The Co-operative Bank Results Call - Full Year 2023 Transcript
(Amended in places to improve readability only)

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The Co-operative Bank
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Nick Slape
Good morning, and thank you for joining our full-year 2023 results call. I will start on slides 3 to 6 with my business highlights, Louise will take you through the numbers and then we can open up for questions.

PAGE 3 – YEAR OF TRANSFORMATION
Turning to slide 3, 2023 was another big year in the bank's transformation, and our third year of consecutive profit. For context, we have now generated approximately £235 million of profit before tax since 2021, and this gives us a solid foundation for growth. I'm extremely proud of the significant progress we have made in our technology transformation program, and I'll cover this in more detail on the next slide.

Our customers are at the heart of what we do and service excellence will continue to be a key area of focus for us. So if I start with capital on the left-hand side, we have now begun to rotate our capital stack, the Tier 2 tender and refinance last November was the first bond that we issued back in 2019 as we embarked on the turnaround journey. Three bonds now have a green label under our green social and sustainable framework, and the next callable senior unsecured is in November 2024, which is the only outstanding bond without the GSS label. We've originated approximately £220 million of eligible green assets in 2023 and therefore, are well on our way to meet our targeted green bond commitments.

Our capital stack is now efficient with the exception of Additional Tier 1, and we continue to prioritise efficient organic capital generation, which supports our ability to continue to invest in the business and to introduce distributions to shareholders who have supported us patiently throughout our turnaround. We delivered 70 basis points of organic CET1 build, and I am delighted that the Board has recommended an inaugural dividend payment of £12 million or 0.13p per ordinary share, which will be subject to approval at our AGM.

Our customer franchise is proving resilient. In retail, average customer balances remain significantly above pre-COVID levels. Average current account and variable deposit account balances are 27% higher at £4,200 and £6,100 respectively. SME is even stronger, with average balances in business accounts steady throughout 2023 at around £25,000 and up 44% compared to pre-COVID.

Our liability-led strategy in SME has worked well, and as we turn our attention to the other side of the balance sheet, it's pleasing to see gross new lending increased by 32%. Although this is growth from a small starting position, it reflects our plans to thoughtfully diversify our income streams.

And we are revitalising our branch network. 10% have already been moved to more prominent sites within their town. We started with Nottingham at the end of 2022 and have since completed a further four with more planned for 2024 and there's some pleasing early signs, for example, ATM transactions are up 24%, helping to increase capital-light income.

Our customer focus is working. Trustpilot has improved from 1.7 at the end of 2022 to 4.2 or great at the end of 2023, and earlier this month, we reached 4.3, moving into the excellent category. This makes us the highest rated High Street bank on Trustpilot. We improved our average speed to answer significantly to 8 minutes from 15 in the prior year and have improved complaints per 1,000 customers from 4.6 to 3.6.

Moving now to the right-hand side of the slide to cover financial highlights. We delivered a statutory profit before tax of £71.4 million and underlying profit before tax of just under £121 million. Total income increased by 3%, underlying costs increased by 10%, reflecting investment into our underlying operational performance in line with our plans for 2023 to deliver long-term shareholder value.

Exceptional costs have increased the delta between statutory and underlying profits this year, of which approximately £8 million relates to strategic advisory fees, which were negligible in 2022. We announced in December that we are in exclusive discussions with Coventry Building Society regarding a possible acquisition of the bank. These discussions remain ongoing and we will provide an update when appropriate.

In December, we recognised a redress provision of £28.9 million. This relates to a closed book of mortgages and reflects the Board's decision to proactively redress all eligible customers following conclusions of two FOS cases to put this matter behind us.

Net interest margin has increased by 14 basis points to 180. Whilst the rate environment has been volatile and mortgage margins competitive, there is overall a net benefit from higher interest rates. We delivered a return on tangible equity of 10.1%, reflecting profit after tax of just under £130 million. Tax credit of £58.3 million reflects a conservative level of deferred tax asset recognition, where we have now recognised approximately one-third of our historical losses. The bank's CET1 ratio remained strong at 20.4% pre dividend and 20.1% post dividend, well above the regulatory CET1 minimum, including CRD IV buffers, of 14.3%.

And finally on this page, our transformation progress resulted in a further upgrade from Fitch to BB+, one notch off investment grade and on positive outlook. This is a three notch improvement in year, and I'm confident that we are well placed to achieve our goal of investment grade in 2024, which will be another key moment for the Bank.

