1H 2021 Results

29 July 2021

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

The co-operative bank
for people with purpose

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

1H 2021 Highlights

Profit generation for a second consecutive quarter

- £21m statutory profit before tax
- £13m underlying profit
- Capital generative; CET1 % up 0.9 % to 20.1 %
- Reconfirmed guidance with an upgraded asset quality ratio (AQR)

Mortgage balance growth

- Net residential lending of £1.8bn, equivalent to 10 % growth in mortgage balances, driven by £3.1bn gross lending
- c.£1.5bn new mortgage pipeline; with average margin of c.200bps
- 65 % of new business in 2Q 21 comprised five-year fixed rate mortgages an increase of 12 % compared to 2Q 20
- Re-entered 95 % LTV mortgage market in May

Strong SME customer proposition

- Over 10,000 new customers from the Incentivised Switching Scheme; 15 % of total switchers (above our expectations of 6 %)
- 4 % of Bounce-Back loans (BBLs) repaid in full; 18 % have taken advantage of 'Pay as You Grow' flexibilities
- New capabilities delivered in 2021, including:
  - mobile app (being used by c.30 % of eligible customers)
  - A business concierge service in partnership with Assurant, providing legal, HR and technical support for customers
  - 'request to pay' service delivered to support customers with cash flow management

1H 2021 Highlights

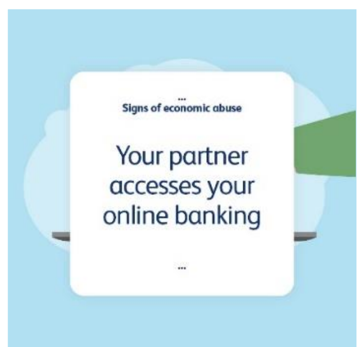
External recognition of progress

- **Credit rating upgrades:**
    - Moody's - Bank long-term deposit rating upgraded 1 notch in July (B2)
    - Fitch - Bank long-term issuer default rating upgraded 1 notch in July (B+)
- **MREL Senior:** current trading level in secondary markets of c.5% yield-to-call*; significant improvement observed since issuance in November 2020 at 9%

* mid price as at 22/07/2021

- In June we achieved the **best rating for any UK high street bank**, from the ESG-rating agency, Sustainalytics
- New awareness campaign with **charity partner Refuge**
- Shortlisted in the 'Corporate National Partnership of the Year' award at this year's **Charity Times awards** for our work with Refuge
- **Moneyfacts Awards:** Best Charity Banking Provider for the 6th year in a row

Continuing to make a difference



A spotlight on our market-leading ESG risk score

ESG ratings are designed to identify and understand material Environmental, Social and Governance risks. They are based on a framework that measures a company's exposure to, and management of, industry-specific ESG risks.

Earlier in 2021, Sustainalytics undertook a comprehensive review of the Bank's ESG credentials and how it manages risks in this area. Sustainalytics has rated the Bank with **a negligible risk rating of 9.2**, which puts us in a market-leading position; we're the only UK Bank / building society in this category, with most major UK banks in the medium risk category.

SUSTAINALYTICS
a Morningstar company
RATED

Sustainalytics risk score categories

Medium Risk
(Scores 20-30)

Low Risk
(Scores 10-20)
Nearest UK bank / building society peer - 15.2

Negligible (Score of <10)
The co-operative bank

What's next?

- Continue to lead the market as the original Ethical Bank
- Deliver our existing ambitious commitments and refresh our long-term aims in our strategy refresh
- On 2 August we'll launch our sixth Values and Ethics Poll, giving customers the chance to shape the future of the Bank's customer-led Ethical Policy

Risk categories taken from https://www.sustainalytics.com/ - Correct as at 20 July 2021

Income and cost metrics improved, driving underlying and statutory profit

£m	1H 21	1H 20	Change
Net interest income	149.4	127.4	17 %
Other operating income	18.6	21.0	(11 %)
Total income	**168.0**	**148.4**	**13%**
Operating expenditure	(155.2)	(171.1)	9 %
Impairment	0.1	(11.2)	>100 %
Underlying profit / (loss)	**12.9**	**(33.9)**	**>100%**
Strategic change	(9.7)	(15.0)	35 %
Non-operating income	18.2	4.3	>100 %
Profit / (loss) before tax	**21.4**	**(44.6)**	**>100%**
Taxation	23.5	20.1	17 %
Profit / (loss) after tax	**44.9**	**(24.5)**	**>100%**
Ratios			
Customer NIM (bps) [1]	154	141	13
Underlying cost:income ratio (%) [2]	92	115	23
Statutory cost:income ratio (%) [3]	89	122	33
Asset quality ratio (bps) [4]	(0)	12	12
CET1 ratio (%) [5]	20.1	19.2	0.9

1. Calculated as annualised net interest income over average customer assets
2. Calculated as operating expenditure over total income
3. Calculated as total statutory expenditure over total statutory income
4. Calculated as annualised impairment charge over average customer assets
5. Comparator is FY 20

Profit before tax of £21.4m; a second consecutive profitable quarter, **CET1% increases** by 0.9pp

Total income increases by 13% to £168.0m

- Net interest income increases 17 % to £149.4m
- Other operating income decreases 11 % to £18.6m. Reduced customer fee income supported by gilt sales

Operating expenditure decreases by 9% to £155.2m; combined with income drives a positive jaws of 22 %

Impairment £0.1m credit - reflecting stable impairment provisions. The net impact of balance sheet growth; improved economic outlook and a reduction in post-model uplift to secured provisions

Strategic change decreases by 35% to £9.7m reflecting current phase of transformation

