1Q 2020 Results and Progress Update

6th May 2020

Andrew Bester, CEO

Nick Slape, CFO

#ClapForOurCarers

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for people with purpose

Responding to the COVID-19 challenge

Supporting our customers and colleagues through COVID-19

- 100% of branches and contact centres are open, adapting to serve customers safely
- c.15,000 payment holidays requested by mortgage customers
- c.2,000 payment holidays requested by credit cards and loans customers
- First to offer £500 interest free overdrafts, supporting over 350,000 customers
- >95% of non-customer facing colleagues working from home enabled by IT improvements delivered in 2019
- Well-being measures to support colleagues managing work and home life

Supporting small businesses as we build momentum in our SME franchise

- Coronavirus Business Interruption Loan Scheme (CBILS) overdrafts and loans launched for existing SME customers on 29 April
- Working to be able to offer Bounce Back Loans as soon as possible
- Temporary removal of fees and charges on SME lending facilities
- Partnership with Co-operatives UK to support co-operative businesses through the pandemic
- SME deposits increase 11% year on year
- Attracting 16% of customers via Incentivised Switching Service against plan of 6%

Strong balance sheet improves resilience to COVID-19

- c.£12m financial impact of COVID-19 in 1Q20; underlying performance in line with expectations
- Low-risk lending; secured lending comprises 93% of customer assets (Core mortgages: 92%)
- Low levels of corporate exposure following sustained period of de-risking
- CET1 ratio of 18.3% against regulatory minimum of 10.9%; Total capital ratio of 22.6%
- Robust liquidity with LCR of 159%; TFSME initial allowance estimated to be £1.75bn

Delivering our plan commitments in a challenging macroeconomic environment

Actions taken to mitigate COVID-19 financial impacts

- Underlying loss of £14.3m aligns with expectations despite COVID-19 impact
- Mitigating cost actions implemented; significant focus to further reduce spend in 2020 to mitigate risks on operating income and impairments
- Outlook in 2020 and beyond is uncertain at this point; update to guidance to be provided in due course

Brand strength driving franchise growth

- Highest NPS score since 2013 at +30
- Proud winner of 'Changing lives in the Community' award (Card & payments awards)
- Franchise growth as core customer assets increase 2% funded through growth in retail franchise and SME deposits; positive deposit momentum continued in April
- SME deposit growth of 11% YoY (over 20% to April) as we acquire 16% of ISS (target 6%)

Delivering our Plan commitments

- Separation of IT systems complete with proven service stability
- Continued renewal of key supplier agreements driving operational benefits, flexibility and cost savings
- Business banking transformation strategy on track in line with BCR investment commitment
- Committed and fully prepared to issue MREL-qualifying debt when market conditions are supportive

Performance is in line with expectations despite c.£12m COVID-19 impact

£m	1Q 20	1Q 19	Change
Net interest income	64.8	87.7	(26 %)
Other operating income	11.0	7.1	55 %
Total income	**75.8**	**94.8**	**(20%)**
Operating expenditure	(87.2)	(98.9)	12 %
Impairment	(2.9)	(1.0)	>(100 %)
Underlying (loss)	**(14.3)**	**(5.1)**	**>(100%)**
Strategic change	(9.4)	(29.5)	68 %
Non-operating (expense) / income	(3.3)	6.0	>(100 %)
Loss before tax	**(27.0)**	**(28.6)**	**6%**
Ratios			
Customer NIM (bps) [1]	144	199	(55)
Underlying cost:income ratio (%) [2]	115	104	(11)
Cost of risk (bps) [3]	2	1	(1)
CET1 ratio (%) [4]	18.3	19.6	(1.3)

1. Calculated as net interest income over average customer assets
2. Calculated as operating expenses over operating income
3. Calculated as impairment charge over average customer assets
4. CET1 ratio comparative shown as at FY 19

Total income reduces by 20% to £75.8m

- COVID-19 impacts include EIR adjustment due to lower base rate projections and treasury volatility; total c.£9m
- Other impacts include cost of Tier 2 debt issued in April 2019
- Other operating income improves from renewed partnership arrangements with our key suppliers

Operating expenditure reduces by 12% to £87.2m

- Benefits from cost saving initiatives and removal of reward-based pay in 2020; underlying cost:income ratio guidance unchanged as actions on spend to offset reduced income

Impairment of £2.9m relates primarily to one Legacy Corporate case unrelated to COVID-19. £0.3m impairment relating to COVID-19 reflects our low-risk, secured book and is aligned with regulatory guidance on taking a balanced, considered approach to 1Q ECL assessment

