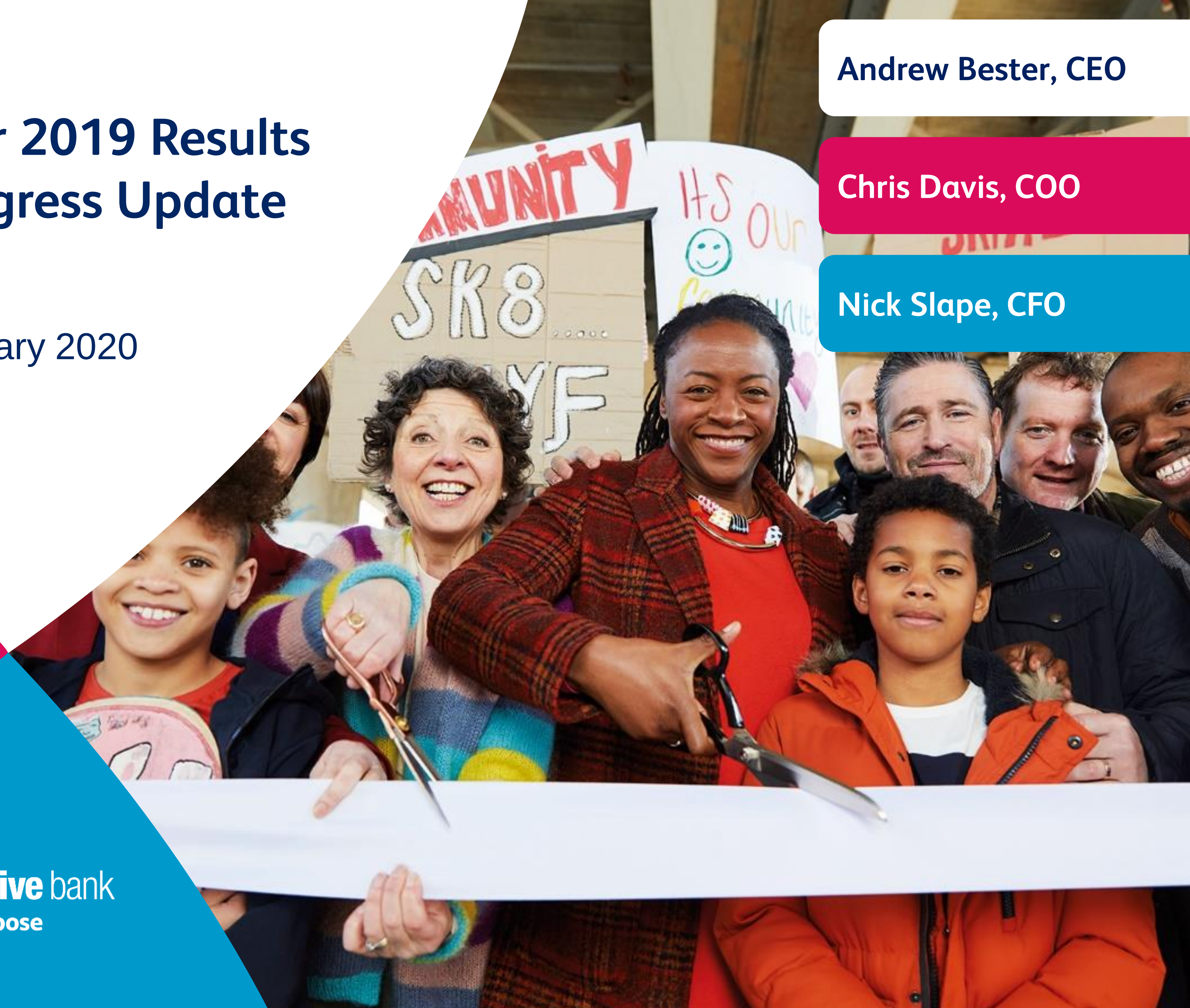
Full Year 2019 Results and Progress Update

27th February 2020

Andrew Bester, CEO

Chris Davis, COO

Nick Slape, CFO



The co-operative bank
for people with purpose

First phase of the transformation plan delivered

Re-activated our unique brand delivering franchise growth

- **#1 for ethical perception and Most trusted mainstream Bank**
  Hall & Partners and Moneywise 2019
- **Highest current account NPS since 2013 of +29**
- **Retail and SME deposit growth of 6%; Mortgage growth of 5%**
  Building momentum in the franchise
- **8% share of Incentivised Switching Scheme**
  (Target 6%)

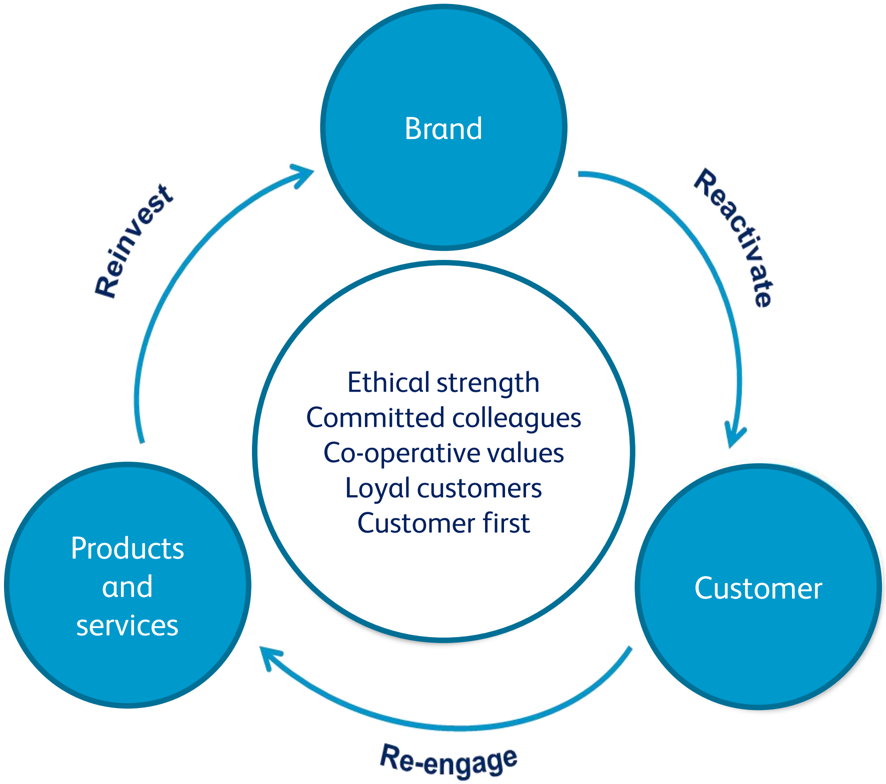
Delivered key strategic milestones

- **Separation from Co-op Group completed**
  with minimal customer impact
- **Key supplier contracts renegotiated**
  with Capita & IBM enabling greater value-for-money and flexibility
- **Greater digital engagement**
  c.60% customers now digitally active
- **Highest ever colleague engagement scores** (82%)
  creating a high performance culture

Performance in line with original guidance

- **Given interest margin pressures, costs controlled and capital strong**
  despite PPI impact
- **2.15% reduction in ICR**
  Total capital requirement equivalent to 14.54% of RWAs
- **Continued de-risking of Legacy assets**
  now representing <5% of total assets
- **£200m Tier 2 debt issued**

Building on our key strengths and investing in our franchise



Built on a foundation of ethical banking that makes a positive difference to the lives of our customers and communities

Leveraging our unique brand as a key differentiator

Connecting with new and existing customers

Developing award winning products and services

Re-energising our people

Brand re-launch sees highest customer satisfaction since 2013

- **Re-energised our brand, re-connecting with our 3.3m Retail and 85k SME customers**
- **Our unique brand is attracting new customers seeking an ethical Bank**
- **First SME marketing campaign in 10 years viewed over 20m times contributed to 109% increase in new current account volumes**
  - TV ad seen by >75 % of adult population
  - Radio ads heard 35m times across 11 stations
  - Social media posts seen 28m times
- **Improvement in 80% of customer metrics** as customer first principles embedded across the organisation
- **Current account NPS at the highest level since 2013 (+29)**
- **Winner of Branch network of the year for the 3rd year running,** providing market-leading customer service across our channels
- **Voted the UKs most trusted mainstream bank** (Moneywise)
- **#1 position for ethical perception** (Hall & Partners)

Our unique ethical policy is a key reason customers choose to Bank with us

The Original Ethical Bank; market leading in ethical perception

Championing environmental sustainability

- Proud to be **beyond carbon neutral for > 12 years**
- **Committed to zero waste to landfill by end of 2020**
- **Actively supported global climate strike**

Driving social change

- **In partnership with Amnesty International;** strong support from colleagues and customers
- Implementing **industry-wide Financial Abuse Code of Conduct in partnership with Refuge**
- **Aiming to end youth homelessness in partnership with Centrepoint;** making a donation for every new mortgage
- **Two paid volunteering days per colleague** supporting local communities and charitable causes
- **Supporting new and growing co-operative businesses;** including The Hive, & Co-ops UK

Robust governance and ethical screening aligned to our values

- **We have turned down more than £1.4bn of lending to businesses** since adoption of ethical policy in 1992
- **223 applications referred in 2019 for review under our ethical policy;** we will not do business with companies involved in harmful environmental practices such as the extraction or refinement of fossil fuels

