3Q 2021 Results

05 November 2021

Proud to be the UK's best ESG rated high street bank*

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for people with purpose

*Rated by Sustainalytics in the Regional Banks subindustry with a score of 9.2 as of June 11, 2021

3Q 2021 Highlights

Third successive profitable quarter

Statutory profit before tax £29m

Capital generative; CET1 20.1 % *

Underlying profit £25m; Adjusted ROTE c.3 % (YTD)

Current metrics performing within guidance

Mortgage balance growth

Total gross lending YTD £4.1bn

Net residential lending £2.2bn

New mortgage pipeline £1.7bn

Opportunity to maintain growth going into the final quarter and beyond

Expansion in SME

SME customers 95k

Relaunched our SME banking website

Business current accounts 103k

Eighth consecutive quarter of SME customer base growth

* Includes software intangibles benefit worth c.0.6pp

3Q 2021 Highlights

Leader in ESG

- Ranked #1 for ethical perception*
- Supporting the Climate and Ecological Emergency Bill
- Sixth customer-led Value & Ethics poll launched

Customers given chance to shape our Ethical Policy to be launched next year

Progress on capital strategy

- MREL issuance trading at 4.0%**
- T2 issuance trading at 5.9%**
- Reserves restructuring approved

Provides us with the opportunity to optimise our capital stack

Investor event held in October

- Presented our refreshed strategy
- New guidance metrics from 2022
- Simplifying our financial targets

Strategy refreshed and announced the next stages of our plan

* Hall & Partners Brand Tracking Survey
** Mid price as at 26/10/2021

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Income growth and reduced costs leads to a positive jaws of 24%

£m	3Q 21	3Q 20	Change
Net interest income	233.6	195.2	20 %
Other operating income	25.6	29.2	(12 %)
Total income	**259.2**	**224.4**	**16%**
Operating expenditure	(234.0)	(253.3)	8 %
Impairment	(0.3)	(16.7)	98 %
Underlying profit / (loss)	**24.9**	**(45.6)**	**>100%**
Strategic change	(16.1)	(18.8)	14 %
Restructuring programme	-	(19.8)	N/A
Non-operating income	19.7	16.1	22 %
Profit / (loss) before tax	**28.5**	**(68.1)**	**>100%**
Taxation	22.2	23.6	(6 %)
Profit / (loss) after tax	**50.7**	**(44.5)**	**>100%**
Ratios			
Customer NIM (bps) [1]	157	144	13
Bank NIM (bps) [2]	124	115	9
Underlying cost:income ratio (%) [3]	90	113	23
Statutory cost:income ratio (%) [4]	90	121	31
Asset quality ratio (bps) [5]	0	12	12
CET1 ratio (%) [6]	20.1	19.2	0.9

1. Annualised net interest income over average customer assets
2. Annualised net interest income over average interest earning assets
3. Operating expenditure over total income (excludes impairment)
4. Total statutory expenditure over total statutory income (excludes impairment)
5. Annualised impairment charge over average customer assets
6. Comparator is FY 20

Profit before tax of £28.5m; a third consecutive profitable quarter

Total income increases by 16% to £259.2m

- Net interest income increases by 20 % . Higher mortgage balances at improving margins
- Other operating income decreases 12 % to £25.6m. Reduced customer fee income partially offset by gilt sales

Operating expenditure decreases by 8% to £234.0m; reflecting lower staff costs following simplification, restructuring and reduced property and third party costs

Impairment £0.3m - The net impact of balance sheet growth and improved economic outlook

Strategic change decreases by 14% to £16.1m. Focus on SME investment and mortgage system transformation

Non-operating income includes £14.1m refund of ATM business rates

The tax credit of £22.2m largely due to the impact of the increase in the UK Corporation Tax rate leading to a revaluation of deferred tax assets

All key ratios improved

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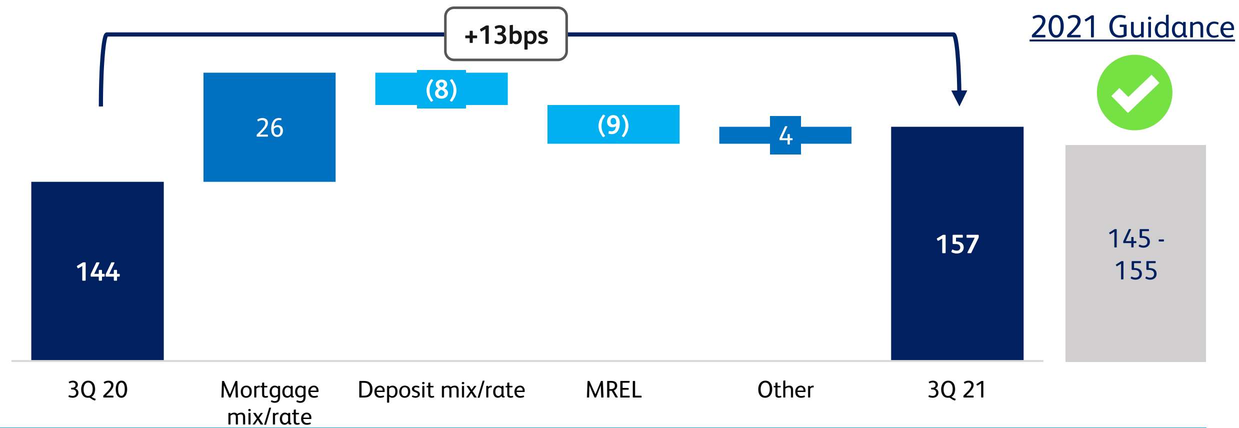
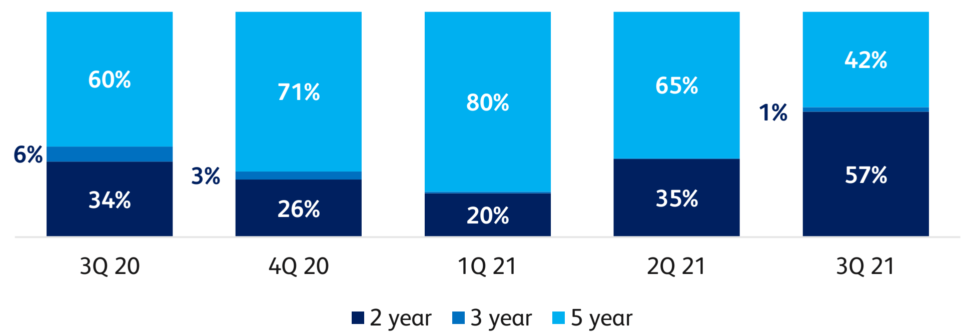
Customer NIM increases 13bps and at top end of guidance

Customer net interest margin (bps)[1]



Completions by tenor

	3Q 20	4Q 20	1Q 21	2Q 21	3Q 21
Completion margins[2]	159	205	212	219	190
New business completions (£m)	577	1,242	1,626	1,448	1,052



- Customer NIM increases to 157bps; Bank total NIM (including relevant non-customer assets) increases to 124bps from 115bps
- The Bank was able to capitalise on increased mortgage margins across 2020 and 2021 driving an increase across both NIM metrics
- Deposits impacted by reducing rate environment
- MREL expense drives a 9bps reduction across customer NIM
- As margins have reduced in the quarter, the mortgage tenor has normalised. We drove longer tenors earlier in the year whilst margins were attractive

