The Co-operative Bank Holdings Limited, The Co-operative Bank p.l.c. and The Co-operative Bank Finance p.l.c. announce that the following document has today been submitted to the National Storage Mechanism and will shortly be available for inspection at:

https://data.fca.org.uk/#/nsm/nationalstoragemechanism

BASIS OF PRESENTATION

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

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

Statutory basis: Statutory information is set out on pages 135 to 266 within the published Annual Report and Accounts.
Underlying basis: The statutory results are adjusted to remove certain items that do not promote an understanding of historical or future trends of earnings or cash flows, which therefore allows a more meaningful comparison of the Group's underlying performance.
Alternative performance measures: The Group uses a number of alternative performance measures, including underlying profit or loss, in the discussion of its business performance and financial position.

2020 Annual Report and Accounts

25 February 2021

The Co-operative Bank ("the Bank") is pleased to provide an update on its performance in the 12 months ended 31 December 2020. The full Annual Report and Accounts, plus other supporting information can be found at the following link:

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

- Resilient financial performance, despite challenging environment
- Achieved or exceeded performance targets and on track against plan; updated guidance anticipates return to sustainable profitability from 2021 onwards
- Statutory loss before tax of £103.7m (down from £152.1m in 2019)
- CET1% of 19.2% and capital position reinforced; successfully issuing £200m MREL-qualifying debt in the fourth quarter of 2020
- High quality loan book with low-risk credit profile; asset quality ratio of 12bps
- Supporting customers through COVID-19, with growth in SME customers and strong residential mortgage lending:
  - Net core residential lending of £841m including new mortgage completions of £3.4bn
  - Net SME lending of £263m; including £253m Bounce Back Loans and £33m CBILS lending drawn down; now supporting over 90,000 small businesses
  - Granted over 20,500 payment deferrals to support customers with mortgage, loan and credit card payments
- Committed to positive environmental and social impact for over 25 years; beyond carbon neutral since 2007
- Part of executive pay to be linked to ESG targets from 2022 onwards

Nick Slape, Chief Executive Officer, said,

"Our priority has been to provide customers with the support and reassurance they have needed during this period and to navigate a challenging retail banking market and uncertain economic conditions. Thanks to the commitment and co-operative values of our colleagues, we end the year having delivered a resilient financial performance that is in line with our plan at this stage in our transformation, and having completed a number of key milestones including separation of IT systems from the Co-op Group, improved digital journeys for our customers, and the issuance of £200m of MREL-qualifying debt. We have met or exceeded the financial performance guidance targets we set ourselves in 2020 and our progress positions us well for a return to profitability in the near future and to continue supporting customers as we move through and beyond this global crisis.

"The performance in mortgages and the continued growth of our SME franchise has been particularly pleasing, with net residential lending up 5% at improved margins and our SME business going from strength to strength. The transformation of our SME banking business has attracted new customers, meaning we now support over 90,000 small businesses, many of whom are charities, non-profit organisations and co-operatives. We continue to improve the service we offer SME customers, delivering our Banking Competition Remedies (BCR) investment plan, with new credit card and savings products, and more to come in 2021, including a new mobile app and same day on-boarding for new customers.

"As we face into continued difficult times for many people and businesses, we remain committed to providing the support required as well as continuing to make a positive impact on the environment and the world around us. This matters now more than ever and we are proud of our record as a beyond carbon neutral bank since 2007, saying no to financing fossil fuels and companies with a poor environmental impact, together with the values and ethics of the co-operative movement that sit at our heart. As we look to the future, our commitment to ethical banking will remain central to our strategy, and we intend to link part of executive pay to ESG targets from 2022 onwards."

Resilient financial performance, despite challenging environment:

- Statutory loss before tax £103.7m (2019: £152.1m loss)
- Underlying loss £63.9m (2019: £19.7m loss); income generated in core segments lower than 2019 reflecting the challenging UK retail banking market conditions that have prevailed during the year, further exacerbated by COVID-19
- Customer net interest margin 1.46% (2019: 1.75%); driven by sustained mortgage margin pressure; higher margin mortgage lending in 2H20 has driven a recovery to 1.51% (1H20: 1.41%)
- Underlying cost:income ratio 114% (2019: 106%); continued management action on cost and ongoing simplification, strategic contract renegotiations, completion of IT separation and lower staff costs
- Impairment charge of £21.6m (2019: £2.5m release); largely due to the effects of COVID-19
- Lower levels of strategic change totalling £25.9m (2019: £96.6m); principally the result of concluding the 'fix the basics' stage of the strategic plan and conserving capital during uncertain times
- Continued progress to simplify the balance sheet; partial disposal of Visa Inc. preference shares, disposal of Optimum and post year end settlement of Surrendered Loss Debtor
- £19.9m exceptional restructuring costs incurred in 2020 include branch closure and redundancy costs; driving c.£20m annual savings, the majority of which will be seen in 2021

Capital position reinforced; options under consideration to deploy excess liquidity:

- CET1 ratio of 19.2% (2019: 19.6%)
- Total capital ratio of 23.7% (2019: 23.8%)
- Risk-weighted assets of £4.7bn (2019: £4.8bn); increase in balances is more than offset by the impact of the new secured IRB model
- LCR of 193.4% (2019: 173.7%); liquidity remains strong driven by increased customer balances and the drawdown of TFSME funding

Supporting our customers through COVID-19:

- Net core residential lending of £841m; helped over 11,000 customers buy a new home and completed over 11,000 remortgages
- Net SME lending of £263m; including £253m Bounce Back Loans and £33m CBILS lending
- Responded to changing customer needs including offering virtual appointments
- Our branches remained open for 99.9% of normal opening hours throughout 2020
- Retained 3rd place in the market for current account NPS
- Granted c. 20,500 payment deferrals to support retail customers with mortgage, loan and credit card payments

Committed to positive environmental and social impact for over 25 years:

- In 2020 we achieved zero waste to landfill for the first time
- We are already a carbon neutral bank and have been beyond carbon neutral since 2007
- We remain committed to continuing to source 100% of the Bank's electricity supply from renewables
- We remain committed to supporting co-operatives by providing free business banking co-operative sector; we will aim to increase the number of co-operatives we support by 14% in 2021
- We are dedicated to driving positive social change in our communities through our charity partnerships
- Every business banking application is screened against our customer-led Ethical Policy
- Our ESG commitments will be key to our bank strategy in 2021 and in the years ahead; part of executive pay to be linked to ESG targets from 2022 onwards

Outlook for 2021:

We have made significant progress against the milestones we outlined when the strategy was originally set at the end of 2018. In 2021 the Bank anticipates a return to profitability and provides guidance on the following measures:

