3Q 19 Results and Progress Update

7th November 2019

The co-operative bank
for people with purpose

Resilient performance against plan despite challenging Retail Banking market and economic uncertainty

Focus on driving **simplification, de-risking and cost efficiencies** given challenging income environment and market pressures

Financial performance

- **Small underlying profit in 2019**
- **Underlying cost:Income ratio ahead of guidance,** tracking to <105% for the full year
- **Capital remains strong** despite PPI charge
- **2.15% reduction in regulatory Total Capital Requirements**[1] as we continue to **simplify** and **de-risk the Bank**
- **Successful securitisation** of £314m of the **legacy Optimum portfolio**
- **Further clarity around PPI expected cost** of redress as volumes mature

Core income flat
£285.2m (2018:284.2m)

Cost:income ratio ahead of Plan 98.1%

High quality, low risk loan book-average mortgage LTV 56.3%

Strong capital base; CET1 20.7%
Reduction in TCR to 14.54%[1]

Re-engaging our loyal customer base

- **Extension of multi-media "People with Purpose" brand campaign** reinforcing **customer first** and values and ethics as a **key differentiator**
- Further improvement in customer journeys and current account **NPS score to +27, third in the UK**
- Winner of Moneyfacts **"Most trusted mainstream Bank," shortlisted** for a number of **industry awards** in 3Q

1. As at November 2019 post 3Q results and will be reflected in year-end reporting

Strategic progress in delivering simplified IT infrastructure, enhanced digital capability and franchise growth

Growing our franchise

- **3.4% Core mortgage book growth** in continued supressed market YTD
- **3.5% growth in Retail franchise and SME deposits** as momentum gains pace

Fixing the basics and delivering transformation

- **Re-negotiation of a number of key contracts including IBM and Capita** with the benefits of:
  - supporting our drive for mortgage transformation
  - enhanced flexibility and variable contract terms
  - cost savings throughout the contract term
- **Desktop transformation delivered** and **Separation nearing completion**
- Ongoing **digital momentum** with **new SME platform**
- **Continued simplification** and **de-risking** activity
- Legacy portfolio now represents less than 5% of total assets

Committed to investing in our future and becoming the ethical digital Bank

Underlying result ahead of expectations; capital position remains resilient with CET1 ratio of 20.7%

£m	3Q 19	3Q 18	Change
Retail	206.3	217.5	(5%)
SME	42.1	42.8	(2%)
Core customer income	**248.4**	**260.3**	**(5%)**
Treasury	36.8	23.9	54%
Total core income	**285.2**	**284.2**	**0%**
Legacy / other	1.6	8.1	(80%)
Total income	**286.8**	**292.3**	**(2%)**
Operating costs	(268.2)	(266.5)	(1%)
Continuous improvement spend	(13.1)	(13.7)	4%
Operating expenditure	(281.3)	(280.2)	(0%)
Impairment (loss) / gain	(3.2)	2.2	<(100%)
Underlying profit	**2.3**	**14.3**	**<(100%)**
Strategic change	(73.0)	(71.9)	(2%)
Net customer redress charge	(63.5)	(11.0)	<(100%)
Non-operating income / (expense)	15.6	(18.4)	>100%
Loss before tax	**(118.6)**	**(87.0)**	**(36%)**
Ratios			
Customer NIM[1]	1.76%	2.07%	(31)bps
Underlying cost:income ratio[2]	98.1%	95.9%	(2.2)pp
Cost of Risk[3]	2bps	(2bps)[4]	(4)bps
CET1 ratio %	20.7%	22.3%[4]	(1.6)pp

Underlying profit of £2.3m with core income in line with 2018; NIM reduces 7bps in the quarter

- Retail income down £11.2m as a result of NIM compression
- Treasury income driven by gain in Visa shares (£18.4m YTD) and optimisation of treasury assets
- Warwick 4 de-risking and Legacy run-off reduces income by £6.5m, which drives a 2% reduction in total income

Operating expenditure broadly flat at £281.3m

- Planned investment in brand and people has offset management actions
- Underlying cost:income ratio remains ahead of revised guidance (<110%). Full year now expected to be <105%

Credit quality remains strong with net cost of risk of 2bp

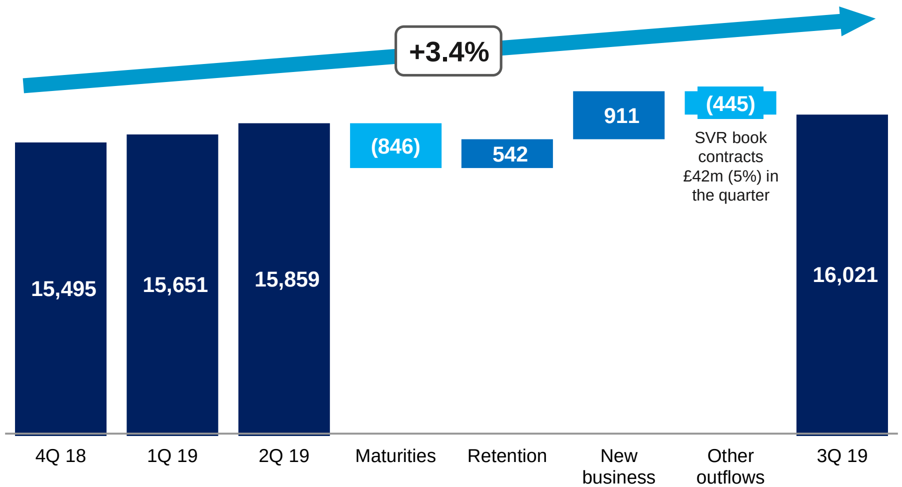
Loss before tax is 36% adverse vs 2018:

