3Q 23 results update

8th November 2023

The co-operative bank

Ethical then, now and **always**

3Q 23 performance

Delivering on our plan

Saving migrations now >60% complete

Mortgage originations now live on new platform

Re-branded *Platform* to *The Co-operative Bank for intermediaries*

First acquisition of a portfolio in over a decade

Delivering for our customers

Reconfirmed leading position with a Sustainalytics score of 8.5 [1]

Supporting customers through the Mortgage Charter

Trustpilot score

4.1

Financial highlights

£81.1m
Statutory profit before tax
3Q 22: £102.8m

£97.9m
Underlying profit before tax
3Q 22: £103.1m

1.82%
Net interest margin
3Q 22: 1.59 %

12.3%
RoTE [2]
3Q 22: 6.0 %

20.1%
CET1 ratio [3]
FY 22: 19.8 %

1. Rated by Morningstar Sustainalytics in the Regional Banks sub-industry with a score of 8.5 as of 9 October 2023
2. Basis of prep on page 4
3. Includes unaudited 3Q profits; CET1 proforma excluding the RWA impact of the c.£0.5bn mortgage acquisition is 20.8 %

Financial results

The co-operative bank
Ethical then, now and **always**

Financial performance in line with expectations

£m	3Q 23	3Q 22	Change
Net interest income	363.4	329.1	10 %
Other operating income	31.8	33.7	(6 %)
Total income	**395.2**	**362.8**	**9%**
Operating expenditure	(316.2)	(270.5)	(17 %)
Impairment credit / (charge)	0.6	(1.3)	>100 %
Non-operating income	1.5	11.8	(87 %)
Profit before tax	**81.1**	**102.8**	**(21%)**
Taxation credit / (charge)	48.1	(34.6)	>100 %
Profit after tax	**129.2**	**68.2**	**89%**

Adjustments to profit before tax			
Exceptional project expenditure	16.4	12.5	(31 %)
Other exceptional losses / (gains)	0.4	(12.2)	<(100 %)
Underlying profit before tax	**97.9**	**103.1**	**(5%)**

Key performance indicators			
Net interest margin (bps) [1]	182	159	23
RoTE (%) [2]	12.3	6.0	6.3
Cost:income ratio (%) [3]	79.7	72.2	(7.5)
Asset quality ratio (bps) [4]	(0.4)	0.8	1.2
CET1 ratio (%) [5]	20.1	19.8	0.3
Tangible net asset value per share (p) [6]	15	13	2

1. Annualised net interest income over average interest earning assets
2. Annualised profit after tax over average equity less intangibles, assuming no further DTA benefit in 2023
3. Total statutory expenditure over total statutory income (excludes impairment)
4. Annualised impairment (credit) / charge over average customer assets
5. Comparator is December 2022. Includes unaudited 3Q profits
6. Comparator is December 2022. Tangible equity over number of shares

Underlying profit before tax has decreased 5 % to £97.9m; **full year guidance remains unchanged**

- **Total income** up by 9 % ; **NIM** at 182bps as expected
- **Underlying costs** (operating expenditure excluding exceptional costs) up by 15 % ; reflects
    - Insourcing of mortgage operations in Q1 (accounting benefit from 2024 onwards as EIR of fees previously capitalised unwinds)
    - Impact of accelerated investment into continuous improvement projects and into contact centre recruitment
- **Impairment - broadly neutral;** low-risk portfolio - £1.6m released relating to a specific legacy connection; partially offset by increased provision in Commercial Real Estate

Statutory profit before tax of £81.1m reflects increase in exceptional or strategic project expenditure to £16.4m;

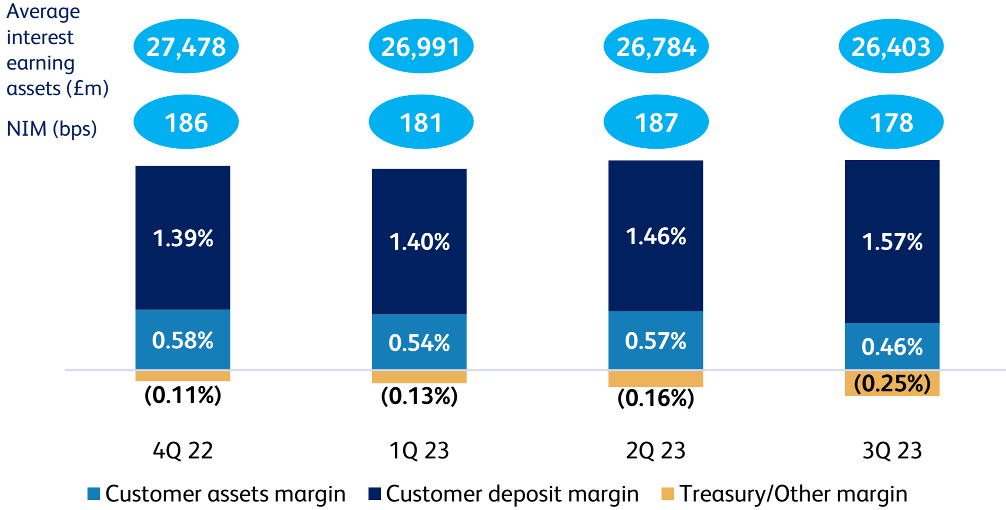
- £11.0m spend in relation to our flagship transformation programme
- £5.4m of advisory costs as the Bank explores strategic options
- Other exceptional losses are negligible. 2022 gain of £12.2m includes the sale of a small loan portfolio and the sale / revaluation of VISA shares

Tax credit relates to deferred tax asset recognition of historical tax losses earlier in the year. RoTE currently ahead of guidance, but dependent on Q4 refresh of DTA asset.

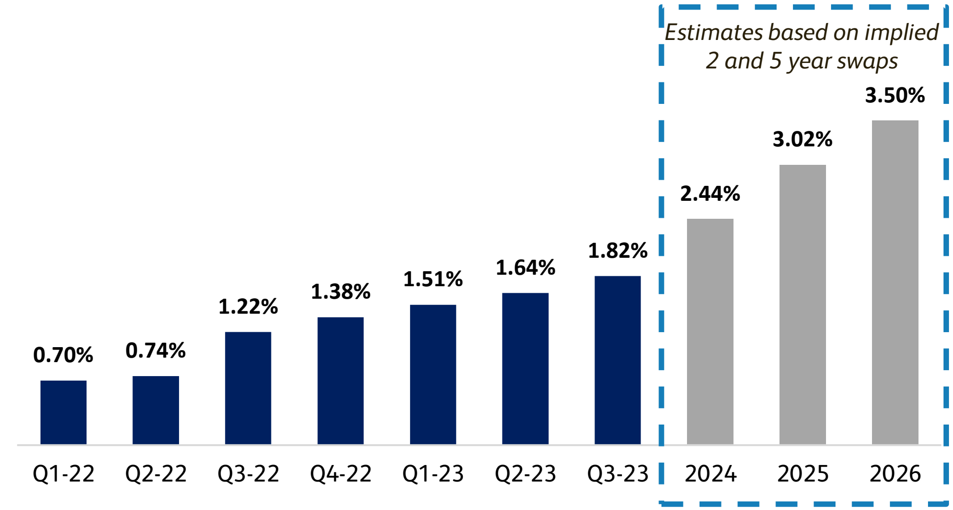
Well-capitalised with £290m excess CET1 to minimum requirements