- Customer NIM: 145-155bps: Recent strong mortgage margins supporting a stabilising customer NIM
- Cost:income ratio: 85-95%: Income growth and continued cost reduction
- Asset quality ratio: 10-15bps: Stable year-on-year
- Franchise investment: £45-50m: Cash spend to invest in our future
- CET1 ratio: 16-17%: Near-term reduction driven by RWA inflation from growth and economic assumptions. Impact of IRB model RWA inflation expected in 2022
- Customer assets: £19-20bn: Growth primarily through retail mortgages

INCOME STATEMENT (£m)

	12 months ended 30 December	
	2020	2019
Net interest income	266.9	310.0
Other operating income	40.4	48.9
Total income	307.3	358.9
Operating expenditure	(349.6)	(381.1)
Impairment	(21.6)	2.5
Underlying loss	(63.9)	(19.7)
Strategic change	(25.9)	(96.6)
Restructuring costs	(19.9)	-
Legacy net customer redress charge	(2.0)	(63.5)
Non-operating income	8.0	27.7
Statutory loss before tax	(103.7)	(152.1)
Tax	8.0	(0.9)
Statutory loss after tax	(95.7)	(153.0)

SEGMENTAL INFORMATION (£m)

	Core					
2020	Retail	SME	Treasury	Total	Legacy & unallocated	Group
Net interest income	236.8	41.2	(7.1)	270.9	(4.0)	266.9
Other operating income/(expense)	17.6	15.6	7.3	40.5	(0.1)	40.4
Operating income	254.4	56.8	0.2	311.4	(4.1)	307.3
Operating expenses						(349.6)
Net credit impairment (losses)/gains	(15.6)	(3.2)	0.0	(18.8)	(2.8)	(21.6)
Underlying loss						(63.9)

	Core					
2019	Retail	SME	Treasury	Total	Legacy & unallocated	Group
Net interest income	248.8	38.9	22.9	310.6	(0.6)	310.0
Other operating income/(expense)	13.6	16.6	15.4	45.6	3.3	48.9
Operating income	262.4	55.5	38.3	356.2	2.7	358.9
Operating expenses						(381.1)
Net credit impairment (losses)/gains	(1.6)	3.3	0.0	1.7	0.8	2.5
Underlying loss						(19.7)

Nick Slape (CEO) and Louise Britnell (CFO) will host a video conference on 25 February 2021 to present the full year 2020 results and a Q&A session at 2pm (UK time).
The video conference will be held via BlueJeans video conferencing.
To request access to the call please email investorrelations@co-operativebank.co.uk for the mandatory entry code and PIN.
Participants can join the conference via:

The BlueJeans app; available from your respective app store (video or audio)
Direct from a web browser at https://www.bluejeans.com (video or audio)
Or by calling +44 203 976 1937 (audio only)

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

Investor enquiries:
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PRIMARY FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

£million

	Year ended 31 December 2020	2019
Interest income calculated using the effective interest rate method	415.3	466.4
Other interest and similar income	(5.2)	18.1
Interest income and similar income	410.1	484.5
Interest expense and similar charges	(143.2)	(174.5)
Net interest income	266.9	310.0
Fee and commission income	56.5	66.3
Fee and commission expense	(33.0)	(45.6)
Net fee and commission income	23.5	20.7
Income from investments	0.3	0.7
Other operating income/(expense) (net)	24.6	55.2
Operating income	315.3	386.6
Operating expenses	(395.4)	(477.7)
Net customer redress charge	(2.0)	(63.5)
Total operating expenses	(397.4)	(541.2)
Operating loss before net credit impairment (losses)/gains	(82.1)	(154.6)
Net credit impairment (losses)/gains	(21.6)	2.5
Loss before taxation	(103.7)	(152.1)
Income tax	8.0	(0.9)
Loss for the financial year	(95.7)	(153.0)

The results above are for the consolidated Group and wholly relate to continuing activities. More information regarding the basis of preparation can be found in note 1 to the full Annual Report and Accounts, which have been made available on our website.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

£million

	Year ended 31 December 2020	2019
Loss for the financial year	(95.7)	(153.0)
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	(7.4)
Transfers from equity to income or expense	3.1	2.9
Income tax	(2.8)	1.2
Changes in fair value through other comprehensive income:		
Net changes in fair value recognised directly in equity	(20.5)	(51.6)
Transfers from equity to income or expense	22.3	39.2
Income tax	(1.1)	2.6
Items that may not subsequently be recycled to profit or loss:		
Changes in net retirement benefit asset:		
Defined benefit plans (losses)/gains for the year	(49.8)	37.6

Income tax	1.5	(9.7)
Other comprehensive (expense)/income for the financial year, net of income tax	(41.8)	14.8
Total comprehensive expense for the financial year	(137.5)	(138.2)

The results above are for the consolidated Group. More information regarding the basis of preparation can be found in note 1 to the full Annual Report and Accounts, which have been made available on our website.

CONSOLIDATED BALANCE SHEET

£million	31 December 2020	31 December 2019
Assets		
Cash and balances at central banks	3,877.8	2,153.5
Loans and advances to banks	536.2	474.3
Loans and advances to customers	18,682.5	17,918.4
Fair value adjustments for hedged risk	134.1	72.6
Investment securities	1,148.5	1,605.6
Derivative financial instruments	189.9	213.3
Property, plant and equipment classified as held-for-sale	0.3	0.8
Equity shares	22.1	44.5
Investment properties	1.9	1.8
Other assets	188.9	52.6
Prepayments	13.2	21.7
Property, plant and equipment	35.2	38.6
Intangible assets	63.4	75.3
Right-of-use assets	53.7	72.3
Net retirement benefit asset	651.8	690.2
Total assets	25,599.5	23,435.5
Liabilities		
Deposits by banks	2,066.4	1,143.7
Customer accounts	20,365.8	18,996.8
Debt securities in issue	728.8	867.5
Derivative financial instruments	340.1	288.0
Other liabilities	33.7	53.5
Accruals and deferred income	35.0	59.0
Provisions	46.4	87.4
Other borrowed funds	408.2	204.2
Amounts owed to Finance Company	-	-
Lease liabilities	53.6	71.2
Deferred tax liabilities	38.3	43.7
Net retirement benefit liability	8.8	8.6
Total liabilities	24,125.1	21,823.6
Capital and reserves attributable to the Group's equity holders		
Ordinary share capital	0.9	0.9
Share premium account	313.8	313.8
Retained earnings	(1,410.2)	(1,314.5)
Other reserves	2,569.9	2,611.7
Total equity	1,474.4	1,611.9
Total liabilities and equity	25,599.5	23,435.5

The financial positions above are for the consolidated Group. More information regarding the basis of preparation can be found in note 1 to the full Annual Report and Accounts, which have been made available on our website.

