Andrew Bester (CEO), Nick Slape (CFO) and Gareth Jones (CRO Designate) will host a video conference on 30 July 2020 to present the interim 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 portal which can be found at the following address:
www.co-operativebank.co.uk/investorrelations

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

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.

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 INTERIM FINANCIAL REPORT

The Co-operative Bank ("the Bank") is pleased to provide an update on its performance in the six months ended 30 June 2020. The full Interim Financial Report, can be found at the following link:
www.co-operativebank.co.uk/investorrelations/financialresults

- Resilient performance on track in a challenging environment
- As anticipated at this point in the turnaround plan, a continued underlying loss in 1H 20: statutory loss before tax £(44.6)m (1H 19: £(38.5)m)
- Supporting our customers through COVID-19: net residential lending of £360m and net SME lending of £136m; with total Core customer asset growth of 2.5% in 1H 20
- More small business customers attracted to the Bank with a 16% share of the incentivised switching scheme
- Continuing to deliver award-winning service through our people with purpose: current account customer satisfaction (NPS) of +25; retained 3rd place in market
- Due to adverse wholesale market conditions for the Bank, and our strong CET1 ratio, we delayed our plans to issue MREL-qualifying debt in 1H 20
- Committed to being compliant with our £550m end-state MREL requirements by January 2022. Next issuance targeted for 2H 20. Although, the potential for a further deterioration in the economic environment creates risk and material uncertainty over our plans to issue MREL to meet future regulatory requirements (as explained in note 1.2)
- Strong CET1 ratio of 18.2% and a low-risk mortgage book with average loan to value of 57%

Andrew Bester, Chief Executive Officer, said,

"I'm proud of the work of all colleagues in providing our customers with the reassurance and financial support they need in these difficult times.

"Whilst we have reported an underlying loss in this period, as expected in our plan, our franchise continues to show resilience, with positive growth in balances and new customer numbers. The significant progress made in transforming the Bank over the last few years means we entered this period of economic uncertainty in a position of resilience, with a strong CET1 ratio, strengthened IT infrastructure, and a low-risk credit book. In addition, our distinct ethical brand is resonating with customers at a time when community and co-operation have rightly had renewed importance for many people.

"However, this is a challenging market for all banks. Given the fall in the base rate to a historic low level in March, we have put in place a number of measures to reduce our operating costs and reprioritise our investment spend. This also means that issuing MREL-qualifying debt, an industry-wide regulatory requirement to build additional capital for the future, remains more challenging at the current time. We delayed our plans to issue MREL in the first half of 2020 due to adverse wholesale market conditions and because our strong CET1 ratio allowed us to do so. Nevertheless, we are committed to achieving our future MREL obligations by January 2022, with the first issuance targeted before the end of this year, and our shareholders continue to be supportive.

“Developing our small business banking service alongside our retail bank remains a priority and I’m delighted with the momentum we’ve achieved over the period, attracting new customers and a 16% share of the incentivised switching market. We are pleased to have been able to support c.6,000 business customers with Bounce Back loans and CBILS. More widely, customers have increased the deposits they hold with us over the period, and, whilst we supported over 18,000 customers with payment deferrals in the initial period of lockdown, only a small proportion have applied for an extension. All of this is indicative of our low-risk customer base and cautious customer behaviour as they plan ahead.

“Banks will continue to have an important role to play in continuing to keep the economy moving and more widely in supporting the communities around them. I am pleased with how we have played our part in responding to the emerging needs of our customers, in our support for our long-standing charity partners and for 55 small community organisations who perform such vital roles. The values and ethics of the co-operative movement are central to everything we do and we are committed to continuing to support as much as we can as the nation looks to recover from the effects of the pandemic.”

PERFORMANCE HIGHLIGHTS

Resilient financial performance with challenges ahead

- Statutory loss before tax £(44.6)m (1H 19: £(38.5)m)
- Underlying loss £(33.9)m (1H 19: £(2.3)m (restated))
- Customer net interest margin 1.41% (1H 19: 1.89% (restated))
- Underlying cost:income ratio 115% (1H 19: 101% (restated))
- Impairment charge of £11.2m primarily due to the impacts COVID-19 (1H 19 impairment charge: £0.1m)

Strong CET1 ratio and liquidity in unprecedented times:

- CET1 ratio of 18.2% (2019: 19.6%)
- Total capital ratio of 22.4% (2019: 23.8%)
- Risk-weighted assets of £5.0bn (2019: £4.8bn)
- LCR of 181.7% (2019: 173.7%), supported by strong deposit growth

Supporting our customers through COVID-19:

- Net residential lending of £360m and net SME lending of £136m; total core customer asset growth of 2.5% in 1H 20
- A range of measures introduced to help customers:
    - Over 16,000 mortgage payment deferrals approved by 30 June (c.11% of retail and c.22.6% of Optimum customers); of these customers 98% were up to date with payments in February before COVID-19; average Loan-to-Value of 60%. Currently (i.e. in July) those customers who have requested a second payment deferral account for only 1.8% of our mortgage book, which is c.15% of the initial payment deferral population
    - Over 2,700 payment deferrals approved for loans and credit cards by 30 June (c.6.8% of loans book and 0.5% of credit card book)
    - First bank to issue £500 authorised overdraft automatically interest free, now provided to over 348,000 customers
- All branches and contact centres are open, with colleagues adapting to serve customers safely

Continuing to deliver award-winning service through our people with purpose:

- Current account customer satisfaction (NPS) of +25; retained 3rd place in the market
- 42% of senior roles held by women
- Colleague engagement score of 82%, supplemented with more recent ‘pulse-check’ surveys indicating
    - 83% of colleagues feel positive about their well-being
    - 83% of colleagues prefer working from home

Making a difference in our communities and committed to tackling climate change:

- Supporting our many NHS worker customers, donating headsets to local GPs and care packages to local hospitals
- Working with our charity partner Refuge to support those impacted by domestic and financial abuse during lockdown
- £498k of charitable donations made in the period
- Confirmed signatory of UNEPFI Principles of Responsible Banking from February 2020
- Proud winner of the ‘Changing lives in the Community’ award at the UK Card & Payments Awards earlier in the year
- Beyond carbon neutral since 2007 and targeting zero waste to landfill by end-2020; we don’t provide banking services to businesses involved in fossil fuels production, environmentally harmful chemicals, or unsustainable harvest of natural resources

Outlook

The economic outlook is very uncertain and we expect challenging trading conditions for the foreseeable future. Accordingly, our focus will be to respond to and manage the impact of the economic challenges ahead, successfully issuing MREL resources with the support of our shareholders, and to continue to provide our customers with excellent service, whilst making a difference in our community.

In light of the significant changes in our operating environment, we now expect:

- Customer net interest margin to be c.1.40-1.45% in 2020, with the full year impact of the lower base rate environment in 2021 reducing margins further to c.1.35-1.40% before recovering, targeting c.1.70-1.80% at the end of the plan
- Underlying cost:income ratio of c.110-115% in 2020. In subsequent years, as a result of our ongoing simplification activities, we are targeting a ratio of c.100-105% in 2021 and, as income recovers post-COVID-19, c.65-75% by the end of the plan
- We aim to return to sustainable profitability in 2022 and in the meantime, our CET1 ratio reduces reflecting ongoing losses to c.16-17% in 2020, and c.13.5-14.5% in 2021 which is above regulatory minimum levels. As profitability is returned in 2022, CET1 levels thereafter are targeted to grow to c.19-20% at the end of the plan.

We are committed to being compliant with our end-state MREL requirements. We are targeting the issuance of approximately £550m of MREL-qualifying debt (if base case economic conditions prevail) before the end of 2021, with the first issuance planned to take place before the end of 2020.

The outlook will remain under review until there is more certainty around longer-term COVID-19 impacts. Our strategy drives a return to organic capital generation in 2022; the outlook may be adapted if required over the course of the planning period to preserve this aim
Any previous guidance or forward-looking information provided has been withdrawn.

Income statement – Underlying basis

	6 months ended 30 June	
	2020	2019
Retail	127.7	140.2
SME	28.1	27.7
Core customer income	155.8	167.9
Treasury	(5.5)	21.6
Total core income	150.3	189.5
Legacy and unallocated	(1.9)	1.5
Total income	148.4	191.0
Operating costs	(168.1)	(185.0)
Continuous improvement spend	(3.0)	(8.2)
Operating expenditure	(171.1)	(193.2)
Net credit impairment losses	(11.2)	(0.1)
Underlying loss	(33.9)	(2.3)

A reconciliation to the statutory loss before tax is included in note 3 below.

The basis of preparation for the income statement was updated in the second half of 2019 and accordingly the six months ended 30 June has been restated.

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About The Co-operative Bank

The Co-operative Bank p.l.c. provides a full range of banking products and services to about 3.5m retail and c.85k small and medium sized enterprises ("SME"). The Bank is committed to values and ethics in line with the principles of the co-operative movement. The Co-operative Bank is the only high street bank with a customer-led ethical policy, which gives customers a say in how their money is used. Launched in 1992, the Policy has been updated on five occasions, with new commitments added in January 2015 to cover how the Bank operates its business, products and services, workplace and culture, relationships with suppliers and other stakeholders and campaigning.

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

Note: all figures contained in this announcement are unaudited. This announcement contains inside information.

Note: this announcement reflects the content included in the Interim Financial Report accessible at:
www.co-operativebank.co.uk/investorrelations/financialresults
All page references given relate to the equivalent page in that Interim Financial Report.

INDEPENDENT REVIEW REPORT TO THE CO-OPERATIVE BANK HOLDINGS LIMITED

Introduction

We have been engaged by the Group to review the condensed set of financial statements in the Interim Financial Report for the six months ended 30 June 2020 which comprises the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Cashflows, Consolidated Statement of Changes in Equity and related notes 1 to 17. We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

The Interim Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Financial Report in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

As disclosed in note 1.1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this Interim Financial Report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Group a conclusion on the condensed set of financial statements in the Interim Financial Report based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Financial Report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Emphasis of matter - going concern

In forming our conclusion on the Interim Financial Report, which is unmodified, we have considered the adequacy of the disclosures made in note 1.2 of the Interim Financial Report concerning the Group's ability to continue as a going concern and the uncertainty surrounding the Group's ability to complete its MREL issuance programme in a reasonable timeframe, should the current unpredictable economic environment continue. Completion of the planned MREL issuance programme is required to maintain compliance with binding regulatory requirements. In light of COVID-19, the Group has updated the 2020 – 2024 multi-year plan ("the Plan") and is forecast to remain compliant with all binding regulatory and liquidity capital requirements during the going concern assessment period, but to temporarily use certain capital buffers, as permitted by the PRA.

The Directors have considered the key risks associated with the successful delivery of the Plan, and their consequential effects, in particular the effect on the Group's ability to maintain compliance with capital requirements as set out in the principal risks and uncertainties disclosures on pages 23 to 27. The Directors consider that the completion of the Group's MREL issuance programme in a reasonable timeframe, should the current unpredictable environment continue, represents a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

After making enquiries and considering the current forecasts, in particular those up to 31 July 2021, the Directors have a reasonable expectation that the Group will complete its MREL issuance programme and continue to have adequate resources to continue in business over the going concern period. For these reasons, they continue to adopt the going concern basis of accounting in preparing the Interim Financial Report.

