1Q 2021 Results

28 April 2021

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Good progress made to deliver 2021 strategic priorities

With upgraded in-year guidance for CET1 ratio and customer assets

2021 priorities committed [1]		1Q 21 progress update
• Relentless **focus on cost** continues	✓	Statutory and underlying profit in 1Q and on track with 2021 expectations on profitability
• Capitalise on **improved mortgage margins**	✓	Customer NIM at 1.51 % (1Q 20: 1.44 %); improvement in line with expectations
• Strong **mortgage lending** growth	✓	Growth in 1Q of £1bn in line with expectations, pipeline of £2.0bn and improved outlook driving upgraded 2021 guidance
• Franchise investment returning to 'steady-state' levels with near-term strategic focus on accelerating mortgages and savings transformation and exit of legacy IT estate	✓	Multi-year transformation of legacy IT estate commenced; 1Q deliveries in line with expectations with spend expected to increase in later quarters
• Deepening SME relationships and **continued transformation of digital services**	✓	Launched a new mobile app for SME customers, along with new business credit card and "Pay As You Grow" calculator for BBLS customers

• **The Original Ethical Bank with refreshed ESG commitments** – number one ethical banking brand position maintained

1. Included in our 2020 year-end investor presentation

Income and cost metrics improved, driving underlying and statutory profit

£m	1Q 21	1Q 20	Change
Net interest income	71.2	64.8	10 %
Other operating income	10.0	11.0	(9 %)
Total income	**81.2**	**75.8**	**7%**
Operating expenditure	(77.3)	(87.2)	11 %
Impairment	(1.3)	(2.9)	55 %
Underlying profit / (loss)	**2.6**	**(14.3)**	**>100%**
Strategic change	(4.7)	(9.4)	50 %
Non-operating income / (expense)	9.3	(3.3)	>100 %
Profit / (loss) before tax	**7.2**	**(27.0)**	**>100%**
Ratios			
Customer NIM (bps) [1]	151	144	7
Underlying cost:income ratio (%) [2]	95	115	20
Asset quality ratio (bps) [3]	3	6	3
CET1 ratio (%) [4]	19.9	19.2	0.7

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
4. Comparator is FY 20

Profit before tax of £7.2m (1Q 20: loss of £27.0m) benefits from non-recurring below the line income for ATMs, along with an underlying profit of £2.6m (1Q 20: loss of £14.3m)

Total income increases by 7% to £81.2m

- **Net interest income increases 10% to £71.2m:** mortgage balance sheet growth at improved lending margins
- **Other operating income decreases 9% to £10.0m:** reduced transaction volumes during the national lockdown throughout 1Q 21

Operating expenditure decreases 11% to £77.3m: driven by restructuring actions undertaken in 2020 which had a positive benefit in the quarter of c.£5m as well as the positive impact of ongoing simplification

- Staff costs reduces 9 % to £25.1m (1Q 20: £27.7m)
- Non-staff costs reduces 11 % to £51.1m (1Q 20: £57.5m)
- Non-strategic projects spend reduces 45 % to £1.1m (1Q 20: £2.0m)

Impairment of £1.3m: driven by balance sheet growth

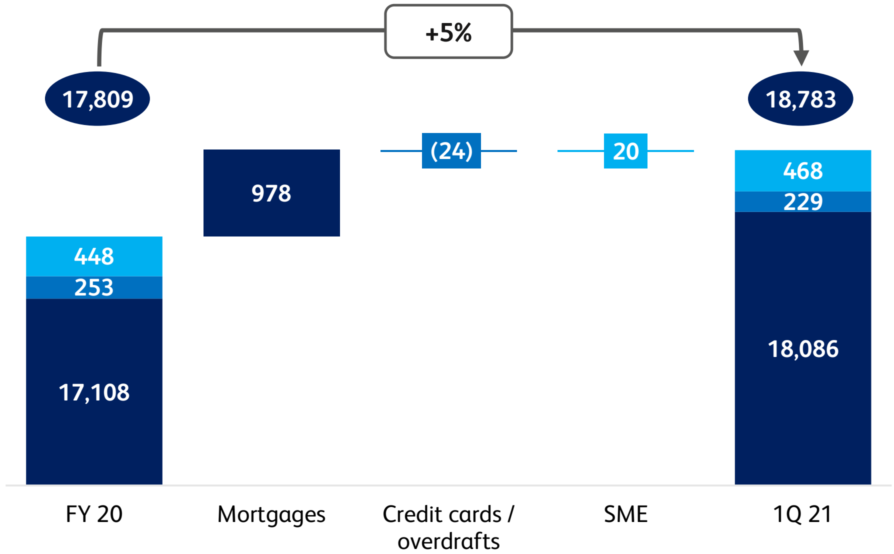
Strategic change decreases 50% to £4.7m: 1Q 20 impacted by costs linked to separation of IT systems from the Co-op Group