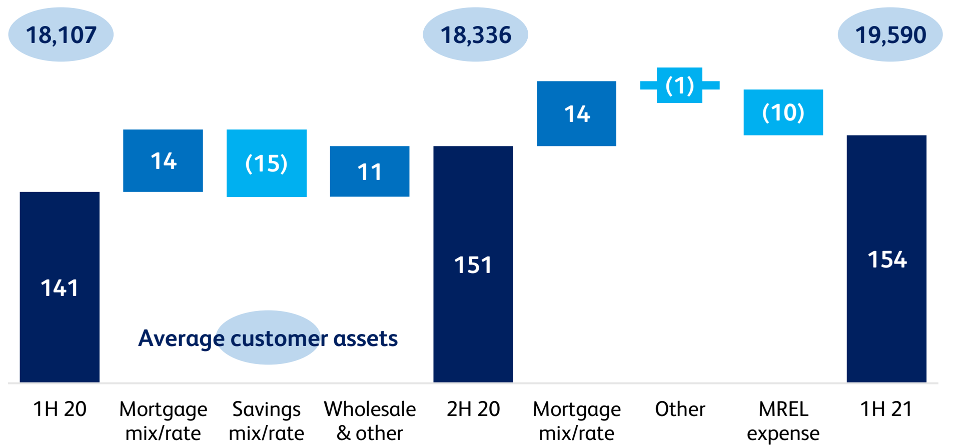
Non-operating income includes £13.3m refund of ATM business rates

The tax credit of £23.5m largely relates to the revaluation of deferred tax assets following the increase in the UK Corporation Tax rate

All key ratios improved

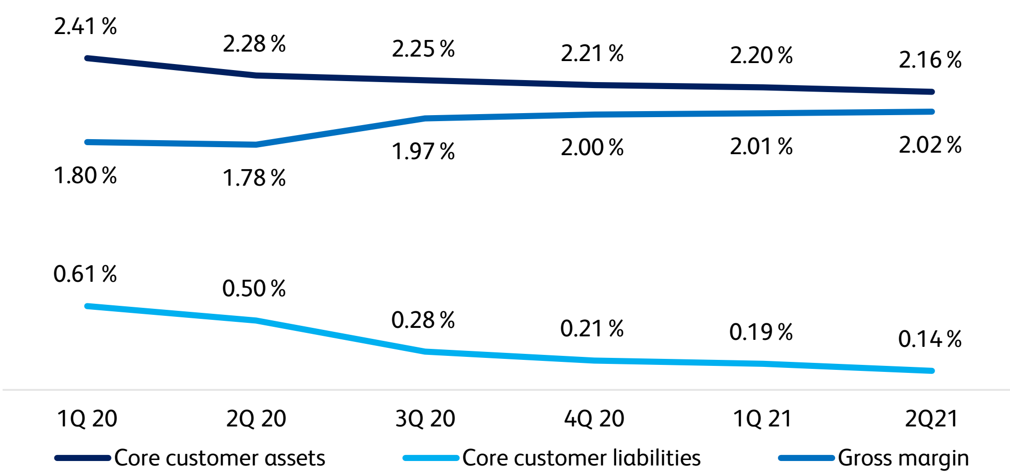
Customer NIM grows by 13bps since 1H 20, despite drag from MREL

Customer net interest margin (bps) [1]



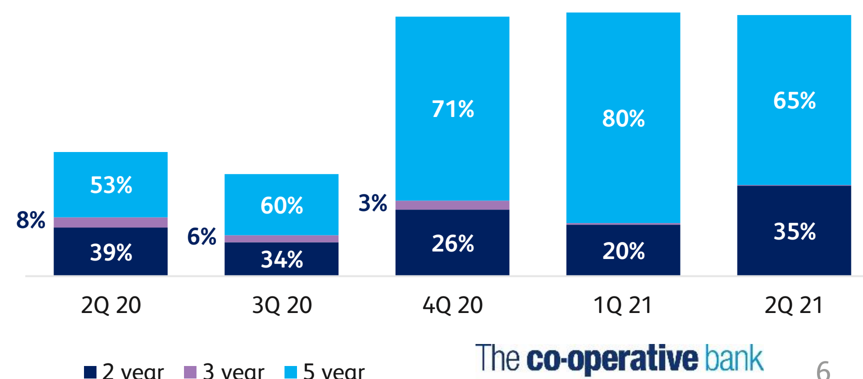
- Increases in mortgage rate offsets impact of a full six months of increased MREL debt expense
- Customer NIM [1] increases to 154bps; Bank total NIM [4] (including relevant non-customer assets) increases to 122bps from 114bps
- Completion margins improve to 219bps; with increased proportion fixed for longer (5-year mortgages)
- Core customer rate corridor stable; benefiting from deposit repricing
- Gross margin stable v 1Q 21 at 2.02 %; 24bps improvement since 2Q 20

Core customer rate corridor [2]



Completions by tenor

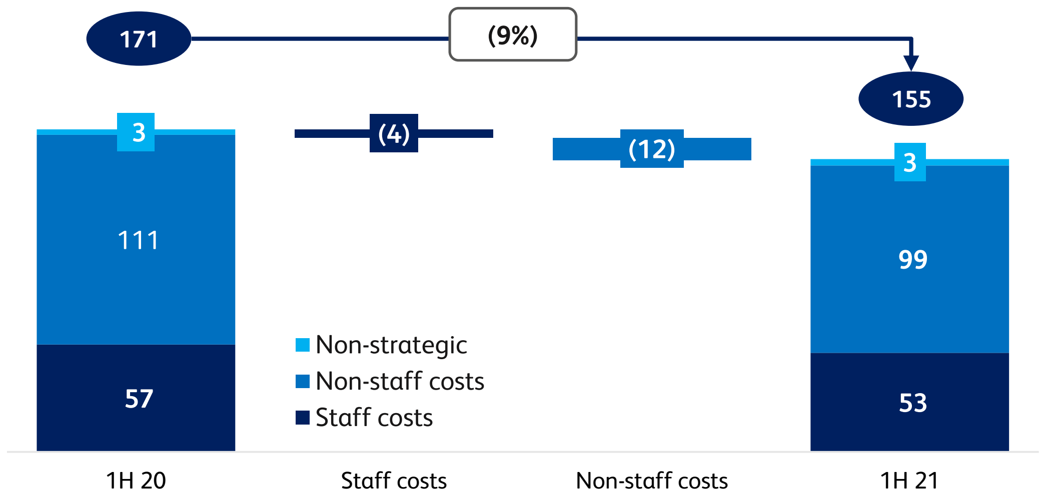
Completion margins [3]	129	159	205	212	219
New business completions (£m)	573	577	1,242	1,626	1,448