Ernst & Young LLP
London
29 July 2020

CONDENSED CONSOLIDATED INCOME STATEMENT

£million

		Six months ended 30 June	
	Note	2020	2019
Interest income calculated using the effective interest rate method		207.2	237.6
Other interest and similar income		6.7	12.6
Interest income and similar income	4	213.9	250.2
Interest expense and similar charges	4	(86.5)	(82.3)
Net interest income		127.4	167.9
Fee and commission income		27.7	30.6
Fee and commission expense		(14.4)	(19.5)
Net fee and commission income		13.3	11.1
Other operating income (net)	5	12.0	31.0
Operating income		152.7	210.0
Operating expenses	6	(186.1)	(245.9)
Net customer redress charge	11	-	(2.5)
Total operating expenses		(186.1)	(248.4)
Operating loss before net credit impairment losses		(33.4)	(38.4)
Net credit impairment losses	8	(11.2)	(0.1)
Loss before taxation		(44.6)	(38.5)
Income tax	7	20.1	2.5
Loss for the period		(24.5)	(36.0)

The results above wholly relate to continuing activities.

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

The notes on pages 42 to 58 form part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

£million

	Six months ended 30 June 2020	2019
Loss for the period	(24.5)	(36.0)
Items that may be recycled to profit or loss:		
Changes in cash flow hedges:		
Net changes in fair value recognised directly in equity	14.4	3.7
Transfers from equity to income or expense	1.0	1.4
Income tax	(4.6)	(1.2)
Changes in fair value through other comprehensive income:		
Net changes in fair value recognised directly in equity	(25.0)	(33.8)
Transfers from equity to income or expense	24.3	30.0
Income tax	(0.1)	0.7
Items that may not subsequently be recycled to profit or loss:		
Changes in net retirement benefit asset:		
Defined benefit plans gains for the period	62.7	33.8
Income tax	(28.9)	(8.7)
Other comprehensive income for the period, net of income tax	43.8	25.9
Total comprehensive income/(expense) for the period	19.3	(10.1)

The notes on pages 42 to 58 form part of these interim condensed consolidated financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

£million

	Note	30 June 2020	31 December 2019
Assets			
Cash and balances at central banks		2,980.3	2,153.5
Loans and advances to banks		587.0	474.3
Loans and advances to customers	8	18,267.5	17,918.4
Fair value adjustments for hedged risk		157.1	72.6
Investment securities	9	1,555.1	1,605.6
Derivative financial instruments		321.6	213.3
Property, plant and equipment classified as held-for-sale		0.3	0.8
Equity shares		48.6	44.5
Investment properties		1.8	1.8
Other assets		46.3	52.6
Prepayments and accrued income		24.8	21.7
Property, plant and equipment		38.8	38.6
Intangible assets		68.0	75.3
Right-of-use assets		69.1	72.3
Deferred tax assets		0.2	-
Net retirement benefit asset	12	758.3	690.2
Total assets		24,924.8	23,435.5

Liabilities			
Deposits by banks		1,421.9	1,143.7
Customer accounts		20,076.3	18,996.8
Debt securities in issue		877.6	867.5
Derivative financial instruments		454.4	288.0
Other liabilities		47.1	53.5
Accruals and deferred income		41.4	59.0
Provisions	11	30.8	87.4
Other borrowed funds	10	209.3	204.2
Lease liabilities		68.4	71.2
Deferred tax liabilities		57.6	43.7
Net retirement benefit liability	12	8.8	8.6
Total liabilities		23,293.6	21,823.6

Capital and reserves attributable to the Group's equity holders			
Ordinary share capital	15	0.9	0.9
Share premium account	15	313.8	313.8
Retained earnings		(1,339.0)	(1,314.5)
Other reserves		2,655.5	2,611.7
Total equity		1,631.2	1,611.9
Total liabilities and equity		24,924.8	23,435.5

The notes on pages 42 to 58 form part of these interim condensed consolidated financial statements.

Approved by the Board of The Co-operative Bank Holdings Limited on 29 July 2020:

Robert Dench
Chairman

Andrew Bester
Chief Executive Officer

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

£million

	Six months ended 30 June	
	2020	2019
Cash flows from/(used in) operating activities:		
Loss before taxation	(44.6)	(38.5)
Adjustments for non-cash movements:		
Non-cash movements on pension	(4.4)	(7.1)
Net credit impairment losses	11.2	0.1
Depreciation, amortisation and impairment of property, equipment, right-of-use assets and intangibles	20.3	20.7
Other non-cash movements including exchange rate movements	21.6	(7.9)
Changes in operating assets and liabilities:		
Increase/(decrease) in deposits by banks	278.2	(150.2)
Increase in prepayments and accrued income	(3.1)	(3.8)
Decrease in accruals and deferred income	(17.6)	(5.0)
Increase in customer accounts	1,078.9	156.7
Increase in debt securities in issue	10.1	17.5
Increase in loans and advances to banks	(24.4)	(4.4)
Increase in loans and advances to customers	(371.1)	(161.2)
Net movement of other assets and other liabilities	(65.5)	(106.3)
Income tax received	0.7	-
Net cash flows from/(used in) operating activities	890.3	(289.4)

Cash flows from investing activities:		
Purchase of tangible and intangible assets	(8.5)	(20.5)

Purchase of investment securities	(686.3)	(380.8)
Proceeds from sale of property and equipment	1.9	-
Proceeds from sale of shares and other interests	-	8.2
Proceeds from sale and maturity of investment securities	732.4	486.8
Proceeds from sale of investment properties	-	0.5
Dividends received	0.2	0.6
Net cash flows from investing activities	39.7	94.8

Cash flows (used in)/from financing activities:		
Proceeds from issuance of Tier 2 notes	-	197.9
Interest paid on Tier 2 notes	(9.5)	-
Lease liability principal payments	(5.4)	(5.4)
Net cash flows (used in)/from financing activities	(14.9)	192.5
Net increase/(decrease) in cash and cash equivalents	915.1	(2.1)
Cash and cash equivalents at the beginning of the period	2,436.6	2,193.9
Cash and cash equivalents at the end of the period	3,351.7	2,191.8
Comprising of:		
Cash and balances at central banks	2,913.8	1,794.8
Loans and advances to banks	437.9	397.0

RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASHFLOWS ARISING FROM FINANCING ACTIVITIES

£million

	Six months ended 30 June 2020			Six months ended 30 June 2019		
	Lease liabilities	Other borrowed funds	Total	Lease liabilities	Other borrowed funds	Total
Balance at the beginning of the period	71.2	204.2	275.4	-	-	-
Changes from financing cash flows:						
Proceeds from issuance of Tier 2 notes	-	-	-	-	197.9	197.9
Interest paid on Tier 2 notes	-	(9.5)	(9.5)	-	-	-
Lease liability principal payments	(5.4)	-	(5.4)	(5.4)	-	(5.4)
	65.8	194.7	260.5	(5.4)	197.9	192.5
Other changes:						
Interest payable on lease liabilities and Tier 2 notes	1.1	9.5	10.6	1.2	3.5	4.7
Other non-cash movement	-	5.1	5.1	-	3.1	3.1
Recognition of lease liabilities	1.5	-	1.5	78.2	-	78.2
Balance at the end of the period	68.4	209.3	277.7	74.0	204.5	278.5

Lease liabilities arise from the adoption of IFRS 16 which came into force in 2019. In 2019, the Group issued Tier 2 debt classified as other borrowed funds on the balance sheet.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

£million

Six months ended 30 June 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 (expense)/income for the period	-	-	(0.8)	10.8	-	-	33.8	(24.5)	19.3
At 30 June 2020	0.9	313.8	3.3	27.5	410.0	1,737.5	477.2	(1,339.0)	1,631.2

Six months ended 30 June 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 period	-	-	(3.1)	3.9	-	-	25.1	(36.0)	(10.1)
At 30 June 2019	0.9	313.8	10.8	23.9	410.0	1,737.5	440.6	(1,197.5)	1,740.0

Year ended 31 December 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

The notes on pages 42 to 58 form part of these interim condensed consolidated financial statements.

SELECTED NOTES TO THE FINANCIAL STATEMENTS

All amounts are stated in £m unless otherwise indicated

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of preparation

The Interim Financial Statements for the Group are for the six month period ended 30 June 2020 and are unaudited. The Group Interim Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting'.

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

1.2 Going concern

These Interim Financial Statements are prepared on a going concern basis. The Directors have a reasonable expectation that the Group will have adequate resources to continue in business for the foreseeable future, taking into account the matters referred to below.

IAS 1 (Presentation of Financial Statements) requires Directors to make an assessment of a company's ability to adopt the going concern basis of accounting in the future. IAS 1 states that the information should cover at least 12 months from the end of the reporting period but not be limited to that period. 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. When considering the going concern status of the Group, the Directors have referenced the FRC published guidance on the going concern Basis of Accounting and Reporting on Solvency and Liquidity Risks (the 2016 Guidance).

Whilst the UK government introduced measures partially mitigating the impact of COVID-19, the pandemic has resulted in a significant UK recession in the first half of 2020 and unprecedented economic uncertainty in the short-to-medium-term. In light of COVID-19, the Group has updated its 2020-2024 multi-year plan (the 'Plan').

The Group is forecast to remain compliant with all binding regulatory liquidity and capital requirements during the going concern assessment period but to temporarily use certain capital buffers, as permitted by the PRA.

The Board of Directors have used the updated Plan as the basis of its assessment in evaluating whether adopting the going concern basis of accounting is appropriate, and noting further, more pessimistic scenarios that could reasonably possibly occur. This assessment included a detailed review of the ability to secure a further commitment of MREL-qualifying resources, projected profitability, forecast financial, liquidity positions and capital adequacy ratios, other regulatory capital considerations, and operational risks associated with the COVID-19 pandemic.

The key risks associated with successful delivery of the Plan include:

- Macroeconomic environment – Heightened uncertainty as to expected credit losses due to the COVID-19 stress and uncertainty related to the UK's withdrawal from the European Union;
- Net interest margin (NIM) – The amount and timing of future changes to the Bank of England base rate following the COVID-19 base rate cuts;
- Return to profitability – The ability to deliver to the multi-year forecast is heavily influenced by external factors; and
- Regulatory requirements – Future increases in regulatory capital requirements, which require additional capital resources in the form of MREL-qualifying resources to remain compliant and avoid regulatory forbearance.

The Directors have considered the risks set out above and their consequential effects, in particular the effect on the Group's ability to maintain compliance with capital requirements within the principal risks and uncertainties disclosed on pages 23 to 27. The Directors consider that the completion of the Group's MREL issuance programme in a reasonable timeframe, should the current unpredictable environment continue, represents a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Nevertheless, after making careful enquiries and considering the current forecasts, in particular those up to 31 July 2021, the Directors have a reasonable expectation that the Group will complete its MREL issuance programme and continue to have adequate resources to continue in business over this period. For these reasons, they continue to adopt the going concern basis in preparing these Interim Financial Statements. This set of Interim Financial Statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

1.3 Significant accounting policies

The accounting policies, presentation and methods of computation are consistent with those applied by the Group in its audited 2019 Annual Financial Statements, which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

1.4 Standards and interpretations issued

Information on pronouncements that will be relevant in future periods is provided in the 2019 Annual Report and Accounts.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial information requires management to make judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Assumptions and estimates are reviewed on an ongoing basis. The critical judgements and estimates of the Group are as set out within the 2019 Annual Report and Accounts. Except as noted below, the accounting policies, presentation and methods of computation of critical accounting judgements and key sources of estimation uncertainty are consistent with those applied by the Group in the 2019 Annual Report and Accounts.