PAGE 4 – SIMPLIFICATION TO BE COMPLETED IN 2024

And that's a nice segue over the page to talk about the progress in delivering our Simplification program. I have said a few times that this is a multi-year program to migrate three platforms to one and therefore materially simplify the Bank and remove significant amounts of obsolete or non-current technology. We have made significant progress broadly in line with our plan and are now in the final stage, enabling us to unlock the benefits and genuinely transform the Bank.

So taking mortgages first, in September, we went live with our new platform hosted on the AWS Cloud, all new mortgage originations. We introduced a new front office portal for brokers and rebranded to The Co-operative Bank for Intermediaries, retiring the legacy specialist Platform brand inherited from Britannia.

We are getting good feedback from brokers and we have already seen benefits with the average mortgage size increasing by £40,000 to £189,000 by the end of 2023 and growing further in January to around £260,000. We initially migrated our direct mortgage book at about £2 billion to the cloud earlier this month, followed by successfully migrating the platform back book of around £17 billion to the cloud infrastructure. In other words, 85% of our mortgage book has now been migrated.

The remaining 15% is the legacy Britannia back book, which will be completed in Q2, resulting in 100% or approximately 150,000 mortgages residing in our new AWS hosted cloud platform. This, together with having already in-sourced our mortgage operations from Capita, results in a more scalable operation with improved customer experience.

So turning to savings. We started this project with approximately £5 billion of passbook based heritage Britannia relationship savings balances on the legacy IT platform. We have been migrating these customers throughout the year and finished 2023 with 67% migrated to the new platform, having removed passbook for over 1 million saving accounts. And as of today, we are approximately 92% complete and on track to complete all savings in Q1.

PAGE 5 – COMMITTED TO THE BANK'S ESG AGENDA

Turning now to page 5, we believe that our long-standing commitment to ethical banking provides an important alternative choice for consumers. Our customers tell us it's important to them, and when we have tested the wider market appetite, there is a clear opportunity to build and deepen our customer relationships. External proof points about how we are performing on ESG are therefore important to us.

In 2023, we were again rated as the UK's Best High Street Bank for ESG by Sustainalytics for the third consecutive year, with a score of 8.5. We also maintained our position as joint market leader by MSCI, with an ESG risk rating of AAA. We made a 7% improvement in our ISS rating year on year and Consumer Champion Which? named us as an eco-provider.

We are proud to support our charities, and community accounts which make such a difference in society. We were once again awarded Money Facts best charity banking provider for the eighth consecutive year. Our customers tell us that they want us to use our voice to campaign on matters that are important to them and last year we partnered with Shelter to bring focus and momentum to the introduction of a robust Renters Reform Bill. In January we set a target to double our colleague volunteering hours in 2023 and we achieved this goal with colleagues recording over 16,000 hours supporting various causes throughout the UK.

These are just some examples of the positive achievements we have made during the year and I remain very proud of the Bank's unwavering commitment to making a difference.

PAGE 6 – DELIVERING ON OUR PRIORITIES

Turning now to the final page before I hand to Louise and to summarise.

On the left is a reminder of what I told you last year would be our priorities. As you can see, we have delivered strongly on those commitments. We have further optimised the capital stack through an MREL issuance and refinancing our existing Tier 2.

We have the main deliveries under our IT simplification behind us now. Our platform is scalable and will be an efficient driver of growth opportunities.

We have proven our ability to execute inorganic options, through the acquisition of the Sainsbury's mortgage portfolio, which is both P&L and Capital accretive and the first acquisition in over a decade.

And with that I'll hand over to Louise to take you through the financial performance in more detail.

PAGE 8 – SUSTAINABLE UNDERLYING PROFIT IN LINE WITH EXPECTATIONS
Louise Britnell
Thank you Nick, and good morning,

As you've just heard, we are making good progress in our strategy, with some significant milestones having been achieved in 2023. Our underlying profit for the year at £120.9 million is down year on year, but this reflects where we are at this point in our strategy, building for the future through business-as-usual, continuous improvement projects, which we accelerated in the year. Along with the insourcing of Capita colleagues, which together has increased underlying costs by 10% in the year.

Total income has increased by £15.8 million, driven by an increase in net interest income of 4%. In 2023, we have been cautious about volumes, as you've heard me say many times, whilst margins have been low. And NIM has increased significantly year on year aligned to guidance. Importantly, NIM has not yet peaked due to the significant protection from our structural hedge, and I'll go through that later in the presentation.

