Full Year 2020 Results and Progress Update

25 February 2021






The co-operative bank
for people with purpose

Resilient performance, despite challenging environment

Capital resilience

- **Successfully issued £200m MREL qualifying debt**
- **Further reduction in ICR achieved**
- Continued de-risking of legacy assets

Targeted growth

- **Mortgage lending up 5%, completion margins up 49bps YoY**
- Strong mortgage pipeline at year end
- **SME lending up 143%**
- **Total customer deposits up 7%**

Simplify & transform

- **IT separation completed in early 2020**
- **Enhanced digital channels:** 69 % of all sales now completed online
- **Modernising our SME banking proposition**
- **Restructuring executed in 2H;** driving benefit in 2021

Achieved or exceeded all key 2020 guidance metrics

Wider context

c. (£45m)

Financial impact of COVID-19 (underlying basis)

Impact of lower base rates on income (including EIR) and increased impairment charges

Continued macroeconomic uncertainty and competition in the UK mortgage and savings market

Despite the current environment; non-performing loans just 0.35 % of total exposure

Strong response to operational challenges posed by the pandemic

Supporting customers, communities and colleagues

Customers

- **Support provided to over 9,800 businesses** through government-backed lending schemes
- Helped over 11,000 customers buy a new home and completed over 11,000 remortgages
- **Granted c. 20,500 payment deferrals to support retail customers** with mortgage, loan or credit card payments; payment deferrals granted on a total of £2.2bn of lending
- Responded to changing customer needs including offering **virtual appointments**
- **Our branches remained open** for 99.9 % of normal opening hours throughout 2020
- Retained **3rd place in the market for current account NPS**

Communities

- Proud winner of **'Changing Lives in the Community'** award
- Campaigning **to raise awareness of economic abuse**
- **Care packages donated to NHS local hospitals** and headsets provided to GPs
- Facilitated one-off additional **donation of £650k** to charitable causes

Colleagues

- **Enhanced wellbeing measures;** extended leave, flexible working policies, additional remote working equipment and mental health support
- **All non-customer facing colleagues have the capability to work from home;** expanding to front-line colleagues from 4Q 2020
- **Maintained employee engagement;** 75 (out of 100) overall result in BSB cultural survey (2019: 74)

Looking forward to 2021

Strategic priorities	2020 Result (Guidance)	2021 Guidance
Relentless **focus on cost** continues Capitalise on **improved mortgage margins**	C:I ratio **114%** (110 - 115%)	**85 - 95%**
Strong mortgage lending growth and **pipeline in 4Q drives 2021 growth**	Customer assets **£18.6bn** (£18 - 18.5bn)	**£19 - 20bn**
Franchise investment returning towards 'steady-state' levels, with near-term strategic focus on accelerating mortgages and savings transformation and exit of legacy IT estate	Franchise investment **£47m** (£40 - 45m)	**£45 - 50m**

- Deepening SME relationships and **continued transformation of digital services**
- **The Original Ethical Bank with refreshed ESG commitments**

Updated guidance anticipates return to profitability in 2021

Challenges to income and impairment have been compensated by cost efficiencies

£m	FY 20	FY 19	Change
Net interest income	266.9	310.0	(14 %)
Other operating income	40.4	48.9	(17 %)
Total income	**307.3**	**358.9**	**(14%)**
Operating expenditure	(349.6)	(381.1)	8 %
Impairment	(21.6)	2.5	>(100 %)
Underlying loss	**(63.9)**	**(19.7)**	**>(100%)**
Strategic change	(25.9)	(96.6)	73 %
Restructuring programme	(19.9)	-	N/A
Legacy net customer redress charge	(2.0)	(63.5)	97 %
Non-operating income	8.0	27.7	(71 %)
Loss before tax	**(103.7)**	**(152.1)**	**32%**

Ratios			
Customer NIM (bps) [1]	146	175	(29)
Underlying cost:income ratio (%) [2]	114	106	8
Asset quality ratio (bps) [3]	12	(1)	13
CET1 ratio (%)	19.2	19.6	(0.4)

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

Loss before tax of £103.7m improves 32% vs 2019. Underlying loss affected by COVID-19 is offset by a reduction in strategic change and lower redress charges year on year

Total income reduces by 14% to £307.3m:

- **Net interest income:** Lower retail lending margins and lower Treasury NII (cost of Tier 2, MREL, changing asset mix and lower rates)
- **Other operating income:** Lower Treasury gilt sales and impact of national lockdowns on fee and commission income

Operating expenditure reduces by 8% to £349.6m:

- Continued management action on cost; ongoing simplification; strategic contract renegotiations; and completion of IT separation

Impairment: £21.6m includes an estimated £16.0m arising from the impact of COVID-19

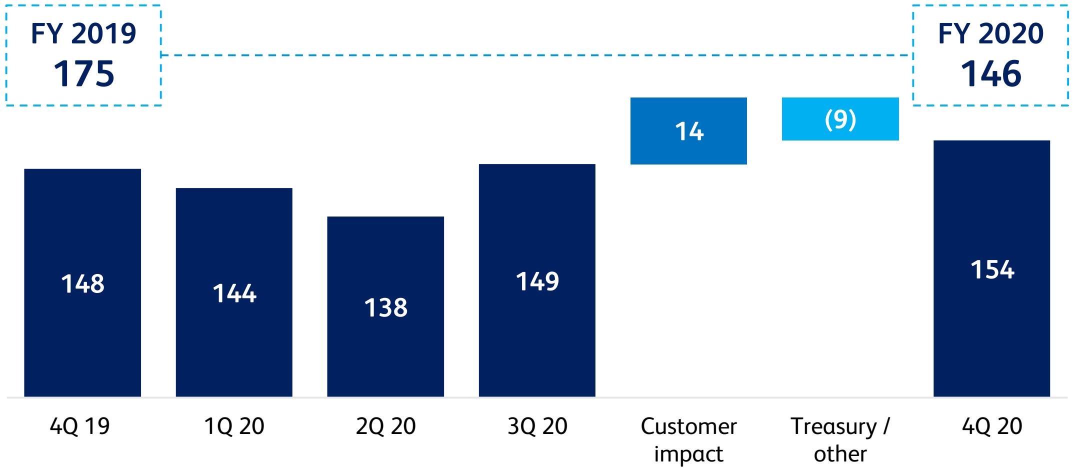
Strategic change: reduces 73 % , principally the result of concluding the 'fix the basics' stage of the strategic plan and conserving capital during uncertain times

Non-operating income: impacted by gains on Visa Inc. preference shares and costs relating to Optimum disposal and covered bond refinance

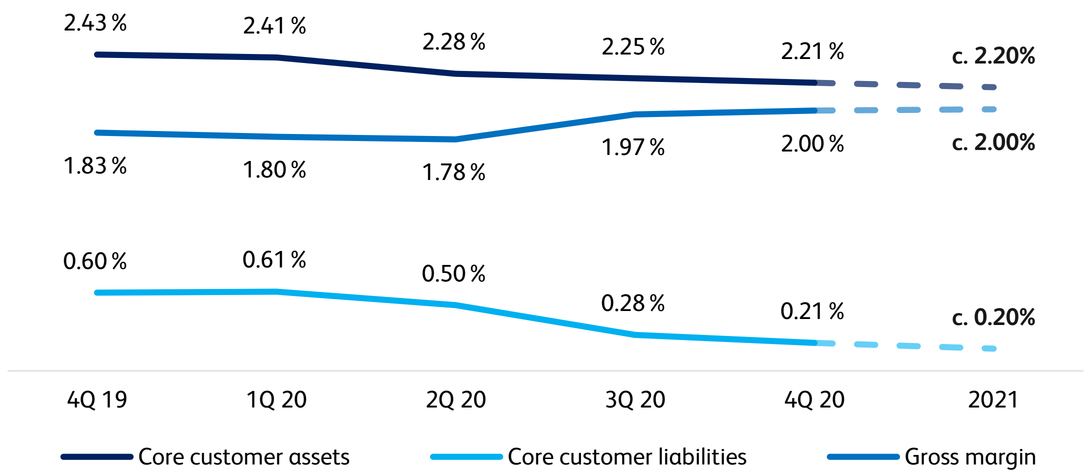
CET1 ratio down to 19.2%; includes 0.7 % benefit from the impact of changes to software intangibles rules