1992. The first UK bank with a customer-led Ethical Policy.

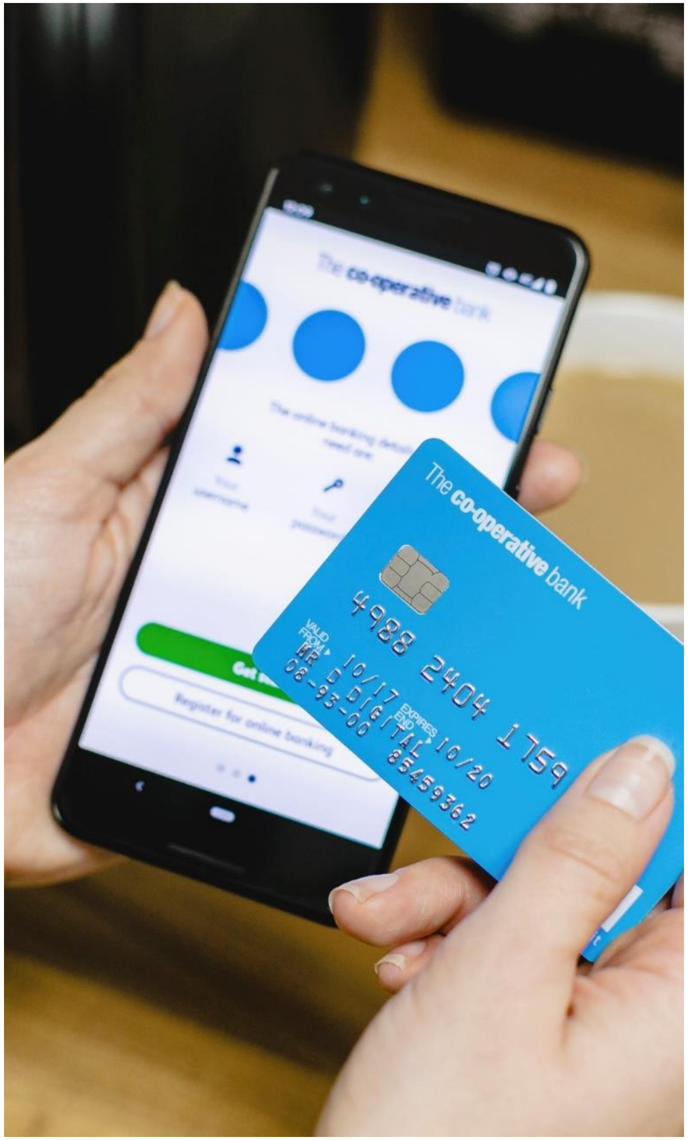
2020. Still the only UK Bank with a customer-led Ethical Policy.

"The Co-operative Bank's commitment to growing the co-operative sector in the UK has been an integral part of our grassroots co-op development work over the last four years. This fantastic partnership has helped us support over 900 groups, with a number of them going on to leverage nearly £6 million of community investment.."

"… We look forward to building and evolving our partnership, so that together we can grow the co-ops of tomorrow"

Ed Mayo
Secretary General, Co-operatives UK

Improved customer products, services & channels



Simplifying customer journeys & enhancing digitalisation

- **Time to open improved c. 20% on average across product range** [1]
- **Online sales double** as new online and mobile banking platform continue to attract more users (c.380k)
- **c.60% of customers now digitally active**
- **New platform supporting new SME customers**
- **Enhanced capability tools** rolled out such as cashminder online application form

Expanding our product offering

- **New 95-day notice savings account launched in October 2019**
- **Free SME 30-month introductory period; a best-in-market deal**
- In-app online saver and new select-access-saver (SAS) launched
- **Re-entry to the loans market** via freedom finance partnership

1. Includes SME, current and savings account opening times

Momentum in our customer franchise

Retail lending

- **5% mortgage growth outperforming industry average** (3 %)
- **Positive reaction to new personal loans proposition**

Retail deposits

- **Franchise balance growth of 6%**
- **Increase in new-to-bank customers of 55%**
- **32% reduction in exit of high usage customers**

SME

- **Deposit balance growth of 6%**
- **109% increase in new business current account customers**
- **Successful bid for Capability & Innovation funding**
- **8% share of Incentivised Switching Scheme** (target 6 %)

Fix the Basics complete; in a strong position to Enable the Future

Fix the basics 2018/19

- **Financial performance aligned to expectations**
- **Full separation from the Co-op Group complete**
- **£200m successful Tier 2 issuance** a significant step towards regulatory compliance
- **Re-energised our people** highest engagement score since 2013
- **Re-engaged loyal customers** brand re-launch, industry recognised customer service & NPS score of +29
- **Enhanced digital engagement** Increase in mobile users to c.380k
- **Renewal of key strategic partnerships** flexible value-for-money contracts with IBM & Capita

Enable the future 2020/21

Targeted growth in our franchise

- Maximise position as '**The Original Ethical Bank**' as consumers seek ethical choices
- Utilise customer insight to deepen segment marketing
- Invest BCR funding to enhance and grow SME business

Expand products and channels:

- Launch relevant products that better meet customer needs
- Enhance digital customer journeys and optimise interactions
- Re-entry to the youth market

Simplification:

- Cost savings driven by supplier rationalisation
- Simplifying mortgage and savings administration platforms
- Build internal capability as we become a leaner, simpler Bank

Establish sustainable advantage 2022+

- The ethical digital Bank
- Digital mortgages delivered at low marginal costs
- Flexible digital savings platform
- SME banking North West challenger

Enhancing customer experience and generating shareholder value

Well placed to build on our 2019 achievements, focusing on cost reduction, franchise growth and investing for the future to deliver a sustainable, profitable Co-operative Bank

2019: Fix the Basics complete

Continued digitalisation

Desktop transformation

IT platform refresh

Separation from the Co-op Group

Strengthening key partnerships

Key achievements

*BAU capability maintained throughout, remaining **safe and secure***

Tier 1 services
99.99% available
(payments, treasury, PoS)

Customer channels
99.59% available
(internet banking, branch, contact centre)

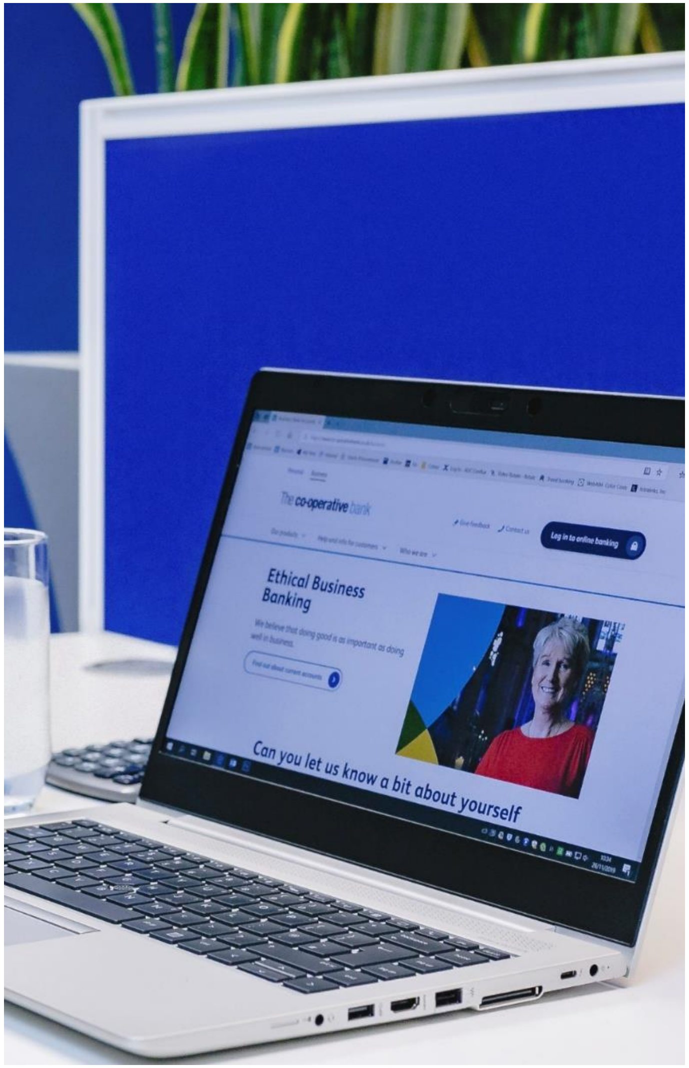
Separation from the Co-op Group completed

All business and cyber security services migrated

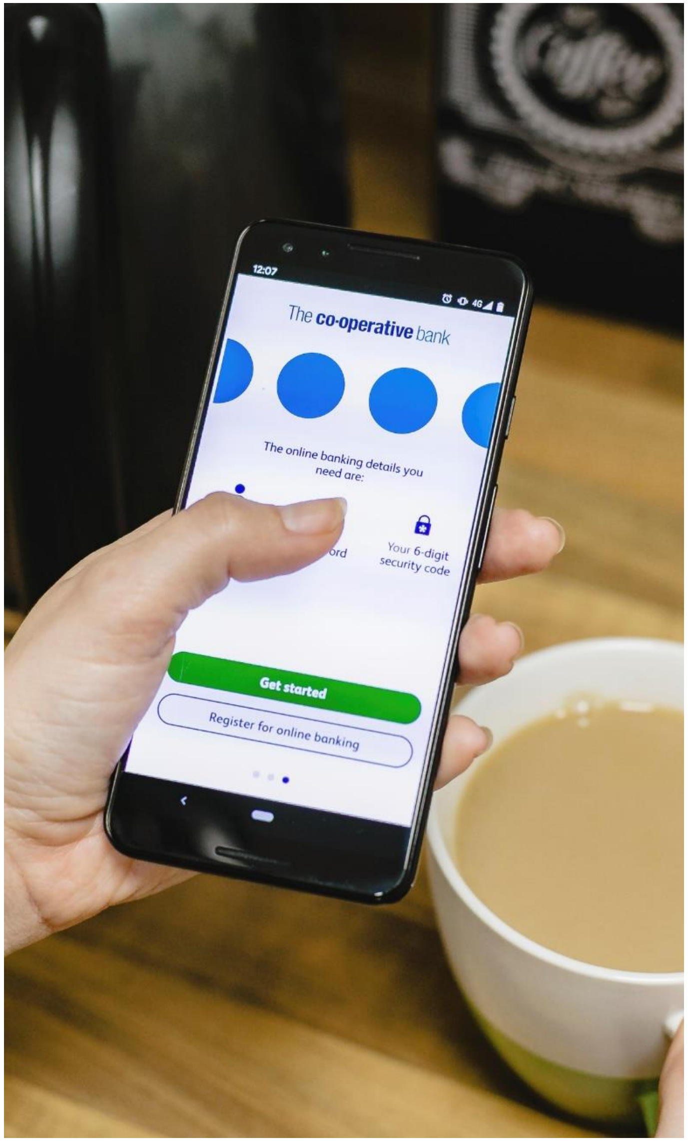
- Final technical **separation completed** with minimal customer impact
- **2** remaining Co-op Group **data centres exited**
- **150 applications and 447 servers migrated; over 1,100** servers **decommissioned**
- **SAS platform upgraded** and migrated; **28% reduction of data MI reports** as a result of simplification activity
- Proven **resilience and service stability** improvements across the IT estate, including heritage Britannia services

