CET1 before regulatory adjustments	1,751.9	1,570.1
CET1: regulatory adjustments		
Prudent valuation	(1.7)	(1.9)
Intangible assets (net of related tax liability)	(34.3)	(28.1)
Defined benefit pension asset net of associated deferred tax liabilities	(563.6)	(475.8)
Deferred tax assets not arising from temporary differences	(181.4)	(33.3)
Cash flow hedge reserves	(14.7)	(22.5)
Expected loss shortfall	(9.9)	-
Deductible deferred tax assets that rely on future profitability and arise from temporary differences	(39.5)	(13.7)
Adjustments due to IFRS 9 transitional arrangements	-	1.2
Losses for the year	-	(95.7)
Total regulatory adjustments to CET1	(845.1)	(669.8)
CET1	906.8	900.3
Total AT1 capital		
Total Tier 1 capital (T1 = CET1 +AT1)	906.8	900.3
Tier 2 (T2) capital: instruments and provisions		
Capital instruments <sup>2</sup>	202.2	208.8
Credit risk adjustments	- 202.2	1.2
T2 capital before regulatory adjustments	202.2	210.0
Tabel and determined in the control of the control		
Total regulatory adjustments to T2 capital		
T2 capital	202.2	210.0
Total capital (TC = T1 + T2)	1,109.0	1,110.3

<sup>1.</sup> Other reserves include the capital redemption reserve and capital re-organisation reserve created as a result of the Group's liability management exercise in 2013 and the Restructuring and Recapitalisation in 2017 respectively. The capital re-organisation reserve reflects the difference in the consideration paid by the Holding Company for the Bank and the share capital and share premium held by the Bank.

<sup>2.</sup> The Bank issued £200m of Tier 2 debt in 2019 through The Co-operative Bank Finance p.l.c. The additional capital is from accrued interest and the underlying carrying value of the instrument, which have decreased year-on-year.

3. During the year, the Group reorganised its reserves via a court-approved capital reduction, which resulted in the transfer of certain non-distributable reserves

<sup>3.</sup> During the year, the Group reorganised its reserves via a court-approved capital reduction, which resulted in the transfer of certain non-distributable reserves to retained earnings within the Bank Company and the Finance Company. The Group's overall equity was unaffected by the reserve reorganisation, but the Group and Bank Company now have positive distributable retained earnings which gives the Group great flexibility with regards to its future capital strategy.

**Table 5 - Movement in capital resources during the year**The following table is a flow statement of movements in the Group's available capital resources detailing the change between opening and closing position for the year.

	2021 £m	2020 £m
CET1 capital after regulatory adjustments at the beginning of the year	900.3	939.6
Retained earnings	3,158.9	757.0
Capital redemption and re-organisation reserve	(3,158.9)	
Profit/(loss for the year)	197.3	(95.7)
Defined benefit pension reserve	2.1	(6.5)
Deferred tax assets not arising from temporary differences	(148.1)	4.8
	• • • • • • • • • • • • • • • • • • • •	
Deductible deferred tax assets that rely on future profitability and arise from temporary differences	(25.8)	(13.7)
Intangible assets	(6.2)	47.2
Available for sale and cash flow hedge reserves	(1.9)	0.7
Expected loss shortfall	(9.9)	22.4
Prudent valuation	0.2	0.3
Adjustments due to IFRS 9 transitional arrangements	(1.2)	1.2
CET1 capital after regulatory adjustments at the end of year	906.8	900.3
Total AT1 capital after regulatory adjustments at the end of year	-	
Total Tier 1 after regulatory adjustments at the end of year	906.8	900.3
T2 capital after regulatory adjustments at the beginning of the year	210.0	205.3
Paid up capital instruments and subordinated loans	(6.6)	4.6
IRB excess of provisions over expected losses eligible	(1.2)	0.1
T2 capital after regulatory adjustments at the end of year	202.2	210.0
Total capital resources at the end of year	1,109.0	1,110.3

Table 6 - Reconciliation of capital resources to statutory balance sheet

Table 6 - Rec	onciliation	n of capital resources	to statutor				MDEL			
	Balance		Regulatory	Cash flow	Defined		MREL ineligible			
Balance	per		balance			Expected		Intangible		Capital
sheet	accounts	Regulatory	treatment	reserve		losses		deduction	PruVal	resources
presentation	£m		£m	£m	£m	£m	£m	£m	£m	£m
		Equity								
Ordinary		Paid up capital								
share capital	0.9	instruments	0.9	-	-	-	-	-	-	0.9
Share										
premium	313.8	Share premium	313.8	-	-	-	-	-	-	313.8
account										
Retained	1,946.0	Retained earnings	1,748.7	-	-	-	-	-	-	.,
earnings	.,	Net profit for the year	197.3		-	-	-	-	-	197.3
FVOCI	2.9	FVOCI reserve	2.9	_	-	_	-	-	-	2.9
reserve Cash flow										
hedging	14.7	Cash flow hedging	14.7	(14.7)	_	_	_	_	_	_
reserve	1-7.7	reserve	1-1.7	(17.7)						
Defined										
benefit	485.0	Defined benefit	485.0		(562.6)					(78.6)
pension	465.0	pension reserve	463.0	-	(563.6)	-	-	-	•	(76.0)
reserve										
Capital										
redemption	-									
reserve		Other reserves	(1,011.4)		-	-	-	-	-	(1,011.4)
Capital re-	(4.044.1)		, , , , ,							,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
organisation	(1,011.4)									
reserve		<b>T.</b> 1	1,751.9	(1/, 7)	(563.6)					1,173.6
		Total equity	1,731.9	(14.7)	(303.0)	-	-	-	-	1,173.0
0.1		Non-equity								
Other borrowed	402.1	Canital instruments	402.1				(199.9)			202.2
funds	402.1	Capital instruments	402.1	-	-	-	(133.3)	-	-	202.2
Intangible		Intangible assets (net	/							
assets	(68.5)	of related tax liability)	(68.5)	-	-	-	-	34.2	-	(34.3)
Deferred tour		Deferred tax assets								
Deferred tax	36.8	not arising from	36.8	-	(218.2)	-	-	-	-	(181.4)
assets		temporary differences								
		Deductible deferred								
		tax assets (depend on			/·					
		future profitability).	-	-	(39.5)	-	-	-	-	(39.5)
		Arise from temporary differences								
Credit risk										
adjustment <sup>2</sup>	31.8	Expected loss shortfall	31.8	-	-	(41.7)	-	-	-	(9.9)
		Prudent valuation	-	-	-	-	-	-	(1.7)	(1.7)
		Total non-equity	402.2		(257.7)	(41.7)	(199.9)	34.2	(1.7)	(64.6)
			702.2		,==,,,,	( * 1.7 )	()	J-1.2	(1.7)	(3-1.0)
		I Otal halances								
		Total balances subject to own funds	2,154.1	(14.7)	(821.3)	(41.7)	(199.9)	34.2	(1.7)	1,109.0

<sup>1.</sup> Net of associated deferred tax liabilities

Issued capital resources defined in the above table comprises share premium of £313.8m attributable to the issuance of the ordinary shares. Further details including any specific terms of the ordinary shares can be found in Appendix 3. Full details of the terms and conditions of the ordinary shares can be found in the Articles of the Association on the Bank's website: <a href="https://www.co-operativebank.co.uk/investorrelations">www.co-operativebank.co.uk/investorrelations</a>

<sup>2.</sup> Credit risk adjustment is made up of impairment provision and credit-related fair value adjustments, specifically for exposures calculated under the IRB approach to credit risk which are applicable for the calculation of expected loss shortfall per CRR. Therefore the impairment provision number included in the table above relates to IRB exposures only, and is a subset of the Group's total impairment.

#### 3.6 Pillar 1 capital requirements and Risk Weighted Assets

The Group has PRA permission to use the IRB approach to credit risk. This allows the calculation of capital requirements for the retail, corporate and treasury assets classes using internal developed models that reflect the credit quality of the assets. The table below illustrates the portfolios where the Group is using the IRB approaches. Note that for lending facilities provided under the government backed coronavirus business interruption loans (CBILs) and Bounce-Back loans schemes the Standardised Approach is applied.

Business segment	Portfolio	IRB exposure classes	CRD approach
Retail	Mortgages (including buy-to-let Mortgages)	Retail secured by immovable property	Advanced IRB
	Credit cards/Overdrafts	Qualifying revolving retail exposure	es Advanced IRB
	Corporate SME (Business Banking)	Corporates – other	Foundation IRB
Company	Registered Social Landlords (RSL)	Corporates - other	Foundation IRB
Corporate	Private Finance Initiative (PFI)	Corporates - specialised lending	Foundation IRB (slotting approach)
	Property Investment	Corporates - specialised lending	Foundation IRB (slotting approach)
Other	Non-credit obligation (NCOs)	Other non-credit obligation assets	IRB (NCO's)

The CRD approaches referred to in the above table are defined as follows:

- Advanced IRB internal calculations of Probability of Default (PD), Loss Given Default (LGD) and EAD are used to model risk exposures;
- Foundation IRB uses internal calculation of PD, but standardised regulatory defined LGD and Credit Conversion Factors (CCFs):
- Foundation IRB (slotting approach) exposures are modelled and mapped to five supervisory categories from strong to default (slotting categories 1-5 respectively) with regulatory prescribed risk weights and expected losses; and
- IRB (NCOs) exposures risk-weighted reflecting the asset category.

For other exposures and risk areas, the Standardised Approach is adopted, which uses capital risk weighting percentages set by regulatory defined requirements. The Treasury-related securitisation positions are shown as standardised and are calculated on the External-ratings-based approach (SEC-ERBA).

The following table analyses the Pillar 1 capital requirement by approach and exposure class. In the table below and throughout the document, unless otherwise stated, the documented exposures are reported as EAD (see Table 10). For IRB exposures, EAD is defined as the amount estimated to be outstanding at the time of default in a downturn, including additional exposures resulting on currently undrawn commitments. For standardised exposures, EAD includes undrawn commitments post CCFs defined in CRR Article 111 and is net of eligible provisions.

Table 7 - Pillar 1 capital requirements					
2021	Capital	RWA	EAD	Average risk	Average EAD <sup>1</sup>
IRB Exposure class	requirement £m	£m	£m	weight %	£m
Institutions	-	-	-	-	-
Corporates - specialised lending	29.0	362.1	581.0	62%	606.8
Corporates - other	12.0	150.2	308.3	49 %	316.6
Retail secured by immovable property	186.3	2,327.6	21,059.7	11 %	20,288.2
Qualifying revolving retail exposures	25.0	312.2	1,412.7	22 %	1,429.3
Retail other non-SME	-	0.2	0.8	25 %	0.8
Non-credit obligation <sup>3</sup>	5.1	63.9	116.1	55 %	198.0
Total IRB	257.4	3,216.2	23,478.6	14%	22,839.7
Standardised exposure class					
Central government or central banks	-	-	6,492.3	-	5,206.0
Regional governments or local authorities <sup>5</sup>	-	0.1	0.3	20 %	0.2
Public sector entities (PSE) <sup>5</sup>	-	-	0.1	20 %	16.2
Multilateral development banks	-	-	390.3	-	435.2
Institutions	3.1	39.0	212.5	18%	297.9
Corporates	7.8	97.5	119.4	82%	136.6
Retail exposures	0.4	5.0	6.6	75 %	15.9
Secured by mortgages on immovable property <sup>2</sup>	-	-	-		0.1
Exposures in default	=	0.6	0.4	143 %	0.5
Covered bond	1.8	22.7	226.7	10 %	159.6
Equity exposures	1.8	22.8	22.8	100 %	22.6
Securitisation positions	8.2	102.9	106.6	97 %	94.0
Other items <sup>3</sup>	29.8	371.8	231.7	161 %	227.3
Total standardised	52.9	662.4	7,809.7	9%	6,612.1
Total credit risk	310.3	3,878.6	31,288.3	12%	29,451.8
Total market risk <sup>4</sup>	•	•	N/A	N/A	N/A
Operational risk	39.6	494.8	N/A	N/A	N/A
Total Pillar 1	349.9	4,373.4	N/A	N/A	N/A

2020					
	Capital	RWA	EAD	Average risk	A FAD1
IRB Exposure class	requirement £m	£m	£m	weight %	Average EAD <sup>1</sup> £m
Institutions	-	-	-	-	_
Corporates - specialised lending	34.8	435.4	649.6	67 %	667.3
Corporates - other	12.8	159.6	331.4	48 %	347.3
Retail secured by immovable property	177.3	2,216.3	18,925.8	12%	17,893.6
Qualifying revolving retail exposures	21.2	265.3	1,453.7	18%	1,478.9
Retail other non-SME	-	0.3	0.8	38 %	0.8
Non-credit obligation <sup>3</sup>	25.5	319.1	378.1	84%	309.1
Total IRB	271.6	3,396.0	21,739.4	16%	20,697.0
Standardised exposure class					
Central government or central banks	-	-	4,684.6	-	3,733.3
Regional governments or local authorities <sup>5</sup>	-	-	0.1	-	0.1
Public sector entities (PSE) <sup>5</sup>	-	-	26.6	-	40.7
Multilateral development banks	-	-	412.1	-	433.7
Institutions	5.5	68.2	313.0	22 %	376.0
Corporates	12.4	155.2	180.9	86 %	177.0
Retail exposures	1.6	19.8	26.3	75 %	40.0
Secured by mortgages on immovable property <sup>2</sup>	-	0.1	0.1	35 %	0.1
Exposures in default	-	0.3	0.2	150%	1.2
Covered bond	1.0	13.0	130.0	10 %	110.4
Equity exposures	1.8	22.1	22.1	100 %	35.8
Securitisation positions	9.6	119.5	80.9	148 %	130.1
Other items <sup>3</sup>	31.7	395.7	259.6	152%	213.4
Total standardised	63.6	793.9	6,136.5	11 %	5,291.8
Total credit risk	335.2	4,189.9	27,875.9	15%	25,988.8
Total market risk <sup>4</sup>	-	-	N/A	N/A	N/A
Operational risk	39.5	493.8	N/A	N/A	N/A
Total Pillar 1  1 The average EAD is defined as the mean average EAD.	374.7	4,683.7	N/A	N/A	N/A

<sup>1.</sup> The average EAD is defined as the mean average EAD across the five quarter ends from December 2020 to December 2021 for 2021 and the five quarter ends from December 2019 to December 2020 for 2020.

Counterparty risk arising from derivative exposures is reported within the appropriate exposure classes, dependent upon the counterparty classification.

# Movement in EAD from 2020 to 2021:

- Retail secured by immovable property increased by £2.1bn following the growth in the underlying Platform assets (see 2021 ARA risk management section 3.2.1): and
- Central governments or central banks have increased by £1.8bn reflecting higher liquidity from the net of savings balances and mortgage growth plus yet to be utilised drawdowns from TSFME.

<sup>2.</sup> The standardised retail secured by mortgages on immovable property class contains a small number of legacy mortgages not included within the IRB portfolio.

<sup>3.</sup>NCO and Other items relate to accounting adjustments applied to customer balances and investments, and non-customer related assets on the balance sheet (e.g. cash, property plant and equipment, tax).

<sup>4.</sup> Market risk is nil as the Bank has no trading book.

<sup>5.</sup> The PSE and in 2020 the Regional Government books do have some RWA exposure but this is below £0.1m and so is not reported.

#### Table 8 - Flow statement of credit risk Risk Weighted Assets

A flow statement for the movement in credit risk RWAs during the year is set out in the table below.

	Corporate £m	Retail unsecured £m	Retail secured £m	Treasury £m	Other £m	Total £m
Credit risk RWAs at the beginning of the year	750.4	285.3	2,216.5	200.7	737.0	4,189.9
Book size <sup>1</sup>	(115.8)	(22.8)	915.9	(23.6)	(148.0)	605.7
Book quality <sup>2</sup>	(24.6)	(11.9)	(843.7)	(12.6)	-	(892.8)
Model updates <sup>3</sup>	0.4	6.9	(11.0)	-	-	(3.7)
Methodology and policy <sup>4</sup>	-	59.9	50.0	-	-	109.9
Acquisitions and disposals <sup>5</sup>	-	-	-	-	(130.4)	(130.4)
Credit risk RWAs at the end of the year	610.4	317.4	2,327.7	164.5	458.6	3,878.6

- 1. Book size organic changes in book size and composition (including new business, maturing loans and individual customer deleverage).
- 2. Book quality quality of book changes caused by experience such as underlying customer behaviour or demographics.
- 3. Model updates PRA approved model changes and agreed temporary model adjustments (TMAs).
- 4. Methodology and policy methodology changes to the calculations including those driven by regulatory policy change.
- 5. Acquisitions and disposals significant acquisition or disposal of distinct portfolios.

Corporate RWAs have reduced by 18.7 % during 2021. Included within the book size reduction is the removal of the surrender loss debtor asset alongside the run-off in the legacy corporate book.

The underlying movement in retail unsecured RWAs continues to be driven downwards by decreasing book size and also by improvements in asset quality as the portfolios mature and balances pay down and exit the balance sheet. However, an improvement to the source of data in H2 2021 did lead to an increased requirement of £60m.

Retail secured RWAs increased by 5.0 % to £2.3bn, driven by offsetting movements of higher book size primarily from Platform new lending less improved book quality from higher HPI. As per unsecured the improved data source in the second half of 2021 led to an additional £50m requirement.

Treasury RWAs decreased by 18.0% mainly attributable to the lower book size including reduced holdings of Warwick Finance Three and CVA movements.

Other assets decrease of £278.4m mainly reflects the reduction in other assets from the receipt of funds from the 2020 sale of Optimum assets and reduction in the fair value against hedged risk (FVAHR) from the movements in swap values.

Table 9 - Reconciliation of statutory balance sheet to gross drawn credit risk exposure

The table below reconciles the statutory balance sheet included within the Annual Report and Accounts 2021 to gross drawn credit risk exposure.

	Balance sheet assets under the regulatory scope of consolidation £m	Credit risk adjustments £m	Derivative netting £m	Regulatory adjustments £m	Other adjustments £m	Gross drawn credit risk exposure £m
Cash and balances with central banks	5,696.9	-	-	-	1.3	5,698.2
Loans and advances to banks	191.5	-	-	-	13.6	205.1
Loans and advances to customers	20,911.6	37.5	-	-	(43.5)	20,905.6
FVOCI investment securities	1,131.6	-	-	-	(0.4)	1,131.2
Amortised cost and FVTPL investment securities	69.8	-	-	-	-	69.8
Derivatives and securities financing transactions (e.g. reverse repos)	248.5	-	(141.3)	38.1	-	145.3
Equity shares	22.8	-	-	-	-	22.8
Intangible assets	68.5	-	-	(34.3)	-	34.2
Deferred tax assets	36.8	-	-	-	56.7	93.5
Other assets	945.3	-	-	-	(702.8)	242.5
Total balance sheet	29,323.3	37.5	(141.3)	3.8	(675.1)	28,548.2

Table 10 - Reconciliation of gross drawn credit risk exposure to EAD

	ion or gross c	Off-balance sheet items under	Gross	10 2/13		Net	Other	
	Gross drawn	regulatory	exposure			exposure	regulatory	
	exposure £m	scope £m	pre-CRM £m	CCF %	CRM £m	post-CRM £m	adjustments £m	EAD £m
IRB approach								
Corporates <sup>1</sup>	858.1	60.2	918.3	75%	-	903.1	(13.8)	889.3
Retail secured by immovable property	19,527.9	775.9	20,303.8	104%	-	20,332.4	727.3	21,059.7
Qualifying revolving retail exposures	245.8	1,070.8	1,316.6	109%	-	1,407.8	4.9	1,412.7
Retail other non-SME	0.8	-	0.8	-	-	0.8	-	0.8
NCO	116.1	-	116.1	-	-	116.1	-	116.1
Total	20,748.7	1,906.9	22,655.6	100%	-	22,760.2	718.4	23,478.6
Standardised approach								
Central government or central banks	6,181.2	16.7	6,197.9	-	294.4	6,492.3	-	6,492.3
Regional governments or local authorities	0.2	-	0.2	100%	-	0.3	-	0.3
Public sector entities	0.1	0.8	0.9	1%	-	0.1	-	0.1
Multilateral development banks	390.3	-	390.3	-	-	390.3	-	390.3
Institutions	233.3	290.2	523.5	-	(310.9)	212.5	-	212.5
Corporates	384.6	56.4	441.0	31 %	(282.7)	119.4	-	119.4
Retail exposures	17.4	-	17.4	-	(10.3)	7.1	(0.5)	6.6
Secured by mortgages on immovable property	-	-	-	-	-	-	-	-
Exposures in default	4.6	0.4	5.0	-	(4.0)	0.7	(0.3)	0.4
Covered bond	226.7	-	226.7	-	-	226.7	-	226.7
Equity exposures	22.8	-	22.8	-	-	22.8	-	22.8
Securitisation positions	106.6	-	106.6	-	-	106.6	-	106.6
Other items	231.7	-	231.7	-	-	231.7	-	231.7
Total	7,799.5	364.5	8,164.0	96%	(313.5)	7,810.5	(0.8)	7,809.7
Overall total	28,548.2	2,271.4	30,819.6	99%	(313.5)	30,570.7	717.6	31,288.3

<sup>1.</sup> IRB corporates includes specialised lending.