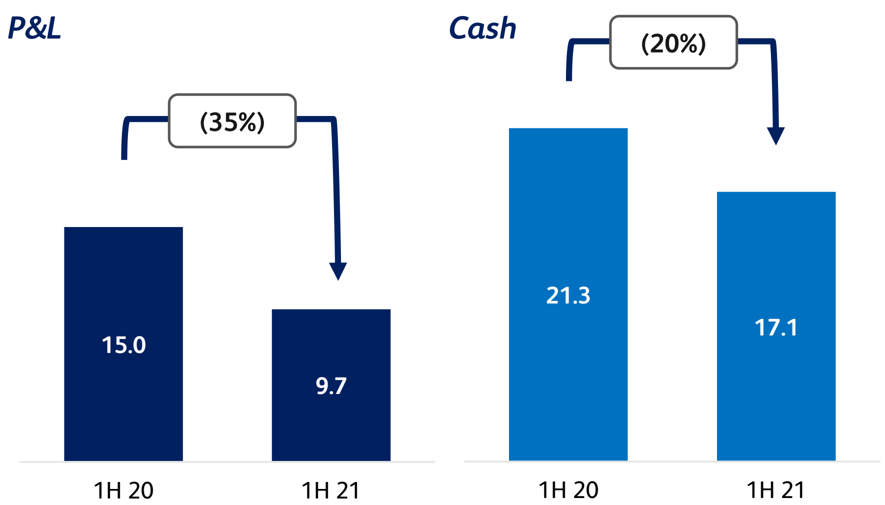
1. Calculated as annualised net interest income over average customer assets
2. Calculated as annualised core customer income over the core customer average balances for the period
3. Margin calculated as gross rate minus swap for the quarter
4. Annualised interest income over average interest earning assets

Operating expenditure reduces by 9%; in line with expectations

Operating expenditure (£m)



Strategic change (£m)



Operating expenditure reduced by 9 % compared to 1H 20:

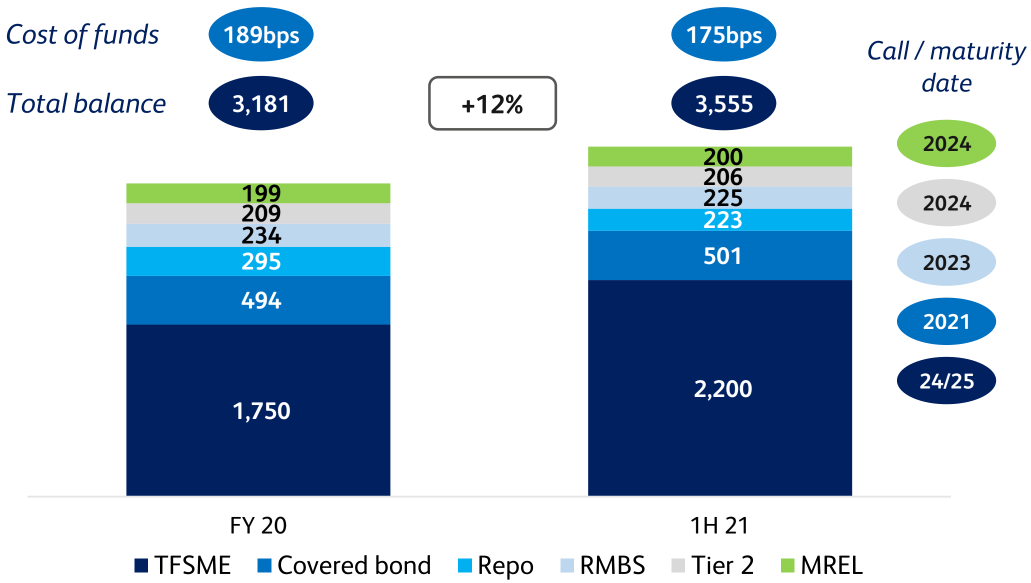
- Staff costs reduced by £4m reflecting net impact of:
  - £8m simplification and restructuring, including actions taken in 2020
  - Increase in performance-related and volume-driven costs (£4m)
- Non-staff costs reduced by £12m, including:
  - £4m of property costs including impact of 2020 restructuring
  - £4m impact of simplification on outsourced and third party costs
  - £2m reduction in marketing
- Non-strategic (continuous improvement) project spend of £3m

Improved analysis of cost by segment reported for the first time. Continued focus on cost efficiency and improved data

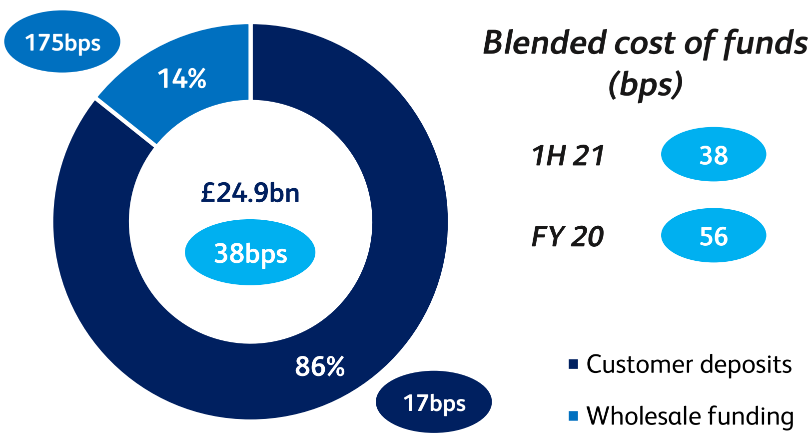
Strategic spend focussed on delivery of continued simplification of mortgage systems and enhancing our SME franchise

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

Wholesale funding (£m)



