1H 2022 Results

28 July 2022

150 years of ethical banking

The co-operative bank

Strong performance in the first half of the year

- **Statutory profit before tax** £61.9m
- **Adjusted RoTE** 13.6 %
- **CET1 ratio** 18.9 %
- **Net interest margin** 1.51 %

Robust capital and balance sheet

- Surplus to implied end-state MREL
- Low-risk portfolio
- Growing mortgage pipeline now at c.£1.1bn

Guidance metrics refreshed

- FY 22 NIM guidance upgraded from c.140bps to c.155bps
- AQR and CET1 ratio upgraded

Operational improvements

- Increased colleagues in contact centres
- Average speed to answer calls has improved [1]
- IT service stability improved

Transformation update

- £15.4m spent (cash) on investment projects
- Platform integration: savings delivery expected 2022; mortgages 2023
- First savings product launch since 2015

1. Comparator versus end of Dec-21

Unique ethical policy launched and an award winning franchise

New customer-led ethical policy

Sixth version since 1992
Shaped by the views of our customers and colleagues

Customer consultation
Over 370,000 responses
Since our first launch 30 years ago

3 new pillars
Planet
People
Community

UK's best rated ESG high street bank [1]

ISS ESG rating of C
1st decile rank versus peer group [2]

Planet
Committed to sustainable practices

People
Support for human rights and equality around the world

Community
Committed to being a good, corporate and world citizen

External Recognition

Moody's
Long term credit rating upgraded to Ba2

Moneyfacts
Branch network of the year (5th consecutive year)

Best charity banking provider (7th consecutive year)

Global Finance
Sustainable finance award (UK category)

1. Rated by Morningstar Sustainalytics in the Regional Banks sub-industry with a score of 8.3 as of 8 July 2022
2. ESG Corporate Rating last modified 12 July 2022

Our customers told us what's most important to them

Top three ethical issues

1. Protecting the environment and fighting global climate change
2. Fighting poverty and inequality
3. Protecting and promoting human rights

Our customers spoke on how to act upon these issues … and we listened

Not providing banking services to organisations…

	Actioned within the Ethical Policy
… who contribute to global climate change via fossil fuel extraction	✓
… who contribute to the unsustainable harvest of natural resources	✓
… involved in the manufacture or trade of weapons and armaments	✓
… that fail to uphold basic human rights	✓

We should continue to…

	Actioned within the Ethical Policy
… provide customers with products and services that reduce their environmental footprint	✓
… support organisations that work to tackle homelessness and the lack of affordable housing	✓
… offer products and services to people who may struggle to access banking services	✓
… provide a real living wage and safe working conditions	✓

Financial results

Profit before tax of £61.9m, underlying profit of £63.6m

£m	1H 22	1H 21	Change
Net interest income	208.2	149.4	39 %
Other operating income	21.4	18.6	15 %
Total income	**229.6**	**168.0**	**37%**
Operating expenditure	(175.1)	(162.3)	(8 %)
Impairment credit	2.8	0.1	>100 %
Non-operating income	4.6	15.6	(71 %)
Profit before tax	**61.9**	**21.4**	**>100%**
Taxation	(33.5)	23.5	(>100 %)
Profit after tax	**28.4**	**44.9**	**(37%)**

Adjustments to profit before tax			
Exceptional project expenditure	5.5	9.7	43 %
Other exceptional (gains)	(3.8)	(18.2)	(79 %)
Underlying profit before tax	**63.6**	**12.9**	**>100%**

Key performance indicators			
Net interest margin (bps) [1]	151	122	29
Adjusted RoTE (%) [2]	13.6	3.0	10.6
Cost:income ratio (%) [3]	74.8	88.4	13.6
Asset quality ratio (bps) [4]	(2.7)	(0.1)	2.6
CET1 ratio (%) [5]	18.9	20.7	(1.8)

1. Annualised net interest income over average interest earning assets
2. Underlying profit minus current tax over CET1 resources
3. Total statutory expenditure over total statutory income (excludes impairment)
4. Annualised impairment (credit) / charge over average customer assets
5. Comparator is FY 21

Profit before tax of £61.9m; income growth drives positive jaws of 29 %

Total income increases by 37% to £229.6m

- Net interest income increases 39 % to £208.2m; improving deposit margins following increases in the base rate to 125bps

Operating expenditure increases 8% to £175.1m;

- Non staff costs of £102.0m have increased 6 % following the impact of one off gains in 1H 21 relating to property costs, lower PPI releases and an increase in customer fraud costs in 1H 22 partially offset by a reduction in depreciation
- Project costs total £16.5m including £3.5m of exceptional costs related to simplification
- Staff costs of £56.6m have increased 6 % largely due to the phasing of performance related pay being made earlier than the previous year

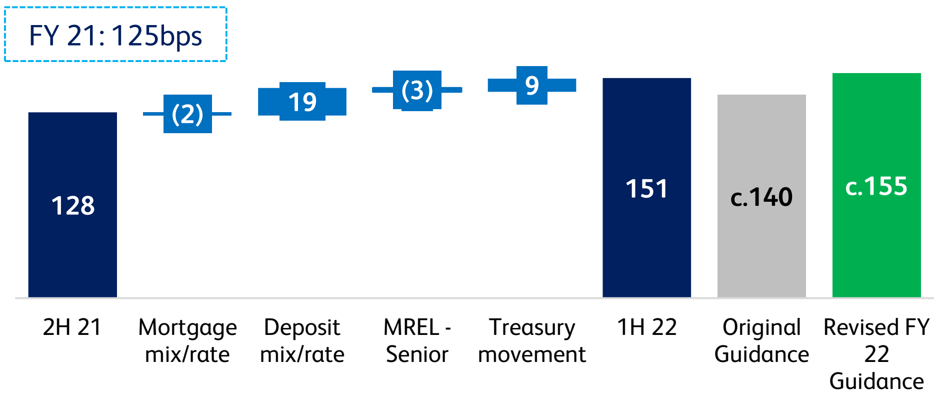
Impairment credit of £2.8m; reflects the low level of defaults across the portfolio and includes the net impact of COVID provision release and uplift for cost of living pressures

Non-operating income of £4.6m reduced by 71%; includes the Q1 exceptional profit on disposal of a small legacy loan book, as well as the revaluation of Visa shares

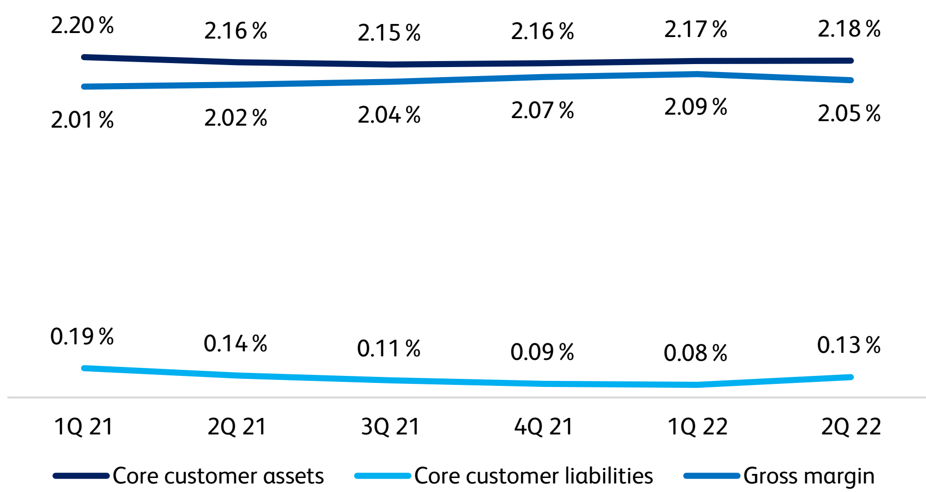
Tax charge of £33.5m; impact of decrease in the banking surcharge from Q1