The off-balance sheet items include future commitments to lend subject to conversion factors and repurchase agreements repos) that are required under regulatory scope. Credit Conversion Factors (CCFs) applicable under the SA per CRR article 111 are 0%, 20%, 50% or 100%, dependent upon the credit facility available. Where values differ in the table above this is a result of a mixed basis of credit facility within the given exposure class. CCF for IRB exposure classes relate specifically to off-balance sheet exposures calculated by the EAD model.

Net exposure post-CRM is the sum of gross drawn exposures and off-balance sheet items following the application of CCF and CRM. EAD is the final exposure value used in the calculation of capital following the application of other regulatory adjustments.

Other regulatory adjustments in the IRB section relate specifically to the amount applied to drawn exposures calculated by the EAD model.

Other regulatory adjustments in the Standardised section relate specifically to the allocation of provisions and relate to corporate exposures within the EAD class.

Refer to Table 16 for EAD movements by exposure class and residual maturity between 2020 and 2021.

#### 3.7 Leverage ratio

Table 11 - Leverage ratio common disclosure

		2021	2020
		£m	£m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	29,464.4	25,305.7
2	(Asset amounts deducted in determining Tier 1 capital)	(845.1)	(575.3)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	28,619.3	24,730.4
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	107.4	144.8
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	11.8	40.9
EU-5α	Exposure determined under Original Exposure Method	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	2.6	288.3
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	Total derivative exposures	121.8	474.0
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	Counterparty credit risk exposure for SFT assets	-	-
EU-14α	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b(4) and 222 of Regulation EU No 575/2013	•	-
15	Agent transaction exposures	-	-
EU-15α	(Exempted CCP leg of client-cleared SFT exposure)	-	-
16	Total securities financing transaction exposures	-	-
	Other off-balance sheet exposures	-	
17	Off-balance sheet exposures at gross notional amount	1,964.6	2,412.3
18	(Adjustments for conversion to credit equivalent amounts)	(978.0)	(1,054.5)
19	Total other off-balance sheet exposures	986.6	1,357.8
	Exempted exposures in accordance with CRR Article 429(7) and (14) (on and off balance sheet)		
 EU-19α	(Exemption of intragroup exposures (individual basis) in accordance with Article 429(7) of Regulation EU No 575/2013 (on and off balance sheet))	-	-
EU-19b	(Exposures exempted in accordance with Article 429(14) of Regulation EU No 575/2013 (on and off balance sheet))	-	-
	Capital and total exposures		
20	Tier 1 capital	906.8	900.3
21	Total leverage ratio exposures	29,727.7	26,562.2
	Leverage ratio		
22	Leverage ratio	3.1%	3.4 %
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in, o	
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) or Regulation EU No 575/2013		-

The leverage ratio has been calculated using the exposure basis within the European Commission delegated act.

# Table 12 Leverage ratio common qualitative disclosure

# 1 Description of the processes used to manage the risk of excessive leverage

The Group is not subject to a regulatory minimum in relation to the leverage ratio, although monitoring of the leverage ratio remains embedded in internal planning and reporting processes. The leverage ratio is part of the risk appetite framework, is reported in management information provided to the Asset and Liability Committee (ALCo) and is a key consideration in the financial planning process. Additionally, the leverage ratio is stress-tested as part of the ICAAP.

2 Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers

The leverage ratio is 3.1%, a decrease of 0.3% from 31 December 2020 reflecting the increase in Tier 1 capital from profits within the year being more than offset by the higher exposure (from increased secured mortgages and liquidity holdings).

Table 13 - Summary reconciliation of accounting assets and leverage ratio exposures

		2021	2020
		£m	£m
1	Total assets as per published financial statements	29,323.3	25,599.5
2	Adjustments for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-	-
4	Adjustments for derivative financial instruments	(126.6)	284.3
5	Adjustment for securities financing transactions "SFTs"	-	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	986.6	1,357.8
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-	-
7	Other adjustments	(455.6)	(679.4)
8	Total leverage ratio exposure	29,727.7	26,562.2

Table 14 - Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		2021	2020
		£m	£m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) of which:	29,464.4	25,305.7
EU-2	Trading book exposures	-	-
EU-3	Banking book exposures, of which:	29,464.4	25,305.7
EU-4	Covered bonds	226.7	130.0
EU-5	Exposures treated as sovereigns	6,571.5	4,840.0
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	0.3	-
EU-7	Institutions	184.7	259.7
EU-8	Secured by mortgages of immovable properties	19,468.1	17,063.8
EU-9	Retail exposures	254.4	275.3
EU-10	Corporate	1,125.6	1,217.4
EU-11	Exposures in default	59.6	51.9
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	1,573.5	1,467.6

# 3.8 IFRS 9 Capital transitional impact

The current transitional impact of IFRS 9 on the key capital metrics for available capital, RWA, capital ratios and leverage ratio is nil. In 2020 the overall impact was limited with only a £1m movement on capital and £1m movement on RWAs and key capital ratios remain unchanged.

#### 4. RISK MANAGEMENT GOVERNANCE

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

For further details of the management of the governance of risks see the risk management section 1 of the 2021 Annual Report and Accounts.

#### 5. RISKS AND THEIR MANAGEMENT

#### 5.1 Overview

Further detail on risk management objectives, policies, strategy, appetite and analysis of principal risk categories can be found in the risk management section 1 of the 2021 Annual Report and Accounts.

#### 5.2 Credit risk

Credit risk is the risk to earnings and capital arising from a customer's failure to meet their legal and contractual obligations. The arrears strategy plays a key part in credit risk management; it is therefore crucial that arrears management effectiveness is identified, measured, managed, monitored, reported appropriately and aligns to the credit risk strategy.

There are three areas within the RMF that underpin credit risk:

- Retail credit risk:
- Corporate credit risk; and
- Treasury credit risk.

The objectives of the management of retail and corporate credit risk include providing a framework to ensure that all lending within the retail and corporate books is responsible, appropriate, fair and consistent and that the following key credit risk principles are applied:

- only lending to customers who understand the commitment(s) they are entering into;
- only lending to customers whom we believe have the financial capability and willingness to meet the repayments of their credit agreement;
- lending decisions are fair and consistent for all customers;
- credit risk and other strategies are executed appropriately and consistently;
- the level of lending must be identified, monitored, measured, managed and reported in line with risk appetite; and
- strategies in support of the collection and recovery of delinquent lending are fair and consistent.

The objectives of the management of treasury credit risk include controlling treasury credit risk in accordance with limits and credit quality measures and to ensure that approved credit limits remain at appropriate levels.

Treasury credit risk monitors exposures against the following limits:

- total treasury credit risk capital consumption;
- individual counterparty or groups of counterparties;
- country:
- concentration by external credit rating;
- tenor; and
- large exposures.

#### 5.2.1 Management of credit risk

All authority to take credit risk derives from the Board. This authority is delegated to the Chief Executive Officer (CEO) and Chief Risk Officer (CRO) who may then sub-delegate to defined role holders, to use at an individual level or in their capacity as Chair at the appropriate committee. The level of credit risk authority delegated depends on seniority and experience.

The Board requires that the business is managed in line with the risk strategy and risk appetite set by the Board. Risk measurement is based on a set of metrics, which are aligned with the Board agreed risk appetite and support the limits framework.

The oversight of credit risk is undertaken by:

• the Credit Risk Oversight Committee (CROC), which has formal delegated authority from the Enterprise Risk Oversight Committee (EROC) to provide oversight and reporting in relation to credit activity and supports the CRO in exercising their delegated lending discretion.

- the Asset and Liability Committee (ALCo), which has formal delegated authority from the Executive Committee (ExCo) to provide oversight and reporting in relation to wholesale credit exposure and reporting.
- the Head of Capital, Model development and Impairment, under delegated authority from the CRO, provides oversight and reporting in relation to the Bank's treasury credit risk exposures.

#### 5.2.2 Credit risk control

#### Retail credit risk

#### Credit approval and individual limit setting

The approach for retail secured and unsecured credit is to establish credit criteria that determine the balance between volume growth (generating higher income) and higher arrears and losses, so as to ensure the return is commensurate with risk appetite, strategic objectives and enabling sustainable growth. Retail credit risk related decisions are based on a combination of core documentation including retail credit risk policy, supporting control standards and lending criteria, along with the use of bespoke scorecards derived from historical data. Monthly reporting on the performance of portfolios is provided to senior management and presented to CROC.

# **Unsecured lending**

Application and behavioural scorecards are used to support new lending decisions and ongoing portfolio management. These scores are used, in combination with information from credit reference agencies, policy criteria and an assessment of affordability, to determine whether we will lend to an individual borrower and to set individual limits on the amount we will lend. Application scorecards are used to determine lending decisions to those customers with no or limited existing relationship with the Group. The characteristics of existing customers are assessed on a monthly basis using behavioural scorecards and the resulting scores are used to make lending decisions on credit limit increases/decreases, authorisation decisions and card reissue. Decisions are generally fully automated with manual intervention only required in the event of referrals being triggered or customer appeal. The application and behavioural scorecards used for lending decisions and customer management actions form the main components of the IRB models.

## Mortgage lending

Scorecards are also used to assess new mortgage applications. The associated IRB models have all been developed based on the profile of mortgage applicants received by the specific asset class. Each model uses a combination of external credit reference agency data and information collected as part of the application process. The calculation of the application score is fully automated within the application processing system. The score is used in association with lending policy and affordability checks to make a decision on whether an application will be approved. More complex higher risk applications or those outside of standard lending criteria are reviewed by underwriters to ensure compliance with criteria and to allow expert judgement within agreed levels of authority and Bank risk appetite.

## Corporate credit risk

The policy on new SME lending is to consider extending facilities on a senior (not subordinated) basis to UK customers provided they meet the key credit criteria contained in the corresponding sector strategy, while avoiding excess single name or sector concentrations. During 2021, the Bank participated in the RBS Incentivised Switching Scheme which resulted in some lending for new to Bank business. Lending facilities were also extended to new and existing customers under the Government backed CBILs and Bounce Back-loans schemes. This supplemented new lending to existing customers.

Individual cases which show signs of financial stress are managed through a watchlist process with input from the business support team when lending is over £250k. Any credit decisions relating to these customers are made by a team of experienced corporate underwriters. The CROC and EROC (and by exception the Risk Committee) receive regular reports on the performance of the portfolio against agreed credit risk metrics.

#### Corporate lending and credit approval

New lending facilities above £10k are required to meet minimum lending criteria as laid down in individual sector strategy guidelines and strict policy with regard to single name concentrations and are manually approved by a team of experienced corporate underwriters to allow expert judgement within agreed levels of authority and Bank risk appetite.

Monitoring of portfolios is reported to the SME Credit Risk Forum and impairment provisioning governance is in place across the portfolios.

#### Default

Defaults are recorded at account level for retail, and at obligor level for corporate as a result of past due position or unlikeliness to pay. The definition of default for secured retail exposures is taken as 180 days past due in arrears. The definition of default for unsecured retail and corporate exposures is taken as 90 days past due. Exposures will also be recorded as default for relevant unlikeliness to pay elements, for example when forbearance treatments decelerate the natural roll-rate or result in a material forgiveness of principal.

#### Treasury wholesale credit risk

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 Treasury Credit Risk policy sets out a risk based approach which manages treasury exposures within agreed limits. Both the counterparties and assets held are monitored against a Board approved matrix of risk tolerances and associated indicators. The scope of this monitoring activity includes rating actions, market events and financial results as they are announced. These factors may influence a change in risk status and possible escalation requiring management actions and inclusion on a watchlist. The purpose of the watchlist is to formally document those counterparties that require additional management focus over and above that provided in the normal course of business. It will be derived from a combination of expert judgement and specific criteria.

The Treasury Credit Risk team monitors the portfolio and watchlist on a regular basis for appropriate risk status bandings and any associated management actions. As at 31 December 2021 there were no red (high risk) exposures outstanding (2020: £nil).

In order to maintain and control treasury counterparty relationships and manage the associated risk, limits are established. Generally, these limits are uncommitted, remain at the Bank's option and are not advised or agreed with the counterparty beforehand. They are subject to regular monitoring and can be subject to change depending on the Bank's credit risk view.

The counterparty limit matrix and delegated treasury credit limits provide a framework for the maximum permissible credit exposure. However, each counterparty limit must be set based on a thorough qualitative and quantitative assessment of the institution and the requirements of the Bank.

#### 5.2.3 Models used

The Bank's currently used IRB model suite is not fully compliant with the CRR provisions and new, compliant models have been built where necessary and submitted to the PRA. The new models will replace the current models once approved. Where the new models provide higher capital requirements a Post-Model-Adjustment (PMA) is held to mitigate the risk of any capital requirement underestimation as a result of the current models' non-compliance.

The Bank maintains an active dialogue with the PRA regarding adapting the retail residential mortgage models in line with regulatory expectations of PS11/20 with EAD and LGD models submitted and PD model submission scheduled for June 2022. The definition of default requirements of PS7/19 have been implemented for qualifying revolving retail exposures and Corporate SME by 31 December 2021.

Further model implementations for Current Account, Credit Card, Private Finance Initiative (PFI) and Property Investment portfolios are planned for implementation in 2022; the necessary PRA approval is already provided for all models noted.

The currently used models are described below.

#### 5.2.3.1 Retail models residential mortgages

#### Probability of Default (PD) models

Underlying scorecards are calibrated to provide a PD for each loan. The application credit score is used for new lending to determine PD up until sufficient internal account performance data is available, at which time the behaviour score will be used to determine PD. The ratings philosophy of the PD models is deemed to be hybrid with the Point-in-Time (PiT) score mapped to a long run average PD grade. The long run grades have been determined using historical data and an assessment of PD performance over an economic cycle.

#### Loss Given Default (LGD) models

The key components of the LGD models are the Probability of Possession given Default (PPD) and expected shortfall in case of possession, calibrated to reflect a downturn environment. Any post-sale recoveries are excluded from the loss estimate. The expected shortfall calculation uses an estimate of house price at sale, a forced sale discount, projected balances (EAD) and costs, along with time to possession and sale parameters and standard discounting principles.

# 5.2.3.2 Qualifying revolving retail exposures

# Probability of Default (PD) models

Underlying business scorecards are calibrated to provide a PD for each loan. The application credit score is used for new lending to determine PD up until sufficient internal account performance data is available, at which time the behaviour score will be used to determine PD. The ratings philosophy of the PD models is deemed to be predominantly PiT and therefore changes in the quality of the portfolio will be reflected in the PDs.

#### Loss Given Default (LGD) models

These models estimate the average loss percentage of snapshot balances for the three population segments: default, non-default and charge off. The LGD is calculated from discounted recoveries, cost of collections and downturn stress. In addition, the downturn LGD is based on the worst (highest) LGD observed during the development window.

#### Exposure at Default (EAD)

EAD is equal to expected exposure by risk segment.

#### 5.2.3.3 Corporate models

#### Probability of Default (PD) models

There are two internally developed PD models in use for grading and monitoring exposures Registered Social Landlords (RSL) and corporate SME (business banking) customers respectively. The ratings philosophy of both models is defined as 'near PiT models'. The output is mapped to the 13 grades of the internal grading scale (with a 14th grade indicating default).

#### Loss Given Default (LGD) models

Capital adequacy for customers rated with a PD model is calculated under the Foundation IRB Approach and therefore regulatory prescribed LGD rates apply (from 35 % for senior exposures fully secured by real estate collateral to 45 % for senior unsecured exposures).

## Supervisory slotting approach

Supervisory slotting criteria are used to analyse and monitor the specialised lending exposures to Private Finance Initiatives (PFIs) and Property Investment. The PFI and Property Investment slotting models are regulatory approaches and their output is mapped to four supervisory categories from strong to weak (slotting categories 1-4 respectively) or default with prescribed risk and expected loss weights.

#### **Overrides**

The PD and slotting grades can be overridden by exception in line with policy to ensure that the grades fully reflect all available information.

#### Exposure at Default

EAD across the whole corporate portfolio is calculated by applying regulatory prescribed CCFs.

#### 5.2.3.4 Model performance and back testing

This section provides analysis of the performance of IRB models over 2020 and 2021.

The table below outlines the estimated and actual performance for PD, EAD and LGD by exposure class. All figures reported are taken from the Group's regulatory capital models.

For PD and EAD the calculation shown assesses the non-defaulted portfolio at the start of the period and measures the default emergence over the following year. These are measured on an account weighted basis. For LGD, the calculation shown assesses the losses of the defaulted population, with actuals measured at the end of the period. The estimates are taken from 4 years previous for unsecured (to allow time for recoveries) and 2 years previous for secured (to allow time for the default to progress to sale).

To ensure fair comparisons can be made over the period in regard to retail secured by immovable property, Optimum exposures remain removed from all estimated and actual performance presented.

Table 15 - Model performance

		PE	EAD			
					Downturn	Downturn
	Long run		Long run		estimate to	estimate to
	estimate at	Actual	estimate at	Actual	actual ratio	actual ratio
	2020	2021	2019	2020	2021	2020
Exposure class	%	%	%	%	%	%
Retail						
Retail secured by immovable property	0.6 %	0.3%	0.6 %	0.3 %	103.0%	104.3 %
Qualifying revolving retail exposures	0.4 %	1.0%	0.5 %	0.4 %	148.7%	142.3 %

Note: Corporate default counts are rendered immaterial and are also excluded. Under the Foundation IRB Approach, Corporate EADs and LGDs are not modelled.

		L	GD	
Exposure class	Downturn estimate at 2021 %	Actual 2021 %	Downturn estimate at 2020 %	Actual 2020 %
Retail				
Retail secured by immovable property	10.1%	0.1%	9.5 %	0.3 %
Qualifying revolving retail exposures	86.7%	88.8%	86.6 %	84.4%

#### Retail unsecured (Qualifying revolving retail exposures and retail other non-SME)

Note that a small proportion of the qualifying revolving retail unsecured portfolio is excluded from these comparisons. This covers immaterial products from a capital perspective such as basic bank accounts (approximately 0.1% of retail unsecured non-default RWA is excluded as at 31 December 2021 (same for 2020)).

The estimated performance for EAD is substantially higher than the recent actual performance and the EAD model comprises a point-in-time estimate onto which downturn additions are made. The actual default rate for 2021 exceeds the PD model estimate due to an enhancement to the default definition to incorporate the reduced materiality threshold requirement of PS7/19 for overdrafts. The step change in default stock through implementation of new requirements is not representative of the future flow of new to defaults, consequently the actual default rate is predicted to reduce from the figure presented.

Actual LGD exceeds the LGD model estimate although it is noted that the actuals do not include debt sale receipts.

# Retail secured by immovable property

The actual outcomes for the secured portfolio are lower than the estimates for all metrics. Secured retail PDs and actual default rates remain stable, with the actual default rate continuing to benefit from low interest rates.

The EAD ratio has decreased, albeit the modelled EAD remains higher than the actual defaulted exposure. The defaults with the highest ratio are generally accounts that have defaulted as a result of going beyond their expected maturity date. Some of these customers do manage to partially repay their mortgage before it expires, thus leaving a smaller balance and hence a high modelled/actual ratio.

The actual LGDs remain significantly lower than estimates as the model assumes a downturn environment, whereas the key LGD driver (house values) continues to increase across most regions. Additionally the COVID-19 related moratorium on possessions meant few written-off balances over the period assessed.

#### 5.2.4 Model risk management

The model risk framework applies to ratings models to ensure that the model risks faced are appropriately managed under the RMF. Model governance is documented in the model risk policy and control standard, defining the risk owners, risk framework owners and governance committee structure for model risk. All model developments and adjustments are subject to this framework.