Our NIM also reflects the low risk nature of our book. Our balance sheet is dominated by prime residential mortgages with conservative underwriting, and as a result, our cost of risk of impairment charge is negligible. We have incurred some exceptional costs in 2023 and therefore, on a statutory basis, profit before tax is lower at £71.4 million.

Taking a closer look at exceptional costs. Firstly, 2023 is a significant year for our flagship IT transformation project. It has been a multi-year program of change and is a significant enabler of future agility and efficiency. I won't repeat what Nick has covered in this regard, but highlight that the P&L cost is £14.7 million in the year. We have the main deliveries behind us now and the project is due to complete in 2024.

A brief, but worthy mention is the £7.8 million of advisor costs included within exceptional projects. This relates to the work the Bank and its shareholders are undertaking to explore strategic options, which is ongoing at this time. As Nick touched upon, we have reflected a £28.9 million provision in relation to customer redress. This relates to a closed book of legacy mortgage customers, for which we have retained legal title.

We were disappointed with the FOS decisions on two cases received in November. The decisions and circumstances are fairly complex, and we took some time to consider our position very carefully. Whilst we have received relatively small volumes of complaints to date, as a Board, we felt that a fair approach would be to address this for all customers where circumstances were the same, regardless of whether or not they had complained. As a result, in early 2024, we commenced a remediation program and the provision reflects our best estimate of the associated cost.

The tax credit of £58.3 million is driven by deferred tax asset recognition that I've talked to earlier in the year. We have now recognised £197.5 million of deferred tax assets, which as Nick already said, is roughly a third of total of losses available, affording us protection for many years and the full impact of the statutory tax rate on our taxable profits.

Since we turned a profit in 2021, we have generated £235.1 million of pre-tax profit and paid only £4.5 million of tax as a result of capital allowances and these historical losses.

Finally, on this page, you can see that all of our key financial metrics have improved with the exception of the statutory cost-income ratio, which has risen due to the factors on exceptional and underlying costs that I've just explained.

PAGE 9 – NIM GUIDANCE FOR 2023 ACHIEVED; GROWTH EXPECTED IN 2024

Turning to page 9, I've provided further detail on NIM, which has grown 14 basis points to 180 basis points in 2023, in line with guidance. On the asset side of our balance sheet, the NIM contribution is reducing as a result of mortgage margins remaining under pressure. Contrary to this, deposits have been making a progressively larger contribution. This trend is largely mechanical in nature as a result of our simple balance sheet, which is made up of prime residential mortgages and sticky customer deposits.

Looking forward, the deposit contribution to NIM is expected to continue to increase as the blended structural hedge rate increases towards the prevailing market rate. As you'll be aware, the structural hedge is a tool to reduce income volatility, since the rate of the hedge slowly move towards the market rate rather than income being impacted immediately when market rates change. Therefore, during the rising rate environment across 2022 and 2023, significant value is built up in the hedge, which will come through in future years. We expect the rate in the hedge to reach equilibrium with market rates towards the end of 2026.

This NIM tailwind is helpfully illustrated in the top right chart, with income coming through from the structural hedge representing 46% of our Net Interest Margin in the final quarter of 2023. We expect it to rise further to approximately 50% of NIM in 2024, and will more than offset continued headwinds from mortgage margins. As a result of this, I do not believe we have reached peak NIM and it will continue to grow in 2024, rising to approximately 185 basis points.

PAGE 10 – STATUTORY COSTS EXCLUDING REDRESS IN LINE WITH GUIDANCE

Turning now to costs, excluding the exceptional provision for redress that I've already talked to, statutory costs were £417 million, and it's pleasing that this is in line with guidance of approximately £420 million, despite accommodating almost £8 million in strategic advisory costs.

Statutory operating expenditure has increased year on year and so, I'll take you through the bridge of £373 million to the £417 million that I just flagged pre-provision.

Staff costs have increased by £26 million. This reflects three main factors: insourcing of Capita colleagues, the cost of which previously was included in EIR and therefore a negative income over the life of the mortgage, rather than a cost. Secondly, the full-year impact of our investment in contact centres in 2022. We are still fairly manual in our operations, so whilst we are building digital services, when customers need to contact us this is mainly through telephony. We saw a large increase in demand into our contact centres through 2022, and we increased our recruitment levels to manage their service levels. Thirdly, it also reflects the cost-of-living payment. Some of which were embedded in base pay for lower paid staff, along with the inflationary annual pay review.