Bank NIM improves 23bps in the period; NIM guidance upgraded

Net interest margin (bps)



Core customer rate corridor [1]

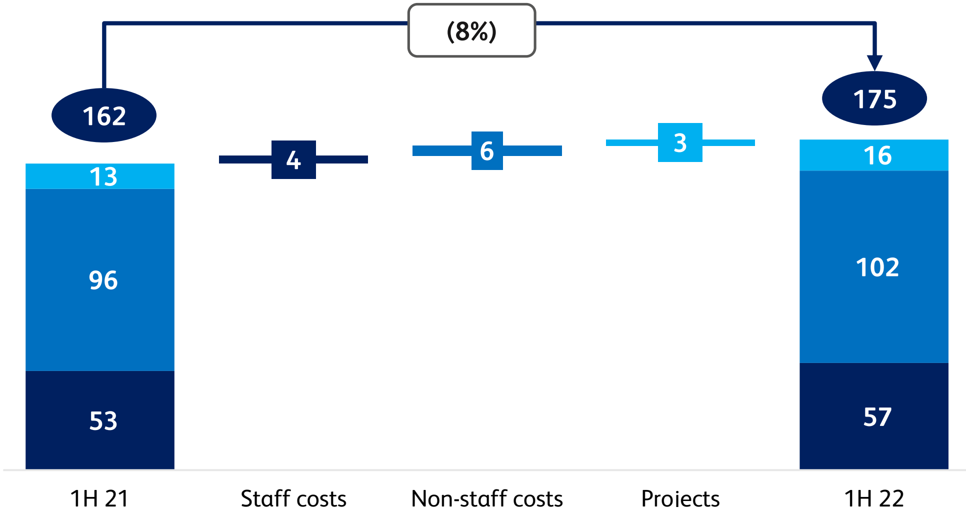


- NIM increases to 151bps; due to the widening deposit margins, removal of the covered bond and higher returns on the HQLA portfolio
- Improving rate environment and management action to preserve margins drives an upgrade to NIM guidance of c.155bps
- Customer corridor remains stable with marginal rises in mortgage pricing offset by deposit pass-back action

1. Calculated as annualised core customer income over core customer average balances for the period

Increased FY cost guidance with options to accelerate investment

Operating expenditure (£m)



Operating expenditure increased by 8 % compared to 1H 21:

- Projects increased by £3m (P&L) driven primarily by the mortgage and savings systems simplification programme

Excluding projects, spend increased by 6 %;

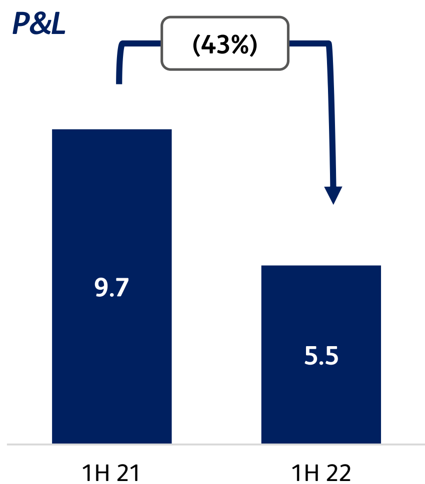
Factors which increased costs (excl. projects) were:

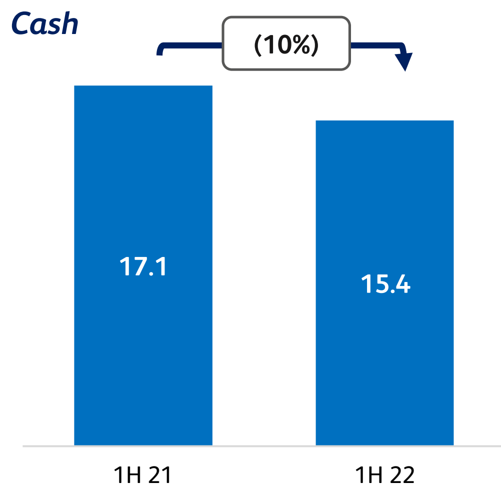
- Phasing of variable-related pay (3pp), inflation (2pp), impact of cost releases in 1H 21 (2pp), relating to final outcomes from our 2020 branch closures and increased level of fraud attacks (1pp)

Mitigated in part due to:

- Reduction in depreciation (2pp) and impact of cost actions (1pp)

Strategic change (£m)





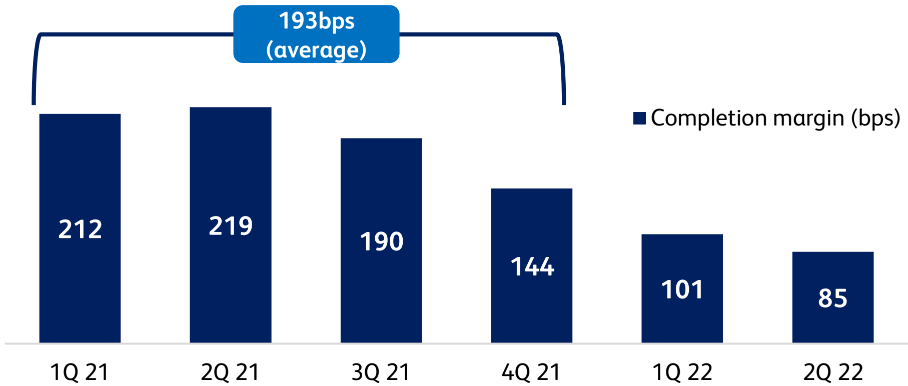
2H 22 Outlook

- Original guidance implies <£175m for 2H
- Heightened fraud risk and inflationary pressures offset by operational efficiencies
- Income outlook provides options to accelerate investment plans with additional spend this year
- As a result, FY 22 guidance amended to c.£360m

Swap rates outpace gross customer rates

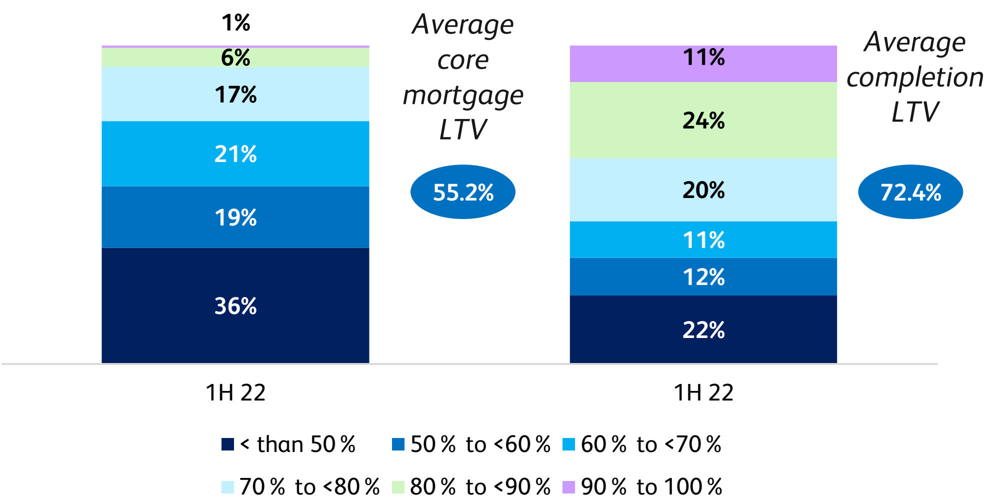
Mortgage margins (bps) [1]