The key principles of the model risk framework are:

- ownership of each model along with the associated model risk by the business owner and model owner;
- responsibility by owners for the use, control, management, and governance of the model and the associated model risk in line with the model risk framework, and accountability for inappropriate model use;
- senior management awareness of the model risk framework and models, including associated regulatory requirements, at an appropriate level of detail to enable them to effectively discharge their management, oversight and governance responsibilities;
- an effective model development process that includes detailed testing and analysis to demonstrate that the model works as intended and complies with regulatory requirements;
- effective and independent challenge of the development of all models by independent model validation;
- approval of all models through the appropriate model governance forum in line with model materiality;
- maintenance of a complete and accurate model inventory that includes the key attributes of each model;
- regular monitoring of the use and performance of all models in production to confirm that they continue to perform in line with original approvals; and
- retirement of models when they are found to be no longer fit for purpose or are replaced by better models.

**5.2.5 Credit risk exposures**The following table represents EAD analysed by approach, exposure class and contractual maturity.

Table 16 - Analysis of EAD by residual contractual maturity and exposure class

2021	Repayable on demand /	Up to	1-5	5-10	10-20	>20	
	undated	1 year	years	years	years	years	Total
Exposure class	£m	£m	£m	£m	£m	£m	£m
IRB							
Corporates – specialised lending	-	10.4	59.3	48.2	462.8	0.3	581.0
Corporates – other	0.1	0.2	35.9	70.7	201.4	-	308.3
Retail secured by immovable property	-	871.6	482.2	1,558.8	6,021.4	12,125.7	21,059.7
Qualifying revolving retail exposures	1,412.7	-	-	-	-	-	1,412.7
Retail other non-SME	0.8	-	-	-	-	-	0.8
NCO	116.1	-	-	-	-	-	116.1
Total IRB	1,529.7	882.2	577.4	1,677.7	6,685.6	12,126.0	23,478.6
Standardised							
Central government or central banks	5,703.9	1.9	96.0	423.5	254.2	12.8	6,492.3
Regional governments or local authorities	-	-	0.3	-	-	-	0.3
Public sector entities	-	0.1	-	-	-	-	0.1
Multilateral development banks	-	-	176.8	213.5	-	-	390.3
Institutions	184.7	8.3	19.5	-	-	-	212.5
Corporates	-	16.6	56.3	23.6	22.9	-	119.4
Retail exposures	3.7	1.2	1.7	-	-	-	6.6
Secured by mortgages on immovable property	-	-	-	-	-	-	-
Exposures in default	-	-	0.4	-	-	-	0.4
Covered bonds	-	-	226.7	-	-	-	226.7
Equity exposures	22.8	-	-	-	-	-	22.8
Securitisation positions	-	-	11.5	-	-	95.1	106.6
Other items	231.7	-	-	-	-	-	231.7
Total standardised	6,146.8	28.1	589.2	660.6	277.1	107.9	7,809.7
Total credit risk exposures	7,676.5	910.3	1,166.6	2,338.3	6,962.7	12,233.9	31,288.3

2020	Repayable on demand / undated	Up to 1 year	1-5 years	5-10 years	10-20 years	>20 years	Total
Exposure class	£m	£m	£m	£m	£m	£m	£m
IRB							
Corporates – specialised lending	-	21.4	56.7	47.2	504.3	20.0	649.6
Corporates – other	0.1	0.6	38.5	32.2	260.0	-	331.4
Retail secured by immovable property	-	1,232.0	496.1	1,597.0	5,751.6	9,849.1	18,925.8
Qualifying revolving retail exposures	1,453.7	-	-	-	-	-	1,453.7
Retail other non-SME	0.8	-	-	-	-	-	0.8
NCO	378.1	-	-	-	-	-	378.1
Total IRB	1,832.7	1,254.0	591.3	1,676.4	6,515.9	9,869.1	21,739.4
Standardised							
Central government or central banks	3,902.5	0.9	35.1	635.1	105.2	5.8	4,684.6
Regional governments or local authorities	-	-	0.1	-	-	-	0.1
Public sector entities	-	-	26.6	-	-	-	26.6
Multilateral development banks	-	-	330.6	81.5	-	-	412.1
Institutions	244.6	42.8	25.5	0.1	-	-	313.0
Corporates	-	12.6	52.8	89.5	11.0	15.0	180.9
Retail exposures	15.8	2.6	7.9	-	-	-	26.3
Secured by mortgages on immovable property	-	-	0.1	-	-	-	0.1
Exposures in default	-	-	0.2	-	-	-	0.2
Covered bonds	-	-	130.0	-	-	-	130.0
Equity exposures	22.1	-	-	-	-	-	22.1
Securitisation positions	-	-	13.3	-	-	67.6	80.9
Other items	259.6	-	-	-	-	-	259.6
Total standardised	4,444.6	58.9	622.2	806.2	116.2	88.4	6,136.5
Total credit risk exposures	6,277.3	1,312.9	1,213.5	2,482.6	6,632.1	9,957.5	27,875.9

Movement in EAD by maturity profile 2020 to 2021 comprises:

- Retail secured by immovable property: The £2.1bn increase is primarily driven in the Platform portfolio which has continued to grow balances significantly over the period through new completions. These are spread across the maturity periods.
- Central government or central banks has seen increased balances (£1.8bn) from higher cash holdings. As such these are mainly being held without any maturity profile.

**5.2.6 Impaired and past due exposures**The following table represents EAD, impaired and past due exposures and impairment analysed by approach and exposure class.

Table 17 - Analysis of impaired and past due exposures including credit risk adjustments

Table 17 - Analysis of impaired and past of 2021  Exposure class IRB	EAD £m	Of which: impaired exposures £m	Of which: past due exposures not impaired £m	credit risk	Net charge / (release) for specific and general credit risk adjustments during the reporting period £m
Corporates – specialised lending	581.0	15.4	-	5.0	0.9
Corporates – other	308.3	0.3	-	1.1	-
Retail secured by immovable property	21,059.7	124.7	60.8	17.1	(0.4)
Qualifying revolving retail exposures	1,412.7	6.3	6.3	7.7	0.4
Retail other non-SME	0.8	0.7	0.8	0.9	(0.1)
NCO	116.1	-	-	-	-
Total IRB	23,478.6	147.4	67.9	31.8	0.8
Standardised					
Central government or central banks	6,492.3	-	-	-	-
Regional governments or local authorities	0.3	-	-	-	-
Public sector entities	0.1	-	-	-	-
Multilateral development banks	390.3	-	-	-	-
Institutions	212.5	-	-	-	-
Corporates	119.4	-	-	4.9	2.7
Retail exposures	6.6	-	1.2	0.6	(0.1)
Secured by mortgages on immovable property	-	-	-	-	-
Exposures in default	0.4	0.4	-	0.2	(1.2)
Covered bonds	226.7	-	-	-	-
Equity exposures	22.8	-	-	-	
Securitisation positions	106.6	-	-	-	
Other items	231.7	-	-	-	<u> </u>
Total standardised	7,809.7	0.4	1.2	5.7	1.4
Total credit risk exposures	31,288.3	147.8	69.1	37.5	2.2

2020	540	Of which: impaired	Of which: past due exposures not	credit risk	Net charge / (release) for specific and general credit risk adjustments during the
Exposure class	EAD £m	exposures £m	impaired £m	adjustments £m	reporting period £m
IRB				2	
Corporates – specialised lending	649.6	4.1	-	5.6	1.3
Corporates – other	331.4	0.2	-	1.3	1.1
Retail secured by immovable property	18,925.8	146.7	73.4	17.5	9.9
Qualifying revolving retail exposures	1,453.7	7.1	6.0	11.0	6.9
Retail other non-SME	0.8	0.6	0.7	1.2	0.8
NCO	378.1	-	-	-	-
Total IRB	21,739.4	158.7	80.1	36.6	20.0
Standardised					
Central government or central banks	4,684.6	-	-	-	
Regional governments or local authorities	0.1	-	-	-	-
Public sector entities	26.6	-	-	-	-
Multilateral development banks	412.1	-	-	-	-
Institutions	313.0	-	-	-	-
Corporates	180.9	-	-	2.3	1.9
Retail exposures	26.3	0.1	3.2	1.0	(0.1)
Secured by mortgages on immovable property	0.1	-	-	-	-
Exposures in default	0.2	0.1	-	3.0	1.7
Covered bonds	130.0	-	-	-	-
Equity exposures	22.1	-	-	-	-
Securitisation positions	80.9	-	-	-	-
Other items	259.6	-	-	-	-
Total standardised	6,136.5	0.2	3.2	6.3	3.5
Total credit risk exposures	27,875.9	158.9	83.3	42.9	23.5
·					

Specific and general credit risk adjustments include all IFRS 9 impairments.

**5.2.7 Analysis of corporate exposures impaired and past due**The following table represents, for corporate assets (excluding securitisations), EAD, impaired exposures and impairment analysed by approach and exposure class.

Table 18 - Analysis of corporate EAD by sector including credit risk adjustments

Accommodation, food and licensed services         19.4         0.1         -         0.6           Care         9.6         -         -         0.3           Education         21.4         -         0.2           Financial services         4.8         -         -         -           Football clubs         8.8         -         -         0.1           Housing associations         282.9         -         -         0.1           Manufacturing         4.3         -         -         0.1           Motor trade and garages         3.1         0.2         -         0.2           PFI         484.9         11.5         -         2.0           Professional services         9.5         0.2         -         0.4           Property and construction         -         -         0.4           Commercial investment         80.3         3.7         -         2.8           Residential investment         12.6         -         -         0.2           Commercial development         10.6         -         -         -           Residential development         0.6         -         -         -           Renewable energ	2021 Sector	EAD £m	Of which: impaired exposures £m	Of which: past due	Specific and general credit risk adjustments £m	Net charge / (release) for specific and general credit risk adjustments during the reporting period £m
Education         21.4         .         .         0.2           Financial services         4.8         .         .         .           Football clubs         8.8         .         .         0.1           Housing associations         282.9         .         .         0.1           Manufacturing         4.3         .         .         0.1           Motor trade and garages         3.1         0.2         .         0.2           PFI         484.9         11.5         .         2.0           Professional services         9.5         0.2         .         0.4           Property and construction         .         .         0.4           Commercial investment         80.3         3.7         .         2.8           Residential investment         12.6         .         .         0.2           Commercial development         1.0         .         .         .           Residential development         0.6         .         .         .           Public sector entities         0.3         .         .         .           Renewable energy         10.0         .         .         .           Retail and	·	19.4	0.1	-	0.6	0.2
Financial services	Care	9.6	-	-	0.3	0.1
Football clubs	Education	21.4	-	-	0.2	0.1
Housing associations   282.9   -	Financial services	4.8	-	-	-	-
Manufacturing         4.3         -         -         0.1           Motor trade and garages         3.1         0.2         -         0.2           PFI         484.9         11.5         -         2.0           Professional services         9.5         0.2         -         0.4           Property and construction         Commercial investment         80.3         3.7         -         2.8           Residential investment         12.6         -         -         0.2           Commercial development         1.0         -         -         -           Residential development         0.6         -         -         -           Public sector entities         0.3         -         -         -           Renewable energy         10.0         -         -         -           Retail and wholesale trade         13.8         0.1         -         0.6           Services         35.7         0.1         -         2.9           Transport, storage and communication         2.8         -         -         0.3           Utilities         1.6         -         -         -           Other         1.7         0.2	Football clubs	8.8	-	-	0.1	(0.1)
Motor trade and garages         3.1         0.2         -         0.2           PFI         484.9         11.5         -         2.0           Professional services         9.5         0.2         -         0.4           Property and construction         Commercial investment         80.3         3.7         -         2.8           Residential investment         12.6         -         -         0.2           Commercial development         1.0         -         -         -           Residential development         0.6         -         -         -           Residential development         0.6         -         -         -           Public sector entities         0.3         -         -         -           Renewable energy         10.0         -         -         -           Renewable energy         10.0         -         -         0.1           Retail and wholesale trade         13.8         0.1         -         0.6           Services         35.7         0.1         -         2.9           Transport, storage and communication         2.8         -         -         0.3           Utilities         1.6	Housing associations	282.9	-	-	0.1	-
PFI         484.9         11.5         -         2.0           Professional services         9.5         0.2         -         0.4           Property and construction         Commercial investment         80.3         3.7         -         2.8           Residential investment         12.6         -         -         0.2           Commercial development         1.0         -         -         -           Residential development         0.6         -         -         -           Public sector entities         0.3         -         -         -           Public sector entities         0.3         -         -         -           Renewable energy         10.0         -         -         0.1           Retail and wholesale trade         13.8         0.1         -         0.6           Services         35.7         0.1         -         2.9           Transport, storage and communication         2.8         -         -         0.3           Utilities         1.6         -         -         -           Other         1.7         0.2         -         0.3           Total         1,009.1         16.1	Manufacturing	4.3	-	-	0.1	(1.3)
Professional services         9.5         0.2         -         0.4           Property and construction         Commercial investment         80.3         3.7         -         2.8           Residential investment         12.6         -         -         0.2           Commercial development         1.0         -         -         -           Residential development         0.6         -         -         -           Public sector entities         0.3         -         -         -           Renewable energy         10.0         -         -         0.1           Retail and wholesale trade         13.8         0.1         -         0.6           Services         35.7         0.1         -         2.9           Transport, storage and communication         2.8         -         -         0.3           Utilities         1.6         -         -         -           Other         1.7         0.2         -         0.3           Total         1,009.1         16.1         -         11.2           IRB corporates - other         308.3         0.3         -         1.1           IRB corporates - specialised lending         581.0	Motor trade and garages	3.1	0.2	-	0.2	-
Property and construction         80.3         3.7         -         2.8           Residential investment         12.6         -         -         0.2           Commercial development         1.0         -         -         -           Residential development         0.6         -         -         -           Public sector entities         0.3         -         -         -           Renewable energy         10.0         -         -         0.1           Retail and wholesale trade         13.8         0.1         -         0.6           Services         35.7         0.1         -         2.9           Transport, storage and communication         2.8         -         -         0.3           Utilities         1.6         -         -         -         -           Other         1.7         0.2         -         0.3           Total         1,009.1         16.1         -         11.2           IRB corporates - other         308.3         0.3         -         1.1           IRB corporates - specialised lending         581.0         15.4         -         5.0           Standardised past due corporates¹         0.4	PFI	484.9	11.5	-	2.0	0.5
Commercial investment         80.3         3.7         -         2.8           Residential investment         12.6         -         -         0.2           Commercial development         1.0         -         -         -           Residential development         0.6         -         -         -           Public sector entities         0.3         -         -         -           Renewable energy         10.0         -         -         0.1           Retail and wholesale trade         13.8         0.1         -         0.6           Services         35.7         0.1         -         2.9           Transport, storage and communication         2.8         -         -         0.3           Utilities         1.6         -         -         -         0.3           Total         1,009.1         16.1         -         11.2           IRB corporates - other         308.3         0.3         -         1.1           IRB corporates - specialised lending         581.0         15.4         -         5.0           Standardised past due corporates         0.4         0.4         0.4         -         0.2	Professional services	9.5	0.2	-	0.4	(0.2)
Residential investment         12.6         -         -         0.2           Commercial development         1.0         -         -         -           Residential development         0.6         -         -         -           Public sector entities         0.3         -         -         -           Renewable energy         10.0         -         -         0.1           Retail and wholesale trade         13.8         0.1         -         0.6           Services         35.7         0.1         -         2.9           Transport, storage and communication         2.8         -         -         0.3           Utilities         1.6         -         -         -         -           Other         1.7         0.2         -         0.3           Total         1,009.1         16.1         -         11.2           IRB corporates - other         308.3         0.3         -         1.1           IRB corporates - specialised lending         581.0         15.4         -         5.0           Standardised corporates¹         119.4         -         -         4.9           Standardised past due corporates         0.4 <t< td=""><td>Property and construction</td><td></td><td></td><td></td><td></td><td>_</td></t<>	Property and construction					_
Commercial development         1.0         -         -         -           Residential development         0.6         -         -         -           Public sector entities         0.3         -         -         -           Renewable energy         10.0         -         -         0.1           Retail and wholesale trade         13.8         0.1         -         0.6           Services         35.7         0.1         -         2.9           Transport, storage and communication         2.8         -         -         0.3           Utilities         1.6         -         -         -         -           Other         1.7         0.2         -         0.3         -           Total         1,009.1         16.1         -         11.2           IRB corporates - other         308.3         0.3         -         1.1           IRB corporates - specialised lending         581.0         15.4         -         5.0           Standardised corporates¹         119.4         -         -         4.9           Standardised past due corporates         0.4         0.4         0.4         -         0.2	Commercial investment	80.3	3.7	-	2.8	0.7
Residential development         0.6         -         -         -           Public sector entities         0.3         -         -         -           Renewable energy         10.0         -         -         0.1           Retail and wholesale trade         13.8         0.1         -         0.6           Services         35.7         0.1         -         2.9           Transport, storage and communication         2.8         -         -         0.3           Utilities         1.6         -         -         -         -           Other         1.7         0.2         -         0.3           Total         1,009.1         16.1         -         11.2           IRB corporates - other         308.3         0.3         -         1.1           IRB corporates - specialised lending         581.0         15.4         -         5.0           Standardised corporates¹         119.4         -         -         4.9           Standardised past due corporates         0.4         0.4         0.4         -         0.2	Residential investment	12.6	-	-	0.2	(0.1)
Public sector entities         0.3         -         -           Renewable energy         10.0         -         -         0.1           Retail and wholesale trade         13.8         0.1         -         0.6           Services         35.7         0.1         -         2.9           Transport, storage and communication         2.8         -         -         0.3           Utilities         1.6         -         -         -         0.3           Other         1.7         0.2         -         0.3           Total         1,009.1         16.1         -         11.2           IRB corporates - other         308.3         0.3         -         1.1           IRB corporates - specialised lending         581.0         15.4         -         5.0           Standardised corporates <sup>1</sup> 119.4         -         -         4.9           Standardised past due corporates         0.4         0.4         0.4         -         0.2	Commercial development	1.0	-	-	-	
Renewable energy         10.0         -         -         0.1           Retail and wholesale trade         13.8         0.1         -         0.6           Services         35.7         0.1         -         2.9           Transport, storage and communication         2.8         -         -         0.3           Utilities         1.6         -         -         -           Other         1.7         0.2         -         0.3           Total         1,009.1         16.1         -         11.2           IRB corporates - other         308.3         0.3         -         1.1           IRB corporates - specialised lending         581.0         15.4         -         5.0           Standardised corporates <sup>1</sup> 119.4         -         -         4.9           Standardised past due corporates         0.4         0.4         0.4         -         0.2	Residential development	0.6	-	-	-	-
Retail and wholesale trade         13.8         0.1         -         0.6           Services         35.7         0.1         -         2.9           Transport, storage and communication         2.8         -         -         0.3           Utilities         1.6         -         -         -           Other         1.7         0.2         -         0.3           Total         1,009.1         16.1         -         11.2           IRB corporates - other         308.3         0.3         -         1.1           IRB corporates - specialised lending         581.0         15.4         -         5.0           Standardised corporates¹         119.4         -         -         4.9           Standardised past due corporates         0.4         0.4         -         0.2	Public sector entities	0.3	-	-	-	-
Services         35.7         0.1         -         2.9           Transport, storage and communication         2.8         -         -         0.3           Utilities         1.6         -         -         -           Other         1.7         0.2         -         0.3           Total         1,009.1         16.1         -         11.2           IRB corporates - other         308.3         0.3         -         1.1           IRB corporates - specialised lending         581.0         15.4         -         5.0           Standardised corporates¹         119.4         -         -         4.9           Standardised past due corporates         0.4         0.4         -         0.2	Renewable energy	10.0	-	-	0.1	(0.1)
Transport, storage and communication         2.8         -         -         0.3           Utilities         1.6         -         -         -           Other         1.7         0.2         -         0.3           Total         1,009.1         16.1         -         11.2           IRB corporates - other         308.3         0.3         -         1.1           IRB corporates - specialised lending         581.0         15.4         -         5.0           Standardised corporates¹         119.4         -         -         4.9           Standardised past due corporates         0.4         0.4         -         0.2	Retail and wholesale trade	13.8	0.1	-	0.6	0.2
Utilities         1.6         -         -         -           Other         1.7         0.2         -         0.3           Total         1,009.1         16.1         -         11.2           IRB corporates - other         308.3         0.3         -         1.1           IRB corporates - specialised lending         581.0         15.4         -         5.0           Standardised corporates¹         119.4         -         -         4.9           Standardised past due corporates         0.4         0.4         -         0.2	Services	35.7	0.1	-	2.9	2.0
Other         1.7         0.2         -         0.3           Total         1,009.1         16.1         -         11.2           IRB corporates - other         308.3         0.3         -         1.1           IRB corporates - specialised lending         581.0         15.4         -         5.0           Standardised corporates¹         119.4         -         -         4.9           Standardised past due corporates         0.4         0.4         -         0.2	Transport, storage and communication	2.8	-	-	0.3	0.1
Total         1,009.1         16.1         -         11.2           IRB corporates - other         308.3         0.3         -         1.1           IRB corporates - specialised lending         581.0         15.4         -         5.0           Standardised corporates¹         119.4         -         -         4.9           Standardised past due corporates         0.4         0.4         -         0.2	Utilities	1.6	-	-	-	-
IRB corporates - other       308.3       0.3       -       1.1         IRB corporates - specialised lending       581.0       15.4       -       5.0         Standardised corporates¹       119.4       -       -       4.9         Standardised past due corporates       0.4       0.4       -       0.2	Other	1.7	0.2	-	0.3	0.3
IRB corporates - specialised lending 581.0 15.4 - 5.0  Standardised corporates 119.4 - 4.9  Standardised past due corporates 0.4 0.4 - 0.2	Total	1,009.1	16.1	-	11.2	2.4
Standardised corporates 119.4 - 4.9 Standardised past due corporates 0.4 0.4 - 0.2	IRB corporates - other	308.3	0.3	-	1.1	
Standardised past due corporates 0.4 0.4 - 0.2	IRB corporates - specialised lending	581.0	15.4	-	5.0	0.9
	Standardised corporates <sup>1</sup>	119.4	-	-	4.9	2.6
Total 1009 1 161 - 112	Standardised past due corporates	0.4	0.4	-	0.2	(1.1)
1,005.1	Total	1,009.1	16.1	-	11.2	2.4