CONSOLIDATED STATEMENT OF CASH FLOWS

£million

	Year ended 31 December	
	2020	2019
Cash flows from/(used in) operating activities:		
Loss before taxation	(103.7)	(152.1)
Adjustments for non-cash movements:		
Non-cash movements on pension	(9.3)	(13.9)
Net credit impairment losses/(gains)	21.6	(2.5)
Depreciation, amortisation and impairment of property, plant and equipment, right-of-use assets and intangibles	40.2	42.8
Other non-cash movements including exchange rate movements	78.7	86.7
Changes in operating assets and liabilities:		
Increase/(decrease) in deposits by banks	922.7	(289.8)
Decrease in prepayments and accrued income	8.5	8.0
Decrease in accruals and deferred income	(24.0)	(4.0)
Increase in customer accounts	1,367.8	259.5
(Decrease)/increase in debt securities in issue	(143.9)	249.9
Decrease /(increase) in loans and advances to banks	6.7	(55.5)
Increase in loans and advances to customers	(813.1)	(210.3)
Net movement of other assets and other liabilities	(205.6)	(154.0)
Net cash flows from/(used in) in operating activities	1,146.6	(235.2)

Cash flows from investing activities:		
Purchase of tangible and intangible assets	(16.8)	(34.5)
Purchase of investment securities	(969.6)	(1,048.1)
Proceeds from sale of property, plant and equipment	2.6	5.9
Proceeds from sale of shares and other interests	38.6	13.2
Proceeds from sale and maturity of investment securities	1,422.5	1,363.2
Proceeds from sale of investment properties	-	0.5
Dividends received	0.3	0.7
Net cash flows from investing activities	477.6	300.9

Cash flows from financing activities:		
Proceeds from issuance of Tier 2 and senior unsecured debt (net of cost)	197.7	197.3
Interest paid on Tier 2 and senior unsecured debt	(19.0)	(9.5)
Lease liability principal payments	(10.0)	(10.8)
Net cash flows from financing activities	168.7	177.0
Net increase in cash and cash equivalents	1,792.9	242.7
Cash and cash equivalents at the beginning of the year	2,436.6	2,193.9
Cash and cash equivalents at the end of the year	4,229.5	2,436.6
Comprising of:		
Cash and balances at central banks	3,802.5	2,094.6
Loans and advances to banks	427.0	342.0
	4,229.5	2,436.6

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

£million

	2020	2019

	Lease liabilities	Other borrowed funds	Total	Lease liabilities	Other borrowed funds	Total
Balance at the beginning of the year	71.2	204.2	275.4	-	-	-
Changes from financing cash flows:						
Proceeds from issuance of Tier 2 and senior unsecured debt (net of cost)	-	197.7	197.7	-	197.3	197.3
Interest paid on Tier 2 and senior unsecured debt	-	(19.0)	(19.0)	-	(9.5)	(9.5)
Lease liability principal payments	(10.0)	-	(10.0)	(10.8)	-	(10.8)
	61.2	382.9	444.1	(10.8)	187.8	177.0
Other changes:						
Interest payable on lease liabilities, Tier 2 and senior unsecured debt	2.4	20.8	23.2	2.5	13.0	15.5
Other non-cash movements	-	4.5	4.5	-	3.4	3.4
(Derecognition)/recognition of lease liabilities	(10.0)	-	(10.0)	79.5	-	79.5
Balance at the end of the year	53.6	408.2	461.8	71.2	204.2	275.4

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

£million

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

2019	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 2019	0.9	313.8	13.9	20.0	410.0	1,737.5	415.5	(1,161.5)	1,750.1
Total comprehensive (expense)/income for the year	-	-	(9.8)	(3.3)	-	-	27.9	(153.0)	(138.2)
At 31 December 2019	0.9	313.8	4.1	16.7	410.0	1,737.5	443.4	(1,314.5)	1,611.9

SELECTED NOTES TO THE FINANCIAL STATEMENTS

All amounts are stated in £m unless otherwise indicated.

NOTE 1: SEGMENTAL INFORMATION

The Group provides a wide range of banking services within the UK. The Executive Committee (ExCo) has been determined to be the chief operating decision maker of the Group. The Group's operating segments reflect its organisational and management structures in place at the reporting date. The ExCo reviews information from internal reporting based on these segments in order to assess performance and to allocate resources. The segments are differentiated by whether the customers are individuals or corporate entities. The Group has identified three segments - Retail Banking, SME Business Banking and Treasury - as part of its core business.

	Core					
2020	Retail	SME	Treasury	Total	Legacy & unallocated	Group
Net interest income	236.8	41.2	(7.1)	270.9	(4.0)	266.9
Other operating income	17.6	15.6	7.3	40.5	(0.1)	40.4
Operating income	254.4	56.8	0.2	311.4	(4.1)	307.3
Net credit impairment losses	(15.6)	(3.2)	-	(18.8)	(2.8)	(21.6)
Operating expenses						(349.6)
Underlying loss						(63.9)

Strategic change	(25.9)
Restructuring programme	(19.9)
Legacy net customer redress charge	(2.0)
Surrendered Loss Debtor revaluation	-
Gain on shares revaluation	16.7
Gain on share sales	-
Covered bond premium expense	(5.2)
Loss on asset sales	(3.5)
Statutory loss before tax	(103.7)

	Core					
2019	Retail	SME	Treasury	Total	Legacy & unallocated	Group
Net interest income	248.8	38.9	22.9	310.6	(0.6)	310.0
Other operating income	13.6	16.6	15.4	45.6	3.3	48.9
Operating income	262.4	55.5	38.3	356.2	2.7	358.9
Net credit impairment (losses)/gains	(1.6)	3.3	-	1.7	0.8	2.5
Operating expenses						(381.1)
Underlying loss						(19.7)
Strategic change						(96.6)
Restructuring programme						-
Legacy net customer redress charge						(63.5)
Surrendered Loss Debtor revaluation						14.6
Gain on shares revaluation						18.1
Gain on share sales						3.1
Covered bond premium expense						-
Loss on asset sales						(8.1)
Statutory loss before tax						(152.1)

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

		Removal of:				
2020	IFRS statutory	Volatile items[1]	Strategic projects	Legacy customer redress charges	Non recurring[2]	Underlying basis
Net interest income	266.9	-	-	-	-	266.9
Other operating income/(expense)	48.4	(16.7)	-	-	8.7	40.4
Operating income	315.3	(16.7)	-	-	8.7	307.3
Operating expenses	(395.4)	-	25.9	-	19.9	(349.6)
Net customer redress charge	(2.0)	-	-	2.0	-	-
Net credit impairment losses	(21.6)	-	-	-	-	(21.6)
Statutory loss before tax	(103.7)	(16.7)	25.9	2.0	28.6	(63.9)

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) and the net loss recognised on the sale of Optimum mortgage assets (£3.5m).