Mortgage book margins (bps)	1H 21	149	1H 22	154



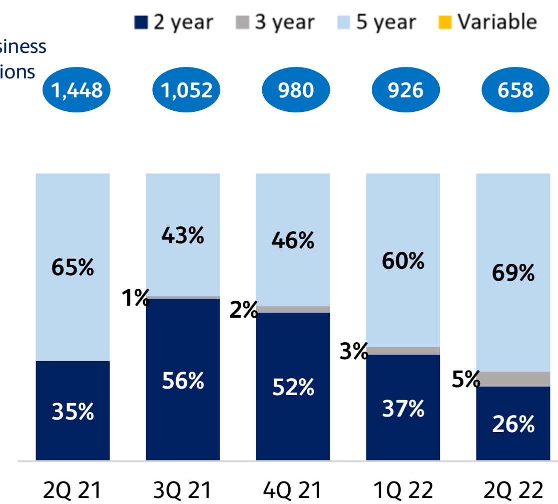
1. Margin calculated as gross rate minus swap

Mortgage split by LTV book / completions



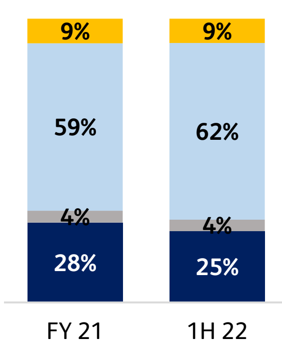
Completions by tenor

New business completions (£m)	1,448	1,052	980	926	658



Mortgage book (£m)

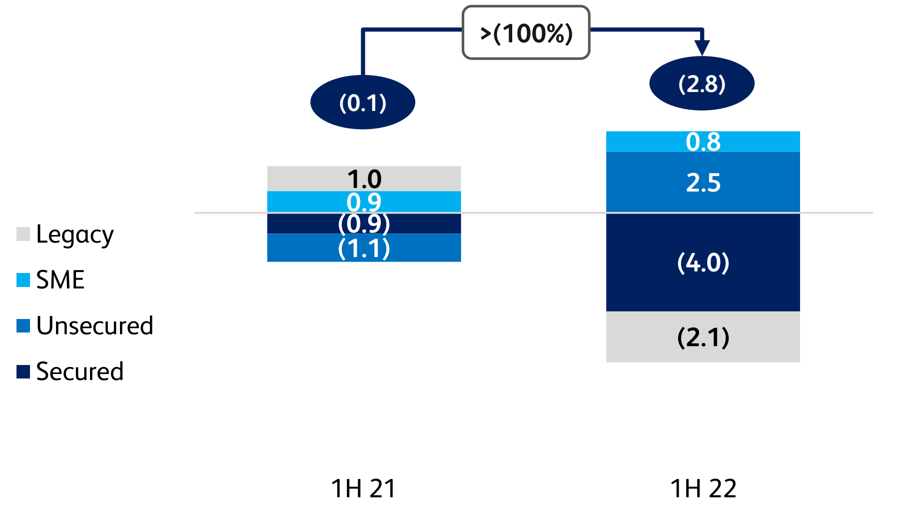
FY 21	1H 22
19,508	19,527



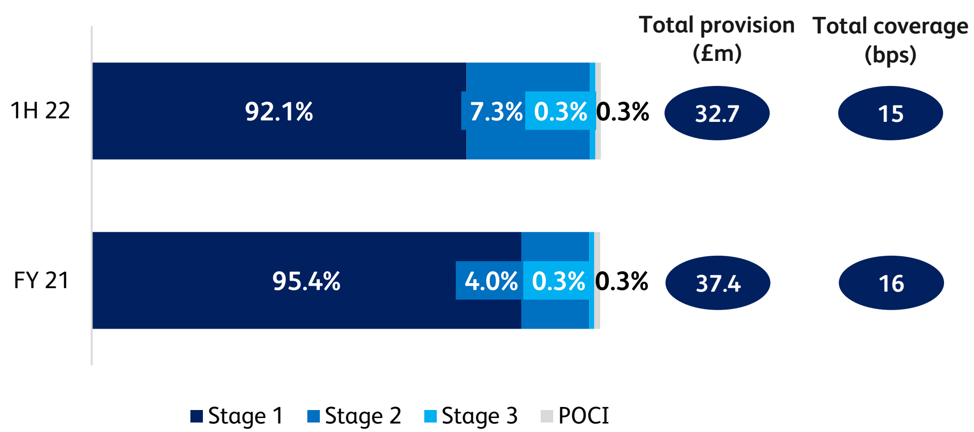
- Limited pass-back to new mortgage business following rising market rates, drives down margins
- Mortgage pipeline of £1.1bn as at 1H 22 increasing by £0.2bn in the second quarter
- Loan-to-value split remains stable across 1H 22
- Customers seeking longer term financial certainty, opting for longer tenor mortgages

Strong customer credit quality with AQR guidance upgraded

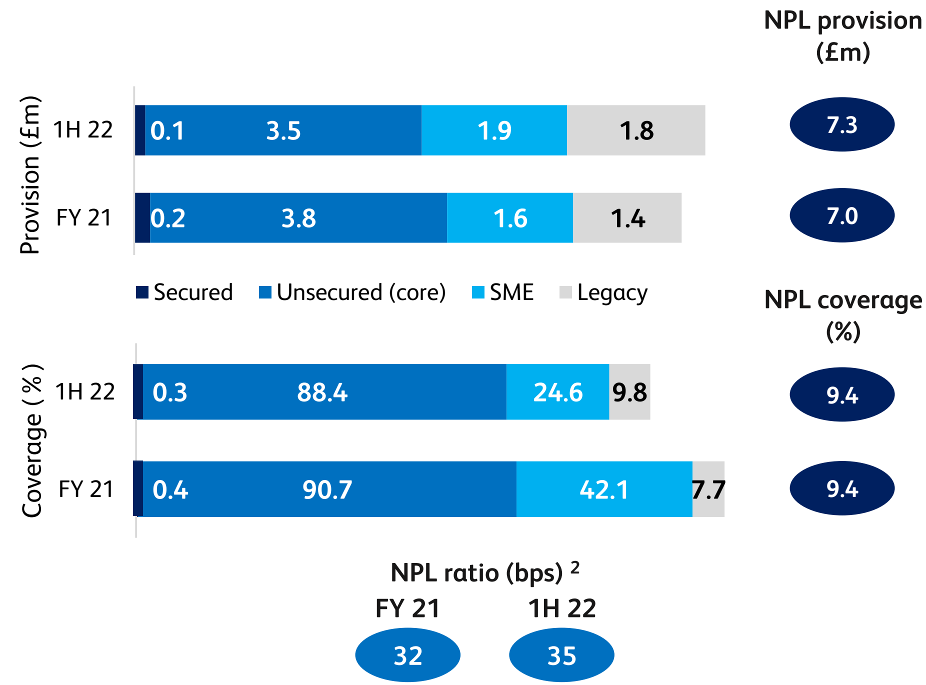
Impairment (credit) / charge (£m)