2020 Sector	EAD £m	Of which: impaired exposures £m	Of which: past due exposures not impaired £m	Specific and general credit risk adjustments £m	Net charge / (release) for specific and general credit risk adjustments during the reporting period £m
Accommodation, food and licensed	20.8		2		
services		0.1	-	0.4	0.3
Care	10.3	-	-	0.2	0.2
Education	25.6	-	-	0.1	(0.1)
Financial services	9.1	-	-	0.1	-
Football clubs	10.0	-	-	0.9	0.1
Housing associations	305.5	-	-	0.1	0.1
Manufacturing	5.1	-	-	2.2	2.2
Motor trade and garages	2.7	0.2	<u>-</u>	0.2	0.1
PFI	544.3	-	-	1.5	0.3
Professional services	6.8	0.2	-	0.6	0.4
Property and construction					
Commercial investment	78.0	3.9	-	3.7	0.8
Residential investment	14.1	-	-	0.4	0.3
Commercial development	0.8	-	-	-	
Residential development	0.8	-	-	0.1	0.1
Public sector entities	0.1	-	-	-	-
Renewable energy	19.9	-	-	0.1	
Retail and wholesale trade	64.1	-	-	0.5	0.4
Services	37.9	-	-	0.9	0.6
Transport, storage and communication	2.9	-	-	0.2	0.2
Utilities	1.5	-	-	-	<u>-</u>
Other	1.8	-	-	-	
Total	1,162.1	4.4	-	12.2	6.0
IRB corporates - other	331.4	0.2	-	1.3	1.1
IRB corporates - specialised lending	649.6	4.1	-	5.6	1.3
Standardised corporates <sup>1</sup>	181.0	-	-	2.3	1.9
Standardised past due corporates	0.1	0.1	-	3.0	1.7
Total	1,162.1	4.4	-	12.2	6.0

<sup>1.</sup> Standardised corporates includes regional governments or local authorities and public sector entities

#### 5.2.8 IRB approach

#### Foundation

The table below analyses EAD for each IRB exposure class by PD band and discloses average risk weight percentage for exposures subject to the Foundation IRB Approach.

Table 19 - Foundation IRB EAD by PD band

2021	PD range	Exposure value pre-CCF	EAD	Average PD	Average LGD	RW	RWA
Internal grades	%	£m	£m	- %	- %	%	£m
1/2	0.00 to 0.06		-	-	-	-	-
3	0.06 to 0.16	208.6	208.5	0.14%	35.8 %	45.1 %	93.9
4	0.16 to 0.26	87.0	83.7	0.22 %	38.1 %	53.5 %	44.7
5	0.26 to 0.40	1.3	1.0	0.33 %	45.0 %	35.1 %	0.3
6	0.40 to 0.65	6.4	5.1	0.51 %	45.0 %	48.2 %	2.5
7	0.65 to 1.10	6.3	5.0	0.85 %	45.0 %	62.4%	3.1
8	1.10 to 1.90	1.6	1.2	1.50 %	45.0 %	70.5 %	0.9
9	1.90 to 3.30	1.2	1.0	3.00 %	45.0 %	96.3 %	1.0
10	3.30 to 10.00	2.1	1.8	6.00 %	45.0 %	124.3 %	2.3
11	10.00 to 15.00	0.3	0.3	13.00 %	45.0 %	176.0 %	0.5
12	15.00 to 20.00	0.2	0.1	18.00 %	45.0 %	205.9 %	0.3
13	20.00 to 99.99	0.3	0.3	22.00 %	45.0 %	230.1 %	0.7
14	100.00	0.3	0.3	100.00 %	45.0 %	-	-
Total corporates		315.6	308.3	0.37%	36.9%	48.7%	150.2

2020		Exposure value					
	PD range	pre-CCF	EAD	Average PD	Average LGD	RW	RWA
Internal grades	- %	£m	£m	- %	%	%	£m
	•		_				
1/2	0.00 to 0.06	-	-	-	-	-	-
3	0.06 to 0.16	220.8	220.8	0.14%	35.9 %	45.9 %	101.4
4	0.16 to 0.26	98.6	95.0	0.22 %	37.0 %	50.8 %	48.3
5	0.26 to 0.40	3.0	2.3	0.33 %	45.0 %	36.7 %	0.8
6	0.40 to 0.65	6.3	5.2	0.51 %	45.0 %	52.2 %	2.7
7	0.65 to 1.10	5.4	4.3	0.85 %	45.0 %	59.9 %	2.6
8	1.10 to 1.90	1.5	1.2	1.50 %	45.0 %	69.7 %	0.8
9	1.90 to 3.30	0.6	0.5	3.00 %	45.0 %	90.8 %	0.5
10	3.30 to 10.00	1.6	1.4	6.00 %	45.0 %	118.6 %	1.7
11	10.00 to 15.00	0.2	0.2	13.00%	45.0 %	157.5 %	0.3
12	15.00 to 20.00	0.1	0.1	18.00%	45.0 %	175.2 %	0.2
13	20.00 to 99.99	0.2	0.2	22.00%	45.0 %	184.1 %	0.3
14	100.00	0.2	0.2	100.00 %	45.0 %	-	_
Total corporates		338.5	331.4	0.30 %	36.6 %	48.2 %	159.6

External ratings as shown in table mapped to distinct PDs. See section 5.2.3.4 for details.

In accordance with CRR Article 150 (Conditions for permanent partial use), permission has been received from the regulator to exempt exposures to certain counterparty classes (namely central governments (sovereigns), central banks, institutions and multilateral development banks) from the IRB approach for the purposes of the calculation of both risk-weighted exposure and expected loss amounts, instead applying the Standardised Approach for these exposures.

# EAD analysed by Expected Loss (EL) grades

The table below analyses each retail IRB exposure class by EL grade, calculated as expected loss as a percentage of EAD.

Table 20 - Retail IRB EAD by EL grade

EL grade 4

EL grade 5 EL grade 6

Table 20 - Retail IRB			El arado 2	EL grade 4	El arado E	El arado 6	Default	Total
2021	EL grade 1 £m	EL grade 2 £m	EL grade 3 £m	£m	EL grade 5 £m	EL grade 6 £m	Derduit £m	£m
IRB exposure class								
Retail secured by immovable property	12,457.7	662.7	7,009.7	230.8	623.8	31.9	43.1	21,059.7
Qualifying revolving retail exposures	279.7	280.5	113.9	353.7	292.0	88.7	4.2	1,412.7
Retail other non-SME	-	-	-	-	-	0.1	0.7	0.8
Total retail IRB	12,737.4	943.2	7,123.6	584.5	915.8	120.7	48.0	22,473.2
2020	EL grade 1	EL grade 2	EL grade 3	EL grade 4	EL grade 5	EL grade 6		Total
ZOZO	£m	£m	£m	£m	£m	£m	£m	£m
IRB exposure class								
Retail secured by immovable property	10,519.9	951.6	6,598.5	183.8	584.8	38.2	49.0	18,925.8
Qualifying revolving retail exposures	502.3	339.5	173.6	138.6	208.2	86.8	4.7	1,453.7
Retail other non-SME	-	-	-	-	0.1	0.1	0.6	0.8
Total retail IRB	11,022.2	1,291.1	6,772.1	322.4	793.1	125.1	54.3	20,380.3
Definition in grading	for expected	loss arade						
EL grade 1		<u> </u>					EL:	% < 0.05 %
EL grade 2							0.05 % =< EL :	% < 0.07 %
								% < 0.20 %

0.20 % = < EL % < 0.40 % 0.40 % = < EL % < 2.00 %

2.00 % = < EL % < 100.00 %

The table below analyses each retail IRB exposure class by PD grade.

Table 21 - Retail IRB RWA by PD grade

	RB RWA by PD grad	e					
2021	PD range Gr		EAD	Average PD	Average LGD	RW	RWA
Internal grades	%	£m	£m	%	%	%	£m
Retail secured by im							
1	0.00 to 0.04	-	-	-	-	-	-
2	0.04 to 0.07	7,904.5	8,201.1	0.06 %	9.0 %	1.6 %	131.2
3	0.07 to 0.31	262.0	272.0	0.29 %	8.1 %	4.5 %	12.3
4	0.31 to 1.00	11,345.1	11,766.9	0.52 %	17.6 %	14.8 %	1,744.5
5	1.00 to 3.00	606.8	629.5	1.61 %	27.2 %	49.1 %	309.4
6	3.00 to 15.32	81.6	84.7	8.22 %	13.9 %	61.8 %	52.3
7	15.32 to 99.99	60.6	62.4	35.12 %	7.8 %	44.3 %	27.7
8	100.00	43.2	43.1	100.0 %	10.0 %	116.4%	50.2
Total retail secured property	by immovable	20,303.8	21,059.7	0.71%	14.3%	11.1%	2,327.6
Qualifying revolving	•						
1	0.00 to 0.04	68.6	279.7	0.04 %	74.4%	2.2 %	6.1
2	0.04 to 0.07	-	-	-	-	-	
3	0.07 to 0.12	349.6	287.1	0.09 %	80.4%	5.3 %	15.1
4	0.12 to 0.31	201.9	107.3	0.22 %	79.8 %	12.4 %	13.3
5	0.31 to 0.50	409.5	443.9	0.42 %	77.7 %	18.1 %	80.2
6	0.50 to 1.00	75.7	54.0	0.66 %	82.8 %	29.9 %	16.1
7	1.00 to 5.00	173.7	202.1	1.74 %	78.8 %	57.9 %	117.0
8	5.00 to 10.00	27.2	29.4	5.67 %	82.3 %	145.0 %	42.7
9	10.00 to 20.00	3.1	2.2	14.60 %	82.5 %	256.4%	5.6
10	20.00 to 50.00	2.7	2.3	38.46 %	79.7 %	304.5 %	6.9
11	50.00 to 99.99	0.5	0.5	61.21 %	81.9 %	277.7 %	1.3
12	100.00	4.1	4.2	100.00 %	87.1 %	188.8 %	7.9
Total qualifying reve exposures	olving retail	1,316.6	1,412.7	0.95%	78.3%	22.1%	312.2
Retail other non-SM	E						
1	0.00 to 0.04	_				-	
2	0.04 to 0.07	-					
3	0.07 to 0.12	_	_	_	_	_	
4	0.12 to 0.31						
5	0.31 to 0.50	-					
6	0.50 to 1.00	-			-		
7	1.00 to 5.00						
8	5.00 to 10.00		<u> </u>				
9	10.00 to 20.00	<u>-</u>	-		<u>-</u>	<u>-</u>	
10	20.00 to 50.00	-	-	-	-	-	
11	50.00 to 99.99	0.1	0.1	62.11 %	74.4%	180.3 %	0.2
12	100.00	0.1	0.1	100.00 %	87.1 %	100.3 /⁄	0.2
						- 2F 00/	
Total retail other no	n-3ME	0.8	0.8	90.76%	84.7%	25.0%	0.2

2020 PD range G		oss exposure	EAD	Average PD	Average LGD	RW	RWA
Internal grades	%	£m	£m	%	%	%	£m
Retail secured by im	movable property						
1	0.00 to 0.04	-	-	-	-	-	-
2	0.04 to 0.07	7,012.9	7,276.9	0.06 %	9.4%	1.7 %	121.5
3	0.07 to 0.31	220.6	229.0	0.29 %	8.2 %	4.6 %	10.6
4	0.31 to 1.00	10,244.8	10,626.3	0.52 %	18.4%	15.6 %	1,654.9
5	1.00 to 3.00	562.9	584.1	1.61 %	27.1 %	49.1 %	286.7
6	3.00 to 15.32	88.8	92.0	8.08 %	12.6%	55.4%	51.0
7	15.32 to 99.99	66.2	68.5	34.43 %	9.0 %	52.9 %	36.2
8	100.00	49.2	49.0	100.51 %	9.9 %	113.1 %	55.4
Total retail secured property	by immovable	18,245.4	18,925.8	0.80 %	15.0%	11.7 %	2,216.3
Qualifying revolving	retail exposures						
1	0.00 to 0.04	99.0	502.3	0.04 %	74.4%	3.2 %	16.2
2	0.04 to 0.07	-	-	-	-	-	-
3	0.07 to 0.12	482.0	346.8	0.09 %	81.3 %	5.7 %	19.6
4	0.12 to 0.31	331.5	166.2	0.22 %	80.0%	11.3 %	18.7
5	0.31 to 0.50	267.5	198.4	0.42 %	79.5%	20.2 %	40.1
6	0.50 to 1.00	48.4	42.3	0.68 %	81.6%	30.7 %	13.0
7	1.00 to 5.00	153.3	164.3	1.91 %	79.6%	62.2 %	102.2
8	5.00 to 10.00	22.4	24.2	5.72 %	82.5%	136.4%	33.1
9	10.00 to 20.00	3.1	2.0	14.65 %	82.8%	229.2 %	4.6
10	20.00 to 50.00	2.4	2.1	38.67 %	81.2%	317.8 %	6.5
11	50.00 to 99.99	0.4	0.4	61.97 %	84.4%	269.7 %	1.0
12	100.00	4.5	4.7	100.0 %	86.9%	221.1 %	10.3
Total qualifying revo	olving retail	1,414.5	1,453.7	0.86 %	78.4 %	18.2%	265.3
Retail other non-SM	E						
1	0.00 to 0.04	-	-	-	-	-	-
2	0.04 to 0.07	-	-	-	-	-	-
3	0.07 to 0.12	-	-	-	-	-	-
4	0.12 to 0.31	-	-	-	-	-	
5	0.31 to 0.50	-	-	-	-	-	_
6	0.50 to 1.00	0.1	0.1	0.58 %	74.4%	61.5 %	0.1
7	1.00 to 5.00	-	-	-	-	-	_
8	5.00 to 10.00	-	-	-	-	-	_
9	10.00 to 20.00	-	-	-	-	-	-
10	20.00 to 50.00	-	-	-	-	-	
11	50.00 to 99.99	0.1	0.1	62.02 %	74.4%	180.6 %	0.2
12	100.00	0.6	0.6	100.00%	87.0 %	2.6 %	-
Total retail other no	n-SME	0.8	0.8	80.11 %	83.7 %	37.5 %	0.3

# 5.2.9 Standardised Approach

# Analysis of exposures calculated in accordance with the Standardised Approach

For standardised exposures that are rated, the Group uses External Credit Assessment Institution (ECAI). The credit quality assessments scale is also complied by allocating external credit ratings to the credit quality steps as defined by the PRA.

The table analyses exposures post CCF and net of provisions subject to the Standardised Approach by associated credit quality step. The Group complies with the credit quality assessments scale in allocating external credit ratings to the credit quality steps as defined by the PRA within Supervisory Statement 10/13: www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2013/ss1013

Table 22 - EAD post CRM calculated under the Standardised Approach

2021			(	Credit quali	ty step			
	1	2	3	4	5	6	Unrated <sup>1</sup>	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Central government or central banks	6,492.3	-	-	-	-	-	-	6,492.3
Regional governments or local authorities	-	-	-	-	-	-	0.3	0.3
Public sector entities	-	-	-	-	-	-	0.1	0.1
Multilateral development banks	390.3	-	-	-	-	-	-	390.3
Institutions	131.4	23.1	-	-	-	-	58.0	212.5
Corporates	15.0	-	-	-	-	-	104.4	119.4
Retail exposures	-	-	-	-	-	-	6.6	6.6
Secured by mortgages on immovable property	-	-	-	-	-	-	-	-
Exposures in default	-	-	-	-	-	-	0.4	0.4
Covered bonds	226.7	-	-	-	-	-	-	226.7
Equity exposures	22.8	-	-	-	-	-	-	22.8
Other items	231.7	-	-	-	-	-	-	231.7
Total standardised <sup>2</sup>	7,510.2	23.1	-	-	-	-	169.8	7,703.1

2020			(	Credit quali	ty step			
	1	2	3	4	5	6	Unrated <sup>1</sup>	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Central government or central banks	4,684.6	-	-	-	-	-	-	4,684.6
Regional governments or local authorities	-	-	-	-	-	-	0.1	0.1
Public sector entities	26.6	-	-	-	-	-	-	26.6
Multilateral development banks	412.1	-	-	-	-	-	-	412.1
Institutions	144.4	109.8	-	-	-	-	58.8	313.0
Corporates	15.0	-	-	-	-	-	165.9	180.9
Retail exposures	-	-	-	-	-	-	26.3	26.3
Secured by mortgages on immovable property	-	-	-	-	-	-	0.1	0.1
Exposures in default	-	-	-	-	-	-	0.2	0.2
Covered bonds	130.0	-	-	-	-	-	-	130.0
Equity exposures	-	-	-	-	-	-	22.1	22.1
Other items	-	-	-	-	-	-	259.6	259.6
Total standardised <sup>2</sup>	5,412.7	109.8	-	-	-	-	533.1	6,055.6

<sup>1.</sup> Unrated includes exposures where a customer's individual credit rating does not impact RWAs under the Standardised Approach.

<sup>2.</sup> Excludes Securitisation positions. See Table 31 for Securitisation positions.

#### 5.2.10 Supervisory slotting approach

The corporate book includes a specialised lending portfolio, consisting of lending to PFIs and property investment. For the specialised lending portfolio, the supervisory slotting approach is used. The table analyses EAD (including undrawn commitments post CCF) by slotting category.

Table 23 - Specialised lending by slotting category

The second secon	2021	2020 £m
	£m	
Slotting category		
Strong	464.0	522.4
Good	97.2	103.5
Satisfactory	3.6	4.6
Weak	1.9	16.3
Default	14.3	2.8
Total	581.0	649.6

Slotting models are used to analyse and monitor specialised lending exposures to property which are assigned to PRA supervisory categories with predefined risk weights. The exposures have reduced since last year, reflective of the continued balance attrition at the point of contractual maturity of the corporate PFI/commercial real estate books. The increase in default balances is mainly driven by a single corporate customer moving from weak to default.

# 5.2.11 Credit risk mitigation

#### 5.2.11.1 Retail and corporate

Various forms of credit risk mitigation are used, including collateral and guarantees. Property collateral for business lending is categorised as security for property investment customers (i.e. CRE) or owner occupied premises to secure mainstream loan and overdraft facilities. For general lending, in addition to taking charges over property assets owned by the customer, other security is taken in modest proportion to the total portfolio. This includes debentures or floating charges, cash cover and guarantees (often supported by tangible security where appropriate, including property and life policies). A government guarantee secures loans provided under the CBILS (80%) and Bounce Back-loans (100%) schemes. This is alongside the existing government quarantee on the personal career development loans.

Property valuations are obtained when the facility is first approved and the Group's lending procedures typically require collateral to be revalued every five years, or more frequently where customer's facilities exceed £2.5m when a maximum 3 yearly revaluation is required and when lending exposures are considered to be higher risk (typically annually or when a material change has occurred that is likely to affect the value and/or recoverability of the debt). In certain circumstances, such as syndicated lending arrangements, multi-party facility letters may preclude revaluations at the customer's expense of all the assets as frequently as this and a decision is required by all syndicated lenders if more frequent updates are required.

