

# Leek RMBS Performance Update

2<sup>nd</sup> – 4<sup>th</sup> February 2015

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Basel III has been implemented in the EU through the new Capital Requirements Regulation and a further iteration of the Capital Requirements Directive. Together the new rules are known as CRD IV and came into effect from 1 January 2014. The European Banking Authority is providing technical standards relating to CRD IV, some of which are not yet finalised. CRD IV disclosures in this presentation are based on the Bank's interpretation of published rules. There is a risk that the final content of the technical standards may differ materially from current expectations and that the Bank may become subject to regulatory capital requirements not currently anticipated or provided for.

In the December 2013 PS7/13 Policy Statement PRA announced that, with the exception of available-for-sale unrealised gains, CRD IV deductions and filters would be implemented in full from 1 January and there would be no transition to full implementation. All CRD IV disclosures in this presentation are shown on a fully loaded basis.

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The principal risks and uncertainties to the ability of the Bank to implement its plan and to achieve the results set out in the plan were set out in the Bank's Interim Financial Report 2014 and continue to apply to the revised plan. The Bank faces particular challenges including (but not limited to): market conditions persisting; ability to achieve the targeted cost savings; completing the remediation programme; support from third parties in remediating its IT platform; the PRA not exercising its wide-ranging powers in respect of the Bank or the plan; ability to retain customers and deposits; the timing and quantum of impacts to capital from its asset reduction exercise; meeting its planned improvements in net interest margin; a possible further 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 forecasts.

Many of the risks and uncertainties also relate to factors that are beyond the Bank's ability to control or estimate precisely which include (without limitation) factors such as: UK domestic and global economic and business conditions; the Bank's ability to implement successfully its four to five year business plan to improve its financial, operational performance and capital position; market related risks, including but not limited to, changes in interest rates and exchange rates; changes to law, regulation, accounting standards or taxation, including changes to regulatory capital or liquidity requirements and the Bank's ability to meet those requirements; the ability to access sufficient funding to meet the Bank's liquidity needs including through retail deposits; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or sovereign financial issues; changes to the Bank's credit rating; the effect of competition and the actions of competitors; the impact of potential disruption to the Bank's IT and communications systems; the ability to attract and retain skilled personnel; uncertainties regarding the extent of the Bank's exposure to pensions related liabilities; exposure to increased and ongoing regulatory scrutiny, legal proceedings, regulatory investigations or complaints, including with respect to conduct issues and other factors.

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Certain data in this presentation has been rounded. As a result of such rounding, the totals of data presented in this presentation may vary slightly from the arithmetic totals of such data.

The CET1 ratio projections on the slide "Bank financial targets" (the "Projections") are based on numerous assumptions regarding the Bank's present and future business strategies and the environment in which the Bank will operate in the future. The Bank cautions readers that no forward-looking statement is a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statement.

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The Projections assume no material profits or losses and are not intended, or to be construed, as a profit forecast or to be interpreted to mean that earnings per share for the current or future financial years will necessarily match or exceed the historical published earnings per share.

