The co-operative bank
for people with purpose

2021 Annual Report and Accounts

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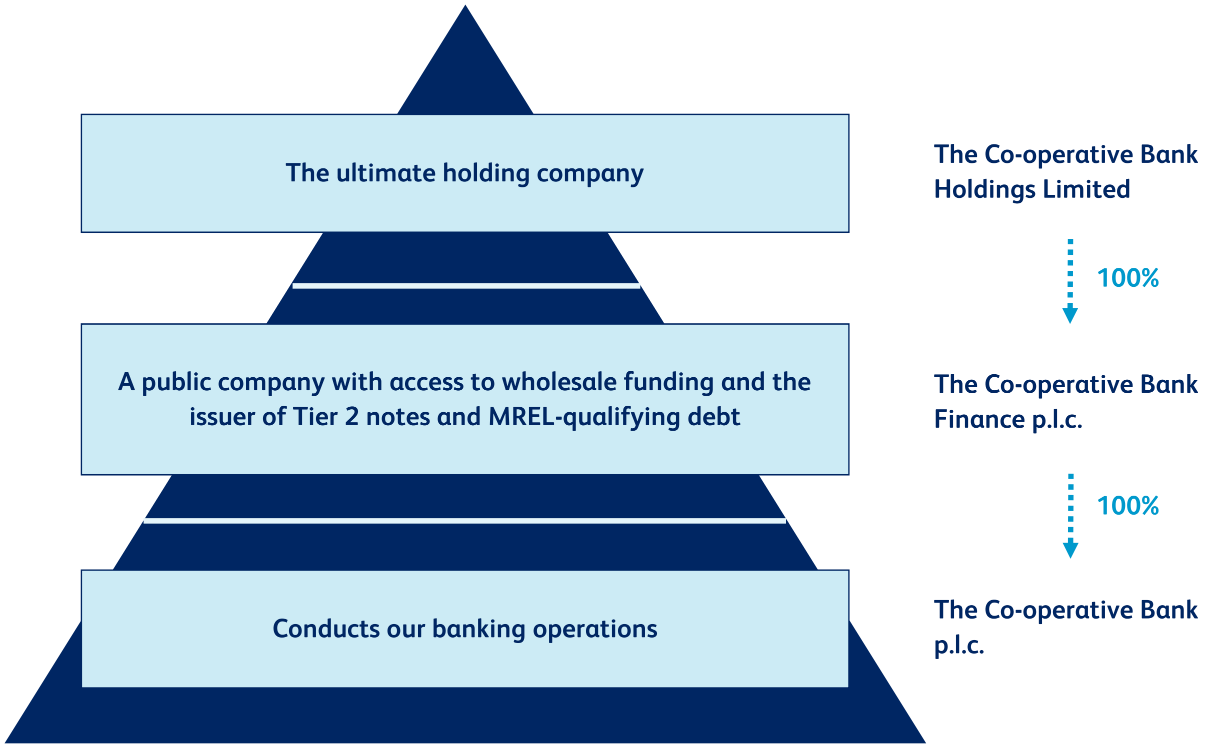
The Co-operative Bank, Main Banking Hall

Our Group structure



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

Further detail on the group structure is provided on page 51.

View information about The Co-operative Bank at:

www.co-operativebank.co.uk/investorrelations

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

Find us here

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The Co-operative Bank plc

Company information

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

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

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

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

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

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

The Co-operative Bank, Leicester Branch, 1970

The Co-operative Bank at a glance

Our story

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

Our purpose

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

Our vision

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

Core customer segments

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

Our values

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

Our strategy

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

In 2021, we refreshed our purpose and vision to reflect our ambition to be a leader on environmental, social and governance (ESG) matters in the UK banking industry. For more information on our refreshed strategy see pages 15 to 16.

Retail

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

Read more on page 36

82.7%	97.8%	83.6%
of core income	of core assets	of core liabilities

SME

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

Read more on page 39

17.3%	2.2%	16.4%
of core income	of core assets	of core liabilities

Business highlights

Return to profitability for the first time in ten years

2021 has been a milestone year for The Co-operative Bank, in which we have delivered against the ambitious turnaround plan set three years ago to significantly improve the financial strength and stability of the Group. We report both an underlying and statutory profit and improved financial KPIs.

Statutory profit/(loss) before tax	Underlying profit/(loss)[1]	Customer net interest margin	Statutory cost:income ratio	Asset quality ratio
£31.1m	**£41.0m**	**1.61%**	**91%**	**1bp**
31 December 2020: £(103.7)m	31 December 2020: £(63.9)m	31 December 2020: 1.46%	31 December 2020: 126%	31 December 2020: 12bps

1. The underlying profit/(loss) stated above is a non-statutory measure that management uses to assess business performance. It is adjusted for certain expenses and is reconciled to the relevant statutory measures on page 33.

Organically capital-generative with strong liquidity

We have generated 150bps of CET1 growth in the year and reduced Risk Weighted Assets through the disposal of non-customer legacy assets.

Common Equity Tier 1 (CET1)[2]	Total Capital Ratio[2]	Liquidity Coverage Ratio	Risk Weighted Assets
20.7%	**25.4%**	**241.8%**	**£4.4bn**
31 December 2020: 19.2%	31 December 2020: 23.7%	31 December 2020: 193.4%	31 December 2020: £4.7bn
Regulatory minimum: 10.6%		Regulatory minimum: 100%	

2. Includes a benefit of approximately 0.6 % from the change in treatment of software intangibles outlined in the European Banking Authority (EBA) Technical Standards.

Putting our customers first

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

Continuing to provide lending to those who need it…		…and a range of savings and current accounts	
Net core residential lending	Total gross lending	Retail franchise deposits	SME deposits
£2.4bn	**£5.1bn**	**£15.5bn**	**£3.5bn**
31 December 2020: £0.8bn	31 December 2020: £3.4bn	31 December 2020: £14.5bn	31 December 2020: £3.0bn

Total core customer assets have grown by 13 % since 31 December 2020.

Mortgage growth has helped to drive the performance of the Bank

- 14 % net growth in mortgage assets during the year.
- Mortgage growth has also been at higher margin (average completion margins increased from 1.62 % in 2020 to 1.93 % in 2021).

Serving our customers and supporting our colleagues

We have remained focussed on supporting customers and colleagues throughout the COVID-19 pandemic.

Current account customer satisfaction (NPS)	Percentage of senior roles held by women	Gender pay gap (median)	FSCB cultural survey overall result
+19 (4th place in the market)	**41.0%**	**28.72%**	**75**
31 December 2020: +25 (3rd place in the market)	31 December 2020: 42.3%	31 December 2020: 25.94%	2020: 75 Described further on page 75

- Our NPS score decreased by six points in the year. We have responded to this decrease by focussing on creating deeper, long-term relationships with our customers and taking actions to reduce contact centre wait times.
- Exceeded the target percentage of 40% of senior roles held by women throughout 2021.
- Median gender pay gap has deteriorated. We have set long-term areas of focus to support career progression and gender balance at all levels.
- In the Financial Services Culture Board (FSCB) survey:
    - Customer focus is our highest ranked characteristic in the survey and 'going the extra mile for our customers' remains one of our strongest scores;
    - The survey also tells us that our colleagues feel more included, accepted, and less likely to be judged based on stereotypes than other banks; and
    - We continue to score well above average when it comes to our organisation's purpose and values being meaningful to colleagues.
- Other people metrics show the Bank is performing resiliently in a challenging environment. Colleagues have reacted positively to the changes in where and how we work since the COVID-19 pandemic.

Making a difference in our communities

We are committed to tackling youth homelessness, economic and domestic abuse and human rights issues working with our charity partners Centrepoint, Refuge and Amnesty International UK. We make a difference to our customers' local communities through volunteering and fundraising for the charities and causes which are important to them. We have now raised £2m since we started working with Centrepoint in 2017.

Donations to charities in the year ended 31 December 2021 (including Everyday Rewards)

£1.1m

In total, over £1.3m has been donated to these charities since Everyday Rewards was launched in 2016.

AMNESTY INTERNATIONAL

WOODLAND TRUST

Refuge

For women and children. Against domestic violence.

OXFAM

hospice UK

Committed to tackling climate change for 30 years

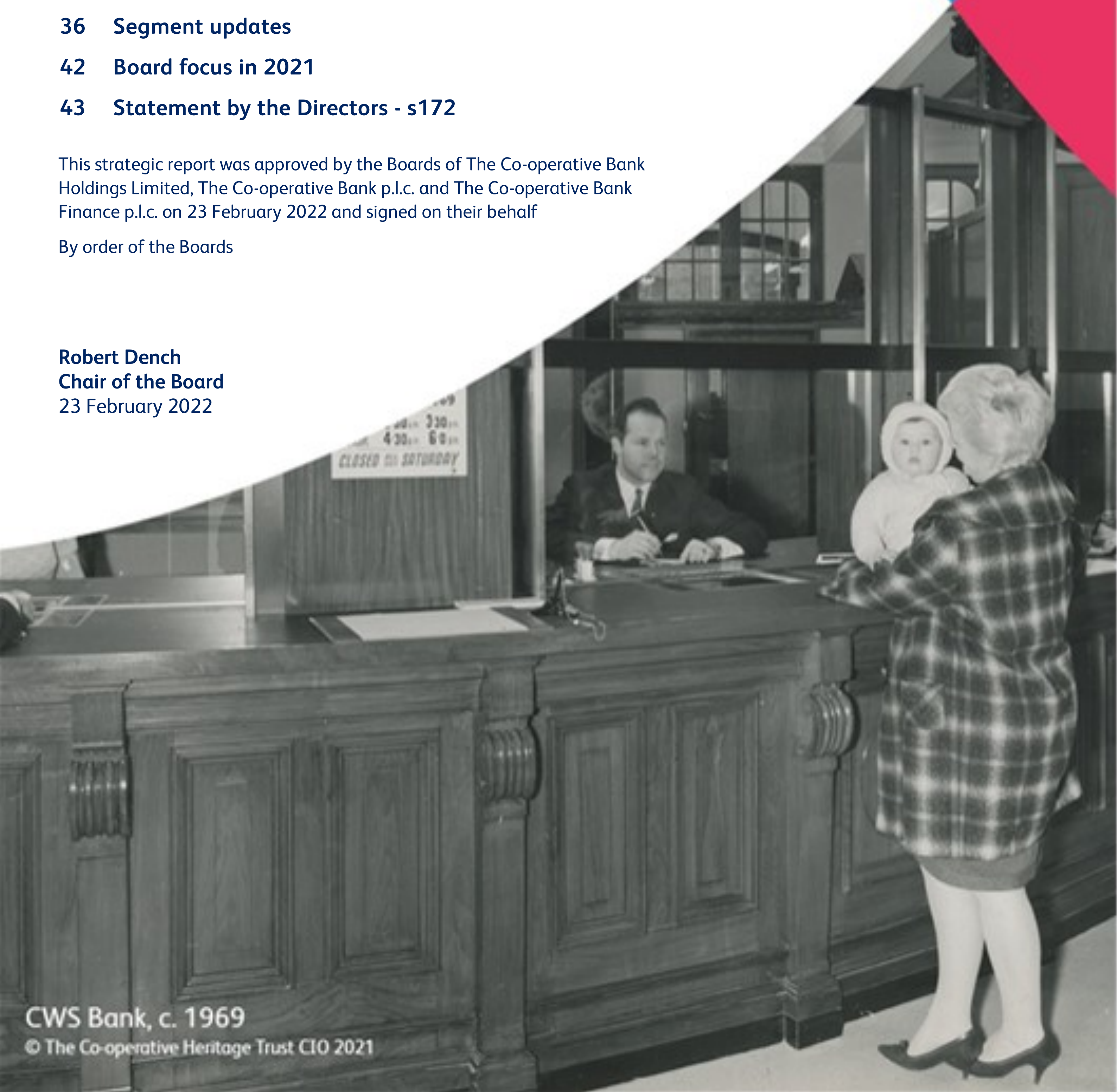
- Our operations remained carbon neutral in 2021, with an additional offset of 10% to address historic emissions.
- We do not provide banking services to businesses involved in fossil fuels extraction and refinement, environmentally harmful chemicals, or unsustainable harvest of natural resources.
- We are proud to be an ambassador of Zero Hour, the campaign for the Climate and Ecological Emergency Bill.
- 18% year-on-year decrease in operational greenhouse gas emissions in 2021, a 55% reduction on our 2019 baseline.

Strategic report

This strategic report was approved by the Boards of The Co-operative Bank Holdings Limited, The Co-operative Bank p.l.c. and The Co-operative Bank Finance p.l.c. on 23 February 2022 and signed on their behalf

By order of the Boards

Robert Dench
Chair of the Board
23 February 2022



CWS Bank, c. 1969

Welcome to our Annual Report and Accounts for 2021

Chair of the Board's welcome

I am pleased to present The Co-operative Bank's Annual Report and Accounts for 2021.

This year has been an exceptional and transformative year for The Co-operative Bank. The profits delivered this year, whilst relatively modest, represent a very significant step in the Bank's recovery. Our colleagues have worked enormously hard over many years to rebuild the business after a considerable period of loss-making performance, whilst continuing to serve our customers. The Board now looks forward to celebrating the Bank's 150th anniversary this year and to moving into a period of sustainable and substantial profitability. None of this would have been possible without the very strong support and resilience of the Bank's shareholders, customers and colleagues over a challenging period.

Every business in the UK has faced the challenges of COVID-19 and we have been no exception. The disruption to work and home life suffered by all has seen colleagues rise to the resulting challenges in a way that deservedly gets the thanks and admiration of the Board. Thanks are also due to those who have been advising and helping colleagues throughout this sustained period of uncertainty, worry and challenge.

The Bank is now confidently in the strongest position it has been in for over a decade and we look forward to another year of progress in 2022.

"We have made excellent progress with our strategic priorities."

Transforming our infrastructure, enhancing our customer propositions and reducing our cost base continued to be the key points of focus for the Bank in 2021. The success of this work combined with the de-risking of our Optimum legacy portfolio and an increasingly positive outlook has already been reflected in our credit ratings. Fitch's long-term unsecured debt rating of the Bank has moved to B+ (stable outlook) and Moody's confirmed an upgrade to the Bank's long-term deposit rating, Ba3, and senior unsecured debt rating, B1, earlier in 2021.

In the second half of 2021, the Bank was successful in seeking court approval for a capital reduction to convert non-distributable reserves to distributable reserves, which will enable the Bank, at an appropriate time, to achieve a more normalised capital structure and improve our investment outlook as we look forward to the future with a refreshed strategic vision.

"The Bank has been rated the UK's best ESG rated high street bank by Sustainalytics."

The Bank's history is rooted in the co-operative movement and those values are reflected in the culture of the business, the colleagues we recruit and the people we serve. There is a clear read across from our co-operative values into ESG and more specifically into climate change action. Our leadership on campaigns such as the Climate and Ecological Emergency Bill and our commitment to supporting our charity partners underpins our franchise and identity as a business and it was hugely encouraging to see external recognition of this leadership through our rating by Sustainalytics last year, who named us as the UK's best ESG rated high street bank. Our Values and Ethics Committee continues to oversee and encourage the Bank's ESG and ethically-focussed agenda, consolidating our brand as the original ethical bank.

"Responding to the needs of our customers in a challenging economic environment."

Every business in the UK has faced challenges throughout the pandemic; however, our colleagues have diligently adapted to our new ways of working, fervently working to support both our retail and SME customers. Consistent growth in the mortgage market and resilient demand have meant that we have been able to advance our Platform business, and our current accounts and credit card lending saw successful initiatives rolled out to customers, which have been recognised externally with us receiving the award for 'Moneyfacts Best Current Account Provider 2021'. We also won the 'Moneyfacts Branch Network of the Year' award for the fourth consecutive year, a testament to our commitment to provide banking services for those who have not been able to embrace more digital propositions.

Our SME business has gone from strength to strength in supporting UK businesses and co-operatives who share our values and ethics, with a new business credit card, a refreshed business banking website, a new mobile banking app and an award-winning Request to Pay app in partnership with BankiFi. Performing ahead of expectations, we attracted a significant proportion of switchers from the incentivised switching campaign, and we have supported co-operatives and charity customers through the Customer Donation Fund and The Hive. This activity has helped our customers to facilitate real progress in their communities and our commitment to these customers positions us well in becoming the ethical, digital banking choice for the UK's SMEs.

Following Nick Slape's appointment as Chief Executive Officer from the Chief Financial Officer role in 2020, Louise Britnell was appointed as Chief Financial Officer and was then invited to join the Board in early 2021. Richard Slimmon and Sebastian Grigg were also appointed to the Board as representatives of our B shareholders. I am personally grateful to Louise for the very strong contribution she makes and also to Richard and Sebastian for their very broad input and wise counsel.

"Board and Executive changes during 2021 have strengthened the business and the Board's oversight capability."

In October 2021 Chris Davis, our Chief Operating Officer, stepped down from the Board. I would like to thank him for his significant contribution over his time with the Bank, during which we delivered the separation of IT systems from the Co-op Group, essential digital capability and cloud migration. All three were key contributors to the success we achieved in 2021.

In what has been yet another challenging yet rewarding year, our Board members have proved to be flexible, energetic, innovative and have provided strong and open challenge to the Executive. We are very pleased with what has been achieved during 2021 and, on behalf of the Board, I would like to express thanks to all of our colleagues for their determination and commitment.

Bob Dench
Chair of the Board

First full year of profit in ten years

Chief Executive's review

2021 has been a milestone year for The Co-operative Bank, in which we have delivered against the ambitious turnaround plan set three years ago to significantly improve the financial strength and stability of the Bank. I am delighted to report our first full year of profit in ten years, signalling a return to sustainable profitability, with a statutory profit before tax of £31.1m.

We have delivered a substantially improved financial performance in 2021 with an underlying profit of £41.0m compared to the underlying loss before tax of £63.9m in 2020, reflecting improved profitability in the core business segments.

The impact of exceptional adjustments has reduced, from a net expense of £39.8m to a net expense of £9.9m, reflecting the restructuring activity that was completed in 2020 and the ATM refunds achieved in 2021.

We have made excellent progress in our core business segments. Customer assets increased by 13% or £2.4bn to £20.2bn. Our ability to respond quickly to the increased level of demand for mortgages at higher margins was a key factor in delivering our 2021 strong performance. We delivered £5.1bn of gross lending in the year with the level of maturities and other movements being similar year-on-year. As a result, net mortgage lending of £2.4bn was 185% higher than in 2020. This increased level of lending was at higher margins, up 31bps in the year and for a longer average duration. Our SME business banking assets largely reflect the Bounce-Back loan scheme and CBILS lending for which the application window closed in March 2021.

Core customer liabilities increased by £0.8bn to £21.1bn, and whilst we have - as planned - reduced our more expensive term deposit liabilities, both retail franchise deposits and SME business banking deposits have increased with growth in the acquisition of new customers as well as growth in average balances.

As a result of our return to sustainable profitability, we have recognised a proportion (20%) of our previously unrecognised deferred tax assets in relation to historical losses, which contributed to £115m of our £166m tax credit recognised in profits this year. We now expect to receive significant value from these historical losses over many years and will expect to recognise further assets in the future.

Strengthening our balance sheet

In 2021 we improved our CET1 ratio by 150bps organically, from 19.2% to 20.7%, driven by year end profits (excluding the deferred tax exceptional credit) and a reduction in non-customer Risk Weighted Assets (RWAs). This is well above the regulatory minimum of 10.6%. As the Chair has also highlighted, a significant step-forward in our progress to strengthen our balance sheet was completed in 2021 by converting certain non-distributable reserves to distributable reserves, following regulatory approval. Whilst the overall impact on capital resources is neutral, this action provides the Board with increased optionality over the type of capital it may wish to issue in future and provides an opportunity to rebalance the proportion of CET1 versus other types of instruments within our capital resources to a normalised level.

As we look into 2022, we plan to raise further MREL-qualifying debt in order to meet our obligations to comply with the increased requirements of the MREL framework when they come into force in their final form on 1 January 2023. This capital issuance will take into account the anticipated impact of the regulatory changes in relation to credit risk: probability of default and loss given default, including the impact of cyclicality, which will increase the level of RWAs from the 2021 position.

Our funding structure remains robust with LCR at 241.8 % and with 78 % of funding being from customer liabilities with 22 % (or £6.1bn) from wholesale funding, the majority of which is low-cost government funding from the Bank of England Term Funding Scheme with additional incentives for SMEs (TFSME) which matures in 2024/25. In 2021 we have drawn down a further £3.5bn in TFSME funding, taking the total to £5.2bn, reducing our wholesale cost of funds.

It is pleasing to see the external recognition of the significant progress made to improve the Bank's financial profile, reflected in both the credit rating upgrades from the agencies Moody's and Fitch alongside the improved market perception evidenced in the 2021 trading performance of the bonds that were issued in 2019 and 2020.

Setting the ESG agenda with co-operative values

As a business, we recognise that our ESG credentials matter just as much as, and contribute to, our ability to perform financially and operationally. Over the last few years, governments, businesses and consumers have prioritised social and environmental causes, exemplified by the goals agreed at the 2021 COP26 Summit held in Glasgow in the autumn.

The Co-operative Bank's long-standing commitment to co-operative values and ethics has made us a natural leader in ESG in the UK banking sector and beyond. This position was endorsed in 2021 by Sustainalytics, a leading ESG ratings agency, which recognised The Co-operative Bank as the UK's best ESG rated high street bank. In October, I was delighted to join a delegation of Climate and Ecological Emergency Bill Supporters in delivering an open letter to 10 Downing Street, calling for the key outcomes to be agreed at COP26, campaigning to influence policy and the wider ESG landscape.

Earlier in 2021 we conducted our sixth Values and Ethics Poll, a unique consultation, with c.50,000 responses which allows our customers to inform an update to the Ethical Policy. The refreshed Policy will be implemented in 2022, and sets out our commitments on environmental and social issues, ensuring we make a positive difference to society and reflect our customers' values in everything we do. Our Ethical Policy is why we have refused to provide our banking services to companies involved in fossil fuel extraction since 1998, and why we were the first UK bank to sign the Paris Pledge not to finance coal mining in 2015.

Supporting the co-operative movement is at the heart of our values and our £1.7m commitment to The Hive, in collaboration with Co-operatives UK, enables co-operatives in their early stages to access business support, advice, training and mentoring. We have sponsored both the Co-op of the Year Awards and 2021 Co-ops Congress, celebrating the achievements of co-operatives and amplifying their voices. Excitingly, earlier in the year, we financially supported Co-operatives UK's Unfound Accelerator Project for entrepreneurs within the co-operative movement by offering a £10,000 prize fund for start-up businesses taking part. We continue to provide free business banking to co-operatives and have supported 907 in total over 2021, honouring our history and our belief in the importance of the co-operative movement.

Building on our work with Refuge last year, which raised awareness of the signs of economic abuse, this year we co-chaired the Digital Banking Commission on Economic Abuse looking at the impacts, both positive and negative, that digital banking could be having on the victims of economic abuse. This important research will help us and other like-minded businesses to support our vulnerable customers in a more sophisticated way. Contributing to the end of youth homelessness also continues to be a key priority and our colleagues and customers have impressively raised £2m for Centrepoint since 2017 through sponsored activities, funding their national helpline and important mental health services. In 2021 we have also raised over £220,000 for our key charity partners, including Oxfam, Hospice UK and the Woodland Trust through our Everyday Rewards scheme.

We have also strengthened our partnership with Amnesty International UK by hosting and funding their Rise Up programme, allowing young people to transform their communities by developing their campaigning skills. Our passionate colleagues also facilitated Amnesty's 2021 Write for Rights campaign through our digital and branch channels in addition to generously donating to Amnesty's urgent Afghanistan Refugee campaign.

We have accomplished a lot over the last year but we want to go further. In 2022 and in the years to come, we will strengthen our ethical and environmental campaigning, boldly leading on causes that matter to our customers and stakeholders and retaining our identity as the original ethical bank. We have been operationally carbon neutral for over 14 years and it is integral to the way we think about our operations. We also offset a further 10 % of emissions to combat historic emissions; however, this year we will launch our vision to go beyond carbon neutral, through prioritisation of our Scope 3 or 'indirect' emissions. This ambitious goal will ensure that all levels of our supply chain operate ethically and refrain from causing further damage to the environment. Most notably, our updated Ethical Policy, which will be released later this year, will reflect the views and priorities of thousands of UK consumers and what they want to see from businesses in the industry, allowing us to take a stand on the issues that matter to our customers.

People with purpose

Everything we have achieved in our turnaround has relied on the dedication and support of our staff and the service they provide to our customers, aligned to our values and ethics. I would like to personally thank all colleagues for their outstanding efforts and the way we have overcome the hurdles to return the Bank to the strong position we see today and as we look to our 150th year in 2022.

We adapted well to new ways of working during the height of the pandemic and, enabled by our desktop transformation programme, our colleagues have been able to continue to work from home where they wished to. In 2021, we reshaped our new hybrid way of working, and whilst some head office colleagues have returned to our Manchester and other head office sites, the majority of our colleagues prefer to work from home. As a result, we have reduced our occupied head office space, which will reduce costs in 2022 and beyond.

Colleague feedback is very important to me and my fellow Executive and Board members. During our quarterly Co-operative Leader events and through our regular pulse check surveys we seek out and receive suggestions for continuous improvement and innovation opportunities to serve our customers better. It is therefore not surprising, but certainly very pleasing, that in the Financial Services Culture Board survey customer focus is our highest-ranked characteristic and the question on 'going the extra mile for our customers' remains one of our strongest scores.

I am proud that the efforts of our team to provide excellent customer service and products have been recognised externally, being awarded the 'Moneyfacts Best Current Account Provider 2021'. We also won the 'Moneyfacts Branch Network of the Year' award for the fourth consecutive year, and the 'Moneyfacts Best Charity Business Bank' for the sixth year running. These awards and nominations reflect the diligence and talent within our business and our relentless commitment to serving our customers well.

Investing in the business to serve our customers

In 2018, we set out a five-year transformation plan and for the last three years we have focussed on fixing our infrastructure and enabling future growth. Following our track record of delivering many of the original objectives ahead of schedule, the Bank's Board approved an updated five-year plan in September, which extends the period over which we are setting our ambitions and provides further granularity about how we will establish sustainable advantage through two key phases.

In 2022 and 2023 we will focus on 'growth and efficiency'. During this initial phase we continue to invest in our simplification programme, where we will rationalise our mortgages and savings platforms and bring our mortgage servicing operations back in-house from Capita. I wish to thank them for their support over the last six years, in particular during the demanding mortgage market of the last 18 months. Now is the right time for the Bank to take this step, so that we can advance our simplification and transformation agenda. We look forward to welcoming colleagues from Capita into the Bank as we complete the in-housing process under the Transfer of Undertakings (Protection of Employment) (TUPE) regulations.

Similarly, during the pandemic we saw a significant shift in customer demand away from physical services and towards our telephone, online and mobile banking services. This trend has continued and we are reinvesting a significant amount of our simplification benefits to improve processes and quality of services for our customers, in particular in these digital and telephony channels to combat increased wait times following challenges around recruitment and retention with increased levels of colleague sickness or self-isolation periods.

From 2024 to 2026 we will embed the changes made in the first stage of the transformation plan and expand our franchise growth further, enabled by the simpler systems and processes and continued product and channel development. You can read more about our transformation plans on pages 17 to 18.

Outlook

We have made substantial progress in 2021 as the original ethical bank. We delivered improved financial performance across all key measures and continued to invest in the development of our franchise. We were rated the number one bank in the UK for ESG by Sustainalytics. We have achieved a lot, but there is still a lot to do as we build a simpler, more efficient bank with co-operative values at its heart. I am confident about the future and our ability to deliver our strategic goals and, despite economic uncertainty remaining, I am confident we can deliver sustainable and strong results for our stakeholders.

Nick Slape
Chief Executive Officer

UK retail banking market overview

We are operating in an intensely competitive and highly regulated market which has endured continuing economic uncertainty throughout 2021. Environmental and ethical concerns are gathering ever more increasing attention among consumers, and The Co-operative Bank's heritage and commitment to ethical banking continues to differentiate us. The current environment presents opportunities and challenges that influence our long-term priorities.

Economic and political overview

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

The economy has recovered strongly in 2021; however, COVID-19 uncertainties still remain

At the start of 2020 the COVID-19 pandemic hit the UK, resulting in a series of national and local lockdowns to control the spread of the virus. Further periodic lockdowns and social distancing guidelines continued into 2021. Restrictions were gradually lifted over a number of stages with the final components of hospitality re-opening in August 2021, leaving only a limited number of international travel restrictions in place. Following a large contraction in output in 2020, GDP has largely recovered. Inflation has risen above the Bank of England (BoE)'s 2% target and, as a result, in December 2021 the BoE raised the base rate from 0.10% to 0.25%, followed by a further rise to 0.50% in February 2022; however, this remains below the pre-pandemic level of 0.75%. Fiscal support measures from COVID-19 have now largely been removed, with the Coronavirus Job Retention Scheme and stamp duty moratorium winding down at the end of September 2021. These actions taken by the government in 2020 limited the economic stress that many expected as a result of COVID-19, with the Coronavirus Job Retention Scheme and business support measures limiting significant rises in unemployment, and the stamp duty moratorium, alongside changing buyer preferences and limited supply, continuing to help support the UK mortgage market and house prices in 2021.

We expect the BoE to continue to raise the base rate in order to meet its medium-term 2% inflation target. Inflation is expected to remain high throughout 2022, primarily as a result of rising energy prices which, coupled with increases to national insurance, will place pressure on consumer finances. We expect a limited increase in unemployment and stability in house prices. There are both upside and downside risks to these expectations, where the Group continues to monitor the evolving economic outlook and the impacts on its customers. The Group also remains alert to domestic and geopolitical risks which could impact consumer and market confidence.

The Co-operative Bank's business model, described further on page 15, is low-risk, with the majority of assets being low loan-to-value mortgages. As a result, we are well placed to withstand a downturn in the economy. However, we remain alert to economic risks generally and more information is provided in our principal risk categories disclosed on pages 91 to 105.

UK mortgage and savings market

As the COVID-19 pandemic took hold in 2020 the BoE cut interest rates to 0.1%, a record low. Despite this, through the latter part of 2020 and into 2021 mortgage rates failed to follow this reduction as lenders increased customer rates on certain products to avoid being top of the market in an effort to manage operational risks, as well as to mitigate increased credit risks arising from the COVID-19 pandemic. As a result, with a lower interest rate environment alongside stable and in some cases rising customer rates, mortgage margins for the Bank increased in 2020. This trend continued in the early part of 2021 before the easing of social restrictions through the spring and summer of 2021 and the added boost of the stamp duty moratorium saw price competition intensify, with rates dropping below 1% for some mortgage products.

The economic environment became more challenging in the second half of the year, with financial markets adjusting expectations towards faster increases in base rate. The mortgage market has shown limited response to these increased expectations, despite increasing swap rates (a key component of fixed rate mortgage pricing) with customer rates remaining low, resulting in a return to pre-pandemic levels or below.

Customers choosing to fix mortgages over longer terms but wanting instant access to savings

As a result of these low rates and the current economic and political uncertainty, many customers are choosing to fix their mortgage over longer terms or to sign up to a new fixed rate mortgage as their current deal expires, meaning that fewer customers are on variable rate products or on the standard variable rate. The opposite is true in the savings market, where we have seen a move towards lower term funding and an increase in balances held in instant access accounts continue through 2021, as customers prefer to have more ready access to cash as a result of ongoing economic uncertainty.

Regulatory environment

Prudential

In line with many other UK banks, we continue to prepare for a number of regulatory reforms. Over the medium term, the Minimum Requirements for own funds and Eligible Liabilities (MREL) will impact the whole industry, and in December 2021 the BoE published its Policy Statement to finalise its review of the MREL framework. There was no impact of this Policy Statement on the Bank's MREL requirements and the implementation of end-state MREL requirements for mid-tier firms remains as 1 January 2023.

In 2020, the BoE published Policy Statement 11/20 (PS11/20) which covers changes to the modelling of credit risk, in particular in relation to the assessment of probability of default and loss given default, with an implementation date of 1 January 2022. As a result of the Policy Statement, the Bank is required to undertake redevelopment of its secured IRB models, which is expected to be complete in the first half of 2022, at which point the revised models will be subject to regulatory review and approval. For more detail see page 95. In order to meet the implementation date, a temporary manual adjustment has been applied to take account of the fact that the requirements are expected to increase RWAs.

Conduct

Financial Conduct Authority (FCA) Consumer Duty

The proposed FCA Consumer Duty reasserts its intention 'to set a higher expectation for the standard of care that firms give consumers'. The plans from the FCA will ensure a higher and more consistent standard of consumer protection for users of financial services and help to stop harm before it happens.

The new rules will require firms to focus on supporting and empowering their customers to make good financial decisions and avoiding foreseeable harm at every stage of the customer relationship. Firms will have to provide consumers with information they can understand, offer products and services that are fit for purpose and provide helpful customer service.

The proposals include a new Consumer Principle that 'A firm must act to deliver good outcomes for retail clients'. The Principle will be underpinned by new rules which will ensure a cultural shift in how firms focus on consumers. This should feed through to how firms design products and services, as well as how they communicate and provide customer service.

Regulatory Framework Review

HM Treasury is continuing to consult and has published its response to its earlier consultation on the launch of the second phase of the Future Regulatory Framework (FRF) Review. The latest consultation builds on the previous one, sets out the government's proposals for important changes to the UK's financial services regulatory framework and seeks to build on the strengths of the UK's existing model of regulation established by the Financial Services and Markets Act 2000 (FSMA). The proposals include changes to the regulators' statutory objectives and enhanced mechanisms for accountability, scrutiny and oversight of the regulators by parliament, HM Treasury and stakeholders. It also sets out how the government intends to return responsibility for designing and implementing regulatory requirements to the UK regulators, a break from the approach under EU law.

Payments

Due to the COVID-19 pandemic, the compliance date to further extend authentication to e-commerce transactions under the second Payment Services Directive - PSD2 (often referred to as 'card not present') was extended to March 2022.

Further regulatory change relates to the Bank of England's (BoE) Real-Time Gross Settlement (RTGS) service, which is the infrastructure that holds accounts for banks, building societies and other institutions. The balances in these accounts can be used to move money in real time between these account holders; this delivers final and risk-free settlement. The BoE established a programme of work to deliver a renewed RTGS service. As well as replicating the functionality provided today, the new RTGS service will deliver a range of new features and capabilities for payments and settlements between financial institutions.

The UK payments industry is moving to ISO 20022, the emerging global standard for payments messaging. This standard creates a common language for payments data across the globe.

Climate change

The Prudential Regulation Authority (PRA)'s Supervisory Statement 3/19 - Enhancing banks' and insurers' approaches to managing the financial risks from climate change, requires regulated entities to embed the consideration of the financial risks from climate change in their governance arrangements, incorporate the financial risks from climate change into existing financial risk management practice, use long term scenario analysis to inform strategy setting and risk assessment and identification, and develop an approach to disclosure on the financial risks from climate change. This Supervisory Statement was followed by a 'Dear CEO' letter in July 2020 requiring firms to fully embed their approaches to managing climate-related financial risks by the end of 2021, including implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The risks and opportunities arising from climate change are a now a key focus across the Group, with climate change risk being dealt with as a thematic risk within the Risk Management Framework, as outlined on pages 101 to 105.

For details on our progress to date on reporting in line with the TCFD recommendations and key areas of focus for 2022 and beyond see pages 27 to 31.

Consumer trends

2021 broadly continued the trends brought about by the COVID-19 pandemic. Lockdowns, restrictions, and a greater utilisation of e-commerce throughout the year saw consumers increasingly focus on the digital offerings of a bank, including its mobile and online banking features. Accordingly, across both our retail and SME segments, we have brought in initiatives to simplify and enhance digital customer experience from anti-fraud warnings and payee confirmations to mobile customer journeys which are outlined in our transformation agenda on page 17.

Consumers continued to hold high levels of deposits and to be cautious about unsecured borrowing on credit cards and overdrafts throughout 2021. We have widened our retail customer offerings in response to larger deposits and increasingly well-informed consumers, through switching rewards, new products and competitive banking incentives. In the SME sector, initiatives such as Bounce-Back loans and government-backed term funding ensured that we continued to lend to and support small business and charities throughout the year.

House prices continued to rise throughout the UK as consumers sought larger accommodation in greener spaces. Price increases were driven in part by homeworking, as a return to city centre offices was delayed due to the resurgence of the pandemic in the latter half of 2021, and in part by the stamp duty moratorium. We have deployed excess liquidity from increased customer deposits to provide low-risk mortgages to a wider share of the market at competitive rates.

Fraud against consumers has increased markedly in the UK as fraudsters have taken advantage of the COVID-19 pandemic. Authorised push payment scams and social engineering attacks rose considerably and became more sophisticated. To protect our customers from fraud, we have introduced fraud warnings and confirmation of payee into our systems.

Government support measures, such as the Bounce-Back loans scheme, have also been subject to fraud, with the National Audit Office estimating that 11 % of loans were fraudulent. We have robust controls in place to ensure that the loans we have supported customers with have been legitimate. As a result, only 0.1 % of Bounce-Back loans provided by the Bank have to date been deemed fraudulent.

The ethical stance of their bank is a key focus for consumers who continue to search for lenders that align to their values. Customers look at the 'green' credentials of their bank, their social impact, and the values that underpin who they lend their money to. The Co-operative Bank, as discussed in depth in our values and ethics section on pages 19 to 23, places ethics at the heart of its business. 2021 saw our sixth Values and Ethics Poll distributed to customers and our Ethical Policy continues to drive our day-to-day business decisions such as who we lend to and who we do business with. We play a key role in providing funding to charities and socially-conscious businesses and take part in our communities through our commitment to local causes and campaigns. We continue to stress our ethical credentials through our branding and marketing to increase our share of consumers who align to our values.

Developments in technology

Over the last two years there has been an urgency amongst UK banks to fast-track technology enablement and digitalisation as the sector responds to the COVID-19 pandemic. The competitiveness of banks has become increasingly dependent on leveraging connectivity, speed and scalability of technology services, front-to-back and across all lines of business. At The Co-operative Bank, investments in cloud, application programme interfaces and leveraging third party partnerships have provided the foundations and are accelerators for our digital transformation journey. These accelerators, combined with our broader technology simplification strategy, also ensure the Bank's future responsiveness to evolving regulatory change, including data protection, cyber security and payments innovation.

Use of all digital banking services has grown significantly since the start of the pandemic. According to a 2021 YouGov survey assessing the impacts of the pandemic on customer behaviours and interactions with digital channels, 81 % of adults now say the quality of online experience determines who they bank with. Additionally, 66 % of those who have used digital services more since the pandemic began have stated they have used mobile banking apps more often. The Group continues to respond to these demands as we continue to build out our digital journeys and introduce new digital experiences for both retail and SME banking customers.

Alongside the rapid digitalisation comes an imperative to protect against cyber fraud, which has increased in 2020 and 2021. There is a need for greater data security and identity management to align with the societal shift to digital payments. The Group is alert to these threats and continues to invest strongly in its cyber security defences and introduce new capabilities to protect our banking customers.

Transforming core banking platforms or elements of core IT services goes hand-in-hand with digital transformation in the channels space. By transitioning legacy core platforms to modern technologies, institutions are able to unlock operational and economic efficiencies, as well as increased resilience. There is also a need for organisations to routinely assess and evolve their operating models, as well as their approaches to talent development, in order to support this incremental transition away from legacy systems to a modernised technology estate. Keeping pace with technology risks and removing the barriers for digitalisation is fundamental to ensuring future performance and competitiveness. Removing legacy inhibitors and modernising the technology estate has been central to the Group's transformation agenda in 2021 and will continue to be a key feature in future years.

For more information on our strategic project investment in technology, please refer to pages 17 to 18

Our business model and strategy

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

The Co-operative Bank came together 150 years ago to stand up for the ideal of co-operative values and principles and to build a better society for all. We are a UK bank, with all of our operations based in the UK. We lend money to fund home ownership in the UK and to support local small and medium-sized businesses. We support charitable causes close to our customers' hearts. Read more about the difference we have made over the past year on pages 19 to 26.

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

Our business model

Where our funding comes from

- Retail customer deposits
- Business customer deposits
- Wholesale funding

What we do with our funding

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

People with purpose

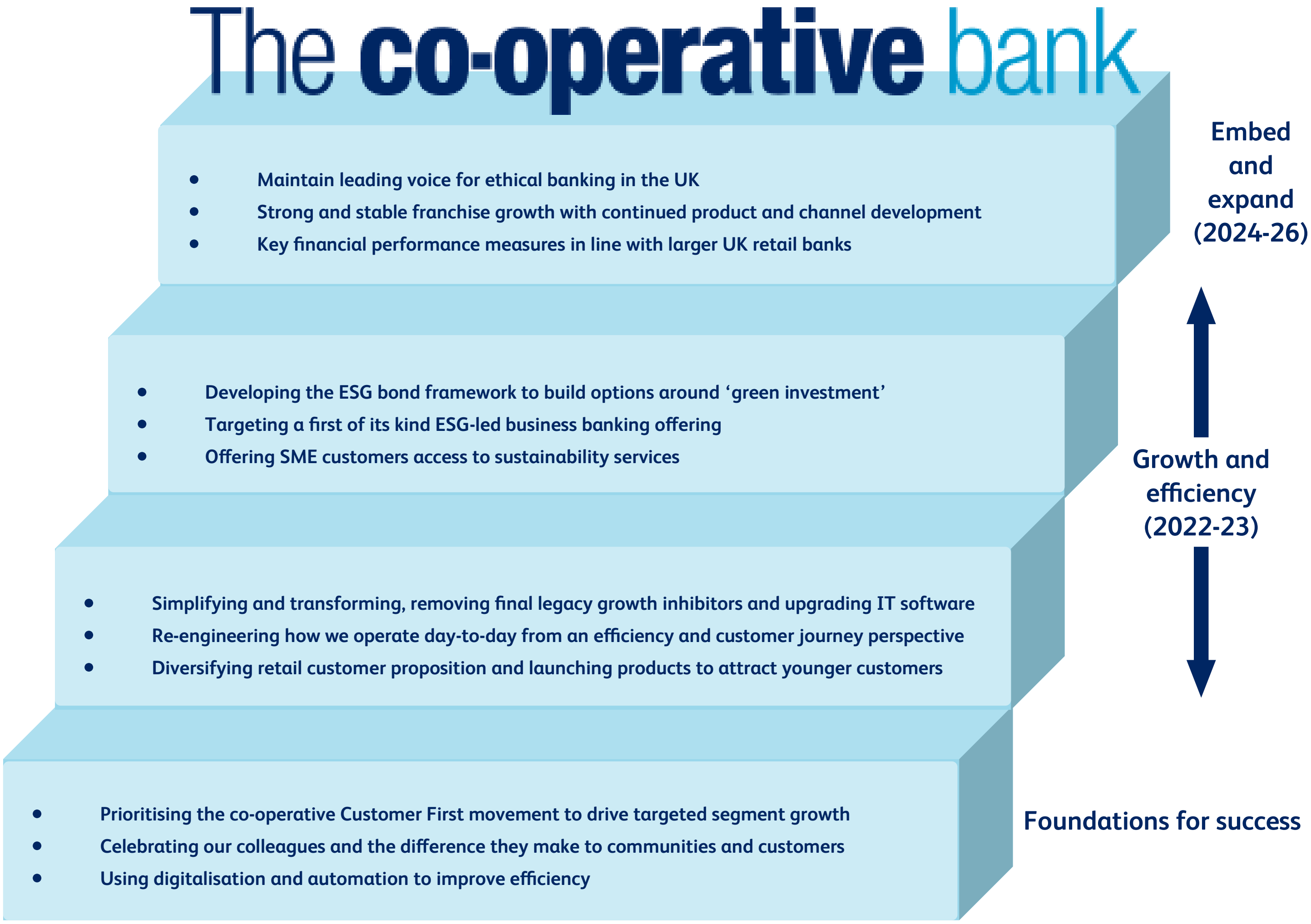
To get the most value from our business, we maximise the key inputs and relationships. The areas that contribute to our success include our trusted brand and the choices we make to deploy our capital resources.

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

How we make a profit

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

Our refreshed strategy



In 2021, we refreshed and extended our strategy to cover a period from 2022 through to 2026. Many of our long-term goals remain consistent with those we have outlined previously, including establishing a sustainable advantage by trusting in our customer-led Ethical Policy, our co-operative values and our committed colleagues, whilst removing cost and income inhibitors. Our refresh sets out the ways in which we will continue to build the future of the Bank to ensure it remains as a thriving, ethical bank at the heart of its community, right where it started 150 years ago.

Within our revised strategic plan (the Plan), we have outlined two key phases. The first phase of our refreshed strategy, described as the 'Growth and efficiency' phase, reflects the period until the end of 2023. We expect at this point to have fully restored all remaining regulatory capital buffers. The focus in this phase is to continue the progress to generating organic capital through continued profitability and to do so whilst delivering for our customers and colleagues. The second phase of the Plan, following the restoration of remaining buffers, centres on embedding the efficiency we have built over many years, and expanding our reach into new markets and products to diversify our income stream. We will reflect on our progress each year and our scorecard and KPIs will help the Board to monitor our progress.

Our transformation agenda

Enabling the future of the Bank

As the world continues to respond to the impact of COVID-19 and customer expectations continue to evolve, the Group has continued to place emphasis on expanding digital capabilities, as well as optimising back office processes. In 2021, significant progress has been made across key multi-year transformation initiatives relating to mortgages and savings, as well as further enhancements to our SME proposition. New digital sales and servicing journeys have been introduced across mobile and online banking channels to meet the changing needs of our customers. Through our investment programmes, we have focussed on the following during 2021:

Simplifying the Bank

In 2021, we have made excellent progress in our multi-year transformation programme to simplify our mortgages and savings technology estates and associated operational processes. Our focus this year has been on leveraging previous investments in our strategic product platforms and establishing the foundations for new sales and origination journeys, as well as future account migration activities. This programme is central to further optimising costs, increasing digital services across products and removing legacy inhibitors. We will continue to deliver against key milestones within this programme in 2022.

Evolving our SME proposition

Through delivery of our Capability and Innovation Fund programme commitments, the Bank's SME proposition has evolved significantly over the course of the year. We have gone live with same-day onboarding journeys for sole trader/single director companies. The SME channels offering has been expanded with the launch of our first SME mobile app, which had 21,296 registered users as at 31 December 2021. Since launch, we have continued to increase functionality within the mobile app and extend usage to different SME customer types.

A number of new products and services have been introduced throughout the year:

- New SME business credit card and current account propositions;
- Request to pay service 'Incomeing' launched to enable SMEs with a UK account to get paid more quickly;
- Business insurance offering launched in partnership with AXA;
- Business Concierge service launched in partnership with Assurant to help customers with their business administration; and
- Soft token capabilities and improvement to SME customer authentication introduced.

In addition to the above, customer migrations to our upgraded online banking portal have been completed. We have also leveraged a number of strategic capabilities to make significant improvements to retention/re-engagement journeys, as well as enhancements to marketing activities and lead tracking processes.

The Group's transformation agenda has been focussed on simplification, digitalisation, regulatory compliance and risk reduction to complete the second phase of the turnaround strategy announced in 2018.

Continuing our ethical digital journey

We have increased functionality and invested in improvements to our digital customer journeys, with customers utilising digital as their primary service channel. In alignment with our customer first approach, we have delivered a total of 51 releases within the year.

Key highlights include:

- Bank public sites (co-operativebank.co.uk and smile.co.uk) redesigned;
- New mobile customer journeys launched;
- New digital registration journeys developed;
- Behavioural biometric capabilities developed;
- Confirmation of payee capabilities introduced; and
- Fraud warnings introduced within mobile and online banking.

In 2022, we will continue to expand capabilities within our mobile and online banking channels. We will also focus on the colleague-facing systems that support our contact centre to address operational inefficiencies and improve the customer experience within this channel.

Maintaining compliance and reducing risk

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

- Compliance with payment scheme rules through the successful completion of SWIFT standard upgrades - an ongoing payments gateway outsourcing initiative is in progress to enable the Bank to meet the future needs of changing payments regulations (e.g. new payments architecture);
- Responding to GDPR and 'Breathing Space' regulatory requirements and ensuring the Bank is able to support negative interest rates if required;
- Completing our 2021 cyber security programme;
- Upgrading the Bank's core mainframe platform and ongoing remediation of the legacy technology estate to reduce operational risks; and
- Tier 1 (critical business services including payments, treasury and financial reporting) service availability was maintained at an average of 99.9%.

Champions for digital inclusion

Our Digital Bees are colleagues from across the Bank who are committed to bringing digital inclusion to more customers and communities in Manchester and the North West.

In October the Bees joined up with Stockport Council's DigiKnow group to support Get Online Week, an annual digital inclusion campaign organised by the Good Things Foundation. The campaign aims to help the 13 million people across the UK who lack the digital skills they need for work and social interaction by hosting thousands of local events nationwide with hundreds of community organisations. The Bees provided advice and information on staying safe online and dealing with fraud.

The Bees have also supported careers events at schools and colleges across the North West, providing advice on careers in digital.

We were delighted that the Digital Bees were the winners of the 'Commitment to the Community' award at the Better Society Awards in December, in recognition of their support for our local communities.

Our co-operative values and ethics in action

As we celebrate 150 years of The Co-operative Bank in 2022, this is a good time to reflect on the ethical alternative we have provided since 1872. We were the first and we remain the only UK bank to have a customer-led Ethical Policy, which was launched in 1992. The Ethical Policy brings to life our ongoing commitment to the values and ethics of the co-operative movement and guides our relationships with our customers, our colleagues, our suppliers and our wider communities.

In 2021 we conducted our sixth Values and Ethics Poll, through which c.50,000 customers shared their views on the ethical issues that are important to them today. We will use the findings of this poll to inform an update to our Ethical Policy in 2022.

1. Ethical banking

Our Ethical Policy reflects our views on a comprehensive range of issues and includes commitments to uphold human rights, support the least advantaged in society and fair payment of tax.

Since the Ethical Policy was launched in 1992, we have asked all business customers to complete an ethical questionnaire as part of the application process for a new account or service, as well as conducting regular screening to ensure ongoing compliance with the Ethical Policy. Business customers are screened based on their responses to make sure we do not provide banking services to any business whose activities conflict with the views of our customers. In 2021, 328 businesses were referred for enhanced screening and as a result, ten applicants were not accepted as Co-operative Bank customers. We declined banking services to six businesses whose activities were considered to be in conflict with our Ethical Policy statement on the extraction and production of fossil fuels due to involvement in the oil and gas sector.

Our Ethical Policy

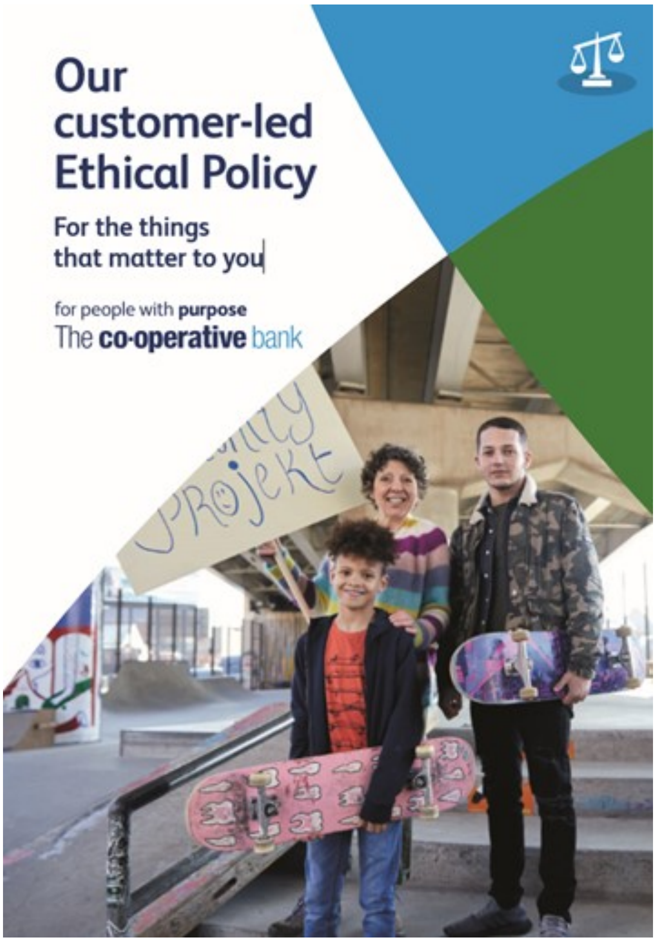
Pillar 1
Ethical banking
We do not provide banking services to businesses and organisations that conflict with our Ethical Policy.

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

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

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

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



150 years of ethical banking

2. Ethical products and services

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

Our customers support five leading UK charities: Amnesty International UK, Refuge, Oxfam, Hospice UK and Woodland Trust through our Everyday Rewards current account product, which gives customers the option to donate their Everyday Rewards of up to £5 per month. In 2021, donations totalled over £220,000, bringing the total donations to our Everyday Rewards charity partners to more than £1.3m since the product was launched in 2016.

We donate £5 to Centrepoint for every completed mortgage and product switch through our Co-operative Bank and Platform brands. Since we started working with Centrepoint in 2017, we have raised £2m in support of their mission to end youth homelessness by 2037.

Supporting UK co-operatives

We support the UK's co-operative sector by offering free business banking to co-operative businesses. We have also provided £1.7m of funding to The Hive since commencing our involvement in 2016. This unique business support programme created by Co-operatives UK in partnership with The Co-operative Bank gives co-operative businesses from all sectors of the economy access to the expert advice and guidance they need to thrive.

Since the start of the programme to the end of 2021, 1,645 groups have benefitted from technical advice, peer mentoring, training and introductory workshops.

Championing ethical digital start-ups

UnFound is a Co-operatives UK project that helps entrepreneurs to develop digital businesses in a more collaborative and equitable way, through co-operation. It aims to raise awareness of the platform co-op option through events, publications and policy work and is part of an international network of platform co-op founders, which includes the UnFound Accelerator, a unique business support programme for founders at the early stage of setting up their platform co-op. In July, we were delighted to support the programme with a £10,000 prize fund, which was shared between three platform co-ops, Red Brick Language School, Dopo and Wings, following a public pitch event.

DON'T BANK ON THE BOMB

BANKS: DO THE PARIS PLEDGE TO QUIT COAL

- First UK bank to sign the 2015 Paris Pledge not to finance the coal industry
- Only UK-based bank in the Don't Bank on the Bomb report Hall of Fame (October 2019) and the Worldwide Investments in Cluster Munitions report Hall of Fame (December 2018).

Our inclusion is thanks to our Ethical Policy statement that we will not provide banking services to any business or organisation involved in the manufacture or transfer of indiscriminate weapons.

Supporting our business customers

In 2021 we have made our business accounts more accessible by launching a business banking mobile app and we have expanded our product range with a new business credit card.

As our customers have emerged from an incredibly difficult period due to the pandemic, we have been able to support those customers who took out a Bounce-Back loan by putting in place 'Pay As You Grow' options that offer more time and flexibility to pay back these loans. Over 1,500 customers have utilised these options to help with their loan repayments.

We have launched a new business insurance product in partnership with AXA, and a new Business Concierge package with Assurant, which offers support for businesses with legal and HR matters and IT issues. By providing access to this wide range of expert help and support, this service will relieve some of the everyday pressures of starting or running a small business.

We identified a need to help our micro, small and medium-sized business customers to get paid on time so they can survive, thrive and grow. We have therefore partnered with BankiFi to offer customers a new request to pay app called 'Incomeing'. The service uses open banking to help businesses to request customer payments through a simple app, helping them to get paid on time, boost their cash flow and reduce financial administration.

These developments are helping us to continue growing our SME customer base as we look to the future.

Supporting vulnerable customers

Since 2016 we have partnered with Citizens Advice Manchester to offer a direct referral service for customers experiencing financial difficulties. In 2021, 566 customers were referred, receiving advice on everything from access to benefits and managing debt to dealing with housing issues.

We have also made it easier for our customers to access this service by displaying QR codes in branches to allow for easy self-referrals.

3. Ethical business

Our Ethical Policy has always committed the Group to protecting the environment and promoting sustainable development. We refuse to provide banking services to businesses whose core activities contribute to global climate change via the production of fossil fuels. We support organisations that make a positive impact on the environment and we take steps to reduce the environmental impact of our own operations too. Details of our greenhouse gas emissions and additional environmental metrics and targets are provided on page 24.

The Co-operative Bank has been operationally 'beyond carbon neutral' since 2007. We can make this claim because we offset our carbon emissions plus an additional 10 % to address the impact our business activities have had in the past. Offsetting allows us to turn our emissions into carbon credits which are used to invest in environmental projects around the world. We offset our carbon by donating to ClimateCare, a climate and development expert charity which supports projects around the world that have a positive impact on the environment and the local population and which are in line with our Ethical Policy. The offsetting for our 2020 emissions supported Gyapa efficient cook stoves, Bondhu Chula Stoves and Grid Scale Renewable Energy.

4. Ethical workplace and culture

Our Ethical Policy shapes our approach to being an ethical employer, which includes our commitment to the HM Treasury Women in Finance Charter, our colleague engagement activities and how we support and develop our colleagues.

Our colleagues are encouraged to take two paid volunteering days each year and in 2021 they have continued to make a difference through volunteering activities, despite being limited as to what they could do with restrictions in place for a number of months due to the COVID-19 pandemic. In 2022, as part of our 150 year anniversary, we are aiming to collectively spend at least 150 hours volunteering every month.

Our colleague networks

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

Proud Together - represents LGBTQ+ colleagues across the Bank and offers support and information.

Elevate - the Bank's gender inclusion network.

Reach - our network that celebrates our race, ethnicity and cultural heritage.

Access - supporting colleagues with disabilities, long-term health conditions, mental health conditions and caring responsibilities.

Futures - the newest inclusion network, recognising the challenges people can face at the start of their career.

In 2020 we became the first financial services organisation to gain membership status of the Greater Manchester Good Employment Charter. The aim of the Good Employment Charter is to improve employment standards across the North West region and contribute towards a thriving and productive economy, with members like us committed to paying the real living wage, enabling flexible working and supporting the health and wellbeing of colleagues. As part of our Charter commitments this year we have introduced a menopause policy and moved towards more flexible working arrangements for colleagues.

Throughout 2021 we have continued to work in close consultation with our recognised trade unions and to fund two full time union representatives. They have been consulted on proposals for change and have helped us to understand the interests and needs of their members.

5. Ethical campaigns

£2m raised to help end youth homelessness

We have been supporting the Centrepoint helpline since 2017 by making a donation every time a customer takes out or renews one of our mortgage products.

Our colleagues take part in fundraising activities throughout the year, raising thousands of pounds to help the charity provide vital services to homeless young people, including safe accommodation, access to training and help with life skills. They have also been sharing their professional skills to help the team at Centrepoint develop their services and embrace new ways of working.

In 2021 we were delighted to reach the milestone of £2m raised since the start of our partnership.

Seyi Obakin OBE,

Chief Executive, Centrepoint

"It is with great pleasure that I have watched our partnership grow over the past 5 years. The passion and determination of The Co-operative Bank has enabled Centrepoint to develop, adapt, refine and transform our first class services for homeless young people. A fantastic £2m has been raised for Centrepoint services; staff have supported our work through a range of impressive fundraising activities, and shared their skills and expertise with us. And together we are changing young people's lives for the better."

Standing up for human rights with Amnesty International UK

We have a long-standing partnership with Amnesty International UK and a shared commitment to promoting human rights and equality. Our support enabled AIUK to launch Rise Up, a fully funded pilot youth training programme to empower young people across the UK to create change in their communities. The programme has led to meaningful change with participants taking their first steps in launching activism campaigns. We were delighted to host the October 2021 session in our office in Manchester.

We are proud to be the first corporate organisation to establish a recognised Colleague Amnesty Group, which meets on a monthly basis to drive forward key Amnesty campaigns internally including the campaign to protect Afghan human rights defenders and the Football Welcomes initiative, which raises vital funds while highlighting the important role football plays in creating welcoming communities.

We were also delighted to once again support AIUK's Write for Rights campaign in December 2021, promoting the campaign to our colleagues and customers to send messages of support to tackle human rights injustice across the world.

Sacha Deshmukh,

Interim Chief Executive Officer, Amnesty International UK

"In 2021 Amnesty was actively supporting human rights at a time of extraordinary pressure. Human rights defenders have more than ever needed true allies. The Co-operative Bank has been a long-term supporter of Amnesty International, both in terms of financial support but also through the passion and dedication of many Co-operative Bank colleagues and customers who support Amnesty by personally campaigning on human rights in their own local communities. Your continued support in 2021 has been fundamental to our ability to campaign and fight against abuses on the frontline in countries around the world and here at home in the UK too."

Campaigning on the impact of economic abuse in partnership with Refuge

Following on from the 2020 launch of our 'K(no)w Economic Abuse' campaign in partnership with domestic abuse charity Refuge, we have worked with Refuge to develop a 'five point plan of action' to increase the support available for those who are experiencing economic abuse or have experienced economic abuse in the past, and to help prevent economic abuse from happening. The plan called on the banking industry and credit reference agencies to become more involved in supporting survivors of economic abuse and earlier this year the Commission on Online Banking was set up to do just that.

Refuge

For women and children. Against domestic violence.

The newly launched Commission, chaired by The Co-operative Bank and Refuge, will conduct a collaborative, cross-sector review of online banking practices in order to identify current good practice and where improvements might be made to better protect those experiencing economic abuse. The group will work to review and discuss the impact of online and digital banking on survivors of economic abuse and to collectively produce recommendations for tools and services that better protect and empower survivors.

Ruth Davison,

Chief Executive, Refuge

"Our work with The Co-operative Bank is so important to us at Refuge. Together, we have been able to significantly raise the profile of, and ensure more and more women are able to recognise the signs of, economic abuse, and access support.

Our work with The Co-operative Bank has also helped to shape the way the finance and banking sector responds to economic abuse and ensure that it better protects women.

Refuge works with women every day who have experienced economic abuse, which can be anything from partners or ex partners running up huge debts or hire purchase products in their name without their knowledge or consent, to restricting women's access to cash, to controlling their bank account. It is vital that the banking and finance sector is able to deal with this form of abuse, and Refuge is incredibly grateful to The Co-operative Bank for leading this work, helping protect women and girls, and ensure they can access support."

We are proud to be an ambassador of Zero Hour, the campaign for the Climate and Ecological Emergency Bill.

Back in 2006 our customers joined us in 'The Big Ask', a campaign led by Friends of the Earth for the Climate Change Bill. That Bill went on to become the Climate Change Act 2008. Unfortunately, the environmental protections provided by the Act are no longer fit for purpose, as the planet and our ecology face growing challenges caused by the climate nature emergency. It is time for new legislation that will reverse the climate and ecological breakdown we are facing and require the UK to take responsibility for its fair share of greenhouse gas emissions, to actively restore biodiverse habitats, and to stop damaging our natural world through the production, transportation and disposal of the goods we consume. The CEE Bill has been drafted by scientists, legal experts, ecological economists and environmentalists to do just that. In October 2021, ahead of the COP26 summit in Glasgow, our CEO, Nick Slape, joined environmentalists, climate and ecological scientists and MPs to present an open letter addressed to the UK Prime Minister, Boris Johnson, at 10 Downing Street, calling on the UK government to take decisive action and push for three key outcomes from the COP26 Summit.

ZERO HOUR

Amy McDonnell,

Zero Hour Campaign Coordinator

"We are so proud to be partnering with The Co-operative Bank. The Bank's commitment to tackling the climate and nature emergency is exemplary. Their support is helping us to raise awareness about the need for much stronger legislation and policies on climate and nature, if we are to limit temperatures to 1.5 degrees centigrade and prevent destruction of the natural systems that support all life on earth."

Environmental, social and governance reporting

Our commitment to co-operative values and ethics makes us a natural leader in ESG. We are developing a target-driven sustainability strategy with co-operative values and ethics at its heart and linking part of Executive pay to the achievement of our environmental, social and governance targets. In 2022 and beyond we will be looking to maintain our leading Sustainalytics rating and achieve fair and accurate ESG risk rating scores across the board. We are also looking to develop ESG-focussed products and services to our customers. Key highlights of our environmental, social and governance performance for 2021 are shown below, and additional detail can be found in our separate Sustainability Report, which is available on the Bank's website.

Environmental

Our commitment to protecting the environment was formalised 30 years ago when we launched our Ethical Policy.

We have reported our greenhouse gas (GHG) emissions since 1998 and continue to see a downward trend in our carbon footprint. In addition, since 2007 we have offset our carbon emissions plus an additional 10 % to address the historic impact of our business activities. Our operational 'beyond carbon neutral' status allows us to support environmental projects across the world. We will offset 1,228 tonnes of operational greenhouse gas emissions (1,116 tonnes + 10 %) for 2021.

We continue to source our electricity from renewable energy suppliers and have continued to keep business travel to a minimum again this year. We achieved an 18 % year-on-year decrease in our operational greenhouse gas emissions in 2021, which represents a 55 % reduction on our 2019 baseline. We acknowledge that the reduction in operational greenhouse gas emissions does not reflect emissions produced through energy usage by colleagues working from home, which we cannot monitor. We have set a target to reduce our operational GHG emissions intensity ratio to 1.8 from our 2019 baseline of 2.4 by the end of 2022.

Our environmental data

Scope 1 and 2 greenhouse gas emissions by source^

	Total emissions (tCO2e)			
Source of emissions	**2021**	**2020**	**2019**	**2018**
Fuel combustion	**805**	845	876	1,032
Electricity consumption [1]	**2,181**	2,786	5,811	7,061
Refrigerant leakages [2]	**164**	230	312	650
TOTAL	**3,150**	3,861	6,999	8,743
Carbon intensity (tCO2e/FTE) [3]	**1.3**	1.3	2.4	2.9

^ Emissions from homeworking are not included.

Additional environmental metrics and targets

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

We measure our direct GHG emissions in carbon dioxide equivalent (tCO2e) using the latest UK government guidance. Our direct GHG footprint encompasses energy consumption and refrigerant leakages from major occupancies, which are classified as Scope 1 and 2 emissions. Scope 3 emissions, where the Group has an indirect impact via our value chain, are not currently reported. As part of our work to enhance our disclosures in line with TCFD recommendations we are undertaking a strategic review of our Scope 3 emissions in 2022 so that we are in a position to disclose these in our 2022 Annual Report and Accounts.

For more details of the progress we have made to date against the TCFD recommendations and our main focus areas for 2022 and beyond see pages 27 to 31.

We will continue to support environmental campaigns and add our voice to calls to address the climate and ecological emergency. See details of our support of the Zero Hour campaign on page 23.

1. Total electricity consumption GHG emissions are calculated using a location-based methodology using the UK average GHG emissions figure as published by the Department for Business, Energy & Industrial Strategy. All electricity sourced directly by The Co-operative Bank is REGO backed renewable electricity. Where locations are not included in the direct supply agreement (totalling 5.5 % of total electricity consumption in 2021) due to inclusion in landlord service provision, a market-based approach assuming a non-renewable electricity source is used to calculate GHG emissions from these locations. This allows us to accurately offset the emissions generated. Renewable electricity is zero rated for carbon offsetting, therefore all electricity purchased directly by The Co-operative Bank is excluded from the offsetting calculation.
2. Refrigerant gas data includes major occupancy properties only.
3. Average number of full time equivalent (FTE) employees for the year.
4. Includes sites where the Group has full control of waste management only.

Social

We are committed to keeping co-operative principles at the heart of our business and to demonstrating the co-operative values through everything we do. Our impact on society goes beyond the people to whom we are providing banking services, as we seek to drive positive social change through our community initiatives and in co-operation with the co-operative movement and our charity partners.

The impact of the COVID-19 pandemic has been felt by our customers and by the many charities and community organisations we support and who bank with us. We put in place a range of support measures to help our customers and communities through this difficult time, more details of which can be found on page 20. For details of our work with charity partners please see pages 22 to 23.

We have seen a reduction in the number of charities and credit unions that bank with us. The Bank's promotional activity has focussed primarily on small, for profit SMEs and co-operatives over the past couple of years, and we have not undertaken any direct promotional activity targeted towards charity customers. Whilst we offer free banking services for registered charities, we do not offer banking services to non-registered charitable organisations and this restriction to our eligibility criteria has meant that our community customer volumes have remained static over the past few years. The Bank's proposition for credit unions has not materially changed in the past five years since we proactively exited a lot of credit union accounts, and this historic activity is still impacting our ability to attract credit union customers.

Funding our charity customers' special projects

Twice a year we award grants of up to £1,000 from our Customer Donation Fund to Community Directplus account holders to support their special projects and activities. Since the scheme started in 2003, we have donated £986,045 to 1,112 community organisations.

In 2021 we donated £48,809 to 50 community projects across the UK. This included a donation of £1,000 to the Lebe Trust, who work with ethnic minorities to promote research and offer support to people with diabetes. The charity focusses on initiatives that tackle inequalities in access to primary prevention and early detection in black, Asian and minority ethnic (BAME) diabetes patients.

This table sets out a snapshot of some of the ways we measure our impact on society.

	2021	2020	2019
Total charity donations	**£1,105,583**	£1,564,783	£997,996
Number of co-operatives, charities and credit unions who bank with us	**907 co-operatives** **3,891 charities** **157 credit unions**	787 co-operatives 4,128 charities 163 credit unions	805 co-operatives 4,416 charities 194 credit unions
Support for the co-operative movement through funding for The Hive	**£400,000**	£625,000	£158,700
Supporting our local communities through colleague volunteering	**1,980 hours***	611 hours*	4,759 hours
% of colleagues who have taken part in a volunteering activity	**10%***	4%*	27%
Number of customers we've helped to buy their first home	**6,403**	4,209	3,304
Number of customers supported through our partnership with Citizens Advice Manchester	**566**	536	418

* Opportunities for corporate volunteering were impacted by government restrictions due to COVID-19 in 2020 and 2021. In 2022, as part of our 150 year anniversary, we are aiming to collectively spend at least 150 hours volunteering every month.

Governance

Co-operative values and the Ethical Policy are incorporated in the Articles of Association and established at the heart of our constitution. In 2022 we will launch an update to our Ethical Policy and our ESG commitments shaped by the views of our customers.

The Values and Ethics Committee provides Board level oversight of the delivery of our Ethical Policy and ESG strategy, ensuring effective governance and accountability.

The Values and Ethics Committee met four times in 2021 and will continue to meet on a quarterly basis in 2022. You can read the Chair of the Committee's report for 2021 on pages 71 to 73.

As signatories of the UN Principles for Responsible Banking, we have committed to align our strategy and practices with the vision for the future set out in the Sustainable Development Goals (SDGs) and the Paris Climate Agreement.

In 2021, we set a target to link Executive pay to achieving ESG targets from 2022. This target has been met and details of what has been agreed for 2022 are outlined in the Directors' Report on remuneration to the shareholder on page 81.

	2021	2020	2019
Total number of business current accounts opened	**12,606**	12,116	7,473
Total number of applications referred for further Ethical Policy screening (see page 19 for more information)	**328**	438	223
% of women in senior positions	**41.0%**	42.3 %	42.3 %
In 2016 we set our target to increase the number of women in senior positions from 32% to 40% and developed a five-point plan to drive the improvement. As we have exceeded that target we have recommitted to achieving 45% women in senior roles by the end of 2023.			
Gender pay gap – median	**28.72%**	25.94 %	22.62 %
FSCB cultural survey overall result	**75**	75	74

See page 76 for commentary on our gender pay gap.

ESG statements and policies

Modern slavery and human trafficking statement

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

www.co-operativebank.co.uk/aboutus/ourbusiness/Human-Trafficking-Statement

Freedom of association

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

Bribery and corruption policy

We have a zero tolerance stance on bribery and corruption and the policy is included within the Group's code of conduct. All colleagues must complete training on the code of conduct once a year and confirm their understanding of the requirements within the policy.

Taxation policy

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

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

Living wage

As an accredited Living Wage employer since 2015, we know all our colleagues are paid a fair wage that reflects the real cost of living.

Read more at:

www.livingwage.org.uk

We are a Living Wage Employer

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

Overview

The Group has been taking action to meet the requirements set out in the PRA's Supervisory Statement 3/19 - Enhancing banks' and insurers' approaches to managing the financial risks from climate change, including implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The risks and opportunities arising from climate change are now a key focus across the Group, with climate change risk being dealt with as a thematic risk within the Risk Management Framework, as outlined on page 102, as it impacts a range of risk categories to varying degrees. Both the physical risks (climate and weather-related events) and transition risks (from the required adaptation to move to a low carbon economy) associated with climate change have been considered to assess their implications for the Group in both the short and the longer term. These risks could result in impairment of asset values, as well as shaping the products and services that our customers are looking for.

A significant amount of work has been completed in 2021, driven by the climate risk working group, in order to meet the 2021 PRA deadline to fully embed the approach to managing climate-related financial risks and ensuring the assessment of climate change and its potential impacts are built in to decisions across the business. More detail about the work that has been completed can be found in the risk management report on pages 101 to 105.

This is our first year of climate-related disclosures in line with the TCFD recommendations. We have been working hard to overcome some of the challenges that are presented by making these disclosures, in terms of data availability, use of scenario analysis and identification of appropriate metrics. Given our position as the original ethical bank, we strongly believe that we should be at the forefront of the industry's response as the global effort to tackle climate change grows, and we are taking action to ensure this is embedded into our culture and factored into all our key business decisions, as well as being in a position to support our customers as they consider the impact of climate change and actions they can take to help the transition to net zero. The risks associated with climate change are receiving rapidly increasing political and societal focus. Although our Ethical Policy means that we already do not accept customers involved in the extraction or processing of fossil fuels, as a financial institution we have an important role to play in supporting our customers on their journeys as part of the overall transition to a low carbon economy. Whilst the Group has been operationally 'beyond carbon neutral' since 2007, we also need to consider emissions from our customers and our supply chain and these will become areas of focus going forwards.

To date the impact of climate change on the Group's financial statements has not been material, but there is potential for this to change over the long term as we witness the impacts of global warming. There may also be significant costs of transition to meet new regulatory requirements, as we are facing a period of rapid change in regulatory obligations in this area. As part of our strategy refresh in 2021, as outlined on page 16, we have defined our ESG strategy and our approach to climate change risk is a key part of the environmental section of this. In October 2021, we hosted an event to give an update our refreshed strategy and as part of that event Maria Cearns, Chief Administrative Officer (subject to regulatory approval), presented our ESG strategy to attendees.

We expect to build on this year's disclosures in future years in terms of how much detail we are able to present, as we see the climate-related disclosures as a long-term iterative process, and have noted the creation of the International Sustainability Standards Board in November 2021 with interest as we believe comparability of metrics across the industry would be of significant benefit to stakeholders. The Group is continuing to develop its modelling and assessment capabilities for quantifying climate change risk, including the use of scenario analysis, in order to understand better the implications of climate-related risks and opportunities both for the Group itself and for our banking customers.

