Nick Slape (CEO) and Louise Britnell (CFO) will host an audio conference on 28 July 2023 at 9am (UK time) to present the interim results for the six months ended 30 June 2023 and a Q&A session.

To access the call please visit https://www.co-operativebank.co.uk/about-us/investor-relations/

Additional materials are also available at this address.

BASIS OF PRESENTATION

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

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

2023 Interim Financial Report

28 July 2023

The Co-operative Bank ('the Bank') is pleased to provide an update on its performance in the six months ended 30 June 2023.

- **Profit before tax of £61.8m and underlying profit of £72.2m;** in line with 1H 22 (£61.9m)
- **Surplus liquidity position;** Pillar 1 LCR spot position 224.0%, 12 month rolling average LCR 238.9%
- **Strong asset quality;** only 0.15% of secured accounts greater than 3 months in arrears
- **Significant headroom to capital requirements;** £200m successful MREL issuance in this quarter

Nick Slape, Chief Executive Officer, said:

"In the first half of 2023, we have delivered a strong financial performance with a statutory profit before tax of £61.8m and a statutory return on tangible equity of 13.0%.

We have made good progress on our mortgage and savings transformation program having launched a third new savings product, completed the insourcing of Capita colleagues and migrated c.60% of our existing savings accounts.

Our low risk balance sheet and strong capital and liquidity positions provide a resilient foundation from which to focus on our customer driven goals in an uncertain macro-economic environment.

I am pleased to see the investment in our customer proposition being validated and, looking to the future, I am excited by the opportunity to leverage our technology re-platforming to the benefit of both customers and colleagues alike.

We recognise the financial challenges that the current economic uncertainty and the cost of living crisis poses for a number of our customers and colleagues and we will continue to support them. We are proud to have signed up to the recent "Mortgage Charter" offering tailored help to those customers who need it.

I would again like to thank our colleagues and customers for their continued support."

FINANCIAL PERFORMANCE UPDATE

INCOME STATEMENT (£m)

	6 months ended 30 June	
	2023	**2022**
Net interest income	**245.1**	208.2
Other operating income	**21.4**	21.4
Total income	**266.5**	229.6
Operating expenditure	**(205.8)**	(175.1)
Impairment (charge) / credit	**(0.3)**	2.8
Non-operating income	**1.4**	4.6
Profit before tax	**61.8**	61.9
Taxation credit / (charge)	**41.4**	(33.5)
Profit after tax	**103.2**	28.4
Adjustments		
Exceptional project expenditure	**7.5**	5.5
Other exceptional losses / (gains)	**2.9**	(3.8)
Underlying profit before tax	**72.2**	63.6
Key ratios:		
Net interest margin (bps) [1]	**184**	151
RoTE (%) [2]	**13.0**	5.2
Cost:income ratio (%) [3]	**76.8**	74.8
Asset quality ratio (bps) [4]	**0.3**	(2.7)

1. Annualised net interest income over average interest earning assets
2. Annualised profit after tax over average equity less intangibles, assuming no further DTA benefit in 2H 23
3. Total statutory expenditure over total statutory income (excludes impairment)
4. Annualised impairment charge / (credit) over average customer assets

PERFORMANCE HIGHLIGHTS

Profit before tax of £61.8m and underlying profit of £72.2m

Total income of £266.5m; includes net interest income and other operating income and increased by 16% in comparison to the six months ended 30 June 2022 (1H 22: £229.6m).

Net interest income increased by 18% to £245.1m (1H 22: £208.2m) and net interest margin (NIM) has risen by 33 basis points (bps) from 151bps to 184bps, with both benefitting from increases in the base rate. The SVR-based component of our EIR asset is £25.8m and is underpinned by an assumption of a refinancing period of 0.5 months for the whole fixed rate mortgage book (10% of our customers reverting to SVR and then those customers spending an average of 5 months there before refinancing). In the last 6 months we have observed more customers reverting to SVR. See page 206 in 2022 Annual Report & Accounts for further information on assumptions.

Operating expenditure increased by 18% to £205.8m (1H 22: £175.1m); driven mainly by strategic decisions and commitments to complete key projects such as Capita mortgage insourcing which saw c.400 colleagues join the Bank in the first half of the year. Non-staff costs rose by 6% to £107.7m following inflationary pressures and project costs increased to £27.0m (1H 22: £16.5m), which includes costs of £7.5m relating to the mortgage and savings transformation programme, as we accelerate investment in transformation projects to realise future benefits. Our statutory cost:income ratio increased in the period to 76.8% from 74.8%, as a result of increased statutory expenditure outweighing increased income.

Net impairment charge of £0.3m (1H 22: £2.8m credit); driven by an increased provision for macroeconomic factors, most notably an increase in the base rate outlook, offset by refinement of unsecured modelling.

We have reported a £1.4m non-operating exceptional gain (1H 22: £4.6m), predominantly relating to Visa shareholdings. 2022 includes the sale of a small loan portfolio.

Income tax credit of £41.4m

The income statement tax credit of £41.4m is driven by further deferred tax asset recognition of historical tax losses partially offset by the tax charge on profits in the period.

Surplus liquidity position

Total assets reduced by 2% compared with 31 December 2022 with legacy assets reducing by 5% to £0.6bn. Retail secured balances have seen a slight increase to £19.8bn (FY 22: £19.6bn) as we look to manage new business volumes whilst strategically preserving Bank margins.

Total liabilities reduced by 2% to £26.3bn over the period (FY 22: £26.8bn). SME deposit balances have decreased slightly to £3.3bn (FY 22: £3.4bn) whilst retail deposit balances decreased by 3% to £16.1bn (FY 22: £16.6bn) driven by a reduction in retail current account balances to £5.4bn (FY 22: £5.8bn), following a decrease in customer average balances, primarily attributable to the cost of living crisis. 81.4% of our core customer deposits are insured through FSCS, and have remained stable throughout the year despite issues seen in the wider market relating to Silicon Valley Bank. The Bank maintains a very strong 12 month average LCR position of 238.9%. Total blended cost of funds has increased, due to base rate rises, to 210bps but still remains cost efficient (FY 22: 73bps). During the period we have repaid £376m of TFSME with a remaining balance of £4.9bn.

Strong asset quality

The asset quality ratio (AQR) in total across retail, SME and legacy customer lending remains strong, reflecting the Bank's low-risk lending profile. AQR for the Bank as a whole as at 30 June 2023 is a charge of 0.3bps (1H 22: release of 2.7bps). The average core mortgage book loan-to-value (LTV) remains low at 55.8% (FY 22: 53.5%). Secured accounts that are greater than three months in arrears represented only 0.15% of total accounts as at 30 June 2023 (FY 22: 0.13%). We are working hard to ensure our customers feel supported and can access the advice and services they need through our personal banking and SME dedicated financial support teams.

Significant headroom to capital requirements

Following the Bank's new £200m Green MREL Senior transaction in May, plus profits in the period, total MREL-qualifying resources have grown by £241.8m. We have £378.4m surplus MREL resources against a requirement of £1,463m including CRD IV buffers. This issuance creates further opportunity to optimise capital structure in line with our plans.

CET1 ratio has increased from 19.8% to 20.1% and remains well above the regulatory minimum of 13.3% with organic CET1 ratio generation in 1H 23 totalling 30bps. Risk-weighted assets (RWAs) totalled £4.9bn (FY 22: £4.8bn).

BUSINESS PERFORMANCE UPDATE

Retail and SME performance

Our retail and SME segments encompass the services we provide to our personal and SME banking customers and only provide services to UK-based customers.

To date, there has been lots of competition in the industry for current account customers, with a wide variety of different switch incentives across the market. To ensure we remained competitive in the current account market, we introduced our 'Refer a Friend' incentive throughout the second half of 2022 and the first half of 2023. This incentive gave customers the opportunity to introduce like-minded friends to our ethical banking proposition and has helped mitigate balance reductions driven by switch outs.

Earlier this year, we launched a new Visa promotion that benefits both customers and charity partners, giving customers the chance to win up to £2,500 when they make a purchase using their Co-operative Bank credit or debit card. To allow our customers to make a difference to the causes that matter to them, we're matching the total customer prize pot and customers will get to vote how the donation is allocated. The promotion will have three monthly draws and as at 30 June 2023 there were 16,185 entries.

Within our SME segment, our community customers are now able to apply for a business account digitally, significantly reducing friction within the customer journey and replacing the traditional paper-based application process. Since the implementation, there has been a 35% increase in the number of new community accounts opened compared to the same period in 2022.

Delivering our strategy alongside our scorecard measures

During the first half of the year, we have made progress against our scorecard measures. We aim to continuously improve the service we offer to customers whilst addressing their concerns, with a target to reduce complaints per 1,000 customers and currently year to date this has reduced compared with the prior six months. In 2023, we have started to track our customer perception on Trustpilot with our score climbing since the start of the year from 1.7 (Bad) to 3.5 (Average). Whilst we did experience some system outages earlier in the year, we were able to rectify the issue quickly and keep customer impact to a minimum.

As part of our transformation measures, the mortgage and savings platform simplification activity is critical to delivering cost efficiencies, improving flexibility for introducing new products and reducing technical debt. After a long period of planning and developing, we are set to complete the majority of the work this year, with decommissioning due to finish next year. During 1H 23 we welcomed c.400 colleagues from Capita as part of the insourcing of mortgage operations and have also launched a new savings product, Fixed Rate Cash ISA, following the launch of two other savings products in 2022. This year is significant in our transformation journey, and while we acknowledge the present challenges, we firmly

believe that the changes we are making will yield substantial benefits in the future. The timeline for completing the transformation remains in line with expectations with savings to be concluded in 2023 and mortgages in early 2024.

The current environment is challenging. With the upward movement of base rates there is intensified competition for deposits, and mortgage margins remain under pressure across the whole industry. However, despite these hurdles, we remain on track with our financial progress. This year serves as a cornerstone for our long-term growth and success and we have made strong progress in the first half of 2023. We have already published our dividend policy in our 2022 Annual Reports and Accounts, providing clear guidance to our shareholders and stakeholders. We have further strengthened our capital position with the issuance of our second Green MREL qualifying debt in May 2023, supporting our commitment to Green residential mortgage lending which stands at £156m in 2023. We received an upgraded credit rating from Fitch in February to BB, meaning we are two notches away from investment grade, alongside our Moody's rating of Ba1, which is one notch away from investment grade. We expect further engagement with credit rating agencies post the interim results announcement.

BOARD MATTERS

The Board and its committees have focused on many key matters in the period. These included, amongst others:

- Reviewing the outputs of the Board and Committee Performance Evaluation undertaken by the Chartered Governance Institute UK & Ireland in November 2022;
- The appointment of Fiona Clutterbuck to the Board of Directors with effect from 17 April 2023;
- The issuance of £200m of MREL-qualifying funds in May 2023, the second issuance under the Bank's Green, Social and Sustainability (GSS) Financing Framework;
- Considering the impacts of the proposed reforms to the Basel III Standards upon the Bank, and the steps being taken to implement the required changes;
- Oversight of the activities being undertaken to progress and deliver the requirements of the Financial Conduct Authority's Consumer Duty regulations;
- The approval of the 2022 Annual Report and Accounts in February 2023 and the first quarter results in May 2023;
- Reviewing, challenging and approving the Bank's 2022 Sustainability Report evidencing how the Bank has delivered against its Ethical Policy over the previous 12 months;
- Overseeing the enhancement of customer experience, colleague wellbeing and creation of an agile culture, whilst maintaining focus on regulatory compliance, cyber security and sustainability. The Board continues to review the ways of working to adapt to changing market dynamics, remain competitive and deliver value and good customer outcomes;
- Overseeing the Bank's approach to the ongoing support of co-operatives, the continued progress on our values and ethics-led ESG commitments and ensuring the risks from climate change are properly considered and incorporated into all areas of the business;
- The quarterly refresh of financial forecasting, including the impact on the longer-term financial and capital plans, continuously adapting to the external economic market conditions;
- The regulatory agenda including the review and approval of the Bank's internal capital adequacy assessment process (ICAAP), the internal liquidity adequacy assessment process (ILAAP) and operational resilience self-assessment;
- The Board's ambitious transformation plan to simplify its mortgage and savings platforms and overseeing the successful in-housing of mortgage servicing operations.

Strengthening our values and ethics

We continue to campaign on matters that are consistent with our values and ethics and in line with our customers' priorities, such as demonstrating our ongoing commitment to protecting the environment, campaigning alongside Zero Hour in their fight to reverse the damage from the climate and nature crisis we're all facing. Earlier this year on World Environment Day, representatives from the Bank joined Zero Hour ambassadors and supporting Parliamentarians to hand in the United For Nature petition, calling on the Prime Minister to increase the UK Government's environmental ambition from halting, to halting and reversing, nature loss by 2030.

The Co-operative Bank and Friends of the Earth have joined forces to launch a multi-year partnership which will bring back nature to some of the UK's most nature-deprived communities through the Postcode Gardener Programme. The Postcode Gardener Programme is an initiative aimed at connecting professional gardeners with their communities, helping to organise and support local people in getting greenery and wildlife to thrive in their local areas. The idea was born of the realisation that whilst many people want to live on streets thriving with greenery and wildlife, they need help to make it happen.

Over the next two years, we will be campaigning alongside Shelter to demand long-overdue reforms that could transform renting. These reforms would bring an end to all-too-common unfair evictions, unsafe housing, and secure stronger rights for all renters. Over the past five years, we have become a leading voice on youth homelessness thanks to our long-standing partnership with Centrepoint. Our campaign with Shelter takes our work in this area to the next level by bringing about positive change for those in the UK facing housing insecurity.

Supporting and protecting human rights has been a commitment within our Ethical Policy for over 30 years, which is why we are delighted to have announced our sponsorship of Amnesty International UK's "Team Amnesty", a group of passionate supporters who raise funds to allow Amnesty International to perform vital work to expose abuses, educate, and mobilise millions around the world. We recognise the impact that the cost of living crisis is having on those affected by economic abuse and continue to work and fundraise with Refuge to provide specialist services to those who are affected.

Outlook

Our financial outlook for the remainder of the year is as follows:

- Bank net interest margin of approximately 180bps; reflecting additional base rate rises offset by mortgage margin pressure.
- Total statutory costs of approximately £420m; further investment in our brand and systems alongside inflationary pressures.
- Asset quality ratio of less than 5bps; arrears remain low and stable across all portfolios.
- Customer assets of £20-21bn; guidance refreshed as we actively manage mortgage volumes in the second half of the year.
- Return on tangible equity of over 10%; profitability and improved performance drives shareholder value.
- Our new capital management framework including dividend policy will enable a more efficient level of capital resources and allow us to make the required investment in our business to grow and provide capital returns to our shareholders over the long term.

Whilst we are delivering against the challenging objectives we set ourselves in our 2021 strategic plan, we acknowledge that there is more to accomplish as we approach the second half of 2023. We maintain a strong belief in our ability to achieve the multi-year strategic goals outlined in our current phase of the strategic plan. This plan is designed to enhance operational efficiency, pursue growth opportunities, and diversify revenue streams, positioning ourselves to challenge high street banks and provide a service to customers who want an ethical alternative.