Supported by the completion of desktop transformation

- **Desktop Transformation Programme** completed; all colleague hardware devices modernised and upgraded to **Windows 10**
- Desktop estate simplified through an **80% reduction in desktop applications**
- Continuous **refresh processes** to maintain currency of **support, security and functionality**



Continued digitalisation driving changes in customer behaviour



Exceeded digital sales, delivery, cost and risk performance targets

- **c.360k customers migrated to new mobile platform** with 7% growth in customers using the new platform (c.380k)
- Increased the number of **digital releases to 19 in 2019** (3 releases 2018), launching **22 new features** for customers
- **Frequency of usage** in mobile channel nearly doubled
- **Digital sales doubled year on year** with **58% of current accounts** being opened through digital channels
- **38m visits to Bank websites,** up 4% in the year; **social media engagement grew with >10% more followers**
- **New platform supporting new SME customers**

Supported by continued investment in our strategic IT platforms

- **3m debit card customers migrated** to strategic card management and authorisation platform
- **Continued cyber security** maturity improvements delivered
- Commenced the **upgrade of our strategic mortgages and savings platform**

Key partnerships strengthened

Renewed a number of key supplier partnerships

- **Capita contract renewed** with agreed principles to enhance service levels for our mortgage customers
- **IBM contract re-shaped** to improve commercial flexibility whilst enabling strategic cloud development

We will leverage partnerships to build a simplified organisation

- Future transformation programmes supported enabling **system modernisation** and **agile working processes**
- **Supplier consolidation** initiatives underway, developing strategic partnerships with a smaller number of suppliers to drive value

In 2020, we are focused on simplifying the Bank & enabling the future

Mortgages and Savings	SME	Payments	Digital and Channels	IT, Data and Cyber
• Complete strategic platform upgrade	• Enable same day onboarding journeys	• Improve customer authentication	• Enhance mobile and online capabilities	• Reduce legacy applications and simplify the estate
• Deliver new-to-bank mortgage broker & savings capability	• Deliver SME mobile application	• Digitalisation of payments services	• Introduce new cloud hosting model	• Improve cyber security
• Simplify mortgages & savings operating model	• Upgrade customer servicing platform	• Stabilise and simplify our payments platforms	• Increase straight through application processing	• Consolidate our data warehouse and SAS environments

Underlying loss is ahead of expectations at £19.7m

£m	FY 19[1]	FY 18[1]	Change
Retail	262.4	290.4	(10%)
SME	55.5	57.3	(3%)
Core customer income	**317.9**	**347.7**	**(9%)**
Treasury	38.3	32.1	19%
Total core income	**356.2**	**379.8**	**(6%)**
Legacy and unallocated	2.7	12.3	(78%)
Total income	**358.9**	**392.1**	**(8%)**
Operating costs	(361.5)	(355.4)	(2%)
Continuous improvement spend	(19.6)	(18.6)	(5%)
Operating expenditure	(381.1)	(374.0)	(2%)
Impairment gains	2.5	5.5	(55%)
Underlying (loss) / profit	**(19.7)**	**23.6**	**>(100%)**
Loss before tax	**(152.1)**	**(140.7)**	**(8%)**

Ratios			
Customer NIM[2]	175bps	210bps	(35)bps
Underlying cost:income ratio[3]	106%	95%	(11)pp
CET1 ratio %	19.6%	22.3%	(2.7)pp

Core income reduces by 6% to £356.2m

- Retail income down £28.0m as a result of NIM compression and changing customer behaviour on SVR; SME broadly stable
- Treasury up £6.2m as asset sales and pension discount unwind offsets Tier 2 expense and lower MBS balances

Legacy and unallocated down £9.6m, in part due to further balance sheet de-risking of Legacy assets, now less than 5% of the total book at £1.1bn

Customer NIM down 35bps to 175bps due to Tier 2 expense and continued mortgage margin erosion; in line with guidance of c.170bps

Operating expenditure up 2% to £381.1m

- Planned investment in brand and people has been largely offset by management cost reduction activity
- Underlying cost:income ratio remains broadly in line with full year guidance of <105%, but ahead of original guidance of c.115%

Credit quality remains strong with a net **impairment gain** for the third consecutive year

Loss before tax of £152.1m increases by £11.4m as we resolve legacy issues; this includes the impact of the additional PPI provision of £62.5m; **£89.6m loss excluding PPI** (2018: £101.2m excluding PPI)

CET1 ratio down to 19.6%; in line with upgraded guidance of 19.5 - 20.0% but ahead of original guidance of c.19%

1. Income statement basis of preparation has been updated in 2019 and 2018 figures have been re-presented, see appendix for details
2. NIM calculated as total net interest income over average gross customer assets
3. Underlying cost:income ratio is calculated as operating expenditure over total income

Core net interest income down 9% driven by expected NIM compression

£m	FY 19	FY 18	Change
Retail	248.8	277.2	(10%)
SME	38.9	40.6	(4%)
Core customer interest income	**287.7**	**317.8**	**(9%)**
Treasury	22.9	35.7	(36%)
Total core interest income	**310.6**	**353.5**	**(12%)**
Legacy or unallocated	(0.6)	5.9	>(100%)
Total net interest income	310.0	359.4	(14%)
Total other operating income	48.9	32.7	50%
Total income	358.9	392.1	(8%)

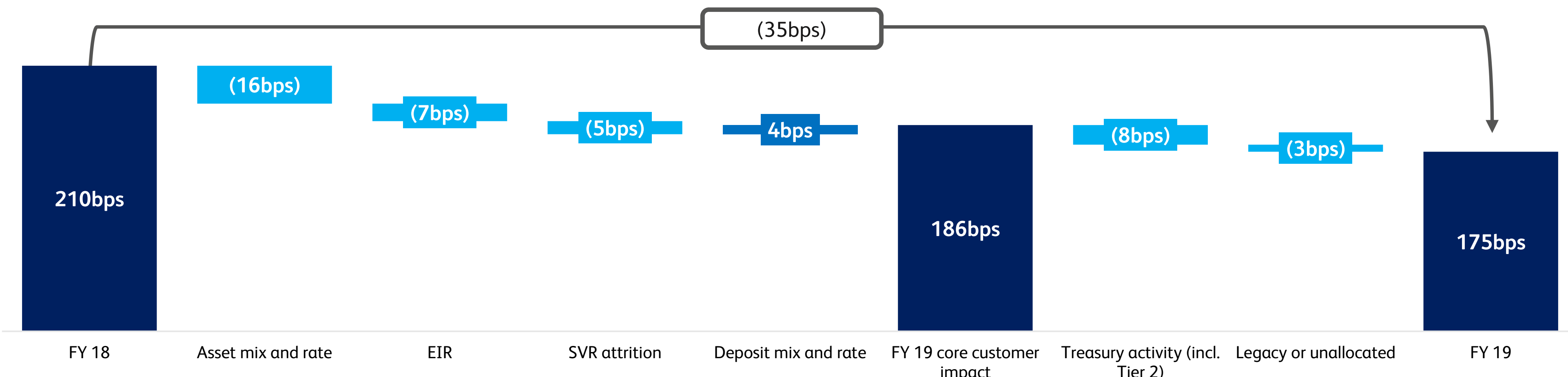
Core NII of £310.6m

- Retail NII down 10% driven by competitive mortgage margins and changing customer behaviour on SVR, negatively impacting EIR adjustments; partially offset by improvements in deposit mix
- SME down as asset balances reduce 37%
- Treasury NII down largely as a result of 2019 Tier 2 issuance and lower MBS balances partially offset by pension net interest

Legacy income down as exposure reduces

Customer NIM ahead of guidance of c.170bps; further erosion expected in 2020 due to MREL debt and 'lower for longer' rates

Customer net interest margin[1]

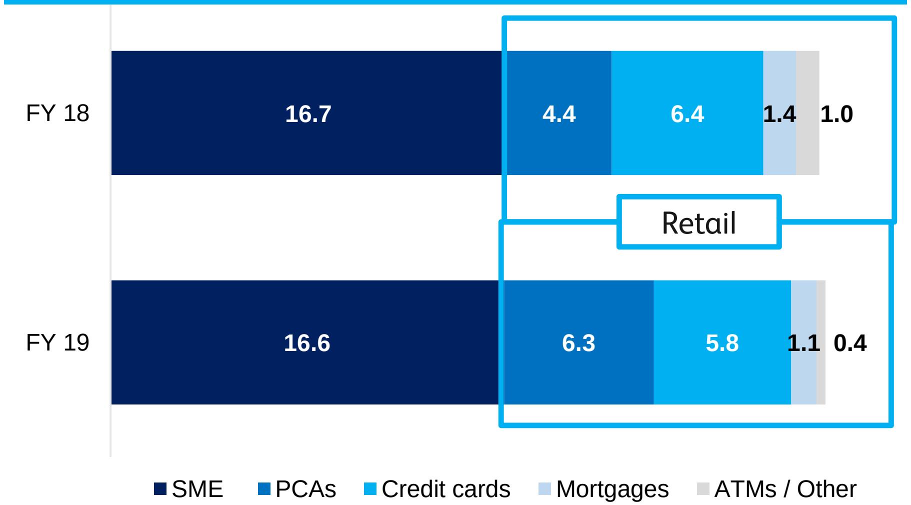


1. NIM calculated as total net interest income over average gross customer assets

Other operating income up 50% driven by Treasury

£m	FY 19	FY 18	Change
Total net interest income	310.0	359.4	(14%)
Retail	13.6	13.2	3 %
SME	16.6	16.7	(1 %)
Core customer fee income	**30.2**	**29.9**	**1%**
Treasury	15.4	(3.6)	>100 %
Total core other operating income	**45.6**	**26.3**	**73%**
Legacy or unallocated	3.3	6.4	(48 %)
Total other operating income	48.9	32.7	50%
Total income	358.9	392.1	(8%)