Exposure by stage [3]



NPL coverage [1]



Net impairment credit of £2.8m reflects low levels of default across the Bank

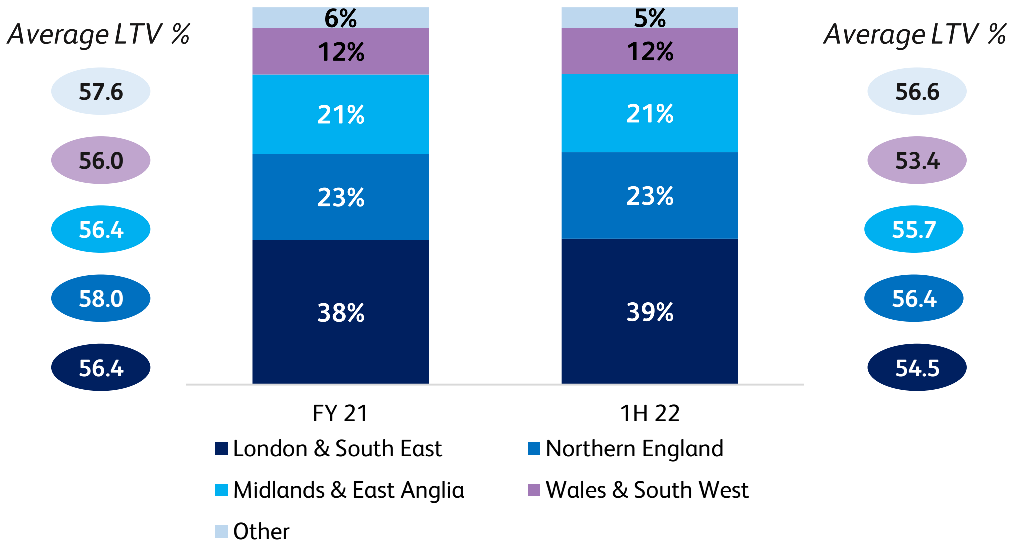
- Minimal impact expected from cost of living crisis
- Platform secured coverage has reduced to 7.3bps reflecting ongoing monitoring of customer arrears

AQR guidance upgraded from <5bps to <2bps

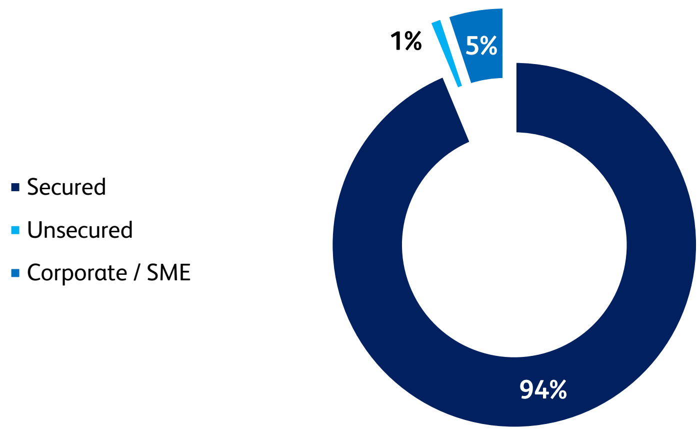
1. NPL coverage ratio calculated as NPL provision over NPL balance (all excluding performing POCI)
2. NPL ratio calculated as non-performing exposure (excluding performing POCI) over total exposure
3. Includes balances relating to FVTPL

High quality assets well diversified across regions

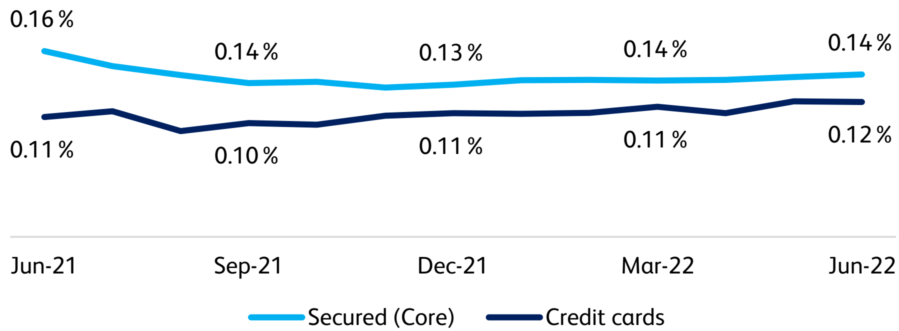
Mortgage split by geography



Lending mix



Accounts >3 months in arrears[1]

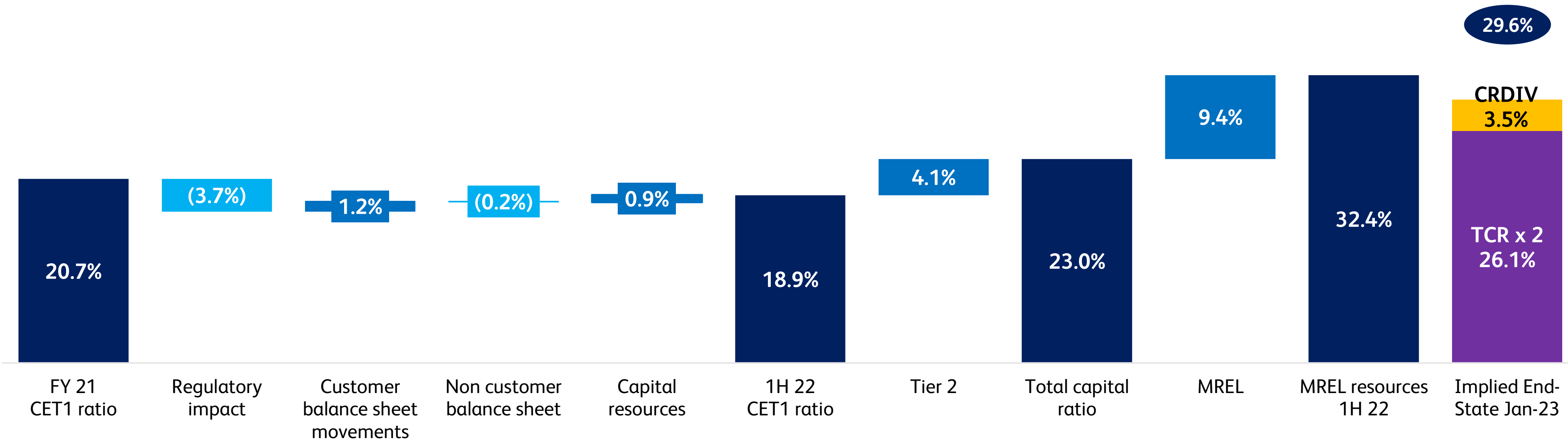


- Mortgage split across regions remains stable with all geographical areas having an average LTV lower than 57 %
- Increased defaults are unlikely to drive material credit losses due to relatively low LTVs on existing balances
- 0.14 % of secured accounts in arrears equates to 211 accounts and £17.8m of balances