1. Calculated as annualised net interest income (pre LTP) over average customer assets
2. Margin calculated as gross rate minus swap for the quarter

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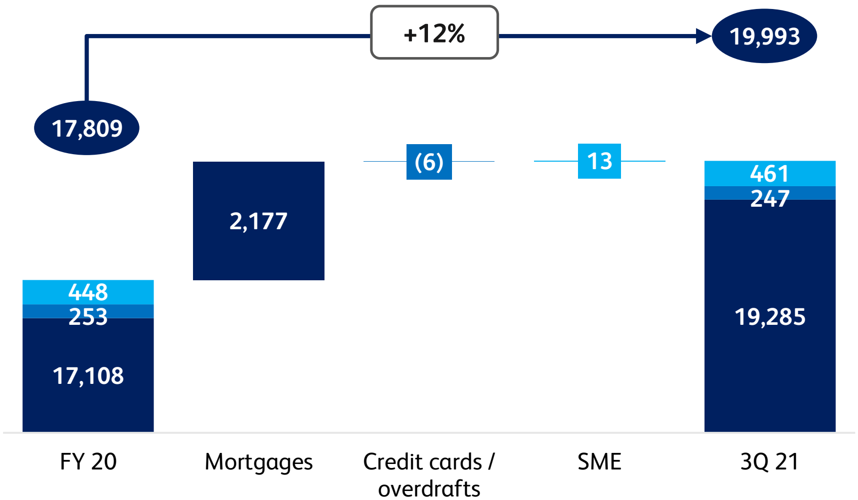
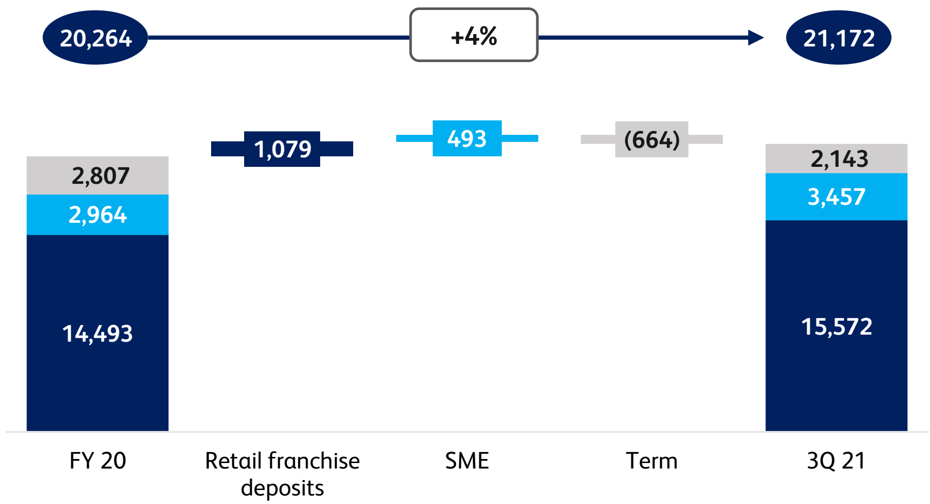
Growth in core customer assets; deposits remain at high levels

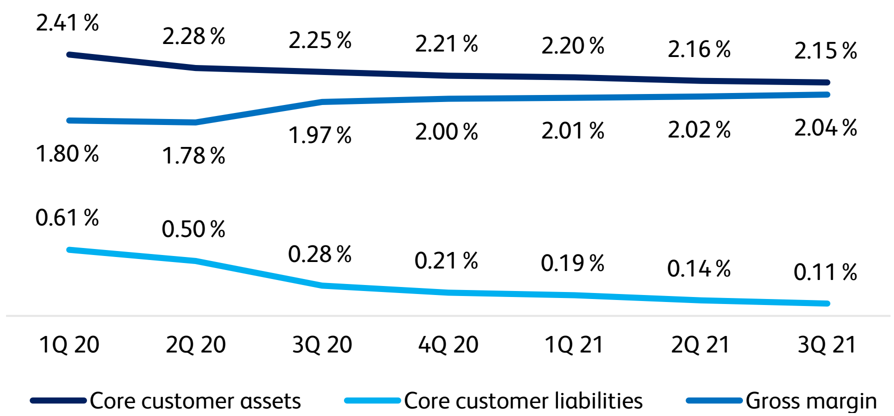
Core customer assets flow (£m)



Core customer deposit flow (£m)



Customer rate corridor[1]

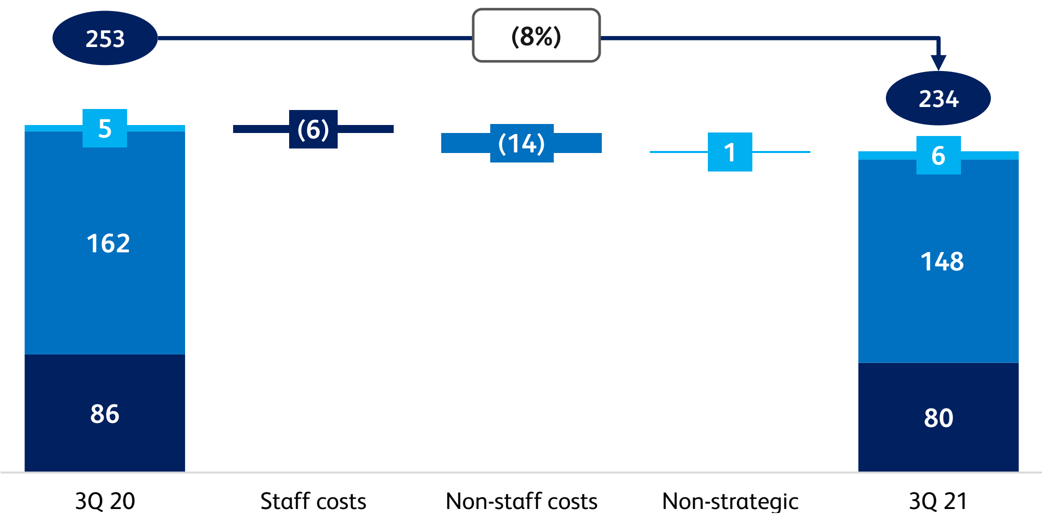


- **12% growth in customer assets;** primarily through mortgages. Net residential lending of £2.2bn, equivalent to 12.7 % of mortgage balances (£4.1bn gross lending YTD)
- Pipeline of c.£1.7bn as we enter the final quarter of 2021
- **Deposits increase by 4%;** mainly driven by retail franchise deposits offset by a reduction in term deposits, following re-pricing actions
- **Gross margin stable as repricing actions offset reductions across mortgage rates**

