3Q 2020
Results and Progress Update

6 November 2020

Steve and Lisa Davies of Caddon View Rooms & Café Sitooterie
Established 2007
Customer since 2011
Supported through government backed loan scheme in 2020

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

Responding to Covid-19 challenges

Delivering franchise growth

- **Financial performance in line with plan;** CET1 ratio up 0.9pp in the quarter
- **Positive net lending maximising buoyant mortgage market and higher margin opportunities**
- **Mortgage and SME lending up 1% and 122% YTD; deposits increase 6%**
- **TFSME drawdown adds to existing low cost of funds** and surplus liquidity enables balance sheet growth
- **High quality portfolio and limited corporate exposure as impairment remains low**

Driving operational efficiency and quality customer interactions

- **Action taken to reduce cost and implement sustainable operating model** resulted in closure of 18 branches and 350 redundancies as we respond to reduced branch reliance and increasing digitalisation
- **Digital momentum continues as active users at highest ever level** (62 %)
- **Customer satisfaction remains strong** with NPS of +28, maintained 3rd place in the market for current accounts
- **10% increase in new to Bank customers** as our ethical strength deepens

Priorities

- **Responding to customer trends,** including deepened digitalisation
- **Continue to find leaner ways of working, enhance productivity and reduce cost**
- **£200m MREL qualifying debt issuance planned for 4Q 20;** binding requirement of TCR plus £400m applicable from 1 January 2021

Championing ethical banking as we strive to make a difference

Supporting small businesses

- **£234m lent to >8,000 businesses** through government backed schemes
- Continue to offer a **market-leading free banking proposition and personalised service**
- **Additional dedicated SME resource** following extension of government schemes

Supporting Retail customers

- **Granted c.20,000 payment deferrals** across mortgages, loans and credit cards (0.5 % of mortgages, 1.4 % of loans, 0.1 % of credit cards)
- **Adapting to serve customers flexibly** as virtual appointments and fully electric pop-up branch launched
- **Established support function for customers facing financial hardship**
- **Helped over 8,900 customers buy or re-mortgage their home** in 3Q 2020

Supporting colleagues & communities

- **1st financial services organisation to be recognised in Greater Manchester's good employment charter**
- **On track to achieve 10% decrease in greenhouse gas emissions in 2020;** beyond net carbon neutral since 2007
- **Actively driving societal change in partnership with Refuge** increasing awareness and support for victims of economic abuse

"We at Centrepoint are honoured to have such a passionate and supportive partner helping us in our fight to end youth homelessness. Thank you for your dedicated support over the last three years, which has helped us to ensure we offer the best possible services to vulnerable young people in Manchester and around the country."

Seyi Obakin OBE,
Chief Executive Officer, Centrepoint

Simplification, digitalisation and automation remain key as we maximise growth opportunities

Simplification

- **Alternative solution to mortgage and savings platform rationalisation underway** as we continue to streamline infrastructure
- **Reduced suppliers by >25% in 2020** building longer-term valued partnerships with key parties

Accelerated digitalisation

- **Further investment in mobile and online** as 15 updated customer journeys and 24 new releases enable faster, convenient customer interactions
- **Digitalised new product applications and switches increasing customer ease**
- **Cloud migration underway exiting legacy infrastructure,** accelerating delivery and speed to market

Retail and SME growth

- **SME - 33% deposit and 122% lending growth** fuelled by CBILS & BBLS offerings
- **Business Current Account openings up 64% (YoY)**
- **11% share of overall Incentivised Switching Scheme,** near double expectation
- **Mortgage growth of 1% YTD** and higher margins seen in Q3
- **As at Q3 accepted 13% more applications YoY** with a strong pipeline of applications going into the final quarter
- **Highest daily volume of applications** in recent history in Q3

Loss before tax of £68.1m is in line with expectations

£m	3Q 20	3Q 19	Change
Net interest income	195.2	243.9	(20%)
Other operating income	29.2	36.5	(20%)
Total income	**224.4**	**280.4**	**(20%)**
Operating expenditure	(253.3)	(281.3)	10%
Impairment	(16.7)	(2.3)	>(100%)
Underlying loss	**(45.6)**	**(3.2)**	**>(100%)**
Strategic change	(18.8)	(73.0)	74%
Restructuring programme	(19.8)	-	N/A
Net customer redress charge	-	(63.5)	N/A
Non-operating income	16.1	21.1	(24%)
Loss before tax	**(68.1)**	**(118.6)**	**43%**
Ratios			
Customer NIM (bps) [1]	144	184	(40)
Underlying cost:income ratio (%) [2]	113	100	13
Asset quality ratio (bps) [3,4]	(12)	(1)	(11)
CET1 ratio (%) [4]	19.1	19.6	(0.5)

1. Calculated as annualised net interest income over average customer assets
2. Calculated as operating expenditure over total income
3. Calculated as annualised impairment charge over average customer assets
4. Comparative shown as at FY 19

Lower income and increased impairments have been partially offset by management action on cost

Total income reduces by 20% to £224.4m

- Lower lending margins impact Retail NII across 2020, compounded by the lower rate environment including a first quarter EIR adjustment
- Other operating income reduction driven by lower Treasury gilt sales and subdued transactions, offset by benefits from renewed strategic partnerships

Operating expenditure reduces by 10% to £253.3m

- Benefits from strategic contract renegotiations, completion of IT separation, lower staff costs and measures taken to mitigate the impact of COVID-19

Impairment of £16.7m arises largely from the effect of COVID-19; £5.5m charge in 3Q

Restructuring programme includes costs relating to branch closures and severance announced in 3Q