Non-operating income of £9.3m: includes £10.0m refund of ATM business rates agreed with the Co-op Group

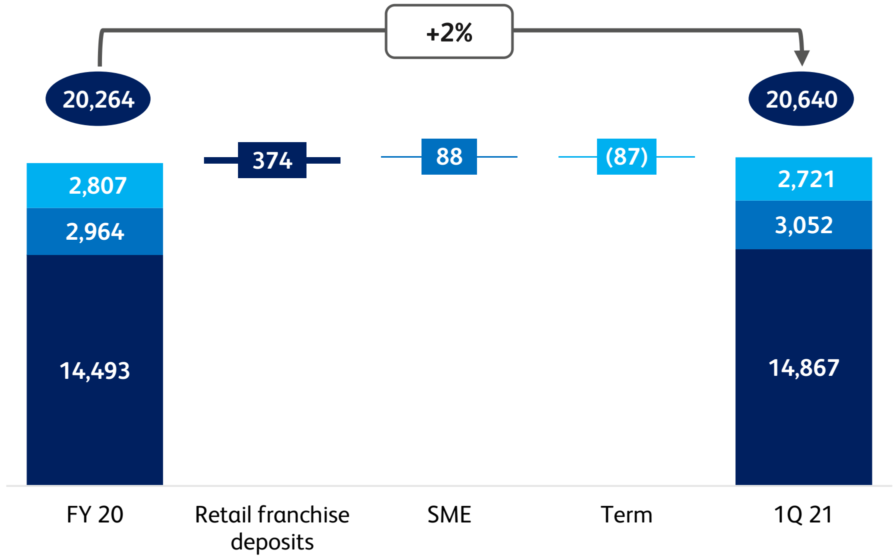
CET1% increases 0.7pp in the quarter as a result of RWA reductions

Strong balance sheet growth and customer NIM stable

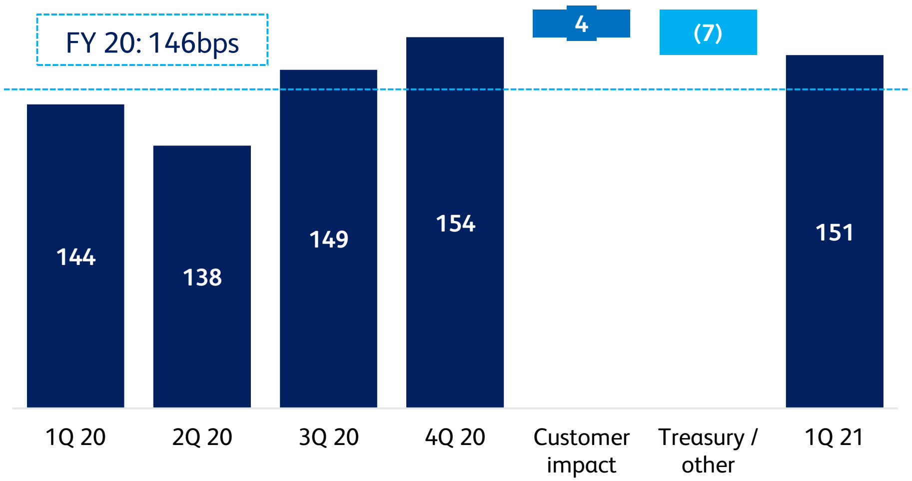
Core customer assets flow (£m)



Core customer deposits flow (£m)



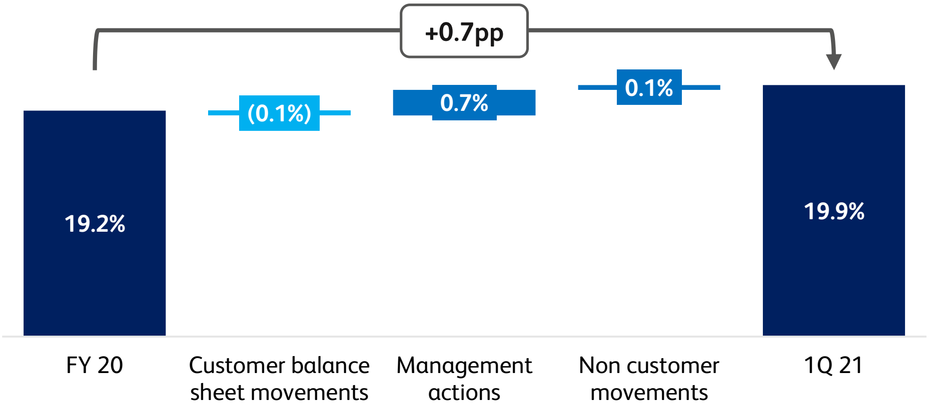
Quarterly customer NIM (bps)