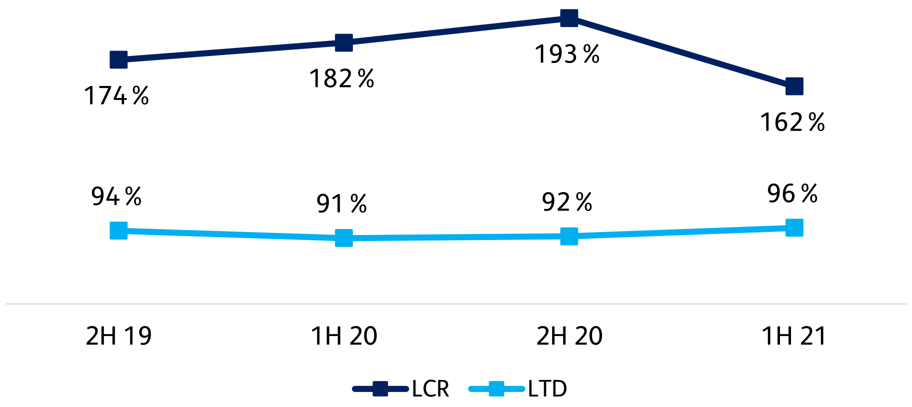
Funding mix



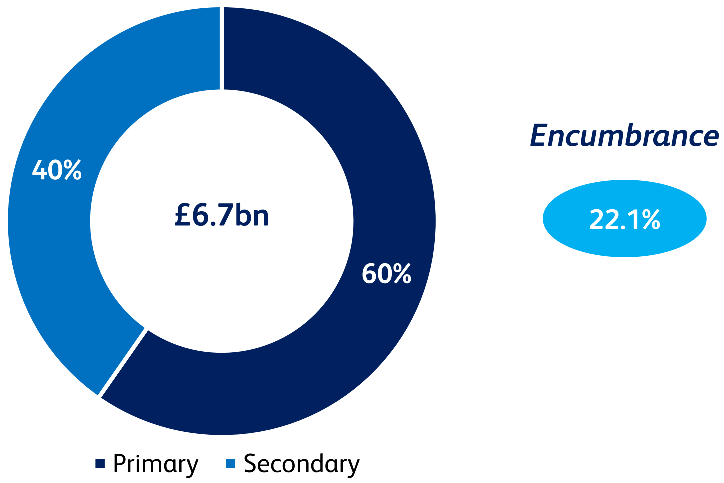
- Wholesale cost of funds reduces to 175bps following drawdown on TFSME at a cost of 10bps
- Funding mix remains weighted towards customer deposits at 86 % (FY 20: 87 %)
- Wholesale funds comprise 14 % (FY 20: 13 %); increase driven by £2.20bn TFSME drawdown
- Covered bond matures later in 2021
- **Total blended cost of funds remains low at 38bps**
- Additional TFSME funding available of c.£3bn before October scheme drawdown deadline to support further lending

Liquidity deployed across 1H 2021 to drive balance sheet growth

Loan to deposit / liquidity coverage ratios



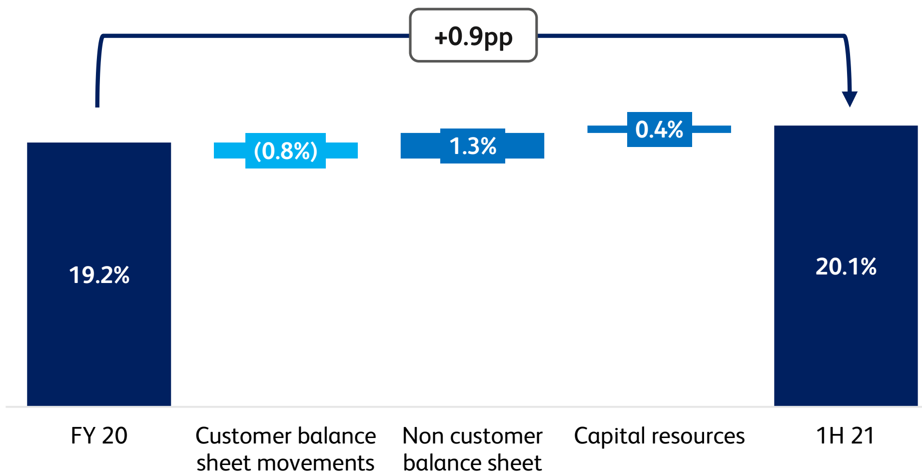
Liquidity profile (£bn)



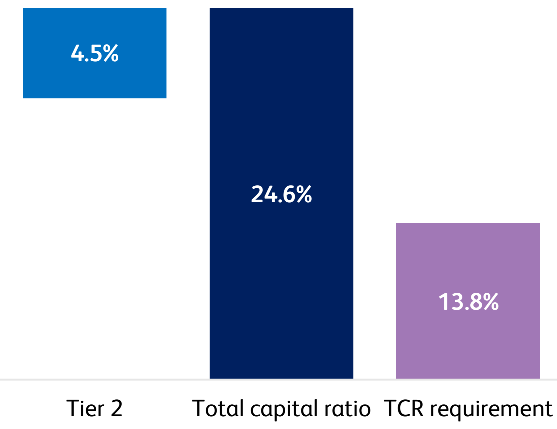
- Strong liquidity position 62pp above minimum LCR requirements
- LCR reduces as excess liquidity is deployed to fund balance sheet growth
- Loan-to-deposit ratio increases due to growth in lending supported by TFSME drawn down to date
- Encumbrance levels at 22.1 % ; marginally increased from 20.9 % due to additional TFSME drawdown in the period

CET1 increase reflects net profit and balance sheet simplification

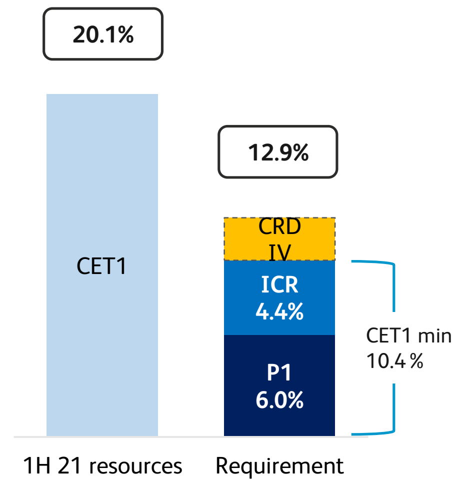
CET1 ratio development



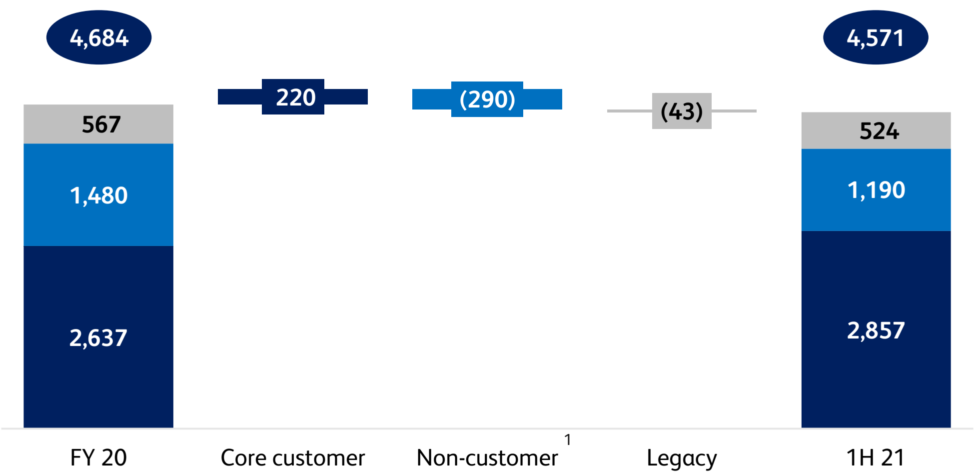
Total capital ratio



CET1 minimum



RWA (£m)