		Removal of:				
2019	IFRS statutory	Volatile items[1]	Strategic projects	Legacy customer redress charges	Non recurring[2]	Underlying basis
Net interest income	310.0	-	-	-	-	310.0
Other operating income/(expense)	76.6	(32.7)	-	-	5.0	48.9
Operating income	386.6	(32.7)	-	-	5.0	358.9
Operating expenses	(477.7)	-	96.6	-	-	(381.1)
Net customer redress charge	(63.5)	-	-	63.5	-	-
Net credit impairment gains	2.5	-	-	-	-	2.5

Statutory loss before tax	(152.1)	(32.7)	96.6	63.5	5.0	(19.7)

1. Comprises the impact of the revaluation of the Surrendered Loss Debtor (£14.6m) and the revaluation gain on equity shares (£18.1m).
2. Comprises the net loss recognised on the sale of Optimum mortgage assets (£8.1m) partially offset by the gain on sale of Vocalink shares (£3.1m).

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

	Core					
2020	Retail	SME	Treasury	Total	Legacy & unallocated	Underlying basis
Segment assets	17,360.7	447.8	5,900.9	23,709.4	1,890.1	25,599.5
Segment liabilities	17,300.0	2,964.4	3,536.8	23,801.2	323.9	24,125.1

	Core					
2019	Retail	SME	Treasury	Total	Legacy & unallocated	Underlying basis
Segment assets	16,588.4	184.4	4,524.2	21,297.0	2,138.5	23,435.5
Segment liabilities	16,745.7	2,118.7	2,501.0	21,365.4	458.2	21,823.6

NOTE 2: RELATED PARTY TRANSACTIONS

Parent, subsidiary and ultimate controlling party

As at 31 December 2020, 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.

Certain funds managed by SP Coop Investments Ltd and Anchorage Illiquid Opportunities Offshore Master V L.P., collectively hold 35.3% of the Tier 2 and 13.2% of the senior unsecured debt issued by The Co-operative Bank Finance p.l.c. during 2019 and 2020. The contractual features of the senior unsecured debt are set out in note 25 to the full Annual Report and Accounts, which have been made available on our website.

Total interest paid for the year on the MREL-qualifying debt to certain funds managed by SP Coop Investments Ltd and Anchorage Illiquid Opportunities Offshore Master V L.P. was £6.7m (2019: £3.4m). At 31 December 2020, the total outstanding balance payable (including accrued interest) to these related parties was £98.2m (2019: £71.8m).

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 2020 in this regard was £408.2m (2019: £204.2m) including accrued interest. The interest paid by Bank Company to Finance Company on the internal MREL instrument was £20.8m.

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:

	2020	2019
Deposits and investments at the beginning of the year	1.1	0.6
Net movement	(0.6)	0.5
Deposits and investments at the end of the year	0.5	1.1

In addition, there were £0.4m (2019: £0.5m) relating to loans to key management personnel, arising in the normal course of business.

Key management personnel

	2020	2019
Total remuneration receivable by key management personnel	7.1	10.6

In 2020, the total number of key management personnel was 19 (2019: 25). Further information about the remuneration of senior management personnel and material risk takers is included in the Directors’ remuneration report in the full Annual Report and Accounts, which have been made available on our website.

NOTE 3: SIGNIFICANT EVENTS

£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.

NOTE 4: EVENTS AFTER THE BALANCE SHEET DATE

On 5 February 2021 the Group signed a deed of termination and settlement relating to the Surrendered Loss Debtor with the Co-op Group. Under the terms of the deed the Bank received full and final settlement of all amounts which were payable by the Co-op Group in relation to the tax losses surrendered in 2012 - 2013. The asset was settled at carrying value of £47.8m and no profit or loss was recorded.

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 Bank 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 Bank'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, Bank-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

It is clear that the COVID-19 pandemic has had a significant impact on the Group and may continue to present further risks and challenges in both the short and medium term.

In H1, we reviewed the principal risks in light of the COVID-19 pandemic and concluded that there were no changes to the nature of risks faced by the Group and therefore the list of principal risk categories remains unchanged. However, the COVID-19 pandemic creates additional challenges and increases the likelihood of the principal risks manifesting themselves given the external environment and the increased pressure on the internal processes to operate remotely. We have included detail on what we consider to be the most significant and emerging risks from a principal risk perspective in section 1.8.

To adapt to the unprecedented nature of the circumstances this year, the Group responded rapidly to fast-moving external changes whilst maintaining the fundamental principles and approach to risk management. The initial strategy to deal with the pandemic, which was underpinned by the objective of keeping our customers and colleagues safe, included intensive incident management to plan and respond to changes required to our procedures and operational activities. With restrictive social measures coming into effect in the regions worst affected by a 'second infection wave' in September, culminating in a second national lockdown in November and swiftly followed by the current national lockdown, the Bank has continued to adapt and operate in an agile way with the same objective in mind: to keep customers and colleagues safe.

Incident management teams closely monitor whether these procedural actions are effective, by the regular monitoring of early warning indicators and key metrics. The Group's response during 2020 to the risks posed by the COVID-19 pandemic included (but is not limited to):

- Implementing measures to support customers, including payment deferrals (including the implementation of payment deferral extensions), overdraft buffers, removal of late fees on certain products, participation in the CBILS and Bounce-Back loan scheme;
- Redeploying skilled colleagues to customer-facing roles to ensure that our customers can speak to us or visit us in branch when they need to;
- Operational changes to implement social distancing in our buildings or to support colleagues working from home where possible to ensure the safety of our colleagues and customers;
- Implementing additional monitoring activities (to complement – not replace – existing governance) in order to respond to the speed of change resulting from the COVID-19 pandemic. This ensures that key decisions are made in a controlled way, quickly and based on relevant information tailored to the current environment to allow the Group to continue to support its customers as the unprecedented conditions evolve;

- Updating our financial plan to reflect the significant changes to the market conditions in the UK banking industry and the wider UK economy, 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;
- 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; and
- Evaluating the basis of the Group's participation in the Term Funding Scheme with additional incentives for SMEs (TFSME) government scheme.

The recent development of a COVID-19 vaccine and the commencement of a nationwide vaccination programme have been encouraging, particularly in relation to the effect on market conditions in the short term. However, the duration and severity of the risks arising from COVID-19 are continuing to develop and are not yet fully crystallised; these remain potentially wide-ranging in impact across the financial services industry both in the short term and medium term. The Bank continues to assess risk factors both internally and externally such as the regulatory environment, the macroeconomic environment and the credit risk portfolio, which if deteriorated sufficiently and concurrently, could pose concerns to business model viability of many mid-tier banks.

1.2 Overview

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

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

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

1.3 Our Risk Management Framework (RMF)

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

1.4 Risk management strategy and appetite

The Board has primary responsibility for identifying the key business risks faced and approving the risk management strategy through the setting of risk appetite, which defines the type and amount of risk the firm 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 Bank; 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 Bank'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 Bank scorecard against which performance is measured.