# Agenda

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**Co-operative Bank**

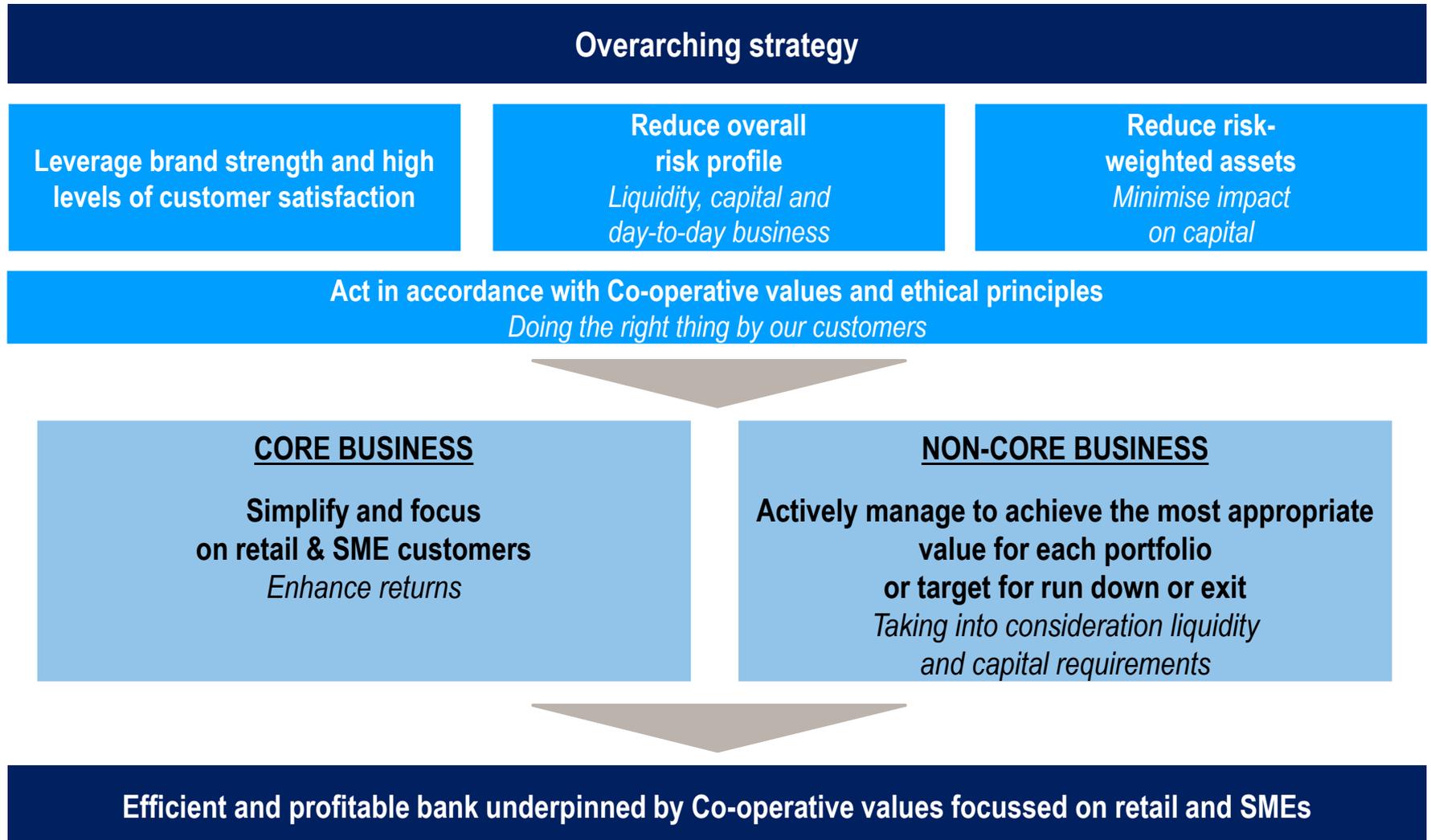
**Optimum Asset Overview | Leek RMBS Performance**

**WMS Mortgage Servicing**

**RMBS Investor Reporting & Contact Information**

# Strategic plan and vision

A four to five year turnaround plan to return to sustainable profitability



# Continuing to Reshape the Bank

Core Business: focused on right sizing and digital investment. Non-core Business: de-levered as planned

	Core Business <sup>1</sup>		Non-core Business	
	Credit RWAs (£bn)	Segmental assets (£bn)	Credit RWAs (£bn)	
1H 2013	(6.2)	30.0	14.2	(10.0)
2H 2013	(5.2)	28.6	13.1	(8.6)
1H 2014	(4.7)	27.5	12.1	(8.0)