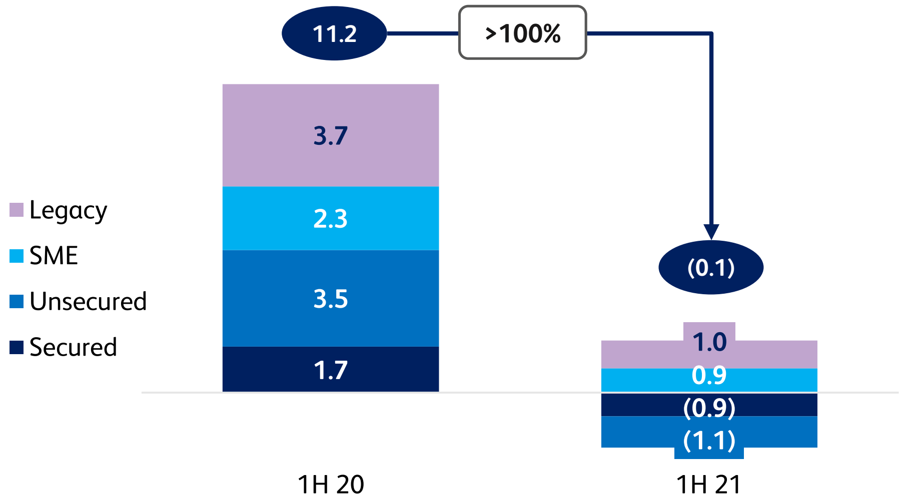


- CET1 % grows 0.9pp; surplus to CET1 minimum of 7.2pp or c.£330m
- Net profit in the period and reduction in non-customer RWAs - settlement of the surrendered loss debtor (£48m) and Optimum disposal (£117m) and fair value of hedging instruments (£90m)
- RWAs attributable to core customer balances increase driven by mortgage growth
- Regulator has provided MREL end-state and leverage clarity; MREL requirements and timing remain in line with the Bank's Plan, leverage will not become a binding requirement
- CET1 guidance remains subject to regulatory approval of RWA modelling

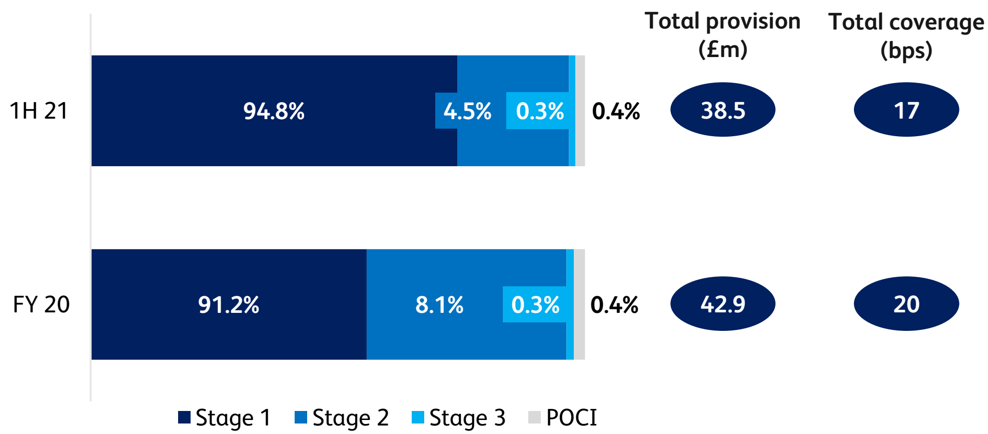
1. Non-customer RWAs include operational risk, treasury and other central assets

Customer assets maintain strong asset quality

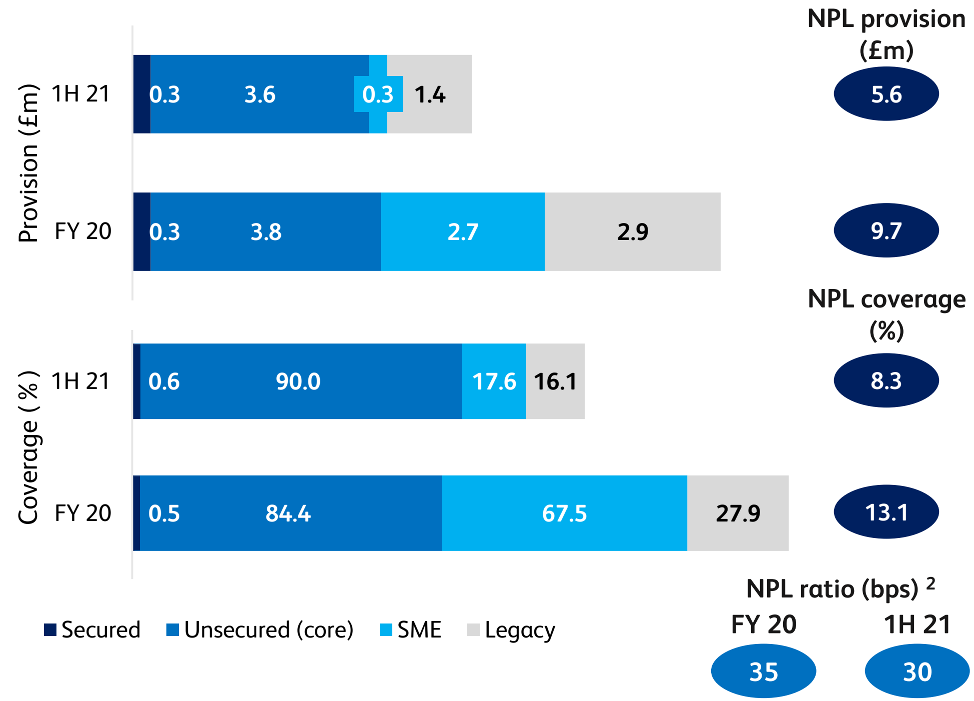
Impairment charge/(credit) (£m)