- Impact of PPI charge (£60m); see slide 10
- 2018 result includes the Surrendered Loss Debtor write down of £24.9m; 2019 increase of £7.8m

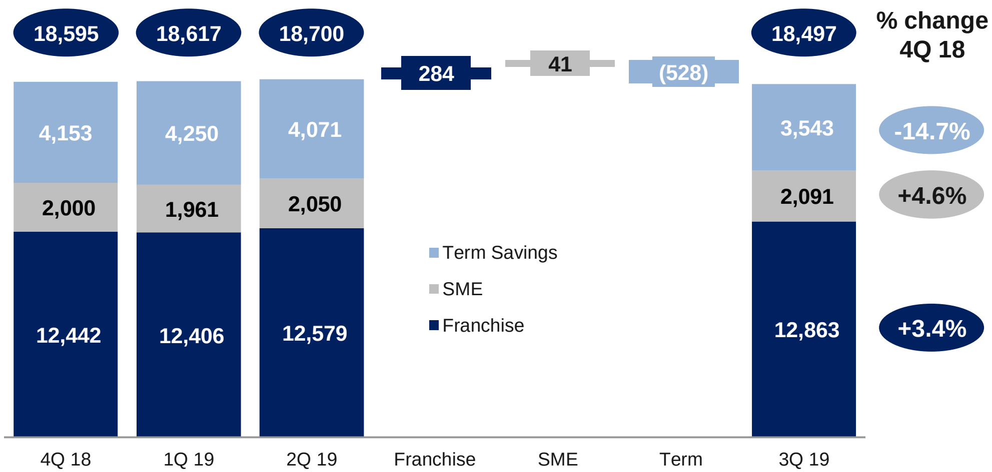
1. NIM calculated as total net interest income over average gross customer assets
2. Underlying cost:income ratio is calculated as operating expenditure over total income
3. Cost of Risk is calculated as impairment divided by average total customer assets
4. Balance sheet ratios show FY 18 as comparative in place of 3Q 18

Measured growth in core customer balance sheet, cost of deposits remains low

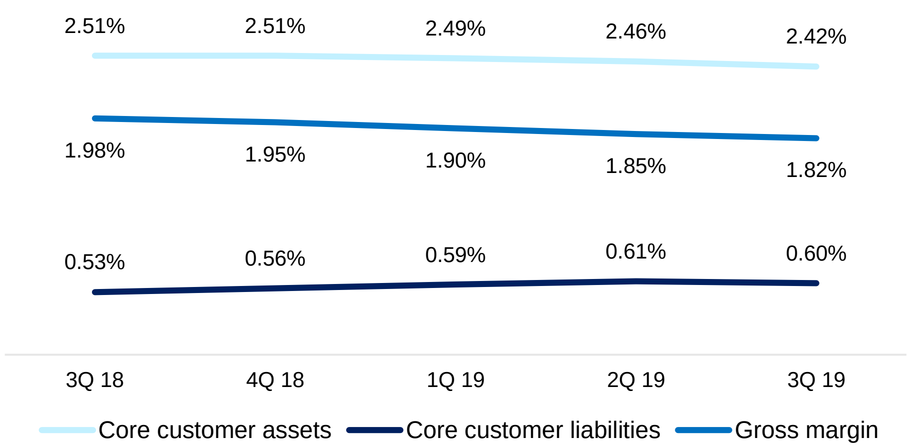
Mortgage flows[1] (£m)



Core customer deposit flows (£m)



Gross customer deposit and lending rates[2]