NIM remains in line with full year guidance

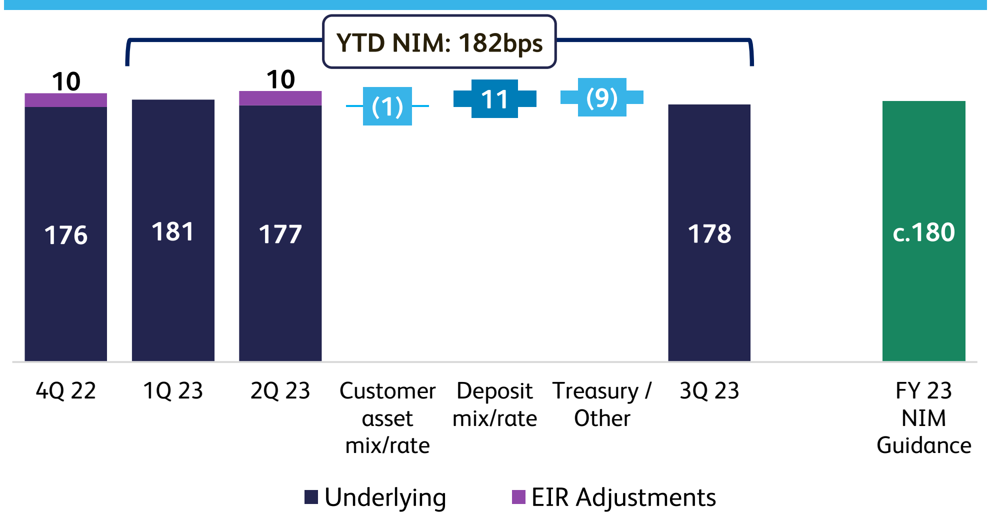
NIM build evolution



Blended structural hedge rate [1]



Net interest margin (bps)

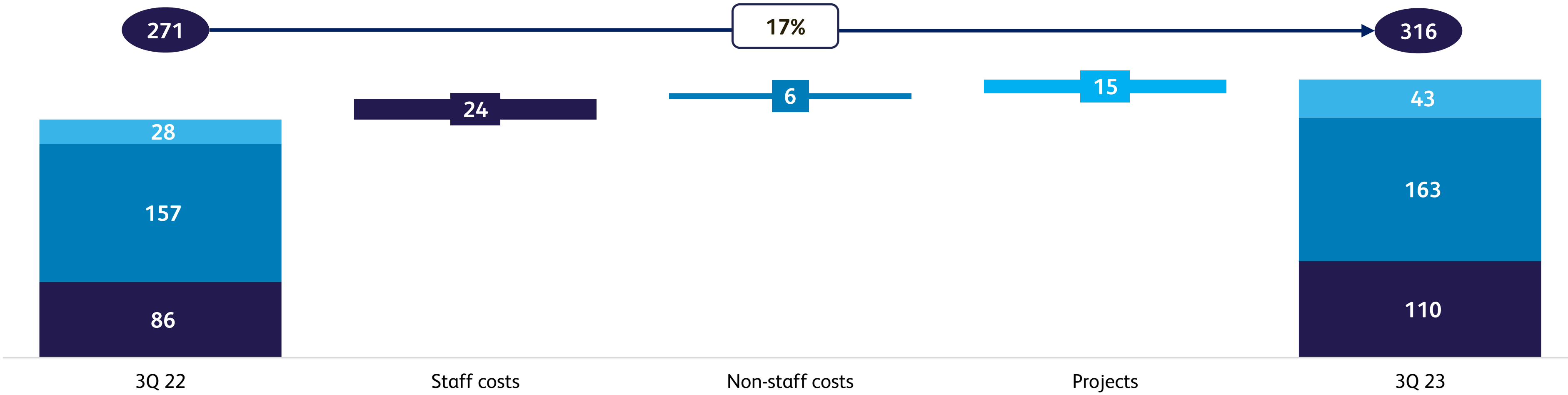


- NIM broadly flat in 3Q when excluding the one-off impact of the 2Q EIR adjustment; lower mortgage margins offset by widening deposit margins, as the base rate increased to 5.25 %
- £0.4bn reduction in average interest earning assets in the quarter, driven by lower HQLA balances as a result of TFSME repayments and reducing deposit balances
- NIM remains on track to achieve full year guidance of c.180bps

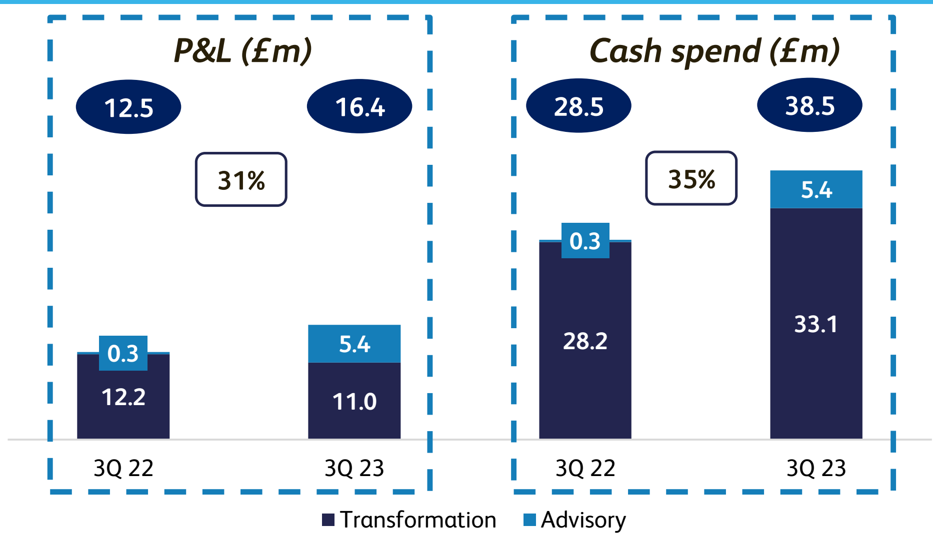
1. Includes £7.8bn of NIBBs (average tenor of c.2.5 years) and £2.7bn of instant access savings (average tenor of c.1year)

Strategic investment and inflation impact

Operating expenditure (£m)