Exposure by stage [3]



NPL coverage [1]



Net impairment release of £0.1m reflects a resilient portfolio with provisions in line with FY 20

- Improved economics drives impairment release across the unsecured portfolio
- Reductions to secured provisions due to improving economics and customers resuming payment as expected
- Defaults and customer arrears remains low

AQR guidance upgraded to 5 - 10bps

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

Continued profitability will give rise to significant deferred tax recognition

We have now reported a profit before tax for two 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	↑

Historical losses total £2.3bn; equating to maximum deferred tax asset available to the Bank over time of £617m (based on a statutory corporation tax rate of 25%) [1]

1. Plus a further 8 % surcharge which remains subject to ongoing review

Segmental performance - Retail and SME

We have enhanced our segmental reporting to provide enhanced 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		
	1H 21	1H 20	Change	1H 21	1H 20	Change	1H 21	1H 20	Change	1H 21	1H 20	Change
Net interest income	131.2	109.5	21.7	22.4	20.6	1.8	(4.2)	(2.7)	(1.5)	149.4	127.4	22.0
Other operating income	10.6	13.3	(2.7)	8.0	7.8	0.2	0.0	(0.1)	0.1	18.6	21.0	(2.4)
Total income	**141.8**	**122.8**	**19.0**	**30.4**	**28.4**	**2.0**	**(4.2)**	**(2.8)**	**(1.4)**	**168.0**	**148.4**	**19.6**
Staff costs	(41.2)	(44.9)	3.7	(10.1)	(10.3)	0.2	(1.3)	(1.7)	0.4	(52.6)	(56.9)	4.3
Non-staff costs	(82.1)	(94.0)	11.9	(16.2)	(16.0)	(0.2)	(0.8)	(1.1)	0.3	(99.1)	(111.1)	12.0
Continuous improvement projects	(3.2)	(2.7)	(0.5)	(0.2)	(0.3)	0.1	(0.1)	(0.1)	-	(3.5)	(3.1)	(0.4)
Operating expenditure	(126.5)	(141.6)	15.1	(26.5)	(26.6)	0.1	(2.2)	(2.9)	0.7	(155.2)	(171.1)	15.9
Impairment	2.0	(5.2)	7.2	(0.9)	(2.3)	1.4	(1.0)	(3.7)	2.7	0.1	(11.2)	11.3
Underlying profit / (loss)	**17.3**	**(24.0)**	**41.3**	**3.0**	**(0.5)**	**3.5**	**(7.4)**	**(9.4)**	**2.0**	**12.9**	**(33.9)**	**46.8**
Balance sheet												
Assets	19,124	17,361	1,763	475	448	27	7,220	7,791	(571)	26,820	25,600	1,220
Liabilities	17,819	17,300	519	3,433	2,964	469	4,081	3,861	220	25,333	24,125	1,208

Guidance: AQR guidance upgraded to 5 - 10bps all other measures remain unchanged

	2021	2022	2024	Key Drivers
Customer NIM (bps)	145 - 155	155 - 165	160 - 170	Base rate increase over the plan period
Underlying cost:income ratio (%)	85 - 95	70 - 80	60 - 70	Income growth and continued cost reduction
Asset quality ratio (bps)	5 - 10 (10 - 15)	5 - 10	c. 5	Normalises to low levels post 2022
Franchise cash investment (£m)	45 - 50	20 - 30	20 - 30	Completion of key projects
CET1 ratio (%)	17 - 18 (16 - 17)	18 - 20* (14 - 15)	>20 (19 - 20)	Return to profitability
Customer assets (£bn)	20 - 21 (19 - 20)	21 - 22 (20 - 21)	22 - 23 (21 - 22)	Growth primarily through retail mortgages

*** 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**

Numbers in brackets relate to guidance issued at 2020 year-end

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

Delivering our commitments in 2021

We are confident on delivering the strategic priorities for 2021 that we outlined in our full year results:

- Strong mortgage lending growth and **pipeline in 4Q drives 2021 growth**
- **The Original Ethical Bank with refreshed ESG commitments**
- Deepening SME relationships and **continued transformation of digital services**
- Capitalise on **improved mortgage margins**
- Relentless **focus on cost** continues
- Franchise investment returning to 'steady-state' levels with near-term strategic focus on accelerating mortgages and savings transformation and exit of legacy IT estate

Further to this, in H2 2021 we will also…

… **hear from our customers** about what matters to them most and what they want from their Bank

Relaunching our Customer-led Ethical Policy

… **review and refresh our strategy** as we look to capitalise on emerging opportunities and market conditions at the half way point of our turnaround plan

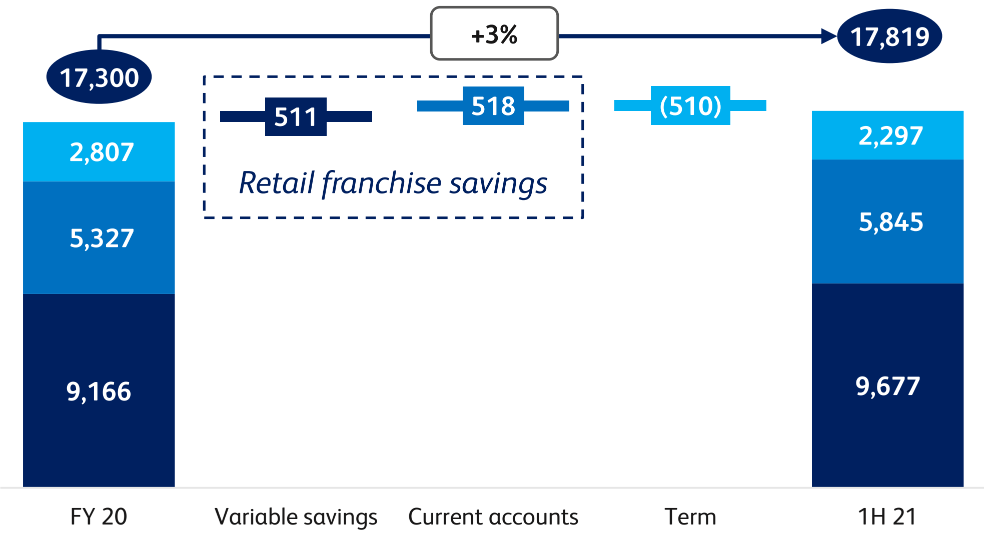
Investor day in October 2021 where more details will be shared