Core elements of the recommended climate-related financial disclosures (TCFD)

Governance

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

Strategy

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

Risk management

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

Metrics and targets

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

	Key progress in 2021	Focus areas for 2022 and beyond
Governance		
Describe the Board's oversight of climate-related risks and opportunities **Describe management's role in assessing and managing climate-related risks and opportunities**	• Board members have received training on climate change (p55) • Board has had oversight of the Group's strategic approach to managing climate change risk (p102) • Risk Committee receives updates on climate-related issues via the Bank Risk Report - all Board members attend the Risk Committee (p68) • ICAAP contains climate change-based scenarios - the Risk Committee reviews and recommends to the Board for approval (p102). • Value and Ethics Committee provides Board level oversight of our Ethical Policy and values and ethics strategy, including climate-related matters (p73) • Joint Audit Committee received updates on the development and implementation of disclosures related to climate change to ensure compliance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) (p61) • Chief Risk Officer has been assigned SMF responsibility for climate change risk, which includes performing the initial risk assessment and oversight of the formulation and delivery of plans to identify and address the financial impacts of climate change (p101) • Climate change risk embedded within the Group's governance framework and Risk Management Framework (p102) • Climate Change Working Group, made up of representatives from across the business, set up to ensure a common understanding of how climate-related risks might impact all aspects of the Group's risk profile (p101)	• Consider the frequency and format of Board updates about climate-related matters to ensure appropriate Board oversight of all developments in this area • Enhance the expertise of the Board in terms of climate-related matters through specialist Board training. Experience of climate-related matters, amongst others, will also be a consideration when assessing any candidate's suitability for appointment to the Board • Further develop climate change risk within the Group's governance framework, to ensure decisions at all levels consider the impact on the climate and that senior management, the Executive team and the Board are incentivised to tackle climate change risk • 2022 Executive pay linked to delivery of our ESG commitments. Specific ESG performance measures, including climate-related ones such as undertaking a strategic review of our Scope 3 emissions by the end of 2022 and reducing our operational GHG emissions intensity ratio, form part of the 2022 Group-wide scorecard to which all colleagues', including Executive, remuneration is linked - inclusion of further climate-related measures within the Group-wide scorecard in future years will ensure that this remains a focus moving forward and provide a direct link to remuneration • Values, Ethics and Sustainability Committee being established, which will review all climate-related issues and report into the Executive Committee, and onto the Values and Ethics Committee of the Board as required • Further embedding of climate-related considerations in the Group's culture, including providing training, to ensure these are factored in to all our key business decisions

	Key progress in 2021	Focus areas for 2022 and beyond
Risk management		
Describe the organisation's processes for identifying and assessing climate-related risks **Describe the organisation's processes for managing climate-related risks** **Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management**	• Emerging risks, including climate-related risks, monitored as part of the Bank Risk Report produced by the risk function, reviewed and challenged by both the Executive Risk Oversight Committee and the Risk Committee (p102) • Climate change risk established as a 'thematic risk', in order to ensure that it is holistically embedded across the Risk Management Framework and weaved through the Group's current suite of principal risks, with mechanisms in place to identify, assess and report on our related exposures (p102) • Relative significance and linkage of climate-related risks to other risks considered through the treatment of climate change risk as a thematic risk and requiring risk framework owners for the principal risks to assess the impact of climate change risk on their principal risk -type (p102) • Decisions to mitigate, transfer, accept or control any significant climate-related risks identified follow appropriate governance within the framework outlined in the climate change risk section 1.9 within the risk management section of this report (p102) • Engaged with an external provider to perform an assessment of the Group's exposure to the physical and transition risks of climate change on its mortgage portfolio - the impact was found to indicate modest levels of additional risk in scenarios where no mitigating actions are taken over a 30 year outlook (p103) • Model built for the continuous assessment of climate change risk against key credit risk parameters in the mortgage portfolio (p104) • Climate change risk included on a watchlist for post-model adjustment for the credit impairment models but nothing material has yet been identified (p180) • Climate-related risks primarily identified and prioritised via the risk management workstream of the Climate Change Working Group, with oversight through the Executive Risk Oversight Committee (EROC) (p102) • Horizon scanning process in place in order to identify, action and monitor any regulatory developments relating to climate matters (p103)	• Continue to undertake annual risk assessments against all principal risk categories to identify where these risk categories are impacted by climate change risk. Climate change risk will continue to be assessed in the context of the Group's current suite of principal risks, as well as the wider Risk Management Framework • Update risk event process to identify any climate-related risks and to consider the impact on any existing climate-related risks • Credit provisioning process will be reviewed to identify how climate change risk can be further embedded and whether any post-model adjustments may be required • Continue to develop processes for identifying, assessing and managing climate-related risks to ensure these are integrated into overall risk management in line with any published guidance or regulations • Continue to develop and refine approach to scenario analysis, including consideration of more dynamic modelling, and assess this via the annual ICAAP process

	Key progress in 2021	Focus areas for 2022 and beyond
Strategy		
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term **Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning** **Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2˚C or lower scenario**	• Identified the financial risks arising from climate change over the short (1-5 years), medium (10 years) and long (30 years) term (p103) • Considered climate change risks as part of ongoing strategic planning exercises in 2021, in the context of developing a broader ESG strategy (p102) • Commenced product development across retail and SME with a view to establishing climate-related products and services (p16) • Model built for the continuous assessment of climate change risks against key credit risk parameters in the mortgage portfolio in order to monitor potential impact and take any necessary action - this will be used for ongoing assessment and inclusion as part of future financial planning, risk monitoring, product development and ICAAP cycle (p104) • At this point, given the nature of the Group's business, we do not expect climate change to directly impact the business materially over the course of the refreshed five-year Financial Plan and it is therefore not key to the strategy at this time. We have, however, outlined an ESG strategy for the first time a part of our strategy refresh and expect climate change to become increasingly more prominent over the life of the Plan (p27)	• Alignment of short, medium and long term definitions for risks and opportunities • Further embed consideration of climate-related risks and opportunities as part of the strategic planning process and develop monitoring milestones • Develop a plan of action for how climate change risk is built into financial planning processes as part of the 2023 planning cycle • Develop products that support the UK's transition to a low-carbon economy, including the continued financing of low-carbon industries and the establishment of a climate-related retail and SME product range. The Group has developed an ESG bond framework which further demonstrates the Group's ESG credentials to the market, with proceeds from the future bond issuances going to eligible social and environmental projects • Utilise the outputs of the scenario analysis and model development to set risk tolerances and, with consideration of the materiality of the risk posed, inform strategic decision-making across the Group, including risk management objectives that are based on the Group's resilience to climate change risk • Continue to embed modelling capability for retail secured in 2022 and consider developing modelled solutions for other core customer lending portfolios (retail unsecured and SME) at a future date as exposure across these two portfolios grows

	Key progress in 2021	Focus areas for 2022 and beyond
Metrics and targets		
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process **Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks** **Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets**	• Climate change risk has been embedded within the Group's suite of risk metrics and tolerances (including Board and EROC Risk Appetite Metrics) p(105) • We have extended our Scope 1 and Scope 2 GHG emissions table to include more periods for better trend analysis. We are not currently in a position to make accurate Scope 3 disclosures and therefore we have not provided Scope 3 disclosures for 2021 (p24) • The Group issues a separate Sustainability Report to share details of its ESG credentials (and by extension its climate-related actions and targets). A summarised version of the content from the Sustainability Report, including climate-related metrics, has been included in the ESG section of this document and the full Sustainability Report is available on the Bank's website (p24)	• Inclusion of new ESG measures within the 2022 Group-wide scorecard to ensure this remains a focus and providing a direct link to Executive remuneration in the future - 2022 measures include undertaking a strategic review of our Scope 3 emissions by the end of 2022 and reducing our operational GHG emissions intensity ratio • Perform data gathering during 2022 in order that we are in a position to disclose our Scope 3 emissions in our 2022 Annual Report and Accounts • Consider what metrics can we identify to assess climate-related opportunities • Review industry guidance and regulatory developments to consider what metrics could or should be disclosed in our 2022 Annual Report and Accounts

Financial performance

2021 has been the pivotal year in the Group's turnaround strategy, reflecting a wide range of achievements delivered over multiple years. The return to sustainable profitability reflects an improvement in the underlying profitability of our segments, along with improved cost efficiency in support functions.

Alternative performance measures

The Group uses a number of alternative performance measures, including underlying profit or loss, to monitor its financial performance relative to the Group's five-year strategy. The statutory result, a profit before tax of £31.1m, which is defined by accounting rules, is also monitored for the Group overall.

Underlying performance

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

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

Year ended 31 December 2020	Core			Legacy & central items	Group
£m Re-presented	Retail	SME	Total		
Net interest income	230.7	41.5	272.2	(5.3)	**266.9**
Other operating income	24.1	16.2	40.3	0.1	**40.4**
Operating income	**254.8**	**57.7**	**312.5**	**(5.2)**	**307.3**
Credit impairment losses	(15.6)	(3.2)	(18.8)	(2.8)	**(21.6)**
Operating costs – staff	(90.2)	(21.7)	(111.9)	(3.5)	**(115.4)**
Operating costs – non-staff	(192.8)	(32.5)	(225.3)	(1.7)	**(227.0)**
Continuous improvement projects	(6.5)	(0.6)	(7.1)	(0.1)	**(7.2)**
Operating expenses	(289.5)	(54.8)	(344.3)	(5.3)	**(349.6)**
Underlying loss	(50.3)	(0.3)	(50.6)	(13.3)	**(63.9)**

1. Treasury assets and liabilities are no longer reported as a separate segment. The balance sheet as at 31 December 2020 has been re-presented to align to the current basis of segmental reporting.

The Group has made an underlying profit of £41.0m (2020: loss of £63.9m). Income generated by core segments of £369.0m is 18.1% higher than in 2020, driven by an increase in the volume of mortgage lending which combined with higher margins has resulted in a 15bps increase in the customer net interest margin. Other operating income in the core segments has reduced by 8.7% to £36.8m as a result of customer behavioural changes leading to lower volumes of fee-generating transactions.

Credit impairment losses have reduced by 94.9% in 2021 compared to 2020. This is due to the recognition of COVID-19-related provisions in the prior year which have not recurred in 2021. Credit impairment losses of £1.1m relate to balance sheet growth, offset by an improved economic outlook driving a reduction in Platform mortgages coverage from 12bps to 10bps.

Operating expenses decreased by 8.6% from £349.6m to £319.4m. Non-staff operating costs have reduced by £27.0m (11.9%) to £200.0m as a result of the full year impact of branch restructuring announced in 2020, along with lower third party outsourcing costs reflecting the Bank's continued simplification. The reductions mainly relate to our retail segment. Staff costs have also reduced by 4.7% to £110.0m. This is the net impact of increased efficiency from continued simplification, primarily in our largest segment - retail, offset by increased performance-related costs. Overall, the underlying cost:income ratio has improved from 113.8% to 88.4%.

Income statement – reconciliation to IFRS basis

Year ended 31 December £m	2021	2020
Underlying profit/(loss)	**41.0**	(63.9)
Strategic change	**(28.8)**	(25.9)
Restructuring programme	**-**	(19.9)
Net customer redress charge	**2.1**	(2.0)
Non-operating income	**16.8**	8.0
Statutory profit/(loss) before tax	**31.1**	(103.7)

The statutory profit before tax reported for 2021 has improved by £134.8m compared to 2020. Growth in income combined with normalised impairment levels and reduced operating costs have significantly improved the financial performance of the Group in 2021. Whilst we have continued to incur exceptional costs, the impact has been partially offset by an increase in non-operating income.

The restructuring charges of £19.9m in 2020 relate to the impact of branch closures and staff redundancies, which has driven a cost benefit in 2021. Levels of customer redress have also reduced with the substantive completion of our PPI remediation programme, following the PPI time-bar in August 2019.

Non-operating income has increased by £8.8m and includes the impact of a £14.4m refund of historical ATM business rates. Net customer redress charge includes a £2.6m provision release following the completion of our PPI remediation programme referred to above.

Taxation

The Group has a tax credit for the period of £166.2m (2020: £8.0m). The Group has recognised a deferred tax asset in respect of future taxable profits for the first time in recent years. The recognition of historical tax losses has resulted in a credit to the income statement of £114.7m (this amount includes the impact of the corporation tax rate increase noted below). In addition, further deferred tax assets in respect of historical tax losses have been recognised through the income statement to shelter an increase in deferred tax liabilities arising from the increase in net pension assets. The recognition of the deferred tax asset in respect of historical losses, whilst significant for the reported profit, has no immediate impact on capital resources since it represents a regulatory adjustment to CET1. The benefit for capital resources will be achieved through the utilisation of the asset over time.

The UK rate of corporation tax will increase from 19% to 25% with effect from 1 April 2023. This legislative change has been enacted, resulting in the Group's brought forward net deferred tax liability increasing by £8.5m with a tax credit in the income statement of £26.4m (and a charge to reserves of £34.9m). The effect of the corporation tax rate increase on the deferred tax movement in the year is a £23.9m credit to the income statement. Further information is provided in notes 2.1.3, 11 and 29.

Year ended 31 December £m	2021	2020
Current tax		
Current year	-	-
Prior year	-	0.2
Total current tax credit	**-**	0.2
Deferred tax		
Current year	**115.9**	(0.1)
Prior year	**-**	(0.9)
Impact of corporation tax rate changes	**50.3**	8.8
Total deferred tax credit	**166.2**	**7.8**
Total tax credit	**166.2**	**8.0**

Balance sheet

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

As at 31 December 2020 £m	Core			Legacy & central items	Group
Re-presented	Retail	SME	Total		
Assets	17,360.7	447.8	17,808.5	7,791.0	25,599.5
Liabilities	17,300.0	2,964.4	20,264.4	3,860.7	24,125.1

Core segment assets have increased by £2,389.2m, driven by growth of retail lending. Core segment liabilities have also grown by £801.0m over the same period, due to trends in customer behaviour throughout the COVID-19 pandemic, reflected in both the retail and SME segments.

Central assets and liabilities increased due to a further £3.5bn TFSME drawdown in the year, taking the total TFSME funding to £5.2bn. Legacy assets have decreased by 8.6% (£69.8m) as they continue to run-off. As the legacy business runs off, we re-deploy the capital for the benefit of our core business. Legacy liabilities have decreased by 4.6% (£3.3m) in the year. Legacy liabilities represent the customers which the Group is seeking to exit, but whilst remaining with the Group, such deposit balances can fluctuate month-on-month.

Capital as at 31 December

The tables below include the regulatory change to allow software intangibles that are not fully amortised to be eligible within regulatory capital.

£m	2021	2020
CET1 and total Tier 1 capital	**906.8**	900.3
Tier 2 capital	**202.2**	210.0
Total capital resources	**1,109.0**	1,110.3
Other MREL-qualifying funds	**199.9**	199.4
MREL-qualifying resources	**1,308.9**	1,309.7

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

The impact of the reserve reorganisation on the Group's equity position is outlined in the table below, with further disclosure in notes 33 and 34 in the Group and Bank consolidated financial statements.

£m	As at 31 December 2021		
Group consolidated equity	Illustrative pre-reorganisation	Reserve reorganisation	Actual
Share capital	0.9	-	0.9
Share premium	313.8	-	313.8
Capital redemption reserve	410.0	(410.0)	-
Retained earnings	(1,212.9)	3,158.9	1,946.0
Capital reorganisation reserve	1,737.5	(2,748.9)	(1,011.4)
Other	502.6	-	502.6
Total equity	1,751.9	-	1,751.9

Total capital and MREL-qualifying resources

CET1 resources have increased by £6.5m since 31 December 2020, with MREL-qualifying resources decreasing by £0.8m to £1,308.9m as a result of regulatory adjustments to CET1 resources offset by profits generated in 2021. Both the MREL-qualifying debt in issue and the Tier 2 debt are impacted by minor volatility as a result of movements in the underlying carrying value of the instruments and accrued interest.

£m unless stated	2021	2020
Capital ratios and other capital metrics		
CET1 ratio	**20.7%**	19.2 %
Total Capital Ratio	**25.4%**	23.7 %
Total Capital Requirement (TCR)	**615.9**	640.7
Overall Capital Requirement (OCR)	**725.2**	757.8
Risk Weighted Assets		
Credit risk	**3,878.6**	4,189.9
Operational risk	**494.8**	493.8
Total Risk Weighted Assets	**4,373.4**	4,683.7

The CET1 ratio and Total Capital Ratio include a benefit of approximately 0.6 % (2020: 0.7 %) from the change in treatment of software intangibles outlined in the EBA Technical Standards. The PRA has since confirmed the reversal of this treatment of intangibles from 1 January 2022. The reported CET1 ratio of 20.7 % (2020: 19.2 %) remains well above the regulatory minimum. The Group has a Total Capital Requirement (TCR) of 14.1 % of Risk Weighted Assets (RWAs), which is required to be met by a minimum of 10.6 % of CET1 capital resources, and a maximum of 3.5 % Tier 2 capital resources. At the end of 2021, the Group had Pillar 1 requirements equivalent to 8.0 % (2020: 8.0 %) of total RWAs and an Individual Capital Requirement (ICR) fixed at £266m, equivalent to 6.08 % of total RWAs (2020: 5.68 %).

The Group's current interim MREL requirement is equivalent to TCR plus £400m, resulting in a total MREL requirement of £1,015.9m. The Group's current MREL resources total £1,308.9m, providing significant headroom to current MREL requirements. MREL requirements will become two times TCR from 1 January 2023.

The Group currently has an Overall Capital Requirement (OCR) of 2.5 % of RWAs above the TCR. The Group is targeting compliance with the PRA buffer by the end of 2023 and the surplus to OCR contributes towards meeting this target. The PRA buffer is a Bank-specific requirement which is assessed as part of the ICAAP and reflects the impact of an economic stress not already captured in the Capital Requirements Directive (CRD) IV buffer.

Risk Weighted Assets (RWAs)

Total RWAs, which include both credit and operational RWAs, have decreased throughout the year by £310.3m due to final settlement of the Optimum transaction (£117.4m), the surrendered loss debtor settlement (£47.8m), and a reduction in the fair value of hedging instruments (£134.1m). In retail, credit RWAs have increased by £164.7m, as a result of the net impact of increased mortgage balances. In SME, RWAs have reduced by £10.6m. Asset growth has been largely due to CBILS; however, CBILS attract an 80 % discount to their exposure at default (EAD) and Bounce-Back loans attract a 100 % discount to their EAD due to the government guarantees that underpin these loans, resulting in reduced RWAs. The change to regulatory relief through the SME supporting factor has also benefitted RWAs. The £1.0m increase in operational RWAs reflects an increase in the Group's three-year average gross income.

Leverage ratio

The PRA leverage ratio (i.e. CET1 resources divided by leverage exposures) of 3.8 % (EBA leverage ratio of 3.1 %) (2020: 4.0 %, EBA leverage ratio of 3.4 %) has reduced, mainly as a result of an increase in gross exposures. The Group is not bound by a minimum leverage ratio currently, since its retail deposits are less than £50bn.

Liquidity

Liquidity remains strong driven by increased customer deposits and the drawdown of TFSME funding. As a result, the Group has seen a 48.4 % increase in its Liquidity Coverage Ratio (LCR) to 241.8 % (2020: 193.4 %).

Segment update: retail

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

Segmental income - retail

£m	Year ended 31 December 2021	2020	Change
Net interest income	**284.8**	230.7	23.5 %
Other operating income	**20.3**	24.1	(15.8 %)
Operating income	**305.1**	254.8	19.7 %
Operating expenses	**(259.8)**	(289.5)	10.3 %
Credit impairment gains/(losses)	**0.9**	(15.6)	>100 %
Underlying profit/(loss)	**46.2**	(50.3)	>100 %

Segmental assets and liabilities - retail

£m	At 31 December 2021	2020	Change
Secured	**19,507.9**	17,108.1	14.0 %
Unsecured	**248.1**	252.6	(1.8 %)
Customer assets - lending	**19,756.0**	17,360.7	13.8 %
Customer liabilities - deposits	**17,604.4**	17,300.0	1.8 %
Risk Weighted Assets (credit)	**2,626.8**	2,462.1	6.7 %

Lending

The mortgage market in 2020 and the first half of 2021 saw very high levels of demand for new mortgages as customers capitalised on the stamp duty moratorium. As a result of the pandemic we also saw a change in customers' living preferences, with many opting to purchase homes in more rural areas. Through our close partnership with Capita, we were able to increase capacity and this enabled us to grow mortgage balances by £2.4bn. As a result of this strong level of mortgage demand we have also benefitted from widening mortgage margins, with average completion margins rising 31bps to 193bps compared to 2020. The primary driving factor for the net interest income increase from £230.7m to £284.8m, a rise of 23.5 %, has been strong levels of mortgage growth at improving margins. The market has slowed in the second half of 2021, in part due to declining stock levels but also due to the removal of the moratorium.

£m	2021
Secured lending	
Gross lending at the start of the year	**17,108**
Maturities	(3,121)
Retention	2,007
New mortgage completions	5,105
Other movements[1]	(1,591)
Net residential lending	**2,400**
Gross lending at the end of the year	**19,508**

1. Other movements predominantly relates to repayments

Our mortgage book remains low-risk and has been resilient despite the challenges that have arisen. Average loan-to-value (LTV) is 56.8 % (2020: 56.1 %), which continues to provide us with significant protection from potential house price reductions.

We have sought to capitalise on the strong mortgage margins with a greater proportion of our completions in five-year tenor business, allowing us to benefit from higher margins for a longer period. In the second half of 2021 new business has trended towards two-year mortgages as the market has entered a period of margin compression.

Completion volumes have reduced through the year as the mortgage pipeline starts to normalise following a period of a significant increase in demand. Total gross lending during 2021 grew to £5.1bn (2020: £3.4bn), with a mortgage pipeline of £1.2bn as we enter 2022.

Our unsecured balances have decreased by £4.5m to £248.1m (2020: £252.6m), continuing trends seen in 2020 of reduced spending on credit cards due to uncertain economic conditions.

Deposits

Total deposits have grown 1.8 % since 2020, to £17.6bn, a continuation of the growth the Group achieved in 2020. We have seen an increase in current account average balances to £4,580 (2020: £3,792), due to the ongoing economic uncertainty caused by the COVID-19 pandemic. The decrease in term deposits is a reflection of the re-pricing actions we have taken as we continue our strategy to move away from high cost, rate sensitive customers to long-term relationship customers.

We changed our franchise priorities in 2021 away from Online Saver sales due to our surplus liquidity position. As a result, our Online Saver sales declined to 13,962 (2020: 20,307). However, our refocussed priorities led to a 2.6 % increase in reward current accounts and a 29.5 % increase in Everyday Extra current account customers, demonstrating resilient franchise performance.

We have continued to grow our franchise deposit balances by 7.0 % to £15.5bn (2020: £14.5bn) due to higher average balances following a period of economic uncertainty relating to COVID-19. We have seen a net increase in current account balances by 12.2 % and a net increase in savings balances by 3.9 %.

At the end of 2021, the BoE increased the base rate from 0.10 % to 0.25 %. This has subsequently increased to 0.50 % in February 2022. As a result of this, our on sale savings rates are under review as we seek to ensure savings reflect latest market conditions and are aligned to our pricing principles.

£m unless otherwise stated	2021	2020	Change
Deposits			
Current accounts	5,977	5,327	12.2 %
Savings	9,527	9,166	3.9 %
Total franchise	**15,504**	**14,493**	7.0 %
Term deposits	2,100	2,807	(25.2 %)
Total	**17,604**	**17,300**	1.8 %

Growth in franchise (%)	7.0 %	10.2 %
Prime customers (% of total)	48.0 %	47.5 %
Acquisitions of new customers (number)	45,625	41,901
Net switching (number)	(11,145)	(10,702)

Customer service

Throughout 2021 we continued to serve our customers from our award-winning branches and through our established competitive products as well as new customer offerings.

In 2021, the Bank launched 22 new products which, along with existing offerings, supported:

- 6,403 first-time buyers in achieving home ownership;
- 11,323 customers in purchasing a home to move either up or down the property ladder;
- 7,931 re-mortgage customers moving their mortgage to the Bank; and
- 15,925 existing Bank mortgage customers to benefit from a new mortgage product.

We have continued our focus and support for first-time buyers with the reintroduction of 95 % LTV products and have improved our criteria for help-to-buy applications. We have also delivered a new professional mortgage product following identification of a market need, specifically aimed at newly-qualified professionals to support entry onto the property ladder. This aligns with our target to build life-long, trusted relationships in a demographic under-represented in the Bank's existing customer base.

For those customers affected by COVID-19, we have continued to provide payment deferrals and to support our customers through our branches which operated throughout the year. We won the 'Moneyfacts Branch Network of the Year' award for the fourth consecutive year, a testament to our commitment to provide banking services for those who have not been able to embrace more digital propositions.

The Bank continues to prioritise actions to address wait times in our contact centres, and acknowledges the inconvenience that this can cause customers who wish to use this channel. The Bank, like many other firms, has experienced difficulties in recruitment and retention in a buoyant job market which, when combined with increased levels of sickness, has made maintaining a consistent level of service challenging. Against this back-drop we are pleased with improvements against historic high wait times experienced during the summer. Importantly the Bank has continually protected its lines for its most vulnerable customers, where customers may have experienced fraud or be in financial difficulty.

Digital is now established as our primary channel of choice for Retail customers. In 2021, 90.1 % of customers interacted with the Bank via a digital channel, and 61 % of core product needs were also met through these. With our plans for further digitisation, we expect to meet more customers' needs in the future.

One of our values and ethics commitments is to provide services to typically under-served markets overlooked by other high street banks, such as developing credit builder propositions, including for secured lending, and we continue to demonstrate our ethical credentials through £5 donations to Centrepoint for each completed mortgage or product switch through the Co-operative Bank and Platform brands.

How we serve our customers:

- Our branches remained open throughout the year to enable our customers to engage in face-to-face banking, with c.22k transactions processed weekly;
- We offer telephony services to customers to help with their queries, with our contact centre colleagues processing c.54,000 calls per week;
- Our online and mobile offerings saw log-ins of c.475k and c.3m per week respectively;
- The services we offer through the post office saw c.74k transactions processed per week; and
- Our partners and brokers processed c.600 applications per week.

We are looking forward to 2022 with a number of new propositions, including the launch of residential interest-only products and our 'green' additional lending proposition.

Our current accounts and credit card lending saw successful initiatives rolled out to customers, which have been recognised externally. We received the award for 'Moneyfacts Best Current Account Provider 2021'. Our current accounts scored highly in customer satisfaction measures such as NPS, where, although we fell one place in the survey rankings, we remain high amongst competitors.

Our 'Refer a Friend' current account switching incentive scheme was officially launched in 2021, following a successful trial period in 2020, with customers taking the opportunity to introduce like-minded friends to our ethical banking proposition.

Customers continued to support our communities through the Everyday Rewards current account charity payments scheme, which involves the donation of their Everyday Reward incentives. 2021 saw over £220k donated to our designated charities, bringing the total amount donated since launch in 2016 to over £1.3m.

Segment update: SME

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

Segmental income - SME

£m	Year ended 31 December 2021	2020	Change
Net interest income	**47.4**	41.5	14.2 %
Other operating income	**16.5**	16.2	1.9 %
Operating income	**63.9**	57.7	10.7 %
Operating expenses	**(55.1)**	(54.8)	(0.5 %)
Credit impairment losses	**(1.1)**	(3.2)	65.6 %
Underlying profit/(loss)	**7.7**	(0.3)	>100 %

Segmental assets and liabilities - SME

£m	At 31 December 2021	2020	Change
Customer assets - lending	**441.7**	447.8	(1.4 %)
Customer liabilities - deposits	**3,461.0**	2,964.4	16.8 %
Risk Weighted Assets (credit)	**164.4**	175.0	(6.1 %)

The SME business remains a core focus for liability growth as it represents a cost-effective source of funding. Our lending has reduced marginally in 2021 compared to 2020, whereas our liabilities have increased by 16.8 % . The increase in liabilities is primarily due to an increase in current accounts to £2,865m compared to £2,465m in 2020. Similar to what our retail business has experienced, our SME customers have also opted to hold higher average balances compared to 2020.

Throughout 2021 we have opened 12,606 new current accounts (2020: 12,116) and 4,090 new savings accounts (2020: 4,981), benefiting from the final stages of the Incentivised Switching Scheme (ISS) which closed in June 2021. Overall, we attracted over 10,000 NatWest customers through the ISS scheme and took a 15 % share of all switchers, significantly ahead of our original projections of 6 % . Net switches in during the year excluding the ISS were 4,449 (2020: 3,912).

Our SME proposition

During the year, we relaunched our banking proposition for members of the Federation of Small Businesses, ensuring that we remain competitive and attractive for FSB members.

In 2021, we also fully deployed our new lead management workflow for relationship managers, providing the foundations for improving how we manage relationships with our existing SME customers through our new customer relationship management platform. This has transformed day-to-day processes for our relationship managers. We have continued to see a positive net flow of customers throughout the year, and early in 2021 exceeded 100,000 business current accounts for the first time as we continue to grow our customer base with good momentum.

£m unless otherwise stated	2021	2020
SME deposits		
Current accounts	2,865	2,465
Savings	596	499
Total franchise	**3,461**	**2,964**
New current accounts opened (number)	12,606	12,116
New savings accounts opened (number)	4,090	4,981

The Association of British Credit Unions Limited (ABCUL), the main trade association for credit unions in the UK, has been a customer of The Co-operative Bank for 38 years. ABCUL is a co-operative of co-operatives, governed by volunteer directors and provides services to help its members grow as sustainable financial services providers. Their vision is for Credit Unions to become the primary source primary source of affordable, high quality and ethical financial services for the people of Great Britain.

"ABCUL is delighted to maintain a long-standing relationship with The Co-operative Bank. We believe our co-operative values and ethos base are closely aligned and we also recognise the role that the Bank plays in supporting the needs of many of our member credit unions all across the country. Collaboration is a centre piece of our business model objectives and we are proud to achieve that goal with the support of the Bank. Long may that relationship flourish and innovate".

Robert Kelly,
ABCUL CEO

Products

Our new business credit card was released in January 2021, providing our customers with an additional borrowing option to support their business and manage their cash flows. We followed up this success with the rollout of our SME insurance product in partnership with AXA to help protect and support our SME customers as they deal with the ongoing impacts of the COVID-19 pandemic.

In April 2021, we launched our Business Concierge product in partnership with Assurant to help our customers with their business administration. This is the latest addition to our growing range of support services which customers can access through our new Business Exchange, and was followed by the co-branded 'Incomeing' request to pay app in partnership with BankiFi. This is an innovative new service, available to all UK SMEs, providing request to pay functionality to help SMEs get paid on time and manage cash flow.

Developing customer experience

2021 was a year of transformation for our SME business. New onboarding journeys were launched on the public website in March, following a successful soft launch in the final quarter of 2020. We have developed sustainable and scalable infrastructure alongside this to ensure that, as our SME business grows, we are able to maintain an excellent customer experience. Following this, we launched our mobile app to the public after a trial period. This is a key milestone and achievement on our road to becoming the bank of choice for ethical, conscientious SMEs looking to digitise their banking. In its first year our app was used by 22% of our business customers, processing 1,038,878 transactions at a value of £714,736,744.

The release of the SME banking app was followed by a relaunch of the SME banking website and our Business Exchange, which provides tailored support to businesses based on their individual circumstances. 75% of business customers are now registered for online banking. We have provided enhanced support to start-up businesses and have worked with customers to determine ways they can adapt and respond to the challenges brought about by COVID-19. We have also helped our customers raise their awareness of fraud and payment protections, and promoted third party services outlined above such as our business insurance with AXA.

The Bank continues to prioritise actions to address wait times in our contact centres, and acknowledges the inconvenience that this can cause customers who wish to use this channel. The Bank, like many other firms, has experienced difficulties in recruitment and retention in a buoyant job market which, when combined with increased levels of sickness, has made maintaining a consistent level of service challenging. Against this back-drop we are pleased with improvements against historic high wait times experienced during the summer. Importantly the Bank has continually protected its lines for its most vulnerable customers, where customers may have experienced fraud or be in financial difficulty.

A customer case study

“2022 marks 12 years with The Co-operative Bank – we moved to the bank based on their branding as an ethical bank, it was felt that this was a good fit for us as a charity. The Co-operative Bank as a whole has been great, but especially the SME team who are always supportive and helpful. Our Relationship Manager has taken the time to get to know Lisieux Trust as an organisation and provides proactive advice when appropriate. Lisieux Trust has twice been nominated for their volunteering day programme, for which we are extremely grateful”.

Carole Aston,
Head of Finance

lisieux trust
living together · learning together · laughing together

Lisieux Trust is a Birmingham-based charity, providing care and accommodation to adults with a learning disability, autism, or both. The trusts offers both residential care and supported living services.

“Our mission is to support learning-disabled and autistic people, and empower them with the confidence to choose the life they want to live, and make it happen.

Our core values focus on: being welcoming and approachable by nature; being an organisation that families can trust to look after their loved ones; being fun; promoting choice amongst our people and embracing the inspiration across the Lisieux Trust community – our residents and tenants inspire us, and we inspire them.”

Lisieux Trust is just one of thousands* of ethically-minded charity customers that the Bank supports and we take pride in helping our customers play a part in improving their communities. Some of our SME team had the pleasure of using their volunteering days to work with the Trust earlier this year.

*3,891 charities (Sustainability Report 2021)

Supporting our customers through COVID-19

In March 2021, we successfully closed the application windows for both the Bounce-Back loan scheme and CBILS. Overall we provided more than £340m of lending to our SME customers through these schemes. ‘Pay As You Grow’ options were utilised for 1,500 of our Bounce-Back loan customers to provide them with more flexibility in how they can repay their loans. Defaults and fraudulent applications have been minimal, with £4.0m of Bounce-back loans in default (1.4 % of total loans approved) and 0.1 % of all applications deemed fraudulent.

	CBILS	Bounce-Back
Loans approved	£92.9m	£282.5m
Customer agreements	287	10,907
Value drawn down	£70.3m	£223.1m
Average value per application	£324k	£26k

The Coronavirus Business Interruption Loan Scheme (CBILS)

- Available for lending of £50,001 to £5m
- Variable rate loans or overdrafts available
- No fees or interest to pay for 12 months
- The government guarantees 80 % of the lending

Bounce-Back loans scheme

- Available for lending of £2,000 to £50,000
- A 2.5 % fixed rate loan for six years, with the option to extend to ten years
- No early repayment penalties
- No repayment due in the first 12 months
- The government guarantees 100 % of the lending
- ‘Pay As You Grow’ options to help SMEs manage their recovery

Board focus in 2021

In September 2021, the Board refreshed its strategic plan (the Plan) and approved a 2022-2026 Financial Plan. The Board has focussed on the following items in 2021:

- Discussed regular updates from the Chief Executive Officer on business progress and the challenges faced by management, overseeing the new business as usual arrangements implemented as a result of changes made in 2020 relating to the COVID-19 pandemic.
- The Board continued to spend considerable time ensuring that plans produced by management to support customers during COVID-19 were appropriate, including:
  - Ensuring a safe banking and working environment for customers and colleagues, including supporting the health and wellbeing of our colleagues, and offering more flexible working arrangements;
  - Implementing mortgage and credit card and loan payment deferrals for customers;
  - Supporting SME customers via the introduction of CBILS and Bounce-Back loans; and
  - Overseeing the management of the risks associated with initiatives introduced in response to COVID-19 and ensuring that the Risk Management Framework (RMF) was able to adapt to these.
- A significant amount of time was devoted to considering the Group's investment portfolio, including the continued transformation of the Group's IT estate, in particular the work required to simplify and move away from legacy platforms, the implementation of the Board-approved cyber security policy and management of technology risks to ensure a secure banking environment for customers.
- The Board took the decision in 2021 to integrate its mortgage servicing operation back into its business during 2022 and the Group and Capita will jointly deliver an exit plan providing consistency of service.
- Operational resilience and business continuity remained key areas of focus for the Board during 2021.
- The regulatory agenda, including the annual review and approval of the RMF and the Group's risk appetite.
- Optimisation of the Group's capital position to ensure compliance with capital requirements and the long-term success of the Group, including careful consideration of the conversion of non-distributable reserves to distributable reserves.
- Ongoing consideration of strategic opportunities, both organic and inorganic, available to the Group to ensure its continued growth and return to profitability.
- Overseeing franchise growth across both retail and SME aligned to our customer first principles, enhancing the Bank's offering to its SME customers via the introduction of improved digital banking facilities.
- Reviewed and approved the 2020 Annual Report and Accounts, the quarterly trading updates and half-year Interim Financial Report and associated financial information, receiving regular updates from the Chair of the Joint Audit Committee. It also approved the Group's tax strategy and continuing adoption of the HMRC Code of Practice on Taxation for Banking.
- The Board reviewed a presentation for an investor event held in October 2021, which was the first such event since 2017.
- Oversight of progress on diversity targets and other leadership and colleague matters, including approval of the Diversity Policy, Code of Conduct, Modern Day Slavery Statement and other policies. The Board reviews the results of the Financial Services Culture Board survey.
- Reviewed and discussed people matters, including approving the remuneration policy and variable pay. The Board also oversaw changes to the Executive team, including the stepping down of the Chief Operating Officer and the appointment of a Chief Administrative Officer (subject to regulatory approval) and a Managing Director, Strategy and Simplification (subject to regulatory approval). The Board also oversaw the appointment of two new Non-Executive Directors in January 2021 and the appointment of the Chief Financial Officer to the Board in March 2021.

In addition, the Board has overseen the continued commitment to co-operative values including those matters specifically referred to on pages 43 to 44 with regard to Section 172 obligations.

Statement by the Directors - s172

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

The successful delivery of the Plan to generate sustainable competitive advantage relies on key inputs and positive relationships with a wide variety of stakeholders, as described in our business model on page 15.

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

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

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

and

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

As part of the review process, the Directors consider the long-term consequences of the Plan. In doing so, the Board oversees the strategic priorities over the short term and long term, including the level of funding required to deliver the strategic priorities and the availability of capital to meet requirements over the period. The Board also considers how the Group's values and ethics have been incorporated in the Plan and its alignment with our customer-led Ethical Policy (as seen on the Bank's website), compliance with the requirements of Co-operatives UK and maintenance of its reputation for high standards of business conduct. Further information on our customer-led Ethical Policy and how this informs strategic activity can be found on pages 19 to 23.

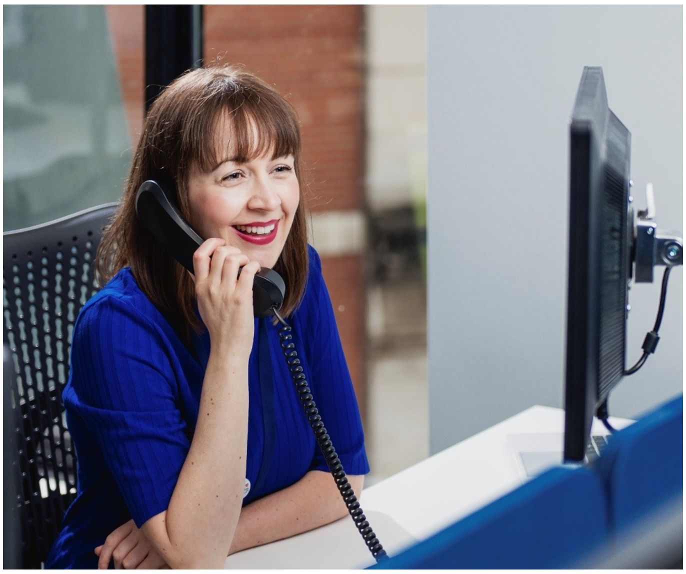
All discussions held by the Board and its Committees within their scheduled meetings are supported by documented papers.

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

b) The interests of the company's employees;

The Directors understand that the Group's employees are fundamental to the long-term success of the Group, and the Group aims to be a responsible employer in its approach to pay and benefits. The health, safety and well-being of the Group's employees is a primary consideration for the way in which the Group conducts its business and promoting an ethical workplace is one of the five pillars within our Ethical Policy.

Further information on the Group's engagement with its employees and how it promotes an ethical workplace can be found in the Directors' Report, on pages 75 to 77 and in the strategic report on page 21. During the year, the Directors continued to spend time reviewing the arrangements put in place by management to ensure safe working conditions for employees during the COVID-19 pandemic, including home and hybrid working. As set out within the Joint Audit Committee report on page 62, there is a process through which employees can formally raise a concern at work on a confidential basis. There is an annual review by the Joint Audit Committee which considers, amongst other things, whether the policy remains appropriate and effective.



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

The Directors consider how the Group maintains positive relationships with all of its stakeholders, including suppliers, customers and others. A key part of promoting the long-term success of the organisation is the way in which our values and ethics are intrinsically linked to our brand, and why our customers choose to join us. More information on customer engagement can be found on page 20. During 2021 the Group commenced a review of its Ethical Policy, consulting with customers and employees via its Values and Ethics Poll 2021 to ensure their views formed the basis of the Policy and the Group's focus in relation to its values and ethics. Following the collation of responses, a refreshed Ethical Policy is due to be published in 2022.

The Directors recognise the impact of the supply chain on the long-term success of the Group and the way in which our suppliers impact our customer and colleague experience. During the year, the Group continued its review of all its supplier contracts. Extensive financial and operational diligence was performed to consider a range of alternative options when reaching decisions around use of suppliers, including consideration of how the suppliers' objectives align with those of the Group and of our customers. Our customer-led Ethical Policy also guides with whom we choose to do business. More information on our approach to supplier selection and management more widely can be found in the Directors' Report on page 78.

The principal risks and uncertainties described in the risk management report on pages 91 to 105 set out a number of risks which could impact the long-term success of the Group and consideration of how other stakeholders impact those risks, or are impacted by those risks. In many cases, good communication with, and understanding of, these stakeholders aligns closely with a strong Risk Management Framework and a positive risk culture. As a result, the Board actively seeks information to assist the Directors in reaching conclusions about the risks faced by the Group and how these are reflected within the strategy.

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

Throughout the strategic report, we have outlined how the Group and its staff consider the way in which we impact the environment and the society around us. The Board mandates that when matters are discussed, the papers supporting these discussions specifically consider the alignment to our values and ethics. The Board's role in promoting and embedding the continuous commitment to these co-operative values is set out in more detail on pages 71 to 73. Our purpose is to pioneer banking that makes a positive difference to the lives of our customers and communities and the five-year Plan places significant emphasis on how we intend to serve that purpose and the Board-approved priorities that will be funded to make a positive difference, and how performance against these expectations will be monitored via the Group's scorecard metrics. During the year, targets have been set, both qualitatively and quantitatively, in relation to the impact on the environment and social matters.

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

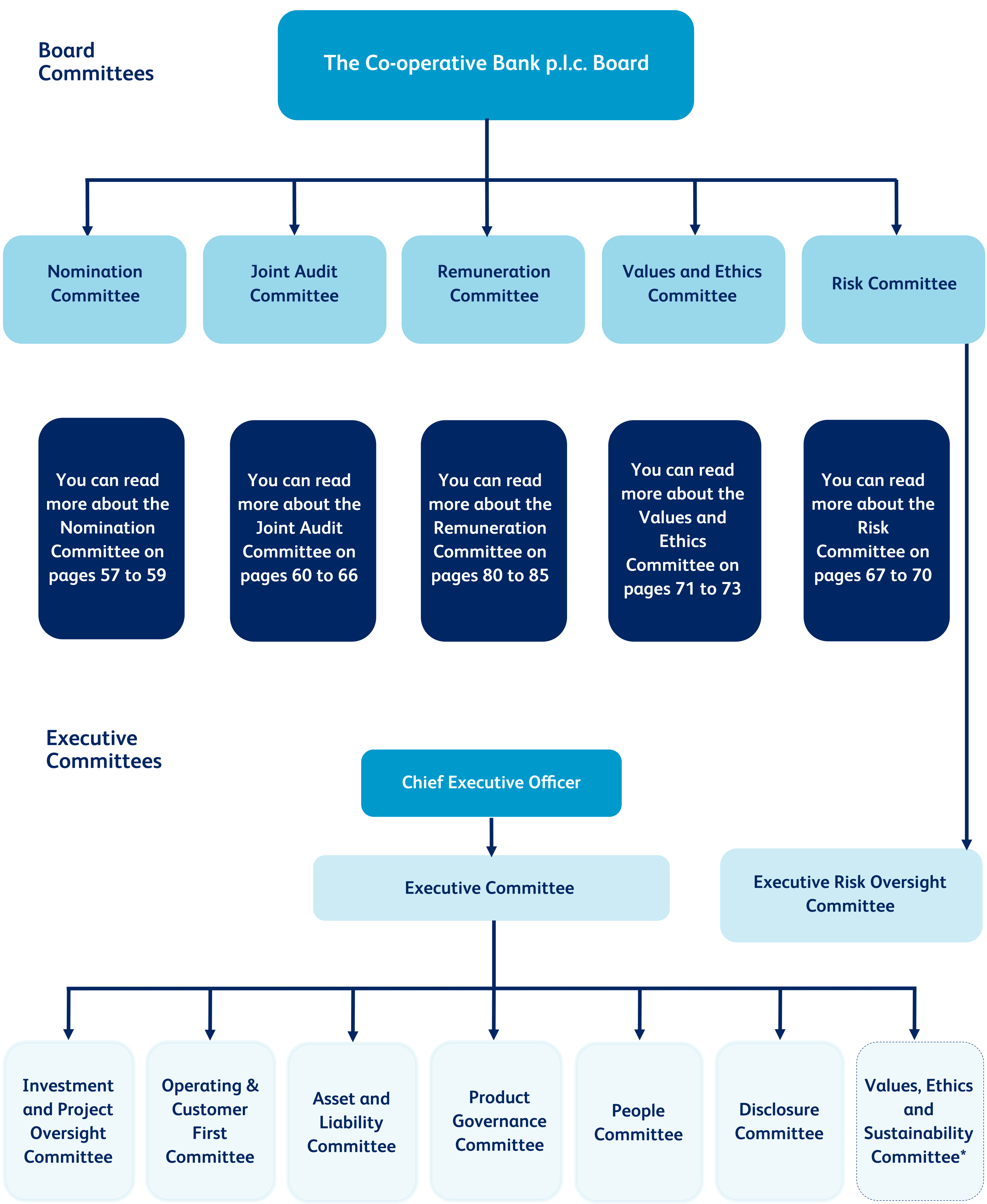
The Bank Company and Finance Company are owned by a single shareholder. The Group structure is set out on page 1 of this report. Their Boards ensure that matters are referred to their respective shareholders in line with each company's Articles of Association and relevant statutory requirements. The Group's Disclosure Committee reviews all information shared with the shareholders to see whether it is inside information that needs to be publicly disclosed to comply with the European Market Abuse Regulation 596/2014 (MAR), which became part of UK law through the Market Abuse (Amendment) (EU Exit) Regulations 2018 in the context of the Bank's covered bonds (which were redeemed in November 2021) and the Finance Company's listed £200m fixed rate callable subordinated Tier 2 notes due in 2029 and £200m fixed rate reset callable notes due in 2025. Further information on relations with shareholders can be found in the ownership section of the corporate governance report on page 51 and on the investor relations page of the Bank's website. As a privately-owned bank, the Board acknowledges that its ultimate shareholders may, at their discretion, consider potential strategic opportunities if and when they may arise and that there is a possibility of consolidation within the UK retail banking industry in the future. There can be no certainty that any opportunities may arise and, if so, whether a transaction process would commence, or whether any potential interested parties could be identified or would participate in such a process. The Board is committed to the interests of all its stakeholders and to the delivery of its Plan.

Corporate governance

CWS Banking Hall, Manchester, c. 1930

Corporate governance framework

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



* Executive committee being established in 2022 with oversight provided by the Values and Ethics Committee of the Board.

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

Board of Directors

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

Key

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

N VE

Bob Dench

Chair of the Board

Independent: On appointment

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

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

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

External appointments: None

R A N RE

Derek Weir

Senior Independent Director

Independent: Yes

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

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

Career history: Derek has over 30 years of financial services experience, holding a range of senior positions in corporate and commercial banking. During this time he held posts, both in the UK and internationally, at Barclays Bank plc and Royal Bank of Scotland plc, including being the Managing Director responsible for Commercial Banking in the UK for Royal Bank of Scotland plc.

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

A R VE RE

Glyn Smith

Non-Executive Director

Independent: Yes

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

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

Career history: Glyn has over 40 years of experience in the financial services sector, most notably in a number of senior executive roles in Barclays Bank and as Group Finance Director of the Portman Building Society. Since 2003, he has held numerous Non-Executive Directorships and chaired the Audit Committees of organisations across both the public and private sectors. These have included Coventry Building Society, Domestic & General Group and Stroud & Swindon Building Society in the financial services sector.

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

VE R A

Sue Harris

Non-Executive Director

Independent: Yes

Appointed: May 2019 (Bank Board)

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

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

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

RE R N VE

Sir Bill Thomas

Non-Executive Director

Independent: Yes

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

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

Career history: Sir Bill is a former Senior Vice President of Hewlett-Packard and served as a corporate officer on the Executive Committee of EDS plc as Executive Vice President. He served as a member of the Council and President of the Alumni Association at Cranfield University and chaired the School of Management advisory board. Former Chair of the Royal Navy and Royal Marines Charity.

External appointments: Chair of Spirent Communications plc. Chair of Clarkson plc. Advisor to FireEye Inc. Non-Executive Director and Chair of Node 4 Limited (private equity-owned IT services). Partner in Hopton Estates.

R RE A

Sally-Ann Hibberd

Non-Executive Director

Independent: Yes

Appointed: August 2019 (Bank Board)

Skills and experience: Broad background in financial services and technology.

Career history: Sally-Ann previously served as Chief Operating Officer of the International division and, latterly, as Group Operations and Technology Director of Willis Group, and held a number of senior executive roles at Lloyds TSB. She previously served as a Non-Executive Director of NFU Mutual and Shawbrook Group Plc and as a Non-Executive Director and Chair of the Risk Committee at Equiniti Group plc.

External appointments: Non-Executive director and Chair of the Environmental, Social and Governance Committee at IG Group plc. Non-executive member of the governing body of Loughborough University.

RE

Richard Slimmon

Non-Executive Director

Independent: No

Appointed: January 2021 (Bank Board)

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

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

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

R

N

Sebastian Grigg

Non-Executive Director

Independent: No

Appointed: January 2021 (Bank Board)

Skills and experience: Investment banking experience.

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

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

Nick Slape

Chief Executive Officer

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

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

Career history: Nick has worked in the financial services sector in the UK and overseas for more than 30 years and throughout his career he has worked at a number of investment banks including Lehman Bros, Dresdner Bank, Deutsche Bank and Merrill Lynch. Most recently he spent five years as Chief Financial Officer of the Commercial Division at Lloyds Banking Group.

External appointments: None

Louise Britnell

Chief Financial Officer

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

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

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

External appointments: None

Corporate governance report

Ownership

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

The Finance Company is a public limited company with Fixed Rate Reset Callable Subordinated Tier 2 Notes with a contractual maturity date of 2029 and Fixed Rate Reset Callable MREL-qualifying notes with a contractual maturity date of 2025 that are listed on the London Stock Exchange. Its equity is not listed. As at 31 December 2021, the Finance Company's sole shareholder is The Co-operative Bank Holdings Limited (Holding Company), which is a private company limited by share capital. The Holding Company is the ultimate parent company of the Bank Company.

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

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

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

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

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

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

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

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

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

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

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

As at 23 February 2022, the B shareholders of the Holding Company (and their percentage B shareholding) were:

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

Values and ethics

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

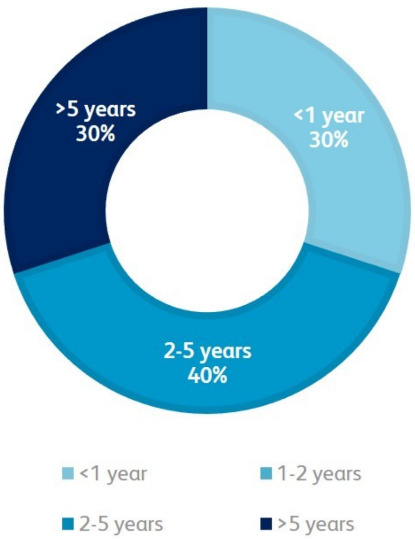
- how it relates to, communicates with, balances the interests of, and otherwise deals with its stakeholders; and
- how it applies the profits of the Group, in accordance with the dividend policy set out in its Articles of Association.

Board composition

During the year, there have been changes to the Board of the Holding Company, to the Board of the Finance Company and to the Board of the Bank Company (the Boards). Details of the members of the Boards, their biographies and length of service are set out from page 47.

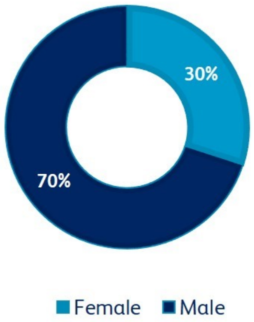
On 11 January 2021, Richard Slimmon and Sebastian Grigg joined the Boards as B Directors. Louise Britnell was appointed as an Executive Director to the Boards on 1 March 2021 and Chris Davis resigned from the Boards as an Executive Director on 31 October 2021.

Length of tenure as Director of Bank as at 31 December 2021

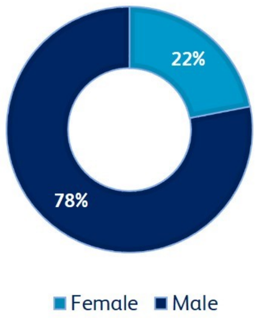


Gender split of Directors

31 December 2021



31 December 2020



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

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

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

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

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

Board changes

During 2021, there were three Directors appointed to the Boards of the Holding Company, the Finance Company and the Bank Company, and one Director stood down from these Boards.

Current members of the Boards		Independent	Appointed (Holding Company)	Appointed (Finance Company)	Appointed (Bank Company)
Bob Dench	Chair	On appointment	1 Feb 2018[1]	1 Feb 2019	1 Feb 2018[1]
Derek Weir	Senior Independent Director	Independent	1 Sep 2017	1 Feb 2019	25 Jul 2014
Sue Harris	Non-Executive	Independent	7 May 2019	7 May 2019	7 May 2019
Sally-Ann Hibberd	Non-Executive	Independent	1 Aug 2019	1 Aug 2019	1 Aug 2019
Glyn Smith	Non-Executive	Independent	1 Sep 2017	1 Feb 2019	10 Oct 2016
Sir Bill Thomas	Non-Executive	Independent	1 Sep 2017	1 Feb 2019	28 Oct 2013
Nick Slape	Chief Executive Officer	N/A	9 Dec 2019	9 Dec 2019	9 Dec 2019
Louise Britnell	Chief Financial Officer	N/A	1 Mar 2021	1 Mar 2021	1 Mar 2021
Richard Slimmon	Non-Executive	Not independent	11 Jan 2021	11 Jan 2021	11 Jan 2021
Sebastian Grigg	Non-Executive	Not independent	11 Jan 2021	11 Jan 2021	11 Jan 2021

1. Chair since 14 March 2018

Members of the Boards stepping down since 1 January 2021		Independent	Appointed to Holding and Bank Company Boards	Appointed to Finance Company Board	Ceased to be a Director of these Boards
Chris Davis	Chief Operating Officer	N/A	23 Jul 2019	23 Jul 2019	31 Oct 2021

Appointment and reappointment of Directors

All Non-Executive Directors are appointed to the Boards for an initial term of three years but, under the terms of their appointment, are required to submit themselves for annual re-election at the Holding Company's, Finance Company's and Bank Company's Annual General Meetings (AGMs). All Directors will offer themselves for election or re-election at the AGMs in 2022. The terms of appointment of the Non-Executive Directors are available for inspection on request to the Secretary.

The biographical details of all Directors are discussed on pages 47 to 50 and can also be found on our website at:

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

Attendance

The following table sets out the attendance at the scheduled Holding Company, Finance Company and Bank Company Board and Bank Committee meetings during 2021:

Attended[1] (entitled to attend)[2]	Board	Joint Audit[3]	Risk	Values and Ethics	Remuneration	Nomination
Bob Dench	10 (10)			4 (4)		2 (2)
Derek Weir	10 (10)	7 (7)	5 (5)		6 (6)	2 (2)
Glyn Smith	10 (10)	7 (7)	5 (5)	4 (4)	6 (6)	
Sir Bill Thomas	9 (10)		4 (5)	4 (4)	6 (6)	2 (2)
Sue Harris	10 (10)	7 (7)	5 (5)	4 (4)		
Sally-Ann Hibberd	10 (10)	7 (7)	5 (5)		6 (6)	
Chris Davis	7 (7)					
Nick Slape	10 (10)					
Louise Britnell	8 (8)					
Richard Slimmon	10 (10)				6 (6)	
Sebastian Grigg	10 (10)		5 (5)			2 (2)

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

Number of Bank Company Board and Committee meetings in 2021

In addition to the above scheduled Board and Committee meetings there were also ad-hoc meetings to support COVID-19, strategic and other ad-hoc matters. Total meetings held were as follows:

Board meetings	16
Joint Audit Committee meetings	7
Risk Committee meetings	6
Values and Ethics Committee meetings	4
Remuneration Committee meetings	7
Nomination Committee meetings	5

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

Information to Directors

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

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

Board Committees

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

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

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

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

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

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

- Anti-money laundering (AML);
- Market Abuse Regime;
- Senior Managers and Certification Regime;
- Values and ethics; and
- Climate change.

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

Nomination Committee	57
Joint Audit Committee	60
Risk Committee	67
Values and Ethics Committee	71
Remuneration Committee	80

Board effectiveness

Performance evaluation

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

The Bank Board and its Committees undertook an internal self-assessment during the fourth quarter of 2019 based on a questionnaire completed by each Director. The outcomes from these various reviews were considered by the Bank Board and its respective Committees in February 2020 and action was taken where appropriate, including amongst others, dedicating full days to Board training rather than at the end of Board meetings, to maximise its effectiveness. The decision has been taken to undertake these self-assessments every two or three years, with external reviews generally taking place every three years. The next external review is due to take place during 2022.

Induction and continuing professional development

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

As part of the process, individual training needs are reviewed periodically. Throughout 2021 the Board continued to hold collective training sessions, which took place in April, September, November and December 2021. In addition to formal training sessions, the Directors, where appropriate, have one-to-one sessions with members of the Executive. An electronic 'Knowledge Area' is available as a resource to enable all Directors to access, revisit and review copies of presentations and materials from formal development sessions.

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

Senior Managers and Certification Regime (SMCR)

The Group continues to deliver robust compliance with its governance over the Senior Managers and Certification Regime as set out in the Directors' Report on page 78. Directors have been briefed extensively and received further training in September 2021 in connection with the requirements set out in the SMCR.

Climate change

The Group delivers and continues to consider compliance with the Task Force on Climate-related Financial Disclosures (TCFD) and further details are set out on pages 27 to 31.

The Directors received training on climate change in September 2020 and December 2021.

Conflicts of interest

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

Directors and their interests

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

Insurance and indemnities

During 2021 the Holding Company maintained appropriate Directors' and officers' liability insurance on behalf of all Group entities in respect of legal action against their Directors and officers. Various officers had, and continue to have, the benefit of indemnities from the Bank Company in relation to losses and liabilities they may incur in their employment. In addition, qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in operation during 2021 and are in force for the benefit of the Directors in relation to certain losses and liabilities which they may incur in connection with their appointment.

Professional advice and Board support

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

Statutory disclosures information

Share capital structure, transfer restrictions and takeover bid related disclosures

The Bank's total issued share capital of ordinary shares of £0.05 each are all owned by the Finance Company. The Finance Company's total issued share capital of ordinary shares of £0.05 each are all owned by the Holding Company. The Holding Company's share capital is divided into Class A ordinary shares of £0.0001 each and Class B redeemable preference shares of £0.01 each. For further information relating to ownership, please see the corporate governance report on page 51.

Transfer of shares

The shareholder of the Bank Company and Finance Company may transfer any shares in any manner which is permitted by law and is from time to time approved by the Board of the Bank Company and Finance Company respectively. The A ordinary shares in the Holding Company are freely transferable save that they may not be transferred to a commercial competitor without the sanction of a special resolution of the Holding Company. Restrictions on the transfer of the B redeemable preference shares can be found within the Holding Company's Articles of Association and further details are shown in the corporate governance report on page 51.

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

Voting rights

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

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

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

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

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

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

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

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

Nomination Committee report

Increased diversity underpins the succession planning for senior Executive appointments

Dear Stakeholder

The Nomination Committee is charged with ensuring the 'bench strength' of the management team is sufficient to ensure there is a steady flow of home-grown talent, which is vital to maintaining the skill-set, vibrancy and culture of the business. Where necessary this does of course have to be balanced with an appropriate mix of external hires. For the past several years the Nomination Committee has been both pleased with the quantity and quality of the home-grown talent throughout the organisation and also with the way in which external hires have fitted in with the Bank's way of working. It should be noted that all senior internal appointments are independently benchmarked against the external market.

During 2021, the Nomination Committee oversaw and recommended to the Board the appointment of three new Board members and the reconfiguration of the Executive team.

The Chief Financial Officer, Louise Britnell, was invited to join the Board, as were Sebastian Grigg and Richard Slimmon, as representatives of the B shareholders. The Chief Operating Officer (COO), Chris Davis, stepped down from the Board on leaving the Bank.

The role of the COO has been in part taken up by the Managing Director, Customer and People, Maria Cearns, who has become Chief Administrative Officer (subject to regulatory approval). The remaining COO duties have been moved under the new role of Managing Director, Strategy and Simplification (subject to regulatory approval). The Nomination Committee was pleased to oversee the recruitment of Neil Camfield into that role in the third quarter of the year.

Robert Dench, Nomination Committee Chair, 23 February 2022

Purpose of the Nomination Committee

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

Committee membership	Date of appointment	Date of resignation
Bob Dench (Chair)	14 Mar 2018	
Sir Bill Thomas	26 Sep 2017	
Derek Weir	14 Mar 2018	
Sebastian Grigg	11 Jan 2021	

During 2021, the Nomination Committee met five times and focussed on new appointments to the Executive Committee and succession planning in order to strengthen the Executive Committee and the Board to meet the needs of the business and to be responsive to the regulatory environment in which the Group operates.

Full regard to the benefits of diversity in all its elements, including gender diversity and ethnicity, is given, with an aspirational target of 40 % diverse membership of the Board. The Group encourages the executive search consultancies engaged in the search process to reflect diversity in the lists of candidates nominated for the consideration of the Board, encouraging ethnically diverse longlists and 50:50 male:female shortlists. During 2021, the number of women on the Board increased to three.

Principal responsibilities of the Nomination Committee

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

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

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

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

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

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

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

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

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

Key areas discussed and reviewed by the Nomination Committee in 2021

Board composition	Review of the structure, size and composition of the Board along with the skills, knowledge and experience of its members to ensure that Directors remain able and have sufficient time to discharge their duties and responsibilities effectively and to the high standard required.
Board and senior Executive succession planning	During 2021 the Nomination Committee considered nominations at both Board and senior Executive level and reviewed succession plans. The B shareholders of the Holding Company are entitled to appoint up to two Directors to the Board of the Holding Company, and the Holding Company is entitled to appoint up to two Directors to the Board of the Finance Company, and the Finance Company is entitled to appoint up to two Directors to the Board of the Bank Company, who are designated as B Directors of the Holding Company, Finance Company and the Bank Company. Richard Slimmon and Sebastian Grigg were appointed as Non-Executive B Directors on 11 January 2021, having been put forward by the Bank's external recruitment agency and recommended by the B shareholders. Both candidates have the skills and expertise appropriate to the challenges and opportunities within the current market. Nick Slape was appointed as Chief Executive Officer from 31 October 2020, and Louise Britnell stepped up to assume the role of Chief Financial Officer, and was appointed to the Board on 1 March 2021. Succession planning for the Board, Executives and Material Risk Takers was reviewed in detail in 2021, including identification of internal successors and potential external candidates for senior vacancies which arose in 2021, including that due to the retirement of the Director, Technology. A new role of Chief Administrative Officer was created, to which Maria Cearns was internally promoted (subject to regulatory approval), following the stepping down of Chris Davis, Chief Operating Officer, on 31 October 2021. The Nomination Committee also oversaw the successful external recruitment for another new role, that of Managing Director, Strategy and Simplification, which saw the appointment of Neil Camfield (subject to regulatory approval), who has extensive experience of strategy, technology and change delivery.
Diversity policy	The Board adopted the Board Diversity Policy, which was expanded to specifically refer to gender, ethnicity, disability and LGBTQ, as refreshed and recommended by the Nomination Committee in July 2021.
Committee membership	During the year, the Nomination Committee considered committee composition across all Board Committees and no changes were made.
Performance evaluation	The Bank Board and its Committees undertook an internal self-assessment during the fourth quarter of 2019 based on a questionnaire completed by each Director. The outcomes from these various reviews were considered by the Bank Board and its respective Committees in February 2020 and action was taken where appropriate. The decision has been taken to undertake these self-assessments every two or three years, with external reviews generally taking place every three years. The next external review is due to take place during 2022. The Directors conducted their first skills self-assessment in late 2015 and the Board has completed one each year since then. The skills self-assessment for 2021 was undertaken towards the end of 2021. The summary Board skills matrix produced will be used to underpin the Directors' annual appraisal process conducted by the Chair and to inform generic skills gaps and individual development needs for 2022. The training needs identified for 2021 included anti-money laundering, market abuse and the Senior Manager and Certification Regime, and the Board received such training in April and September 2021. Additionally, the Board received a presentation from Co-operatives UK in September 2021. A presentation on climate change was given to the Board in December 2021.
Election and re-election	The Committee reviewed the position of Directors offering themselves for election and re-election at the 2021 AGM.

Joint Audit Committee report

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

Dear Stakeholder

The Joint Audit Committee provides oversight and informed challenge over the systems of financial reporting and control, accounts preparation and internal and external audit processes. During 2021, it maintained its focus on those areas most sensitive to the impact of COVID-19 to ensure the ongoing accuracy and integrity of the Group's financial reporting. The Committee also received briefings on the introduction of new reporting requirements, and satisfied itself that the Group had given appropriate emphasis to such requirements, particularly those mandated by the Task Force on Climate-related Financial Disclosures. With the positive news that the Group reported a profit for each quarter in 2021, the Joint Audit Committee gave particular attention to the impact of this on the Group's accounting policies, most notably in relation to the consideration of recognition of deferred tax assets. The Committee has continued to oversee the Group's Concern at Work (Whistleblowing) arrangements.

Glyn Smith, Joint Audit Committee Chair, 23 February 2022

Purpose of the Joint Audit Committee

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

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

1. Chair since 26 October 2016

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

Alignment with Risk Committee

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

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

Principal responsibilities of the Joint Audit Committee	Key areas discussed and reviewed by the Joint Audit Committee in 2021
Financial and narrative reporting	
Review the content of the financial statements included in this Annual Report and Accounts ('the financial reports') and advise the Boards on whether, taken as a whole, they are fair, balanced and understandable and provide the information necessary for shareholders to assess the performance, business model and strategy. Monitor the integrity of the financial statements. Review and challenge where necessary: • the consistency of, and any changes to, significant accounting policies both on a year-on-year basis and across the financial statements; • the methods used to account for significant or unusual transactions where different approaches are possible; • whether appropriate accounting standards have been followed and appropriate estimates and judgements made, taking into account the views of the external auditor; • the assumptions or qualifications in support of the going concern statements and the disclosures made about the assessment; and • the clarity and completeness of disclosure in the financial reports and the context in which statements are made.	The Joint Audit Committee allocates a number of meetings in its calendar to focus on the preparation for and review of the financial statements. During 2021, the review process included a detailed review of significant accounting judgements and accounting policies and formal reporting from the external auditor. The Joint Audit Committee receives regular updates relating to key accounting judgements made and changes to existing, or implementation of new, accounting policies. The Joint Audit Committee also reviews the financial statements process to ensure that financial reporting risk is adequately managed. Key judgements discussed as part of the 2021 accounts process are detailed on page 176, including reports by the external auditor throughout the year. The Boards receive a report from the Joint Audit Committee prior to the Board meetings, which considers the content of the financial statements. Compliance with accounting standards and the completeness of disclosures are also discussed. The Joint Audit Committee reviewed and challenged the quarterly financial reports for the first and third quarters of 2021, the Interim Financial Report and the Annual Report and Accounts and recommended them to the Boards for onward circulation to the shareholders. As part of this review, it conducted quarterly going concern assessments. The Joint Audit Committee discussed the going concern conclusions in detail, and the way in which the basis of conclusion was disclosed in the financial reports. The Joint Audit Committee received updates on the development and implementation of disclosures related to climate change to ensure compliance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
Internal controls and risk management systems	
Review the adequacy and effectiveness of internal financial controls and internal control and risk management systems and statements in the Annual Report and Accounts concerning internal controls and risk management. Review the Group's arrangements for the deterrence, detection, prevention and investigation of fraud and receive and consider special investigation reports relating to fraud or major breakdowns in internal controls or major omissions including remedial action by management.	During 2021 the Joint Audit Committee considered the recommendations of Internal Audit and the external auditor in respect of internal control mechanisms and monitored progress against those recommendations. Both the Director, Internal Audit and the Chief Risk Officer attended Joint Audit Committee meetings throughout the year. During 2021 the Joint Audit Committee considered reports on risk management, internal controls and other reports from management in relation to the Risk Management Framework or in relation to the Annual Report and Accounts.

Principal responsibilities of the Joint Audit Committee	Key areas discussed and reviewed by the Joint Audit Committee in 2021
Raising a concern at work (whistleblowing)	
Review the adequacy and security of the arrangements for employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and annually review and approve the Group's Raising a Concern at Work (Whistleblowing) Policy. Annual review of the Concern at Work report.	The Joint Audit Committee received regular updates on incidents reported under the Group's Raising a Concern at Work (Whistleblowing) Policy. In November 2021, the Joint Audit Committee carried out an annual review of the Concern at Work report and review and re-approval of the Policy.
Terms of reference	
Review the Joint Audit Committee's terms of reference and monitor its execution.	The Joint Audit Committee conducted an annual review of its terms of reference and reviewed its deliveries against these.
Internal audit	
Review and approve the Charter of the internal audit function and ensure that the function has the necessary resources and access to information to enable it to fulfil its mandate, has unrestricted scope and is equipped to perform in accordance with appropriate professional standards for internal auditors. Ensure the Director, Internal Audit has direct access to the Chair of the Board and to the Chair of the Joint Audit Committee, and is accountable to the Joint Audit Committee, ensuring that Internal Audit is independent of the Executive and able to exercise independent judgement. Review and assess the annual Internal Audit work plan and the reasons for any significant change or delay to this plan, ensuring that it includes the evaluation of the effectiveness of the risk, compliance and finance functions. Receive reports on the results of the internal auditor's work. Review and monitor management's responsiveness to the internal auditor's findings and recommendations. Meet with the Director, Internal Audit at least once a year without the presence of management. Monitor and review the effectiveness of the Group's internal audit function, in the context of the overall risk management system and consider whether an independent, third party review of internal audit effectiveness and processes is appropriate. Approve the appointment or termination of appointment of the Director, Internal Audit.	The Joint Audit Committee reviewed the internal audit function's self-assessment against the Chartered Institute of Internal Audit's Guidance on Effective Internal Audit in Financial Services. During 2021, the Committee provided a review and challenge of the Internal Audit Charter, the resources of the function and the plan of activities taking place during the year. In accordance with the Group's Internal Audit Charter, an external assessment is conducted at least every four years, and an independent review was conducted by Independent Audit Limited in 2016. Due to the impact of the COVID-19 pandemic, this independent review was postponed to 2021. At its meeting in April 2021, the Joint Audit Committee received and discussed the results of the external quality assessment (EQA) carried out by Protiviti during the first quarter of 2021. The Director, Internal Audit provided updates on actions arising from the EQA to the July and November 2021 meetings. The Joint Audit Committee regularly received and challenged changes to the Internal Audit plan to ensure an appropriate level of oversight. The Committee continued to monitor the '6 (months) + 6' approach to the Internal Audit Plan, which had been introduced during 2020. The Joint Audit Committee receives all 'red' rated internal audit reports and invites management to present findings and remedial actions. During the year, in camera sessions were held with the Director, Internal Audit.

Principal responsibilities of the Joint Audit Committee

Key areas discussed and reviewed by the Joint Audit Committee in 2021

External audit

Principal responsibilities of the Joint Audit Committee	Key areas discussed and reviewed by the Joint Audit Committee in 2021
Consider and make recommendations to the Boards, to be put to shareholders for approval at the AGMs, in relation to the appointment, reappointment and removal of the external auditor.	The Joint Audit Committee recommended the reappointment of Ernst & Young LLP (EY) to the Boards and the relevant member(s) at the AGMs.
Ensure that at least once every ten years the audit services contract is put out to tender and oversee the selection process. The Joint Audit Committee oversees the appointment of a new audit partner every five years, in line with the requirements of auditor independence rules.	The Joint Audit Committee liaised closely with the external auditor in respect of their views on the most significant of the key accounting judgements and findings.
If an auditor resigns, investigate the issues leading to this and decide whether any action is required.	The Joint Audit Committee received and reviewed the external audit plan and considered and evaluated the results of the external audit.
Oversee the relationship with the external auditor and review the findings of the audit with the external auditor; approve their remuneration including fees for both audit and permitted non-audit services.	In the course of making a recommendation to the Boards in respect of representations to the auditor, the Joint Audit Committee reviewed and challenged management assurances supporting management representation letters to the external auditors.
Develop and implement policy on the supply of non-audit services by the external auditor specifying the types of non-audit service for which use of the external auditor is pre-approved and the requirement to authorise provision of any non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter. Reporting of the use of non-audit services should include those subject to pre-approval.	The Joint Audit Committee considered the external auditor’s management letter containing observations arising from the annual audit leading to recommendations for control or financial reporting improvement and monitored progress.
Annually assess the independence and objectivity of the external auditor and compliance with all applicable independence requirements.	The Joint Audit Committee reviewed and approved the policy for the supply of non-audit services by the external auditor in February 2021 and approved the 2021 fees for audit and non-audit services.
Review any representation letter(s) requested by the external auditor before they are signed by management; review the management letter and management’s response to the auditor’s major findings and recommendations.	The Joint Audit Committee reviewed the independence of the external auditor and the objectivity of the audit engagement partner and audit staff using self-assessments from the external auditor and based on a review conducted by Internal Audit to review the independence and objectivity of the external auditor and their effectiveness, which the Committee considered in February 2022.
Meet regularly with the external auditor and at least once a year without the presence of management.	In line with reporting requirements, the Joint Audit Committee received confirmation from the external auditor that they had carried out verification work around the profit reported in the 2021 Interim Financial Report.

1. Significant accounting matters considered by the Joint Audit Committee

In relation to the 2021 financial statements, the Joint Audit Committee considered the following significant accounting issues, matters and judgements. The disclosure and presentation of these matters were discussed and debated with management and the external auditors (EY).

1.1 Going concern

The Group has used the most recent Board-approved five-year Financial Plan as the basis of its assessment in evaluating whether adopting the going concern basis of accounting is appropriate for the Group, Bank, Holding Company, Bank Company, Finance Group and Finance Company. This assessment included a detailed review of the forecast liquidity position, capital ratios, regulatory capital considerations and projected profitability, which management expects to be reasonable and sustainable over the Financial Plan period following the Group's return to profitability in 2021. The assessment also considered further, more pessimistic scenarios that could possibly occur. Appropriate consideration has been given to the principal risks and uncertainties that could impact future performance and the most relevant regulatory requirements.

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

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

1.2 Recognition of a deferred tax asset in respect of future taxable profits

The significant losses accumulated by the Group during its turnaround process will be used in the future to offset corporation tax charges that the Group would otherwise pay on its taxable profits. The Joint Audit Committee reviewed papers prepared by management that documented the judgements applied in determining whether a deferred tax asset (DTA) in respect of these future benefits should be recognised (referring both to requirements of the relevant accounting standard (IAS 12) and guidance issued by the European Securities and Markets Authority (ESMA)), and what value of DTA should be recognised.

The Joint Audit Committee discussed management's proposal to calculate the DTA based on the profits forecast in the Group's most recent five-year Financial Plan and considered this reasonable grounds for concluding that the forecast profits were realistic. Further consideration was given as to whether it would be appropriate to extend the forecast horizon beyond the Group's normal five-year planning cycle, and the Joint Audit Committee concurred with management's conclusion that, whilst it might be appropriate to do so when there was a more established history of profitability, for the year ended 31 December 2021 only the five-year forecast should be used in the valuation.

1.3 Impairment of loans and advances to customers

The ongoing uncertainty of the impacts on the economy arising from the COVID-19 pandemic has resulted in continued scrutiny of the forecasting of credit impairment losses. The Joint Audit Committee reviewed detailed papers prepared by management, focussing particularly on:

- the impact of the Group's economic forecasts when applied to the credit impairment models, and the appropriateness of any judgemental post-model adjustments subsequently applied to counteract changes in modelled impairment provisions incongruent with the specific risk profile of the Group's credit exposures;
- additional COVID-19-specific post-model adjustments designed to quantify additional risks associated with customers with heightened exposure to the impacts of the pandemic;
- the overall ECL coverage ratios and benchmarking comparisons to support conclusions reached on provision adequacy; and
- the potential impacts of climate change risk on the Group's credit exposures.

As in previous years, the Joint Audit Committee also reviewed the justifications for and valuations of new and existing non-COVID-19-specific model adjustments designed to compensate for specific model limitations, as well as management's governance and controls over the provisions. The Joint Audit Committee also carefully considered evidence in the post balance sheet period as to whether additional provisions were required relative to conditions existing at the balance sheet date.

1.4 Effective interest rate

Management presented papers documenting the assumptions behind behavioural lives and economic assumptions used in estimating the carrying value of the Group's fixed rate mortgage portfolio under the effective interest rate (EIR) method. The Joint Audit Committee reviewed the impact of changes in customer behaviour during 2021 on the EIR assumptions at the year end and concurred with the appropriateness of the year end value of the EIR asset and the judgemental assumptions set out within the paper.

1.5 Pensions

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

Particular focus was given to the changes in assumptions used in previous years, such as updates to mortality tables reflecting some of the impacts of COVID-19 and scheme-specific experience adjustments.