2.1 Loan impairment provisions

The COVID-19 pandemic has introduced unprecedented economic uncertainty which requires the application of a significant degree of expert economic and credit risk judgement. The key COVID-19 related assumptions and judgements that were applied in the determination of ECL at 30 June 2020 are listed below.

Model assumptions:

- Economic scenarios – At 31 December 2019, five economic scenarios were reflected within the impairment models. Following the comprehensive review of economic outlook as a result of COVID-19, it was concluded that four scenarios adequately reflect a range of possible outcomes at 30 June 2020. Each scenario reflects a COVID-19-specific outlook of differing severity, with the base scenario reflecting the most likely economic forecast and aligned with the central scenario used for financial planning purposes described in the update to capital risk on pages 24-26. The scenario weightings were also updated at 30 June 2020 to reflect the nature of each scenario.

COVID-19 specific scenario inputs	Mild upside	Base	Mild downside	Downside
Five-year average (annualized percentage):				
GDP	0.5%	1.3%	(1.0)%	(2.6)%
Consumption	0.4%	1.1%	(1.5)%	(3.4)%
Unemployment	4.9%	5.4%	7.3%	8.4%
HPI	1.7%	1.1%	(0.5)%	(5.1)%

Five-year average GDP and consumption are higher in the base than in the upside, where both scenarios assume a strong V-shaped recovery from differing initial shocks. Our upside scenario sees GDP decline 13% peak to trough in 2020, compared to a 27% decline in the base. Both these scenarios then assume a V-shaped recovery from this initial decline and as such five-year average growth is higher in the base than the upside because the recovery required to sustain the V is larger.

COVID-19 scenario	30 June 2020 Weighting	Scenario	31 December 2019 Weighting
Five year average:			
Upside	0%	Upside	5%
Mild upside	30%	Mild upside	10%
Base	40%	Base	40%
Mild downside	25%	Mild downside	30%
Downside	5%	Downside	15%

The table below shows how ECL would change if the weighting applied to the 30 June 2020 scenarios had been mild upside 0%, base 50%, mild downside 35% and downside 15%.

	Retail secured	SME	Corporate and unallocated
Increase in ECL	1%	10%	55%

The above sensitivities reflect the impacts on both the modelled ECL and the dynamic PMAs in place at 30 June 2020. Corporate/SME sensitivities exclude Stage 3 individually assessed impairment provisions.

- Retail – Customers receiving COVID-19-related concessions are not automatically classified as having evidenced a significant increase in credit risk (SICR). Such customers are moved to stage 2 if they meet other SICR criteria (see note 2 to the 2019 Group Annual Report and Accounts for SICR criteria). Further, COVID-19-related payment deferrals do not count towards the backstop days past due stage 2 and 3 transfer criteria.

- SME and corporate – Existing credit exposures with SME and corporate customers who have requested Coronavirus Business Interruption Loans (CBILS) and Bounce-Back loans have been considered on a case-by-case basis. If the evidence shows that the request is solely COVID-19-driven, such cases are not classified as having evidenced a significant increase in credit risk (SICR). Where there is evidence which shows that the request is not solely COVID-19-driven, it is classified as SICR, and the existing exposure is transferred to stage 2. CBILS and Bounce-Back loans are not classified as POCIs on origination.

Post-model assumptions reflect:
1. the proportion of customers receiving COVID-19-related concessions moving into arrears;
2. the outlook for certain business sectors which are more exposed to the economic impact of COVID-19; and
3. potential risk factors associated with specific segments of the portfolio. Post-model adjustments have been reflected for a proportion of customers receiving COVID-19-related concessions moving into arrears, and certain SME and corporate higher risk sectors and segments.

Certain PMAs applied to the SME/corporate portfolio modify down the modelled impacts on certain segments of the book where the Group has exposures to low-risk public sector lending or industry segments where the beneficial impacts of government intervention are not fully captured in the modelled outputs.

2.2 Conduct and legal provision

The Group has finished processing the vast majority of all Payment Protection Insurance (PPI) enquiries and complaints received prior to the time-bar in August 2019. The main outstanding element relates to the cohort of complaints submitted by the Official Receiver which remains under discussion, and the Group continues to hold provision against redress offers made, most of which are expected to be settled within the second half of 2020.

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 it’s 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 has identified three segments: Retail

Banking, SME Business Banking and Treasury as part of its core business. During the second half of 2019, the definition of underlying was updated and accordingly the 2019 presentation below has been updated. More information is included on page 8 of the Chief Executive's review. The presentation is consistent with that set out within the 2019 Annual Report and Accounts.

Six months ended 30 June 2020	Core Retail	Core SME	Core Treasury	Core Total	Legacy & unallocated	Group
Net interest income	117.0	20.5	(8.4)	129.1	(1.7)	127.4
Other operating income/(expense)	10.7	7.6	2.9	21.2	(0.2)	21.0
Operating income/(expense)	127.7	28.1	(5.5)	150.3	(1.9)	148.4
Net credit impairment losses	(5.2)	(2.3)	-	(7.5)	(3.7)	(11.2)
Operating expenses						(171.1)
Underlying loss						(33.9)
Strategic project costs						(15.0)
Legacy net customer redress charge						-
Surrendered Loss Debtor revaluation						-
Gain on shares revaluation						4.4
Gain on share sales						-
Loss on asset sales						(0.1)
Statutory loss before tax						(44.6)

Restated Six months ended 30 June 2019	Core Retail	Core SME	Core Treasury	Core Total	Legacy & unallocated	Group
Net interest income	132.8	19.6	15.2	167.6	0.3	167.9
Other operating income	7.4	8.1	6.4	21.9	1.2	23.1
Operating income	140.2	27.7	21.6	189.5	1.5	191.0
Net credit impairment (losses)/gains	(1.0)	0.7	-	(0.3)	0.2	(0.1)
Operating expenses						(193.2)
Underlying loss						(2.3)
Strategic project costs						(52.7)
Legacy net customer redress charge						(2.5)
Surrendered Loss Debtor revaluation						7.8
Gain on shares revaluation						8.1
Gain on share sales						3.1
Statutory loss before tax						(38.5)

The re-allocation of costs and income reported in underlying loss is shown below:

Six months ended 30 June 2019	Retail	SME	Treasury	Total	Legacy & unallocated	Group
Underlying as previously reported	136.9	31.3	21.0	189.2	(192.0)	(2.8)
Re-allocation	2.3	(2.9)	0.6	-	0.5	0.5
Underlying as re-stated	139.2	28.4	21.6	189.2	(191.5)	(2.3)

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

Six months ended 30 June 2020	IFRS statutory	Removal of: Volatile items[1]	Removal of: Strategic projects	Removal of: Legacy customer redress charges	Removal of: Non recurring[2]	Underlying basis
Net interest income	127.4	-	-	-	-	127.4
Other operating income/(expense)	25.3	(4.4)	-	-	0.1	21.0
Operating income	152.7	(4.4)	-	-	0.1	148.4
Operating expenses	(186.1)	-	15.0	-	-	(171.1)
Net credit impairment losses	(11.2)	-	-	-	-	(11.2)
Loss before taxation	(44.6)	(4.4)	15.0	-	0.1	(33.9)

1. In the period ended 30 June 2020, this comprises the revaluation gain on equity shares.
2. In the period ended 30 June 2020, this comprises loss on asset sales.

Restated

Six months ended 30 June 2019	IFRS statutory	Removal of: Volatile items[1]	Strategic projects	Legacy customer redress charges	Non recurring[2]	Underlying basis
Net interest income	167.9	-	-	-	-	167.9
Other operating income/(expense)	42.1	(15.9)	-	-	(3.1)	23.1
Operating income	210.0	(15.9)	-	-	(3.1)	191.0
Operating expenses	(245.9)	-	52.7	-	-	(193.2)
Net customer redress charge	(2.5)	-	-	2.5	-	-
Net credit impairment losses	(0.1)	-	-	-	-	(0.1)
Loss before taxation	(38.5)	(15.9)	52.7	2.5	(3.1)	(2.3)

1. In the period ended 30 June 2019, this comprises the impact of the revaluation of the Surrendered Loss Debtor (£7.8m) and the revaluation gain on equity shares (£8.1m).
2. In the period ended 30 June 2019, this comprises the gain on sale of shares.

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

30 June 2020	Core: Retail	SME	Treasury	Total	Legacy & unallocated	Underlying basis
Segment assets	16,875.2	320.2	5,621.8	22,817.2	2,107.6	24,924.8
Segment liabilities	17,322.5	2,647.8	2,958.5	22,928.8	364.8	23,293.6

30 December 2019	Core: 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

4. NET INTEREST INCOME

Interest income and similar income

	Six months ended 30 June 2020: Amortised cost	FVOCI	Other	Total	Six months ended 30 June 2019: Amortised cost	FVOCI	Other	Total
On financial assets not at fair value through profit or loss:								
Loans and advances to customers	195.3	-	-	195.3	214.2	-	-	214.2
Loans and advances to banks	3.8	-	-	3.8	6.2	-	-	6.2
Investment securities	0.8	7.3	-	8.1	1.3	15.9	-	17.2
Net interest income on net defined benefit pension asset	-	-	6.9	6.9	-	-	8.7	8.7
	199.9	7.3	6.9	214.1	221.7	15.9	8.7	246.3
On financial assets at fair value through profit or loss:								
Loans and advances to customers	-	-	5.8	5.8	-	-	6.5	6.5
Net interest expense on financial instruments hedging assets	-	-	(12.6)	(12.6)	-	-	(7.0)	(7.0)
Net interest income on financial instruments not in a hedging relationship	-	-	6.6	6.6	-	-	4.4	4.4
	199.9	7.3	6.7	213.9	221.7	15.9	12.6	250.2

Interest expense and similar charges

	Six months ended 30 June 2020			Six months ended 30 June 2019		
	Amortised cost	Other	Total	Amortised cost	Other	Total
On financial liabilities not at fair value through profit or loss:						
Customer accounts	(53.4)	-	(53.4)	(55.3)	-	(55.3)
Subordinated liabilities, debt securities in issue and other deposits	(28.9)	-	(28.9)	(23.6)	(0.2)	(23.8)
Interest on lease liabilities	-	(1.2)	(1.2)	-	(1.2)	(1.2)
Net interest expense on unfunded schemes	-	(0.1)	(0.1)	-	(0.1)	(0.1)
	(82.3)	(1.3)	(83.6)	(78.9)	(1.5)	(80.4)
On financial liabilities at fair value through profit or loss:						
Net interest income on financial instruments hedging liabilities	-	5.4	5.4	-	3.8	3.8
Net interest expense on financial instruments not in a hedging relationship	-	(8.3)	(8.3)	-	(5.7)	(5.7)
	(82.3)	(4.2)	(86.5)	(78.9)	(3.4)	(82.3)

5. OTHER OPERATING INCOME (NET)

	Six months ended 30 June 2020	2019
Profit on sale of investment securities	-	0.7
Gain on sale of shares	-	3.2
Loss on sale of loans and advances to customers	(0.1)	-
Fair value movement on loans and advances to customers designated at fair value	4.9	2.6
(Expense)/income from derivatives and hedge accounting	(1.3)	2.5
Income from assets and liabilities held at fair value through profit or loss[1]	3.6	16.4
Foreign exchange gains	4.2	4.1
Other operating income	0.7	1.5
	12.0	31.0

1. Income from assets and liabilities held at fair value through profit or loss of £3.6m (30 June 2019: £16.4m) includes £nil gain on the Surrendered Loss Debtor (30 June 2019: £7.8m) and £4.2m gain on equity shares (30 June 2019: £8.1m).