Transformation and exceptional costs (£m)

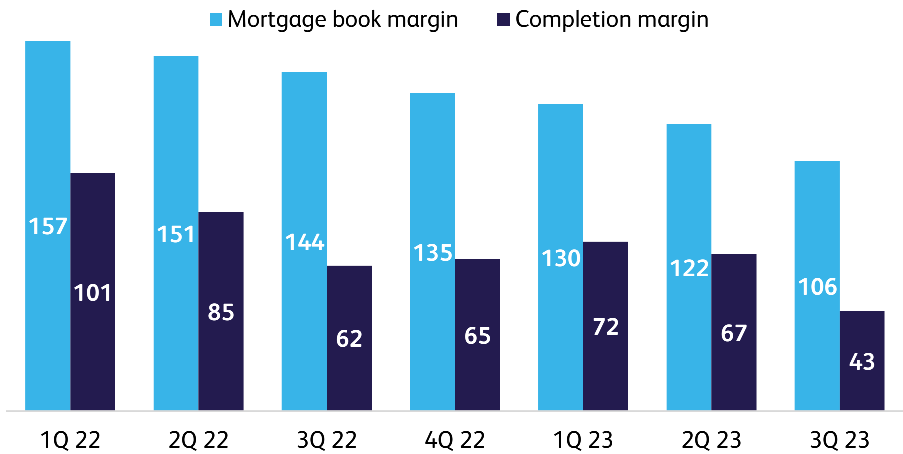


Costs remain in line with guidance of c.£420m

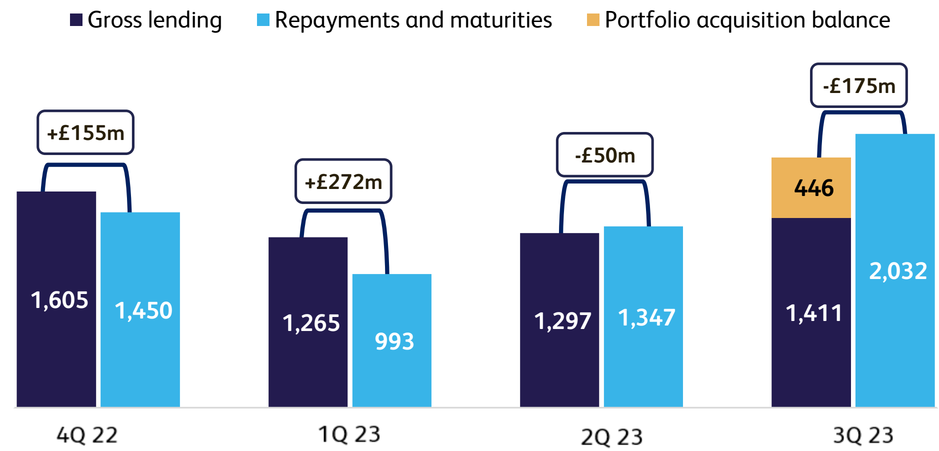
- Increase in staff costs reflect planned insourcing and investment in contact centres, along with inflationary pay rises
- Increase in non-staff costs (excl. projects) of 4 % reflects higher inflationary environment
- Increase in projects by £15m to £43m includes accelerated continuous improvement projects alongside strategic investment. Capex rate YTD of 41 %
- The increase in costs are partially offset by efficiencies

Low-risk book with improved gross lending

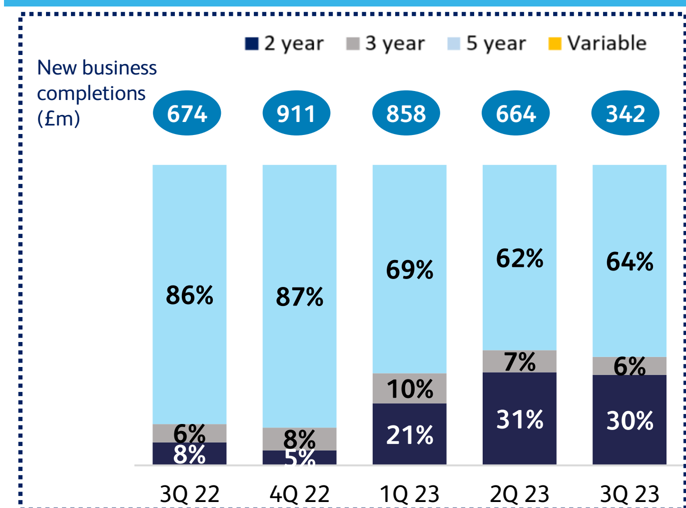
Mortgage margin (bps) [1]

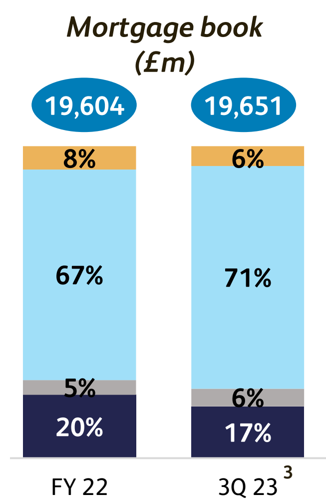


Gross lending (£m) [2]



Completions by tenor



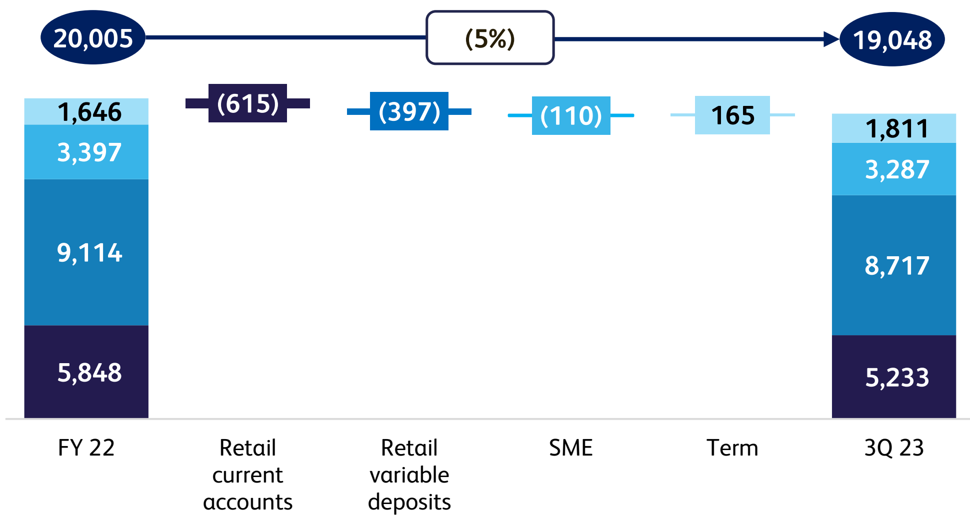


- Industry-wide margin pressure on mortgages drives down mortgage book margins
- Average core mortgage LTV of 55.2 % with only 9 % of the mortgage book >80 % LTV
- Gross lending improving in 3Q including retention activity
- Portfolio acquisition demonstrates focus towards identifying appropriate opportunities