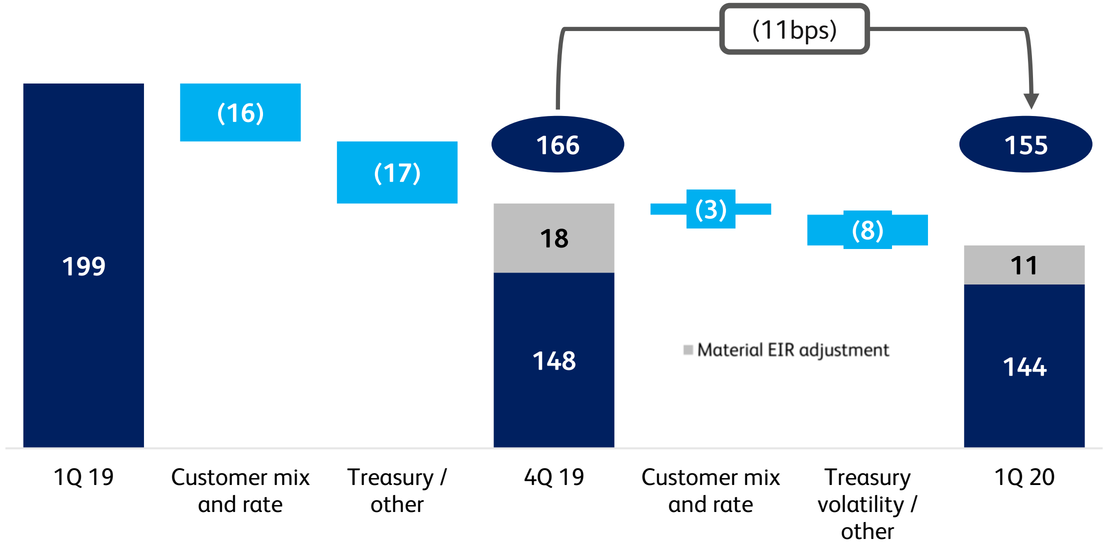
Loss before tax of £27.0m down 6%, as the impact of an increased underlying loss is offset by a reduction in strategic change spend

Non-operating expense driven by macroeconomic volatility in the valuation of the Bank's Visa Inc. shareholding

CET1 ratio down to 18.3%; down 1.3pp since FY19

Underlying NIM reduces 11bps in the quarter; challenges in the remainder of the year due to COVID-19

Customer net interest margin (bps)[1]



- NIM has reduced throughout 2019 following Tier 2 issuance and sustained mortgage margin pressure
- EIR impacts due to customer behaviour (4Q19) and base rate change (1Q20)
- 1Q20 underlying margin primarily impacted by COVID-19 volatility in treasury and continued mortgage margin pressure
- Income expectations impacted by base rate reduction to 0.1 %, TFSME and reducing levels of new business

Income by segment

£m	1Q 20	1Q 19	Change
Retail	57.4	68.8	(17 %)
SME	9.9	9.8	1 %
Core customer interest income	**67.3**	**78.6**	**(14%)**
Treasury	(1.8)	8.7	>(100 %)
Total core interest income	**65.5**	**87.3**	**(25%)**
Legacy or unallocated	(0.7)	0.4	>(100 %)
Total net interest income	**64.8**	**87.7**	**(26%)**
Retail	7.9	2.5	>100 %
SME	4.2	4.1	2 %
Core customer fee income	**12.1**	**6.6**	**83%**
Treasury	(1.2)	(0.2)	>(100 %)
Total core other operating income	**10.9**	**6.4**	**70%**
Legacy or unallocated	0.1	0.7	(86 %)
Total other operating income	**11.0**	**7.1**	**55%**
Total core income	**76.4**	**93.7**	**(18%)**
Total income	**75.8**	**94.8**	**(20%)**

1. Calculated as net interest income over average customer assets

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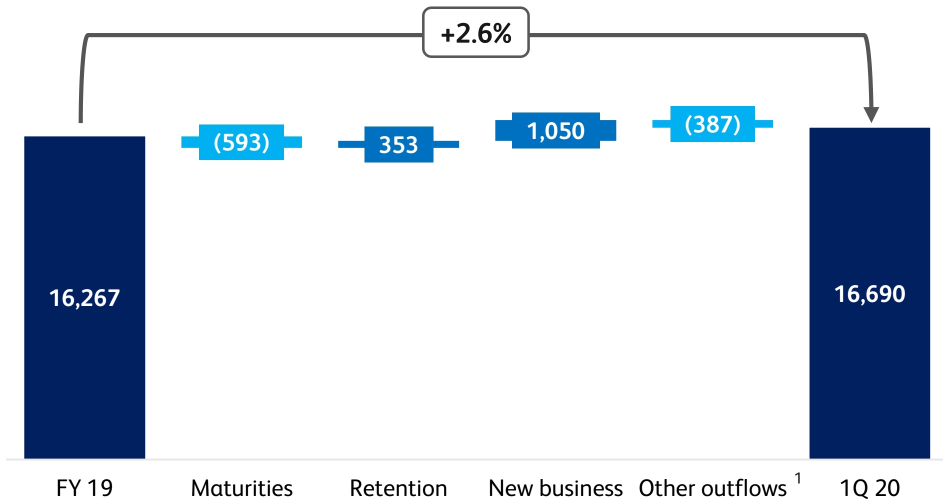
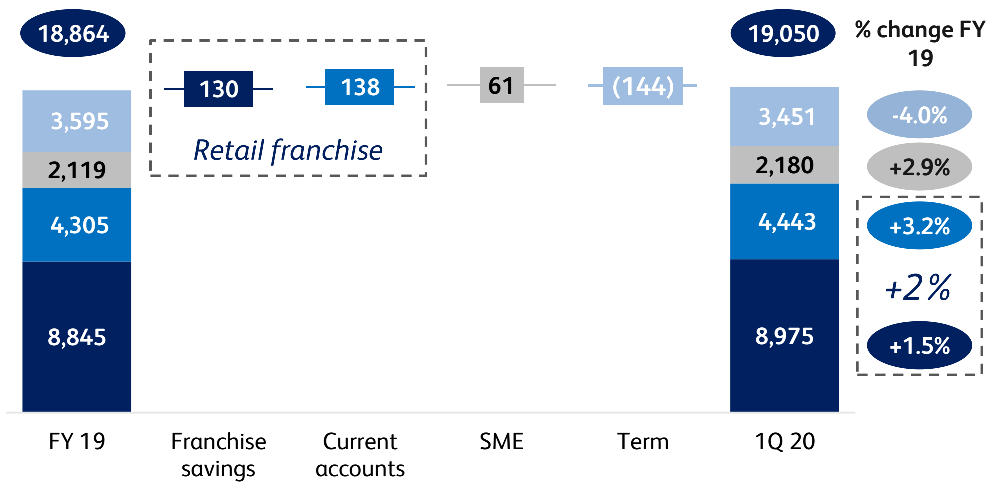
Mortgage growth funded by retail franchise and SME deposits