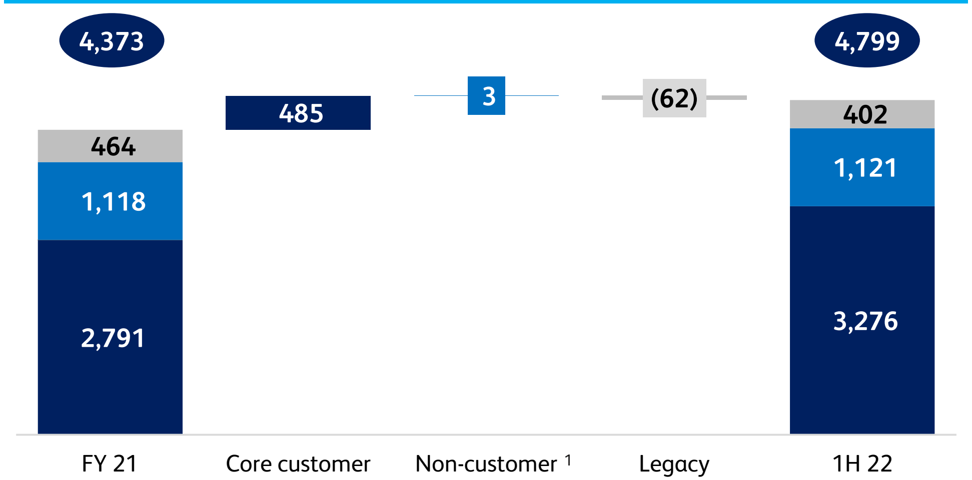
1. Volume of accounts in arrears over total volume of accounts

No further capital issuances planned this year

Capital resources development



RWA (£m)

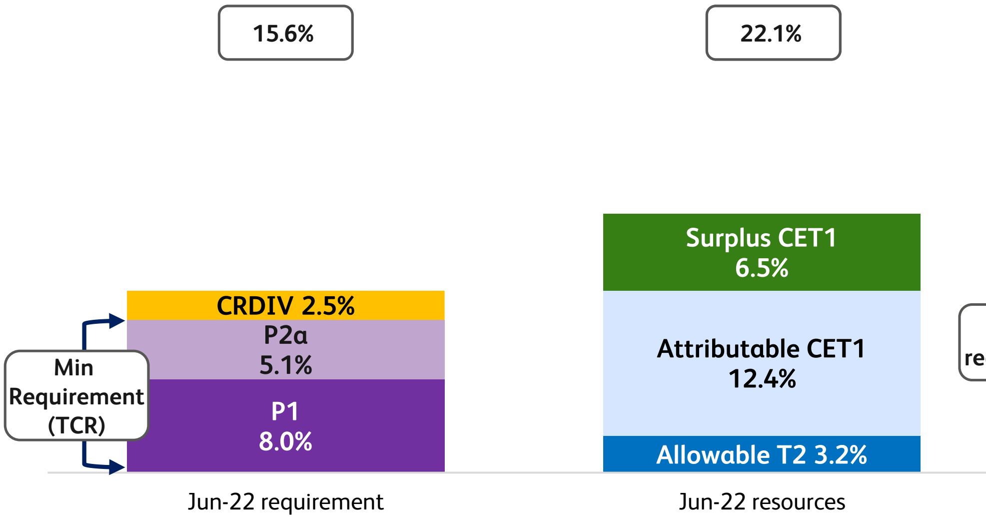


- c.3 % reduction in CET1 ratio due to PS11/20
- c.0.6 % reduction related to software intangibles
- Successful issuance of £250m MREL - qualifying funds was recognised in April
- **The Bank maintains a significant headroom to interim MREL plus CRDIV buffers of £408m (requirement c.£1.1bn) and has sufficient capital versus implied end-state plus CRDIV – therefore no further issuance planned for 2022**
- RWAs attributable to core customer balances increase includes the impact of regulatory adjustments for PS11/20

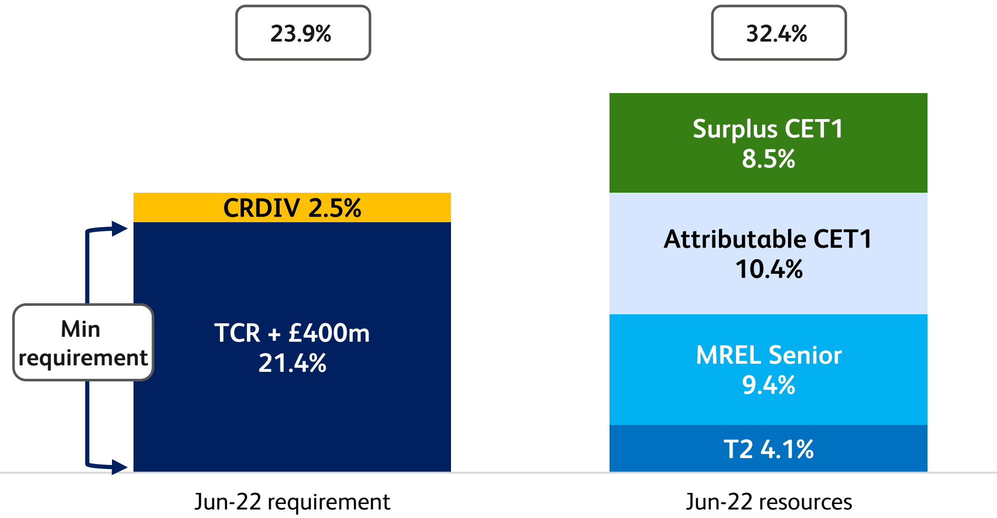
1. Non-customer RWAs include operational risk, treasury and other central assets