Non-staff costs have increased by £4 million, which is less than 2%, reflecting the upward impact of inflation, offset by our focus on delivering efficiencies as we simplify the Bank. We have accelerated our continuous improvement projects, the cost of which increased £7 million year on year, reflecting investment for the longer term to address the manual nature of our service that I just mentioned, and this cost also includes the work on regulatory projects such as consumer duty. Overall, we spent £29 million in P&L terms on these projects in the year. And finally, there is an increase as a result of strategic advisory costs.

Looking to the future, 2023 has set us up well to achieve our cost and efficiency ambitions, and as I said previously we expect to bring our cost-income ratio down to under 50% in the next five years.

Our IT transformation project delivers benefits on both income and cost. On the cost side, we will start to see the benefit in 2024 and the majority of the work to deliver those efficiencies has already been completed. We will get a full annualised benefit in 2025 along with the benefit of decommissioning the data centres which complete at the end of '24.

The move away from large-scale complex transformation resolving legacy issues, further lowers cost in three main ways. Firstly, reduced below-the-line project spend; secondly, in a lower cost to run the bank by virtue of reduced risk and complexity; and thirdly, by enabling the focus to move to continuous improvement, we can now turn our attention to smaller, shorter duration projects which focus on efficiency improvements with a shorter payback period.

We have a significant number of efficiency projects identified and earlier this week we welcomed a new member of the executive team, Adrian Walker, who will lead the business change to strategic execution of these initiatives across the Bank. As a result, I have guided to approximately £410 million of total costs next year, excluding advisor costs, with efficiencies offsetting inflation alongside a higher depreciation charge.

PAGE 12 – LOW AVERAGE LTV; PREDOMINANTLY PRIME RESIDENTIAL PORTFOLIO
Moving on now on the next four pages we go into more detail on the two core segments of the Bank, starting with retail before moving on to SME. Over on page 12, I've already discussed the challenges facing our market margins. Here, you'll notice that the blended margin overall for our mortgage book has decreased further in the final quarter to 97 basis points.

Looking at the year as a whole, the blended mortgage book margin reduced from 147 basis points in 2022 to 114 for 2023. We expected reduced margins this year and therefore, our proactive approach to manage new business volumes, as evidenced in the bottom left chart has been important. We have had a strong start to 2024, with £1.2 billion of new business applications at 66 basis points. On the bottom left of the page, you can see the shift in customer preference for shorter tenor mortgages in this higher rate environment with only 47% being for five-year products compared to 87% this time last year.

On the top right, the asset side of the balance sheet is predominantly prime residential at 93%, including 3% of interest-only, highlighting the low risk nature of the bank, with the blended average LTV also remaining low at only 55.7%.

PAGE 13 – RETAIL AVERAGE BALANCES REMAIN HIGHER THAN PRE-COVID LEVELS
Moving over the page. Total retail deposits have decreased by 6% to £15.7 billion compared to 2022. This follows a trend I've spoken to previously, being a reduction in average current account balances as customers use their current accounts and savings to help alleviate the financial pressures in a high rate, high inflationary environment or pay off more from their mortgages.

We have also seen customers move balances to higher rate savings and term products. We have shown in the chart to the bottom left that, although customer average current account balances have reduced throughout the year, they remain higher than the levels seen prior to the pandemic. Our variable deposit average balances also remain high and in Q4, were just over £6,000.

Given the environment, the market for current accounts has been fiercely competitive, with generous switching incentives available. Our own Refer a Friend campaign was introduced as a testand-learn pilot as the best way to attract customers who value the ethical approach to banking. We have had huge demand at times, which has been pleasing.

PAGE 15 – DIVERSIFIED SME PORTFOLIO
Moving through the presentation onto page 15. Our SME business provides a significant growth opportunity. Our portfolio today consists primarily of customer deposits, given it has been a liability led strategy, supported by CBILS and Bounce Back Loans in response to the pandemic. The liability focus is highlighted by the low loan to deposit ratio of 11.4% at the end of the year. Despite the rise in base rate, the blended cost of funds in SME remains low, moving from 6 basis points to 36 basis points for the year.