Core customer fee income split (£m)



Core customer fee income up 1%

- Retail stable
- SME flat but expected to grow in 2020 as the Bank invests in the SME product offering

Treasury other operating income up £19m including

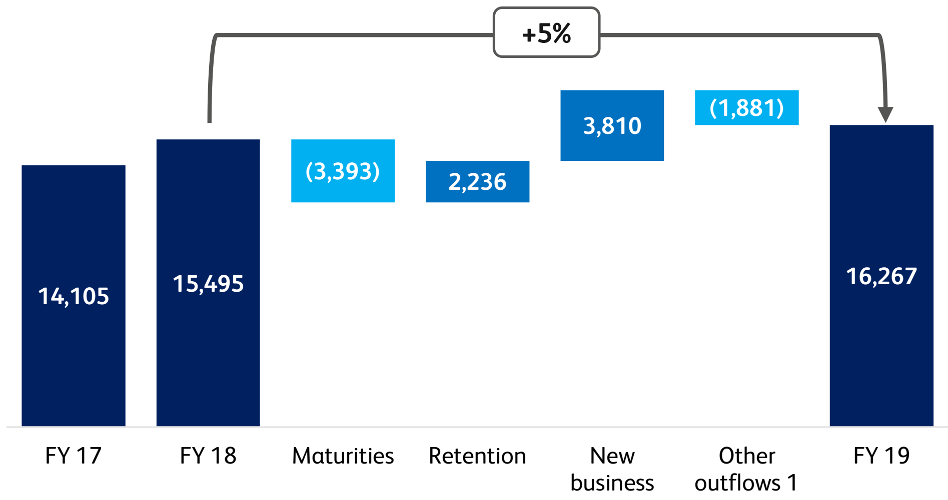
- Gilt and MBS sales; £9.9m
- Fair value movements; £3.2m
- Impact of hedge accounting adjustments in 2018

Legacy and other income down £3m

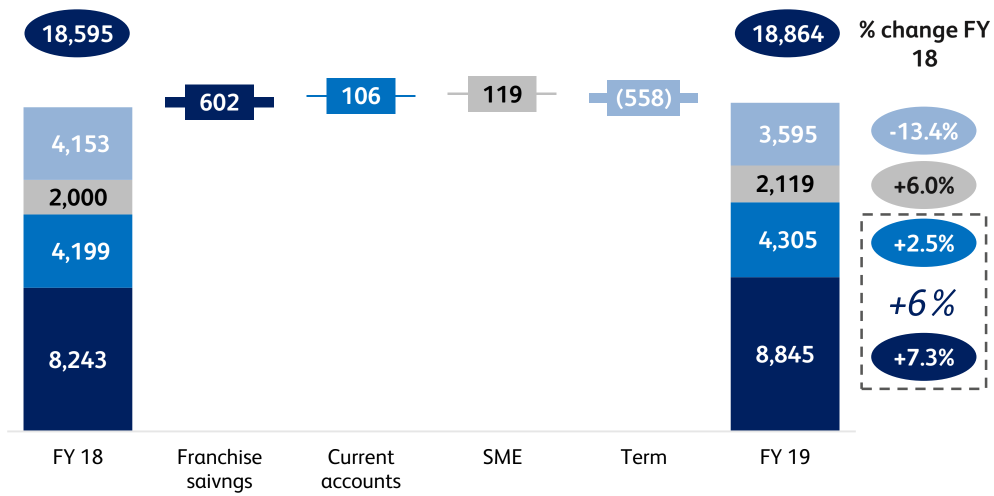
- £1.2m reduction in legacy income, driven by reduced exposure
- Other movement driven by one-off provision releases in 2018 and 2019

5% mortgage growth outperforms market average of 3%

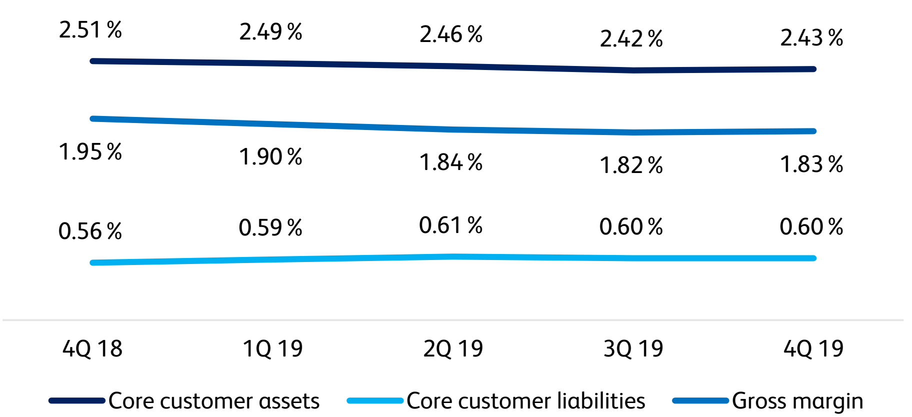
Mortgage flows [1] (£m)



Core customer deposit flows (£m)



Gross customer deposit and lending rates [2]

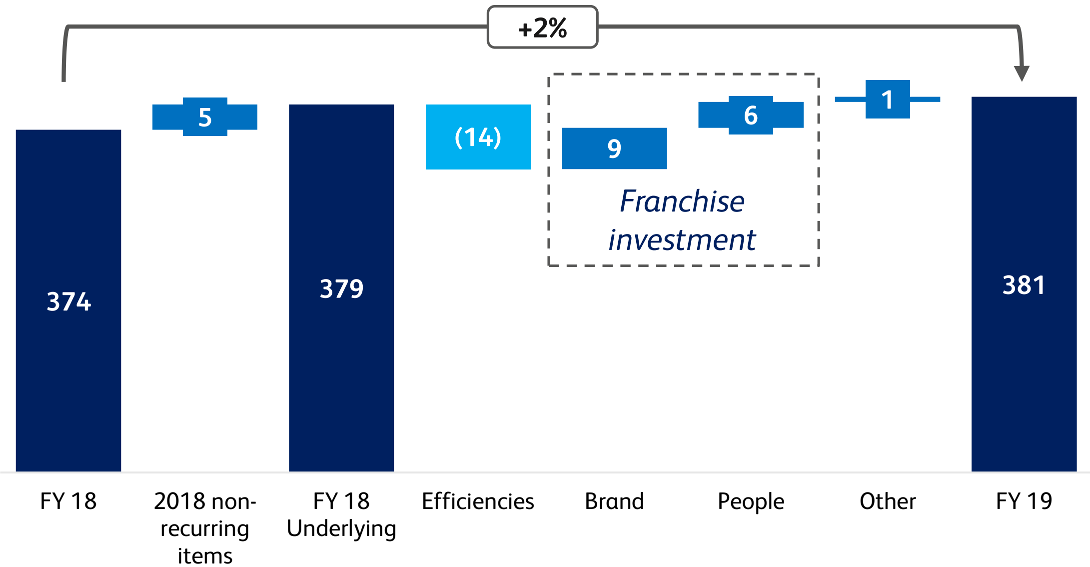


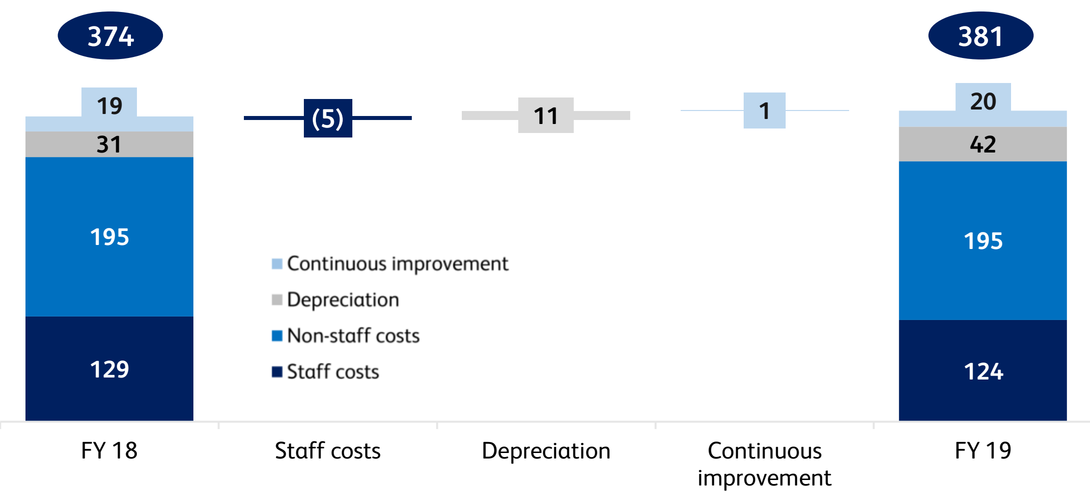
- 5 % growth in mortgages continues strong trend; new business totals £3.8bn in 2019
- 1.4 % increase in core customer deposits; 6 % growth in Retail franchise and SME deposits has offset targeted reduction in expensive term balances through repricing
- Customer corridor has contracted in 2019 but stable in H2 with a flat cost of funding at 60bps
- Greater focus on SME deposits underpinned by planned investment will drive future growth

1. Other outflows include contractual repayments and fixed period redemptions
2. Calculated as annualised core customer income over the core customer average spot balances for the three-month period