6. OPERATING EXPENSES

	Note	Six months ended 30 June 2020	2019
Staff costs		67.9	81.5
Depreciation, amortisation and impairment of fixed and intangible assets[1]		20.3	20.7
Provisions for liabilities provided in the period	11	0.6	6.5
IT costs		34.3	65.5
Mortgage platform outsourcing services		39.5	47.7
Facility costs		7.2	7.9
Other expenses		16.3	16.1
		186.1	245.9

1. Mainly comprises amortisation of intangible assets.

7. INCOME TAX

	Six months ended 30 June 2020	2019
Current tax credit	(0.2)	(0.4)
Deferred tax credit	(19.9)	(2.1)
Total tax credit	(20.1)	(2.5)

In addition to the above, included within other comprehensive income is a deferred tax charge of £33.6m (2019: £9.2m).

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

	Six months ended 30 June	
	2020	2019
Loss before taxation	(44.6)	(38.5)
Tax credit calculated at a rate of 19% (2019: 19%)	(8.5)	(7.3)
Effects of:		
Impact of corporation tax rate change	(8.9)	0.2
Impact of surcharge on deferred tax	(3.3)	(0.7)
Movement in unrecognised deferred tax	0.7	7.6
Expenses not deductible for tax purposes	0.2	0.4
Adjustment in respect of prior period	(0.2)	(0.4)
Non-taxable income	(0.1)	(2.3)
Total tax credit	(20.1)	(2.5)

Deferred tax assets totalling £453.0m (2019: £374.8m) have not been recognised where doubt exists over the availability of sufficient future taxable profits.

8. LOANS AND ADVANCES TO CUSTOMERS

Analysis of the balance sheet

	30 June 2020	31 December 2019
Gross loans and advances	18,303.3	17,945.1
Less: allowance for losses	(35.8)	(26.7)
	18,267.5	17,918.4

Loans and advances to customers include £142.2m (31 December 2019: £143.2m) of financial assets designated at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency; of these, £59.5m (31 December 2019: £60.7m) are secured by real estate collateral. Exposure is predominantly within the UK.

For stage allocation and analysis, including the impact which the COVID-19 pandemic has had on the impairment losses for the period, please refer to the credit risk section of the risk management report.

Analysis of allowance for impairment losses

	Retail	SME	Legacy & unallocated	Total
At 1 January 2020	17.3	5.3	4.1	26.7
Changes in assets which transitioned during the period:				
To lifetime ECL (stage 1 to 2 or 3)	4.5	1.2	0.2	5.9
To credit impaired (stage 1 or 2 to 3)	2.9	-	2.4	5.3
To 12 month ECL (stage 2 or 3 to 1)	(0.8)	-	-	(0.8)
From credit impaired (stage 3 to 2)	(0.2)	-	-	(0.2)
Net changes in assets which transitioned during the period	6.4	1.2	2.6	10.2
Other charges/(releases):				
New assets originated or purchased	0.7	0.3	-	1.0
Other changes to risk parameters[1]	(1.0)	1.0	1.2	1.2
Net other charges	6.1	2.5	3.8	12.4
Assets written off	(2.0)	(0.1)	(1.2)	(3.3)
At 30 June 2020	21.4	7.7	6.7	35.8

1. Includes repayments (other than those related to assets which transitioned during the period) and changes due to other model inputs.

Analysis of income statement

	Six months ended 30 June	
	2020	2019
Net other charges	(12.4)	(1.8)
Amounts recovered against amounts previously written off	0.7	1.0

Adjustment to recognise interest on stage 3 assets based on their net carrying value	0.5	0.7
Net impairment loss for the period as shown in the income statement	(11.2)	(0.1)

9. INVESTMENT SECURITIES

Analysis of investment securities

	30 June 2020				31 December 2019			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
Investment securities[1] (listed)	89.9	1,461.6	3.6	1,555.1	95.0	1,506.4	4.2	1,605.6

1. Investment securities were net of impairment in both periods.

Movement in investment securities

	30 June 2020				31 December 2019			
	Amortised cost	FVOCI	FVTPL	Total	Amortised cost	FVOCI	FVTPL	Total
At the beginning of the period	95.0	1,506.4	4.2	1,605.6	89.1	1,842.4	3.5	1,935.0
Acquisitions	-	686.3	-	686.3	15.2	1,032.7	0.2	1,048.1
Disposals and maturities	(5.0)	(727.4)	-	(732.4)	(9.4)	(1,351.7)	-	(1,361.1)
FVOCI	-	(0.7)	-	(0.7)	-	(12.3)	-	(12.3)
Fair value through profit or loss	-	(5.5)	(0.6)	(6.1)	-	(2.9)	0.5	(2.4)
Amortisation	-	2.1	-	2.1	-	1.9	-	1.9
Movement in interest accrual	(0.1)	0.4	-	0.3	0.1	(3.7)	-	(3.6)
At the end of the period	89.9	1,461.6	3.6	1,555.1	95.0	1,506.4	4.2	1,605.6

Included in investment securities are repurchase receivables of £458.6m. Certain investment securities have been pledged by the Group; see note 13 for further details on encumbered and pledged assets.

Analysis of investment securities by issuer

	30 June 2020	31 December 2019
Investment securities issued by public bodies:		
Government securities	720.6	925.8
Other public sector securities	238.5	242.4
	959.1	1,168.2
Other debt securities:		
Other floating rate notes	438.7	268.3
Mortgage backed securities	157.3	169.1
	596.0	437.4
Total investment securities by issuer	1,555.1	1,605.6

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

10. OTHER BORROWED FUNDS

On 25 April 2019, the Group issued £200.0m Fixed Rate Reset Callable Subordinated Tier 2 Notes (Tier 2 Notes) which:

- Are unsecured, subordinated, obligations of the Group, ranking pari passu without any preference among themselves and pari passu with other obligations of the Group which constitute Tier 2 capital of the Issuer on a winding-up;
- Have a contractual maturity of 25 April 2029, an optional call date of 25 April 2024 and a coupon of 9.5%; and
- Are listed on the London Stock Exchange.

The debt recorded in the balance sheet includes incremental, directly attributable transaction costs, accrued interest and the fair value adjustment for hedged risk.

11. PROVISIONS

	Note	Property	PPI	Conduct / legal	Other	Total
At 1 January 2020		11.0	57.5	4.6	14.3	87.4
Provided in the period:						
Operating expenses	6	0.1	-	0.2	0.3	0.6
Net customer redress charge		-	-	-	-	-
Utilised during the period		(1.5)	(44.6)	(2.4)	(8.7)	(57.2)
At 30 June 2020		9.6	12.9	2.4	5.9	30.8
Amounts falling due within one year		4.7	12.9	2.2	4.3	24.1
Amounts falling due after one year		4.9	-	0.2	1.6	6.7
		9.6	12.9	2.4	5.9	30.8

Property

The Group has a number of leasehold properties available for rent. Provisions are made when either the sub-lease income does not cover the rental expense or the property is vacant. The provision is based on the expected outflows during the remaining periods of the leases. In addition, dilapidation provisions are recorded to the extent that the Group has incurred dilapidations and/or the dilapidation clause within the contract has been invoked.

Payment Protection Insurance (PPI)

Provisions have been made in respect of potential customer compensation claims relating to past sales of PPI. Claims are investigated on an individual basis and, where appropriate, compensation payments are made. For a number of years the Group, along with many other financial services providers, sold PPI alongside mortgage and non-mortgage credit products. The Group stopped selling non-mortgage PPI in January 2009 and stopped selling mortgage PPI in March 2012. The total amount recognised to date for costs related to the historical selling of PPI is £600.3m.

The Group has finished processing the vast majority of all enquiries and complaints received prior to the time-bar in August 2019. The main outstanding element relates to the cohort of complaints submitted by the Official Receiver which remains under discussion, and the Group continues to hold provision against redress offers made, most of which are expected to be settled within the second half of 2020.

Whilst a significant amount of estimation uncertainty has been extinguished, there remains some uncertainty around the timing and quantum of the acceptance and settlement of offers that would see the remainder of the provision fully utilised, as well as the outcome of the Group's discussions with the Official Receiver.

Conduct/legal provisions

The Group provided £0.2m in the six months period to 30 June 2020 in relation to potential litigation claims (30 June 2019: £0.7m).

Other

Other provisions include a net charge of £0.3m (30 June 2019: £5.7m) which mainly comprises movements in the provisions for employee variable pay and severance costs during the period.

12. RETIREMENT BENEFITS

Details of the pension schemes operated by the Group are provided in the 2019 Annual Report and Accounts. The amounts recognised in the balance sheet in relation to defined benefit schemes are as follows:

	31 December 2019	Movement	30 June 2020
Retirement benefit net surplus	690.2	68.1	758.3
Retirement benefit liabilities	(8.6)	(0.2)	(8.8)
Total amounts recognised in the balance sheet	681.6	67.9	749.5
Represented by:			
Funded DB schemes (Pace DB and BPS)	690.2	68.1	758.3
Unfunded DB schemes	(8.6)	(0.2)	(8.8)

Total amounts recognised in the balance sheet	681.6	67.9	749.5

The present value of the defined benefit obligation as at 30 June 2020 has been derived using assumptions that are consistent with those used for the 31 December 2019 value, updated for market conditions at the interim reporting date. Corporate bond yields have decreased over the first half of 2020, which has the effect of decreasing the discount rate and increasing liabilities. As a result of the hedging techniques employed within the schemes' investment strategies, which are calibrated to hedge the liabilities on the more prudent funding basis, together with changes in corporate credit spreads, this increase in liabilities has been more than offset by a corresponding increase in assets. The improvement in the net asset position further reflects £0.7m of employer contributions paid into BPS during the period.

During the first half of 2020, the Pace Trustee completed a £400 million pension insurance buy-in, covering liabilities for c.2,000 pensioner members in the Bank Section of the Pace Scheme. This transaction has been reflected in the retirement benefit net surplus at 30 June 2020 and had the impact of a reduction of c.£93m.

13. CONTINGENT LIABILITIES, CONTRACTUAL COMMITMENTS AND GUARANTEES

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

	30 June 2020 Contractual amount	31 December 2019 Contractual Amount
Contingent liabilities arising from customer transactions:		
Guarantees and irrecoverable letters of credit	6.6	9.2
Other commitments arising from customer transactions:		
Undrawn formal standby facilities, credit lines and other commitments to lend (includes revocable and irrevocable commitments)[1]	1,495.2	1,975.1
	1,501.8	1,984.3

1. Undrawn loan commitments include revocable commitments which are unused credit card limits of £1,032.3m (31 December 2019: £1,005.1m).

Other contingent liabilities, contractual commitments and guarantees

There have been no significant changes to the position of the Group's other contingent liabilities, contractual commitments and guarantees as disclosed in the 2019 Annual Report and Accounts.

Encumbered and pledged assets

a) Assets pledged under repurchase agreements with other banks including the Bank of England

Assets are pledged as collateral under repurchase agreements with other banks including the Bank of England. The associated deposits which are included within deposits by banks and cash and balances with central banks, are not available to finance day-to-day operations.