## Core Business

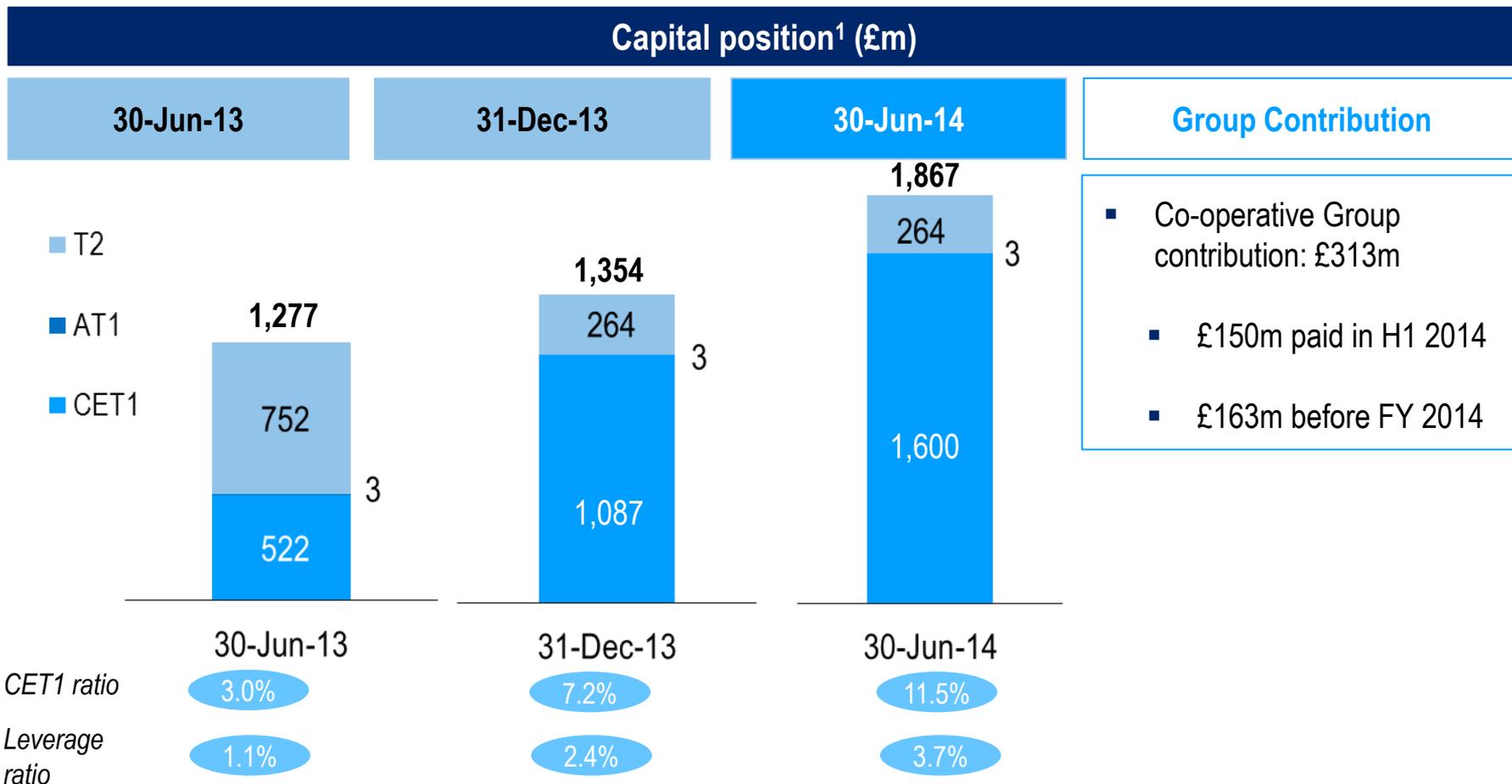
- Core Business continues to be reshaped with the foundations being laid for future growth with focus on digital investment
- Asset origination behind target due to:
  - actions taken to slow asset growth to preserve liquidity in 2013
  - new mortgage regulation coming into force in April 2014
  - customer redemptions ahead of expectation
- Focus on increased asset growth to increase revenue and reduce excess liquidity impact on Core Business NIM
- Managed reduction in deposit levels to reflect deleverage and reduce dependency on marketing leading rates

## Non-Core Business

- Proactive asset management has enabled the Bank to:
  - deleverage ahead of plan
  - deleverage at a lower cost than forecast
  - write back of certain provisions
- This has helped boost the CET1 and Leverage ratios