At the end of 2023, SME lending has remained fairly stable versus 2022 at £0.4 billion, which at just 2% of our core portfolio leaves us with minimal exposure. On the top right, I've shown the analysis of the commercial real estate portfolio exposure by LTV. You can see here that only 5% of these balances are greater than 70%.

PAGE 16 – SME DEPOSITS REMAIN STABLE
Over the page just briefly, our SME deposit balances have been more resilient than expectations, only reducing by 2% to £3.3 billion in 2023. As you can see in the top-right chart, 42% of our business current account customers are made up of community accounts. This is a live example of how our values and ethics, which supports our community focus, drives value for the Bank's franchise. I am pleased that average balances across all our SME customers have remained fairly stable in the year at approximately £25,000.

PAGE 18 – RESILIENT CUSTOMER CREDIT QUALITY
Moving on to page 18 to touch on impairment. The charge to P&L for the year is negligible at £0.6 million. As I've mentioned earlier, prime mortgages comprise the bulk of our balance sheet, reflecting a notably low risk portfolio. In total, the balance sheet position now stands at £37.4 million and approximately 50% of this was driven by a management PMA or overlays.

On the bottom left, just over 88% of the book is classified as Stage 1, an improvement from 83% in 2022. Stage 2 PMAs have reduced versus last year and this is something I've already talked to in earlier presentations. In H1, we released some of the PMA when we had more refined data on the cost-of-living impact and felt that the extent of the PMA introduced in 2022 was overly prudent.

PAGE 19 – ACCOUNTS IN ARREARS REMAIN LOW
Turning the page, we are well diversified geographically with London and the South East representing the largest exposure at 32%. Across all regions, our average loan-to-value ratio remains below 60%, offering substantial protection against potential HPI deterioration.

The bottom left-hand chart highlights the reduction in unsecured arrears that are greater than three months and in the other direction, an increase in secured arrears. However, for both of these, it's a very small proportion of our book for example, these arrears within secured are only 0.21% equating to 291 accounts.

PAGE 20 – RESILIENT CAPITAL POSITION; SUPPORTS INTENTION TO COMMENCE DIVIDEND DISTRIBUTIONS
Turning now to capital. To reiterate what Nick said earlier, because of the Bank's ongoing strong performance and surplus capital to all requirements, including buffers, we are in a position to recommend an inaugural dividend at this year's AGM in May. The £12 million dividend recommended represents 10% of underlying profits earned in the year and is another step to

normalising the bank over time.

Looking at the top chart on this page, CET1 ratio post proposed dividend has increased to 20.1% from the prior year end reported figure of 19.8%. This is driven by profits generated in period. CET1 ratio, pre dividend is 20.4% with organic CET1, i.e. excluding the portfolio acquisition, growing by 70 basis points. We maintain a robust surplus of £291 million to regulatory capital requirements, including CRD IV buffers and £402 million to MREL requirements on that basis.

PAGE 21 – LOW BLENDED COST OF FUNDS AT 240BPS
Moving on to funding on the next page. Our total blended cost of funds encompassing wholesale and customer funding stands at 240 basis points, significantly lower than base rate at the end of the period. Customer funding, making up the majority of our funding mix at 79%, remains modest at 153 basis points.

Despite the increase in response to the rising rate environment, our competitive funding costs highlight the robustness of the bank's deposit franchise. This affords us the flexibility to enhance our positioning in pricing tables in future, driving deposit growth where appropriate to achieve our funding strategy alongside exploring wholesale funding activities.

We have repaid £1.2 billion of TFSME deposits ahead of their contractual maturity, with outstanding drawings currently at around £4 billion.

PAGE 22 – STRONG LIQUIDITY POSITION
Turning the page, our liquidity coverage ratio continues to comfortably exceed the regulatory minimum of 100%, with a rolling 12-month average of 211%. Spot basis calculation of LCR offers deeper insights into recent trends currently standing at 195%, down from 243% in December 2022, in line with our expectations. This downward trend is anticipated to persist as we proceed with the repayments of TFSME. Our target LCR on a comparable basis is around 130% with roughly 1.4 billion of headroom to reach that level.

PAGE 23 - OUTLOOK
So finally, before I hand back to Nick, I will provide financial guidance for the year ahead. Firstly, as we have highlighted, we have finished the year in a strong position, achieving or exceeding all guidance metrics, except statutory costs, which was impacted by the exceptional redress provision. Excluding that late change, we are in line.