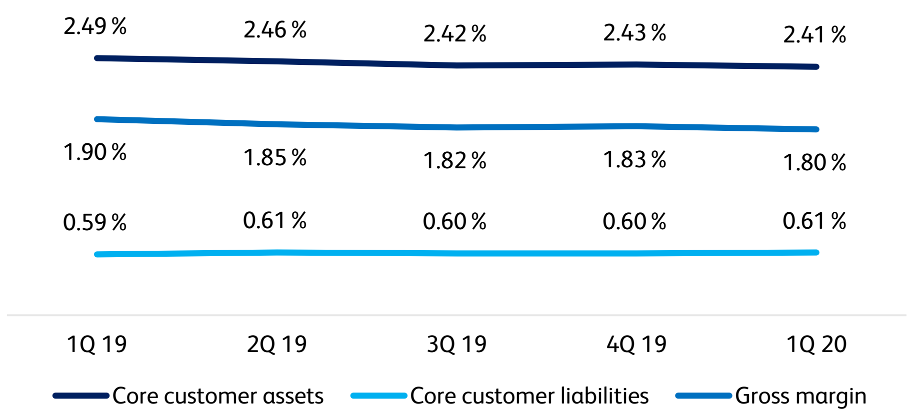
Mortgage flows (£m)



Core customer deposit flows (£m)



Gross customer deposit and lending rates [2]



- 2.6 % growth in mortgages with new business of £1.1bn; volumes dropping in 2Q. Retention higher than expectations
- 1.0 % increase in core customer deposits; growth in Retail franchise and SME deposits has offset targeted reduction in expensive term balances through repricing
- 2.9 % SME growth benefits from a higher than targeted share of Incentivised Switching Service customers
- Customer corridor reduces marginally; cost of funds stable at 61bps and will reduce in 2Q following base rate action

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

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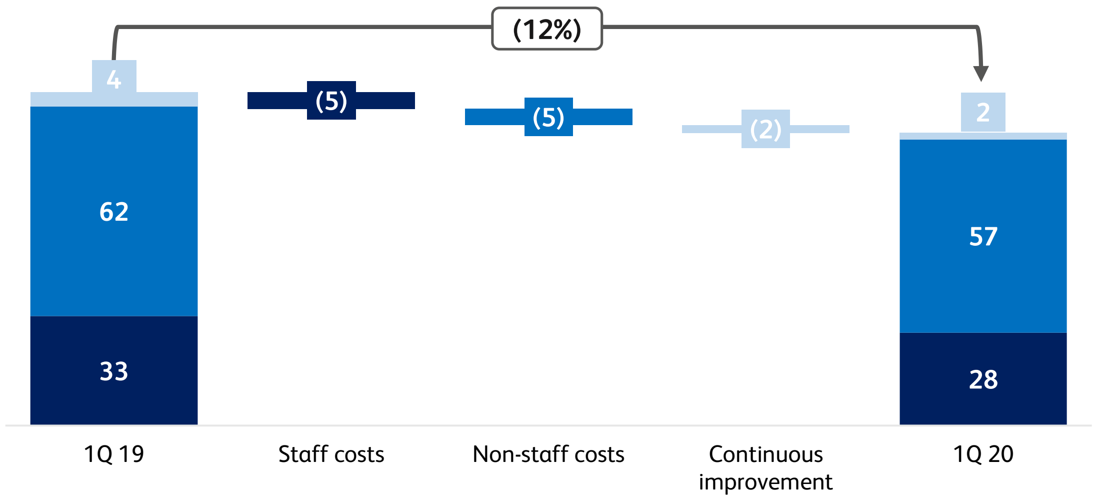
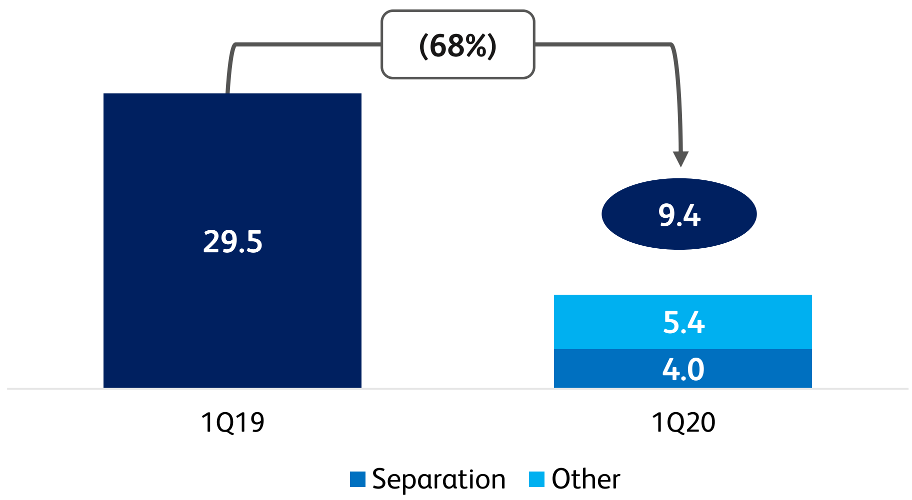
Cost reductions driven by management action