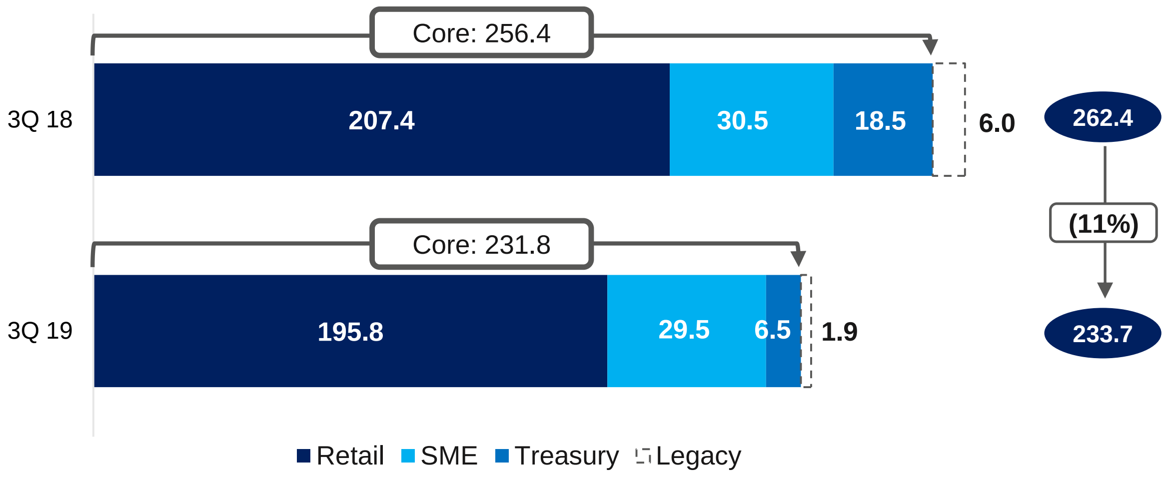


- 3.4% growth YTD in mortgages through Platform new business, improved retention and propositions; 1.0% growth in 3Q 19
- 3.5% growth YTD in lower cost Retail franchise and SME deposits has offset a 14.7% reduction in expensive term balances
- Customer corridor has contracted in 2019 but stabilised in the quarter with a flat cost of funding at 15bps below base rate

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

Net interest income down 11% with anticipated NIM contraction

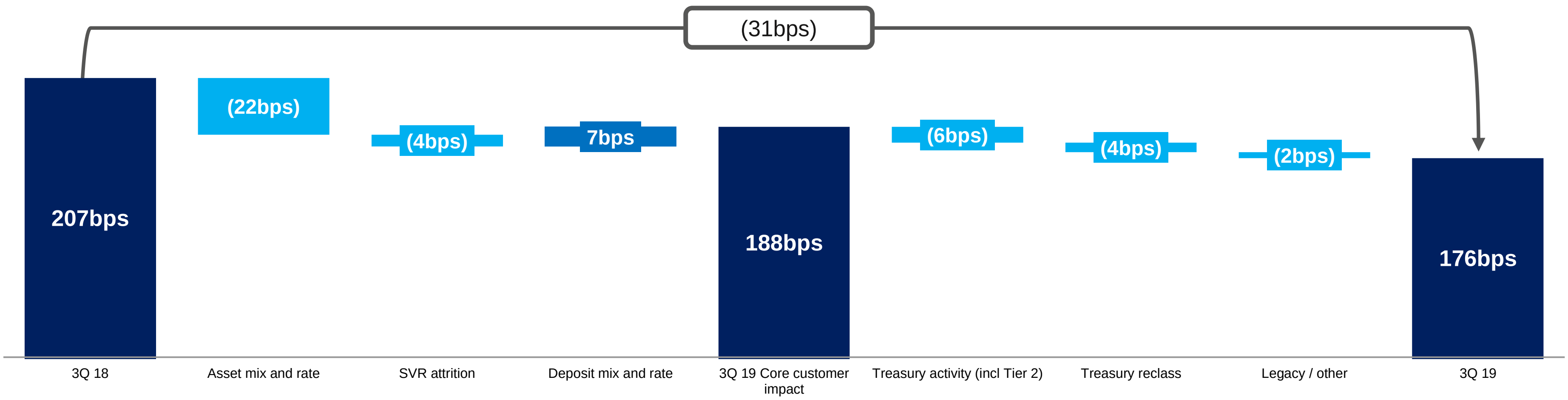
Net interest income (£m)



NII of £233.7m with SME stable

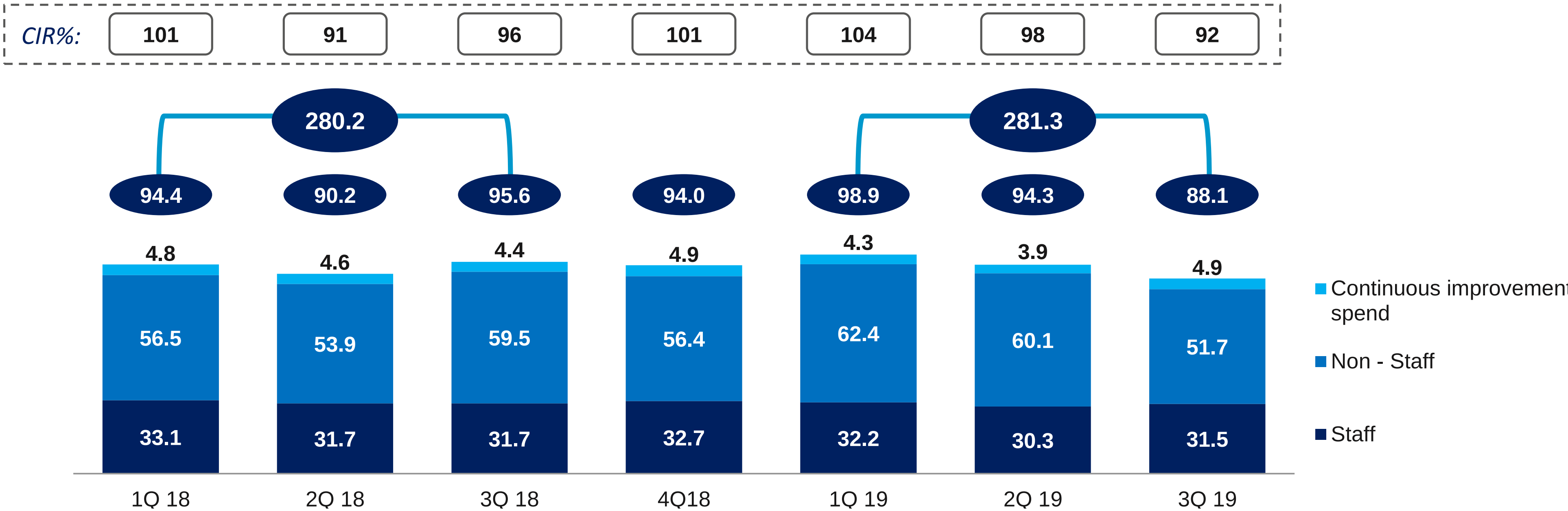
- Retail NII down 6% driven by competitive mortgage margins and SVR mix; offset by improvements in deposit mix
- Treasury NII down due to 2019 Tier 2 issuance and lower MBS balances. Hedging adjustments offset in non-interest income
- Legacy NII represents less than 1% of interest income, down from 2% in 3Q 18
- Customer NIM tracking to guidance of c.170bps