NIM exceeds guided range but reduces year on year

Customer net interest margin (bps)[1]



Customer rate corridor[2]



£m	FY 20	FY 19	Change
Retail	236.8	248.8	(5 %)
SME	41.2	38.9	6 %
Core customer interest income	**278.0**	**287.7**	**(3%)**
Treasury	(7.1)	22.9	>(100 %)
Total core interest income	**270.9**	**310.6**	**(13%)**
Legacy or unallocated	(4.0)	(0.6)	>(100 %)
Total net interest income	**266.9**	**310.0**	**(14%)**

- Full year NIM reduced by 29bps to 146bps in 2020 driven by sustained mortgage margin pressure; however higher margin mortgage lending in 2H has driven a recovery to 154 bps in 4Q
- Retail: lower asset margins, timing lag on deposit repricing following the base rate change. Mortgage completion margins are up 49bps YoY
- Treasury: lower base rate, full year impact of Tier 2 costs and changing asset mix
- Customer corridor widened in 2020 following repricing action; expected to remain flat in 2021
- NIM expected to remain stable in 2021; guidance of 145 - 155bps

1. Calculated as annualised net interest income over average customer assets
2. Calculated as annualised core customer income over the core customer average balances for the period

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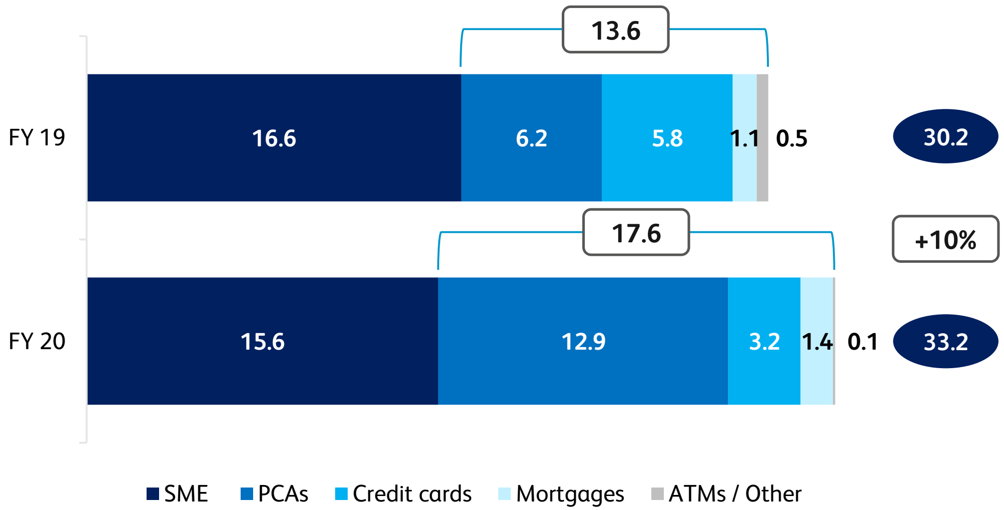
Other operating income benefits from renewed supplier partnerships

£m	FY 20	FY 19	Change
Retail	17.6	13.6	29 %
SME	15.6	16.6	(6 %)
Core customer fee income	**33.2**	**30.2**	**10%**
Treasury	7.3	15.4	(53 %)
Total core other operating income	**40.5**	**45.6**	**(11%)**
Legacy or unallocated	(0.1)	3.3	>(100 %)
Total other operating income	**40.4**	**48.9**	**(17%)**

Core customer fee income split (£m)



Core customer fee income increases 10% to £33.2m:

- Retail: higher income due to renewed supplier partnerships; however fee income affected by reduced customer activity during COVID-19
- SME: lower transaction related commission due to COVID-19 impact on businesses
- Fee income in both Retail and SME had started to recover in 2H but has been impacted by reintroduction of lockdown measures

Treasury other operating income reduces by 53% to £7.3m:

- Lower volumes of gilt sale gains recorded in 2020

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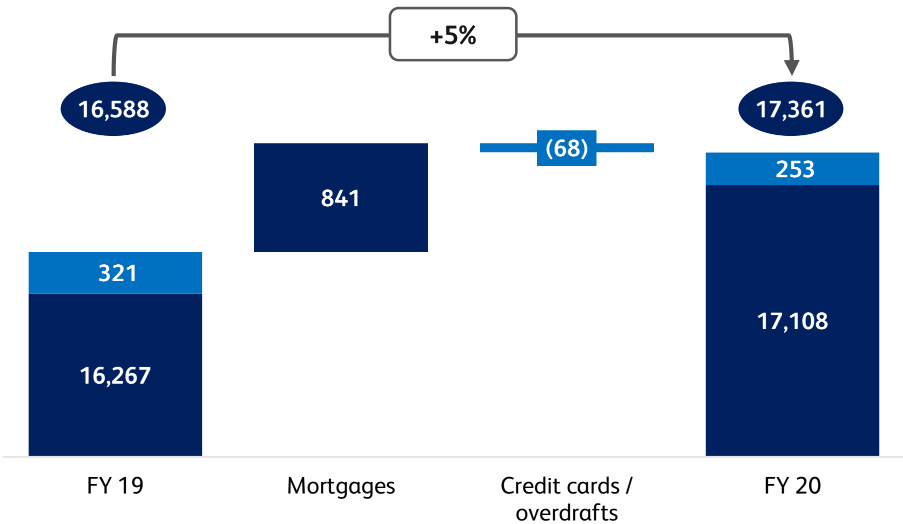
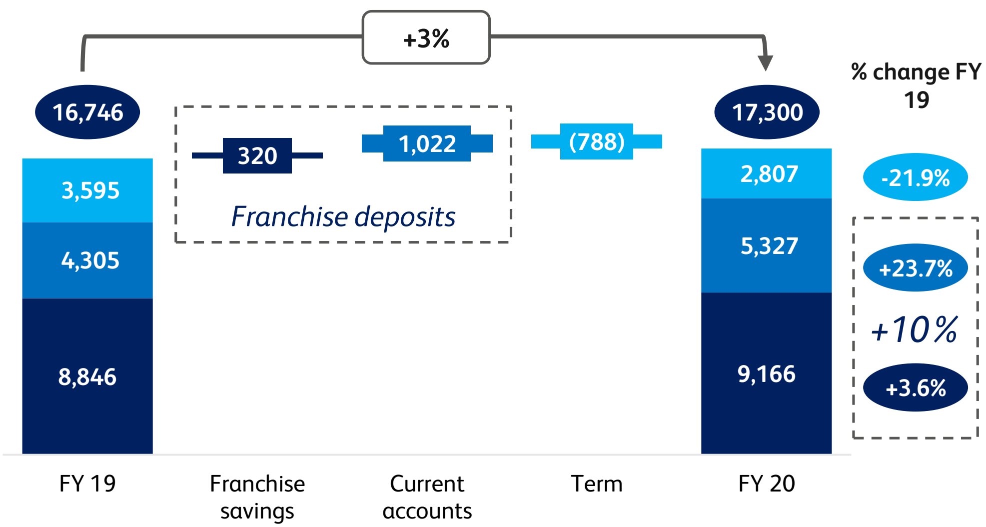
Retail: growth in mortgage balances and low cost deposits

