

Andrew Bester (CEO) and Nick Slape (CFO) will host a video conference to present the first quarter trading update and a Q&A session at 2pm (UK time).

The video conference will be held via BlueJeans video conferencing.

To request access to the call please email [investorrelations@co-operativebank.co.uk](mailto:investorrelations@co-operativebank.co.uk) for the mandatory entry code and PIN.

Participants can join the conference via:

The BlueJeans app; available from your respective app store (video or audio)

Direct from a web browser at <https://www.bluejeans.com> (video or audio)

Or by calling +44 203 976 1937 (audio only)

Additional materials are available on the Bank's investor portal which can be found at the following address:  
[www.co-operativebank.co.uk/investorrelations](http://www.co-operativebank.co.uk/investorrelations)

## BASIS OF PRESENTATION

The Co-operative Bank Holdings Limited is the immediate parent company of The Co-operative Bank Finance p.l.c. and the ultimate parent company of The Co-operative Bank p.l.c. In the following pages the term 'Group' or 'consolidated group' refers to The Co-operative Bank Holdings Limited and its subsidiaries. The term 'Finance Group' refers to The Co-operative Bank Finance p.l.c. and its subsidiaries. The term 'Bank' refers to The Co-operative Bank p.l.c. and its subsidiaries which are consolidated within the Finance Group and then ultimately the Group. Unless otherwise stated, information presented for the Group equally applies to the Bank and the Finance Group.

The Co-operative Bank p.l.c. is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The Co-operative Bank p.l.c. eligible customers are protected by the Financial Services Compensation Scheme in the UK, in accordance with its terms.

**Underlying basis:** The statutory results are adjusted to remove certain items that do not promote an understanding of historical or future trends of earnings or cash flows, which therefore allows a more meaningful comparison of the Group's underlying performance.

**Alternative performance measures:** The Group uses a number of alternative performance measures, including underlying profit or loss, in the discussion of its business performance and financial position.

## First Quarter Trading Update 2020

6 May 2020

The Co-operative Bank Holdings Limited ("the Group") is pleased to provide an update on its performance in the three months to 31 March 2020.

- **Customer first: supporting our personal and small business customers through COVID-19**
- **Consistent operational resilience: 100% of branches and call centres are open for business**
- **Building momentum in our SME banking business: 11% year on year deposit growth**
- **High-quality, low-risk loan book: expected to be resilient in a challenging and uncertain environment**
- **Strong CET1 ratio with underlying financial performance in line with expectations**

Andrew Bester, Chief Executive Officer, said,

"As the UK navigates this extraordinary and unprecedented crisis, banks have a critical role to play in keeping the economy moving and I am proud and grateful for the work of all colleagues in providing the financial support our personal and small business customers need. All of our branches and contact centres have adapted and are open to serve customers safely throughout this period and we are providing payment holidays for approximately 17,000 mortgage, loans and credit card customers to date, and additional overdraft facilities for over 350,000 current account customers. Since our accreditation for the Coronavirus Business Interruption Loan Scheme we have worked tirelessly to make these facilities available. This is now live for our SME customers and we have started to process customers' applications. We are now working to be able to offer Bounce Back Loans as soon as possible. There is much more to do, but we are committed to helping individuals and small businesses through the financial strain they are facing, and we hope we can make a difference to helping drive economic and social recovery in the months ahead.

"Becoming a true SME challenger at a time when businesses need it remains a priority for us, and we are building momentum. Customers are trusting us with more of their deposits, which are up 11% year on year, and since the start of the crisis that growth has nearly doubled. Our SME banking transformation is on track, fuelled by our BCR funding alongside investment of our own, and we are attracting 16% of Incentivised Switching Scheme customers against our target of 6%. Retail deposits from our core savings customer base have also increased, and our current account customer satisfaction levels are the highest they have been since 2013 with an NPS rating of +30.