1.6 Other accounting matters

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

- methodology to determine the fair value of financial instruments for disclosure in the Annual Report and Accounts;
- the impairment review of tangible and intangible assets;
- provisions and contingent liabilities associated with legal and conduct matters;
- the accounting treatment of the reserve restructure completed during the year; and
- the accounting impacts of changes to the Group's head office lease.

1.7 Unadjusted errors

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

1.8 Fair, balanced and understandable

The Joint Audit Committee considered whether the Annual Report and Accounts 2021 are fair, balanced and understandable. The Joint Audit Committee satisfied itself that there was a robust process of review and challenge to ensure balance and consistency. This process included internal verification of the document and senior level review of the document both on an individual and committee basis prior to a meeting of the Joint Audit Committee held to review and consider the Annual Report and Accounts in advance of approval by the Board.

2. Governance over accounting policy and judgements

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

3. Performance evaluation

3.1 External audit

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

The Joint Audit Committee is conscious of the requirement to conduct a tender at least every ten years and rotate auditors at least every 20 years. The last audit tender undertaken was concluded in 2014 and EY was appointed as the Bank's statutory auditor with effect from the 2014 financial year. Consequently, the Joint Audit Committee has agreed that an audit tender process will commence in 2022, with an announcement expected in 2023, resulting in an auditor appointment for the audit of the 2024 financial statements.

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

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

Total auditor's remuneration for the year amounted to £2.5m (2020: £2.5m). Details of the auditor's remuneration can be found in note 4 to the consolidated financial statements. The Joint Audit Committee is satisfied that the remuneration payable to the auditor is not material relative to the income of the external audit officers and firm as a whole, and did not impair the objectivity and independence of the external auditor.

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

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

During 2021, the external auditor provided the Joint Audit Committee with a management letter summarising its main observations and conclusions arising from the 2020 year end audit, and any recommendations for enhancements to reporting and controls. Mitigating actions were identified for implementation. Internal Audit have been monitoring and tracking the implementation of these actions, with regular reporting to the Joint Audit Committee on progress made.

3.2 Internal controls

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

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

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

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

3.3 Internal audit

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

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

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

Periodically an independent external quality assessment (EQA) is conducted. The last EQA was performed in 2021 and the function was rated as Generally Conforms to the IIA Standards. No high priority issues were raised and all of the suggested areas for improvement have been considered for action. Where actions were agreed, action plans are in place, with the majority now closed.

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

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

The Co-operative Bank p.l.c.	**137**
The Co-operative Banking Holdings Limited	**150**
The Co-operative Bank Finance p.l.c.	**153**

Risk Committee report

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

Dear Stakeholder

As the Bank continued to adjust to the new ways of working resulting from the COVID-19 pandemic, the Risk Committee focussed on ensuring the Risk Management Framework had been adapted to protect its staff and customers. Areas of focus for the Risk Committee throughout 2021 included fraud prevention, capital and liquidity management and the continued evolution of the Bank's risk models. A particular focus of the Risk Committee was overseeing the ongoing work in relation to the upgrading of the Bank's IT estate and ensuring our cyber security controls continued to improve, while minimising any customer disruption. The Risk Committee reporting was adapted and improved to cover additional risks created by the pandemic, with more forward-looking metrics introduced.

Derek Weir, Risk Committee Chair, 23 February 2022

Purpose of the Risk Committee

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

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

1. Chair since 26 January 2016

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

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

During 2021 the Risk Management Framework has been, and continues to be, refined to reflect the changing nature of the risks the Bank is exposed to. The Risk Committee has worked closely with the Joint Audit Committee to monitor risk management and internal controls and during 2021, the external auditor attended the Risk Committee as an observer and contributed when requested by the Chair.

Principal risks and the level of acceptable risks are determined by reference to what is stipulated in the risk appetite statements, aiming to ensure that there is an adequate system of risk management and that the levels of capital and liquidity held are consistent with the risk profile of the business. Exposure to credit and other risk types such as market, liquidity, operational, pension, reputational, financial risk from climate change and other risks that are inherent in our industry such as strategy, product range and geographical coverage, and the processes for managing those risks, are described in detail on pages 91 to 105.

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

Principal responsibilities of the Risk Committee

Key areas discussed and reviewed by the Risk Committee in 2021

Risk Management Framework (RMF)

Review and challenge the design, implementation and effectiveness of the RMF and make recommendations to the Board for approval.

At least annually, review and approve all new policies and those which have changed materially, supporting the RMF.

Ensure the remit of the risk management function has:

- adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards; and
- adequate independence, being free from management or other restrictions.

Review the capability to identify, assess, and manage new risk types.

The Risk Committee actively discussed the RMF and an update was provided to each meeting of the Risk Committee. The Bank Risk Report was further refreshed during 2021 to enhance the forward-looking nature of the risk reporting and includes an RMF dashboard, credit asset quality dashboard, as well as summaries of significant risks, issues under management and emerging risks, for the Risk Committee to review and challenge at each business as usual meeting.

The Risk Committee reviewed and recommended the RMF policy and strategy to the Board for approval, and reviewed all new policies and those which had changed materially, supporting the RMF policy.

The Risk Committee considered a report which reviewed the remit, independence and effectiveness of the risk and compliance functions.

Risk culture

Review, promote and challenge the risk culture, and seek assurance to satisfy itself that an appropriate risk culture prevails in the organisation.

Provide qualitative and quantitative advice to the Remuneration Committee on risk weightings to be applied to performance objectives incorporated in Executive remuneration.

At each meeting of the Risk Committee, the Chief Risk Officer presents the Bank Risk Report described above which provides a holistic view of risks, including a summary of the key risk appetite trends, significant risks and emerging risks. Individual detailed risk appetite returns and credit risk metrics are also presented to the Risk Committee at each meeting as set out above.

As part of the Group's response to COVID-19, the Chief Risk Officer introduced a weekly governance forum to provide risk oversight of the changes made to processes and systems in response to the pandemic. The Chief Risk Officer provided an update on this activity to the Risk Committee until the weekly meetings ceased and were incorporated into business as usual reporting.

The Risk Committee reviewed the embedding of risk into performance objectives and role profiles, so that all employees have at least one risk-related objective for 2021. The Chief Risk Officer has reviewed risk weightings applying to Executive remuneration structures and provided analysis to support Remuneration Committee activities in this area.

Principal responsibilities of the Risk Committee	Key areas discussed and reviewed by the Risk Committee in 2021
Risk appetite, limits and tolerances	
Review, challenge and recommend to the Board for approval all new risk appetite statements and at least annually, or more frequently as required, the risk appetite. Review, challenge and approve any material changes to the risk appetite measures, tolerances and limits. Review, challenge and exercise oversight of capital and liquidity management and advise the Board on strategy for capital and liquidity management. Annually review, challenge and recommend to the Board for approval the ICAAP. Annually review, challenge and recommend to the Board for approval the ILAAP. Review, challenge and recommend to the Board for approval submissions to competent authorities to be submitted in the Board's name.	The Risk Committee continues to work with the Chief Risk Officer to refine the quality of data reporting seen at Committee and Board levels in order to assist the Risk Committee in its oversight of the monitoring of risk appetite, of risk acceptances and of risk events. The Risk Committee reviewed, challenged and recommended to the Board for approval, the risk appetite during 2021, and changes to market risk and liquidity risk appetite as part of the RMF. The Risk Committee reviewed and challenged the utilisation of delegated lending within the boundaries of the Lending Discretion Framework during 2021. The Risk Committee reviewed, challenged and recommended sections of the ICAAP, ILAAP and Recovery Plan to the Board for approval. A regular progress update was provided on model risk to each business as usual meeting of the Risk Committee during 2021. Prior to recommending to the Board for approval, the Risk Committee reviewed all material submissions to be provided to regulatory bodies.
Business strategy	
Provide detailed review and challenge of proposed business strategy, giving consideration to the impact on the risk profile, and make recommendations to the Board. Ensure appropriate due diligence is carried out focussing on risk aspects and implications for risk profile and appetite when advising the Board on strategic acquisitions or disposals.	The Risk Committee, throughout 2021, discussed and monitored the principal risks and uncertainties faced. The risk function reviewed the refresh of the five-year Plan, as approved by the Boards in September 2021.
Risk monitoring	
Consider, oversee and advise the Board on, and provide challenge on the Group's exposure to, all principal risks to the business, and dedicate clear and explicit focus to current and forward-looking aspects of risk exposure, especially where those risks could undermine strategy, reputation or long-term viability. Review and challenge management's risk mitigation and control remediation actions. In co-operation with the Joint Audit Committee, monitor identified control failings and weaknesses that raise systemic risk issues and management actions taken to resolve them. Review reports on any material breaches of risk limits and the adequacy of proposed action. Consider risks posed by the current and prospective macroeconomic and financial environment, drawing on financial stability assessments such as those published by the BoE, the PPA, the FCA and other authoritative sources that may be relevant for the Group's risk policies when preparing advice for the Board.	The Risk Committee monitors all principal risks to the business using the Bank Risk Report which provides a holistic view of risk, including significant and emerging risks and risk appetite trends. The Bank Risk Report was adapted to provide specific reporting on new risk areas following the implementation of new government lending schemes in response to COVID-19. During 2021, the Risk Committee reviewed reports on potential breaches of risk appetite and proposed actions to resolve them. The Risk Committee considered key corporate exposures in terms of consolidated exposures and large exposure positions and risk mitigation. The Risk Committee has received regular reporting to help it review IT and cyber risks and the remediation programme. The Risk Committee has considered reporting of emerging risks during the year, together with regulatory feedback given to the Bank by the PRA and the FCA and the plans agreed with regulators published to the market from time to time.

Principal responsibilities of the Risk Committee	Key areas discussed and reviewed by the Risk Committee in 2021
Regulatory risks and compliance	
Review and approve the annual Risk Assurance Plan and the reasons for any significant changes to the Plan, taking into account the regulatory risks identified from time to time. Review, consider and challenge regular reports from the Director, Compliance and keep under review the adequacy and effectiveness of the regulatory risk and compliance function. Receive prompt notification of any material adverse reports or sanctions by any competent authority.	The Risk Committee has challenged the development of certain risk models to support the attestation of, and achieving compliance with, the Capital Requirements Regulation. The Risk Committee reviewed, challenged and approved the 2021 Risk Assurance Plan which provides coverage of principal risks including conduct, regulatory, fraud and AML. The Chief Risk Officer and Director, Compliance attended Risk Committee meetings during the year providing regular reporting analysis. They also attended regular in camera sessions with the Risk Committee to ensure relevant topics could be discussed in detail without management in attendance. During 2021 the Risk Committee considered a report which reviewed the remit, independence and effectiveness of the risk and compliance functions.
Bribery prevention, anti-money laundering/terrorist financing and Code of Conduct	
Review and challenge the adequacy and effectiveness of the systems and procedures for the prevention of bribery and annually review and approve the Group's Anti-Bribery and Corruption Control Standard. Review and challenge regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the anti-money laundering and counter-terrorist financing systems and controls. Review and recommend to the Board for approval the Code of Conduct and the Personal Investment Dealing Policy.	The Group's Anti-Bribery and Corruption Control Standard was reviewed in July 2021 by the Operational, Compliance and Financial Crime Risk Oversight Committee (OCROC) and no material changes were required. The Risk Committee considered reporting from the Money Laundering Reporting Officer during the year. The Risk Committee reviewed and recommended the Code of Conduct and Personal Investment Dealing Policy to the Board during the year.
Risk reporting	
Receive reports, findings and recommendations from the Executive Risk Oversight Committee, noting significant issues. In co-operation with the Joint Audit Committee, review and approve the statements to be included in the Annual Report and Accounts concerning internal controls and risk management.	Through the reporting from the Chief Risk Officer, the Risk Committee continued to have access to the findings and recommendations of the Executive Risk Oversight Committee on matters referred to the Risk Committee or to the Board. Additionally, a paper summarising the topics discussed and decisions taken at the Executive Risk Oversight Committee was introduced to the Risk Committee rolling agenda during 2021. The Risk Committee continues to work closely with the Joint Audit Committee in determining the Group's annual reporting.
Chief Risk Officer	
Recommend to the Board the appointment and/or removal of the Chief Risk Officer. Meet at least once a year with the Chief Risk Officer without the presence of management.	The Committee Chair regularly met with the Chief Risk Officer without the presence of management during the year. Private sessions were held regularly between the Risk Committee and the Chief Risk Officer. During 2021 the Risk Committee considered a report which reviewed the remit, independence and effectiveness of the risk and compliance functions.

Values and Ethics Committee report

Our customer-led Ethical Policy has defined our Bank for 30 years and makes us a natural leader on environmental and social issues in the UK banking industry

Dear Stakeholder

The Co-operative Bank has been rooted in distinctive co-operative values and ethics, underpinning how we run our business and providing customers with a real ethical alternative for 150 years.

It is our unwavering commitment to these values and our unique customer-led Ethical Policy which has made us a natural leader in environmental and social issues today and I am delighted that this year the Bank was recognised as the UK's best environmental, social and governance (ESG) rated high street bank by leading experts Sustainalytics.

The Values and Ethics Committee, which I am proud to chair, provides Board level oversight of the Bank's values, ethics and sustainability agenda. The Committee ensures that co-operative values and the issues that are important to our customers are reflected in everything the Bank does, whether this be the governance around the types of businesses we will or, more importantly, won't provide banking services to, the causes we support or the issues the Bank campaigns on.

As we all continue to face the challenges of the pandemic, the Bank's commitment to delivering against the commitments in its Ethical Policy remained a key focus throughout 2021 and I am extremely proud of the positive societal change we have made working co-operatively with our colleagues, partners and valued customers.

We have remained focussed throughout the year on driving positive social and environmental change through our charity partnerships, supporting the causes that matter to our customers. Throughout 2021 we have campaigned for and raised awareness of the many issues affecting young homeless people, those who are suffering economic abuse and we have stood in solidarity with human rights defenders fighting for justice and equality around the world.

As ever, our commitment to co-operative businesses and the wider movement remains a key priority. In 2021 we renewed our sponsorship of The Hive, a business support programme for co-operatives, taking our total investment since 2016 to £1.7m. I am extremely pleased that we continue to support those who are looking to start or grow co-operatives or community enterprises which are of great benefit to our communities and the economy.

This year I was delighted that, through our sixth Values and Ethics Poll, we consulted our customers on the environmental and social issues that matter to them most. Their responses will inform an update to our Ethical Policy which we will launch in the first half of 2022 and will guide how we do business going forward.

I am extremely proud of what our colleagues have delivered in co-operation with our customers and valued partners and I look forward to continuing this momentum next year as we celebrate the Bank's 150th anniversary of ethical banking.

Sue Harris, Values and Ethics Committee Chair, 23 February 2022

Purpose of the Values and Ethics Committee

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

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

1. Chair since 1 August 2019

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

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

The Values and Ethics Committee's terms of reference require it to meet four times a year. In line with its refreshed terms of reference in 2020, the Values and Ethics Committee focussed on review of performance against co-operative values and its ethical policies, implementation of the values and ethics strategy and reinforcement of the Bank's ethical difference. Consideration of values and ethics is a mandatory requirement for all reports to the Board and its Committees. The Values and Ethics Committee is expanding its remit to ensure appropriate oversight of compliance with the Group's ESG and sustainability aims, and oversight of the relevant Executive committee.

A Customer Donation Fund case study

Soundcastle is a London-based social enterprise which uses creative music-making to connect communities. Soundcastle benefited from our Customer Donation Fund Project back in 2020, markedly improving their ability to cope with the challenges of the pandemic through their 'Musical Beacons Inclusion Project', which supports vulnerable and isolated families facing mental health challenges.

The Customer Donation Fund project reinforces our brand positioning and makes a huge difference to the projects involved and the communities they operate in. All Community Directplus account holders can apply for up to £1000 from the Customer Donation Fund to support special projects and fundraising activities.

"The funds from the Customer Donation Fund helped us reach more families by providing both online and live sessions. We were able to create activity cards for families who were struggling to get online. We aim to deliver regular sessions, so the activity is predictable and builds a community but the pandemic meant planning took longer and the set up of delivering sessions kept changing. This funding gave us resilience in the face of these challenges."

"We've been with the Bank for over 5 years and the account works for us. We bank with The Co-operative Bank as we want our administration and the services we use to reflect our own values. Autonomy is a core value of our organisation and creative work and we need a bank that supports us but also listens to what we do. We want to put our funds with a bank which represents and shouts about ethical banking."

Gail Macleod,
Co-director of Soundcastle

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

Principal responsibilities of the Values and Ethics Committee	Key areas discussed and reviewed by the Values and Ethics Committee in 2021
Values and ethical policies	
Recommend to the Board for approval and adoption the values and ethical policies. Represent, monitor and advise the Board on matters concerning the interests of all stakeholders in their dealings with the Group in line with the Articles of Association having regard to: i) the legal and regulatory requirements applicable; ii) the need to be commercially sustainable and profitable; and iii) the desirability of maintaining and enhancing image and public reputation.	The Values and Ethics Committee oversaw the continued adherence to the Ethical Policy, the latest version of which was launched in January 2015, and provided oversight of the sixth Values and Ethics Poll which took place in the summer of 2021 to consult our customers on the environmental and social issues that are important to them. This will inform an update to the Ethical Policy which will launch in the first half of 2022. The Values and Ethics Committee discussed the Group's activities to support positive social change, including our commitment to eliminating youth homelessness, support those suffering from economic abuse, Amnesty's campaign Write for Rights and the Group's support of the Climate and Ecological Emergency Bill.
Statement to Co-operatives UK	
Monitor compliance with the statement[1] to Co-operatives UK and report on this at least annually to the Board. 1. The statement underpins our commitment to promote co-operative activities and to operate in line with co-operative values.	The Values and Ethics Committee monitored the Group's compliance with its statement to Co-operatives UK at each meeting. Regular meetings continue between management and Co-operatives UK to monitor compliance with the statement. The Values and Ethics Committee monitored progress against the commitment to the partnership with Co-operatives UK for The Hive, a business support programme to promote social and economic development and enterprise in accordance with co-operative values.

The Values and Ethics Committee has reviewed a number of key initiatives during 2021, more details of which can be found on the following pages:

Directors' Report

The Directors of The Co-operative Bank Holdings Limited, The Co-operative Bank Finance p.l.c. and The Co-operative Bank p.l.c. (the Directors) present their report and audited accounts for the year ended 31 December 2021.

The Co-operative Bank Holdings Limited (Registered number 10865342), The Co-operative Bank Finance p.l.c. (Registered number 11598074) and The Co-operative Bank p.l.c. (Registered number 00990937) and its subsidiaries provide a range of banking and financial services in the United Kingdom. See page 15 for a full description of our business model and focus.

Dividends

The Directors do not recommend payment of a dividend for 2021 and do not expect to pay dividends in the near future.

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

The business review and future developments, key performance indicators, principal risks and uncertainties are referred to in the strategic report or the information on pages 91 to 105. Financial risk management objectives and policies can be found as detailed below:

	Pages
Detailed financial performance review	32 to 35
Risk management objectives and policies	87 to 90
Principal risks and uncertainties	91 to 105

Post balance sheet events

There are no post balance sheet events to report.

Going concern

The assessment of the appropriateness of the going concern basis of accounting for The Co-operative Bank Holdings Limited, The Co-operative Bank Finance p.l.c. and The Co-operative Bank p.l.c. ('the Companies') in the 2021 Annual Report and Accounts has been subject to thorough consideration, involving analysis and discussion by management, Executive and Board Committees and the Board, in line with our governance process.

The Directors have assessed the going concern status using a framework focussing on forecast capital, liquidity and profitability as set out within the Group's most recent Board-approved five-year Financial Plan. The Directors have also considered the principal risks and uncertainties, along with the most relevant regulatory requirements, including future anticipated capital requirements, in addition to any other relevant and material information. After making enquiries of management and considering the five-year forecast, in particular for the period ended 30 June 2023, the Directors have a reasonable expectation that the Companies will have adequate resources to remain in operational existence.

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

Political donations

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

Directors' details

Details of Directors, including appointments and resignations during the financial year, and changes since the end of the financial year, are provided on page 53 within the corporate governance report. Details of the Directors offering themselves for election and re-election at the 2022 Annual General Meeting are provided on page 53.

Directors' third party and pension scheme indemnity provisions

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

Related parties

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

Corporate responsibility

Corporate responsibility activities are outlined on pages 71 to 73.

CO_2 emissions

The greenhouse gas emissions report is detailed on page 24.

Anti-bribery and corruption

Based upon the business activity, strategy and UK focus of the Group, it is assessed as being an inherently low-risk organisation in terms of bribery and corruption. For 2021, there are no anti-bribery matters to disclose and no material risks have been identified. The Group has a comprehensive Anti-Bribery and Corruption Control Standard, part of which requires due diligence on new third party suppliers and treasury counterparties during the onboarding process and is supplemented by annual due diligence of existing suppliers. In addition, annual training is provided to all colleagues on their anti-bribery and corruption obligations.

Our people

Our commitment to our customer-led Ethical Policy continues to shape our evolving approach to ensuring an ethical workplace. In 2021, as the Group's response to the pandemic continued, we looked to develop our concept of place of work for the future at the same time as further developing our colleague offering. How we treat our colleagues and in turn how our colleagues treat our customers remains at the heart of everything we do.

This is underpinned by our values and expected behaviours, which ensure we are all moving in the same direction and delivering in the right way. We expect all colleagues to hold themselves and each other to account so we all demonstrate the values consistently, ensuring we are at our best for our customers, communities, stakeholders and each other.

We completed the Financial Services Culture Board cultural assessment survey in 2021. 78.2% of colleagues took part in the survey and our overall culture result was 75 (out of 100), maintaining our 2020 scores. This is a more positive response than the industry average, which saw declining scores across firms in 2021. The results had some very positive messages around culture. Customer focus is our highest-ranked characteristic in the survey and the question on 'going the extra mile for our customers' remains one of our strongest scores. From a diversity and inclusion perspective, our colleagues feel more included, accepted and less likely to be judged based on stereotypes than other banks. On the values and ethics side, we continue to score well above average when it comes to the Group's purpose and values being meaningful to colleagues. Other people metrics show the Group is performing resiliently in a challenging environment and demonstrate a positive reaction to the evolution of place of work at the Group.

Leadership and succession planning

Good leadership is integral to shaping the right culture for our Group. In 2021 we expanded our internal leadership development offering with a range of opportunities available for leaders to select from, including: regular fundamental knowledge and skills sessions for people managers; a programme of masterclasses and leader drop-ins run by senior leaders focussed on the Group's core leadership capabilities; updated leader guides; and a Group-wide mentoring programme.

The launch of leadership offerings focussed on different career stages has helped to maintain our focus on leadership development, helping colleagues to translate ambition into action through personal development opportunities. Along with the programmes described in our later entry level talent and development section, this includes the launch of a leadership group for leaders with future ambition and capability to be our next generation senior leadership and Executive Committee.

Our leadership focus sits alongside our performance management framework that looks at both what is achieved and, equally importantly, how it is achieved. This approach to performance, along with a focus on nurturing talent across the Group and robust succession planning, meant we have been able to continue to offer progression through internal moves to support structure and operating model changes.

Entry talent and development

We continued to run our existing graduate scheme programmes throughout 2021, with a number of graduates successfully securing permanent roles within the Group. We also took on a small cohort of new graduates in our risk and finance functions.

We have 101 colleagues studying towards an apprenticeship programme across a number of areas, including customer service, risk and compliance, finance, accounting and taxation professional qualifications.

We remain focussed on supporting the development of all our people through the provision of high-quality development opportunities. In 2021 this included the introduction of the Group's newest entry level talent cohort, a group of 14 internal colleagues who have been identified as leaders of the future who have been selected to go on the Group's Aspire leadership programme. This is all underpinned by a strong induction programme, supported role-based training and a suite of mandatory training modules including risk, conduct and inclusion and diversity.

Inclusion and diversity

The Co-operative Bank came together 150 years ago to stand up for the ideal of co-operative values and principles to build a better society for all. Our fair, diverse and inclusive culture is underpinned by our inclusion networks, run by colleagues for colleagues. Each network has its own area of focus and associated activities, but they collaborate wherever possible. All networks are open to all colleagues regardless of their demographics, and all actively welcome allies. We have worked closely with our inclusion networks throughout 2021: Access, supporting colleagues with disabilities, long-term health conditions and caring responsibilities; Reach, our race, ethnicity and cultural heritage network; Proud Together, our LGBT network; Elevate, our women's career network; and Futures, our early careers network.

The networks seek to:

- encourage a diverse workforce which represents our communities and customers; and
- promote an inclusive work environment which engages the talents, beliefs, backgrounds, capabilities and ways of working of all individuals to create a culture of belonging, ensuring everyone has equality of opportunity regardless of personal characteristics. This includes, but is not limited to, gender, pregnancy and maternity, ethnicity, culture, age, physical and mental ability, sexual orientation, gender identity, religion or belief, marital and civil partnership status, education and those with a caring responsibility.

Despite another challenging year with limited ability to connect face-to-face, the networks have come together to support their members across a range of activities, and have used their collective resources to collaborate on events and activities to support their members and non-members across a range of areas, all aimed at making the Group a great place to work.

Our commitment to HM Treasury's Women in Finance Charter remained as strong in 2021 as it was in 2016 when we were one of the first banks to sign up to the Charter. In 2020 we successfully reached our committed target to increase female representation in our senior leadership to 40%. Our success in meeting that target was largely through the work we did in encouraging and supporting women to put themselves forward for progression opportunities alongside their male colleagues. 2021 has therefore been focussed on ensuring we embed this success, as well as a focus on driving our commitments further forward. As proud as we are of our success to date, we know there is more to do to achieve gender balance. We therefore recommitted to achieving 45% women in senior roles by the end of 2023. As we progress towards this new target our focus remains on our successful gender diversity plan.

We are pleased to have reported an improvement in our mean gender pay gap to 25.82% in 2021 (2020: 27.95%). We have however seen a deterioration in our median gender pay gap (28.72% for 2021 compared to 25.94% for 2020). The key drivers that impact our gender pay gap, like many financial services firms, are employing more women particularly in our customer-facing roles and the gender split in different disciplines and at different levels across the organisation. These are the key long-term areas we seek to address through a focus on career progression as well as a focus on gender balance at all levels. We are confident that in the long term our focussed work on gender inclusion and balance will result in the gap narrowing.

In 2021 we broadened our pay gap focus to include a review of the ethnicity pay gap in our organisation. As we only have one year's data to date and are not able to show any trends, our reporting remains internal for now, but we look forward to being able to report externally on this in the future.

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

We promote equality of opportunity and aim to create a workforce that is representative of our society, knowing that embracing difference enhances the capability of The Co-operative Bank. To support this we remain a signatory of the Race Charter and Halo Code and are a Disability Confident certified employer.

A great place to work

Since early 2020, the pandemic has caused a transformation in the way people can carry out their roles, as well as changes to colleagues' expectations. The Group's strategy on people and place has evolved and is flexible to meet these changes. We have taken the opportunity to review our office utilisation pre-pandemic against our future requirements, creating a new hybrid working model across as many sites as possible. For our contact centre colleagues, and due to our telephony infrastructure, we remained predominantly office-based in 2021. However, we ran a homeworking pilot for contact centre teams to identify how we can provide a more flexible model in the future.

We recognise that health and wellbeing at work are vital. COVID-19 elevated the need for our inclusion and diversity networks more than ever, and both our networks and Bank leaders have continued to support colleagues through challenging times in 2021.

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

We work closely with our trade union Unite. Regular informal and formal consultations take place with the union and they are fully consulted where organisational change and other issues may affect colleagues.

In 2021 we continued with our commitment as part of our Ethical Policy to pay colleagues no less than the real living wage as set out by the Living Wage Foundation. We also continue to be a member of the Greater Manchester Good Employment Charter.

HR key performance indicators

Gender diversity (Headcount) as at 31 December

2021	Female No.	Female %	Male No.	Male %	Grand total No.
Board[1]	3	27 %	8	73 %	11
Executive management team[2]	2	40 %	3	60 %	5
Other employees	1,503	58 %	1,079	42 %	2,582
Grand total	**1,508**	**58%**	**1,090**	**42%**	**2,598**

2020	Female No.	Female %	Male No.	Male %	Grand total No.
Board[1]	2	22 %	7	78 %	9
Executive management team[2]	4	50 %	4	50 %	8
Other employees	1,619	58 %	1,191	42 %	2,810
Grand total	**1,625**	**57%**	**1,202**	**43%**	**2,827**

1. Board: Includes Executive and Non-Executive Directors.
2. Executive management team: Includes senior managers who have responsibility for planning, directing or controlling the activities of the business. Members of the Executive management team who are also part of the Board are not included here.

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

2021	Full time	Part time	Grand total
Female	954	554	1,508
Male	1,036	54	1,090
Grand total	**1,990**	**608**	**2,598**

2020	Full time	Part time	Grand total
Female	1,036	589	1,625
Male	1,154	48	1,202
Grand total	**2,190**	**637**	**2,827**

Senior Managers and Certification Regime (SMCR) and whistleblowing

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

Engagement with suppliers

In 2021 we focussed on delivering our procurement plans by modernising and streamlining our processes whilst enhancing the data that we use to ensure consistency of data across systems and reports. This has yielded efficiencies in third party costs and benefits to suppliers through continuing improvements in meeting our supplier payment terms.

Additionally, to ensure continuously improving adherence to our cost controls, staff involved in buying decisions continue to receive regular training on our procure to pay (P2P) processes, delivered via engagement-led roadshows. This was expanded in 2021 to cover the ongoing management of our third parties, providing a walkthrough of the procurement lifecycle and expectations to ensure the Group consistently applies the supplier management framework.

Despite the continued impact of COVID-19, our suppliers continued to deliver goods and services to the Group to meet our requirements. There is also a lot of work ongoing with suppliers to ensure we are compliant with EBA and PRA regulatory changes which are due to take effect from the end of March 2022, relating to material and non-material outsourced arrangements (EBA) and critical suppliers (PRA).

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare Group, Finance Group, Bank, Holding Company, Finance Company and Bank Company financial statements for each financial year. Under that law they have elected to prepare the Group, Finance Group, Bank, Holding Company, Finance Company and Bank Company financial statements in accordance with UK-adopted international accounting standards.

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

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

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

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

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

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

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

Disclosure of information to the auditor

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

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

Corporate governance statement

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

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

This responsibility statement was approved by the Board of Directors of the Holding Company, Finance Company and Bank Company on 23 February 2022 and is signed on its behalf:

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

Robert Dench
Chair of the Board

23 February 2022

Directors' Report on remuneration to the shareholder

Recognising and rewarding our colleagues for their exceptional commitment to our customers

Dear Stakeholder

I am pleased to present an overview of the key developments relating to remuneration in 2021 together with The Co-operative Bank Pillar 3 remuneration disclosure for 2021. Our full Executive Directors' remuneration policy can be found at:

www.co-operativebank.co.uk/investorrelations/financialresults

Looking back on 2021

As for all businesses, 2021 has proved to be another challenging year as the Group has continued to respond and adapt to challenges brought about by a number of external factors, including both the ongoing COVID-19 pandemic and the economic impact of Brexit. Throughout, the Group has remained committed to continuing the reward strategies and variable pay disciplines we put in place in 2019. In the face of a particularly competitive external labour market this has helped us motivate and retain colleagues throughout the year. The Group's approach is underpinned by consideration of cost, fairness, government guidance and other stakeholder interests.

During 2021 we reorganised the Executive team to reflect the needs of the business. This led to the evolution of several Executive roles. The departure of the Director, Technology early in 2021 allowed the digital team to move into the retail and SME business areas. Towards the end of 2021, the departure of the Chief Operating Officer resulted in the creation of the Chief Administrative Officer and Managing Director, Strategy and Simplification roles. The Remuneration Committee approved the remuneration for these new roles.

The Remuneration Committee has continued to closely monitor Executive performance in 2021 against the Group's balanced scorecard, whilst also considering the impact of the COVID-19 pandemic and the risks it may introduce to delivering against the Group's short and longer-term plans.

Scorecard performance – what does it measure?

The scorecard sets out five performance areas:

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

For 2021 we maintained the same five key areas of our scorecard from previous years. More detail on the 2021 scorecard is available on page 81.

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

Performance is monitored on a monthly basis.

The annual results are taken into consideration by the Remuneration Committee when reviewing variable pay awards. By the end of the year, overall performance achieved was 121.1 % against all measures, where target performance is 100 % and maximum performance 200 % for all measures. Within the scorecard, finance measures had a weighting of 60 % whilst the other four areas had a weighting of 10 % each and, in this regard, the overall performance reflects the following achievement in each area:

- Performance for our customers was measured at 10.5 %;
- Performance for our people was measured at 10.0 %;
- In building our future, performance was measured at 7.0 %;
- Our financial performance was measured at 81.8 %; and
- Risk and control performance was measured at 11.8 %.

Integral to this focus on performance is the Remuneration Committee's continued attention to risk issues and considerations.

Once the final performance for 2021 was determined, the Remuneration Committee oversaw the distribution of variable pay, including annual bonuses for all employees and long-term incentive awards to selected key leaders, for the 2021 performance year. Awards varied subject to both corporate performance, by reference to the Group-wide scorecard, and individual performance against agreed personal objectives including both 'what' colleagues achieved and behaviours in terms of 'how' they achieved this. Appropriate consideration was, therefore, given to the underlying performance of the Group, in accordance with regulatory requirements. In this respect a discretionary adjustment to the bonus pool was applied, taking the overall scorecard result down to 117.0 %.

The Committee believes that the final scorecard result and subsequent bonus pool are a fair reflection of delivery against a number of key financial and non-financial objectives across 2021, with our colleagues once again providing exceptional support to our customers throughout the year, under challenging professional and personal circumstances. All awards remained within the parameters set out in the approved policy.

Other developments

Towards the end of 2020, with an updated Plan for the Group in place, the Remuneration Committee started to give consideration to a retention strategy for key people across the organisation who are critical to the successful delivery of the Group's strategy. Early in the year a retention award was put in place to help ensure a small number of key colleagues in senior leadership roles remained with the Group. This focus on retention and alignment to strategy continued into 2021; this resulted in a change to the Group's Long-Term Incentive Plan to ensure colleague interests were more closely aligned to that of the Group's shareholders.

Following the implementation of CRD V for the 2021 performance year, the Group has revised the treatment of Material Risk Taker (MRT) remuneration to ensure ongoing compliance with remuneration regulations.

Remuneration Committee agenda for 2022

In 2022, the Remuneration Committee will continue to oversee the development and implementation of the Group's remuneration policy and practices, including the determination and distribution of variable pay, comprising annual bonuses for all employees and long-term incentive awards to selected staff. We remain committed to ensuring that our reward framework continues to align Executive performance with shareholder expectations, as well as with the customer experience, while ensuring that pay remains competitive to retain the right talent and aligned to the strategy of the Group over the short and long term. The Remuneration Committee will continue to consult with both the Risk Committee and the Values and Ethics Committee on certain aspects of remuneration policy.

In 2022, whilst seeking to appropriately align incentive plans with key financial targets, we will ensure that we maintain our ethical difference as a bank with our customers and potential customers. Diversity remains a key area of focus for the Group. At the end of 2021, with a percentage of 41.0 %, we remain above our target of 40 % of senior management roles being occupied by women. The Remuneration Committee will continue to monitor progress towards this objective and will also review the Group's gender pay gap reportable data on an annual basis and ensure that our reward policies remain gender neutral. In 2021 we expanded our pay gap consideration beyond gender through calculating and reviewing our ethnicity pay gap.

In 2021 the Group established itself as an environmental, social and governance (ESG) leader amongst high street banks when we achieved the best rating for any UK high street bank from the ESG rating agency, Sustainalytics. Work has also been completed to ensure that from 2022 Executive pay will be linked to delivery of our ESG commitments.

Specific ESG performance measures form part of the Group-wide scorecard to which all colleagues', including Executive, remuneration is linked. These performance measures include, for example, screening 100 % of business customers and suppliers against our Ethical Policy to ensure we do not provide banking services to any organisation which conflicts with our customer-led Ethical Policy, achieving net zero and understanding the Group's impact of its Scope 3 emissions, reducing our GHG emissions, and a focus on diversity.

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

Sir Bill Thomas
Remuneration Committee Chair

23 February 2022

Introduction

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

Remuneration governance

The Group has an established Remuneration Committee consisting of Non-Executive Directors. The Remuneration Committee met seven times in 2021. Its responsibilities include recommending to the Board for approval the overarching principles and parameters of the remuneration policy across the Group, and applying the necessary oversight to ensure that a coherent approach to remuneration is implemented for all employees, whilst ensuring that arrangements are consistent with effective risk management.

The members of the Remuneration Committee are as follows:

Committee membership	Date of appointment	Date of resignation
Sir Bill Thomas (Chair)	26 Sep 2017[1]	
Derek Weir	26 Sep 2017	
Glyn Smith	27 Mar 2019	
Sally-Ann Hibberd	11 Dec 2019	
Richard Slimmon	11 Jan 2021	

1. Chair since 19 December 2017

In setting remuneration policies, the Remuneration Committee seeks to:

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

The Remuneration Committee received support and advice during the year from PwC, its external advisor. PwC are members of the Remuneration Consultants Group and, as such, voluntarily operate under the code of conduct in relation to ‘executive remuneration consulting in the UK’. The role and activities of the Remuneration Committee are further detailed in the Remuneration Committee’s terms of reference (which are available on the Group’s website).

The Remuneration Committee continues to consult regularly with management on aspects of remuneration and benefits, corporate governance and risk. For these purposes, management includes the Chief Executive Officer, the Chief Administrative Officer and the Chief Risk Officer. The Remuneration Committee also works closely with the Chairs of the Risk Committee, Joint Audit Committee, Nomination Committee and Values and Ethics Committee.

The Remuneration Committee is satisfied that the Group’s remuneration approach is in line with regulatory requirements.

The Group is a Level 2 firm under the PRA Rulebook and FCA guidance on proportionality for CRD V.

Material Risk Taker criteria

The Remuneration Committee oversees remuneration for staff identified as Material Risk Takers (MRTs). In 2021, 48 MRTs were identified within the Group, according to the qualitative and quantitative criteria contained within the Regulatory Technical Standards published by the EBA and the Group's own assessment of individuals who can create material risks through their professional activities. The Group has a robust process for identifying MRTs. The Remuneration Committee reviews the MRT list on an annual basis.

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

Link between pay and performance

Components of remuneration

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

The Group's variable pay arrangements aim to reward individual and collective performance achieved in a manner consistent with its values and ethics and within its risk appetite. Senior colleagues (Executive Committee and certain other senior colleagues) are eligible for grants under a Long-Term Incentive Plan (LTIP), as provided under our approved policy. The Committee granted such awards in 2021, some of which form part of a revised LTIP structure which will be used in 2022 and beyond. A one-off Management Incentive Plan (MIP), which was implemented in late 2018, continued to operate, aligning certain senior colleagues with long-term value creation, subject to maintaining sound risk management. Full details can be found in the 2018 Directors' remuneration report in the 2018 Annual Report and Accounts. In addition, a Senior Leader Retention award was also granted in early 2021.

Fixed remuneration

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

Variable remuneration

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

- Our customers (including brand strength and digital adoption);
- Our people (including culture);
- Building our future (including performance against the Group's key strategic priorities);
- Our finances (including performance against our key performance indicators (KPIs) including profitability, operating costs and CET1 ratio); and
- Our risk and control environment (including consideration of operational losses, timely reporting and remediation of risk issues and internal audit findings, effective AML controls, overall compliance with the regulatory environment and productive relationships with the Group's regulators).

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

The Chief Risk Officer's bi-annual report to the Committee also provides a summary of year-to-date risk performance, including:

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

Accordingly, annual bonus pools are adjusted for risk indicators:

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

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

Individual performance assessment, deferral, malus and clawback

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

Deferral of incentive awards is a key mechanism to retain talent which is primarily achieved through annual incentive deferral. In line with regulatory requirements the following is applied to employees' (including MRTs') annual incentives where necessary:

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

Ratio between fixed and variable remuneration

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

Quantitative remuneration disclosure

1. Aggregate remuneration[1] – all employees including Senior Management and other Material Risk Takers by business area

	Management body remuneration			Business areas				
	MB supervisory function	MB management function	Total for MB	Retail banking	Corporate functions	Independent internal control functions	Total for business areas	Total
Total number of staff:								**3,203**
Of which: members of the MB	8	3	11					**11**
Of which: other senior management				3	3	1	7	**7**
Of which: other identified staff				8	12	10	30	**30**
Total remuneration in £m:	**1.6**	**4.3**	**5.9**	**67.8**	**33.2**	**11.0**	**112.0**	**117.9**
Of which: variable remuneration	0.0	2.3	2.3	5.8	3.8	1.4	11.0	**13.3**
Of which: variable remuneration of identified staff	0.0	2.3	2.3	1.0	1.4	0.5	2.9	**5.2**
Of which: fixed remuneration	1.6	2.0	3.6	62.0	29.5	9.6	101.1	**104.7**
Of which: fixed remuneration of identified staff	1.6	2.0	3.6	1.8	2.4	1.7	5.9	**9.5**

1. Figures are based on the Bank's employee population throughout 2021.

Chief Executive Officer remuneration

The total remuneration, excluding long-term incentives, for Nick Slape during 2021 was £2.387m. This was made up of the following:

Fixed remuneration	£000s
Basic salary	930
Allowances and benefits	248
	1,178
Variable remuneration	
2021 bonus	1,209

In addition the previous Chief Executive Officer, Andrew Bester, as part of his notice continued to be paid his basic salary only until 5 April 2021 (£0.3m).

Total remuneration receivable by Directors is disclosed in note 5 of the consolidated financial statements on page 184.


CWS Banking Hall 1930

Risk management

1. RISK MANAGEMENT OBJECTIVES AND POLICIES

1.1 OUR APPROACH TO RISK MANAGEMENT

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

- 1st line - are responsible for owning and managing all risks within defined appetites, complying with Risk Policies and Control Standards, ensuring supporting procedures are documented and maintained using the Group's Risk and Control Self-Assessment (RCSA), and are responsible for reporting the performance, losses, near-misses and status of risks through governance.
- 2nd line - the risk function acts as the 2nd line of defence. The Risk Framework Owners (RFOs) are responsible for setting Risk Policies, Control Standards, Group-wide procedures and risk appetite. RFOs sit within the 2nd line with the exception of some specialist areas where the RFO sits within 1st line (for example Legal, Financial Reporting and People Risk); the 2nd line risk function will provide oversight over the RFO activities in such cases.
- 3rd line - the internal audit function assesses the adequacy and effectiveness of the control environment and independently challenges the overall management of the Risk Management Framework (RMF).

COVID-19 update

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

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

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

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

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

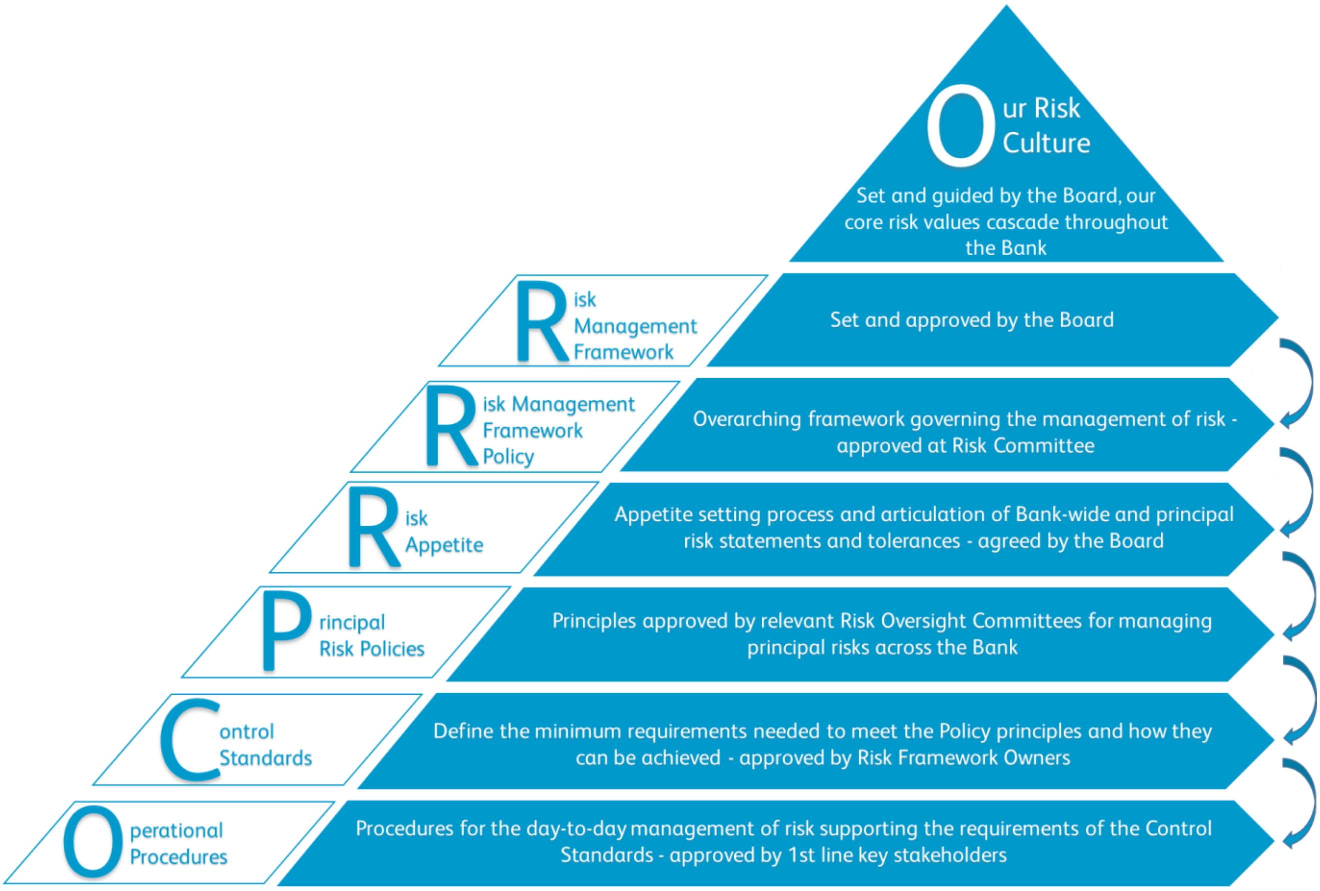
1.2 OVERVIEW

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

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

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

1.3 OUR RISK MANAGEMENT FRAMEWORK (RMF)



1.4 RISK MANAGEMENT STRATEGY AND APPETITE

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

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

1.5 OUR RISK CULTURE

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

The Group has committed to embedding a strong culture of risk management and provides regular training and opportunities for colleagues to refresh knowledge on the RMF and opportunities for leaders to share knowledge and experience in respect of risk management in their roles. Culture is measured through continued monitoring of the Risk section of the CEO scorecard, the RMF dashboard which includes metrics on Risk process adherence through RMF-focussed 2nd line of defence assurance reviews and through 2nd line of defence oversight and feedback.

A Group-wide risk culture survey was conducted at the end of 2021 in order to assess the underlying behaviours and attitudes towards risk at all levels in the organisation. The survey will help identify any areas where improvements are required and shape the next stage of development for the RMF.

1.6 EVOLUTION OF THE RMF IN 2021

The Group continually seeks to enhance and further embed its RMF to ensure efficient and effective risk ownership and management within risk appetite, supporting appropriate customer outcomes and the delivery of its Plan. The focus during 2021 has been to continue to embed the RMF through changing structures, responsibilities and Group strategies, to adapt where required ensuring stability and effectiveness, but also to simplify where possible without detriment to the management of risk or the risk culture. The secondary driver was to consider where simplification could be achieved in order to focus resource on significant and material risk-related activities.

During the year, a number of initiatives have further strengthened and embedded the RMF, bringing with them an increased commitment to and understanding of risk management amongst all Group colleagues. In order to support this, simplification initiatives have also been implemented. These have been possible due to the maturity of the RMF and the level of embedding that has been achieved:

- In line with structural changes and Group-wide simplification, continued clarity of the alignment of first line ownership of principal risks to the Senior Managers and Certification Regime to create an integrated and consistent accountability matrix;
- Continued training for those new to roles e.g. Risk Framework Owners and Risk Managers with improved mandatory training and targeted topic-based training e.g. Root Cause Analysis;
- Continued improvements to key operational risk processes, for example, the risk acceptance process in order to drive further efficiencies;
- The move to a bi-annual cycle for refresh of Risk Policies and Control Standards (unless significant change is required outside cycle); and
- The risks relating to climate change have been incorporated into the RMF and managed thematically (see section 1.9 for more detail).

The Group will continue to simplify and evolve the RMF in 2022 whilst continuing to drive commitment and understanding of risk management at all levels of the organisation.

1.7 OUR RISK GOVERNANCE

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

The Board has established Board committees and senior management committees to oversee the RMF, including identifying the key risks faced and assessing the effectiveness of any risk management actions.

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

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

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

1.8 PRINCIPAL RISK CATEGORIES

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

Operational risk

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

Operational risk has 13 sub-risks as part of the Group's RMF. These sub-risks are included in the commentary below. All sub-risks are subject to annual review and each risk is managed individually and in line with the Group's RMF, including having individual risk framework owners, risk policies and control frameworks.

Key themes:
Operational risk levels remain elevated due to increased levels of fraud and a number of issues such as reliance on manual processes and legacy IT systems. The COVID-19 pandemic, which poses risks to multiple operational areas, has further elevated operational risks, especially related to supplier and people risks. The most significant operational risk themes are outlined below.

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

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

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

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

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

Technology debt - As with many other financial institutions, the Group is reliant in some areas on end-of-life IT systems to provide key services. To reduce the associated risks and minimise the impact of any disruptions, the Group has a strategy to remove the highest risk legacy systems and add additional contingency arrangements to protect IT services until replacement. Funding for this strategy has been approved for 2022 and will be subject to regular monitoring and reporting against progress.

Cyber crime - As with other financial institutions, reflecting the increased use of technology in financial services, the Group and its customers are at risk of actual or attempted cyber attacks from parties with criminal or malicious intent, including attacks designed to overload the Group's systems. These risks increase as the Bank moves to digitise its products, services, key functions and distribution channels, and as cyber attacks become more sophisticated and prevalent. There is the potential for greater exposure to cyber attacks where systems are reliant on legacy technologies, as highlighted in the technology debt section above. In addition to the risk of fraudulent activity in connection with customer accounts resulting in customer detriment, the Group is also subject to the risk that any cyber attack may result in temporary loss of operational availability of systems to its colleagues and/or customers and disclosure of confidential information. This has the potential to cause business disruption and legal exposure which may have adverse effects on the Group's financial condition, operating results, reputation and brand. The Group continues to invest in its security tools, processes and capability to counter the ever-evolving cyber threat landscape in addition to remediating its legacy IT estate. The most recent external benchmarking activity has evidenced an improvement year-on-year in the maturity of the Group's cyber framework, while acknowledging the risks associated with legacy systems. Where specific risks arise, bespoke solutions are evaluated and deployed to minimise exposures to cyber threats until older IT systems are replaced.

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

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

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

In response to industry-wide challenges around recruitment and retention, the Group has made changes to the workplace model, launching homeworking roles for some contact centre colleagues in addition to making permanent homeworking options available for back office colleagues. The Group's front-line recruitment options have been enhanced by launching a working from home role for new to Bank colleagues and expanding our recruitment catchment area for staff from regional areas to nationwide.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Emerging risks:

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

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

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

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

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

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

Mitigating actions:
Ongoing management, oversight and reporting of key risks and controls by the Group's three lines of defence and the adoption of a thematic approach to managing risks posed by the COVID-19 pandemic and climate change.

Management, oversight and reporting of risk through the Group's risk governance structure. The management of risk and controls continues to be reflected within all colleagues' performance objectives and key measures of performance against the RMF are included in the Group's scorecard.

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

Capital risk

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

Key themes:
Risk Weighted Assets (RWAs) - Our RWAs at 31 December 2021 total £4,373.4m. RWAs reflect our risk adjusted assets factoring in probability of default (PD), loss given default (LGD) and exposure at default (EAD). This calculation is used to derive the capital requirement of the Group. Increases in RWAs are driven either by increases in the underlying assets or increases in the risk weighting (or density) assigned to these assets. Significant changes in RWAs are typically driven by changes in modelling requirements, for banks that have permission to use the Internal Ratings Based (IRB) approach. The Group, alongside other IRB institutions, is currently developing its suite of secured IRB models to be compliant with PS11/20.

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

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

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

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

The Group has embedded capital risk monitoring across the organisation and closely manages its current and future capital position from a TCR, MREL and leverage ratio perspective. Capital management activities at all levels of the Group are overseen by the 2nd and 3rd lines of defence.

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

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

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

Credit risk

Definition:
Credit risk is the risk to profits and capital that arises from a customer's failure to meet their legal and contractual payment obligations. Credit risk applies to retail, SME and treasury.

Key themes:
Managing the profile of lending to new and existing customers is key to the ongoing management of the Group's exposure to credit risk. This involves the continual optimisation of its strategies across all portfolios, using both internal and external customer performance data, as well as ensuring the appropriate oversight of their performance. The Group's strategy continues to focus on growth in new mortgage business volumes principally through mortgage intermediaries. Nevertheless, the Group recognises that it remains heavily reliant on interest income from its mortgage portfolio and is therefore seeking opportunities to diversify its income streams and yield whilst remaining cognisant of the credit implications of this approach. The SME business offers significant future growth potential and continues to be a key cornerstone of the Group's strategy. The financial health of our SME customers will be closely monitored within the context of continued economic uncertainty in 2022 and beyond. The Group's treasury portfolio is held primarily for

liquidity management purposes and, in the case of derivatives, for the purpose of managing market risk. The Group monitors the risk to earnings and capital arising as a result of any of its treasury counterparties defaulting on their legal and/or contractual obligations through its Treasury Credit Risk Policy and Control Standards.

During 2020, and as a direct result of the COVID-19 pandemic, a number of measures were introduced across the different portfolios in order to support our customers, including payment deferrals and, for SME, the participation in both the Bounce-Back loan and CBILS schemes. With these measures being industry-wide, the credit performance of our customers was initially masked from both an internal and external perspective. This continued through 2021, not least as a result of government support measures such as the Coronavirus Job Retention Scheme, which provided temporary easing of the impact of the pandemic on unemployment and a challenge in undertaking affordability assessments. There have been minimal movements (including credit rating downgrades) in the low-risk profile of the treasury portfolio during the year and the Group has not experienced any historical defaults. The exposures remain predominantly concentrated to counterparties rated AA- or higher, suggesting a very low probability of default. Additionally, the Group's credit monitoring has not identified any material changes in the creditworthiness of its treasury counterparties as a result of the COVID-19 pandemic, although this will continue to be monitored closely as the impacts may materialise in the medium to long term.

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

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

The impact of the significant measures put in place has had an uncertain impact on credit scoring of retail customers. The Group has taken a prudent approach and increased score cut-offs (minimum scores needed to be accepted) across all the residential LTV segments to manage the quality of applications and mitigate the risk of house price deterioration stemming from the economic uncertainty. In addition, the use of income received from the Coronavirus Job Retention Scheme has been under continuous review and, in line with industry standard, was no longer accepted for mortgage affordability assessments from September 2020. To further mitigate against the risk from affordability, any mortgage pipeline cases using furloughed income, along with all applications from self-employed customers, are referred to the Group's underwriting team for manual review. Re-entry into 95% LTV lending was managed through a lower risk appetite limit (compared to pre-pandemic levels), as well as higher score cut-offs and restricting flats/maisonettes as acceptable collateral. A significant proportion of 95% LTV applications are also reviewed by the Group's underwriting team.

The housing market has remained relatively buoyant in 2021, despite the end of the stamp duty moratorium which ended in September 2021.

The profile of customers making use of measures such as payment deferrals has been closely monitored, with performance feeding into future arrears forecasting. The performance of SME customers is also being closely monitored with data from the credit reference agency Experian supporting this. There are also strategies in place to identify and contact 'at risk' customers.

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

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

Although our criteria on lending against high rise properties has meant limited exposure to cladding issues across our mortgage portfolios, we continue to monitor ongoing developments and to take actions to mitigate our risks as required.

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

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

Key indicators:
2021 impairment charge: £1.1m (2020: £21.6m). See note 14.
Core mortgage account 3 months in arrears (by balance): 0.09% (2020: 0.12%)

Liquidity and funding risk

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

Key themes:
The Group maintained a strong level of liquidity through 2021 against regulatory minimum but also recognising the potential for changes in customer profiles and market conditions given the continued uncertainties of COVID-19. The BoE liquidity support to the industry through TFSME has provided the Group with an additional funding source to support its lending activities, funding profile and liquidity resources.

The Group remains predominantly customer-funded, continuing to grow retail and SME franchise deposits. Customer behaviours and balances have remained relatively stable despite periods of further COVID-19 restrictions and other economic factors. Trends toward demand deposits, with reduced appetite for term products, continues, reflecting both historically low interest rates and higher average balances which continue to be maintained following COVID-19.

Wholesale funding comprises secured and unsecured debt issuances as well as participation in the BoE TFSME. The availability of TFSME, alongside strong customer deposit performance, has continued to reduce the Group's wholesale funding activity in 2021, with no new issuances in the period and maturity of the outstanding Moorland Covered Bond notes.

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

The Group holds a portfolio of high-quality liquid assets (HQLA), alongside contingency funding actions which enable the Group to raise or preserve liquidity in adverse conditions, and assets available for BoE facilities.

Emerging risks:
Whilst the Group's liquidity and funding position is strong, the Group recognises that the continued market volatility relating to the COVID-19 pandemic and broader economic factors may impact the level of liquidity and funding risk in the future. The impact of wholesale market conditions on the Group's liquidity and funding position is limited as the Group has made use of TFSME in 2021, reducing the reliance on external markets. The Group recognises the potential for uncertainty in customer behaviour as COVID-19 measures are unwound and the economic situation evolves, considering such risks in its management of liquidity resources.

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

Market risk

Definition:
Market risk is the risk of loss as a result of the value of assets or liabilities being adversely affected by movements in market prices, interest rates or exchange rates.

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

Mitigating actions:
The Group has a clear market risk framework with risk appetite limits in place to monitor and manage exposures and impacts of market movements. The Group seeks to hedge market risks where appropriate, including matching of assets and liabilities where possible, as well as use of derivative instruments (interest rate swaps). The framework has provided a structure in 2021 to adapt to changing conditions and continue to appropriately manage the Group's overall exposure to market risk.

Emerging risks:
The Group recognises the potential for further volatility in market conditions, in response to ongoing COVID-19 developments and the broader economic outlook and rate environment. Specific risks to be managed include the final activities to complete SONIA transition, customer behaviours across lending products, but particularly with respect to customer repayment options on Bounce-Back loans, mortgage prepayment rates, as well as mortgage market conditions and pipeline risk as the impact of the stamp duty moratorium unwinds and mortgage markets and performance respond to underlying economic conditions and rate volatility.

The impact of severe events due to changing climate patterns or rapid shifts in climate change-related regulation around the world has the potential to cause sharp adjustments to market prices as well as interest rates and exchange rates. Increased market risk as well as operational risk could also arise as a result of disruption to business services, supply chains and transport links.

Key indicators:
PV01: measures the sensitivity of future cash flows to a one basis point shift in interest rates. See Market risk - section 4.2 on page 125.

Model risk

Definition:
Model risk is the potential for adverse consequences caused by models. Model risk can lead to financial loss, regulatory penalty or fine, poor business or strategic decision-making, incorrect financial reporting, damage to a bank's reputation or adverse customer outcomes.

Key themes and emerging risks:
The Group has permission to adopt the IRB approach for the majority of its exposures, which provides a significant capital benefit to the organisation relative to the Standardised Approach. A robust IRB attestation is completed annually to ensure permission is retained. The Group maintains an active dialogue with the PRA regarding adapting the secured models in line with regulatory expectations of PS11/20 with EAD and LGD models submitted and PD model submission scheduled for June 2022. Capital risk implications of major regulatory changes are covered in the capital risk section on pages 94 to 95. The Group has initiated a model remediation programme which incorporates a detailed milestone plan for the development. Following PRA approval of the credit card models in November 2021, the redeveloped current account and credit card models are in the process of being implemented. A proposed model development for the unsecured retail models in 2022 is now paused following the PRA update of the IRB roadmap wave 4 submission timeline, now in line with Basel 3.1 implementation.

The COVID-19 pandemic presented unprecedented conditions that proved challenging to model accurately, particularly in the case of the Group's IFRS 9 models. The Group relied on the use of model adjustments to reflect these challenges and this remained so in 2021 as the macroeconomic environment improved. In addition, the effects of the COVID-19 pandemic on the suppression of defaults, with the possibility of defaults increasing following the withdrawal of government support schemes, still has the potential to impact on the performance of key models. IFRS 9 model development activity will proceed in 2022 with a rebuild of the credit card PD model the key priority.

Finally, as part of the Group's close consideration of climate change risks as part of its ongoing strategic planning exercises in 2021 (described in more detail in section 1.9), the Group has committed to a proportionate scenario analysis of the financial risks arising from climate change, and has therefore engaged with an external party to develop an in-house modelled solution for assessing these risks across its largest portfolio in retail secured. This model is used to assess the impacts of climate change scenarios on credit losses, capturing both physical and transition climate risks and used for ongoing assessment and inclusion as part of future financial planning, risk monitoring, product development and ICAAP cycles. The Group will continue to embed this modelling capability in 2022 and provide oversight of the methodology and outputs through its robust model governance framework.

Mitigating actions:
The Group operates a robust model governance framework, including independent model validation of all models, including new models, as well as ongoing monitoring of model performance and periodic risk appetite and policy refreshes.

The Group commits to providing Executive level review and challenge of model risk through its Model Risk Oversight Committee (MROC) which ensures that the model rating systems and material models are operating effectively and the impact of model risks on the Group's business model and strategies is assessed regularly. This also includes oversight of the Group's IRB permissions, including the exemptions where the Group applies the Standardised Approach to calculate Pillar 1 capital requirements.

The Group has in place a mechanism to determine post-model adjustments (PMAs) to adjust impairment stock where it is determined that direct model outputs do not adequately reflect all risks within a portfolio, or subset of a portfolio. To mitigate the risk of capital requirements underestimation as a result of non-compliant IRB models, the Group applies temporary model adjustments (TMAs) where required.

Key indicators:
A range of indicators continue to be used to assess this principal risk. These include, but are not limited to, the number of models that are not IRB compliant, the volume of models rated with a 'Red' RAG status in terms of model performance or rated 'Not Fit for Purpose' following periodic model review.

Pension risk

Definition:
Pension risk is defined as the risk to Group capital and company funds from exposure to defined benefit scheme liabilities (to the extent that liabilities are not covered by scheme assets), associated funding commitments and risks inherent in the valuation of scheme liabilities. Uncertainty in the estimated size of the liabilities and volatility in future investment returns from the assets may cause volatility in the pension fund funding level.

Key themes and emerging risks:
The Group is the Principal Employer of the Bank section of The Co-operative Pension Scheme (Pace) and Britannia Pension Scheme (BPS). Both schemes remain in surplus on an accounting basis and were also determined to be in surplus on the statutory funding basis at the time of their last triennial valuations, as at 2019 and 2020 respectively. The Group continues to assess the funding and accounting positions of both schemes, including impacts of COVID-19, with a particular focus on any potential erosion of capital resources due to additional funding requirements.

Risks to the Group arise from the valuation of each scheme on each of the statutory funding and low risk target (a secondary funding measure for Pace) bases, a deterioration in which could give rise to additional cash contributions into the schemes in the future, and the accounting basis, which could give rise to immediate erosion of CET1 resources if the schemes were determined to be in deficit on the accounting basis. Risks may arise if actual experience differs from the assumptions employed in the valuation on either basis, in particular as a result of changes to market and economic conditions and longer lives of members. Risks may also arise due to volatility in the valuation of scheme investments. The Group remains cognisant of the potential future impact of climate-related physical or transition risks on pension asset valuations. The scheme trustees are responsible for managing pension assets and do so in line with their Responsible Investment policies, taking advice from appointed investment consultants and investment managers. Whilst pension assets are exposed to general market conditions including interest rates, inflation and credit spreads, which could deteriorate under longer-term climate stress, the low-risk investment strategies employed by both of the Group's defined benefit schemes, together with high levels of interest rate and inflation protection through hedging strategies, are considered to go some way to mitigating the overall risk to the funding levels of the schemes posed by climate change.

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

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

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

Reputational risk

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

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

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

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

The Group continues to use the 'co-operative' name as the Group adheres to and supports the co-operative movement. The Group demonstrates its commitment to the co-operative values through our partnership with The Hive which began in 2016 and the programme has already helped over 1,000 new and existing co-operatives and groups. Through our partnership, we are helping to build a resilient and successful co-operative economy. We have invested £1.7m into this programme since our partnership began and this has led to positive feedback from Co-operatives UK.

The Group can experience media coverage and social media content relating to matters such as speculation relating to the Group's ownership, call wait times in the contact centre and digital outages. The Group continues to focus on the successful delivery of the Plan and supporting our customers.

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

Mitigating actions:
An active dialogue has been maintained with all key stakeholders throughout the year. The Group continues to invest in channel offerings, including enhancing digital capabilities allowing customers to bank more flexibly and at their own

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

convenience. Investing in technology to improve resilience has remained a focus, whilst utilising multiple communication channels to keep customers informed during outages.

Emerging risks:
Given the high level of scrutiny regarding financial institutions' treatment of customer and business conduct from regulatory bodies, the media and politicians, from time to time the Group may be exposed to conduct issues, legal proceedings and regulatory investigations that could give rise to reputational risk. Where appropriate, the Group discloses such exposures as contingent liabilities in note 31 to the Group and Bank financial statements.

Key indicators:
A range of indicators continue to be used to assess changes in this principal risk. These include, but are not limited to, the number and nature of reputational risks, social media sentiment and adverse Ombudsman decisions made against the Group.

1.9 CLIMATE CHANGE RISK

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

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

i. Physical risks arise from both acute and chronic shifts in climate patterns, which can lead to damage to assets, business disruption and changes in individuals' health and incomes, driving financial losses and impaired asset values. For banks, these could manifest themselves primarily as credit, market, operational and reputational risks. The Group has assessed the risks of exposure to flooding, subsidence and coastal erosion in the mortgage portfolio at a fixed point in time (see page 103 for further details).

ii. Transition risks relate to the risk of loss in the transition to a low carbon economy. This is influenced by factors such as regulation, legislation and guidelines to reduce the impact or level of climate change, as well as developments in technology and changing consumer and market sentiment. These may drive changes in the value of assets and liabilities for banks and insurers, increase the cost of business for SMEs and result in changes to consumer spending habits which could have a material impact on the profitability of certain industries. There is also the risk of climate-related lawsuits, which could impact firms and/or customers. As with physical risks, the Group has used a point-in-time assessment to understand the energy performance of the properties in the mortgage portfolio (see page 104).

In 2021, the Group has also developed a model for assessing the impact of the physical and transition risks of climate change across its mortgage portfolio, with quantitative methods also considered for assessing risks to its corporate and unsecured retail portfolios. Further details can be found on page 104.

Our approach to climate change risk

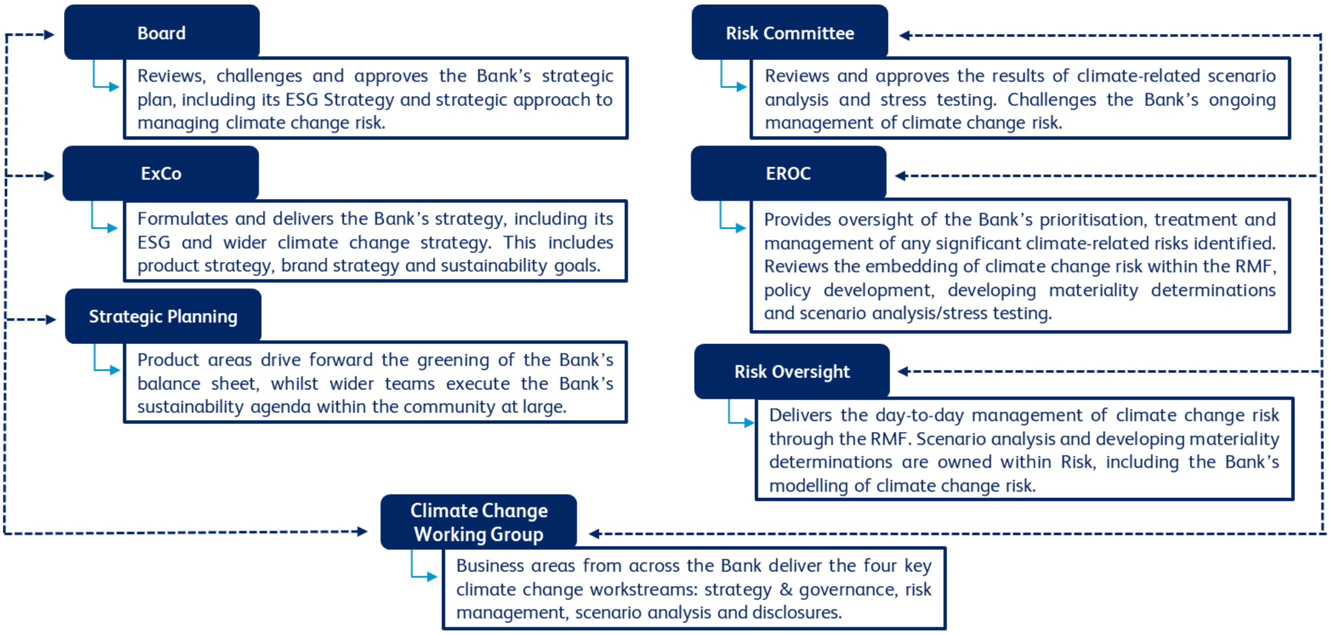
Key steps taken to date
The Group completed a number of actions across 2020 and 2021 to embed the understanding and mitigation of climate change risks across the organisation. In our 2020 Annual Report and Accounts, we shared details of the actions taken to that point, including:

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

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

Governance and strategy

The Group recognises that ensuring climate change risks are embedded across the Group's governance framework is critical to supporting climate-conscious decision-making. The Group has provided training to the Board, Executive team and senior management teams to build awareness and understanding of climate change risks, including the potential impact of these risks. The below diagram shows a high-level overview of how climate change risk is embedded within the Group's governance framework:



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

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

Risk management

Climate change risk has been assessed in the context of the Group's current suite of principal risks, as well as the wider Risk Management Framework. Whilst climate change risk has its own definition and risk appetite statement, in 2020, it was decided to establish climate change as a 'thematic risk', in order to ensure that it was holistically embedded across the RMF and integrated through the Group's current suite of principal risks. This decision was reviewed and reconfirmed in 2021. The rationale for this decision is that climate change risks are expected to impact other risks, such as increased credit risk, operational risk and capital risk. This also demonstrates that the Group has considered the relative significance and linkage of climate-related risks in relation to other risks.

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

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

Decisions to mitigate, transfer, accept or control any significant climate-related risks identified are made in accordance with RMF principles. This involves engaging the relevant principal risk framework owner in the first instance, assessing the potential impact and likelihood of risk crystallisation using approved risk measurement tools, making a materiality determination and escalating through the risk governance and committee structure outlined above. Exercises such as the annual ICAAP provide further opportunities for the Group to conduct strategic risk assessments relating to climate change risk and assist materiality determinations.

The Group runs a robust horizon scanning process in order to identify, action and monitor any regulatory developments relating to climate matters. Each new development (such as new or amended policy statements) is flagged, assigned to the relevant Executive, prioritised and tracked through to compliance with oversight provided by the Climate Change Working Group, Risk Oversight and EROC. The Group's Director, Risk Governance, Regulatory Affairs and Prudential Oversight also attends material supervisory updates and education sessions with the PRA, FCA and BoE to ensure the Group is at the forefront of any changes concerning climate matters in the banking industry. The Group acknowledges the updates to the implementation guidance on TCFD recommendations in October 2021 and continues to evidence compliance with the prevailing regulations.

The table below provides examples of climate risk events manifesting, the linkage to principal risks, and consequent potential impacts on The Co-operative Bank, its customers and other stakeholders:

	The Financial Risks Arising from Climate Change (Defined as a "Thematic Risk" within the Group's Risk Management Framework*)					
	Transition Risks				Physical Risks	
Primary Impacted Risk	Legal & Regulatory	Reputational	Technology	Market	Operational	Credit & Capital
Secondary Impacted Principal Risks	Credit, Capital, Conduct, Reputational	Liquidity & Funding, Capital, 3rd Party Supplier	Capital, Information & Data, Regulatory	Credit, Pension, Capital, Liquidity & Funding	Credit, Capital, Market, Pension	Market, Pension, Liquidity & Funding, Regulatory
Time Horizon:**	Short-Medium Term	Short-Medium Term	Short-Medium Term	Short-Medium Term	Short-Long Term	Long Term
Example and Observed Events	• Increased cost of Greenhouse Gas emissions through taxation and other fiscal policy; • Enhanced emissions-reporting or other climate-related reporting obligations; • Additional regulatory requirements for firms to meet mandated minimum climate standards or policy.	• Additional scrutiny from media and the government on businesses, their supply chains and financiers; • Shifts in consumer preferences to greener products and services; • Competitors forced to move away from practices that adversely impact the environment.	• Substitution of existing products and services with lower emissions options; • Investment in new technologies to reduce emissions or improve energy efficiency of physical sites, households, etc.; • Additional costs associated with the transition to lower emissions.	• Bottlenecking in the housing market due to a limited supply of and increased demand for energy efficient and low flood risk properties; • Changing customer behaviour to less carbon-dependent alternatives; • Greater volatility in costs and sourcing of carbon heavy raw materials.	• Increased severity of extreme weather events such as cyclones and floods; • Increased severity of damage to physical assets including property, disruption to businesses services , supply chains and transport links, driving volatility in the market.	• Changing climate patterns (e.g. wind speeds, precipitation) affecting ecosystems, food production and living conditions; • Rising temperatures affecting working and living conditions as well as local infrastructure; • Rising sea levels driving subsidence and flood risks.
Impacts on the Co-operative Bank and our Customers	• Higher carbon prices increasing the cost of living and business operations, greater credit risk across the balance sheet; • Increased cost of climate related compliance and reporting.	• Reduced demand for Group products and services; • Risk that the Group's position as an ethical bank becomes diluted by competition shifting towards greater climate consciousness.	• Rising cost of embedding new climate-friendly technologies; • Devaluation and diminished utility of existing technology.	• Asset impairment or NIM volatility due to changes in the housing market; • Additional funding costs as a result of price volatility; • Abrupt shifts in operating costs, such as energy costs.	• Business disruption, including workforce requirement changes (e.g. absenteeism caused by severe weather events); • Asset impairment as a result of damage caused to property, against which the Group secures mortgages and other loans; • Increased operating costs due to logistical challenges caused by weather events/climate pattern shifts, as well as increased insurance costs.	

*A thematic risk is one which is assessed to materially impact or crystallise as other principal risks, rather than in isolation.

**We have outlined which risks may be impacted in the short (1-5 years), medium (10 years) and long-term (30 years).

Scenario analysis

The Group has engaged with an external provider to perform a point-in-time 'static' assessment of the Group's exposure to the physical and transition risks of climate change on its mortgage portfolio. A model has also been built for the continuous assessment of these risks against key credit risk parameters in the mortgage portfolio. Further details of these two components of the scenario analysis workstream are outlined below.

a) Static assessment results:

This assessment took a view of the physical and transition risks in the residential mortgage portfolio as at 30 June 2021, relative to national averages. The results of this assessment is split in two parts: physical and transition risks.

i. Physical risks

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

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

Physical risks in the retail secured portfolio (as at 30 June 2021)	High flood risk		Probable subsidence risk 2030	
Political region	Co-operative Bank	Land Registry	Co-operative Bank	Land Registry
East Midlands	1.8 %	1.7 %	0.0 %	0.0 %
East of England	2.4 %	2.6 %	14.0 %	15.3 %
London	2.4 %	3.1 %	64.0 %	70.3 %
North East	0.9 %	0.8 %	0.0 %	0.0 %
North West	1.6 %	1.9 %	0.0 %	0.0 %
Scotland	0.0 %	0.0 %	0.0 %	0.0 %
South East	2.1 %	2.6 %	4.9 %	4.9 %
South West	1.6 %	2.3 %	0.0 %	0.0 %
Wales	1.7 %	4.7 %	0.0 %	0.0 %
West Midlands	1.5 %	1.6 %	0.0 %	0.0 %
Yorkshire and The Humber	1.2 %	1.8 %	0.0 %	0.0 %
Total	**1.8%**	**2.1%**	**7.5%**	**10.6%**

ii. Transition risks

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

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

Transition risks in the retail secured portfolio (as at 30 June 2021)	Matched residential EPC ratings (74% of properties matched)	
EPC rating	Co-operative Bank	Land Registry
A	0 %	0 %
B	7 %	11 %
C	23 %	28 %
D	47 %	39 %
E	19 %	17 %
F	3 %	4 %
G	1 %	1 %

b) Modelled solution:

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

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

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

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

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

Climate-related disclosures

The Group has recognised the importance of ensuring that accountability for its own management of climate change risk is clearly defined through its climate-related objectives and performance against those objectives. The Group is also committed to ensuring the public disclosure of this performance to re-enforce this accountability. Furthermore, for 2022, part of Executive remuneration will be measured against the Group's ESG performance, ensuring that climate change risk is considered alongside financial and risk management metrics. Further detail about changes to the Group-wide scorecard to reflect ESG performance can be found in the Directors' Report on remuneration to the shareholder on page 81.