	30 June 2020	31 December 2019
Investment securities sold under repurchase agreements		
Carrying amount of assets not derecognised	458.6	187.8
Carrying amount of associated liabilities	456.5	179.1

b) Other assets transferred but not derecognised

Included within loans and advances to customers are £3,178.8m (31 December 2019: £3,198.4m) of balances pledged across the Group's securitisation and covered bond activities. The Group retains exposure to substantially all of the risks and rewards of ownership of these assets and they remain on the Group's balance sheet. Secured on these mortgage assets are £849.3m (31 December 2019: £849.0m) of fixed and floating rate notes. The carrying value of these notes excludes retained securitisation notes totalling £1,582.7m (31 December 2019: £1,675.9m).

c) Assets pledged under the Term Funding Scheme (TFS)

Investment securities and mortgage assets with a carrying value of £975.0m (31 December 2019: £1,112.7m) have been collateralised against the Group's TFS drawdowns.

d) Assets pledged under the Group's pension arrangements

The Group has arrangements with its pension schemes whereby it provides contingent security, where such assets would only be accessed by the trustees in the event that the Group was unable to meet future contribution obligations, as agreed with the relevant trustee, insolvency or the failure to adhere to the terms of the security deeds. The encumbered assets comprise of AAA Silk Road Four and Silk Road Five securitisation notes and cash generated from the amortisation of the notes, which can be substituted for further investment securities.

At 30 June 2020 the Group had pledged £163.9m of notes and £10.8m cash to the Britannia Pension Scheme, and £236.4m of notes and £5.7m cash to the Pace scheme. A further £12.5m in cash was held in custody for the benefit of the Pace scheme in lieu of deficit recovery contributions.

e) Other collateralised assets

Cash and investment securities totalling £322.8m (31 December 2019: £229.8m) and £93.0m (31 December 2019: £97.5m) respectively were collateralised under interest rate swap arrangements.

The Group also places cash and investment security collateral in support of transactions with banking payment system operators.

f) Bank of England Mandatory Reserve

Mandatory reserve deposits are also held with the Bank of England in accordance with statutory requirements.

Contingent assets

Refund of ATM business rates following Supreme Court judgement

Historically, the Group owned a large number of Automatic Teller Machines (ATMs), a significant number of which were located within retail stores owned by the Co-op Group during a period when the Group and the Co-op Group were part of the same corporate group and for a number of years thereafter. The Bank sold the ATMs in 2014.

In 2013, the Valuation Office Agency, which is part of HMRC and compiles the business rates list for England, Scotland and Wales, determined that externally facing ATMs should be separately assessed for business rates in addition to store business rates already incurred by retailers, and this was applied with effect from April 2010. The additional rates due on the ATMs under these rules were paid by the Bank to the Co-op Group, who in turn paid the store and ATM rates to the relevant local billing authorities. Retailers, including the Co-op Group, successfully challenged the assessment, culminating in a Supreme Court decision in May 2020 ruling that externally facing ATMs form part of the stores offering and should not be subject to additional business rates.

As a result of the ruling, it is expected that the Valuation Office Agency will update the business rates list accordingly via settling the outstanding appeals. Once the rating list is updated the local billing authorities will then start to process these amendments in order for refunds of historic business rates that were paid for external ATMs to be recovered. It is not yet practicable to estimate the financial effect of the Supreme Court judgement on the Group’s results and the Group continues to work through its estimation of monies to be received from the Co-op Group under this arrangement and the Group’s share of associated professional services fees.

Unconsolidated structured entities

Details of the interests in unconsolidated structured entities are disclosed in note 36 of the 2019 Annual Report and Accounts. There has been no significant change in the nature of the transactions in these entities except for exercise of the Warwick Finance Two call option in June 2020. At the call option date, the Group’s remaining interest in this unconsolidated structured entity related solely to the holding of legal title of mortgages previously sold by the Group to Warwick 2.

The Group has entered into an agreement to continue to hold and provide legal title services on commercial terms following the Warwick Finance Two call.

14. RELATED PARTY TRANSACTIONS

There were no changes to the nature of the related party transactions during the period to 30 June 2020 other than those disclosed in note 32 of the 2019 Annual Report and Accounts that would materially affect the position or performance of the Group.

15. SHARE CAPITAL

	30 June 2020	31 December 2019

	No. of shares (millions)	Share capital	No. of shares (millions)	Share capital
Allotted, called up and fully paid				
At the beginning and end of the period	9,029.1	0.9	9,029.1	0.9
Share premium account				
At the beginning and end of the period		313.8		313.8

There are 9,029,130,200 A shares (2019: 9,029,130,200) and 83 B shares (2019: 83) in The Co-operative Bank Holdings Limited. The holders of the ordinary A shares do not hold any voting rights but are entitled to participate in distributions and to receive a dividend on liquidation. The B shareholders have one vote for every share held and also benefit from certain governance, notification and approval rights with respect to the Holding Company, but have no rights to distributions, other than on exit in an amount of £25.0m in aggregate, subject to achieving a minimum valuation threshold.

16. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The methodology and assumptions for determining the fair value of financial assets and liabilities are consistent with those disclosed in the 2019 Annual Report and Accounts.

Balance sheet classification and measurement category

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

		Measured at fair value				
30 June 2020	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	2,980.3	-	-	-	-	2,980.3
Loans and advances to banks	587.0	-	-	-	-	587.0
Loans and advances to customers	18,125.3	-	140.9	1.3	-	18,267.5
Investment securities	89.9	1,461.6	-	3.6	-	1,555.1
Derivative financial instruments	-	-	-	235.8	85.8	321.6
Equity shares	-	-	-	48.6	-	48.6
Other assets[1]	(1.5)	-	-	47.8	-	46.3
	21,781.0	1,461.6	140.9	337.1	85.8	23,806.4
Financial liabilities						
Deposits by banks	1,421.9	-	-	-	-	1,421.9
Customer accounts	20,076.3	-	-	-	-	20,076.3
Debt securities in issue	877.6	-	-	-	-	877.6
Derivative financial instruments	-	-	-	256.3	198.1	454.4
Other borrowed funds	209.3	-	-	-	-	209.3
Other liabilities	47.1	-	-	-	-	47.1
	22,632.2	-	-	256.3	198.1	23,086.6

1. Other assets include settlement funds, which at 30 June 2020 is a credit balance of £5.5m.

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

		Measured at fair value				
31 December 2019	Amortised cost	FVOCI	FVTPL – designated	FVTPL – mandatorily measured	Derivatives in a hedging relationship	Total
Financial assets						
Cash and balances at central banks	2,153.5	-	-	-	-	2,153.5
Loans and advances to banks	474.3	-	-	-	-	474.3
Loans and advances to customers	17,775.2	-	141.5	1.7	-	17,918.4
Investment securities	95.0	1,506.4	-	4.2	-	1,605.6
Derivative financial instruments	-	-	-	162.8	50.5	213.3
Equity shares	-	-	-	44.5	-	44.5

Other assets[1]	4.8	-	-	47.8	-	52.6
	20,502.8	1,506.4	141.5	261.0	50.5	22,462.2
Financial liabilities						
Deposits by banks	1,143.7	-	-	-	-	1,143.7
Customer accounts	18,996.8	-	-	-	-	18,996.8
Debt securities in issue	867.5	-	-	-	-	867.5
Derivative financial instruments	-	-	-	178.7	109.3	288.0
Other borrowed funds	204.2	-	-	-	-	204.2
Other liabilities	53.5	-	-	-	-	53.5
	21,265.7	-	-	178.7	109.3	21,553.7

1. Other assets include settlement funds, which at 31 December 2019 is a credit balance of £1.4m.

Valuation of financial assets and liabilities measured at fair value

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

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

		Fair value at end of the reporting period using:			
30 June 2020	Category	Level 1	Level 2	Level 3	Total
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	138.9	2.0	140.9
Loans and advances to customers	FVTPL – mandatorily measured	-	-	1.3	1.3
Investment securities	FVOCI	1,397.8	-	63.8	1,461.6
Investment securities	FVTPL – mandatorily measured	-	-	3.6	3.6
Equity shares	FVTPL – mandatorily measured	0.3	-	48.3	48.6
Other assets	FVTPL – mandatorily measured	-	-	47.8	47.8
Derivative financial assets		-	321.6	-	321.6
Non-financial assets:					
Investment properties		-	-	1.8	1.8
		1,398.1	460.5	168.6	2,027.2
Derivative financial liabilities		-	454.4	-	454.4

		Fair value at end of the reporting period using:			
31 December 2019	Category	Level 1	Level 2	Level 3	Total
Non-derivative financial assets					
Loans and advances to customers	FVTPL – designated	-	139.5	2.0	141.5
Loans and advances to customers	FVTPL – mandatorily measured	-	-	1.7	1.7
Investment securities	FVOCI	1,436.5	-	69.9	1,506.4
Investment securities	FVTPL – mandatorily measured	-	-	4.2	4.2
Equity shares	FVTPL – mandatorily measured	0.4	-	44.1	44.5
Other assets	FVTPL – mandatorily measured	-	-	47.8	47.8
Derivative financial assets		-	213.3	-	213.3
Non-financial assets:					
Investment properties		-	-	1.8	1.8
		1,436.9	352.8	171.5	1,961.2
Derivative financial liabilities		-	288.0	-	288.0

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

- Investment securities

Investment securities comprise RMBS of £63.8m (FVOCI) and £3.6m (FVTPL – mandatorily measured) as at 30 June 2020 (31 December 2019: £69.9m FVOCI and £4.2m 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 Group'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 £0.7m respectively as at 30 June 2020.

- Equity shares

Equity shares comprise US Dollar denominated convertible preference shares in Visa International, which are classified as FVTPL – designated, with any movements in fair value being recognised in the income statement. 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 discount was increased by a relative 10%, it would result in a reduction in the overall fair value of the equity shares of £2.3m (5%) as at 30 June 2020.

- Other assets

Other assets comprise the Surrendered Loss Debtor of £47.8m as at 30 June 2020 (31 December 2019: £47.8m). The fair value was determined by discounting the expected cash flows under the terms of the agreement with the Co-op Group. Cash flows are discounted at a discount rate reflecting the yield of the longest maturity Co-op Group bond in issue (adjusted to reflect the weighted average maturity of cash flows due from the Co-op Group), plus a premium to estimate the uncertainties associated with the matters set out in note 2.2.5 to the Group 2019 Annual Report and Accounts. The premium is calculated applying risk parameter estimation theory using observable inputs from related (but not identical) financial instruments or indices.

Scenario	Result
Deferral of receipt of payments applied in the payment forecast	If future payments from the Co-op Group are deferred by one year from the current estimates, the value of the Surrendered Loss Debtor decreases by £3.0m.
Changes in tax rates applied in the payment forecast	Increasing the corporation tax rate by 1% from 1 April 2020 throughout the life of the SLD increases the value of the Surrendered Loss Debtor by £2.7m.
Changes in the discount rate used to calculate the present value of the payment forecast	If the variables used to build up the discount rate change such that the total discount rate increases by 1%, the value of the Surrendered Loss Debtor decreases by £3.9m.

If the illiquidity adjustment was assumed to be 10% higher on a relative basis, this would not result in a material change in the value of the Surrendered Loss Debtor.