# H1 2014: Strengthened Capital Position

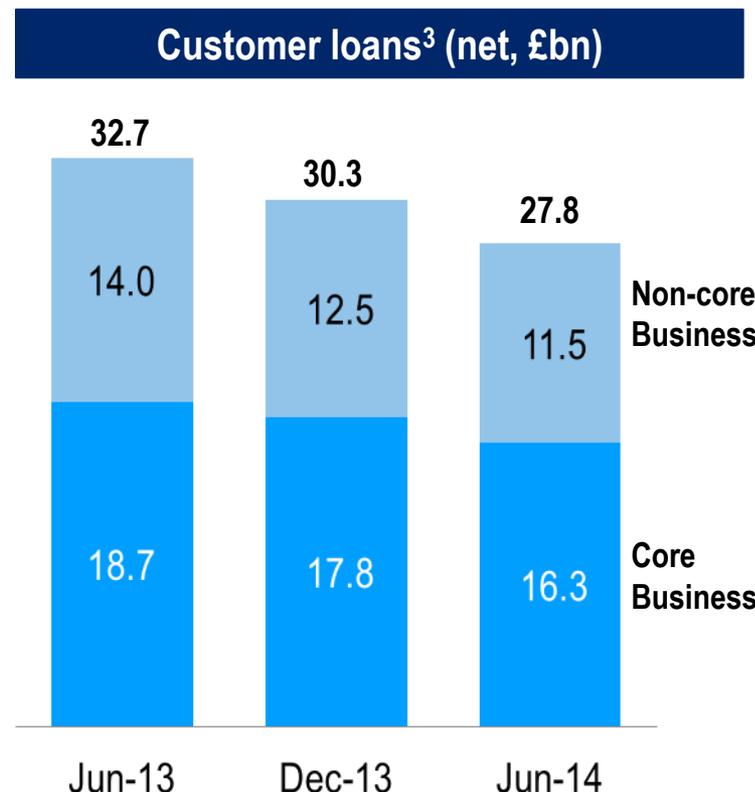
£400m capital raising completed in May resulting in a further strengthened capital position



# H1 2014 results summary — Balance sheet

## Controlled balance sheet

	Balance sheet (£bn)			
	30-Jun-13	31-Dec-13	30-Jun-14	Jun-14 vs Dec-13
Customer loans (net)	32.7	30.3	27.8	(8.3%)
<b>Total assets</b>	<b>46.6</b>	<b>43.4</b>	<b>41.1</b>	<b>(5.3%)</b>
Customer deposits	34.9	33.0	31.5	(4.5%)
Wholesale liabilities & Other	10.7	8.6	7.5	(12.8%)
<b>Total liabilities</b>	<b>45.6</b>	<b>41.6</b>	<b>39.0</b>	<b>(6.3%)</b>
<b>Equity</b>	<b>1.0</b>	<b>1.8<sup>1</sup></b>	<b>2.1<sup>1</sup></b>	<b>16.7%</b>
<i>Loan-to-deposit ratio<sup>2</sup></i>	94%	92%	88%	(4.0%)



1 31-Dec-13 and 30-Jun-14 equity include Group's 2014 contribution in full

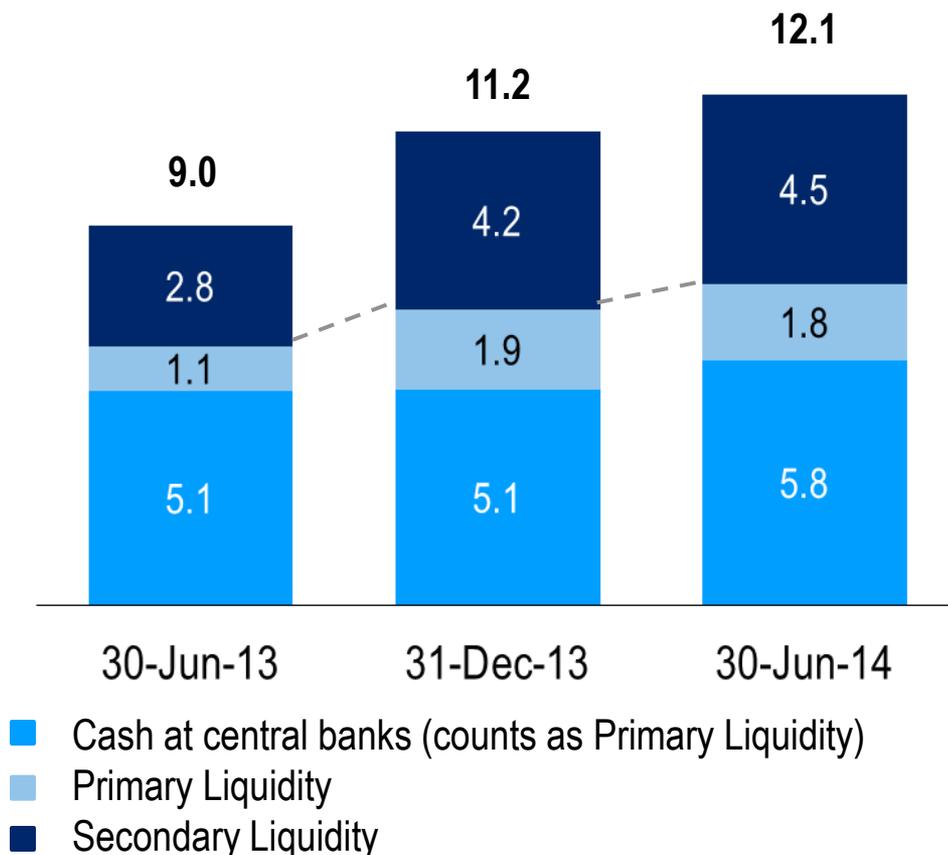
2 LTD ratio calculated as net customer loans including fair value adjustments for hedged risk /customer deposits).