Customer net interest margin



Operating expenditure flat as efficiencies are offset by brand investment

Operating expenditure breakdown[1] (£m)

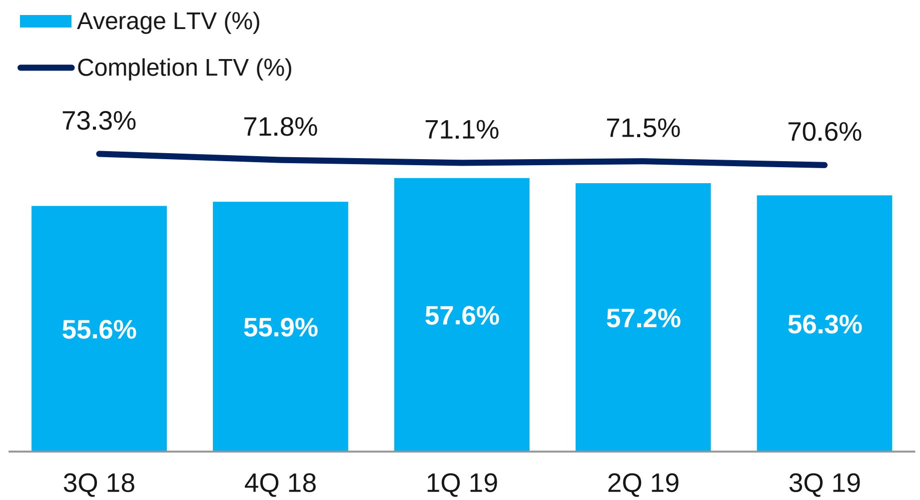


- Operating expenditure broadly in line with 2018
- £11m of efficiencies delivered in the year which offset brand marketing and other discretionary spend
- A number of one-off items in 3Q have reduced non-staff expense to £51.7m
- 3Q focus on contract negotiation with key strategic partners which will drive future efficiencies not yet in the underlying result
- Guidance on cost:income has been further upgraded to <105% from <110%

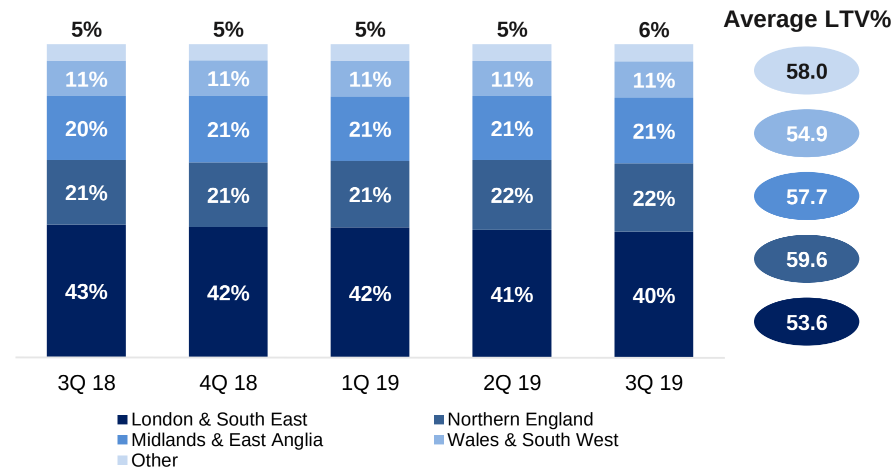
1. Project staff expense is incurred in strategic change

Stable LTV mortgage portfolio; cost of risk remains low at 2bps

Average Retail mortgage LTV (%)