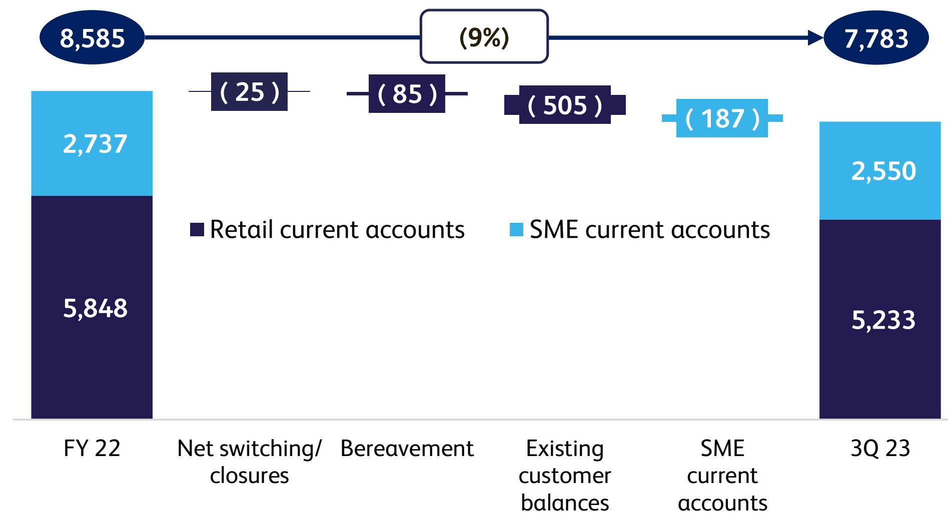
1. Margin calculated as gross rate minus swap
2. Gross lending includes new business plus retention
3. Tenor split excludes the mortgage portfolio acquisition balances of c.£0.4bn

Strong deposit franchise

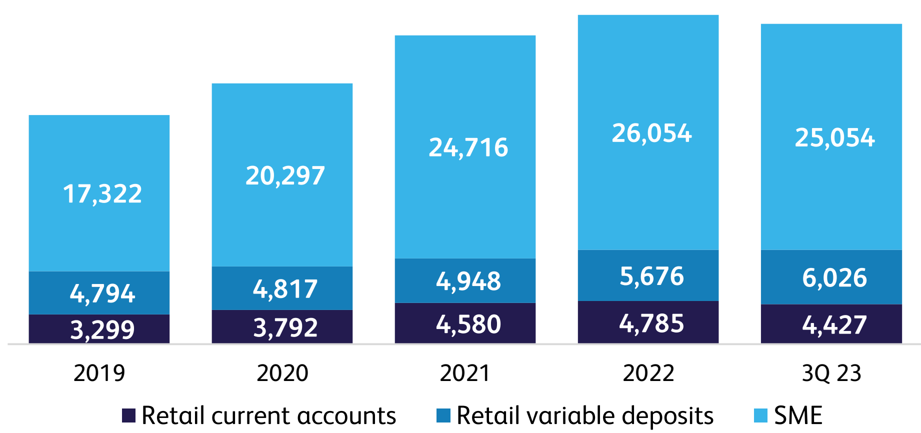
Core customer deposits (£m)



Retail and SME current account movement (£m)



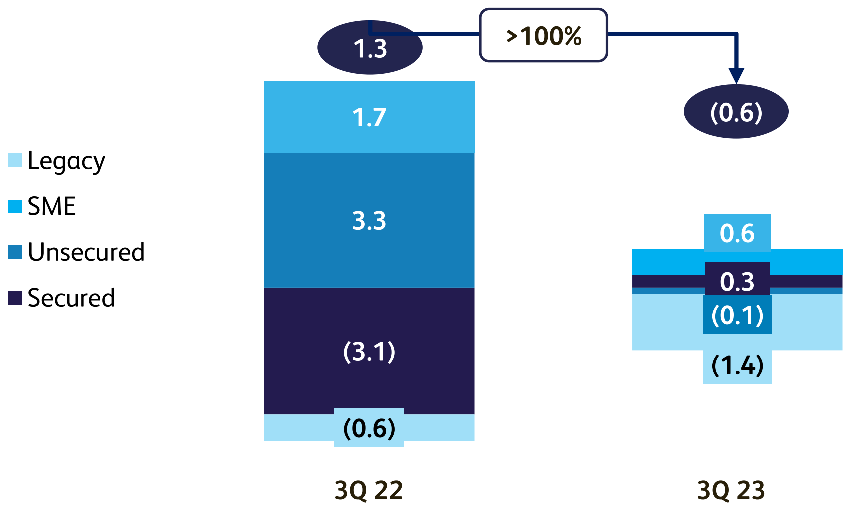
Average customer balance movement (£)



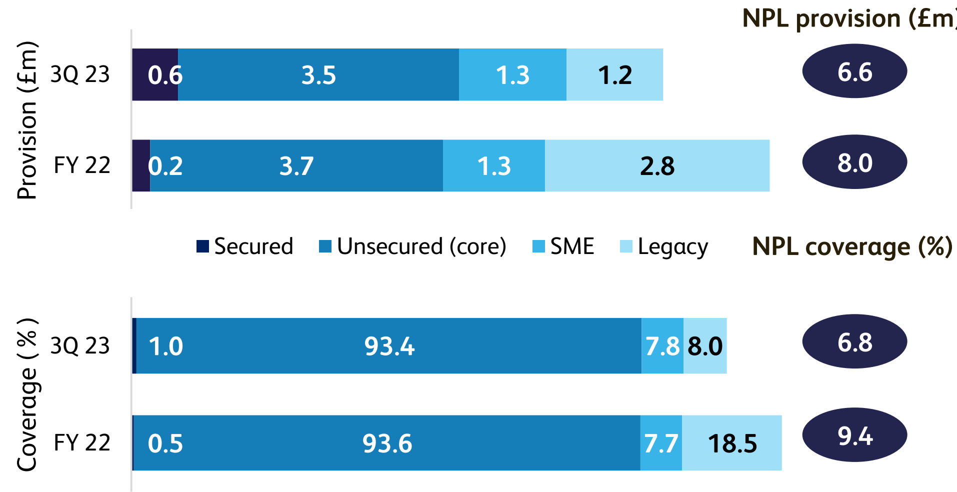
- Current account reduction – cost of living impacts on average balances, with SME resilient
- Bereavement makes up a large proportion of our current account closures
- Small reduction in balances as a result of switch outs mitigated by ‘Refer a Friend’ incentive
- Customer average balances remain higher than pre COVID-19 levels