Cost efficiencies have offset renewed investment into our brand

Operating expenditure movements



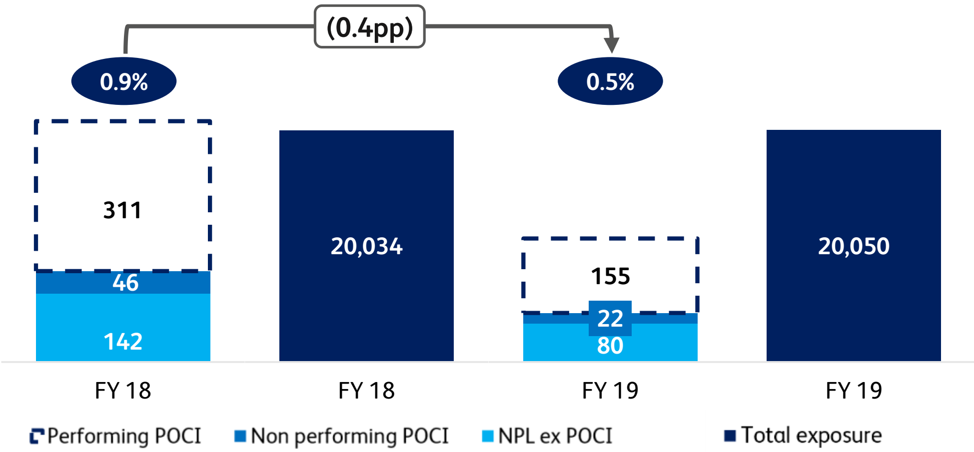


- Underlying operating expenditure of £381m broadly in line with 2018
- £14m of efficiencies delivered in the year which offset investment in our brand and in our people

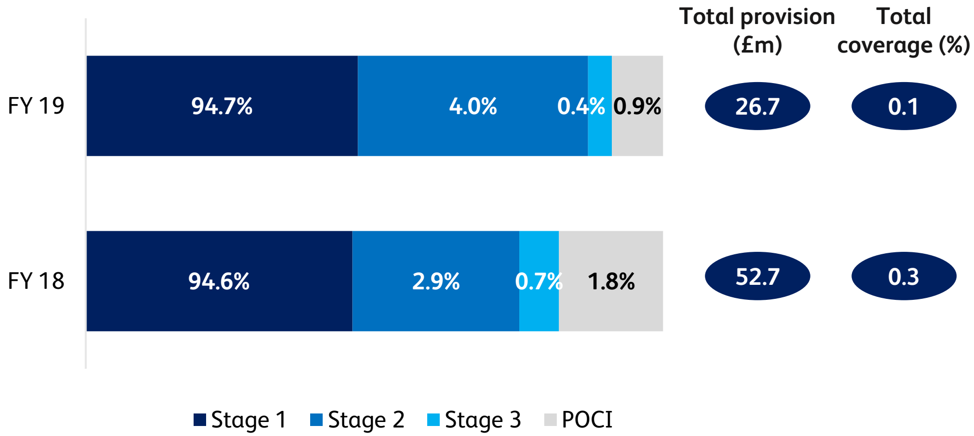
- Staff cost reduction of £5m driven by efficiencies and changing mix of permanent and temporary staff, offset by people investment
- Depreciation increases £11m in 2019 largely driven by IFRS16 (partially offset in non-staff costs) and as we continue to invest in future capability
- Underlying cost:income ratio 106 % broadly in line with guidance
- Delivery of strategic projects and contract renegotiation with key partners will drive future efficiencies
- Cost:income guidance in 2020 of c.105

Prudent approach to risk drives high credit quality business

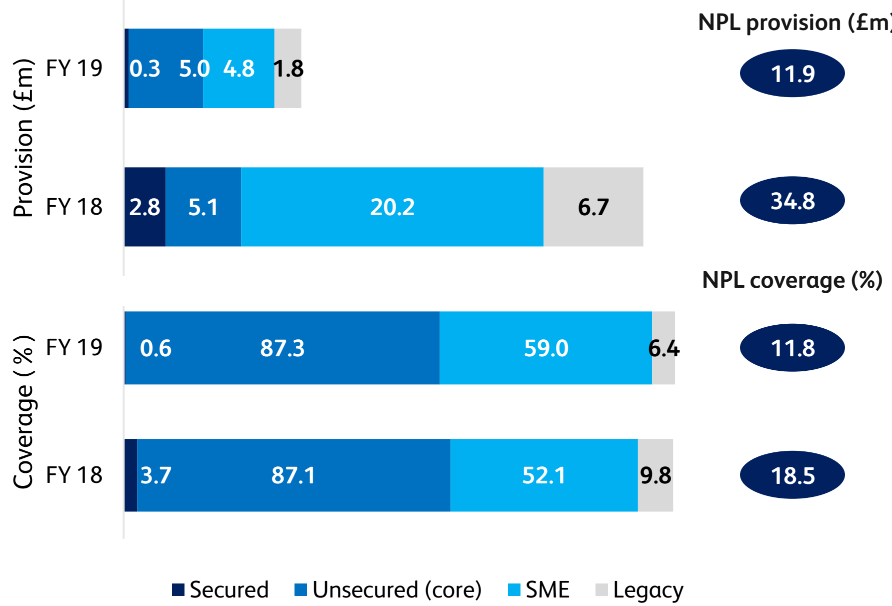
Non-performing loans [1]



Exposure by stage [3]



NPL coverage [2]



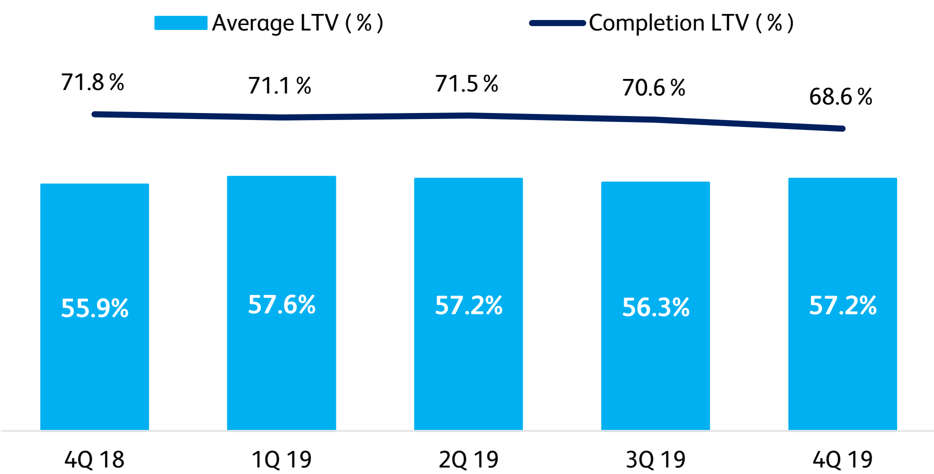
Net impairment release of £2.5m reflects strong credit quality portfolios and de-risking activity during the year:

- Model adjustments and corporate write-offs of long-standing defaults drive 66 % reduction in NPL provision
- Non-performing loans reduces to 0.5 % of exposures
- Optimum book securitisation (Warwick 4) drives reduction in Legacy coverage and provision, and POCI balances

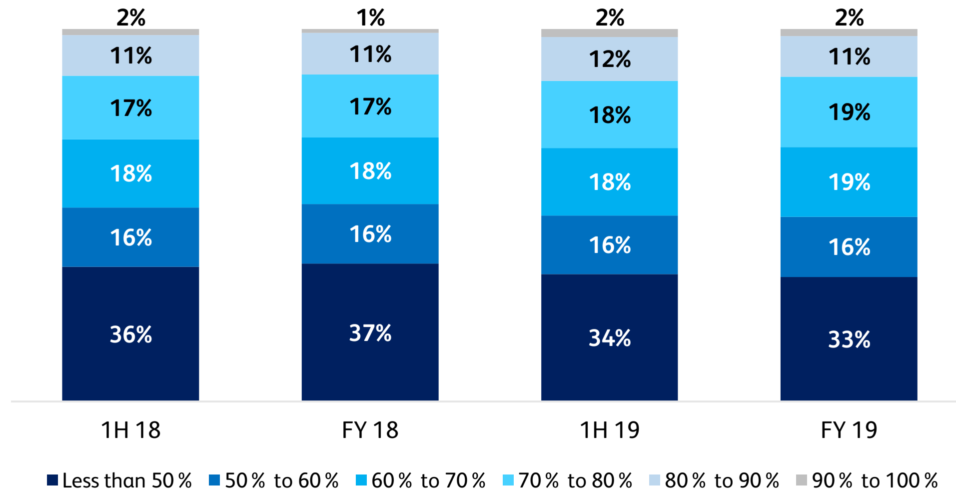
1. NPL % calculated as non-performing exposure (excluding performing POCI) over total exposure
2. NPL Coverage ratio calculated as NPL provision over NPL balance (all excluding performing POCI)
3. Excludes balances relating to FVTPL

Well diversified and low LTV mortgage book

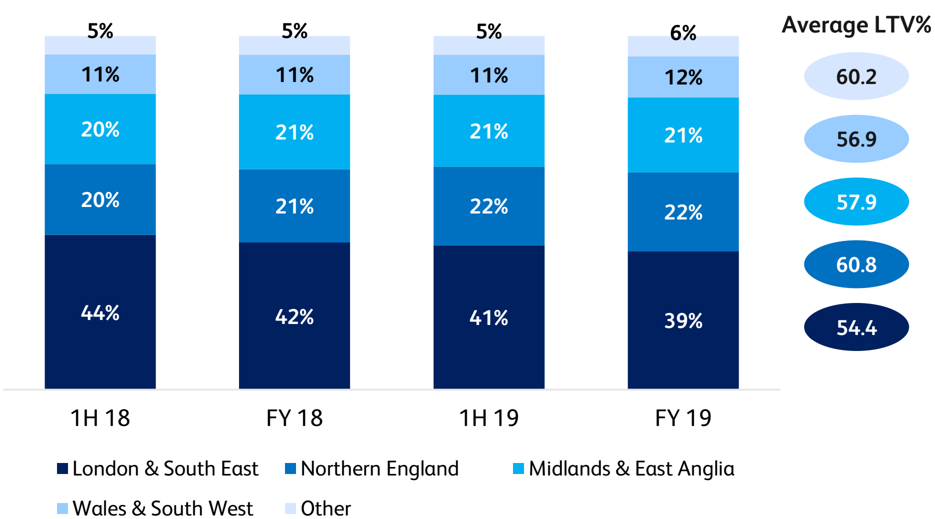
Average retail mortgage LTV (%)



