The Co-operative Bank p.l.c.

12 November 2015

Q3 2015 Trading Update

Rebuild of the Core bank franchise is gaining traction

- Mortgage origination is recovering to required levels with completions for the nine months to 30 September 2015 totalling £1.81bn. Redemptions (excluding contractual repayments) were slightly higher than planned during Q3 mainly due to a number of customers on long term, low fixed rate mortgages maturing onto SVR and subsequently remortgaging away from the Bank and totalled £1.76bn for the nine months to 30 September 2015
- Asset spreads remain under pressure due to strong competition in the mortgage market. This has been more than offset by reducing the cost of funding for the Bank, partly driven by proactively repricing deposits
- Capita mortgage processing outsourcing, which came into effect from 1 August 2015, is progressing to plan
- Current account franchise remained stable throughout Q3 2015
- Customer relationship metrics across the Bank remain strong with the Bank still ranked #3 in current account NPS scores and customer satisfaction ratings. Encouragingly, non-customer consideration scores have also increased, further indicating the strength of the brand
- Work continues on developing the shape of the SME business going forward. We will provide further updates about this area as appropriate next year
- Digital programme on track for Q1 2016 release of new foundation technology

Cost reduction programme remains on track

- 57 branch closures have been completed this year in line with previous announcements
- Efficiency savings to date are slightly better than plan as a result of outsourcing, rationalisation of the ATM network and improved management and control of third party costs

De-leverage of Non-core assets is improving capital resilience

- During 2015, the Bank has now securitised almost half of the Optimum portfolio (£3.14bn) following the successful securitisation of an additional £1.65bn of the Non-core Optimum portfolio of residential mortgages on 25 September 2015. There will be no further securitisations of the Optimum portfolio in the remainder of 2015
- Pro forma impact would have increased the Bank's 30 June 2015 CET1 ratio by approximately 0.9%, from 14.9% to 15.8%
- Overall deleverage across Non-core is on track against the revised plan accepted by the PRA at the end of 2014

Work continuing with IBM on the cornerstone Enterprise Services Outsourcing programme

- Primary data centre has been commissioned with Security Assurance due end-November 2015
- Back-up data centre on track for completion end-November; Security Assurance due in January 2016
- Data and applications migration during November and December 2015
- Programme remains complex and challenging but is on track to meet its key mid-2016 objectives
- Overall remediation and project portfolio is currently being managed within budget; portfolio is subject to ongoing prioritisation to manage potential resource contention and there remains a risk of cost over run

Progress addressing legacy conduct issues

- Pro-active PPI remediation programme has been completed. In total, c. 85k PPI cases (including complaints and validation reviews) have been redressed to date. The Bank still receives inbound complaints which continue to be redressed on a case by case basis. With regards to reactive PPI, see comments below

- A high volume solution has progressed redress of CCA from July 2015 although this area remains challenging
- Mortgage remediation activities will be substantially progressed in 2015
- On 2 October 2015, the FCA announced that it would issue a consultation paper by the end of 2015 on proposed rules and guidance about how firms should handle PPI complaints fairly in light of the Plevin decision. The FCA also intends to consult on the introduction of a time bar for handling PPI complaints. At this stage, as there remains uncertainty regarding the application of the Plevin decision and the impact of any time bar, it is not practicable to reliably estimate the potential impact on the Bank. Publicity around the potential time bar could lead to an increase in complaints being filed and a consequent increase in provisions

Other updates

- The Bank has agreed with the PRA that it is no longer required to issue further subordinated debt to cover its capital requirement this year. The Bank is sensitive to the requirements of the forthcoming MREL regime and the increased debt issuance this will drive, for the banking industry in general but also for the Bank. As part of its planning process, and in advance of MREL regulation being finalised, the Bank has made certain assumptions about its necessary issuance requirements. Consequently, the Bank expects to recommence its issuance program in H1 2016 with a benchmark Sterling transaction designed to qualify as MREL
- On 2 November 2015, Visa Inc. ("VI") announced the proposed acquisition of Visa Europe Limited ("VE") (see separate announcement for further details). The Bank is a member and shareholder of VE. The Bank's share of the sale proceeds will comprise a mix of cash (approximately €56 million), Series B Preferred Stock in VI convertible into Class A Common Stock in VI (approximately €35 million), and contingent earn-out consideration (the amount of which it is not possible to estimate with certainty at this point). The Bank is party to the Loss Sharing Agreement that is an integral part of this transaction. To provide context around the impact of the transaction, the pro forma impact of the sale proceeds had it completed on 30 June 2015 would have increased the Bank's 30 June 2015 CET1 ratio by approximately 0.6%, from 14.9% to 15.5%, prior to the impact of any provisions required for current or potential litigation to which VE is a party. The transaction will complete no earlier than 1 April 2016 and therefore will not be recognised in the Bank's 2015 financial statements
- Taken together with the second securitisation of the Optimum portfolio, the pro forma impact would have increased the Bank's 30 June 2015 CET1 ratio by approximately 1.5%, from 14.9% to 16.4%

Niall Booker, Chief Executive Officer, said:

"We have continued to make steady progress in our plan to turnaround the Bank during the third quarter of this year. The second securitisation of part of the Optimum portfolio was another key milestone in building capital resilience and we have met our capital commitment for 2015. Progress has also been made in delivering the IT transformation and resilience required to address the historic under investment in systems and processes and meet threshold conditions. Encouragingly, the performance of the Core bank continues to improve as we become a more competitive provider in the marketplace. In addition, our customer relationship metrics are on track reflecting superior service levels being delivered in our contact centres and branches which have helped with our brand development. Colleague engagement scores have also seen significant improvement giving some indication that our cultural change programme is gaining traction. Notwithstanding the progress noted above, the Bank remains exposed to external macroeconomic conditions and there is still considerable work ahead to fully implement the turnaround plan"

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Forward looking statements

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The ability of the Bank to implement its revised plan and to achieve the results set out in the plan requires the regulators' continued acceptance of the plan and entails particular challenges including (but are not limited to): ability to execute a substantial re-engineering of the Bank's operating model and a very large and complex IT remediation programme; ability to achieve targeted cost savings; ability to retain customers and deposits; the timing and quantum of impacts to capital from the Bank's asset reduction exercise; meeting its planned improvements in net interest margin; a possible deterioration in the quality of the Bank's asset portfolio; unplanned costs from (for example) conduct risk matters; ability to maintain the Bank's access at an appropriate cost to liquidity and funding and the ability of the Bank to raise further capital assumed in its revised plan. Any forward-looking statements made in this document speak only as of the date they are made and it should not be assumed that they have been revised or updated in the light of new information of future events. Except as required by the Prudential Regulation Authority, the Financial Conduct Authority, the London Stock Exchange plc or applicable law, The Co-operative Bank expressly disclaims any obligation or undertaking to release publicly any updates of revisions to any forward-looking statements contained in this document to reflect any change in The Co-operative Bank's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.