Resilient customer credit quality

Impairment charge / (credit) (£m)



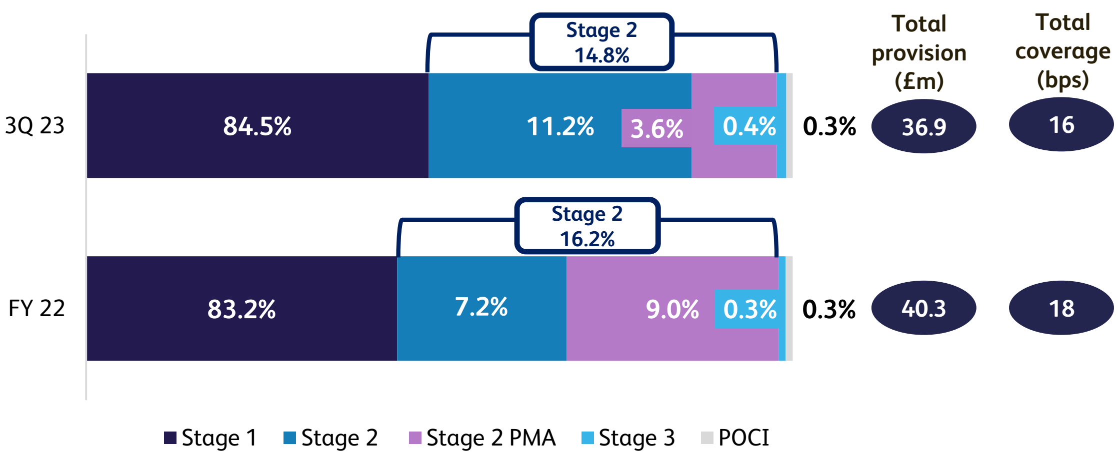
NPL coverage [1]



NPL ratio (bps) [2]

FY 22	3Q 23
38	43

Exposure by stage [3]



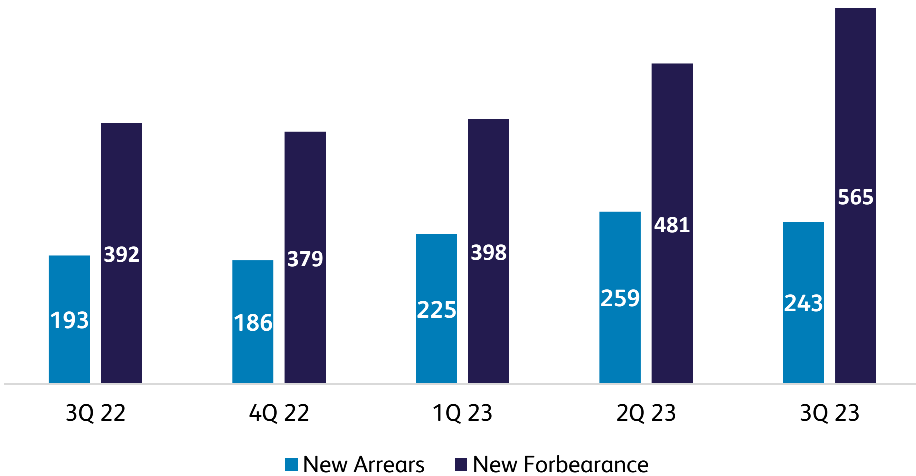
Net impairment credit of £0.6m:

- Secured impairment charge of £0.3m; relates to revised macroeconomics leading to an increase in affordability coverage
- Legacy impairment credit of £1.4m; predominantly due to one specific connection (£1.6m)
- SME charge of £0.6m; driven by a decline in forward looking Commercial Real Estate property values

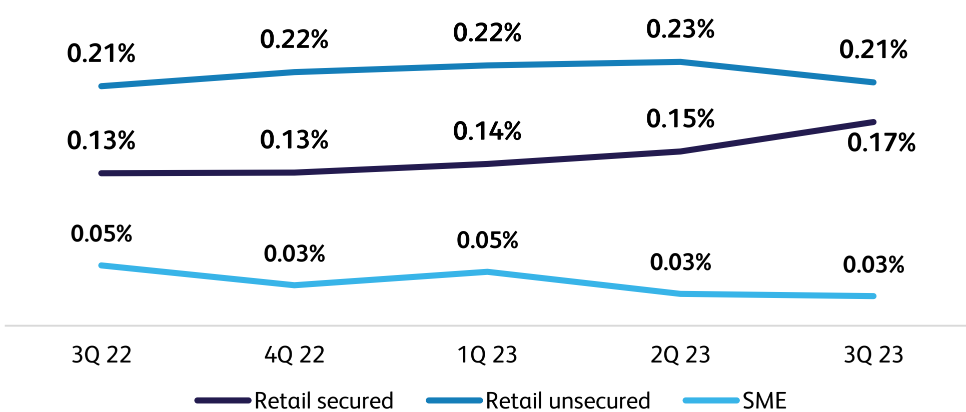
1. NPL coverage ratio calculated as NPL provision over NPL balance (all excluding performing POCI)
2. NPL ratio calculated as non-performing exposure (excluding performing POCI) over total exposure
3. Includes balances relating to FVTPL

Accounts in arrears remain low

New secured arrears and forbearance (#) [1,2]



Accounts >3 months in arrears [3]