Climate-related objectives

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

The Group has set a number of targets as part of its ongoing strategic planning process, into which the Group's ESG and climate-related objectives are now embedded. A summarised view of these targets is provided on page 24 of the strategic report and our full Sustainability Report for 2021 is available on the Bank's website.

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

- Embedding climate change risk within the Group's suite of risk metrics and tolerances (including Board and EROC Risk Appetite Metrics), e.g. in 2021, the Group's Asset and Liability Committee agreed that the Group should set itself a minimum requirement for the ESG ratings assigned to its treasury counterparties and, where no rating is available, the counterparty would be considered a 'high' ESG risk (except for sovereign exposure);
- Develop products that support the UK's transition to a low-carbon economy, including the continued financing of low-carbon industries, climate-related retail products and investments into green securities, supporting the greening of the Group's balance sheet;
- Utilising the outputs of the scenario analysis and model development to set risk tolerances and inform strategic decision-making across the Group, including risk management objectives that are based on the Group's resilience to climate change risk; and
- Further develop climate change risk within the Group's governance framework, to ensure decisions at all levels consider the impact on the climate and that senior management, the Executive team and the Board are incentivised to tackle climate change risk.

1.10 RISK PROFILE OF THE GROUP

This table shows the business activities of each of the divisions of the Group and the RWAs which reside in each division.

Retail	**Business activities:** • Deposits • Lending to retail (secured, credit cards and overdrafts)	**Loans and advances to customers (L&A to customers)[1] (£m)** 19,807.8	**RWAs (£m)** Credit risk: £2,626.8m Operational risk: £400.7m
SME	**Business activities:** • Corporate lending including business banking • Deposits to the SME sector	**L&A to customers[1] (£m)** 438.4	**RWAs (£m)** Credit risk: £164.4m Operational risk: £101.8m
Legacy and central	**Business activities:** • Closed books of corporate, unsecured and residential (Optimum) lending and all treasury-related activity. Activity relating to bank-wide operations or not associated with a particular segment.	**L&A to customers[1] (£m)** 755.9 **Other assets[2] (£m)** 1,654.1	**RWAs (£m)** Credit risk L&A: £464.3m Non-customer assets[3]: £623.1m Operational risk: £(7.7)m

1. L&A to customer balances include other accounting adjustments and total £21,002.1m (2020: £18,682.5m) as disclosed in note 14 to the Group and Bank financial statements.
2. Combination of loans and advances to banks, investment securities and derivative financial instruments and other assets.
3. RWAs include central items such as treasury, other assets and deferred tax assets.

2. CAPITAL RISK

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

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

The strategic report and the 2021 Pillar 3 (Section 3 Capital Adequacy) report provide further detail on the capital risk and common leverage rate disclosures.

3. CREDIT RISK

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

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

3.1.1 Credit exposure
The Group quantifies its exposure to credit risk via the calculation of expected credit losses (ECLs) on a forward-looking basis for certain financial instruments and exposures related to loan commitments and financial guarantee contracts – further information on the policies adopted in the quantification of the Group's ECLs is outlined in the Explanatory Information section and specific judgements made by the Group (e.g. use of forward-looking information and post-model adjustments) are disclosed in note 2 to the Group and Bank financial statements.

The below table reconciles the Group's drawn and undrawn credit exposures subject to ECL assessment to accounting balances across statutory balance sheet reporting lines:

(audited) 31 December 2021	Loans and advances to banks	Loans and advances to customers	Investment securities	Derivative financial instruments	Other assets	Total
Risk management section	3.2.3	3.2.1	3.2.2	3.2.4	3.2.6	
Note in Group and Bank financial statements	13	14	15	16	18	
Analysis of credit risk exposure						
Gross accounting balances	191.5	21,039.5	1,201.4	248.5	12.8	**22,693.7**
Less: accounting adjustments[1]	-	(99.0)	-	-	-	**(99.0)**
Gross customer balances	191.5	20,940.5	1,201.4	248.5	12.8	**22,594.7**
Credit commitments	-	2,059.5	-	-	-	**2,059.5**
Gross customer exposure	**191.5**	**23,000.0**	**1,201.4**	**248.5**	**12.8**	**24,654.2**
Less customer balances measured at FVTPL[1]	-	(102.9)	(2.5)	(248.5)	-	**(353.9)**
Net customer exposure subject to ECL calculation	**191.5**	**22,897.1**	**1,198.9**	**-**	**12.8**	**24,300.3**
Allowance for losses						
Collectively modelled ECL	-	9.7	-	-	0.1	**9.8**
Individually assessed ECL	-	2.5	-	-	-	**2.5**
Post-model adjustments (PMAs)[2]	-	25.2	-	-	-	**25.2**
Total ECL	**-**	**37.4**	**-**	**-**	**0.1**	**37.5**

1. Accounting adjustments include the FV element above the customer balance amount for those loans measured at FVTPL.
2. Includes £1.9m credit adjustment to a FVTPL loan that has been presented as a loss allowance to provide a fuller picture of the Group's expected credit losses.

(audited) 31 December 2020	Loans and advances to banks	Loans and advances to customers	Investment securities	Derivative financial instruments	Other assets	Total
Risk management section	3.2.3	3.2.1	3.2.2	3.2.4	3.2.6	
Note in Group and Bank financial statements	13	14	15	16	18	
Analysis of credit risk exposure						
Gross accounting balances	536.2	18,725.4	1,148.5	189.9	189.0	20,789.0
Less: accounting adjustments[1]	-	(104.2)	-	-	-	(104.2)
Gross customer balances	536.2	18,621.2	1,148.5	189.9	189.0	20,684.8
Credit commitments	-	2,548.4	-	-	-	2,548.4
Gross customer exposure	536.2	21,169.6	1,148.5	189.9	189.0	23,233.2
Less customer balances measured at FVTPL[1]	-	(109.8)	(3.5)	(189.9)	(47.8)	(351.0)
Net customer exposure subject to ECL calculation	536.2	21,059.8	1,145.0	-	141.2	22,882.2
Allowance for losses						
Collectively modelled ECL	-	17.2	-	-	0.1	17.3
Individually assessed ECL[2]	-	4.8	-	-	-	4.8
Post-model adjustments (PMAs)	-	20.9	-	-	-	20.9
Total ECL	-	42.9	-	-	0.1	43.0

1. Accounting adjustments include the FV element above the customer balance amount for those loans measured at FVTPL.
2. Includes £2.1m credit adjustment to a FVTPL loan that has been presented as a loss allowance to provide a fuller picture of the Group's expected credit losses.

All exposures except those within loans and advances to customers are categorised as stage 1 (2020: stage 1) and none of these exposures transferred between stages during the year. The exposures within loans and advances to customers are analysed further in the credit risk management section below.

3.2 Credit risk management

3.2.1 Loans and advances to customers

Loans and advances to customers make up the vast majority of the Group's credit risk exposure. These exposures are concentrated solely within the UK (see section 4 - Market risk for further information on the foreign currency balances) and are managed and reported internally within the following business segments:

- Retail – further categorised into secured residential and unsecured products;
- SME; and
- Legacy and central – primarily legacy corporate loans.

Below is a summary of the exposures within loans and advances to customers analysed by business segment.

(audited) **31 December 2021** Risk management section	Core Retail 3.2.1.1	Core SME 3.2.1.2	Legacy & central items 3.2.1.3	Total
Analysis of credit risk exposure				
Gross accounting balances	19,833.3	445.1	761.1	21,039.5
Less: accounting adjustments[1]	(77.3)	(3.4)	(18.3)	(99.0)
Gross customer balances	19,756.0	441.7	742.8	20,940.5
Credit commitments	1,846.7	93.0	119.8	2,059.5
Gross customer exposure	**21,602.7**	**534.7**	**862.6**	**23,000.0**
Less customer balances measured at FVTPL[1]	(1.6)	(3.7)	(97.6)	(102.9)
Net customer exposure subject ECL to calculation	**21,601.1**	**531.0**	**765.0**	**22,897.1**
Allowance for losses				
Collectively modelled ECL	7.5	0.7	1.5	9.7
Individually assessed ECL	-	1.6	0.9	2.5
Post-model adjustments (PMAs) [2]	18.0	4.4	2.8	25.2
Total ECL	**25.5**	**6.7**	**5.2**	**37.4**

1. Accounting adjustments include the FV element above the customer balance amount for those loans measured at FVTPL.
2. Includes £1.9m credit adjustment to a FVTPL loan that has been presented as a loss allowance to provide a fuller picture of the Group's expected credit losses.

(audited) **31 December 2020** Risk management section	Core Retail 3.2.1.1	Core SME 3.2.1.2	Legacy & central items 3.2.1.3	Total
Analysis of credit risk exposure				
Gross accounting balances	17,433.6	449.8	842.0	18,725.4
Less: accounting adjustments[1]	(72.9)	(2.0)	(29.3)	(104.2)
Gross customer balances	17,360.7	447.8	812.7	18,621.2
Credit commitments	2,280.0	106.8	161.6	2,548.4
Gross customer exposure	19,640.7	554.6	974.3	21,169.6
Less customer balances measured at FVTPL[1]	(1.5)	(4.1)	(104.2)	(109.8)
Net customer exposure subject ECL to calculation	19,639.2	550.5	870.1	21,059.8
Allowance for losses				
Collectively modelled ECL	10.8	0.7	5.7	17.2
Individually assessed ECL[2]	-	2.7	2.1	4.8
Post-model adjustments (PMAs)	18.5	4.7	(2.3)	20.9
Total ECL	29.3	8.1	5.5	42.9

1. Accounting adjustments include the FV element above the customer balance amount for those loans measured at FVTPL.
2. Includes £2.1m credit adjustment to a FVTPL loan that has been presented as a loss allowance to provide a fuller picture of the Group's expected credit losses.

3.2.1.1 Retail - secured residential mortgage and unsecured credit risk

The retail business segment is comprised of two main portfolios:

- Retail secured – predominantly prime residential and buy-to-let (BTL) mortgages; and
- Retail unsecured – comprised of two sub-portfolios of credit cards and overdrafts.

Movement in gross customer exposure and allowance for losses

The tables below reconcile the opening and closing credit risk exposure and allowance for losses by stage (including assets Purchased or Originated Credit Impaired (POCI)). Stage transfers have been disclosed on the basis of the underlying exposure's staging at the beginning and end of the year only (e.g. if a case transferred from stage 1 to stage 2 and then returned to stage 1 during the year, the stage transfer would not be captured in the below).

(audited) Gross customer exposure	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2021	18,272.6	1,226.6	55.2	84.8	**19,639.2**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(237.5)	237.5	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	(11.1)	(12.9)	24.0	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	756.0	(756.0)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	6.5	3.9	(10.4)	-	**-**
Net changes arising from stage transfers	**513.9**	**(527.5)**	**13.6**	**-**	**-**
Other changes:					
New assets originated or purchased	5,402.6	-	-	-	**5,402.6**
Other changes to risk parameters	(310.3)	-	-	-	**(310.3)**
Redemptions and repayments	(2,897.6)	(196.2)	(17.6)	(14.2)	**(3,125.6)**
Net increases/(decreases) in exposure	**2,708.6**	**(723.7)**	**(4.0)**	**(14.2)**	**1,966.7**
Assets written off	(1.5)	(1.6)	(1.7)	-	**(4.8)**
Gross exposure at 31 December 2021	**20,979.7**	**501.3**[1]	**49.5**[2]	**70.6**	**21,601.1**

1. Reasons for stage 2 classification, 74 % quantitative SICR triggers (primarily PD deterioration), 25 % qualitative SICR triggers and 1 % backstop SICR triggers.
2. Of stage 3 balances, 65 % in active default and 35 % in a cure period.

(audited) Gross customer exposure	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2020	17,587.1	729.4	61.5	99.9	18,477.9
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(839.0)	839.0	-	-	-
To credit impaired (stage 1 or 2 to 3)	(15.5)	(12.9)	28.4	-	-
To 12 month ECL (stage 2 or 3 to 1)	224.5	(224.5)	-	-	-
From credit impaired (stage 3 to 2 or 1)	6.1	3.7	(9.8)	-	-
Net changes arising from stage transfers	(623.9)	605.3	18.6	-	-
Other changes:					
New assets originated or purchased	3,594.5	-	-	-	3,594.5
Other changes to risk parameters	429.8	-	-	-	429.8
Redemptions and repayments	(2,712.8)	(106.2)	(21.7)	(15.0)	(2,855.7)
Net increases/(decreases) in exposure	687.6	499.1	(3.1)	(15.0)	1,168.6
Assets written off	(2.1)	(1.9)	(3.2)	(0.1)	(7.3)
Gross exposure at 31 December 2020	18,272.6	1,226.6[1]	55.2[2]	84.8	19,639.2

1. Reasons for stage 2 classification: 50 % payment deferral staging overlay, 40 % quantitative SICR triggers (primarily PD deterioration) and 10 % qualitative SICR triggers.
2. Of stage 3 balances, 68 % in active default and 32 % in a cure period.

During 2020 a cohort of customers who had taken out COVID-19-related payment deferrals were transferred from stage 1 to stage 2, reflecting the Group's estimate of potential future adverse credit impacts but where the usual triggers considered for significant increases in credit risk (SICR) had not yet been observed. Following the removal of this support measure and the return of the majority of customers to normal repayment activity, the staging overlay has been removed, giving rise to a significant transfer between stage 2 and stage 1 exposures during the year. The large movement in stage 1 exposures attributable to other changes in risk parameters reflects a lower exposure to uncompleted mortgages at the end of 2021 relative to the prior year.

(audited) Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2021	17.2	7.7	4.2	0.2	**29.3**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(0.3)	1.3	-	-	**1.0**
To credit impaired (stage 1 or 2 to 3)	(0.1)	(0.3)	2.5	-	**2.1**
To 12 month ECL (stage 2 or 3 to 1)	0.9	(4.4)	-	-	**(3.5)**
From credit impaired (stage 3 to 2 or 1)	-	-	(0.5)	-	**(0.5)**
Net changes arising from stage transfers	**0.5**	**(3.4)**	**2.0**	**-**	**(0.9)**
Other charges/(releases):					
New assets originated or purchased	6.2	-	-	-	**6.2**
Other changes to risk parameters	(1.2)	0.1	-	-	**(1.1)**
Redemptions and repayments	(2.4)	(0.9)	(0.8)	(0.1)	**(4.2)**
Net income statement charge/(release)	**3.1**	**(4.2)**	**1.2**	**(0.1)**	**-**
Assets written off	(1.1)	(1.3)	(1.4)	-	**(3.8)**
Loss allowance at 31 December 2021	**19.2**	**2.2**	**4.0**	**0.1**	**25.5**
Coverage ratio	**0.1%**	**0.4%**	**8.1%**	**0.1%**	**0.1%**

(audited) Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2020	8.7	3.3	5.2	0.1	17.3
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(0.3)	4.8	-	-	4.5
To credit impaired (stage 1 or 2 to 3)	(0.2)	(0.1)	2.9	-	2.6
To 12 month ECL (stage 2 or 3 to 1)	0.6	(1.3)	-	-	(0.7)
From credit impaired (stage 3 to 2 or 1)	0.1	0.1	(0.7)	-	(0.5)
Net changes arising from stage transfers	0.2	3.5	2.2	-	5.9
Other charges/(releases):					
New assets originated or purchased	3.3	-	-	-	3.3
Other changes to risk parameters	7.4	2.6	-	0.1	10.1
Redemptions and repayments	(1.1)	(0.2)	(1.0)	-	(2.3)
Net income statement charge/(release)	9.8	5.9	1.2	0.1	17.0
Assets written off	(1.3)	(1.5)	(2.2)	-	(5.0)
Loss allowance at 31 December 2020	17.2	7.7	4.2	0.2	29.3
Coverage ratio	0.1 %	0.6 %	7.6 %	0.2 %	0.1 %

As noted above the transfer of customers from stage 2 to 1 following the removal of the payment deferral staging overlay has also reduced the associated ECL. The movement in ECL due to other changes in risk parameters was reduced in 2021 following release of 2bps coverage on the Platform PMA, compared to a 6bps increase during 2020 (refer to note 2.2.1.c in the Group and Bank financial statements).

3.2.1.1.1 Retail - secured residential mortgages

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

Origination and account management

Mortgages are loans to customers secured by a first charge over a residential property. Under the Group's current business model, the vast majority of new mortgages are originated via intermediaries under the Platform brand. Of the mortgage completions (including ports) in the year to 31 December 2021, 98.4 % (2020: 98.3 %) were originated through intermediaries and 1.6 % (2020: 1.7 %) were further advances or variations associated with historically advanced direct business.

The Group primarily advances a combination of prime residential and buy-to-let mortgages. Historically, these loans have been advanced on a capital repayment basis, where the loan is repaid over the term of the loan, or interest-only, where the capital element of the loan is repayable only at the end of the term. All new advances since 2012 are on a capital repayment basis with the exception of BTL lending and existing interest-only loans for customers moving home.

All POCI cases are historical (mainly through the Britannia acquisition) and it is not the Group's practice to generate Retail POCI assets.

During the term of the mortgage, interest-only mortgages are managed in the same way as capital repayment mortgages, however the Group has communication strategies in place to remind customers that they must ensure they have a satisfactory repayment plan in place on loan maturity.

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

The value of new completions in the year, together with associated average LTVs and interest-only percentage is shown below.

(unaudited)	2021			2020		
Origination	Advanced amount	Average LTV %	Interest-only %	Advanced amount	Average LTV %	Interest-only %
Britannia and Co-operative Bank prime	**84.3**	**55.3**	**3.3**	57.9	58.4	1.9
Platform prime	**4,843.3**	**74.2**	**-**	3,236.6	72.7	-
Total prime residential	**4,927.6**	**73.9**	**0.1**	3,294.5	72.5	-
Buy-to-let	**237.5**	**59.5**	**68.1**	193.1	55.7	72.8
Total completions (including ports)	**5,165.1**	**73.3**	**3.2**	3,487.6	71.5	4.1

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

(audited) Origination by age	2021	2020
<1 year	5,137.0	3,481.5
1-4 years	8,727.4	8,547.2
4-7 years	3,309.1	2,321.7
7+ years	2,334.4	2,757.7
Total	**19,507.9**	17,108.1

Portfolio analysis

The following tables show the secured retail residential balances analysed by a number of key risk metrics that the Group uses to monitor its credit risk exposure.

Loan-to-value (LTV) and repayment type

The table shows gross customer balances analysed by indexed LTV bandings and repayment type. The book has grown by £2.4bn over the year but with minimal overall movement in the spread of balances across the LTV bands, aside from a small increase in the 80 to 90 % LTV band from 8.4 % to 9.8 %. The proportion of interest-only mortgages has declined by 2.1 % to 9.9 %, with the majority of interest-only mortgages being buy-to-let.

(audited)	2021			2020		
LTV %	Capital repayment	Interest-only	Total	Capital repayment	Interest-only	Total
Less than 50 %	**5,441.7**	**1,046.8**	**6,488.5**	4,779.0	1,106.7	5,885.7
50 % to 60 %	**2,957.7**	**539.1**	**3,496.8**	2,458.4	543.2	3,001.6
60 % to 70 %	**3,651.4**	**284.8**	**3,936.2**	3,153.4	324.9	3,478.3
70 % to 80 %	**3,481.3**	**62.4**	**3,543.7**	3,024.0	64.0	3,088.0
80 % to 90 %	**1,900.7**	**2.6**	**1,903.3**	1,435.4	8.3	1,443.7
90 % to 100 %	**137.4**	**0.8**	**138.2**	203.4	3.9	207.3
Greater than or equal to 100 %	**0.4**	**0.8**	**1.2**	0.7	2.8	3.5
	17,570.6	**1,937.3**	**19,507.9**	15,054.3	2,053.8	17,108.1

The contractual maturities of the interest-only balances are shown below.

(unaudited)	< 1 year	1-5 years	5-10 years	10-20 years	20+ years	Total
2021	**52.4**	**249.9**	**486.9**	**882.9**	**265.2**	**1,937.3**
2020	58.5	260.3	519.7	877.2	338.1	2,053.8

Mortgage type

The table below shows gross customer balances for mortgages analysed by lending type. The growth in mortgages has been in prime residential mortgages, with a limited net growth in buy-to-let. There has been a small increase in the average LTV with mortgage lending reflecting a managed approach to higher LTV bands.

(unaudited)	2021			2020		
	Gross customer balance	Average LTV %	Interest only %	Gross customer balance	Average LTV %	Interest only %
Prime residential	**18,054.7**	**57.3**	**4.1**	15,748.6	56.5	5.7
Buy-to-let	**1,416.0**	**51.4**	**82.8**	1,316.7	52.0	84.8
Self-certified	**25.7**	**34.0**	**92.6**	29.8	35.7	91.2
Almost prime	**10.2**	**31.5**	**35.4**	12.4	33.5	33.3
Non-conforming	**1.3**	**58.3**	**18.8**	0.6	43.2	40.6
	19,507.9	**56.8**	**9.9**	17,108.1	56.1	12.0

UK regional distribution

The table below shows the analysis of LTVs and gross customer balances by UK regions (Economic Planning Regions). The London and South East remains the largest regional sector with LTV slightly below the portfolio average.

(audited)	2021		2020	
	£m	LTV %	£m	LTV %
London & South East	**7,470.1**	**56.4**	6,265.5	53.0
Northern England	**4,459.9**	**58.0**	4,024.3	58.9
Midlands & East Anglia	**4,103.2**	**56.4**	3,721.6	57.7
Wales & South West	**2,390.9**	**56.0**	2,080.6	56.1
Other	**1,083.8**	**57.6**	1,016.1	58.0
	19,507.9	**56.8**	17,108.1	56.1

Collateral

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

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

The table below analyses the indexed value of property collateral (capped at 100 % of LTV) held against the retail residential secured book.

(audited)	2021				2020			
IFRS 9 stage	Gross customer exposure	Collateral	Cover %	Loss allowance	Gross customer exposure	Collateral	Cover %	Loss allowance
Stage 1	**19,691.3**	**19,691.3**	**100.0**	**16.2**	16,904.8	16,904.5	100.0	13.6
Stage 2	**478.7**	**478.6**	**100.0**	**0.4**	1,186.2	1,185.8	100.0	3.1
Stage 3	**44.8**	**44.8**	**100.0**	**0.2**	50.1	50.1	100.0	0.3
POCI	**67.4**	**67.4**	**100.0**	**-**	81.3	81.3	100.0	0.1
	20,282.2	**20,282.1**	**100.0**	**16.8**	18,222.4	18,221.7	100.0	17.1

Risk grade (PDs)

The table below analyses the credit risk exposure by PD of retail secured mortgages. All PDs are calculated using the Internal Ratings Based (IRB) approach under CRD IV (12-month PDs). The risk distribution has remained consistent between the periods with the vast majority of the book with a grade under 1 %.

(audited) 2021 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
≤ 0.04 %	-	-	-	-	**-**
> 0.04 % ≤ 0.07 %	7,768.6	120.5	-	15.3	**7,904.4**
> 0.07 % ≤ 0.31 %	249.4	8.1	-	3.9	**261.4**
> 0.31 % ≤ 1.00 %	11,175.6	119.0	1.6	38.1	**11,334.3**
> 1.00 % ≤ 3.00 %	435.4	167.7	1.1	2.6	**606.8**
> 3.00 % ≤ 15.32 %	43.7	32.4	0.2	2.0	**78.3**
> 15.32 % ≤ 100.00 %	18.6	31.0	6.8	2.5	**58.9**
= 100.0 %	-	-	35.1	3.0	**38.1**
Gross customer exposure	**19,691.3**	**478.7**	**44.8**	**67.4**	**20,282.2**
Less: allowance for losses	(16.2)	(0.4)	(0.2)	-	**(16.8)**
Net customer exposure	**19,675.1**	**478.3**	**44.6**	**67.4**	**20,265.4**

(audited) 2020 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
≤ 0.04 %	-	-	-	-	-
> 0.04 % ≤ 0.07 %	6,587.2	409.2	-	16.6	7,013.0
> 0.07 % ≤ 0.31 %	207.4	8.2	-	4.4	220.0
> 0.31 % ≤ 1.00 %	9,733.2	454.8	1.9	45.5	10,235.4
> 1.00 % ≤ 3.00 %	351.2	205.3	1.4	4.9	562.8
> 3.00 % ≤ 15.32 %	8.0	74.4	0.3	2.9	85.6
> 15.32 % ≤ 100.00 %	17.8	34.3	7.7	3.6	63.4
= 100.0 %	-	-	38.8	3.4	42.2
Gross customer exposure	16,904.8	1,186.2	50.1	81.3	18,222.4
Less: allowance for losses	(13.6)	(3.1)	(0.3)	(0.1)	(17.1)
Net customer exposure	16,891.2	1,183.1	49.8	81.2	18,205.3

Forbearance

Forbearance is when a lender, for reasons relating to the actual or apparent financial stress of a borrower, grants a concession whether temporarily or permanently to that borrower, where the concession may involve restructuring the contractual terms of a debt. Forbearance facilities may be made to customers in arrears or financial difficulty or those unable to meet outstanding financial commitments to the Group. The identification of financial difficulty is a key part of the forbearance process – customers may be identified as potentially in financial difficulty through various customer contact points and can be confirmed through more thorough financial assessment.

The table below analyses secured residential mortgage balances by type of forbearance and the associated loss allowance. There has been a switch between stage 2 and stage 1 reflecting the reduction in stage 2 cases as described in section 3.2.1.1 above.

(unaudited) 2021 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Concessions	26.8	4.8	16.0	1.5	**49.1**	**0.1**
Arrangements	4.6	2.8	6.6	1.9	**15.9**	**-**
Term extension	-	-	0.6	-	**0.6**	**-**
I/O capitalisation/switch	1.7	0.4	0.1	-	**2.2**	**-**
Term expired	-	-	5.0	0.5	**5.5**	**-**
Payment deferral	7.0	1.1	0.4	0.3	**8.8**	**-**
Deceased grace period	0.7	0.4	5.2	-	**6.3**	**-**
Total forborne balances	**40.8**	**9.5**	**33.9**	**4.2**	**88.4**	**0.1**

(unaudited) 2020 – Re-presented Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Concessions	6.4	7.9	9.1	1.0	24.4	0.1
Arrangements	2.9	6.0	7.4	2.7	19.0	-
Term extension	0.1	-	0.2	-	0.3	-
I/O capitalisation	0.7	1.5	0.3	0.1	2.6	-
Term expired	-	0.1	10.6	0.8	11.5	0.2
Payment deferral	10.0	4.7	0.6	0.1	15.4	-
Deceased grace period	0.2	0.3	5.4	-	5.9	-
Total forborne balances	20.3	20.5	33.6	4.7	79.1	0.3

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

3.2.1.1.2 Retail - unsecured

The retail unsecured book comprises credit cards and overdrafts.

Origination and account management

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

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

Portfolio analysis

The following table shows unsecured lending gross customer balances and exposures (including undrawn commitments) by product type and associated allowance for losses. The gross customer exposure represents the Group's maximum exposure to credit risk on these assets. Drawn balances have had minimal movement over the year but the undrawn exposure has been reduced to manage the risk. This alongside improving economics and arrears rates has seen the ECL reduce on both credit cards and overdrafts.

(audited)	Gross customer balance		Gross customer exposure		Allowance for losses	
	2021	2020	2021	2020	2021	2020
Credit cards	**235.8**	239.5	**1,126.8**	1,214.0	**5.6**	7.5
Overdrafts	**12.3**	13.1	**192.1**	202.8	**3.1**	4.7
	248.1	252.6	**1,318.9**	1,416.8	**8.7**	12.2

Risk grade (PD)

The table below analyses the credit risk exposure by PD of retail unsecured products. All PDs are calculated using the Internal Ratings Based (IRB) approach under CRD IV (12-month PDs). The majority of the book is in grades under 1 %, with an increase in the 0.31-0.50 % band.

(audited) 2021 Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
≤ 0.04 %	68.6	-	-	-	**68.6**
> 0.04 % ≤ 0.07 %	-	-	-	-	**-**
> 0.07 % ≤ 0.12 %	349.6	-	-	-	**349.6**
> 0.12 % ≤ 0.31 %	201.7	0.1	-	0.1	**201.9**
> 0.31 % ≤ 0.50 %	410.1	0.2	-	1.0	**411.3**
> 0.50 % ≤ 1.00 %	75.3	0.4	-	-	**75.7**
> 1.00 % ≤ 5.00 %	162.9	9.0	-	1.8	**173.7**
> 5.00 % ≤ 10.00 %	19.5	7.4	-	0.3	**27.2**
> 10.00 % ≤ 20.00 %	0.4	2.6	-	-	**3.0**
> 20.00 % ≤ 50.00 %	0.3	2.4	-	-	**2.7**
> 50.00 % < 100.00 %	-	0.5	-	-	**0.5**
100.0 %	-	-	4.7	-	**4.7**
Gross customer exposure	**1,288.4**	**22.6**	**4.7**	**3.2**	**1,318.9**
Less: allowance for losses	(3.0)	(1.8)	(3.8)	(0.1)	**(8.7)**
Net customer exposure	**1,285.4**	**20.8**	**0.9**	**3.1**	**1,310.2**

(audited) 2020 Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
≤ 0.04 %	99.0	-	-	-	99.0
> 0.04 % ≤ 0.07 %	-	-	-	-	-
> 0.07 % ≤ 0.12 %	483.2	0.2	-	-	483.4
> 0.12 % ≤ 0.31 %	331.0	0.2	-	0.3	331.5
> 0.31 % ≤ 0.50 %	265.5	1.2	-	0.9	267.6
> 0.50 % ≤ 1.00 %	46.8	1.7	-	-	48.5
> 1.00 % ≤ 5.00 %	130.3	21.0	-	2.1	153.4
> 5.00 % ≤ 10.00 %	11.7	10.5	-	0.2	22.4
> 10.00 % ≤ 20.00 %	0.2	2.9	-	-	3.1
> 20.00 % ≤ 50.00 %	0.1	2.3	-	-	2.4
> 50.00 % < 100.00 %	-	0.4	-	-	0.4
100.0 %	-	-	5.1	-	5.1
Gross exposure	1,367.8	40.4	5.1	3.5	1,416.8
Less: allowance for losses	(3.6)	(4.6)	(3.9)	(0.1)	(12.2)
Net exposure	1,364.2	35.8	1.2	3.4	1,404.6

Forbearance

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

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

The table below analyses unsecured loan balances by forbearance type and the associated gross allowance for losses coverage.

(unaudited) 2021 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Arrangements	0.2	0.2	0.2	-	**0.6**	**0.2**
Hardship	0.1	0.1	0.7	-	**0.9**	**0.7**
Temporary reducing overdraft	0.4	0.1	1.2	-	**1.7**	**0.7**
Total forborne exposures	0.7	0.4	2.1	-	**3.2**	**1.6**

(unaudited) 2020 – Re-presented Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Arrangements	0.4	0.5	0.1	-	1.0	0.3
Hardship	0.7	0.9	1.2	-	2.8	1.3
Temporary reducing overdraft	1.3	0.5	1.4	-	3.2	1.0
Total forborne exposures	2.4	1.9	2.7	-	7.0	2.6

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

3.2.1.2 SME credit risk

The SME segment comprises business loans that are considered core to the operation of the Group. There have not been significant movements in gross customer exposure and allowance for losses over the year.

The tables below reconcile the opening and closing credit risk exposure and allowance for losses by stage. Stage transfers have been disclosed on the basis of the underlying exposure's staging at the beginning and end of the year only (e.g. if a case transferred from stage 1 to stage 2 and then returned to stage 1 during the year, the stage transfer would not be captured in the below).

(audited) Gross customer exposure – SME	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2021	89.4	455.8	4.0	1.3	**550.5**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(124.3)	124.3	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	(0.1)	(2.2)	2.3	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	30.3	(30.3)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	**-**
Net changes arising from stage transfers	**(94.1)**	**91.8**	**2.3**	**-**	**-**
Other changes:					
New assets originated or purchased	154.8	-	-	-	**154.8**
Other changes to risk parameters	-	-	-	(0.1)	**(0.1)**
Redemptions and repayments	(35.6)	(136.0)	-	-	**(171.6)**
Net increases/(decreases) in exposure	**25.1**	**(44.2)**	**2.3**	**(0.1)**	**(16.9)**
Assets written off	-	(0.2)	(2.4)	-	**(2.6)**
Gross exposure at 31 December 2021	**114.5**	**411.4**[1]	**3.9**[2]	**1.2**	**531.0**

1. Reasons for stage 2 classification: 96 % 'at risk sector' staging overlay, 3 % backstop SICR triggers and 1 % quantitative triggers.
2. Of stage 3 balances, 100 % in active default.

(audited) Gross customer exposure – SME	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2020	215.9	21.0	8.2	-	245.1
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(437.3)	437.3	-	-	-
To credit impaired (stage 1 or 2 to 3)	(0.4)	-	0.4	-	-
To 12 month ECL (stage 2 or 3 to 1)	0.1	(0.1)	-	-	-
From credit impaired (stage 3 to 2 or 1)	-	2.3	(2.3)	-	-
Net changes arising from stage transfers	(437.6)	439.5	(1.9)	-	-
Other changes:					
New assets originated or purchased	362.2	-	-	-	362.2
Other changes to risk parameters	2.5	(1.5)	(0.1)	1.3	2.2
Redemptions and repayments	(53.5)	(3.2)	(1.6)	-	(58.3)
Net increases/(decreases) in exposure	(126.4)	434.8	(3.6)	1.3	306.1
Assets written off	(0.1)	-	(0.6)	-	(0.7)
Gross exposure at 31 December 2020	89.4	455.8[1]	4.0[2]	1.3	550.5

1. Reasons for stage 2 classification: 96 % 'at risk sector' staging overlay, 2 % backstop SICR triggers and 2 % quantitative triggers.
2. Of stage 3 balances, 100 % in active default.

Certain COVID-19-related staging overlays were applied to balances where customers were deemed to be at a higher risk level due to the nature of their business or the industry sectors in which they participate. The biggest cohort affected by this staging overlay are those customers who took out loans under the Bounce-Back loan scheme. This scheme closed to new firms from the end of March 2021 but these balances remain in stage 2 as at the end of 2021 and will remain so classified until the Group can be comfortable that the level of risk for these customers has reduced.

(audited) Allowance for losses – SME	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2021	0.3	4.2	2.7	0.9	**8.1**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	-	1.4	-	-	**1.4**
To credit impaired (stage 1 or 2 to 3)	-	-	1.1	-	**1.1**
To 12 month ECL (stage 2 or 3 to 1)	0.2	(0.9)	-	-	**(0.7)**
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	**-**
Net changes arising from stage transfers	**0.2**	**0.5**	**1.1**	**-**	**1.8**
Other charges/(releases):					
New assets originated or purchased	0.1	-	-	-	**0.1**
Other changes to risk parameters	(0.1)	0.5	0.2	(0.4)	**0.2**
Redemptions and repayments	(0.1)	(0.8)	-	-	**(0.9)**
Net income statement charge/(release)	**0.1**	**0.2**	**1.3**	**(0.4)**	**1.2**
Assets written off	-	(0.2)	(2.4)	-	**(2.6)**
Loss allowance at 31 December 2021	**0.4**	**4.2**	**1.6**	**0.5**	**6.7**
Coverage ratio	**0.3%**	**1.0%**	**41.0%**	**41.7%**	**1.3%**

(audited) Allowance for losses – SME	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2020	0.4	0.1	4.8	-	5.3
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(0.9)	4.0	-	-	3.1
To credit impaired (stage 1 or 2 to 3)	-	-	0.1	-	0.1
To 12 month ECL (stage 2 or 3 to 1)	-	-	-	-	-
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	-
Net changes arising from stage transfers	(0.9)	4.0	0.1	-	3.2
Other charges/(releases):					
New assets originated or purchased	0.1	-	-	-	0.1
Other changes to risk parameters	0.8	0.1	(0.3)	0.9	1.5
Redemptions and repayments	-	-	(1.4)	-	(1.4)
Net income statement charge/(release)	-	4.1	(1.6)	0.9	3.4
Assets written off	(0.1)	-	(0.5)	-	(0.6)
Loss allowance at 31 December 2020	0.3	4.2	2.7	0.9	8.1
Coverage ratio	0.3 %	0.9 %	67.5 %	69.2 %	1.5 %

Origination and account management

The lending criteria requires borrowers to meet criteria as laid down in individual sector strategy guidelines and operates a strict policy with regards to single name concentrations. During 2021 the Group has continued to provide funding under the government-backed Bounce-Back loans and Coronavirus Business Interruption Loan Scheme (CBILS), where such lending met the terms and conditions of the respective schemes.

There are a number of triggers which, when met, will result in the customer being classed as watchlist, which are classed as higher risk and are subject to closer monitoring. These triggers include being 30 days past due, cash flow pressures, failure to pay interest when it falls due, a potential insolvency event, unsatisfactory account operation or other signs of financial distress.

Portfolio analysis

Lending sectors

The following table shows the Group's SME lending exposures by industry sector. The gross customer exposure represents the Group's maximum exposure to credit risk on these assets and excludes the principal element of loans measured at FVTPL of £3.7m (2020: £4.1m).

(audited)	2021		2020	
Split by industry	Gross customer exposure	of which CBILS/Bounce-Back loans	Gross customer exposure	of which CBILS/Bounce-Back loans
Business banking	**260.3**	**226.1**	286.0	236.9
Commercial real estate	**88.4**	**3.6**	84.3	1.8
Food/hotel	**31.8**	**15.7**	27.4	8.0
Care	**18.4**	**10.4**	16.6	0.7
Retail/wholesale	**18.3**	**7.8**	17.1	5.2
Charities	**17.7**	**2.6**	16.7	1.4
Renewable energy	**9.5**	**0.1**	18.6	0.1
Education	**7.8**	**2.4**	9.8	0.7
Financial/legal	**7.0**	**2.0**	10.3	0.6
Housing association	**2.0**	**-**	2.3	-
Other	**69.8**	**29.2**	61.4	17.2
	531.0	**299.9**	550.5	272.6

Loan-to-value (LTV) and repayment type

The table shows gross customer exposure analysed by indexed LTV bandings, CBILS and Bounce-Back loans and other unsecured. Excludes the fair value assets.

(audited) LTV %	2021	2020
≤50 % LTV	**78.5**	97.9
>50 % ≤ 80 % LTV	**69.0**	43.2
>80 % ≤ 100 % LTV	**7.3**	10.5
>100 % LTV	**18.1**	9.7
Secured	**172.9**	161.3
CBILS & Bounce-Back loans	**299.9**	272.6
Unsecured	**58.2**	116.6
Gross customer exposure	**531.0**	550.5

Collateral

Various forms of collateral are used to mitigate the Group's exposure to credit risk. These can vary depending on the lend type and include property collateral, debentures (England and Wales), floating charges (Scotland), cash cover and personal guarantees. Government guarantees apply to the CBILS and Bounce-Back loans books (80 % and 100 % respectively).

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

The table below analyses the market value of the property collateral (capped at 100 % of LTV) held against assets across all sectors. As noted above the Group also has non-property collateral to utilise.

(audited)	2021				2020			
IFRS 9 stage	Gross customer exposure	Collateral	Cover %	Loss allowance	Gross customer exposure	Collateral	Cover %	Loss allowance
Stage 1	**41.8**	**40.9**	**97.8**	**-**	28.8	28.1	97.6	-
Stage 2	**127.3**	**125.9**	**98.9**	**0.9**	130.0	128.9	99.2	1.5
Stage 3	**2.6**	**2.6**	**100.0**	**0.9**	1.2	1.2	100.0	-
POCI	**1.2**	**1.2**	**100.0**	**0.5**	1.3	1.3	100.0	0.9
	172.9	**170.6**	**98.7**	**2.3**	161.3	159.5	98.9	2.4

Risk grade

The table below analyses the credit risk exposure by credit grade of SME customers.

(audited) 2021 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	86.8	318.5	-	-	**405.3**
Internal Ratings Based (IRB)	11.3	22.9	0.3	-	**34.5**
Strong	-	-	-	-	**-**
Good	16.3	62.2	0.1	-	**78.6**
Satisfactory	-	3.6	-	-	**3.6**
Weak	-	0.7	-	1.2	**1.9**
Default	0.1	3.5	3.5	-	**7.1**
Gross customer exposure	**114.5**	**411.4**	**3.9**	**1.2**	**531.0**
Less: allowance for losses	(0.4)	(4.2)	(1.6)	(0.5)	**(6.7)**
Net customer exposure	**114.1**	**407.2**	**2.3**	**0.7**	**524.3**

(audited) 2020 - Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	76.7	342.5	-	-	419.2
Internal Ratings Based (IRB)	1.7	33.9	0.2	-	35.8
Strong	-	-	-	-	-
Good	11.0	72.3	-	-	83.3
Satisfactory	-	4.6	-	-	4.6
Weak	-	2.4	-	1.3	3.7
Default	-	0.1	3.8	-	3.9
Gross customer exposure	89.4	455.8	4.0	1.3	550.5
Less: allowance for losses	(0.3)	(4.2)	(2.7)	(0.9)	(8.1)
Net customer exposure	89.1	451.6	1.3	0.4	542.4

Forbearance

Forbearance concessions may be made to customers in arrears or financial difficulty or those unable to meet outstanding financial commitments to the Group. The identification of financial difficulty is a key part of the forbearance process – customers may be identified as potentially in financial difficulty through various customer contact points and can be confirmed through more thorough financial assessment.

The table below analyses gross customer exposures subject to forbearance. The increase in stage 3 exposure mainly reflects the movement of a single corporate case.

(unaudited) 2021 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Forborne exposure	6.4	25.1	1.6	-	**33.1**	**1.2**

(unaudited) 2020 – Re-presented Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Forborne exposure	4.6	31.2	-	-	**35.8**	**0.3**

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

3.2.1.3 Legacy risk

The legacy portfolio consists of books which the Group no longer considers to be part of its core operations. These include the following closed portfolios:

- Corporate – primarily long-term, low-margin sectors such as registered social landlords (RSLs) and private finance initiatives (PFI). These are considered to be low-risk in nature.
- Unsecured – the Group's closed personal loan and professional and career development loan (PCDL) books.
- Optimum – the Group's legacy sub-prime and self-certification mortgage book.

Movement in gross customer exposure and allowance for losses

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

(audited) **Gross customer exposure – Legacy**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At 1 January 2021	820.1	36.0	4.4	9.6	**870.1**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(2.5)	2.5	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	(0.3)	(11.8)	12.1	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	9.9	(9.9)	-	-	**-**
From credit impaired (stage 3 to 2 or 1)	-	0.2	(0.2)	-	**-**
Net changes arising from stage transfers	**7.1**	**(19.0)**	**11.9**	**-**	**-**
Other changes:					
New assets originated or purchased	-	-	-	-	**-**
Other changes to risk parameters	0.1	(2.1)	0.1	-	**(1.9)**
Redemptions and repayments	(94.6)	(4.5)	(1.7)	(1.7)	**(102.5)**
Net increases/(decreases) in exposure	**(87.4)**	**(25.6)**	**10.3**	**(1.7)**	**(104.4)**
Assets written off	-	(0.2)	(0.5)	-	**(0.7)**
Gross exposure at 31 December 2021	**732.7**	**10.2[1]**	**14.2[2]**	**7.9**	**765.0**

1. Reasons for stage 2 classification: 58 % 'at risk sector' staging overlay, 21 % backstop SICR triggers, 10 % quantitative triggers (primarily PD deterioration) and 10 % qualitative triggers.
2. Of stage 3 balances, 99 % in active default and 1 % in a cure period.

(audited) **Gross customer exposure – Legacy**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At 1 January 2020	984.1	40.5	10.7	76.3	1,111.6
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(16.5)	16.5	-	-	-
To credit impaired (stage 1 or 2 to 3)	(1.8)	(0.7)	2.5	-	-
To 12 month ECL (stage 2 or 3 to 1)	1.9	(1.9)	-	-	-
From credit impaired (stage 3 to 2 or 1)	0.2	0.2	(0.4)	-	-
Net changes arising from stage transfers	(16.2)	14.1	2.1	-	-
Other changes:					
New assets originated or purchased	-	-	-	-	-
Other changes to risk parameters	5.6	-	0.1	-	5.7
Redemptions and repayments	(153.0)	(18.4)	(7.2)	(66.0)	(244.6)
Net increases/(decreases) in exposure	(163.6)	(4.3)	(5.0)	(66.0)	(238.9)
Assets written off	(0.4)	(0.2)	(1.3)	(0.7)	(2.6)
Gross exposure at 31 December 2020	820.1	36.0[1]	4.4[2]	9.6	870.1

1. Reasons for stage 2 classification: 43 % 'at risk sector' staging overlay, 54 % quantitative SICR triggers (primarily PD deterioration) and 3 % qualitative triggers.
2. Of stage 3 balances, 91 % in active default and 9 % in a cure period.

(audited) **Allowance for losses – Legacy**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At 1 January 2021	1.6	1.1	0.6	0.1	**3.4**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	-	-	-	-	**-**
To credit impaired (stage 1 or 2 to 3)	-	(0.3)	0.9	-	**0.6**
To 12 month ECL (stage 2 or 3 to 1)	0.1	(0.3)	-	-	**(0.2)**
From credit impaired (stage 3 to 2 or 1)	-	-	-	-	**-**
Net changes arising from stage transfers	**0.1**	**(0.6)**	**0.9**	**-**	**0.4**
Other charges/(releases):					
New assets originated or purchased	-	-	-	-	**-**
Other changes to risk parameters	(0.1)	0.3	0.1	-	**0.3**
Redemptions and repayments	-	(0.2)	-	(0.1)	**(0.3)**
Net income statement charge/(release)	**-**	**(0.5)**	**1.0**	**(0.1)**	**0.4**
Assets written off	-	(0.2)	(0.3)	-	**(0.5)**
Loss allowance at 31 December 2021[1]	**1.6**	**0.4**	**1.3**	**-**	**3.3**

1. Excludes £1.9m credit adjustment to a FVTPL loan that has elsewhere been presented as a loss allowance to provide a fuller picture of the Group's expected credit losses.

(audited) **Allowance for losses – Legacy**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At 1 January 2020	1.4	0.9	1.4	0.4	4.1
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	-	0.4	-	-	0.4
To credit impaired (stage 1 or 2 to 3)	-	-	0.2	-	0.2
To 12 month ECL (stage 2 or 3 to 1)	-	(0.1)	-	-	(0.1)
From credit impaired (stage 3 to 2 or 1)	-	0.1	(0.1)	-	-
Net changes arising from stage transfers	-	0.4	0.1	-	0.5
Other charges/(releases):					
New assets originated or purchased	0.6	(0.1)	(0.1)	0.1	0.5
Other changes to risk parameters					
Redemptions and repayments	(0.1)	-	(0.1)	(0.1)	(0.3)
Net income statement charge/(release)	0.5	0.3	(0.1)	-	0.7
Assets written off	(0.3)	(0.1)	(0.7)	(0.3)	(1.4)
Loss allowance at 31 December 2020[2]	1.6	1.1	0.6	0.1	3.4

1. Excludes £2.1m credit adjustment to a FVTPL loan that has elsewhere been presented as a loss allowance to provide a fuller picture of the Group's expected credit losses.

Origination and account management

The Legacy book is comprised of only closed books with no further loans being advanced. The books are risk managed in the same way as the core retail and SME books described in section 3.2.1.1 and 3.2.1.2.

Portfolio analysis

The following table shows the Group's legacy customer balances, gross exposures and loss allowance by broad asset class. The gross customer exposure represents the Group's maximum exposure to credit risk on these assets.

(audited)	Gross customer balance		Gross customer exposure		Allowance for losses	
	2021	2020	2021	2020	2021	2020
Corporate – PFI	**381.9**	399.1	**499.6**	556.9	**2.0**	1.5
Corporate – RSL	**280.8**	302.9	**280.9**	302.9	**0.1**	0.1
Corporate – other	**41.6**	46.7	**43.6**	50.5	**2.4**	2.5
Corporate – total	**704.3**	748.7	**824.1**	910.3	**4.5**	4.1
Less FVTPL	**(97.6)**	(104.2)	**(97.6)**	(104.2)	**(1.9)**	(2.1)
Corporate – total	**606.7**	644.5	**726.5**	806.1	**2.6**	2.0
Unsecured – personal loans	**3.8**	11.7	**3.8**	11.7	**0.5**	1.0
Unsecured – PCDLs	**14.3**	27.8	**14.3**	27.8	**-**	-
Secured – Optimum	**20.4**	24.5	**20.4**	24.5	**0.2**	0.4
	645.2	708.5	**765.0**	870.1	**3.3**	3.4

Collateral

The use of collateral to mitigate credit risk exposure for the legacy corporate and Optimum books is similar in approach to the core SME and retail secured books respectively. These exclude the corporate deals held at fair value with collateral capped at 100 % of LTV.

(audited)	2021				2020			
IFRS 9 stage	Gross customer exposure	Collateral	Cover %	Loss allowance	Gross customer exposure	Collateral	Cover %	Loss allowance
Corporate								
Stage 1	**383.1**	**350.9**	**91.6**	**0.5**	413.1	374.3	90.6	0.2
Stage 2	**5.5**	**5.5**	**100.0**	**0.1**	12.6	12.6	100.0	0.2
Stage 3	**-**	**-**	**-**	**-**	-	-	-	-
POCI	**-**	**-**	**-**	**-**	-	-	-	-
	388.6	**356.4**	**91.7**	**0.6**	425.7	386.9	90.9	0.4
Optimum								
Stage 1	**9.0**	**9.0**	**100.0**	**-**	8.5	8.5	100.0	-
Stage 2	**1.5**	**1.5**	**100.0**	**-**	3.8	3.8	100.0	0.1
Stage 3	**2.0**	**1.9**	**95.0**	**0.2**	2.6	2.5	96.2	0.2
POCI	**7.9**	**7.9**	**100.0**	**-**	9.6	9.6	100.0	0.1
	20.4	**20.3**	**99.5**	**0.2**	24.5	24.4	99.6	0.4
	409.0	**376.7**	**92.1**	**0.8**	450.2	411.3	91.4	0.8

Risk grade

The table below analyses the credit risk exposure by credit grade of legacy corporate lending. The credit grades for legacy unsecured and Optimum assets has not been disclosed on the grounds of materiality.

(audited) 2021- Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	22.4	1.5	-	-	**23.9**
IRB	228.0	-	-	-	**228.0**
Strong	441.5	-	-	-	**441.5**
Good	16.1	5.5	-	-	**21.6**
Satisfactory	-	-	-	-	**-**
Weak	-	-	-	-	**-**
Default	-	-	11.5	-	**11.5**
Gross customer exposure	**708.0**	**7.0**	**11.5**	**-**	**726.5**
Less: allowance for losses	(1.5)	(0.2)	(0.9)	-	**(2.6)**
Net customer exposure	**706.5**	**6.8**	**10.6**	**-**	**723.9**

(audited) 2020 Credit grade	Stage 1	Stage 2	Stage 3	POCI	Total
Standardised	24.6	2.3	-	-	26.9
IRB	247.9	-	-	-	247.9
Strong	496.4	0.2	-	-	496.6
Good	9.7	12.4	-	-	22.1
Satisfactory	-	-	-	-	-
Weak	-	12.6	-	-	12.6
Default	-	-	-	-	-
Gross customer exposure	778.6	27.5	-	-	806.1
Less: allowance for losses	(1.4)	(0.6)	-	-	(2.0)
Net customer exposure	777.2	26.9	-	-	804.1

Forbearance

The table below analyses gross customer exposures subject to forbearance. The increase in corporate forbearance is largely driven through a single corporate account, which has now been defaulted. For the personal loans and legacy the reduction reflects the on-going run-off of these closed books.

(unaudited) 2021 Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Corporate forbearance	8.9	-	11.5	-	**20.4**	**1.0**
Retail unsecured forbearance	0.3	0.2	0.1	-	**0.6**	**0.2**
Optimum forbearance	-	0.2	0.8	2.3	**3.3**	**-**
Total forborne exposures	9.2	0.4	12.4	2.3	**24.3**	**1.2**

(unaudited) 2020 – Re-presented Forbearance category	Stage 1	Stage 2	Stage 3	POCI	Total	Allowance for losses
Corporate forbearance	8.3	0.7	-	-	9.0	**0.1**
Retail unsecured forbearance	0.6	0.8	0.3	-	1.7	**0.5**
Optimum forbearance	-	-	1.8	3.0	4.8	**0.1**
Total forborne exposures	8.9	1.5	2.1	3.0	15.5	**0.7**

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

3.2.2 Investment securities credit risk

No allowance for losses has been recognised for investment securities in either 2021 or 2020. All are classified as low-to-medium risk and within stage 1 (2020: stage 1). The Group has applied the low credit risk exemption available within IFRS 9 to treasury assets with an external rating of investment grade. For further information see the Explanatory Information to the consolidated financial statements, section 1.3.j.ii.

Credit risk mitigation

There are policies in place with regard to the management and valuation of collateral which is used as a form of credit risk mitigation. Only cash deposits, UK government bonds or other debt securities issued by a central government or qualifying multi-lateral development bank with a minimum rating of AA, or a mortgage backed security issued by the Group or one of its subsidiaries are accepted as collateral. It is also a requirement of the treasury credit risk policy that all securities received as collateral are valued on a daily basis and collateral calls made in line with the relevant legal agreement.

Impaired assets

At the balance sheet date, investment securities were reassessed for objective evidence that an impairment loss has occurred. Particular consideration was given to evidence of any significant difficulty of the issuer or measurable decrease in the estimated cash flows from the investments. No investment security assets were deemed to be impaired.

3.2.3 Loans and advances to banks

No allowance for losses has been recognised for loans and advances to banks in either 2021 or 2020. These exposures are considered to all be of low-to-medium risk and the ECL has been deemed to be immaterial.

3.2.4 Derivative financial instruments

During 2021, the majority of new derivative transactions continued to be cleared through a central clearing counterparty. In accordance with IFRS 13, a net credit value adjustment of £0.1m was recorded (31 December 2020: £0.4m) in relation to non-collateralised swaps.

The reduction in the notional balance mainly reflects the simplification of the treasury derivatives as part of the LIBOR to SONIA transition, the continuing strategy to offset balance sheet risk positions before undertaking external hedging and the repayment of the covered bond.

The table below discloses the Group's notional and mark-to-market derivative exposures at the year end.

(audited)	2021		2020	
	Notional	Fair value (net)	Notional	Fair value (net)
Interest rate				
Bi-lateral collateral agreements	**11,913.2**	**(2.1)**	14,006.5	(273.5)
One way collateral[1]	**1,104.6**	**7.3**	2,550.6	(12.8)
No collateral agreement	**326.0**	**95.1**	344.8	135.8
Foreign exchange				
Bi-lateral collateral agreements	**9.1**	**-**	40.4	0.3
	13,352.9	**100.3**	16,942.3	(150.2)

1. The above table separately identifies one way collateral agreements. Further disclosures on derivatives are contained in the Explanatory Information to the consolidated financial statements.

3.2.5 Wholesale credit risk

The treasury asset portfolio is held primarily for liquidity management purposes and, in the case of derivatives, for the purpose of managing market risk. Exposures to the UK government and the BoE account for 87% (2020: 82%) of all treasury exposures. The remaining exposures are split 1% (2020: 2%) to residential mortgage-backed securities, 6% (2020: 8%) to financial institutions and 6% (2020: 8%) to non-domestic sovereign and qualifying multi-lateral development bank bonds. No allowance for losses has been recognised in either 2021 or 2020.

3.2.5.1 Direct exposures

Within the treasury asset portfolio there are a number of risk mitigation techniques available including netting and collateralisation agreements. Other methods such as disposal and credit derivatives may be used periodically to mitigate the credit risk associated with particular transactions.

Treasury operates a risk-based approach which monitors counterparty limits and exposure. Both the counterparties and assets held are monitored against a Board-approved matrix of risk tolerance and associated indicators. The scope of this monitoring activity includes rating actions, market events and financial results as they are announced. These factors may influence a change in risk status and possible escalation requiring management actions and inclusion on the watchlist.

The portfolio and watchlist is monitored daily for appropriate risk status bandings and any associated management actions. As at 31 December 2021, there were no red (highest-risk) exposures outstanding (2020: £nil).

3.2.5.2 Indirect exposures

Treasury monitoring extends beyond direct risk incurred through counterparty trading, to the underlying exposures, which the counterparties may maintain on their own balance sheets.

Where secondary sovereign exposure or contagion risk is deemed to undermine the performance of the counterparty, remedial management actions are taken in respect of the counterparty limits and exposure.

3.2.6 Other assets

An allowance for losses has been recognised for other assets under IFRS 9. There is currently a very small provision of £0.1m at the end of 2021 (2020: £0.1m). The exposures are currently considered to be of low risk.

3.2.7 Amounts due from group undertaking

The Finance Company has recognised a £448.7m (2020: £398.1m) receivable due from Bank Company. This is the internal MREL debt related to the external MREL-qualifying Tier 2 debt and senior unsecured debt issued by the Group, which is measured at FVTPL and therefore is not assessed for credit risk. See note 25 to the Group and Bank financial statements for information on the MREL-qualifying instruments and note 28 to the Finance Company financial statements for the fair value of the instruments.

4. MARKET RISK

Market risk is the risk of loss as a result of the value of financial assets or liabilities (including off-balance sheet instruments) being adversely affected by movements in market rates or prices.

4.1 Overview *(unaudited)*

Market risk loss can be reflected in near-term earnings by a reduction in net interest income or, in the longer term, because of changes in the economic value of future cash flows. As the Group does not have a trading book, the main sources of market risk include: fixed rate mortgages and savings products, the Group's holdings of bonds in its liquidity portfolio, and the degree to which these are hedged using derivative instruments.

With no trading book and net currency positions below the required threshold, no Pillar 1 market risk exists. All market risk exposures are addressed under the Pillar 2 framework, captured in the Group's ICR requirement.

The main market risk measure utilised by the Group is PV01, which measures the sensitivity of the net present value (NPV) of future cash flows to a one basis point (bp) shift in interest rates. The PV01 measures the effect of both parallel and specific point of yield curve stress testing (i.e. non-linear yield curve shifts) by one bp. The residual interest rate risk is hedged using predominantly SONIA based swaps as the Group has transitioned from LIBOR to SONIA. Where exposures to floating rate indices do not match between floating rate, or hedged to floating rate assets and liabilities, there is also a resultant basis risk.

Market risk exposures have been maintained well within risk appetite in 2021, interest rate risk when expressed in terms of PV01 averaged £27.1k during 2021 with a lowest of £(85.0)k and a largest of £109.6k. The Group-wide market risk position was managed to a long asset position ahead of the year end, with total net sensitivity across the Group's balance sheet reflected in a total PV01 of £(81.3)k.

4.2 Primary risk metrics and sources of market risk

The key drivers of market risk faced, and the metrics used to manage those risks are:

(unaudited) Market risk indicators	2021	2020
Total PV01 (£k)	**(81.3)**	81.3
Average PV01 for the year (£k)	**27.1**	34.1
Largest PV01 for the year (£k)	**109.6**	81.3
Lowest PV01 for the year (£k)	**(85.0)**	(7.7)
Average basis risk (£m)	**2.4**	4.6
Swap spread PV01 (£k)	**(729.9)**	(544.0)
Average swap spread PV01 (£k)	**(636.1)**	(504.2)
RMBS holding (£m)	**64.7**	77.3
Average RMBS holding (£m)	**70.4**	130.0
FX notional (£m)	**(0.3)**	(0.4)
Average FX notional (£m)	**(0.4)**	(0.4)

Interest rate risk

Sensitivity of the Group's NPV to a one basis point parallel shift in interest rates (i.e. the PV01) is employed to manage directional interest rate risk and yield curve risk, with limits set at an overall level for directional risk and against individual time buckets for yield curve risk. To supplement these limits, stress testing of exposures against historical yield curve shifts is undertaken to assess the sensitivity to the most extreme curve steepening and curve flattening movements, to a 99% confidence, observed over appropriate historical periods.

Behavioural assumptions are considered in the treatment of non-interest bearing balances (NIBBs) and with regard to customer prepayments within the residential mortgage portfolios.

Risk exposures are formally reported at least monthly, with interest rate risk and effectiveness of hedging monitored at a minimum of weekly frequency. Interest rate risk is hedged using derivative instruments and investment securities to external wholesale markets as appropriate.

During 2021, the largest absolute PV01 exposure of £109.6k was observed in September 2021, which included an increase in NIBBs balances, reflecting continued higher current account balances following COVID-19 restrictions in 2020 and 2021.

Basis risk
The definition of basis risk is the risk of loss as a result of the balance sheet being adversely affected by the movement between different index rates.

Basis risk is mainly driven by the mix of exposures to SONIA, base, and administered rates. The Group has progressed LIBOR to SONIA transition, with a limited impact on basis risk volatility in 2021. Focus remains on transitioning remaining positions, such as corporate loans, to alternative SONIA based rates in the early part of 2022 (in line with refix points). BoE reserve balances and tracker mortgages generate base rate assets, with administered rate exposures including mortgages and savings products.

Basis risk management seeks to limit volatility to earnings and capital resources from moves in either direction. The assumed potential loss of earnings reflects the downside risk comparing prevailing spreads against historical extremes. The basis risk position primarily reflects the net SONIA-base rate exposure.

HQLA swap spread risk
Swap spread risk is defined as the sensitivity of the combined economic value of HQLA securities and their associated derivative hedges to changes in the spread between benchmark sovereign bond yields and swap rates. These assets are used for liquidity purposes within the treasury portfolio.

Swap spread risk is managed by calculating the sensitivity of its hedged fixed rate bond portfolio to a one bp divergence in yields between the fixed rate bond and its hedge (PV01).

Swap spread risk has increased through 2021 reflecting the portfolio size and composition in terms of security type and duration.

Credit spread risk
Credit spread risk is defined as the risk of loss from changes in the credit spread on wholesale assets.

Non-HQLA term exposures relate primarily to holdings of MBS issued by Warwick Finance Three and Four, which reflect retained elements from the deleveraging of Group’s Optimum assets. The potential risk from these holdings is assessed against historical spread movements of similar transactions. MBS holdings subject to IRRBB have reduced to £64.7m, reflecting quarterly amortisation of these notes.

Foreign exchange risk
The exposure to foreign exchange risk is primarily limited to customer hedging transactions and incidental customer transactions. To manage this risk, an overall maximum notional net sterling position limit is set for overnight exposures. This is supported by applying sub-limits to currencies by tier to reflect their liquidity.

The balance sheet is predominantly sterling as the table below shows. The assets comprise loans to banks and the unlisted equity shares. All values shown in the sterling equivalent.

(unaudited)	2021					2020				
	£	$	€	Other	Total	£	$	€	Other	Total
Assets[1]										
Total assets	29,290.4	31.6	1.0	0.3	**29,323.3**	25,563.2	30.1	5.8	0.4	25,599.5
Liabilities[1]										
Total liabilities	27,573.7	(1.6)	(0.6)	(0.1)	**27,571.4**	24,126.6	(0.5)	(0.8)	(0.2)	24,125.1
Net assets	1,716.7	33.2	1.6	0.4	**1,751.9**	1,436.6	30.6	6.6	0.6	1,474.4

1. All currencies are consistent between the Group and Bank Company reporting. Shown as the sterling equivalent.

At 31 December 2021, the Group’s open currency position was £(0.3)m (2020: £(0.4)m). Currency positions are managed against both an overall limit and individual currency limits.

Other sources of market risk
Other sources of market risk include:
- Prepayment risk: the risk that an asset or liability repays more quickly or slowly than anticipated, resulting in a mismatch between the asset, liability and associated hedge;
- Pipeline risk: the risk that the sales profile for fixed rate products does not match hedging assumptions, resulting in a mismatch between product sales and the hedge amount, which can result in a rebalancing cost;
- Explicit option risk: the sensitivity to the overall direction of interest rates, speed of change of rates and market prices for positions which contain explicit options e.g. caps, floors, and swaps;
- Repricing and implicit optionality in products: the risk that options embedded or implied within retail or commercial products have an impact on market value or earnings with changing interest rates; and
- Equity price risk: the risk that the fair value of equities decreases as a result of changes in the level of equity indices

and individual stocks. Non-trading equity price risk exposure arises from equity securities classified as fair value through profit and loss. This mainly relates to the Group's shareholding of Visa B series preferred stock. A 10% increase in the value of equity shares at 31 December 2021 would equate to an increase of £2.3m (2020: £2.2m). An equivalent decrease would reduce the value by the same degree.

4.3 Hedge accounting

The Group is exposed to interest rate risk arising from changes in market interest rates. A variety of strategies are employed to mitigate interest rate risk with the overall objective of hedging interest rates paid and received, predominantly back to SONIA.

To reduce the reporting volatility introduced as a result of entering into derivatives for economic hedging purposes, the Group applies hedge accounting. The hedge accounting strategies applied are as follows:

Strategy	Hedging instruments and underlying hedged items	Objective of strategy
1) Macro fair value hedge	Interest rate risk on fixed rate mortgages and customer loans.	In the Group's mortgage macro fair value hedge, macro hedge accounting is used to recognise fair value changes related to changes in net interest rate risk in the fixed rate mortgages and customer loans and therefore reduce the profit or loss volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone.
	Interest rate risk on non-interest bearing current accounts and equity.	In the Group's NIBBs macro fair value hedge, macro hedge accounting is similarly used to recognise fair value changes related to changes in net interest rate risk in non-interest bearing current accounts and therefore reduce the profit or loss volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone.
2) Micro fair value hedge	Interest rate risk on certain fixed rate treasury assets and liabilities.	Micro fair value hedge accounting is used to recognise fair value changes related to changes in interest rate risk in certain treasury assets/liabilities and therefore reduce the profit or loss volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone.

Interest rate risk on fixed rate mortgages and customer deposits (macro fair value hedge)

The Group is exposed to interest rate risk on its fixed rate mortgages and customer loans due to changes in SONIA. This interest rate risk is managed by entering into pay fixed/receive floating externally-traded interest rate swaps. Such interest rate swaps are entered into on a regular basis (as and when interest rate risk exposure is identified). Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged.

To mitigate volatility in the income statement generated by this hedge relationship, macro fair value hedge accounting is applied. Relevant interest rate swaps are immediately designated in a hedge accounting relationship by prospectively matching the fixed cash flows of the derivatives against the fixed cash flows of the portfolio of items being hedged.

The interest rate risk component of the underlying hedged item is determined using proxy derivatives. The fair value change in these proxy derivatives due to changes in SONIA are compared to the fair value changes in the hedging swaps due to changes in SONIA. The relationship of these two fair value movements will determine the retrospective hedge ratio. The main sources of ineffectiveness arise from the difference between expected and actual prepayments of mortgages and from SONIA basis spreads.

During 2021, a new macro fair value hedging strategy was adopted that uses pay float/receive fixed interest rate swaps to hedge non-interest bearing balances (primarily current accounts) held in a layered portfolio (the 'layer approach'). The hedging strategy is in line with the requirements of the UK-endorsed version of IAS 39 'Financial Instruments: Recognition and Measurement', which unlike the version issued by the IASB does not prohibit hedging customer deposits and its associated effectiveness testing using a layer approach in a macro fair value hedge. The effectiveness of the hedging relationship is tested both at inception and throughout its life and if at any point it is concluded that it is no longer highly effective in achieving its documented objective, hedge accounting is discontinued.

Interest rate risk on fixed rate treasury assets and liabilities (micro fair value hedge)

The Group enters into micro fair value hedges in relation to certain fixed rate treasury assets and liabilities to manage changes in interest rate risk. The interest rate risk is managed by entering into interest rate swaps. Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged.

To mitigate volatility in the income statement generated by these economic hedge relationships, micro fair value hedge accounting is applied.

The hedging relationship is established prospectively by matching the notional value of derivatives with the principal (or part of the principal) of the instrument being hedged (micro hedge) and running a prospective effectiveness test which compares changes in the values of the hedged item and hedging instrument for a ten basis point move in the underlying yield curves.

A prospective test for the portfolio is performed at each month end for future designation. Retrospectively, the interest rate risk component of the hedged item is calculated using a spreadsheet valuation. The change in the valuation of the interest rate component of the hedged item is compared to the change in value of the swaps and the resulting ratio determines the effectiveness. If effective (between 80 % -125 %) then these positions will be designated in micro fair value hedge relationships.

Possible sources of ineffectiveness include imperfect economic hedges as the derivatives are not always an exact match for the risk in the hedged item and SONIA leg compounded average fixing for the next period.

Reset risk on variable rate loans and mortgages (macro cash flow hedge)
The Group retired its macro cash flow hedge on 31 December 2021, replacing it with the NIBBs macro fair value hedge referred to above. The remaining swap was de-designated from the cash flow hedge and re-designated to the new NIBBs macro fair value hedge at its inception. The cash flow hedge reserve is amortised through net interest income over the remaining life of the swaps.

Quantitative hedge accounting information
The following table sets out the maturity profile and average price/rate of micro hedge accounting strategies applied by the Group.

(audited)	Maturity					
2021	Up to 1 month	1-3 months	3 months to 1 year	1 year to 5 years	> 5 years	Total
Fair value hedges (interest rate swap)						
Notional	-	-	-	**220.0**	**577.5**	**797.5**
Average fixed interest rate	-	-	-	**0.12%**	**0.65%**	

(audited)	Maturity					
2020	Up to 1 month	1-3 months	3 months to 1 year	1 year to 5 years	> 5 years	Total
Fair value hedges (interest rate swap)						
Notional	-	-	483.1	387.8	445.0	1,315.9
Average fixed interest rate	-	-	2.78 %	1.01 %	0.85 %	

The following tables show details of the hedging instruments used by the Group.

(audited)	Carrying amount			Balance sheet line items	Changes in fair value used for calculating hedge ineffectiveness
2021	Notional	Assets	Liabilities		
Fair value hedges (interest rate risk)					
Interest rate swaps	10,351.5	145.7	37.1	Derivative financial instruments	115.4
Cash flow hedges					
Interest rate swaps	-	-	-	Derivative financial instruments	-

(audited)	Carrying amount			Balance sheet line items	Changes in fair value used for calculating hedge ineffectiveness
2020	Notional	Assets	Liabilities		
Fair value hedges (interest rate risk)					
Interest rate swaps	10,369.2	20.3	155.7	Derivative financial instruments	(126.3)
Cash flow hedges					
Interest rate swaps	80.0	1.6	0.0	Derivative financial instruments	1.5

The following table contains details of the hedged exposures covered by the Group's hedging strategies.

(audited) 2021	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item		Balance sheet line items	Change in fair value of hedged item for assessment of effectiveness	Cash flow hedge reserve	
	Assets	Liabilities	Assets	Liabilities			Continuing hedges	Discontinued hedges
Macro fair value hedges (interest rate risk)								
Fixed rate mortgages	3,665.0	-	(90.5)	-	Loans and advances to customers	(220.2)	N/A	N/A
NIBBs	-	4,453.5	-	(7.5)	Customer Accounts	6.0	N/A	N/A
Micro fair value hedges (interest rate risk)[1]								
Fixed rate bonds	140.8	-	(4.8)	-	Investment securities - FVOCI	(11.1)	N/A	N/A
Fixed rate bonds	-	-	-	-	Debt securities in issue	-	N/A	N/A
Fixed rate bonds	-	203.5	-	0.1	Other borrowed funds	7.1	N/A	N/A
Fixed rate gilts	455.2	-	(12.9)	-	Investment securities - FVOCI	(31.6)	N/A	N/A
Cash flow hedges (interest rate risk)								
Floating rate mortgages	-	-	N/A	N/A	Loans and advances to customers	-	-	(21.7)

(audited) 2020	Carrying amount of hedged item		Accumulated amount of fair value adjustments on the hedged item		Balance sheet line items	Change in fair value of hedged item for assessment of effectiveness	Cash flow hedge reserve	
	Assets	Liabilities	Assets	Liabilities			Continuing hedges	Discontinued hedges
Macro fair value hedges (interest rate risk)								
Fixed rate mortgages	5,487.8	-	134.1	-	Loans and advances to customers	52.1	N/A	N/A
Micro fair value hedges (interest rate risk)								
Fixed rate bonds	226.1	-	6.3	-	Investment securities - FVOCI	2.4	N/A	N/A
Fixed rate bonds	-	485.7	-	(8.7)	Debt securities in issue	6.9	N/A	N/A
Fixed rate bonds	-	203.6	-	(7.0)	Other borrowed funds	(4.0)	N/A	N/A
Fixed rate gilts	445.1	-	18.7	-	Investment securities - FVOCI	(9.9)	N/A	N/A
Cash flow hedges (interest rate risk)								
Floating rate mortgages	84.7	-	N/A	N/A	Loans and advances to customers	19.1	(1.5)	(29.3)

The accumulated amount of fair value hedge adjustments remaining in the balance sheet for hedged items that have ceased to be adjusted for hedging gains and losses is £11.3m (2020: £15.7m).

The following table illustrates the effectiveness of the designated hedging relationships as well as the impact on the income statement (IS) and other comprehensive income (OCI).

(audited) 2021	Gain/(loss) recognised in OCI	Hedge ineffectiveness recognised in the IS	IS line item that includes hedge ineffectiveness	Amounts reclassified from reserves to IS as: Hedged cash flows will no longer occur	Hedged item affected IS	IS line item that includes reclassified amount
Interest rate risk						
Macro fair value						
Fixed rate mortgages	N/A	0.2	Other operating (expense)/income net	N/A	N/A	N/A
NIBBs	N/A	(0.1)		N/A	N/A	N/A
Micro fair value						
Fixed rate bonds	N/A	0.4	Other operating (expense)/income net	N/A	N/A	N/A
Fixed rate gilts	N/A	(0.1)	Other operating (expense)/income net	N/A	N/A	N/A
Cash flow hedges (interest rate risk)						
Floating rate mortgages	-	-	Other operating (expense)/income net	N/A	-	Net interest income on financial instruments not in a hedging relationship (drip of terminated IRS)

(audited) 2020	Gain/(loss) recognised in OCI	Hedge ineffectiveness recognised in the IS	IS line item that includes hedge ineffectiveness	Amounts reclassified from reserves to IS as: Hedged cash flows will no longer occur	Hedged item affected IS	IS line item that includes reclassified amount
Interest rate risk						
Macro fair value						
Fixed rate mortgages	N/A	0.2	Other operating (expense)/income net	N/A	N/A	N/A
Micro fair value						
Fixed rate bonds	N/A	0.4	Other operating (expense)/income net	N/A	N/A	N/A
Fixed rate gilts	N/A	(2.7)	Other operating (expense)/income net	N/A	N/A	N/A
Cash flow hedges (interest rate risk)						
Floating rate mortgages	8.7	1.4	Other operating (expense)/income net	N/A	(3.1)	Net interest income on financial instruments not in a hedging relationship (drip of terminated IRS)

(audited)	2021	2020
Cash flow hedge reserve as at 1 January	**22.5**	16.7
Net changes in fair value recognised directly in equity	-	5.5
Transfers from equity to income or expense	(9.2)	3.1
Income tax	1.4	(2.8)
Cash flow hedge reserve as at 31 December	**14.7**	22.5

4.4 LIBOR transition
The Group has exposure to legacy LIBOR-linked products, primarily across its legacy retail secured and corporate portfolios. The LIBOR was phased out at the end of 2021, and the work to transition the Group's affected exposures to appropriate replacement rates has been materially completed at 31 December 2021. The project is sponsored by members of the Group's Executive Committee, and progress is regularly reported into relevant sub-committees, including the Group's Asset and Liability Committee (ALCo) and Executive Risk Oversight Committee (EROC), with a Group-wide working group managing and co-ordinating transition delivery.

During the year the Group replaced its Treasury LIBOR-based derivative exposures with SONIA-based alternatives and has plans to migrate the remainder of its corporate derivatives by the end of the first quarter of 2022. Customer contact and implementation of contractual changes across retail secured and corporate LIBOR exposures was undertaken during the year. To minimise the risk of customer harm and mitigate legal contractual risks arising at transition, the majority of customer rates are expected to move to a SONIA-based equivalent from their first interest reset in early 2022.