The Bank 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.

1.6 Evolution of the RMF in 2020

The Bank 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 strategic plan. In an unprecedented year in which there have been major changes to colleagues' ways of working (with significant numbers of colleagues working from home and implementation of social distancing measures in front-line teams), the RMF has remained robust and fit for purpose.

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 Bank colleagues:

- 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;
- Internal training sessions promoted collaborative risk management across the Bank with focus on the role of the Risk Framework Owner;
- Continued targeted training delivered to specialist risk teams and colleagues with specific risk responsibilities across the three lines of defence to allow them to fully leverage the tools available to them within the RMF;
- Improvements to the way business as usual operational risks and operational risks arising from change and transformation are interlinked; and
- Improvements to key operational risk processes, for example, the risk acceptance process in order to drive further efficiencies.

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 Chief Executive Officer (CEO). The CEO has established the Executive Committee to assist in the management of the business and deliver against the approved strategic 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. In 2020, the Bank's Executive governance framework was reviewed and the following changes were made to the formal governance structure:

- Executive Risk Oversight Committee (EROC) now reports directly into the Risk Committee (RC), rather than the Executive Committee (ExCo), as a Tier 3 Committee;
- Product Governance Forum (PGF), Bank Design Authority (BDA) and a number of other forums reconstituted as the Product Architecture and Design Committee (PADCo);
- Removed Cost Management Committee (CMC) with all cost discussions included at the Operating Committee (OpCo); and
- Business Resilience Committee formed and reports directly to OpCo.

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

Each committee in the Bank'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)	The purpose of the Committee is to review and report its conclusions to the Board on the Bank's risk appetite and propose for approval by the Board and oversee the implementation of a Risk Management Framework, taking a forward-looking perspective and anticipating changes in business conditions.
Executive 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.
Executive Risk Oversight Committee (EROC)	EROC is responsible for oversight of the risk profile of the Bank (within the agreed Board risk appetite). The Committee reviews and challenges the risks associated with the Bank'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.
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 Bank's business model and strategies. MROC also provides oversight of the Bank's IRB permissions, including the exemptions where the Bank applies the Standardised Approach to calculate Pillar 1 capital requirements.
Credit Risk Oversight	CROC is responsible for monitoring significant credit risks and issues within the entire credit lifecycle, the controls and

Committee (CROC)	management actions being taken to mitigate them and to hold to account the Executives responsible for actions. CROC continuously 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 Bank 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.

CAPITAL RISK

Definition:

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

Key themes:

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 Bank'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. Despite all of these challenges, based on our revised economic forecasts the Bank anticipates sustainable profitability from 2021, which will allow organic capital growth.

The range of economic support packages brought out by the UK government (and implemented through the banking industry) earlier in the year to support the country through a series of national and local restrictive measures has provided essential support to our customers. More recently, the breakthrough COVID-19 vaccine and the start of a national vaccination rollout in the UK has had a positive effect on markets. Despite this, the Bank is mindful of the reducing level of government support to consumers and businesses and the low base rate environment as we progress through 2021.

MREL compliance - The introduction of the MREL framework in the UK requires the Bank to issue additional MREL-qualifying capital to meet future requirements. These capital issuances are subject to investor appetite in a challenging economic environment and therefore are subject to heightened execution risk. The Bank continues to erode CET1 capital resources as a result of losses and therefore expects to see a reduction in capital resources before it is able to generate organic capital.

In the fourth quarter of 2020, the Bank successfully completed a £200m MREL transaction which involved issuing £200m of debt, with the majority placed with third party investors. This issuance is in addition to the Bank's £200m Tier 2 issuance in 2019. Whilst the increased level of debt creates further downward pressure on its net interest income, this represents another significant step for the Bank in reaching future state MREL requirements and demonstrating capital resilience. The Bank is now well-positioned in the current uncertain economic environment, as we focus on providing the support our customers need and delivering our strategy to return to profitability.

In December 2020, acknowledging the challenges that have been faced by some banks in debt issuance and to enable the review of the leverage ratio framework to be taken into consideration, the BoE issued a discussion paper outlining their plans to undertake a review of MREL. As a result of this, the Bank's MREL requirements were delayed by one year to 1 January 2023, in line with other mid-tier banks.

Our shareholders continue to be supportive of our business, and we are committed to achieving any end-state MREL obligations. For planning purposes, we continue to work on the basis that the maximum MREL requirement will be applicable to the Group from 1 January 2023 and remain fully committed to meeting requirements. In the meantime, the Group will provide a response to the specific points raised in the discussion paper, which will be followed by a consultation in summer 2021 once responses to the discussion paper are collated and further progress has been made on the implementation of the UK leverage ratio framework.

ICAAP - The Bank received the results of its Internal Capital Adequacy Assessment Process (ICAAP) in the fourth quarter of 2020 which confirmed a reduction of the Bank's ICR by £48m (c.15%) to £266m, equivalent to a reduction of 0.99% of RWAs at December 2019. This reduction demonstrates the increasing robustness of the RMF and confidence in the way in which the Bank is managing its risks. The Bank is focussed on further reducing its risk profile and therefore its capital requirements in 2021.

Risk weighted assets - Our risk weighted assets (RWAs) at 31 December 2020 total £4,683.7m. RWAs reflect our risk adjusted assets factoring in probability of default, loss given default and exposure at default. This calculation is used to derive the capital requirement of the Bank. Increases in RWAs are driven either by increases in the underlying assets or increases in the risk weighting (or density) assigned to these assets. Our RWAs are expected to increase in 2021 due to economic uncertainty, increases in unemployment and HPI decline. In addition, regulatory change is expected to increase the Bank's secured RWAs, in particular PS11/20 (Credit Risk: Probability of Default and Loss Given Default estimation) and CP14/20 (Internal Ratings Based UK mortgage risk weights: Managing deficiencies in model risk capture) which are effective from 1 January 2022.

Pensions - There is a risk that further contributions could be required in relation to the defined benefit schemes. Where this arises due to pension fund risks, this is described under pension risk. However, this risk may also crystallise, despite a well-funded scheme, if the Bank and the trustees seek to pursue full risk transfer of liabilities, which is not considered likely in the short term.

Mitigating actions:
The Bank anticipates sustainable profitability from 2021, which will allow organic capital growth. This is reliant on successful implementation of the Bank's strategy which is subject to significant oversight and monitoring, including by the Board.

The Bank 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 Bank are overseen by the 2nd and 3rd lines of defence.

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

In line with many of our peers, our RWAs are expected to increase in 2021, reflecting the increased risk profile in light of the COVID-19 pandemic. The Bank manages its RWA position predominantly through its financial planning processes which consider any expected increases and the impacts these may have on capital adequacy.

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 Bank's Individual Capital Requirement (ICR) to a nominal amount. One of the most significant changes to the regulatory environment is the Basel III reform which has been delayed by 12 months as a result of the COVID-19 pandemic.