Operating expenditure movements (£m)



Strategic project costs (£m)



Operating expenditure has reduced by £12m as a result of:

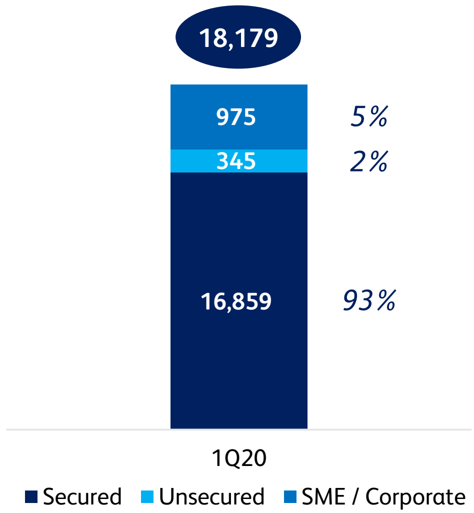
- Staff costs reduce due to removal of 2020 variable pay provisions to help mitigate COVID-19 impacts
- Non-staff costs lower due to benefits from strategic investment and other efficiencies
- Significant focus to further reduce spend in 2020 to mitigate risks on operating income and impairments

Strategic project costs reduce by 68% following conclusion of key strategic initiatives in 2019

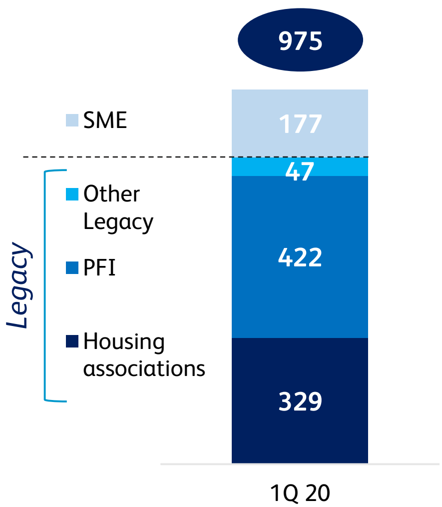
- Spend in 2020 includes £4m of final Separation costs which will not continue after this quarter
- We have delayed some strategic initiatives for 2020 as we look to reduce expenditure in light on COVID-19

Measured ECL impact reflected in 1Q; further review to be completed in 2Q

Lending mix (£m)



SME / Corporate portfolio split (£m)



1Q ECL estimation aligns with regulatory guidance and has not yet applied portfolio PMAs or refreshed downside scenarios until more data is available to ensure ECL increases are reasonable. The Bank will continue to evolve its provisioning view for the COVID-19 pandemic across 2Q

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

- 93% of customer assets are secured; 92% core and 1% Optimum
- c.15,000 mortgage payment holiday requests received (c.10% of book); of these requests 98% are up to date with payments[1] at a blended LTV of 61%

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.2,000 payment holiday requests received (c.0.5% of the book); of these requests all credit card and unsecured loan customers are up to date with payments[1]

SME / Corporate

- **Housing associations & PFI;** (77% of total corporate lending) low risk, government backed with no expectations of increase in ECL

SME and other legacy corporate lending includes:

- **CRE;** 90% of the c. £90m portfolio is below 50% LTV, other 10% has been reviewed in detail. Some exposures to higher risk COVID-19 segments but low LTV minimises risk
- **Hospitality[2];** less than £20m drawn exposure; increased exposure due to lockdown
- Other sectors include **Charities, Retail & Wholesale, Education and Care;** c.£40m exposure