The primary risks to which the Group has been exposed through the transition work is operational risk associated with the execution of the transitions, and conduct risk arising from potential detrimental customer outcomes, particularly where 'tough legacy' contracts have not allowed for variation of benchmark rates. The Group has worked actively to mitigate these risks, including by engaging extensively with relevant regulatory bodies and the wider industry to ensure its approach adheres to market best practice.

The table below outlines the Group's exposure at 31 December 2021 to significant IBORs subject to reform that are yet to be transitioned to an alternative benchmark rate. The table excludes exposures that matured or were migrated prior to the removal of LIBOR, but includes balances that are currently on fixed rates but would revert to LIBOR at the end of their fixed rate term.

The carrying amounts of financial assets are presented gross of any expected credit losses (ECLs).

	Non-derivatives		Derivatives
2021	Financial assets Carrying value	Financial liabilities Carrying value	Nominal amount
GBP LIBOR	704.6	-	326.0

Of the above balances, £30.5m are classed as tough legacy, where the balances will remain on a synthetic LIBOR rate until a solution for transfer is identified. The remaining balances will have completed their transition to an alternative rate by the end of the first quarter of 2022.

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 £964.8m at 31 December 2021, of which £244.6m are classed as tough legacy.

Adoption of temporary and narrow exemptions to the hedge accounting requirements of IAS 39
As the Group has now replaced or transitioned all instruments in its hedge accounting programmes to replacement rates, it no longer places reliance on the Phase 1 reliefs set out in Interest Rate Benchmark reform (Amendments to IFRS 7, IAS 39 and IFRS 7).

5. LIQUIDITY AND FUNDING RISK

Liquidity and funding risk is the risk that obligations cannot be met as they fall due or can only be met at excessive cost.

5.1 Overview

The Board determines the level of liquid resources required to support the business objectives through the risk appetite and by undertaking an Internal Liquidity Adequacy Assessment Process (ILAAP). The ILAAP process involves the review of the liquidity Risk Management Framework, the assessment of the exposure to qualitative and quantitative liquidity and funding risks (including under stressed conditions) and concludes on the adequacy of its liquid resources.

The ILAAP and compliance with the Overall Liquidity Adequacy Rule (OLAR) is reviewed and approved by the Board. The Liquidity Coverage Ratio (LCR), a 30-day liquidity measure, is the Group's primary regulatory liquidity metric, with a regulatory minimum of 100 % at 31 December 2021. Following review of the Group's ILAAP, the PRA provides Individual Liquidity Guidance (ILG) which determines the amount of eligible liquidity which is required to be held, including Pillar 2 in respect of liquidity risks not captured by the LCR.

The Group also monitors its position against the regulatory Net Stable Funding Ratio (NSFR) metric, which is a longer-term funding metric.

The Group has an established funding base, predominantly comprising retail deposits. The Group ensures it maintains a liquidity buffer appropriate for its funding profile in order to ensure that financial obligations are met as and when they fall due through:

- compliance with the liquidity Risk Management Framework including appropriate policies and limits;
- daily management, monitoring and reporting of compliance against both internally defined stress testing and LCR requirements;
- maintenance of a Liquidity Contingency Plan (LCP) for use within a liquidity stress event;
- a Recovery and Resolution Plan (RRP), maintained under UK regulatory rules implementing the European Bank Recovery and Resolution Directive (BRRD), which documents a number of potential management actions; and
- liquidity management information provided on a regular basis to ALCo and the Board which details compliance with key liquidity risk metrics.

5.2 Liquidity risk metrics

The Group monitors a suite of liquidity metrics which includes the following:

(unaudited) Metric	2021	2020	
LCR	241.8 %	193.4 %	• Represents a surplus to regulatory minima of 100 % • Aligns to the risk strategy to maintain a prudent liquidity position
Internal liquidity stress tests	Buffer held in excess of internal requirements	Buffer held in excess of internal requirements	• Measures the survival period under an internally defined applicable stress scenario
NSFR	141.4 %	138.2 %	• Based on current interpretation of requirements and guidance
Customer loan/deposit ratio	99.1 %	91.6 %	• Ratio of customer loans (excluding credit commitments) to customer deposits
Encumbrance ratio	26.7 %	20.9 %	• According to the EBA definition asset encumbrance ratio is calculated as the carrying amount of encumbered assets and collateral divided by total assets and collateral

An asset is defined as encumbered if it has been pledged as collateral against an existing liability or to collateralise an exposure that the Group may have, restricting access to that asset in the event of resolution or bankruptcy. An encumbered asset would be no longer available to use in secured funding, to satisfy collateral needs, or to be sold to reduce the funding requirement. The encumbrance table is presented in the Pillar 3 disclosures (5.3 liquidity and funding – table 33). The year end asset encumbrance ratio is 30.6 % , with the increase driven by the higher TFSME holdings.

5.3 Liquid asset portfolios

Total liquidity resources as at 31 December 2021 were £8,082.8m (2020: £7,783.4m). There is a focus on maintaining a high percentage of liquid assets which are high-quality and the table below analyses the liquidity portfolio by product and unencumbered liquidity value. The liquidity portfolio is categorised into primary and secondary (other liquid assets and contingent liquidity).

Primary liquid assets include cash and balances at central banks and other high-quality government bonds (all are eligible under EBA regulations (High-Quality Liquid Assets)). These have grown as a result of the raising of funds through TFSME which have to be yet utilised by mortgage lending.

Secondary liquidity comprises unencumbered liquid investment securities not included as part of primary liquidity, as well as other forms of contingent liquidity sources (mortgage and corporate collateral). The reduction largely mirrors the increase in the primary liquid assets.

(unaudited) Liquidity – primary & secondary	2021	2020
Operational balances with central banks	5,479.8	3,714.0
Central government and multilateral development bank bonds	444.2	385.4
Total primary liquid assets	**5,924.0**	4,099.4
Other liquid assets	299.7	355.6
Contingent liquidity	1,859.1	3,328.4
Total secondary liquid assets	**2,158.8**	3,684.0
Total liquidity	**8,082.8**	7,783.4
Average balance	7,574.7	6,950.3

A combination of these asset pools is used to manage liquidity, with primary liquidity used predominantly for short-term cash flow movements, while other liquidity is used for creating longer-term liquidity. Regular realisation through repo transactions and outright sales provide assurance that these asset pools remain sufficiently liquid. The disclosures above are based on what is eligible for liquidity purposes and so does not exactly match the balance sheet.

5.3.1 Wholesale funding

Wholesale funding is used to supplement retail and commercial deposits to diversify the source of funds. There are a variety of long-term wholesale funding sources outstanding, including Tier 2 subordinated debt, MREL-qualifying debt, repos (including BoE indexed long-term repo), BoE TFSME drawings and Silk Road Finance Number Six plc MBS, as summarised in the table below.

(unaudited) Wholesale funding	2021	2020
Subordinated debt	**402.1**	408.2
Secured funding	**5,405.3**	2,471.3
Repos	**304.5**	294.6
	6,111.9	3,174.1

The wholesale funding position has been managed through drawdowns on the TSFME scheme more than offsetting a reduction from the repayment of the covered bond. Gilt repos make up £284.9m of total repo funding. The following table sets out contractual wholesale funding by maturity, with the maturity of securitisations based on call dates. The funding below is included within other borrowed funds, deposits by banks and debt securities in issue on the balance sheet.

(unaudited) Wholesale funding maturity	2021	2020
Repayable in less than 1 month	**291.0**	294.8
Repayable between 1 and 3 months	**15.1**	0.1
Repayable between 3 and 6 months	**5.3**	5.3
Repayable between 6 and 9 months	**-**	-
Repayable between 9 and 12 months	**-**	485.9
Repayable between 1 and 2 years	**203.6**	-
Repayable between 2 and 5 years	**5,596.9**	2,388.0
Repayable in more than 5 years	**-**	-
	6,111.9	3,174.1

5.4 Liquidity gap

Details of contractual maturities for assets and liabilities underpin the management of liquidity risk. However, management recognises that customer behaviour differs to contractual maturity, therefore as part of the planning process, behavioural run-off of customer assets and liabilities over time are estimated. The assumptions used to create these estimates and the estimates themselves are recommended for approval by ALCo as part of its responsibility to manage the Plan. Gross cash flows include interest and other revenue cash flows. Other assets and liabilities include non-financial items and these are excluded from the maturity analysis. The following table is an analysis of gross undiscounted contractual cash flows of financial assets and liabilities held at the balance sheet date.

(audited) 2021 – Contractual cash flows - Assets	Carrying value	Gross nominal flow	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years
Cash and balances at central banks	5,696.9	5,696.9	5,696.9	-	-	-	-	-	-	-
Loans and advances to banks[1]	191.5	191.7	107.6	59.1	-	-	-	-	-	25.0
Loans and advances to customers	21,002.1	31,642.8	378.6	213.8	328.4	334.1	338.7	1,363.2	4,424.1	24,261.9
Investment securities	1,201.4	1,969.3	15.2	29.6	44.9	45.4	101.0	248.4	781.2	703.6
Derivative financial instruments	248.5	196.6	1.2	5.6	4.0	3.9	4.1	12.4	40.5	124.9
Other assets	982.9	-	-	-	-	-	-	-	-	-
Total recognised assets	**29,323.3**	**39,697.3**	**6,199.5**	**308.1**	**377.3**	**383.4**	**443.8**	**1,624.0**	**5,245.8**	**25,115.4**

(audited) 2021 – Contractual cash flows - Liabilities	Carrying value	Gross nominal flow	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years
Deposits by banks	5,527.6	5,550.3	313.2	16.1	1.6	1.7	1.7	6.7	5,209.3	-
Customer accounts[2]	21,135.9	21,158.0	19,187.7	228.7	522.5	431.2	252.2	434.1	101.6	-
Debt securities in issue	203.3	207.3	0.2	0.4	0.7	0.7	0.7	204.6	-	-
Derivative financial instruments	148.2	264.9	4.4	10.7	7.5	7.1	7.1	24.3	50.7	153.1
Other borrowed funds	402.1	501.6	-	-	18.5	-	18.5	37.0	427.6	-
Lease liabilities	44.1	50.5	-	1.5	1.5	1.6	1.6	6.4	13.9	24.0
Other liabilities	110.2	-	-	-	-	-	-	-	-	-
Total recognised liabilities	**27,571.4**	**27,732.6**	**19,505.5**	**257.4**	**552.3**	**442.3**	**281.8**	**713.1**	**5,803.1**	**177.1**
Unrecognised loan commitments[3]	2,059.5	2,059.5	2,059.5	-	-	-	-	-	-	-
Total liabilities	**29,630.9**	**29,792.1**	**21,565.0**	**257.4**	**552.3**	**442.3**	**281.8**	**713.1**	**5,803.1**	**177.1**

(audited) 2020 – Contractual cash flows - Assets	Carrying value	Gross nominal flow	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years
Cash and balances at central banks	3,877.8	3,877.8	3,877.8	-	-	-	-	-	-	-
Loans and advances to banks[1]	536.2	524.1	427.6	96.5	-	-	-	-	-	-
Loans and advances to customers	18,682.5	27,579.1	387.3	201.5	302.5	308.7	322.1	1,240.0	3,799.5	21,017.5
Investment securities	1,148.5	1,410.7	6.8	13.3	20.0	20.3	20.3	182.5	613.1	534.4
Derivative financial instruments	189.9	288.5	8.9	12.3	12.8	12.3	9.1	24.4	53.8	154.9
Other assets	1,164.6	-	-	-	-	-	-	-	-	-
Total recognised assets	25,599.5	33,680.2	4,708.4	323.6	335.3	341.3	351.5	1,446.9	4,466.4	21,706.8

(audited) 2020 – Contractual cash flows - Liabilities	Carrying value	Gross nominal flow	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12 months	1-2 years	2-5 years	Over 5 years
Deposits by banks	2,066.4	2,073.0	316.6	0.3	0.4	0.4	0.4	1.8	1,753.1	-
Customer accounts[2]	20,365.8	20,397.9	17,728.0	119.8	783.9	586.7	390.6	693.2	95.7	-
Debt securities in issue	728.8	747.8	3.6	6.9	10.4	10.4	493.5	17.7	205.3	-
Derivative financial instruments	340.1	457.5	14.4	24.8	23.2	22.3	19.5	61.0	99.6	192.7
Other borrowed funds	408.2	538.6	-	-	18.5	-	18.5	37.0	464.6	-
Lease liabilities	53.6	66.5	-	1.9	1.9	1.9	1.8	7.1	18.3	33.6
Other liabilities	162.2	-	-	-	-	-	-	-	-	-
Total recognised liabilities	24,125.1	24,281.3	18,062.6	153.7	838.3	621.7	924.3	817.8	2,636.6	226.3
Unrecognised loan commitments[3]	2,548.4	2,548.4	2,548.4	-	-	-	-	-	-	-
Total liabilities	26,673.5	26,829.7	20,611.0	153.7	838.3	621.7	924.3	817.8	2,636.6	226.3

1. Loans and advances to banks with a contractual maturity of over 5 years includes £25.0m in the Pace escrow account. Refer to note 30 to the Group and Bank consolidated financial statements for more information.
2. The carrying value of customer accounts for the Bank is £21,136.0m (2020: £20,365.9m) and the gross nominal flow is £21,158.1m (2020: £20,398.0m). The additional £0.1m (2020: £0.1m) is within the less than 1 month band. All other balances and timing bands are consistent with the Group.
3. Includes financial guarantee and swap break costs.

The principal difference between the gross nominal value and the accounting carrying value set out above is due to discounting. Discounting has a greater impact on cash flows in later years, and a minimal impact on cash flows within 1 year. Therefore the contractual cash flows on assets and liabilities expected in less than one year are a fair representation of the contractual maturity of current assets and liabilities at carrying value in the balance sheet.

5.5 Financial instruments in the balance sheet subject to netting arrangements

The Group has netting agreements in place with counterparties to manage the associated credit risks. Such arrangements primarily include repo and reverse repo transactions and over-the-counter (OTC) derivatives. These netting agreements enable the counterparties to offset liabilities against available assets received in the ordinary course of business and/or in the event of the counterparty's default. The offsetting right is a legal right to settle, or otherwise eliminate, all or a portion of an amount due by applying an amount receivable from the same counterparty against it, thus reducing credit exposure.

The table below shows the net exposure for sale and repurchase agreements and derivative contracts after any netting benefits and collateral. The year-on-year movement can be ascribed to swap rates rising in the year driving the decline in the asset mark-to-market value.

(unaudited) 2021	Gross amount[1]	Master netting arrangements	Financial collateral[2]	Net amount
Financial assets				
Derivative financial instruments	248.5	(140.9)	(12.8)	94.8
Total financial assets	**248.5**	**(140.9)**	**(12.8)**	**94.8**
Financial liabilities				
Derivative financial instruments	148.2	(140.9)	(2.8)	4.5
Sale and repurchase agreements	304.5	-	(304.5)	-
Total financial liabilities	**452.7**	**(140.9)**	**(307.3)**	**4.5**

(unaudited) 2020	Gross amount[1]	Master netting arrangements	Financial collateral[2]	Net amount
Financial assets				
Derivative financial instruments	189.9	(22.5)	(16.4)	151.0
Total financial assets	189.9	(22.5)	(16.4)	151.0
Financial liabilities				
Derivative financial instruments	340.1	(22.5)	(312.2)	5.4
Sale and repurchase agreements	294.6	-	(294.6)	-
Total financial liabilities	634.7	(22.5)	(606.8)	5.4

1. As reported on balance sheet.
2. The financial collateral disclosed is limited to the amount of the related financial asset or related financial liability (i.e. over-collateralisation, where it exists, is not reflected in the table).

Financial Statements

The co-operative bank
for people with purpose

Opinion

In our opinion:

- the financial statements of The Co-operative Bank p.l.c (the 'Bank Company') and its subsidiaries (together the 'Bank') give a true and fair view of the state of the Bank's and of the Bank Company's affairs as at 31 December 2021 and of the Bank's profit for the year then ended;
- the Bank financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Bank Company financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements (as defined in the table below) of the Bank Company and the Bank for the year ended 31 December 2021, which comprise:

Bank	Bank Company
Consolidated balance sheet as at 31 December 2021	Balance sheet as at 31 December 2021
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Cash flow statement for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 28 to the financial statements (except for the columns marked as "unaudited" in Note 24), including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 37 to the financial statements, (except for the columns marked as "unaudited" in Note 31) including a summary of significant accounting policies	
Information in the Risk Management section of the Business Review, identified as "audited" on pages 86 to 135	

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and as regards to the Bank Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank and Bank Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Bank and Bank Company's ability to continue to adopt the going concern basis of accounting included:

How we evaluated the Directors' assessment

Risk Assessment Procedures

- Through discussions with Management and review of supporting evidence, we updated our understanding of the Bank's capital requirements.
- We obtained an understanding of Management's basis for use of the going concern basis of accounting through reviewing the going concern assessment and underlying forecasts and assumptions, and through inquiries of Management and those charged with governance.
- We have independently identified factors that may indicate events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern, which include:
  - The Bank's ability to complete the required levels of debt issuances to remain in compliance with binding regulatory capital requirements, which become more onerous from 1 January 2023.
  - The Bank's ability to achieve its Financial Plan, noting that 2021 is the first time the Bank has recorded a profit since 2011. The prevailing economic uncertainty continues to put stress on the Bank and introduces greater uncertainty as to the achievability of these forecasts.
  - The Bank's compliance with regulatory liquidity requirements.
- In this context, events or conditions that cast significant doubt over the Bank's and the Bank Company's ability to continue as a going concern were identified and we have designed our audit procedures to evaluate the effect of these risks on the Bank and the Bank Company's ability to continue as a going concern. We also considered going concern to be a key audit matter.

Management's Method

- We confirmed our understanding of the Directors' going concern assessment process, including the Financial Statement Close Process, and the process by which the budget is created and approved. We engaged with Management early to ensure all key factors that we considered to be material were considered in the Bank's going concern assessment.
- We obtained Management's Board approved long-term forecast covering the period of Management's going concern assessment to 30 June 2023.
- Using our understanding of the business, we evaluated the forecasting method adopted by the Directors in assessing going concern, including considering plausible alternative downside scenarios and concluded that the method adopted was appropriate.
- We tested whether the forecasts used in the going concern assessment were mathematically accurate.
- We inquired of Management as to their knowledge of events or conditions beyond the period of Management's assessment and read published announcements from the Prudential Regulation Authority ("PRA") that we considered had the potential to impact the Bank's capital resource and/or requirements.

Assumptions

- We evaluated the relevance and reliability of the underlying data used in the going concern assessment and tested assumptions to third party evidence, where appropriate.
- We reviewed correspondence between the Bank and its regulators to evidence the current regulatory capital position and also to provide evidence as to changes in the Bank's capital requirement across the period to 30 June 2023. We met with the PRA during the audit and noted the PRA's perspectives on risks and areas of focus.
- We evaluated the long-term forecast with reference to Management's historical forecasting accuracy and performed stress testing to consider the reasonableness of [the base rate assumptions and resultant impact on net interest margin, forecast mortgage balances, levels of deposits from Small and Medium Enterprises ("SMEs"), operating costs and the timing and quantum of debt/equity issuances over the assessed going concern period.
- With the support of EY transactions specialists, we evaluated the Bank's ability to make future debt issuances sufficient to maintain compliance with binding regulatory requirements, with reference to observed debt raising activity by other market participants. We considered the Bank's historic debt-raising success in completing this assessment.
- We reconciled the Bank's liquidity position to its regulatory liquidity reporting returns and challenged the assumptions within the Bank's liquidity forecasts over the going concern period, considering the Bank's current position and availability of additional liquidity should it be required.

Stress testing and Management plans for future actions

- We evaluated Management's assumptions by performing independent stress testing to determine whether a reasonable alternative stressed scenario, or combination of scenarios, would result in a breach of binding regulatory requirements. With the support of our Prudential Regulation specialists, we supplemented this by assessing the reasonableness of the Bank's risk weighted asset assumptions.
- We evaluated the plausibility of Management's downside assumptions with reference to the work performed by EY economists in assessing the Bank's forecast economic scenarios and considered the results of these procedures in performing our independent stress testing.
- We evaluated Management's plans for future actions within the control of the Bank and Bank Company to maintain a surplus to binding regulatory capital requirements over the going concern period in order to determine if such actions are feasible in the current circumstances.

Disclosures

- We considered whether the disclosures (as described within accounting policies on page 174 of the Consolidated Financial Statements) sufficiently and appropriately reflect the events relating to the uncertainties identified in the going concern assessment, and Management's plans in response to these.

Our key observations

Our evaluation of the Directors' going concern assessment covers the period to 30 June 2023, consistent with the period assessed by the Directors.

MREL requirements are the highest binding regulatory requirement the Bank is required to meet over the going concern period, and under the prevailing guidance these requirements are expected to increase from 1 January 2023, which falls within the assessed going concern period. If the Bank breaches these regulatory requirements it would be required to seek regulatory forbearance.

Over the assessed going concern period, the Bank has forecast that it will maintain headroom above its binding regulatory MREL requirements using base case assumptions, and also in a stressed scenario where the Bank is unable to complete all the debt/equity issuances included within the Financial Plan.

We have also concluded that the Bank's forecasts and expected outcome over the going concern period are reasonable.

The Bank retains significant headroom to its binding liquidity requirements over the going concern period and, although it can no longer draw down on the Term Funding Scheme with additional incentives for SMEs ("TFSME"), we do not consider that the Bank's liquidity requirements give rise to a material uncertainty.

Conclusion

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Bank and the Bank Company's ability to continue as a going concern for the period to 30 June 2023.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Bank's and Bank Company's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of the Bank and the Bank Company
Key audit matters	• Credit impairment provisions • Recognition and valuation of the deferred tax asset • Going concern • Valuation of the defined benefit pension scheme surplus in the PACE and Britannia pension schemes • Risk of fraud in the recognition of income using the Effective Interest Rate ('EIR') Method
Materiality	• Overall materiality for the Bank and the Bank Company of £12.0m which represents 0.7 % of Bank equity (2020: £12.0m representing 0.8 % of Bank equity).

An overview of the scope of the audit

Tailoring the scope
The Bank is principally managed from one location in Manchester, with certain functions such as Treasury and some corporate activities operated from London. All audit work performed for the purposes of the audit was undertaken by the Bank audit team.

Climate change
There has been increasing interest from stakeholders as to how climate change will impact the The Co-operative Bank p.l.c.

The Bank and Bank Company has determined that the most significant future impacts from climate change on their operations will be from physical and transition risks. These are explained on pages 27 to 31 in the required Task Force on Climate-related Financial Disclosures and on pages 101 to 105 of the risk management disclosures, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in Note 1 to the Annual Report and Accounts governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards. In Note 2 to the financial statements supplementary narrative explanations of the impact of reasonably possible changes in key assumptions and estimates related to climate risk have been provided and significant judgements and estimates relating to climate change have been described.

Our audit effort in considering climate change was focussed on ensuring that the effects of climate risks disclosed in Note 2 have been appropriately reflected in our assessment of Expected Credit Loss. Details of our procedures and findings on this matter are included in our Loan Impairment Provision key audit matter below. We also challenged the Directors' considerations of climate change in their assessment of going concern and associated disclosures.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the key audit matters in the table below our response to the going concern key audit matter is set out in the 'Conclusions relating to going concern' section of this report.

Risk	Our response to the risk
Credit impairment provisions *Please refer to the Audit Committee Report (page 64); Accounting policies (page 266); and Note 14 of the Consolidated Financial Statements (page 188).* At 31 December 2021, the Bank reported total gross loans of £21,040m (2020: £18,725m) and credit impairment provisions of £37.4m (2020: £42.9m). The determination of expected credit losses ("ECL") continues to be highly subjective and judgemental. Key judgements and estimates in respect of the timing and measurement of ECL include: - The appropriateness of staging criteria selected by the Bank to determine whether a significant increase in credit risk ("SICR") has arisen including evaluating the impact of government support measures; - Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; - Inputs and assumptions used to estimate the impact of multiple economic scenarios including appropriate weightings for the various scenarios; - Completeness and valuation of Post Model Adjustments ("PMAs"); - Measurement of individually assessed provisions; and - Accuracy and adequacy of the financial statement disclosures. We also considered potential consequences of climate change as an emerging risk to the Bank loan portfolio and assessed the impact of this on the Bank's ECL provision. We also considered the Bank's assessment of the impact of climate risk on its ECL provision in the completion of these procedures. The level of judgement and estimation remains elevated as a result of the pandemic, which led to greater uncertainty in forecasting future economic scenarios, the weightings to be applied to these scenarios and the determination of SICR. As such, the level of risk of material misstatement associated with credit impairment provisions remains consistent with the prior year.	We understood and evaluated the design effectiveness of key controls over the impairment process and tested the operating effectiveness of the controls which we intended to rely on covering the reconciliation of model data and the determination of arrears status. We assessed the methodology for determining the SICR criteria and independently tested the staging allocation by reperforming this across the entirety of the secured and unsecured portfolios and a risk based sample of the corporate loan portfolio, with reference to the Bank's SICR thresholds and cure periods. We also performed sensitivity analysis including stage escalations for sectors or exposures with higher risk characteristics. This included exposures with a heightened climate change risk, such as those properties on flood plains or locations which are most likely to be economically impacted by changes in industry trends as a result of the increased focus on climate risk. We determined which of the Bank's ECL models were material, and with the support of EY credit risk modelling specialists we risk rated the models, and for material models reviewed the model methodology and performed substantive procedures on a risk focussed basis. This included a model design review, model implementation and validation testing, sensitivity analysis, benchmarking and the recalculation of the Probability of Default, Loss Given Default, Exposure at Default and final ECL. For the Platform portfolio we developed an alternative model to form an independent expectation against which we assessed the Bank's overall ECL outcome. We performed testing over the integrity of the data used in developing and validating the Bank's IFRS 9 models and assumptions and the information used to calculate the provision, including collateral valuations. With the support of EY economic specialists, we assessed the base case and alternative economic scenarios, including challenging probability weightings and comparing to other scenarios from external sources, as well as EY internally developed forecasts. We assessed whether forecasted macro-economic variables including GDP, unemployment, interest rates, and indexation applied to collateral valuations, were appropriate. With the support of EY credit risk modelling specialists, we performed sensitivity analysis over the underlying macro-economic factors included within the ECL models to assess how they would perform in a more volatile economic environment, and the resulting impact on ECL. With the help of EY credit risk modelling specialists we assessed whether the inventory of PMAs used by the Bank was complete considering the evolution of external factors, including the pandemic, climate change, Brexit, other emerging risks and findings from our model design reviews. We tested material PMAs, including the £16.2m PMA recognised to increase ECL on the retail secured book, as the relative immaturity and limited default experience in this portfolio results in a modelled ECL that does not appropriately reflect the risk of the book by assessing the appropriateness of the Bank's methodologies, validating data inputs and independently recalculating the PMAs, which included an assessment of the underlying calculation methodology.

Risk	Our response to the risk
	For a sample of higher risk individually assessed corporate provision cases, and also certain Stage 2 corporate cases where the Bank includes a PMA to reflect risks not captured by the underlying models, we obtained an understanding of the latest developments in the borrower's situation and the factors impacting the measurement of provisions including factors arising from the pandemic and climate risk. With the support of EY valuation specialists we independently assessed the underlying collateral used in the Bank's cash flow calculations. In each case we tested key data inputs and considered alternative scenarios in challenging the Bank's estimate. We assessed the adequacy and appropriateness of disclosures made within the financial statements, including the disclosures provided in relation to the credit risk related impacts of the pandemic and climate risk. In line with the requirements of ISA 540 (Revised) – Auditing Accounting Estimates and Related Disclosures, we performed a stand back analysis to assess the overall adequacy of the ECL coverage and approach. In completing this analysis, we considered the nature and credit quality of the overall loan books, used data analytic tools to highlight risk areas in the loan portfolios, performed benchmarking across similar institutions considering both staging percentages and provision coverage, assessed the impact of the pandemic on individual and company exposures and behaviours and evaluated the overall reasonableness of economic recovery assumptions.

Key observations communicated to the Audit Committee

We communicated that we are satisfied the Bank's ECL provisions were reasonably estimated, in compliance with IFRS 9 and that we found them to be within a reasonable range of outcomes, which we reported to the Audit Committee.

We highlighted to the Committee that there remains increased uncertainty in determining forecast losses due to the prevailing uncertain economic environment.

We highlighted to the Audit Committee that although we observed model deficiencies, the resulting ECL was reasonable after incorporating appropriate Post Model Adjustments.

We considered the multiple economic scenarios incorporated in the IFRS 9 models to be materially appropriate.

Risk	Our response to the risk
Valuation of the deferred tax asset *Please refer to the Audit Committee Report (page 64); Accounting policies (page 270); and Note 29 of the Consolidated Financial Statements (page 196).* The Bank has historically limited the recognition of deferred tax assets to the extent that these can be offset against deferred tax liabilities, and recognised £216.1m of deferred tax assets on this basis at 31 December 2021 (2020: £154.5m), offsetting a total deferred tax liability of £294.0m (2020: £192.7m). At 31 December 2021, the Bank has also recognised an additional £114.7m deferred tax asset to the extent that its historic losses could be used against future anticipated taxable profits. Judgement therefore exists relating to the likelihood that the Bank will achieve its forecast results and generate sufficient taxable profits against which losses can be utilised, which is based on estimates of future profitability that are inherently uncertain as they are sensitive to future economic, market and other conditions which are difficult to predict. Key estimates which underpin these forecasts include: - Revenue and cost forecasts - Macroeconomic and model assumptions - Duration and reliability of forecasts used especially in the outer years The recognition of deferred tax also considers the interpretation of changes to applicable tax rates and laws. As this is the first year the Bank has recognised such an asset, the risks associated with the valuation of the deferred tax asset has increased relative to the prior year and we have considered this a new key audit matter in our audit of the 2021 Annual Report and Accounts.	We developed an independent view as to whether there is sufficient observable evidence to support the assertion that it is 'probable' that sufficient taxable profits will be available in future years to support the recognition of the deferred tax asset, under the requirements of IAS 12 – Income Taxes and the European Securities and Markets Authority ("ESMA") guidance. Given that this was the first year of profitability for the Bank after 10 years of losses we also assessed the sustainability of the Bank's predicted profit streams by focussing on underlying business trends and assumptions and excluding one off items. We considered the length of the forecasts that it would be appropriate to use in calculating the deferred tax asset, with reference to the Bank's historic loss making performance and levels of forecasting accuracy. We critically assessed the forecast assumptions which underpin the deferred tax asset calculation and tested these for consistency with assumptions used throughout the Bank's financial reporting process. We developed an alternative range of assumptions to apply to the Bank's profit forecasts. These assumptions were determined using external market information, considering the Bank's historical forecasting accuracy and assessing the achievability of future revenue growth and cost reduction plans. Applying these alternative assumptions to the Bank's forecasts enabled us to calculate an independent range against which we assessed the Bank's forecasts. With the support of EY taxation specialists, we assessed the recognition and valuation of the deferred tax asset against the applicable tax rates and laws. In conjunction with our EY modelling specialists we assessed the clerical accuracy of calculations impacted by key model assumptions within the Bank's forecasting model. We also utilised the support of our tax audit team to develop an independent tax model to assess the model used by the Bank to calculate the deferred tax asset. In line with the requirements of ISA 540 (Revised) – Auditing Accounting Estimates and Related Disclosures, we performed a stand back analysis to assess the overall reasonableness of the deferred tax asset recognised by the Bank. In completing this analysis, we considered how the Bank achieved profitability in 2021 and the likelihood that sufficient future profits will be generated against which historic losses can be used, assessed the impact of reasonable alternative assumptions on the Bank's profit forecasts. We also considered the length of the forecasts used by the Bank in calculating the deferred tax asset and benchmarked this against the period used by peer organisations. We assessed the appropriateness of the related disclosures in the 2021 Annual Report and Accounts, including the details provided of the assumptions used and the sensitivities disclosed.

Key observations communicated to the Audit Committee
We highlighted to the Audit Committee that we considered it was 'probable' that sufficient taxable profits will be available in future years to support the recognition of the deferred tax asset, under the requirements of IAS 12 – Income Taxes and the ESMA"). We also highlighted that we considered the length of forecasts used by the Bank in calculating the deferred tax asset was appropriate. We noted that the Bank's reported deferred tax asset fell within our range of alternative values and therefore we were satisfied that this was reasonably estimated. We also concluded to the Audit Committee that the deferred tax asset was calculated in line with applicable tax rates and laws.

Risk	Our response to the risk
Valuation of the defined benefit pension scheme surplus in the PACE and Britannia pension schemes *Please refer to the Audit Committee Report (page 64); Accounting policies (page 270); and Note 30 of the Consolidated Financial Statements (page 197).* At 31 December 2021, the Bank reported a defined benefit pension scheme surplus of £841.1m (2020: £651.8m). This consisted of assets of £2,128.7m and liabilities of £1,528.0m relating to the PACE pension scheme and Britannia pension scheme assets of £905.8m and liabilities of £665.4m. The valuation of the liabilities of each of these pension schemes is subject to the following significant assumptions and is performed by an external firm of pension actuaries: - Discount rate; - Inflation; - Revaluation of deferred pensions; and - Mortality. In addition, the asset pools of both the PACE and Britannia schemes also contain an element of Level 3 illiquid investment funds that are harder to value, which increases the risk of incorrect valuation. The valuation of the PACE pension scheme surplus is also impacted by the policy taken out by the Bank over this scheme in 2020 which insures 50% of the future benefits due to members. The risks associated with the Bank's pension schemes remain elevated as a result of COVID-19, which has led to additional uncertainty over the valuation of pension assets, and greater volatility in the liability assumptions, which drives the surplus calculation.	With the support of EY pension actuaries we considered the appropriateness of the assumptions supporting the valuation of the scheme liabilities through the development of an independent range of reasonable assumptions against which to assess those used by the Bank and its external actuarial experts . This included the revaluation of the PACE insurance policy historically entered into by the Bank. We assessed the impact on pension liabilities of changes in financial, demographic and longevity assumptions and whether these were in line with our expectations. We also tested the completeness and accuracy of member data on which these assumptions are based. Alongside EY valuation specialists, we challenged the appropriateness of the Bank's asset valuation methodology, including the judgements made in determining significant assumptions used in the valuation of illiquid Level 3 pension assets, through assessing asset valuation statements, pricing policies and evidence of the performance of the pension assets. We assessed the recognition of the PACE and Britannia pension schemes surplus against the requirements of IFRIC 14. We assessed the adequacy of the pension disclosures made, and their compliance with the accounting standards including the appropriateness of the key assumptions and sensitivities disclosed.

Key observations communicated to the Audit Committee
We highlighted to the Audit Committee that the defined benefit pension scheme surplus in the PACE and Britannia pension schemes is reasonably estimated and recognised in accordance with both IAS 19 and IFRIC 14. We highlighted that there is subjectivity in the valuation of the scheme liabilities due to the use of significant assumptions in calculating the balance. Overall, we are satisfied that on an overall basis, the assumptions made by the Bank were within a reasonable range. We also noted that the asset pools of both the PACE and Britannia pension schemes contained an element of "hard to value" Level 3 illiquid funds. We are satisfied that the Bank's methods for valuing these assets, and the valuations themselves, were materially appropriate.

Risk	Our response to the risk
Risk of fraud in the recognition of income using the effective interest rate method *Please refer to the Audit Committee Report (page 64) and Accounting policies (page 263).* The Bank records interest income on its mortgage portfolio under the effective interest rate ('EIR') method. The EIR method of revenue recognition spreads the income statement recognition of income and expense cash flows that are, in substance, integral to the overall yield of the financial instrument over its modelled life. The method involves Management judgement in both determining the initial EIR and recording the present value of adjustments arising in subsequent periods when cash flows are reforecast. As such, it represents a risk of fraud in revenue recognition through Management override of internal controls. The Bank's EIR models are most sensitive to changes in the behavioural life assumptions and future interest rate expectations which is difficult to predict (particularly in the context of the future economic and customer impact of on-going COVID-19 pandemic). Judgement is also applied in determining the nature of fees eligible to be deferred as a result of being integral to the yield of the products. The key assumptions particularly in relation to modelled forecast cash flows may be measured incorrectly due to the use of inaccurate or incomplete data, erroneous formulae or inappropriate assumptions. The level of audit risk associated with the risk of fraud recognition of income using the effective interest rate method remains consistent with the prior year.	We evaluated the assumptions used by the Bank in the EIR models, including the behavioural lives of assets and the forecasting of standard variable rates to which mortgages revert following the conclusion of their fixed rate term. We considered the appropriateness of these assumptions by developing an independent range against which we could assess the Bank's EIR adjustment to income. We assessed customer behavioural assumptions in the context of the Bank's own historic and recent experience and also established the consistency of forecast standard variable rates with market derived base rate forecasts and the Bank's expectations of future interest margins. We considered the continued impact of COVID-19 on customer behaviour and recent government changes to prevailing base rates on the Bank's future base rate forecasts. We tested the completeness of data within the Bank's EIR models by selecting a sample of loans from the Bank's underlying source systems and checking these were included in the model. We tested the accuracy of the data within the models through agreement of the model data to the Bank's source systems and underlying customer documentation. We tested the completeness, appropriateness and compliance with the requirements of the accounting standards of fees deferred and amortised in the EIR models by independently assessing the Bank's income streams to determine whether they form an integral part of the effective yield and therefore should be included or omitted from the Bank's model. We tested the clerical and methodical accuracy of the EIR calculations by recalculating the EIR balance for a sample of mortgages and agreeing this to the Bank's modelled output.

Key observations communicated to the Audit Committee
We communicated our key observations to the Audit Committee that the approach to determining the EIR at 31 December 2021, was appropriate and reasonable in the context of current observable market behaviours and economic conditions. We concluded that the resulting EIR adjustments made to income fell within our independent range of outcomes and were materially in compliance with the requirements of IFRS 9.

In the prior year, our auditor's report included a key audit matter in relation to the valuation of the fair value adjustments to hedge risk and macro cash flow hedge reserve. In the current year, we have recognised the reduced risk in the underlying macro hedge accounting models which underpin these line items due to simplification of the Bank's hedging strategy.

Our application of materiality
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Bank and the Bank Company to be £12.0 million (2020: £12.0 million), which is 0.7% (2020: 0.8%) of the Bank's equity. We believe that the Bank's equity provides us with the most appropriate basis on which to set materiality as the Bank's primary focus is to maintain regulatory capital. This is also the first year the Bank has recorded a profit since 2011. We also see equity, as a proxy for regulatory capital, as the main focus for the users of the financial statements given the importance of regulatory capital to the Bank's solvency.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 75% (2020: 50%) of our planning materiality, namely £9.0 million (2020: £6.0 million). We have increased performance materiality to this percentage as a result of the reduced overall risk assessment of this audit and enhancements we have observed in the Bank's control environment.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.6 million (2020: £0.6 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other Information
The Other Information comprises the information included in the annual report set out on pages 1 to 135, other than the financial statements and our auditor's report thereon. The Directors are responsible for the Other Information contained within the annual report.

Our opinion on the financial statements does not cover the Other Information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Bank and the Bank Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the Bank Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of Directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 78, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Bank and Management.
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant are:
    - Companies Act 2006.
    - Financial Reporting Council ("FRC") rules and guidance.
    - Tax Legislation (governed by HM Revenue and Customs).
    - Financial Conduct Authority ("FCA") rules.
    - CRD IV (Basel III) and Prudential Regulation Authority ("PRA") rules.
- We understood how the Bank is complying with those frameworks by attending the Bank's Risk Committee and Audit Committee, reviewing relevant Board and management committee minutes and reports, holding discussions with the Bank's legal team and internal audit, amongst others. We inquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations. We also reviewed the Bank's Complaints Management Policy and Whistleblowing Policy.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, those charged with governance, internal audit and the Audit Committee. We also utilised the support of EY forensics specialists in the performance of this risk assessment.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reports on the aforementioned legal and regulatory frameworks as well as reviewing the correspondence exchanged between the Bank and its Regulators, and gaining an understanding of any regulatory investigations and enforcement actions being undertaken. We also met with the Bank's Regulators at least annually in the performance of our audit. We focussed our testing on key areas of risk and estimation, as referred to in the key audit matters section above.
- The Bank operates in the financial services industry, which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team, including auditor's specialists, to ensure that the team had the appropriate competence and capabilities, which included utilising the support of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed as auditors by the Bank at the AGM on 30 May 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. Our first engagement letter was signed on 17 July 2014. The period of total uninterrupted engagement including previous renewals and reappointments is eight years, covering the years ending 31 December 2014 to 31 December 2021.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank or the Bank Company and we remain independent of the Bank and the Bank Company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the Bank Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank Company and the Bank Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael-John Albert (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
23 February 2022

Opinion

We have audited the financial statements of The Co-operative Bank Holdings Limited (the 'Holding Company') and its subsidiaries (together the 'Group') for the year ended 31 December 2021 which comprise the Group Income Statement, the Group and Holding Company Balance Sheet, Group Statement of Cash Flows, the Group Statement of Comprehensive Income, the Group and Holding Company Statement of Changes in Equity, the Capital and Risk Management section of the Business Review identified as audited on pages 86 to 135 and the related notes 1 to 37 (except for the columns marked as "unaudited" in Note 31), including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Accounting Standards and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the Group's and of the Holding Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted International Accounting Standards;
- the Holding Company financial statements have been properly prepared in accordance with UK adopted International Accounting Standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Bank Company's ability to continue as a going concern for a period of 18 months from the balance sheet date to 30 June 2023. Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Other Information

The Other Information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the Other Information contained within the annual report. Our opinion on the financial statements does not cover the Other Information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Holding Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Holding Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Holding Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 78, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Group and Management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are:
    - Companies Act 2006.
    - Financial Reporting Council ("FRC") rules and guidance.
    - Tax Legislation (governed by HM Revenue and Customs).
    - Financial Conduct Authority ("FCA") rules.
    - CRD IV (Basel III) and Prudential Regulation Authority ("PRA") rules.
- We understood how the Group is complying with those frameworks by attending the Group's Risk Committee and Audit Committee, reviewing relevant Board and management committee minutes and reports, holding discussions with the Group's legal team and internal audit, amongst others. We inquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations. We also reviewed the Group's Complaints Management Policy and Whistleblowing Policy.

- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, those charged with governance, internal audit, and the Audit Committee.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reports on the aforementioned legal and regulatory frameworks as well as reviewing the correspondence exchanged between the Group and its Regulators, and gaining an understanding of any regulatory investigations and enforcement actions being undertaken. We also met with the Group's Regulators at least annually in the performance of our audit. We focussed our testing on key areas of risk and estimation, as referred to in the key audit matters section above.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Holding Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Holding Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Holding Company and the Holding Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael-John Albert (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
23 February 2022

Opinion

In our opinion:

- the financial statements of The Co-operative Bank Finance p.l.c (the 'Finance Company') and its subsidiaries (together the 'Finance Group') give a true and fair view of the state of the Finance Group's and of the Finance Company's affairs as at 31 December 2021 and of the Finance Group's profit for the year then ended;
- the Finance Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Finance Company financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements (as defined in the table below) of the Finance Company and the Finance Group for the year ended 31 December 2021, which comprise:

Finance Group	Finance Company
Consolidated balance sheet as at 31 December 2021	Balance sheet as at 31 December 2021
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Cash flow statement for the year then ended
Consolidated statement of changes in equity for the year then ended	Related notes 1 to 29 to the financial statements, including a summary of significant accounting policies
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 29 to the financial statements, (except for the columns marked as "unaudited" in Note 31 of the Group financial statements, as referenced in Note 23) including a summary of significant accounting policies Information in the Risk Management section of the Business Review, identified as "audited" on pages 86 to 135	

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and as regards to the Finance Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Finance Group and Finance Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. The going concern status of the Finance Group and the Finance Company is also dependent on the The Co-operative Bank p.l.c.'s (the 'Bank's') ability to continue as a going concern as the Bank is the main trading entity within the Group, and should the Bank not be a going concern this would impact the ability of the Finance Group to meet its liabilities as they fall due. Our evaluation of the Directors' assessment of the Finance Group and Finance Company's ability to continue to adopt the going concern basis of accounting included:

How we evaluated the Directors' assessment

Risk Assessment Procedures

- Through discussions with Management and review of supporting evidence, we updated our understanding of the Bank's capital requirements.
- We obtained an understanding of Management's basis for use of the going concern basis of accounting through reviewing the going concern assessment and underlying forecasts and assumptions, and through inquiries of Management and those charged with governance.
- We have independently identified factors that may indicate events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern, which include:
  - The Bank's ability to complete the required levels of debt issuances to remain in compliance with binding regulatory capital requirements, which become more onerous from 1 January 2023.
  - The Bank's performance against its Financial Plan, noting that 2021 is the first time the Bank has recorded a profit since 2011. The prevailing economic uncertainty continues to put stress on the Bank and introduces greater uncertainty as to the achievability of these forecasts.
  - The Bank's compliance with regulatory liquidity requirements.
- In this context, events or conditions that cast significant doubt over the Bank's ability to continue as a going concern were identified and we have designed our audit procedures to evaluate the effect of these risks on the Bank and the Bank Company's ability to continue as a going concern. We also considered going concern to be a key audit matter.

Management's Method

- We confirmed our understanding of the Directors' going concern assessment process, including the Financial Statement Close Process, and the process by which the budget is created and approved. We engaged with Management early to ensure all key factors that we considered to be material were considered in the Bank's going concern assessment.
- We obtained Management's Board approved long-term forecast covering the period of Management's going concern assessment to 30 June 2023.
- Using our understanding of the business, we evaluated the forecasting method adopted by the Directors in assessing going concern, including considering plausible alternative downside scenarios and concluded that the method adopted was appropriate.
- We tested whether the forecasts used in the going concern assessment were mathematically accurate.
- We inquired of Management as to their knowledge of events or conditions beyond the period of Management's assessment and read published announcements from the Prudential Regulation Authority ("PRA") that we considered had the potential to impact the Bank's capital resource and/or requirements.

Assumptions

- We evaluated the relevance and reliability of the underlying data used in the going concern assessment and tested assumptions to third party evidence, where appropriate.
- We reviewed correspondence between the Bank and its regulators to evidence the current regulatory capital position and also to provide evidence as to changes in the Bank's capital requirement across the period to 30 June 2023. We met with the PRA during the audit and noted the PRA's perspectives on risks and areas of focus.
- We evaluated the long-term forecast with reference to Management's historical forecasting accuracy and performed stress testing to consider the reasonableness of the base rate assumptions and resultant impact on net interest margin, forecast mortgage balances, levels of deposits from Small and Medium Enterprises ("SMEs"), operating costs and the timing and quantum of debt/equity issuances over the assessed going concern period.
- With the support of EY transactions specialists, we evaluated the Bank's ability to make future debt issuances sufficient to maintain compliance with binding regulatory requirements, with reference to observed debt raising activity by other market participants. We considered the Bank's historic debt-raising success in completing this assessment.
- We reconciled the Bank's liquidity position to its regulatory liquidity reporting returns and challenged the assumptions within the Bank's liquidity forecasts over the going concern period, considering the Bank's current position and availability of additional liquidity should it be required.

Stress testing and Management plans for future actions

- We evaluated Management's assumptions by performing independent stress testing to determine whether a reasonable alternative stressed scenario, or combination of scenarios, would result in a breach of binding regulatory requirements. With the support of our Prudential Regulation specialists, we supplemented this by assessing the reasonableness of the Bank's risk weighted asset assumptions.
- We evaluated the plausibility of Management's downside assumptions with reference to the work performed by EY economists in assessing the Bank's forecast economic scenarios and considered the results of these procedures in performing our independent stress testing.
- We evaluated Management's plans for future actions within the control of the Bank to maintain a surplus to binding regulatory capital requirements over the going concern period in order to determine if such actions are feasible in the current circumstances.

Disclosures

- We considered whether the disclosures (as described within accounting policies on page 174 of the Consolidated Financial Statements) sufficiently and appropriately reflect the events relating to the uncertainties identified in the going concern assessment, and Management's plans in response to these.

Our key observations

Our evaluation of the Directors' going concern assessment covers the period to 30 June 2023, consistent with the period assessed by the Directors.

MREL requirements are the highest binding regulatory requirement the Bank is required to meet over the going concern period, and under the prevailing guidance these requirements are expected to increase from 1 January 2023, which falls within the assessed going concern period. If the Bank breaches these regulatory requirements it would be required to seek regulatory forbearance.

Over the assessed going concern period, the Bank has forecast that it will maintain headroom above its binding regulatory MREL requirements using base case assumptions, and also in a stressed scenario where the Bank is unable to complete all the debt/equity issuances included within the Financial Plan.

We have also concluded that the Bank's forecasts and expected outcome over the going concern period are reasonable.

The Bank retains significant headroom to its binding liquidity requirements over the going concern period and, although it can no longer draw down on the Term Funding Scheme with additional incentives for SMEs ("TFSME"), we do not consider the Bank's liquidity requirements give rise to a material uncertainty.

Conclusion

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Finance Group and the Finance Company's ability to continue as a going concern for the period to 30 June 2023.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Finance Group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of the Finance Group and the Finance Company
Key audit matters	• Credit impairment provisions • Recognition and valuation of the deferred tax asset • Going concern • Valuation of the defined benefit pension scheme surplus in the PACE and Britannia pension schemes • Risk of fraud in the recognition of income using the Effective Interest Rate ('EIR') Method • Valuation of the Finance Company's investment in The Co-operative Bank p.l.c.
Materiality	• Overall materiality for the Finance Group of £12.0m which represents 0.7% of Bank equity (2020: £12.0m representing 0.8% of Bank equity). • Overall materiality for the Finance Company of £3.7m (2020: £3.7m), which represents 0.5% of Finance Company assets (2020: 0.5% of Finance Company assets).

An overview of the scope of the audit

Tailoring the scope

The Finance Group is principally managed from one location in Manchester, with certain functions such as Treasury and some corporate activities operated from London. All audit work performed for the purposes of the audit was undertaken by the Finance Group audit team.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact The Co-operative Bank Finance p.l.c. The Finance Group and Finance Company has determined that the most significant future impacts from climate change on their operations will be from physical and transition risks. These are explained on pages 27 to 31 in the required Task Force for Climate-related Financial Disclosures and on pages 101 to 105 of the risk management disclosures, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in Note 1 of the Group financial statements to the Annual Report and Accounts governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards. In Note 2 to the financial statements supplementary narrative explanations of the impact of reasonably possible changes in key assumptions and estimates related to climate risk have been provided and significant judgements and estimates relating to climate change have been described.

Our audit effort in considering climate change was focussed on ensuring that the effects of climate risks disclosed in Note 2 have been appropriately reflected in our assessment of Expected Credit Loss. Details of our procedures and findings on this matter are included in our Loan Impairment Provision key audit matter below. We also challenged the Directors' considerations of climate change in their assessment of going concern and associated disclosures.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the key audit matters in the table below our response to the going concern key audit matter is set out in the 'Conclusions relating to going concern' section of this report.

Risk	Our response to the risk
Credit impairment provisions *Please refer to the Audit Committee Report (page 64); Accounting policies (page 266); and Note 5 of the Consolidated Financial Statements (page 257).* At 31 December 2021, the Finance Group reported total gross loans of £21,040m (2020: £18,725m) and credit impairment provisions of £37.4m (2020: £42.9m). The determination of expected credit losses ("ECL") continues to be highly subjective and judgemental. Key judgements and estimates in respect of the timing and measurement of ECL include: - The appropriateness of staging criteria selected by the Finance Group to determine whether a significant increase in credit risk ("SICR") has arisen including evaluating the impact of government support measures; - Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; - Inputs and assumptions used to estimate the impact of multiple economic scenarios including appropriate weightings for the various scenarios; - Completeness and valuation of Post Model Adjustments ("PMAs"); - Measurement of individually assessed provisions; and - Accuracy and adequacy of the financial statement disclosures. We also considered climate change as an emerging risk to the Finance Group and assessed the impact of this on the Finance Group's ECL provision. We also considered the Finance Group's assessment of the impact of climate risk on its ECL provision in the completion of these procedures. The level of judgement and estimation remains elevated as a result of the pandemic, which led to greater uncertainty in forecasting future economic scenarios, the weightings to be applied to these scenarios and the determination of SICR. As such, the level of risk of material misstatement associated with credit impairment provisions remains consistent with the prior year.	We understood and evaluated the design effectiveness of key controls over the impairment process and tested the operating effectiveness of the controls which we intended to rely on covering the reconciliation of model data and the determination of arrears status. We assessed the methodology for determining the SICR criteria and independently tested the staging allocation by reperforming this across the entirety of the secured and unsecured portfolios and a risk based sample of the corporate loan portfolio, with reference to the Finance Group's SICR thresholds and cure periods. We also performed sensitivity analysis including stage escalations for sectors or exposures with higher risk characteristics. This included exposures with a heightened climate change risk, such as those properties on flood plains or locations which are most likely to be economically impacted by changes in industry trends as a result of the increased focus on climate risk. We determined which of the Finance Group's ECL models were material, and with the support of EY credit risk modelling specialists we risk rated the models, and for material models reviewed the model methodology and performed substantive procedures on a risk focussed basis. This included a model design review, model implementation and validation testing, sensitivity analysis, benchmarking and the recalculation of the Probability of Default, Loss Given Default, Exposure at Default and final ECL. For the Platform portfolio we developed an alternative model to form an independent expectation against which we assessed the Finance Group's overall ECL outcome. We performed testing over the integrity of the data used in developing and validating the Finance Group's IFRS 9 models and assumptions and the information used to calculate the provision, including collateral valuations. With the support of EY economic specialists, we assessed the base case and alternative economic scenarios, including challenging probability weightings and comparing to other scenarios from external sources, as well as EY internally developed forecasts. We assessed whether forecasted macro-economic variables including GDP, unemployment, interest rates and indexation applied to collateral valuations, were appropriate. With the support of EY credit risk modelling specialists, we performed sensitivity analysis over the underlying macro-economic factors included within the ECL models to assess how they would perform in a more volatile economic environment, and the resulting impact on ECL. With the help of EY credit risk modelling specialists we assessed whether the inventory of PMAs used by the Finance Group was complete considering the evolution of external factors, including the pandemic, climate change, Brexit, other emerging risks and finding from our model design reviews. We tested material PMAs, including the £16.2m PMA recognised to increase ECL on the retail secured book, as the relative immaturity and limited default experience in this portfolio results in a modelled ECL that does not appropriately reflect the risk of the book, by assessing the appropriateness of the Finance Group's methodologies, validating data inputs and independently recalculating the PMAs, which included an assessment of the underlying calculation methodology.

Risk	Our response to the risk
	For a sample of higher risk individually assessed corporate provision cases and also certain Stage 2 corporate cases where the Finance Group includes a PMA to reflect risks not captured by the underlying models we obtained an understanding of the latest developments in the borrower's situation and the factors impacting the measurement of provisions including factors arising from the pandemic and climate risk. With the support of EY valuation specialists we independently assessed the underlying collateral used in the Finance Group's cash flow calculations. In each case we tested key data inputs and considered alternative scenarios in challenging the Finance Group's estimate. We assessed the adequacy and appropriateness of disclosures made within the financial statements, including the disclosures provided in relation to the credit risk related impacts of the pandemic and climate risk. In line with the requirements of ISA 540 (Revised) – Auditing Accounting Estimates and Related Disclosures, we performed a stand back analysis to assess the overall adequacy of the ECL coverage and approach. In completing this analysis, we considered the nature and credit quality of the overall loan books, used data analytic tools to highlight risk areas in the loan portfolios, performed benchmarking across similar institutions considering both staging percentages and provision coverage, assessed the impact of the pandemic on individual and company exposures and behaviours and evaluated the overall reasonableness of economic recovery assumptions.

Key observations communicated to the Audit Committee

We communicated that we are satisfied the Finance Group's ECL provisions were reasonably estimated, in compliance with IFRS 9 and that we found them to be within a reasonable range of outcomes, which we reported to the Audit Committee.

We highlighted to the Committee that there remains increased uncertainty in determining forecast losses due to the prevailing uncertain economic environment.

We highlighted to the Audit Committee that although we observed model deficiencies, the resulting ECL was reasonable after incorporating appropriate Post Model Adjustments.

We considered the multiple economic scenarios incorporated in the IFRS 9 models to be materially appropriate.

Risk	Our response to the risk
Valuation of the deferred tax asset *Please refer to the Audit Committee Report (page 64); Accounting policies (page 270); and Note 21 of the Consolidated Financial Statements (page 259).* The Finance Group has historically limited the recognition of deferred tax assets to the extent that these can be offset against deferred tax liabilities, and recognised £216.1m of deferred tax assets on this basis at 31 December 2021 (2020: £154.5m), offsetting a total deferred tax liability of £294.0m (2020: £192.7m). At 31 December 2021, the Finance Group has also recognised an additional £114.7m deferred tax asset to the extent that its historic losses could be used against future taxable profits. Judgement therefore exists relating to the likelihood that the Finance Group will achieve forecast results and generate sufficient taxable profits against which losses can be utilised, which is based on estimates of future profitability that are inherently uncertain as they are sensitive to future economic, market and other conditions which are difficult to predict. Key estimates which underpin these forecasts include: - Revenue and cost forecasts - Macroeconomic and model assumptions - Duration of forecasts used The recognition of deferred tax also considers the interpretation of changes to applicable tax rates and laws. As this is the first year the Finance Group has recognised such an asset, the risks associated with the valuation of the deferred tax asset has increased relative to the prior year and we have considered this a new key audit matter in our audit of the 2021 Annual Report and Accounts.	We developed an independent view as to whether there is sufficient observable evidence to support the assertion that it is 'probable' that sufficient taxable profits will be available in future years to support the recognition of the deferred tax asset, under the requirements of IAS 12 – Income Taxes and the European Securities and Markets Authority ("ESMA") guidance. We considered the length of the forecasts that it would be appropriate to use in calculating the deferred tax asset, with reference to the Finance Group's historic loss making performance and levels of forecasting accuracy. We critically assessed the forecast assumptions which underpin the deferred tax asset calculation and tested these for consistency with assumptions used throughout the Finance Group's financial reporting process. We developed an alternative range of assumptions to apply to the Finance Group's profit forecasts that underpin the deferred tax asset calculation. These assumptions were determined using external market information, considering the Finance Group's historical forecasting accuracy and assessing the achievability of future revenue growth and cost reduction plans. Applying these alternative assumptions to the Finance Group's forecasts enabled us to calculate an independent range against which we assessed the Finance Group's valuation. With the support of EY taxation specialists, we assessed the recognition and valuation of the deferred tax asset against the applicable tax rates and laws. In conjunction with our EY modelling specialists we assessed the clerical accuracy of calculations impacted by key model assumptions within the Finance Group's forecasting model. We also utilised the support of our tax audit team to develop an independent tax model to assess the model used by the Finance Group to calculate the deferred tax asset. In line with the requirements of ISA 540 (Revised) – Auditing Accounting Estimates and Related Disclosures, we performed a stand back analysis to assess the overall reasonableness of the deferred tax asset recognised by the Finance Group. In completing this analysis, we considered how the Finance Group achieved profitability in 2021 and the likelihood that sufficient future profits will be generated against which historic losses can be used, assessed the impact of reasonable alternative assumptions on the Finance Group's profit forecasts. We also considered the length of the forecasts used in calculating the deferred tax asset and benchmarked this against the period used by peer organisations. We assessed the appropriateness of the related disclosures in the 2021 Annual Report and Accounts, including the details provided of the assumptions used and the sensitivities disclosed.

Key observations communicated to the Audit Committee

We highlighted to the Audit Committee that we considered it was 'probable' that sufficient taxable profits will be available in future years to support the recognition of the deferred tax asset, under the requirements of IAS 12 – Income Taxes and the ESMA"). We also highlighted that we considered the length of forecasts used by the Finance Group in calculating the deferred tax asset was appropriate.

We noted that the Finance Group's reported deferred tax asset fell within our range of alternative values and therefore we were comfortable this was reasonably estimated.

We also concluded to the Audit Committee that the deferred tax asset was calculated in line with applicable tax rates and laws.

Risk	Our response to the risk
Valuation of the defined benefit pension scheme surplus in the PACE and Britannia pension schemes *Please refer to the Audit Committee Report (page 64); Accounting policies (page 270); and Note 22 of the Consolidated Financial Statements (page 259).* At 31 December 2021, the Finance Group reported a defined benefit pension scheme surplus of £841.1m (2020: £651.8m). This consisted of assets of £2,128.7m and liabilities of £1,528.0m relating to the PACE pension scheme and Britannia pension scheme assets of £905.8m and liabilities of £665.4m. The valuation of the liabilities of each of these pension schemes is subject to the following significant assumptions: - Discount rate; - Inflation; - Revaluation of deferred pensions; and - Mortality. In addition, the asset pools of both the PACE and Britannia schemes also contain an element of Level 3 illiquid investment funds that are harder to value, which increases the risk of incorrect valuation. The valuation of the PACE pension scheme surplus is also impacted by the policy taken out by the Bank over this scheme in 2020 which insures 50% of the future benefits due to members. The risks associated with the Finance Group's pension schemes remain elevated as a result of COVID-19, which has led to additional uncertainty over the valuation of pension assets, and greater volatility in the liability assumptions, which drives the surplus calculation.	With the support of EY pension actuaries we considered the appropriateness of the assumptions supporting the valuation of the scheme liabilities through the development of an independent range of reasonable assumptions against which to assess those used by the Finance Group. This included the revaluation of the PACE insurance policy historically entered into by the Finance Group. We assessed the impact on pension liabilities of changes in financial, demographic and longevity assumptions and whether these were in line with our expectations. We also tested the completeness and accuracy of member data on which these assumptions are based. Alongside EY valuation specialists, we challenged the appropriateness of the Finance Group's asset valuation methodology, including the judgements made in determining significant assumptions used in the valuation of illiquid Level 3 pension assets, through assessing asset valuation statements, pricing policies and evidence of the performance of the pension assets. We assessed the recognition of the PACE and Britannia pension schemes surplus against the requirements of IFRIC 14. We assessed the adequacy of the pension disclosures made, and their compliance with the accounting standards including the appropriateness of the key assumptions and sensitivities disclosed.

Key observations communicated to the Audit Committee

We highlighted to the Audit Committee that the defined benefit pension scheme surplus in the PACE and Britannia pension schemes is reasonably estimated and recognised in accordance with both IAS 19 and IFRIC 14.

We highlighted that there is subjectivity in the valuation of the scheme liabilities due to the use of significant assumptions in calculating the balance. Overall, we are satisfied that on an overall basis, the assumptions made by the Finance Group were within a reasonable range.

We also noted that the asset pools of both the PACE and Britannia pension schemes contained an element of "hard to value" Level 3 illiquid funds. We are satisfied that the Finance Group's methods for valuing these assets, and the valuations themselves, were materially appropriate.

Risk	Our response to the risk
Risk of fraud in the recognition of income using the effective interest rate method *Please refer to the Audit Committee Report (page 64) and Accounting policies (page 263).* The Finance Group records interest income on its mortgage portfolio under the effective interest rate ('EIR') method. The EIR method of revenue recognition spreads the income statement recognition of income and expense cash flows that are, in substance, integral to the overall yield of the financial instrument over its modelled life. The method involves Management judgement and the use of simplified models in both determining the initial EIR and recording the present value of adjustments arising in subsequent periods when cash flows are reforecast. As such, it represents a risk of fraud in revenue recognition through Management override of internal controls. The Finance Group's EIR models are most sensitive to changes in the behavioural life assumptions and future interest rate expectations which is difficult to predict (particularly in the context of the future economic and customer impact of on-going COVID-19 pandemic). Judgement is also applied in determining the nature of fees eligible to be deferred as a result of being integral to the yield of the products. The key assumptions particularly in relation to modelled forecast cash flows may be measured incorrectly due to the use of inaccurate or incomplete data, erroneous formulae or inappropriate assumptions. The level of audit risk associated with the risk of fraud recognition of income using the effective interest rate method remains consistent with the prior year.	We evaluated the assumptions used by the Finance Group in the EIR models, including the behavioural lives of assets and the forecasting of standard variable rates to which mortgages revert following the conclusion of their fixed rate term. We considered the appropriateness of these assumptions by developing an independent range against which we could assess the Finance Group's EIR adjustment to income. We assessed customer behavioural assumptions in the context of the Finance Group's own historic and recent experience. We also established the consistency of forecast standard variable rates with market derived base rate forecasts and the Finance Group's expectations of future interest margins. We considered the continued impact of COVID-19 on customer behaviour and recent government changes to prevailing base rates on the Finance Group's future base rate forecasts. We tested the completeness of data within the Finance Group's EIR models by selecting a sample of loans from the Finance Group's underlying source systems and checking these were included in the model. We tested the accuracy of the data within the models through agreement of the model data to the Finance Group's source systems and underlying customer documentation. We tested the completeness, appropriateness and compliance with the requirements of the accounting standards of fees deferred and amortised in the EIR models by independently assessing the Finance Group's income streams to determine whether they form an integral part of the effective yield and therefore should be included or omitted from the Finance Group's model. We tested the clerical and methodical accuracy of the EIR calculations by recalculating the EIR balance for a sample of mortgages and agreeing this to the Finance Group's modelled output.

Key observations communicated to the Audit Committee

We communicated our key observations to the Audit Committee that the approach to determining the EIR at 31 December 2021, was appropriate and reasonable in the context of current observable market behaviours and economic conditions. We concluded that the resulting EIR adjustments made to income fell within our independent range of outcomes and were materially in compliance with the requirements of IFRS 9.

Risk	Our response to the risk
Valuation of the Finance Company's investment in subsidiary *Please refer to the Accounting policies (page 271) of the Consolidated Financial Statements.* At 31 December 2021, the Finance Company reported an investment in subsidiary of £333.0m (2020: £333.0m). The Finance Company holds an investment in the Bank on its balance sheet, which is recorded at cost less impairment under IAS 27. Management are therefore required to perform an annual impairment assessment over this investment. This involves significant subjectivity and estimation in relation to the future performance of the Bank.	We have reviewed the Finance Company's assessment of impairment in its investment in the Bank and have reviewed the factors identified, including: - The indicative share price of the Bank based on available third party information; - Performance of the Bank versus its budget and its ability to generate future profits; - The Bank's credit rating; - The Bank's ability to continue as a going concern; - The valuation of the Bank's MREL debt on the market. In addition, we performed an independent assessment of any indicators of impairment and considered whether there were any additional matters not considered by the Finance Company. Our independent assessment has examined the financial position of the Bank at the year-end, incorporating the Bank's performance in the year and consideration of the fair value of the Bank's assets in the event the Bank was broken up. We have also benchmarked the Bank's price to book valuations against peer organisations and have considered developments from the point at which the initial cost value of the investment was determined, to assess whether the underlying value has reduced.
Key observations communicated to the Audit Committee	
We communicated to the Audit Committee that, although indicators of impairment exist as a result of the deterioration of the indicative share price, we concluded the Finance Company's investment in the Bank was not impaired based on other qualitative and quantitative factors.	

In the prior year, our auditor's report included a key audit matter in relation to the valuation of the fair value adjustments to hedge risk and macro cash flow hedge reserve. In the current year, we have recognised the reduced risk in the underlying macro hedge accounting models which underpin these line items due to simplification of the Finance Group's hedging strategy.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Finance Group to be £12.0 million (2020: £12.0 million), which is 0.7% (2020: 0.8%) of the Bank's equity. The reason for selecting equity as the basis for our audit materiality calculation is that the Finance Group consolidates the activities of the Bank, whose primary focus is to maintain regulatory capital. This is also the first year the Finance Group has recorded a profit since 2011. We see equity, as a proxy for regulatory capital, as the main focus for the users of the financial statements given the importance of regulatory capital to the Bank's solvency. As the consolidated results of the Finance Group do not substantially differ from those of the Bank, nor does the focus of the users of those accounts, we have therefore concluded that the basis of materiality should remain consistent with that of the Bank.

We determined materiality for the Finance Company to be £3.7 million (2020: £2.7million), which is 0.5% (2020: 0.5%) of the Finance Company's assets. The reason for selecting assets as the basis for our audit materiality consideration is that the users of the Finance Company financial statements would primarily focus on the Finance Company's investment in the Bank.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Finance Group's overall control environment, our judgement was that performance materiality was 75% (2020: 50%) of our planning materiality, namely £9.0 million (2020: £6.0 million). We have increased performance materiality to this percentage as a result of the reduced overall risk assessment of this audit and enhancements we have observed in the Finance Group's control environment.

For this reason, performance materiality for the Finance Company at was also set at 75% (2020: 50%) of materiality, namely £2.6 million (2020: £1.9 million).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.6 million (2020: £0.6 million) relating to the Finance Group and £0.2 million relating to the Finance Company, set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other Information
The Other Information comprises the information included in the annual report set out on pages 1 to 135, other than the financial statements and our auditor's report thereon. The Directors are responsible for the Other Information contained within the annual report.

Our opinion on the financial statements does not cover the Other Information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Finance Group and the Finance Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Finance Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Finance Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 78, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Finance Group and Management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Finance Group and determined that the most significant are:
    - Companies Act 2006.
    - Financial Reporting Council ("FRC") rules and guidance.
    - Tax Legislation (governed by HM Revenue and Customs).
    - Financial Conduct Authority ("FCA") rules.
    - CRD IV (Basel III) and Prudential Regulation Authority ("PRA") rules.
- We understood how the Finance Group is complying with those frameworks by attending the Finance Group's Risk Committee and Audit Committee, reviewing relevant Board and management committee minutes and reports, holding discussions with the Finance Group's legal team and internal audit, amongst others. We inquired as to any known instances of non-compliance or suspected non-compliance with laws and regulations. We also reviewed the Finance Group's Complaints Management Policy and Whistleblowing Policy.
- We assessed the susceptibility of the Finance Group's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, those charged with governance, internal audit and the Audit Committee. We also utilised the support of EY forensics specialists in the performance of this risk assessment.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reports on the aforementioned legal and regulatory frameworks as well as reviewing the correspondence exchanged between the Finance Group and its Regulators, and gaining an understanding of any regulatory investigations and enforcement actions being undertaken. We also met with the Finance Group's Regulators at least annually in the performance of our audit. We focussed our testing on key areas of risk and estimation, as referred to in the key audit matters section above.
- The Finance Group operates in the financial services industry, which is a highly regulated environment. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team, including auditor's specialists, to ensure that the team had the appropriate competence and capabilities, which included utilising the support of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

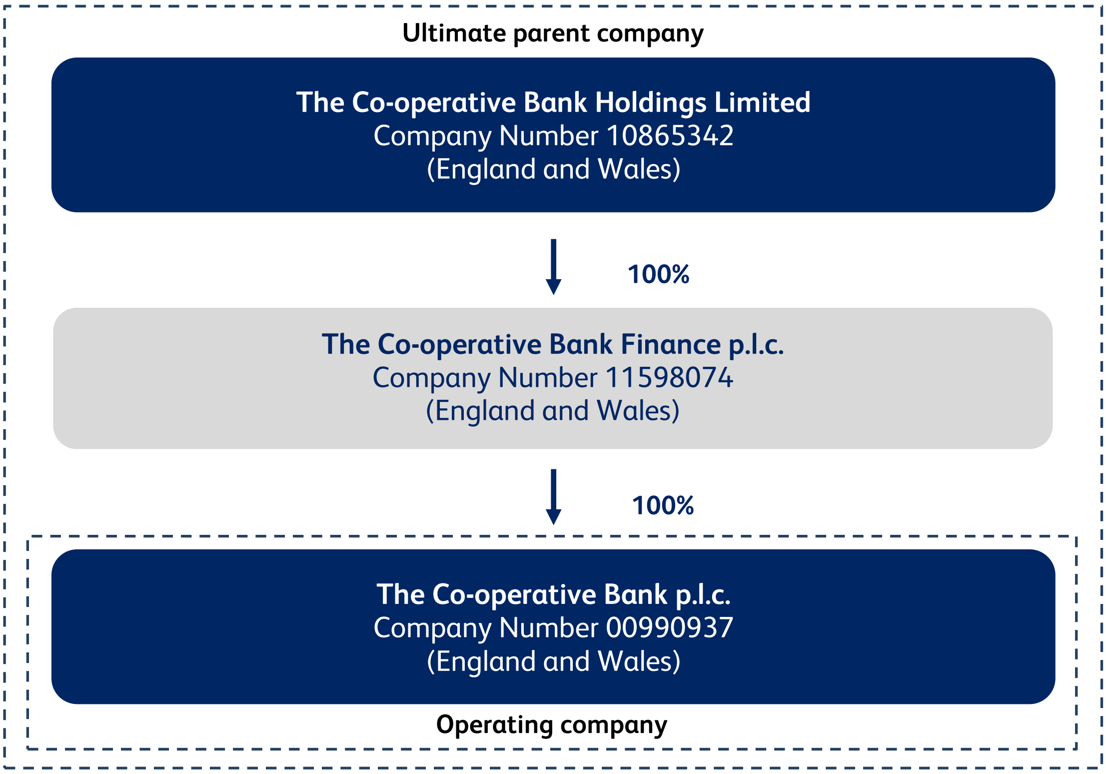
- We were appointed as auditors by the Finance Group at the AGM on 30 May 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. Our first engagement letter was signed on 17 July 2014. The period of total uninterrupted engagement including previous renewals and reappointments is eight years, covering the years ending 31 December 2014 to 31 December 2021.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Finance Group or the Finance Company and we remain independent of the Finance Group and the Finance Company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the Finance Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Finance Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Finance Company and the Finance Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael-John Albert (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
23 February 2022

Consolidated Financial Statements of The Co-operative Bank Holdings Limited and The Co-operative Bank p.l.c. (Group and Bank)



The co-operative bank
for people with purpose

CONSOLIDATED INCOME STATEMENT

For year ended 31 December 2021

£million

		Group and Bank	
	Note	2021	2020
Interest income calculated using the effective interest rate method		**422.7**	415.3
Other interest and similar income		**11.2**	(5.2)
Interest income and similar income	6	**433.9**	410.1
Interest expense and similar charges	6	**(110.0)**	(143.2)
Net interest income		**323.9**	266.9
Fee and commission income	7	**58.4**	56.5
Fee and commission expense	7	**(33.2)**	(33.0)
Net fee and commission income		**25.2**	23.5
Income from investments		**0.3**	0.3
Other operating income/(expense) (net)	8	**28.9**	24.6
Operating income		**378.3**	315.3
Operating expenses	9	**(348.7)**	(395.4)
Net customer redress release/(charge)	28	**2.6**	(2.0)
Total operating expenses		**(346.1)**	(397.4)
Operating profit/(loss) before net credit impairment losses		**32.2**	(82.1)
Net credit impairment losses	14	**(1.1)**	(21.6)
Profit/(loss) before taxation		**31.1**	(103.7)
Income tax	11	**166.2**	8.0
Profit/(loss) for the financial year		**197.3**	(95.7)

The results above are for the consolidated Group and Bank and wholly relate to continuing activities. More information regarding the basis of preparation can be found in note 1 of the consolidated financial statements.

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

The notes on pages 174 to 215 form part of these consolidated Group and Bank financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For year ended 31 December 2021

£million

	Group and Bank	
	2021	**2020**
Profit/(loss) for the year	**197.3**	(95.7)
Items that may be recycled to profit or loss:		
Changes in cash flow hedges:		
Net changes in fair value recognised directly in equity	**-**	5.5
Transfers from equity to income or expense	**(9.2)**	3.1
Income tax	**1.4**	(2.8)
Changes in fair value through other comprehensive income:		
Net changes in fair value recognised directly in equity	**30.6**	(20.5)
Transfers from equity to income or expense	**(32.8)**	22.3
Income tax	**0.3**	(1.1)
Items that may not subsequently be recycled to profit or loss:		
Changes in net retirement benefit asset:		
Defined benefit plans gains/(losses) for the year	**182.7**	(49.8)
Income tax	**(92.8)**	1.5
Other comprehensive income/(expense) for the year, net of income tax	**80.2**	(41.8)
Total comprehensive income/(expense) for the year	**277.5**	(137.5)

The results above are for the consolidated Group and Bank. More information regarding the basis of preparation can be found in note 1 of the consolidated financial statements.