"As we look forward, clearly the year ahead will be challenging and, like others, we will need to reprioritise investment spend, given expected pressure on income in a low base rate environment. We have examined the potential impact of the crisis on the Bank and are satisfied we are in a position of resilience. The progress made in our transformation programme, including de-risking the Bank and the significant investment in IT systems, means we face into this new economic environment with a strong CET1 ratio, a low-risk mortgage book, improved digital propositions and our distinctive ethical brand. Taking care of our loyal customers throughout this unprecedented and uncertain period is our foremost priority, and the significant headway we have made in transforming the Bank puts us in a good position to do so."

## Supporting our customers and colleagues through COVID-19

- 100% of our branches and call centres are open, adapting to serve customers safely throughout the pandemic
- Reassuring our customers with a range of support measures in place, including:
  - First bank to issue £500 authorised overdraft automatically interest free for over 350,000 customers with authorised overdrafts
  - Almost 15,000 mortgage payment holidays requests received by 30 April (c.10% of book); of these customers 98% were up to date with payments in February; average LTV of 61%
  - Almost 2,000 payment holiday requests for loans and credit cards received by 30 April (c.0.5% of the book)
- Supporting our many NHS worker customers, donating headsets to local GPs and care packages to local hospitals
- Working with our charity partner Refuge to support those impacted by domestic and financial abuse during lockdown
- Ensuring our colleagues continue to work safely through the pandemic
  - Over 95% of non-customer facing colleagues working from home, enabled by technology improvements delivered as part of 2019 transformation
  - Additional employee support measures in place for all colleagues to stay connected and to support well-being during the lockdown period

## Franchise growth delivering our plan commitments

- Franchise growth continues into 2020; core customer assets increase by 2%, funded through legacy asset attrition and growth in Retail franchise and SME deposits
- Continued momentum in current account Net Promoter Scores achieving the Bank's highest level since 2013 of +30
- Separation of IT systems from the Co-op Group completed in January 2020
- New long-term partnership signed with Visa seeking to deliver enhanced digital payment capabilities
- Proud winner of 'Changing lives in the Community' award at the UK Card & Payments Awards
- Confirmed signatory of UNEPFI Principles of Responsible Banking from February 2020

## Supporting small business as we build momentum in our SME franchise

- SME deposits have grown by 3% compared with 4Q 2019, and by 11% compared with 1Q 2019
- Deposit growth has accelerated in April and has now increased by over 20% since 1Q 2019
- Increased share of small business banking Incentivised Switching Scheme customers in the first quarter; attracting 16% of those switching against target of 6%
- Coronavirus Business Interruption Loan Scheme (CBILS) overdrafts and loans launched for existing SME customers on 29 April
- Temporary removal of fees and charges on SME lending facilities
- Supporting co-operative businesses during the pandemic in partnership with Co-operatives UK with Hive Assist service
- Business banking transformation strategy on track in line with BCR investment commitment

## Well capitalised with strong balance sheet and low-risk credit profile

- Despite c.£12m impact of COVID-19 in 1Q 2020, underlying performance is in line with expectations
- High-quality, low-risk asset book with a low cost of risk following sustained and comprehensive de-risking
- Core secured lending comprises 92% of customer loans at an LTV of 57%
- Strong CET1 ratio: reduction in CET1 ratio to 18.3% in line with expectations; in surplus to regulatory minimum of 10.9%; total capital ratio 22.6%
- Surplus to interim MREL requirements excluding CRD IV buffers of £200m; The Group remains committed and fully prepared to issue MREL-qualifying debt at the earliest opportunity to continue the progression towards end-state MREL compliance
- Robust liquidity with LCR of 159%
- TFSME initial allowance estimated to be £1.75bn
- COVID-19 related impacts are anticipated to negatively affect operating income and credit impairment expectations; however, the Group is taking decisive action to reduce both operating expenses and investment spend to mitigate the risks in 2020
- The future impacts remain uncertain at this point; a more comprehensive update will be provided in the interim results