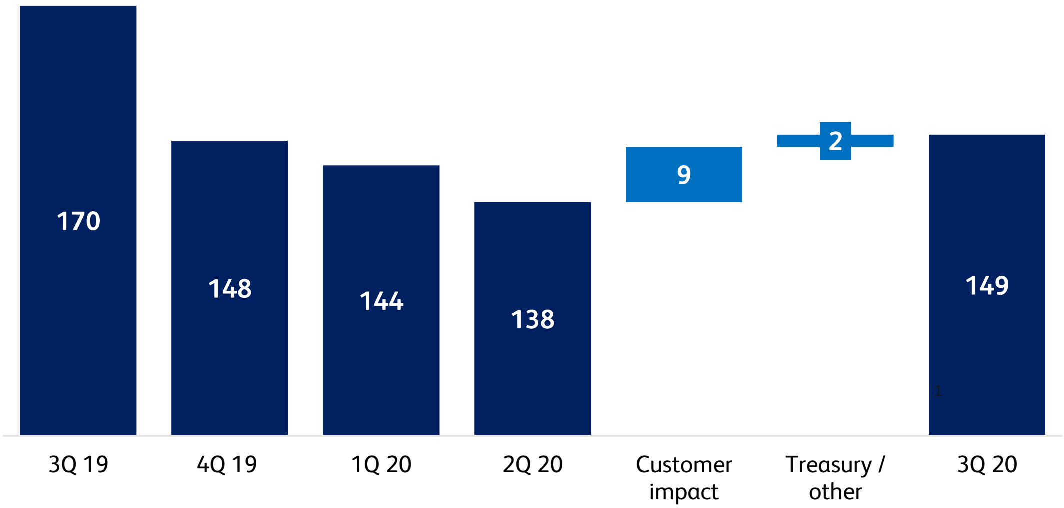
Non-operating income includes £10.4m realised on partial disposal of Visa preference shares

Customer NIM down 40bps YoY; up 11bps in the quarter

CET1% up 0.9pp in 3Q as a result of RWA reductions; down 0.5pp since FY 19

NIM increases 11bps in 3Q and is in line with top of guidance range

Customer net interest margin (bps)[1]



- NIM reduced throughout 2019 and 2020 driven by sustained mortgage margin pressure. Recovery in 3Q as a result of higher margin mortgage lending
- Treasury NII impacted by lower base rate and changing asset mix; Lower volumes of gilt sales recorded in 2020 impact other operating income
- Fee income impacted by reduced customer activity during lockdown but has started to recover in 3Q; Retail income increases due to renewed supplier partnerships

Income by segment

£m	3Q 20	3Q 19	Change
Retail	173.2	195.3	(11 %)
SME	30.3	29.3	3 %
Core customer interest income	**203.5**	**224.6**	**(9%)**
Treasury	(5.5)	19.4	>(100 %)
Total core interest income	**198.0**	**244.0**	**(19%)**
Legacy or unallocated	(2.8)	(0.1)	>(100 %)
Total net interest income	**195.2**	**243.9**	**(20%)**
Retail	13.8	10.5	31 %
SME	11.6	12.6	(8 %)
Core customer fee income	**25.4**	**23.1**	**10%**
Treasury	3.9	11.9	(67 %)
Total core other operating income	**29.3**	**35.0**	**(16%)**
Legacy or unallocated	(0.1)	1.5	>(100 %)
Total other operating income	**29.2**	**36.5**	**(20%)**
Total income	**224.4**	**280.4**	**(20%)**

1. Calculated as annualised net interest income (pre LTP) over average customer assets

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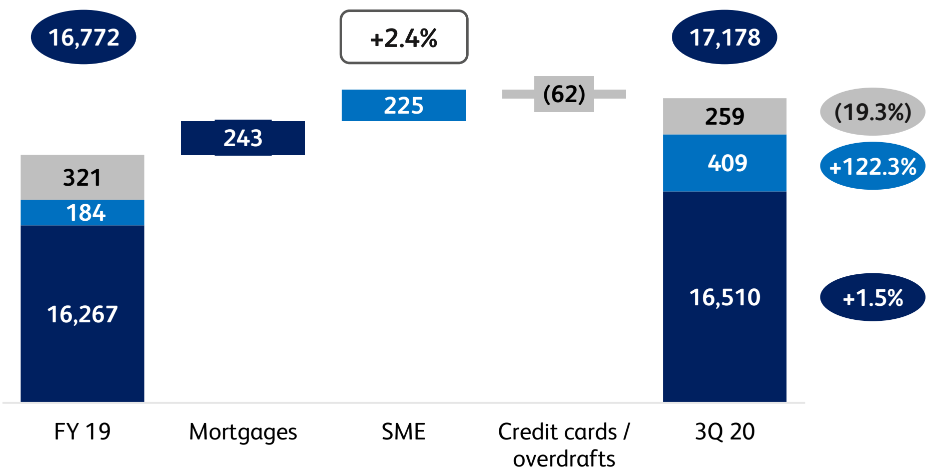
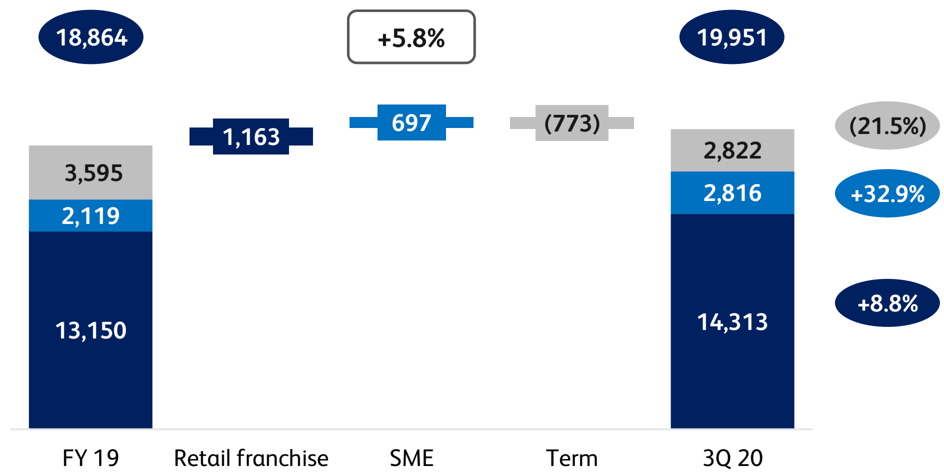
Customer corridor widens; growth in core customer assets and deposits