£435m surplus to minimum capital requirements

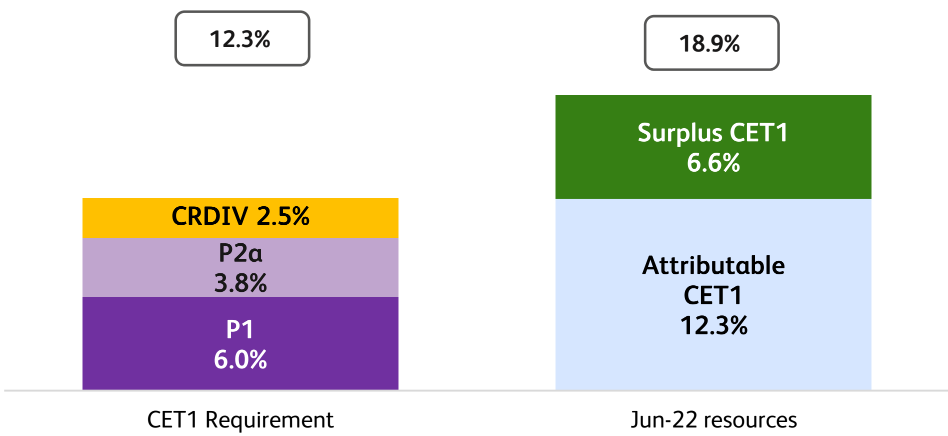
OCR requirement



MREL requirement



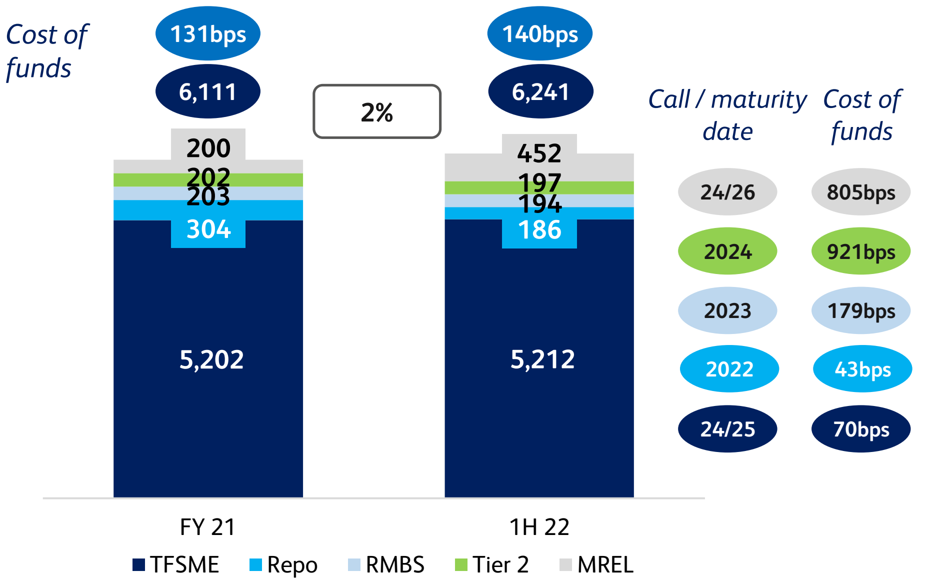
CET1 requirement



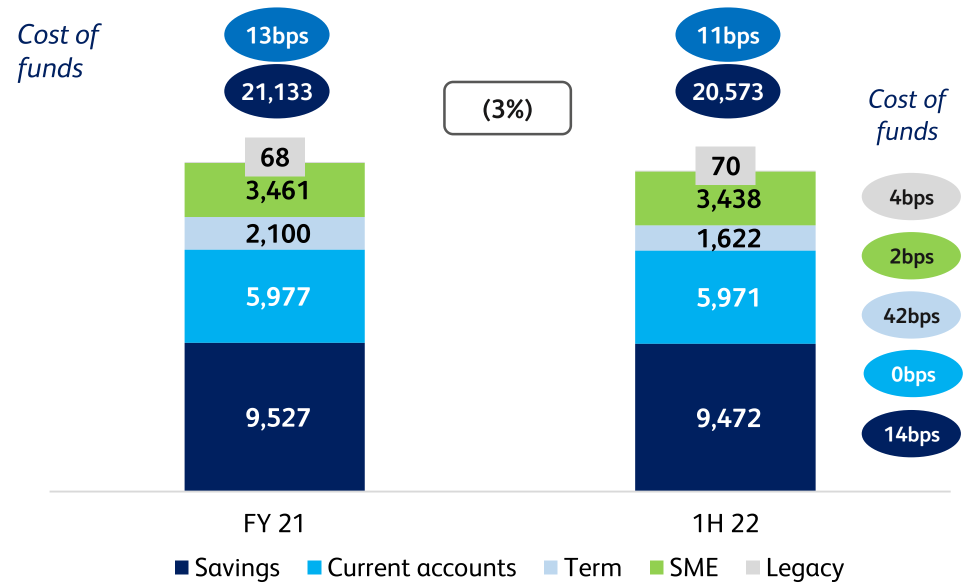
- £435m surplus to TCR minimum requirements with TCR of 22.1 %
- £528m surplus to transitional MREL minimum requirements; MREL resource ratio of 32.4 %

Total blended cost of funds remain low at 40bps

Wholesale funding (£m)

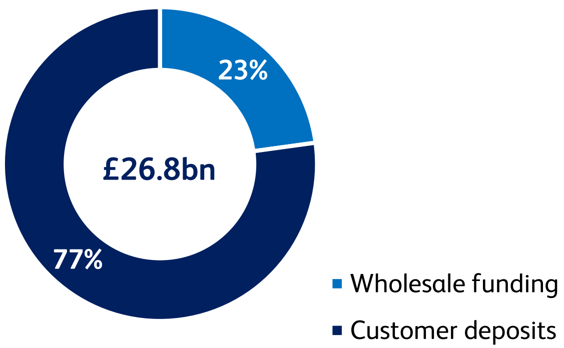


Customer funding (£m)



- £5.2bn TFSME provides significant low cost term funding and maintains wholesale cost of funds at 140bps
- Funding mix remains weighted towards customer deposits at 77 % (FY 21: 78 %)

Funding mix

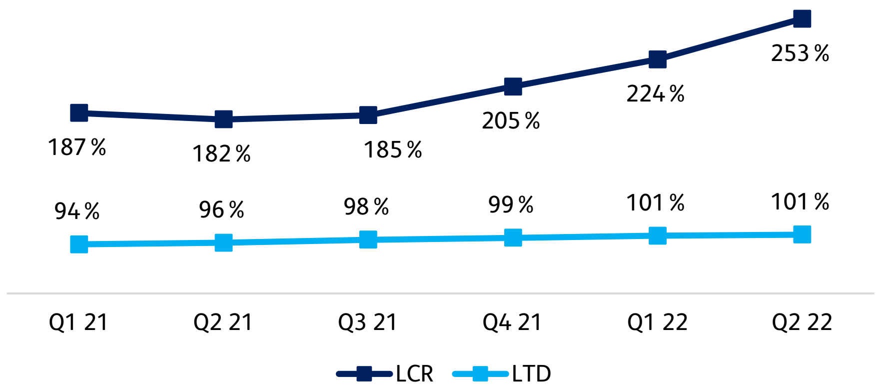


Blended cost of funds (bps)

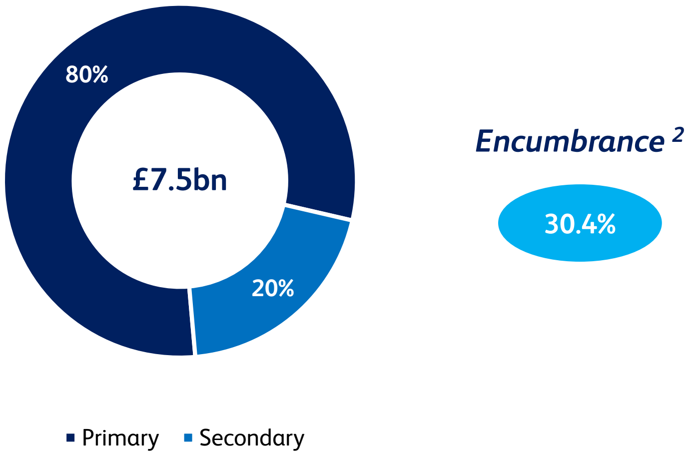
1H 22	40
FY 21	33

Significant liquidity surplus

Loan to deposit / liquidity coverage ratios [1]



Liquidity profile (£bn)



- Strong liquidity position >100pp above minimum LCR requirements
- Loan-to-deposit ratio increases due to growth in lending supported by TFSME drawn down
- Encumbrance levels [2] at 30.4 % ; increased from 26.7 % as at December 21
- Liquidity metrics will normalise as we further drive customer balance growth and refinance TFSME

1. Calculated in line with Pillar 3 requirements
2. EBA definition calculated as the carrying amount of encumbered assets and collateral divided by total assets and collateral

Strong performance drives upgraded FY 22 guidance metrics

	Net interest margin (bps)	Total statutory costs (£m)	Adjusted RoTE (%)	Asset quality ratio (bps)	CET1 ratio (%)	Customer assets (£bn)
1H 22 Actuals	151	175.1	13.6	(2.7)	18.9	20.8
2022 Original Guidance	c.140	<350	c.8	<5	c.17	c.22
2022 Revised Guidance	**c.155**	**c.360**	**c.13**	**<2**	**c.19**	**c.22**