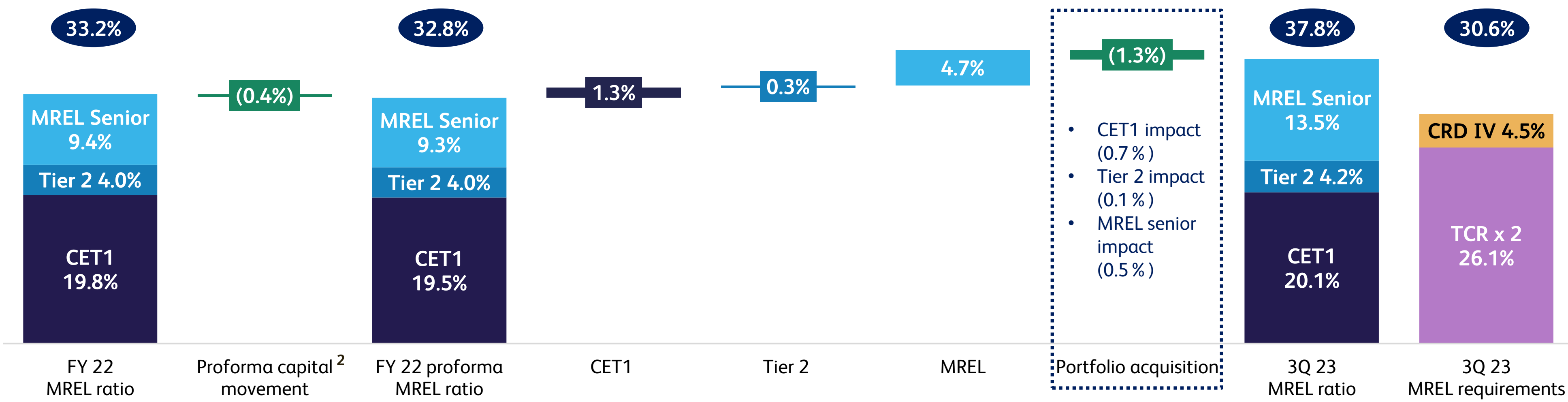


- Secured customers new in forbearance remains low in the quarter representing only 0.4 % of total secured accounts
- Supported 277 customers through the mortgage charter, of which 91 % are interest only
- 0.17 % of secured accounts greater than 3 month in arrears equates to 251 accounts and £29.0m of balances
- The average level of disposable income for the secured intermediary portfolio is £1,481 per month and 92 % of these customers have a disposable income estimated to be >£250, based on their current mortgage rate
- Retail unsecured accounts greater than 3 months in arrears have slightly reduced vs previous quarters, and remain in line with 3Q 22 at 0.21 %

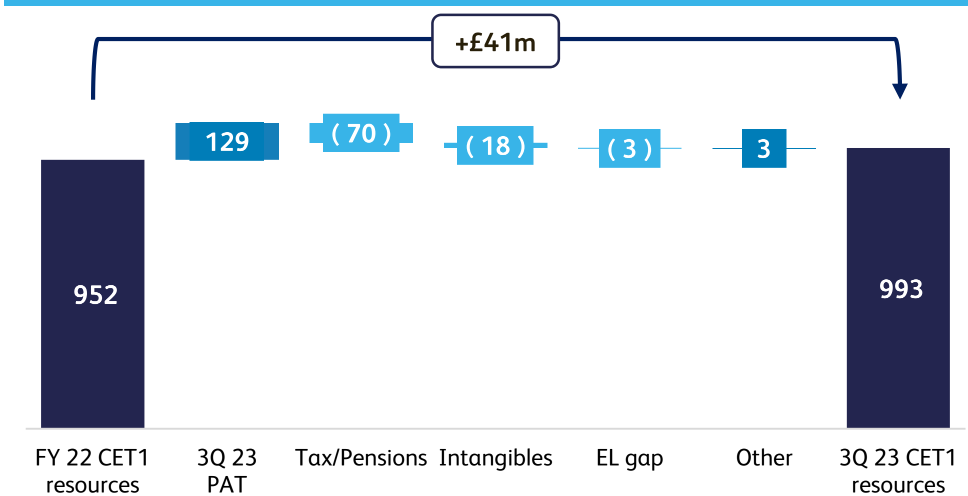
1. These are gross new inflows and not representative of increases in arrears and forbearance stock given cure volumes
2. Forbearance covers a range of treatments including, but not limited to, deferral of payments and an adjustment to regular payment terms
3. Volume of accounts in arrears over total volume of accounts; recognised as >3 months over limit on overdraft, 3+ missed payments on a loan, credit card or mortgage, or >3 months over limit on credit card. Excludes government backed Bounce Back Loans (BBLs)

Well capitalised across all requirements

Capitalratios development [1]



CET1 resource evolution (£m) [1]

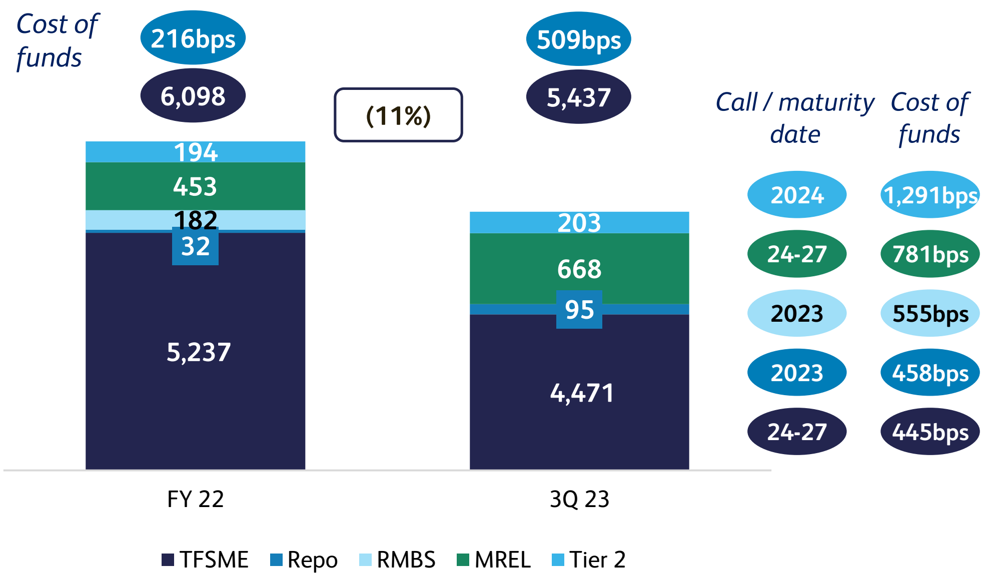


- Successful issuance of £200m MREL – qualifying funds in May, MREL resources now fully optimised
- The Bank maintains a significant headroom to MREL plus CRD IV buffers (requirement c.£1.5bn) with a surplus of £356m
- Portfolio acquisition impacted CET1 ratio by c.0.7 % due to increase in day 1 RWAs of c.£160m; CET1 benefit will be realised over time
- Surplus of £290m to CET1 minimum requirements

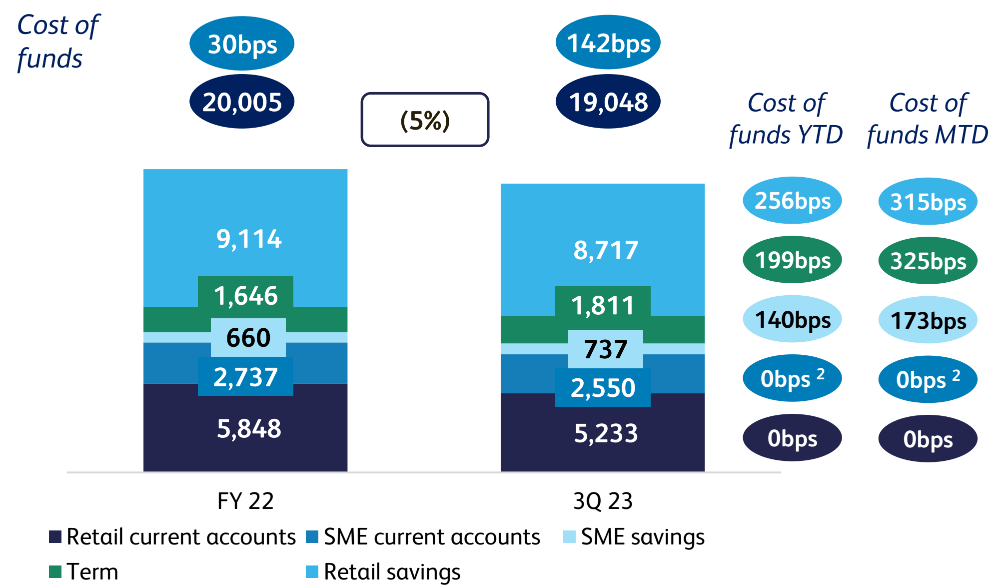
1. Includes unaudited 3Q profits
2. Pro-rata of annual impact of Pillar 1 RWA update for operational risk recognised in 1Q 23