3 Core Business numbers include Unity Trust Bank (UTB)

# H1 2014: Liquidity

Liquidity profile remains prudent

## Total liquidity resources (£bn)



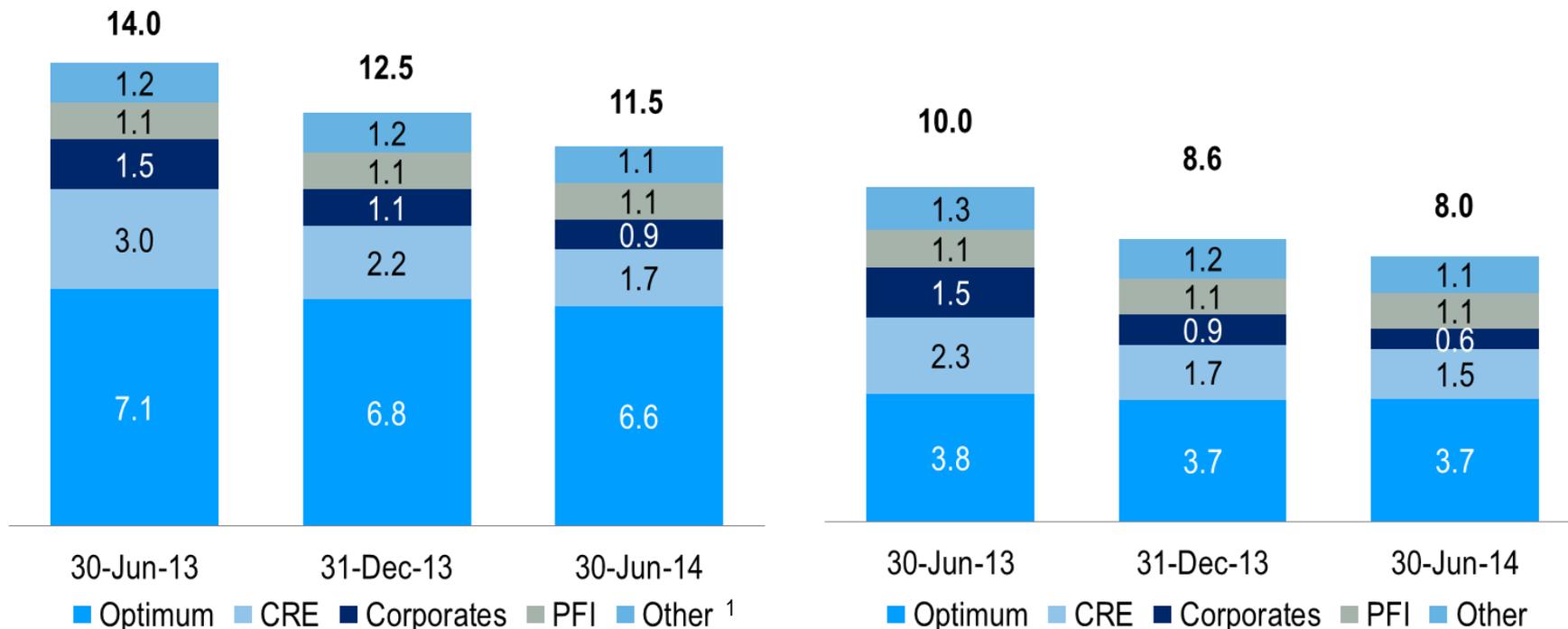
- Liquid asset buffer<sup>1</sup> of £7.6bn (as at 30-Jun-14)
- Liquid asset ratio<sup>2</sup> of 19% (as at 30-Jun-14)
- Assets eligible for discounting with central banks increased during H1 2014
- Balances held at the central bank have increased during H1 2014
- Non-buffer assets stable in H1 2014 at £4.5bn (£4.2bn as at 31-Dec-13)
- Excess liquidity continues to impact NIM