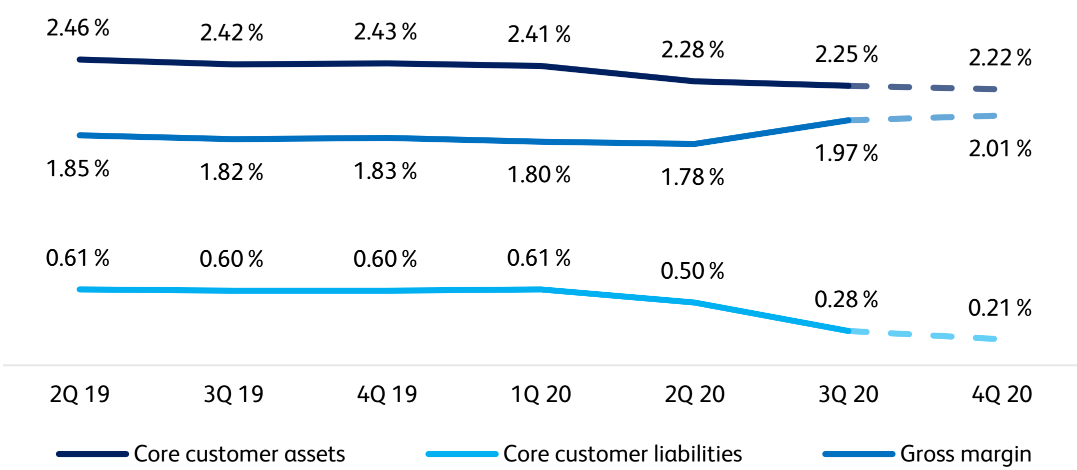
Core customer asset flows (£m)



Core customer deposit flows (£m)



Customer rate corridor[1]

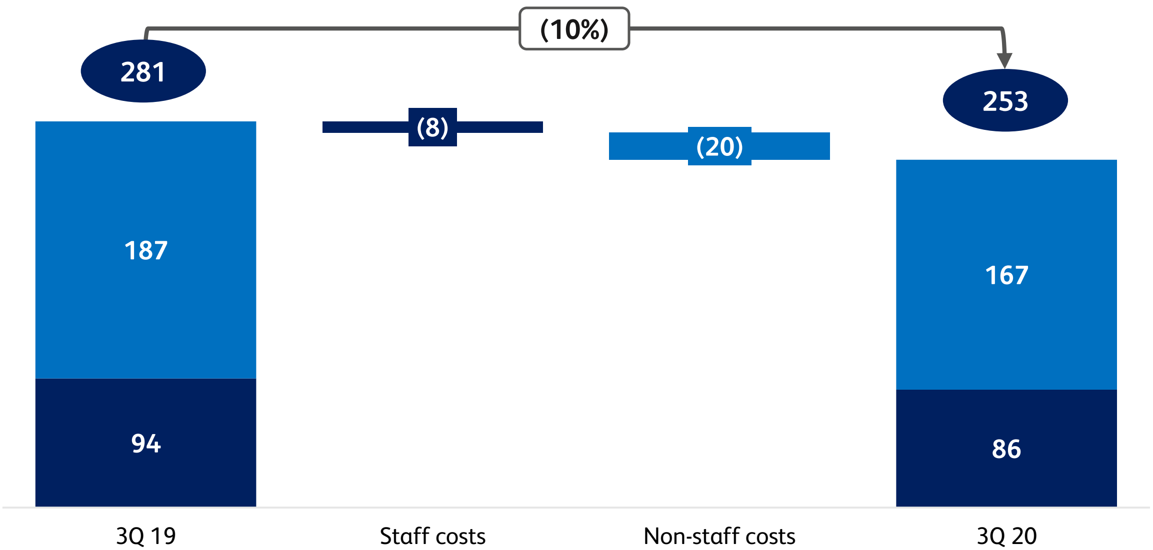


- 1.5 % net growth in mortgages with new business of £2.1bn. Applications in 3Q are at highest levels in recent times; margins have increased 50bps in the quarter to c.210bps
- 122.3 % net growth in SME assets driven by £21m CBILS and £213m BBLS lending
- Retail franchise and SME deposits increase primarily through reduced customer spending, offsetting actively managed reducing term balances
- Customer corridor has widened in 3Q 20 as deposit repricing actions were implemented; expected to remain stable in 4Q 20