Core mortgage book by geographic split



Asset Quality

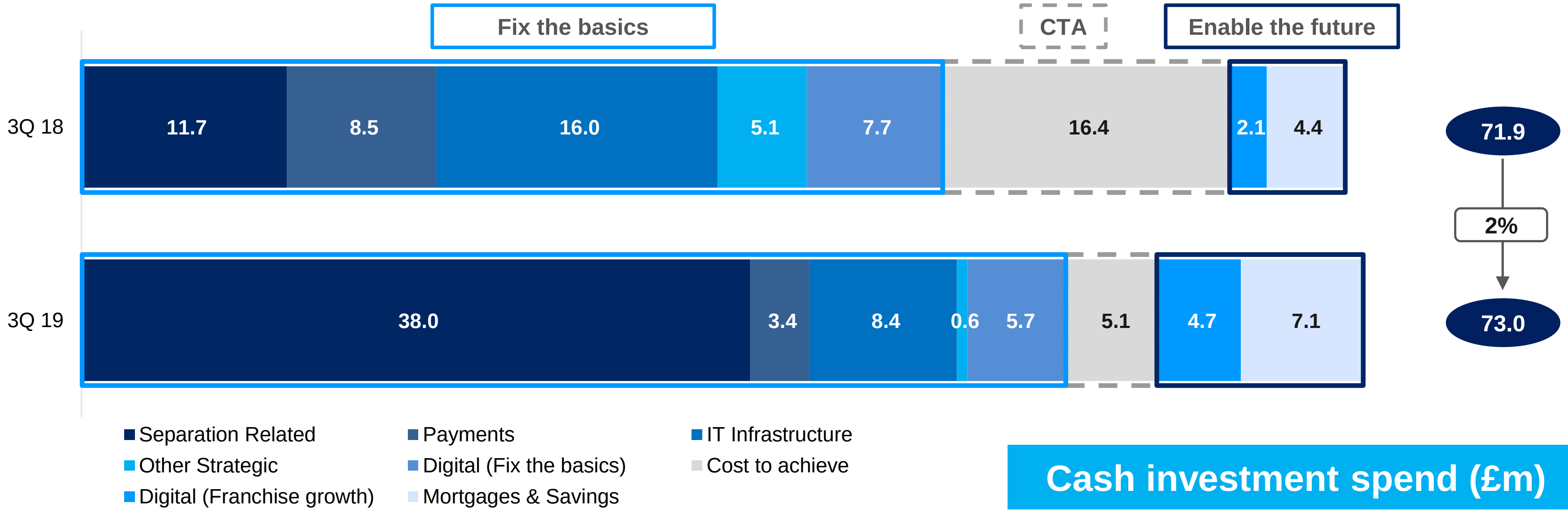
NPL	NPL (£m)		NPL Provision (£m)		NPL Coverage (%)	
	FY18	3Q19	FY18	3Q19	FY18	3Q19
Core	119.5	69.8	28.1	13.1	23.5%	18.8%
Legacy	67.8	28.3	6.7	2.8	9.8%	9.8%
Total	187.3	98.1	34.8	15.9	18.6%	16.2%

Total Book	NPL %		Provision (£m)		Coverage (%)	
	FY18	3Q19	FY18	3Q19	FY18	3Q19
Total	1.0%	0.5%	52.7	35.0	0.3%	0.2%

- Lowest reported average LTV of 2019; 56.3%; supported by reducing completion LTV
- London and South East region is stable and remains largest geographic exposure at 40% with the lowest average LTV of the book
- Non-performing loans reduce across both Core and Legacy; NPL % reduces further to 0.5% of the book

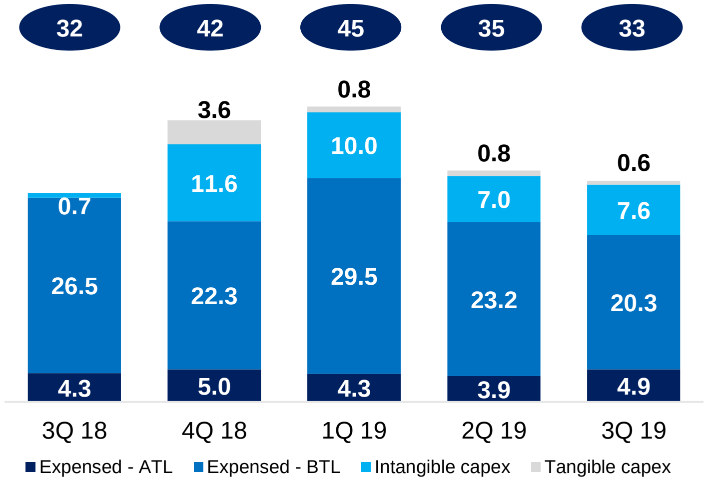
Fix the basics 2018/19 nearing conclusion

Strategic project costs (£m)