SEGMENTAL PROFIT / (LOSS) (£m)

Further information is provided in note 3.

	Core			Legacy &	Group
Six months ended 30 June 2023	**Retail**	**SME**	**Total**	**unallocated**	
Net interest income	199.2	45.2	**244.4**	0.7	**245.1**
Other operating income	12.8	8.3	**21.1**	0.3	**21.4**
Operating income/(expense)	**212.0**	**53.5**	**265.5**	**1.0**	**266.5**
Operating expenses	(158.4)	(32.8)	**(191.2)**	(14.6)	**(205.8)**
Net credit impairment gains/(losses)	0.1	0.2	**0.3**	(0.6)	**(0.3)**
Non-operating income	-	-	**-**	1.4	**1.4**
Profit before tax	**53.7**	**20.9**	**74.6**	**(12.8)**	**61.8**

Six months ended 30 June 2022	Core			Legacy &	Group
	Retail	**SME**	**Total**	**unallocated**	
Net interest income	183.6	28.8	212.4	(4.2)	208.2
Other operating income	12.1	9.0	21.1	0.3	21.4
Operating income/(expense)	195.7	37.8	233.5	(3.9)	229.6
Operating expenses	(136.7)	(30.0)	(166.7)	(8.4)	(175.1)
Net credit impairment gains/(losses)	1.5	(0.8)	0.7	2.1	2.8
Non-operating income	-	-	-	4.6	4.6
Profit before tax	60.5	7.0	67.5	(5.6)	61.9

SME performance has improved during the first six months of the year with profit before tax increasing to £20.9m (1H 22: £7.0m) whereas retail profit has reduced to £53.7m (1H 22: £60.5m). Both segments have benefited from base rate rises with retail total income increasing by 8% to £212.0m (1H 22: £195.7m) and SME total income increasing by 42% to £53.5m (1H 22: £37.8m). The significant increase in SME income is due to a high proportion of the SME balance sheet comprising deposits which have benefited from the rising rate environment. The SME segment remains a key strategic focus for its growth potential.

Retail operating expenditure increased from £136.7m to £158.4m. This is predominantly driven by the insourcing of Capita colleagues and recruitment in the second half of 2022. SME operating expenditure has increased to £32.8m (1H 22: 30.0m). Legacy & unallocated operating expenditure has increased from £8.4m to £14.6m due to increased strategic project spend that has not been allocated to any segment.

SEGMENTAL BALANCE SHEET (£m)

30 June 2023	Core			Legacy & unallocated	Group
	Retail	SME	Total		
Segment assets	20,059.0	391.4	20,450.4	7,205.1	27,655.5
Segment liabilities	16,109.0	3,308.1	19,417.1	6,837.0	26,254.1

31 December 2022	Core			Legacy & unallocated	Group
	Retail	SME	Total		
Segment assets	19,841.3	388.2	20,229.5	7,903.3	28,132.8
Segment liabilities	16,607.8	3,396.8	20,004.6	6,829.2	26,833.8

SELECTED KEY PERFORMANCE INDICATORS

% (unless otherwise stated)	1H 23	2022	Change
CET1 ratio	**20.1**	19.8	0.3
Total capital ratio	**24.0**	23.8	0.2
Risk-weighted assets (£m)	**4,943**	4,816	127
Leverage ratio (PRA) [1]	**4.1**	4.0	0.1
Liquidity coverage ratio (spot)	**224.0**	242.9	(18.9)
Liquidity coverage ratio (12 month rolling average) [2]	**238.9**	265.3	(26.4)
Loan to deposit ratio	**108.2**	104.1	4.1
Average core mortgage LTV	**55.8**	53.5	2.3
Core mortgage accounts > 3 months in arrears (volume)	**0.15**	0.13	0.02
NPL as a % of total exposures	**0.4**	0.4	0.0

1. Calculated as per PRA definition, excluding Bank of England reserves
2. Calculated in line with Pillar 3 requirements

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

About The Co-operative Bank
The Co-operative Bank p.l.c. provides a range of banking products and services to about 2.5m retail customers and c.94k small and medium sized enterprises ('SME'). The Bank is committed to values and ethics in line with the principles of the co-operative movement. The Co-operative Bank is the only high street bank with a customer-led ethical policy, which gives customers a say in how their money is used. Launched in 1992, the policy has been updated on six occasions, with new commitments added in June 2022 to cover what we do for our planet, people and the community.

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

Note: This announcement contains inside information.
The Co-operative Bank p.l.c. LEI: 213800TLZ6PCLYPSR448
The Co-operative Bank Finance p.l.c. LEI: 213800KNE8ER4N9BLF11

RISK MANAGEMENT

1. RISK MANAGEMENT OBJECTIVES & POLICIES – PRINCIPAL RISKS AND UNCERTAINTIES

The following Principal Risks and Uncertainties section highlights the changes in risk profile and mitigation we have experienced and pursued within credit, operational, and capital risk since the publication of the 2022 Annual Report and Accounts (ARA).

Risk Management Framework (RMF)
We have continued to enhance the RMF in 2023, 'right sizing' the framework to suit both our current and future operating model. Key areas of focus in 2023 have been to rationalise the principal risk taxonomy to ensure it is representative of the Bank's most significant risks which has resulted in the removal of pensions risk and product risk from the Group's list of principal risk taxonomies. The current list of principal risks within the Group RMF can be seen in the chart below. We have also made changes to how risk metrics are constructed and reported by translating risk appetite into specific, Board-monitored Key Risk Appetite Metrics (KRAMs).

The Group's 2023 principal risk taxonomy and relevant pages in the 2022 ARA are as follows:

<table>
<tr><td>Capital risk</td><td colspan="3">The risk that the Group's regulatory capital resources are inadequate to cover its regulatory capital requirements.</td><td>Pages 120 to 122</td></tr>
<tr><td>Credit risk</td><td colspan="3">The risk to profits and capital that arises from a customer's failure to meet their legal and contractual payment obligations. Credit risk applies to retail, SME and treasury.</td><td>Pages 122 to 124</td></tr>
<tr><td>Model risk</td><td colspan="3">The potential for adverse consequences caused by models. Model risk can lead to financial loss, regulatory penalty or fine, poor business or strategic decision-making, incorrect financial reporting, damage to a bank's reputation or adverse customer outcomes.</td><td>Page 126</td></tr>
<tr><td>Market risk</td><td colspan="3">The risk of loss as a result of the value of assets or liabilities being adversely affected by movements in market prices, interest rates or exchange rates.</td><td>Pages 125 to 126</td></tr>
<tr><td>Liquidity and funding risk</td><td colspan="3">The risk that the Group is unable to meet its obligations as they fall due or can only do so at excessive cost.</td><td>Pages 124 to 125</td></tr>
<tr><td rowspan="12">Operational risk</td><td rowspan="12">Operational sub risks</td><td>Regulatory</td><td rowspan="12">The risk of loss resulting from inadequate or failed internal processes, people and systems or external events.</td><td rowspan="12">Pages 116 to 120</td></tr>
<tr><td>Conduct</td></tr>
<tr><td>Fraud</td></tr>
<tr><td>AML (Anti-money laundering)</td></tr>
<tr><td>Financial reporting</td></tr>
<tr><td>Information and data</td></tr>
<tr><td>Payments</td></tr>
<tr><td>Legal</td></tr>
<tr><td>Technology</td></tr>
<tr><td>Change</td></tr>
<tr><td>People</td></tr>
<tr><td>Third party supplier</td></tr>
<tr><td colspan="4">Thematic risks: climate risk (2022 ARA pages 44 to 45), operational resilience (2022 ARA page 119)</td><td></td></tr>
</table>

Credit risk

Retail credit risk
Our strategy remains focused on monitoring both secured and unsecured retail portfolios. At the start of 2023, we initiated an unsecured "cost of living task force" set up to review customer management processes and arrears strategies in light of the current continued unfavourable macroeconomic conditions. This activity will continue throughout the rest of 2023, alongside tracking our existing suite of cost of living early warning indicators, and operating our pre-arrears contact strategy for unsecured customers.

Over 2023, we have also revised and updated the affordability assessments of the residential secured portfolio to reflect the impacts on household disposable income from the rising cost of living and rate increases for customers with rate maturities in 2023 and 2024. These assessments enable us to identify customers with the highest likelihood of entering a negative disposable income position and are the most likely to require support. The Group's "at risk" population for its Platform mortgages was 1,901 in December (2.04% of the portfolio) and has risen to 2,120 in April (2.18% of the portfolio) which is expected given the macroeconomic environment. We are contacting at risk customers to remind them support is available should they require it.

We are committed to complying fully with the mortgage charter set out by the Chancellor in June 2023 and already have a full suite of forbearance options for customers in financial difficulty. These include the ability to temporarily switch their mortgage from repayment to interest only, or extend the term of the mortgage. We consider repossession of a property as a last resort and will work with customers to find other options where possible. Any repossessions will comply fully with the requirement to have a full twelve months between falling into arrears and repossession.

SME credit risk
SME customers continue to face high inflation and rising interest rates, with some operating in sectors which continue to struggle with recruitment due to a shortage of skilled labour. Despite these challenges, the majority of our business customers have continued to service their lending facilities without the need for intervention. Customers who have experienced financial difficulties have been supported with forbearance solutions where appropriate. We operate tailored contact strategies for businesses in need of assistance, driving dialogue to explore the need for support. Where appropriate, customers are directed towards reliable external advice and forbearance is considered where necessary.

To address the increasing SME credit risk resulting from worsening economic conditions, we have refreshed our affordability assessments and stress testing requirements at loan origination and throughout the loan life cycle. This supports good customer outcomes by reducing the potential for customers to become overcommitted. Sector appetites and key credit criteria have been updated to support our selective growth strategy.

Treasury credit risk
Credit monitoring has not identified any material changes (including external credit rating downgrades) in the creditworthiness of the Group's low-risk treasury portfolio during the year, even accounting for recent banking sector turmoil leading to the resolution of SVB and Signature Bank in early March 2023, the takeover of Credit Suisse later in the month and the subsequent collapse and rescue of First Republic Bank in May. We have not experienced any historic defaults and current exposures remain predominantly concentrated to counterparties rated AA- or higher, suggesting a very low probability of default. We will continue to monitor counterparty creditworthiness closely in the coming months alongside monetary policy decisions (particularly in the UK), evolving funding conditions and any potential impacts to counterparty earnings which may cause credit deterioration.

Operational risk

Regulatory change
We are committed to compliance with a high volume of significant regulatory change in 2023 aimed at enhancing customer protection and outcomes, and the Group's financial resilience. The following highlights key regulatory change activity delivered in 2023:

- FCA Consumer Duty – designed to increase the current level of consumer protection across the retail financial services market. We have made progress in 2023 to ensure readiness for the FCA's implementation dates. Key Moment of Truths (KMOTs) and high risk products have been assessed using predefined assessment frameworks to identify areas of potential customer harm. All areas identified have been triaged to understand the remediation or mitigation which is required prior to the end of July 2023, and to develop the day 2 plan. We have delivered the 'All intermediaries Distribution Product Review' ahead of the 30th of April 2023 deadline. In addition, the Group's governance framework and data and management information capabilities are being enhanced and developed to ensure that good customer outcomes continue to be evidenced. We have also invested in cultural change, supported by specific training sessions, including Executive Committee training, monthly Q&A sessions, mandatory training and regular updates. We are currently on track to meet further FCA implementation dates.
- **[New]** PRA Model Risk Management (MRM) Principles for Banks – ensures firms take a strategic approach to MRM as a risk discipline in its own right. This will lead to strengthened Group policies, procedures, and practices to identify, manage, and control the risks associated with the use of models.
- **[New]** PSR New Reimbursement Requirements for Victims of Authorised Push Payment (APP) Fraud – will ensure a greater number of customers who fall victim to APP fraud will be reimbursed, prompting banks to enhance control frameworks. In 2024, the new reimbursement requirement will come into force. We welcome the new PSR requirements, and have begun strengthening existing controls to protect both customers and the Group from the risk of APP fraud.

We recognise that a high volume of regulatory change activity carries significant execution risks and represents a significant resource demand across the business. We remain fully committed to successfully delivering a significant regulatory change agenda across 2023 and beyond, with significant time and effort invested into planning and building the capability to mitigate the risks of non-compliance or late / failed delivery.

Fraud risk
Fraud losses continue to be a significant factor contributing to operational losses in 2023 although implementation of the card not present (CNP) online transaction security enhancement in 2022 has continued to reduce both the number of fraud cases and overall fraud loss. We recognise that APP, impersonation and purchase scams are some of the leading forms of fraud impacting our customers, which aligns with wider industry data. In response, we have continued to invest in our behavioural biometrics tool (Trusteer), enabled to protect customers when they do their banking online. To further mitigate this risk, we have planned security enhancements and improved fraud notification banners within payment journeys scheduled to be delivered later in 2023. In addition, tactical controls remain in place for SME with a planned upgrade to our SME transaction screening tool (Detica) scheduled for H2 2023, delivering further protection against both account takeover and APP for our business customers.

Change risk
Since 2022 we have introduced improved governance and oversight for the delivery of business change. A refreshed business change methodology, supported by a new financial control framework is now in place and subject to reporting and review by a dedicated committee. Our 2023 transformation portfolio continues to deliver a set of initiatives core to our strategy with a focus on risk remediation, improved customer experience, regulatory compliance and most significantly, the migration of mortgage and savings customers from legacy IT systems to a new platform.

We have delivered a number of significant improvements through change in the first half of 2023, most notably;

- the continued removal of legacy systems across our IT estate in line with the approved plan;
- transfer of Capita staff into the Group to a refurbished location for mortgage operations;
- cyber security enhancements; and,
- updated features and stability fixes within the retail and SME digital banking app.

For the remainder of 2023, robust programme monitoring and oversight of key developments will continue to be driven across all three lines of defence. Our regulators will continue to receive frequent updates on the Group's transformation progress.

Capital risk

Capital compliance

Over the first half of 2023, the UK economy has continued to see high levels of inflation (8.7% YoY CPI increase, for the 12 months to April 2023), with the Bank of England increasing base rate from 3.5% as at 31 December 2022, to 5% (as at 30 June 2023). The lag effects of changes in prices and interest rates have resulted in continued resilience across our lending portfolios, supported by sustained resilience in the labour market. Group RWAs have increased to £4,943m, due to changes in balance sheet composition, rather than balance sheet growth. Despite this, our capital position has been strengthened by a further £200m MREL Senior debt issuance, completed in May 2023.

Capital risk is monitored on a continuous basis by senior management across all three lines of defence, and we remain well positioned to react to changes in our capital risk profile. We regularly assess changes in macroeconomic variables (such as house prices, unemployment, inflation, interest rates and others) in order to understand the potential impact on credit losses and RWAs. We conduct an annual stress testing exercise to assess the impact of highly severe yet plausible downturn scenarios, for which the Group remains adequately capitalised to absorb. Furthermore, capital contingency planning and recovery planning are regularly reviewed by management in order to ensure that we are prepared to take actions to protect our capital position.