The policies for obtaining collateral have not significantly changed during the year. There has been no significant change in the overall quality of the collateral held during the year.

Where exposures are agreed on a secured basis, security cover is recognised only where:

- the security is legally enforceable and is of a tangible nature and type;
- an appropriate and reliable valuation is held; and
- a prudent margin is applied to the valuation, for the type of security involved.

Valuations are performed under instruction by an approved panel of external valuers. When cases are placed into the recoveries team and an LPA (Law of Property Act) Receiver is appointed, then the valuation used will be an Expected Outcome Statement (EOS).

For retail the Bank will only lend on residential property that is permanently affixed to land, is readily marketable and mortgageable for owner occupation, and will be secured by way of a first legal charge. The requirement applies to both standard residential and buy-to-let mortgages. The Bank uses both physical valuations as well as AVMs (Automated Valuation Model) when within criteria. Physical valuations for the Bank are panel managed. In addition to their own team of valuers, throughout England, Wales, Scotland and Northern Ireland, they operate a carefully selected panel of approved valuers to undertake work on behalf of the Bank. A valuer carrying out work for the Bank is expected to act with all reasonable skill and care, and to produce a concise and accurate report within the prescribed timescales and in full accordance with the Royal Institution of Chartered Surveyors Valuation – Professional Standards (currently known as the Red Book) or any subsequent version of this document. The retail portfolio is revalued quarterly using a regional house price index. A physical valuation is also undertaken in the event of repossession using a RICS valuer.

#### Single name concentration risk

Single name concentration risk is the concentration in exposures to single counterparties. During 2021, single name concentration risk exposure has declined:

- as at 31 December 2021, 2 customers were on book with individual exposure exceeding £50m, totaling £128m (9.4% of total corporate portfolio). All customers have a performing status and sit within low risk categories, in the Housing Association sector within the legacy portfolio.
- as at 31 December 2020, 3 customers were on book with individual exposure exceeding £50m, totaling £187m (16% of total corporate portfolio). All customers have a performing status and sit within low risk categories, mainly in the Housing Association sector within the legacy portfolio.

#### 5.2.11.2 Wholesale credit risk

The Group also utilises a number of methods to reduce the credit risks associated with its activities. The form and scope of credit risk mitigation will vary depending upon factors such as the counterparty and underlying transaction type amongst others. These mitigation methods are summarised below.

#### Netting policies and processes

Derivative activity is executed under bilateral netting master agreements (typically industry standard International Swaps and Derivatives Association (ISDA) agreements) allowing close out netting with a single net settlement of all derivative contracts covered under each agreement concluded with the same legal counterparty in the event of default. This is achieved through the offsetting of all positive and negative market values under the derivative contracts outstanding with the given counterparty. Such agreements effectively serve to eliminate the counterparty credit risk associated with favourable contracts such that unfavourable contracts with the same legal counterparty are not settled before favourable contracts.

#### Collateral management and valuation policies and processes

The Group only accepts cash deposits, UK government bonds or other debt securities issued by a central government or qualifying multi-lateral development bank with a minimum rating of AA, a mortgage backed security issued by the Bank Company or one of its subsidiaries, a third-party issued Prime RMBS or AAA-rated Covered Bond. It is also a requirement of the treasury credit risk policy that all securities received as collateral are valued on a daily basis and collateral calls made in line with the relevant legal agreement.

In conjunction with the execution of each ISDA Master Agreement, a collateral agreement known as a Credit Support Annex (CSA) will typically be established in order to further mitigate credit risk associated with derivative activity. These agreements govern the collateral amounts to be posted or received during the contract term. The terms of each CSA may vary according to each party's view of the other party's creditworthiness. Some agreements are linked to external credit ratings such that in the event of a deterioration of either party's external rating, it may be required to post collateral. The impact of any additional collateral that would have to be posted by the Group in the event of a downgrade of its own credit rating are considered within the Group's liquidity risk framework.

In the case of repurchase transactions, documentation takes the form of the Global Master Repurchase Agreement (GMRA), with collateral valuations calculated by reference to the market prices associated with the underlying debt security.

Collateral held represents the value of cash and debt securities held in relation to the Bank's derivative and repo activity after the application of applicable regulatory haircuts as prescribed under CRR Articles 223 and 224 (financial collateral comprehensive method).

#### Wrong-way risk

This type of risk occurs when exposure to counterparty is adversely correlated with the credit quality of that counterparty. The Group ensures that the issuer of collateral is neither the same nor connected to the counterparty to a transaction.

# 5.2.12 Derivative credit exposure

The Group enters into a variety of derivative contracts for the purposes of hedging its market risk exposures such as interest rate and foreign exchange risks.

## Counterparty credit risk

Counterparty credit risk in derivative transactions arises from the risk of counterparty default prior to the settlement date of derivative contracts with the counterparty unable to fulfil present and future contractual payment obligations. The amount at risk may change over time as a function of the underlying market parameters.

A key difference between derivatives and other asset types is that whereas the credit risk of other financial assets is generally represented by the principal amount net of any applicable allowance for credit losses, the counterparty credit risk associated with derivative instruments will ordinarily represent an amount significantly lower than the notional amount of the derivative instrument. The Bank no longer has any exchange traded derivatives. Also, in accordance with European Market Infrastructure Regulations (EMIR), all new eligible derivative transactions that the Bank enters into are cleared through an approved Central Counterparty Clearing House (CCP).

The table below shows the aggregate notional amounts and exposures to counterparty credit risk for outstanding derivative contracts. The contracts we have are either transacted as a bilateral agreement with a counterparty or centrally cleared via a

clearing house (London Clearing House). The notional amounts shown represent the reference amount to which a rate or price is applied in order to determine the cash flows to be exchanged during the life of the underlying transactions and are not in themselves a measure of potential credit or market risk, rather they provide an illustration of transactional volumes outstanding.

Table 24 - Net exposures to counterparty credit risk from derivative contracts

	2021		2020	2020		
	Notional amount <sup>1</sup> £m	Exposure £m	Notional amount <sup>1</sup> £m	Exposure £m		
Bilateral contracts						
Interest rate swaps	2,744.0	105.6	5,149.7	168.1		
Currency interest rate swaps	-	-	-	-		
Interest rate caps	6.9	-	21.2	-		
Foreign exchange swaps	7.4	-	27.6	0.4		
Forward foreign exchange	-	-	-	-		
Equity swaps	-	-	-	-		
Total bilateral contracts	2,758.3	105.6	5,198.5	168.5		
Centrally cleared contracts						
Interest rate swaps	10,808.6	146.4	11,497.1	18.5		
Total centrally cleared contracts	10,808.6	146.4	11,497.1	18.5		
Total notional and gross positive fair value of contracts	13,566.9	252.0	16,695.6	187.0		
Netting benefit and collateral		(144.6)		(42.2)		
Replacement cost of derivatives		107.4		144.8		
Potential future credit exposure		11.8		40.9		
Net credit risk exposure		119.2		185.7		

<sup>1.</sup> The notional for 2021 is different to the ARA Risk Management 3.2.4 derivative table £13,352.9m (2020: £16,942.3m).

The net credit risk exposure figure at the foot of the above table represents the credit exposure through derivative transactions after recognition of legally enforceable netting agreements and the application of eligible financial collateral held. The effect of netting is to mitigate risk by offsetting the amounts due to the same counterparties ('netting benefit') and by collateral received from counterparties. The total derivatives exposure includes uplifts for potential future exposure under the mark to market method for assessing counterparty credit risk.

The table below analyses OTC derivatives notional amount by maturity.

Table 25 - Derivative counterparty credit risk notional maturity

2021	< 1 year £m	≥ 1 year to < 5 years £m	≥ 5 years to < 10 years £m	≥ 10 years to < 20 years £m	≥ 20 years £m	Total £m
Interest rate contracts						_
Interest rate swaps	1,855.5	10,188.7	539.5	968.9	-	13,552.6
Currency interest rate swaps	-	-	-	-	-	-
Caps	-	3.5	3.4	-	-	6.9
Total interest rate contracts	1,855.5	10,192.2	542.9	968.9	-	13,559.5
Foreign exchange contracts						
Foreign exchange swaps	-	-	-	-	-	-
Forward foreign exchange	7.4	-	-	-	-	7.4
Total foreign exchange contracts	7.4	-	-	-	-	7.4
Other derivative contracts						
Equity swaps	-	-	-	-	•	-
Total other derivative contracts	-	-	-	-	-	-
Total derivative notional amounts	1,862.9	10,192.2	542.9	968.9		13,566.9

2020		≥ 1 year	≥ 5 years	≥ 10 years		
	< 1 year £m	to < 5 years £m	to < 10 years £m	to < 20 years £m	≥ 20 years £m	Total £m
Interest rate contracts	LIII	LIII	LIII	LIII	LIII	LIII
	F 247.0	0.107.	4 207 0	0565		16.646.0
Interest rate swaps	5,317.9	9,184.5	1,287.9	856.5	•	16,646.8
Currency interest rate swaps	-	-	-	-	-	<u>-</u>
Caps	-	9.1	12.1	-	-	21.2
Total interest rate contracts	5,317.9	9,193.6	1,300.0	856.5	-	16,668.0
Foreign exchange contracts						_
Foreign exchange swaps	-	-	-	-	-	-
Forward foreign exchange	27.6	-	-	-	-	27.6
Total foreign exchange contracts	27.6	-	-	-	-	27.6
Other derivative contracts						
Equity swaps	-	-	-	-	-	-
Total other derivative contracts	-	-	-	-	-	-
Total derivative notional amounts	5,345.5	9,193.6	1,300.0	856.5	-	16,695.6

Table 26 - Derivative counterparty credit risk by sector

	2021		2020		
	Credit risk post application of CRM £m	% of portfolio	Credit risk post application of CRM £m	% of portfolio	
Sector		·		· · · · · · · · · · · · · · · · · · ·	
Credit institutions	-	-	20.6	11.1 %	
Corporates	99.7	83.6 %	141.1	76.0 %	
Central counterparties	19.5	16.4%	24.0	12.9 %	
Total	119.2	100.0%	185.7	100.0 %	

The counterparty credit risk to central counterparties is exposure to the London Clearing House.

Table 27 - Derivative counterparty credit risk by rating

Table 27 - Derivative counterparty credit risk by	2021		2020	)
	Credit risk post application of CRM £m	% of portfolio	Credit risk post application of CRM £m	% of portfolio
Credit rating		·		<u> </u>
AAA	-	-	-	-
AA+	-	-	-	-
AA	-	-	8.1	4.4 %
AA-	-	-	-	
A+	-	-	12.4	6.7 %
A	-	-	-	-
A-	-	-	-	-
BBB+	-	-	-	-
Unrated	119.2	100.0 %	165.2	88.9 %
Total	119.2	100.0%	185.7	100.0 %

The unrated exposure in the table above relates to the exposure to central counterparties and corporates as per Table 26. The remaining derivatives for 2020 were rated AA or A+.

Table 28 - Derivative counterparty credit risk by country

	2021	2021		2020	
	Credit risk post application of CRM £m	% of portfolio	Credit risk post application of CRM £m	% of portfolio	
Country of incorporation		·		· · · · · ·	
United Kingdom	119.2	100.0 %	177.6	95.6 %	
USA	-	-	8.1	4.4 %	
Total	119.2	100.0%	185.7	100.0 %	

Net counterparty credit risk exposure associated with OTC derivative transactions are now all with counterparties incorporated in the UK.

#### 5.2.13 Impairment

#### Allowances for impairment relating to loans and advances to customers

The policy on impairment is described in the Accounting Policies section of the 2021 ARA. The allowance for impairment ties back to note 14 (Loans and advances to customers) within the 2021 ARA.

The allowances for impairment within the corporate portfolio are across the corporate exposure classes for the Foundation IRB and Standardised Approaches. The allowances for impairment for retail exposures relate to retail secured by immovable property and the unsecured exposures within the qualifying revolving retail exposures and retail other non-SME exposure classes. With the exception of a small portfolio of personal career development loans and unsecured loans, all retail exposures are treated under the retail IRB approach.

Under IFRS 9 the EBA have provided guidance that all impairments are specific as the allowances for impairment under IFRS 9 will not be freely and fully available to meet losses that subsequently materialise, as these allowances for impairment are ascribed to particular assets, whether individual or grouped.

Table 29 - Allowance for impairment

	Specific retail	Specific corporate	Total
2021	£m	£m	£m
At the beginning of the year	30.7	12.2	42.9
Charge/(release) against profits	(0.2)	2.4	2.2
Asset de-recognised (write off)	(4.3)	(3.4)	(7.7)
At the end of the year	26.2	11.2	37.4

	Specific retail	Specific corporate	Total
2020	£m	£m	£m
At the beginning of the year	19.9	6.8	26.7
Charge/(release) against profits	17.5	6.0	23.5
Asset de-recognised (write off)	(6.4)	(0.6)	(7.0)
Loss on sale	(0.3)	-	(0.3)
At the end of the year	30.7	12.2	42.9

Further details of the movement are in the 2021 ARA Risk Management section 3.2.1 (loans and advances to customers).

## Allowance for impairment relating to debt securities

In 2021, the result of the impairment review for debt securities showed no sign of impairment, as was the position in 2020.

#### Comparison of expected losses to accounting impairment losses

The following table compares expected losses on non-defaulted assets as at 31 December 2020 to the actual impairment charge/(releases) incurred during the subsequent year ending 31 December 2021.

Expected losses for exposures on the IRB approach are derived from underlying IRB models and are a function of estimated or regulatory defined PD, LGD and EAD. Expected losses for specialised lending are determined using pre-defined expected loss rates for each of the five PRA supervisory categories. Expected loss is not calculated for exposures on the Standardised Approach.

IRB models were further developed following Basel III requirements and are not directly comparable with accounting impairment losses. In particular expected loss calculations are based on long run estimates of PD and use economic downturn estimates of LGD. In addition, LGD represents the loss expectation until finalisation of the workout period while account impairment losses correspond to a single year.

Table 30 - Comparison of expected losses to impairment losses

2021	Expected losses on non-defaulted assets as at 31 December 2020 £m	Impairment losses/(gains) for 2021 £m
Exposure class		
IRB		
Institutions	-	-
Corporates – specialised lending	2.8	0.9
Corporates – other	0.3	-
Retail secured by immovable property	16.6	(0.4)
Qualifying revolving retail exposures	10.3	0.4
Retail other non-SME	0.1	(0.1)
Total IRB	30.1	0.8
Impairment charge on standardised portfolios		1.4
Net charge to the income statements (for all portfolios)		2.2

2020	Expected losses on non-defaulted assets as at 31 December 2019 <sup>1</sup> £m	Impairment losses for 2020 £m
Exposure class		_
IRB		
Institutions	-	-
Corporates – specialised lending	4.2	1.3
Corporates – other	0.4	1.1
Retail secured by immovable property	19.0	9.9
Qualifying revolving retail exposures	8.6	6.9
Retail other non-SME	-	0.8
Total IRB	32.2	20.0
Impairment losses on standardised portfolios		3.5
Net charge to the income statements (for all portfolios)		23.5

<sup>1. 2020</sup> re-presented to show 2019 expected loss position to align to 2021 using 2020 expected losses.

### Key impairments:

- the charge for the corporate lending relates to a specific deal in 2021.
- impairment for retail secured by immovable property in 2021 is a small release of £0.4m. There was a £9.9m charge in 2020 which reflects the impact of additional provisions in relation to COVID-19 in 2020.
- qualifying revolving retail exposures charge of £0.4m in 2021 is lower than the previous year (2020: £6.9m) driven by the impact of COVID-19 in 2020.
- a charge of £1.4m is reported for the Standardised portfolio, a reduction on the 2020 charge.

#### 5.2.14 Securitisations

The Bank acts as an investor, originator, sponsor, cash manager, servicer/administrator and junior loan provider in securitisation transactions. Securitisations can take the form of traditional or synthetic securitisations and the Bank no longer has any synthetic securitisations and holds no revolving exposures.

## Investments in securitisations

All securitisation exposures are to UK residential mortgages and reflect the retained elements of securitisations of mortgages either originated or acquired by the Bank and investments into STS qualifying AAA rated third-party issued Prime RMBS notes. The current total exposure at default of £106.6m (2020: £80.9m) relates to retained holdings of Residential Mortgage Backed Securities (RMBS) issued by the Warwick Finance Three and Four Special Purpose Entities (SPEs) and the investments made into AAA rated third party issued Prime RMBS notes (Gemgarto 2021-1plc and Blitzen Securities No.1 plc). Currently there are no outstanding assets awaiting securitisation.

No active trading book in RMBS is run. However, the retained notes may be sold or used as collateral for short term borrowing (repos) in response to needs for liquidity. Given that transacting in this type of asset is not within the normal scope of business activity, each purchase is individually agreed by ALCo.

RMBS positions held may give rise to credit risk and market risk. Credit risk is the risk that the SPEs will fail to meet interest and principal payment obligations as and when they fall due. Given the majority of the securitisation investments are in senior, highly rated securitisation positions, this risk is not significant. Market risk is the risk of losses that may be suffered due to fluctuations in credit spreads, interest rates, foreign currency rates and any other market implied volatility.

Treasury Risk acts as a second line of defence in monitoring and reporting changes in the credit and market risk profile of RMBS exposure, with external market analysis being supplemented by discussions with the portfolio manager (Treasury - 1st line of defence).

The new securitisation framework was implemented on 1 January 2019. The Bank opted to use the SEC-ERBA to calculate its capital requirements for all rated securitisation positions issued on or after that date. Since 1 January 2020, the Bank has also reverted to this approach for all its legacy exposures. Notwithstanding the risk banding allocation, all transactions where no value adjustment is held continue to meet their payment obligations. As at 31 December 2021 none of the Bank's securitisation positions were past due or impaired (2020: £nil past due or impaired).

Under Article 409, the Bank is required to disclose that the minimum 5% holding for the Warwick Three and Four securitisations (Article 405) is being met by the Bank's holding of 5% of the Warwick Three and Four notes.

The table below shows the EAD, RWAs and average risk weight for the Bank's securitisation positions broken down by external ratings grade.

There are no exposures to re-securitisations and no securitisation positions are hedged.

Table 31 - Securitisation exposure by rating grade

2021	SEC-ERBA	Exposure	e at default	Risk weight	ed assets	Average Risk Weigh	ited Asset %
	_	STS	Non-STS	STS	Non-STS	STS	Non-STS
AAA	1	36.7	52.2	3.7	10.4	10.0	20.0
AA+	2	-	-	-	-	-	-
AA	3	-	7.2	-	7.7	•	107.7
AA-	4	-	-	-	-	-	-
A+	5	-	-	-	-	•	-
Α	6	-	0.5	-	0.8	•	172.8
A-	7	-	3.2	-	6.4	•	198.8
BBB+	8	-	0.2	-	0.6	•	254.8
BBB	9	-	-	-	-	-	-
BBB-	10	-	-	-	-	•	-
BB+	11	-	-	-	-	•	-
BB	12	-	1.8	-	13.5	•	736.8
BB-	13	-	•	-	-	•	-
B+	14	-	-	-	-	•	-
В	15	-	0.2	-	2.4	•	1,029.1
B-	16	-	-	-	-	•	-
CCC+ to	17	-	1.8	-	23.0	•	1,250.0
CCC-			1.0		23.0		1,230.0
Below CCCC	All other	-	-	-	-	<u> </u>	-
Unrated	Unrated	-	2.8	-	34.4	<u> </u>	1,250.0
Total		36.7	69.9	3.7	99.2	10.0	142.2
			106.6		102.9		96.5

All securitisations below are non STS ('Simple, Transparent and Standardised').

2020	SEC-ERBA	Exposure at default	Risk weighted assets	Average Risk Weighted Asset
AAA	1	62.2	12.5	20.0 %
AA+	2	-	-	-
AA	3	0.7	0.8	113.8 %
AA-	4	-	-	<u>-</u>
A+	5	6.4	9.3	145.1 %
Α	6	0.5	0.8	173.8 %
A-	7	-	-	<u>-</u>
BBB+	8	0.2	0.6	255.5 %
BBB	9	3.2	9.5	295.6 %
BBB-	10	-	-	<u>-</u>
BB+	11	-	-	<u>-</u>
BB	12	1.8	13.6	739.8 %
BB-	13	-	-	<u>-</u>
B+	14	-	-	<u>-</u>
В	15	0.2	2.4	1,031.8 %
В-	16	-	-	<u>-</u>
CCC+ to CCC-	17	1.8	23.0	1,250.0 %
Below CCCC	All other	-	-	<u>-</u>
Unrated	Unrated	3.9	47.0	1,250.0 %
Total	•	80.9	119.5	147.7 %

From 1 January 2020, all Bank securitisation positions are risk weighted under SEC-ERBA. Ratings are based upon external credit ratings from nominated ECAIs.