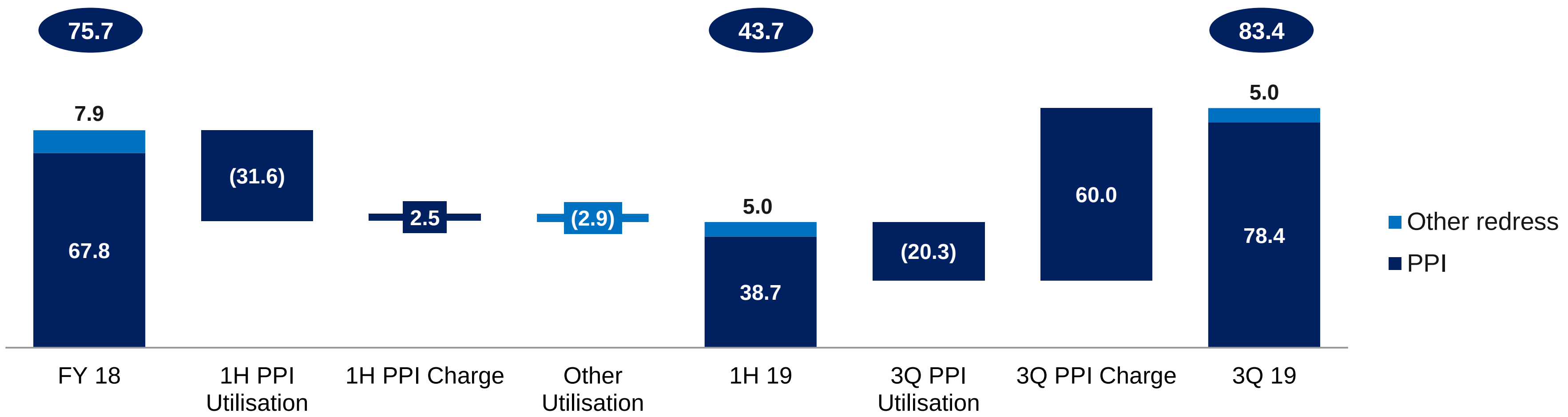
- Desktop transformation complete
- Separation in final stages
- Continued investment into digital capability
- Enable the future spend 16% of total compares to 9% in 2018
- Cash spend in the year of £113m is tracking to revised guidance of £140-150m

Cash investment spend (£m)



Additional provision for PPI of £60m which remains within range previously announced following substantial increase in complaints

Provision (£m)

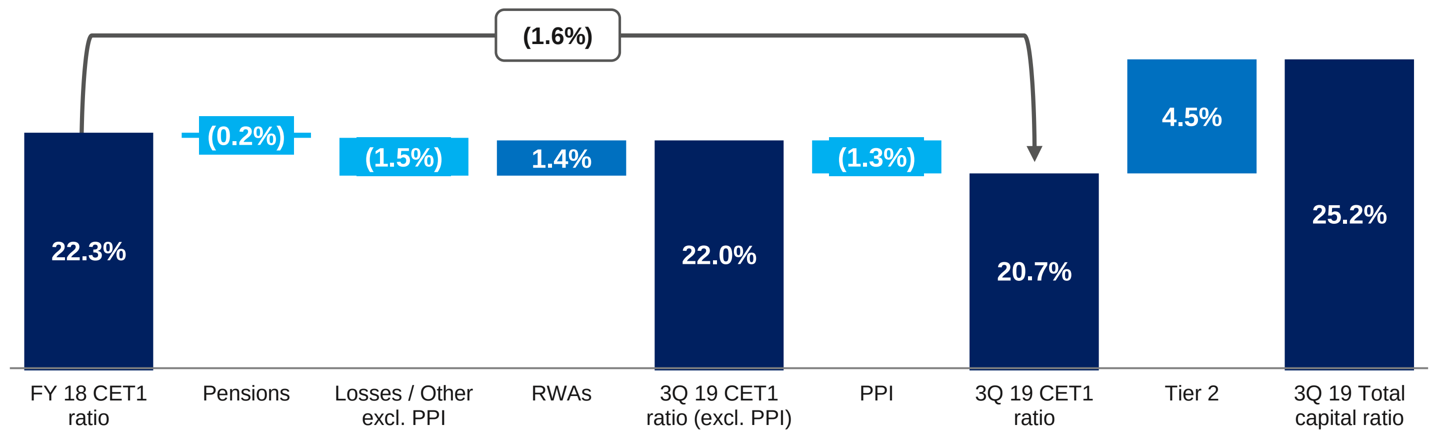


- The movement in provision of £39.7m includes a charge of £60.0m being the estimated cost of redressing the higher than expected number of claims and enquiries received in the run-up to the time-bar
- The complaints received in the final week or afterwards through auto-conversion represent c. 15% of the Bank's total gross PPI complaints
- c.70% of enquiries and c. 50% of the complaints received in H2 have now been assessed and the provision remains within the range previously announced of £55m-£75m
- We expect to have substantially completed our assessment of the remainder of these enquiries by the end of 2019 and complaints by H1 2020
- Based on 3Q utilisation rates, the PPI provision would run off over the period to end 3Q 2020
- The closing provision represents 13% of the total charge incurred by the Bank for PPI cumulatively and includes provision for Official Receiver cases

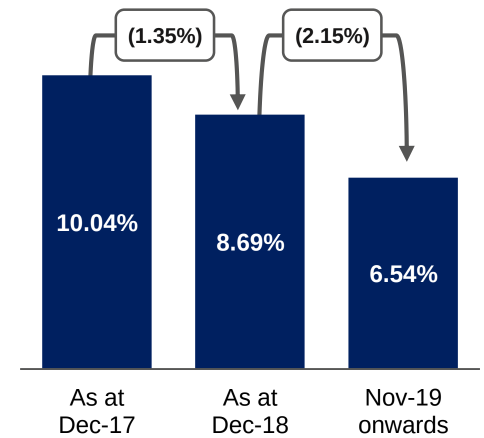
CET1% reduces due to PPI but remains ahead of expectations; further reduction in TCR