- £1.0bn net mortgage growth with a pipeline of £2.0bn going into 2Q 21
- High mortgage growth is expected to continue across 2021 supported by the extension of the stamp duty moratorium
- Upgrade to 2021 customer asset guidance, see page 6 for further details
- 2 % growth in core customer deposits, continued trend towards franchise deposits
- Customer NIM stable with increased lending margins offset by impacts of changing mix / rate within Treasury and a full quarter impact of November 20 issuance of MREL debt

Upgraded guidance on CET1 ratio (%)

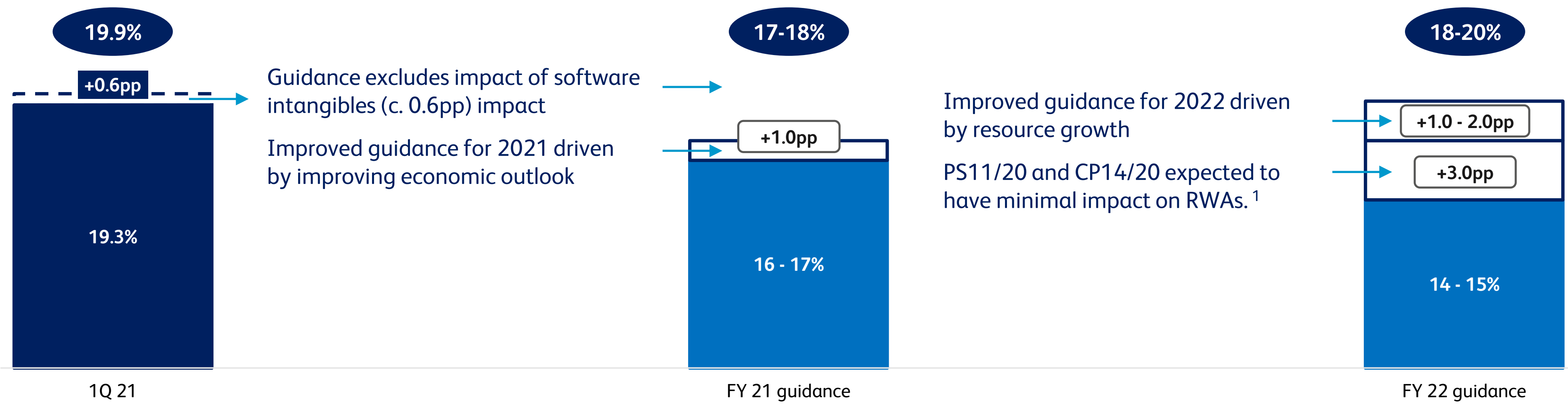
CET1 ratio (%)



- **Management actions reduce RWAs (0.7% improvement)**, with final settlement of the Optimum transaction (£117m) and the Surrendered Loss Debtor (£48m)
- **Partially offset by customer balance sheet movements (0.1%)**, which includes a £1bn increase in mortgage balances

CET1 ratio (%) guidance evolution

CET1% reduces in 2021 as RWAs grow in line with the balance sheet, before we return additional organic capital growth in 2022



[1] The estimated impact of PS11/20 and CP14/20 is subject to regulatory approval. Whilst this represents our best estimate of the impact at the current time, this may be subject to change later this year

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Guidance: upgraded CET1 ratio (%) and customer assets

	2021	2022	2024	Key Drivers
Customer NIM (bps)	145 - 155	155 - 165	160 - 170	Base rate increase over the plan period
Cost:income ratio (%)	85 - 95	70 - 80	60 - 70	Income growth and continued cost reduction
Asset quality ratio (bps)	10 - 15	5 - 10	c. 5	Normalises to low levels post 2022
Franchise 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 and CP14/20 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 previous in force guidance