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

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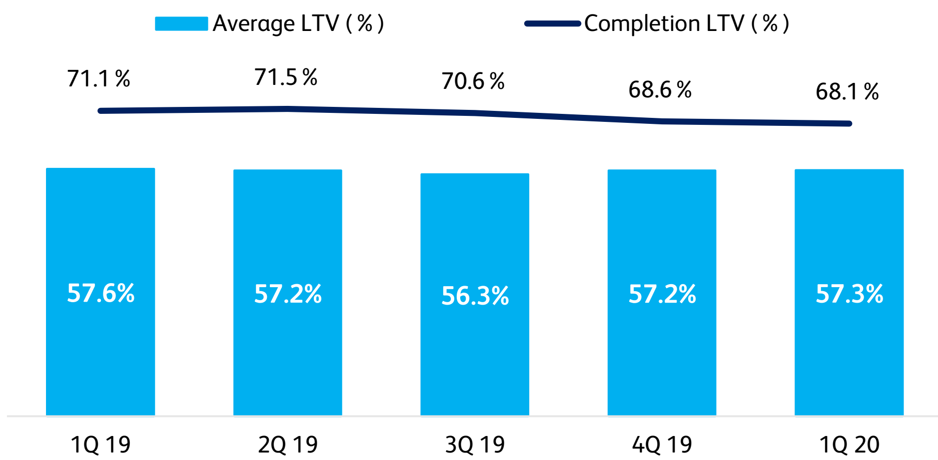
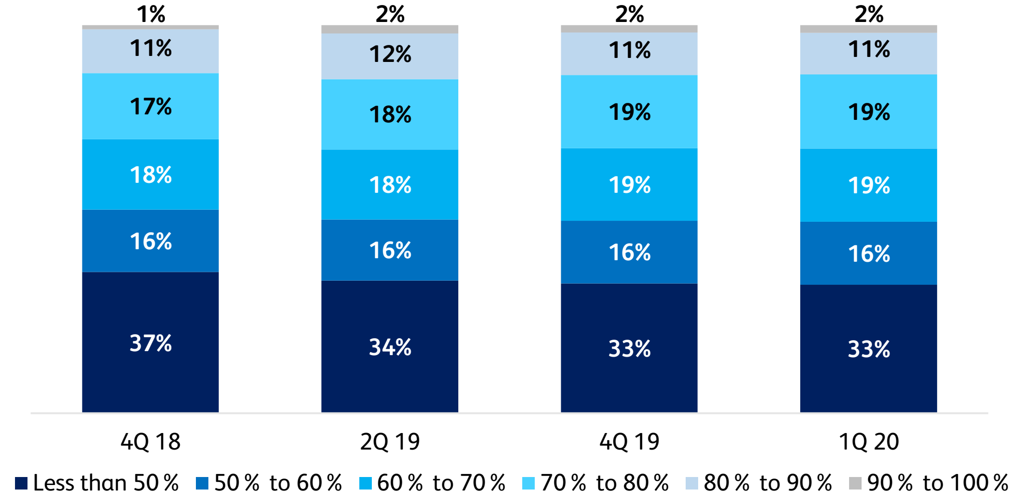
Well diversified mortgage book with low levels of arrears

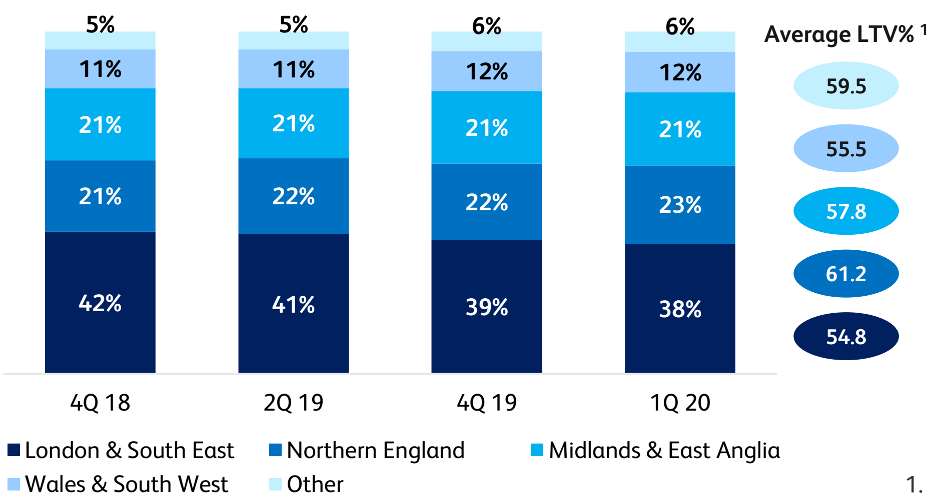
Average core mortgage LTV (%) [1]



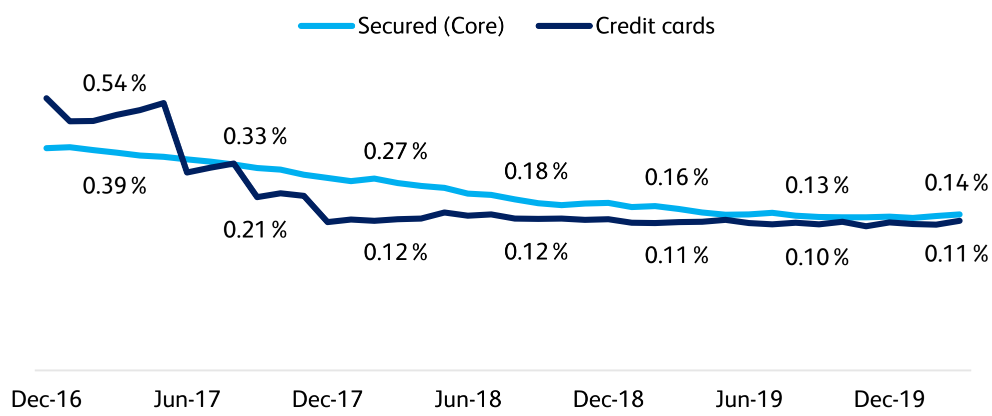
LTV split by band [1]



Core mortgage book by geographical split



Accounts >3 month in arrears [2]