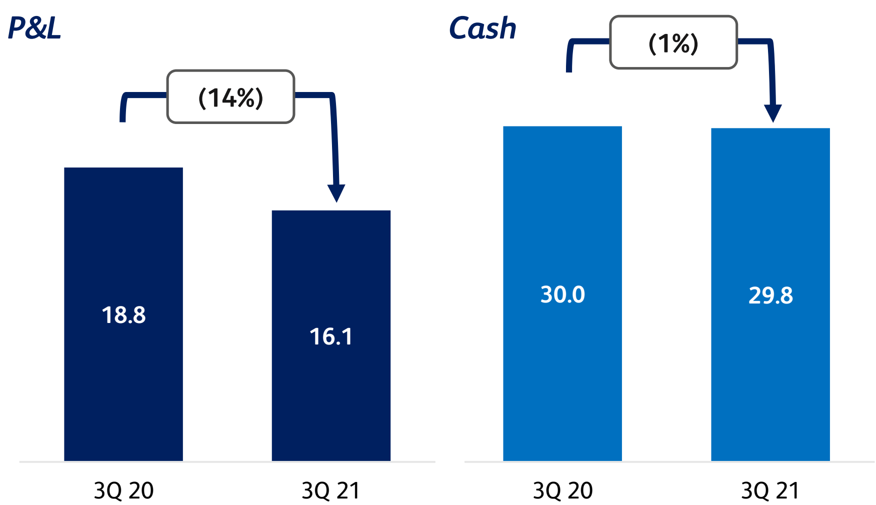
1. Calculated as annualised core customer income over the core customer average balances for the 3-month period

Operating expenditure reduces by 8%; in line with expectations

Operating expenditure (£m)



Strategic change (£m)



Operating expenditure reduced by 8 % compared to 3Q 20:

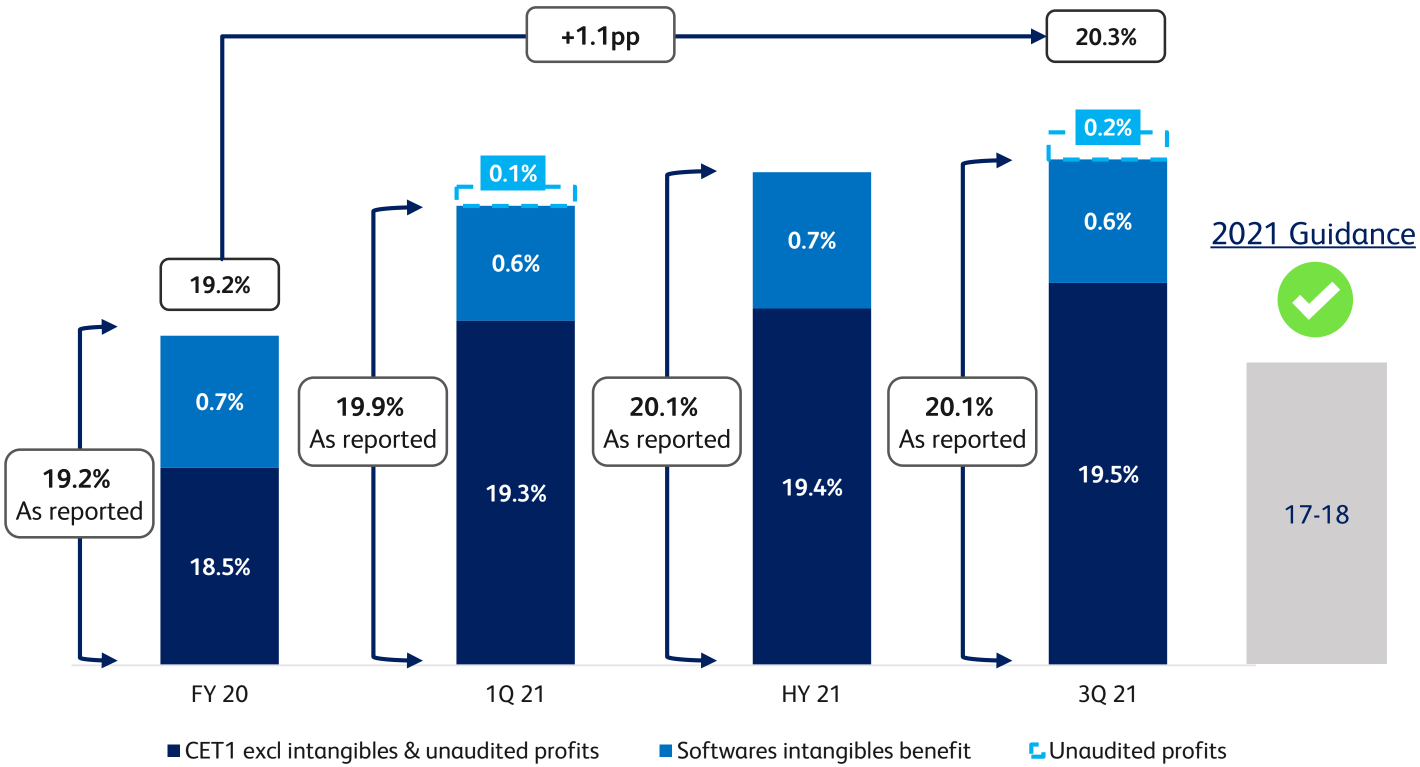
- Staff costs reduced by £6m mainly driven by:
  - c.£13m due to restructuring and simplification which includes actions taken in 2020
  - Offset by an increase in performance-related costs (c.£7m)
- Non-staff costs reduced by £14m, including:
  - £4m of property costs including impact of 2020 restructuring
  - £6m impact of simplification on outsourced and third party costs
  - £3m reduction in marketing
- Non-strategic (continuous improvement) project spend of £6m
- Total statutory costs reduced 14 % to £250m YTD (3Q 20: £292m)

Strategic spend reduces to £16.1m (P&L)

- Project spend includes SME investment of c.£7m and Mortgage system transformation c.£2m