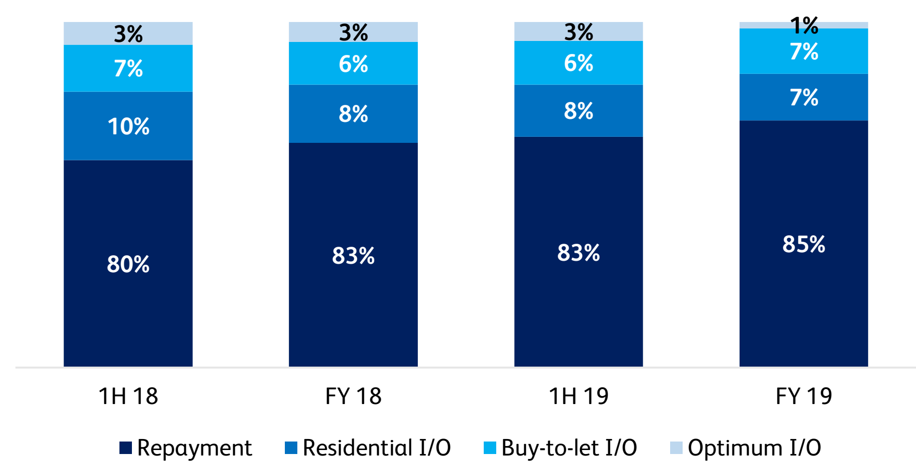
LTV split by band



Core mortgage book by geographical split



Mortgage by repayment type



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Higher loss before tax driven by PPI charge

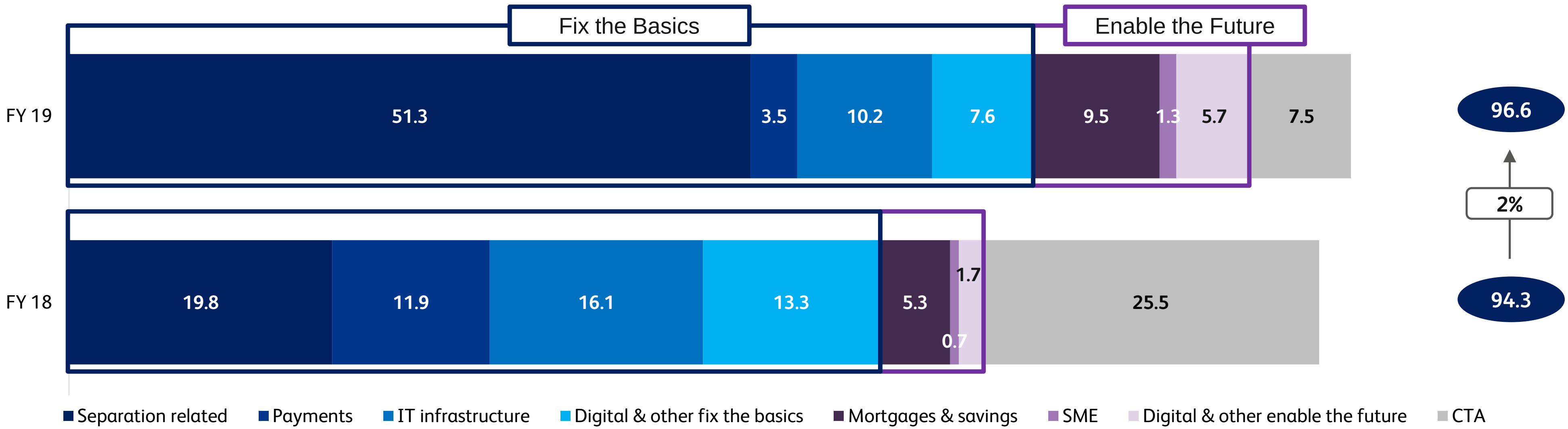
£m	FY 19	FY 18	Change
Underlying (loss)/profit	(19.7)	23.6	>(100%)
Fix the Basics	*(72.6)*	*(61.1)*	*(19%)*
Enable the Future	*(16.5)*	*(7.7)*	*>(100%)*
Cost to achieve	*(7.5)*	*(25.5)*	*71%*
Strategic project costs	(96.6)	(94.3)	(2%)
Net customer redress charge	(63.5)	(31.7)	(100%)
Non-operating income / (expense)	27.7	(38.3)	>100%
Statutory loss before tax	**(152.1)**	**(140.7)**	**(8%)**
Tax	(0.9)	72.0	>(100%)
Loss after tax	**(153.0)**	**(68.7)**	**>(100%)**

Loss before tax of £152.1m is 8% higher than 2018 as we resolve legacy issues:

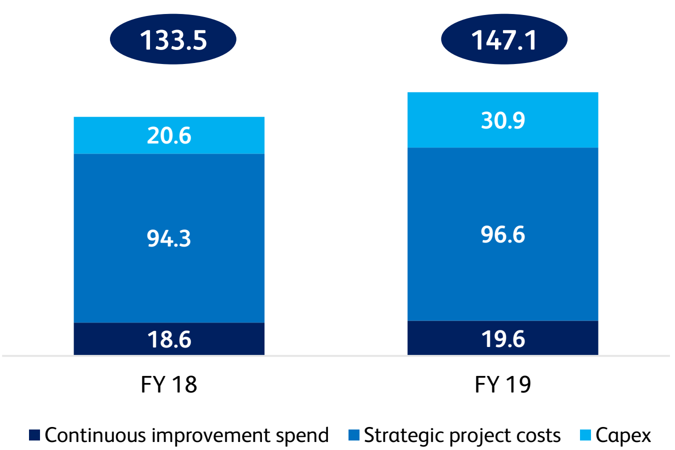
- £27.7m non-operating income includes:
  - Visa gain of £18.1m (2018: £2m)
  - Surrendered loss debtor (SLD) increases to £47.8m; £14.6m gain in the year
  - 2018 includes £28m write down of SLD and a one-off loss of £12m relating to Guaranteed Minimum Pensions equalisation
- Redress provision totals £61.8m at year-end; £57.5m for PPI
- All PPI enquiries received prior to the time-bar are now processed
- The current provision of £57.5m remains our best estimate of the cost to cover the tail of PPI complaint handling activity
- Tax credit in 2018 arises on sectionalisation of Pace pension scheme (non-recurring)

IT separation & desktop complete; focus moves to enabling the future

Strategic project costs (£m)



Cash investment spend (£m)



- Total cash investment spend of £147.1m in line with revised guidance of £140-150m
- IT separation and desktop transformation now complete which were significant multi-year programmes; total lifetime cash spend of approximately £80m and £45m respectively
- 2020 portfolio primarily focused on Enable the Future
- Anticipated investment cash spend in 2020 reduces to c.£80m

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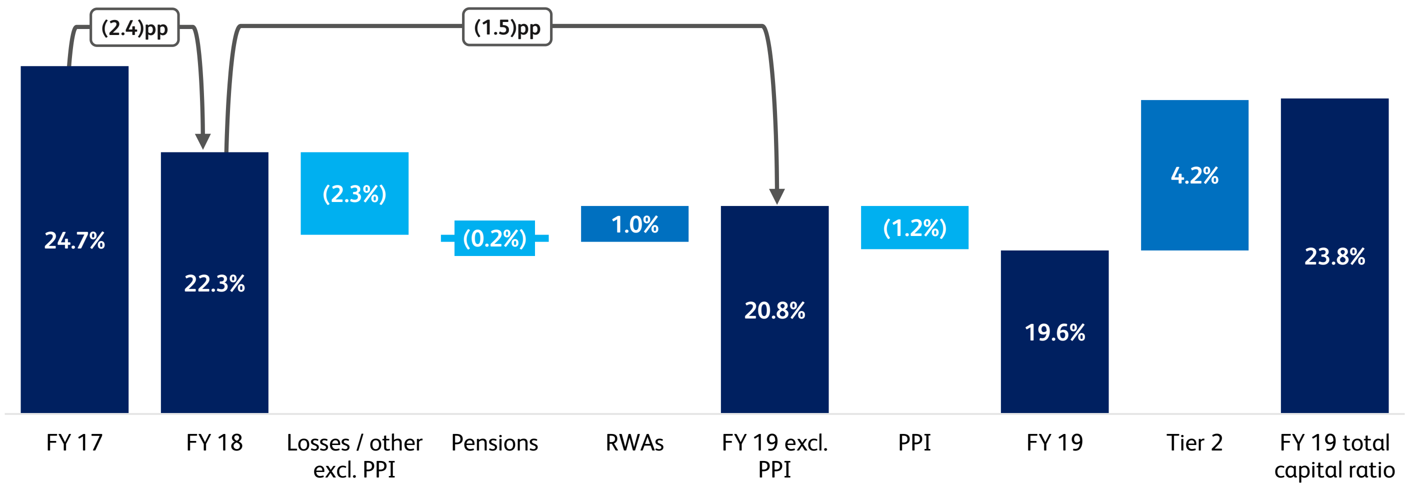
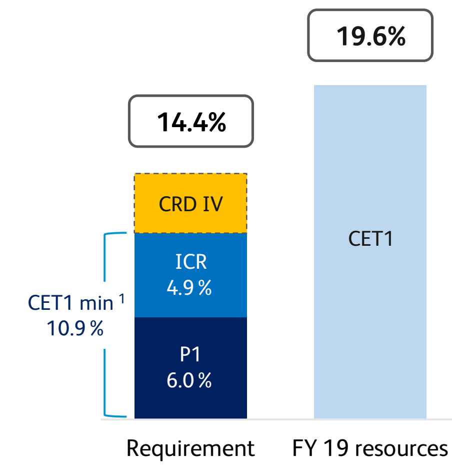
CET1 ratio reduces in line with expectations