With respect to PS11/20 model changes and the impact on RWAs and expected loss (EL), we continue to engage closely with the PRA in order to implement change. In order to ensure that RWAs and EL are not underestimated, we have implemented a post model adjustment (PMA) for PS11/20. We will continue to review the size of this PMA to ensure it remains suitable as we complete our PS11/20 model development. Capital risk is also mitigated through the continued accrual of organic CET1 resources as a result of sustained profitability. We plan to reduce dependency on interest income and remain committed to diversifying its income streams, as noted in the 2022 Annual Report and Accounts. Overall, we continue to maintain a strong position across all regulatory capital frameworks (TCR/MREL/Leverage) including capital buffers, on both an actual and forecast basis.

Capital regulatory change

Regulatory change remains a key risk to the Group's capital position. On 30 November 2022, the PRA released Consultation Paper 16/22 (CP16/22), which outlined the proposals for the implementation of Basel 3.1 in the UK. As noted in the 2022 Annual Report and Accounts, the PRA proposed a series of changes to the current approach to calculating regulatory capital requirements, to be implemented on 1 January 2025 on a phased basis. We highlighted the magnitude of the development required ahead of implementation, in order to calculate and report Pillar 1 requirements in line with the proposed changes. We have developed a plan for delivering all required changes in time for the implementation date and continue our detailed assessment of potential impacts, all overseen through Board and Executive-level governance. We have provided responses to the consultation directly to the PRA and through UK Finance's industry responses.

On 13 July 2023, after the reporting period end date, the FPC implemented the increase in the UK CCyB rate as expected. There have been no further regulatory changes that are expected to materially impact the Group's capital position.

Emerging risks

Banking sector instability

The collapse of Silicon Valley Bank (SVB) and Signature Bank in early March 2023, the takeover of Credit Suisse (CS) in April, and the subsequent collapse of First Republic Bank in May drove increased volatility in interest rate and wholesale debt markets, leading to global "risk-off" sentiment as markets sought to identify any potential risk of contagion.

Our response to this threat included the immediate enhancement of customer and market monitoring and engagement with stakeholders including meeting regulatory requests for liquidity data. There were no material impacts to the Group arising from this period of instability.

We are not exposed to the same profile of risks which led to the failure of SVB, notably weakness within the Pillar 2 IRRBB framework, and do not expect any long run idiosyncratic impacts as a result of March's instability. We continue to closely monitor any impacts of regulatory developments - aimed at limiting the risk of bank failures occurring in the UK – on both the UK banking sector and the Group.

Base rate rises
The UK economy over the past 12 months has been characterised by persistently high levels of inflation. In response, the Bank of England has increased the base rate by 150 basis points in 2023 as at 30 June with further rate rises expected, following the total 325 basis point increase through 2022. We anticipate that further base rate increases are likely to drive affordability challenges for our borrowers, especially those on standard variable rate (SVR) mortgages. Whilst our portfolios have not been materially affected as yet, increased affordability pressure on our customers consequentially increases the potential for increased rates of arrears within our secured and unsecured portfolios.

The retail credit risk section on page 7 provides details on how we are monitoring the impacts of the rising rate environment on our customers.

Global conflict
The Group continues to have no direct exposure to the conflict in Ukraine or potential conflict in Taiwan. Although no direct threats have emerged over 2023, we remain conscious of a select number of continued indirect impacts these conflicts have on our risk profile and delivery of financial strategy. The most prominent of these include:

- Inflation – the impact that Russian sanctions continues to have on global market prices for goods in particular oil prices, exacerbating inflationary pressures on the UK economy.
- Sanctions – the enforcement of sanctions regimes on Russia causes a heightened level of compliance risk. Our lack of exposure to affected regions provides some mitigation however enhanced compliance resource is still required due to the increased severity of sanctions imposed.
- Cyber threats – international conflict opens the Group to potential cyber threats from state sponsored groups / individual threat actors. We are continuously strengthening and adapting cyber defences in place to remain prepared for this evolving threat.

Market risk

LIBOR transition
The Group has exposure to legacy LIBOR-linked products, primarily across its legacy retail secured and corporate portfolios. LIBOR was phased out at the end of 2021, and the work to transition the Group's affected exposures to appropriate replacement rates now been materially completed. For further information on the risk management associated with this activity, refer to the market risk disclosures within the 2022 Annual Report and Accounts.

The table below outlines the Group's exposure at 30 June 2023 to significant IBORs subject to reform that are yet to be transitioned to an alternative benchmark rate. The carrying amounts of financial assets are presented gross of any expected credit losses (ECLs).

	30 June 2023			31 December 2022		
	Non-derivatives		**Derivatives**	Non-derivatives		Derivatives
	Financial assets Carrying value	**Financial liabilities Carrying value**	**Nominal amount**	Financial assets Carrying value	Financial liabilities Carrying value	Nominal amount
GBP LIBOR	**6.0**	**-**	**-**	105.9	-	68.7

Of the above balances, none (31 December 2022: £5.7m) are classed as tough legacy. The majority of the remaining balances will have completed their transition to an alternative rate by the end of 2023, and the remaining population are expected to be moved to a replacement rate when the synthetic LIBOR benchmark is removed in March 2024.

The Group also has responsibility for the migration of certain legacy LIBOR retail secured assets sold to unconsolidated structured entities or other third parties but where it continues to hold legal title. The gross outstanding balances of these LIBOR assets not recognised on the Group's balance sheet are £133.5m (31 December 2022: £142.6m), of which £21.2m (31 December 2022: £22.7m) are classed as 'tough legacy' (i.e. those that do not allow for variation of benchmark rates) and for which solutions continue to be developed.

2. CREDIT RISK

All amounts are stated in £m unless otherwise indicated

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

The Group manages credit risk on the following balance sheet items:

- Loans and advances to banks;
- Loans and advances to customers;
- Investment securities;
- Derivative financial instruments; and
- Other assets.

Expected credit loss (ECL) assessment approach

The Group's portfolio of assets on which credit risk is managed remains low-risk and well-positioned to withstand the current environment.

During 2023 the Group has observed the following impacts:

1. Level of arrears in the mortgage portfolio (core >3 months) is 0.02% higher compared to the year end: 0.15% as at 30 June 2023 (0.13% at 31 December 2022). We are seeing some small increases driven by the squeeze on household finances due to inflation and a rising interest rate environment.
2. There has not been a significant amount of material defaults in the SME or legacy corporate portfolios in the period. The profiles of customers are closely monitored including via strategies to identify and contact 'at risk' customers as described in the year end risk management report and which are managed on a case-by-case basis.

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

Allowance for losses and credit impairment charge analysis by segment

Although the Group manages credit risk arising from a number of balance sheet items, the most significant is the loans and advances. The following tables analyse the allowance for losses as at 30 June 2023 and the credit impairment charge for the period by segment. Comparative information is shown within the analysis of credit risk section alongside segmental information disclosed within note 3 and information included in note 8 in relation to loans and advances to customers.

The credit impairment (ECL charge) and the allowance for losses (ECL provision) for the period arises from both modelled and also post-model adjustments (PMAs) (i.e. known model deficiency overlay). These management judgements were described within the Annual Report and Accounts within the critical judgements of note 2, with an update in note 2 of this document. During the period, the following represent the key movements within ECL:

Retail – the ECL provision has reduced from £28.1m to £26.6m. This £1.5m reduction is driven by a higher retail secured ECL provision of £0.6m offset by lower credit cards (£1.9m) and overdrafts (£0.2m) ECL provisions. A key driver of movement in ECL is changes in the PMAs applied by the Group, which are disclosed in further detail in note 2 to the condensed consolidated financial statements. This has resulted in a coverage of c.9bps on the retail secured Platform book.

SME – the movement of the ECL provision from £7.9m to £7.1m reflects a net (£0.3)m reduction in specific provision and PMA movements (described in note 2).

Legacy & central items – the ECL provision has moved from £4.3m at 31 December 2022 to £5.1m. The PMA movement is described in note 2.

Analysis of credit risk

30 June 2023	Core		Legacy & central items	Total
	Retail	SME		
Analysis of credit risk exposure				
Gross accounting balances	20,131.6	396.5	617.1	**21,145.2**
Less: accounting adjustments[1]	(72.6)	(5.1)	2.4	**(75.3)**
Gross customer balances	**20,059.0**	**391.4**	**619.5**	**21,069.9**
Credit commitments	1,356.2	101.0	28.4	**1,485.6**
Gross customer exposure	**21,415.2**	**492.4**	**647.9**	**22,555.5**
Less: customer balances measured at FVTPL[1]	(1.5)	(1.8)	(87.6)	**(90.9)**
Net customer exposure subject to ECL calculation	**21,413.7**	**490.6**	**560.3**	**22,464.6**
Allowance for losses				
Collectively modelled ECL	10.4	1.0	1.7	**13.1**
Individually assessed ECL	-	1.0	2.6	**3.6**
Judgemental adjustment	16.0	4.2	0.5	**20.7**
Operational adjustment[2]	0.2	0.9	0.3	**1.4**
Total ECL	**26.6**	**7.1**	**5.1**	**38.8**

1. Accounting adjustments include some FV non- customer balances.

2. Operational model adjustments are recognised in respect of individually insignificant model corrections where management judgement does not have a substantial impact on the quantification of the adjustment

31 December 2022	Core		Legacy & central items	Total
	Retail	SME		
Analysis of credit risk exposure				
Gross accounting balances	19,918.3	393.2	650.7	20,962.2
Less: accounting adjustments[1]	(77.0)	(5.0)	(1.2)	(83.2)
Gross customer balances	19,841.3	388.2	649.5	20,879.0
Credit commitments	1,826.6	127.5	35.0	1,989.1
Gross customer exposure	**21,667.9**	**515.7**	**684.5**	**22,868.1**
Less: customer balances measured at FVTPL[1]	(1.6)	(2.9)	(90.5)	(95.0)
Net customer exposure subject to ECL calculation	**21,666.3**	**512.8**	**594.0**	**22,773.1**
Allowance for losses				
Collectively modelled ECL	9.8	0.8	1.4	12.0
Individually assessed ECL	-	1.3	2.4	3.7
Judgemental adjustment	18.0	4.8	0.3	23.1
Operational adjustment[2]	0.3	1.0	0.2	1.5
Total ECL	**28.1**	**7.9**	**4.3**	**40.3**

1. Accounting adjustments include some FV non-customer balances.

2. Operational model adjustments are recognised in respect of individually insignificant model corrections where management judgement does not have a substantial impact on the quantification of the adjustment

	Core		Legacy & central items	Total
	Retail	SME		
Credit impairment (ECL charge)				
Six months to 30 June 2023	0.1	0.2	(0.6)	**(0.3)**

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

Gross customer exposure for ECL – Retail	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or Originated Credit Impaired (POCI)**	**Total**
At 31 December 2022	18,103.2	3,453.1	50.8	59.2	**21,666.3**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2)	(647.4)	647.4	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	(8.7)	(10.8)	19.5	-	**-**
To 12 month ECL (stage 2 to 1)	1,401.1	(1,401.1)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	2.1	2.1	(4.2)	-	**-**
Net changes arising from stage transfers	**747.1**	**(762.4)**	**15.3**	**-**	**-**
Other charges/(releases):					
New assets originated or purchased	1,663.6	-	-	-	**1,663.6**
Other changes to risk parameters	(456.7)	-	-	-	**(456.7)**
Redemptions and repayments	(1,283.4)	(161.7)	(7.7)	(4.5)	**(1,457.3)**
Net other charges/(releases)	**670.6**	**(924.1)**	**7.6**	**(4.5)**	**(250.4)**
Assets written off	(0.1)	(0.7)	(1.4)	-	**(2.2)**
At 30 June 2023	**18,773.7**	**2,528.3**	**57.0**	**54.7**	**21,413.7**

Gross customer exposure for ECL – SME	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At 31 December 2022	262.2	232.4	17.1	1.1	**512.8**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2)	(18.0)	18.0	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	(3.3)	(5.3)	8.6	-	**-**
To 12 month ECL (stage 2 to 1)	1.4	(1.4)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	0.1	0.8	(0.9)	-	**-**
Net changes arising from stage transfers	**(19.8)**	**12.1**	**7.7**	**-**	**-**
Other charges/(releases):					
New assets originated or purchased	64.2	-	-	-	**64.2**
Other changes to risk parameters	-	-	-	-	**-**
Redemptions and repayments	(48.7)	(29.9)	(5.9)	-	**(84.5)**
Net other charges/(releases)	**(4.3)**	**(17.8)**	**1.8**	**-**	**(20.3)**
Assets written off	-	-	(1.9)	-	**(1.9)**
At 30 June 2023	**257.9**	**214.6**	**17.0**	**1.1**	**490.6**

Gross customer exposure for ECL – Legacy	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At 31 December 2022	568.2	6.5	12.6	6.7	**594.0**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2)	(14.2)	14.2	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	-	(0.1)	0.1	-	**-**
To 12 month ECL (stage 2 to 1)	0.3	(0.3)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	**-**
Net changes arising from stage transfers	**(13.9)**	**13.8**	**0.1**	**-**	**-**
Other charges/(releases):					
New assets originated or purchased	-	-	-	-	**-**
Other changes to risk parameters	(0.3)	-	-	-	**(0.3)**
Redemptions and repayments	(29.6)	(2.5)	(0.8)	(0.3)	**(33.2)**
Net other charges/(releases)	**(43.8)**	**11.3**	**(0.7)**	**(0.3)**	**(33.5)**
Assets written off	-	-	-	(0.2)	**(0.2)**
At 30 June 2023	**524.4**	**17.8**	**11.9**	**6.2**	**560.3**

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

Allowance for losses – Retail	Stage 1	Stage 2	Stage 3	POCI	Total
At 31 December 2022	8.5	15.5	3.9	0.2	**28.1**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2)	(0.5)	5.5	-	-	**5.0**
To credit impaired (stage 1 or 2 to 3)	-	(0.2)	1.6	-	**1.4**
To 12 month ECL (stage 2 to 1)	0.6	(4.0)	-	-	**(3.4)**
From credit impaired (stage 3 to 2 or 1)	-	-	(0.1)	-	**(0.1)**
Net changes arising from stage transfers	**0.1**	**1.3**	**1.5**	**-**	**2.9**
Other charges/(releases):					
New assets originated or purchased	1.2	-	-	-	**1.2**
Other changes to risk parameters	(3.4)	0.8	0.2	(0.1)	**(2.5)**
Redemptions and repayments	(0.3)	(0.7)	(0.3)	-	**(1.3)**
Net other charges/(releases)	**(2.4)**	**1.4**	**1.4**	**(0.1)**	**0.3**
Assets written off	(0.1)	(0.5)	(1.2)	-	**(1.8)**
At 30 June 2023	**6.0**	**16.4**	**4.1**	**0.1**	**26.6**

Allowance for losses – SME	Stage 1	Stage 2	Stage 3	POCI	Total
At 31 December 2022	1.3	5.3	1.3	-	**7.9**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2)	(0.2)	0.2	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	-	(0.2)	0.4	-	**0.2**
To 12 month ECL (stage 2 to 1)	-	-	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	-	0.1	-	-	**0.1**
Net changes arising from stage transfers	**(0.2)**	**0.1**	**0.4**	**-**	**0.3**
Other charges/(releases):					
New assets originated or purchased	0.3	-	-	-	**0.3**
Other changes to risk parameters	(0.2)	-	-	-	**(0.2)**
Redemptions and repayments	(0.1)	(0.4)	-	-	**(0.5)**
Net other charges/(releases)	**(0.2)**	**(0.3)**	**0.4**	**-**	**(0.1)**
Assets written off	-	-	(0.7)	-	**(0.7)**
At 30 June 2023	**1.1**	**5.0**	**1.0**	**-**	**7.1**

Allowance for losses – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
At 31 December 2022	1.4	0.1	2.7	0.1	**4.3**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2)	-	0.3	-	-	**0.3**
To credit impaired (stage 1 or 2 to 3)	-	-	-	-	**-**
To 12 month ECL (stage 2 to 1)	-	-	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	**-**
Net changes arising from stage transfers	**-**	**0.3**	**-**	**-**	**0.3**
Other charges/(releases):					
Other changes to risk parameters	(0.3)	0.1	0.5	0.1	**0.4**
Redemptions and repayments	(0.1)	0.2	-	-	**0.1**
Net other charges/(releases)	**(0.4)**	**0.6**	**0.5**	**0.1**	**0.8**
Assets written off	-	-	-	-	**-**
At 30 June 2023	**1.0**	**0.7**	**3.2**	**0.2**	**5.1**

Secured residential portfolio analysis

The following tables show the secured residential drawn balances (excluding Legacy) analysed by a number of key risk measurements. The portfolio has remained stable in size. Within this book 4.3% of balances have a probability of default (PD) of greater than 1% (31 December 2022: 3.3%), with the majority of the increase in the 1 to 3% PD band. The book is also subject to a range of forbearance measures which are detailed in the 2022 Annual Report and Accounts. There have been no changes in the measures since the December 2022 year end.