Successive quarters of organic CET1 generation;1.1pp CET1 growth to September

CET1 ratio development

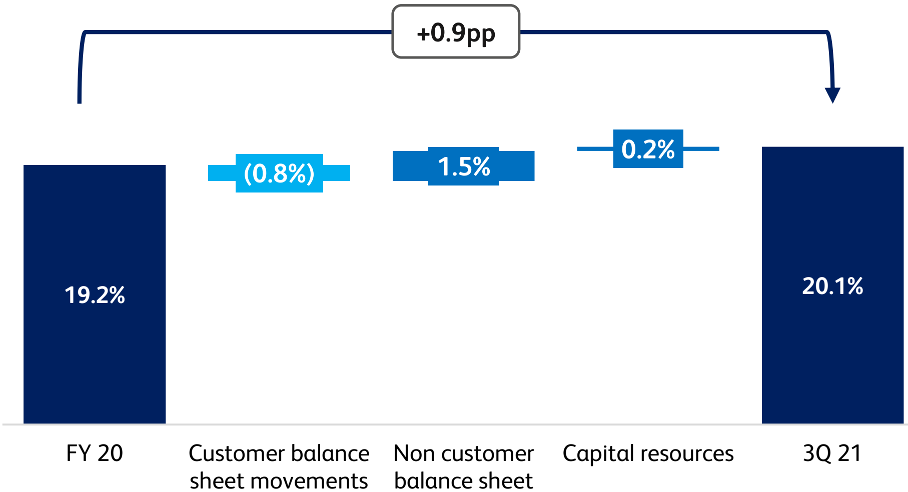


Organic CET1 generation of 1.1pp since FY 20 driven by reduced RWAs and profits

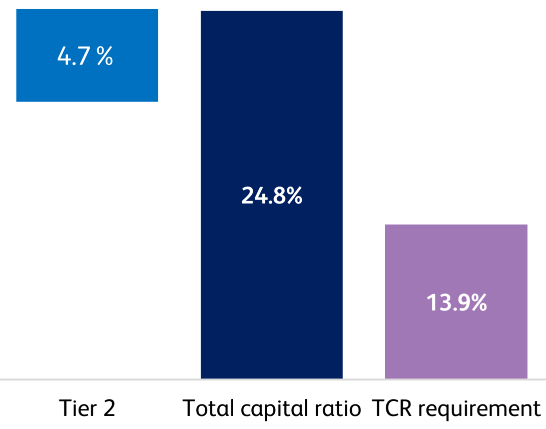
- A further 0.2pp increase in CET1 with inclusion of unaudited profits
- Intangible benefit will be removed from 2022; benefit stable (0.6pp to 0.7pp)

CET1 increase reflects net profit and balance sheet simplification

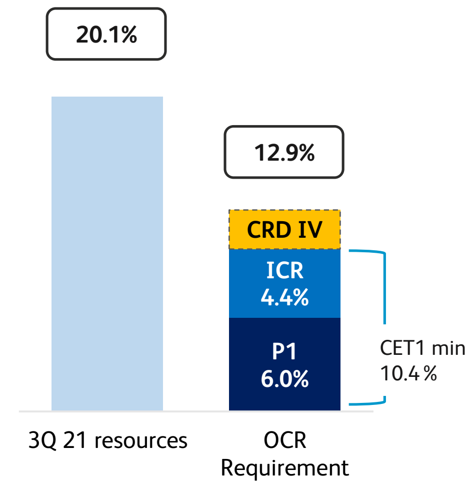
CET1 ratio development



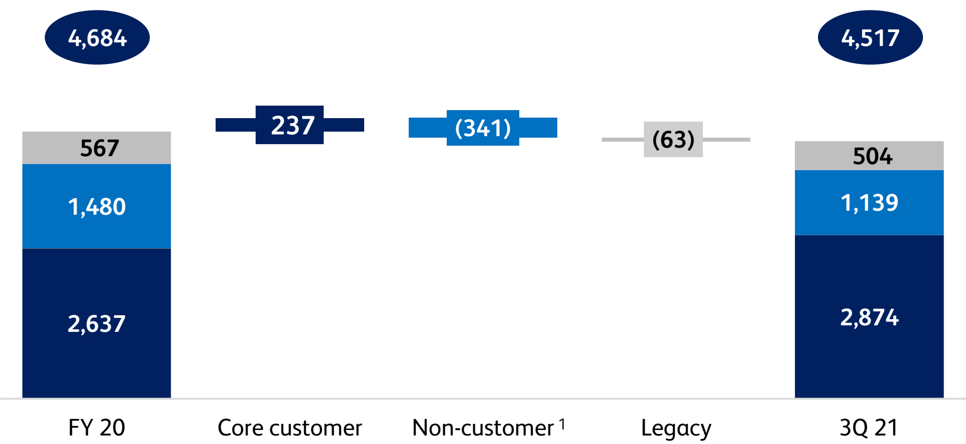
Total capital ratio



CET1 minimum



RWA (£m)

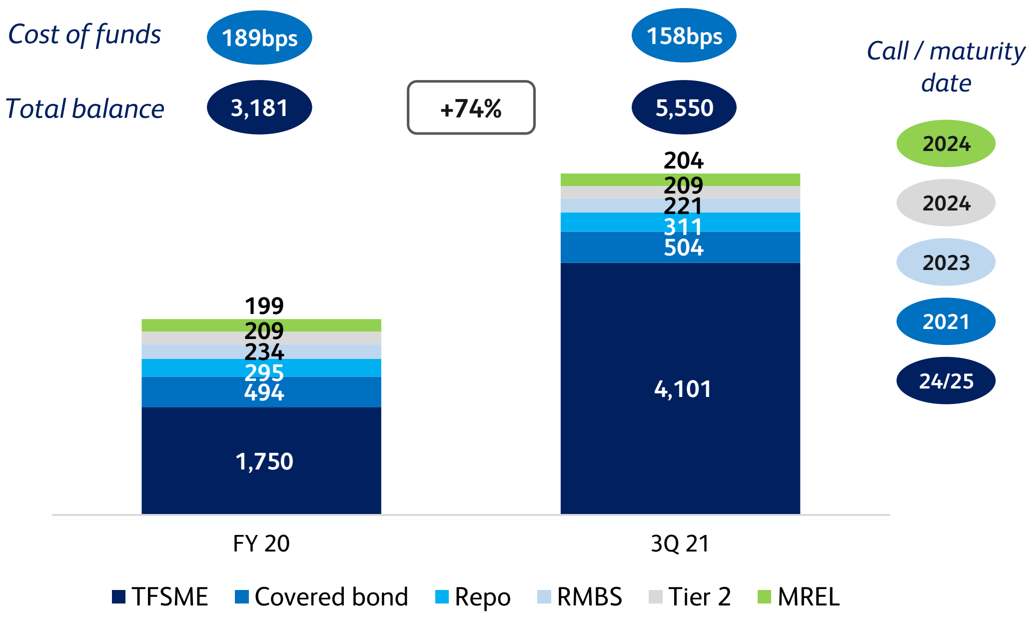


- Reported CET1 % grows 0.9pp; surplus to CET1 minimum of 7.2pp or c.£325m
- CET1 growth driven by audited profit in 1H 21 and reduction in non-customer RWAs - settlement of the surrendered loss debtor (£48m) and Optimum disposal (£117m) and fair value of hedging instruments (£134m)
- RWAs attributable to core customer balances increase driven by mortgage growth
- CET1 guidance remains subject to regulatory approval of RWA modelling
- **The Bank maintains a significant headroom to MREL + CRDIV buffers of £183m (requirement c.£1.1bn)**

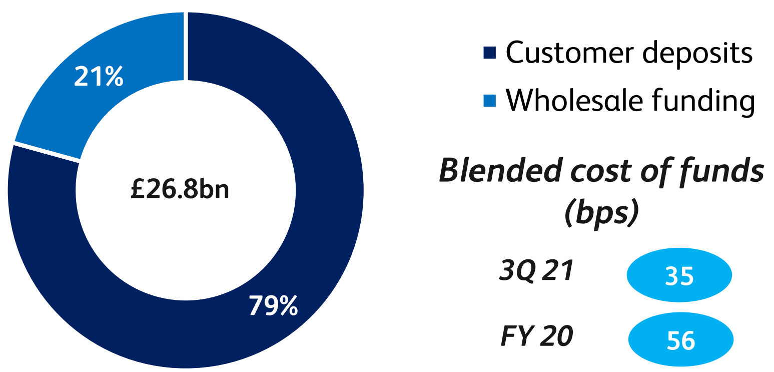
1. Non-customer RWAs include operational risk, treasury and other central assets