### Originated securitisations

Traditional securitisation structures have been established as part of funding and Optimum deleveraging activities, using residential mortgage loans as the underlying asset pools.

Securitisation funding transactions (Silk Road RMBS) provide funding diversity. However, the majority of the risks and rewards in respect of the underlying mortgage loan pools are retained within the Bank, for funding securitisation structures. For such structures, where risks and rewards of the underlying mortgages are retained, the corresponding SPEs are included as subsidiaries in the consolidated financial statements, with the securitised assets continuing to be recognised as loans and advances to customers on the balance sheet, and income from the securitised assets being recognised as income.

All transactions are approved at Board level and benefit from relevant accounting and legal advice to ensure compliance with regulatory and statutory requirements. Furthermore, no implicit support is provided for securitisations.

Bank currently have two securitisation transactions (Silk Road 5 and Silk Road 6) outstanding which were issued in 2019. Silk Road 6 securitised prime Platform originated mortgages and the Bank issued £250m AAA notes to external investors while retaining £400m. There was a £15m buy-back of Silk Road 6 notes in 2021. Silk Road 5 is a fully retained transaction. The table below discloses 'first loss pieces' (general reserve fund) for securitisation transactions, at the balance sheet dates, which are funded by the subordinated notes.

Table 32 - Originated on balance sheet securitisation exposures

		Initial funded		2020
	Retained notes initial percentage	amount £m	Value £m	Value £m
First loss piece				
Silk Road Finance Number Five plc	100.0	14.6	14.6	14.6
Silk Road Finance Number Six plc	61.5	18.5	18.5	18.5
Total		33.1	33.1	33.1

Detailed disclosures of the active Silk Road securitisation transactions are published monthly on the Bank's website: www.co-operativebank.co.uk/investorrelations. Both Silk Road 5 & 6 transactions are STS ('Simple, Transparent and Standardised') compliant transactions and as such information can also be found at https://www.fca.org.uk/markets/securitisation.

Bank has also issued Warwick securitisations to deleverage non-prime (former Optimum) mortgages. Warwick SPEs are not consolidated within Group's financial statements and the underlying mortgages are de-recognised. Warwick 1 & 2 transaction were refinanced in 2020 and the assets were re-securitised in Avon securitisation on a similar basis where by those SPEs are also not consolidated and assets are de-recognised. On that basis Warwick and Avon transactions have been excluded from Table 32.

Exposures securitised by the Bank within traditional securitisations as at 31 December 2021 totalled £1,157.0m (2020: £1,229.8m), all sitting within the retail secured by immovable property exposure class. Of these exposures, £1.5m (2020: £0.6m)

were classed as impaired, with £0.9m (2020: £2.0m) of past due exposures. Losses associated with these exposures recognised in the year were £0.3m (2020: £0.6m).

#### 5.3 Liquidity and funding risk

Liquidity and funding risk is the risk that obligations as they fall due are unable to be met, or can only be met at excessive cost. The aim is to maintain liquidity risk compliance via the holding of an appropriate quantum and composition of liquid assets.

For further details of the management of liquidity and funding risk see the risk management section 5 within the 2021 ARA.

#### 5.3.1 Asset encumbrance

An asset is defined as encumbered if it has been pledged as collateral against an existing liability or to collateralise an exposure that the Group may have, restricting access to that asset in the event of resolution or bankruptcy. An encumbered asset would be no longer available to the Group for use in secured funding, to satisfy collateral needs or to be sold to reduce the funding requirement.

The Bank uses encumbrance primarily as part of its funding strategy. These include the Bank's covered bond and securitisation programmes which are supported by pledging mortgage assets as collateral. Assets are encumbered in accordance with the contractual requirements of these programmes. These programmes are continually assessed and a prudent buffer of overcollateralisation is maintained for operational efficiency. The Bank also pledges debt securities as collateral in sale and repurchase transactions alongside collateral used for the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME) as well as pledging assets to support the Group pension schemes. Further details can be found in the 2021 ARA in Note 31 (contingent liabilities, contractual commitments and guarantees). Other business uses include collateral to support services to the Bank, such as Visa and payment schemes.

Encumbrance per the below table is calculated on a median basis over the last four quarters in line with EBA guidelines:

Table 33 - Encumbered and non-encumbered assets by balance sheet category

		Encumber	ed assets			Unencumbe	ered assets	
_	Carrying	value	Fair	vαlue	Carrying	g value	Fair v	⁄alue
2021 – Encumbered and		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
unencumbered assets	£m	£m	£m	£m	£m	£m	£m	£m
Assets of the reporting institution	7,438.6	617.5			20,291.2	4,799.8		
Equity instruments	-	-			23.0	-		
Debt securities	617.5	617.5	617.5	617.5	566.2	493.5	568.0	493.5
of which:								
covered bonds	-	-	-	-	179.1	179.1	179.1	179.1
asset backed securities	-	-	-	-	97.1	23.1	98.8	23.1
issued by general governments	422.3	422.3	422.3	422.3	49.4	49.4	49.0	49.4
issued by financial corporations	189.8	189.8	189.8	189.8	250.9	250.9	251.3	250.9
issued by non-financial corporations	-	-	-	•	-	-	-	-
Other assets <sup>1</sup>	6,808.1	-			19,752.0	4,259.8		

<sup>1.</sup> All remaining balance sheet assets, predominantly loans and advances to customers.

	Encumbered assets				Unencumbe	ered assets		
	Carrying value		Fair v	⁄alue	ue Carrying value		Fair v	⁄alue
2020 – Encumbered and		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
unencumbered assets	£m	£m	£m	£m	£m	£m	£m	£m
Assets of the reporting institution	5,091.4	626.6			19,778.8	3,480		
Equity instruments	-	-			32.0	-		
Debt securities	626.6	626.6	626.6	626.6	768.8	667.2	768.3	667.2
of which:								
covered bonds	-	-	-	-	136.1	136.1	136.1	136.1
asset backed securities	18.4	-	18.4	-	101.6	-	101.1	-
issued by general governments	418.2	418.2	418.2	418.2	256.2	256.2	256.2	256.2
issued by financial corporations	210.9	210.9	210.9	210.9	258.7	258.7	258.7	258.7
issued by non-financial corporations	-	-	-	-	-	-	-	-
Other assets <sup>1</sup>								
	4,507.9	-			19,017.9	2,812.8		

<sup>1.</sup> All remaining balance sheet assets, predominantly loans and advances to customers. Re-presented to align to 2021 reporting basis.

<sup>2.</sup> All EHQLA and HQLA values re-presented to align to 2021 basis.

	Fair value of encur received or own debt		Fair value of unencum received or own debt s	
– 2021 – Collateral received	Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA	
	£m	£m	£m	£m
Collateral received by the reporting institution	-	-	22.4	5.7
Loans on demand	-	-	-	-
Equity instruments	-	-	-	-
Debt securities	-	-	5.7	5.7
of which: covered bonds	-	-	-	-
of which: asset backed securities	-	-	-	-
of which: issued by general governments	-	-	5.7	5.7
of which: issued by financial corporations	-	-	-	-
of which: issued by nonfinancial corporations	-	-	-	-
Loans and advances other than own				
covered bonds or asset backed	-	-	13.7	-
securities				
Other collateral received	-	-	-	<u>-</u>
Own debt securities issued other than own covered bonds or asset backed securities	-	-	-	-
Own covered bonds and asset backed securities issued and not yet pledged			-	-
Total assets, collateral received and own debt securities lent	7,438.6	5,199.1		

	Fair value of encun received or own debt		Fair value of unencum received or own debt	
— 2020 – Collateral received	Of which notionally eligible EHQLA and HQLA		Of which notional eligible EHQLA and HQL	
	£m	£m	£m	£m
Collateral received by the reporting institution	-	-	74.8	74.8
Loans on demand	-	-	-	-
Equity instruments	-	-	•	-
Debt securities	-	-	74.8	74.8
of which: covered bonds	-	-	•	-
of which: asset backed securities	-	-	-	-
of which: issued by general governments	-	-	74.8	74.8
of which: issued by financial corporations	-	-	-	-
of which: issued by nonfinancial corporations	-	-	-	-
Loans and advances other than own covered bonds or asset backed securities	-	-		-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or asset backed securities	-	-		-
Own covered bonds and asset backed securities issued and not yet pledged				-
Total assets, collateral received and own debt securities lent	5,091.4	1,955.9		

	Matching liabilities, contingent	Assets, collateral received and own debt securities issued other than covered
2021	liabilities or securities lent	bonds and ABSs encumbered
	£m	£m
Carrying amount of selected financial liabilities	3,271.8	4,813.3
	_	

2020	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
	£m	£m
Carrying amount of selected financial liabilities	2,303.1	3,603.2

Encumbrance values have increased to £7.4bn from £5.1bn largely reflecting net TFSME drawdowns. The encumbered assets captured above relate to median values over the last 4 quarters. The median based encumbrance ratio for 2021 is 26.7% (2020: 20.9%).

### 5.4 Market risk

Market risk is the risk of loss as a result of the value of financial assets or liabilities (including off-balance sheet instruments) being adversely affected by movements in market rates or prices. This loss can be reflected in the near term earnings by changing net interest income, or in the longer term because of changes in the economic value of future cash flows. The aim is to hold, as a minimum, the amount of capital that is deemed necessary to support the level of market risk exposure and the future financial performance.

The Bank does not have any Pillar 1 market risk as it has no trading book.

For further details of the management of market risk see the risk management section 4 of the 2021 Annual Report and Accounts.

#### 5.5 Operational risk

#### 5.5.1 Overview

Operational risk is the risk of loss resulting internally from inadequate and failed processes, people or systems or from external events.

Various sub categories of operational risk are assessed. These are listed in the risk management section of the 2021 ARA. The management of operational risk is discussed within the risk management section of the ARA 2021.

The split of operational risk RWAs is detailed further in the risk management section of the Annual Report and Accounts 2021.

#### 5.5.2 Operational risk framework

The management of operational risk is designed to assist in the understanding of operations in the context of a Board approved risk appetite, particularly with regard to meeting regulatory expectations and reducing operational losses. The approved operational risk framework has been in place since early 2013 and continues to be embedded in line with good practice and regulatory guidance with improvements introduced as opportunities are identified for simplification. This framework is designed to provide assurance over the system of risk management and internal control. Methods and approaches continue to be embedded within the business and there is significant focus on this activity. This is supported by the use of an Operational Risk Management System (ORMS) which was implemented in 2016 and was further developed to store and report on operational loss data. This has been further developed in 2021 to support the Significant Risk process.

Operational risks are identified, managed and mitigated through ongoing risk management practices including risk event reporting, internal operational loss data analysis, a detailed Risk and Control Self Assessment (RCSA) process, a consistently applied risk acceptance process, monitoring of key metrics, scenario analysis, external risk event benchmarking and continuous awareness and training. Material Operational Risks are reported through an appropriate governance structure with regular meetings to monitor the progress of remediation of these risks.

During 2021 operational risk processes have continued to be strengthened and operational risk levels reduced compared to 2020. Focus through 2022 will be to ensure robust operational risk and control activities remain an integral part of business as usual (BAU) activities particularly through organisational changes. Further information can be found in the risk management (in particular, the principal risks and uncertainties) sections of the 2021 ARA.

The below analysis presents operational risk events by Basel level 1 risk event category as this aligns with industry best practice.

Table 34 - Operational net losses

Risk events: net losses (as a % of total)	2021	2020 <sup>1</sup>
Business disruption and system failures	<1%	<1%
External fraud	85.3%	65.7 %
Execution, delivery and process management	14.7%	28.9 %
Internal fraud	<1%	<1%
Damage to physical assets and injury	<1%	2.7 %
Clients, products and business practices	<1%	<1%
Employment practices and workplace safety	<1%	2.0 %

Number of risk events (as a % of total)	2021	2020 <sup>1</sup>
Business disruption and system failures	<1%	<1%
External fraud	65.9%	64.7 %
Execution, delivery and process management	34.0%	35.3 %
Internal fraud	<1%	<1%
Damage to physical assets and injury	<1%	<1%
Clients, products and business practices	<1%	<1%
Employment practices and workplace safety	<1%	<1%

<sup>1. 2020</sup> values updated to reflect movements during 2021.

In 2021, external fraud accounted for 85.3% of the total net losses and 65.9% of the number of individual events. These events were driven by financial crime and include credit and debit card fraud, malware attacks, phishing, cheque fraud and mortgage fraud.

In 2021, execution, delivery and process management accounted for 14.7% of total net losses and 34.0% of the number of individual events.

As part of the process a review and analysis of risk events is performed to ensure that any required improvements to processes and/or controls and any learnings are implemented in order to help prevent reoccurrence. Other activities driven by risk events and losses include detailed root cause analysis of risk events rated moderate or above, and continuous improvement to the

control environment through management of the RCSA. Root cause analyses for all events are reviewed by the Enterprise and Operational Risk Team and for those categorised as 'Major' or above in severity are considered for discussion at Tier 5 governance committees.

## 5.5.3 Corporate insurance programme

The Bank has a structured programme designed to transfer the impact of specific operational risks in line with the appetite of the organisation and industry best practice. For example:

- insurance of buildings and assets;
- protection and revenue in the event of business interruption following damage to buildings or assets;
- protection against impacts of financial crime;
- professional indemnity and directors and officers liability cover;
- motor, employer, product and public liability insurance;
- pension trustee liability insurance; and
- travel and personal accident insurance.

## 5.6 Other risks

For further details of the management of other significant risks see the risk management sections 1.1-1.9 of the 2021 Annual Report and Accounts.

## **APPENDIX 1 – CAPITAL RESOURCES**

The following table sets out full details of the Group's capital resources, regulatory adjustments, capital ratios and buffers:

	2021	d buffers: 2020
	£m	£m
Common Equity Tier 1 (CET1) Capital: instruments and reserves		
Capital instruments and the related share premium accounts	314.7	314.7
of which: Instrument type 1	-	
of which: Instrument type 2	-	-
of which: Instrument type 3	-	-
Retained earnings	1,748.7	(1,314.5)
Accumulated other comprehensive income (and other reserves)	(508.8)	2,569.9
Amount of qualifying items referred to in Article 484(3) and the related share premium accounts subject to phase out from CET1	-	-
Minority interests (amount allowed in consolidated CET1)	-	-
Independently reviewed interim profits net of any foreseeable charge or dividend	197.3	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,751.9	1,570.1
Common Equity Tier 1 (CET1) capital: regulatory adjustments	,	,
Additional value adjustments (negative amount)	(1.7)	(1.9)
Intangible assets (net of related tax liability) (negative amount)	(34.3)	(28.1)
Deferred tax assets that rely on future profitability excluding those arising from temporary	(54.5)	(20.1)
differences (net of related tax liability where the conditions in Article 38(3) are met) (negative amount)	(181.4)	(33.3)
Fair value reserves related to gains or losses on cash flow hedges	(14.7)	(22.5)
Negative amounts resulting from the calculation of expected loss amounts	(9.9)	-
Any increase in equity that results from securitised assets (negative amount)	-	-
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-
Defined benefit pension fund assets (negative amount)	(563.6)	(475.8)
Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	
Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-
Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-
Exposure amount of the following items which qualify for a RW of 1,250 %, where the institution opts for the deduction alternative	-	-
of which: qualifying holdings outside the financial sector (negative amount)	-	-
of which: securitisation positions (negative amount)	_	-
of which: free deliveries (negative amount)	-	
Deferred tax assets arising from temporary differences (amount above 10 % threshold, net of related tax liability where the conditions in Article 38(3) are met) (negative amount)	(39.5)	(13.7)
Amount exceeding the 15% threshold (negative amount)	-	
of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-
of which: deferred tax assets arising from temporary differences	-	-
Losses for the current financial year (negative amount)	-	(95.7)
Foreseeable tax charges relating to CET1 items (negative amount)	-	-
Regulatory adjustments applied to CET1 in respect of amounts subject to pre-CRR treatment	-	-
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-	
of which: filter for unrealised loss 1	-	
of which: filter for unrealised loss 2	-	
of which: filter for unrealised gain 1	-	
of which: filter for unrealised gain 2	-	
Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-	
Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	
Adjustments due to IFRS 9 transitional arrangements		1.2

	2021 £m	2020 £m
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(845.1)	(669.8)
Common Equity Tier 1 (CET1) capital	906.8	900.3
Additional Tier 1 (AT1) capital: instruments		
Capital instruments and the related share premium accounts	-	-
of which: classified as equity under applicable accounting standards	-	-
of which: classified as liabilities under applicable accounting standards	-	-
Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from AT1	-	-
Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	
of which: instruments issued by subsidiaries subject to phase out	-	
Additional Tier 1 (AT1) capital before regulatory adjustments	-	
Additional Tier 1 (AT1) capital: regulatory adjustments		
Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-	-
Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)	-	-
Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	-
Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	-
Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	-
Additional Tier 1 (AT1) capital	-	-
Tier 1 capital (T1 = CET1 + AT1)	906.8	900.3
Tier 2 (T2) capital: instruments and provisions		
Capital instruments and the related share premium accounts	202.2	208.8
Amount of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase out from T2	-	-
Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	-
of which: instruments issued by subsidiaries subject to phase out	-	
Credit risk adjustments	-	1.2
Tier 2 (T2) capital before regulatory adjustments	202.2	210.0

	2021	2020
	£m	£m
Tier 2 (T2) capital: regulatory adjustments	-	
Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	-
Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities		
have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the	-	-
institution (negative amount)		
Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities		
where the institution does not have a significant investment in those entities (amount above 10 $\%$ threshold and net of eligible short positions) (negative amount)	-	-
Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial		
sector entities where the institution has a significant investment in those entities (net of eligible short	-	-
positions) (negative amount)		
Total regulatory adjustments to Tier 2 (T2) capital	-	-
Tier 2 (T2) capital	202.2	210.0
Total capital (TC = T1 + T2)	1,109.0	1,110.3
Total risk weighted assets	4,373.4	4,683.7
Capital ratios and buffers	1,373.1	1,003.7
	20.7%	19.2%
Common Equity Tier 1 (as a percentage of total risk exposure amount)		
Tier 1 (as a percentage of total risk exposure amount)	20.7%	19.2 %
Total capital (as a percentage of total risk exposure amount)	25.4%	23.7 %
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus	7.0%	7.0 %
capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	7.0%	7.0 %
of which: capital conservation buffer requirement	2.5%	2.5 %
of which: countercyclical buffer requirement	2.570	
of which: systemic risk buffer requirement		
of which: Systemically Important Institution (G-SII) or Other Systemically Important		
Institution (O-SII) buffer		-
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	16.2%	14.7 %
Amounts below the thresholds for deduction (before risk weighting)		
Direct and indirect holdings of the capital of financial sector entities where the institution does not		
have a significant investment in those entities (amount below 10 % threshold and net of eligible short positions)		-
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities		
where the institution has a significant investment in those entities (amount below 10% threshold		-
and net of eligible short positions)  Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related		
tax liability where the conditions in Article 38(3) are met)	133.1	104.5
Applicable caps on the inclusion of provisions in Tier 2		
Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to		
the application of the cap)	-	
Cap on inclusion of credit risk adjustments in T2 under standardised approach	7.0	8.3
Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	1.2
Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	19.3	20.4
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
Current cap on CET1 instruments subject to phase out arrangements		-
Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
Current cap on AT1 instruments subject to phase out arrangements	-	-
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-
Current cap on T2 instruments subject to phase out arrangements	-	-
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

#### **APPENDIX 2 – INDIVIDUAL DISCLOSURE TABLES**

The following tables present the disclosures required for the Bank Company on an individual basis. The differences between the Group and the Bank Company disclosures relate primarily to differences in equity, as well as exposures held by subsidiaries of the Bank Company.