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

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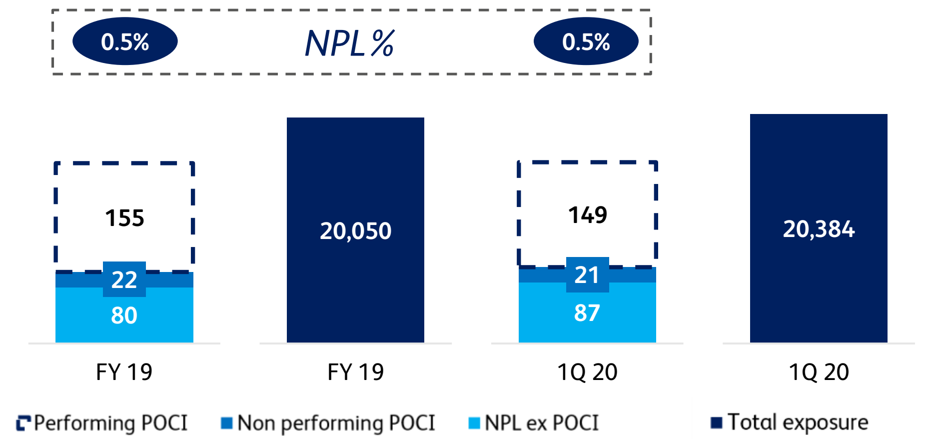
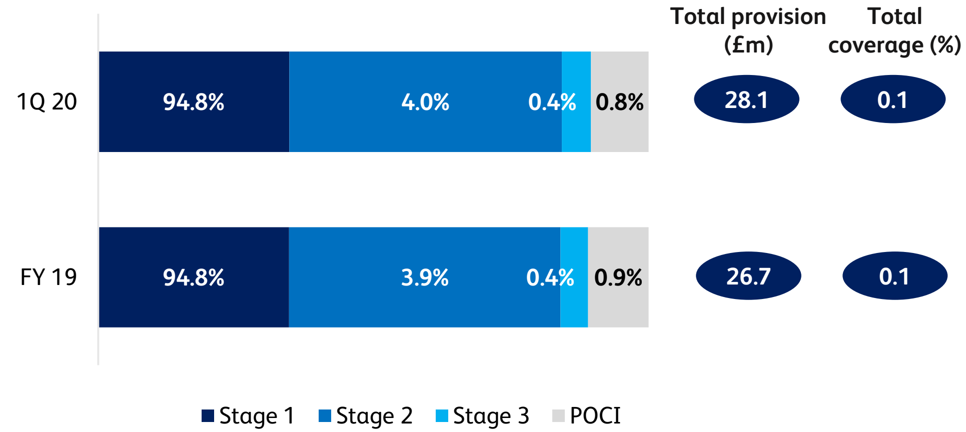
Sustained period of de-risking and prudent lending drives high credit quality business

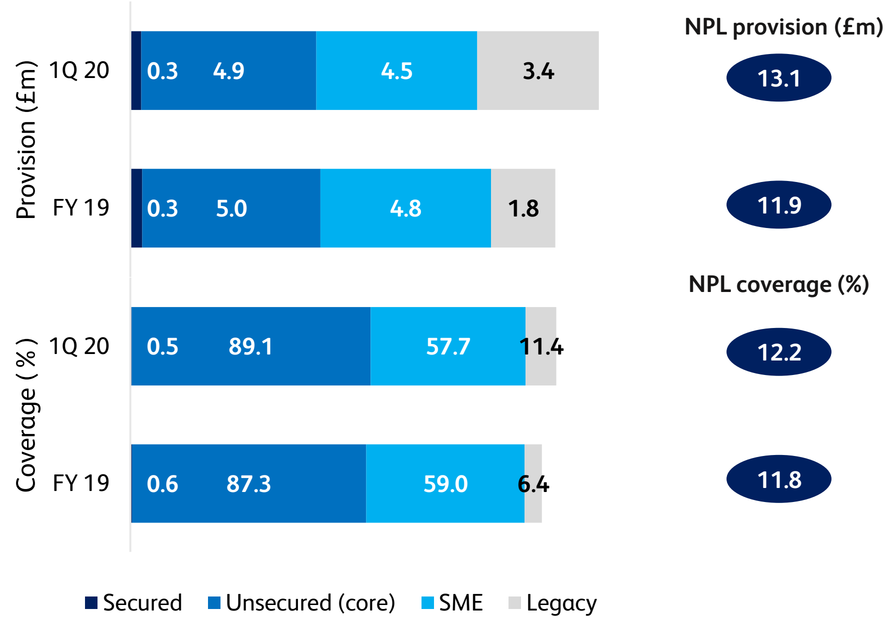
Non-performing loans (NPL) [1]



Exposure by stage [3]



NPL coverage [2]



Net impairment charge of £2.9m reflects strong credit quality and a cost of risk of just 2bps

- Scenario modelling drives COVID-19 charge of £0.3m with refreshed base case economics and higher weighting to downside scenarios; further work will be undertaken in Q2
- NPL ratio stable at 0.5 %; NPL coverage increases due to increased provisions
- Future charges anticipated as more reliable information becomes available

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. Includes balances relating to FVTPL