Cost of funds remain low; wholesale funding costs reduce due to TFSME

Wholesale funding (£m)



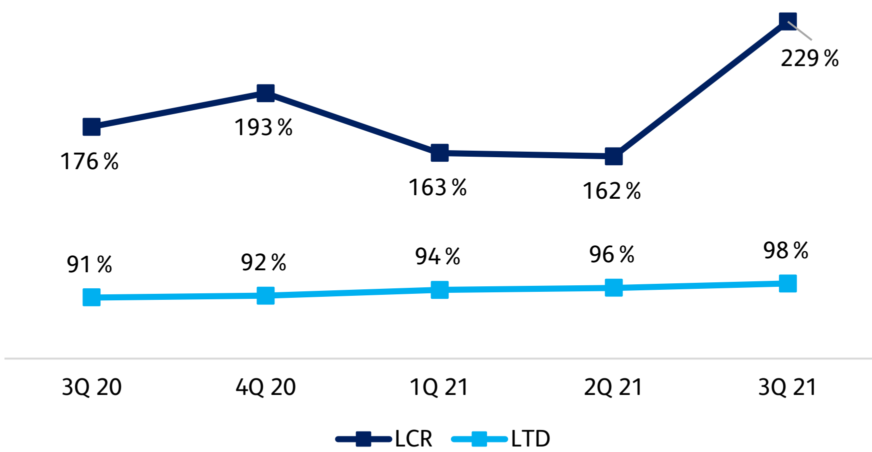
Funding mix



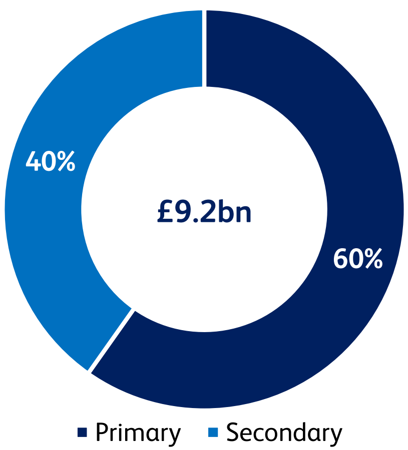
- Wholesale cost of funds reduces to 158bps following a further £2.4bn drawdown in low cost TFSME funding, partially offset by £200m MREL issuance in November 2020
- Funding mix; customer deposits at 79 % (FY 20: 87 %) with 21 % wholesale (FY 20: 13 %)
- Covered bond to mature on 11th November 21
- **Total blended cost of funds remains low at 35bps**
- A further £1.1bn has been drawn down in October 2021 taking total TFSME drawings to £5.2bn

Significant liquidity surplus enables further balance sheet growth

Loan to deposit / liquidity coverage ratios



Liquidity profile (£bn)



*Encumbrance**

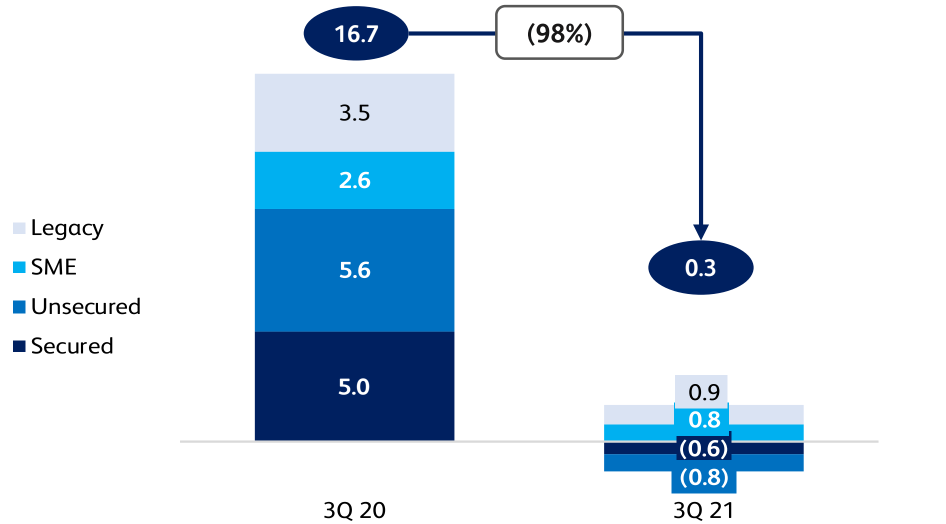
22.7%

- Strong liquidity position >100pp above minimum LCR requirements
- LCR increases due to stable customer deposits and a further £1.9bn TFSME drawdown in the quarter
- Loan-to-deposit ratio increases due to growth in lending supported by TFSME drawn down
- Encumbrance levels at 22.7 % ; marginally increased from 20.9 % due to additional TFSME drawdown in the period
- Liquidity metrics will normalise as we begin to refinance TFSME