The notes on pages 174 to 215 form part of these consolidated Group and Bank financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2021

£million

		Group		Bank	
	Note	2021	2020	2021	2020
Assets					
Cash and balances at central banks	12	**5,696.9**	3,877.8	**5,696.9**	3,877.8
Loans and advances to banks	13	**191.5**	536.2	**191.5**	536.2
Loans and advances to customers	14	**21,002.1**	18,682.5	**21,002.1**	18,682.5
Fair value adjustments for hedged risk		**(90.5)**	134.1	**(90.5)**	134.1
Investment securities	15	**1,201.4**	1,148.5	**1,201.4**	1,148.5
Derivative financial instruments	16	**248.5**	189.9	**248.5**	189.9
Property, plant and equipment classified as held-for-sale		**0.2**	0.3	**0.2**	0.3
Equity shares	17	**22.8**	22.1	**22.8**	22.1
Investment properties		**1.9**	1.9	**1.9**	1.9
Other assets	18	**12.7**	188.9	**12.7**	188.9
Prepayments	19	**20.3**	13.2	**20.3**	13.2
Property, plant and equipment	20	**22.2**	35.2	**22.2**	35.2
Intangible assets	21	**68.5**	63.4	**68.5**	63.4
Right-of-use assets	22	**46.9**	53.7	**46.9**	53.7
Deferred tax assets	29	**36.8**	-	**36.8**	-
Net retirement benefit asset	30	**841.1**	651.8	**841.1**	651.8
Total assets		**29,323.3**	25,599.5	**29,323.3**	25,599.5
Liabilities					
Deposits by banks	23	**5,527.6**	2,066.4	**5,527.6**	2,066.4
Customer accounts		**21,135.9**	20,365.8	**21,136.0**	20,365.9
Debt securities in issue	24	**203.3**	728.8	**203.3**	728.8
Fair value adjustment for hedged risk		**(7.5)**	-	**(7.5)**	-
Derivative financial instruments	16	**148.2**	340.1	**148.2**	340.1
Other liabilities	26	**38.7**	33.7	**38.7**	33.7
Accruals and deferred income	27	**37.0**	35.0	**37.0**	35.0
Provisions	28	**33.9**	46.4	**33.9**	46.4
Other borrowed funds	25	**402.1**	408.2	**402.1**	408.2
Lease liabilities	22	**44.1**	53.6	**44.1**	53.6
Deferred tax liabilities	29	**-**	38.3	**-**	38.3
Net retirement benefit liability	30	**8.1**	8.8	**8.1**	8.8
Total liabilities		**27,571.4**	24,125.1	**27,571.5**	24,125.2
Capital and reserves attributable to the Group's equity holders					
Ordinary share capital	33	**0.9**	0.9	**25.6**	25.6
Share premium account	33	**313.8**	313.8	**-**	2,416.9
Retained earnings	33	**1,946.0**	(1,410.2)	**1,223.6**	(1,800.6)
Other reserves	34	**(508.8)**	2,569.9	**502.6**	832.4
Total equity		**1,751.9**	1,474.4	**1,751.8**	1,474.3
Total liabilities and equity		**29,323.3**	25,599.5	**29,323.3**	25,599.5

The financial positions above are for the consolidated Group and Bank. More information regarding the basis of preparation can be found in note 1 of the consolidated financial statements.

The notes on pages 174 to 215 form part of these consolidated Group and Bank financial statements.

Approved by the Board of The Co-operative Bank Holdings Limited on 23 February 2022:

Robert Dench Chair of the Board	Nick Slape Chief Executive Officer

Approved by the Board for The Co-operative Bank p.l.c. on 23 February 2022:

Robert Dench Chair of the Board	Nick Slape Chief Executive Officer

CONSOLIDATED STATEMENT OF CASHFLOWS

For year ended 31 December 2021

£million

	Note	Group 2021	Group 2020	Bank 2021	Bank 2020
Cash flows (used in)/from operating activities:					
Profit/(loss) before taxation		**31.1**	(103.7)	**31.1**	(103.7)
Adjustments for non cash movements:					
Pension scheme adjustments		**(5.6)**	(9.3)	**(5.6)**	(9.3)
Net credit impairment losses		**1.1**	21.6	**1.1**	21.6
Depreciation, amortisation and impairment of property, equipment, right-of-use assets and intangibles		**36.6**	40.2	**36.6**	40.2
Other non-cash movements including exchange rate movements		**121.5**	78.7	**121.5**	78.7
Changes in operating assets and liabilities:					
Increase in deposits by banks		**3,461.2**	922.7	**3,461.2**	922.7
(Increase)/decrease in prepayments and accrued income		**(7.1)**	8.5	**(7.1)**	8.5
Increase/(decrease) in accruals and deferred income		**2.0**	(24.0)	**2.0**	(24.0)
Increase in customer accounts		**769.2**	1,367.8	**769.2**	1,367.8
Decrease in debt securities in issue		**(525.5)**	(143.9)	**(525.5)**	(143.9)
Decrease in loans and advances to banks		**13.6**	6.7	**13.6**	6.7
Increase in loans and advances to customers		**(2,356.6)**	(813.1)	**(2,356.6)**	(813.1)
Net movement of other assets and other liabilities		**118.0**	(205.6)	**118.0**	(205.6)
Net cash flows from operating activities		**1,659.5**	1,146.6	**1,659.5**	1,146.6
Cash flows (used in)/from investing activities:					
Purchase of tangible and intangible assets		**(28.9)**	(16.8)	**(28.9)**	(16.8)
Purchase of investment securities		**(873.2)**	(969.6)	**(873.2)**	(969.6)
Proceeds from sale of property and equipment		**1.8**	2.6	**1.8**	2.6
Proceeds from sale of shares and other interests		**2.0**	38.6	**2.0**	38.6
Proceeds from sale and maturity of investment securities		**774.9**	1,422.5	**774.9**	1,422.5
Purchase of equity shares		**(0.5)**	-	**(0.5)**	-
Proceeds from sale of investment properties		**0.1**	-	**0.1**	-
Dividends received		**0.3**	0.3	**0.3**	0.3
Net cash flows (used in)/from investing activities		**(123.5)**	477.6	**(123.5)**	477.6
Cash flows (used in)/from financing activities:					
Proceeds from issuance of Tier 2 notes		**-**	197.7	**-**	197.7
Interest paid on Tier 2 notes and senior unsecured debt		**(37.0)**	(19.0)	**(37.0)**	(19.0)
Lease liability principal payments		**(11.0)**	(10.0)	**(11.0)**	(10.0)
Net cash flows (used in)/from financing activities		**(48.0)**	168.7	**(48.0)**	168.7
Net increase in cash and cash equivalents		**1,488.0**	1,792.9	**1,488.0**	1,792.9
Cash and cash equivalents at the beginning of the year		**4,229.5**	2,436.6	**4,229.5**	2,436.6
Cash and cash equivalents at the end of the year		**5,717.5**	4,229.5	**5,717.5**	4,229.5
Comprising of:					
Cash and balances with central banks	12	**5,609.8**	3,802.5	**5,609.8**	3,802.5
Loans and advances to banks	13	**107.7**	427.0	**107.7**	427.0
		5,717.5	4,229.5	**5,717.5**	4,229.5

CONSOLIDATED STATEMENT OF CASHFLOWS – RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASHFLOWS ARISING FROM FINANCING ACTIVITIES

For year ended 31 December 2021

£million

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

£million

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2021

£million

2021	Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Capital re-organisation reserve	Defined benefit pension reserve	Retained earnings	Total equity
	Attributable to equity holders of the Group								
At 1 January 2021	0.9	313.8	4.8	22.5	410.0	1,737.5	395.1	(1,410.2)	**1,474.4**
Total comprehensive (expense)/income for the year	-	-	(1.9)	(7.8)	-	-	89.9	197.3	**277.5**
Reserve reorganisation	-	-	-	-	(410.0)	(2,748.9)	-	3,158.9	**-**
At 31 December 2021	**0.9**	**313.8**	**2.9**	**14.7**	**-**	**(1,011.4)**	**485.0**	**1,946.0**	**1,751.9**

2021	Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Defined benefit pension reserve	Retained earnings	Total equity
	Attributable to equity holders of the Bank							
At 1 January 2021	25.6	2,416.9	4.8	22.5	410.0	395.1	(1,800.6)	**1,474.3**
Total comprehensive (expense)/income for the year	-	-	(1.9)	(7.8)	-	89.9	197.3	**277.5**
Reserve reorganisation	-	(2,416.9)	-	-	(410.0)	-	2,826.9	**-**
At 31 December 2021	**25.6**	**-**	**2.9**	**14.7**	**-**	**485.0**	**1,223.6**	**1,751.8**

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

2020	Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Defined benefit pension reserve	Retained earnings	Total equity
	Attributable to equity holders of the Bank							
At 1 January 2020	25.6	2,416.9	4.1	16.7	410.0	443.4	(1,704.9)	1,611.8
Total comprehensive income/(expense) for the year	-	-	0.7	5.8	-	(48.3)	(95.7)	(137.5)
At 31 December 2020	25.6	2,416.9	4.8	22.5	410.0	395.1	(1,800.6)	1,474.3

The notes on pages 174 to 215 form part of these consolidated Group and Bank financial statements.

All amounts are stated in £m unless otherwise indicated.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

1.1 General information

The Annual Report and Accounts presents information in relation to The Co-operative Bank Holdings Limited (the "Holding Company"), its direct subsidiary, The Co-operative Bank Finance p.l.c (the "Finance Company") and its indirect subsidiaries including the main trading company, The Co-operative Bank p.l.c (the "Bank Company"). Together, these entities are referred to as the "Group".

The Finance Company and the Bank Company are also required to produce their own individual and consolidated financial statements and these are included within this Annual Report and Accounts as referenced below. In the financial statements of the Finance Company and of the Bank Company, the Directors refer to disclosures produced in relation to the Group, where there is no difference in the information required to be presented to that disclosed for the Group.

The financial statements presented within the 2021 Annual Report and Accounts comprise:

Pages 166 to 215. The consolidated financial statements and notes of Holding Company and its subsidiaries (the consolidated financial statements of the Group). These are presented together with the consolidated financial statements and notes of the Bank Company and its subsidiaries (the consolidated financial statements of the "Bank"). Unless otherwise stated, references to the Group also apply to the Bank. Where differences arise, this is explicitly stated.

Pages 216 to 241. The individual financial statements and notes of Bank Company.

Pages 242 to 247. The individual financial statements and notes of Holding Company.

Pages 248 to 261. The consolidated and individual financial statements and notes of Finance Company and its subsidiaries (together, the "Finance Group").

1.2 Basis of preparation

The financial statements of the Group and Bank have been prepared and approved by the Directors of the respective companies in accordance with UK adopted international accounting standards.

The financial statements comprise all audited sections of the accounts. Where indicated, the risk management section forms part of the audited accounts.

The Holding Company and Bank Company are incorporated in the UK and registered in England and Wales.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of items held at fair value through other comprehensive income (FVOCI), derivative contracts, investment properties and certain other financial assets and financial liabilities held at fair value through profit or loss (FVTPL).

In preparing these financial statements, the Group has given consideration to the recommendations laid out by the Task Force on Climate-related Financial Disclosures (TCFD), and where relevant has incorporated assessment of the climate-related risks outlined in the risk management sections 1.8-1.9 into judgements associated with recognition, measurement, presentation and disclosure, where so permitted by UK adopted international reporting standards. At 31 December 2021, the Group considers its present financial exposure to climate-related risk to be low and accordingly has made limited reference to the impacts of climate-related risk in the notes to the financial statements, though consideration has been given in particular to the possible financial impacts of climate-related risks on its expected credit losses, as disclosed in Note 2.2.1.c. Where forward-looking information is relied on in preparing the financial statements the Group has given due consideration, where appropriate and quantifiable, to potential future impacts of climate-related risk, but recognises that governmental and societal responses to climate change risks are still developing and thus their ultimate impacts on the Group are inherently uncertain and cannot be fully known.

1.3 Going concern

IAS 1 (Presentation of Financial Statements) requires Directors to make an assessment of a company's ability to continue as a going concern, and whether it remains appropriate to adopt the going concern basis of accounting in preparing the entity's financial statements. The assessment below references the Group, but the conclusions are equally applicable to the Finance Group, Bank and the respective parent companies, for which assessments are also required. IAS 1 states that the information about the future used to inform the assessment 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 considered information in respect of the period ending 30 June 2023 (the 'assessment period') to cover a period of 18 months from the year-ended 31 December 2021.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The assessment has been considered against the backdrop of the principal risks faced by the Group as outlined in the risk management section 1.8, 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 Group's most recent Board-approved five-year plan. Whilst the Directors consider threats to going concern status from most of the principal risks to be remote, there is a degree of uncertainty around the Group's future compliance with minimum binding regulatory capital requirements, which remain at Total Capital Requirement (TCR) + £400.0m during 2022 before rising to two times TCR from 1 January 2023 ('end-state' requirements, which exclude CRD IV and PRA buffers).

Whilst the Group has recently returned to profitability and expects to continue to generate organic capital sustainably beyond the assessment period, despite the ongoing uncertainty caused by the COVID-19 pandemic, the Group will need to issue further MREL-qualifying instruments during 2022 in order to meet end-state MREL requirements when these come into force. The main uncertainties associated with end-state MREL compliance considered by the Directors are as follows:

- **Ability to issue MREL-qualifying instruments –** successful issuance of such instruments is highly dependent on market appetite, however the Group's recent history of successful issuances and the market prices at which those instruments have been traded at during 2021 indicates a strong demand for instruments issued by the Group. In a severe scenario, the Group could mitigate the risk by issuing instruments at a higher coupon.
- **Sensitivity to RWA inflation and/or CET1 erosion** – shocks to macroeconomic factors (specifically HPI) or the Group's own profitability would inflate RWAs (and associated capital requirements) or erode CET1 resources respectively. Reverse stress testing was performed to determine the level of HPI deterioration and/or one-off losses that would need to occur in order for the Group to breach MREL minimums at the point of lowest headroom in the assessment period. This was applied in two scenarios; one where the Group issues the full amount of MREL-qualifying instruments assumed in its Financial Plan, and another scenario where the Group hypothetically were only to issue up to c. 45% of its target. The outcomes of this reverse stress testing are outlined in the below table:

End-state breach	HPI Deterioration	P&L Charge	Combined
Limited MREL issuance	30%	£80m	15% and £40m
Full MREL issuance	122%	£328m	61% and £164m

The Directors concluded that the likelihood of such levels of deterioration is remote – for context, a 15% deterioration in HPI is the low point in the Group's IFRS 9 downside scenario. In a more severe scenario, the Group could mitigate the risk by undertaking additional, or larger, issuances.

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 considered as part of the assessment but due to the current and projected levels of liquidity (both within the assessment period and over the five-year plan) this has not been deemed a significant risk to the Group's going concern status.

After considering the matters above, the Directors have assessed that the Group, Finance Group, Bank and the respective parent companies will continue as a going concern with no material uncertainties. Accordingly, the results for the year ended 31 December 2021 have been prepared on a going concern basis.

1.4 Significant accounting policies

The significant accounting policies applied by the Group are set out in the explanatory information on page 262. The accounting policies which are most critical to the financial statements are:

- Basis of consolidation – The accounting policy determines which entities the Group consolidates, and which it does not (see section 1.1 of the explanatory information).
- Financial instruments – The accounting for the majority of the assets and liabilities, income and expense recognised by the Group are governed by IFRS 9 Financial Instruments (see section 1.3 of the explanatory information).

1.4.1 New accounting policies

Interest Rate Benchmark Reform - Phase 2

In August 2020, the IASB issued Interest Rate Benchmark Reform - Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, in anticipation of the phasing out of the LIBOR benchmark rate at the end of 2021. The amendments became effective from 1 January 2021, following endorsement by the United Kingdom in January 2021.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The key impacts of the changes provide reliefs such that entities may:
- Avoid recognising significant modification gains or losses on financial instruments if a change resulting directly from IBOR reform sees an IBOR rate replaced with an economically equivalent alternative; and
- Maintain existing hedging relationships where modifications have been required by IBOR reform.

The Group has adopted the amendments with effect from 1 January 2021. The Group's LIBOR transition activities have not had significant impact during the year, and the Group does not anticipate any significant impact to arise during the remainder of the transition work. Further disclosures with regard to the Group's LIBOR transition activities are outlined in the risk management section 4.4.

Other
No other amendments to IFRS that became effective during the year had a significant impact on the Group's financial position or performance.

For the Groups' consideration of other standards in issue but not yet effective refer to the explanatory information section 2.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial information requires management to make judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The critical judgements and estimates are the same for both the Group and Bank.

Assumptions and estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The critical judgements and estimates which have a significant impact on the financial statements are described below.

2.1 Critical judgements

2.1.1 Recognition of IAS 19 pension valuation surplus
Subsidiaries of the Group act as the principal employers of the Britannia Pension Scheme (BPS) and the Bank Section of The Co-operative Pension Scheme (Pace), a hybrid scheme, consisting of a closed defined benefit (DB) element and a defined contribution (DC) element.

Both BPS and the DB element of Pace are accounted for as DB pension schemes and a surplus is recognised as a net retirement benefit asset. In order to recognise the DB asset in full, the Group must have an unconditional right to return of any surplus arising on wind up of the schemes, either in the form of reduced future DC contributions or in a form of a refund. The trustees of each scheme do not have the unilateral power to augment member benefits or wind up the scheme without cause. Surplus contributions would be used to reduce future funding risk (and therefore reduce future contributions) or be refunded to the Group. Accordingly, the full value of the defined benefit scheme surplus is recognised on the Group's balance sheet as an asset.

2.1.2 Unconsolidated structured entities
The Group is the sponsor for two unconsolidated structured entities, Warwick Finance Residential Mortgages Number Three p.l.c. and Warwick Finance Residential Mortgages Number Four p.l.c. (the Warwick SPEs), and holds legal title to the mortgages on a commercial basis for a further three unconsolidated structured entities, Avon Finance No. 1 p.l.c., Avon Finance No 2 p.l.c. and Stratton Mortgage Funding 2021-1 p.l.c.) (the Avon and Stratton SPEs). The Warwick SPEs were created for the purposes of selling Optimum (The Group's legacy retail secured mortgage portfolio) in the most capital efficient manner. The Avon SPEs were re-securitisations of former Warwick mortgages following the unwinding of earlier Warwick transactions during 2020. Following the sale of Optimum mortgages to a third party at the end of 2020, the Stratton SPE was established by a third party buyer as an unconsolidated structured entity in 2021 to securitise the mortgages. The Group performs a re-assessment of the requirement to consolidate the Warwick, Avon and Stratton SPEs on at least an annual basis, or more frequently as relevant. The Warwick, Avon and Stratton SPEs are not included within the consolidated results of the Group as its ongoing interest represents a less than de minimis variability of return.

2.1.3 Recognition of deferred tax assets in respect of future taxable profits
The Group recognises deferred tax assets to the extent there are sufficient taxable temporary differences and estimated probable future taxable profits against which unutilised capital allowances and historical tax losses can be utilised.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

The Group has not recognised in recent years a deferred tax asset in respect of future taxable profits on the basis that it remained loss-making and did not consider such profits to be probable. The Board has determined that profits are sufficiently probable when a) four successive quarters of profit generation have been generated and b) the Board-approved Financial Plan anticipates that the Group will continue to be profitable. Following four successive quarters of profits in 2021 and continued anticipation of further profits to be made over the five-year plan period, the Board considers that the recognition criteria has been met in respect of deferred tax assets with regards future taxable profits.

The value of deferred tax assets recognised by the Group is disclosed in note 29 of the Group and Bank consolidated financial statements.

2.2 Key sources of estimation uncertainty

2.2.1 Estimation of expected credit losses (ECLs)

The Group's estimation of credit risk within its lending business is inherently uncertain and subject to high degree of expert judgement. Further information on the Group's credit risk management practices and risk exposures are outlined in the risk management section 3.2, and the policies adopted in quantifying ECLs are outlined in the explanatory information section 1.3.j. The following section considers the key judgemental assumptions used within estimation process and assessments of their variability.

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

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

Scenario weights	2021	2020
Mild upside	**30%**	30%
Base	**30%**	40%
Mild downside	**30%**	25%
Downside	**10%**	5%

The Group has shifted its scenario weighting towards the downside outcomes to reflect industry consensus following a benchmarking review during the latter part of the year.

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

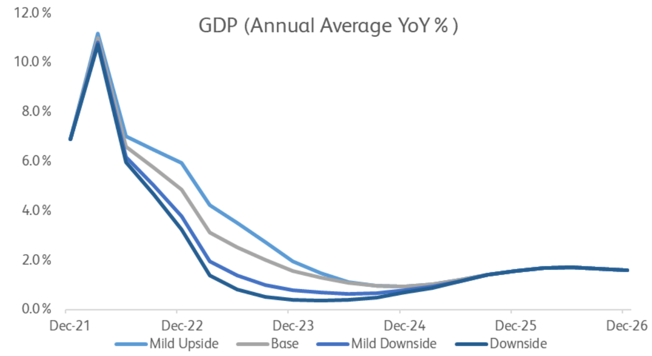
2021	% applied in model	Core Retail	Core SME	Legacy & central items	Total
Mild upside	30%	7.1	0.6	1.6	**9.3**
Base	30%	7.2	0.7	1.6	**9.5**
Mild downside	30%	7.6	0.7	1.7	**10.0**
Downside	10%	8.7	0.8	1.8	**11.3**
Weighted average		**7.4**	**0.7**	**1.7**	**9.8**

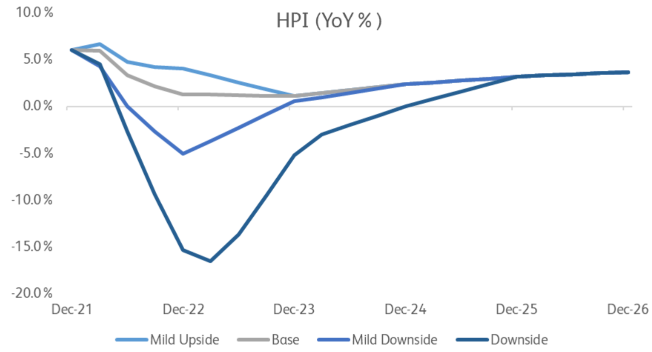
The staging of individual loans contributing to the ECLs within the above table reflects the base case position only and no allowances for stage transfers have been made in fully weighted alternative scenarios; these should therefore not be considered reliable forecasts of expected losses under such 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 post-model adjustments (PMAs - expert overlays). In practice, certain PMAs implemented by the Group may offset the modelled movements above to reduce the sensitivity of the overall ECL.

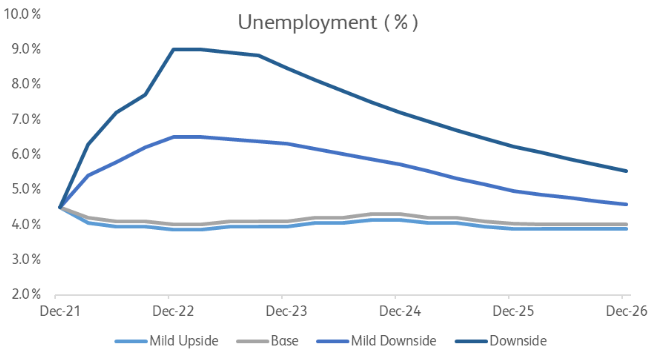
b) Collective impairment provisions – macroeconomic variables and sensitivities

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)







After the initial scenario deviation, GDP and HPI growth rates return to long run growth rates. Levels remain representative of upside/downside outcomes that result from initial differences in growth rates in the early years of the scenarios.

	2022	2023	2024	2025	2026	5 year average[4]
GDP[1]						
Mild upside	5.9 %	1.9 %	0.9 %	1.6 %	1.6 %	3.0 %
Base	4.9 %	1.6 %	0.9 %	1.6 %	1.6 %	2.7 %
Mild downside	3.8 %	0.8 %	0.8 %	1.6 %	1.6 %	2.3 %
Downside	3.2 %	0.4 %	0.7 %	1.6 %	1.6 %	2.1 %
HPI[2]						
Mild upside	4.1 %	1.1 %	2.4 %	3.2 %	3.7 %	3.1 %
Base	1.3 %	1.1 %	2.4 %	3.2 %	3.7 %	2.5 %
Mild downside	(5.1 %)	0.5 %	2.4 %	3.2 %	3.7 %	1.1 %
Downside	(15.4 %)	(5.2 %)	0.0 %	3.2 %	3.7 %	(2.6 %)
Unemployment[3]						
Mild upside	3.9 %	4.0 %	4.1 %	3.9 %	3.9 %	4.0 %
Base	4.0 %	4.1 %	4.3 %	4.0 %	4.0 %	4.1 %
Mild downside	6.5 %	6.3 %	5.7 %	5.0 %	4.6 %	5.7 %
Downside	9.0 %	8.5 %	7.2 %	6.2 %	5.5 %	7.3 %

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

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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

	Mild upside	Base	Mild downside	Downside
GDP	GDP reaches pre pandemic levels, averaging 5.9 % through 2022 and bottoming out at 0.9 % at the end of 2024.	GDP reaches pre pandemic levels, averaging 4.9 % through 2022 and bottoming out at 0.9 % at the end of 2024.	Quarterly recovery of GDP is half that of the base in 2022 and 2023, giving lower annual growth of 3.8 % in 2022 and 0.8 % in 2023.	Quarterly recovery of GDP is a quarter of that of the base in 2022 and 2023, giving lower annual growth of 3.2 % in 2022 and 0.4 % in 2023.
HPI	Excess demand prevents a correction in house prices in 2022, which rise by 4.1 %, with growth slowing slightly through 2023 before returning to long run levels.	Excess demand prevents a correction in house prices in 2022, which rise by 1.3 %, with growth remaining steady through 2023 before returning to long run levels.	House prices decline by 5.1 % in 2022 as prices fall in each quarter following removal of the stamp duty holiday. Quarterly growth returns in 2023 with YoY growth of 0.5 %.	House prices decline by 15.4 % in 2022 and 5.2 % in 2023 as prices fall in each quarter following removal of the stamp duty holiday. Prices remain stable in 2024 before quarterly growth returns in 2025.
Unemployment	Limited uplift in unemployment from end of furlough scheme, leads to improvement to 3.9 % by end of 2022.	Limited uplift in unemployment from end of furlough scheme, leads to improvement to 4.0 % by end of 2022.	Unemployment rises to a peak of 6.5 % in Q4 2022, recovering to 4.6 % by Q4 2026.	Unemployment rises to a peak of 9.0 % in Q4 2022, recovering to 5.5 % by Q4 2026.

The key changes to the base forecasts over those in use at 31 December 2020 are:

- **GDP** – slightly lower YoY growth in 2022-2023, following higher GDP recovery during 2021.
- **HPI** – lower HPI growth across forecast period as a consequence of sustained HPI growth during 2021, rather than assumed contraction in 2020 forecasts.
- **Unemployment** – lower across whole forecast period following shallower unemployment peak than anticipated during 2021.
- **Base rate** – accelerated rate rises relative to 2020 forecasts (1.00 % peak in 2025 for 2020 forecast, vs 2023 in 2021 forecast).

Sensitivities

The table below illustrates the changes to the ECL that would result from reasonably possible variations in the macroeconomic variables to which the modelled ECL is most sensitive. This is applied on a single-factor basis as an absolute percentage increase to that variable within the base ECL, with all other non-illustrated variables remaining constant, and includes the impact of consequent transitions between stage 1 and 2.

	Core		Legacy &	
2021	**Retail[1]**	**SME**	**unallocated**	**Total**
HPI +15 % [2]	-	-	-	-
HPI -15 % [2]	-	-	-	-
Unemployment rate +2 %	0.4	-	-	0.4
Unemployment rate -2 %	(0.2)	-	-	(0.2)
GDP growth +2 %	-	(0.4)	(0.1)	(0.5)
GDP growth -2 %	-	0.5	0.1	0.6

1. Within the retail portfolio, the secured models are primarily sensitive to HPI and the unsecured models are primarily sensitive to unemployment.
2. The retail secured portfolio is rendered effectively insensitive to HPI movements due to the overlay of a material post-model adjustment which targets a fixed coverage ratio (see below).

The sensitivities on the above parameters should be considered in isolation; aggregation of the results for different parameters would not produce meaningful information, and these sensitivities should not be extrapolated due to the non-linearities of their interactions with the ECL models.

c) Collective impairment provisions – post-model adjustments

The Group applies PMAs to reflect risk characteristics for assets subject to collective provisioning but for which a specific risk characteristic is not captured within the collective models. The Group reviews PMAs on a quarterly basis to determine whether PMAs should be stood up, remeasured or retired. An overview of material PMAs or PMA groups is disclosed below:

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

	Core		Legacy &	
2021	Retail	SME	unallocated	Total
Platform PMA	16.2	-	-	**16.2**
COVID-19 PMAs[1]	1.6	3.8	0.8	**6.2**
Other PMAs	0.2	0.6	2.0	**2.8**
Total PMAs	**18.0**	**4.4**	**2.8**	**25.2**

1. Excludes further uplifts within the Platform PMA due to the impacts of COVID-19

	Core		Legacy &	
2020	Retail	SME	unallocated	Total
Platform PMA	13.3	-	-	13.3
COVID-19 PMAs[1]	2.6	3.8	0.2	6.6
Other PMAs	2.6	0.9	(2.5)	1.0
Total PMAs	18.5	4.7	(2.3)	20.9

1. Excludes further uplifts within the Platform PMA due to the impacts of COVID-19

- **Platform PMA** – the Group considers its secured model to understate the risk associated with its Platform (broker-led) portfolio because of the book's relative immaturity and limited default experience. As such, it applies a model adjustment to increase the overall ECL to a set coverage ratio of 10bps (2020: 12bps), which is determined by reference to external benchmarking and observed loss rates on the Bank's legacy secured portfolios in stressed conditions. This PMA is applied after any other portfolio-specific PMAs have been applied, and concentrated primarily within stage 1 exposures. As a measure of sensitivity, an increase in coverage of 1 basis point would increase the size of the PMA by £1.7m (2020: £1.4m). The Group has no immediate plans to retire this PMA but is considering enhancements to the calculation approach.
- **COVID-19 PMAs** – the Group introduced a number PMAs through 2020 in response to the COVID-19 pandemic. Each PMA within this category is designed to capture a specific COVID-19 related risk and applies staging and/or ECL uplifts via the application of internally derived methodologies to specific customer cohorts based on shared risk characteristics. Whilst none are individually significant, the main PMAs that remain in place at 31 December 2021 are overlays for:
  - **Corporate 'at risk' sectors** – reflecting that certain business sectors are more exposed to the longer-term economic impacts of COVID-19;
  - **Economics** – offsetting distortions in model outputs driven by the significant volatility within macroeconomic variables;
  - **Failed guarantee claims** – reflecting that in certain isolated instances the Group may not successfully be able to claim on guarantees under the government support schemes; and
  - **Corporate Real Estate LGDs** – stale security valuations with the CRE portfolio may result in understated loss estimates.

  The Group expects to reduce the levels of COVID-19-specific PMAs during 2022 as the longer term impacts of the pandemic become clearer.
- **Other PMAs** – the Group holds a small number of PMAs in respect of data and/or model limitations. None of these are individually significant.

Impact of climate change on ECL

The Group has identified credit losses as one of the main areas in which it could be exposed to the financial impacts of climate change risk, either where its lending practices could expose it to physical risks (e.g. secured collateral value detrimented by flooding caused by extreme weather events) or transition risks (e.g. where SME customers viability is threatened by the need to transition to greener working practices).

The Group's IFRS 9 models do not explicitly consider the potential impacts of such risks and during the year it was considered whether a PMA should be stood up to capture this exposure. Following a review of the potential impacts (which included the sourcing of a model from a 3rd party assessing physical risks on the secured book), it was determined that reasonably possible credit losses associated with climate risk were subject to a significant level of uncertainty and likely to be immaterial particularly when considering discounting of any future dated impacts. On this basis, no PMA should be recognised. Further considerations around the Group's exposure to climate risk are outlined in the risk management section 1.9.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

d) Individual impairment provisions

Individually assessed provisions are made for loans that are considered to be individually significant (typically corporate loans). Such provisions are not sensitive to changes in macroeconomic variables but would instead typically be most sensitive to changes in underlying collateral values; however, given the prevalence of fully provided unsecured loans and low LTV exposures within a small population of individually assessed exposures, the provision is not particularly sensitive to movements in collateral value. A 20% decrease in collateral values associated with individually assessed exposures would result in a £0.2m increase in ECLs (2020: £nil).

2.2.2 Estimate of the defined benefit pension valuation

Actuarial valuations of the defined benefit pension schemes are conducted as determined by the pension scheme trustees, at an interval of not more than three years. The accounting valuation of liabilities is prepared biannually for the Group's reporting purposes, by a qualified actuary. Results before tax and net assets are affected by the actuarial assumptions used. The key assumptions include discount rates, mortality rates and increases to pensions in payment (including GMP equalisation) and to deferred pensions. Actual rates may differ significantly from assumptions used due to changing market and economic conditions, as well as longer or shorter lives of members and other factors, therefore these represent a key source of estimation uncertainty.

Sensitivities in respect of the assumptions are disclosed in note 30 of the Group and Bank consolidated financial statements.

2.2.3 Effective interest rate (EIR)

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

In calculating the EIR adjustment to apply to mortgage balances, the most significant two assumptions in terms of impact and volatility are:

a) Standard variable rate

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

As a measure of the sensitivity of these models, a 50bp increase or decrease to the forecast SVR (currently 4.49% (2020: 4.34%) with rises tracking the base rate assumptions used within the Group's central base rate forecast) following the expiry of the fixed rate period would result in a £2.3m (2020: £2.9m) increase or decrease respectively in the EIR asset within the loans and advances to customers balance as at 31 December 2021.

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 10% (2020: 12%) of fixed rate advances to become chargeable for at least one month of SVR, and then remain on the SVR rate for an average of 6 months (2020: 6 months). As a measure of the sensitivity of this variable, if the average time spent on SVR increases or decreases by 1 month, the EIR asset would increase or decrease by £2.6m (2020: £2.8m) respectively.

2.2.4 Measurement of deferred tax assets in respect of future taxable profits

As described in section 2.1.3, the Group has recognised a deferred tax asset in respect of future taxable profits for the first time in recent years. The Board has limited the recognition of deferred taxes to £114.7m in respect of historical tax losses that it expects to utilise to reduce future tax charges based on the Group's most recent Board-approved five-year plan. The plan is inherently sensitive to the assumptions underpinning the Group's five-year forecasts, including macroeconomic conditions (such as changes to interest rates, future tax rates, the ongoing impacts of COVID-19 and potential climate-related risks) and more idiosyncratic elements (such as the Group's ability to meet cost targets and successfully execute its strategy). As such, the expected utilisation of the deferred tax asset may vary significantly, potentially leading to a material increase or decrease in the deferred tax assets recognised in future periods.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

The five-year estimation horizon has been chosen so that the DTA recognition period is aligned to the Group's normal planning cycle. If the period were reduced to four years, the deferred tax asset would reduce by £43.1m. This judgement may be revisited and the forecast period extended in future as the Group develops a track record of profitability, which would increase the size of the asset recognised at that point. The Group has a further £459.9m of unrecognised deferred tax assets associated with historical trading losses.

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

	Group and Bank				
	Core			Legacy & unallocated	
2021	Retail	SME	Total		Group
Net interest income	284.8	47.4	**332.2**	(8.3)	**323.9**
Other operating income	20.3	16.5	**36.8**	0.8	**37.6**
Operating income	**305.1**	**63.9**	**369.0**	**(7.5)**	**361.5**
Net credit impairment losses	0.9	(1.1)	**(0.2)**	(0.9)	**(1.1)**
Operating expenses	(259.8)	(55.1)	**(314.9)**	(4.5)	**(319.4)**
Underlying profit	**46.2**	**7.7**	**53.9**	**(12.9)**	**41.0**
Strategic change					**(28.8)**
Restructuring programme					**-**
Gain on shares revaluation and sale					**2.4**
Covered bond premium expense					**-**
Loss on asset sales					**-**
Other exceptional items					**16.5**
Statutory profit before tax					**31.1**

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

3. SEGMENTAL INFORMATION (continued)

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

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

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

Re-presented	Group and Bank				
		Removal of:			
2020	IFRS statutory	Volatile items[1]	Strategic projects	Non recurring[2]	Underlying basis
Net interest income	266.9	-	-	-	266.9
Other operating income	48.4	(16.7)	-	8.7	40.4
Operating income	315.3	(16.7)	-	8.7	307.3
Operating expenses	(395.4)	-	25.9	19.9	(349.6)
Net customer redress charge	(2.0)	-	-	2.0	-
Net credit impairment losses	(21.6)	-	-	-	(21.6)
Statutory loss before tax	(103.7)	(16.7)	25.9	30.6	(63.9)
Cost:income ratio[3]	126 %				114 %

1. Relates to the revaluation gain on equity shares (£16.7m, including £0.3m dividend).
2. Comprises restructuring programme costs (£19.9m), the premium paid on the Covered bond repurchase (£5.2m), the net loss recognised on the sale of Optimum mortgage assets (£3.5m) and legacy customer redress charges (£2.0m).
3. Cost:income ratio is calculated as (operating expenses plus net customer redress release)/(operating income)

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

	Group and Bank				
	Core				
2021	Retail	SME	Total	Legacy & unallocated	Underlying basis
Segment assets	19,756.0	441.7	**20,197.7**	9,125.6	**29,323.3**
Segment liabilities	17,604.4	3,461.0	**21,065.4**	6,506.0	**27,571.4**

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

4. AUDITOR'S REMUNERATION

	Group and Bank	
	2021 £'000	2020 £'000
Fees payable to the Bank's auditor for the audit of the annual accounts	**2,122**	2,198
Audit expenses	**50**	50
Fees payable to the Bank's auditor for other services:		
Audit of the accounts of group undertakings	**79**	79
Audit-related assurance services	**175**	175
Other assurance services	**81**	63
Total audit fees and expenses for the financial year	**2,507**	2,565
All other services provided by the auditor	**-**	-
Total auditor's remuneration	**2,507**	2,565

5. DIRECTORS' EMOLUMENTS

	Group and Bank	
	2021	2020
Total remuneration receivable by Directors	**5.8**	4.5

No retirement benefits are accruing to Directors under defined benefit schemes. The aggregate of emoluments and amounts receivable under incentive schemes of the highest paid Director was £2.9m (2020: £1.8m).

For more details, please refer to the Directors Remuneration Report.

6. NET INTEREST INCOME

Interest income and similar income

	Group and Bank							
	2021				2020			
	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	**410.9**	**-**	**-**	**410.9**	396.8	-	-	396.8
Loans and advances to banks	**4.6**	**-**	**-**	**4.6**	5.4	-	-	5.4
Investment securities	**0.8**	**6.4**	**-**	**7.2**	1.3	11.8	-	13.1
Net interest income on net defined benefit pension asset	**-**	**-**	**9.1**	**9.1**	-	-	13.8	13.8
	416.3	**6.4**	**9.1**	**431.8**	403.5	11.8	13.8	429.1
On financial assets at fair value through profit or loss:								
Loans and advances to customers	**-**	**-**	**5.6**	**5.6**	-	-	6.3	6.3
Net interest expense on financial instruments hedging assets	**-**	**-**	**(37.6)**	**(37.6)**	-	-	(42.1)	(42.1)
Net interest income on financial instruments not in a hedging relationship	**-**	**-**	**34.1**	**34.1**	-	-	16.8	16.8
Total net interest income	**416.3**	**6.4**	**11.2**	**433.9**	403.5	11.8	(5.2)	410.1

6. NET INTEREST INCOME (continued)

Interest expense and similar charges

	Group and Bank					
	2021			2020		
	Amortised cost	Other	Total	Amortised cost	Other	Total
On financial liabilities not at fair value through profit or loss:						
Customer accounts	**(28.4)**	**-**	**(28.4)**	(78.4)	-	(78.4)
Subordinated liabilities, debt securities in issue and other deposits	**(62.0)**	**-**	**(62.0)**	(56.0)	-	(56.0)
Interest on lease liabilities	**-**	**(1.7)**	**(1.7)**	-	(2.4)	(2.4)
Net interest expense on unfunded pension obligations	**-**	**(0.1)**	**(0.1)**	-	(0.2)	(0.2)
	(90.4)	**(1.8)**	**(92.2)**	(134.4)	(2.6)	(137.0)
On financial liabilities at fair value through profit or loss:						
Net interest income on financial instruments hedging liabilities	**-**	**8.9**	**8.9**	-	11.1	11.1
Net interest expense on financial instruments not in a hedging relationship	**-**	**(26.7)**	**(26.7)**	-	(17.3)	(17.3)
Total interest expense and similar charges	**(90.4)**	**(19.6)**	**(110.0)**	(134.4)	(8.8)	(143.2)

7. NET FEE AND COMMISSION INCOME

The net fee and commission income for the Group and Bank relates to items not at fair value through profit or loss. Details of the accounting policies is provided in the explanatory information on page 262.

8. OTHER OPERATING INCOME/(EXPENSE) (NET)

	Group and Bank	
	2021	2020
Profit on sale of investment securities	**1.0**	0.3
Gain on sale of shares	**2.0**	-
Profit/(loss) on sale of loans and advances to customers	**0.5**	(3.5)
Fair value movement on loans and advances to customers designated at fair value	**(10.5)**	2.9
Income from derivatives and hedge accounting	**14.3**	5.2
(Expense)/income from assets and liabilities held at fair value through profit or loss[1]	**(1.0)**	15.8
Foreign currency transactions	**7.9**	8.0
Covered bond premium expense	**-**	(5.2)
Exceptional refund of ATM rates	**14.4**	-
Other operating income	**0.3**	1.1
	28.9	24.6

1. (Expense)/income from assets and liabilities held at fair value through profit and loss of £1.0m (2020: £15.8m) includes a £0.2m gain on equity shares (2020: £16.4m gain).

Included in the table above, in 2021 hedge ineffectiveness generated an expense of £0.4m (2020: £0.7m) in relation to fair value hedging programmes.

9. OPERATING EXPENSES

	Group and Bank	
		Re-presented[1]
	2021	2020
Staff costs	**129.8**	149.6
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets and intangibles[2]	**36.6**	40.0
Technology costs	**56.3**	63.2
Outsourced operations	**63.6**	63.6
Professional services and IT consultancy costs	**20.8**	22.1
Property costs	**8.6**	27.9
Credit checking and screening	**5.5**	3.1
Regulatory levies	**3.5**	2.9
Other expenses	**24.0**	23.0
Total operating expenses	**348.7**	395.4

1. During the period, the Bank has provided further analysis of operating costs, reducing the proportion described as 'other', and prior period comparative information has been re-presented for consistency with the current period. There is no net impact to total operating costs as a result of this re-presentation.
2. Mainly comprises amortisation of intangible assets of £23.6m (2020: £24.6m).

10. STAFF COSTS

	Group and Bank	
	2021	2020
Wages and salaries	**103.7**	108.6
Social security costs	**9.4**	11.0
Pension costs:		
Defined benefit plans – other costs	**0.2**	-
Defined contribution plans	**6.9**	7.7
Other staff costs[1]	**9.6**	22.3
Total staff costs	**129.8**	149.6

1. Other staff costs mainly comprises costs paid to temporary contractors and severance costs.

Average number of employees

The average headcount of people employed during the year is as follows:

	No of employees	
	2021	2020
Full time	**2,034**	2,237
Part time	**596**	653
	2,630	2,890

11. INCOME TAX

	Group and Bank	
	2021	2020
Current tax		
Current year	**-**	-
Prior year	**-**	(0.2)
Total current tax credit	**-**	(0.2)
Deferred tax		
Current year	**(115.9)**	0.1
Prior year	**-**	0.9
Impact of corporation tax rate change	**(50.3)**	(8.8)
Total deferred tax credit	**(166.2)**	(7.8)
Total tax credit	**(166.2)**	(8.0)

In addition to the above, included within other comprehensive income is a deferred tax charge of £91.1m (2020: £2.4m).

11. INCOME TAX (continued)

The tax on profit/(loss) before taxation differs from the theoretical amount that would arise using the corporation tax rate in the UK as follows:

	Group and Bank	
	2021	2020
Profit/(loss) before taxation	**31.1**	(103.7)
Tax charge/(credit) calculated at a rate of 19% (2020: 19%)	**5.9**	(19.7)
Effects of:		
Movement in unrecognised deferred tax	**(90.5)**	19.4
Impact of corporation tax rate change	**(50.3)**	(8.8)
Impact of surcharge tax	**(31.5)**	-
Depreciation of expenditure not qualifying for capital allowances	**0.4**	0.2
Non-taxable income	**(0.3)**	-
Expenses not deductible for tax purposes	**0.1**	0.2
Adjustment in respect of prior periods	**-**	0.7
Total tax credit	**(166.2)**	(8.0)

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.

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. A bank corporation tax surcharge of 8% also applies to Bank Company though changes to reduce the rate to 3% from 1 April 2023 were substantively enacted on 2 February 2022. Deferred tax has been calculated by reference to the appropriate rate based on the forecast reversals of the related temporary differences. The Group's effective tax rate remains difficult to predict due to the movement in recognised deferred tax assets and the effect of the changes in tax rates.

Further detail on deferred tax is provided in note 2 and in note 29 of the Group and Bank consolidated financial statements.

12. CASH AND BALANCES AT CENTRAL BANKS

	Group and Bank	
	2021	2020
Cash in hand	**11.7**	12.1
Items in transit	**(17.3)**	(23.7)
Balances with the Bank of England other than mandatory reserve deposits	**5,615.4**	3,814.1
Included in cash and cash equivalents	**5,609.8**	3,802.5
Mandatory reserve deposits with the Bank of England	**87.1**	75.3
Total cash and balances at central banks	**5,696.9**	3,877.8

Mandatory reserve deposits are not available for use in day-to-day operations, are non-interest bearing and are not included in cash and cash equivalents. Items in transit represent unpresented cheques awaiting clearance.

13. LOANS AND ADVANCES TO BANKS

	Group and Bank	
	2021	2020
Items in course of collection from other banks	**0.2**	0.2
Placements with other banks[1]	**107.5**	426.8
Included in cash and cash equivalents	**107.7**	427.0
Other loans and advances to banks	**83.8**	109.2
Total loans and advances to banks	**191.5**	536.2

1. Obligatory netting arrangements are in place for repo and reverse repo transactions. The amount reduced by netting is £nil (2020: £nil).

An expected credit loss of £nil was recorded as at 31 December 2021 (2020: £nil) in relation to loans and advances to banks.

For further details on pledged and transferred assets, refer to note 31 of the Group and Bank consolidated financial statements.

14. LOANS AND ADVANCES TO CUSTOMERS

a) Analysis of the balance sheet

	Group and Bank	
	2021	2020
Gross loans and advances	**21,039.5**	18,725.4
Less: allowance for losses	**(37.4)**	(42.9)
Total loans and advances to customers net of allowance for losses	**21,002.1**	18,682.5

Loans and advances to customers include £118.1m (2020: £136.0m) of financial assets designated at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency; of these, £56.0m (2020: £58.4m) are secured by real estate collateral.

For further details on pledged and transferred assets, refer to note 31 of the Group and Bank consolidated financial statements.

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

b) Concentration of exposure

Exposure is only within the UK. Further information on the concentration of exposure is included within section 3.2 of the risk management disclosures.

c) Analysis of allowance for impairment losses

	Group and Bank			
	Retail	SME	Legacy & unallocated	Total
At 1 January 2021	29.3	8.1	5.5	**42.9**
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	1.0	1.4	-	**2.4**
To credit impaired (stage 1 or 2 to 3)	2.1	1.1	0.6	**3.8**
To 12 month ECL (stage 2 or 3 to 1)	(3.5)	(0.7)	(0.2)	**(4.4)**
From credit impaired (stage 3 to 2)	(0.5)	-	-	**(0.5)**
Net changes arising from stage transfers	**(0.9)**	**1.8**	**0.4**	**1.3**
Other charges/(releases):				
New assets originated or purchased	6.2	0.1	-	**6.3**
Other changes to risk parameters[1]	(1.1)	0.2	0.9	**-**
Redemptions and repayments	(4.2)	(0.9)	(0.3)	**(5.4)**
Net other charges	**-**	**1.2**	**1.0**	**2.2**
Assets written off	(3.8)	(2.6)	(1.3)	**(7.7)**
Optimum portfolio sale	-	-	-	-
At 31 December 2021	**25.5**	**6.7**	**5.2**	**37.4**

1. Includes the impact of any asset sales.

14. LOANS AND ADVANCES TO CUSTOMERS (continued)

	Group and Bank			
	Retail	SME	Legacy & unallocated	Total
At 1 January 2020	17.3	5.3	4.1	26.7
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	4.5	3.1	0.4	8.0
To credit impaired (stage 1 or 2 to 3)	2.6	0.1	2.3	5.0
To 12 month ECL (stage 2 or 3 to 1)	(0.7)	-	(0.1)	(0.8)
From credit impaired (stage 3 to 2)	(0.5)	-	-	(0.5)
Net changes arising from stage transfers	5.9	3.2	2.6	11.7
Other charges/(releases):				
New assets originated or purchased	3.3	0.1	-	3.4
Other changes to risk parameters[1]	10.1	1.5	0.5	12.1
Redemptions and repayments	(2.3)	(1.4)	-	(3.7)
Net other charges	17.0	3.4	3.1	23.5
Assets written off	(5.0)	(0.6)	(1.4)	(7.0)
Optimum portfolio sale	-	-	(0.3)	(0.3)
At 31 December 2020	29.3	8.1	5.5	42.9

1. Includes the impact of any asset sales.

d) Analysis of income statement

	Group and Bank	
	2021	2020
Net other charges	**(2.2)**	(23.5)
Amounts recovered against amounts previously written off	**0.2**	1.1
Adjustment to recognise interest on stage 3 assets based on their net carrying value	**0.8**	0.9
Financial guarantees impairment release/(charge)	**0.1**	(0.1)
Net impairment loss for the year as shown in the income statement	**(1.1)**	(21.6)

e) Finance lease receivables

	Group and Bank	
	2021	2020
Gross investment in finance leases may be analysed as follows:		
No later than one year	**2.2**	2.8
Later than one year and no later than five years	**5.8**	7.4
Later than five years	**3.5**	6.5
Gross investment in finance leases	**11.5**	16.7
Unearned future finance income on finance leases	**(2.5)**	(4.3)
Net investment in finance leases	**9.0**	12.4
The net future finance leases may be analysed as follows:		
No later than one year	**1.7**	2.1
Later than one year and no later than five years	**4.7**	5.7
Later than five years	**2.6**	4.6
	9.0	12.4

The unguaranteed residual value of the finance leases is £nil (2020: £nil). Finance lease arrangements are with customers in a range of sectors including transport, retail and utilities.

15. INVESTMENT SECURITIES

Analysis of investment securities

	Group and Bank							
	2021				2020			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
Investment securities[1] (listed)	**67.3**	**1,131.6**	**2.5**	**1,201.4**	77.4	1,067.6	3.5	1,148.5

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

Movement in investment securities

	Group and Bank							
	2021				2020			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
At 1 January	**77.4**	**1,067.6**	**3.5**	**1,148.5**	95.0	1,506.4	4.2	1,605.6
Acquisitions	**-**	**873.2**	**-**	**873.2**	-	969.6	-	969.6
Disposals and maturities	**(10.1)**	**(763.8)**	**-**	**(773.9)**	(17.5)	(1,404.7)	-	(1,422.2)
FVOCI	**-**	**(2.3)**	**-**	**(2.3)**	-	1.8	-	1.8
Fair value through profit or loss	**-**	**(42.7)**	**(1.0)**	**(43.7)**	-	(7.5)	(0.7)	(8.2)
Amortisation	**-**	**(0.3)**	**-**	**(0.3)**	-	2.3	-	2.3
Movement in interest accrual	**-**	**(0.1)**	**-**	**(0.1)**	(0.1)	(0.3)	-	(0.4)
At 31 December	**67.3**	**1,131.6**	**2.5**	**1,201.4**	77.4	1,067.6	3.5	1,148.5

Certain investment securities have been pledged by the Group, see note 31 of the Group and Bank consolidated financial statements for further details on encumbered and pledged assets.

Analysis of investment securities by issuer

	Group and Bank	
	2021	2020
Investment securities issued by public bodies:		
Government securities	**442.2**	463.7
Other public sector securities	**140.8**	226.1
Total investment securities issued by public bodies	**583.0**	689.8
Other debt securities:		
Other floating rate notes	**511.8**	377.8
Mortgage backed securities	**106.6**	80.9
Total other debt securities	**618.4**	458.7
Total investment securities	**1,201.4**	1,148.5

Other floating rate notes (FRNs) are sterling denominated, with contractual maturities ranging from one to two years, to over five years from the balance sheet date.

16. DERIVATIVE FINANCIAL INSTRUMENTS

Various derivatives have been entered into to manage interest rate risk, some of which are held in a qualifying hedge accounting relationship (see the risk management section for more details on interest rate risk management strategies). Positive and negative fair values have not been netted off as there is no legal right of offset.

Non-trading derivatives
Non-trading transactions comprise derivatives held for hedging purposes to manage the asset and liability positions of the Group. Derivatives used to manage interest rate related positions include interest rate swaps and caps. The foreign exchange rate positions are managed using foreign exchange forward and swap transactions.

	Group and Bank			
	Fair value			
	2021		2020	
	Assets	Liabilities	Assets	Liabilities
Derivatives held for non-trading purposes				
Derivatives designated as cash flow hedges:				
Interest rate swaps	**-**	**-**	1.6	-
Derivatives designated as fair value hedges:				
Interest rate swaps	**145.7**	**(37.1)**	20.3	(155.7)
Derivatives held for non-trading purposes for which hedge accounting has not been applied:				
Interest rate swaps	**102.8**	**(111.1)**	167.5	(184.2)
Forward currency transactions	**-**	**-**	0.5	(0.2)
Total derivative assets/(liabilities) held for non-trading purposes	**248.5**	**(148.2)**	189.9	(340.1)
Total recognised derivative assets/(liabilities)	**248.5**	**(148.2)**	189.9	(340.1)

Detailed hedge accounting disclosures are covered within section 4.3 of the risk management.

In line with industry standards, credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are applied to non-collateralised swaps representing the fair value measurement of counterparty risk. The net credit adjustment across the portfolio at 31 December 2021 was £0.1m (2020: net credit of £0.4m). CVAs and DVAs are not applied to derivatives that are fully cash collateralised.

17. EQUITY SHARES

	Group and Bank	
	2021	2020
Listed	**0.3**	0.3
Unlisted[1]	**22.5**	21.8
	22.8	22.1

1. The unlisted trade investments includes the holdings of Visa Inc. Series B Preference Shares and newly acquired shares in Bankifi Technology Limited.

18. OTHER ASSETS

	Group and Bank					
	2021			2020		
	Amortised cost	Mandatorily measured at FVTPL	Total	Amortised cost	Mandatorily measured at FVTPL	Total
Amounts recoverable within one year						
Other assets	**12.7**	**-**	**12.7**	141.1	-	141.1
Surrendered Loss Debtor	**-**	**-**	**-**	-	47.8	47.8
	12.7	**-**	**12.7**	141.1	47.8	188.9

The Surrendered Loss Debtor was settled in February 2021 at its carrying value. There are no assets recoverable after more than one year.

19. PREPAYMENTS

	Group and Bank	
	2021	2020
Amounts recoverable within one year	**20.1**	12.6
Amounts recoverable after more than one year	**0.2**	0.6
	20.3	13.2

20. PROPERTY, PLANT AND EQUIPMENT

	Group and Bank				
2021	Land and buildings	Leasehold improvements	Computers and other equipment	Assets in the course of construction	Total
Cost					
At 1 January 2021	4.7	19.2	52.2	0.1	**76.2**
Additions	-	-	0.2	0.6	**0.8**
Disposals	-	(9.8)	(2.5)	-	**(12.3)**
Impairment	-	-	-	-	**-**
Transfer between categories	-	-	0.2	(0.2)	**-**
At 31 December 2021	**4.7**	**9.4**	**50.1**	**0.5**	**64.7**
Accumulated depreciation					
At 1 January 2021	0.5	5.0	35.5	-	**41.0**
Charge for the year	0.1	1.3	4.5	-	**5.9**
Disposals	-	(3.3)	(1.1)	-	**(4.4)**
Impairment	-	-	-	-	**-**
At 31 December 2021	**0.6**	**3.0**	**38.9**	**-**	**42.5**
Net book value					
At 31 December 2021	**4.1**	**6.4**	**11.2**	**0.5**	**22.2**
At 1 January 2021	4.2	14.2	16.7	0.1	35.2

In November 2021 the Group agreed a modification to the lease on its Head Office, which reduced the floors occupied by the Group. Consequently, £6.5m of leasehold improvements that had previously been capitalised relating to exited floors have been written off in the year.

	Group and Bank				
2020	Land and buildings	Leasehold improvements	Computers and other equipment	Assets in the course of construction	Total
Cost					
At 1 January 2020	4.7	19.2	49.7	0.4	74.0
Additions	-	-	0.4	0.5	0.9
Disposals	-	-	(1.5)	(0.1)	(1.6)
Impairment	-	-	-	(0.1)	(0.1)
Transfer from WIP Intangibles to PPE	-	-	-	3.0	3.0
Transfer between categories	-	-	3.6	(3.6)	-
At 31 December 2020	4.7	19.2	52.2	0.1	76.2
Accumulated depreciation					
At 1 January 2020	0.4	3.5	31.5	-	35.4
Charge for the year	0.1	1.5	4.9	-	6.5
Disposals	-	-	(0.9)	-	(0.9)
Impairment	-	-	-	-	-
At 31 December 2020	0.5	5.0	35.5	-	41.0
Net book value					
At 31 December 2020	4.2	14.2	16.7	0.1	35.2
At 1 January 2020	4.3	15.7	18.2	0.4	38.6

The net book value of land and buildings comprises freehold properties of £4.1m (2020: £4.2m).

21. INTANGIBLE ASSETS

	Group and Bank							
	2021				Re-presented[1] 2020			
	Internally generated assets	Other intangible assets	Assets in the course of construction	Total	Internally generated assets	Other intangible assets	Assets in the course of construction	Total
Cost								
At 1 January	**206.4**	**21.5**	**11.5**	**239.4**	194.8	17.3	14.6	226.7
Additions	**0.4**	**4.7**	**23.0**	**28.1**	-	0.3	15.6	15.9
Disposals	**-**	**-**	**-**	**-**	(0.1)	-	-	(0.1)
Impairment	**-**	**-**	**(0.1)**	**(0.1)**	-	-	(0.1)	(0.1)
Transfer from WIP Intangibles to PPE	**-**	**-**	**-**	**-**	-	-	(3.0)	(3.0)
Transfer between categories	**9.2**	**4.1**	**(13.3)**	**-**	11.7	3.9	(15.6)	-
At 31 December	**216.0**	**30.3**	**21.1**	**267.4**	206.4	21.5	11.5	239.4
Accumulated amortisation								
At 1 January	**160.6**	**15.4**	**-**	**176.0**	139.1	12.3	-	151.4
Charge for the year	**20.0**	**3.6**	**-**	**23.6**	21.5	3.1	-	24.6
Increment of useful life	**-**	**(0.7)**	**-**	**(0.7)**	-	-	-	-
Disposals	**-**	**-**	**-**	**-**	-	-	-	-
Transfer between categories	**-**	**-**	**-**	**-**	-	-	-	-
At 31 December	**180.6**	**18.3**	**-**	**198.9**	160.6	15.4	-	176.0
Net book value								
At 31 December	**35.4**	**12.0**	**21.1**	**68.5**	45.8	6.1	11.5	63.4
At 1 January	**45.8**	**6.1**	**11.5**	**63.4**	55.7	5.0	14.6	75.3

1. During the period, we represented the note to extract the Assets in the course of construction from the Internally generated assets category, for a more accurate presentation. There is no net impact to the net book value of the intangible assets as a result of this re-presentation.

Assets in the course of construction of £21.1m (2020: £11.5m) represent mainly IT and technology project-related spend. Other intangible assets are predominantly comprised of purchased software licenses.

22. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Right-of-use assets

	Group and Bank					
	2021			2020		
Land and buildings	Cost	Depreciation	Total	Cost	Depreciation	Total
At 1 January	**53.7**	**-**	**53.7**	72.3	-	72.3
Additions	**1.5**	**-**	**1.5**	1.9	-	1.9
Disposals	**-**	**-**	**-**	(4.0)	-	(4.0)
Remeasurement[1]	**(1.3)**	**-**	**(1.3)**	(7.8)	-	(7.8)
Depreciation	**-**	**(7.0)**	**(7.0)**	-	(8.7)	(8.7)
At 31 December	**53.9**	**(7.0)**	**46.9**	62.4	(8.7)	53.7

1. In 2021 the Group adjusted its right-of-use asset in respect of changes to the service charge payable on one of its head office locations with a corresponding adjustment made to lease liabilities. In 2020, the Group remeasured the right-of-use asset relating to floors not in use in a head office location. A corresponding adjustment was made to lease liabilities and the Group also recognised an onerous lease provision.

Lease liabilities

The undiscounted maturity analysis of lease liabilities future cash flows is included in the table below and relates mainly to land and building leases.

	Group and Bank	
	2021	2020
Amounts falling due:		
Within one year	**6.2**	7.5
One to two years	**6.4**	7.1
Two to five years	**13.9**	18.3
Over five years	**24.0**	33.6
	50.5	66.5

22. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

The discounted lease liability as at 31 December 2021 was £44.1m (2020: £53.6m) and the interest expense on lease liabilities for the year was £1.7m (2020: £2.4m). The weighted average incremental borrowing rate applied to lease liabilities during the year was 3.4% (2020: 3.4%). There are no committed leases which have not yet commenced.

Cash outflow
The total cash outflow in respect of leases for the year was £11.0m (2020: £10.0m).

Other lease related income and expenses
The expense related to short-term leases (less than 12 months) and low-value assets for the year was £0.4m (2020: £0.4m) and £0.1m (2020: £0.2m), respectively. The expense for the year relating to variable lease payments not included in the lease liability was £nil (2020: £nil).

Subleases
During 2021, £0.5m (2020: £1.1m) was received from subleasing right-of-use assets. Future undiscounted minimum payments receivable in respect of subleased assets classified as operating leases at 31 December is £0.6m (2020: £2.0m).

23. DEPOSITS BY BANKS

	Group and Bank	
	2021	2020
Deposits from other banks[1]	**5,527.6**	2,066.4

1. Obligatory netting arrangements are in place for repo and reverse repo transactions. The amount reduced by netting is £nil (2020: £nil).

Included within deposits by banks are liabilities to third parties where the Group has transferred certain assets but has not divested itself of the risks and rewards of ownership and has therefore retained those assets on its balance sheet. Further details on these arrangements, including carrying amounts are disclosed in note 31 of the Group and Bank consolidated financial statements.

Included within deposits by banks are drawings of £5.2bn (2020: £1.8bn) from the Bank of England TFSME scheme (interest charged at Base Rate over a period of four years).

24. DEBT SECURITIES IN ISSUE

Debt securities in issue comprise:
- £250m of AAA securities issued in 2019 through Silk Road Finance Number Six p.l.c. at a margin of 0.85% above compounded daily SONIA and a maturity date of September 2023. The notes value as at the balance sheet date is £203.3m (2020: £234.9m).

During the year, the secured covered bond of £483.1m at a coupon of 4.75% was redeemed at par.

25. OTHER BORROWED FUNDS

	Group and Bank	
	2021	2020
Fixed rate subordinated notes	**400.0**	400.0
Issue costs, discounts and accrued interest	**2.3**	1.2
Hedged risk adjustment	**(0.2)**	7.0
	402.1	408.2

Other borrowed funds comprise:
- £200m of MREL-qualifying Tier 2 notes issued in April 2019. These are fixed rate reset callable subordinated notes. These notes have contractual maturity of 25 April 2029, an optional call date of 25 April 2024 with a coupon of 9.5% and are listed on the London Stock Exchange.
- £200m of MREL-qualifying fixed rate reset callable senior unsecured debt issued in November 2020 to meet the Group's Minimum Requirements for own funds and Eligible Liabilities. These notes:
  - i. Are direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank pari passu without any preference among themselves and, in the event of a winding-up, will rank pari passu with all other present and future unsecured and unsubordinated obligations of the Bank;
  - ii. Have a contractual maturity of 27 November 2025, an optional call date of 27 November 2024 and a coupon of 9% which will reset at the optional call date; and
  - iii. Are listed on the London Stock Exchange.

26. OTHER LIABILITIES

	Group and Bank	
	2021	2020
Amounts falling due within one year		
Amounts due to beneficiary banks	**24.7**	24.2
Other creditors	**14.0**	9.5
	38.7	33.7

There are no liabilities falling due after one year.

27. ACCRUALS AND DEFERRED INCOME

	Group and Bank	
	2021	2020
Amounts falling due within one year		
Accruals	**31.6**	25.2
Deferred income	**3.2**	7.3
	34.8	32.5
Amounts falling due after one year		
Accruals	**0.4**	0.3
Deferred income	**1.8**	2.2
	2.2	2.5
	37.0	35.0

The above includes the £15.0m government grant received in 2019, of which £13.0m was utilised in total by the end of 2021 (2020: £8.3m).

28. PROVISIONS

	Group and Bank				
2021	Property	PPI	Conduct/legal	Other	Total
At 1 January 2021	22.8	8.6	1.1	13.9	**46.4**
(Released)/provided in the year:					
Fee and commission expense	-	-	-	-	**-**
Operating expenses	(1.4)	-	0.1	13.4	**12.1**
Net customer redress release	-	(2.6)	-	-	**(2.6)**
Utilised during the year	(6.2)	(5.0)	(1.1)	(9.7)	**(22.0)**
At 31 December 2021	**15.2**	**1.0**	**0.1**	**17.6**	**33.9**
Amounts falling due within one year	4.3	1.0	0.1	15.9	**21.3**
Amounts falling due after one year	10.9	-	-	1.7	**12.6**
	15.2	**1.0**	**0.1**	**17.6**	**33.9**

	Group and Bank				
2020	Property	PPI	Conduct/legal	Other	Total
At 1 January 2020	11.0	57.5	4.6	14.3	87.4
Provided in the year:					
Fee and commission expense	-	-	0.3	-	0.3
Operating expenses	16.1	-	0.4	20.0	36.5
Net customer redress charge	-	2.0	-	-	2.0
Utilised during the year	(4.3)	(50.9)	(4.2)	(20.4)	(79.8)
At 31 December 2020	22.8	8.6	1.1	13.9	46.4
Amounts falling due within one year	7.4	8.6	1.1	13.0	30.1
Amounts falling due after one year	15.4	-	-	0.9	16.3
	22.8	8.6	1.1	13.9	46.4

28. PROVISIONS (continued)

Property
Property provisions are recognised primarily in respect of dilapidations for trading and non-trading properties, as well as certain onerous costs for leasehold properties where the Group is no longer occupying the properties in question. Provision utilised in the year primarily related to the exits of branches for which provisions were recognised following restructuring announcements during 2020.

Payment Protection Insurance (PPI)
The Group has materially concluded its remediation activity under its legacy PPI redress programme and expects the remaining provision to be adequate in respect of residual liabilities.

Conduct/legal provisions
The Group provided £0.1m in the year (2020: £0.7m) in respect of ongoing customer remediation work and various legal claims arising in the ordinary course of business.

Other
Other provisions net charge of £13.4m (2020: £20.0m) mainly comprise movements in the provisions for employee pay, severance costs and remuneration.

29. DEFERRED TAX

Deferred taxes are calculated on all temporary differences under the liability method using the appropriate tax rate in respect of each temporary difference.

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. A banking surcharge tax of 8% also applies to the Bank Company. The deferred tax assets and liabilities at 31 December 2021 have been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences.

On 27 October 2021, the government announced that the banking surcharge will be reduced from a rate of 8% to 3%, and that it will be chargeable on banking profits above £100.0m (previously £25.0m). The changes will be effective from 1 April 2023 for current tax, aligning with the already enacted rise in the main rate of corporation tax, so that the combined rate of tax on banking profits in excess of £100.0m will be 28%. The changes to the banking surcharge were substantively enacted on 2 February 2022. This reduction in the surcharge rate will significantly reduce the balance sheet deferred tax assets and liabilities, which will be valued at a lower tax rate in the year ended 31 December 2022. The effect of the rate change will depend upon the Group's tax position at the effective date, but if the new rate had been enacted by 31 December 2021, the impact on the Group's existing net deferred tax asset is estimated to be a reduction of circa £8.9m.

The movements in deferred tax are as follows:

	Group and Bank					
	2021			2020		
	Deferred tax asset	Deferred tax liability	Total	Deferred tax asset	Deferred tax liability	Total
Deferred tax at the beginning of the year	**-**	**(38.3)**	**(38.3)**	-	(43.7)	(43.7)
Credited/(charged) to the income statement:						
Current year	**115.9**	**-**	**115.9**	(0.1)	-	(0.1)
Prior year	**-**	**-**	**-**	(0.9)	-	(0.9)
Impact of corporation tax rate change	**50.3**	**-**	**50.3**	8.8	-	8.8
	166.2	**-**	**166.2**	7.8	-	7.8
(Charged)/credited to other comprehensive income:						
Retirement benefits	**(131.1)**	**38.3**	**(92.8)**	(3.9)	5.4	1.5
Cash flow hedges	**1.4**	**-**	**1.4**	(2.8)	-	(2.8)
FVOCI	**0.3**	**-**	**0.3**	(1.1)	-	(1.1)
	(129.4)	**38.3**	**(91.1)**	(7.8)	5.4	(2.4)
Deferred tax at the end of the year	**36.8**	**-**	**36.8**	-	(38.3)	(38.3)

The deferred tax asset above includes an offset for those deferred tax liabilities that are permissible to be offset.

29. DEFERRED TAX (continued)

	Group and Bank			
	2021		2020	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Deferred tax comprises:				
Retirement benefits	**(277.6)**	**-**	(137.8)	(38.2)
Tax losses carried forward	**192.4**	**-**	38.2	-
Capital allowances on fixed assets and assets leased to customers	**138.4**	**-**	116.3	(0.1)
Cash flow hedges	**(7.5)**	**-**	(8.9)	-
Unrealised appreciation on investments	**(7.3)**	**-**	(5.9)	-
FVOCI	**(1.6)**	**-**	(1.9)	-
	36.8	**-**	-	(38.3)

The deferred tax (credits)/charges in the income statement comprises:

	Group and Bank	
	2021	2020
Tax losses carried forward	**(154.2)**	5.1
Capital allowances on fixed assets and assets leased to customers	**(22.2)**	(12.8)
Retirement benefits	**8.8**	4.9
Unrealised appreciation on investments	**1.4**	(5.2)
Cash flow hedges	**-**	0.4
Fair value adjustments	**-**	(0.2)
	(166.2)	(7.8)

Deferred tax assets totalling £468.7m (2020: £482.2m) have not been recognised where doubt exists over the availability of sufficient future taxable profits. Deferred tax of £459.9m (2020: £474.9m) and £8.8m (2020: £7.3m) have not been recognised in respect of trading losses of £1,835.9m (2020: £2,300.4m) and other temporary differences of £26.6m (2020: £27.1m) respectively.

30. RETIREMENT BENEFITS

The Group is the Principal Employer of the Bank section of The Co-operative Pension Scheme (Pace), a hybrid scheme, consisting of a closed defined benefit element (Pace DB) and a defined contribution element (Pace DC). In addition, the Group is the Principal Employer of the Britannia Pension Scheme (BPS, via a subsidiary of the Bank) which is a defined benefit scheme, closed to new entrants and to future accrual. The Group operates two unfunded defined benefit pension schemes, the Britannia Supplementary Pension and Life Assurance Plan (BSPLAP) and the Pension Promise. The relevant disclosures have been aggregated with the disclosures of the main schemes unless otherwise stated.

The amounts recognised in the income statement are as follows:

		Group and Bank	
	Note	2021	2020
Interest expense on defined benefit obligation		**(33.5)**	(42.4)
Interest income on plan assets		**42.6**	56.2
Total net interest income on net defined benefit pension asset	6	**9.1**	13.8
Net interest expense on unfunded schemes	6	**(0.1)**	(0.2)
Administrative expenses included in operating expenses		**(3.8)**	(4.3)
Net credit to the income statement – DB		**5.2**	9.3
Net charge to the income statement – DC	10	**(6.9)**	(7.7)
Total pension (charge)/credit included in the income statement		**(1.7)**	1.6

30. RETIREMENT BENEFITS (continued)

The amounts recognised in other comprehensive income are as follows:

	Group and Bank	
	2021	2020
Return on scheme assets	**(11.4)**	(273.3)
Gain arising from changes in financial assumptions	**141.7**	302.5
Gain arising from changes in demographic assumptions	**12.5**	9.8
Experience gain	**39.6**	10.4
Actuarial gain on unfunded schemes	**0.3**	0.4
Credit recorded in other comprehensive income	**182.7**	49.8

The amounts recognised in the balance sheet are as follows:

	Group and Bank	
	2021	2020
Retirement benefit net surplus	**841.1**	651.8
Retirement benefit liabilities	**(8.1)**	(8.8)
Total amounts recognised in the balance sheet	**833.0**	643.0
Represented by:		
Funded DB schemes (Pace DB and BPS)	**841.1**	651.8
Unfunded DB schemes	**(8.1)**	(8.8)
Total amounts recognised in the balance sheet	**833.0**	643.0

Defined benefit schemes

a) Characteristics of the defined benefit plans and risks associated with them

Both the Pace DB and the BPS defined benefit schemes are based in the UK. Pace DB closed to new entrants and to future accrual in October 2015. The benefits that had accrued until that point were on a career average revalued earnings basis, meaning that benefits earned by a member were dependent on the length of service and the average earnings over the length of service. BPS closed to new entrants in 2001 and to future accrual on 6 October 2012. Annual increases on pensions in payment for both Pace DB and BPS are applied in line with their respective scheme rules.

Given both schemes are closed to new entrants and future accrual, the certainty over pension liabilities increases over time and this increased certainty is reflected in the investment strategies (noted below). Pension obligations are valued separately for accounting and funding purposes. The accounting valuation of liabilities is prepared biannually for the Group's reporting purposes by a qualified actuary, in accordance with accounting standards. This accounting valuation of pension obligations is compared with the fair value of plan assets, giving rise to a net asset or liability in respect of DB pensions at the balance sheet date for the Group's financial reporting purposes. The funding valuation is conducted by the trustees, in consultation with the Group, and is conducted by a qualified actuary at least once every three years (and is updated for monitoring purposes on an annual basis). The latest concluded actuarial funding valuations were conducted in respect of Pace DB as at April 2019 and for BPS as at April 2020.

The purpose of the funding valuation is to determine the amount of cash an employer needs to contribute to the scheme to repair any deficit. The funding valuation will generally be different to the accounting valuation, not only because of the different measurement dates, but also because accounting standards require that companies employ best estimate assumptions, and therefore the accounting surplus will generally be higher than that reported in the more prudent funding valuation. The Group has recognised a net pension asset of £600.7m in respect of Pace DB for the year ended 31 December 2021 (2020: £509.2m) and a net pension asset of £240.4m in respect of BPS (2020: £142.6m).

Funding position of Pace DB

As part of the project to sectionalise Pace, which concluded in 2018, it was agreed with the Pace Trustee and the Co-op that the Group would contribute £100.0m into the Bank section of Pace over a ten-year period from 1 January 2018, of which £25.0m had been paid as at 31 December 2019.

At April 2019, the date of the last concluded funding valuation, the surplus for Pace DB (the Bank section of the Co-operative Pension Scheme) was £72.0m. Acknowledging this surplus, it was agreed that no further contributions would be paid directly into Pace DB, but that the remaining, previously agreed contributions due from 1 January 2020 would be payable into an escrow arrangement, and the Pace Trustee would have a right to these monies in the event of Bank insolvency or a failure by the Bank to make contributions in the future under the terms of the Payment Agreement. This Payment Agreement enables the Trustee to request a contribution if required in certain circumstances to repair a deficit against the low risk target basis (a secondary funding measure for Pace) or to enable Pace to meet the premium payable above scheme assets in order to fully insure scheme liabilities with a third party insurance company.

30. RETIREMENT BENEFITS (continued)

The Trustee is not entitled to request a cash contribution for this purpose until March 2023 at the earliest, following which time the amount the Trustee is entitled to request is a maximum of £45.0m, rising to £75.0m by 2027. At 31 December 2021, £25.0m cash was pledged in this escrow arrangement, included in loans and advance to banks (refer to note 31 of the Group and Bank consolidated financial statements). A further payment of £12.5m was made into the escrow arrangement in January 2022.

In addition, it was agreed that the Group would continue to provide security to Pace DB in the form of AAA-rated RMBS notes, subject to a haircut, decreasing over time in line with contributions paid into the Scheme. This security becomes enforceable in the event that deficit recovery payments are not met, as may be agreed with the Trustee in the future, insolvency or the failure to adhere to the terms of the security deed. At 31 December 2021, the Group was obliged to provide security of £244.9m in the form of AAA-rated RMBS notes. Post haircut, this amounted to £191.0m.