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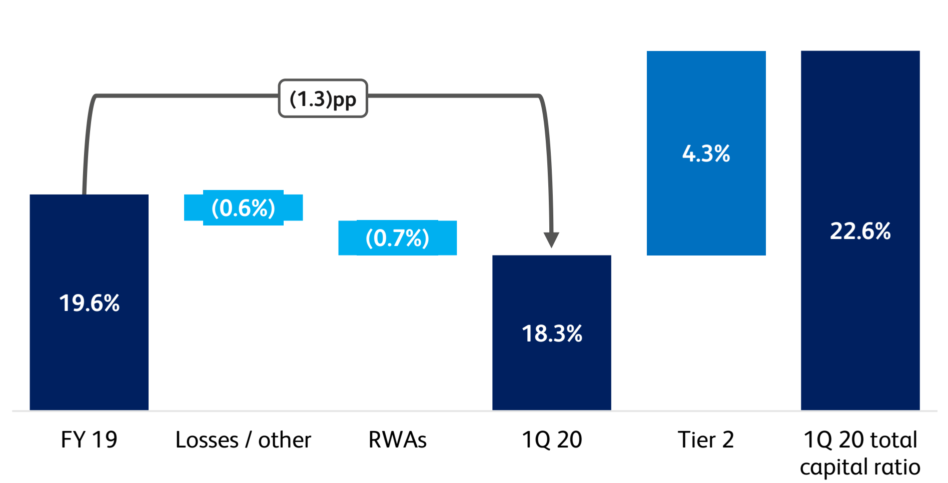
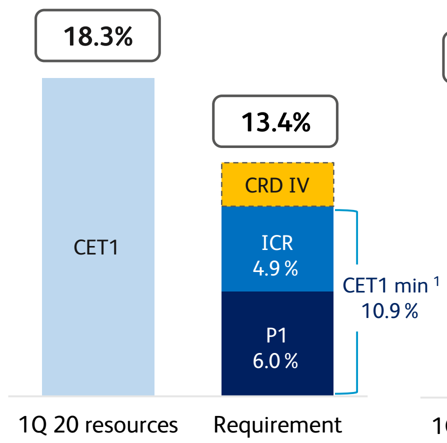
CET1 ratio reduces in line with expectations

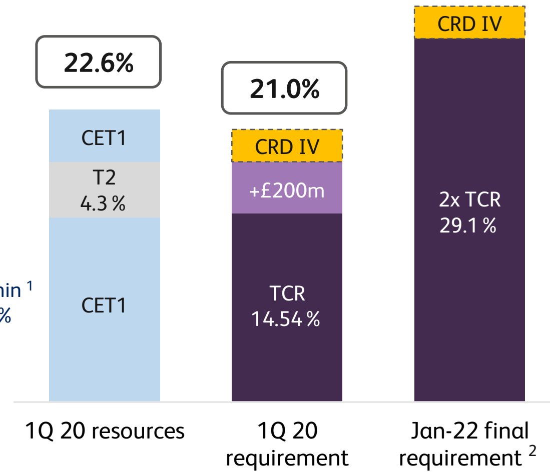
CET1 ratio development | Total capital ratio



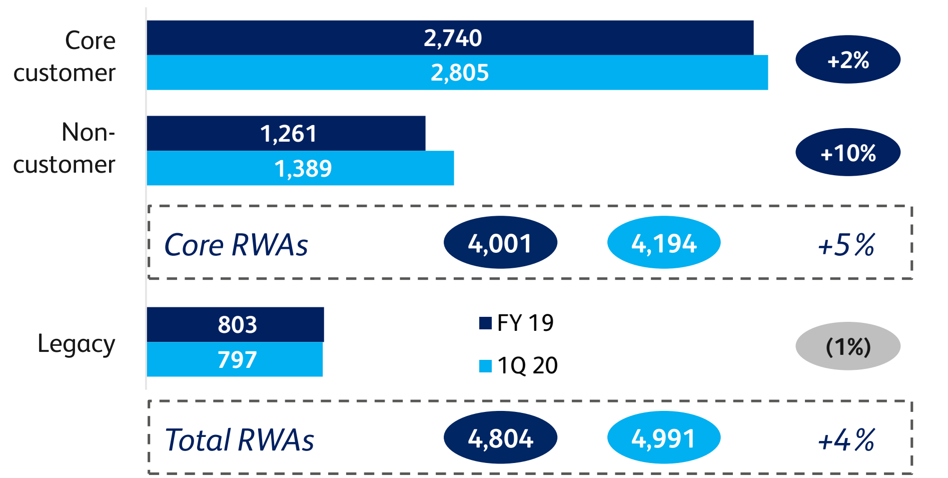
CET1 minimum



MREL



RWA split (£m)