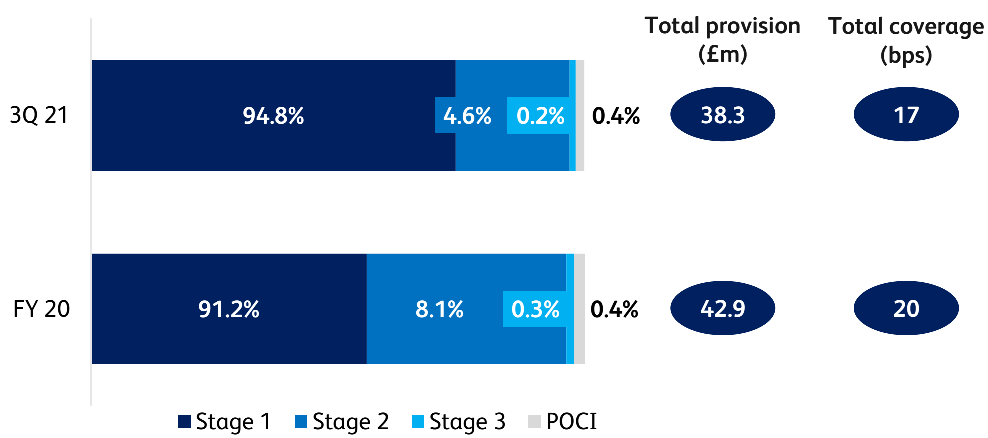
* Presented on a median basis

Customer assets maintain strong asset quality

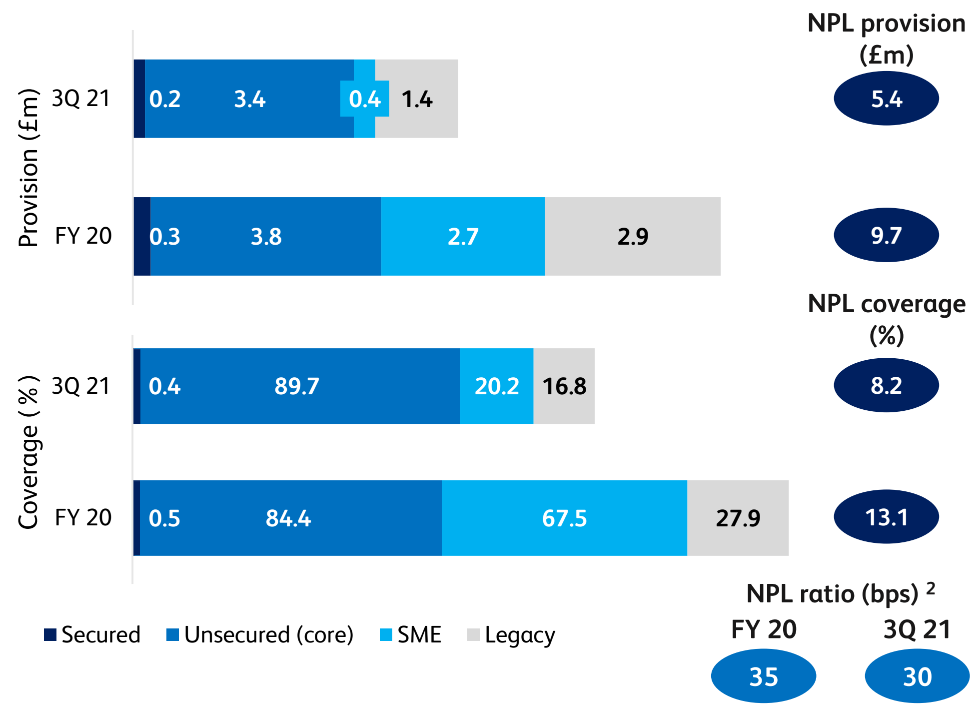
Impairment charge/(credit) (£m)



Exposure by stage [3]



NPL coverage [1]



Net impairment reduced by 98% to £0.3m reflecting a resilient portfolio as economic assumptions improve

- Defaults and customer arrears remain low across all portfolios
- Reductions to secured provisions due to improving economics and customers resuming payment as expected
- Stage 1 exposures increase as customers migrate from stage 2 after resuming payments following deferrals

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

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Guidance remains unchanged in 2021

	2021	3Q 21 Actuals	On track?
Customer NIM (bps)	145 - 155	157	✔
Underlying cost:income ratio (%)	85 - 95	90	✔
Franchise cash investment (£m)	45 - 50	29.8	✔
Asset quality ratio (bps)	5 - 10	0	✔
CET1 ratio* (%)	17 - 18	19.7	✔
Customer assets (£bn)	20 - 21	20.8	✔

Guidance dependent on base economic assumptions; in 2021 the Bank is targeting a return to profitability and guidance may be adapted if required over the course of the year to support this aim

* Excluding intangibles - actuals includes unaudited profits from Q3

Refreshed market guidance metrics from 2022 onwards

Previous metric	Status	Metric	2021	2022	2024
Customer net interest margin	New metric & calculation	Net interest margin (bps)	115 - 125	125 - 135	>135
Underlying C:I ratio; *Franchise cash*	New metric	Total statutory costs (£m)	<335	<335	<300
	Metric & calculation	Asset quality ratio (bps)	5 -10	5 - 10	c. 5
	Metric & calculation	CET1 ratio (%)	17 - 18	18 - 20 *	c. 19
	New metric	Adjusted return on tangible equity (%)	c.5	c.8	>10
	Metric & calculation	Customer assets (£bn)	20 - 21	21 - 22	>22

Adjusted return on tangible equity (ROTE %)

$$\frac{\text{Underlying profit - current tax - AT1 coupon}}{\text{CET1 resources}}$$

AT1 currently zero

We've redefined and simplified the guidance measures

* The estimated impact of PS11/20 is subject to regulatory approval. Whilst this guidance reflects our best estimate of the impact at the current time, this may be subject to change later this year

Latest announcements

Upcoming events:

24th February 2022 - Full year 2021 results

- Financial results for the year ending 31 December 2021

Our investor event took place on 11 October 2021

The bank hosted a 2 hour video conferencing event on 11 October 2021, to provide our latest status and strategic update

If you wish to download a copy of the slides, or watch a replay of the event please visit https://www.co-operativebank.co.uk/about-us/investor-relations/

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Appendix

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Segmental performance - Retail and SME

We have enhanced our segmental reporting to provide improved disclosure and transparency. Further insight into our Retail and SME segments are shown in the appendix for reference

Segmental £m	Retail			SME			Legacy & central items			Total		
	3Q 21	3Q 20	Change	3Q 21	3Q 20	Change	3Q 21	3Q 20	Change	3Q 21	3Q 20	Change
Net interest income / (expense)	204.9	168.4	36.5	34.9	30.5	4.4	(6.2)	(3.7)	(2.5)	233.6	195.2	38.4
Other operating income	13.4	17.2	(3.8)	12.0	12.0	-	0.2	-	0.2	25.6	29.2	(3.6)
Total income / (expense)	**218.3**	**185.6**	**32.7**	**46.9**	**42.5**	**4.4**	**(6.0)**	**(3.7)**	**(2.3)**	**259.2**	**224.4**	**34.8**
Staff costs	(62.5)	(67.5)	5.0	(15.6)	(15.8)	0.2	(1.9)	(2.6)	0.7	(80.0)	(85.9)	5.9
Non-staff costs	(122.9)	(138.2)	15.3	(23.9)	(22.7)	(1.2)	(1.2)	(1.7)	0.5	(148.0)	(162.6)	14.6
Continuous improvement projects	(5.1)	(4.2)	(0.9)	(0.7)	(0.5)	(0.2)	(0.2)	(0.1)	(0.1)	(6.0)	(4.8)	(1.2)
Operating expenditure	(190.5)	(209.9)	19.4	(40.2)	(39.0)	(1.2)	(3.3)	(4.4)	1.1	(234.0)	(253.3)	19.3
Impairment	1.3	(10.6)	11.9	(0.8)	(2.6)	1.8	(0.8)	(3.5)	2.7	(0.3)	(16.7)	16.4
Underlying profit / (loss)	**29.1**	**(34.9)**	**64.0**	**5.9**	**0.9**	**5.0**	**(10.1)**	**(11.6)**	**1.5**	**24.9**	**(45.6)**	**70.5**

Balance sheet	3Q 21	FY 20	Change	3Q 21	FY 20	Change	3Q 21	FY 20	Change	3Q 21	FY 20	Change
Assets	19,532	17,361	2,171	461	448	13	8,681	7,791	890	28,674	25,600	3,074
Liabilities	17,715	17,300	415	3,457	2,964	493	6,010	3,861	2,149	27,182	24,125	3,057

Continued profitability will give rise to significant deferred tax recognition

We have now reported a profit before tax for three consecutive quarters	✓
A continued track record will enable recognition of historical losses as deferred tax assets to offset future taxable profits	↑
Accounting recognition of deferred tax assets relating to historical losses does not benefit CET1	–
The utilisation of the asset over time will offset current tax charges on taxable profits (subject to loss-restriction rules) and in doing so will benefit CET1	↑