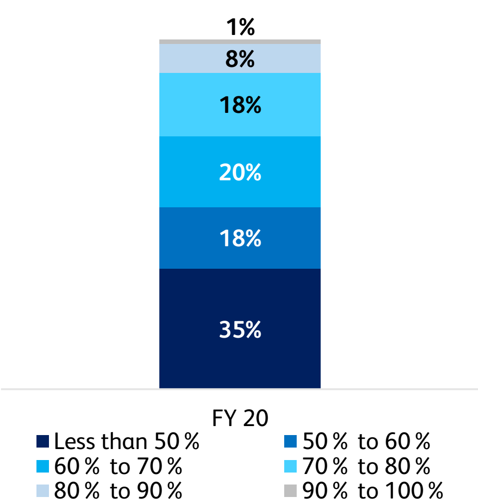
Retail assets flow (£m)

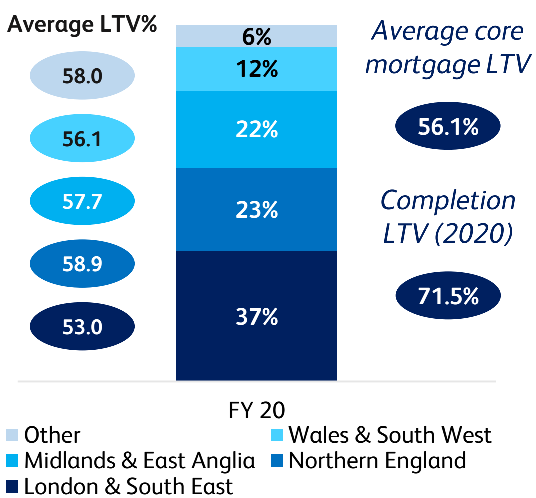


Retail deposits flow (£m)



Mortgage split by LTV band / geography

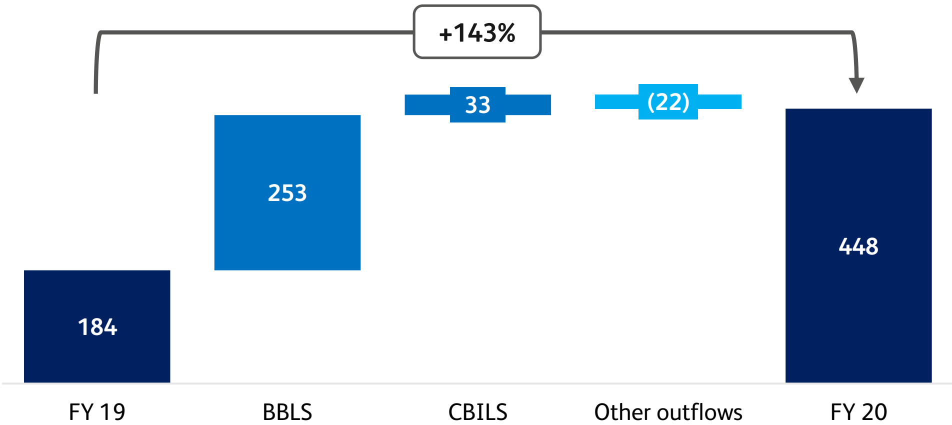




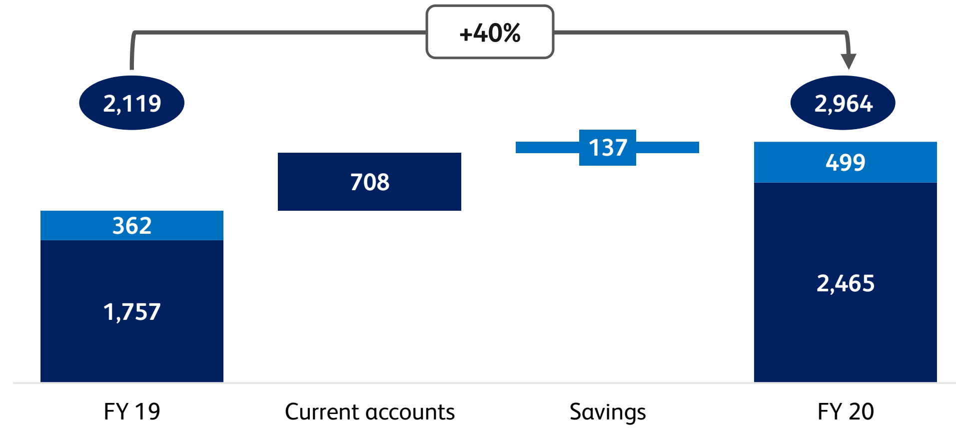
- 5 % net growth in mortgages with new business of £3.4bn; strong pipeline of over £2bn leading into 2021
- Unsecured balances reduce as customers pay down unsecured debt and spend less during COVID-19
- Franchise savings and current account balances increase 10 % primarily through reduced customer spending. Replacing term balances with franchise deposit growth supports reducing cost of deposits
- Risk metrics highlight low-risk book, with limited exposure to higher LTV lending; 9 % over 80 % indexed LTV

SME: significant growth in both assets and deposits

SME assets flow (£m)

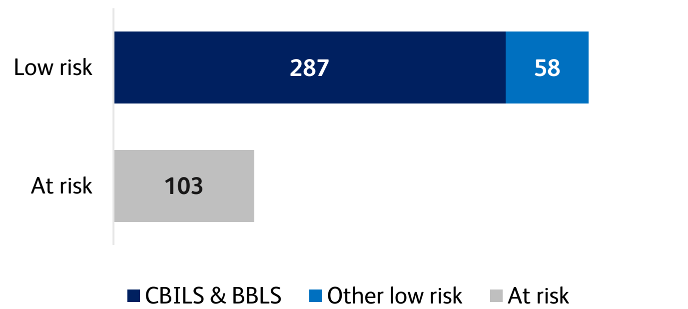


SME deposits flow (£m)



- 143 % SME asset growth driven by BBLS and CBILS drawdown
- Strong growth in SME deposits, primarily through current accounts
- Attracted a higher share of ISS volumes than anticipated at 12 %; partly reflecting our market leading free banking proposition
- Transformation spend in 2021 including C&I matched funding to be used to broaden SME product range and capability