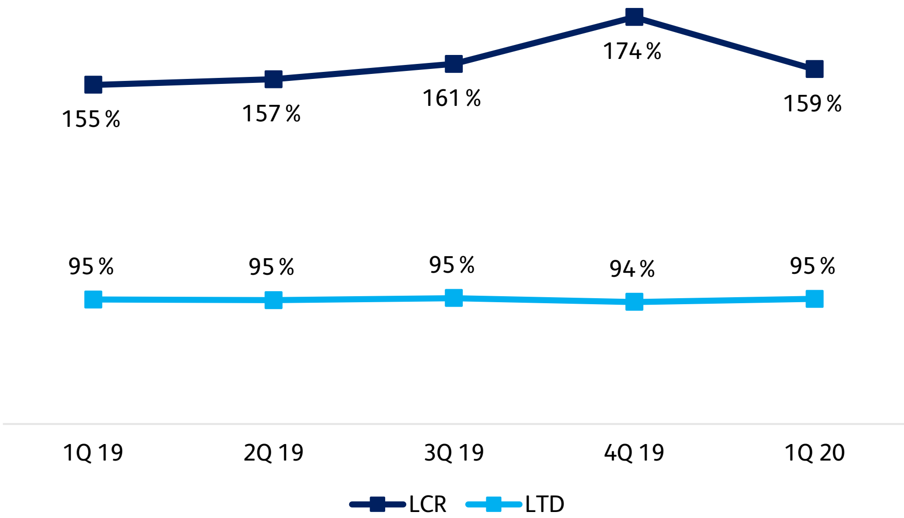


- **CET1% reduces 1.3pp in the first quarter,** to 18.3 %; 7.4 % above regulatory minima of 10.9 % (excl CRD IV buffers)
- Total capital ratio of 22.6 % against a TCR of 14.54 %
- Increased RWAs primarily driven by 2.6 % increase in the mortgage book and interest rate volatility
- **The Bank remains fully prepared to issue MREL-qualifying debt when market conditions support**
- The reduction in the countercyclical buffer reduces CRD IV buffer by £50m
- **Leverage ratio[3] of 3.8% down 0.1% in the quarter;** 0.8 % headroom to non-binding requirement

1. The Bank is required to meet AT1 requirements with CET1 as no AT1 is in issue
2. Assumes no further changes to individual capital requirements
3. Calculated as per EBA definition, including Bank of England reserves

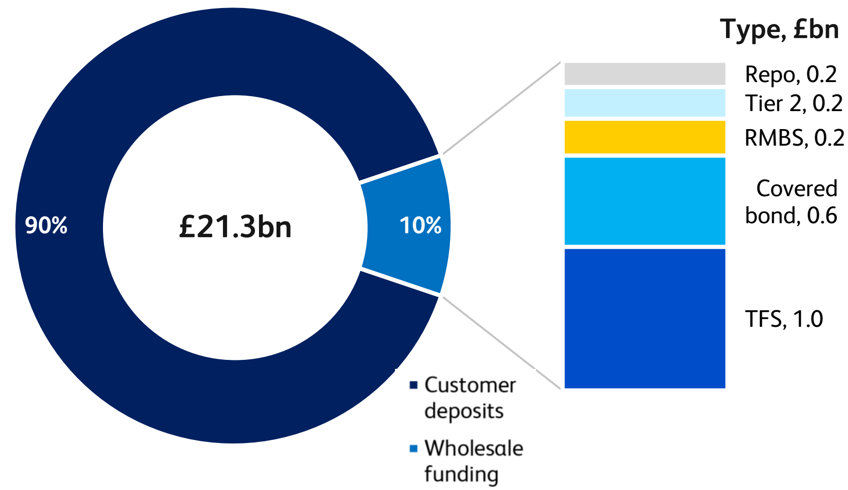
Healthy liquidity and customer funding position

Loan to deposit / liquidity coverage ratios

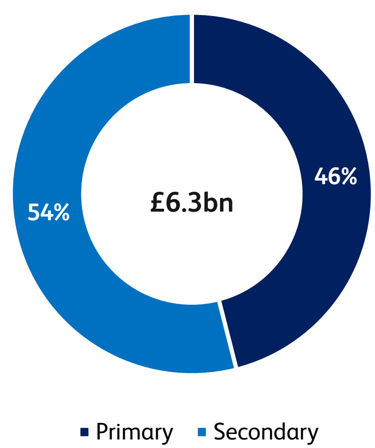


- LCR normalises at 159 % following year-end uplift due to timing of Silk Road 6 issuance; £1.1bn surplus liquidity to minimum 100 %
- LTD ratio is stable as net growth in customer assets continues to be funded through net growth in customer deposits and legacy asset attrition
- TFSME initial allowance estimated to be £1.75bn
- Net growth in customer deposits has continued in April despite fallout from COVID-19

Total funding mix



Liquidity profile (£bn)



Primary liqudity	£bn
Central Bank balances	1.6
Gilts	0.9
Gov't & other bank bonds	0.4
Total	**2.9**

Secondary liquidity	£bn
Non MBS pre-positioned assets	2.8
Mortgage backed securities	0.6
Covered bonds	-
Total	**3.4**

Facing into future uncertainty from a position of strength

Strong customer franchise

Robust operational resilience

High quality, low-risk business model

Contact details

Andrew Bester (CEO) and Nick Slape (CFO) will host a video conference to present the first quarter trading update and a Q&A session at 2pm (UK time).

The video conference will be held via BlueJeans video conferencing.

To request access to the call please email investorrelations@co-operativebank.co.uk for the mandatory entry code and PIN.

Participants can join the conference via:

The BlueJeans app; available from your respective app store (video or audio)

Direct from a web browser at https://www.bluejeans.com (video or audio)

Or by calling +44 203 976 1937 (audio only)

Additional materials are available on the Bank's investor portal which can be found at the following address:

www.co-operativebank.co.uk/investorrelations

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