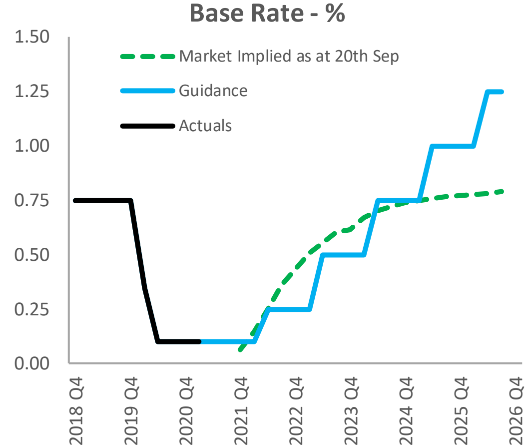
Unrecognised historical tax losses at 30 September total £2.3bn
c.£604m off balance sheet DTA available to shelter taxable profits (based on a tax rate of 33%)[1]

1. Assuming a statutory corporation tax rate of 25% plus a 8% surcharge (which applies to only a proportion of the losses). The government has announced a reduction in the surcharge rate to 3% from 1 April 2023

Economic assumptions that underpin guidance

… GDP and unemployment based upon BoE 5th August monetary policy report, base rate and HPI set using management judgement

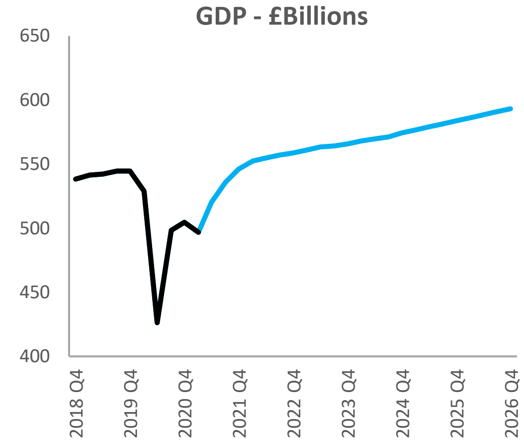
Base Rate



	YE%
2021	0.10%
2022	0.25%
2023	0.50%

Base rate remains at 0.1% through 2021, with a **first rise back to 0.25% assumed in May 2022,** before rising 25bps a year to 1.25% by 2026. **Rises to 0.75% broadly aligned to market implied**

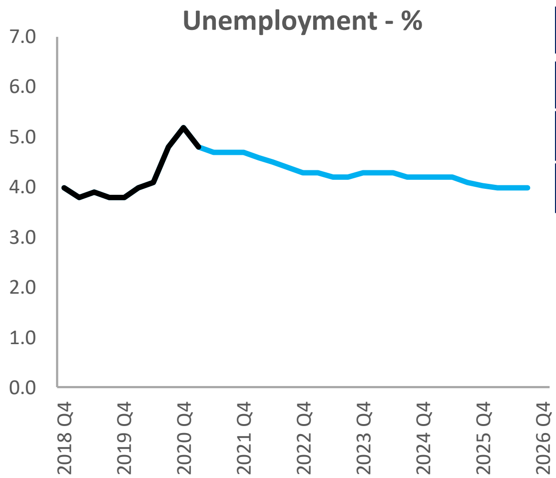
GDP



	An Avg YoY
2021	7.2%
2022	5.9%
2023	1.4%

Easing of lockdown restrictions sees strong growth of 7.2% in 2021, **GDP growth remains elevated in 2022 at 5.9%** following return to pre Covid levels in Q421 before normalising in 2023.

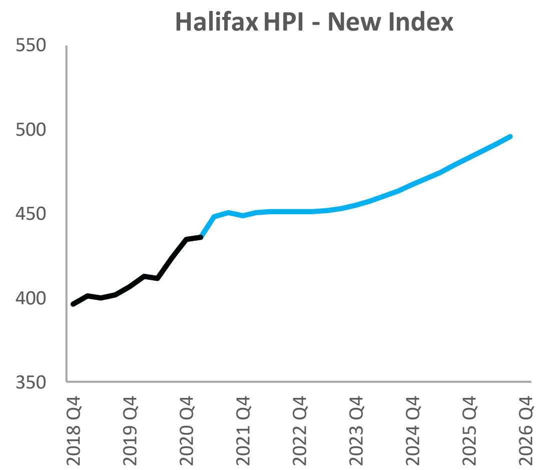
Unemployment



	Q4 %
2021	4.7%
2022	4.3%
2023	4.3%

Unemployment remains at 4.7% in H221, with limited impacts upon Furlough scheme closure. **In line with return to pre Covid levels of output, unemployment declines to 4.3% by end 2022.**

HPI

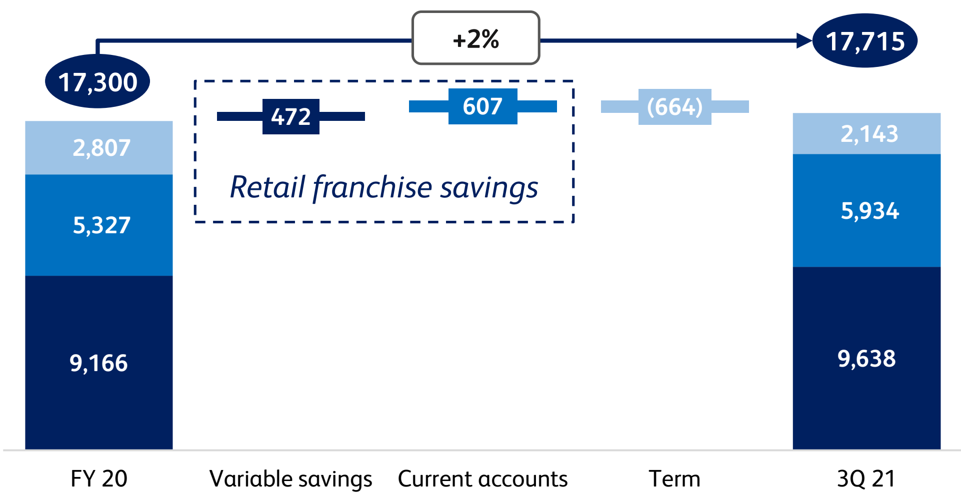


	Q4 YoY%
2021	3.4%
2022	0.5%
2023	0.8%

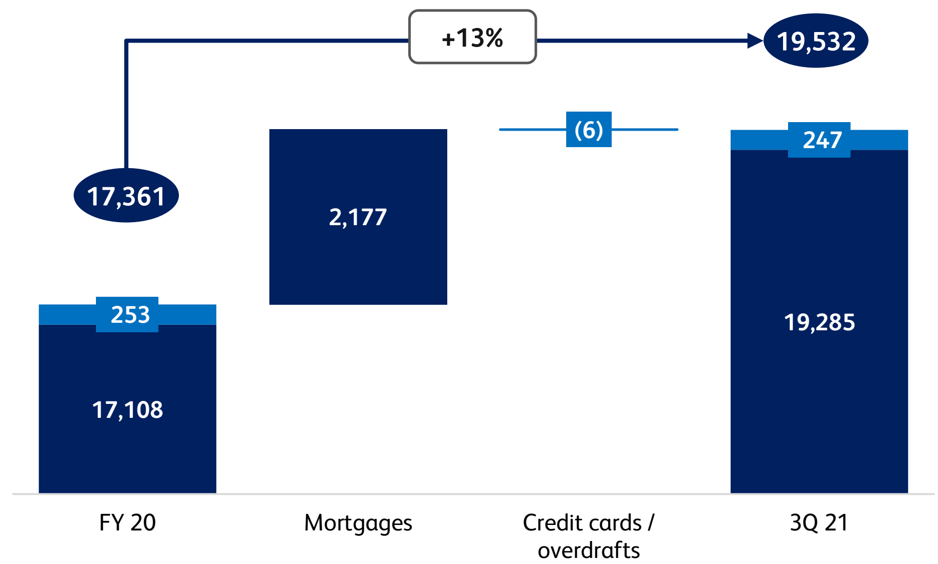
House prices increase 3.4% in 2021, where growth slows from strong H1 levels as the stamp duty holiday is removed. **Behavioural shifts prevent a correction in prices in 2022** with a small rise of 0.5% and 0.8% in 2023.