CET1 % development

Total capital ratio

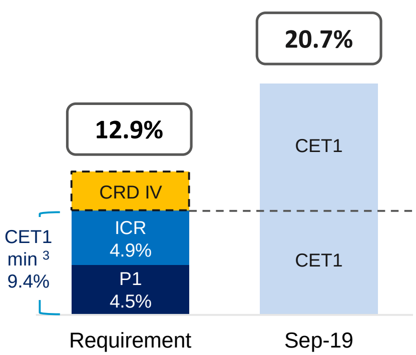


ICR Evolution



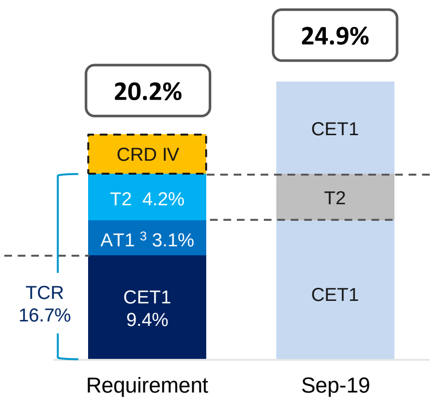
CET1

£370m surplus[2]

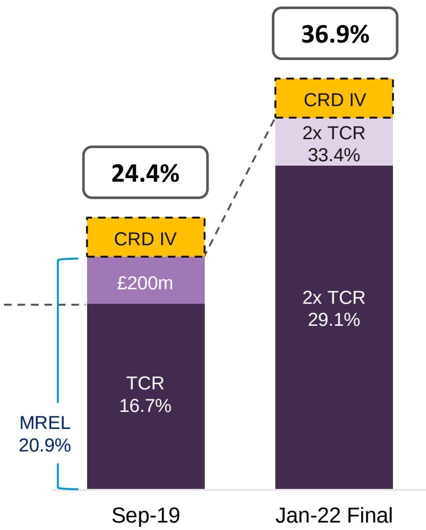


TCR / OCR

£223m surplus[2]



MREL[1]

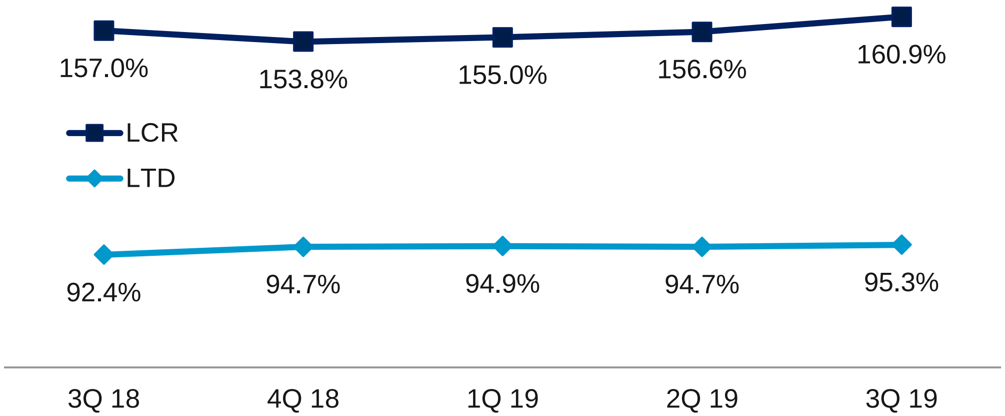


- **CET1 reduces 0.3% YTD excluding PPI as RWA optimisation offsets losses**
- PPI charge of £60m **impacts CET1 by 1.3%; CET1 guidance of 19.5-20% remains ahead** of original expectation of c.19%
- Surplus to OCR maintained despite losses
- £200m MREL issuance planned subject to market conditions
- **Post 3Q results the Bank received its new TCR from the PRA which reduced from 16.69% to 14.54% of RWAs. This will be reflected in the 2019 full year accounts**

1. Indicative MREL requirements, subject to change, assumes static ICR% for illustrative purposes
2. Surplus to requirements inclusive of CRD IV buffers
3. The Bank is required to meet AT1 requirements with CET1 as no AT1 is in issue

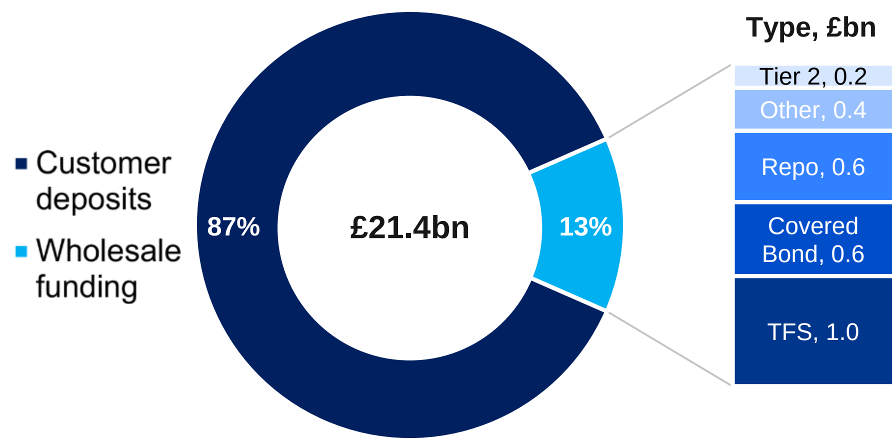
Stable liquidity profile as asset growth is funded through deposits and other asset attrition