Low blended cost of funds at 229bps

Wholesale funding (£m)

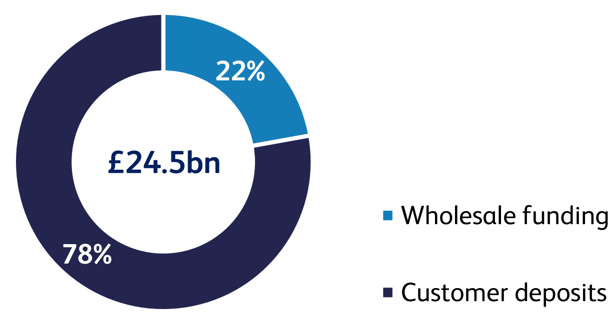


Customer funding (£m) [1]



- Blended cost of funds increases to 229bps; remains materially lower than base rate
- Repaid c.£790m of TFSME in the period and expect to repay c.£1.2bn in total for 2023
- 80.9 % (FY 22: 81.2 %) of our core customer deposits are insured through FSCS; levels remain stable despite market volatility

Funding mix



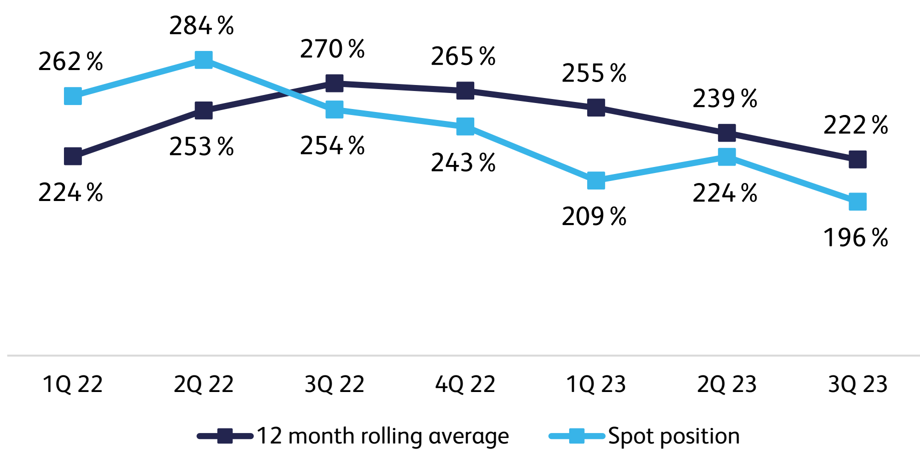
Blended cost of funds (bps)

FY 22	73
3Q 23	229

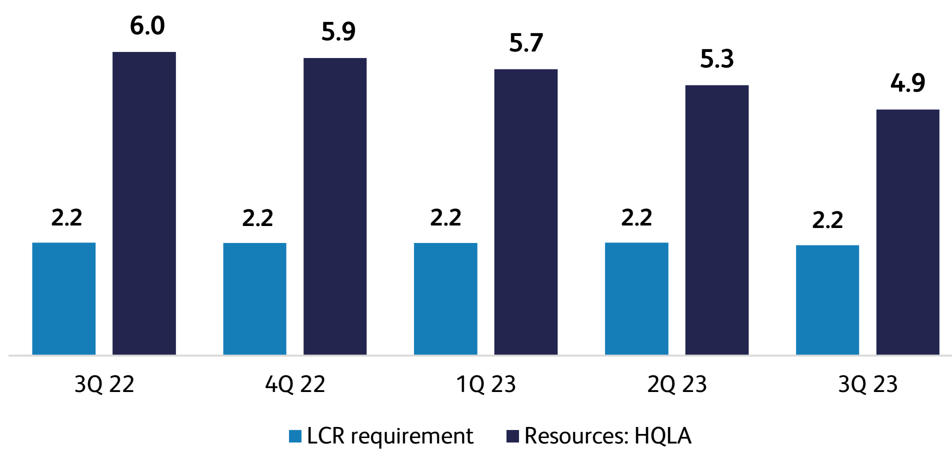
1. Excludes legacy balances of £56m (FY 22: £60m)
2. SME current accounts includes a small amount of off-sale current accounts that are interest bearing

Strong liquidity position

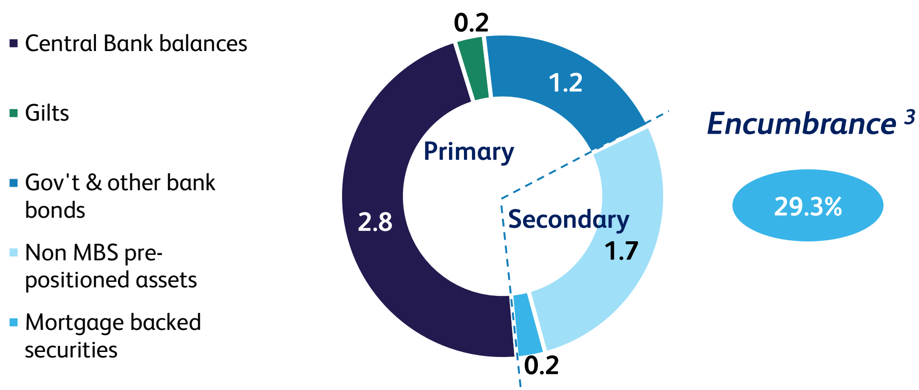
Liquidity coverage ratio [1]



LCR requirement / HQLA resources (£bn) [2]



Liquidity profile (£bn)



- LCR for the quarter has reduced due to lower HQLA following the portfolio acquisition and voluntary TFSME repayments
- LCR requirement is driven primarily by deposit outflows with minimal wholesale contractual inflows and maturities, as well as reflecting variability in mortgage pipeline position
- All fixed income security positions hedged to manage interest rate risk
- c.£1.4bn headroom to target Pillar 1 LCR of 130 %