Retail financial performance

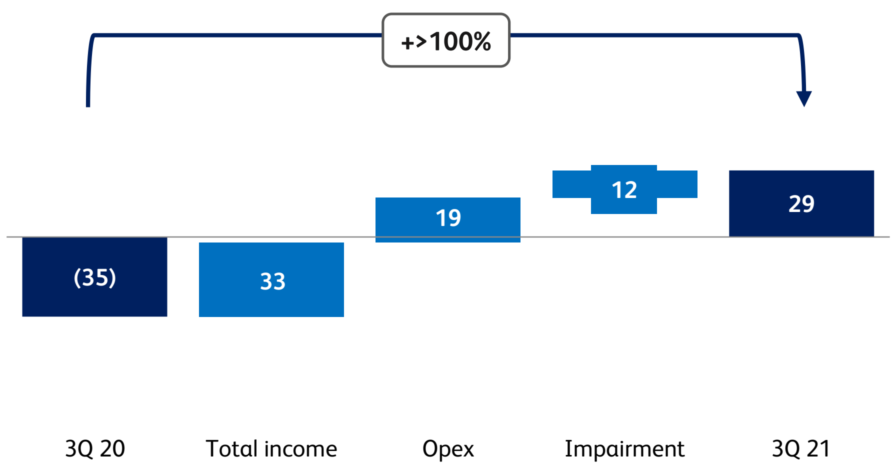
Retail deposit flow (£m)



Retail asset flow (£m)



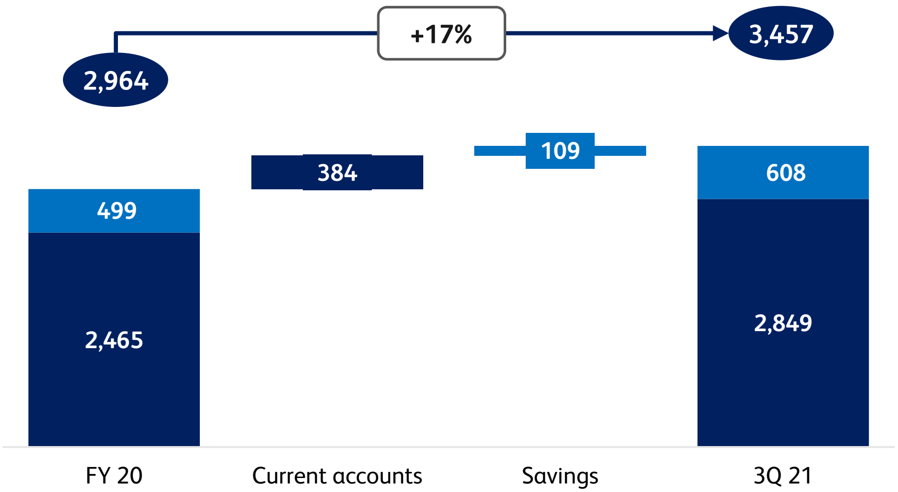
Underlying profit / (loss) £m



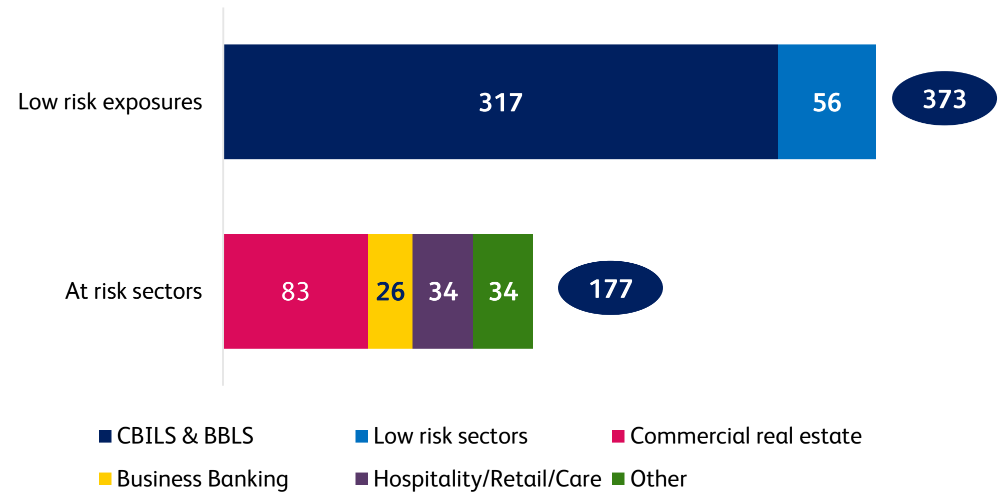
- 13 % net growth in mortgage assets; net residential lending of £2.2bn (£4.1bn gross lending)
- Pipeline of c.£1.7bn as we enter the final quarter of 2021
- Deposits overall grow by 2 % - term deposit reduction reflecting re-pricing actions taken
- Segmental costs improve due to reduction in premises, marketing and bank-wide restructuring
- Underlying profit for the segment of £29m; a significant improvement on 3Q 20

SME financial performance

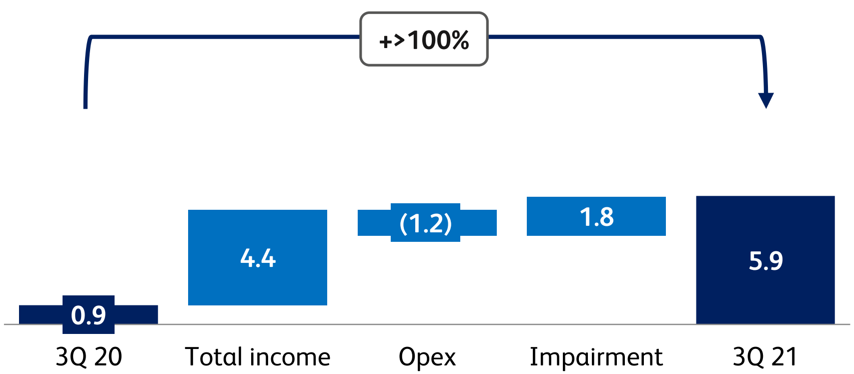
SME deposit flow (£m)



SME gross exposure £m



Underlying profit / (loss) £m



- 17 % growth in SME deposits, primarily through current accounts
- Stable gross exposures with no material increase in arrears across at risk sectors
- Underlying profit of £6m. Future potential as a source of profit growth for the Bank

Disclaimer

Caution about Forward-Looking Statements

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