CET1 ratio development

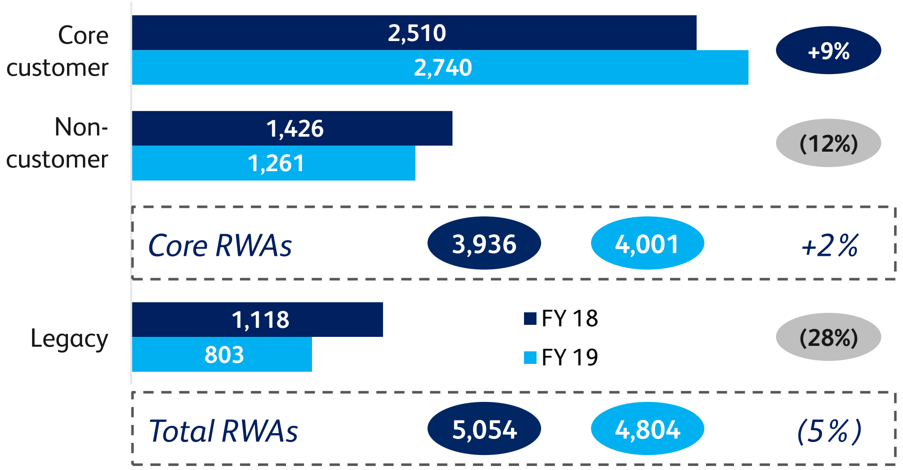
Total capital ratio



CET1 minimum



RWA split (£m)

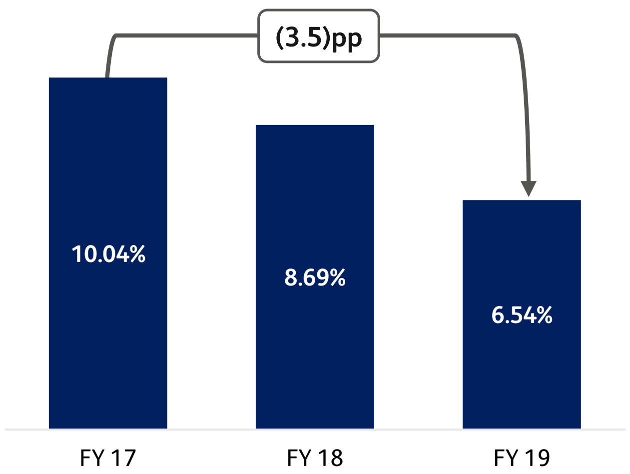


- **CET1% reduces 2.7% in the year, in line with guidance;** 1.2 % due to the impact of Q3 PPI charge; 0.2 % driven by £12.5m pensions contribution in the year
- **RWA management in the year supports ratio by 1%.** Legacy now represents 17 % of RWAs (2018: 22 %), down 28 % in the year
- Core customer RWAs increase by 5 % driven by net mortgage lending growth; reduction in treasury and operational RWAs drives movement in non-customer RWAs
- **Expected CET1% contraction in 2020** informs guidance of c.16 % ; driven by anticipated losses and RWA growth

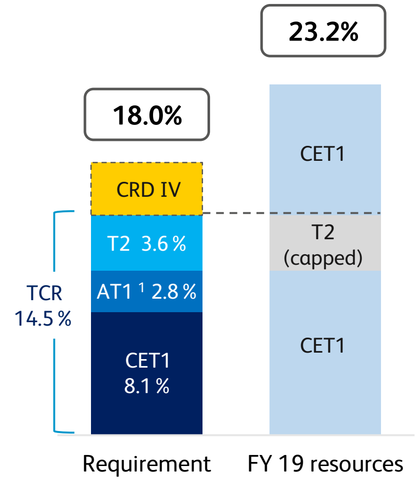
1. The Bank is required to meet AT1 requirements with CET1 as no AT1 is in issue

MREL issuance planned to meet increasing regulatory requirements

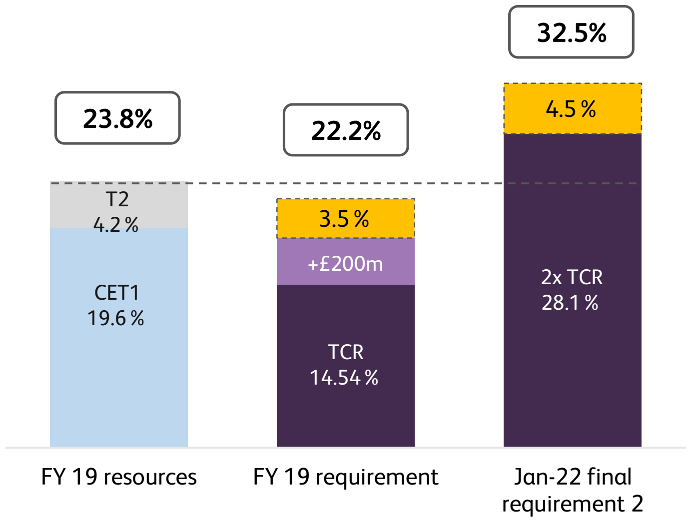
ICR evolution



OCR

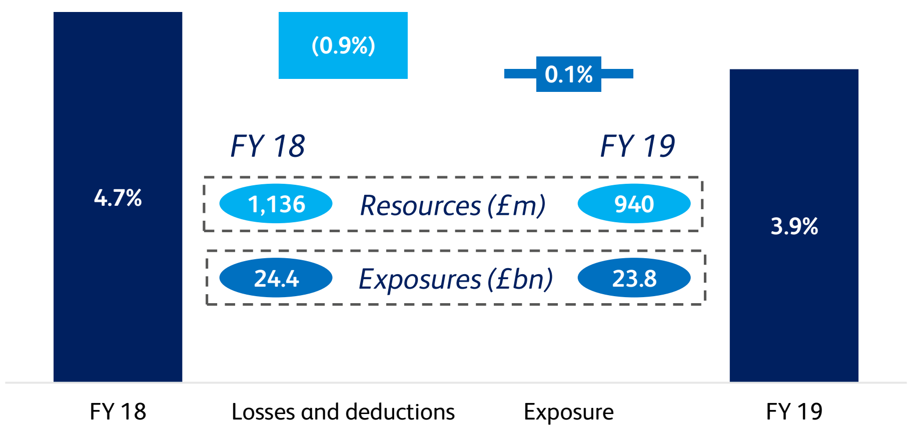


MREL evolution



- In November 2019, the PRA **reduced ICR by 2.15% to 6.54% of RWAs, bringing Total Capital Requirement (TCR) to 14.54% and improving headroom to regulatory requirements by c.£100m**
- End state MREL requirement **anticipates c.£725m** to be issued by January 2022, in addition to the Tier 2 outstanding; quantum of issuance required will be impacted by losses, RWA growth, and **capital requirements evolution**
- Progress is expected in 2020 towards MREL requirements, subject to market conditions
- Leverage ratio reduces to 3.9 %; leverage requirements become binding in 2021

Leverage ratio

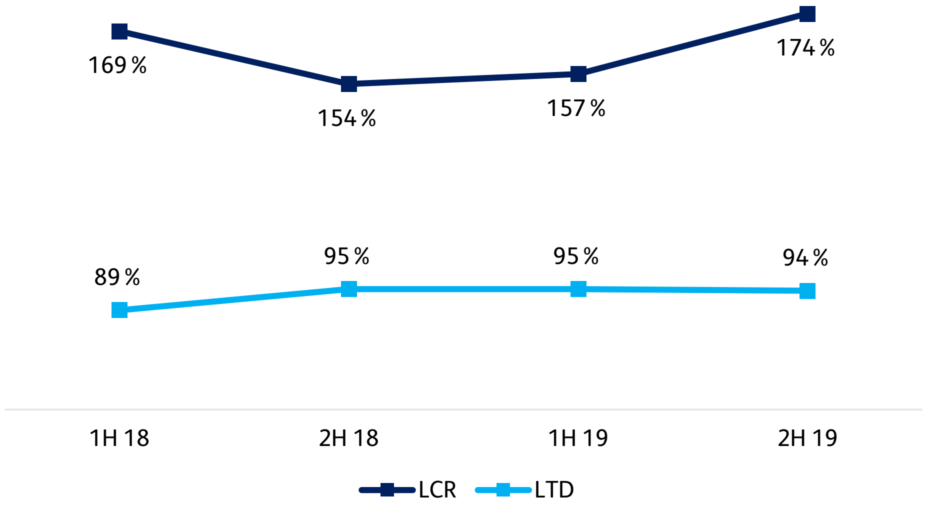


1. The Bank is required to meet AT1 requirements with CET1 as no AT1 is in issue
2. Assumes Dec-20 1.0 % increase in CRD IV buffers offset by 0.5 % reduction in ICR

The co-operative bank
for people with purpose

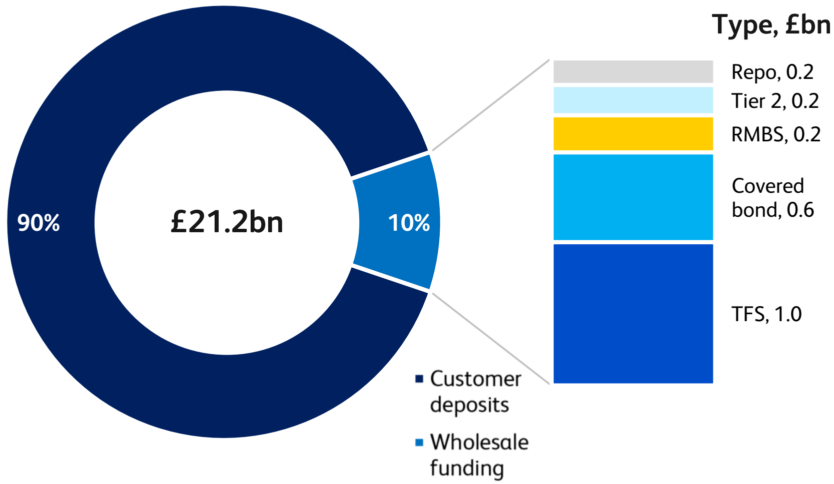
Healthy liquidity position against uncertain macro environment