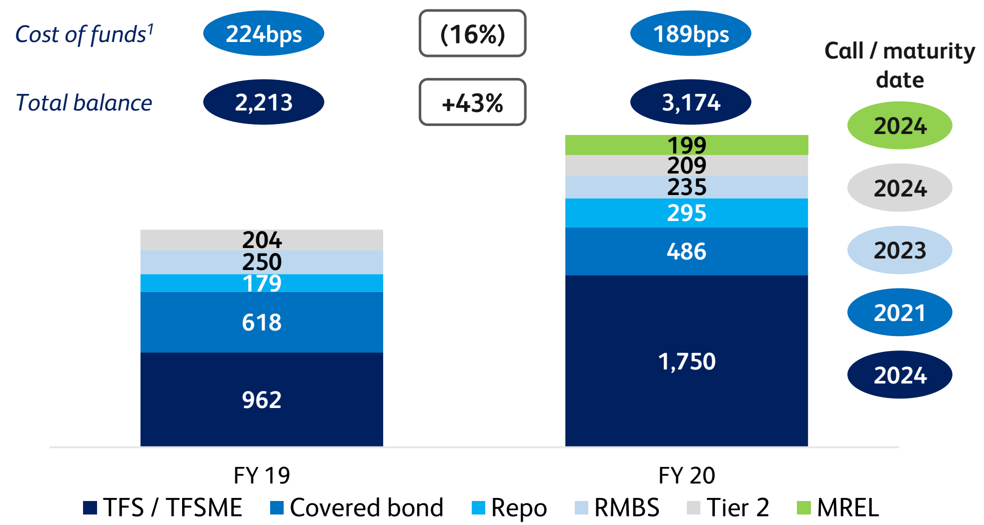
SME risk exposure (£m)



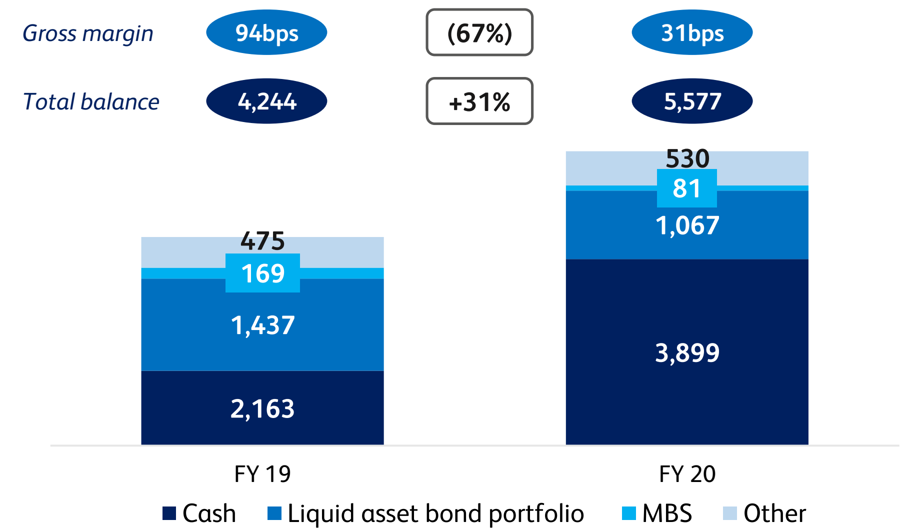
- >75 % of SME lending is low risk with c.65 % of lending through government backed CBILS & BBLS
- At risk segments include CRE (c.£45m) and hospitality & retail (c.£25m)
- Legacy corporate lending (not included in the SME segment) is 95 % low risk, predominantly housing associations & PFI. Like SME, there is some limited exposure to at risk CRE (c.£5m) and hospitality & retail (c.£15m)

Treasury: TFSME drawing and MREL issuance increase wholesale funding

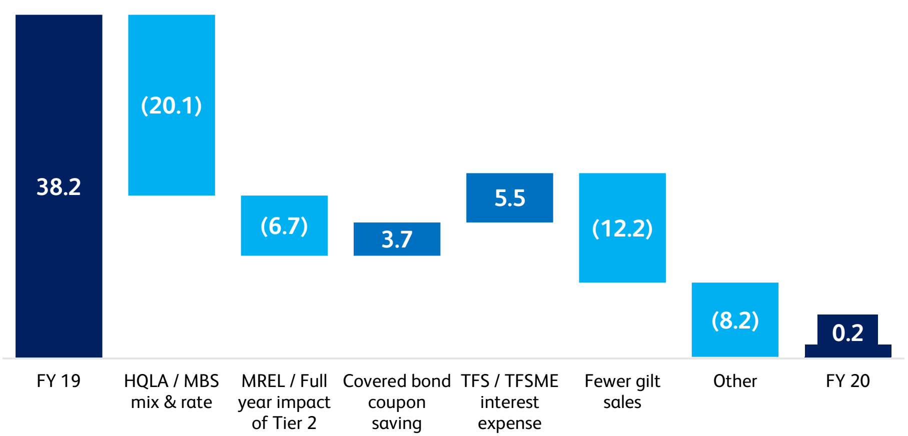
Wholesale funding (£m)[1]



Treasury assets (£m)[2]



Treasury income walk (£m)



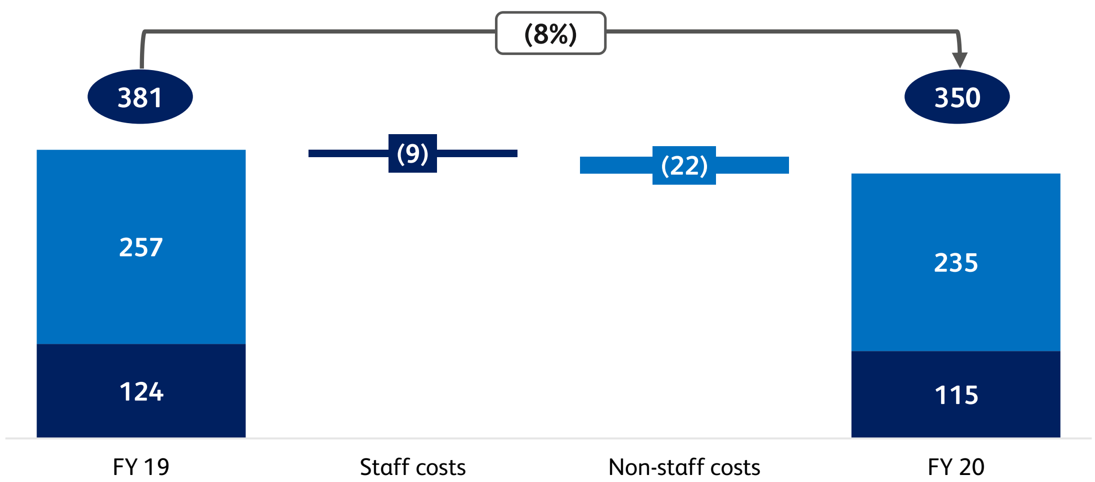
- £1.75bn base TFSME borrowing allowance drawn; additional allowance presents an opportunity to grow lending and optimise the balance sheet
- Successful issuance of £200m MREL in 4Q; cost of wholesale funding also impacted by full year impact of Tier 2 costs
- Low levels of wholesale funding; comprises only 13 % of funding base with the covered bond maturing in 2021; cost of funds reduced in line with reducing base rates
- Asset mix concentrated to lower yielding cash and bond portfolios; returns reduce with lower rate profile