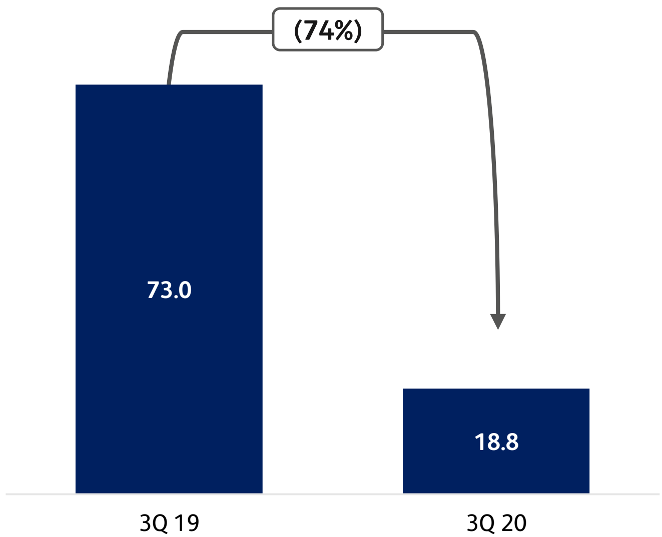
1. Calculated as annualised core customer income over the core customer average balances for the 3-month period

Cost reductions driven by management action

Operating expenditure (£m)



Strategic change P&L expense (£m)



Operating expenditure down £28m as a result of:

- Staff costs reduce due to sustained cost reduction activity and the decision not to offer variable pay this year. We will revisit this in the fourth quarter, and any future variable pay is dependent on delivery of a range of performance measures
- Non-staff costs lower due to benefits from the completion of Separation, strategic contract renewals and reduced levels of marketing spend

£19.8m exceptional Restructuring programme costs incurred in 3Q 20 include branch closure and severance costs; driving c.£20m annual savings from 2021

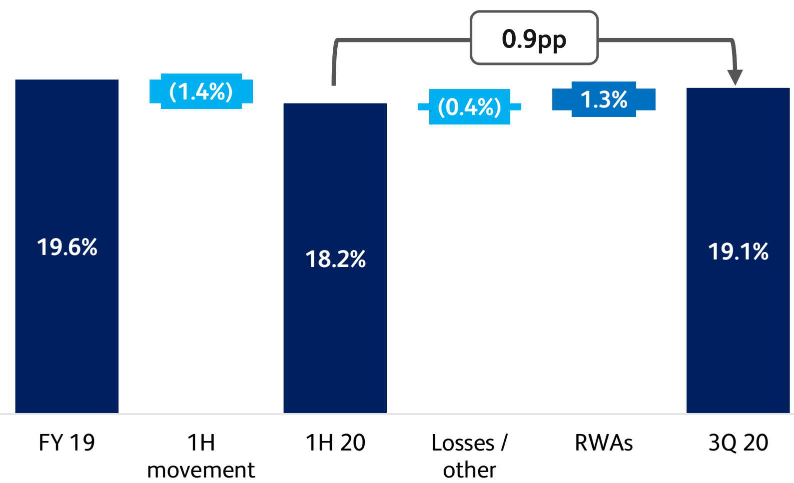
- Further cost efficiencies targeted in 2021 will support our progress towards sustainable profitability

Strategic change costs reduce by 74% following conclusion of 'Fix the Basics' stage of the strategy

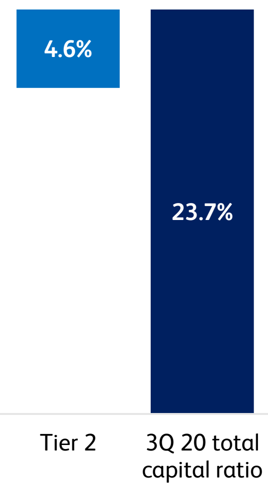
- 2020 spend has so far focused on delivering our SME C&I commitments and final Separation related expenses