## INCOME STATEMENT (£m)

	Period ended 31 March		
	1Q 20	1Q 19	% change
Net interest income	64.8	87.7	(26)
Other operating income	11.0	7.1	55
<b>Operating income</b>	<b>75.8</b>	<b>94.8</b>	<b>(20)</b>
Operating expenses	(87.2)	(98.9)	12
Credit impairment losses	(2.9)	(1.0)	>(100)
<b>Underlying loss</b>	<b>(14.3)</b>	<b>(5.1)</b>	<b>&gt;(100)</b>
Strategic change	(9.4)	(29.5)	68
Non-operating (expense) / income	(3.3)	6.0	>(100)
<b>Statutory loss before tax</b>	<b>(27.0)</b>	<b>(28.6)</b>	<b>6</b>
Tax	11.2	(0.4)	>100
<b>Statutory loss after tax</b>	<b>(15.8)</b>	<b>(29.0)</b>	<b>46</b>

### Key ratios:

			change
Customer net interest margin <sup>1</sup>	1.44%	1.99%	(55)bps
Underlying cost income ratio <sup>2</sup>	115%	104%	(11)pp
Cost of risk (bps) <sup>3</sup>	2bps	1bps	(1)bps

1. Calculated as net interest income over average customer assets

2. Calculated as operating expenses over operating income

3. Calculated as credit impairment losses over average customer assets

## SEGMENTAL INCOME (£m)

1Q 20	Core				Legacy and unallocated	Group
	Retail	SME	Treasury	Total		
Net interest income / (expense)	57.4	9.9	(1.8)	65.5	(0.7)	64.8
Other operating income / (expense)	7.9	4.2	(1.2)	10.9	0.1	11.0
<b>Operating income</b>	<b>65.3</b>	<b>14.1</b>	<b>(3.0)</b>	<b>76.4</b>	<b>(0.6)</b>	<b>75.8</b>
Operating expenses						(87.2)
Credit impairment (losses) / gains	(0.8)	0.1	-	(0.7)	(2.2)	(2.9)
<b>Underlying loss</b>						<b>(14.3)</b>

1Q 19	Core				Legacy and unallocated	Group
	Retail	SME	Treasury	Total		
Net interest income	68.8	9.8	8.7	87.3	0.4	87.7
Other operating income / (expense)	2.5	4.1	(0.2)	6.4	0.7	7.1
Operating income	71.3	13.9	8.5	93.7	1.1	94.8
Operating expenses						(98.9)
Credit impairment (losses) / gains	(1.0)	0.7	-	(0.3)	(0.7)	(1.0)
<b>Underlying loss</b>						<b>(5.1)</b>

## SEGMENTAL ASSETS AND LIABILITIES (£m)

1Q 20	Core				Legacy and unallocated	Underlying basis
	Retail	SME	Treasury	Total		
Segment assets	16,969.5	176.7	4,335.2	21,481.4	2,092.2	23,573.6
Segment liabilities	16,869.6	2,180.2	2,602.8	21,652.6	335.6	21,988.2

FY 19	Core				Legacy and unallocated	Underlying basis
	Retail	SME	Treasury	Total		
Segment assets	16,588.4	184.4	4,524.2	21,297.0	2,138.5	23,435.5
Segment liabilities	16,745.7	2,118.7	2,501.0	21,365.4	458.2	21,823.6

## SELECTED KEY PERFORMANCE INDICATORS

%	1Q 20	2019	change
CET1 ratio	18.3	19.6	(1.3)
Total capital ratio	22.6	23.8	(1.2)
Leverage ratio (EBA) <sup>1</sup>	3.8	3.9	(0.1)
Leverage ratio (PRA) <sup>2</sup>	4.1	4.3	(0.2)
Liquidity coverage ratio	159.4	173.7	(14.3)
Loan to deposit ratio	95.0	94.2	0.8
Average core mortgage LTV	57.3	57.2	0.1
Core mortgage accounts > 3 months in arrears	0.1	0.1	-
NPL as a % of total exposures	0.5	0.5	-

1. Calculated as per EBA definition, including Bank of England reserves

2. Calculated as per PRA definition, excluding Bank of England reserves

## SUMMARY OF PERFORMANCE

Despite the impacts of COVID-19, underlying performance for the first quarter of 2020 has been in line with expectations in the context of a challenging UK lending market. Towards the end of the first quarter the impact of COVID-19 emerged and has negatively affected the statutory loss before tax by c.£12m.