Table 35 - Total capital resources

	2021 £m	2020 £m
Common Equity Tier 1 (CET1): instruments and reserves	<u> </u>	<b>4</b> 1111
Permanent share capital and the related share premium account	25.6	2,442.5
Retained earnings <sup>3</sup>	1,003.3	(1,736.2)
FVOCI/Available for sale and cash flow hedge reserves	17.6	27.3
Defined benefit pension reserve	485.0	395.1
Other reserves <sup>1,3</sup>	-	410.0
Independently reviewed interim profits net of any foreseeable charge or dividend	215.5	-
CET1 before regulatory adjustments	1,747.0	1,538.7
CET1: regulatory adjustments		
Prudent valuation	(1.7)	(1.9)
Intangible assets (net of related tax liability)	(34.3)	(28.1)
Defined benefit pension asset net of associated deferred tax liabilities	(563.6)	(475.8)
Deferred tax assets not arising from temporary differences	(181.4)	(33.2)
Cash flow hedge reserves	(14.7)	(22.5)
Expected loss shortfall	(9.9)	-
Deductible deferred tax assets that rely on future profitability and arise from temporary differences	(39.9)	(16.1)
Adjustments due to IFRS 9 transitional arrangements	-	1.2
Loss for the year	-	(87.4)
Total regulatory adjustments to CET1	(845.5)	(663.8)
CET1	901.5	874.9
Additional Tier 1 (AT1) capital: instruments		
Total regulatory adjustments to AT1 capital	-	-
Total Tier 1 capital (T1 = CET1 + AT1)	901.5	874.9
Tier 2 (T2) capital: instruments and provisions		
Capital instruments <sup>2</sup>	202.2	208.8
Credit risk adjustments	-	1.2
T2 capital before regulatory adjustments	202.2	210.0
Total regulatory adjustments to T2 capital	<u> </u>	
T2 capital	202.2	210.0
Total capital (TC = T1 + T2)	1,103.7	1,084.9

<sup>1.</sup> Other reserves represent the £410m capital redemption reserve created as a result of the Bank's Liability Management Exercise (LME) in 2013.

Refer to Table 4 for the equivalent disclosure on the Group basis.

<sup>2.</sup> The Bank Company issued £200m of Tier 2 debt in 2019 through The Co-operative Bank Finance p.l.c..

<sup>3.</sup> During the year, the Group reorganised its reserves via a court-approved capital reduction, which resulted in the transfer of certain non-distributable reserves to retained earnings within the Bank Company and the Finance Company. The Group's overall equity was unaffected by the reserve reorganisation, but the Group and Bank Company now have positive distributable retained earnings which gives the Group great flexibility with regards to its future capital strategy.

Table 36 - Reconciliation of capital resources to statutory balance sheet

	Balanc		Regulatory	Cash flow		xpected i	MREL neligible	Takan aiki	Down Mark	C:41
Balance sheet	pe account		balance treatment	hedge reserve	pension asset <sup>1</sup>	losses		Intangible deduction	PruVal fm	Capital resources
presentation	£m			£m	£m	£m	£m	£m	2111	Em
		Equity								
Ordinary share capital	25.6	Paid up capital instruments	25.6	-	-	-	-	-	-	25.6
Share premium account	-	Share premium	-	-	-	-	-	-	-	-
Retained		Retained earnings	1,003.3	-	-	-	-	-	-	1,003.3
earnings	1,218.8	Regulatory loss for the year	215.5	-	-	-	-	-	-	215.5
FVOCI reserve	2.9	FVOCI reserve	2.9	-	-	-		-	-	2.9
Cash flow	14.7	Cash flow hedging	14.7	(14.7)	-	-	-	-	-	-
hedging reserve Defined benefit		reserve Defined benefit								
pension reserve	485.0	pension reserve	485.0	-	(563.6)	-	-	-	-	(78.6)
Capital redemption reserve	-	Other reserves		-	-	-	-	-	-	-
		Total equity	1,747.0	(14.7)	(563.6)	-	-		-	1,168.7
		Non-equity								
Other borrowed funds	402.1	Capital instruments	402.1	-	-	-	(199.9)	-	-	202.2
Intangible assets	68.5	Intangible assets (net of related tax liability)	(68.5)	-	-	-	-	34.2	-	(34.3)
Deferred tax assets	36.8	Deferred tax assets arising from temporary differences	36.8	-	(218.2)	-	-	-		(181.4)
	-	Deductible deferred tax assets (depend on future profitability). Arise from temporary differences	-	-	(39.9)	-	-	-	-	(39.9)
Credit risk adjustment <sup>2</sup>	31.8	Expected loss shortfall	31.8	-		(41.7)	-	-	-	(9.9)
		Prudent valuation	-	-	-	-	-	-	(1.7)	(1.7)
		IFRS 9 transitional arrangements	-	-	-	-	-	-	-	-
		Total non-equity	402.2		(258.1)	(41.7)	(199.9)	34.2	(1.7)	(65.0)
		Total balances subject to own funds calculations	2,149.2	(14.7)	(821.7)		(199.9)			1,103.7

<sup>1.</sup> Net of associated deferred tax liabilities.

Refer to Table 6 for the equivalent disclosure on the Group basis.

<sup>2.</sup> Credit risk adjustment is made up of impairment provision and credit related fair value adjustments, specifically for exposures calculated under the IRB approach to credit risk which are applicable for the calculation of expected loss shortfall per CRR. Therefore the impairment provision number included in the table above relates to IRB exposures only, and is a subset of the Group's total impairment and fair value.

Table 3	37 - Leverage ratio common disclosure		
		2021 £m	2020 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	29,441.5	25,204.7
2	(Asset amounts deducted in determining Tier 1 capital)	(845.5)	(577.6)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	28,596.0	24,627.1
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	107.4	139.5
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	11.8	35.1
EU-5a	Exposure determined under Original Exposure Method	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	2.8	288.3
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	Total derivative exposures	122.0	462.9
	Securities financing transaction exposures	-	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	
14	Counterparty credit risk exposure for SFT assets	-	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b(4) and 222 of Regulation EU No 575/2013	-	-
15	Agent transaction exposures	-	-
EU-15α	(Exempted CCP leg of client-cleared SFT exposure)	-	-
16	Total securities financing transaction exposures	-	-
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	1,964.6	2,412.3
18	(Adjustments for conversion to credit equivalent amounts)	(978.0)	(1,054.5)
19	Total other off-balance sheet exposures	986.6	1,357.8
	Exempted exposures in accordance with CRR Article 429(7) and (14) (on and off balance sheet)		
EU-19α	(Exemption of intragroup exposures (individual basis) in accordance with Article 429(7) of Regulation EU No 575/2013 (on and off balance sheet))	-	-
EU-19b	(Exposures exempted in accordance with Article 429(14) of Regulation EU No 575/2013 (on and off balance sheet))	-	
	Capital and total exposures		
20	Tier 1 capital	901.5	874.9
21	Total leverage ratio exposures	29,704.6	26,447.8
	Leverage ratio		
22	Leverage ratio	3.0%	3.3 %
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	<u>.</u>	
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) or Regulation (EU) No 575/2013	-	-

The leverage ratio has been calculated using the exposure basis within the European Commission delegated act.

## Table 37a - Leverage ratio common qualitative disclosure

## Description of the processes used to manage the risk of excessive leverage

The Bank Company is not subject to a regulatory minimum in relation to the leverage ratio, although monitoring of the leverage ratio remains embedded in the Bank's internal planning and reporting processes. The leverage ratio is part of the risk appetite framework, is reported in management information provided to the Asset and Liability Committee and is a key consideration in the financial planning process. Additionally, the leverage ratio is stress-tested as part of the ICAAP.

Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers The leverage ratio is 3.0%, compared to 3.1% on the Group basis. For further details see the Group basis.

Refer to Tables 11 and 12 for the equivalent disclosure on the Group basis.

Table 38 - Summary reconciliation of accounting assets and leverage ratio exposures

		2021 £m	2020 £m
1	Total assets as per published financial statements	30,241.7	27,778.2
2	Adjustments for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-	-
4	Adjustments for derivative financial instruments	(119.3)	284.3
5	Adjustment for securities financing transactions "SFTs"	-	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	986.6	1,357.8
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-	-
7	Other adjustments	(1,404.4)	(2,972.5)
8	Total leverage ratio exposure	29,704.6	26,447.8

Refer to Table 13 for the equivalent disclosure on the Group basis.

Table 39 - Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		2021 £m	2020 £m
EU-1	Total on-balance sheet exposures (Excluding derivatives, SFTs and exempted exposures) of which:	29,441.5	25,204.7
EU-2	Trading book exposures	-	-
EU-3	Banking book exposures, of which:	29,441.5	25,204.7
EU-4	Covered bonds	226.7	130.0
EU-5	Exposures treated as sovereigns	6,571.5	4,840.0
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	0.3	-
EU-7	Institutions	118.8	156.0
EU-8	Secured by mortgages of immovable properties	19,466.8	17,062.4
EU-9	Retail exposures	254.4	275.2
EU-10	Corporate	1,157.1	1,270.0
EU-11	Exposures in default	58.7	50.9
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	1,587.2	1,420.2

Refer to Table 14 for the equivalent disclosure on the Group basis.

Table 40 - Pillar 1 capital requirements

Table 40 - Pillar 1 capital requirements 2021	Capital requirement £m	RWA £m	EAD £m	Average risk weight %	Average EAD¹ £m
IRB exposure class					
Institutions	-	<u>.</u>		-	
Corporates – specialised lending	29.0	362.1	581.0	62%	606.8
Corporates – other	12.0	150.2	308.3	49 %	316.6
Retail secured by immovable property	186.1	2,326.4	21,057.5	11 %	20,285.9
Qualifying revolving retail exposures	25.0	312.2	1,412.7	22 %	1,429.3
Retail other non-SME	-	0.2	0.8	25 %	0.8
NCO <sup>3</sup>	5.1	63.9	116.1	55 %	180.3
Total IRB	257.2	3,215.0	23,476.4	14%	22,819.7
Standardised exposure class					
Central governments or central banks	-	-	6,492.3	-	5,206.0
Regional governments or local authorities	-	0.1	0.3	20 %	0.2
Public sector entities <sup>5</sup>	-	-	0.1	20 %	16.2
Multilateral development banks	-	-	390.3	-	435.2
Institutions	2.1	25.8	146.6	18 %	180.8
Corporates	10.3	129.0	151.0	85 %	160.9
Retail exposures	0.4	5.0	6.6	76 %	15.9
Secured by mortgages on immovable property <sup>2</sup>	-	-	-	-	0.1
Exposures in default	-	0.6	0.4	143 %	0.5
Covered bonds	1.8	22.7	226.7	10 %	159.6
Equity exposures	3.0	37.5	37.5	100 %	43.0
Securitisation positions	8.2	102.9	106.6	97 %	94.0
Other items <sup>3</sup>	29.6	369.7	230.3	161 %	224.5
Total standardized	55.4	693.3	7,788.7	8%	6,536.9
Total credit risk	312.6	3,908.3	31,265.1	13%	29,356.6
Total market risk <sup>4</sup>		-	N/A	N/A	N/A
Operational risk	39.3	491.5	N/A	N/A	N/A
Total Pillar 1	351.9	4,399.8	N/A	N/A	N/A

2020	Capital			Average risk	
	requirement	RWA	EAD	weight	Average EAD1
	£m	£m	£m	%	£m
IRB exposure class					
Institutions					
Corporates – specialised lending	34.8	435.4	649.6	67 %	667.3
Corporates – other	12.8	159.6	331.4	48 %	347.3
Retail secured by immovable property	177.1	2,213.8	18,923.2	12 %	17,812.2
Qualifying revolving retail exposures	21.2	265.3	1,453.7	18 %	1,478.9
Retail other non-SME	-	0.3	0.8	38 %	0.8
NCO <sup>3</sup>	18.4	229.8	288.8	80 %	283.6
Total IRB	264.3	3,304.2	21,647.5	16 %	20,590.1
Standardised exposure class					
Central governments or central banks	-	-	4,684.6	-	3,683.3
Regional governments or local authorities	-	-	0.1	-	0.1
Public sector entities <sup>5</sup>	-	-	26.6	-	40.7
Multilateral development banks	-	-	412.1	-	433.7
Institutions	3.0	37.2	198.3	19 %	224.8
Corporates	16.6	207.8	233.5	89 %	253.5
Retail exposures	1.6	19.8	26.3	75 %	40.0
Secured by mortgages on immovable property <sup>2</sup>	-	0.1	0.1	35 %	0.1
Exposures in default	-	0.3	0.2	150 %	1.2
Covered bonds	1.0	13.0	130.0	10 %	110.4
Equity exposures	5.2	65.5	65.5	100 %	79.6
Securitisation positions	9.6	119.5	80.9	148 %	130.1
Other items <sup>3</sup>	31.1	388.4	255.7	152 %	209.1
Total standardised	68.1	851.6	6,113.9	12 %	5,206.6
Total credit risk	332.4	4,155.8	27,761.4	15 %	25,796.7
Total market risk <sup>4</sup>	-	-	N/A	N/A	N/A
Operational risk	41.0	512.6	N/A	N/A	N/A
Total Pillar 1	373.4	4,668.4	N/A	N/A	N/A

<sup>1.</sup> The average EAD is defined as the mean average EAD across the five quarter ends from December 2020 to December 2021 for 2021 and the five quarter ends from December 2019 to December 2020 for 2020.

Refer to table 7 for the equivalent disclosure on the Group basis.

<sup>2.</sup> The Standardised retail secured by mortgages on immovable property class contains a small number of legacy mortgages not included within the IRB portfolio.

<sup>3.</sup> NCO and Other items relate to accounting adjustments applied to customer balances and investments, and non-customer related assets on the balance sheet (e.g. cash, property plant and equipment, tax).

<sup>4.</sup> Market risk is nil as the Bank has no trading book.

<sup>5.</sup> The PSE and regional government book does have some RWA exposure but this is below £0.1m and so is not reported.

Table 41 - Analysis of EAD by residual contractual maturity and exposure class

2021	Repayable on						
	demand /	Up to	1-5	5-10	10-20	>20	
	undated £m	1 year £m	years £m	years £m	years £m	years £m	Total
IRB	ΣIII	EIII	EIII	EIII	EIII	EIII	£m
Corporates – specialised lending		10.4	59.3	48.2	462.8	0.3	581.0
Corporates – other	0.1	0.2	35.9	70.7	201.4		308.3
Retail secured by immovable propert		871.3	481.8	1,558.0	6,020.7	12,125.7	21,057.5
Qualifying revolving retail exposures	1.412.7	-	-		-	-	1,412.7
Retail other non-SME	0.8						0.8
NCO	116.1	-	-	-	-	-	116.1
Total IRB	1,529.7	881.9	577.0	1,676.9	6,684.9	12,126.0	23,476.4
Standardised							
Central government or central banks	5,703.9	1.9	96.0	423.5	254.2	12.8	6,492.3
Regional governments or local authorities	-	- 1.5	0.3	-	-	-	0.3
Public sector entities	-	0.1	-	-		-	0.1
Multilateral development banks	-	-	176.8	213.5		-	390.3
Institutions	118.8	8.3	19.5	-		-	146.6
Corporates	32.2	16.2	56.3	23.4	22.9	-	151.0
Retail exposures	3.7	1.2	1.7	-	-	-	6.6
Secured by mortgages on immovable property	-	-	-	-	-	-	-
Exposures in default	-	-	0.4	-	-	-	0.4
Covered bonds	-	-	226.7	-	-	-	226.7
Equity exposures	37.5	-	-	-	-	-	37.5
Securitisation positions	-	-	11.5	-	-	95.1	106.6
Other items	230.3	-	-	-	-	-	230.3
Total standardised	6,126.4	27.7	589.2	660.4	277.1	107.9	7,788.7
Total credit risk exposures	7,656.1	909.6	1,166.2	2,337.3	6,962.0	12,233.9	31,265.1

2020	Repayable on demand /	Up to	1-5	5-10	10-20	>20	
	undated £m	1 year £m	years £m	years £m	years £m	years £m	Total £m
IRB							
Corporates – specialised lending	-	21.4	56.7	47.2	504.3	20.0	649.6
Corporates – other	0.1	0.6	38.5	32.2	260.0	-	331.4
Retail secured by immovable property	-	1,231.7	495.5	1,596.3	5,750.6	9,849.1	18,923.2
Qualifying revolving retail exposures	1,453.7	-	-	-	-	-	1,453.7
Retail other non-SME	0.8	-	-	-	-	-	0.8
NCO	288.8	-	-	-	-	-	288.8
Total IRB	1,743.4	1,253.7	590.7	1,675.7	6,514.9	9,869.1	21,647.5
Standardised							
Central government or central banks	3,902.5	0.9	35.1	635.1	105.2	5.8	4,684.6
Regional governments or local authorities	-	-	0.1	-	-	-	0.1
Public sector entities	-	-	26.6	-	-	-	26.6
Multilateral development banks	-	-	330.6	81.5	-	-	412.1
Institutions	140.9	31.8	25.5	0.1	-	-	198.3
Corporates	54.3	10.9	52.8	89.5	11.0	15.0	233.5
Retail exposures	15.8	2.6	7.9	-	-	-	26.3
Secured by mortgages on immovable property	-	-	0.1	-	-	-	0.1
Exposures in default	-	-	0.2	-	-	-	0.2
Covered bonds	-	-	130.0	-	-	-	130.0
Equity exposures	65.5	-	-	-	-	-	65.5
Securitisation positions	-	-	13.3	-	-	67.6	80.9
Other items	255.7	-	-	-	-	-	255.7
Total standardised	4,434.7	46.2	622.2	806.2	116.2	88.4	6,113.9
Total credit risk exposures	6,178.1	1,299.9	1,212.9	2,481.9	6,631.1	9,957.5	27,761.4

Refer to table 16 for the equivalent disclosure on the Group basis.

Table 42 - Analysis of impaired and past due exposures including credit risk adjustments

2021 Exposure class	EAD £m	Of which: impaired exposures £m	Of which: past due exposures not impaired £m	credit risk	Net charge/(release) for specific and general credit risk adjustments during the reporting period £m
IRB					
Corporates – specialised lending	581.0	15.4	-	5.0	0.9
Corporates – other	308.3	0.3	-	1.1	-
Retail secured by immovable property	21,057.5	123.8	59.5	17.1	(0.4)
Qualifying revolving retail exposures	1,412.7	6.3	6.3	7.7	0.4
Retail other non-SME	0.8	0.7	0.8	0.9	(0.1)
NCO	116.1	-	-	-	-
Total IRB	23,476.4	146.5	66.6	31.8	0.8
Standardised					
Central government or central banks	6,492.3	-	-	-	_
Regional governments or local authorities	0.3	-	-	-	-
Public sector entities	0.1	-	-	-	-
Multilateral development banks	390.3	-	-	-	-
Institutions	146.6	-	-	-	-
Corporates	151.0	-	-	4.9	2.7
Retail exposures	6.6	-	1.2	0.6	(0.1)
Secured by mortgages on immovable property	-	-	-	-	-
Exposures in default	0.4	0.4	-	0.2	(1.2)
Covered bonds	226.7	-	-	-	-
Equity exposures	37.5	-	-	-	-
Securitisation positions	106.6	-	-	-	-
Other items	230.3	-	-	-	-
Total standardised	7,788.7	0.4	1.2	5.7	1.4
Total credit risk exposures	31,265.1	146.9	67.8	37.5	2.2

2020		Of which: impaired	Of which: past due exposures not	credit risk	Net charge for specific and general credit risk adjustments during the
Exposure class	EAD £m	exposures £m	impaired £m	adjustments £m	reporting period £m
IRB					
Corporates – specialised lending	649.6	4.1		5.6	1.3
Corporates – other	331.4	0.2	-	1.3	1.1
Retail secured by immovable property	18,923.2	145.1	71.8	17.4	9.9
Qualifying revolving retail exposures	1,453.7	7.1	6.0	11.0	6.9
Retail other non-SME	0.8	0.6	0.7	1.2	0.8
NCO	288.8	-	-	-	-
Total IRB	21,647.5	157.1	78.5	36.5	20.0
Standardised					
Central government or central banks	4,684.6	-	-	-	-
Regional governments or local authorities	0.1	-	-	-	
Public sector entities	26.6	-	-	-	
Multilateral development banks	412.1	-	-	-	-
Institutions	198.3	-	-	-	
Corporates	233.5	-	-	2.3	1.9
Retail exposures	26.3	0.1	3.2	1.0	(0.1)
Secured by mortgages on immovable property	0.1	-	-	-	-
Exposures in default	0.2	0.1	-	3.0	1.7
Covered bonds	130.0	-	-	-	
Equity exposures	65.5	-	-	-	-
Securitisation positions	80.9	-	-	-	-
Other items	255.7	-	-	-	-
Total standardised	6,113.9	0.2	3.2	6.3	3.5
Total credit risk exposures	27,761.4	157.3	81.7	42.8	23.5

Refer to table 17 for the equivalent disclosure on the Group basis.