CET1% up 0.9pp in 3Q as a result of RWA reductions

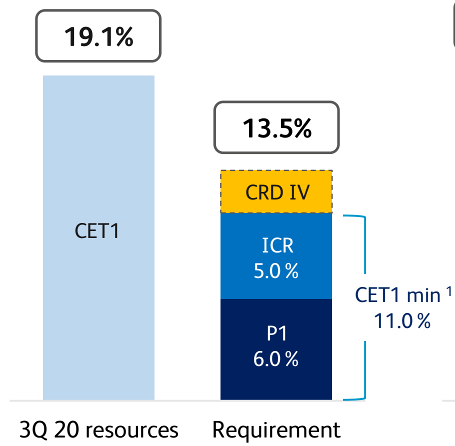
CET1 ratio development



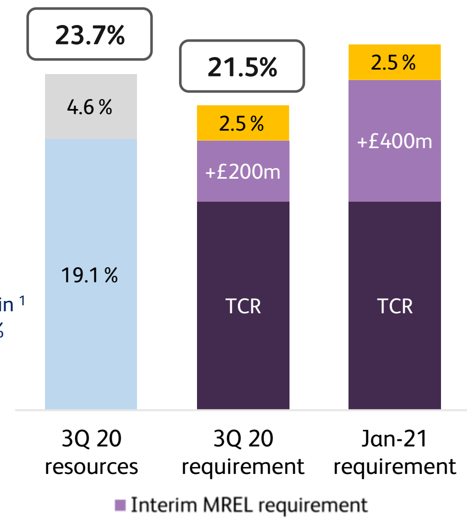
Total capital ratio



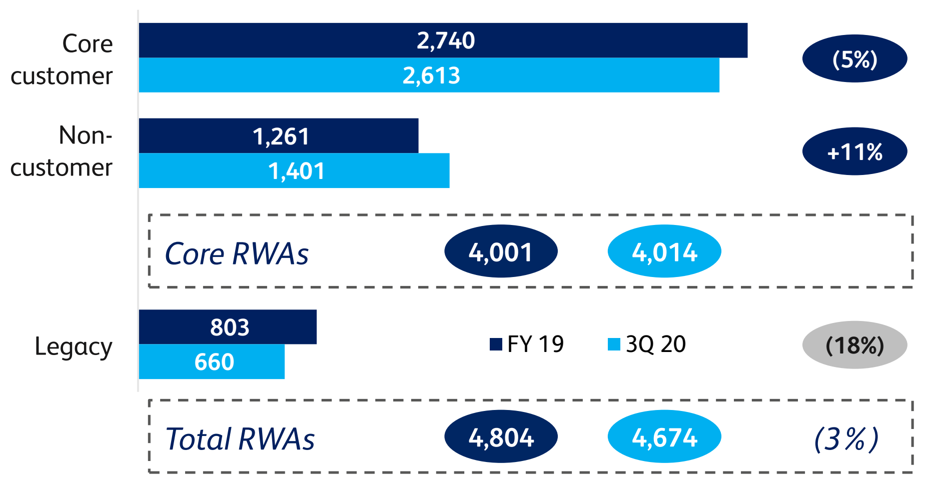
CET1 minimum



MREL



RWA split (£m)

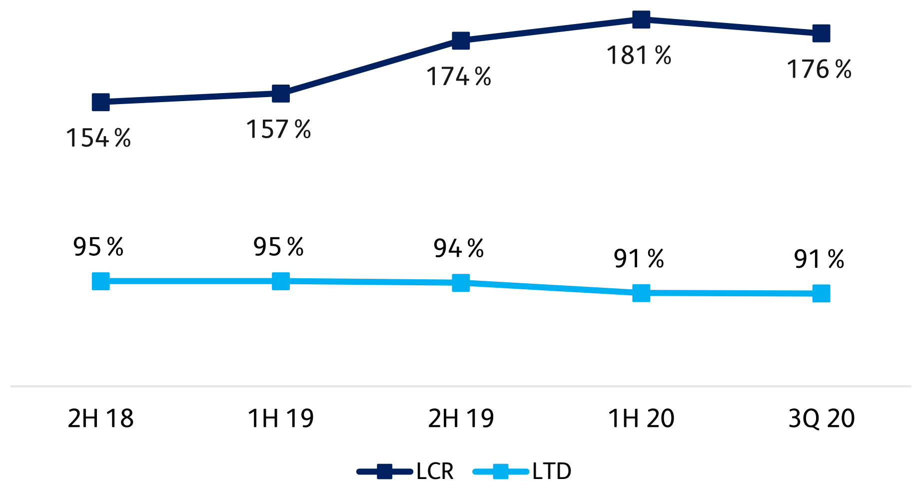


- **CET1% reduces 0.5pp in the year; up 0.9pp in 3Q** driven by a reduction in RWAs
- **£0.1bn reduction in RWAs in the year** as growth driven by new lending is offset by a reduction in RWAs including the impact of embedding of SME supporting factor (c.£70m reduction). During the quarter we have completed implementation of new secured IRB models
- Non-customer RWAs impacted by market volatility and new industry-wide rules on securitisations
- Actively pursuing MREL transaction in 4Q 20; binding requirement of TCR +£400m from January 2021

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

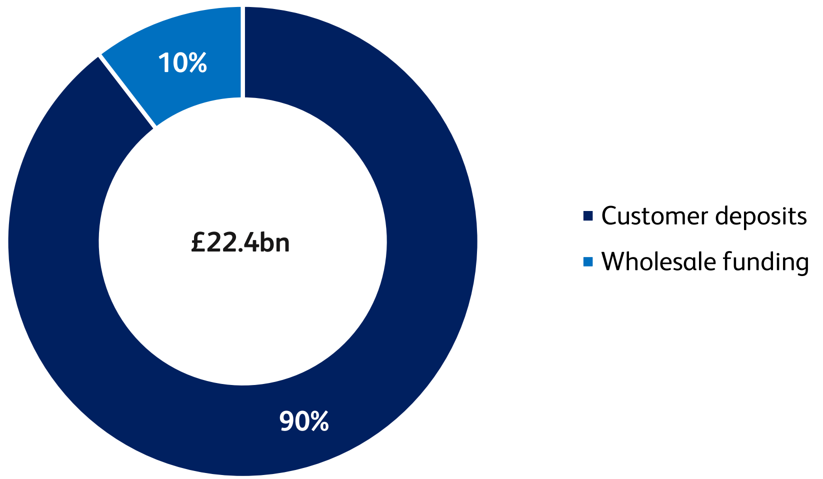
Healthy liquidity position; options available to deploy TFSME

Loan to deposit / liquidity coverage ratios

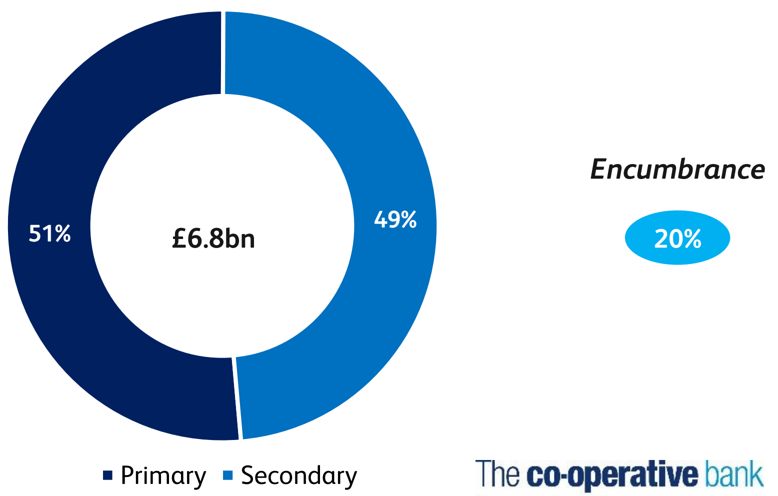


- LCR stable at 176 %; LTD ratio flat at 91 %
- Covered Bond Liability Management Exercise launched and completed to repurchase c.£117m of outstanding bonds (settled in October). Efficient use of surplus liquidity to deliver savings
- Encumbrance levels low at 20 %; headroom provides opportunity if required
- Initial TFSME drawing of £1.0bn in quarter fully repays £0.96bn TFS borrowing. Options to deploy remaining TFSME base stock allowance and additional allowance; incremental asset lending impacted by 2021 leverage requirement