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

	Fair value at 31 December 2019	Purchases and transfers in	Sales, transfers out and repayments	Other comprehensive income	Income statement	Fair value at 30 June 2020
Loans and advances to customers	3.7	-	(0.4)	-	-	3.3
Investment securities	74.1	-	(6.0)	(0.1)	(0.6)	67.4
Equity shares	44.1	-	-	-	4.2	48.3
Investment properties	1.8	-	-	-	-	1.8
Other assets	47.8	-	-	-	-	47.8
	171.5	-	(6.4)	(0.1)	3.6	168.6

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

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

		Fair value				
30 June 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	2,980.3	-	-	-	2,980.3	2,980.3
Loans and advances to banks	587.0	-	-	-	587.0	587.0
Loans and advances to customers	18,125.3	-	-	17,096.1	963.3	18,059.4
Investment securities	89.9	-	-	88.6	-	88.6
Other assets	(1.5)	-	-	-	(1.5)	(1.5)
Financial liabilities						
Deposits by banks	1,421.9	-	1,420.0	-	4.7	1,424.7
Customer accounts	20,076.3	-	-	3,135.9	16,957.7	20,093.6
Debt securities in issue	877.6	645.0	-	-	-	645.0
Other borrowed funds	209.3	-	184.0	-	-	184.0

Other liabilities	47.1	-	-	-	47.1	47.1

31 December 2019	Total carrying value	Fair value				
		Level 1	Level 2	Level 3	Items where fair value approximates carrying value	Total
Financial assets						
Cash and balances at central banks	2,153.5	-	-	-	2,153.5	2,153.5
Loans and advances to banks	474.3	-	-	-	474.3	474.3
Loans and advances to customers	17,775.2	-	-	16,613.6	1,070.3	17,683.9
Investment securities	95.0	-	-	95.4	-	95.4
Other assets	4.8	-	-	-	4.8	4.8
Financial liabilities						
Deposits by banks	1,143.7	-	1,145.0	-	2.4	1,147.4
Customer accounts	18,996.8	-	-	3,612.4	15,401.5	19,013.9
Debt securities in issue	867.5	633.2	-	-	-	633.2
Other borrowed funds	204.2	-	203.9	-	-	203.9
Other liabilities	53.5	-	-	-	53.5	53.5

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

17. EVENTS AFTER THE BALANCE SHEET DATE

There are no post balance sheet events to report.

RISK MANAGEMENT

1. OBJECTIVES & POLICIES – PRINCIPAL RISKS AND UNCERTAINTIES

Risk Management Framework

There have been no material changes to the Group's Risk Management Framework (RMF).

Governance

The Group's governance structure was set out in detail in the risk management section (1.7) of the 2019 Annual Report and Accounts. The key updates to the 2019 year end position is:

- The Executive Risk Oversight Committee previously reported into the Executive Committee, and now reports directly to the Risk Committee.

Principal risks and uncertainties

As disclosed within the 2019 Annual Report and Accounts risk management section (1.9 and 1.10), the Group has classified its risks into two key categories as follows:

Significant risks: A significant risk is a risk that, if crystallised, the residual risk (based on 5x5 probability versus impact matrix) is likely to cause a significant impact to the Group's ability to operate, service customers, protect its reputation and sustain its viability.

Emerging risks: An emerging risk is a risk that has been identified but not yet sufficiently materialised to allow it to become a significant risk or issue that the Group is actively managing.

The principal risks categories faced by the Group and which may include significant or emerging risks are set out below:

- Capital;
- Credit;
- Model;
- Market;
- Pension;

- Operational;
- Liquidity and funding;
- Reputational.

Where relevant, the Group as a whole applies the same principal risk categories and risk management processes to its subsidiary companies.

Material changes to principal risks since the year-end

We have 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 given the external environment created by the COVID-19 pandemic. Whilst neither the extent and duration of the COVID-19 pandemic nor its consequences for the global economy can be predicted, it is clear that the 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. We set out our strategy to identify and manage these potential impacts below and also provide an update to the impact on principal and significant risks as a result of COVID-19.

COVID-19 strategy

The strategy to deal with the pandemic, which is underpinned by the objective of keeping our customers and colleagues safe, includes intensive incident management, to plan and respond to changes required to our procedures and operational activities. 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 to date to the risks posed by COVID-19 includes:

- Implementing measures to support customers, including payment deferrals, overdraft buffers, removal of late fees on certain products, participation in the Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce-Back Loan Scheme;
- Re-deploying 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;
- Implementation of 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 targeted 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. Further information is provided on page 18;
- 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;
- Evaluating the basis of the Group's participation in the Term Funding Scheme with additional incentives for SMEs (TFSME) government scheme, which is described further on page 11.

These activities involve subject matter experts across the Group and this ensures that responses can be enabled quickly, aligned to our existing governance frameworks.

COVID-19 impact

We have assessed the impact of COVID-19 by principal risk type along with the significant risks within each principal risk category. We have not identified any material adverse changes to risks, other than to capital risk, credit risk or operational risk. Whilst we do not identify any significant risks in relation to liquidity or funding, participating in TFSME provides additional benefits to the Group which are outlined on page 11. The expected impact on these principal risks is set out below and we have included further information in section 2 of this interim risk management report, on the impact of COVID-19 on credit risk.

Capital Risk

Definition:

The Bank may be unable to maintain sufficient capital resources to meet its capital requirements now and in the future.

Key themes reported previously:

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. Regulatory changes are expected in the capital landscape including the introduction of CRRII and CRDV and the Basel III reform.

Significant risks associated with this principal risk:

- The macroeconomic environment;
- Net interest margin;
- Minimum Requirement for Own Funds and Eligible Liabilities (MREL);
- Return to profitability;
- Regulatory change (non-financial risk).

Within the 2019 Annual Report and Accounts, our disclosures highlighted 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. We highlighted that the return to profitability and organic capital generation depended on the successful development and implementation of the Bank's strategy and requires difficult, subjective and complex judgements to be made, involving a range of factors which are not within the Bank's control, for example forecasts of economic conditions. Furthermore, we highlighted that the successful implementation of the Bank's strategy and its return to profitability is contingent upon a range of factors which are beyond the Bank's control, 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.

Update:

The UK economy is facing significant uncertainty and stress as a result of the COVID-19 pandemic. Along with the public health response from the UK government, a range of economic support packages have also been set out, many of which are unprecedented. Whilst these aim to limit the adverse effects from the economic impact of ‘closing the country’ via the lockdown and the mandatory social distancing measures, there inevitably remains a significant adverse impact on the macroeconomic environment.

Many of the government-backed or Bank of England support measures require action from the banking industry or impact the income and cost base of financial institutions. These include:

- The reduction of the base rate to an historic low of 0.1% on 19 March 2020;
- The government pledge for banks to offer three-month repayment deferrals on mortgages to those that need it and other fee waivers for late payments and interest-free overdrafts up to £500;
- The availability of central bank funds to maintain lending via the TFSME scheme;
- Provision of the Coronavirus Business Interruption Loans and Bounce-Back loans to corporate customers.

All the measures above help to support the recovery of the wider economy as quickly as possible and also provide essential support to our customers. However, the low base rate environment adds further downward pressure to the Bank’s income levels, in turn creating an increased risk to the Bank’s ability to return to profitability and to generate organic capital.

The current economic environment also leads to a deterioration of capital market conditions, affecting our ability to issue capital externally. Any external issuance of MREL-qualifying debt in these conditions is likely to present further challenges - the Bank may be required to pay an increased interest rate, adding further downward pressure to profitability or may not be able to issue MREL at all in the short-term. The Bank is still targeting, within the base case financial plan, to return to profitability during the financial planning period and targets maintenance of its compliance to capital, MREL and leverage requirement frameworks. Prior to COVID-19 emerging, the Bank was expecting to issue capital imminently. We remain focused on the preparation for a capital transaction and have continued to refresh this activity, such that we are prepared and ready when the market conditions are favourable for an issuance. As described above and in note 1.2 to the financial statements, until we have completed our MREL issuance programme, this represents a material uncertainty for the Bank. Our shareholders continue to be supportive of our business, and we are committed to achieving our future MREL obligations by January 2022. We have a reasonable expectation that the appetite will be available to the Bank to complete MREL issuances when required, assuming market and economic conditions support.

The Bank’s response and impact on our financial plan:

We have updated our five-year financial plan (2020–2024) to reflect the current expectation of the macroeconomic environment over that time horizon – the revised, post-COVID-19 ‘base case’. Although the full effects of the pandemic are yet to manifest in official data, there are a number of forward-looking views such as Purchasing Managers Index (PMI), Consumer Confidence and House Price Index (HPI) surveys that, alongside the stylised economic scenario included within the BoE's May Monetary Policy Committee Report issued in May 2020, illustrate the potential impact to the UK economic activity that may arise as a result of COVID-19 and these have been used to inform our planning assumptions.

We have also identified potential upside and downside scenarios to the base case, to plan for the effect of alternative outcomes. Within our base case, like many other institutions, we expect a 'V-shaped' recession – i.e. a sharp shock followed by a quick recovery. Our downside, for example, reflects a slower, longer recovery.

In light of the potential impact on capital markets and our ability to transact MREL-qualifying debt, we have also identified a range of reasonably possible scenarios in relation to capital issuance profiles, these being a) continuing to issue MREL-qualifying debt as soon as possible; b) seeking alternative capital (other than debt issuances) where debt is prohibitively expensive; and finally c) we have outlined the financial planning outcomes that would arise if we were unable to issue capital at all in these conditions. In our base case forecast, we anticipate issuing £550m of MREL-qualifying funds over the period until December 2021.

The financial plan reflects how we expect interest rates to recover and how we expect customer need and behaviour to be affected by the current circumstances and those that will prevail over the five year horizon. The financial plan also reflects the support afforded by the government and BoE support measures to the banking industry, in particular the availability of TFSME funding. The re-forecasting of the financial plan has been subjected to significant oversight and monitoring, including by the Board.

Key economic assumptions for this financial year and for 2021 on which our financial plan is based are as follows:

COVID-19 specific scenario inputs	2020	2021
GDP (decline)/growth[1]	c.(14%)	c.15%
Unemployment rate[2]	c.9%	c.6%
HPI (decline)/growth[3]	c.(8%)	c.2%

1. Annual Average year on year growth.
2. Q4 rate.
3. Q4 year on year growth.

Risk weighted assets

As disclosed on page 10 our risk weighted assets (RWAs) at 30 June 2020 total £5.0bn. 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. In line with many of our peers, our RWAs have increased within our reforecast reflecting the increased risk profile in light of COVID-19 and the HPI decline and increase in unemployment rates projected are significant drivers of this increase in RWAs. We anticipate RWAs increasing to over £5bn by the end of 2020 if our base economic assumptions prevail and peaking in 2021 to c.£6bn before reducing.

Management actions have focused on ways to mitigate the adverse impact on profitability, including:

- Approaches designed to limit the interest expense associated with a capital raise. Such approaches include issuing the debt later than originally planned, and strategies to reduce the level of debt issued. As noted above, we now expect to issue c.£550m MREL over the period to December 2021;
- Cost reduction strategies to offset the reduction in income by reducing underlying operating costs in 2020 by approximately 10% and reducing the level of project expenditure in light of reduced benefit associated with certain projects which is described further on page 9;
- Limiting the interest rates on term deposits or other savings, given the reduction in the base rate at this time.

In relation to the non-financial regulatory change risk 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.

Operational Risk

Definition:

The risk of loss resulting from inadequate or failed internal processes, people and systems or external events.

Key themes reported previously:

Operational risk levels remain elevated due to a number of specific issues such as manual processes, legacy systems and processes for which remediation continues. The Group has made significant improvements in its systems of control and continues to enhance and embed the RMF, ensuring a consistent and proactive approach to risk management across the organisation. In 2019 the Group ensured risk and control activities remained an integral part of the business as usual activities.