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

The table shows gross customer balances analysed by indexed LTV bandings (with interest only including mortgages on a part repayment/part interest basis).

	30 June 2023			31 December 2022		
LTV %	**Capital repayment**	**Interest only**	**Total**	**Capital repayment**	**Interest only**	**Total**
Less than 50%	**6,165.5**	**983.2**	**7,148.7**	6,641.3	1,118.0	7,759.3
50% to 60%	**3,270.5**	**467.3**	**3,737.8**	3,508.8	432.4	3,941.2
60% to 70%	**3,638.3**	**186.5**	**3,824.8**	3,747.7	160.3	3,908.0
70% to 80%	**3,151.0**	**46.0**	**3,197.0**	2,864.8	15.3	2,880.1
80% to 90%	**1,438.8**	**1.3**	**1,440.1**	974.8	0.9	975.7
90% to 100%	**476.3**	**0.2**	**476.5**	138.9	0.2	139.1
Greater than or equal to 100%	**1.1**	**0.3**	**1.4**	0.6	0.3	0.9
	18,141.5	**1,684.8**	**19,826.3**	17,876.9	1,727.4	19,604.3

b) Mortgage type

The table below shows gross customer balances for mortgages analysed by asset class. The LTV shown is the current indexed average percentage. 99.9% of the total book is classified as prime or buy-to-let mortgages. The higher risk self-certified, almost prime and non-conforming account for only 0.1% of the total book.

	30 June 2023			31 December 2022		
	Gross customer balance	**Average LTV %**	**Interest only %**	**Gross customer balance**	**Average LTV %**	**Interest only %**
Prime residential	**18,381.8**	**56.4**	**2.8**	18,178.2	54.0	3.1
Buy-to-let	**1,415.0**	**48.7**	**81.7**	1,395.2	47.2	81.5
Self-certified	**19.1**	**33.1**	**93.1**	20.4	30.9	92.8
Almost prime	**8.1**	**29.1**	**37.5**	8.5	28.3	35.6
Non-conforming	**2.3**	**45.2**	**65.0**	2.0	47.4	76.1
	19,826.3	**55.8**	**8.5**	19,604.3	53.5	8.8

c) UK regional distribution

The table below shows the analysis of LTVs and gross customer balances by UK regions. Regional split now based on Government Office Regions (was Economic Planning Regions). 2022 has been re-presented on the same basis. The largest sector of London & South East has an LTV broadly in line with the overall average; with no significant variation in the LTV's between the regions.

	30 June 2023		31 December 2022	
	Gross customer balance	**LTV - %**	**Gross customer balance**	**LTV - %**
London & South East	**6,266.9**	**56.0**	6,144.0	53.7
Northern England	**4,603.5**	**56.6**	4,542.9	54.2
Midlands & East Anglia	**5,452.7**	**55.1**	5,430.1	52.9
Wales & South West	**2,409.3**	**54.5**	2,400.5	51.7
Other	**1,093.9**	**57.6**	1,086.8	55.5
	19,826.3	**55.8**	19,604.3	53.5

Unsecured retail portfolio analysis

The table below shows the analysis of unsecured retail gross customer exposure by product. The decline reflects the continued lower usage of cards and overdrafts. The drawn balance has declined from a combined £237.0m to £232.7m.

	30 June 2023		31 December 2022	
	Gross customer exposure	ECL	Gross customer exposure	ECL
Credit cards	**1,054.0**	**5.6**	1,074.7	7.5
Overdrafts	**182.6**	**3.9**	185.0	4.1
	1,236.6	**9.5**	1,259.7	11.6

SME portfolio analysis

The table below shows the analysis of SME gross customer exposure by product. The movement is mainly driven through CBILS and Bounce-Back loan repayments, partially offset by new lending.

	30 June 2023		31 December 2022	
	Gross customer exposure	ECL	Gross customer exposure	ECL
Secured loans	**219.9**	**0.8**	230.4	2.6
CBILS & Bounce-Back loans	**197.0**	**3.0**	228.7	3.5
Unsecured loans	**73.7**	**3.3**	53.7	1.8
	490.6	**7.1**	512.8	7.9

Sector analysis

The table below analyses the gross customer exposure for the SME by sector excluding FVTPL of £1.8m (31 December 2022: £2.9m). The exposure to higher-risk sectors is limited.

	30 June 2023	31 December 2022
Business banking	**175.9**	200.9
Commercial real estate	**107.8**	98.4
Retail/wholesale	**39.4**	40.1
Food/hotel	**39.4**	32.2
Care	**17.6**	17.3
Charities	**14.8**	14.6
Education	**12.1**	9.0
Renewable energy	**7.1**	7.9
Financial/legal	**5.1**	14.2
Housing association	**2.3**	1.7
Other	**69.1**	76.5
	490.6	512.8

Legacy portfolio analysis

The table below shows the analysis of corporate legacy gross customer exposure by sector. As shown below the majority of the balance is either in the low-risk private finance initiative (PFI) or housing association (HA) sectors.

	30 June 2023		31 December 2022	
	Gross customer exposure	ECL	Gross customer exposure	ECL
PFI	**368.4**	**3.9**	381.9	3.4
HA	**243.6**	**0.1**	257.1	0.1
Other	**18.1**	**0.1**	26.3	0.2
	630.1	**4.1**	665.3	3.7
Less: FVTPL	**(87.6)**	**-**	(90.5)	-
Total corporate	**542.5**	**4.1**	574.8	3.7
Unsecured personal loans	**0.7**	**0.2**	1.1	0.1
Secured - Optimum	**17.1**	**0.8**	18.1	0.5
Total legacy	**560.3**	**5.1**	594.0	4.3

INDEPENDENT REVIEW REPORT TO THE CO-OPERATIVE BANK HOLDINGS LIMITED

Conclusion

We have been engaged by the Group to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Cashflows, Condensed Consolidated Statement of Changes in Equity and related notes 1 to 17. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with UK-adopted International Accounting Standard 34.

Basis for Conclusion

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

As disclosed in note 1.1, the annual financial statements of the Group are prepared in accordance with UK-adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK-adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusions Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the Directors

The Directors are responsible for preparing the half-yearly financial report in accordance with UK-adopted International Accounting Standard 34.

In preparing the half-yearly financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Group a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

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

Ernst & Young LLP
London
27 July 2023

CONDENSED CONSOLIDATED INCOME STATEMENT

£m

	Note	Six months ended 30 June 2023	2022
Interest income calculated using the effective interest method		**413.9**	241.4
Other interest and similar income		**129.3**	27.3
Interest income and similar income	4	**543.2**	268.7
Interest expense and similar charges	4	**(298.1)**	(60.5)
Net interest income		**245.1**	208.2
Fee and commission income		**33.4**	31.5
Fee and commission expense		**(14.6)**	(16.1)
Net fee and commission income		**18.8**	15.4
Other operating income (net)	5	**4.0**	10.6
Operating income		**267.9**	234.2
Operating expenses	6	**(205.8)**	(175.1)
Operating profit before net credit impairment (losses)/gains		**62.1**	59.1
Net credit impairment (losses)/gains	8	**(0.3)**	2.8
Profit before tax		**61.8**	61.9
Income tax	7	**41.4**	(33.5)
Profit for the period		**103.2**	28.4

The results above wholly relate to continuing activities.

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

Notes 1 to 17 form part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

£m

	Six months ended 30 June	
	2023	**2022**
Profit for the period	**103.2**	28.4
Items that may be recycled to profit or loss:		
Changes in cash flow hedges:		
Transfers from equity to income or expense	**(3.4)**	(3.4)
Income tax	**1.0**	1.9
Changes in fair value through other comprehensive income:		
Net changes in fair value recognised directly in equity	**18.0**	66.5
Transfers from equity to income or expense	**(16.1)**	(70.3)
Income tax	**-**	1.3
Items that may not subsequently be recycled to profit or loss:		
Changes in net retirement benefit asset:		
Defined benefit plans losses for the period	**(0.5)**	(110.8)
Income tax	**0.2**	67.4
Other comprehensive expense for the period, net of income tax	**(0.8)**	(47.4)
Total comprehensive income/(expense) for the period	**102.4**	(19.0)

Notes 1 to 17 form part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

£m

	Note	**30 June 2023**	**31 December 2022**
Assets			
Cash and balances at central banks		**3,904.8**	5,270.4
Loans and advances to banks		**463.9**	387.1
Loans and advances to customers	8	**21,106.4**	20,921.9
Fair value adjustments for hedged risk		**(500.1)**	(430.7)
Investment securities	9	**1,481.2**	942.7
Derivative financial instruments		**621.1**	520.1
Equity shares		**11.6**	11.1
Other assets		**7.7**	14.1
Prepayments		**28.6**	21.4
Property, plant and equipment		**21.9**	22.8
Intangible assets		**100.3**	90.0
Right-of-use assets		**32.0**	33.0
Current tax assets		**0.8**	1.8
Deferred tax assets		**213.7**	167.4
Net retirement benefit asset	12	**161.6**	159.7
Total assets		**27,655.5**	28,132.8

	Note	**30 June 2023**	**31 December 2022**
Liabilities			
Deposits by banks		**5,503.3**	5,683.4
Customer accounts		**19,551.4**	20,107.3
Fair value adjustments for hedged risk		**(54.3)**	(34.6)
Debt securities in issue		**172.6**	181.9
Derivative financial instruments		**98.5**	103.5
Other liabilities		**42.0**	42.8
Accruals and deferred income		**26.9**	32.5
Provisions	11	**28.0**	33.2
Other borrowed funds	10	**849.8**	646.9
Lease liabilities		**30.2**	31.0
Net retirement benefit liability	12	**5.7**	5.9
Total liabilities		**26,254.1**	26,833.8

	Note	**30 June 2023**	**31 December 2022**
Capital and reserves attributable to the Group's equity holders			
Ordinary share capital	15	**0.9**	0.9
Share premium account	15	**313.8**	313.8
Retained earnings		**2,071.3**	1,968.1
Other reserves		**(984.6)**	(983.8)
Total equity		**1,401.4**	1,299.0
Total liabilities and equity		**27,655.5**	28,132.8

Notes 1 to 17 form part of these interim condensed consolidated financial statements.

Approved by the Board of The Co-operative Bank Holdings Limited on 27 July 2023:

Bob Dench
Chair of the Board

Nick Slape
Chief Executive Officer

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

£m

	Six months ended 30 June	
	2023	**2022**
Cash flows (used in)/from operating activities:		
Profit before tax	**61.8**	61.9
Adjustments for non-cash movements:		
Pension scheme adjustments	**(1.8)**	(6.1)
Net credit impairment losses/(gains)	**0.3**	(2.8)
Depreciation, amortisation and impairment	**17.5**	17.0
Other non-cash movements including exchange rate movements	**55.5**	97.6
Changes in operating assets and liabilities:		
(Decrease)/Increase in deposits by banks	**(180.1)**	143.9
Increase in prepayments and accrued income	**(7.2)**	(5.8)
Decrease in accruals and deferred income	**(5.6)**	(12.3)
Decrease in customer accounts	**(556.1)**	(554.8)
Increase in loans and advances to banks	**(78.1)**	(13.4)
(Increase)/decrease in loans and advances to customers	**(193.8)**	102.1
Net movement of other assets and other liabilities	**(67.6)**	(12.8)
Income tax paid	**(2.7)**	(1.8)
Net cash flows used in operating activities	**(957.9)**	(187.3)

Cash flows (used in)/from investing activities:		
Purchase of tangible and intangible assets	**(23.7)**	(18.3)
Purchase of investment securities	**(628.3)**	(317.2)
Proceeds from sale of shares and other interests	**0.2**	-
Proceeds from sale and maturity of investment securities	**81.1**	281.1
Proceeds from sale of investment properties	**0.3**	-
Dividends received	**0.1**	0.1
Net cash flows used in investing activities	**(570.3)**	(54.3)

Cash flows from/(used in) financing activities:		
Proceeds from MREL issuance	**199.3**	248.4
Interest paid on Tier 2 notes and senior unsecured debt	**(25.5)**	(18.5)
Lease liability principal payments	**(3.2)**	(4.5)
Repayment of debt securities in issue	**(9.3)**	(9.4)
Net cash flows from financing activities	**161.3**	216.0
Net decrease in cash and cash equivalents	**(1,366.9)**	(25.6)
Cash and cash equivalents at the beginning of the period	**5,458.1**	5,717.5
Cash and cash equivalents at the end of the period	**4,091.2**	5,691.9
Comprising of:		
Cash and balances with central banks	**3,822.7**	5,550.7
Loans and advances to banks	**268.5**	141.2

RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASHFLOWS ARISING FROM FINANCING ACTIVITIES

£m

	Six months ended 30 June 2023			Six months ended 30 June 2022		
	Lease liabilities	**Other borrowed funds**	**Total**	**Lease liabilities**	**Other borrowed funds**	**Total**
Balance at the beginning of the period	**31.0**	**646.9**	**677.9**	44.1	402.1	446.2
Changes from financing cash flows:						
Proceeds from MREL issuance	-	199.3	**199.3**	-	248.4	248.4
Interest paid on Tier 2 notes and senior unsecured debt	-	(25.5)	**(25.5)**	-	(18.5)	(18.5)
Lease liability principal payments	(3.2)	-	**(3.2)**	(4.5)	-	(4.5)
Total changes from financing cash flows	**27.8**	**820.7**	**848.5**	39.6	632.0	671.6
Other changes:						
Interest payable on lease liabilities and Tier 2 notes	0.5	27.4	**27.9**	0.7	22.0	22.7
Other non-cash movements	-	1.7	**1.7**	-	(5.0)	(5.0)
Recognition of lease liabilities	1.9	-	**1.9**	0.3	-	0.3
Balance at the end of the period	**30.2**	**849.8**	**880.0**	40.6	649.0	689.6

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

£m

Six months ended 30 June 2023	**Share capital**	**Share premium**	**FVOCI reserve**	**Cash flow hedging reserve**	**Capital re-organisation reserve**	**Defined benefit pension reserve**	**Retained earnings**	**Total equity**
At 1 January 2023	0.9	313.8	(5.3)	10.6	(1,011.4)	22.3	1,968.1	1,299.0
Total comprehensive income/(expense) for the period	-	-	1.9	(2.4)	-	(0.3)	103.2	102.4
At 30 June 2023	**0.9**	**313.8**	**(3.4)**	**8.2**	**(1,011.4)**	**22.0**	**2,071.3**	**1,401.4**

Six months ended 30 June 2022	**Share capital**	**Share premium**	**FVOCI reserve**	**Cash flow hedging reserve**	**Capital re-organisation reserve**	**Defined benefit pension reserve**	**Retained earnings**	**Total equity**
At 1 January 2022	0.9	313.8	2.9	14.7	(1,011.4)	485.0	1,946.0	1,751.9
Total comprehensive (expense)/income for the period	-	-	(2.5)	(1.5)	-	(43.4)	28.4	(19.0)
At 30 June 2022	**0.9**	**313.8**	**0.4**	**13.2**	**(1,011.4)**	**441.6**	**1,974.4**	**1,732.9**

Year ended 31 December 2022	**Share capital**	**Share premium**	**FVOCI reserve**	**Cash flow hedging reserve**	**Capital re-organisation reserve**	**Defined benefit pension reserve**	**Retained earnings**	**Total equity**
At 1 January 2022	0.9	313.8	2.9	14.7	(1,011.4)	485.0	1,946.0	1,751.9
Total comprehensive (expense)/income for the year	-	-	(8.2)	(4.1)	-	(462.7)	22.1	(452.9)
At 31 December 2022	0.9	313.8	(5.3)	10.6	(1,011.4)	22.3	1,968.1	1,299.0

Notes 1 to 17 form part of these interim condensed consolidated financial statements.

SELECTED NOTES TO THE FINANCIAL STATEMENTS

All amounts are stated in £m unless otherwise indicated

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of preparation

The Interim Financial Statements for the Group are for the six month period ended 30 June 2023 and are unaudited. The Group Interim Financial Statements have been prepared in accordance with UK-adopted International Accounting Standard (IAS) 34 'Interim Financial Reporting'.

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

1.2 Going concern

IAS 1 (Presentation of Financial Statements) requires Directors to make an assessment of a company's ability to continue as a going concern, and whether it remains appropriate to adopt the going concern basis of accounting in preparing the entity's financial statements. IAS 1 states that the information should cover at least 12 months from the end of the reporting period but not be limited to that period, and Financial Reporting Council (FRC) guidelines state that the information should consider a period of at least 12 months from the date the financial statements are authorised for issue. This assessment has therefore considered information in respect of the period ending 31 December 2024 (the 'assessment period').

When considering the going concern status of the Group, the Directors have referenced the FRC published guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks (the '2016 Guidance').

The assessment has been considered against the backdrop of the principal risks faced by the Group as outlined in the risk management section, and included a detailed review of the forecast profitability, liquidity, capital resources, capital adequacy ratios and the associated binding minimum regulatory requirements as set out in the most recent long-term forecast reviewed by the Directors, which takes into account the Group's plans in respect of business activity, such as loan book growth, and capital distributions. Whilst the Directors consider threats to its ability to continue as a going concern from most of the principal risks to be remote, in recent periods the Group has considered future compliance with minimum binding regulatory capital requirements to be a key source of uncertainty. These 'end-state requirements' (which exclude CRD IV and PRA buffers) rose to two times the Group's Total Capital Requirement (TCR) from 1 January 2023.

Following the successful issuance of £200m of MREL-qualifying instruments in the first half of 2023 and increased profits, the Group's improved and sustainable capital position means the Group has further resilience against unexpected shocks; to a greater degree than at the end of 2022, and to the extent that the Directors expect that the Group could comfortably meet its requirements throughout the assessment period without any further capital issuances.

Whilst the Group's capital levels are still sensitive to shocks to RWAs (and associated capital requirements) or the Group's own profitability (thereby eroding capital resources), the degree of headroom is considered sufficiently high that the risk of breaching requirements is remote. Reverse stress testing was performed to determine the level of RWA inflation (excluding any resource impact) and/or one-off losses that would need to occur in order for the Group to breach its end-state requirements, as outlined in the following table:

End-state breach	RWA inflation	P&L charge	Combined
No further capital issuance	£2bn	£513m	£1bn and £257m

The Group could mitigate the risk of non-compliance by undertaking further capital issuances, as it has done successfully in the recent past.

As such, the Directors do not consider there to be a material uncertainty with regard to the Group's ability to remain compliant with its minimum binding regulatory capital requirements. Liquidity was also considered as part of the assessment but due to the current and projected levels of liquidity (both within the assessment period and beyond) this has not been deemed a significant risk to the Group's going concern status.

After considering the matters above, the Directors have a reasonable expectation that the Group will continue as a going concern with no material uncertainties over the assessment period. Accordingly, the accounts for period ended 30 June 2023 have been prepared on a going concern basis.

1.3 Significant accounting policies

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its audited 2022 Annual Report and Accounts, which were prepared in accordance with UK-adopted international accounting standards and the provisions of the Companies Act 2006.

1.4 Standards and interpretations issued

The following standards and amendments to IFRSs became effective for annual reporting periods beginning on or after 1 January 2023 following endorsement by the UK Endorsement Board:

- IFRS 17 Insurance Contracts
- Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and to IFRS Practice Statement 2 Making Materiality Judgements)
- Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes)

None of these standards or amendments had any significant impact on the Group on adoption.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial information requires management to make judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Assumptions and estimates are reviewed on an ongoing basis. Except as noted below, the accounting policies, presentation and methods of computation of critical accounting judgements and key sources of estimation uncertainty are consistent with those applied by the Group in the 2022 Annual Report and Accounts.

2.1 Loan impairment provisions

Further information on the Group's credit risk management practices are outlined in the risk management section 2. The Group has not significantly amended the nature of the judgements applied in estimating credit losses from those disclosed by the Group in its 2022 Annual Report and Accounts; however, certain key estimation assumptions have changed in the Group's most recent assessment of expected credit losses (ECL).

a) Collective impairment provisions – economic scenario selection and weighting sensitivity

The Group's approach to scenario selection and weighting is outlined in the explanatory information section 1.3.j.v of the Group's 2022 Annual Report and Accounts. The scenarios and weights used within the Group's ECL modelling process are shown below:

	30 June 2023	31 December 2022
Upside	20%	20%
Base	40%	40%
Mild downside	25%	30%
Downside[1]	10%	5%
Stress downside[2]	5%	5%

1. The downside scenario was disclosed at 31 December 2022 as downside (low rate)
2. The stress downside scenario was disclosed at 31 December 2022 as downside (high rate)

At 31 December 2022, the Group introduced an additional stress downside 'stagflation' economic scenario reflecting a high interest rate stressed macroeconomic environment, influenced by the rapid rises in the Bank of England base rate that had been observed during the year and have since continued into 2023. This contrasts with the Group's other downside scenario, in which inflation subsides and interest rates revert quickly to lower levels. The Group has made a small weighting shift from the mild downside scenario to the downside scenario - if the 31 December 2022 weighting were applied to the 30 June 2023 modelled ECL, it would decrease by £0.1m.

The table below demonstrates the modelled ECL if 100% weighting was applied to each of the scenarios.

		Core				
	% applied in model	Retail secured	Retail unsecured	SME	Legacy & central items	Total
Upside	20%	1.5	6.4	0.8	1.6	10.3
Base	40%	2.5	6.6	0.9	1.6	11.6
Mild downside	25%	4.2	7.0	1.2	1.8	14.2
Downside	10%	5.3	7.4	1.3	1.8	15.8
Stress downside	5%	13.7	8.1	1.6	2.0	25.4
Weighted average		**3.6**	**6.8**	**1.0**	1.7	13.1

The staging of individual loans contributing to the ECLs within the above table reflects the base case position only and no allowances for stage transfers have been made in fully weighted alternative scenarios; these should therefore not be considered reliable forecasts of expected losses under such economic conditions. In practice, if any such scenario were experienced in isolation it would be reasonable to expect customers to transfer between stages, which would affect the total ECL. It should also be noted that the above considers only modelled ECLs and not the impact of any judgemental adjustments. In practice, certain judgemental adjustments implemented by the Group may offset the modelled movements above to reduce the sensitivity of the overall ECL.

b) Collective impairment provisions – macroeconomic variables and sensitivities

The key forecast variables used within the Group's range of economic scenarios are depicted in the table below as the annual and average over the five-year forecast period used within all scenarios.

	2023	2024	2025	2026	2027	5 year average[4]	Jun-23 to peak	Jun-23 to trough
GDP[1]								
Upside	1.0%	2.2%	1.5%	1.8%	2.2%	1.7%	10%	0%
Base	0.5%	0.7%	0.8%	1.2%	1.5%	0.9%	5%	0%
Mild downside	(0.0%)	(0.7%)	0.5%	0.9%	1.2%	0.4%	2%	(1%)
Downside	(0.2%)	(1.8%)	0.3%	0.7%	0.9%	0.0%	0%	(2%)
Stress downside	(0.3%)	(4.1%)	0.9%	1.2%	1.2%	(0.2%)	0%	(5%)
Inflation[2]								
Upside	4.7%	1.8%	1.6%	1.6%	2.0%	3.0%	9%	0%
Base	5.1%	2.3%	2.0%	2.0%	2.0%	3.4%	11%	0%
Mild downside	7.0%	4.6%	2.5%	2.5%	2.0%	4.4%	16%	0%
Downside	8.9%	6.9%	3.0%	3.0%	2.0%	5.5%	22%	0%
Stress downside	14.1%	14.0%	3.4%	2.4%	2.1%	7.7%	36%	0%
HPI[2]								
Upside	(3.4%)	2.5%	3.0%	5.6%	6.3%	2.3%	17%	(1%)
Base	(4.7%)	(4.1%)	0.5%	4.5%	5.0%	(0.2%)	3%	(7%)
Mild downside	(6.3%)	(6.5%)	(3.2%)	2.2%	2.5%	(2.5%)	0%	(13%)
Downside	(8.0%)	(8.9%)	(7.8%)	2.2%	2.5%	(4.2%)	0%	(21%)
Stress downside	(8.6%)	(14.5%)	(13.1%)	6.4%	6.8%	(5.2%)	0%	(31%)
Unemployment[3]								
Upside	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	(0%)	(0%)
Base	3.8%	4.0%	4.4%	4.4%	4.1%	4.2%	1%	0%
Mild downside	4.3%	5.1%	6.0%	5.5%	5.0%	5.1%	5%	0%
Downside	5.0%	7.5%	7.2%	6.6%	6.0%	6.3%	4%	0%
Stress downside	5.2%	8.5%	8.0%	7.4%	6.8%	7.0%	5%	0%
Base rate[3]								
Upside	4.25%	3.25%	2.50%	2.50%	2.50%	3.15%	0.00%	(2.00%)
Base	4.75%	3.75%	3.00%	3.00%	3.00%	3.59%	0.25%	(1.50%)
Mild downside	5.25%	4.25%	3.50%	3.50%	3.50%	4.01%	0.75%	(1.00%)
Downside	3.50%	1.50%	1.50%	1.50%	1.50%	2.19%	0.00%	(3.00%)
Stress downside	6.00%	6.00%	5.25%	4.25%	3.25%	4.98%	1.50%	(1.25%)

1. Annual average YoY%
2. Year-end YoY%
3. Year-end %
4. Average of quarterly positions

The key parameters of the above scenarios are outlined in the table below:

	GDP	Inflation	HPI	Unemployment	Base rate
Upside	Annual GDP growth increases by 1.0% in 2023 and 2.2% in 2024. Positive quarterly growth throughout forecast.	Inflation declines quicker than in the base, falling to 4.7% by Q4 2023 and reaching the BoEs target in Q4 2024, 1 quarter earlier. Inflation then falls below 2%, returning to 2.0% by end of 2027.	House prices fall in each quarter of 2023, driving annual fall of 3.4% in 2023, with 1.4% fall from Jun23 to trough. Positive quarterly growth from 2024.	Unemployment improves to 3.6% by Q4 2023, then remains flat over the remainder of the forecast period.	Base rate is cut to 4.25% in August and to 4.00% in February 2024. Further six 25bps cuts over 2024/2025 to terminal rate of 2.50%.
Base	Broadly flat quarterly GDP growth in 2023 results in 0.5% annual growth and 0.7% growth in 2024. Positive quarterly growth throughout forecast.	Inflation ends 2023 at 5.1%, falling to 2.3% in 2024 and reaching 2.0% in Q1 2025 and remains at 2% thereafter.	House prices forecast to fall 4.7% in 2023 and 4.1% in 2024, with June 2023 to trough fall of 7% by Q2 2025.	Unemployment remains stable at 3.8% in 2023 rising to 4.0% in 2024, peaking at 4.5% by 2026.	Base rate to peak at 4.75% in August and cut 100ps in 2024 and 75bps in 2025, ending 2027 at 3.00%.
Mild downside	GDP flat in 2023 as the economy enters into a four quarter recession with peak to trough fall of 1%. Positive quarterly growth returns in Q3 24.	Inflation rises above the base, falling to 7.0% by Q4 2023 and to 4.6% by 2024. Inflation remains above target throughout, returning to 2.0% by end of 2027.	House prices decline 6.3% in 2023 and 6.5% in 2024 with a June 2023 to trough fall of 13%. Quarterly growth returns in Q1 2026.	Unemployment rises to 4.3% in Q4 2023, and peaks at 6.0% in Q4 2025.	Base rate rises to 4.75% in August, 5.00% in September and peaks at 5.25% in November. First cut in February 2024 to terminal rate of 3.50%.
Downside	GDP contracts by 0.2% in 2023 as the economy enters into a more severe four quarter recession with peak to trough fall of 2%. Positive quarterly growth returns in Q3 2024.	Inflation rises above the base throughout, peaking at 10.4% in Q2 2024, falling to 6.9% by the end of 2024, returning to 2.0% by end of 2027.	House prices decline 8.0% in 2023 and 8.9% in 2024 as prices fall in each quarter, June 2023 to trough fall of 21%. Quarterly growth returns in Q1 2026.	Unemployment rises to 5.0% in Q4 2023, and peaks at 7.5% in Q4 2024.	Base rate cut 50bps each quarter in 2023 and 2024, reaching a terminal rate of 1.50% by November 2024.
Stress downside	GDP contracts by 0.3% in 2023 as the economy enters into a more severe four quarter recession with peak to trough fall of 5%. Positive quarterly growth returns in Q3 2024.	Inflation accelerates above the base, peaking at 17.0% in Q2 2024, falling to 14.0% by the end of 2024, reaching 2.1% by the end of 2027.	House prices decline 8.6% in 2023 and 14.5% in 2024 as prices fall in each quarter, June 2023 to trough fall of 31%. Quarterly growth returns in Q1 2026	Unemployment rises to 5.2% in Q4 2023, and peaks at 8.5% in Q4 2024.	Base rate rises rapidly in first year of scenario, reaching 6.00% in 2023 with the aim to reduce inflation. Base rate cut to 3.25% by 2027.