Table 43 - Analysis of corporate EAD by sector including credit risk adjustments

2021	EAD £m	Of which:	Of which:	Specific and general credit risk adjustments £m	Net charge for specific and general credit risk adjustments during the reporting period £m
Accommodation, food and licensed services	19.4	0.1	-	0.6	0.2
Care	9.6	-	-	0.3	0.1
Education	21.4	-	-	0.2	0.1
Financial services	4.8	-	-	-	-
Football clubs	8.8	-	-	0.1	(0.1)
Housing associations	282.9	-	-	0.1	
Manufacturing	4.3	-	-	0.1	(1.3)
Motor trade and garages	3.1	0.2	-	0.2	
PFI	484.9	11.5	-	2.0	0.5
Professional services	9.5	0.2	-	0.4	(0.2)
Property and construction					
Commercial investment	80.3	3.7	-	2.8	0.7
Residential investment	12.6	-	-	0.2	(0.1)
Commercial development	1.0	-	-	-	-
Residential development	0.6	-	-	-	-
Public sector entities	0.3	-	-	-	-
Renewable energy	10.0	-	-	0.1	(0.1)
Retail and wholesale trade	13.8	0.1	-	0.6	0.2
Services	35.7	0.1	-	2.9	2.0
Transport, storage and communication	2.8	-	-	0.3	0.1
Utilities	1.6	-	-	-	
Other	33.3	0.2	-	0.3	0.3
Total	1,040.7	16.1	-	11.2	2.4
IRB corporates – other	308.3	0.3	-	1.1	
IRB corporates – specialised lending	581.0	15.4	-	5.0	0.9
Standardised corporates <sup>1</sup>	151.0	-	-	4.9	2.6
Standardised past due corporates	0.4	0.4	-	0.2	(1.1)
Total	1,040.7	16.1	-	11.2	2.4

2020	EAD £m	Of which: impaired Po exposures £m	Of which: ast due exposures not impaired £m	Specific and general credit risk adjustments £m	Net charge for specific and general credit risk adjustments during the reporting period £m
Accommodation, food and licensed	20.8	0.1	2	0.4	0.3
services		0.1	<u>-</u>		
Care	10.3	-	-	0.2	0.2
Education	25.6	-	-	0.1	(0.1)
Financial services	9.1	-	-	0.1	-
Football clubs	10.0	-	-	0.9	0.1
Housing associations	305.5	-	-	0.1	0.1
Manufacturing	5.1	-	-	2.2	2.2
Motor trade and garages	2.7	0.2	-	0.2	0.1
PFI	544.3	-	-	1.5	0.3
Professional services	6.8	0.2	-	0.6	0.4
Property and construction					_
Commercial investment	78.0	3.9	-	3.7	0.8
Residential investment	14.1	-	-	0.4	0.3
Commercial development	0.8	-	-	-	-
Residential development	0.8	-	-	0.1	0.1
Public sector entities	0.1	-	-	-	-
Renewable energy	19.9	-	-	0.1	-
Retail and wholesale trade	64.1	-	-	0.5	0.4
Services	37.9	-	-	0.9	0.6
Transport, storage and communication	2.9	-	-	0.2	0.2
Utilities	1.5	-	-	-	-
Other	54.4	-	-	-	-
Total	1,214.7	4.4	-	12.2	6.0
IRB corporates – other	331.4	0.2		1.3	1.1
IRB corporates – specialised lending	649.6	4.1	-	5.6	1.3
Standardised corporates <sup>1</sup>	233.6	-	-	2.3	1.9
Standardised past due corporates	0.1	0.1	-	3.0	1.7
Total	1,214.7	4.4	-	12.2	6.0

 $<sup>1. \,</sup> Standardised \, corporates \, includes \, regional \, governments \, or \, local \, authorities \, and \, public \, sector \, entities.$ 

Refer to Table 18 for the equivalent disclosure on the Group basis.

#### **APPENDIX 3 - CAPITAL INSTRUMENTS**

The following tables set out full details of the Group's qualifying capital instruments in issue:

		Tier	1	Tier 2
1	Issuer	The Co-operative Bank Holdings Limited	The Co-operative Bank plc	The Co-operative Bank Finance p.l.c <sup>3</sup>
2	Unique identifier	N/A	N/A	XS1986325972
3	Governing laws of the instrument	English	English	English
	Regulatory treatment			
4	Transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 2
6	Eligible at individual/(sub-) consolidated/individual & (sub-) consolidated	Consolidated	Individual	Consolidated /(Individual)³
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Ordinary shares	Subordinated debt
8	Amount recognised in regulatory capital (£m)	314.7	25.6	202.2
9	Nominal amount of instrument (£m)	0.9	25.6	200
9α	Issue price	0.01p nominal value	5p nominal value	100
9b	Redemption price	N/A	N/A	N/A
10	Accounting classification	Shareholder's equity	Shareholder's equity	Other borrowed funds
11	Original date of issue	01/09/2017	20/12/2013	25/04/2019
12	Subsequent issue date	-	01/09/2017	-
13	Perpetual or dated	Perpetual	Perpetual	Dated
14	Original maturity date	N/A	N/A	25/04/2029
15	Issuer call	N/A	N/A	Yes
16	Optional call date, contingent call dates and redemption amount	N/A	N/A	25/04/2024
17	Subsequent call dates, if applicable	N/A	N/A	N/A
	Coupons/dividends			
18	Fixed or floating dividend/coupon	Floating	Floating	Fixed
19	Coupon rate and any related index	N/A	N/A	9.5 %
20	Existence of a dividend stopper	N/A	N/A	N/A
21	Fully discretionary, partially or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Mandatory
22	Fully discretionary, partially or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Mandatory
23	Existence of step up or other incentive to redeem	N/A	N/A	N/A
24	Noncumulative or cumulative	Non-cumulative	Non-cumulative	N/A
25	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
26	If convertible, conversion trigger(s)	N/A	N/A	N/A
27	If convertible, fully or partially	N/A	N/A	N/A
28	If convertible, conversion rate	N/A	N/A	N/A
29	If convertible, mandatory or optional conversion	N/A	N/A	N/A
30	If convertible, specify instrument type convertible into	N/A	N/A	N/A
31	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
32	Write-down features	N/A	N/A	None contractual; statutory via bail in
33	If write-down, write-down trigger(s)	N/A	N/A	N/A
34	If write-down, full or partial	N/A	N/A	N/A
35	If write-down, permanent or temporary	N/A	N/A	N/A
36	If write-down, description of write-up mechanism	N/A	N/A	N/A
37	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinate to Redeemable Preference Shares <sup>1</sup>	Senior Unsecured	Subordinated Debt
38	Non-compliant transitioned features	No	No	No
39	If yes, specify non-compliant features	N/A	N/A	N/A
40	Voting Rights	Yes <sup>2</sup>	Yes	No

<sup>1.</sup>The Co-operative Bank Holdings Limited also has in issue a small number of redeemable preference shares which carry voting rights and seniority in liquidation to the ordinary shares. They are immaterial in the context of regulatory capital holdings.

2. The ordinary shares have limited voting rights (these are detailed within the Statutory Disclosures Information section of the 2021 Annual Report and Accounts).

3. Individually assessed as it is issued out of The Co-operative Bank p.l.c. to The Co-operative Bank Finance p.l.c..

## APPENDIX 4 - EBA FORBORNE AND NON-PERFORMING ASSETS

The following tables show:

- the split of the forborne book across performing and non-forborne assets;
- split of the performing and non-performing book across past due days; and
- the performing and non-performing book across exposures, IFRS 9 stages and allowance for losses.

The last template is a nil return.

## Template 1: Credit quality of forborne exposures

The following table shows the split of the forborne book. Further detail can be found in the 2021 ARA in the Risk Management section on credit risk.

		rrying amoun ures with forb			accumulate changes in fa	I impairment, ed negative ir value due to nd provisions	Collateral received and financial guarantees received on forborne exposures		
	Performing forborne	Non-p	Non-performing forbo		On performing forborne exposures	On non- performing forborne exposures		Of which collateral and financial guarantees received on non- performing exposures with forbearance	
			Of which defaulted	Of which impaired				measures	
2021 - Loans and advances	93.8	54.3	54.3	54.3	0.5	3.6	116.6	39.8	
Central banks	-	-	-	-	-	-	-	-	
General governments	-	-	-	-	-	-	-	-	
Credit institutions	-	-	-	-	-	-	-	-	
Other financial corporations	2.3	-	-	-	-	-	2.2	-	
Non-financial corporations	32.9	13.1	13.1	13.1	0.2	1.9	19.8	0.6	
Households	58.6	41.2	41.2	41.2	0.3	1.7	94.6	39.2	
Debt securities	-	-	-	-	-	-	-	-	
Loan commitments given	0.7	0.4	0.4	0.4	-	-	-	-	
Total	94.5	54.7	54.7	54.7	0.5	3.6	116.6	39.8	

	Gross carrying	j amount/nom vith forbearar	ninal amount once measures	of exposures	accumulate	r value due to	Collateral received and financial guarantees received on forborne exposures		
	Performing forborne	Non-p	erforming for		On performing forborne exposures	On non- performing forborne exposures		Of which collateral and financial guarantees received on non- performing exposures with forbearance	
			Of which defaulted	Of which impaired				measures	
2020 - Loans and advances	91.4	44.4	44.4	44.4	1.3	2.4	118.6	41.5	
Central banks	-	-	-	-	-	-	-	-	
General governments	-	-	-	-	-	-	-	-	
Credit institutions	-	-	-	-	-	-	-	-	
Other financial corporations	3.5	-	-	-	-	-	3.4	-	
Non-financial corporations	37.6	-	-	-	0.2	-	28.2	-	
Households	50.3	44.4	44.4	44.4	1.1	2.4	87.0	41.5	
Debt securities	-	-	-	-	-	-	-	-	
Loan commitments given	1.3	0.5	0.5	0.5	-	-	-	-	
Total	92.7	44.9	44.9	44.9	1.3	2.4	118.6	41.5	

During 2021 the Group amended its forbearance criteria to capture exposures still within extended probationary periods – the 2020 comparatives have been re-presented on this basis.

Template 3: Credit quality of performing and non-performing exposures by past due days

1					Gross car	rying amo	unt/nomi	nal amoun	t			
ĺ	Perfor	ming expos	sures				Non-p	erforming	exposures	:		
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
2021- Loans and advances	26,852.0	26,460.1	391.9	73.7	36.7	8.0	21.7	4.8	2.1	0.4	-	73.7
Central banks	5,685.2	5,685.2	-	-	-	-	-	-	-	-	-	-
General governments	1.3	1.3	-	-	-	-	-	-	-	-	-	-
Credit institutions	191.5	191.5	-	-	-	-	-	-	-	-	-	-
Other financial corporations	14.8	4.1	10.7	0.3	-	-	0.3	-	-	-	-	0.3
Non-financial corporations	1,072.4	767.2	305.2	14.3	-	-	14.3	-	-	-	-	14.3
Of which: SMEs	862.8	559.7	303.1	2.7	-	-	2.7	-	-	-	-	2.7
Households	19,886.8	19,810.8	76.0	59.1	36.7	8.0	7.1	4.8	2.1	0.4	-	59.1
Debt securities	1,201.4	1,201.4	-	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	477.4	477.4	-	-	-	-	-	-	-	-	-	-
Credit institutions	617.4	617.4	-	-	-	•	-	-	•	-	-	-
Other financial corporations	106.6	106.6	-	-	-	-	-	-	-	-	-	-
Non-financial corporations		-	-	-		-	-	-	-	-	-	-
Off-balance- sheet exposures	1,964.0			0.5								0.5
Central banks	-			-								-
General governments	0.2			-								-
Credit institutions	-			-								-
Other financial corporations	1.4			-								-
Non-financial corporations	110.8			-								-
Households	1,851.6			0.5								0.5
Total	30,017.4	27,661.5	391.9	74.2	36.7	8.0	21.7	4.8	2.1	0.4	-	74.2

					Gross car	rying amo	unt/nomi	nal amoun	t			
ĺ	Perforr	ning expo	sures				Non-p	erforming	exposures			
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
2020- Loans and advances	23,250.7	22,851.0	399.7	74.0	42.7	12.0	11.3	5.8	2.2	-	-	74.0
Central banks	3,865.6	3,865.6	-	-	-	-	-	-	-	-	-	-
General governments	12.9	12.9	-	-	-	-	-	-	-	-	-	-
Credit institutions	536.2	536.2	-	-	-	-	-	-	-	-	-	-
Other financial corporations	133.9	123.8	10.1	0.3	-	-	0.3	-	-	-	-	0.3
Non-financial corporations	1,174.2	863.7	310.5	4.8	-	1.4	3.4	-	-	-	-	4.8
Of which: SMEs	867.3	571.5	295.8	3.4	-	-	3.4	-	-	-	-	3.4
Households	17,527.9	17,448.8	79.1	68.9	42.7	10.6	7.6	5.8	2.2	-	-	68.9
Debt securities	1,148.5	1,148.5	-	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	525.4	525.4	-	-	-	-	-	-	-	-	-	-
Credit institutions	522.0	522.0	-	-	-	-	-	-	-	-	-	-
Other financial corporations	101.1	101.1	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance- sheet exposures	2,411.6			0.7								0.7
Central banks	-			-								-
General governments	0.2			-								-
Credit institutions	-			-								-
Other financial corporations	1.8			-								-
Non-financial corporations	124.7			-								-
Households	2,284.9			0.7								0.7
Total	26,810.8	23,999.5	399.7	74.7	42.7	12.0	11.3	5.8	2.2	-	-	74.7

Template 4: Performing and non-performing exposures and related provisions 2021

	Gros	ss carrying ar	mount/no	minal a	mount		Accu negati	mulated ve chang ris	ges in f	ment, a air value provision	due to	lated credit	Collateral and financial guarantees received		
	Perfor	Of which			Non-performing exposures		Performing exposures – accumulated impairment and provisions		Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			On performing exposures	On non- performing exposures		
		Of whi				vhich ige:	Of which stage:		Of which stage:						
		1	2		2	3		1	2		2	3			
2021 - Loans and advances	26,852.0	19,911.2	944.2	73.7	-	73.7	28.3	20.2	8.1	7.0	-	7.0	19,987.8	54.9	
Central banks	5,685.2	-	-	-	-	-	-	-	-	-	-	-	-	-	
General government	1.3	1.3	-	-	-	-	-	-	-	-	-	-	-	-	
Credit institutions	191.5	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other financial corporations	14.8	4.1	10.7	0.3	-	0.3	0.2	-	0.2	0.3	-	0.3	11.2	-	
Non-financial corporations	1,072.4	649.3	305.2	14.3	-	14.3	6.3	1.6	4.7	2.1	-	2.1	501.7	1.3	
Of which: SMEs	862.8	559.7	303.1	2.7	-	2.7	5.8	1.5	4.3	1.2	-	1.2	333.4	1.3	
Households	19,886.8	19,256.5	628.3	59.1	-	59.1	21.8	18.6	3.2	4.6	-	4.6	19,474.9	53.6	
Debt securities	1,201.4	1,198.8	-	-	-	-	-	-	-	-	-	-	-	-	
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
General government	477.4	477.4	-	-	-	-	-	-	-	-	-	-	-	-	
Credit institutions	617.4	617.4	-	-	-	-	-	-	-	-	-	-	-	-	
Other financial corporations	106.6	104.0	-	-	-	-	-	-	-	-	-	-	-	-	
Non-financial corporations	-	-	-	-	-	-	-	-	-	-		-	-	-	

Template 4: Performing and non-performing exposures and related provisions 2021 - continued

	Gros	ss carrying ar	mount/no	minal a	mount			umulated ive chan ris	ges in f		due to		Collateral and financial guarantees received											
	Perfor	ming exposu	ıres			performing posures												erforming posures cumulate airment ( rovisions	ed and	ex ac im ac negat fair cre	-perforce cumulo pairma cumulo ive cho value o dit risk rovisio	es — nted ent, nted inges in lue to and	On performing exposures	On non- performing exposures
		Of whi stage	2:		sto	hich ige:		Of wh	ge:		st	which age:												
2021 - Off- balance-sheet exposures	1,964.0	1,911.3	52.7	0.5	2	0.5	2.1	0.9	1.2	-	2	3	-	-										
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-										
General government	0.2	0.1	0.1	-	-	-	-	-	-	-	-	-	-	-										
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-										
Other financial corporations	1.4	0.8	0.6	-	-	-	-	-	-	-	-	-	-	-										
Non-financial corporations	110.8	72.9	37.9	-	-	-	0.9	0.2	0.7	-	-	-	-	-										
Households	1,851.6	1,837.5	14.1	0.5	-	0.5	1.2	0.7	0.5	-	-	-	-	-										
Total	30,017.4	23,021.3	996.9	74.2	-	74.2	30.4	21.1	9.3	7.0	-	7.0	19,987.8	54.9										

The Bank has nil partial write offs and so the column has not been shown. Further detail can be found in the 2021 ARA Risk Management section.

Template 4: Performing and non-performing exposures and related provisions 2020

	Gros	s carrying a	mount/no	minal a	mount			mulated ve chan ris		Collateral and financial guarantees received				
	Perfor	oming exposures  Of which		Non-performing exposures		Performing exposures – accumulated impairment and provisions		Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			On performing exposures	On non- performing exposures		
	_	stage:		Of which stage:		Of which stage:		Of which stage:			_			
		1	2		2	3		1	2		2	3		
2020 - Loans and advances	23,250.7	16,954.9	1,710.3	74.0	-	74.0	29.3	17.6	11.7	9.8	-	9.8	17,557.5	61.8
Central banks	3,865.6	-	-	-	-	-	-	-	-	-	-	-	-	-
General government	12.9	12.9	-	-	-	-	0.1	0.1	-	-	-	-	-	-
Credit institutions	536.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	133.9	123.8	10.1	0.3	-	0.3	0.2	-	0.2	-	-	-	13.9	0.3
Non-financial corporations	1,174.2	658.8	334.3	4.8	-	4.8	3.9	1.4	2.5	4.8	-	4.8	506.7	-
Of which: SMEs	867.3	557.5	309.8	3.4	-	3.4	3.4	1.3	2.1	2.6	-	2.6	324.3	-
Households	17,527.9	16,159.4	1,365.9	68.9	-	68.9	25.1	16.1	9.0	5.0	-	5.0	17,036.9	61.5
Debt securities	1,148.5	1,145.0	-	-	-	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General government	525.4	525.4	-	-	-	-	-	-	-	-	-	-	-	-
Credit institutions	522.0	522.0	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	101.1	97.6	-	-	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Template 4: Performing and non-performing exposures and related provisions 2020 – continued

	Gros	ss carrying a	mount/no	minal a	mount			ımulate ive chan ri:	iges in f		e due t		Collateral and financial guarantees received		
	Perfor	rming exposures  Of which stage:		Non-performing exposures Of which			ex acc impo	erforming kposures – cumulated airment and provisions		es ac im ac negat fair cre	r-perfo cposur cumula pairm cumula ive cho value o dit risk provisio	es — ated ent, ated anges in due to	On performing exposures	On non- performing exposures	
						/hich ıge:		Of w			_	which tage:			
		1	2		2	3		1	2		2	3			
2020 - Off- balance-sheet exposures	2,411.6	2,317.3	94.3	0.7	-	0.7	3.8	1.5	2.3	-	-	-	-	-	
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
General government	0.2	0.1	0.1	-	-	-	-	-	-	-	-	-	-	-	
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other financial corporations	1.8	1.3	0.5	-	-	-	-	-	-	-	-	-	-	-	
Non-financial corporations	124.7	53.9	70.8	-	-	-	1.4	0.2	1.2	-	-	-	-	-	
Households	2,284.9	2,262.0	22.9	0.7	-	0.7	2.4	1.3	1.1	-	-	-	-	-	
Total	26,810.8	20,417.2	1,804.6	74.7	-	74.7	33.1	19.1	14.0	9.8	-	9.8	17,557.5	61.8	

# Template 9: Collateral obtained by taking possession and extraction processes

The following template is a nil return. The Bank does not hold collateral through taking possession of property.

	Collateral obtained by	taking possession
	Value at initial recognition	Accumulated negative changes
Property, plant and equipment (PP&E)	-	-
Other than PP&E	-	-
Residential immovable property	-	-
Commercial immovable property	-	-
Movable property (auto, shipping, etc.)	-	-
Equity and debt instruments	-	-
Other	-	-
Total	-	-

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Table 37a Leverage ratio common qualitative disclosure

Appendix 4 – EBA forborne and non-performing assets

Table 38 Summary reconciliation of accounting assets and leverage ratio exposures

Table 41 Analysis of EAD by residual contractual maturity and exposure classes

Table 43 Analysis of corporate EAD by sector including credit risk adjustments

Table 39 Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

Table 42 Analysis of impaired and past due exposures and exposure including credit risk adjustments