The Group has made an underlying loss of £14.3m (1Q 19: £5.1m loss). A reduction in net interest income has been partly offset by an increase in other operating income and a reduction in operating expenses.

Net interest income (NII) has reduced by £22.9m to £64.8m (1Q 19: £87.7m):

- Retail NII continues to be impacted by reducing mortgage margins. In the quarter, we reflected a £4.8m reduction in the Effective Interest Rate (EIR) asset. EIR takes account of income arising once fixed rate introductory offers have ended and customers revert to standard variable rates. The value of the asset has reduced following a reduction in the Bank of England base rate
- Treasury NII has reduced, largely driven by the expense of the Tier 2 debt which was issued in April 2019
- Adjusting for EIR impacts, customer NIM has dropped in the quarter to 1.55% from 1.66% in 4Q 19

Other operating income has increased by £3.9m to £11.0m (1Q 19: £7.1m) due to benefits from better partnership arrangements with our suppliers offset by recent volatility in Treasury caused by the COVID-19 pandemic.

Operating expenses have reduced by £11.7m to £87.2m (1Q 19: £98.9m):

- As a result of the current environment, we will not be accruing for variable pay in 2020, which reduces staff costs compared to 2019
- Reduced operating expenses due to benefits from strategic investment and other efficiencies

Impairment charges have increased by £1.9m to £2.9m (1Q 19: £1.0m), which equates to a cost of risk of 2 basis points. This related to a provision booked against a Legacy Corporate customer unrelated to COVID-19. Refreshed base case economics and a higher weighting towards downside scenarios drives a £0.3m charge relating to COVID-19, reflecting the low risk nature of the customer asset portfolios. The Bank has aligned with regulatory guidance in its approach to provisioning for Q1, making balanced judgements with the information currently available. ECL is expected to increase in Q2 as the Bank is able to make a more informed assessment with more data available to it.

Statutory loss before tax has improved to £27.0m (1Q 19: £28.6m loss) as the impact of an increased underlying loss is offset by a reduction in strategic change spend.

Strategic change spend has reduced by £20.1m to £9.4m (1Q 19: £29.5m):

- Project spend was heightened in 2019, following the conclusion of Desktop Transformation and substantially completing IT separation from the Co-operative Group, which concluded in January 2020
- Strategic investment is expected to remain low in 2020; all project spend is presently under review as the Group looks to reduce expenditure to compensate for other pressures in the current operating environment

Non-operating expense of £3.3m compares to £6.0m income in 1Q 2019. This largely reflects a reduction in the value of the Bank's Visa Inc. shareholding in the first quarter following market volatility.

A tax credit of £11.2m in the quarter relates to the increase in corporation tax rate on 1 April 2020 to 19%, which increases the deferred tax asset position.

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**About The Co-operative Bank**

The Co-operative Bank p.l.c. provides a full range of banking products and services to about 3.5m retail and c.85k small and medium sized enterprises ("SME"). The Bank is committed to values and ethics in line with the principles of the co-operative movement. The Co-operative Bank is the only high street bank with a customer-led ethical policy, which gives customers a say in how their money is used. Launched in 1992, the Policy has been updated on five occasions, with new commitments added in January 2015 to cover how the Bank operates its business, products and services, workplace and culture, relationships with suppliers and other stakeholders and campaigning.

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**Note:** all figures contained in this trading update are unaudited. This announcement contains inside information.