# H1 2014: Non-core Business - Balance sheet dynamics

Proactive asset management resulted in deleveraging and decreasing concentration risk ahead of plan

Net loans<sup>3,4</sup> (£bn)

Credit RWAs<sup>2</sup> (£bn)



**Non-core remains a large part of the Bank at 41% of Bank's net customer loans and 63% of Credit RWAs<sup>2</sup>**

- <sup>1</sup> Does not include Illius which is not considered as loans
- <sup>2</sup> CRD IV Credit RWAs (fully loaded rules basis)
- <sup>3</sup> Includes hedge risk provision but excludes other accounting adjustments
- <sup>4</sup> 30-Jun-13 loans shown as per the LME presentation which does not reflect a subsequent perimeter change moving £100m from Core to Non-core. The changes related to perimeter are reflected in the 31-Dec-13 and 30-Jun-14 numbers

# PRA Stress Test Results and Conclusions

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Bank's CET1 capital resources are projected to be exhausted in the hypothetical stress

Key vulnerability is historic higher-risk residential mortgages and corporate real estate assets

The PRA expectation for the Capital buffer is being re-set to take into account additional analysis from the stress test

All firms to maintain capital buffers that provide insulation against stress scenarios

PRA Board required the Bank to submit a revised capital plan which has been accepted by the PRA Board

Plan will reduce Bank RWAs by approx £5.5bn by end of 2018

Achieved the targets set over the last eighteen months in terms of building its capital base

Plan will deliver a level of resilience commensurate with a bank of its future size and business model

# Bank's Updated Turnaround Plan

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Bank has not been required to raise additional equity capital from the severe stress test

PRA has accepted Bank's revised plan with rephased and significant RWA reduction

Bank will focus on the reduction of its Non-core residential mortgage portfolio ("Optimum")

Optimum's reduction over the period to 2018 will significantly improve the Bank's resilience to a severe economic downturn

Greater certainty that the Bank will not be profitable in 2016

Turnaround plan is subject to the same principal risks and uncertainties as set out in the 2014 Interim Financial Report. In addition, execution of the revised plan requires market conditions for reduction of Optimum to remain favourable

# Bank financial targets - Update

## Turnaround plan in execution

	Financial targets	Unchanged
<b>Core Business</b>	<ul style="list-style-type: none"> <li>• Cost income ratio &lt; 60% in the longer term</li> <li>• Low double digit RoE over a longer term period</li> <li>• Controlled customer lending growth from 2015</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> </ul>
<b>Non-core Business</b>	<ul style="list-style-type: none"> <li>• Net loans reducing to c. £11.0bn by end 2014</li> <li>• Achieve deleveraging that does not materially reduce the CET1 <i>ratio</i> of the Bank<sup>1</sup> as a whole</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> </ul>
<b>Bank</b>	<ul style="list-style-type: none"> <li>• Do not expect to make a profit in 2014, 2015 and 2016</li> <li>• Total RWAs targeted to fall below £7.5bn by end of 2018<sup>2</sup></li> </ul>	Revised New
<b>Guidance</b>	<ul style="list-style-type: none"> <li>• Expect CET1 ratio to be materially above previous guidance of c.10% (including Dec 2014 Group contribution) at end of December 2014</li> <li>• Post 2014, our CET1 ratio is expected to decline before subsequently recovering</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> </ul>

1 i.e. deleveraging in such a manner that the anticipated future losses from deleveraging do not materially exceed the capital that is released from the reduction in RWAs

2 Calculation of RWAs may change over time as a result of changes to regulatory policy or its interpretation

# Conduct risk

Review of processes and products continues but no new categories of conduct risk have been provided for