1. Covered bond excludes swap revaluation adjustments

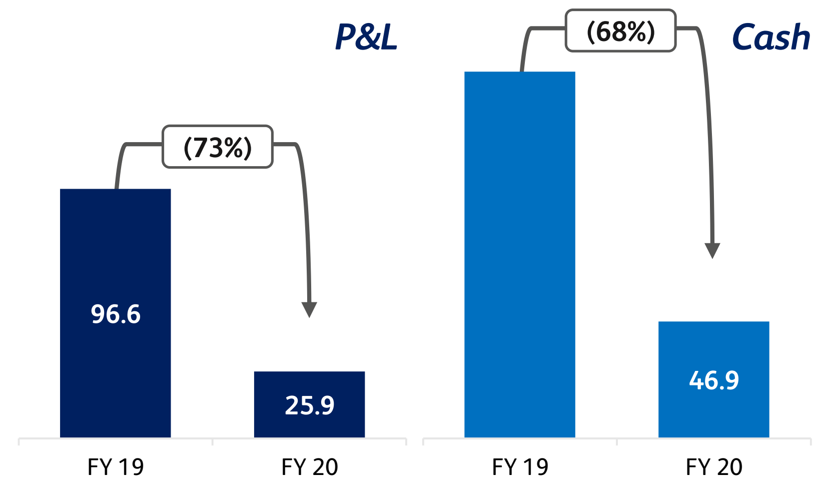
2. Other assets primarily includes cash encumbered with other banks

Management actions drive cost reductions

Operating expenditure (£m)



Strategic change (£m)



Operating expenditure has reduced by 8% to £350m:

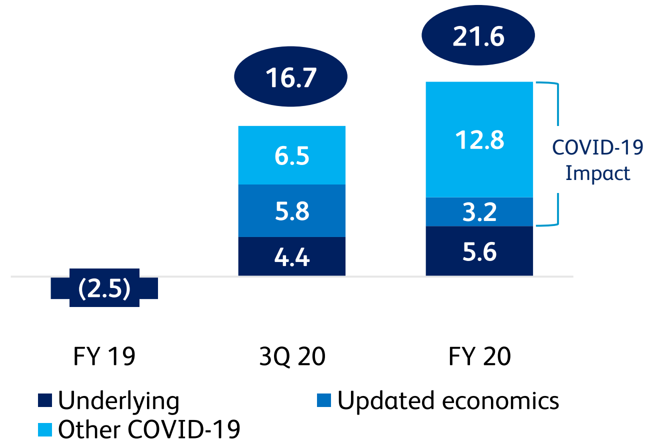
- Staff costs: actions taken to reduce headcount in 2019 and 2020. The full year impact of initiatives will be seen in 2021
- Non-staff costs: benefits from the completion of Separation, strategic contract renewals and reduced levels of marketing spend
- Number of suppliers reduced by 39 % in 2020 as we focus on driving better partnerships with fewer suppliers
- Operating cost:income ratio guidance of 85 - 95 % in 2021

Strategic change expense reduces by 73% to £25.9m on a P&L basis; 68% to £46.9m on a cash basis:

- Post Separation, spend in 2020 focused on SME Capability & Innovation Fund commitments, continued simplification and regulatory and mandatory spend
- These themes continue into 2021 as the focus of franchise investment returns to ‘steady-state’ levels, with near-term strategic focus on accelerating mortgages and savings transformation and exit of legacy IT estate: cash franchise investment spend guidance of £45 - 50m in 2021

Asset quality ratio of 12bps driven by COVID-19

Impairment charge split (£m)



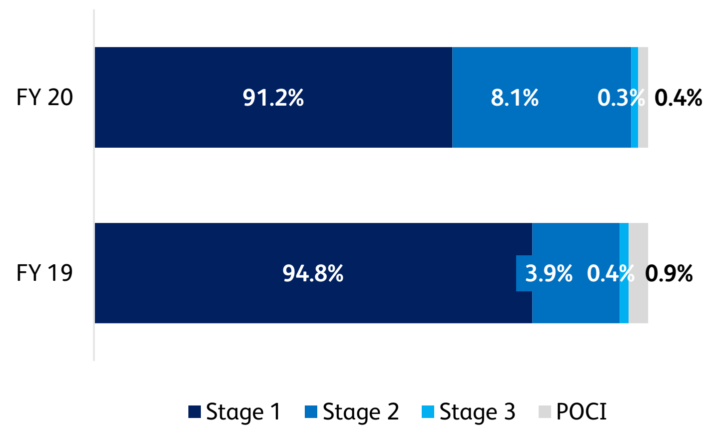
Total asset quality ratio

12bps

Underlying asset quality ratio

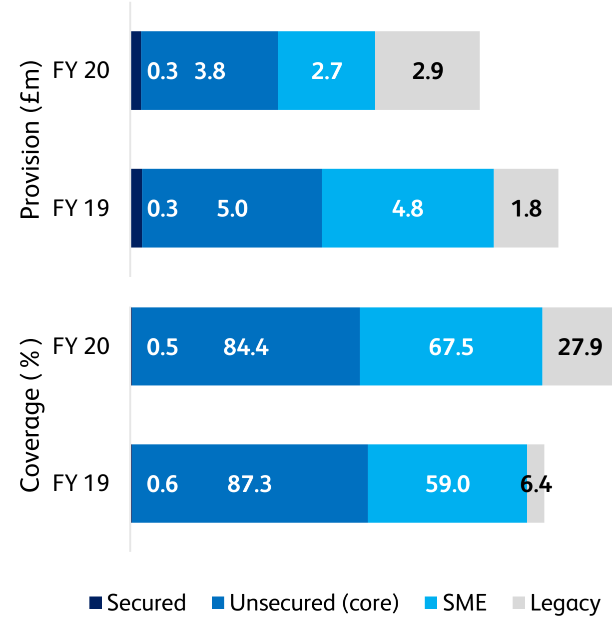
3bps

Exposure by stage [3]



	Total provision (£m)	Total coverage (bps)
FY 20	42.9	20
FY 19	26.7	13

NPL coverage [1]



	NPL provision (£m)	NPL coverage (%)
FY 20	9.7	13.1
FY 19	11.9	11.8

NPL ratio (bps)[2]

FY 19	FY 20
51	35

Net impairment charge of £21.6m reflects resilient portfolio and an asset quality ratio of 12bps

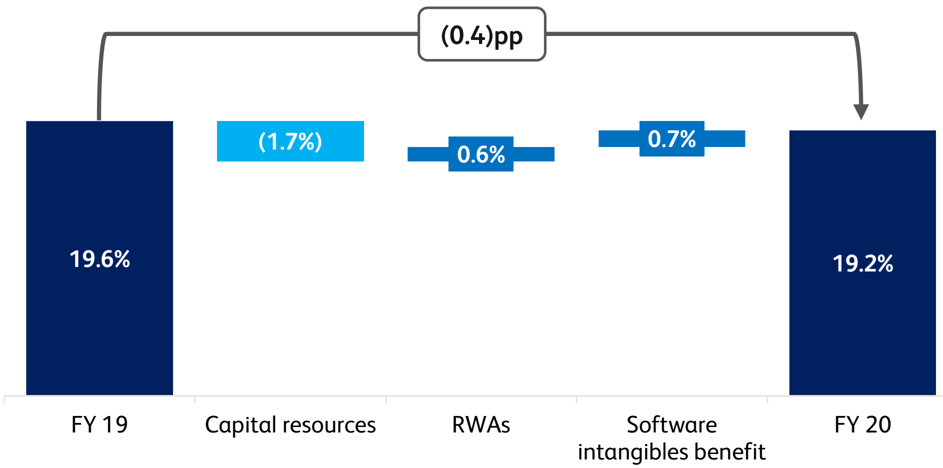
- Improvement in unemployment and GDP assumptions in 4Q drives a £2.6m economics benefit
- Other COVID-19 charges relate to overlays for peer benchmarking on mortgage coverage and to reflect risk to CRE valuations

AQR guidance of 10 - 15bps; driven by economic assumptions and the withdrawal of government support measures in 2021