Significant risks associated with this principal risk:

- Transformation delivery;
- Technology risks.

Within the 2019 Annual Report and Accounts, our disclosures highlighted that operations are highly dependent on the proper functioning of IT and communication systems which comprise a complex array of legacy systems and some newer in-house and third-party IT systems. Any significant failure to remedy the existing IT estate and operate legacy and new IT systems to meet the requirements of the strategy may adversely affect the future operational and financial performance of the business. We also highlighted that during 2019 the risk had materially reduced owing to the work completed in our 'fix the basics' phase of the strategy and the separation of IT systems from the Co-op Group, but given the integral importance of IT to our second phase, enable the future, ongoing investment would still be required. Although a large proportion of the critical services are now supported by technology that was migrated to new hardware in an IBM environment in 2017, which evidenced the return to FCA Threshold Conditions, a proportion of the current systems and technology remain on extended support arrangements or are nearing end-of-life (meaning that there is limited or no support provided by the vendor or specialist third-party supplier).

Update:

In the context of the financial and economic challenges faced by the Group and our customers described above, the cost/benefit of all planned strategic investment was reviewed. This review was conducted with a dual perspective; firstly – through a Customer First perspective - what customer benefit was originally planned to be delivered through the project portfolio and whether these benefits were still achievable or would still be of value to our customers in light of the change in the environment. Our second perspective was in relation to the different and more challenging business environment for all UK banks, and whether individual project spend should remain prioritised compared to conserving the capital that would be consumed by the project. As a result of reviewing both the cost and the benefit in the current environment, we took the decision to pause some of our 2020 strategic and tactical projects, reducing the planned cash spend from c.£80m to c.£45m in 2020. Most notably, we have delayed the rationalisation and development of our mortgage and savings platforms, since benefits are less likely to be realised by the Group or by customers in the current environment. We continue to prioritise the delivery of projects which deliver the most benefit for our customers, along with those projects which are essential for regulatory reasons and keeping customers safe. We continue to fund those projects where there are external contractual commitments. In light of this, whilst the level of transformation to be delivered has reduced, the level of resource available to deliver such programmes has also reduced. Performance of IT services from an availability and security perspective have been, and continue to be, monitored and reported through this period.

Credit Risk

Definition:

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

Key themes reported previously:

The exposure to credit risk has significantly reduced over recent years as higher-risk lending has, and continues to be, deleveraged; however, as with all other banks, an exposure to macroeconomic and market-wide risks such as issues with the housing market and interest rate changes remained under continued review.

Update:

The introduction of a number of measures to support customers through the COVID-19 pandemic has had the potential of masking the credit risk impact on typical early warning indicators. Measures in place have included secured and unsecured payment deferrals, up to £500 interest-free overdrafts and the participation in the government's CBILS and Bounce-Back loan schemes. As these support measures are removed, and the impact of the pandemic on macro- economic factors such as increased unemployment is realised, an increase in the Group's exposure to credit risk is expected. This will manifest itself through increases in arrears which subsequently move through to default.

In terms of new lending, the Group has reviewed, and continues to review, its position with regards to higher LTV mortgage lending, taking into consideration its market position, the credit risk profile of customers and exposure to house price falls. During the pandemic this was also impacted by the ability to undertake physical valuations during lockdown.

More information on credit risk is given in section 2 of this risk management report.

Material changes to emerging risks due to COVID-19

Key emerging risks remain broadly unchanged to those set out in the Risk Management section 1.10 the 2019 Annual Report and Accounts.

Emerging Risk	Update
Regulatory landscape change following Brexit	No significant change in this emerging risk
Additional Capital Requirements Regulation	No significant change in this emerging risk

Risk Management Framework

Full details can be found in the risk management sections (1.1-1.7) of the 2019 Annual Report and Accounts.

Principal risks and uncertainties

Those faced by the Group have been detailed in the risk management section (1.8-1.9) of the 2019 Annual Report and Accounts.

2. CREDIT RISK

All amounts are stated in £m unless otherwise indicated

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

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

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

COVID-19 expected credit loss (ECL) assessment approach

Whilst the Group's portfolio of assets on which credit risk is managed remains low-risk and well-positioned to withstand the current environment, inevitably COVID-19 has had an adverse impact and expected credit losses have increased from levels at the start of the year. Impairment provisions reflect the net impact of the economic deterioration and government and BoE support measures described in section 1 under capital risk. Overall in the first half of 2020, £8.5m of the impairment charge is attributable to COVID-19. These credit impairment charges related to COVID-19 have been driven predominantly by the impact of the changes to the economic outlook and the Group's estimate of customers moving into arrears and defaults from those taking repayment deferrals. We may experience further charges in the second half of the year as specific default events occur or crystallise in the corporate or unsecured retail lending portfolio as levels of government support available to minimise the immediate impact of COVID-19 are reduced over time.

Similarly impairment levels could increase further in 2021, driven by default events occurring or emerging in 2021 leading to unsecured run rate losses and additional specific corporate provisions. Thereafter, we would expect impairment charges to reduce to the level reflective of a pre-COVID-19 environment.

The increase in ECL that we have reflected in the first half of the year arises from both modelled impacts and also post-model adjustments (i.e. expert management judgement overlays).

The increase in ECL arising from modelled impacts of COVID-19 totals £5.8m (after the application of post-model adjustments) in the six months to 30 June 2020 and reflects:

1. emerging changes in credit risk (driven by changes in model inputs for example those related to HPI, or stage 2 triggers being met);
2. the impact of updating economic scenarios for the impact of COVID-19 and their weightings.

More information is included in note 2 to the condensed consolidated financial statements in relation to assumptions around COVID-19 driven stage transfers and also in relation to the economic scenarios.

The increase in ECL arising from post-model adjustments related to COVID-19 in the six months to 30 June 2020 totals £2.7m. Expert management judgement overlays have been applied to reflect:
1. the proportion of customers receiving COVID-19-related concessions moving into arrears;
2. the outlook for certain business sectors which are more exposed to the economic impact of COVID-19; and
3. potential risk factors associated with specific segments of the portfolio.

A number of concessions have been, and will continue to be, granted to customers in response to the short-term financial consequences of COVID-19. In line with regulatory guidance, these interim measures are not considered to be forbearance, as determined by the Group's forbearance policy.

Allowance for losses and credit impairment charge analysis by segment

The following tables analyse the allowance for losses as at 30 June 2020 and the credit impairment charge for the period by segment. Comparative information is shown within the analysis of credit risk section alongside note 3 segmental information and note 8 loans and advances to customers.

	Core		Legacy &		Of which:
30 June 2020	Retail	SME	unallocated	Total	FVTPL[1]
Allowance for losses (ECL provision)					
COVID-19	4.4	2.4	1.7	8.5	-
Other	17.0	5.3	5.0	27.3	2.1
Total	21.4	7.7	6.7	35.8	2.1

	Core		Legacy &		Of which:
30 June 2020	Retail	SME	unallocated	Total	FVTPL[1]
Credit impairment (ECL charge)					
COVID-19	4.4	2.4	1.7	8.5	-
Other	0.8	(0.1)	2.0	2.7	2.1
Total	5.2	2.3	3.7	11.2	2.1

1. Relates to credit risk adjustment to fair value. Shown within Legacy & unallocated.

The credit impairment charge and the ECL provision for the period was due to the following:

- Retail – the COVID-19 impact is split across the secured (£1.5m), credit card (£2.3m) and overdraft (£0.6m) books and is mainly driven from the economic scenarios. The ECL provision has increased by £4.1m to £21.4m, with an ECL charge of £5.2m less utilisation of opening charge. The movement of mainly retail secured customers in stage 1 to stage 2 as part of the COVID-19 review should be noted as a key driver. Additionally, stage 3 has seen an increase from the cessation of debt sales on the unsecured portfolios.
- SME – the increase of ECL provision from £5.3m to £7.7m is mainly COVID-19-driven. The application of the economic scenarios had a £1.5m impact. There was a specific exercise to identify corporate sectors more exposed to COVID-19 such as commercial real estate, leisure, and retail and this increased provisions by £0.9m. This can be seen in the movement of customers into the stage 2 bucket below.
- Legacy & unallocated – the ECL provision has moved from £4.1m to £6.7m (including fair valued assets). The COVID-19 impact is spread across the economic scenarios (£1.0m) with a specific uplift for customers rolling off loan payment deferrals (£0.5m). Unrelated to COVID-19 there was a £2.1m charge in Q1 for a specific fair valued customer.

Analysis of credit risk

The most significant item is the Loans and advances to customers. This book is analysed further below by segment:

	Core		Legacy &		Of which:
30 June 2020	Retail	SME	unallocated	Total	FVTPL
Analysis of credit risk exposure					
Gross customer balance	16,875.2	320.2	1,009.0	18,204.4	114.3
Credit commitments	1,394.1	81.3	170.0	1,645.4	-
Gross customer exposure	18,269.3	401.5	1,179.0	19,849.8	114.3
Less: allowance for losses	(21.4)	(7.7)	(6.7)	(35.8)	(2.1)
Net customer exposure (Risk analysis)	18,247.9	393.8	1,172.3	19,814.0	112.2
Gross exposure for ECL calculation					
Gross customer exposure	18,269.3	401.5	1,179.0	19,849.8	
Less: Fair Value Through Profit and Loss (FVTPL)	(2.4)	(4.8)	(107.1)	(114.3)	
Gross customer exposure for ECL calculation	18,266.9	396.7	1,071.9	19,735.5	

Reconciliation of customer to accounting balances					
Net customer exposure	18,247.9	393.8	1,172.3	19,814.0	112.2
Less credit commitments	(1,394.1)	(81.3)	(170.0)	(1,645.4)	-
Plus accounting adjustments	64.3	1.3	33.3	98.9	30.0
Net loans and advances – note 8	16,918.1	313.8	1,035.6	18,267.5	142.2

	Core		Legacy &		Of which:
31 December 2019	Retail	SME	unallocated	Total	FVTPL
Analysis of credit risk exposure					
Gross customer balance	16,588.4	184.4	1,073.8	17,846.6	117.0
Credit commitments	1,891.3	65.9	147.8	2,105.0	-
Gross customer exposure	18,479.7	250.3	1,221.6	19,951.6	117.0
Less: allowance for losses	(17.3)	(5.3)	(4.1)	(26.7)	-
Net customer exposure (Risk analysis)	18,462.4	245.0	1,217.5	19,924.9	117.0
Gross exposure for ECL calculation					
Gross customer exposure	18,479.7	250.3	1,221.6	19,951.6	
Less: FVTPL	(1.8)	(5.2)	(110.0)	(117.0)	
Gross customer exposure for ECL calculation	18,477.9	245.1	1,111.6	19,834.6	
Reconciliation of customer to accounting balances					
Net customer exposure	18,462.4	245.0	1,217.5	19.924.9	117.0
Less: credit commitments	(1,891.3)	(65.9)	(147.8)	(2,105.0)	-
Plus accounting adjustments	67.5	1.6	29.4	98.5	26.2
Net loans and advances – note 8	16,638.6	180.7	1,099.1	17,918.4	143.2