The following regulatory changes are upcoming:

- Basel III reform;
- Introduction of CRRII and CRDV; and
- Leverage ratio implementation.

Key indicators:
CET1 ratio – 2020: 19.2%(2019: 19.6%)
Total Capital Resources – 2020: £1,110.3m (2019: £1,144.9m)
Leverage ratio – 2020: 3.4% (2019: 3.9%)

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 on new or existing customers is key to the ongoing management of the Bank'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 Bank's strategy continues to focus on growth in new mortgage business volumes principally through mortgage intermediaries and is consequently exposed to risks relating to the relationships with such intermediaries. SME deposit balances in 2020 increased as a result of the Incentivised Switching Scheme, plus the improvements delivered through the use of the £15m grant from the Banking Competition Remedies (BCR). The SME business continues to offer significant future growth potential and continues to be a key cornerstone of the Bank's strategy. The financial health of our SME customers will continue to be closely monitored within the context of significant economic uncertainty in 2021 and beyond.

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 has effectively been masked from both an internal and external perspective. Alongside this, other government support measures such as the Coronavirus Job Retention Scheme have also been put in place, which potentially provide a temporary easing on the impact of the pandemic on unemployment and a challenge in undertaking affordability assessments.

Key risks in 2021 relate to the macroeconomic impacts from unemployment and house price movements. In addition, the ongoing uncertainty for many SME customers as a result of the pandemic is likely to impact many customers. These risks in turn will result in increased arrears across the portfolios, hence crystallising in increased losses to the Bank.

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. The Bank 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 Bank's underwriting team for manual review.

Whilst the housing market has remained relatively buoyant in 2020, somewhat supported by the stamp duty moratorium in place until March 2021, to protect against a potential downturn resulting from the consequences of the pandemic the Bank ceased offering 95% LTV lending at the end of March 2020.

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 new 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 customers that have made use of support measures such as payment deferrals cannot sustain their restarted payment, having built a temporary buffer during the six months of non-payment. So far, the Bank's secured and unsecured assets remain high quality, with arrears volumes rising only marginally. Of the total 20,523 mortgage and unsecured payment deferrals, 92% of the balances have resumed their repayment profile, 1% of balances are in arrears and 7% of the balances remain live. The volume of SME customers that drew down support from the CBILS and Bounce-Back loans schemes but will be unable to meet their payment obligations following the first 12 months is under close review as this poses an operational risk to the Bank.

Key indicators:

2020 impairment charge: £21.6m (2019: £(2.5)m release)
3 months in arrears: 0.14% (2019: 0.14%)

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 Bank's RMF. These sub-risks are focussed on individually in the commentary below. All sub-risks are subject to annual review and each risk is managed individually and in line with the Bank's RMF, including having individual risk framework owners, risk policies and control frameworks.

Key themes:

Operational risk levels remain elevated due to 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 Bank continues to focus on strengthening its systems and control environment by leveraging the RMF. The RMF was adapted through the early stages of the COVID-19 pandemic to enable quicker governance and create a register of temporary risk decisions due to the exceptional circumstances. This has demonstrated the maturity of the RMF to adapt and aid the Bank in times of crisis.

Anti-money laundering (AML) - The AML Bank scorecard position remains amber due to limitations across existing AML systems. Transaction monitoring effectiveness, provision of management information, AML system limitations and system testing are all key issues under management identified via the annual AML regulatory risk assessment in 2020. A transaction monitoring system working group was established and delivered key enhancements, improving the overall risk appetite measure for AML within the Bank. Enhancements to management information have been delivered throughout 2020 and will be enhanced further through system upgrades. System upgrades, along with migration of customer feeds, will remain a key focus into 2021 in order to drive enhanced AML controls which protect the Bank and its customers.

Government support schemes - As a result of the COVID-19 pandemic and economic uncertainty, we have reacted to our customers' need for payment deferrals and government-backed loan schemes. Particularly relevant for customers exiting payment deferrals, we have and will continue to support our customers with forbearance treatments to ensure they do not suffer harm and are treated fairly. The Bank has implemented and interpreted these customer support mechanisms in line with regulatory expectations and remained transparent with the FCA at all times.

For our SME customers who have accessed the Bounce-Back loans scheme, pay as you grow measures which were announced by the Chancellor in September 2020 include:

- Extending the length of the loan from six years to ten years;
- Making interest-only payments for six months, with the option to use this up to three times throughout the loan;
- Request a six-month repayment deferral once during the term of the loan; and
- Having the option to fully repay their loan early and facing no early repayment charges for doing so.

Acknowledging that the implementation of these measures will be challenging from an operational perspective, they provide essential flexibility during an incredibly tough period for many of our SME customers. The Bank is committed to ensuring these measures are implemented robustly and monitor any potential issues closely.

Fraud - Fraud losses have been a significant contributing factor to operational losses in 2020. Sophistication in scams to target customers to enable authorised push payment fraud continues to be a risk to fraud and operational loss. Improvements in controls are in plan and will be delivered through 2021, including a confirmation of payee solution to be delivered for retail which will mitigate risk in relation to some authorised push payment scams, the rollout of a PSD2 compliant card not present solution, enhancements to screening within payment fraud systems and a number of digital enhancements. There is also an increased risk of fraud in SME due to the Bank's participation in the Bounce-Back loans scheme. The controls the Bank has implemented for the Bounce-Back loans scheme align to industry and scheme standards and should mitigate the impacts of any fraud identified and potential loss to the Bank. The Bank is engaged in industry calls on this topic to track any issues that are raised by our peers and the position will be closely monitored through 2021. The Bank will continue to invest in controls to mitigate risk of fraud loss.

COVID-19 impact on our people - Staff absence and resourcing levels across the Bank have been impacted by the COVID-19 pandemic. Close monitoring of early warning indicators, such as daily absence reporting, is in place to monitor operational impacts. In addition, actions have been taken to increase the number of colleagues who are able to work from home.

Third party supplier management - The Bank continues to be dependent on suppliers to support or provide key bank services. This presents a heightened risk exposure due to the impact of the COVID-19 pandemic. The Bank has taken steps to ensure that its suppliers can continue to operate in the resultant challenging economic conditions.

Technology debt - As IT systems age, and support arrangements for those systems diminish, there are significant challenges in ensuring they remain fit for purpose from an availability and functionality perspective. As with many other organisations, the Bank is reliant in some areas on end-of-life IT systems to provide key services (meaning that there is limited or no support provided by the vendor or specialist third party supplier).

There are persistent risks to the Bank from cyber attacks due to an ever-evolving threat landscape. Current threats are from exposures through suppliers and as a result of technical debt. However, the Bank has an improving control position as evidenced by external benchmarking assessments undertaken on behalf of the Bank by specialist third parties. The cyber strategy is to attain a Cyber Maturity Framework benchmark that would position the Bank as among the best when compared to peer organisations.