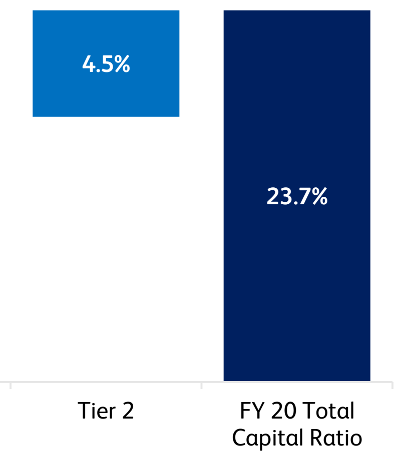
1. NPL coverage ratio calculated as NPL provision over NPL balance (all excluding performing POCI)
2. NPL ratio calculated as non-performing exposure (excluding performing POCI) over total exposure
3. Includes balances relating to FVTPL

CET1 ratio reduction driven by losses; RWAs stable

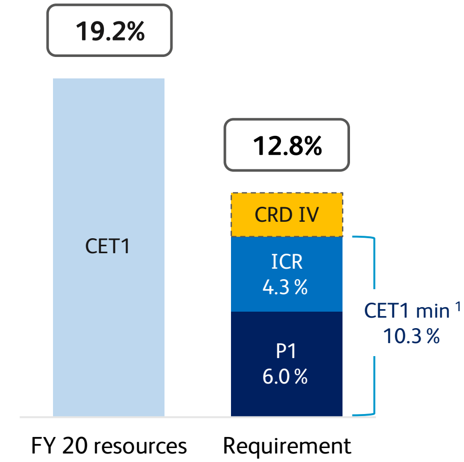
CET1 ratio development



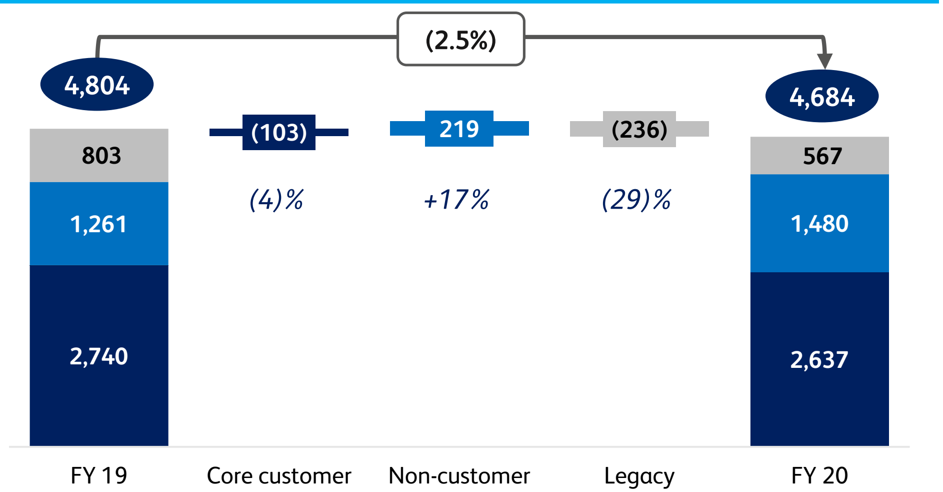
Total capital ratio



CET1 minimum



RWA split (£m)

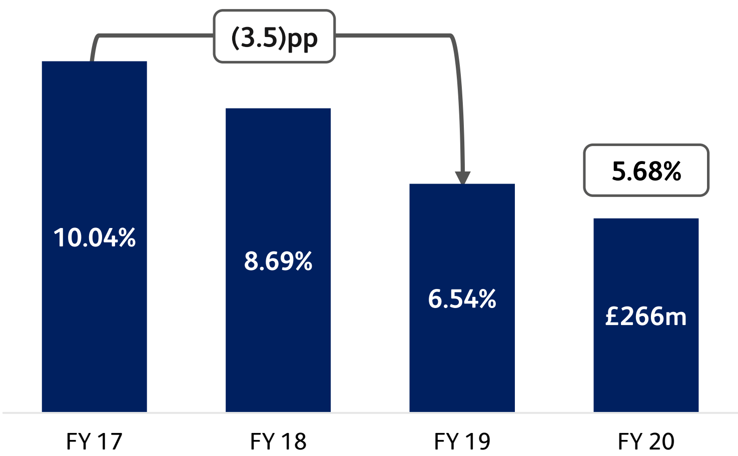


- **CET1% reduces 0.4pp in the year; supported by RWAs and software intangibles benefits**
- **£0.1bn RWA reduction:** Core customer RWAs decrease as growth driven by new lending is offset by model implementation and SME supporting factor. Legacy RWAs reduce following Optimum sale in December. Non-customer RWAs reflect operational risk and items such as treasury assets which are unrelated to customer segments
- **Software intangibles benefit:** 0.7 % benefit from reduced CET1 deduction, offset by a small increase in RWAs; reversal anticipated from January 2022
- CET1 minimum requirements impacted by the introduction of static ICR[2]; benefit in 2021 when RWAs exceed FY19 levels
- **2021 CET1% guidance** of 16 - 17 %; RWA increase driven by anticipated HPI movements and lending growth

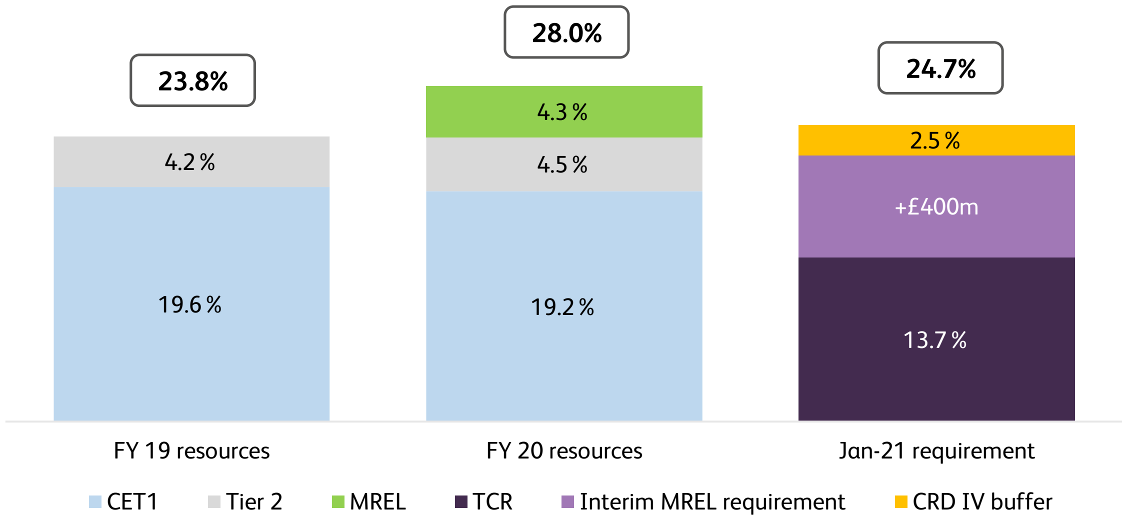
1. The Bank is required to meet AT1 requirements with CET1 as no AT1 is in issue
2. Static ICR equivalent to 5.55 % of RWAs as at 31 December 2019 introduced from December