Conduct risk	Update	Provision charges (£m)		
		H1 2013	H2 2013	H1 2014 (unaudited)
PPI	<ul style="list-style-type: none"> <li>The H1 2014 PPI provision reflects the latest expectations of customer claims volumes, uphold rates, pay out data and costs</li> </ul>	53	50	5
Interest rate swap mis-selling	<ul style="list-style-type: none"> <li>No further charge requirement in H1 2014</li> </ul>	10	23	0
Breaches of the Consumer Credit Act (legal provision)	<ul style="list-style-type: none"> <li>The H1 2014 CCA provision is to cover refunds on interest charged in H1 on Loans which are not CCA compliant</li> <li>The CCA provision includes £16m for the first half of 2014 of interest foregone per prior guidance plus an additional amount of £13m due to revision of previous estimates from 2013</li> </ul>	29	81	29
Conduct redress related to mortgage products	<ul style="list-style-type: none"> <li>A review of methodology led to the additional requirement for mortgage related provision due to the availability of better information as work continues through the remediation process</li> </ul>	49	65	5
Other	<ul style="list-style-type: none"> <li>No further charge requirement in H1 2014</li> </ul>	26	26 <sup>1</sup>	0
<b>Total</b>		<b>167</b>	<b>244</b>	<b>39</b>

The **co-operative bank** <sup>1</sup> £11.3m of provisions previously classified as Other in the H1 2013 audited accounts reclassified as Conduct redress related to mortgage products for comparability to H2 2013 data

# Agenda

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**Co-operative Bank/ Optimum Asset Overview**

**Optimum Asset Overview | Leek RMBS Performance**

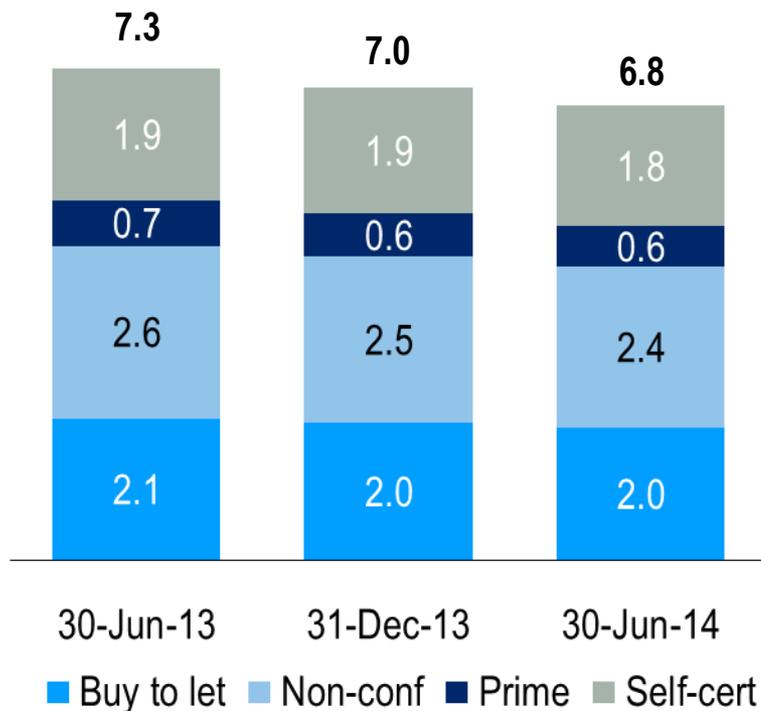
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# Optimum: Overview and Strategy

Following 2014 Bank of England stress testing, the Bank will focus on the reduction of its Non-core residential mortgage portfolio - “Optimum” (a closed book of residential mortgages originated through intermediaries and previously purchased mortgage portfolios)

## Gross customer balances (£bn)- June 2014



### Description

- 91.1% non-prime (£6.1bn)
- 15.6% non-performing (£1.1bn) with 11.7% coverage
- Average LTV of 73%
  - 11.4% (£0.8bn) LTV > 100%
- 79.3% interest-only mortgages (£5.4bn)
- Weighted average life of 7.45 years
- > 65.7% encumbered in Leek or Cambric RMBS
- Fair value of £5.6bn (vs. carrying value of £6.6bn)
- 3m+ Arrears rate of 5.3% (5.9% Dec 2013)