Funding mix



Liquidity profile (£bn)



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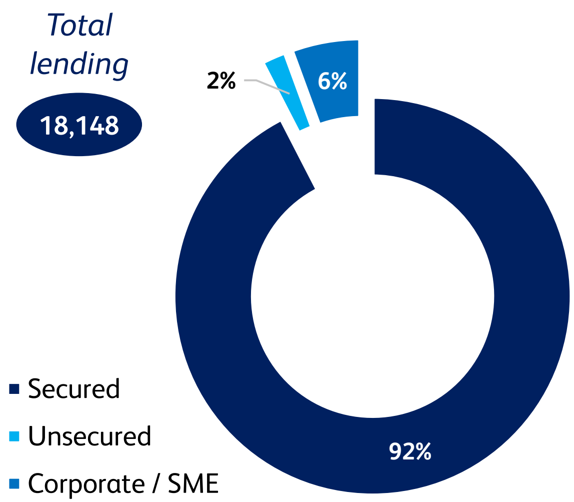
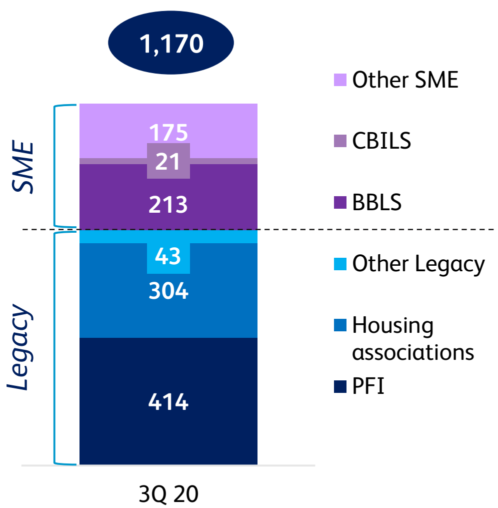
Low risk portfolios reduce ECL impact compared to peer group

Lending mix (£m)



SME / Corporate portfolio split (£m)



Secured lending – increased defaults are unlikely to drive material credit losses due to relatively low LTV on existing balances meaning that collateral would be sufficient to offset losses in most cases, assuming limited deterioration in HPI

- 92 % of customer assets are secured; 91 % core and 1 % Optimum
- Over 17,000 payment deferrals granted in phase 1 (c.12 % of Retail and c.25 % of Optimum customers); of these requests 98 % were up to date with payments [1] at a blended LTV of c.60 %
- c.19 % of phase 1 deferrals have requested a second payment deferral; similar average LTV to deferrals granted in phase 1 of c.60 % ; 0.5 % of mortgage customers (c.£105m balances) remain on a payment deferral [2]

Unsecured lending – low balance levels mean that it is unlikely that material losses would be incurred unless there was a severe sustained economic downturn

- c.3,100 payment deferrals granted (c.10 % of loans and c.1 % of credit cards); 1.4 % of loans (c.£1.1m balances) and 0.1 % of credit cards (c.£1.1m balances) remain on a payment deferral [2]

SME / Corporate – low risk segments; c.87% of total corporate lending

- **Housing associations & PFI**; (c.61 % of total corporate lending) low risk sectors (NHS and schools in PFI) with no expectations of increase in ECL
- **CBILS & BBLS**; (c.20 % total corporate lending), primarily government backed
- **CRE**; 44 % of c.£100m balances associated with non-retail properties
- **Renewables**; c.£21m exposure with a strong cash flow covenant

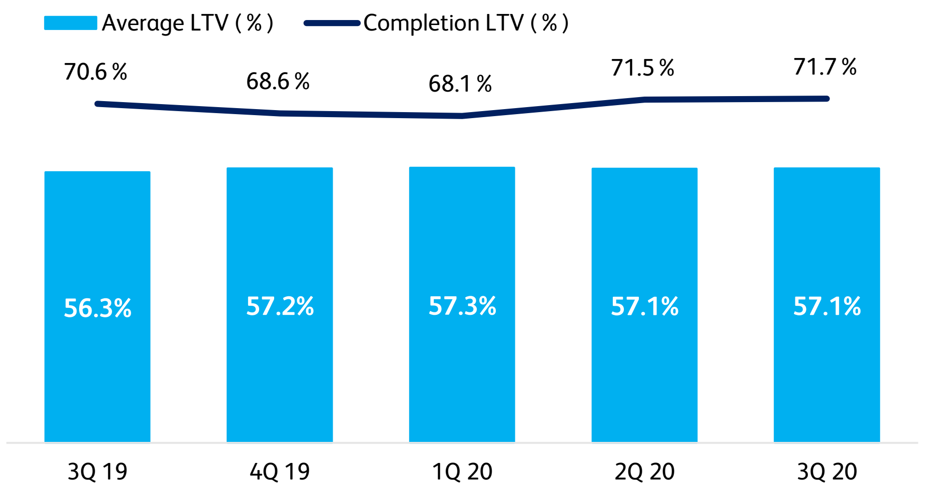
SME / Corporate – at risk segments; c.13% of total corporate lending