Base case economics	2022
GDP	3.7%
HPI	6.4%
Unemployment rate	3.6%
Base rate	1.5%

Guidance dependent on base economic assumptions

Delivering our commitments in 2022

2022 priorities committed[1]	1H 2022 update
Simplify and transform our core mortgages and savings system	Savings delivery expected this year; mortgages 2023
In-house mortgage servicing	Exit plans well progressed
Enhance our ESG credentials	Green bond Refreshed Ethical Policy #1 for ESG maintained[2]
Achieve an adjusted RoTE of c.8 %	Guidance upgraded

1. Included in our 2021 full year investor presentation
2. Rated by Morningstar Sustainalytics in the Regional Banks sub-industry with a score of 8.3 as of 8 July 2022

Appendix:
Segmental information

The co-operative bank

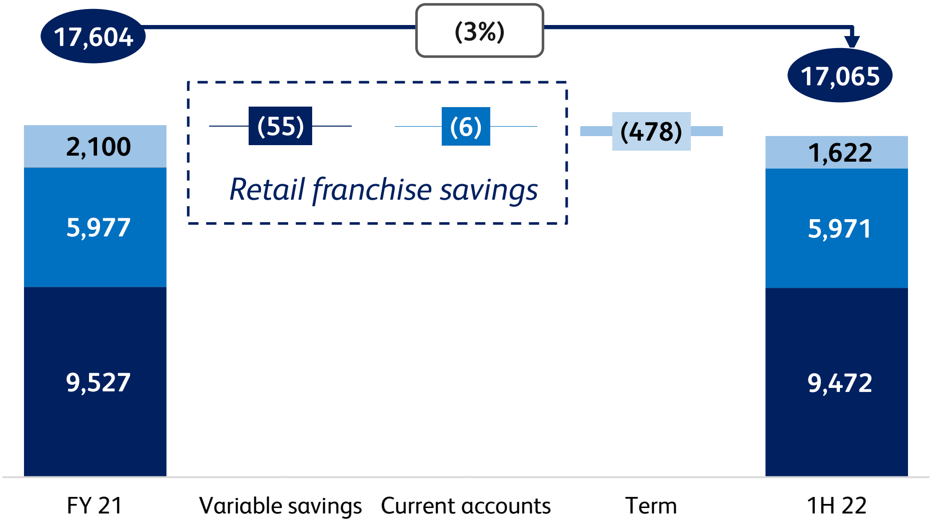
Segmental performance

Segmental £m	Retail			SME			Legacy & central items			Total		
	1H 22	1H 21	Change	1H 22	1H 21	Change	1H 22	1H 21	Change	1H 22	1H 21	Change
Net interest income / (expense)	183.6	131.2	52.4	28.8	22.4	6.4	(4.2)	(4.2)	0.0	208.2	149.4	58.8
Other operating income	12.1	10.6	1.5	9.0	8.0	1.0	0.3	0.0	0.3	21.4	18.6	2.8
Total income / (expense)	**195.7**	**141.8**	**53.9**	**37.8**	**30.4**	**7.4**	**(3.9)**	**(4.2)**	**0.3**	**229.6**	**168.0**	**61.6**
Staff costs	(44.0)	(41.2)	(2.8)	(11.3)	(10.1)	(1.2)	(1.3)	(1.3)	-	(56.6)	(52.6)	(4.0)
Non-staff costs	(86.2)	(82.1)	(4.1)	(15.6)	(16.2)	0.6	(0.7)	(0.8)	0.1	(102.5)	(99.1)	(3.4)
Continuous improvement projects	(6.5)	(3.2)	(3.3)	(3.1)	(0.2)	(2.9)	(0.1)	(0.1)	-	(9.7)	(3.5)	(6.2)
Operating expenditure	(136.7)	(126.5)	(10.2)	(30.0)	(26.5)	(3.5)	(2.1)	(2.2)	0.1	(168.8)	(155.2)	(13.6)
Impairment	1.5	2.0	(0.5)	(0.8)	(0.9)	0.1	2.1	(1.0)	3.1	2.8	0.1	2.7
Profit / (loss)	**60.5**	**17.3**	**43.2**	**7.0**	**3.0**	**4.0**	**(3.9)**	**(7.4)**	**3.5**	**63.6**	**12.9**	**50.7**

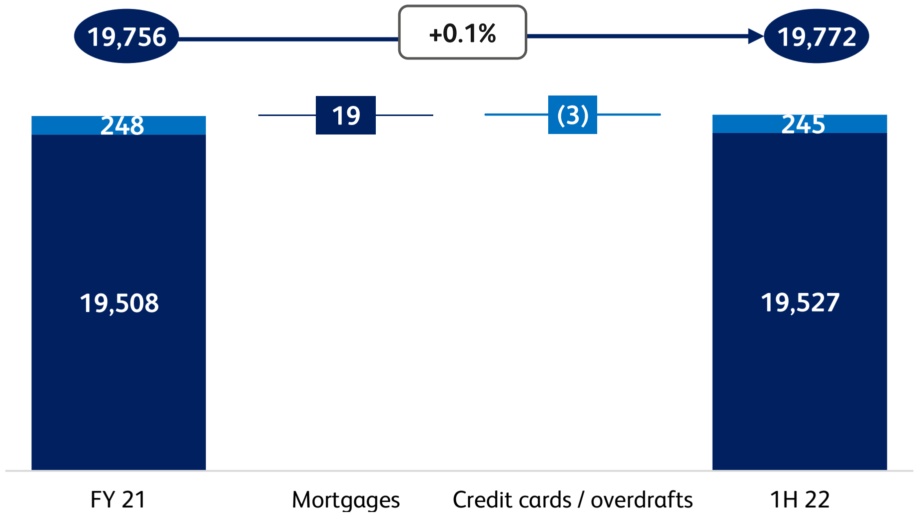
Balance sheet	1H 22	FY 21	Change	1H 22	FY 21	Change	1H 22	FY 21	Change	1H 22	FY 21	Change
Assets	19,771	19,756	15	393	442	(49)	8,891	9,126	(235)	29,055	29,323	(268)
Liabilities	17,065	17,604	(539)	3,438	3,461	(23)	6,819	6,506	313	27,322	27,571	(249)