Contributions are also paid in respect of employed members of Pace DC. Members can choose to pay up to a maximum core contribution of 8% of salary 'double-matched' up to a maximum member contribution of 5%. So, for members paying 5% or more, an employer contribution of 10% of salary is paid into the Scheme.

Funding position of BPS
The actuarial valuation of BPS as at 5 April 2020, completed by the Scheme Actuary in accordance with the scheme specific funding requirements of the Pensions Act 2004, showed BPS had a surplus of £3.4m. As a result, it was agreed with the Trustee that no further deficit recovery contributions would be required at this time, that expense reimbursement contributions of £1.35m p.a. would be maintained, and that the provision of security to the scheme was to be maintained. This security is in the form of £175.6m AAA-rated RMBS notes, subject to a 22% haircut at 31 December 2021. This security becomes enforceable in the event that deficit recovery payments are not met, as agreed with the Trustee, insolvency or the failure to adhere to terms of the security deed.

Governance
The responsibility for the governance of the schemes lies with their respective trustees. Pace Trustees Limited is the corporate body that acts as trustee of the Pace scheme, including Pace DB and Pace DC. Britannia Pension Trustees Limited is the corporate body that acts as trustee of the Britannia scheme. The main risks impacting the pension obligations are inflation risk, interest rate risk and mortality (or longevity) risk. In respect of both schemes, the majority of inflation risk and interest rate risk is hedged through the investment strategy to invest in Liability-Driven Investments (LDI), which include derivatives. If the value of liabilities were to increase as a result of changes in interest rates or inflation, the value of these LDI assets would also be expected to increase. In April 2020, the Pace Trustee completed a £400 million pension insurance buy-in, covering liabilities for c. 2,000 pension members in Pace DB, and partially reducing the scheme's exposure to longevity and other economic risks.

The actual mortality rates experienced by the scheme compared to those assumed by the actuary is a key source of estimation uncertainty.

The actuary considers two aspects in respect of mortality rates; firstly, the level of mortality actually experienced by each scheme, and secondly, the future improvement expected in mortality rates. Both aspects may differ between males and females. The assumptions used by the actuary are set out in section b) below.

Investment strategy
The performance of plan assets is also a risk managed by the trustees (described as investment risk) and, as noted within the investment strategy, the performance is managed and monitored by comparison to scheme benchmarks advised by the scheme's investment advisor, where appropriate. The benchmarks take account of actual performance by comparing performance to that of a relevant comparable yardstick. For LDI assets, the performance benchmark comparison is the value of liabilities. For return-seeking investments the benchmark is comprised of comparable investment indices. The trustees also monitor whether performance is being delivered by taking on greater risk than appetite; this is monitored by comparing the actual asset allocation to the target allocation documented in the Statement of Investment Principles, maintained by each scheme. The weighted average duration of the defined benefit obligation of BPS is 19 years and 20 years for Pace DB.

b) Summary of scheme assets and liabilities, key assumptions and sensitivities
The pension assets and liabilities for DB schemes in the balance sheet comprise:

	Group and Bank					
	2021			2020		
Schemes	Asset	Liability	Net	Asset	Liability	Net
Pace DB	**2,128.7**	**1,528.0**	**600.7**	2,169.6	1,660.4	509.2
Britannia Pension Scheme	**905.8**	**665.4**	**240.4**	919.5	776.9	142.6
Total schemes	**3,034.5**	**2,193.4**	**841.1**	3,089.1	2,437.3	651.8

30. RETIREMENT BENEFITS (continued)

Changes in the present value of the defined benefit obligation are as follows:

	Group and Bank	
	2021	2020
Defined benefit obligation at the start of the year	**2,437.3**	2,165.4
Interest expense	**33.5**	42.4
Benefits paid	**(83.6)**	(93.2)
Remeasurements:		
Effect of changes in demographic assumptions	**(12.5)**	9.8
Effect of changes in financial assumptions	**(141.7)**	302.5
Effect of other experience items	**(39.6)**	10.4
Defined benefit obligation at the end of the year	**2,193.4**	2,437.3

The key assumptions used to determine the funded and unfunded pension obligations for accounting purposes are set out in the following tables:

	Group and Bank	
	2021	2020
Discount rate	**2.00%**	1.40 %
Revaluation in deferment (CPI) - BPS	**2.70%**	2.30 %
Revaluation in deferment (CPI) - Pace DB	**2.50%**	2.10 %
Future pension increases where capped at 5.0 % per annum (CPI)	**2.70%**	2.30 %
Future pension increases where capped at 5.0 % per annum, minimum 3.0 % (CPI)	**3.40%**	3.30 %
Future pension increases where capped at 6.0 % per annum (RPI)	**3.20%**	2.80 %
Future pension increases where capped at 5.0 % per annum (RPI)	**3.10%**	2.80 %
Future pension increases where capped at 3.0 % per annum (CPI)	**2.10%**	1.90 %
Future pension increases where capped at 2.5 % per annum (RPI)	**2.20%**	2.00 %

The average life expectancy (in years) for mortality tables used to determine defined benefit schemes liabilities at the 2021 year end is:

	Group and Bank	
	Male	Female
Life expectancy (BPS)		
Member retiring today (member age 60)	**84.9**	**87.7**
Member retiring in 20 years (member age 40 today)	**86.0**	**88.9**
Life expectancy (Pace)		
Member retiring today (member age 60)	**85.4**	**87.8**
Member retiring in 20 years (member age 40 today)	**86.0**	**88.9**

The measurement of the Group's defined benefit liabilities are particularly sensitive to changes in certain key assumptions, which are described below. The methods used to carry out the sensitivity analyses presented below for the material assumptions are the same as those the Group has used previously. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remained the same. This approach is not necessarily realistic, since some assumptions are related; for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will increase also. However, it enables the reader to isolate one effect from another.

Discount rate	This has been selected following actuarial advice received by the Group, taking into account the duration of the liabilities. An increase in the discount rate of 0.1 % would result in a £37.4m decrease in the present value of the defined benefit obligation.
Inflation	Inflation is a significant assumption as it is used to determine salary-related benefits and pension increases before and after retirement. A decrease in the inflation rate of 0.1 % would result in a £24.8m decrease in the present value of the defined benefit obligation.
Mortality rates	The mortality assumptions adopted are based on those recommended by the actuaries that advise the scheme management and reflect the most recent information as appropriate. The impact on the liability if members were assumed to live for one year longer against the current mortality assumption would increase the present value of the defined benefit obligation by £87.7m.

30. RETIREMENT BENEFITS (continued)

Changes in the fair value of the defined benefit plan assets are as follows:

	Group and Bank	
	2021	2020
Fair value of plan assets at the start of the year	**3,089.1**	2,855.6
Interest income	**42.6**	56.2
Employer contributions	**1.4**	1.5
Benefit payments from plan assets	**(83.6)**	(93.2)
Administrative expenses paid from plan assets	**(3.6)**	(4.3)
Return on plan assets (excluding interest income)	**(11.4)**	273.3
Fair value of plan assets at the end of the year	**3,034.5**	3,089.1

c) Investment strategy for the DB schemes

The investment strategy is controlled by the trustee of each scheme in consultation with the employers. The investment objective is to invest each scheme's assets in the best interest of the members and beneficiaries, and in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries. Within this framework, the trustees have agreed a number of objectives to help guide in the strategic management of the assets and control of the various risks to which each scheme is exposed. Primary objectives are as follows:

- Agree to implement an investment strategy that initially targets an expected return of around 1.3 % p.a. (net of fees) above the return on a portfolio of gilts for BPS and around 0.5 % p.a. (net of fees) above the return on a portfolio of gilts for Pace DB;
- The primary objective is that each scheme has sufficient and appropriate assets to meet the costs incurred by the scheme in paying its benefits as they fall due on a technical provisions basis (technical provisions being the funding valuation basis reflecting a prudent valuation); and
- If funding improves as a result of better than expected investment return, the expectation is to use the opportunity to reduce investment risk where appropriate.

The investment strategies of both Pace DB and BPS reflect the strong funding position and closed nature of the schemes and the strategic asset allocation targets low levels of return-seeking assets and high levels of assets which mitigate against funding volatility, in line with the trustees' stated desire of increasing the predictability of investment returns where possible. At any point in time, the implemented asset portfolio may not exactly match the target asset portfolio, in particular during a time of change to the target. This difference between the actual and target asset allocation is monitored regularly by the trustees.

The fair value of the DB schemes' assets is analysed as follows:

	Group and Bank			
	2021	% of total	2020	% of total
Government bonds	**1,457.0**	**48%**	1,092.8	35 %
Corporate bonds	**37.8**	**1%**	38.5	1 %
Derivatives	**44.9**	**1%**	51.2	2 %
Cash and similar	**129.1**	**4%**	142.3	5 %
Other	**(308.2)**	**(9%)**	2.7	0 %
Total liability-driven investment (LDI) portfolios	**1,360.6**	**45%**	1,327.5	43 %
Debt instruments	**446.1**	**15%**	460.3	15 %
Investment grade credit	**740.7**	**25%**	798.3	26 %
Asset backed securities	**65.2**	**2%**	64.4	2 %
Annuities	**302.3**	**10%**	328.4	11 %
Property funds (UK)	**75.8**	**2%**	70.7	2 %
Cash and other	**43.8**	**1%**	39.5	1 %
Total assets	**3,034.5**	**100%**	3,089.1	100 %

The table below shows the value of the assets in each category which have a quoted market price:

	Group and Bank	
	2021	2020
Liability-driven investments	**1,250.7**	1,157.5
Debt instruments	**346.2**	369.6
Other	**695.8**	722.2
Total	**2,292.7**	2,249.3
Total %	**76%**	73 %

30. RETIREMENT BENEFITS (continued)

The scheme assets do not directly include any of the Group's own assets, nor any property occupied, or other assets used by the Group. Where available, the fair values are quoted prices (e.g. listed equity, sovereign debt and corporate bonds). Unlisted investments are included at values provided by the fund manager in accordance with relevant guidance. Other significant assets are valued based on observable inputs such as yield curves.

31. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES

a) Contingent liabilities and other commitments arising from customer transactions

The tables below provide the contractual amounts and risk weighted amounts of contingent liabilities and commitments. The contractual amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The risk weighted amounts have been calculated in accordance with the CRD V rules.

The contingent liabilities, as detailed below, arise in the normal course of banking business and it is not practical to quantify their future financial effect.

	Group and Bank			
	2021		2020	
	Audited	Unaudited	Audited	Unaudited
	Contractual amount	Risk weighted amount	Contractual amount	Risk weighted amount
Contingent liabilities arising from customer transactions				
Guarantees and irrecoverable letters of credit	**4.1**	**2.0**	5.6	3.1
Other commitments arising from customer transactions				
Undrawn formal standby facilities, credit lines and other commitments to lend (includes revocable and irrevocable commitments)[1]	**1,960.5**	**383.7**	2,406.7	425.3
	1,964.6	**385.7**	2,412.3	428.4

1. Undrawn loan commitments include revocable commitments which represent unused credit card limits of £891.0m (2020: £974.5m).

b) Contingent liabilities associated with exit events

Certain liabilities would crystallise only in the event that an 'exit event' (e.g. a public offering of the Group's shares) is deemed probable:

- There is a contingent liability of £25.0m in aggregate due to the Holding Company's B shareholders on exit, subject to achieving a minimum valuation threshold. See note 33 of the Group and Bank consolidated financial statements.
- A management retention award was introduced during the year which is contingent on certain qualifying transactions, which are not deemed probable at the balance sheet date and therefore no provisions has been recognised. The unrecognised maximum value of the scheme at 31 December 2021 was £4.8m.

c) Conduct risk matters

Given the high level of scrutiny regarding financial institutions' treatment of customers and business conduct from regulatory bodies, the media and politicians, there is a possibility that certain aspects of the current or historical business, including, amongst other things, mortgages and relationship banking, may be determined by the FCA and other regulatory bodies or the courts as, in their opinion, not being conducted in accordance with applicable laws or regulations, or fair and reasonable treatment.

There may be regulatory investigations and action in the future in relation to conduct and other issues that the Group is not presently aware of, including investigations and actions against it resulting from alleged mis-selling of financial products or the ongoing servicing of those financial products. The outcome of any ongoing disputes and legal, regulatory or other investigations or proceedings is currently uncertain. The Group is currently investigating a small number of matters that may give rise to a requirement to remediate affected customers, but either considers the possibility of future economic outflow to be remote, not yet able to be reliably estimated, or immaterial.

d) Legal proceedings

Various other legal proceedings exist involving claims by and against the Bank, which arise in the ordinary course of business, including debt collection, mortgage enforcement, consumer claims and contractual disputes. It is not expected that the ultimate resolution of any of these proceedings will have a material adverse effect on the operating results, cash flows or the financial position and as such contingent liabilities have not been disclosed for these claims. Provisions have been recognised for those cases where there is an ability to reliably estimate the probable loss where the probable loss is not de minimis.

31. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES (continued)

Historical changes to SVR rates
In October 2018, Mortgage Agency Services Number Five Limited ("MAS 5"), a subsidiary of the Group, received a complaint from a mortgage customer regarding changes made to MAS 5's standard variable rate between 2009 and 2012.

The complaint was referred to the Financial Ombudsman Service ("FOS") and on 26 August 2021, the FOS found that it had jurisdiction to consider the complaint. MAS 5 commenced legal action to request permission for a judicial review of FOS's finding on the grounds that the Group considers this part of the complaint to be outside of FOS's jurisdiction by reason of being time-barred under DISP 2.8.2. Permission has been granted by the High Court for MAS 5 to bring the judicial review claim.

As this is a case concerning a decision on whether or not the events are within the FOS's jurisdiction and not on the merits of the underlying complaint, it is currently not possible to predict the scope and ultimate outcome on the Group should the judicial review find in favour of the FOS. An adverse outcome at judicial review would be the first in a series of increasingly contingent events that would need to occur in order for the Group to be exposed to any significant liability and, given the early stages of this process, it is not practicable to provide an estimate of any potential financial impact. The Group is satisfied that these historical variations were applied fairly and in accordance with the terms and conditions of the mortgage contract.

e) Mortgage securitisation representations and warranties
In connection with the mortgage securitisations (the Warwick, Avon and Stratton SPEs - refer to note 36 for further information), various representations and warranties relating to the mortgage loans are made, including in relation to ownership, compliance with legislation and origination procedures. If the representations and warranties are breached subject to any applicable materiality determination, repurchase of the affected mortgage loans or in some circumstances compensation to the securitisation vehicle may be required.

There is a risk that a number of the underlying matters that could give rise to conduct and legal provisions could result in breaches of such representations and warranties. Accordingly, there is a risk that compensation or repurchasing affected mortgage loans may be required in amounts that may reduce liquidity. The Group considers this risk to be remote.

The extent cannot be estimated to which the matters described above will be impacted, or how future developments may have a material adverse impact on the Group's net assets, operating results or cash flows in any particular period.

f) Unconsolidated structured entities
Details of the interests in unconsolidated structured entities are disclosed in note 36. There has been no significant change in the nature of the transactions in these entities during the year.

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

2021	Cash and balances at central banks	Loans and advances to banks	Loans and advances to customers	Investment securities	Total
TFSME	-	-	7,103.9	-	**7,103.9**
Covered bond	-	-	-	-	**-**
Pension scheme contingent security	-	51.6	492.4	-	**544.0**
Payment scheme collateral	280.0	49.5	48.8	41.8	**420.1**
Interest rate swap collateral	-	2.8	-	156.1	**158.9**
Securitisations	-	12.1	246.6	-	**258.7**
Other		30.2		146.3	**176.5**
Total assets pledged	**280.0**	**146.2**	**7,891.7**	**344.2**	**8,662.1**

31. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES (continued)

2020	Cash and balances at central banks	Loans and advances to banks	Loans and advances to customers	Investment securities	Total
TFSME	-	-	2,346.7	-	2,346.7
Covered bond	-	41.9	1,236.6	-	1,278.5
Pension scheme contingent security	-	35.6	489.9	-	525.5
Payment scheme collateral	280.0	50.9	48.5	41.7	421.1
Interest rate swap collateral	-	302.7	-	158.5	461.2
Securitisations	-	11.3	265.7	-	277.0
Other	-	24.0	-	166.8	190.8
Total assets pledged	280.0	466.4	4,387.4	367.0	5,500.8

- **TFSME** – residential mortgages pledged as collateral against the Group's drawings from the Bank of England's Term Funding Scheme.
- **Covered bond** – residential mortgages pledged as collateral against covered bond investment securities issued by the Group. Noteholders would have recourse to the underlying assets in the event of the Group's default. The covered bond was fully redeemed during 2021.
- **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 £25.0m cash held in the Pace escrow account. These assets can only be accessed by the trustees in the event that the Group was unable to meet future contribution obligations, as may be agreed with the relevant scheme trustee, insolvency or the failure to adhere to the terms of the security deeds. Refer to note 30 of the Group and Bank consolidated financial statements.
- **Payment scheme collateral** – collateral posted as part of the Group's involvement in transactional payment schemes, including Visa and BACS.
- **Interest rate swap collateral** – collateral posted by the Group against derivative contract exposures as part of its interest rate risk hedging activities.
- **Securitisations** – residential mortgages pledged as collateral against investment securities issued by Group securitisation subsidiaries. Noteholders would have recourse to the underlying assets in the event of the Group's default. The Group may issue investment securities from the securitisations externally to investors for liquidity purposes, or may retain these internally to be used as collateral in other arrangements. Where such securities are retained internally, they are eliminated on consolidation and do not appear on the Group's balance sheet.
- **Other** – primarily relates to investment securities pledged to cover essential operational continuity costs that would be incurred if the Group was put into resolution.

h) Transferred assets not derecognised

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

	2021		2020	
	Assets not derecognised	Associated liabilities	Assets not derecognised	Associated liabilities
Repurchase agreements				
Loans and advances to customers	**6.3**		-	
Investment securities	**301.0**		305.0	
Deposits by banks		**304.5**		294.6
Total	**307.3**	**304.5**	305.0	294.6

32. RELATED PARTY TRANSACTIONS

Parent, subsidiary and ultimate controlling party

As at 31 December 2021, the Group had two significant shareholders: SP Coop Investments Ltd and Anchorage Illiquid Opportunities Offshore Master V L.P., each holding over 20％ of the B shares of the Holding Company, and therefore considered to be related parties.

32. RELATED PARTY TRANSACTIONS (continued)

During the last 12 months, certain funds managed by Anchorage Illiquid Opportunities Offshore Master V L.P and SP Coop Investments Ltd have sold the entirety of their holdings in the Tier 2 and senior unsecured debt issued by The Co-operative Bank Finance p.l.c. The contractual features of the senior unsecured debt are set out in note 25.

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

A loan was recognised by Finance Company and Bank Company to achieve structural subordination of the MREL-qualifying debt (the "internal MREL"). The terms of the internal MREL are the same as those of the external MREL-qualifying debt. The total amount due from Bank Company to Finance Company at 31 December 2021 in this regard was £402.1m (2020: £408.2m) including accrued interest. The interest paid by Bank Company to Finance Company on the internal MREL instrument was £37.0m (2020: £19.0m).

Transactions with other related parties

Key management personnel are defined as the Board of Directors and Executive Committee members.

The related party transactions with key management are disclosed below:

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

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

Key management personnel

	Group and Bank	
	2021	2020
Total remuneration receivable by key management personnel	**8.6**	7.1

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

33. SHARE CAPITAL

	Group			
	2021		2020	
	No. of shares (millions)	Value	No. of shares (millions)	Value
Share capital allotted, called up and fully paid				
At the beginning and end of the year	**9,029.1**	**0.9**	9,029.1	0.9
Share premium account				
At the beginning and end of the year		**313.8**		313.8

The issued share capital of The Co-operative Bank Holdings Limited comprises 9,029,130,200 A shares (2020: 9,029,130,200) and 83 B shares (2020: 83). The holders of the ordinary A shares do not hold any voting rights but are entitled to participate in distributions and to receive a dividend on liquidation. The B shareholders have one vote for every share held and also benefit from certain governance, notification and approval rights with respect to the Holding Company, but have no rights to distributions, other than on exit in an amount of £25.0m in aggregate, subject to achieving a minimum valuation threshold.

33. SHARE CAPITAL (continued)

	Bank			
	2021		2020	
	No. of shares (millions)	Value	No. of shares (millions)	Value
Share capital allotted, called up and fully paid				
At the beginning and end of the year	**511.5**	**25.6**	511.5	25.6
Share premium account				
At the beginning of the year		**2,416.9**		2,416.9
Reserve reorganisation		**(2,416.9)**		-
At the end of the year		**-**		2,416.9

The number of ordinary shares in issue in the Bank Company at 31 December 2021 was 511,456,510 (2020: 511,456,510). The ordinary shareholders have one vote for every share held.

During the year, the Bank Company and Finance Company each undertook a reserve reorganisation via a court-approved capital reduction and cancelled their respective share premium accounts as well as the Bank Company's capital redemption reserve. The balances in these accounts were consequently transferred to retained earnings within the respective company. The share premium account in the Holding Company was unaffected by the reserve reorganisation.

34. OTHER RESERVES

	Group	
	2021	2020
Fair value through other comprehensive income reserve	**2.9**	4.8
Cash flow hedging reserve	**14.7**	22.5
Capital redemption reserve	**-**	410.0
Capital re-organisation reserve	**(1,011.4)**	1,737.5
Defined benefit pension reserve	**485.0**	395.1
	(508.8)	2,569.9

	Bank	
	2021	2020
Fair value through other comprehensive income reserve	**2.9**	4.8
Cash flow hedging reserve	**14.7**	22.5
Capital redemption reserve	**-**	410.0
Defined benefit pension reserve	**485.0**	395.1
	502.6	832.4

Descriptions of the nature and purpose of each reserve are summarised below:

- **Fair value through other comprehensive income reserve** - represents the unrealised gains and losses arising from changes in the fair value of financial assets classified as FVOCI.
- **Cash flow hedging reserve** - originally represented the effective portion of gains and losses on designated cash flow hedging instruments that would have been recycled to the income statement when the hedged items affect profit or loss. The Group's cash flow hedge was retired during 2021 as disclosed in the risk management section 4.3 and the reserve is gradually being unwound.
- **Capital redemption reserve** - created as a result of the cancellation of the Bank's issued share capital during restructuring activity in 2013. The reserve was subject to a reserve reorganisation during the year, details of which are disclosed in note 33. Total equity of the Group and the Bank were unaffected by this reserve reorganisation.
- **Capital re-organisation reserve** - a reserve created as a consolidation consequence of restructuring activity in 2017, primarily reflecting the difference between the Holding Company's investment in subsidiary and the Bank's share capital and share premium at the time of the restructure. The significant reduction in the reserve during the year reflects the impact of the reserve reorganisation disclosed in note 33, which reduced the Bank's share premium to nil.
- **Defined benefit pension reserve** - a distributable reserve representing the cumulative OCI movements associated with retirement benefit assets since those assets were initially recognised on the balance sheet. The reserve is for presentational purposes only and is used to separate the impacts of pension-related OCI movements from the Group's wider retained earnings.

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values in this note are stated at the balance sheet date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. The tables below analyse the balance sheet carrying values of financial assets and liabilities by classification.

	Group					
		Measured at fair value				
2021	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	**5,696.9**	-	-	-	-	**5,696.9**
Loans and advances to banks	**191.5**	-	-	-	-	**191.5**
Loans and advances to customers	**20,884.0**	-	**117.4**	**0.7**	-	**21,002.1**
Investment securities	**67.3**	**1,131.6**	-	**2.5**	-	**1,201.4**
Derivative financial instruments	-	-	-	**102.8**	**145.7**	**248.5**
Equity shares	-	-	**0.5**	**22.3**	-	**22.8**
Other assets	**11.4**	-	-	-	-	**11.4**
Total financial assets	**26,851.1**	**1,131.6**	**117.9**	**128.3**	**145.7**	**28,374.6**
Financial liabilities						
Deposits by banks	**5,527.6**	-	-	-	-	**5,527.6**
Customer accounts	**21,135.9**	-	-	-	-	**21,135.9**
Debt securities in issue	**203.3**	-	-	-	-	**203.3**
Derivative financial instruments	-	-	-	**111.1**	**37.1**	**148.2**
Other borrowed funds	**402.1**	-	-	-	-	**402.1**
Other liabilities	**36.1**	-	-	-	-	**36.1**
Total financial liabilities	**27,305.0**	-	-	**111.1**	**37.1**	**27,453.2**

Fair value disclosures throughout this note have been calculated in accordance with IFRS 13, which values assets individually rather than as a portfolio or as part of a business combination.

	Group					
		Measured at fair value				
2020	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	3,877.8	-	-	-	-	3,877.8
Loans and advances to banks	536.2	-	-	-	-	536.2
Loans and advances to customers	18,546.5	-	135.2	0.8	-	18,682.5
Investment securities	77.4	1,067.6	-	3.5	-	1,148.5
Derivative financial instruments	-	-	-	168.1	21.8	189.9
Equity shares	-	-	-	22.1	-	22.1
Other assets	141.1	-	-	47.8	-	188.9
Total financial assets	23,179.0	1,067.6	135.2	242.3	21.8	24,645.9
Financial liabilities						
Deposits by banks	2,066.4	-	-	-	-	2,066.4
Customer accounts	20,365.8	-	-	-	-	20,365.8
Debt securities in issue	728.8	-	-	-	-	728.8
Derivative financial instruments	-	-	-	184.3	155.8	340.1
Other borrowed funds	408.2	-	-	-	-	408.2
Other liabilities	33.7	-	-	-	-	33.7
Total financial liabilities	23,602.9	-	-	184.3	155.8	23,943.0

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

	Bank					
		Measured at fair value				
2021	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	**5,696.9**	-	-	-	-	**5,696.9**
Loans and advances to banks	**191.5**	-	-	-	-	**191.5**
Loans and advances to customers	**20,884.0**	-	**117.4**	**0.7**	-	**21,002.1**
Investment securities	**67.3**	**1,131.6**	-	**2.5**	-	**1,201.4**
Derivative financial instruments	-	-	-	**102.8**	**145.7**	**248.5**
Equity shares	-	-	**0.5**	**22.3**	-	**22.8**
Other assets	**11.4**	-	-	-	-	**11.4**
Total financial assets	**26,851.1**	**1,131.6**	**117.9**	**128.3**	**145.7**	**28,374.6**
Financial liabilities						
Deposits by banks	**5,527.6**	-	-	-	-	**5,527.6**
Customer accounts	**21,136.0**	-	-	-	-	**21,136.0**
Debt securities in issue	**203.3**	-	-	-	-	**203.3**
Derivative financial instruments	-	-	-	**111.1**	**37.1**	**148.2**
Amounts owed to Finance Company	**402.1**	-	-	-	-	**402.1**
Other liabilities	**36.1**	-	-	-	-	**36.1**
Total financial liabilities	**27,305.1**	-	-	**111.1**	**37.1**	**27,453.3**

	Bank					
		Measured at fair value				
2020	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	3,877.8	-	-	-	-	3,877.8
Loans and advances to banks	536.2	-	-	-	-	536.2
Loans and advances to customers	18,546.5	-	135.2	0.8	-	18,682.5
Investment securities	77.4	1,067.6	-	3.5	-	1,148.5
Derivative financial instruments	-	-	-	168.1	21.8	189.9
Equity shares	-	-	-	22.1	-	22.1
Other assets	141.1	-	-	47.8	-	188.9
Total financial assets	23,179.0	1,067.6	135.2	242.3	21.8	24,645.9
Financial liabilities						
Deposits by banks	2,066.4	-	-	-	-	2,066.4
Customer accounts	20,365.9	-	-	-	-	20,365.9
Debt securities in issue	728.8	-	-	-	-	728.8
Derivative financial instruments	-	-	-	184.3	155.8	340.1
Amounts owed to Finance Company	408.2	-	-	-	-	408.2
Other liabilities	33.7	-	-	-	-	33.7
Total financial liabilities	23,603.0	-	-	184.3	155.8	23,943.1

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

a) Use of financial assets and liabilities
The use of financial instruments is essential to the Group's and Bank's business activities, and financial instruments constitute a significant proportion of the balance sheet. The main financial instruments used and the purposes for which they are held, are outlined below:

- **Loans and advances to customers and Customer accounts**
  The provision of banking facilities to customers is the primary activity of the Group and Bank, and loans and advances to customers and customer accounts are major constituents of the balance sheet. Loans and advances to customers include retail mortgages, corporate loans, credit cards, unsecured retail lending and overdrafts. Customer accounts include retail and corporate current and savings accounts.

- **Loans and advances to banks and Investment securities**
  Loans and advances to banks and investment securities underpin liquidity requirements and generate incremental net interest income.

- **Deposits by banks**
  Deposits include the drawdown of Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME).

- **Debt securities in issue**
  Notes secured by mortgage assets have been issued through Silk Road Finance Number Six p.l.c.

- **Derivatives**
  A derivative is a financial instrument that derives its value from an underlying rate or price such as interest rates, exchange rates and other market prices. Derivatives are an efficient means of managing market risk and limiting counterparty exposure, and are used mainly for hedging purposes and to meet the needs of customers.

  The most frequently used derivative contracts are interest rate swaps, options, caps, floors, currency swaps and forward currency transactions. Terms and conditions of such contracts are determined mainly by standard industry documentation. Derivatives are subject to the same market and credit risk control procedures as are applied to other wholesale market instruments and are aggregated with other exposures to monitor total counterparty exposure, which is managed within approved limits for each counterparty.

- **Other borrowed funds and amounts owed to Finance Company**
  Other borrowed funds comprise MREL-qualifying Tier 2 and senior unsecured debt. Amounts owed to Finance Company comprise the related internal MREL debt, achieving structural subordination of the external debt. The features of both instruments are explained in note 25. The external and internal debt was issued to meet MREL requirements.

- **Foreign exchange**
  Foreign exchange dealings are undertaken to facilitate customer requirements and to economically hedge balance sheet exposure to foreign currencies. The risk is managed formally within position limits which are set by the Assets and Liabilities Committee (ALCo), to which authority is delegated by the Board.

b) Valuation of financial assets and liabilities measured at fair value
The carrying value of financial assets and liabilities measured at fair value are determined in compliance with the accounting policies set out in the explanatory information and analysed in the following tables by the three level fair value hierarchy defined as follows:
- Level 1 – Quoted market prices in active markets;
- Level 2 – Valuation techniques using observable inputs; and
- Level 3 – Valuation techniques using unobservable inputs.

There were no transfers between the levels during the year.

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

		Group and Bank			
		Fair value at end of the reporting period using:			
2021	Category	Level 1	Level 2	Level 3	Total
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	**-**	**116.0**	**1.4**	**117.4**
Loans and advances to customers	FVTPL – mandatorily measured	**-**	**-**	**0.7**	**0.7**
Investment securities	FVOCI	**1,104.0**	**-**	**27.6**	**1,131.6**
Investment securities	FVTPL – mandatorily measured	**-**	**-**	**2.5**	**2.5**
Equity shares	FVTPL – designated	**-**	**-**	**0.5**	**0.5**
Equity shares	FVTPL – mandatorily measured	**0.3**	**-**	**22.0**	**22.3**
Other assets	FVTPL – mandatorily measured	**-**	**-**	**-**	**-**
Derivative financial assets		**-**	**248.5**	**-**	**248.5**
Non-financial assets:					
Investment properties		**-**	**-**	**1.9**	**1.9**
Total assets carried at fair value		**1,104.3**	**364.5**	**56.6**	**1,525.4**
Derivative financial liabilities		**-**	**148.2**	**-**	**148.2**
Total liabilities carried at fair value		**-**	**148.2**	**-**	**148.2**

		Group and Bank			
		Fair value at end of the reporting period using:			
2020	Category	Level 1	Level 2	Level 3	Total
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	133.4	1.8	135.2
Loans and advances to customers	FVTPL – mandatorily measured	-	-	0.8	0.8
Investment securities	FVOCI	1,067.6	-	-	1,067.6
Investment securities	FVTPL – mandatorily measured	-	-	3.5	3.5
Equity shares	FVTPL – designated	-	-	-	-
Equity shares	FVTPL – mandatorily measured	0.3	-	21.8	22.1
Other assets	FVTPL – mandatorily measured	-	-	47.8	47.8
Derivative financial assets		-	189.9	-	189.9
Non-financial assets:					
Investment properties		-	-	1.9	1.9
Total assets carried at fair value		1,067.9	323.3	77.6	1,468.8
Derivative financial liabilities		-	340.1	-	340.1
Total liabilities carried at fair value		-	340.1	-	340.1

Key considerations in the calculation of fair values for financial assets and liabilities measured at fair value are as follows:

Level 1 – Quoted market prices in active markets
Financial instruments with quoted prices for identical instruments in active markets. The best evidence of fair value is a quoted market price in an actively traded market.

Level 2 – Valuation techniques using observable inputs
Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

The valuation techniques used to value these instruments employ only observable market data and relate to the following assets and liabilities:

- **Loans and advances to customers**
  Loans and advances to customers primarily comprise of corporate loans of £110.8m as at 31 December 2021 (2020: £126.5m) which are fair valued through profit or loss using observable inputs. Loans held at fair value are valued at the sum of all future expected cash flows, discounted using a yield curve based on observable market inputs.

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

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

Level 3 – Valuation techniques using unobservable inputs
This is used for financial instruments valued using models where one or more significant inputs are not observable.

The proportion of financial assets valued based on significant unobservable inputs are analysed as follows:

- **Investment securities**
  Investment securities comprise of RMBS of £27.6m (FVOCI) and £2.5m (FVTPL – mandatorily measured) as at 31 December 2021 (2020: FVOCI: £nil and FVTPL £3.5m). An independent third party valuation agent is used to provide prices for the rated RMBS obtained from large financial institutions. These prices are indicative values only and do not represent an offer to purchase the securities. These RMBS represent the Group's and Bank's interests in unconsolidated structured entities.

  A 1% increase or decrease in the price of the notes will result in the value increasing or decreasing by approximately £301k respectively.

- **Equity shares**
  Equity shares classified as FVTPL – designated, 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 £3.1m as at 31 December 2021.

- **Other assets**
  At 31 December 2021 the Group recognised no financial assets, classified as other assets, at fair value. At 31 December 2020, such other assets comprised the Surrendered Loss Debtor of £47.8m, which reflected amounts owed from the Co-op in relation to the tax losses surrendered by the Group in 2012-2013, and agreement to settle the asset at its carrying value was executed in February 2021.

- **Investment properties**
  Investment properties within level 3 are valued by using recent valuations of individual assets within the portfolio, index linked to the balance sheet date using the relevant house price index.

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

		Group and Bank				
2021	Fair value at the beginning of the year	Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at the end of the year
Loans and advances to customers	2.6	-	(0.4)	-	(0.1)	2.1
Investment securities	3.5	27.6	-	-	(1.0)	30.1
Equity shares	21.8	0.5	-	-	0.2	22.5
Investment properties	1.9	-	(0.1)	-	0.1	1.9
Other assets	47.8	-	(47.8)	-	-	-
	77.6	28.1	(48.3)	-	(0.8)	56.6

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

2020	Fair value at the beginning of the year	Group and Bank Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at the end of the year
Loans and advances to customers	3.7	-	(0.9)	-	(0.2)	2.6
Investment securities	74.1	-	(69.8)	(0.1)	(0.7)	3.5
Equity shares	44.1	-	(38.7)	-	16.4	21.8
Investment properties	1.8	-	-	-	0.1	1.9
Other assets	47.8	-	-	-	-	47.8
	171.5	-	(109.4)	(0.1)	15.6	77.6

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

The carrying values of financial assets and liabilities measured at amortised cost are determined in compliance with the accounting policies in the explanatory information to the consolidated financial statements and their fair values are analysed in the following tables by the three level fair value hierarchy set out above. There were no transfers between level 1 and 2 during the year.

	Group					
		Fair value				
2021	**Total carrying value**	**Level 1**	**Level 2**	**Level 3**	**Items where fair value approximates carrying value**	**Total**
Financial assets						
Cash and balances at central banks	**5,696.9**	**-**	**-**	**-**	**5,696.9**	**5,696.9**
Loans and advances to banks	**191.5**	**-**	**-**	**-**	**191.5**	**191.5**
Loans and advances to customers	**20,884.0**	**-**	**-**	**20,042.5**	**810.3**	**20,852.8**
Investment securities	**67.3**	**-**	**-**	**69.1**	**-**	**69.1**
Other assets	**11.4**	**-**	**-**	**-**	**11.4**	**11.4**
Financial liabilities						
Deposits by banks	**5,527.6**	**-**	**5,504.5**	**-**	**21.6**	**5,526.1**
Customer accounts	**21,135.9**	**-**	**-**	**2,099.6**	**19,035.6**	**21,135.2**
Debt securities in issue	**203.3**	**-**	**-**	**205.1**	**-**	**205.1**
Other borrowed funds	**402.1**	**-**	**448.7**	**-**	**-**	**448.7**
Other liabilities	**36.1**	**-**	**-**	**-**	**36.1**	**36.1**

	Group					
		Fair value				
2020	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	3,877.8	-	-	-	3,877.8	3,877.8
Loans and advances to banks	536.2	-	-	-	536.2	536.2
Loans and advances to customers	18,546.5	-	-	17,552.8	897.2	18,450.0
Investment securities	77.4	-	-	78.5	-	78.5
Other assets	141.1	-	-	-	141.1	141.1
Financial liabilities						
Deposits by banks	2,066.4	-	2,045.2	-	21.4	2,066.6
Customer accounts	20,365.8	-	-	2,822.3	17,558.3	20,380.6
Debt securities in issue	728.8	505.8	-	236.6	-	742.4
Other borrowed funds	408.2	-	392.2	-	-	392.2
Other liabilities	33.7	-	-	-	33.7	33.7

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

	Bank					
		Fair value				
2021	Total carrying value	Level 1	Level 2	Level 3	Items where fair value approximates carrying value	Total
Financial assets						
Cash and balances at central banks	**5,696.9**	**-**	**-**	**-**	**5,696.9**	**5,696.9**
Loans and advances to banks	**191.5**	**-**	**-**	**-**	**191.5**	**191.5**
Loans and advances to customers	**20,884.0**	**-**	**-**	**20,042.5**	**810.3**	**20,852.8**
Investment securities	**67.3**	**-**	**-**	**69.1**	**-**	**69.1**
Other assets	**11.4**	**-**	**-**	**-**	**11.4**	**11.4**
Financial liabilities						
Deposits by banks	**5,527.6**	**-**	**5,504.5**	**-**	**21.6**	**5,526.1**
Customer accounts	**21,136.0**	**-**	**-**	**2,099.6**	**19,035.7**	**21,135.3**
Debt securities in issue	**203.3**	**-**	**-**	**205.1**	**-**	**205.1**
Amounts owed to Finance Company	**402.1**	**-**	**448.7**	**-**	**-**	**448.7**
Other liabilities	**36.1**	**-**	**-**	**-**	**36.1**	**36.1**

	Bank					
		Fair value				
2020	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	3,877.8	-	-	-	3,877.8	3,877.8
Loans and advances to banks	536.2	-	-	-	536.2	536.2
Loans and advances to customers	18,546.5	-	-	17,552.8	897.2	18,450.0
Investment securities	77.4	-	-	78.5	-	78.5
Other assets	141.1	-	-	-	141.1	141.1
Financial liabilities						
Deposits by banks	2,066.4	-	2,045.2	-	21.4	2,066.6
Customer accounts	20,365.9	-	-	2,822.3	17,558.3	20,380.6
Debt securities in issue	728.8	505.8	-	236.6	-	742.4
Amounts owed to Finance Company	408.2	-	392.2	-	-	392.2
Other liabilities	33.7	-	-	-	33.7	33.7

Key considerations in the calculation of fair values of financial instruments measured at amortised cost are as follows:

Level 1 – Quoted market prices in active markets
Financial instruments with quoted prices for identical instruments in active markets. The best evidence of fair value is a quoted market price in an actively traded market.

Level 2 – Valuation techniques using observable inputs
Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

The valuation techniques used to value these instruments employ only observable market data and relate to the following assets and liabilities:

- **Loans and advances to banks/deposits by banks**
  Loans and advances to banks comprise of interbank placements and items in the course of collection.

  The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity. The amortised cost value of all other loans and advances to banks and deposits by banks are deemed to be a close approximation of their fair value due to their short maturity.

35. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

- **Other Borrowed funds and amounts owed to the Finance Company**
  The Group issued Tier 2 and senior unsecured notes which are recognised in other borrowed funds as detailed in note 25 of the consolidated financial statements. The internal MREL is recognised by Bank Company as amounts owed to the Finance Company (parent). The fair value of the notes is based on quoted market prices.

Level 3 – Valuation techniques using unobservable inputs
This is used for financial instruments valued using models where one or more significant inputs are not observable.

The proportion of financial assets valued based on significant unobservable inputs are analysed as follows:

- **Loans and advances to customers**
  The fair value of loans and advances to customers in total is 99.9% of the carrying value as at 31 December 2021 (2020: 99.5%).

  Fixed rate loans and advances to customers are revalued to fair value based on future interest cash flows (at funding rates) and principal cash flows discounted using an appropriate market rate. The market rate applied in the calculation is the average market rate for new originations of loans with similar characteristics to the book of loans being valued, and reflects the current low interest rate environment. This rate is assumed to encompass the time value of money, plus a risk premium to account for the inherent uncertainty in the timing and amount of future cash flows arising from a book of loan assets.

  Forecast principal repayments are based on redemption at the earlier of maturity or re-pricing date with some overlay for historical behavioural experience where relevant. The eventual timing of future cash flows may be different from the forecast due to unpredictable customer behaviour. It is assumed that there would be no other factors which market participants would take into account when assessing the fair value of the loan assets. It is assumed that there is no fair value adjustment required in respect of interest rate movement on standard variable rate loan assets, as the interest rate being charged is assumed to be equal to the market rate for those loan assets. The assumptions around the timing of the cash flows make these unobservable inputs which give rise to the level 3 classification.

  Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

- **Investment securities**
  Investment securities comprise of:
  - RMBS measured at amortised cost of £67.3m as at 31 December 2021 (2020: £77.4m), being a 5% regulatory holding of the rated notes of the Warwick SPEs unconsolidated structured entities. The remaining 95% is privately held therefore there are no available market prices. An in-house model is used that sources independent market data for disclosure purposes only.

- **Customer accounts**
  The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on future interest cash flows (at funding rates) and principal cash flows, discounted using an appropriate market rate.

d) Fair value of transferred assets and associated liabilities

For more information on the nature of transferred assets and associated liabilities, including the nature of risk and rewards to which the Group is exposed, refer to note 31 of the Group and Bank consolidated financial statements.

The fair value of transferred assets and their associated liabilities is equivalent to their carrying value.

36. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group is the sponsor for two unconsolidated structured entities (the Warwick SPEs), and holds legal title to the mortgages on a commercial basis for a further three unconsolidated structured entities (the Avon and Stratton SPEs). The Warwick SPEs were created for the purposes of selling Optimum (the Group's legacy retail secured mortgage portfolio) in the most capital efficient manner. The Avon SPEs were re-securitisations of former Warwick mortgages following the unwinding of earlier Warwick transactions during 2020. Following the sale of Optimum mortgages to a third party at the end of 2020, the Stratton SPE was established by a third party buyer as an unconsolidated structured entity in 2021 to securitise the mortgages.

The tables below represent the continuing involvement in other securitisations in which Group assets have been transferred to the SPEs, but either some of the notes issued by the SPE are retained or the Group continues to hold legal title of the assets and receives a commercial fee for this continuing involvement. The Group holds both a residual interest in and notes issued by Warwick SPEs, and receives a fee for its holding of legal title for assets in Avon and Stratton SPEs. The notes and residual interests are reported as investment securities and the fee is accounted for as fee income. Rated notes in Warwick SPEs have been classified as amortised cost and the residual interest in Warwick SPEs have been classified as fair value through profit or loss. The maximum exposure to loss is the carrying value of these instruments.

	Group and Bank				
	Carrying amount of continuing involvement in statement of financial position		Fair value of continuing involvement		Maximum exposure to loss
	Assets	Liabilities	Assets	Liabilities	
2021	**69.9**	**-**	**71.7**	**-**	**69.9**
2020	80.9	-	82.0	-	80.9

	Group and Bank			
	Gain or loss recognised at transfer date	Gain recognised on sale	Interest income recognised in the year	Fair value movement recognised in OCI
2021	**-**	**-**	**1.5**	**-**
2020	-	-	0.9	(0.1)

37. EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events to report.

Financial Statements of The Co-operative Bank p.l.c. (Bank Company)

The Co-operative Bank Holdings Limited
Company Number 10865342
(England and Wales)

100%

The Co-operative Bank Finance p.l.c.
Company Number 11598074
(England and Wales)

100%

The Co-operative Bank p.l.c.
Company Number 00990937
(England and Wales)

Operating company

The co-operative bank
for people with purpose

BALANCE SHEET

At 31 December 2021

£million

	Note	2021	2020
Assets			
Cash and balances at central banks	3	**5,696.9**	3,877.8
Loans and advances to banks	4	**124.7**	431.6
Loans and advances to customers	5	**20,998.3**	18,676.7
Fair value adjustments for hedged risk		**(90.5)**	134.1
Investment securities	6	**2,149.8**	2,158.6
Derivative financial instruments	7	**241.2**	178.8
Property, plant and equipment classified as held-for-sale		**0.2**	0.3
Equity shares	8	**22.8**	22.1
Investments in subsidiaries/group undertakings	23	**14.7**	43.3
Investment properties		**1.9**	1.9
Other assets	9	**12.7**	99.6
Prepayments	10	**20.3**	13.2
Property, plant and equipment	11	**22.2**	35.2
Intangible assets	12	**68.5**	63.4
Right-of-use assets	13	**46.9**	53.7
Amounts owed by Co-operative Bank undertakings	25	**33.2**	1,336.1
Deferred tax assets	19	**36.8**	-
Net retirement benefit asset	20	**841.1**	651.8
Total assets		**30,241.7**	27,778.2
Liabilities			
Deposits by banks	14	**5,527.6**	2,066.4
Customer accounts		**21,136.4**	20,366.3
Debt securities in issue	15	**-**	485.7
Derivative financial instruments	7	**148.2**	316.2
Fair value adjustment for hedged risk		**(7.5)**	-
Amounts owed to Co-operative Bank undertakings	25	**1,127.1**	2,469.8
Other liabilities	16	**38.0**	32.9
Accruals and deferred income	17	**36.8**	34.8
Provisions	18	**33.8**	46.0
Amounts due to Finance Company	25	**402.1**	408.2
Lease liabilities	13	**44.1**	53.6
Deferred tax liabilities	19	**-**	38.2
Net retirement benefit liability	20	**8.1**	8.8
Total liabilities		**28,494.7**	26,326.9
Capital and reserves attributable to the Bank Company's equity holders			
Ordinary share capital	21	**25.6**	25.6
Share premium account	21	**-**	2,416.9
Retained earnings	22	**1,218.8**	(1,823.6)
Other reserves	22	**502.6**	832.4
Total equity		**1,747.0**	1,451.3
Total liabilities and equity		**30,241.7**	27,778.2

Net profit attributable to equity shareholders was £215.5m (2020: loss £87.4m).

The notes on pages 222 to 241 form part of the Bank Company financial statements.

Approved by the Board of The Co-operative Bank p.l.c. on 23 February 2022:

Robert Dench Chair of the Board	Nick Slape Chief Executive Officer

THE CO-OPERATIVE BANK P.L.C. FINANCIAL STATEMENTS (BANK COMPANY-ONLY)
STATEMENT OF CASHFLOWS
For year ended 31 December 2021

£million

	Note	2021	2020
Cash flows (used in)/from operating activities:			
Profit/(loss) before taxation		**49.4**	(95.1)
Adjustments for non cash movements:			
Pension scheme adjustments		**(5.6)**	(9.3)
Net credit impairment losses		**1.1**	21.6
Depreciation, amortisation and impairment of property, equipment, right-of-use assets and intangibles		**36.6**	40.2
Net impairment of investment in subsidiaries		**28.6**	77.1
Other non-cash movements including exchange rate movements		**121.4**	(0.3)
Changes in operating assets and liabilities:			
Increase in deposits by banks		**3,461.2**	922.7
(Increase)/decrease in prepayments and accrued income		**(7.1)**	8.4
Increase/(decrease) in accruals and deferred income		**2.0**	(23.6)
Increase in customer accounts		**769.2**	1,367.9
Decrease in debt securities in issue		**(485.7)**	(121.9)
Decrease in loans and advances to banks		**(23.8)**	(16.9)
Increase in loans and advances to customers		**(2,358.6)**	(912.2)
Decrease in amounts owed by Co-operative Bank undertakings		**1,302.9**	132.9
Decrease in amounts owed to Co-operative Bank undertakings		**(1,342.7)**	(755.7)
Net movement of other assets and other liabilities		**49.3**	(154.6)
Net cash flows from operating activities		**1,598.2**	481.2
Cash flows (used in)/from investing activities:			
Purchase of tangible and intangible assets		**(28.9)**	(16.8)
Purchase of investment securities		**(886.5)**	(969.6)
Proceeds from sale of property and equipment		**1.8**	2.6
Proceeds from sale of shares and other interests		**2.0**	38.6
Proceeds from sale and maturity of investment securities		**849.9**	2,088.4
Purchase of equity shares		**(0.5)**	-
Proceeds from sale of investment properties		**0.1**	-
Dividends received		**0.3**	0.3
Net cash flows (used in)/from investing activities		**(61.8)**	1,143.5
Cash flows (used in)/from financing activities:			
Proceeds from issuance of Tier 2 notes		**-**	197.7
Interest paid on Tier 2 notes and senior unsecured debt		**(37.0)**	(19.0)
Lease liability principal payments		**(11.0)**	(10.0)
Net cash flows (used in)/from financing activities		**(48.0)**	168.7
Net increase in cash and cash equivalents		**1,488.4**	1,793.4
Cash and cash equivalents at the beginning of the year		**4,221.1**	2,427.7
Cash and cash equivalents at the end of the year		**5,709.5**	4,221.1
Comprising of:			
Cash and balances with central banks	3	**5,609.8**	3,802.5
Loans and advances to banks	4	**99.7**	418.6
		5,709.5	4,221.1

THE CO-OPERATIVE BANK P.L.C. FINANCIAL STATEMENTS (BANK COMPANY-ONLY)
STATEMENT OF CASHFLOWS – RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASHFLOWS ARISING FROM FINANCING ACTIVITIES

For year ended 31 December 2021

£million

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

STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2021

£million

2021	Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Defined benefit pension reserve	Retained earnings	Total equity
	Attributable to equity holders of the Bank Company							
At 1 January 2021	25.6	2,416.9	4.8	22.5	410.0	395.1	(1,823.6)	**1,451.3**
Total comprehensive (expense)/income for the year	-	-	(1.9)	(7.8)	-	89.9	215.5	**295.7**
Reserve reorganisation	-	(2,416.9)	-	-	(410.0)	-	2,826.9	**-**
At 31 December 2021	**25.6**	**-**	**2.9**	**14.7**	**-**	**485.0**	**1,218.8**	**1,747.0**

2020	Share capital	Share premium	FVOCI reserve	Cash flow hedging reserve	Capital redemption reserve	Defined benefit pension reserve	Retained earnings	Total equity
	Attributable to equity holders of the Bank Company							
At 1 January 2020	25.6	2,416.9	4.1	16.7	410.0	443.4	(1,736.2)	1,580.5
Total comprehensive income /(expense) for the year	-	-	0.7	5.8	-	(48.3)	(87.4)	(129.2)
At 31 December 2020	25.6	2,416.9	4.8	22.5	410.0	395.1	(1,823.6)	1,451.3

The notes on pages 222 to 241 form part of the Bank Company financial statements.

All amounts are stated in £m unless otherwise indicated.

1. BASIS OF PREPARATION

The Co-operative Bank p.l.c. (Bank Company) was incorporated in the UK and is a limited company registered in England and Wales.

The Bank Company financial statements have been prepared under the historic cost convention and approved by the Directors in accordance with UK adopted international accounting standards and the provisions of the Companies Act 2006.

Accounting policies outlined in note 1 of the Group and Bank consolidated financial statements and the explanatory information on pages 262 to 271 also apply to the Bank Company. The preparation of financial information requires management to make judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The critical judgements and estimates for the Bank Company are the same as those set out in note 2 of the Group and Bank consolidated financial statements.

2. NET PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE BANK COMPANY

By including the Bank Company financial statements here together with the consolidated Bank financial statements, the Bank Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these financial statements.

	2021	2020
Net profit/(loss) attributable to equity shareholders of the Bank Company	**215.5**	(87.4)

3. CASH AND BALANCES AT CENTRAL BANKS

	2021	2020
Cash in hand	**11.7**	12.1
Items in transit	**(17.3)**	(23.7)
Balances with the Bank of England other than mandatory reserve deposits	**5,615.4**	3,814.1
Included in cash and cash equivalents	**5,609.8**	3,802.5
Mandatory reserve deposits with the Bank of England	**87.1**	75.3
Total cash and balances at central banks	**5,696.9**	3,877.8

Mandatory reserve deposits are not available for use in day-to-day operations, are non-interest bearing and are not included in cash and cash equivalents. Items in transit represent unpresented cheques awaiting clearance.

4. LOANS AND ADVANCES TO BANKS

	2021	2020
Items in course of collection from other banks	**0.2**	0.2
Placements with other banks[1]	**99.5**	418.4
Included in cash and cash equivalents	**99.7**	418.6
Other loans and advances to banks	**25.0**	13.0
Total loans and advances to banks	**124.7**	431.6

1. Obligatory netting arrangements are in place for repo and reverse repo transactions. The amount reduced by netting is £nil (2020: £nil).

An expected credit loss of £nil was recorded as at 31 December 2021 (2020: £nil) in relation to loans and advances to banks.

For further details on pledged and transferred assets, refer to note 31 of the Group and Bank consolidated financial statements.

5. LOANS AND ADVANCES TO CUSTOMERS

a) Analysis of the balance sheet

	2021	2020
Gross loans and advances	**21,035.7**	18,719.5
Less: allowance for losses	**(37.4)**	(42.8)
Total loans and advances to customers net of allowance for losses	**20,998.3**	18,676.7

Loans and advances to customers include £117.6m (2020: £139.4m) of financial assets at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency. Of these, £56.0m (2020: £58.4m) are secured by real estate collateral.

For further details on transferred assets, refer to note 24 of the Bank Company financial statements. Further details are set out in note 27, Analysis of credit risk exposure of the Bank Company financial statements.

b) Concentration of exposure

Exposure is only within the UK. Further information on the concentration of exposure is included within section 3.2 of the risk management disclosures.

c) Analysis of allowance for impairment losses

	Retail	SME	Legacy & unallocated	Total
At 1 January 2021	29.3	8.1	5.4	**42.8**
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	1.0	1.4	-	**2.4**
To credit impaired (stage 1 or 2 to 3)	2.1	1.1	0.6	**3.8**
To 12 month ECL (stage 2 or 3 to 1)	(3.5)	(0.7)	(0.2)	**(4.4)**
From credit impaired (stage 3 to 2)	(0.5)	-	-	**(0.5)**
Net changes arising from stage transfers	**(0.9)**	**1.8**	**0.4**	**1.3**
Other charges/(releases):				
New assets originated or purchased	6.2	0.1	-	**6.3**
Other changes to risk parameters[1]	(1.1)	0.2	0.8	**(0.1)**
Redemptions and repayments	(4.2)	(0.9)	(0.2)	**(5.3)**
Net other charges	**-**	**1.2**	**1.0**	**2.2**
Assets written off	(3.8)	(2.6)	(1.2)	**(7.6)**
Optimum portfolio sale	-	-	-	-
At 31 December 2021	**25.5**	**6.7**	**5.2**	**37.4**

1. Includes the impact of any asset sales.

	Retail	SME	Legacy & unallocated	Total
At 1 January 2020	17.3	5.3	3.8	26.4
Changes arising from stage transfers:				
To lifetime ECL (stage 1 to 2 or 3)	4.5	3.1	0.4	8.0
To credit impaired (stage 1 or 2 to 3)	2.6	0.1	2.3	5.0
To 12 month ECL (stage 2 or 3 to 1)	(0.7)	-	(0.1)	(0.8)
From credit impaired (stage 3 to 2)	(0.5)	-	-	(0.5)
Net changes arising from stage transfers	5.9	3.2	2.6	11.7
Other charges/(releases):				
New assets originated or purchased	3.3	0.1	-	3.4
Other changes to risk parameters[1]	10.1	1.5	0.5	12.1
Redemptions and repayments	(2.3)	(1.4)	-	(3.7)
Net other charges	17.0	3.4	3.1	23.5
Assets written off	(5.0)	(0.6)	(1.4)	(7.0)
Optimum portfolio sale	-	-	(0.1)	(0.1)
At 31 December 2020	29.3	8.1	5.4	42.8

1. Includes the impact of any asset sales.

5. LOANS AND ADVANCES TO CUSTOMERS (continued)

d) Analysis of income statement

	2021	2020
Net other charges	**(2.2)**	(23.5)
Amounts recovered against amounts previously written off	**0.2**	1.1
Adjustment to recognise interest on stage 3 assets based on their net carrying value	**0.8**	0.9
Financial guarantees impairment release/(charge)	**0.1**	(0.1)
Net impairment losses for the year as shown in the income statement	**(1.1)**	(21.6)

Provisions are analysed by segment in the risk management disclosures.

e) Finance lease receivables

	2021	2020
Gross investment in finance leases may be analysed as follows:		
No later than one year	**1.5**	1.7
Later than one year and no later than five years	**5.7**	6.5
Later than five years	**3.5**	6.5
Gross investment in finance leases	**10.7**	14.7
Unearned future finance income on finance leases	**(2.5)**	(4.1)
Net investment in finance leases	**8.2**	10.6
The net future finance leases may be analysed as follows:		
No later than one year	**1.0**	1.1
Later than one year and no later than five years	**4.6**	4.8
Later than five years	**2.6**	4.7
	8.2	10.6

The unguaranteed residual value of the finance leases is £nil (2020: £nil). Finance lease arrangements are with customers in a wide range of sectors including transport, retail and utilities.

6. INVESTMENT SECURITIES

Analysis of investment securities

	2021				2020			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
Listed	**830.4**	**1,131.6**	**2.5**	**1,964.5**	893.3	1,067.6	3.5	1,964.4
Unlisted	**185.3**	**-**	**-**	**185.3**	194.2	-	-	194.2
Gross and net investment securities	**1,015.7**	**1,131.6**	**2.5**	**2,149.8**	1,087.5	1,067.6	3.5	2,158.6

Movement in investment securities

	2021				2020			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
At the beginning of the year	**1,087.5**	**1,067.6**	**3.5**	**2,158.6**	1,771.8	1,506.4	4.2	3,282.4
Acquisitions	**13.3**	**873.2**	**-**	**886.5**	-	969.6	-	969.6
Disposals and maturities	**(85.1)**	**(763.8)**	**-**	**(848.9)**	(683.4)	(1,404.7)	-	(2,088.1)
Fair value movements through equity	**-**	**(2.3)**	**-**	**(2.3)**	-	1.8	-	1.8
Fair value through profit or loss	**-**	**(42.7)**	**(1.0)**	**(43.7)**	-	(7.5)	(0.7)	(8.2)
Amortisation	**-**	**(0.3)**	**-**	**(0.3)**	-	2.3	-	2.3
Movement in interest accrual	**-**	**(0.1)**	**-**	**(0.1)**	(0.9)	(0.3)	-	(1.2)
At the end of the year	**1,015.7**	**1,131.6**	**2.5**	**2,149.8**	1,087.5	1,067.6	3.5	2,158.6

Certain investment securities have been pledged by the Bank Company, see note 24 of the Bank Company financial statements for further details on encumbered and pledged assets.

6. INVESTMENT SECURITIES (continued)

Analysis of investment securities by issuer

	2021	2020
Investment securities issued by public bodies:		
Government securities	**442.2**	463.7
Other public sector securities	**140.8**	226.1
Total investment securities issued by public bodies	**583.0**	689.8
Other debt securities:		
Other floating rate notes	**511.8**	377.8
Mortgage backed securities	**1,055.0**	1,091.0
Total other debt securities	**1,566.8**	1,468.8
Total investment securities	**2,149.8**	2,158.6

Other floating rate notes (FRNs) are sterling denominated, with contractual maturities ranging from one to two years, to over five years from the balance sheet date.

7. DERIVATIVE FINANCIAL INSTRUMENTS

Various derivatives have been entered into to manage interest rate risk, some of which are held in a qualifying hedge accounting relationship (see the risk management section for more details on interest rate risk management strategies). Positive and negative fair values have not been netted off as there is no legal right of offset.

Non-trading derivatives
Non-trading transactions comprise derivatives held for hedging purposes to manage the asset and liability positions of the Group. Derivatives used to manage interest rate related positions include interest rate swaps and caps. The foreign exchange rate positions are managed using foreign exchange forward and swap transactions.

	Fair value			
	2021		2020	
	Assets	Liabilities	Assets	Liabilities
Derivatives held for non-trading purposes				
Derivatives designated as cash flow hedges:				
Interest rate swaps	**-**	**-**	1.6	-
Derivatives designated as fair value hedges:	**145.7**	**(37.1)**		
Interest rate swaps			9.2	(155.7)
Derivatives held for non-trading purposes for which hedge accounting has not been applied:	**95.5**	**(111.1)**		
Interest rate swaps	**-**	**-**	167.5	(160.3)
Forward currency transactions	**-**	**-**	0.5	(0.2)
Total derivative assets/(liabilities) held for non-trading purposes	**241.2**	**(148.2)**	178.8	(316.2)
Total recognised derivative assets/(liabilities)	**241.2**	**(148.2)**	178.8	(316.2)

Detailed hedge accounting disclosures are covered within section 4.3 of the risk management.

In line with industry standards, credit valuation adjustments (CVAs) and debit valuation adjustments (DVAs) are applied to non-collateralised swaps representing the fair value measurement of counterparty risk. The net credit adjustment across the portfolio at 31 December 2021 was £0.1m (2020: net credit of £0.4m). CVAs and DVAs are not applied to derivatives that are fully cash collateralised.

8. EQUITY SHARES

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 17 of the Group and Bank consolidated financial statements.

9. OTHER ASSETS

	2021			2020		
	Amortised cost	Mandatorily measured at FVTPL	Total	Amortised cost	Mandatorily measured at FVTPL	Total
Amounts recoverable within one year						
Other assets	**12.7**	**-**	**12.7**	61.3	-	61.3
Surrendered Loss Debtor	**-**	**-**	**-**	-	38.3	38.3
	12.7	**-**	**12.7**	61.3	38.3	99.6

The Surrendered Loss Debtor was settled in February 2021 at its carrying value. There are no assets recoverable after more than one year.

10. PREPAYMENTS

	2021	2020
Amounts recoverable within one year	**20.1**	12.6
Amounts recoverable after more than one year	**0.2**	0.6
	20.3	13.2

11. PROPERTY, PLANT AND EQUIPMENT

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 20 of the Group and Bank consolidated financial statements.

12. INTANGIBLE ASSETS

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 21 of the Group and Bank consolidated financial statements.

13. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 22 of the Group and Bank consolidated financial statements.

14. DEPOSITS BY BANKS

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 23 of the Group and Bank consolidated financial statements.

15. DEBT SECURITIES IN ISSUE

During the year, the secured covered bond of £483.1m at a coupon of 4.75% was redeemed at par.

16. OTHER LIABILITIES

	2021	2020
Amounts falling due within one year		
Amounts due to beneficiary banks	**24.7**	24.2
Other creditors	**13.3**	8.7
	38.0	32.9

There are no liabilities falling due after one year.

17. ACCRUALS AND DEFERRED INCOME

	2021	2020
Amounts falling due within one year		
Accruals	**31.4**	25.0
Deferred income	**3.2**	7.3
	34.6	32.3
Amounts falling due after one year		
Accruals	**0.4**	0.3
Deferred income	**1.8**	2.2
	2.2	2.5
	36.8	34.8

The above includes the £15.0m government grant received in 2019, of which £13.0m was utilised in total by the end of 2021 (2020: £8.3m).

18. PROVISIONS

2021	Property	PPI	Conduct/legal	Other	Total
At 1 January 2021	22.6	8.6	1.1	13.7	**46.0**
(Released)/provided in the year:					
Fee and commission expense	-	-	-	-	**-**
Operating expenses	(1.4)	-	0.1	13.3	**12.0**
Net customer redress release	-	(2.6)	-	-	**(2.6)**
Utilised during the year	(5.9)	(5.0)	(1.1)	(9.6)	**(21.6)**
At 31 December 2021	**15.3**	**1.0**	**0.1**	**17.4**	**33.8**
Amounts falling due within one year	4.4	1.0	0.1	15.7	**21.2**
Amounts falling due after one year	10.9	-	-	1.7	**12.6**
	15.3	**1.0**	**0.1**	**17.4**	**33.8**

2020	Property	PPI	Conduct/legal	Other	Total
At 1 January 2020	10.6	57.5	4.6	14.1	86.8
Provided in the year:					
Fee and commission expense	-	-	0.3	-	0.3
Operating expenses	16.1	-	0.4	20.0	36.5
Net customer redress charge	-	2.0	-	-	2.0
Utilised during the year	(4.1)	(50.9)	(4.2)	(20.4)	(79.6)
At 31 December 2020	22.6	8.6	1.1	13.7	46.0
Amounts falling due within one year	7.4	8.6	1.1	12.9	30.0
Amounts falling due after one year	15.2	-	-	0.8	16.0
	22.6	8.6	1.1	13.7	46.0

18. PROVISIONS (continued)

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 28 of the Group and Bank consolidated financial statements.

19. DEFERRED TAX

Deferred taxes are calculated on all temporary differences under the liability method using the appropriate tax rate in respect of each temporary difference. An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. A banking surcharge tax of 8% also applies to the Bank Company. The deferred tax assets and liabilities at 31 December 2021 have been calculated based on these rates, reflecting the expected timing of reversal of the related temporary differences.

On 27 October 2021, the government announced that the banking surcharge will be reduced from a rate of 8% to 3%, and that it will be chargeable on banking profits above £100.0m (previously £25.0m). The changes will be effective from 1 April 2023 for current tax, aligning with the already enacted rise in the main rate of corporation tax, so that the combined rate of tax on banking profits in excess of £100.0m will be 28%. The changes to the banking surcharge were substantively enacted on 2 February 2022. This reduction in the surcharge rate will significantly reduce the balance sheet deferred tax assets and liabilities, which will be valued at a lower tax rate in the year ended 31 December 2022. The effect of the rate change will depend upon the Company's tax position at the effective date, but if the new rate had been enacted by 31 December 2021, the impact on the Company's existing net deferred tax asset is estimated to be a reduction of circa £8.9m.

The movements in the deferred tax are as follows:

	2021	2020
Deferred tax at the beginning of the year	**(38.2)**	(43.3)
Credited/(charged) to the income statement:		
Current year	**115.8**	(0.4)
Prior year	**-**	(0.9)
Impact of corporation tax rate change	**50.3**	8.8
	166.1	7.5
(Charged)/credited to other comprehensive income:		
Retirement benefits	**(92.8)**	1.5
Cash flow hedges	**1.4**	(2.8)
FVOCI	**0.3**	(1.1)
	(91.1)	(2.4)
Deferred tax at the end of the year	**36.8**	(38.2)
Components of net deferred tax:		
Deferred tax asset	**330.8**	154.5
Deferred tax liability	**(294.0)**	(192.7)
	36.8	(38.2)

The deferred tax asset above includes an offset for those deferred tax liabilities that are permissible to be offset.

	2021	2020
Deferred tax comprises:		
Retirement benefits	**(277.6)**	(176.0)
Tax losses carried forward	**192.4**	38.2
Capital allowances on fixed assets and assets leased to customers	**138.4**	116.3
Cash flow hedges	**(7.5)**	(8.9)
Unrealised appreciation on investments	**(7.3)**	(5.9)
FVOCI	**(1.6)**	(1.9)
	36.8	(38.2)

19. DEFERRED TAX (continued)

The deferred tax (credit)/charge in the income statement comprises:

	2021	2020
Tax losses carried forward	**(154.2)**	5.1
Capital allowances on fixed assets and assets leased to customers	**(22.1)**	(12.7)
Retirement benefits	**8.8**	4.9
Unrealised appreciation on investments	**1.4**	(5.2)
Cash flow hedges	**-**	0.4
	(166.1)	(7.5)

Deferred tax assets totalling £465.4m (2020: £479.1m) have not been recognised where doubt exists over the availability of sufficient future taxable profits. Deferred tax assets of £456.6m (2020: £471.8m) and £8.8m (2020: £7.3m) has not been recognised in respect of trading losses of £1,818.7m (2020: £2,283.9m) and other temporary differences of £26.6m (2020: £27.1m) respectively.

Further detail on deferred tax is provided in note 2 and in note 29 of the Group and Bank consolidated financial statements.

20. RETIREMENT BENEFITS

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 30 of the Group and Bank consolidated financial statements.

21. SHARE CAPITAL

The Directors have considered the information disclosed in the consolidated financial statements of the Bank and consider the same information to be relevant for the Bank Company. Accordingly, since there is no difference in relation to the Bank and Bank Company, we refer to the disclosures in note 33 of the Group and Bank consolidated financial statements.

22. OTHER RESERVES

	2021	2020
Fair value through other comprehensive income reserve	**2.9**	4.8
Cash flow hedging reserve	**14.7**	22.5
Capital redemption reserve	**-**	410.0
Defined benefit pension reserve	**485.0**	395.1
	502.6	832.4

The cancellation of the capital redemption reserve and associated transfer to retained earnings during the year reflects the impact of the reserve reorganisation disclosed in note 33 of the Group and Bank consolidated financial statements. Total equity of the Bank Company was unaffected by this reserve reorganisation.

23. INVESTMENTS IN SUBSIDIARIES/GROUP UNDERTAKINGS

	2021	2020
At the beginning of the year	**43.3**	43.0
Impairment (charge)/release	**(28.6)**	0.3
At the end of the year	**14.7**	43.3

23. INVESTMENTS IN SUBSIDIARIES/GROUP UNDERTAKINGS (continued)

Subsidiary undertakings

Subsidiary undertakings which are registered in England and operating in the UK:

	Address reference		Shareholding 2021	Shareholding 2020
Co-operative Commercial Limited	1	Former investment company	**100%**	100 %
Second Roodhill Leasing Limited	1	Leasing	**100%**	100 %
Third Roodhill Leasing Limited	1	Leasing	**100%**	100 %
Fourth Roodhill Leasing Limited	1	Leasing	**100%**	100 %
Britannia Treasury Services Limited	1	Former Holding company	**100%**	100 %
Moorland Covered Bonds LLP	1	Mortgage acquisition and guarantor of covered bonds	**100%**	100 %
Co-operative Bank Financial Advisers Limited	1	Inactive	**100%**	100 %
Mortgage Agency Services Number One Limited	1	Former mortgage and syndicated lending	**100%**	100 %
Mortgage Agency Services Number Two Limited	1	Former mortgage lending	**100%**	100 %
Mortgage Agency Services Number Four Limited	1	Mortgage lending	**100%**	100 %
Mortgage Agency Services Number Five Limited	1	Mortgage lending	**100%**	100 %
Mortgage Agency Services Number Six Limited	1	Former mortgage lending	**100%**	100 %
Platform Funding Limited	1	Mortgage lending	**100%**	100 %

Registered in the Isle of Man and operating overseas:

	Address reference		Shareholding 2021	Shareholding 2020
Britannia International Limited	2	Former deposit-taking	**100%**	100 %

Britannia International Limited surrendered its Class 1 Deposit-Taking License to the Isle of Man Financial Supervision Commission during 2015. Any remaining customer accounts were closed and placed into a scheme to manage these funds.

Securitisation vehicles

The results of the following securitisation vehicles are consolidated into the results of the Bank as they are controlled by Bank Company. The Bank Company held no shares in the securitisation vehicles listed below at 31 December 2021 (2020: no shares).

	Address reference		% consolidated 2021	% consolidated 2020
Silk Road Finance Number Four p.l.c.	3	Securitisation company	**100%**	100 %
Silk Road Finance Number Five p.l.c.	3	Securitisation company	**100%**	100 %
Silk Road Finance Number Six p.l.c.	3	Securitisation company	**100%**	100 %

Securitisation vehicles are registered in England and operate in the UK.

In December 2020, Silk Road Finance Number Four p.l.c., a fully retained securitisation, originally issued in 2017, sold the beneficial interest in the remaining mortgages back to the Bank Company as part of the securitisation unwind. The deemed loans have been derecognised in Bank Company and Silk Road Finance Number Four p.l.c. respectively, with no gain or loss. The entity is currently in liquidation.

All of the above companies are related parties to the Bank Company, refer to note 25 of the Bank Company financial statements for the related party disclosures.

Joint ventures

The Bank Company has investments in the following joint ventures:

	Ownership 2021	Ownership 2020
Britannia New Homes (Scotland) Limited (Dormant)	**50%**	50 %

Britannia New Homes (Scotland) Limited has its registered office at 140 West George Street, Glasgow, G2 2HG.

23. INVESTMENTS IN SUBSIDIARIES/GROUP UNDERTAKINGS (continued)

Dormant companies

The Bank Company has investments in the following dormant subsidiaries all of which are registered in England:

	Address reference		Shareholding 2021	Shareholding 2020
Britannia Pension Trustees Limited	1	Pension scheme participant	**100%**	100 %
BPS Principal Employer Limited	1	Holding company	**100%**	100 %
The Co-operative Bank Pension Trust Limited	1	Former pension scheme participant	**100%**	100 %

Address reference	Registered office at:
1	PO Box 101, 1 Balloon Street, Manchester, M60 4EP
2	Estera Trust (Isle of Man) Limited, 33-37 Athol Street, Douglas, Isle of Man, IM1 1LB
3	35 Great St. Helen's, London, EC3A 6AP
4	Fourth Floor, 3 George's Dock, IFSC, Dublin 1, Ireland

The following subsidiaries benefit from an audit exemption according to section 479A of the Companies Act 2006:

- Second Roodhill Leasing Limited;
- Third Roodhill Leasing Limited;
- Fourth Roodhill Leasing Limited;
- Britannia Treasury Services Limited; and
- Co-operative Bank Financial Advisers Limited.

24. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Bank Company in relation to the following contingent liabilities referred to in note 31 of the Group and Bank consolidated financial statements:

- Contingent liabilities and other commitments arising from customer transactions;
- Conduct risk matters;
- Legal proceedings; and
- Mortgage securitisation representations and warranties.

a) Commitments to financially support subsidiary undertakings

Bank Company has committed to financially support the subsidiary undertakings including the subsidiaries benefiting from an audit exemption according to section 479A of the Companies Act 2006 listed in note 23 of the Bank Company financial statements.

b) Encumbered and pledged assets

The Bank Company pledges certain assets as collateral to third parties as part of its day to day activities. The carrying value of amounts pledged to each counterparty types are provided below. The terms of the arrangements are the same as those disclosed in note 31 of the Group and Bank consolidated financial statements.

2021	Cash and balances at central banks	Loans and advances to banks	Loans and advances to customers	Investment securities	Total
TFSME	-	-	7,103.9	-	**7,103.9**
Pension scheme contingent security	-	25.0	-	424.4	**449.4**
Payment scheme collateral	280.0	49.5	-	84.7	**414.2**
Interest rate swap collateral	-	2.8	-	156.1	**158.9**
Other	-	30.2	-	146.3	**176.5**
Total assets pledged	**280.0**	**107.5**	**7,103.9**	**811.5**	**8,302.9**

24. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES (continued)

2020	Cash and balances at central banks	Loans and advances to banks	Loans and advances to customers	Investment securities	Total
TFSME	-	-	2,346.7	-	2,346.7
Pension scheme contingent security	-	12.5	-	403.3	415.8
Payment scheme collateral	280.0	48.8	-	86.7	415.5
Interest rate swap collateral	-	302.7	-	158.5	461.2
Other	-	24.0	-	166.8	190.8
Total assets pledged	280.0	388.0	2,346.7	815.3	3,830.0

c) Transferred assets not derecognised

In certain circumstances the Bank Company sells assets to third parties in arrangements where the risk and reward has not been fully transferred. In these instances, the Bank Company retains the asset on its balance sheet, but reflects a liability to the third party for the amount due under the arrangement. These primarily relate to assets sold under repurchase agreements (repos) and mortgages originated by the Bank Company which have been sold to Group securitisation or covered bond vehicles, as disclosed in the table below. The covered bond transaction was fully redeemed during 2021 and the associated mortgages were sold back to the Bank Company.