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

Gross customer exposure for ECL – Retail	Stage 1	Stage 2	Stage 3	Purchased or Originated Credit Impaired (POCI)	Total
Balance as at 31 December 2019	17,587.1	729.4	61.5	99.9	18,477.9
Changes in assets which transitioned during the period:					
To lifetime ECL	(1,630.1)	1,630.1	-	-	-
To credit impaired	(13.7)	(10.0)	23.7	-	-
To 12 month ECL	152.2	(152.2)	-	-	-
From credit impaired	3.2	3.1	(6.3)	-	-
Net changes in assets which transitioned during the period	(1,488.4)	1,471.0	17.4	-	-
Other charges/(releases):					
New assets originated or purchased	1,719.3	-	-	-	1,719.3
Other changes to risk parameters[1]	(1,850.3)	(55.4)	(14.3)	(7.6)	(1,927.6)
Net other charges/(releases)	(1,619.4)	1,415.6	3.1	(7.6)	(208.3)
Assets written off	(0.1)	(0.3)	(2.3)	-	(2.7)
Balance as at 30 June 2020	15,967.6	2,144.7	62.3	92.3	18,266.9

Gross customer exposure for ECL – SME	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2019	215.9	21.0	8.2	-	245.1
Changes in assets which transitioned during the period:					
To lifetime ECL	(286.4)	286.4	-	-	-
From credit impaired	-	2.3	(2.3)	-	-
Net changes in assets which transitioned during the period	(286.4)	288.7	(2.3)	-	-
Other charges/(releases):					
New assets originated or purchased	179.2	-	-	-	179.2
Other changes to risk parameters[1]	(24.5)	(2.6)	(0.4)	-	(27.5)
Net other charges/(releases)	(131.7)	286.1	(2.7)	-	151.7
Assets written off	(0.1)	-	-	-	(0.1)
Balance as at 30 June 2020	84.1	307.1	5.5	-	396.7

Gross customer exposure for ECL – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2019	984.1	40.5	10.7	76.3	1,111.6
Changes in assets which transitioned during the period:					
To lifetime ECL	(23.0)	23.0	-	-	-
To credit impaired	(2.0)	(3.2)	5.2	-	-
To 12 month ECL	3.0	(3.0)	-	-	-
From credit impaired	0.1	0.1	(0.2)	-	-
Net changes in assets which transitioned during the period	(21.9)	16.9	5.0	-	-
Other charges/(releases):					
Other changes to risk parameters[1]	(29.6)	(2.8)	(2.2)	(3.1)	(37.7)
Net other charges/(releases)	(51.5)	14.1	2.8	(3.1)	(37.7)
Assets written off	(0.3)	-	(1.3)	(0.4)	(2.0)
Balance as at 30 June 2020	932.3	54.6	12.2	72.8	1,071.9

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

Allowance for losses – Retail	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2019	8.7	3.3	5.2	0.1	17.3
Changes in assets which transitioned during the period:					
To lifetime ECL	(0.9)	5.4	-	-	4.5
To credit impaired	-	(0.2)	3.1	-	2.9
To 12 month ECL	0.2	(1.0)	-	-	(0.8)
From credit impaired	-	-	(0.2)	-	(0.2)
Net changes in assets which transitioned during the period	(0.7)	4.2	2.9	-	6.4
Other charges/(releases):					
New assets originated or purchased	0.7	-	-	-	0.7
Other changes to risk parameters[1]	(1.5)	1.2	(0.8)	0.1	(1.0)
Net other charges/(releases)	(1.5)	5.4	2.1	0.1	6.1
Assets written off	(0.1)	(0.3)	(1.6)	-	(2.0)
Balance as at 30 June 2020	7.1	8.4	5.7	0.2	21.4

Allowance for losses – SME	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2019	0.4	0.1	4.8	-	5.3
Changes in assets which transitioned during the period:					
To lifetime ECL	(0.6)	1.8	-	-	1.2
Net changes in assets which transitioned during the period	(0.6)	1.8	-	-	1.2
Other charges/(releases):					
New assets originated or purchased	0.3	-	-	-	0.3
Other changes to risk parameters[1]	1.0	0.3	(0.3)	-	1.0
Net other charges/(releases)	0.7	2.1	(0.3)	-	2.5
Assets written off	(0.1)	-	-	-	(0.1)
Balance as at 30 June 2020	1.0	2.2	4.5	-	7.7

Allowance for losses – Legacy	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 31 December 2019	1.4	0.9	1.4	0.4	4.1
Changes in assets which transitioned during the period:					
To lifetime ECL	-	0.2	-	-	0.2
To credit impaired	-	-	0.3	-	0.3
Net changes in assets which transitioned during the period	-	0.2	0.3	-	0.5
Other charges/(releases):					
Other changes to risk parameters[1]	0.9	0.1	0.2	-	1.2
Net other charges/(releases)	0.9	0.3	0.5	-	1.7
Assets written off	-	-	(1.1)	(0.1)	(1.2)
Balance as at 30 June 2020[2]	2.3	1.2	0.8	0.3	4.6

1. Includes repayments and changes due to other model inputs.

2. Excludes £2.1m of allowance for losses on fair valued corporate asset (stage 3) posted in 2020.

Secured residential portfolio analysis

The following tables show the secured residential balances (excluding Legacy) analysed by a number of key risk measurements. The portfolio has grown by a net £0.4bn. The book has 85.5% of its balances with a probability of default (PD) of 1% or less (31 December 2019: 83.4%). The book is also subject to a range of forbearance measures which are detailed in the 2019 Annual Report and Accounts.

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

The table shows gross customer balances analysed by indexed LTV bandings (with interest only including mortgages on a part repayment/part interest basis). Total interest only balances have reduced by £0.1bn. At the same time, total capital repayment balances have increased by £0.5bn. The proportion of total balances with current LTV less than 50% has remained constant in the period to 33.1% (31 December 2019: 33.4%).

	30 June 2020			31 December 2019		
LTV %	Capital repayment	Interest only	Total	Capital repayment	Interest only	Total
Less than 50%	4,447.0	1,061.7	5,508.7	4,323.1	1,105.8	5,428.9
50% to 60%	2,184.6	535.7	2,720.3	2,090.9	528.7	2,619.6
60% to 70%	2,816.7	398.3	3,215.0	2,632.1	403.3	3,035.4
70% to 80%	3,038.3	117.8	3,156.1	2,950.6	127.2	3,077.8
80% to 90%	1,737.4	14.8	1,752.2	1,769.8	20.1	1,789.9
90% to 100%	267.3	3.4	270.7	305.2	5.4	310.6
Greater than or equal to 100%	0.6	3.9	4.5	0.6	4.2	4.8
	14,491.9	2,135.6	16,627.5	14,072.3	2,194.7	16,267.0

b) Mortgage type

The table below shows gross customer balances for mortgages analysed by asset class. The LTV shown is the current indexed average percentage. 99.7% of the total book is classified as prime or buy-to-let mortgages. The higher risk self-certified, almost prime and non-conforming account for only 0.3% of the total book.

	30 June 2020			31 December 2019		
	Gross customer balance	Average LTV %	Interest only %	Gross customer balance	Average LTV %	Interest only %
Prime residential	15,274.9	57.4	6.5	14,966.2	57.4	7.2
Buy-to-let	1,305.8	54.4	85.3	1,250.0	54.9	86.6
Self-certified	32.5	36.4	91.3	33.8	37.1	90.7
Almost prime	13.7	35.6	32.7	14.6	36.5	35.3
Non-conforming	0.6	45.7	40.1	2.4	58.8	21.3
	16,627.5	57.1	12.8	16,267.0	57.2	13.5

c) UK regional distribution

The table below shows the analysis of LTVs and gross customer balances by UK regions. The largest region of London and South East also has the lowest average LTV.

	30 June 2020		31 December 2019	
	Gross customer balance	LTV - %	Gross customer balance	LTV - %
London & South East	6,198.3	54.2	6,370.3	54.4
Northern England	3,854.4	60.6	3,625.1	60.8
Midlands & East Anglia	3,594.3	57.5	3,446.6	57.9
Wales & South West	1,976.2	57.1	1,897.9	56.9
Other	1,004.3	59.5	927.1	60.2
	16,627.5	57.1	16,267.0	57.2

Unsecured retail portfolio analysis

The table below shows the analysis of unsecured retail gross customer exposure by product. The decline reflects the run-off in the unsecured loan portfolio which is now closed and the lower usage of cards and overdrafts due to COVID-19. The drawn balance has declined from a combined £396.5m to £305.5m.

	30 June 2020		31 December 2019	
	Gross customer exposure	ECL	Gross customer exposure	ECL

Unsecured loans	57.8	1.6	75.1	2.1
Credit cards	1,264.9	7.9	1,304.7	5.7
Overdrafts	209.3	3.9	214.4	3.7
	1,532.0	13.4	1,594.2	11.5

SME portfolio analysis

The table below shows the analysis of SME gross customer exposure by product. The increase is driven through the CBILS and Bounce-Back loan lending (as described in the financial review section). Excluding these loans the book is broadly evenly split across secured and unsecured lending.

	30 June 2020		31 December 2019	
	Gross customer exposure	ECL	Gross customer exposure	ECL
Secured loans	137.8	0.6	140.3	0.1
Unsecured loans	200.1	1.9	52.6	0.6
Credit cards	8.2	0.1	7.8	-
Overdrafts	55.4	5.1	49.6	4.6
	401.5	7.7	250.3	5.3

Corporate and unallocated portfolio analysis

The table below shows the analysis of corporate and unallocated gross customer exposure by product. As shown below the majority of the book is either in the low-risk PFI or housing association sectors.

	30 June 2020		31 December 2019	
	Gross customer exposure	ECL	Gross customer exposure	ECL
Secured loans	499.2	0.5	511.9	0.1
Unsecured loans	457.3	4.1	461.8	1.4
Credit cards	0.1	-	0.1	-
	956.6	4.6	973.8	1.5

Sector analysis

The table below analyses the gross customer exposure for the SME and corporate and unallocated segments by sector. The exposure to higher-risk COVID-19 sectors is limited.

	30 June 2020		31 December 2019	
	SME	Corporate and unallocated	SME	Corporate and unallocated
Private Finance Initiative (PFI)	-	585.7	-	573.4
Housing Association (HA)	2.3	317.1	2.4	334.3
Business Banking	170.7	-	36.6	-
Commercial Real Estate (CRE)	84.5	13.6	87.6	15.8
Education	7.8	17.3	8.6	26.6
Renewable Energy	23.1	-	24.8	-
Food and Hotel	23.1	-	23.4	0.3
Retail and Wholesale	14.1	4.1	10.8	4.1
Charities	17.3	0.4	14.6	0.5
Finance and Legal	12.0	-	11.2	-
Care	4.1	-	4.1	-
Other	42.5	18.4	26.2	18.8
	401.5	956.6	250.3	973.8

- END -

FORWARD LOOKING STATEMENTS

This document contains certain forward-looking statements with respect to the business, strategy and plans of the Group (including its 2020-2024 Financial Plan, referred to as the "Plan") and its current targets, goals and expectations relating to its future financial condition and performance, developments and/or prospects. In particular, these include, but are not limited to, targets under the "Outlook" section of the performance highlights in this announcement and page 18 in the 2020 Interim Financial Report. Forward looking statements sometimes can be identified by the use of words such as 'may', 'will', 'seek', 'continue', 'aim', 'anticipate', 'target', 'projected', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'achieve', 'predict', 'should' or in each case, by their negative or other variations or comparable terminology, or by discussion of strategy, plans, objectives, goals, future events or intentions.

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

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

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