Retail financial performance

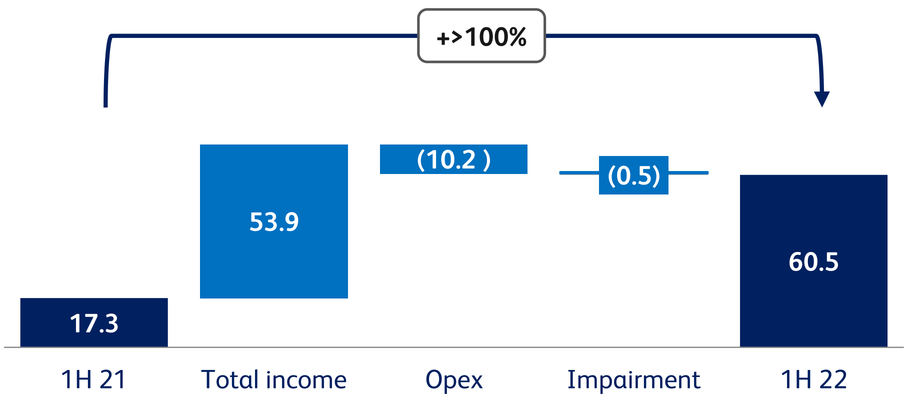
Retail deposit flow



Retail asset flow



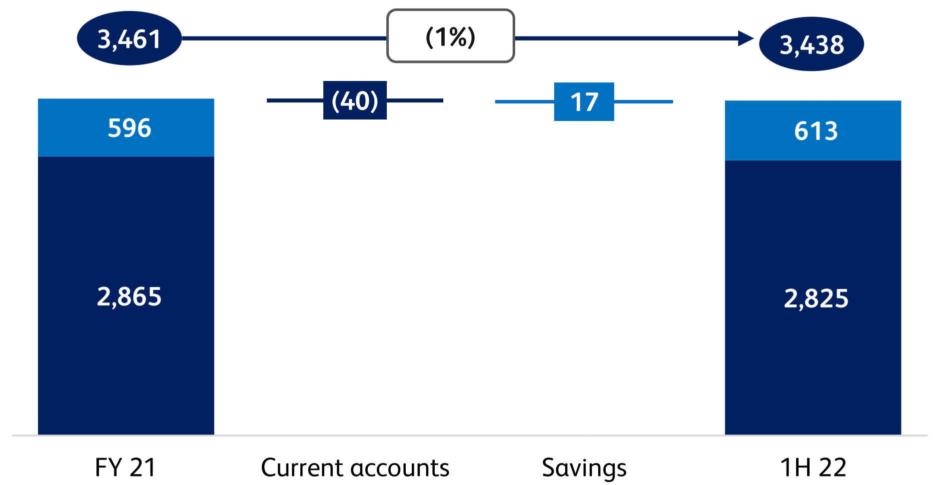
Retail profit / (loss) £m



- Deposits overall reduced by 3 %; term deposit reduction reflecting re-pricing actions taken
- Retail secured balances have increased slightly in the period to £19.5bn as we have actively reduced new business volumes to preserve Bank margins
- Mortgage pipeline of c.£1.1bn as we enter the second half of 2022
- Profit for the segment of £60.5m; a significant improvement on 1H 21

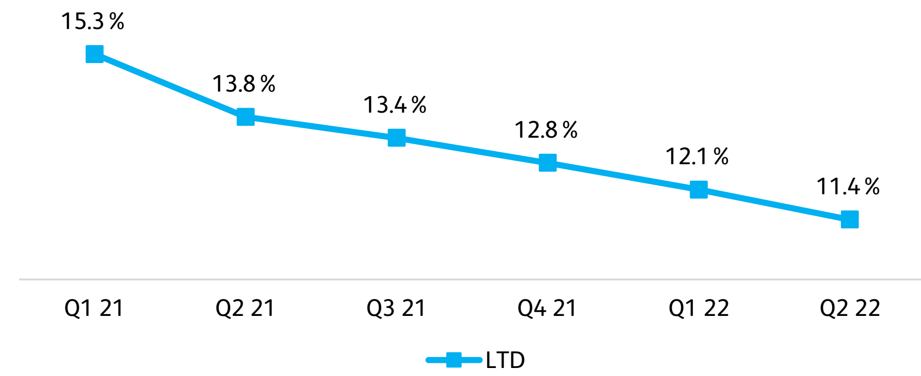
SME financial performance

SME deposit flow (£m)

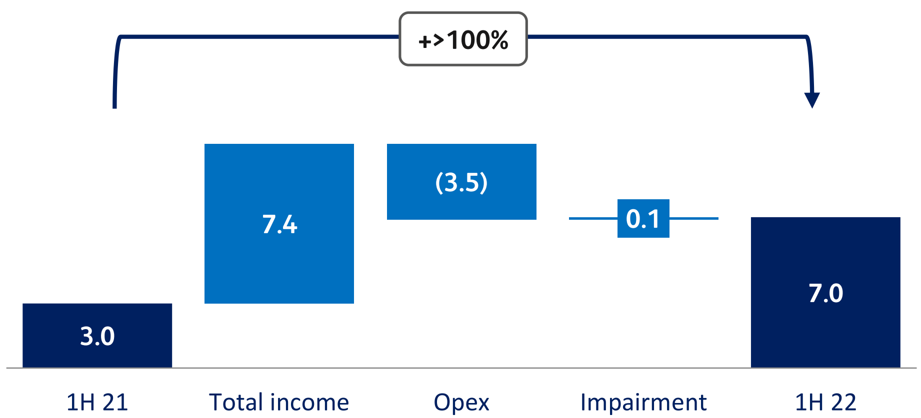


SME loan to deposit ratio

	FY 21	1H 22
Blended cost of funds (bps)	1	2



SME profit / (loss) £m



- SME deposits reduced by 1 % following some marginal unwind of excess balances built up over the pandemic
- Cost of funds remains low within SME despite a small increase to 2bps caused by slight reduction in deposit book
- Profit of £7.0m; future potential as a source of profit growth for the Bank

Disclaimer

Caution about Forward-Looking Statements

This document contains certain forward-looking statements with respect to the business, strategy and plans of The Co-operative Bank Holdings Limited and its subsidiaries ("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.

For these reasons, recipients should not place reliance on, and are cautioned about relying on, forward-looking statements as actual achievements, financial condition, results or performance measures could differ materially from those contained in the forward-looking statement. By their nature, forward-looking statements involve known and unknown risks, uncertainties and contingencies because they are based on current plans, estimates, targets, projections, views and assumptions and are subject to inherent risks, uncertainties and other factors both external and internal relating to the Group's plan, strategy or operations, many of which are beyond the control of the Group, which may result in it not being able to achieve the current targets, predictions, expectations and other anticipated outcomes expressed or implied by these forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. No representations or warranties, expressed or implied, are given by or on behalf of the Group as to the achievement or reasonableness of any projections, estimates, forecasts, targets, prospects or returns contained herein. Accordingly, undue reliance should not be placed on forward-looking statements.

Any forward-looking statements made in this document speak only as of the date of this document and it should not be assumed that these statements have been or will be revised or updated in the light of new information or future events and circumstances arising after today. The Group expressly disclaims any obligation or undertaking to provide or release publicly any updates or revisions to any forward-looking statements contained in this document as a result of new information or to reflect any change in the expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based, except as required under applicable law or regulation.

Important Notice

The information, statements and opinions in this presentation do not constitute or form part of, and should not be construed as, any offer or invitation to sell or issue, or any solicitation of any offer or recommendation or advice to purchase or subscribe for any shares or any other securities nor shall it (or any part of it) or the fact of its distribution, form the basis of, or be relied on in connection with, any contract or commitment therefore. In particular, this presentation does not constitute an offer for sale of, or solicitation to purchase or subscribe for, any securities in the United States. Furthermore, the information in this presentation is being provided to you solely for your information and may not be reproduced, retransmitted or further distributed to any other person or published (including any distribution or publication in the United States), in whole or in part, for any purpose. No representation or warranty, express or implied, is or will be made and no responsibility, liability or obligation (whether in tort, contract or otherwise) is or will be accepted by any member of the Group or by any of their respective directors, officers, employees, agents or advisers (each an "Identified Person") as to or in relation to the fairness, accuracy, completeness or sufficiency of the information in this presentation or any other written or oral information made available or any errors contained therein or omissions therefrom, and any such liability is expressly disclaimed, provided that this disclaimer will not exclude any liability for, or remedy in respect of, fraud or fraudulent misrepresentation.

No Identified Person undertakes, or is under any obligation, to provide the recipient with access to any additional information, to update, revise or supplement this presentation or any additional information or to remedy any inaccuracies in or omissions from this presentation.