Appendix:
Segmental information

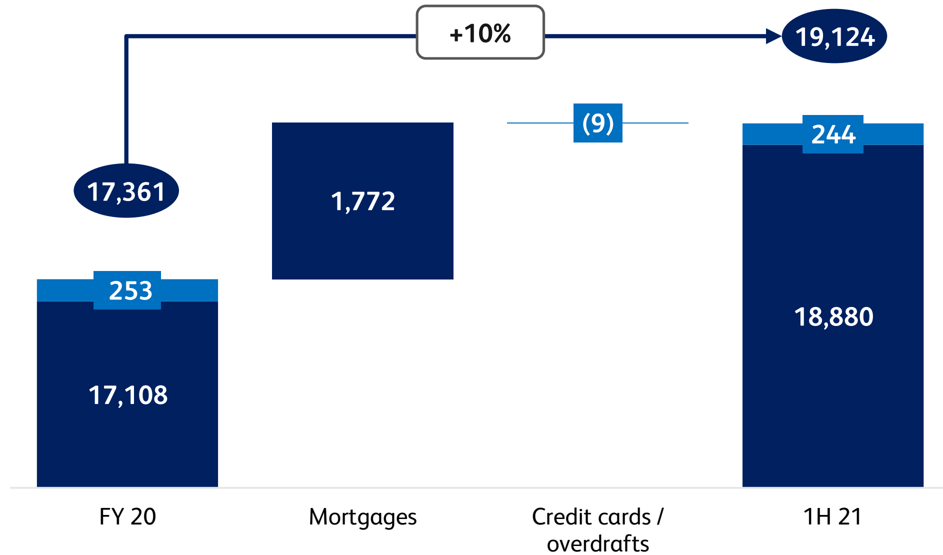
The co-operative bank
for people with **purpose**

Retail financial performance

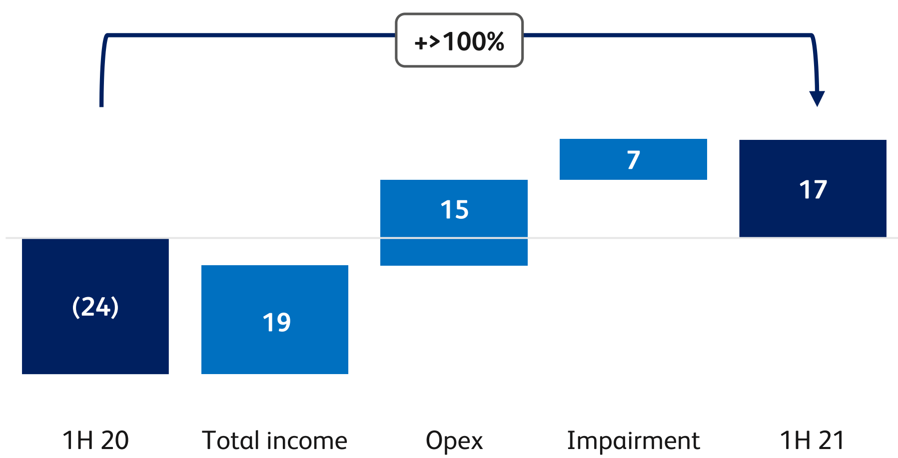
Retail deposit flow



Retail asset flow



Underlying profit / (loss) £m



- 10 % net growth in mortgage assets; net residential lending of £1.8bn (£3.1bn gross lending)
- Pipeline of c.£1.5bn as we enter the second half of 2021
- Deposits overall grow by 3 % - 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 £17m; a significant improvement on 1H 20

The co-operative bank
for people with purpose

Retail segment performance

Awards & achievements

- Moneyfacts Branch Network of The Year (4th consecutive year)
- Moneyfacts Best Current Account Provider
- Donated £1.3m since 2016 to partner charities through Everyday Rewards current accounts

- New professional mortgage product aimed at young professionals
- Piloted return to direct mortgage lending through Co-operative Bank brand and made it easier for customers to adjust their existing mortgage
- Launched refer-a-friend current account proposition

Market developments

- Strong mortgage market in 2020 and 1H 2021 fuelled by the stamp duty moratorium and customers changing living habits; purchase market started to slow in late 1H in part due to declining stock levels
- Deposit market relatively stable as low base rate and access to TFSME reduced competitor pricing and demand
- Current account market has seen signs of return to normal through 1H with a number of competitors re-introducing switch incentives

Upcoming targets / releases

Lending: enabled in part by delivery of Bank's simplification programme

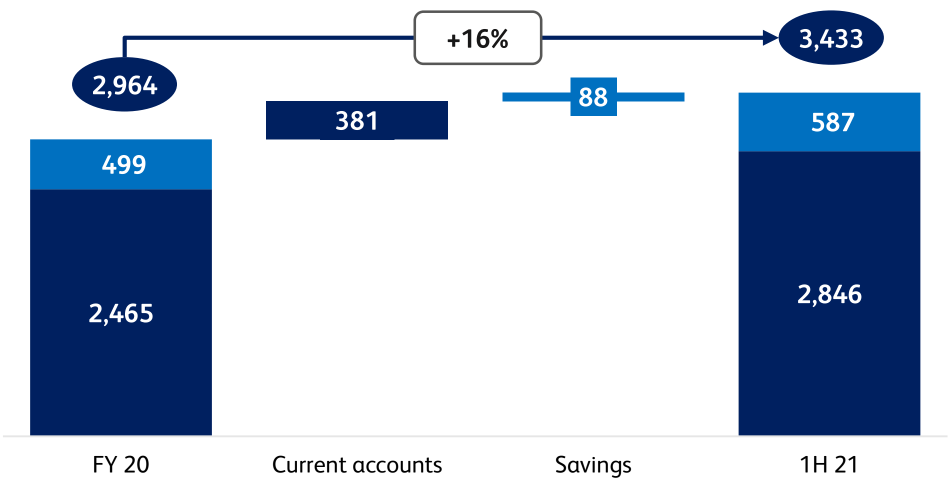
- Re-launch of residential interest-only products
- New-to-Bank credit card offering