Emerging risks:

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. In 2021 the regulator will issue new requirements as to how it expects financial institutions to demonstrate their operational resilience capabilities. The Bank will adopt the improvements made across business continuity and recovery to evidence compliance with regulator requirements with plans in place to address known gaps.

COVID-19 - As noted earlier in this section, it is expected that the various impacts of the COVID-19 pandemic will continue to affect our customers' physical and financial health, which is likely to have a knock-on impact onto the Bank's credit risk profile and capital position. From an operational risk perspective, the Bank will continue to monitor the impacts of COVID-19 on financial crime. The Bank will continue to monitor exposures and leverage the RMF to enable effective decision-making and provide robust governance.

Regulatory change - Further AML regulatory changes are expected throughout 2021, which aim to further strengthen the EU's attempts to combat money laundering and provide greater clarity and harmonisation across EU member states. The UK is likely to implement those changes post-Brexit to meet global standards. Implementation of a standalone UK financial sanctions framework and UK sanctions list became effective on 31 December 2020.

Other pieces of regulation on the horizon include:

- HMT Breathing Space (conduct risk)
- PSD2 – Card Not Present (payment risk)
- Climate Change (prudential risk)
- LIBOR to SONIA (conduct risk)
- PRA OCIR Updated Policy (prudential risk)

- FCA & PRA Building Operational Resilience: Impact Tolerances (prudential risk).

Mitigating actions:
Across the three lines of defence there has been ongoing management, oversight and reporting of key risks and controls. In addition, a combined assurance approach has been adopted for certain assurance activities across the three lines of defence to minimise impact on resource and maximise quality of reviews.

Management, oversight and reporting of risk uses a risk reporting system; the management of risk and controls is reflected within all colleagues' performance objectives and key measures of performance against the RMF are included in the Bank's scorecard.

Key indicators:
Analysis of operational net losses is disclosed in our Pillar 3 report (table 34). In the current year, 82.1% of net losses arose from external fraud (2019: 67.9%).

There are 13 sub-risks to operational risk, subject to annual review. Each risk is managed individually and in line with the Bank's RMF, including having individual risk framework owners, risk policies and control frameworks. Further information can be found in the full Annual Report and Accounts, which have been made available on our website.

LIQUIDITY AND FUNDING RISK

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

Key themes:
The Bank maintained a strong level of liquidity through 2020, against regulatory minimum but also recognising the potential for changes in customer profiles and market conditions given the uncertainties of COVID-19. The Bank of England liquidity support to the industry through TFSME has provided the Bank with an additional funding source to support its lending activities, funding profile and liquidity resources.

The Bank remains predominantly customer-funded, continuing to grow retail and SME franchise deposits. Customer behaviours and balances have remained relatively stable despite COVID-19 and other economic factors. Trends toward demand deposits, with reduced appetite for term products, continued in 2020, reflecting both historically low interest rates and higher average balances in response to COVID-19 spending patterns.

Wholesale funding comprises secured and unsecured debt issuances as well as participation in the Bank of England TFSME. The availability of TFSME reduced the Bank's wholesale funding activity in 2020, outside of required MREL issuance for capital purposes. Further funding actions sought to reduce future refinancing risks, through repayment of existing TFS funding and partial buyback of Moorland Covered Bonds notes.

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

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

Emerging risks:
Whilst the Bank's liquidity and funding position is strong, the Bank recognises that the continued market volatility relating to the COVID-19 pandemic and the ongoing impact of the UK's withdrawal from the EU may impact the level of liquidity and funding risk in the future. The impact of wholesale market conditions on the Bank's liquidity and funding position is limited, as TFSME remains available in 2021 and reduces the Bank's reliance on these external markets. The anticipated unwind of COVID-19 measures, including the Coronavirus Job Retention Scheme, payment deferrals and government business support loans, creates the potential for uncertainty in customer behaviour.

Key indicators:
Loan to deposit ratio: 91.6% (2019: 94.3%). The Bank's loan to deposit ratio is expected to move above 100% in 2021 as the Bank continues to draw down on TFSME funding to support positive net lending to our customers.
Primary liquidity resources: £4,099.4m (2019: £3,226.2m)
Liquidity Coverage Ratio: 193.4% (2019: 173.7%).

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 Bank'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 increased in 2020 as mortgage markets have been more volatile as a result of the COVID-19 pandemic, including impacts of lockdown periods and the stamp duty moratorium as well as underlying economic uncertainties. The introduction of various government support schemes and payment deferrals in 2020 has required actions to ensure market risk continues to be appropriately managed. Market conditions, with historically low interest rates as well as volatility in response to the COVID-19 pandemic and Brexit, have presented challenging conditions in which to manage the Bank's market risk exposures. In addition, the Bank has increasingly focussed on LIBOR to SONIA transition requirements.

Mitigating actions:
The Bank has a clear market risk framework with risk appetite limits in place to monitor and manage exposures and impacts of market movements. The Bank 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 2020, alongside increased monitoring and management of risks, to adapt to changing conditions and continue to appropriately manage the Bank's overall exposure to market risk.

Emerging risks:
The Bank recognises the potential for further volatility in market conditions, in response to ongoing COVID-19 developments and the continuing impact of the UK's withdrawal from the EU. Specific risks to be managed included the continued activity 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 stamp duty moratorium ends and mortgage markets and performance respond to underlying economic conditions.

Key indicators:
PV01: measures the sensitivity of future cashflows to a one basis point shift in interest rates.

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 Bank 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 Bank has obtained PRA approval for the majority of its redeveloped IRB models, including the Bank's secured models, which were implemented during 2020, representing a key milestone for the Bank. Subject to PRA approval of the credit card models, the remaining redeveloped models are planned for implementation in 2021.

The COVID-19 pandemic has presented unprecedented conditions that have proved challenging to model accurately, particularly in the case of the Bank's IFRS 9 models. The Bank has increasingly relied on the use of model adjustments to reflect these challenges. In addition, the effects of the COVID-19 pandemic on the suppression of defaults, related forbearance activity during 2020 and the anticipated future defaults arising from the macroeconomic effects of the pandemic during 2021 and beyond are likely to impact on the performance of key models and the potential for model recalibration or redevelopment.

Mitigating actions:
The Bank operates a robust model governance framework, including independent model validation of all models, including new models, as well as ongoing monitoring of model performance.

Key indicators:
N/A.

PENSION RISK

Definition:
Pension risk is defined as the risk to Bank 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 deficit.

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) and the funding position of both schemes remains strong. The Bank continues to assess the funding and accounting positions of both schemes, including any unexpected impact of COVID-19 with a particular focus on any potential erosion of capital resources due to additional funding requirements or changes in the IAS 19 accounting valuation.