The key changes to the base scenario forecasts over those in use at 31 December 2022 are:

- **GDP** – positive annual average throughout, compared to negative growth in 2023 and 2024.
- **Inflation –** improved in the short term due to reduced energy prices, with both returning to the 2% target in 2025.
- **HPI** – increased peak to trough fall as well as the low point on year later, from rising mortgage rates and lower disposable income.
- **Unemployment** – lower levels in 2023 due to improved economic output (GDP).
- **Base rate** – accelerated rate rises relative to 2022 forecast (4.00% in 2023 in 2022 forecast vs 4.75% in 2023 in 2023 forecast).

Whilst the above scenarios are those used in the Group's ECL models as at 30 June 2023, the Group's Asset and Liability Committee (ALCo) approved a revised base rate forecast in late June for the purposes of business planning. This forecast includes a higher base rate peak at 5.75% in 2023 and a higher long-term rate at 3.50% from 2026 onward. Management has satisfied itself that not including this revised base forecast within its ECL models at 30 June 2023 does not lead to material misstatement of these condensed consolidated financial statements on the grounds that any anticipated increase in credit risk is already captured within the affordability PMAs disclosed in 2.1 c).

Sensitivities

The Group has not made any significant changes to its IFRS 9 models in the period, the sensitivities of which are consistent with those disclosed by the Group in the 2022 Annual Report and Accounts.

c) Collective impairment provisions – post-model adjustments

The Group applies judgemental adjustments to its modelled outputs to capture risk characteristics for assets subject to collective provisioning but for which a specific risk characteristic is not captured within the collective models. These are typically implemented by the Group in the form of

Post Model Adjustments (PMAs). The Group reviews judgemental adjustments on a quarterly basis to determine whether adjustments should be stood up, remeasured or retired. An overview of material judgemental adjustments is disclosed below:

	Core				
30 June 2023	**Retail secured**	**Retail unsecured**	**SME**	**Legacy & unallocated**	**Total**
Historical data confidence PMAs	9.3	-	-	0.3	9.6
Affordability PMAs	1.7	0.8	3.3	-	5.8
COVID-19 PMAs	-	-	1.0	-	1.0
Other PMAs	2.4	1.8	-	0.2	4.4
Total judgemental adjustments[1]	**13.4**	**2.6**	**4.3**	**0.5**	**20.8**

	Core				
31 December 2022	Retail secured	Retail unsecured	SME	Legacy & unallocated	Total
Historical data confidence PMAs	8.3	-	-	-	8.3
Affordability PMAs	2.5	1.5	3.2	0.1	7.3
COVID-19 PMAs	-	-	1.6	-	1.6
Other PMAs	3.2	2.5	-	0.2	5.9
Total judgemental adjustments[1]	14.0	4.0	4.8	0.3	23.1

1. Judgemental adjustments exclude operational model adjustments of £1.4m (31 December 2022: £1.6m) in respect of individually insignificant model corrections where management judgement does not have a substantial impact on the quantification of the adjustment

	Nature of judgement	**Application within ECL calculation**	**Criteria for removal**
Historical data confidence PMAs	Secured model understates risk due to book's relative immaturity and limited default experience.	Stress factors are applied to modelled PDs and LTVs and additional stage 2 triggers based on consumer indebtedness levels are applied to uplift certain stage 1 customers to stage 2	3-4 years after the end of a period of significant financial stress
Affordability PMAs	All models considered to understate cost of living impacts on customer credit risk.	Customers identified as being at a higher vulnerability to cost of living impacts based on a combination of stressed affordability tests (secured), consumer indebtedness levels (unsecured) and sector (SME) are uplifted from stage 1 to stage 2.	Evidence of real wage growth and reduced level of inflation with stable arrears position
COVID-19 PMAs	In certain isolated instances the Group may not successfully be able to claim on guarantees under the Bounce Back Loan Scheme (BBLS)	BBLS are not included with modelled ECL due to 100% government guarantee; therefore an ECL is calculated based on observed default rates and projected failed claim rates.	Sustained evidence of successful claims on arrears cases
Other PMAs	There are certain other areas where models do not adequately capture certain identified risk factors, such as the potential exposure to EPC remediation. No PMA is individually significant.	Various, depending on the nature the PMA	Various, depending on the nature the PMA

The key changes in judgemental adjustments during the period are primarily small reductions in the Retail affordability PMAs due to SICR thresholds being met and impacted customers being moved to stage 2 in the Group's ECL models without the need for management adjustments.

d) Individual impairment provisions

As disclosed in the 2022 Annual Report and Accounts, the Group's individual impairment provisions are not sensitive to economic variables.

2.2 Effective interest rate (EIR)

When calculating the EIR to apply to an asset or liability held at amortised cost, the Group estimates future cash flows considering all contractual terms of an instrument and associated transaction costs. In most cases, the future cash flows arising from an asset or liability will be dependent on a number of variables, such as the proportion of mortgage customers who do not switch product after a discount period ends, or future interest rates set by the market. Therefore, it follows that management is required to apply significant judgement in creating assumptions about the value of these variables in the future.

At 30 June 2023, the Group recognised an EIR adjustment of £72.1m (31 December 2022: £71.3m) in respect of its fixed rate mortgage portfolio. Of this adjustment, £46.3m (31 December 2022: £52.1m) is attributable to fees charged and received in the mortgage origination process, and £25.8m (31 December 2022: £19.2m) is attributable to expectations of increased future income from those customers who revert to the Group's standard variable rate (SVR). The element of the adjustment attributable to fees is neither significantly judgemental nor sensitive. However, the

element of the adjustment attributable to future SVR income is subject to significant estimation uncertainty, with the two most sensitive variables being as follows:

a) Standard variable rate

The assumed standard variable rate (SVR), which will be in effect at the end of a fixed rate product term, determines expected income to be received post-reversion. This is determined with reference to expected Bank of England base rate changes, with a proportion of future increases assumed to pass through to the Group's standard variable rate.

As a measure of the sensitivity of this variable, a 50bp increase or decrease to the forecast SVR (currently 7.37% (31 December 2022: 5.87%) with rises tracking the base rate assumptions used within the central base rate forecast used in the Group's ECL model – see note 2.1 b)) following the expiry of the fixed rate period would result in a £2.6m (31 December 2022: £2.0m) increase or decrease respectively in the EIR asset within the loans and advances to customers balance.

b) Timing of redemptions (behavioural lives)

Once a customer reaches the expiry of the fixed rate period on the fixed product, interest is charged at the Group's SVR, which is higher than the product fixed rate. The amount of time that the customer stays on SVR affects the total lifetime income from the customer, which affects the EIR adjustment.

The Group typically expects all fixed rate mortgages to spend a weighted average of 0.5 months (31 December 2022: 0.45 months) on SVR. This is driven by an expectation of a weighted average of 10% (31 December 2022: 9%) of fixed rate mortgages to become chargeable for at least one month of SVR, and then remain on the SVR rate for a weighted average of 5 months (31 December 2022: 5 months). As a measure of the sensitivity of this variable, if the average time spent on SVR for those customers who spend at least 1 month on SVR increases or decreases by 1 month, the EIR asset would increase or decrease by £5.2m (31 December 2022: £3.8m) respectively.

3. SEGMENTAL INFORMATION

The Group provides a wide range of banking services within the UK. The Executive Committee (ExCo) has been determined to be the chief operating decision-maker of the Group. The Group's operating segments reflect its organisational and management structures in place at the reporting date. ExCo reviews information from internal reporting based on these segments in order to assess performance and allocate resources. The segments are differentiated by whether the customers are individuals or business entities. The operating costs of all business functions are allocated to the income-generating businesses except strategic project costs which are included in Legacy & unallocated. Treasury balances have not been allocated to segments to maintain clarity on underlying customer product balances.

The Group has aggregated Legacy & unallocated (being items not related to a function) to align external reporting with the Group's approach to internal reporting.

	Core				
Six months ended 30 June 2023	**Retail**	**SME**	**Total**	**Legacy & unallocated**	**Total**
Net interest income	199.2	45.2	**244.4**	0.7	**245.1**
Other operating income	12.8	8.3	**21.1**	0.3	**21.4**
Operating income	212.0	53.5	**265.5**	1.0	**266.5**
Operating expenses	(158.4)	(32.8)	**(191.2)**	(14.6)	**(205.8)**
Net credit impairment gains/(losses)	0.1	0.2	**0.3**	(0.6)	**(0.3)**
Non-operating income	-	-	**-**	1.4	**1.4**
Profit before tax	**53.7**	**20.9**	**74.6**	**(12.8)**	**61.8**

Six months ended 30 June 2022	Core Retail	Core SME	Core Total	Legacy & unallocated	Total
Net interest income/(expense)	183.6	28.8	212.4	(4.2)	208.2
Other operating income	12.1	9.0	21.1	0.3	21.4
Operating income/(expense)	195.7	37.8	233.5	(3.9)	229.6
Operating expenses	(136.7)	(30.0)	(166.7)	(8.4)	(175.1)
Net credit impairment gains/(losses)	1.5	(0.8)	0.7	2.1	2.8
Non-operating income	-	-	-	4.6	4.6
Profit before tax	60.5	7.0	67.5	(5.6)	61.9

The table below represents the reconciliation of the underlying basis and the segmental note to the consolidated income statement. The underlying basis is the basis on which information is presented to the chief operating decision-maker and excludes the items below which are included in the statutory results.

Six months ended 30 June 2023	IFRS statutory	Removal of: Volatile items[1]	Removal of: Strategic projects	Removal of: Non recurring[2]	Underlying basis
Net interest income	245.1	-	-	-	**245.1**
Other operating income	22.8	(0.9)	-	(0.5)	**21.4**
Operating income	**267.9**	**(0.9)**	**-**	**(0.5)**	**266.5**
Operating expenses	(205.8)	-	7.5	4.3	**(194.0)**
Net customer redress release	**-**	-	-	-	**-**
Net credit impairment losses	(0.3)	-	-	-	**(0.3)**
Profit before tax	**61.8**	**(0.9)**	**7.5**	**3.8**	**72.2**
Cost:income ratio[3]	**77%**				**73%**

1. In the period ended 30 June 2023, this comprises gain on shares revaluation.
2. In the period ended 30 June 2023, this comprises one-off income gains and other exceptional costs.
3. Cost:income ratio is calculated as (operating expenses + net customer redress release)/(operating income).

Six months ended 30 June 2022	IFRS statutory	Removal of: Volatile items[1]	Removal of: Strategic projects	Removal of: Non recurring[2]	Underlying basis
Net interest income	208.2	-	-	-	208.2
Other operating income	26.0	(0.4)	-	(4.2)	21.4
Operating income	234.2	(0.4)	-	(4.2)	229.6
Operating expenses	(176.1)	-	5.5	1.8	(168.8)
Net customer redress release	1.0	-	-	(1.0)	-
Net credit impairment gains	2.8	-	-	-	2.8
Profit before tax	61.9	(0.4)	5.5	(3.4)	63.6
Cost:income ratio[3]	75%				74%

1. In the period ended 30 June 2022, this comprises gain on shares revaluation.
2. In the period ended 30 June 2022, this comprises gains on the sale of a small legacy book, release of PPI provision and other exceptional costs.
3. Cost:income ratio is calculated as (operating expenses + net customer redress release)/(operating income).

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

30 June 2023	Core Retail	Core SME	Core Total	Legacy & unallocated	Total
Segment assets	20,059.0	391.4	**20,450.4**	7,205.1	**27,655.5**
Segment liabilities	16,109.0	3,308.1	**19,417.1**	6,837.0	**26,254.1**

31 December 2022	Core Retail	Core SME	Core Total	Legacy & unallocated	Total
Segment assets	19,841.3	388.2	20,229.5	7,903.3	28,132.8
Segment liabilities	16,607.8	3,396.8	20,004.6	6,829.2	26,833.8

4. NET INTEREST INCOME

Interest income and similar income

	Six months ended 30 June 2023				Six months ended 30 June 2022			
	Amortised cost	FVOCI	Other	Total	Amortised cost	FVOCI	Other	Total
On financial assets not at fair value through profit or loss:								
Loans and advances to customers	**299.6**	**-**	**-**	**299.6**	216.1	-	-	216.1
Loans and advances to banks	**94.6**	**-**	**-**	**94.6**	19.2	-	-	19.2
Investment securities	**1.4**	**18.3**	**-**	**19.7**	0.6	5.5	-	6.1
Net interest income on net defined benefit pension asset	**-**	**-**	**3.9**	**3.9**	-	-	8.4	8.4
	395.6	**18.3**	**3.9**	**417.8**	235.9	5.5	8.4	249.8
On financial assets at fair value through profit or loss:								
Loans and advances to customers	**-**	**-**	**4.9**	**4.9**	-	-	5.1	5.1
Net interest income on financial instruments hedging assets	**-**	**-**	**98.6**	**98.6**	-	-	5.3	5.3
Net interest income on financial instruments not in a hedging relationship	**-**	**-**	**21.9**	**21.9**	-	-	8.5	8.5
Total net interest income	**395.6**	**18.3**	**129.3**	**543.2**	235.9	5.5	27.3	268.7

Interest expense and similar charges

	Six months ended 30 June 2023			Six months ended 30 June 2022		
	Amortised cost	Other	Total	Amortised cost	Other	Total
On financial liabilities not at fair value through profit or loss:						
Customer accounts	**(123.8)**	-	**(123.8)**	(11.1)	-	(11.1)
Subordinated liabilities, debt securities in issue and other deposits	**(146.6)**	**-**	**(146.6)**	(43.2)	-	(43.2)
Interest on lease liabilities	**-**	**(0.5)**	**(0.5)**	-	(0.7)	(0.7)
Net interest expense on unfunded pension obligations	**-**	**(0.1)**	**(0.1)**	-	(0.1)	(0.1)
	(270.4)	**(0.6)**	**(271.0)**	(54.3)	(0.8)	(55.1)
On financial liabilities at fair value through profit or loss:						
Net interest (expense)/income on financial instruments hedging liabilities	**-**	**(9.3)**	**(9.3)**	-	0.3	0.3
Net interest expense on financial instruments not in a hedging relationship	**-**	**(17.8)**	**(17.8)**	-	(5.7)	(5.7)
Total interest expense and similar charges	**(270.4)**	**(27.7)**	**(298.1)**	(54.3)	(6.2)	(60.5)

5. OTHER OPERATING INCOME/EXPENSE (NET)

	Six months ended 30 June	
	2023	2022
Profit on sale of investment securities	**0.1**	0.1
Profit on sale of loans and advances to customers	**0.3**	4.1
Fair value movement on loans and advances to customers designated at fair value	**(3.0)**	(10.1)
Income from derivatives and hedge accounting	**2.8**	10.9
Income from assets and liabilities held at fair value through profit or loss[1]	**0.6**	0.9
Foreign currency transactions	**3.0**	4.3
Exceptional refund of ATM rates[2]	**-**	0.1
Other operating income	**0.2**	0.3
	4.0	10.6

1. Income from assets and liabilities held at fair value through profit or loss of £0.6m (30 June 2022: £0.9m) include £0.8m gain on equity shares (30 June 2022: £0.3m).