Loan to deposit / liquidity coverage ratios

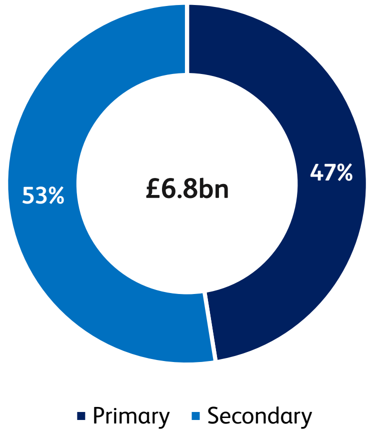


- LCR up 20 % compared to the December 2018; largely due to timing of Silk Road 6 completing in December
- Silk Road 6 is the first public prime RMBS issuance in 7 years and reflects normalisation of wholesale funding mix; spread comparable to retail 3 year cost of money
- LTD ratio is stable as net growth in customer assets continues to be funded through net growth in customer deposits
- Funding is predominantly customer deposits; wholesale funding ratio expected to remain stable

Total funding mix



Liquidity profile (£bn)



Primary liquidity	£bn
Central Bank balances	2.0
Gilts	0.9
Gov't & other bank bonds	0.3
Total	**3.2**

Secondary liquidity	£bn
Non MBS pre-positioned assets	2.9
Mortgage backed securities	0.7
Covered bonds	0.0
Total	**3.6**

Guidance

	2019		2020	2023
	Latest guidance	Reported		
Customer NIM (bps)	c.170	175	c.155	c.175
Cost:income ratio (%)	< 105	106	c.105	c.70
Franchise investment (£m)	140 - 150	147	c.80	c.50
CET1 ratio (%)	19.5 - 20	19.6	c.16	c.16
Core customer assets (£bn)	c.17	16.8	c.18	c.22
Core customer liabilities (£bn)	18.5 - 19	18.9	c19.5	c.23

- NIM compression as we issue MREL and informed by 'lower for longer' base rate assumptions; return to 2019 levels by 2023
- Steady progress on cost:income ratio through to 2023
- Franchise investment reduces sequentially reflecting status of turnaround plan; steady-state from 2022
- CET1 % maintained above regulatory minimum throughout the plan period

- Our strategy drives a return to organic capital generation in 2022; guidance may be adapted if required over the course of the planning period to preserve this aim

Second phase underway; Enable the Future

- Maximise our position as **'The Original Ethical Bank'** at a time when consumers are increasingly seeking ethical choices
- Utilise customer insight to **deepen segment marketing**
- Invest BCR funding to **enhance and grow our SME franchise**

Grow our franchise

- Deliver **mortgage and savings platform transformation**
- Continue to rationalise our suppliers and **generate cost savings**
- **Build internal capability** as we become a **leaner, simpler Bank**

Create a simplified and lower cost organisation

- **Launch relevant products** that better meet customer needs
- **Enhance digital customer journeys** and optimise interactions
- **Re-entry to the youth market**

Expand our products and digital capability

We are well placed to build on our 2019 achievements, focusing on cost reduction, franchise growth and investing for the future to deliver a sustainable, profitable Co-operative Bank

Appendix

The co-operative bank
for people with **purpose**

New basis of preparation reconciliation

2018 income statement

£m	Old basis of prep	IFRS 9 & 16	Pension	Visa	New basis of prep
Retail	291.1	(0.7)			290.4
SME	57.7	(0.4)			57.3
Core customer income	**348.8**	**(1.1)**			**347.7**
Treasury	34.1			(2.0)	32.1
Total core income	**382.9**	**(1.1)**		**(2.0)**	**379.8**
Legacy / other	2.3	(0.7)	10.7		12.3
Total income	**385.2**	**(1.8)**	**10.7**	**(2.0)**	**392.1**
Operating costs	(355.4)				(355.4)
Continuous improvement spend	(18.6)				(18.6)
Operating expenditure	(374.0)				(374.0)
Impairment	3.7	1.8			5.5
Underlying (loss) / profit	**14.9**	**-**	**10.7**	**(2.0)**	**23.6**
Strategic change	(94.3)				(94.3)
Net customer redress charge	(31.7)				(31.7)
Non-operating income / (expense)	(29.6)		(10.7)	2.0	(38.3)
Loss before tax	**(140.7)**	**-**	**-**	**-**	**(140.7)**

2019 income statement

£m	Old basis of prep	IFRS 9	Pension	Visa	New basis of prep
Retail	262.9	(0.5)			262.4
SME	55.8	(0.3)			55.5
Core customer income	**318.7**	**(0.8)**			**317.9**
Treasury	39.2		17.2	(18.1)	38.3
Total core income	**357.9**	**(0.8)**	**17.2**	**(18.1)**	**356.2**
Legacy / other	3.1	(0.4)			2.7
Total income	**361.0**	**(1.2)**	**17.2**	**(18.1)**	**358.9**
Operating costs	(361.5)				(361.5)
Continuous improvement spend	(19.6)				(19.6)
Operating expenditure	(381.1)				(381.1)
Impairment	1.3	1.2			2.5
Underlying (loss) / profit	**(18.8)**	**-**	**17.2**	**(18.1)**	**(19.7)**
Strategic change	(96.6)				(96.6)
Net customer redress charge	(63.5)				(63.5)
Non-operating income / (expense)	26.8		(17.2)	18.1	27.7
Loss before tax	**(152.1)**	**-**	**-**	**-**	**(152.1)**

- Adjustments for IFRS 9 & 16 have been included to align the Bank's management and statutory reporting
- IAS19 pensions discount unwind has been reclassified to NII in Treasury
- Visa has been moved below the line as it is outside of Bank control

Controlled growth in the customer balance sheet

£m	FY 19	FY 18	Change
Retail lending	16,588	15,847	5 %
SME	184	291	(37 %)
Core customer assets	**16,772**	**16,138**	**4%**
Core Treasury	4,524	4,502	0 %
Total core assets	**21,296**	**20,640**	**3%**
Legacy assets	1,074	1,527	(30 %)
Other assets	1,065	936	14 %
Total assets	**23,435**	**23,103**	**1%**
Franchise balances	13,150	12,442	6 %
Term savings	3,595	4,153	(13 %)
Retail deposits	16,745	16,595	1 %
SME	2,119	2,000	6 %
Core customer deposits	**18,864**	**18,595**	**1%**
Core Treasury	2,501	2,309	8 %
Total core liabilities	**21,365**	**20,904**	**2%**
Legacy liabilities	86	119	(28 %)
Other liabilities	372	330	13 %
Total liabilities	**21,823**	**21,353**	**2%**
Equity	1,612	1,750	(8 %)
Total liabilities and equity	**23,435**	**23,103**	**1%**

Core customer assets broadly in line with guidance of £17bn:

- Retail lending growth through Platform brand with £3.8bn of new business completions in 2019
- Core SME asset balance reduction continues; lending products to be launched in 2020
- Legacy assets reduction driven by £314m Warwick 4 transaction in 3Q, as well as continued planned run-off of Legacy assets

Core customer liabilities within guided range of £18.5-19bn:

- Retail deposits grow 1 % ; the Bank continues to replace expensive, term deposits with growth in retail franchise and SME savings of 6 %
- SME deposit growth driven by increased new business volumes

Balance sheet and income statement by quarter

Balance Sheet

£m	FY 19	3Q 19	2Q 19	1Q 19
Retail lending	16,588	16,342	16,187	15,975
SME	184	195	208	240
Core customer assets	**16,772**	**16,537**	**16,395**	**16,215**
Core Treasury	4,524	4,767	4,504	4,124
Total core assets	**21,296**	**21,304**	**20,899**	**20,339**
Legacy assets	1,074	1,098	1,444	1,487
Other assets	1,065	1,052	1,061	1,168
Total assets	**23,435**	**23,454**	**23,404**	**22,994**
Franchise balances	13,150	12,863	12,579	12,406
Term savings	3,595	3,543	4,071	4,250
Retail deposits	16,745	16,406	16,650	16,656
SME	2,119	2,091	2,050	1,961
Core customer deposits	**18,864**	**18,497**	**18,700**	**18,617**
Core Treasury	2,501	2,813	2,444	2,083
Total core liabilities	**21,365**	**21,310**	**21,144**	**20,700**
Legacy liabilities	86	83	149	175
Other liabilities	372	403	371	388
Total liabilities	**21,823**	**21,796**	**21,664**	**21,263**
Equity	1,612	1,658	1,740	1,731
Total liabilities and equity	**23,435**	**23,454**	**23,404**	**22,994**

Income statement

£m	4Q 19	3Q 19	2Q 19	1Q 19
Retail	56.8	65.5	68.9	71.2
SME	13.6	14.2	13.8	13.9
Core customer income	**70.4**	**79.7**	**82.7**	**85.1**
Treasury	6.8	9.8	13.1	8.6
Total core income	**77.2**	**89.5**	**95.8**	**93.7**
Legacy and unallocated	1.4	(0.2)	0.6	0.9
Total income	**78.6**	**89.3**	**96.4**	**94.6**
Operating costs	(93.3)	(83.2)	(90.4)	(94.6)
Continuous improvement spend	(6.5)	(4.9)	(3.9)	(4.3)
Operating expenditure	(99.8)	(88.1)	(94.3)	(98.9)
Impairment gains	4.8	(2.2)	0.8	(0.9)
Underlying (loss) / profit	**(16.4)**	**(1.0)**	**2.9**	**(5.2)**
Strategic change	(23.6)	(20.3)	(23.2)	(29.5)
Net customer redress charge	-	(61.0)	(2.5)	-
Non-operating income / (expense)	6.5	2.2	12.9	6.1
Loss before tax	**(33.5)**	**(80.1)**	**(9.9)**	**(28.6)**

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