Risks to the Bank arise from the valuation of each scheme on both the ‘funding basis’, a deterioration in which could give rise to additional cash contributions into the scheme, and the ‘accounting basis’ which could give rise to erosion of CET1 resources if the scheme is determined to be in deficit on the accounting basis. Risks may arise if actual experience differs from the assumptions employed in the actuarial 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. 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.

Mitigating actions:

The majority of the schemes’ inflation risk and interest rate risk are hedged through the investment strategy which is to invest in liability-driven instruments (LDI) and therefore minimise the overall volatility in the scheme. The Bank regularly monitors and stresses its pension scheme positions to understand potential 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 Bank’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 Bank’s plan that reputational risks are identified, managed and mitigated. The Bank continued to maintain a strong ‘customer first’ culture, responding to our customer’s 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.

The Bank has continued to win awards for customer service, improve external benchmark measures, including NPS, and remains the UK’s number one rated ethical bank.

The Bank occasionally experiences unfavourable media coverage and social media sentiment relating to matters such as speculation relating to the Bank’s ownership, decisions to close branches and digital outages.

The impact of the COVID-19 pandemic and how the banking industry transitions to ‘business as usual’ as temporary financial measures are unwound represents a key area of focus. Throughout the pandemic the Bank has maintained effective communications and dialogue with all its customers and regulators, which will continue throughout 2021.

Consumer groups and external stakeholders from time to time identify causes or individual customer examples that can result in media enquiries or coverage. The Bank takes its customer and ethical difference seriously, engaging transparently and openly with interested groups, the FOS and the FCA to ensure customers receive fair outcomes.

The Bank is taking steps to ensure climate change continues as a priority across its strategic activities.

Mitigating actions – including anything relevant from 2020:

An active dialogue has been maintained with all key stakeholders throughout the year. The Bank continues to invest in channel offerings, including enhancing digital capabilities allowing customers to bank more flexibly and at their own convenience. In addition, the Bank has been successful in launching a 100% electric mobile branch, providing services to customers across the customer base. Investing in technology to improve resilience has remained a focus, whilst utilising multiple communication channels to keep customers informed during outages.

The Bank signed up to the Contingent Reimbursement Model Code (CRM code), providing customers with the appropriate support in relation to the prevention and reimbursement of fraudulent activity. The Bank continues to educate customers creating awareness of authorised push payment (APP) scams and how to protect themselves.

Emerging risks:

The Bank continues to use the ‘co-operative’ name and attests to Co-operatives UK on an annual basis that co-operative values are embedded within the Bank. The Bank from time to time experiences external interest in its ownership and speculation about potential buyers which can generate negative media coverage; however, the Bank remains committed to its co-operative heritage and Ethical Policy, which are critical to the Bank’s strategic plan.

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 the Bank’s ongoing adherence to co-operative values.

1.9 Climate change risk

Introduction:

We are dedicated to ensuring that values and ethics are at the heart of our governance as a business. Our commitment to safeguarding the environment and promoting sustainable development have been central elements of our customer-led Ethical Policy for over 25 years.

As well as refusing to provide banking services to organisations that conflict with our customers' views on a comprehensive range of issues including the environment, we seek to support small businesses and organisations whose activities promote a healthy environment, including those involved in:

- Recycling and sustainable waste management;
- Renewable energy and energy efficiency;
- Sustainable natural products; and
- The pursuit of ecological sustainability.

Climate change is a real risk and we remain committed to ensuring we continue our track record as one of the leading voices in the industry at the forefront of supporting climate change initiatives. Culturally, the Board has a key role to play in setting the tone and building awareness for climate risk management, in addition to continuing to develop the Bank's existing ESG framework through its values and ethics. The Bank's Board and senior Executive teams are focussed on taking a strategic and long-term approach to considering how climate-related risks might impact all aspects of the Bank's risk profile.

Industry focus:

Climate change and the steps society is taking to respond to it present financial risks for banks, insurers and the broader financial system. In 2019, we saw climate change and its associated social impacts moving to the top of the global agenda, featuring heavily in the media and resonating in the mind of consumers. Particularly within the context of the UK government's pledge of nurturing a 'green economy' from the economic damage caused by the COVID-19 pandemic in 2020, it is clear that climate change remains at the top of the agenda for policymakers, consumers and businesses in the short and long term. To manage the risks of climate change, the PRA expects firms' boards and senior leaders to consider how climate-related risks might impact all aspects of their risk profiles and take action in specific areas, 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.

Whilst not included as a principal risk in its own right, the Bank recognises the significance of climate change on its risk profile and that it impacts the majority of principal risk categories including, but not limited to, credit and capital risk.

For instance, evaluations of certain climate change factors such as flood and coastal erosion risk undertaken on the retail credit risk portfolio could, in turn, influence credit risk exposures and subsequent calculation of capital requirements.

Approach to date:

The Bank has taken the following action to understanding and mitigating climate change risk:

- The Chief Risk Officer was assigned SMF responsibility for climate change 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.
- The Bank has established 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 Bank's risk profile and secondly to ensure a comprehensive implementation of the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). The Bank is committed to meeting end-state compliance with regulatory expectations by December 2021. The working group has been supplemented by the creation of four principal workstreams to address the key areas of focus:
    - Strategy and governance
    - Risk management
    - Scenario analysis
    - Disclosures

Financial impacts of climate change:

The financial impacts of climate change will arise through two main sources: i) physical risks and ii) transition risks.

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. There is an expectation from the PRA that they will see evidence from individual firms to identify and manage these risks and, in doing so, help to reduce the potential impact on their firm, its customers and the wider financial system.

The Bank periodically assesses the risks of exposure to flooding and coastal erosion in the mortgage portfolio. We will continue to evolve our approach and explore new ways to assess our credit exposures as more data and techniques become available.

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.

Protecting the environment and promoting sustainable development have always been cornerstones of our Ethical Policy. The Bank has been 'beyond carbon neutral' since 2007, offsetting our carbon emissions plus an additional 10% to cover historic emissions by supporting environmental projects across the world. The Bank also signed up to the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Responsible Banking in February 2020. The Principles provide the framework for a sustainable banking system and help the industry to demonstrate how it makes a positive contribution to society.

Our initial assessment identified that the types of business that will require support and assistance to transition to a low carbon economy are very similar to types of business to which we have refused to provide banking services, on the basis that their core activity contributes to global climate change via the extraction or production of fossil fuels (oil, coal, gas and shale gas), or where they are involved in the distribution of those fuels that have a higher global warming impact (e.g. tar sands and certain biofuels).

Whilst we believe we have less exposure to businesses with high carbon emissions than many of our peers, we will continue to assess the potential financial impacts from climate change and develop policies to support customers and manage the financial impacts in the transition to a low carbon economy.

END

FORWARD LOOKING STATEMENTS