Capital issuance: We will review our capital issuance plans later in the year

Base case economics	2021	2022	Basis of prep
GDP	4.0%	7.3%	(Annual Average YoY%)
HPI	0.2%	(1.0%)	4Q YoY%
Unemployment rate	6.5%	5.6%	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

Appendices

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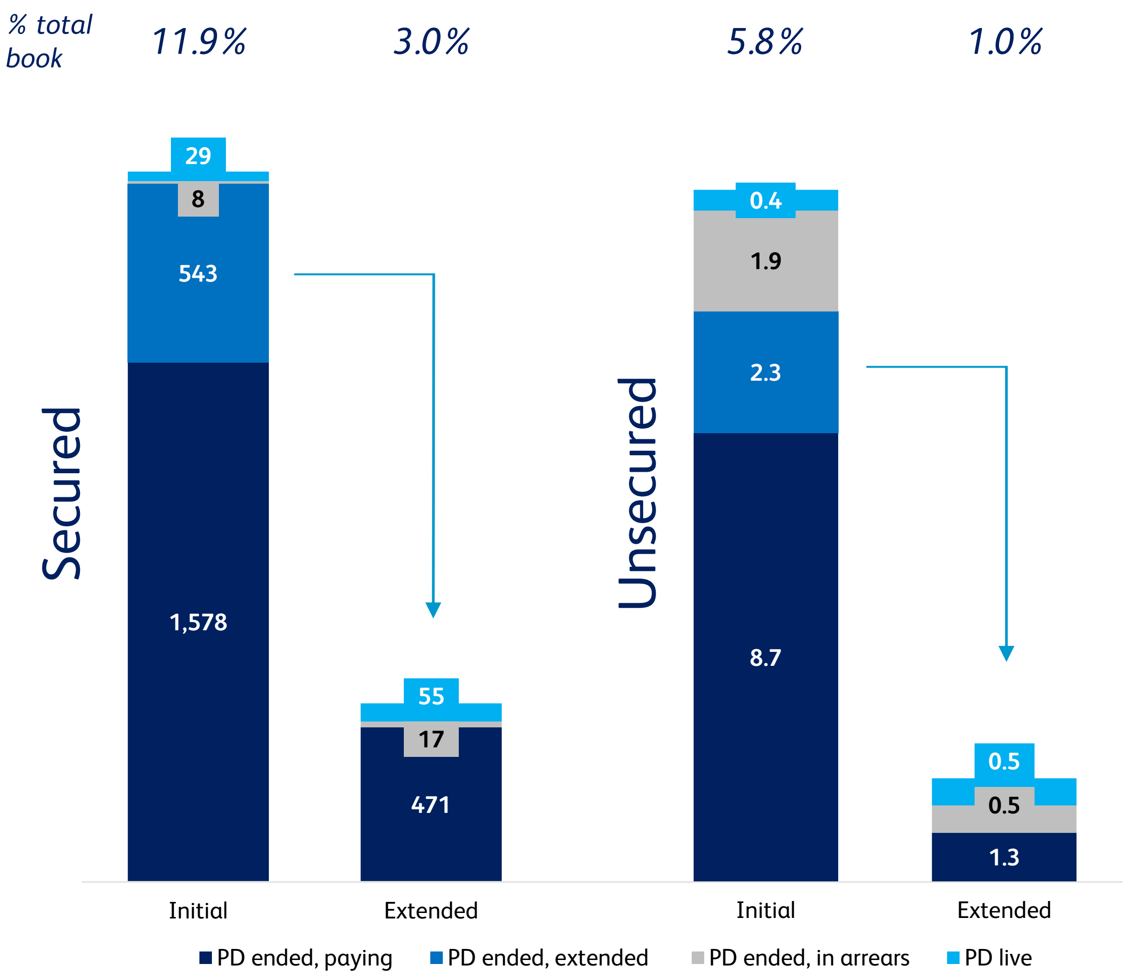
Payment deferral information

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



Of all payment deferrals granted to 31 March 2021, 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 (11.9 %), of which:
  - 95 % (£2.0bn) have resumed payments [1]
  - 1 % (£25.2m) are in arrears
  - 4 % (£84.6m) are still live
- **Unsecured:** this also represents a small proportion of the book, totalling £13.3m (5.8 %), of which:
  - 75 % (£10.0m) have resumed payments [2]
  - 18 % (£2.4m) are in arrears
  - 7 % (£0.9m) are still live

1. Comprises £1,578m following end of initial PD and £471m following end of extended PD, as shown in the chart
2. Comprises £8.7m following end of initial PD and £1.3m following end of extended PD, as shown in the chart

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