2. Refund of historical ATM business rates paid following the Supreme Court ruling handed down in May 2020.

6. OPERATING EXPENSES

	Six months ended 30 June 2023	Re-presented[1] 2022
Staff costs	**76.7**	59.9
Depreciation, amortisation and impairment of fixed assets[2]	**17.5**	17.0
Technology costs	**23.6**	21.7
Outsourced operations	**26.8**	28.7
Professional services and IT consultancy costs	**22.3**	14.3
Property costs	**5.8**	4.4
Credit checking and screening	**4.4**	3.0
Regulatory levies	**1.9**	1.9
Other expenses	**26.8**	24.2
Total operating expenses	**205.8**	175.1

1. The capitalisation of operating costs incurred in the generation of intangible assets were previously reflected as a reduction of 'other expenses' but have now been represented as a reduction in the appropriate cost lines. Prior period comparative information has been re-presented, resulting in an increase in Other expenses of £17.0m and a reduction in staff costs of £10.0m, Technology costs of £1.9m, Outsourced operations of £3.9m, Professional services and IT consultancy costs of £0.1m and Credit checking and screening of £1.0m. There is no net impact to total operating expenses.
2. Mainly comprises amortisation of intangible assets of £11.5m (2022: £11.1.m).

7. INCOME TAX

	Six months ended 30 June 2023	2022
Current tax charge	**3.7**	2.1
Deferred tax (credit)/charge	**(45.1)**	31.4
Total tax (credit)/charge	**(41.4)**	33.5

In addition to the above, included within other comprehensive income is a deferred tax credit of £1.2m (2022: credit of £70.6m).

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

	Six months ended 30 June 2023	2022
Profit before tax	**61.8**	61.9
Tax charge calculated at a rate of 23.52% (2022: 19%)	**14.5**	11.8
Effects of:		
Movement in unrecognised deferred tax	**(49.0)**	(16.1)
Impact of banking surcharge on deferred tax	**(4.3)**	(4.0)
Impact of corporation tax rate change on deferred tax	**(3.1)**	(0.9)
Expenses not deductible for tax purposes	**0.4**	0.3
Banking surcharge	**0.1**	-
Impact of banking surcharge rate change on deferred tax	**-**	41.9
Adjustment in respect of prior period	**-**	0.5
Total tax (credit)/charge	**(41.4)**	33.5

The movement in unrecognised deferred tax represents the recognition of historical tax losses, previously derecognised, that are now brought onto the balance sheet reflecting their expected utilisation against future probable taxable profits. This movement is the result of improved profitability in the five year outlook period. The Group has unrecognised deferred tax assets totalling £445.0m (31 December 2022: £502.5m).

The UK corporation tax rate increased from 19% to 25% on 1 April 2023. The rate for the year ended 31 December 2023 is 23.52% and will then be 25% for the year ended 31 December 2024 onwards. The banking surcharge of 8% also applies to Bank Company. The banking surcharge reduced from a rate of 8% to 3% on 1 April 2023, and is chargeable on banking profits above £100m (previously £25m). From 1 April 2023, the combined rate of tax on banking profits in excess of £100m is 28%.

The Group’s effective tax rate remains difficult to predict due to the movement in unrecognised deferred tax assets and the effect of the changes in tax rates.

8. LOANS AND ADVANCES TO CUSTOMERS

Analysis of the balance sheet

	30 June 2023	31 December 2022
Gross loans and advances	**21,145.2**	20,962.2
Less: allowance for losses	**(38.8)**	(40.3)
Total loans and advances to customers net of allowance for losses	**21,106.4**	20,921.9

Loans and advances to customers include £86.2m (31 December 2022: £93.3m) of financial assets designated at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency; of these, £51.4m (31 December 2022: £53.4m) are secured by real estate collaterals.

For stage allocation and analysis, refer to the credit risk section of the risk management report.

Certain loans and advances to customers have been pledged by the Group; see note 13 for further details on encumbered and pledged assets.

Analysis of allowance for impairment losses

	Retail	SME	Legacy & unallocated	Total
At 1 January 2023	28.1	7.9	4.3	**40.3**
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	5.0	-	0.3	**5.3**
To credit impaired (stage 1 or 2 to 3)	1.4	0.2	-	**1.6**
To 12 month ECL (stage 2 or 3 to 1)	(3.4)	-	-	**(3.4)**
From credit impaired (stage 3 to 2)	(0.1)	0.1	-	**-**
Net changes arising from stage transfers	**2.9**	**0.3**	**0.3**	**3.5**
Other charges/(releases):				
New assets originated or purchased	1.2	0.3	-	**1.5**
Other changes to risk parameters[1]	(2.5)	(0.2)	0.4	**(2.3)**
Redemptions and repayments	(1.3)	(0.5)	0.1	**(1.7)**
Net other charges/(releases)	**0.3**	**(0.1)**	**0.8**	**1.0**
Assets written off	(1.8)	(0.7)	-	**(2.5)**
At 30 June 2023	**26.6**	**7.1**	**5.1**	**38.8**

1. Includes the impact of any asset sales.

Analysis of income statement

	Six months ended 30 June	
	2023	2022
Net other (losses)/gains	**(1.0)**	0.7
Amounts recovered against amounts previously written off	**0.1**	0.1
Adjustment to recognise interest on stage 3 assets based on their net carrying value	**0.5**	0.4
Financial guarantees impairment gain/Portfolio sale	**0.1**	1.6
Net impairment (losses)/gains for the period as shown in the income statement	**(0.3)**	2.8

9. INVESTMENT SECURITIES

Analysis of investment securities

	30 June 2023				31 December 2022			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
Investment securities[1] (listed)	**51.8**	**1,426.6**	**2.8**	**1,481.2**	56.4	883.3	3.0	942.7

1. Investment securities are shown net of impairment (nil for the current and previous periods).

Movement in investment securities

	30 June 2023				31 December 2022			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
At the beginning of the period	**56.4**	**883.3**	**3.0**	**942.7**	67.3	1,131.6	2.5	1,201.4
Acquisitions	**-**	**628.3**	**-**	**628.3**	-	465.7	-	465.7
Disposals and maturities	**(4.6)**	**(76.4)**	**-**	**(81.0)**	(11.0)	(667.8)	-	(678.8)
FVOCI	**-**	**1.9**	**-**	**1.9**	-	(9.7)	-	(9.7)
Fair value through profit or loss	**-**	**(16.1)**	**(0.2)**	**(16.3)**	-	(36.9)	0.5	(36.4)
Amortisation of discount and premium	**-**	**(0.5)**	**-**	**(0.5)**	-	(1.4)	-	(1.4)
Movement in interest accrual	**-**	**6.1**	**-**	**6.1**	0.1	1.8	-	1.9
At the end of the period	**51.8**	**1,426.6**	**2.8**	**1,481.2**	56.4	883.3	3.0	942.7

Certain investment securities have been pledged or transferred by the Group; see note 13 for further details on encumbered and pledged assets.

Analysis of investment securities by issuer

	30 June 2023	31 December 2022
Investment securities issued by public bodies:		
Government securities	**244.4**	121.7
Other public sector securities	**157.8**	133.6
Total investment securities issued by public bodies	**402.2**	255.3
Other debt securities:		
Other floating rate notes	**997.9**	595.3
Mortgage backed securities	**81.1**	92.1
Total other debt securities	**1,079.0**	687.4
Total investment securities	**1,481.2**	942.7

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

10. OTHER BORROWED FUNDS

	Issue date	Call date	Maturity date	30 June 2023	31 December 2022
Tier 2-qualifying liabilities					
9.5% fixed rate reset callable subordinated notes	April 2019	April 2024	April 2029	**200.0**	200.0
MREL-qualifying liabilities					
9.0% fixed rate reset callable senior unsecured notes	Nov 2020	Nov 2024	Nov 2025	**200.0**	200.0
6.0% fixed rate reset callable senior unsecured notes	April 2022	April 2026	April 2027	**250.0**	250.0
9.5% fixed rate reset callable senior unsecured notes	May 2023	May 2027	May 2028	**200.0**	-
Fixed rate subordinated notes				**850.0**	650.0
Issue costs, discounts and accrued interest				**7.6**	5.5
Hedged risk adjustment				**(7.8)**	(8.6)
				849.8	646.9

Other borrowed funds comprise various subordinated liabilities issued to meet the Group's Minimum Requirements for own funds and Eligible Liabilities and Tier 2 capital requirements. The Tier 2 qualifying liabilities rank junior to the MREL-qualifying liabilities, which rank pari passu amongst themselves. All instruments are listed on the London Stock Exchange. New MREL-qualifying instruments of £200.0m were issued during the period.

11. PROVISIONS

	Property	Employee pay	Conduct / legal	Other	Total
At 1 January 2023 (Re-presented)[1]	8.5	22.9	1.1	0.7	**33.2**
Provided in the period:					
Operating expenses	0.8	7.0	1.6	1.0	**10.4**
Net customer redress release	-	-	-	-	**-**
Utilised during the period	(1.4)	(14.2)	-	-	**(15.6)**
At 30 June 2023	**7.9**	**15.7**	**2.7**	**1.7**	**28.0**
Amounts falling due within one year	2.7	10.5	2.7	1.7	**17.6**
Amounts falling due after one year	5.2	5.2	-	-	**10.4**
Total provisions	**7.9**	**15.7**	**2.7**	**1.7**	**28.0**

1. At 31 December 2022, provisions related to employee pay were included within 'other' provisions. These are now disclosed separately and comparatives have been re-presented.

Property

The Group has a number of leasehold properties. Where a property is partially or fully vacated prior to the end of the lease term, the associated right-of-use assets are impaired and provisions are recognised for expected outflows during the remaining periods of the leases. In addition, dilapidation provisions are recorded to the extent that the Group has incurred an obligation to restore a property to a defined state of repair and/or any dilapidation clauses within the contract have been invoked.

Employee pay

Provisions are recognised in respect of employee remuneration, including staff bonuses and various other incentive plans, the details of which are disclosed within the 2022 Annual Report and Accounts. Of these liabilities, £9.2m (31 December 2022: £6.7m) are classed as share based payments under IFRS 2.

Conduct / legal

In the ordinary course of business, the Group may be subject to complaints or legal claims from customers, suppliers or other parties. Consideration of such complaints and claims may result in a contingent liability, a provision, or both.

12. RETIREMENT BENEFITS

Details of the pension schemes operated by the Group are provided in the 2022 Annual Report and Accounts. The amounts recognised in the balance sheet in relation to defined benefit schemes are as follows:

	31 December 2022	Movement	30 June 2023
Retirement benefit net surplus	159.7	1.9	**161.6**
Retirement benefit liabilities	(5.9)	0.2	**(5.7)**
Total amounts recognised in the balance sheet	**153.8**	**2.1**	**155.9**
Represented by:			
Funded DB schemes (Pace DB and BPS)	159.7	1.9	**161.6**
Unfunded DB schemes	(5.9)	0.2	**(5.7)**
Total amounts recognised in the balance sheet	**153.8**	**2.1**	**155.9**

The present value of the defined benefit obligation as at 30 June 2023 has been derived using assumptions that are consistent with those used for 31 December 2022, updated for market conditions at the reporting date.

BPS employs a liability-driven investment strategy with the objective of hedging the impact to liabilities, on the technical provisions basis, of changes in interest rates and inflation. Accordingly, on an accounting basis, the reduction in assets exceeds the reduction in accounting liabilities driven by rising interest rates, and, together with scheme expenditure, drives a reduction in the net surplus position. This net decrease has been largely offset by net interest income earned, the impact of new factors implemented by the Trustee and expense reimbursement contributions to BPS.

Pace employs a strategy to invest in annuities to substantially mitigate the primary investment and longevity risks arising in the scheme, through full risk transfer to specialist insurers. These annuities, which now make up the vast majority of Pace's assets, are valued in such a way that they match the associated liabilities that have been insured. Consequently, movements in the Bank's retirement benefit net surplus between periods is ordinarily a result of cash used to fund scheme expenses. In 1H23, Pace also made a one-off recovery against annuity policies in the scheme, which had the effect of increasing the Bank's retirement benefit net surplus.

13. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES

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

There have been no significant changes to the position of the Group's contingent liabilities, contractual commitments and guarantees as disclosed in the 2022 Annual Report and Accounts, except as disclosed below.

	30 June 2023		31 December 2022	
	Contractual amount	**Risk-weighted amount**	**Contractual amount**	**Risk-weighted amount**
Contingent liabilities arising from customer transactions:				
Guarantees and irrecoverable letters of credit	2.7	0.9	3.3	1.2
Other commitments arising from customer transactions:				
Undrawn formal standby facilities, credit lines and other commitments to lend (includes revocable and irrevocable commitments)[1]	1,478.3	200.2	1,974.8	309.7
	1,481.0	**201.1**	1,978.1	310.9

1. Revocable commitments which represent unused credit card limits of £832.6m (31 December 2022: £849.4m).

Other contingent liabilities, contractual commitments and guarantees

In October 2018, Mortgage Agency Services Number Five Limited ("MAS 5"), a subsidiary of the Group, received a complaint from a mortgage customer which included a complaint regarding changes made to MAS 5's standard variable rate between 2009 and 2012. The complaint was subsequently referred to the FOS.

In April 2023 MAS 5 received a provisional decision from the FOS regarding the merits of the case. As the decision remains at this stage provisional, MAS 5 continues to work with the FOS regarding its conclusions ahead of any final decision being published. The Group considers that, in the event of an adverse final decision, the financial impact on the Group resulting directly from the complaints currently under review by the FOS would not be material. However, there remain a number of continuing uncertainties on whether the Group will ultimately be exposed to a material financial liability in relation to other mortgage customers with similar product characteristics.

Encumbered and pledged assets

The Group pledges certain assets as collateral to third parties as part of its day-to-day activities. The carrying value of amounts pledged to each counterparty types, as well as a high level summary of the terms of the arrangements, are provided below.