When looking ahead to 2024, excluding strategic advisory costs, we have guided to a reduction in total statutory costs as we deliver our transformation project. On an underlying basis, we expect cost to be broadly stable year on year since efficiencies will offset inflationary pressures and increased depreciation charges.

NIM will increase in 2024 to approximately 185 basis points, supported by the increase in rates on the structural hedge. RoTE is expected to remain in double digits for 2024. We do not expect as much volatility in deferred tax in future unless tax rates were to change. We expect AQR to remain below five basis points as we have low stable arrears across the portfolio. And finally, 2024 customer asset guidance reflects that we remain conscious of preserving bank margins.

I'll pause there and now hand you back to Nick, who will take you through the final part of the presentation.

PAGE 24 – STRONG MOMENTUM INTO THE NEXT PHASE OF OUR STRATEGY

Nick Slape

Thank you, Louise. So we enter the next phase of our strategy, a stronger, more resilient and scalable bank. As a result of the significant achievements we've talked about, we reviewed and refreshed our ambitions. Our priority is to embed the efficiencies enabled by our simplification programme, leverage the associated benefits and expand our growth ambitions.

We're focused on three core pillars. First, current accounts and deposits. In retail and SME, we will prioritise customer service, improve our onboarding processes and account opening journeys, and we will increase market share through targeted propositions to further enhance our low-cost funding base.

Second, mortgages. With simplification complete, we will diversify into adjacent niche markets such as complex income as well as offering a more bespoke service for our brokers.

And third, SME assets. We will develop our lending proposition in specific sectors aligned to customer needs as we seek to deliver a more balanced risk profile. The majority of SME lending remains secured.

These growth opportunities are enabled by further operating model transformation focus on efficiency, following the investment in recent years. And of course, all this is underpinned by our ethical banking principles, we will amplify the bank's ESG reputational strength whilst embedding ESG into all customer interactions.

So that concludes the presentation this morning, but you can find further supplementary information within the presentation and in the 2023 Annual Report and Accounts, which is available online. Louise and I will be happy to take questions now, so I will hand back to the operator.

Q&A

Question 1: Corinne Cunningham, AUTONOMOUS

Good morning, everyone. Thank you for holding the call. A couple of questions from me, please. First one is on TFSME. If you could run through your issuance plans or your strategy for dealing with the remaining £4 billion, please?

Second question was just what you mentioned there on tax and when you say don't expect tax volatility, does that mean that you don't expect more off balance sheet DTAs to come on balance sheet? Perhaps just explain that one a little bit more.

And then the last one is just on the redress. Could you explain in a little bit more detail what the FOS decisions were regarding? Thank you.

Nick Slape

Good morning, Corinne thanks for that I can take the first one and then Louise will take the next one and come back on the FOS stuff at the end. On TFSME, we've already paid down £1.2 billion voluntarily in 2023, taking us to £4 billion outstanding. We're planning a further £1.5 billion in 2024. Our issuance assumptions are across covered bonds in 2025, and we have around £500 million RMBS across 2024 and 2026, and then growth in retail and SME liability balances of around £1.4 billion across 2024 and 2025. That's the broad shape of it.

Louise Britnell
Okay. I'll pick up on the tax question. So last year, we obviously had the volatility caused by the pension buyout. This year, we've had significant increases in the deferred tax asset caused by the way that we are required to account for it when we're newly profitable, which is linked to the five-year profitability forecast and then assuming no further profit thereafter.

Now what that does, as you change your five-year plan, and this year as many of us are seeing is a year of volatility, is create changes at times in your deferred tax asset because it is linked to five-year outlook. Now what we're looking at going forward, now that we are sustainably profitable, is that we will replenish the deferred tax asset that we use to offset taxable profits as we utilise that deferred tax asset and then that replenishes that asset that we've used. But we haven't budgeted to put significant new unrecognised deferred tax assets.

What we will do is we will assess the reasonableness of the existing asset, which, as I said, is £197.5 million at the end of the year, at each reporting period to make sure that that's not overly conservative in a growth plan.

So it doesn't rule out that we will recognise in accounting terms more deferred tax, but what it does is it means that that's less mechanical and it's more of a judgment and we'll be able to consider that in terms of the volatility in the number as to what makes sense in the overall P&L. So the assumption is a flat tax charge within the forecasts.