- **CRE;** remaining 56 % of c.£100m is secured by properties with tenants from retail sector. This portfolio has an average LTV of c.47 % and is considered to be at higher risk of tenant default
- **Hospitality[3] & retail;** less than c.£45m drawn exposure; increased risk due to lockdown
- Other sectors include **Charities, Education and Care;** c.£50m exposure

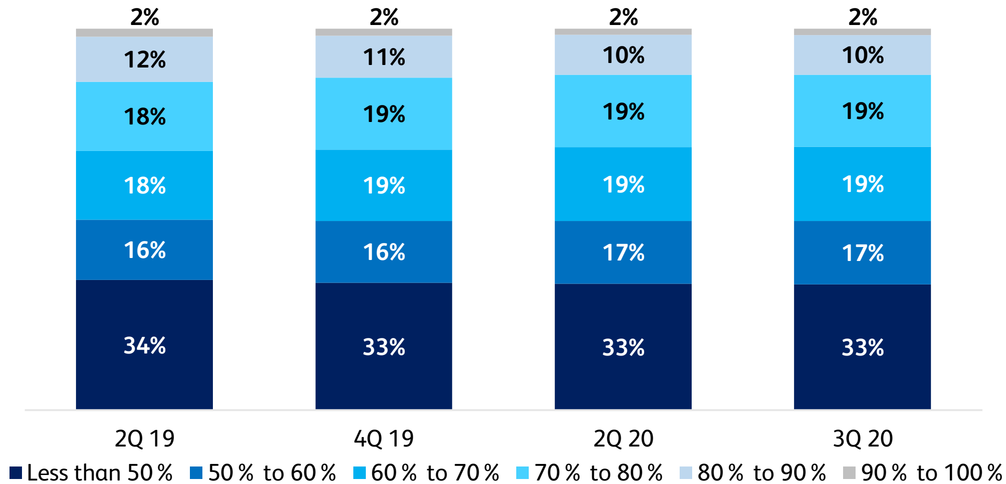
1. As at end-February
2. As at 29 October 2020
3. Hospitality sector includes hotels, food and leisure

Well diversified mortgage book with low levels of arrears

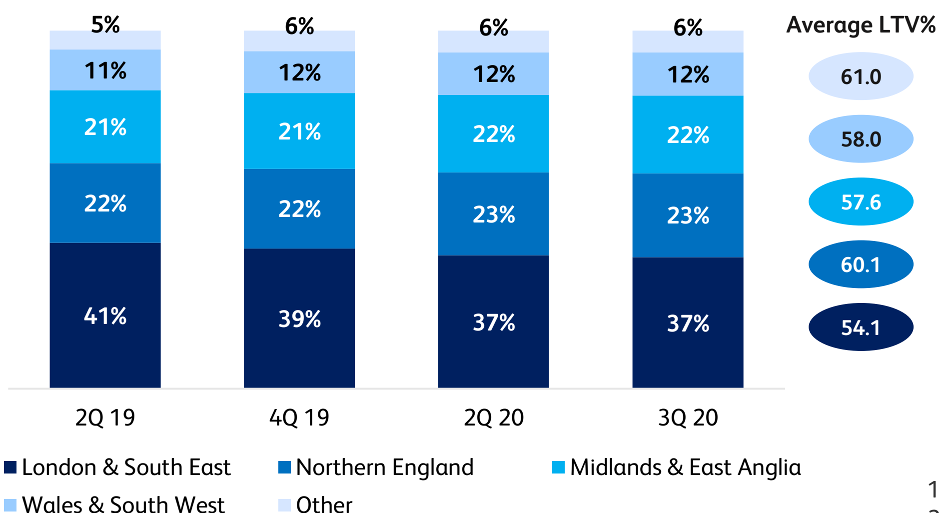
Average core mortgage LTV (%) [1]



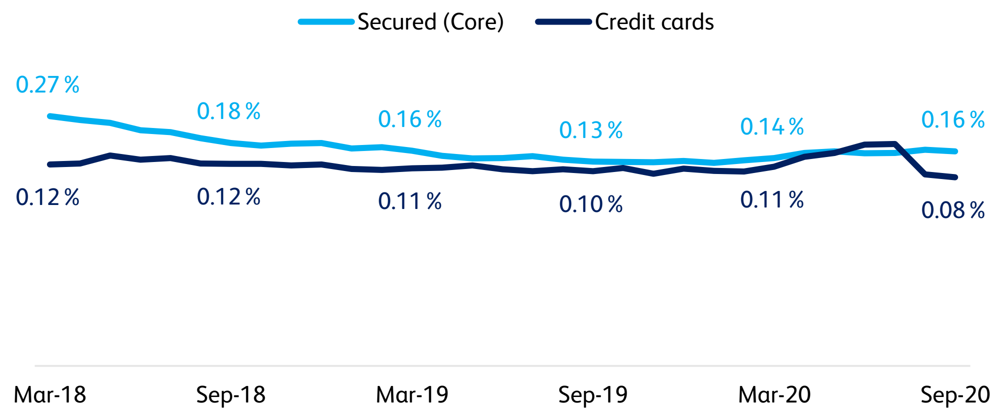
LTV split by band



Core mortgage book by geographical split



Accounts >3 month in arrears [2]