Deposits / other: strengthening the Bank's ethical product offering and making it easier for customers to bank with us

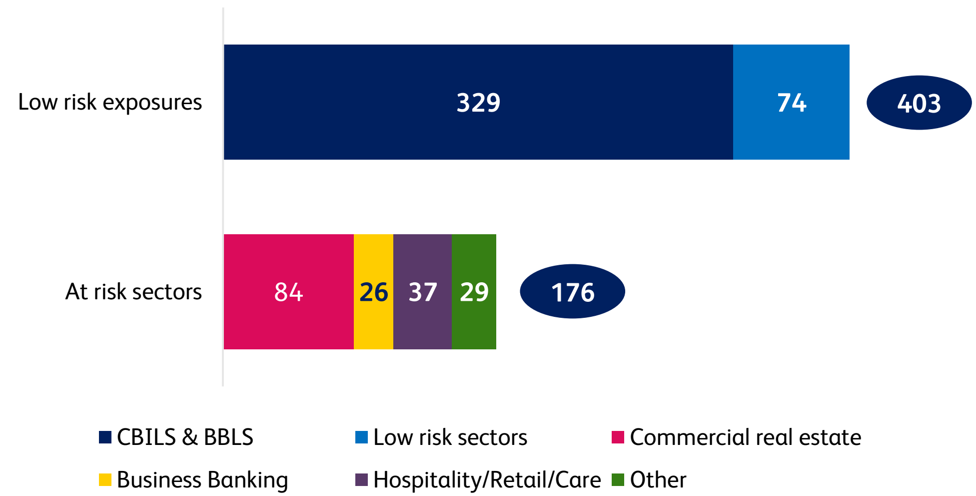
- Introduction of ethical investment proposition through new Bank partnerships
- Gambling blocks and card management in app

SME financial performance

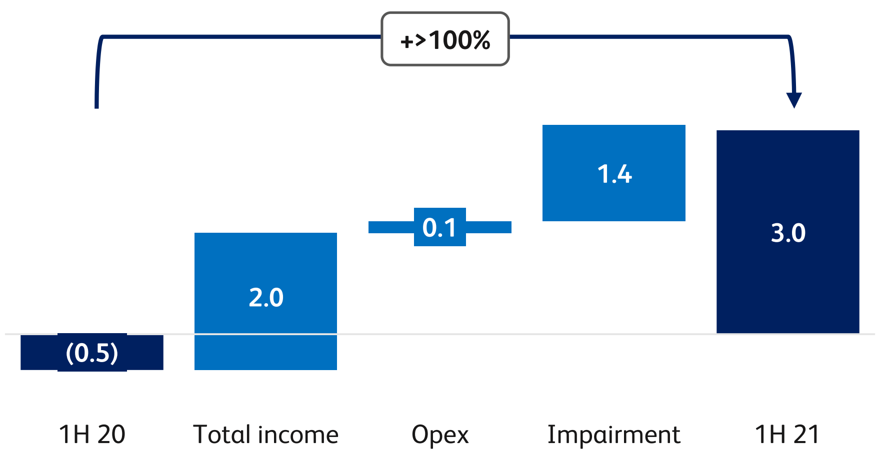
SME deposit flow (£m)



SME gross exposure £m



Underlying profit / (loss) £m



- 16 % growth in SME deposits, primarily through current accounts
- Stable gross exposures with no material increase in arrears across at risk sectors
- Underlying profit of £3m reflects a cost:income ratio of 87 % . Future potential as a source of profit growth for the Bank

SME segment performance

Awards & achievements

- Moneyfacts Charity Bank of the Year (6th consecutive year)
- All three of the Bank's primary business current account offerings are rated 5 star by Moneyfacts
- In 1H 2021, our Customer Donation Fund provided £25k to 25 community customers to fund community projects. We have now supported 1,097 community organisations with £962k of funding though this scheme
- Launched new business credit card and new mobile app for SME customers
- Launched a Business Concierge service in partnership with Assurant, providing legal, HR and tech support for customers
- Launched the co-branded 'Incomeing' app with BankiFi, a 'request to pay' service to SMEs collect invoice payments

Market developments

- The Bounce Back Loan Scheme and Coronavirus Business Interruption Loan Scheme closed for applications at the end of March. The Bank provided over £320m of lending to support customers through these schemes, with over £70bn provided overall to UK SME's
- The Incentivised Switching Scheme closed at the end of H1. The Bank attracted over 10,000 NatWest customers through the scheme, a 15% share of all switched customers, well above market share of 6%

Upcoming targets / releases

- Launch of a new online banking platform to further improve our digital customer service
- Launch of a smart invoicing product, enabling customers to issue invoices and better manage their finances in the mobile app
- Continuous improvements to our new onboarding journeys to make these available to more customers
- Continuous improvements to our mobile app, adding more functionality
- Launch of an online Business Exchange, providing our customers with personalised information to help them run their business

Disclaimer

Caution about Forward-Looking Statements

This document contains certain forward-looking statements with respect to the business, strategy and plans of the Group (including its updated long-term forecast) and its current targets, goals and expectations relating to its future financial condition and performance, developments and/or prospects. Forward-looking statements sometimes can be identified by the use of words such as ‘may’, ‘will’, ‘seek’, ‘continue’, ‘aim’, ‘anticipate’, ‘target’, ‘projected’, ‘expect’, ‘estimate’, ‘intend’, ‘plan’, ‘goal’, ‘believe’, ‘achieve’, ‘predict’, ‘should’ or in each case, by their negative or other variations or comparable terminology, or by discussion of strategy, plans, objectives, goals, future events or intentions.

Examples of such forward-looking statements include, without limitation, statements regarding the future financial position of the Group and its commitment to its plan and other statements that are not historical facts, including statements about the Group or its directors’ and/or management’s beliefs and expectations. Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant stated or implied assumptions and subjective judgements, which may or may not prove to be correct. There can be no assurance that any of the matters set out in forward-looking statements are attainable, will actually occur, will be realised, or are complete or accurate. Past performance is not necessarily indicative of future results. Differences between past performance and actual results may be material and adverse.

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