Nick Slape
Okay. I'll pick up on the MAS question in a bit more detail and then maybe, Louise, you can chip in as well. This is a limited number of complaints we've had, so before the two lead cases that Louise and I mentioned, at the end of November, we had around about 100 complaints. And since then we've had about 40. So it's not significant. So around about 140. It's very specific, it relates to the period around 2011, 2012, so out of cycle rate rises.

And as Louise said, we were very thoughtful from a Board perspective around a voluntary redress on this, given that we had, as Louise says, a certain level of disappointment with the outcome of the FOS two cases that I referred to, but that we felt that was the right thing to do to redress all customers related to this particular subsidiary on a proactive basis. Do you want to add anything else?

Louise Britnell
No, I think that the provision obviously reflects the specifics of the scope of those customers and the Board set the scope of the redress, so we've provided on that basis and it also includes our estimate of delivering the remediation program.

Nick Slape
And we started already

Corinne Cunningham
And how many customers does it cover?

Louise Britnell
4,500

Question 2: Daniel Crowe, GOLDMAN SACHS
Good morning thanks for taking the calls. Could I just ask on the structural hedges, is that fairly linear to 2026 when you say it kind of peaks?

Then on project costs, could you just give an idea of how much you have left to take in 2024?

Just coming back to Corinne's question on tax, when you say flat tax, do you mean it should be a steady tax rate going forwards or effectively no tax for the next couple of years?

And sorry, if I can throw in a final one, just a timeline on talks with Coventry, if you can give some idea of the timeline? Thank you very much.

Nick Slape
Okay. Yes, as I said that the conversations are ongoing, they're constructive, we're in exclusive talks but we haven't got much more else to say about that at this stage. But I did say that we will update when there is something to say so I can't really say much more than that at this stage, but constructive conversations.

Louise Britnell
Yes, so the rate in the structural hedge at the end of the year, the blended rate is 170%, obviously significantly below the market rate, 5.25%. It's mechanical, the structural hedge, so it does gradually build to the prevailing market rate, so yes it is a fairly linear straight line upward trajectory and equilibrium is reached at some point in 2026 where that structural rate blended hedge will equate to the market rate at that time per our assumptions. I didn't catch exactly project cost question. So I'll come back to that.

Nick Slape
I think it was how much more to take in '24?

Louise Britnell
For simplification?

Nick Slape
Are you referring to simplification or just the whole project spend?

Daniel Crowe
The whole project spend

Louise Britnell
Okay. So in 2024, the cash spend is slightly lower. The simplification spend is significantly lower, but we are delivering a range of projects as you heard me say that are shorter duration and continuous improvement projects. We have got regulatory change ongoing, we have got continued tech debt remediation so it is lower but it steps down further in 2025.

Nick Slape
It's about £60 million of cash spend in the year. £14 million of that is the final throws of the migration from three platforms onto one that I talked about and then that's finished. And then the rest of it is more discretionary stuff, which is more commercial in nature. So for example, strategic current account onboarding, those sorts of things.

Louise Britnell
Yes. So from the £78 million, it's just over £60 million next year, because simplification is a smaller proportion, this does affect your capitalisation rate, which is reducing.

So in terms of the tax question, what I meant by flat tax was that the P&L charge is broadly neutral for deferred tax because as you're consuming it to offset any tax payable to the extent that you can replenish it, that's what I meant. So you'll see less volatility in the deferred tax element.

In terms of the numbers that I quoted in the presentation, £235.1 million of PBT and £4.5 million of tax paid, that also received quite a bit of protection from capital allowances, which we offset first before the losses because losses are obviously subject to the loss-relief restrictions, where you can only use a proportion of historical losses.

Some of our losses can be used at 50%, some at 25%. So you will see a long-term significant protection from those historical losses, but it will not be to the extent of that £4.5 million out of the proportion of the £235 million because we'll have utilised our capital allowances and we'll be moving through those loss bandings from the 50% down to 25%. But the key message really is that we will be paying tax for a long time at lower than the statutory rate because of those losses. They will last for a long time.

Angela Catlin
Thank you, and we don't actually have any written questions come through. So I'll hand straight over to Nick for closing remarks.

Nick Slape
Yes. Thanks a lot for joining. We got some feedback, there was some problems with a couple of the pages in the audio. So if that's the case then we'll put the transcript up on the website so you can read it.

And we're planning to harmonise our trading updates on the Q1s and the Q3s with our peers. So more of a trading update and not doing these calls and so much detail in the IMS.

So next time we speak, will be our half year numbers. So I look forward to that. Thank you.