1. LTV shown are indexed and balance-weighted
2. Volume of accounts in arrears over total volume of accounts

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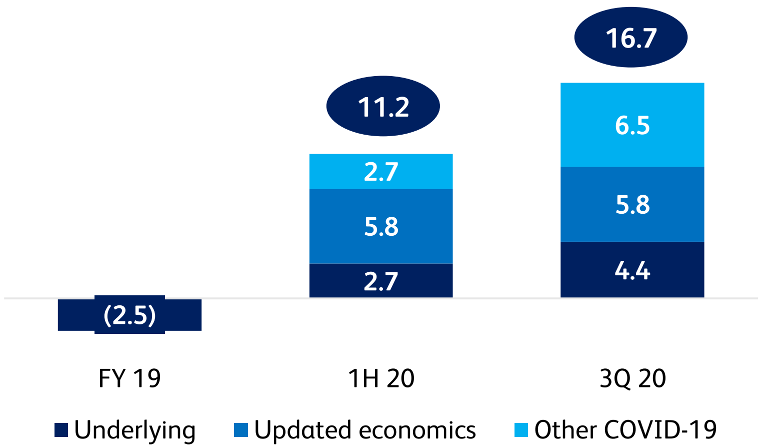
Asset quality ratio of 12bps driven by COVID-19

Impairment charge split (£m)



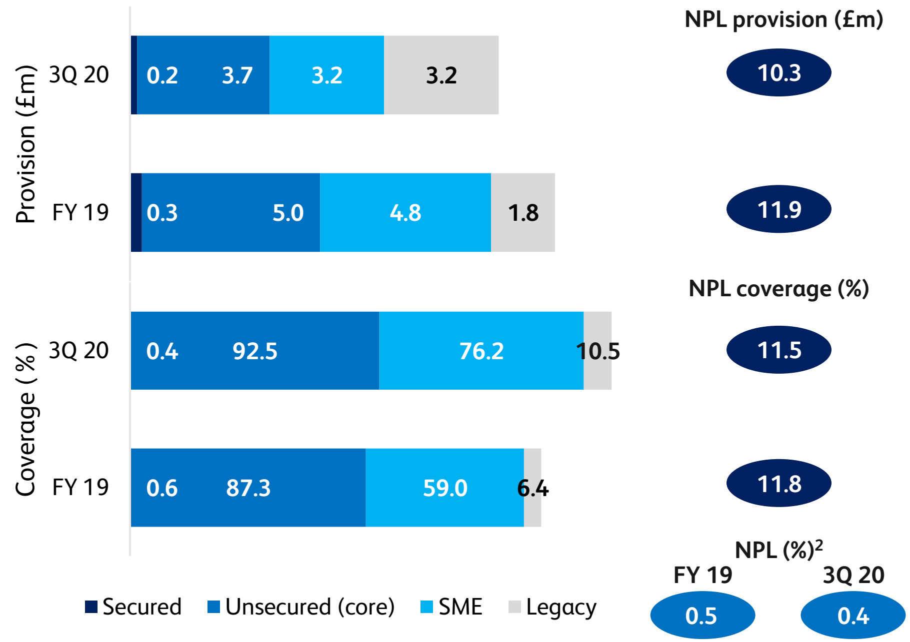
Total asset quality ratio

12bps

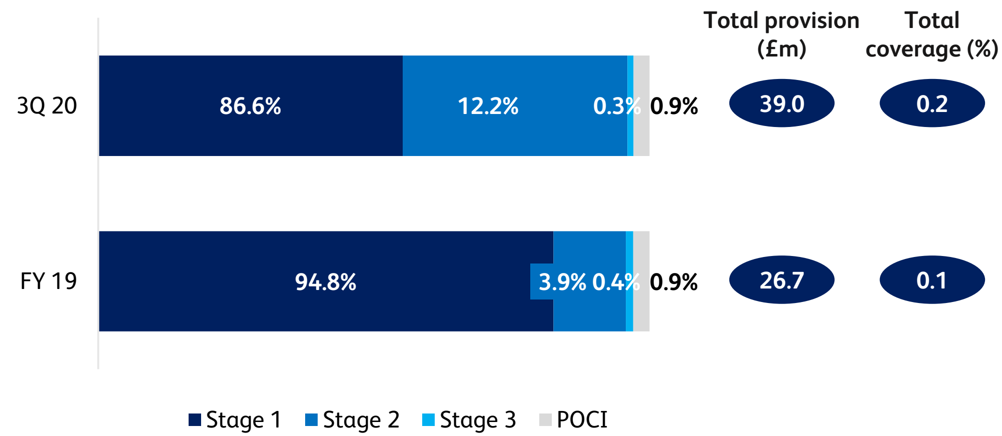
Underlying asset quality ratio

3bps

NPL coverage [1]



Exposure by stage [3]



Net impairment charge of £16.7m reflects strong credit quality and an asset quality ratio of 12bps

- IFRS 9 scenarios and weightings are unchanged since 1H
- Other COVID-19 charges in 3Q consist of model overlay movements for payment deferral risk
- Underlying charge movement in 3Q driven by an increase in overdraft coverage

Impact of second national lockdown on economic assumptions and impairment levels under review

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

We will continue to trust our brand and maximise growth opportunities as inevitable uncertainty and challenges ahead

Challenges

- **Macroeconomic uncertainty and unprecedented conditions persist;** HPI growth remains, however early indications of longer-term recession and rising unemployment
- Impact of **second national lockdown** under review
- **Continued challenge to reduce structurally high cost base**
- **Lending opportunities subject to capital and operational constraints**

Opportunities

- **Continue to pursue Retail mortgage & SME volume growth** in line with risk appetite
- **Expand competitive product offering and agile pricing to drive higher margins**
- **Become digital ethical bank of choice** for Retail and SME customers
- **Rationalise and simplify** internal infrastructure

Franchise strength

- **Deepened brand affinity during critical time**
- **Grow customer base further** retaining high satisfaction levels
- **Asset quality strong as impairment remains low**
- **Strong CET1 and liquidity** with benefit of low cost of funds
- **Guidance issued at 1H 20 remains unchanged;** review anticipated at FY 20

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