Loan to Deposit / Liquidity Coverage Ratios

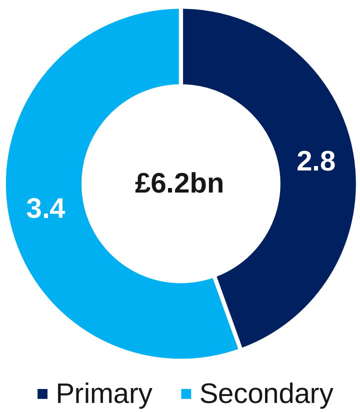


- LCR up 4.3% in part driven by the recent Warwick transactions
- LTD ratio is stable as growth in customer assets continues to be funded through customer deposits
- Funding is predominantly customer deposits. Mix of wholesale funding will evolve in future periods

Total Funding Mix



Liquidity Profile (£bn)



Primary	£bn
Central Bank balances	2.2
Gilts	0.3
Go'vt & other bank bonds	0.3
Total	**2.8**

Secondary	£bn
Non MBS pre-positioned assets	3.1
Mortgage backed securities	0.3
Covered bonds	-
Total	**3.4**

Appendices

The co-operative bank
for people with purpose

Core balance growth lower than expectations in order to optimise margins across customer assets and deposits

£m	3Q 19	FY 18	Change
Retail lending	16,342	15,847	3%
SME	195	291	(33%)
Core customer assets	**16,537**	**16,138**	**2%**
Core Treasury	4,767	4,502	6%
Total core assets	**21,304**	**20,640**	**3%**
Legacy assets	1,098	1,527	(28%)
Other assets	1,052	936	12%
Total assets	**23,454**	**23,103**	**2%**
Franchise balances	12,863	12,442	3%
Term savings	3,543	4,153	(15%)
Retail deposits	16,406	16,595	(1%)
SME	2,091	2,000	5%
Core customer deposits	**18,497**	**18,595**	**(1%)**
Core Treasury	2,813	2,309	22%
Total core liabilities	**21,310**	**20,904**	**2%**
Legacy liabilities	83	119	(30%)
Other liabilities	403	330	22%
Total liabilities	**21,796**	**21,353**	**2%**
Equity	1,658	1,750	(5%)
Total liabilities and equity	**23,454**	**23,103**	**2%**

- Retail lending growth through Platform brand with £2.6bn of new business completions and increased levels of retention YTD
- Core SME asset balance reduction due to limited new business activity at present
- Legacy assets reduction driven by £314m Warwick 4 transaction in 3Q, as well as continued planned run-off of Legacy assets
- Retail deposits contract marginally due to run-off of expensive, term deposits, which is largely offset by growth in franchise savings
- SME deposit growth driven by growing customer base
- The Bank remains broadly in line with expectations on full year guidance for customer assets (£17bn) and within the range guided for customer liabilities (£18.5 - 19.0bn)

1Q vs 2Q vs 3Q

Balance Sheet

£m	3Q 19	2Q 19	1Q 19
Retail lending	16,342	16,187	15,975
SME	195	208	240
Core customer assets	**16,537**	**16,395**	**16,215**
Core Treasury	4,767	4,504	4,124
Total core assets	**21,304**	**20,899**	**20,339**
Legacy assets	1,098	1,444	1,487
Other assets	1,052	1,061	1,168
Total assets	**23,454**	**23,404**	**22,994**
Franchise balances	12,863	12,579	12,406
Term savings	3,543	4,071	4,250
Retail deposits	16,406	16,650	16,656
SME	2,091	2,050	1,961
Core customer deposits	**18,497**	**18,700**	**18,617**
Core Treasury	2,813	2,444	2,083
Total core liabilities	**21,310**	**21,144**	**20,700**
Legacy liabilities	83	149	175
Other liabilities	403	371	388
Total liabilities	**21,796**	**21,664**	**21,263**
Equity	1,658	1,740	1,731
Total liabilities and equity	**23,454**	**23,404**	**22,994**

P&L

£m	3Q 19	2Q 19	1Q 19
Retail	65.8	69.1	71.4
SME	14.2	13.9	14.0
Core customer income	**80.0**	**83.0**	**85.4**
Treasury	15.8	12.4	8.6
Total core income	**95.8**	**95.4**	**94.0**
Legacy / other	(0.2)	0.7	1.1
Total income	**95.6**	**96.1**	**95.1**
Operating costs	(83.2)	(90.4)	(94.6)
Continuous improvement spend	(4.9)	(3.9)	(4.3)
Operating expenditure	(88.1)	(94.3)	(98.9)
Impairment (loss) / gain	(2.4)	0.5	(1.3)
Underlying profit	**5.1**	**2.3**	**(5.1)**
Strategic change	(20.3)	(23.2)	(29.5)
Net customer redress charge	(61.0)	(2.5)	0.0
Non-operating income / (expense)	(3.9)	13.5	6.0
Loss before tax	**(80.1)**	**(9.9)**	**(28.6)**