	2021		2020	
	Assets not derecognised	Associated liabilities	Assets not derecognised	Associated liabilities
Repurchase agreements				
Loans and advances to customers	**6.3**		-	
Investment securities	**301.0**		305.0	
Deposits by banks		**304.5**		294.6
Securitisations and covered bonds				
Loans and advances to customers	**1,115.8**		2,441.3	
Amounts owed to Co-operative Bank undertakings		**1,115.8**		2,441.3
Total	**1,423.1**	**1,420.3**	2,746.3	2,735.9

25. RELATED PARTY TRANSACTIONS

The ultimate parent undertaking of the Bank Company as at 31 December 2021 was The Co-operative Bank Holdings Limited.

At 31 December 2021, the Group had two significant shareholders, SP Coop Investments Ltd and Anchorage Illiquid Opportunities Offshore Master V L.P., each holding over 20% of the B shares of the Holding Company. See note 32 of the Group and Bank consolidated financial statements for details of related party transactions with these two significant shareholders.

The B Shareholders Agreement grants certain rights to shareholders, where the B shareholders are entitled to appoint up to two Directors to the Board of the Holding Company, and the Holding Company is entitled to appoint up to two Directors to the Board of the Bank Company, who are designated as B Directors of the Holding Company and Bank Company. Further information of the rights of the A and B shareholders and the B Shareholders Agreement are detailed in the ownership section of the corporate governance report.

Balances with Finance Company and Co-operative Bank undertakings

The following tables show the closing balance with The Co-operative Bank p.l.c.:

Amounts owed by Co-operative Bank undertakings	2021	2020
Amounts owed by Co-operative Bank subsidiaries (excluding special purpose entities)	**2.9**	55.0
Amounts owed by Co-operative Bank subsidiaries - special purpose entities	**30.3**	1,281.1
	33.2	1,336.1
Investment securities held by Co-operative Bank in subsidiaries - special purpose entities	**948.4**	1,010.1
	981.6	2,346.2

Amounts owed to Holding Company, Finance Company and Co-operative Bank undertakings	2021	2020
Amounts owed to Co-operative Bank subsidiaries (excluding special purpose entities)	**11.3**	28.5
Amounts owed to Co-operative Bank subsidiaries - special purpose entities	**1,115.8**	2,441.3
Amount owed to Finance Company (parent company)	**402.1**	408.2
	1,529.2	2,878.0
Cash balances deposited with the Bank Company by Co-operative Bank subsidiaries (excluding special purpose entities)	**0.5**	0.5
Cash balances deposited with the Bank Company by the Holding Company	**0.2**	0.2
	1,529.9	2,878.7

Details of the amount owed to Finance Company are given in note 26 of the Finance Company financial statements.

The following tables show the value of transactions with The Co-operative Bank p.l.c. undertakings and Finance Company during the year:

2021	Interest and fees income for Bank Company	Interest and fees expense for Bank Company
Transactions with Co-operative Bank subsidiaries (excluding special purpose entities)	**0.1**	**-**
Transactions with Co-operative Bank subsidiaries - special purpose entities	**59.3**	**48.4**
Transactions with Finance Company (parent company)	**-**	**37.0**
	59.4	**85.4**

2020	Interest and fees income for Bank Company	Interest and fees expense for Bank Company
Transactions with Co-operative Bank subsidiaries (excluding special purpose entities)	1.5	0.2
Transactions with Co-operative Bank subsidiaries - special purpose entities	43.6	72.2
Transactions with Finance Company (parent company)	-	20.8
	45.1	93.2

Transactions with Directors, key management personnel and close family
Details of the Bank Company's transactions with Directors, key management personnel and close family are as set out in note 32 of the Group and Bank consolidated financial statements.

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values in this note are stated at the balance sheet date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. The tables below analyse the balance sheet carrying values of financial assets and liabilities by classification.

		Measured at fair value				
2021	**Amortised cost**	**FVOCI**	**FVTPL – designated**	**FVTPL – mandatorily measured**	**Derivatives in a hedging relationship**	**Total**
Financial assets						
Cash and balances at central banks	**5,696.9**	**-**	**-**	**-**	**-**	**5,696.9**
Loans and advances to banks	**124.7**	**-**	**-**	**-**	**-**	**124.7**
Loans and advances to customers	**20,880.7**	**-**	**116.9**	**0.7**	**-**	**20,998.3**
Investment securities	**1,015.7**	**1,131.6**	**-**	**2.5**	**-**	**2,149.8**
Derivative financial instruments	**-**	**-**	**-**	**95.5**	**145.7**	**241.2**
Equity shares	**-**	**-**	**0.5**	**22.3**	**-**	**22.8**
Amounts owed by Co-operative Bank undertakings	**33.2**	**-**	**-**	**-**	**-**	**33.2**
Other assets	**11.4**	**-**	**-**	**-**	**-**	**11.4**
Total financial assets	**27,762.6**	**1,131.6**	**117.4**	**121.0**	**145.7**	**29,278.3**
Financial liabilities						
Deposits by banks	**5,527.6**	**-**	**-**	**-**	**-**	**5,527.6**
Customer accounts	**21,136.4**	**-**	**-**	**-**	**-**	**21,136.4**
Debt securities in issue	**-**	**-**	**-**	**-**	**-**	**-**
Derivative financial instruments	**-**	**-**	**-**	**111.1**	**37.1**	**148.2**
Amounts owed to Co-operative Bank undertakings	**1,127.1**	**-**	**-**	**-**	**-**	**1,127.1**
Other liabilities	**35.4**	**-**	**-**	**-**	**-**	**35.4**
Amounts due to Finance Company	**402.1**	**-**	**-**	**-**	**-**	**402.1**
Total financial liabilities	**28,228.6**	**-**	**-**	**111.1**	**37.1**	**28,376.8**

		Measured at fair value				
2020	**Amortised cost**	**FVOCI**	**FVTPL – designated**	**FVTPL – mandatorily measured**	**Derivatives in a hedging relationship**	**Total**
Financial assets						
Cash and balances at central banks	3,877.8	-	-	-	-	3,877.8
Loans and advances to banks	431.6	-	-	-	-	431.6
Loans and advances to customers	18,541.8	-	134.1	0.8	-	18,676.7
Investment securities	1,087.5	1,067.6	-	3.5	-	2,158.6
Derivative financial instruments	-	-	-	168.0	10.8	178.8
Equity shares	-	-	-	22.1	-	22.1
Amounts owed by Co-operative Bank undertakings	1,336.1	-	-	-	-	1,336.1
Other assets	61.3	-	-	38.3	-	99.6
Total financial assets	25,336.1	1,067.6	134.1	232.7	10.8	26,781.3
Financial liabilities						
Deposits by banks	2,066.4	-	-	-	-	2,066.4
Customer accounts	20,366.3	-	-	-	-	20,366.3
Debt securities in issue	485.7	-	-	-	-	485.7
Derivative financial instruments	-	-	-	160.5	155.7	316.2
Amounts owed to Co-operative Bank undertakings	2,469.8	-	-	-	-	2,469.8
Other liabilities	32.9	-	-	-	-	32.9
Amounts due to Finance Company	408.2	-	-	-	-	408.2
Total financial liabilities	25,829.3	-	-	160.5	155.7	26,145.5

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value disclosures throughout this note have been calculated in accordance with IFRS 13, which values assets individually rather than as a portfolio or as part of a business combination.

a) Use of financial assets and liabilities
Refer to note 35 of the Group and Bank consolidated financial statements for details of the use of financial instruments.

b) Valuation of financial assets and liabilities measured at fair value
The carrying value of financial assets and liabilities measured at fair value are determined in compliance with the accounting policies in note 1 of the Group and Bank consolidated financial statements and analysed in the following tables by the three level fair value hierarchy defined as follows:
- Level 1 – Quoted market prices in active markets;
- Level 2 – Valuation techniques using observable inputs; and
- Level 3 – Valuation techniques using unobservable inputs.

There were no transfers between the levels during the year.

		Fair value at end of the reporting period using:			
2021	**Category**	**Level 1**	**Level 2**	**Level 3**	**Total**
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	**-**	**115.5**	**1.4**	**116.9**
Loans and advances to customers	FVTPL – mandatorily measured	**-**	**-**	**0.7**	**0.7**
Investment securities	FVOCI	**1,104.0**	**-**	**27.6**	**1,131.6**
Investment securities	FVTPL – mandatorily measured	**-**	**-**	**2.5**	**2.5**
Equity shares	FVTPL – designated	**-**	**-**	**0.5**	**0.5**
Equity shares	FVTPL – mandatorily measured	**0.3**	**-**	**22.0**	**22.3**
Other assets	FVTPL – mandatorily measured	**-**	**-**	**-**	**-**
Derivative financial assets		**-**	**241.2**	**-**	**241.2**
Non-financial assets:					
Investment properties		**-**	**-**	**1.9**	**1.9**
Total assets carried at fair value		**1,104.3**	**356.7**	**56.6**	**1,517.6**
Derivative financial liabilities		**-**	**148.2**	**-**	**148.2**
Total liabilities carried at fair value		**-**	**148.2**	**-**	**148.2**

		Fair value at end of the reporting period using:			
2020	**Category**	**Level 1**	**Level 2**	**Level 3**	**Total**
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	132.3	1.8	134.1
Loans and advances to customers	FVTPL – mandatorily measured	-	-	0.8	0.8
Investment securities	FVOCI	1,067.6	-	-	1,067.6
Investment securities	FVTPL – mandatorily measured	-	-	3.5	3.5
Equity shares	FVTPL – designated	-	-	-	-
Equity shares	FVTPL – mandatorily measured	0.3	-	21.8	22.1
Other assets	FVTPL – mandatorily measured	-	-	38.3	38.3
Derivative financial assets		-	178.8	-	178.8
Non-financial assets:					
Investment properties		-	-	1.9	1.9
Total assets carried at fair value		1,067.9	311.1	68.1	1,447.1
Derivative financial liabilities		-	316.2	-	316.2
Total liabilities carried at fair value		-	316.2	-	316.2

Key considerations in the calculation of fair values for financial assets and liabilities measured at fair value are as follows:

Level 1 – Quoted market prices in active markets
Financial instruments with quoted prices for identical instruments in active markets. The best evidence of fair value is a quoted market price in an actively traded market.

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Level 2 – Valuation techniques using observable inputs
Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

The valuation techniques used to value these instruments employ only observable market data and relate to the following assets and liabilities:

- **Loans and advances to customers**
  Loans and advances to customers primarily comprise of corporate loans of £110.8m as at 31 December 2021 (2020: £126.5m) which are fair valued through profit or loss using observable inputs. Loans held at fair value are valued at the sum of all future expected cash flows, discounted using a yield curve based on observable market inputs.

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

Level 3 – Valuation techniques using unobservable inputs
This is used for financial instruments valued using models where one or more significant inputs are not observable.

The proportion of financial assets valued based on significant unobservable inputs are analysed as follows:

- **Investment securities**
  Investment securities comprise of RMBS of £27.6m (FVOCI) and £2.5m (FVTPL – mandatorily measured) as at 31 December 2021 (2020: £nil FVOCI and £3.5m FVTPL). An independent third party valuation agent is used to provide prices for the rated RMBS obtained from large financial institutions. These prices are indicative values only and do not represent an offer to purchase the securities. These RMBS represent the Bank Company's interest in unconsolidated structured entities.

- **Equity shares**
  Equity shares classified as FVTLP – designated, comprise of US Dollar-denominated convertible preference shares in Visa International, with any movements in fair value being recognised through profit or loss. The fair value of the Visa International shares has been calculated by taking the period end NYSE share price and discounting for illiquidity and clawback.

  If the illiquidity premium to the discount rate was increased by an absolute 10%, it would result in a reduction in the overall fair value of the equity shares of £3.1m as at 31 December 2021.

- **Other assets**
  At 31 December 2021 the Bank recognised no financial assets, classified as other assets, at fair value. At 31 December 2020, such other assets comprised the Surrendered Loss Debtor of £38.3m, which reflected amounts owed from the Co-op in relation to the tax losses surrendered by the Bank Company in 2012-2013, and agreement to settle the asset at its carrying value was executed in February 2021.

- **Investment properties**
  Investment properties within level 3 are valued by using recent valuations of individual assets within the portfolio, index linked to the balance sheet date using the relevant house price index.

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

2021	Fair value at the beginning of the year	Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at the end of the year
Loans and advances to customers	**2.6**	**-**	**(0.4)**	**-**	**(0.1)**	**2.1**
Investment securities	**3.5**	**27.6**	**-**	**-**	**(1.0)**	**30.1**
Equity shares	**21.8**	**0.5**	**-**	**-**	**0.2**	**22.5**
Investment properties	**1.9**	**-**	**(0.1)**	**-**	**0.1**	**1.9**
Other assets	**38.3**	**-**	**(38.3)**	**-**	**-**	**-**
	68.1	**28.1**	**(38.8)**	**-**	**(0.8)**	**56.6**

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

2020	Fair value at the beginning of the year	Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at the end of the year
Loans and advances to customers	3.7	-	(0.9)	-	(0.2)	2.6
Investment securities	74.1	-	(69.8)	(0.1)	(0.7)	3.5
Equity shares	44.1	-	(38.7)	-	16.4	21.8
Investment properties	1.8	-	-	-	0.1	1.9
Other assets	37.9	-	-	-	0.4	38.3
	161.6	-	(109.4)	(0.1)	16.0	68.1

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

The carrying values of financial assets and liabilities measured at amortised cost are determined in compliance with the accounting policies in note 1 of the Group and Bank consolidated financial statements and their fair values are analysed in the following tables by the three level fair value hierarchy set out above. There were no transfers between levels during the year.

		Fair value				
2021	Total carrying value	Level 1	Level 2	Level 3	Items where fair value approximates carrying value	Total
Financial assets						
Cash and balances at central banks	**5,696.9**	**-**	**-**	**-**	**5,696.9**	**5,696.9**
Loans and advances to banks	**124.7**	**-**	**-**	**-**	**124.7**	**124.7**
Loans and advances to customers	**20,880.7**	**-**	**-**	**20,039.6**	**810.3**	**20,849.9**
Investment securities	**1,015.7**	**-**	**-**	**1,013.0**	**-**	**1,013.0**
Amounts owed by Co-operative Bank undertakings	**33.2**	**-**	**-**	**-**	**33.2**	**33.2**
Other assets	**11.4**	**-**	**-**	**-**	**11.4**	**11.4**
Financial liabilities						
Deposits by banks	**5,527.6**	**-**	**5,504.5**	**-**	**21.6**	**5,526.1**
Customer accounts	**21,136.5**	**-**	**-**	**2,099.6**	**19,036.2**	**21,135.8**
Debt securities in issue	**-**	**-**	**-**	**-**	**-**	**-**
Amounts owed to Co-operative Bank undertakings	**1,127.1**	**-**	**-**	**1,122.4**	**11.4**	**1,133.8**
Other liabilities	**35.4**	**-**	**-**	**-**	**35.4**	**35.4**
Amounts due to Finance Company	**402.1**	**-**	**448.7**	**-**	**-**	**448.7**

Re-presented		Fair value				
2020	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	3,877.8	-	-	-	3,877.8	3,877.8
Loans and advances to banks	431.6	-	-	-	431.6	431.6
Loans and advances to customers	18,541.8	-	-	17,549.2	897.1	18,446.3
Investment securities	1,087.5	-	-	1,077.8	-	1,077.8
Amounts owed by Co-operative Bank undertakings	1,336.1	-	499.8	-	850.2	1,350.0
Other assets	61.3	-	-	-	61.3	61.3
Financial liabilities						
Deposits by banks	2,066.4	-	2,045.2	-	21.4	2,066.6
Customer accounts	20,366.3	-	-	2,822.3	17,558.9	20,381.2
Debt securities in issue	485.7	505.8	-	-	-	505.8
Amounts owed to Co-operative Bank undertakings	2,469.8	-	-	2,441.7	29.6	2,471.3
Other liabilities	32.9	-	-	-	32.9	32.9
Amounts due to Finance Company	408.2	-	392.2	-	-	392.2

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Key considerations in the calculation of fair values of financial instruments measured at amortised cost are as follows:

Level 1 – Quoted market prices in active markets
Financial instruments with quoted prices for identical instruments in active markets. The best evidence of fair value is a quoted market price in an actively traded market.

Level 2 – Valuation techniques using observable inputs
Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

The valuation techniques used to value these instruments employ only observable market data and relate to the following assets and liabilities:

- **Loans and advances to banks/Deposits by banks**
  Loans and advances to banks comprise of interbank placements and items in the course of collection.

  The amortised cost value of all loans and advances to banks are deemed to be a close approximation of their fair value due to their short maturity. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

- **Amounts owed by Co-operative Bank undertakings**
  Amounts owed by Co-operative Bank undertakings comprise of debt securities and subordinated debt held in the Bank Company's own securitisation vehicles. Fair value is based on available market prices; where these are not available quoted market prices for similar debt securities, with adjustments to take into account the subordination of the particular loan note, have been used to estimate fair value.

- **Amounts owed to Finance Company**
  Amounts owed to Finance Company comprise the internal MREL debt related to the external MREL-qualifying Tier 2 and senior unsecured debt. The fair value of the notes is based on quoted market prices.

Level 3 – Valuation techniques using unobservable inputs
This is used for financial instruments valued using models where one or more significant inputs are not observable.

The proportion of financial assets valued based on significant unobservable inputs are analysed as follows:

- **Loans and advances to customers**
  The fair value of loans and advances to customers in total was 99.9 % of the carrying value as at 31 December 2021 (2020: 99.5 %).

  Fixed rate loans and advances to customers are revalued to fair value based on future interest cash flows (at funding rates) and principal cash flows discounted using an appropriate market rate. The market rate applied in the calculation is the average market rate for new originations of loans with similar characteristics to the book of loans being valued, and reflects the current low interest rate environment. This rate is assumed to encompass the time value of money, plus a risk premium to account for the inherent uncertainty in the timing and amount of future cash flows arising from a book of loans assets.

  Forecast principal repayments are based on redemption at the earlier of maturity or re-pricing date with some overlay for historical behavioural experience where relevant. The eventual timing of future cash flows may be different from the forecast due to unpredictable customer behaviour. It is assumed that there would be no other factors which market participants would take into account when assessing the fair value of the loan assets. It is assumed that there is no fair value adjustment required in respect of interest rate movement on standard variable rate loan assets, as the interest rate being charged is assumed to be equal to the market rate for those loan assets.

  Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

- **Investment securities**
  Investment securities comprise:
  - RMBS measured at amortised cost of £67.3m as at 31 December 2021 (2020: £77.4m), being a 5% regulatory holding of the rated notes of the Warwick SPEs unconsolidated structured entities. The remaining 95% is privately held therefore there are no available market prices. An in-house model is used that sources independent market data for disclosure purposes only.
  - RMBS measured at amortised cost of £948.4m as at 31 December 2021 (2020: £1,010.1m), being retained notes of the Silk Road Five and Six securitisations. As there are no available market prices, an in-house model is used that sources independent market data for disclosure purposes only.

- **Customer accounts**
  The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on future interest cash flows (at funding rates) and principal cash flows, discounted using an appropriate market rate.

- **Amounts owed to Co-operative Bank undertakings**
  Amounts owed to Co-operative Bank undertakings comprise of deemed loans owed to the Bank Company's own securitisation vehicles; these have been modelled using expected cash flows, based on redemption profiles, discounted at a market rate.

d) Fair value of transferred assets and associated liabilities

For more information on the nature of transferred assets and associated liabilities, including the nature of risk and rewards to which the Bank Company is exposed, refer to note 24 of the Bank Company financial statements.

The fair value of transferred assets and associated liabilities is shown in the table below.

	Fair value			
	2021		2020	
	Assets not derecognised	Associated liabilities	Assets not derecognised	Associated liabilities
Repurchase agreements				
Loans and advances to customers	**6.3**		-	
Investment securities	**301.0**		305.0	
Deposits by banks		**304.5**		294.6
Covered bonds				
Loans and advances to customers	**-**		1,238.1	
Amounts owed to Co-operative Bank undertakings			-	1,238.1
Securitisations				
Loans and advances to customers	**1,122.4**		1,203.7	
Amounts owed to Co-operative Bank undertakings		**1,122.4**		1,203.7
Total	**1,429.7**	**1,426.9**	2,746.8	2,736.4

The difference between the fair value of transferred assets and associated liabilities was £2.8m (2020: £10.4m)

27. ANALYSIS OF CREDIT RISK EXPOSURE

(audited) 31 December 2021	Loans and advances to banks	Loans and advances to customers	Investment securities	Derivative financial instruments	Other assets	Total
Note in Bank Company financial statements	4	5	6	7	9	
Analysis of credit risk exposure						
Gross accounting balances	124.7	21,035.7	2,149.8	241.2	12.8	**23,564.2**
Less: accounting adjustments[1]	-	(99.0)	-	-	-	**(99.0)**
Gross customer balances	**124.7**	**20,936.7**	**2,149.8**	**241.2**	**12.8**	**23,465.2**
Credit commitments	-	2,059.5	-	-	-	**2,059.5**
Gross customer exposure	**124.7**	**22,996.2**	**2,149.8**	**241.2**	**12.8**	**25,524.7**
Less: customer balances measured at FVTPL[1]	-	(102.4)	(2.5)	(241.2)	-	**(346.1)**
Net customer exposure subject to ECL calculation	**124.7**	**22,893.8**	**2,147.3**	**-**	**12.8**	**25,178.6**
Allowance for losses						
Total ECL[2]	**-**	**37.4**	**-**	**-**	**0.1**	**37.5**

1. Some FVTPL balances are contained within the accounting adjustments.
2. L&A to customers includes £1.9m FVTPL credit adjustments.

(audited) 31 December 2020	Loans and advances to banks	Loans and advances to customers	Investment securities	Derivative financial instruments	Other assets	Total
Note in Bank Company financial statements	4	5	6	7	9	
Analysis of credit risk exposure						
Gross accounting balances	431.6	18,719.5	2,158.6	178.8	99.7	**21,588.2**
Less: accounting adjustments[1]	-	(104.1)	-	-	-	**(104.1)**
Gross customer balances	**431.6**	**18,615.4**	**2,158.6**	**178.8**	**99.7**	**21,484.1**
Credit commitments	-	2,548.4	-	-	-	**2,548.4**
Gross customer exposure	**431.6**	**21,163.8**	**2,158.6**	**178.8**	**99.7**	**24,032.5**
Less: customer balances measured at FVTPL[1]	-	(108.8)	(3.5)	(178.8)	(38.3)	**(329.4)**
Net customer exposure subject to ECL calculation	**431.6**	**21,055.0**	**2,155.1**	**-**	**61.4**	**23,703.1**
Allowance for losses						
Total ECL[2]	**-**	**42.8**	**-**	**-**	**0.1**	**42.9**

1. Some FVTPL balances are contained within the accounting adjustments.
2. L&A to customers includes £2.1m FVTPL credit adjustments.

All balances except L&A to customers are stage 1 (2020: stage 1) and did not transfer during the year. Loans and advances to customers is further analysed in the tables below:

Gross customer exposure	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2021	19,180.3	1,718.1	63.5	93.1	**21,055.0**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(364.3)	364.3	-	-	**-**
To credit impaired (stage 1 or 2 or 3)	(11.5)	(26.9)	38.4	-	**-**
To 12 month ECL (stage 2 or 3 to 1)	796.2	(796.2)	-	-	**-**
From credit impaired (stage 3 to 2)	6.5	4.1	(10.6)	-	**-**
Net changes arising from stage transfers	**426.9**	**(454.7)**	**27.8**	-	**-**
Other charges/(releases):					
New assets originated or purchased	5,557.4	-	-	-	**5,557.4**
Other changes to risk parameters	(310.2)	(2.1)	0.1	(0.1)	**(312.3)**
Redemptions and repayments	(3,026.7)	(336.4)	(19.4)	(15.7)	**(3,398.2)**
Net other charges/(releases)	**2,647.4**	**(793.2)**	**8.5**	**(15.8)**	**1,846.9**
Assets written off	(1.5)	(2.0)	(4.6)	-	**(8.1)**
At 31 December 2021	**21,826.2**	**922.9**	**67.4**	**77.3**	**22,893.8**

27. ANALYSIS OF CREDIT RISK EXPOSURE (continued)

Gross customer exposure	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2020	18,753.1	779.5	78.2	119.3	19,730.1
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(1,292.8)	1,292.8	-	-	-
To credit impaired (stage 1 or 2 or 3)	(17.7)	(13.6)	31.3	-	-
To 12 month ECL (stage 2 or 3 to 1)	226.5	(226.5)	-	-	-
From credit impaired (stage 3 to 2)	6.3	6.2	(12.5)	-	-
Net changes arising from stage transfers	(1,077.7)	1,058.9	18.8	-	-
Other charges/(releases):					
New assets originated or purchased	3,956.7	-	-	-	3,956.7
Other changes to risk parameters	437.9	(1.5)	-	1.3	437.7
Redemptions and repayments	(2,887.1)	(116.7)	(28.4)	(26.7)	(3,058.9)
Net other charges/(releases)	429.8	940.7	(9.6)	(25.4)	1,335.5
Assets written off	(2.6)	(2.1)	(5.1)	(0.8)	(10.6)
At 31 December 2020	19,180.3	1,718.1	63.5	93.1	21,055.0

Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2021	19.1	13.0	7.5	1.1	**40.7**
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(0.3)	2.7	-	-	**2.4**
To credit impaired (stage 1 or 2 or 3)	(0.1)	(0.6)	4.5	-	**3.8**
To 12 month ECL (stage 2 or 3 to 1)	1.2	(5.6)	-	-	**(4.4)**
From credit impaired (stage 3 to 2)	-	-	(0.5)	-	**(0.5)**
Net changes arising from stage transfers	**0.8**	**(3.5)**	**4.0**	**-**	**1.3**
Other charges/(releases):					
New assets originated or purchased	6.3	-	-	-	**6.3**
Other changes to risk parameters	(1.4)	0.9	0.3	(0.4)	**(0.6)**
Redemptions and repayments	(2.5)	(1.9)	(0.8)	(0.1)	**(5.3)**
Net other charges/(releases)	**3.2**	**(4.5)**	**3.5**	**(0.5)**	**1.7**
Assets written off	(1.1)	(1.7)	(4.1)	-	**(6.9)**
At 31 December 2021[1]	**21.2**	**6.8**	**6.9**	**0.6**	**35.5**

1. ECL analysis represents L&A to customers but excludes £1.9m FVTPL credit adjustments.

Allowance for losses	Stage 1	Stage 2	Stage 3	POCI	Total
At 1 January 2020	10.5	4.2	11.4	0.3	26.4
Changes arising from stage transfers:					
To lifetime ECL (stage 1 to 2 or 3)	(1.2)	9.2	-	-	8.0
To credit impaired (stage 1 or 2 or 3)[1]	(0.2)	(0.1)	3.2	-	2.9
To 12 month ECL (stage 2 or 3 to 1)	0.6	(1.4)	-	-	(0.8)
From credit impaired (stage 3 to 2)	0.1	0.2	(0.8)	-	(0.5)
Net changes arising from stage transfers	(0.7)	7.9	2.4	-	9.6
Other charges/(releases):					
New assets originated or purchased	3.4	-	-	-	3.4
Other changes to risk parameters[2]	8.8	2.6	(0.4)	1.1	12.1
Redemptions and repayments	(1.2)	(0.1)	(2.5)	-	(3.8)
Net other charges/(releases)	10.3	10.4	(0.5)	1.1	21.3
Assets written off	(1.7)	(1.6)	(3.4)	(0.3)	(7.0)
At 31 December 2020	19.1	13.0	7.5	1.1	40.7

1. ECL analysis represents L&A to customers but excludes £2.1m FVTPL credit adjustments.
2. Includes the impact of any asset sales.

The credit risk section within risk management applies to the Bank Company where relevant and therefore no additional disclosures are included in this note.

28. EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events to report.

Financial Statements of The Co-operative Bank Holdings Limited (Holding Company)

Ultimate parent company

The Co-operative Bank Holdings Limited
Company Number 10865342
(England and Wales)

↓ **100%**

The Co-operative Bank Finance p.l.c.
Company Number 11598074
(England and Wales)

↓ **100%**

The Co-operative Bank p.l.c.
Company Number 00990937
(England and Wales)

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

BALANCE SHEET

At 31 December 2021

£million

	Note	2021	2020
Assets			
Loans and advances to banks	2	**0.2**	0.2
Investments in subsidiaries/Group undertakings	3	**333.0**	333.0
Total assets		**333.2**	333.2
Total liabilities		**-**	-
Capital and reserves attributable to the Holding Company's equity holders			
Ordinary share capital	4	**0.9**	0.9
Share premium account	4	**313.8**	313.8
Merger relief reserve		**18.5**	18.5
Total equity		**333.2**	333.2
Total liabilities and equity		**333.2**	333.2

Net profit attributable to equity holders of the Holding Company for the year is £nil (2020: £nil).

The notes on pages 246 to 247 form part of the Holding Company financial statements.

Approved by the Board on 23 February 2022:

Robert Dench
Chair of the Board

Nick Slape
Chief Executive Officer

STATEMENT OF CASHFLOWS

For year ended 31 December 2021

£million	2021	2020
Cash flows used in operating activities:		
Profit before taxation	-	-
Net cash flows used in operating activities	-	-
Net cash flows used in investing activities	-	-
Net cash flows from financing activities	-	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of the year	-	-
Cash and cash equivalents at the end of the year	-	-

The notes on pages 246 to 247 form part of the Holding Company financial statements.

THE CO-OPERATIVE BANK HOLDINGS LIMITED FINANCIAL STATEMENTS (HOLDING COMPANY-ONLY)
STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2021

£million

2021	Attributable to equity holders of the Holding Company Share capital	Share premium	Merger relief reserve	Total Equity
At 1 January 2021	0.9	313.8	18.5	**333.2**
Total comprehensive income for the year	-	-	-	**-**
At 31 December 2021	**0.9**	**313.8**	**18.5**	**333.2**

2020	Attributable to equity holders of the Holding Company Share capital	Share premium	Merger relief reserve	Total Equity
At 1 January 2020	0.9	313.8	18.5	333.2
Total comprehensive income for the year	-	-	-	-
At 31 December 2020	0.9	313.8	18.5	333.2

The notes on pages 246 to 247 form part of the Holding Company financial statements.

All amounts are stated in £m unless otherwise indicated.

1. BASIS OF PREPARATION

The Co-operative Bank Holdings Limited (Holding Company) was incorporated in the UK and is a limited company registered in England and Wales.

The Holding Company financial statements have been prepared under the historic cost convention and approved by the Directors in accordance with UK adopted international accounting standards and the provisions of the Companies Act 2006.

On including its financial statements within the Group's Annual Report and Accounts, the Holding Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes.

Accounting policies outlined in note 1 of the Group and Bank consolidated financial statements and the explanatory information on pages 262 to 271 also apply to the Holding Company.

The preparation of financial information requires management to make judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The critical judgement applicable to the Holding Company is set out below.

Impairment of investment in subsidiaries
Management have performed an assessment of indicators of impairment including a review of the 2021 performance and forecast performance of the Finance Group. The conclusion of this review was that the Holding Company's investment in Finance Company is not impaired.

2. LOANS AND ADVANCES TO BANKS

	2021	2020
Loans and advances to banks	**0.2**	0.2

This balance is held with The Co-operative Bank p.l.c.

3. INVESTMENTS IN SUBSIDIARIES/GROUP UNDERTAKINGS

	2021	2020
Investments in subsidiaries/Group undertakings	**333.0**	333.0

At 31 December 2021, the Holding Company owned 100 % of the share capital of The Co-operative Bank Finance p.l.c. The principal activity of The Co-operative Bank Finance p.l.c. is that of a holding company and issuer of subordinated debt.

4. SHARE CAPITAL

2021	No. of A shares (millions)	A shares value	No. of B shares	B shares value	Total share capital
Share capital allotted, called up and fully paid					
At the beginning and at the end of the year	**9,029.1**	**0.9**	**83**	**-**	**0.9**

2020	No. of A shares (millions)	A shares value	No. of B shares	B shares value	Total share capital
Share capital allotted, called up and fully paid					
At the beginning and at the end of the year	9,029.1	0.9	83	-	0.9

Share premium account

	2021	2020
At the beginning and at the end of the year	**313.8**	313.8

5. RELATED PARTY TRANSACTIONS

Parent, subsidiary and ultimate controlling party
The ultimate parent undertaking of the Group is The Co-operative Bank Holdings Limited.

As at 31 December 2021, the Holding Company had two significant shareholders, SP Coop Investments Ltd and Anchorage Illiquid Opportunities Offshore Master V L.P., each holding over 20 % of the B shares.

Balances with related parties

The following table shows the value of balances with related parties during the year:

	2021	2020
Amounts owed by The Co-operative Bank p.l.c.	**0.2**	0.2

The subsidiaries of The Co-operative Bank p.l.c. as detailed in note 23 of the Bank Company financial statements, all Directors and key management personnel of the Group, are all considered to be related parties of the Holding Company (further details are available in note 32 of the consolidated Group and Bank financial statements).

6. EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events to report.

Consolidated Financial Statements of The Co-operative Bank Finance p.l.c. (Finance Group and Finance Company)

The co-operative bank
for people with purpose

CONSOLIDATED INCOME STATEMENT

For year ended 31 December 2021

£million

	Note[1]	Finance Group 2021	Finance Group 2020
Interest income calculated using the effective interest rate method		**422.7**	415.3
Other interest and similar income		**11.2**	(5.2)
Interest income and similar income	6	**433.9**	410.1
Interest expense and similar charges	6	**(110.0)**	(143.2)
Net interest income		**323.9**	266.9
Fee and commission income	7	**58.4**	56.5
Fee and commission expense	7	**(33.2)**	(33.0)
Net fee and commission income		**25.2**	23.5
Income from investments		**0.3**	0.3
Other operating income/(expense) (net)	8	**28.9**	24.6
Operating income		**378.3**	315.3
Operating expenses	9	**(348.7)**	(395.4)
Net customer redress release/(charge)	28	**2.6**	(2.0)
Total operating expenses		**(346.1)**	(397.4)
Operating profit/(loss) before net credit impairment losses		**32.2**	(82.1)
Net credit impairment losses	14	**(1.1)**	(21.6)
Profit/(loss) before taxation		**31.1**	(103.7)
Income tax	11	**166.2**	8.0
Profit/(loss) for the financial year		**197.3**	(95.7)

1. These notes references relate to Group and Bank consolidated financial statements.

The results above wholly relate to continuing activities.

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

The notes on pages 256 to 261 form part of these consolidated Finance Group financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For year ended 31 December 2021

£million

	Finance Group	
	2021	2020
Profit/(loss) for the year	**197.3**	(95.7)
Items that may be recycled to profit or loss:		
Changes in cash flow hedges:		
Net changes in fair value recognised directly in equity	**-**	5.5
Transfers from equity to income or expense	**(9.2)**	3.1
Income tax	**1.4**	(2.8)
Changes in fair value through other comprehensive income:		
Net changes in fair value recognised directly in equity	**30.6**	(20.5)
Transfers from equity to income or expense	**(32.8)**	22.3
Income tax	**0.3**	(1.1)
Items that may not subsequently be recycled to profit or loss:		
Changes in net retirement benefit asset:		
Defined benefit plans gains/(losses) for the year	**182.7**	(49.8)
Income tax	**(92.8)**	1.5
Other comprehensive income/(expense) for the year, net of income tax	**80.2**	(41.8)
Total comprehensive income/(expense) for the year	**277.5**	(137.5)

The notes on pages 256 to 261 form part of these consolidated Finance Group financial statements.

BALANCE SHEET

At 31 December 2021

£million

		Finance Group		Finance Company	
	Note	2021	2020	2021	2020
Assets					
Cash and balances at central banks	3	**5,696.9**	3,877.8	**-**	-
Loans and advances to banks	4	**191.5**	536.2	**-**	-
Loans and advances to customers	5	**21,002.1**	18,682.5	**-**	-
Fair value adjustments for hedged risk		**(90.5)**	134.1	**-**	-
Investment securities	6	**1,201.4**	1,148.5	**-**	-
Derivative financial instruments	7	**248.5**	189.9	**-**	-
Property, plant and equipment classified as held-for-sale		**0.2**	0.3	**-**	-
Equity shares	8	**22.8**	22.1	**-**	-
Investments in subsidiaries/group undertakings	9	**-**	-	**333.0**	333.0
Investment properties		**1.9**	1.9	**-**	-
Other assets	10	**12.7**	188.9	**-**	-
Prepayments	11	**20.3**	13.2	**-**	-
Property, plant and equipment	12	**22.2**	35.2	**-**	-
Intangible assets	13	**68.5**	63.4	**-**	-
Right-of-use assets	14	**46.9**	53.7	**-**	-
Amounts owed by Bank Company	26	**-**	-	**448.7**	398.1
Deferred tax assets	21	**36.8**	-	**-**	-
Net retirement benefit asset	22	**841.1**	651.8	**-**	-
Total assets		**29,323.3**	25,599.5	**781.7**	731.1
Liabilities					
Deposits by banks	15	**5,527.6**	2,066.4	**-**	-
Customer accounts		**21,136.0**	20,365.9	**-**	-
Debt securities in issue	16	**203.3**	728.8	**-**	-
Fair value adjustment for hedged risk		**(7.5)**	-	**-**	-
Derivative financial instruments	7	**148.2**	340.1	**-**	-
Other liabilities	18	**38.7**	33.7	**-**	-
Accruals and deferred income	19	**37.0**	35.0	**-**	-
Provisions	20	**33.9**	46.4	**-**	-
Other borrowed funds	17, 27	**402.1**	408.2	**405.3**	405.3
Lease liabilities	14	**44.1**	53.6	**-**	-
Deferred tax liabilities	21	**-**	38.3	**-**	-
Net retirement benefit liability	22	**8.1**	8.8	**-**	-
Total liabilities		**27,571.5**	24,125.2	**405.3**	405.3
Capital and reserves attributable to the Finance Group/Finance Company's equity holders					
Ordinary share capital	24	**0.9**	0.9	**0.9**	0.9
Share premium account	24	**-**	332.1	**-**	332.1
Retained earnings	25	**1,555.7**	(1,800.6)	**375.5**	(7.2)
Other reserves	25	**195.2**	2,941.9	**-**	-
Total equity		**1,751.8**	1,474.3	**376.4**	325.8
Total liabilities and equity		**29,323.3**	25,599.5	**781.7**	731.1

Net profit attributable to equity shareholders of Finance Company was £50.6m (2020: loss of £4.8m).

The notes on pages 256 to 261 form part of these consolidated Finance Group and Finance Company individual financial statements.

Approved by the Board on 23 February 2022:

Robert Dench Chair of the Board	Nick Slape Chief Executive Officer

CONSOLIDATED STATEMENT OF CASHFLOWS

For year ended 31 December 2021

£million

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

The Finance Company's cash and cash equivalents as at 31 December 2021 was £nil (2020: £nil). There were no changes in cash and cash equivalents for the Finance Company for the year ended 31 December 2021.

CONSOLIDATED STATEMENT OF CASHFLOWS - RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASHFLOWS ARISING FROM FINANCING ACTIVITIES

For year ended 31 December 2021

£million

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

STATEMENT OF CHANGES IN EQUITY

For year ended 31 December 2021

£million

	Attributable to equity holders of the Finance Group								
2021	**Share capital**	**Share premium**	**FVOCI reserve**	**Cash flow hedging reserve**	**Capital redemption reserve**	**Capital re-organisation reserve**	**Defined benefit pension reserve**	**Retained earnings**	**Total equity**
At 1 January 2021	0.9	332.1	4.8	22.5	410.0	2,109.5	395.1	(1,800.6)	**1,474.3**
Total comprehensive (expense)/income for the year	-	-	(1.9)	(7.8)	-	-	89.9	197.3	**277.5**
Reserve reorganisation	-	(332.1)	-	-	(410.0)	(2,416.9)	-	3,159.0	**-**
At 31 December 2021	**0.9**	**-**	**2.9**	**14.7**	**-**	**(307.4)**	**485.0**	**1,555.7**	**1,751.8**

	Attributable to equity holders of the Finance Company								
2021	**Share capital**	**Share premium**	**FVOCI reserve**	**Cash flow hedging reserve**	**Capital redemption reserve**	**Capital re-organisation reserve**	**Defined benefit pension reserve**	**Retained earnings**	**Total equity**
At 1 January 2021	0.9	332.1	-	-	-	-	-	(7.2)	**325.8**
Total comprehensive income for the year	-	-	-	-	-	-	-	50.6	**50.6**
Reserve reorganisation	-	(332.1)	-	-	-	-	-	332.1	**-**
At 31 December 2021	**0.9**	**-**	**-**	**-**	**-**	**-**	**-**	**375.5**	**376.4**

	Attributable to equity holders of the Finance Group								
2020	**Share capital**	**Share premium**	**FVOCI reserve**	**Cash flow hedging reserve**	**Capital redemption reserve**	**Capital re-organisation reserve**	**Defined benefit pension reserve**	**Retained earnings**	**Total equity**
At 1 January 2020	0.9	332.1	4.1	16.7	410.0	2,109.5	443.4	(1,704.9)	1,611.8
Total comprehensive income/(expense) for the year	-	-	0.7	5.8	-	-	(48.3)	(95.7)	(137.5)
At 31 December 2020	0.9	332.1	4.8	22.5	410.0	2,109.5	395.1	(1,800.6)	1,474.3

	Attributable to equity holders of the Finance Company								
2020	**Share capital**	**Share premium**	**FVOCI reserve**	**Cash flow hedging reserve**	**Capital redemption reserve**	**Capital re-organisation reserve**	**Defined benefit pension reserve**	**Retained earnings**	**Total equity**
At 1 January 2020	0.9	332.1	-	-	-	-	-	(2.4)	330.6
Total comprehensive expense for the year	-	-	-	-	-	-	-	(4.8)	(4.8)
At 31 December 2020	0.9	332.1	-	-	-	-	-	(7.2)	325.8

The notes on pages 256 to 261 form part of these consolidated Finance Group financial statements.

All amounts are stated in £m unless otherwise indicated.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The Co-operative Bank Finance p.l.c. (the "Finance Company") was incorporated in the UK and is a limited company registered in England and Wales.

The consolidated and individual financial statements of the Finance Company and its subsidiaries (together, the "Finance Group") have been prepared under the historic cost convention as modified by the revaluation of items held at fair value through other comprehensive income, derivative contracts, investment properties and certain other fair value instruments held at fair value through profit or loss and approved by the Directors in accordance with UK adopted international accounting standards and, as regards the Finance Company financial statements, in accordance with the provisions of the Companies Act 2006.

Accounting policies outlined in note 1 of the Group and Bank consolidated financial statements and the explanatory information on pages 262 to 271 also apply to the Finance Group and Finance Company.

Critical judgements and key estimation uncertainty
The preparation of financial information requires management to make judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The critical judgements and estimates for the Finance Group are the same as those set out in note 2 of the Group and Bank consolidated financial statements. The critical judgements set out below are relevant to the Finance Company only.

Impairment of investment in subsidiaries
The carrying value of Finance Company's investment in Bank Company at 31 December 2021 was £333.0m (2020: £333.0m).

Management have performed an assessment of indicators of impairment including a review of the 2021 performance and forecast performance of the Bank Company. The conclusion of this review was that the Finance Company's investment in the Bank Company was not impaired.

Impairment of amounts due from Bank Company
Amounts due from Bank Company comprise the internal MREL debt relating to the external MREL-qualifying Tier 2 and senior unsecured debt, which are held at FVTPL and as such are not considered for ECL.

2. NET PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE FINANCE COMPANY

On including the Finance Company financial statements here together with the consolidated Finance Group financial statements, the Finance Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these financial statements.

3. CASH AND BALANCES AT CENTRAL BANKS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 12 of the Group and Bank consolidated financial statements.

4. LOANS AND ADVANCES TO BANKS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 13 of the Group and Bank consolidated financial statements.

5. LOANS AND ADVANCES TO CUSTOMERS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 14 of the Group and Bank consolidated financial statements.

6. INVESTMENT SECURITIES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 15 of the Group and Bank consolidated financial statements.

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 16 of the Group and Bank consolidated financial statements.

8. EQUITY SHARES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 17 of the Group and Bank consolidated financial statements.

9. INVESTMENTS IN SUBSIDIARIES/GROUP UNDERTAKINGS

	Finance Company	
	2021	2020
At the beginning of the year	**333.0**	333.0
Additions in the year	**-**	-
At the end of the year	**333.0**	333.0

At 31 December 2021, the Finance Company owned 100% of the share capital of The Co-operative Bank p.l.c.

The Co-operative Bank p.l.c. has a number of subsidiary companies of its own, details of which are outlined in note 23 of the Bank Company financial statements.

10. OTHER ASSETS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 18 of the Group and Bank consolidated financial statements.

11. PREPAYMENTS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 19 of the Group and Bank consolidated financial statements.

12. PROPERTY, PLANT AND EQUIPMENT

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 20 of the Group and Bank consolidated financial statements.

13. INTANGIBLE ASSETS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 21 of the Group and Bank consolidated financial statements.

14. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 22 of the Group and Bank consolidated financial statements.

15. DEPOSITS BY BANKS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 23 of the Group and Bank consolidated financial statements.

16. DEBT SECURITIES IN ISSUE

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 24 of the Group and Bank consolidated financial statements.

17. OTHER BORROWED FUNDS

	Finance Group		Finance Company	
	2021	2020	2021	2020
Fixed rate subordinated notes	**400.0**	400.0	**400.0**	400.0
Issue costs	**(3.0)**	(4.1)	**-**	-
Accrued interest	**5.3**	5.3	**5.3**	5.3
Fair value hedge accounting adjustment	**(0.2)**	7.0	**-**	-
	402.1	408.2	**405.3**	405.3

Other borrowed funds comprise:

- £200m of MREL-qualifying Tier 2 notes issued in April 2019. These are fixed rate reset callable subordinated notes. These notes have contractual maturity of 25 April 2029, an optional call date of 25 April 2024 with a coupon of 9.5% and are listed on the London Stock Exchange.
- £200m of MREL-qualifying fixed rate reset callable senior unsecured debt issued in November 2020 to meet the Group's Minimum Requirements for own funds and Eligible Liabilities. These notes:
  i. Are direct, unconditional, unsecured and unsubordinated obligations of the Issuer and will rank pari passu without any preference among themselves and, in the event of a winding-up, will rank pari passu with all other present and future unsecured and unsubordinated obligations of the Bank;
  ii. Have a contractual maturity of 27 November 2025, an optional call date of 27 November 2024 and a coupon of 9% which will reset at the optional call date; and
  iii. Are listed on the London Stock Exchange.

Issue costs are borne by Bank Company as the regulated entity subject to MREL requirements and therefore are not included in the Finance Company carrying value of other borrowed funds. The fair value hedge accounting adjustment is not included in the carrying value of other borrowed funds in the Finance Company as it is Bank Company that has entered into the related interest rate swap.

18. OTHER LIABILITIES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 26 of the Group and Bank consolidated financial statements.

19. ACCRUALS AND DEFERRED INCOME

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 27 of the Group and Bank consolidated financial statements.

20. PROVISIONS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 28 of the Group and Bank consolidated financial statements.

21. DEFERRED TAX

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 29 of the Group and Bank consolidated financial statements.

22. RETIREMENT BENEFITS

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 30 of the Group and Bank consolidated financial statements.

23. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES

The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group, Bank and the Finance Group, we refer to the disclosures in note 31 of the Group and Bank consolidated financial statements.

24. SHARE CAPITAL

	Finance Group and Finance Company			
	2021		2020	
	No. of shares (millions)	Value	No. of shares (millions)	Value
Share capital allotted, called up and fully paid				
At the beginning and end of the year	**9,029.1**	**0.9**	9,029.1	0.9
Share premium account				
At the beginning of the year		**332.1**		332.1
Reserve reorganisation		**(332.1)**		-
At the end of the year		**-**		332.1

25. OTHER RESERVES

	Finance Group	
	2021	2020
Fair value through other comprehensive income reserve	**2.9**	4.8
Cash flow hedging reserve	**14.7**	22.5
Capital redemption reserve	**-**	410.0
Capital re-organisation reserve	**(307.4)**	2,109.5
Defined benefit pension reserve	**485.0**	395.1
	195.2	2,941.9

For details on the reserves movement, refer to note 33 of the Group and Bank consolidated financial statements.

26. RELATED PARTY TRANSACTIONS

Parent, subsidiary and ultimate controlling party
The ultimate parent undertaking of the Finance Group is The Co-operative Bank Holdings Limited. On 11 February 2019, The Co-operative Bank Finance p.l.c. became the immediate parent of the Bank Company with Holding Company remaining the ultimate parent company of the Bank Company.

The subsidiaries of The Co-operative Bank p.l.c. as detailed in note 23 of the Bank Company financial statements, and all Directors and key management personnel of the Group, are also considered to be related parties of the Holding Company (further details are available in note 32 to the consolidated Group and Bank financial statements and note 25 of the Bank Company financial statements).

Amounts owed by Bank Company
Amounts owed by Bank Company comprise the internal MREL debt related to the external MREL-qualifying Tier 2 and senior unsecured debt. The terms of the internal MREL are equivalent to those of the external MREL-qualifying Tier 2 and senior unsecured debt. The carrying value of the amount owed by Bank Company comprises the following:

	Finance Company	
	2021	2020
Fixed rate subordinated notes at par value	**400.0**	400.0
Accrued interest	**5.3**	5.3
Fair value of the internal loan	**43.4**	(7.2)
	448.7	398.1

27. ANALYSIS OF CREDIT RISK EXPOSURE

Finance Group
The Directors have considered the information disclosed in the consolidated financial statements of the Bank Company and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Bank Company and the Finance Group, we refer to the disclosures in note 27 of the Bank Company financial statements.

Finance Company
Amounts due from Bank Company comprise the internal MREL debt relating to the external MREL-qualifying Tier 2 and senior unsecured debt, which are held at FVTPL and as such are not considered for ECL. The fair value of internal MREL-qualifying instruments is disclosed in note 28 below.

28. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Finance Group
The Directors have considered the information disclosed in the consolidated financial statements of the Group and Bank and consider the same information to be relevant for the Finance Group. Accordingly, since there is no difference in relation to the Group and the Finance Group, we refer to the disclosures in note 35 of the Group and Bank consolidated financial statements.

Finance Company
The amount due from Bank Company was carried at fair value through profit and loss with a value of £448.7m as at 31 December 2021. The valuation technique employed for this financial asset is as described in note 35 of the Group and Bank consolidated financial statements. This instrument is level 2 under the fair value hierarchy and did not transfer to another level during the year. The fair value disclosures for the other borrowed funds are identical to those set out in note 35 of the Group and Bank consolidated financial statements.

29. EVENTS AFTER THE BALANCE SHEET DATE

For Finance Group events after the balance sheet date, refer to note 37 of the Group and Bank consolidated financial statements. For Finance Company there are no post balance sheet events to report.

Explanatory Information

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1. Significant accounting policies

The accounting policies referred to as applicable to the Group are equally applicable to the Bank, the Bank Company, the Holding Company, the Finance Group and the Finance Company.

1.1 Basis of consolidation

a) Subsidiaries

Subsidiaries are all entities (including structured entities) controlled by the Holding Company, Bank Company or Finance Company. Control exists whenever the Holding Company, Bank Company or Finance Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, in accordance with the requirements of IFRS 10 (Consolidated Financial Statements). In assessing control, potential voting rights that presently are exercisable are taken into account. The financial information of subsidiaries is included in the consolidated financial information from the date that control commences until the date that control ceases.

The financial information has been prepared using consistent accounting policies and applied at the reporting date of the Group, Bank and Finance Group. Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial information.

b) Interests in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Interests in joint ventures are accounted for using the equity method. The consolidated financial information includes the proportionate share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies.

c) Interests in unconsolidated structured entities

Unconsolidated structured entities are unconsolidated entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities are not consolidated where it is determined with due regard to the variable returns from the structured entity and the ability to affect those returns, that the structured entity is not controlled under IFRS 10 considerations. The Group acts as a sponsor for certain unconsolidated securitisation vehicle holding companies which it neither owns nor controls. The Group has determined itself a sponsor of unconsolidated securitisation vehicle companies if it does not have a material ongoing interest in the entity, but it may act to protect its reputation in relation to the structured entity.

1.2 Revenue recognition

a) Interest income and expense

Interest income and expense on financial instruments measured at amortised cost or fair value through other comprehensive income (FVOCI) is recorded within net interest income and recognised on an Effective Interest Rate (EIR) basis except for:

- Purchased or originated credit impaired assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset; and
- Financial assets which are not purchased or originated credit impaired assets but have become credit impaired (reside within stage 3), for which interest income is calculated by applying the EIR to their amortised cost (i.e. net of the expected credit loss provision).

The EIR basis is inclusive of directly attributable origination and incremental transaction costs and fees including arrangement and broker fees, valuation and solicitor costs, discounts and premiums where appropriate. Commitment fees received are deferred and included in the EIR calculation upon completion or taken in full at the date the commitment period expires and completion does not occur. Early redemption charges are recognised on a cash basis as received, as it is not possible to reliably estimate the receipt of such fees.

Interest income and expense on financial instruments managed on a fair value basis or mandatorily measured at FVTPL is recorded within other interest and similar income.

b) Fees and commissions

Fee and commission income is predominantly made up of arrangement fees for loans and advances (not included in the EIR), account servicing and card fees. All fee and commission income is recognised on a point-in-time basis as the performance obligation is satisfied at the time the fees are charged. There are no future performance obligations or variable considerations involved per the contracts.

The Group acts as principal in the majority of contracts with customers, with the exception of the following contracts where the Group acts as agent:

- Funeral care and insurance services – Income is recognised net of fees payable to other parties in the arrangement; and
- Certain personal lending transactions where the Group acts as agent – Income is received and recognised on a net basis.

The Group offers cash back incentives on certain credit card arrangements and treats them as an expense. These arrangements do not provide customers with a separate performance obligation or a material/significant right in advance, or constitute part of a contract.

c) Dividend income

Dividend income is recognised when the right to receive the payment is established, which is generally when the Directors approve the dividend as final. Interim dividends are recognised in the income statement when the dividend is paid.

1.3 Financial instruments

a) Recognition

Financial assets and financial liabilities are initially recognised in the balance sheet at fair value when the Group becomes party to the contractual provisions of the instrument:

- Loans and advances are initially recognised when they are advanced to customers;
- Deposits, debt securities issued and other borrowed funds are recognised on the date at which they are originated; and
- Regular way purchases and sales of financial assets are recognised on the trade date at which the commitment to purchase or sell the asset is made.

Subsequently, financial instruments are classified as follows: amortised cost, fair value through profit or loss, or fair value through other comprehensive income.

b) Financial instruments measured at amortised cost

Financial assets measured at amortised cost are those for which the business model objective is to hold to collect the contractual cash flows, and the contractual cash flows are solely payments of principal and interest (SPPI). Such financial assets are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Unless designated at FVTPL, the classification and subsequent measurement of the financial asset is based on the business model and contractual cash flows of the asset.

The IFRS 9 business models reflect how financial assets are managed in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Factors considered in determining the business model for a group of assets include both past experience and future plans for these assets.

Solely payments of principal and interest are those consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risk (including liquidity risk), costs (including administrative costs) and a profit margin that is consistent with a basic lending arrangement. If the SPPI contractual cash flow test is not passed, then the related financial asset is measured at fair value through profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

Amortised cost is the default category for financial liabilities.

Amortised cost financial instruments are subsequently measured at the amount at which the financial instrument was measured at initial recognition, less principal repayments, plus or minus the cumulative amortisation using the effective interest method of the difference between that initial amount and the maturity amount and adjusted for any loss allowance.

c) Financial instruments designated at FVTPL

Financial instruments may be designated at FVTPL, however this irrevocable decision must be applied at inception. Financial instruments are classified in this category if they meet one or more of the criteria set out below:

- Designation removes or significantly reduces an accounting mismatch;
- The financial instrument is part of a group of financial assets and liabilities or a group of financial liabilities managed and performance evaluated on a fair value basis; or
- The financial liability contains one or more non-closely related embedded derivatives.

The Group has designated a small portion of loans and advances to customers at FVTPL as by doing so significantly reduces an accounting mismatch.

Financial assets at fair value through profit or loss are subsequently measured at fair value. The fair value gains and losses for those debt instruments which have not been designated with a hedge accounting relationship are recognised within the income statement for the year and recorded within other operating income/(expense) (net).

d) Financial instruments measured at FVTPL
FVTPL is the default category for financial assets. This category includes:
- The Surrendered Loss Debtor and investment securities which fail the contractual cash flow test; and
- Equity instruments not designated as FVOCI.

Subsequent measurement is identical to that disclosed above for financial instruments designated at FVTPL.

e) Financial assets measured at FVOCI
Debt instrument financial assets measured at FVOCI are those for which the business model objective is hold to collect the contractual cash flows and sell, and the contractual cash flows of the financial asset are solely payments of principal and interest. FVOCI financial assets are subsequently measured at fair value, with movements in fair value being recognised in other comprehensive income, except for the recognition of impairment gains and losses, interest income and foreign exchange gains and losses on the debt instrument's amortised cost, which are recognised in the income statement.

When the debt instrument is derecognised, cumulative gains and losses previously recorded in other comprehensive income are reclassified from equity to the income statement and recognised in other operating income/(expense) (net).

An equity instrument may be designated irrevocably at fair value through other comprehensive income at inception. When this election is applied, cumulative gains and losses are recognised in other comprehensive income but are not transferred to profit or loss on derecognition of the equity instrument. The Group has made no such elections in respect of equity instruments.

f) Reclassifications
Debt instruments are only reclassified when the business model for managing such assets is changed. Such changes as a result of external or internal changes must be significant, demonstrable to external parties, and are expected to be rare in occurrence. Financial liabilities cannot be reclassified.

g) Sale and repurchase agreements
Securities sold subject to repurchase agreements (repos) are reclassified on the balance sheet as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the assets. The liability to the transferee is also included on the balance sheet, in deposits by banks. The difference between sale and repurchase price is accrued over the life of the agreements.

Securities purchased under agreements to re-sell (reverse repos) are classified as loans and advances to banks on the balance sheet, as appropriate.

h) Derivative financial instruments and hedge accounting
Derivatives are used to hedge interest and exchange rate exposures related to non-trading positions. Instruments used for hedging purposes include swaps, forward rate agreements, options and combinations of these instruments.

Derivative financial instruments are stated at fair value using valuation techniques such as discounted cash flow models. All derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative. The gain or loss on remeasurement to fair value is recognised immediately in the income statement except where derivatives qualify for cash flow hedge accounting.

The IAS 39 Financial Instruments criteria for documentation and hedge effectiveness are required to be met where the Group applies hedge accounting. The Group applies hedge accounting under the UK-endorsed version of IAS 39.

i. Cash flow hedges
Where derivatives are designated as hedges of the exposure to variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the portion of the fair value gain or loss on the derivative that is determined to be an effective hedge is recognised directly in equity. The ineffective part of any gain or loss is recognised in the income statement immediately.

The accumulated gains and losses recognised in equity are reclassified to the income statement in the periods in which the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised at that time remains in equity until the forecast transaction is eventually recognised in the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately reclassified to the income statement.

ii. Fair value hedges

Where a derivative is designated as the hedging instrument to hedge the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the value of the derivative are recognised immediately in the income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk. Fair values are based on quoted market prices in active markets or, where these are not available, using valuation techniques such as discounted cash flow models. If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is prospectively discontinued. Any adjustment up to that point, to a hedged item for which the EIR method is used, is amortised to profit or loss as part of the recalculated EIR of the item over its remaining life.

iii. Fair value hedge accounting for a portfolio hedge of interest rate risk

As part of the risk management process, portfolios are identified where interest rate risk is to be hedged. The portfolios may comprise only assets, only liabilities or both assets and liabilities. Each portfolio is analysed into repricing time periods based on expected repricing dates, by scheduling cash flows into the periods in which they are expected to occur.

Using this analysis, the percentage to hedge is decided and designated as the hedged item is an amount of assets or liabilities from each portfolio equal to this.

The change in fair value of the portfolio relating to the risk that is being hedged is measured monthly. Provided that the hedge has been highly effective, the change in fair value for the hedged risk of each hedged item is recognised in the income statement with the cumulative movement in its value being shown on the balance sheet as a separate item, fair value adjustment for hedged risk, either within assets or liabilities as appropriate. If the hedge no longer meets the criteria for hedge accounting, this amount is amortised to the income statement over the remaining useful life of the hedged item on an appropriate basis.

The fair value of each hedging instrument is measured and this is included in derivative financial instruments in either assets or liabilities as appropriate, with the change in value recorded in the income statement. Any hedge ineffectiveness is recognised in the income statement as the difference between the change in fair value of the hedged item for the hedged risk and the change in fair value of the hedging instrument.

i) Embedded derivatives

A derivative may be embedded in another liability, known as the host contract. Where the economic characteristics and risks of an embedded derivative are not closely related to those of the host contract (and the host contract is not carried at fair value through profit or loss), the embedded derivative is separated from the host and held on-balance sheet at fair value. Movements in fair value are recognised in the income statement, whilst the host contract is accounted for according to the relevant accounting policy for that particular liability.

Embedded derivatives are not considered in the context of financial assets, with the classification and measurement of the entire instrument is instead based on the contractual terms of the financial asset and the related business model.

j) Impairment of financial assets

The below describes the Group's general accounting policies around the assessment of credit losses. Considerations around estimation uncertainty is discussed in further detail in note 2 to the Group's consolidated financial statements.

Under IFRS 9, the Expected Credit Loss (ECL) is assessed on a forward-looking basis for debt instruments carried at amortised cost and FVOCI, for exposures related to loan commitments, and for financial guarantee contracts. Credit risk is measured using probability of default (PD), the exposure at default (EAD) and loss given default (LGD).

Financial instruments are classified within stage 1 on initial recognition. If a significant increase in credit risk (SICR) since recognition is identified but the financial instrument is not credit impaired, then the financial instrument transitions to stage 2. A financial instrument transitions to stage 3 when it becomes credit impaired. Financial instruments within stage 1 have a loss allowance reflecting a 12 month ECL whereas financial instruments within stage 2 and 3 have a loss allowance reflecting a lifetime ECL. Financial instruments which are purchased or originated credit impaired attract a lifetime ECL until derecognition irrespective of staging criteria. For stage 3 assets, interest is calculated on balances net of any associated ECLs.

The expected life of a financial instrument is estimated based on the shorter of the contractual and behavioural life. For retail credit cards and corporate charge cards, expected life is based on the behavioural life with the contractual life applied to other portfolios.

i. Constitution of the expected credit loss provision

The ECL provision is calculated based on collective and individual assessments. Post-model adjustments (expert overlays) are applied to reflect risk characteristics for assets subject to collective provisioning but for which a specific risk characteristic is not captured within the collective models.

ii. Significant increase in credit risk (SICR)

A financial instrument is considered to have experienced a SICR since initial recognition when one or more quantitative or qualitative or backstop criteria have been met. The quantitative criterion is a PD based measure which varies based on a number of considerations, including product type, age and PD at origination, with a backstop of 30 days past due. Qualitative drivers of a significant increase in credit risk include exposures determined to be higher risk and subject to closer credit risk monitoring.

The 'low credit risk exemption' available within IFRS 9 applies to certain highly rated treasury assets, which the Group classifies as those that are rates as investment grade. Accordingly, at each balance sheet date, it is assumed that credit risk on all such financial assets has not increased significantly since initial recognition. The 'low credit risk exemption' has not been applied to any other type of financial asset.

iii. Definition of default and credit impaired financial instruments

The Group considers all defaulted instruments to be credit impaired and vice versa. Qualitative criteria applied in the definition of default include:

- Bankruptcy/insolvency for all portfolios;
- Certain types of forbearance and unlikeliness to pay factors for all portfolios except for Treasury; and
- Fraud, litigation/possession and term expiry for retail secured portfolios.

The Group uses the 90 days past due backstop for all portfolios in evaluating whether or not an instrument has defaulted, both for the purposes of ECL calculation and internal credit risk management. This includes the retail secured portfolio for which the regulatory definition of default is currently 180 days past due, however the regulatory and internal definitions will be aligned at 90 days past due from 1 Jan 2022 following the implementation of PRA policy statement PS11/20.

If an instrument does not meet the default criteria for a defined period of months (after a probationary period of 6-12 months) then an instrument is no longer considered to be in default. This period has been set with regard to the probability of an instrument returning to default status after cure.

iv. Calculation of the ECL

The ECL is calculated as the discounted multiple of PD, EAD and LGD, which are all based on historical analysis, adjusted for the future view of forward-looking macroeconomic information.

v. Incorporation of forward-looking information

ECLs are probability-weighted amounts, which are determined by evaluating a range of possible economic scenarios of varying probabilities in order to capture non-linearities and asymmetries within the ECL calculation:

- A base scenario, which is consistent with the economic forecasts used by the Group in its financial planning process, is determined by reference to a combination of the Bank of England (BoE)'s Monetary Policy Reports, HM Treasury consensus and expert judgement.
- Alternative scenarios, reflecting outlooks of differing severity or optimism, are modelled by the application of multipliers to base scenario forecasts and by reference to stress scenarios published by the BoE.
- The relative weighting of each scenario is determined by reference to probability-weighted distribution of economic forecasts published by the BoE in its Monetary Policy Reports.
- All scenarios and weightings are regularly benchmarked against available industry data.

Once the scenarios and weightings have been determined, ECLs are calculated by applying each scenario to the Group's ECL models and multiplying the result by the respective scenario weighting. The assessment of SICR is performed using the remaining lifetime PD under each scenario, multiplied by the scenario weighting, along with the qualitative and backstop indicators set out in ii) above.

This assessment determines whether the whole financial instrument should be in stage 1, 2 or 3 and consequently whether a weighted 12 month or a lifetime expected credit loss should be recognised. The Group may from time-to-time override model-derived staging with post-model adjustments where it considers the model output to understate (or overstate) the credit risk of a particular instrument (or portfolio of instruments).

The Group does not typically apply macroeconomic forecasts to individually-assessed ECL calculations due to the limited and very specific nature of these cases.

vi. Segmentation of portfolios

Financial assets are grouped together where ECL calculations are performed on a collective basis. Regression analysis has been performed to determine how financial assets should be grouped such that risk characteristics of assets within a group are homogeneous and the risk characteristics of each group are statistically significant to another.

vii. Write-off and recoveries

A write-off is made when all or part of a claim is deemed uncollectable or forgiven after all the possible collection procedures have been completed and the amount of loss has been determined. Write-offs are charged against previously established provisions for impairment. Any additional recoveries from borrowers, counterparties or other third parties made in future periods are offset against the write-off charge in the income statement once they are received.

viii. Modification

When renegotiating or otherwise modifying the contractual cash flows of loans to customers, e.g. by applying forbearance, the Group considers whether or not the new terms are substantially different to the original terms.
If the new terms are not substantially different to the original terms, the modification in contractual cash flows does not result in derecognition. The gain or loss on modification of the contractual cash flow associated with the recognition of the revised gross carrying amount is recognised in the income statement.

When the contractual cash flows of financial assets are renegotiated or otherwise modified and the new terms are substantially different to the original terms, the original asset is derecognised, and a new asset is recognised at fair value with a new EIR. At the date of recognition of the new asset, an assessment is made as to whether the asset was credit impaired on recognition. The difference between the carrying amount derecognised and that re-recognised is included in the income statement as a gain or loss on derecognition.

k) Derecognition of financial instruments

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

Collateral provided under standard repurchase agreements, securities lending and borrowing transactions is not derecognised because substantially all of the risks and rewards are retained on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Financial assets associated with certain internal securitisation transactions are not derecognised because the Bank Company retains substantially all of the risks and rewards on the transferred financial assets.

When a financial asset is derecognised in its entirety, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in the income statement.

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Any difference between the carrying amount of a financial liability derecognised and the consideration paid is recognised in the income statement.

1.4 Property, plant and equipment

Assets are recognised where there is substantial exposure to all the risks and rewards of those assets. Items of property, plant and equipment are stated at cost less any accumulated depreciation and impairment losses. Depreciation is recognised on a straight line basis at the following maximum default rates, which are estimated to reduce the assets to their realisable values at the end of their useful lives which is 40 years for long leasehold land and buildings, 10 years for freehold and leasehold improvements, 5 years for computers and other equipment, 10 years for furniture and equipment and the life of lease for short leasehold buildings.

All items of property, plant and equipment are reviewed for indications of impairment on a regular basis and at each balance sheet date. If impairment is indicated, the asset's recoverable amount (being the greater of fair value less cost to sell and value in use) is estimated. Value in use is calculated by discounting the future cash flows generated from the continuing use of the asset. If the carrying value of the asset is greater than the recoverable amount, the shortfall is recognised in the income statement.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal, less costs to sell, with the carrying amount and are recognised net within operating expenses in the income statement.

1.5 Intangible assets

Intangible assets (including those which are internally generated) are initially recognised when they are separable or arise from contractual or other legal rights, where it is probable that future economic benefits attributable to the assets will flow from their use and the cost can be measured reliably.

The cost of internally generated assets only include employee costs to the extent that they are directly attributable to the development of the identified asset (indirect and general overhead costs are excluded). Internally generated assets are amortised from the date which they become available for use.

Intangible assets are stated at cost less accumulated amortisation and provisions for impairment, if any, and are amortised over their useful lives, which is 3 to 9 years for computer software and 3 to 5 years for licences.

Intangible assets are reviewed for impairment when there are indications that impairment may have occurred.

1.6 Leases

a) Bank as a Lessee

At the commencement date, the right-of-use asset is measured at cost which comprises the amount of the initial measurement of the lease liability and an estimate of dismantling/restoration of the underlying asset. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability arising from a reassessment of lease term, revision to lease break assumptions or in-substance fixed lease repayments. The depreciation and impairment accounting policies applied to the right-of-use assets are consistent with those applied to the respective tangible asset categories.

The lease liability is measured initially at the present value of unpaid lease payments, excluding VAT. At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date (discounted at the Group's incremental borrowing rate).

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and adjusted to reflect any reassessment of lease term, revision to lease break assumptions or in-substance fixed lease repayments. The interest expense is recognised within interest expense and similar charges in the income statement.

The following accounting policy choices have been applied:

- The requirements of IFRS 16 have not been applied to leases of less than 12 months and those of low value (such costs are recognised on a straight line or other systematic basis);
- Lease liabilities are discounted at the Group's incremental borrowing rate; and
- Non-lease components are not separated from lease components within the lease liability.

b) Bank as Lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating. Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases.

1.7 Cash and cash equivalents

Cash and cash equivalents comprises cash balances and balances with a maturity of three months or less from the origination date, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

1.8 Income tax

a) Overview

Tax for the year comprises current and deferred tax, which is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in the statement of comprehensive income.

b) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

c) Deferred tax

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised and is supported by the Board-approved Financial Plan. Further information is included in note 2, sections 2.1.3 critical judgements and 2.2.4 key sources of estimation uncertainty.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.9 Retirement benefits

a) Defined contribution

A defined contribution (DC) scheme is a plan into which the Group and employees pay fixed contributions which are invested on their behalf by the trustee of the scheme. The Group has no legal or constructive obligation to pay any further contributions. The Group participates in the DC element of The Co-operative Pension Scheme (Pace DC), which is ring-fenced from the defined benefit section of the Pace scheme noted below. The cost of the employer contributions to the Group's DC plan is recognised as an expense in the income statement in the period in which they fall due.

b) Defined benefit

A defined benefit (DB) scheme is a pension plan that defines the amount of guaranteed pension benefit that an employee will receive on retirement based on a number of factors including the salary and years of service.

The assets of a DB scheme are included at their fair value and scheme liabilities are measured on an actuarial basis using the projected unit credit method in accordance with IAS 19 Employee Benefits (IAS 19). The liabilities are discounted to present value using rates equivalent to market yields on high-quality corporate bonds at the balance sheet date with terms to maturity approximating to the terms of the related pension liability. A high-quality corporate bond is usually taken to mean a bond that has been rated at the level of AA or equivalent status.

The Group's income statement includes the past service costs, net interest income or expense and scheme administration expenses. Past service costs represent the change in the present value of the defined benefit obligation arising from plan amendments or curtailment and are recognised when the plan amendment or curtailment occurs. Net interest income or expense is calculated by applying the discount rate at the beginning of the period to the net defined benefit asset or liability.

Remeasurements, comprising actuarial gains and losses, and the return on plan assets (excluding amounts included in net interest income or expense) are reflected immediately in the balance sheet with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurements relate to the effects of differences between previous actuarial assumptions and what has actually occurred, and changes in forward-looking actuarial assumptions. They will not subsequently be reclassified to profit and loss.

The Group's balance sheet includes the net scheme surplus or deficit, being the difference between the fair value of the schemes' assets and the present value of scheme liabilities at the balance sheet date. Surpluses are recognised as an asset to the extent the Group has an unconditional right under the scheme rules to reduced contributions in future or obtain refunds from the schemes in accordance with IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

1.10 Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that the grant will be received and the Group will comply with the conditions attached to it.

Government grants related to costs are deducted from the relevant costs to be compensated in the same period. Government grants to compensate for the cost of the assets are released to profit and loss within depreciation and amortisation expense over the expected useful life of the asset.

1.11 Foreign currency

The functional and presentational currency is pounds sterling. Transactions in foreign currencies are translated at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate prevailing at that date. Foreign currency differences arising on translation are recognised in the income statement, except for foreign currency differences arising on translation of FVOCI equity instruments or a qualifying cash flow hedge, which are recognised directly in the statement of other comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling at the exchange rates prevailing at the dates the values were determined.

1.12 Investments in subsidiaries and Group undertakings

Investments in subsidiaries are initially measured at cost and subsequently measured at cost less impairment.

1.13 Provisions

A provision is recognised in the balance sheet if there is a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate, if the expected future cash flows can be reliably estimated.

In the case of restructuring provisions, a constructive obligation arises when a plan is sufficiently detailed and is formalised and when the plan is deemed to have been communicated to relevant stakeholders impacted by the restructure. Restructuring provisions include only direct expenditure arising from the restructuring plan which is both necessary for restructuring and not associated with ongoing activities.

1.14 Share premium

Share premium is the amount by which the fair value of the consideration received exceeds the nominal value of shares issued. Expenses and commissions paid on the issue of shares are written off against the share premium of the same issue.

1.15 Netting arrangements

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to do so and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2. Standards and interpretations issued but not yet effective

Major new IFRSs: The IASB has published a new standard, IFRS 17 (Insurance Contracts). The new standard will require insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. The standard will become effective for reporting periods beginning on or after 1 January 2023, and is not yet endorsed by the UK Endorsement Board. The impact of the new standard has not yet been quantified but is not expected to have significant impact on the Group's financial position.

Other: The IASB has issued a number of other minor amendments to IFRSs due to take effect for periods commencing 1 Jan 2022 and 1 Jan 2023. The Group does not anticipate any of these amendments will have a significant impact on the Group.

Caution about forward-looking statements

This document contains forward-looking statements with respect to the business, strategy, plans and/or results of the Group and its current targets, goals and expectations relating to its future financial condition, performance, developments and/or prospects. Forward-looking statements sometimes use words such as 'may', 'will', 'seek', 'continue', 'aim', 'anticipate', 'target', 'projected', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'achieve', 'predict', 'should' or, in each case, their negative or other variations or comparable terminology, or by discussion of strategy, plans, objectives, goals, future events or intentions. Examples of such forward-looking statements include, without limitation, statements regarding the Group's future financial position and commitments in connection with the plan and other statements that are not historical facts, including statements about the Group's or its Directors' and/or management's beliefs and expectations.

Limitations inherent to forward-looking statements

The Group cautions readers that these forward-looking statements are not historical facts or guarantees of future performance and that actual results or other financial condition or performance measures could differ materially from those contained in the forward-looking statement. By their nature, forward-looking statements involve known and unknown risks and uncertainty because they are based on current plans, estimates, targets, projections, views and assumptions and are subject to significant inherent risks, uncertainties and other factors both external and internal relating to the Group's plan, strategy or operations that are beyond the Group's control, which may result in the Group being unable to achieve the current targets, predictions, expectations and other anticipated outcomes expressed or implied by these forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. Accordingly, undue reliance should not be placed on forward-looking statements.

Forward-looking statements speak only as at today

Any forward-looking statements made or contained in this Annual Report and Accounts speak only as of the date of this Annual Report and Accounts and it should not be assumed that they have been revised or updated in the light of new information of future events or circumstances arising after the date of these documents. Except as required by the Prudential Regulation Authority, the Financial Conduct Authority, the London Stock Exchange or applicable law, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in these documents as a result of new information or to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. The reader should, however, consider any additional disclosures that the Group has made or may make in documents it has published or may publish via the Regulatory News Service of the London Stock Exchange.

No offer of securities

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