1. Pillar 1 LCR
2. Calculated in line with Pillar 3 on a 12 month rolling basis
3. EBA definition calculated as the carrying amount of encumbered assets and collateral divided by total assets and collateral

2023 outlook unchanged

	3Q 23 actuals		FY 23 guidance
Net interest margin (bps)	182	On track	c.180
Total statutory costs (£m)	316.2	On track	c.420
RoTE (%)	12.3	On track	>10
Asset quality ratio (bps)	(0.4)	On track	<5
Customer assets (£bn)	20.9	On track	20-21

	GDP	HPI	Unemployment	Base Rate
2023 latest economics [1]	**0.6%**	**(3.8%)**	**4.1%**	**5.25%**

1. Guidance dependent on latest economic assumptions

Summary of 3Q 23 results

Big year for transformation

Increased spend to unlock cost and income opportunities

Benefits to come in 2024 onwards

Robust capital performance

Underlying CET1 growth of 1.3% [1]

Significant surplus to binding capital requirements

Healthy liquidity position

Significant headroom to target LCR

Cost of funding remains low

The co-operative bank

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1. Removing the CET1 impact of the portfolio acquisition and pro-rata of annual impact of Pillar 1 RWA update for operational risk recognised in 1Q 23

Appendix

The co-operative bank

Ethical then, now and **always**

Segmental performance

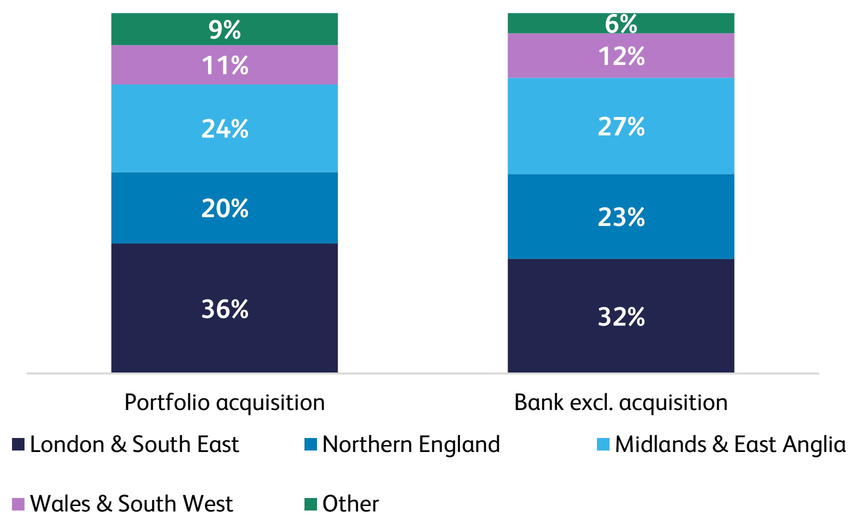
Segmental £m	Retail			SME			Legacy & central items			Total		
	3Q 23	3Q 22	Change	3Q 23	3Q 22	Change	3Q 23	3Q 22	Change	3Q 23	3Q 22	Change
Net interest income	290.6	287.6	3.0	71.2	46.9	24.3	1.6	(5.4)	7.0	363.4	329.1	34.3
Other operating income	19.4	19.3	0.1	12.2	13.9	(1.7)	0.2	0.5	(0.3)	31.8	33.7	(1.9)
Total income / (expense)	**310.0**	**306.9**	**3.1**	**83.4**	**60.8**	**22.6**	**1.8**	**(4.9)**	**6.7**	**395.2**	**362.8**	**32.4**
Staff costs	(85.4)	(66.5)	(18.9)	(21.4)	(17.4)	(4.0)	(2.8)	(2.1)	(0.7)	(109.6)	(86.0)	(23.6)
Non-staff costs	(134.0)	(131.9)	(2.1)	(26.2)	(24.1)	(2.1)	(1.2)	(1.1)	(0.1)	(161.4)	(157.1)	(4.3)
Continuous improvement projects	(23.9)	(10.8)	(13.1)	(2.8)	(4.3)	1.5	(0.2)	(0.2)	-	(26.9)	(15.3)	(11.6)
Operating expenditure	(243.3)	(209.2)	(34.1)	(50.4)	(45.8)	(4.6)	(4.2)	(3.4)	(0.8)	(297.9)	(258.4)	(39.5)
Impairment (charge) / credit	(0.2)	(0.2)	0.0	(0.6)	(1.7)	1.1	1.4	0.6	0.8	0.6	(1.3)	1.9
Underlying profit / (loss)	**66.5**	**97.5**	**(31.0)**	**32.4**	**13.3**	**19.1**	**(1.0)**	**(7.7)**	**6.7**	**97.9**	**103.1**	**(5.2)**

Balance sheet	3Q 23	FY 22	Change	3Q 23	FY 22	Change	3Q 23	FY 22	Change	3Q 23	FY 22	Change
Assets	19,882.4	19,841.3	41.1	392.1	388.2	3.9	6,425.5	7,903.3	(1,477.8)	26,700.0	28,132.8	(1,432.8)
Liabilities	15,760.5	16,607.8	(847.3)	3,287.3	3,396.8	(109.5)	6,225.5	6,829.2	(603.7)	25,273.3	26,833.8	(1,560.5)

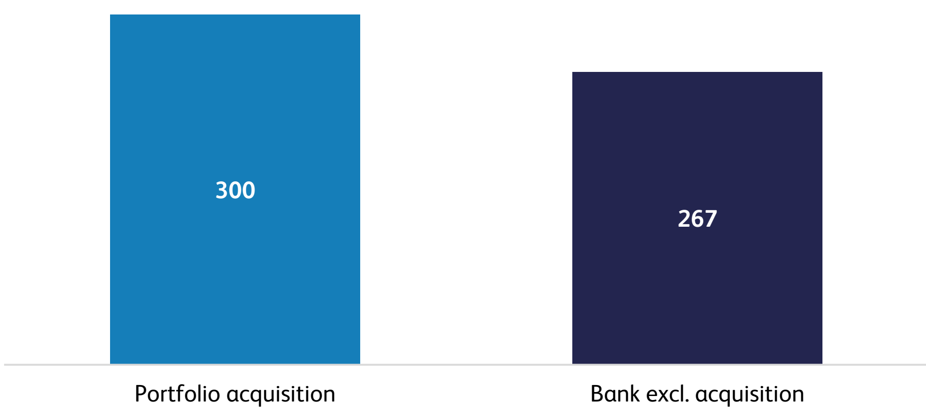
Portfolio acquisition detail

- Portfolio has contributed £1m in net interest income since acquisition
- Contribution to balance sheet of c.£0.4bn at the end of September and comprises approximately 3,500 customers
- Risk-weighted assets of c.£160m on acquisition

Mortgage split by geography



Gross rate (bps)



Portfolio LTV

Portfolio acquisition	51.1%
Bank excl. acquisition	55.3%

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