Successful £200m MREL issuance provides headroom to requirements

ICR evolution

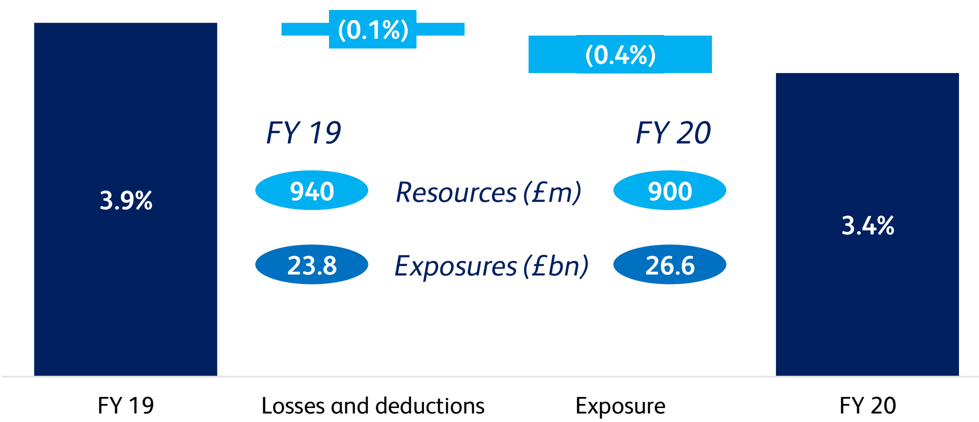


MREL evolution



- PRA confirmed **reduction in ICR** in December to £266m (equivalent to 5.55 % of Dec-19 RWAs); benefit in 2021 when RWAs are expected to exceed Dec-19 levels
- **Successful issuance of £200m MREL in November** ensures compliance with current requirements. End-state delay to 1-Jan 2023 affords opportunity to defer second MREL issuance
- Leverage ratio reduces to 3.4 %; 0.2 % benefit from software intangibles
- Both MREL and leverage frameworks are under regulatory review as we enter 2021; we will provide updates on any Bank impact in due course

Leverage ratio[1]



1. Leverage ratio calculated on an EBA basis; exposures including Bank of England reserves

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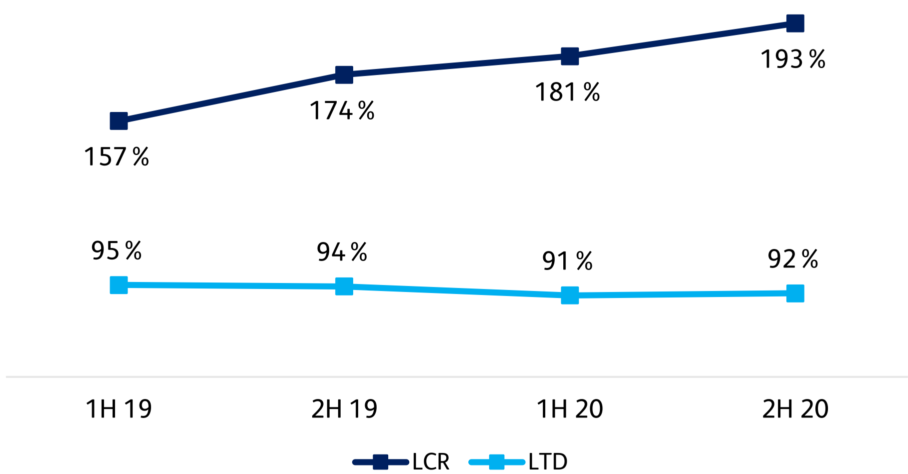
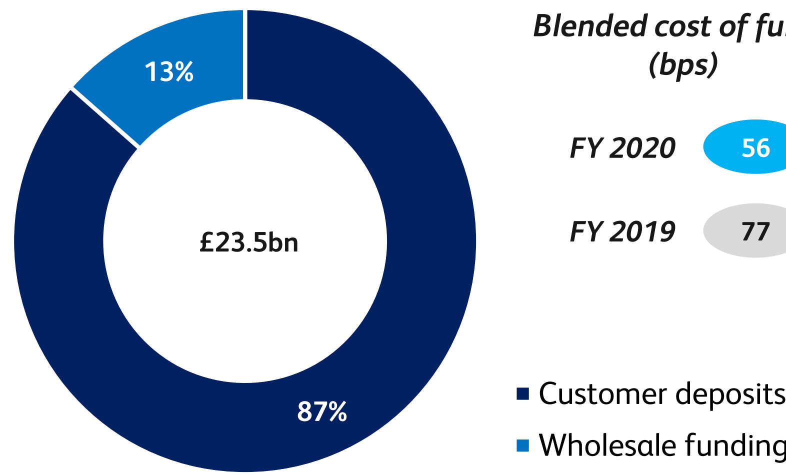
Healthy liquidity position

Loan to deposit / liquidity coverage ratios



- LCR has increased to 193 % due to TFSME drawdown and higher customer deposits; LTD ratio stable at 92 %
- Funding mix weighted towards customer deposits; TFSME drawdown and MREL issuance increase weighting of wholesale funding in 4Q
- TFSME additional allowance presents an opportunity to optimise our funding position
- Encumbrance levels remain low at 20.9 % ; headroom provides opportunity if required

Funding mix

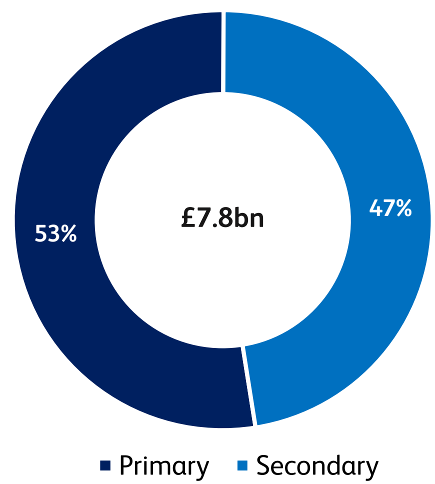


Blended cost of funds (bps)

FY 2020 56

FY 2019 77

Liquidity profile (£bn)



Encumbrance

20.9%

Guidance

	2020	2021	2022	2024	Key Drivers
Customer NIM (bps)	146	145 - 155	155 - 165	160 - 170	Base rate increase over the plan period
Cost:income ratio (%)	114	85 - 95	70 - 80	60 - 70	Income growth and continued cost reduction
Asset quality ratio (bps)	12	10 - 15	5 - 10	c. 5	Normalises to low levels post 2022
Franchise investment (£m)	47	45 - 50	20 - 30	20 - 30	Completion of key projects
CET1 ratio (%)	19.2	16 - 17	14 - 15	19 - 20	Short-term reduction driven by increase in RWAs
Customer assets (£bn)	18.6	19 - 20	20 -21	21 - 22	Growth primarily through retail mortgages

Base case economics	2021	2022	Basis of prep
GDP	7.1%	6.1%	(Annual Average YoY%)
HPI	(7.8%)	(0.3%)	4Q YoY%
Unemployment rate	6.7%	4.9%	4Q %
Base rate	0.10%	0.25%	4Q %

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

Any previous guidance or forward-looking information provided has been withdrawn

The Original Ethical Bank

Environmental

Beyond carbon neutral since 2007 and committed to maintaining this position

We say no to business banking customers involved in fossil fuel extraction

Social

We say no to businesses involved in testing on animals, environmental destruction, and a range of issues our customers have told us they think are unacceptable

A history of campaigning for what we believe in

Governance

Only UK bank with a customer-led Ethical Policy; launched over 25 years ago

Part of executive pay linked to achieving our ESG targets from 2022

Our ESG commitments will be key to our bank strategy in 2021 and in the years ahead

Our ESG commitments

Environmental

We are already beyond carbon neutral and have been since 2007.