30 June 2023	**Cash and balances at central banks**	**Loans and advances to banks**	**Loans and advances to customers**	**Investment securities**	**Total**
TFSME	-	-	6,438.8	-	6,438.8
Pension scheme contingent security	-	63.9	510.0	-	573.9
Payment scheme collateral	280.0	48.5	-	-	328.5
Interest rate swap collateral	-	144.5	-	90.0	234.5
Securitisations	-	10.9	207.1	-	218.0
Other	-	32.7	-	133.9	166.6
Total assets pledged	**280.0**	**300.5**	**7,155.9**	**223.9**	**7,960.3**

31 December 2022	**Cash and balances at central banks**	**Loans and advances to banks**	**Loans and advances to customers**	**Investment securities**	**Total**
TFSME	-	-	6,982.2	-	6,982.2
Pension scheme contingent security	-	70.1	493.5	-	563.6
Payment scheme collateral	280.0	53.2	41.1	41.6	415.9
Interest rate swap collateral	-	171.2	-	80.3	251.5
Securitisations	-	13.9	211.8	-	225.7
Other	-	20.1	-	147.0	167.1
Total assets pledged	280.0	328.5	7,728.6	268.9	8,606.0

- **Term Funding Scheme with incentives for SME** – residential mortgages pledged as collateral against the Group's drawings from the Bank of England's Term Funding Scheme.
- **Pension scheme contingent security** – contingent security provided by the Group to its defined benefit pension schemes. Security has been pledged primarily in the form of retained securitisation notes (which do not appear on the Group's consolidated balance sheet), cash generated from the amortisation of the notes, which can be substituted for further high-quality investment securities, and cash held in custody for the benefit of the Pace scheme in lieu of deficit recovery contributions. These assets can only be accessed by the trustees in the event that the Group was unable to meet future contribution obligations, as may be agreed with the relevant scheme trustee, insolvency or the failure to adhere to the terms of the security deeds.
- **Payment scheme collateral** – collateral posted as part of the Group's involvement in transactional payment schemes, including Visa and BACS.
- **Interest rate swap collateral** – collateral posted by the Group against derivative contract exposures as part of its interest rate risk hedging activities.
- **Securitisations** – residential mortgages pledged as collateral against investment securities issued by Group securitisation subsidiaries. Noteholders would have recourse to the underlying assets in the event of the Group's default. The Group may issue investment securities from the securitisations externally to investors for liquidity purposes, or may retain these internally to be used as collateral in other arrangements. Where such securities are retained internally, they are eliminated on consolidation and do not appear on the Group's balance sheet.
- **Other** – primarily relates to investment securities pledged to cover essential operational continuity costs that would be incurred if the Group were to be put into resolution.

Transferred assets not derecognised

In certain circumstances the Group sells assets to third parties in arrangements where the risk and reward has not been fully transferred. In these instances, the Group retains the asset on its balance sheet, but reflects a liability to the third party for amount due under the arrangement. These primarily rate to repurchase agreements (repos) and are quantified below:

	30 June 2023		31 December 2022	
	Assets not derecognised	**Associated liabilities**	**Assets not derecognised**	**Associated liabilities**
Repurchase agreements				
Loans and advances to customers	6.7	-	-	-
Investment securities	93.0	-	31.8	-
Deposits by banks	-	96.5	-	31.8
Total	99.7	96.5	31.8	31.8

Unconsolidated structured entities

Details of the interests in unconsolidated structured entities are disclosed in note 36 of the 2022 Annual Report and Accounts, and there has been no significant change in the nature of the transactions in these entities since this was published.

14. RELATED PARTY TRANSACTIONS

During the period to 30 June 2023 there have been no changes to the nature of the related party transactions disclosed in note 32 of the 2022 Annual Report and Accounts that would materially affect the position or performance of the Group.

15. SHARE CAPITAL

	30 June 2023		31 December 2022	
	No. of shares (millions)	**Value**	**No. of shares (millions)**	**Value**
Share capital allotted, called up and fully paid				
At the beginning and end of the period	9,029.1	0.9	9,029.1	0.9
Share premium account				
At the beginning and end of the period		313.8		313.8

There are 9,029,130,200 A shares (2022: 9,029,130,200) and 84 B shares (2022: 83) in The Co-operative Bank Holdings Limited. The holders of the ordinary A shares do not hold any voting rights but are entitled to participate in distributions and to receive a dividend on liquidation. The B shareholders have one vote for every share held and also benefit from certain governance, notification and approval rights with respect to the Holding Company, but have no rights to distributions, other than on exit in an amount of £25.0m in aggregate, subject to achieving a minimum valuation threshold.

16. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The methodology and assumptions for determining the fair value of financial assets and liabilities are consistent with those disclosed in the 2022 Annual Report and Accounts.

Balance sheet classification and measurement category

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

		Measured at fair value				
30 June 2023	**Amortised cost**	**FVOCI**	**FVTPL – designated**	**FVTPL – mandatorily measured**	**Derivatives in a hedging relationship**	**Total**
Financial assets						
Cash and balances at central banks	3,904.8	-	-	-	-	3,904.8
Loans and advances to banks	463.9	-	-	-	-	463.9
Loans and advances to customers	21,019.5	-	86.2	0.7	-	21,106.4
Investment securities	51.8	1,426.6	-	2.8	-	1,481.2
Derivative financial instruments	-	-	-	43.9	577.2	621.1
Equity shares	-	-	-	11.6	-	11.6
Other assets	5.3	-	-	-	-	5.3
Total financial assets	25,445.3	1,426.6	86.2	59.0	577.2	27,594.3
Financial liabilities						
Deposits by banks	5,503.3	-	-	-	-	5,503.3
Customer accounts	19,551.4	-	-	-	-	19,551.4
Debt securities in issue	172.6	-	-	-	-	172.6
Derivative financial instruments	-	-	-	33.6	64.9	98.5
Other borrowed funds	849.8	-	-	-	-	849.8
Other liabilities	38.4	-	-	-	-	38.4
Total financial liabilities	26,115.5	-	-	33.6	64.9	26,214.0

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

		Measured at fair value				
31 December 2022	**Amortised cost**	**FVOCI**	**FVTPL – designated**	**FVTPL – mandatorily measured**	**Derivatives in a hedging relationship**	**Total**
Financial assets						
Cash and balances at central banks	5,270.4	-	-	-	-	5,270.4
Loans and advances to banks	387.1	-	-	-	-	387.1
Loans and advances to customers	20,827.9	-	93.3	0.7	-	20,921.9
Investment securities	56.3	883.4	-	3.0	-	942.7
Derivative financial instruments	-	-	-	51.7	468.4	520.1
Equity shares	-	-	-	11.1	-	11.1
Other assets	12.4	-	-	-	-	12.4
Total financial assets	26,554.1	883.4	93.3	66.5	468.4	28,065.7
Financial liabilities						
Deposits by banks	5,683.4	-	-	-	-	5,683.4
Customer accounts	20,107.3	-	-	-	-	20,107.3
Debt securities in issue	181.9	-	-	-	-	181.9
Derivative financial instruments	-	-	-	44.8	58.7	103.5
Other borrowed funds	646.9	-	-	-	-	646.9
Other liabilities	39.9	-	-	-	-	39.9
Total financial liabilities	26,659.4	-	-	44.8	58.7	26,762.9

Valuation of financial assets and liabilities measured at fair value

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

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

		Fair value at end of the reporting period using:			
30 June 2023	**Category**	**Level 1**	**Level 2**	**Level 3**	**Total**
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	85.0	1.2	86.2
Loans and advances to customers	FVTPL – mandatorily measured	-	-	0.7	0.7
Investment securities	FVOCI	1,405.8	-	20.8	1,426.6
Investment securities	FVTPL – mandatorily measured	-	-	2.8	2.8
Equity shares	FVTPL – mandatorily measured	-	-	11.6	11.6
Derivative financial assets		-	621.1	-	621.1
Non-financial assets:					
Investment properties		-	-	1.8	1.8
Total assets carried at fair value		1,405.8	706.1	38.9	2,150.8
Derivative financial liabilities		-	98.5	-	98.5
Total liabilities carried at fair value		-	98.5	-	98.5

		Fair value at end of the reporting period using:			
31 December 2022	**Category**	**Level 1**	**Level 2**	**Level 3**	**Total**
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	92.1	1.2	93.3
Loans and advances to customers	FVTPL – mandatorily measured	-	-	0.7	0.7
Investment securities	FVOCI	858.5	-	24.9	883.4
Investment securities	FVTPL – mandatorily measured	-	-	3.0	3.0
Equity shares	FVTPL – mandatorily measured	0.2	-	10.9	11.1
Derivative financial assets		-	520.1	-	520.1
Non-financial assets:					
Investment properties		-	-	2.1	2.1
Total assets carried at fair value		858.7	612.2	42.8	1,513.7
Derivative financial liabilities		-	103.5	-	103.5
Total liabilities carried at fair value		-	103.5	-	103.5

Key elements of the valuation techniques, inputs and assumptions used in measuring the fair value of level 2 and 3 financial assets are as follows:

- **Loans and advances to customers**

Loans and advances to customers primarily comprise of corporate loans of £84.9m as at 30 June 2023 (31 December 2022: £89.8m) which are fair valued through profit or loss using observable inputs. Loans held at fair value are valued at the sum of all future expected cash flows, discounted using a yield curve based on observable market inputs.

- **Derivative financial instruments**

Over-the-counter (i.e. non-exchange traded) derivatives are valued using valuation models which are based on observable market data. Valuation models calculate the present value of expected future cash flows, based upon 'no arbitrage' principles. The Group enters into vanilla foreign exchange and interest rate swap derivatives, for which modelling techniques are standard across the industry. Examples of inputs that are generally observable include foreign exchange spot and forward rates, and benchmark interest rate curves.

- **Investment securities**

Investment securities comprise of RMBS of £20.8m (FVOCI) and £2.8m (FVTPL – mandatorily measured) as at 30 June 2023 (31 December 2022: FVOCI: £24.9m and FVTPL £3.0m). An independent third party valuation agent is used to provide prices for the rated RMBS obtained from large financial institutions. These prices are indicative values only and do not represent an offer to purchase the securities. These RMBS represent the Group's interests in unconsolidated structured entities.

- **Equity shares**

Equity shares primarily comprise of US Dollar-denominated convertible preference shares in Visa Inc., with any movements in fair value being recognised through profit or loss. The fair value of the Visa Inc. shares has been calculated by taking the period end NYSE share price and discounting for illiquidity and clawback. If the illiquidity premium to the discount rate was increased by an absolute 10%, it would result in a reduction in the overall fair value of the equity shares of £1.5m as at 30 June 2023.

- **Investment properties**

Investment properties are valued by using recent valuations of individual assets within the portfolio, index linked to the balance sheet date using the relevant house price index.

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

	Fair value at 31 December 2022	Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at 30 June 2023
Loans and advances to customers	1.9	-	-	-	-	1.9
Investment securities	27.9	-	(4.2)	0.2	(0.2)	23.7
Equity shares	10.9	-	(0.2)	-	0.9	11.6
Investment properties	2.1	-	(0.3)	-	-	1.8
	42.8	-	(4.7)	0.2	0.7	39.0

Fair values of financial assets and liabilities not carried at fair value

The carrying values of financial assets and liabilities measured at amortised cost are analysed in the following tables by the three level fair value hierarchy set out above.

		Fair value				
30 June 2023	**Total carrying value**	**Level 1**	**Level 2**	**Level 3**	**Items where fair value approximates carrying value**	**Total**
Financial assets						
Cash and balances at central banks	3,904.8	-	-	-	3,904.8	3,904.8
Loans and advances to banks	463.9	-	105.7	-	358.2	463.9
Loans and advances to customers	21,019.5	-	-	18,905.2	770.8	19,676.0
Investment securities	51.8	-	-	52.3	-	52.3
Other assets	5.3	-	-	-	5.3	5.3
Financial liabilities						
Deposits by banks	5,503.3	-	5,061.3	-	436.3	5,497.6
Customer accounts	19,551.4	-	-	1,638.7	17,883.5	19,522.2
Debt securities in issue	172.6	-	-	172.7	-	172.7
Other borrowed funds	849.8	-	834.4	-	-	834.4
Other liabilities	38.4	-	-	-	38.4	38.4

31 December 2022	Total carrying value	Fair value Level 1	Level 2	Level 3	Items where fair value approximates carrying value	Total
Financial assets						
Cash and balances at central banks	5,270.4	-	-	-	5,270.4	5,270.4
Loans and advances to banks	387.1	-	7.5	-	379.6	387.1
Loans and advances to customers	20,827.9	-	-	18,961.1	676.3	19,637.4
Investment securities	56.3	-	-	55.7	-	55.7
Other assets	12.4	-	-	-	12.4	12.4
Financial liabilities						
Deposits by banks	5,683.4	-	5,289.4	-	388.4	5,677.8
Customer accounts	20,107.3	-	-	1,522.5	18,554.0	20,076.5
Debt securities in issue	181.9	-	-	182.1	-	182.1
Other borrowed funds	646.9	-	618.7	-	-	618.7
Other liabilities	39.9	-	-	-	39.9	39.9

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

17. EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events to report.

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements with respect to the business, strategy and plans of the Group and its current targets, goals and expectations relating to its future financial condition and performance, developments and/or prospects. Forward-looking statements sometimes can be identified by the use of words such as ‘may’, ‘will’, ‘seek’, ‘continue’, ‘aim’, ‘anticipate’, ‘target’, ‘projected’, ‘expect’, ‘estimate’, ‘intend’, ‘plan’, ‘goal’, ‘believe’, ‘achieve’, ‘predict’, ‘should’ or in each case, by their negative or other variations or comparable terminology, or by discussion of strategy, plans, objectives, goals, future events or intentions.

Examples of such forward-looking statements include, without limitation, statements regarding the future financial position of the Group and its commitment to its plan and other statements that are not historical facts, including statements about the Group or its Directors’ and/or management’s beliefs and expectations. Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant stated or implied assumptions and subjective judgements, which may or may not prove to be correct. There can be no assurance that any of the matters set out in forward-looking statements are attainable, will actually occur, will be realised, or are complete or accurate. Past performance is not necessarily indicative of future results. Differences between past performance and actual results may be material and adverse.

For these reasons, recipients should not place reliance on, and are cautioned about relying on, forward–looking statements as actual achievements, financial condition, results or performance measures could differ materially from those contained in the forward-looking statement. By their nature, forward-looking statements involve known and unknown risks, uncertainties and contingencies because they are based on current plans, estimates, targets, projections, views and assumptions and are subject to inherent risks, uncertainties and other factors both external and internal relating to the Group’s plan, strategy or operations, many of which are beyond the control of the Group, which may result in it not being able to achieve the current targets, predictions, expectations and other anticipated outcomes expressed or implied by these forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. No representations or warranties, expressed or implied, are given by or on behalf of the Group as to the achievement or reasonableness of any projections, estimates, forecasts, targets, prospects or returns contained herein. Accordingly, undue reliance should not be placed on forward-looking statements.

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

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