We are committed to maintaining this position.

In 2020, we achieved zero waste to landfill for the first time.

We are committed to maintaining this position and will be starting our journey to embed a full circular economy in 2021.

We have sourced 100 % of our electricity from renewable sources since 2015.

We remain committed to continuing to source 100% of the Bank's direct electricity supply from renewables and we will seek opportunities to reduce our overall energy consumption.

Social

We remain committed to supporting co-operatives by continuing to provide free business banking to the co-operative sector.

In 2021 we are committed to increasing our co-operative business customer base by 14%.

We are dedicated to driving positive social change in our communities through our charity partnerships.

In 2021 we will work with Refuge to undertake a review of the impact of digital banking on survivors of economic abuse, publishing recommendations for positive change across our industry.

Every Co-operative Bank colleague has the opportunity to take two paid volunteering days every year.

We are encouraging all of our colleagues to volunteer in their local communities and we are committing to increasing our total volunteering hours by 10% in 2021*.

Governance

Our ESG commitments will be key to our bank strategy in 2021 and in the years ahead.

From 2022 onwards, part of executive pay will be linked to achieving our ESG targets.

We have already exceeded our target of 40 % of women in senior positions in our Bank.

Throughout 2021 we will continue to maintain this position and remain focussed on improving our diversity, inclusion and balance at all levels.

Every business application is screened against our customer-led Ethical Policy.

We will continue to decline business banking services to any business which conflicts with our Ethical Policy.

*This target is dependent upon Government restrictions due to COVID-19 which may impact upon the availability of volunteering opportunities.

Enable the future: Vision for 2021 and beyond

Fix the basics 2018/19	Enable the future 2020/21	Establish sustainable advantage 2022+

Grow our franchise

- Focus on mortgage growth
- Focus on SME banking growth

Expand our products and digital capability

- Improving our retail and SME banking proposition for customers, focussing on simplifying our processes and building out our digital capability

Simplify and transform

- Cost savings driven by supplier rationalisation and continued simplification
- Transforming legacy mortgage and savings platforms

Our ambitions will be delivered with a view to emerging opportunities…

- A buoyant mortgage market propped up by fiscal stimuli
- Availability of TFSME funding reduces cost of funds
- SME expansion through BBLS and CBILS
- Benefit from legacy ATM estate

… and risks

- Evolving regulatory capital requirements
- Uncertainty around economics
- Low rate environment
- Financial fallout from COVID-19 pandemic

Appendices

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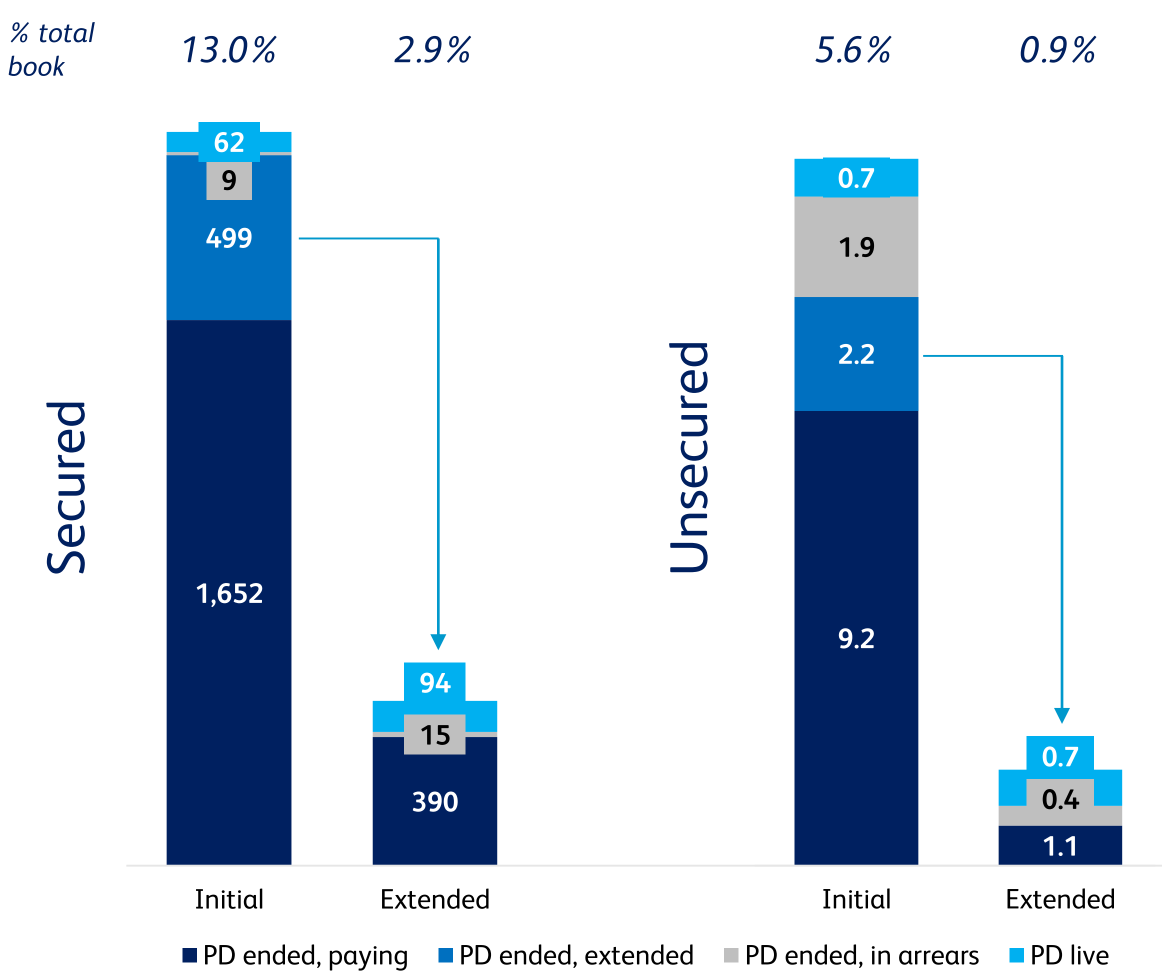
Payment deferral information

Payment deferrals (PD): Initial and extended (£m)



Of all payment deferrals granted in the year to 31 Dec 2020 an update is provided below:

- c. 17,500 and c. 3,000 payment deferrals granted to mortgage and unsecured customers respectively
- **Secured:** this represents a small proportion of the book, totalling £2.2bn (13.0 %), of which:
    - 92 % (£2.0bn) have resumed payments [1]
    - 1 % (£24.4m) are in arrears
    - 7 % (£156.3m) are still live
- **Unsecured:** this also represents a small proportion of the book, totalling £14.0m (5.6 %), of which:
    - 73 % (£10.3m) have resumed payments [2]
    - 17 % (£2.3m) are in arrears
    - 10 % (£1.4m) are still live

1. Comprises £1,652m following end of initial PD and £390m following end of extended PD, as shown in the chart
2. Comprises £9.2m following end of initial PD and £1.1m following end of extended PD, as shown in the chart

Contact details

Additional materials, including the Bank's **2020 Annual Report and Accounts, Pillar 3 Report and Sustainability Report**, are available on the Bank's investor relations website which can be found at the following address:

www.co-operativebank.co.uk/investorrelations

Investor enquiries:

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Media enquiries:

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Disclaimer

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