### Strategy

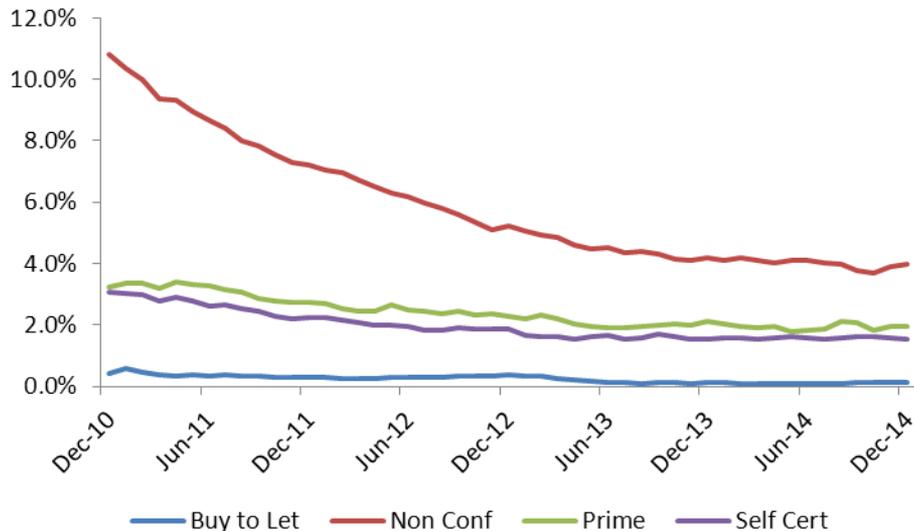
- 2014 actions:
  - Improved customer segmentation and portfolio management
  - Optimum’s reduction over the updated plan period to 2018 will significantly improve the Bank’s resilience to a severe economic downturn

# Non-Core Retail Secured Portfolio

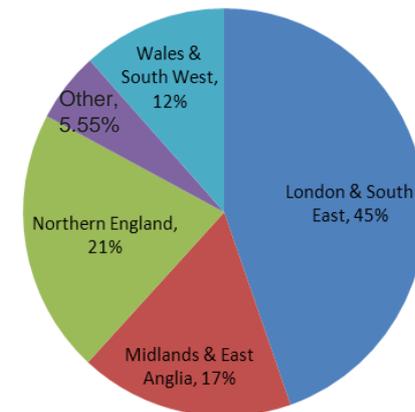
## Banded LTV by product

	Prime	BTL	Self Cert	Non-Conf	Jun-14	Dec-13
<b>Average LTV's</b>	73%	73%	71%	74%	73%	75%
<b>New Business LTV</b>	0	0	0	0	0	0
<b>&lt;=50%</b>	8%	8%	10%	7%	9%	8%
<b>&lt;=75%</b>	19%	41%	32%	24%	31%	27%
<b>&lt;=100%</b>	56%	45%	50%	50%	49%	51%
<b>&gt; 100%</b>	16%	5%	7%	18%	11%	15%
<b>Gross Customer Balances (£bn)</b>	0.6	2.0	1.8	2.4	6.8	7.0
<b>% Accounts with &gt;=2.5% Arrears</b>	1.81%	0.09%	1.59%	4.10%	2.11%	2.16%

## Non-Core Arrears trends



## Non-Core Regional analysis



# Leek RMBS: Summary & Structuring

Transaction	Portfolio	Rated Notes o/s (£m Equiv)	Mortgage Collateral Type	Mortgage Collateral (£m)	WA O/S Note Ratings (Mdys)	Expected Maturity	AAA Class Credit Enhancement	90 day + delinquencies	Public/ Retained
Leek 17	Optimum	404	Non-Conf	407	Aa2	2016 H1	79.61%	3.78%	Public
Leek 18	Optimum	481	Non-Conf	484	Aa2	2016 H2	70.69%	3.50%	Public
Leek 19	Optimum	467	Non-Conf	471	Aa3	2017 H1	72.38%	3.90%	Public
Leek 20	Optimum	924	Non-Conf	1,338	Aaa	N/A	36.56%	5.25%	Retained
Leek 21	Optimum	480	Non-Conf	790	Aaa	N/A	50.85%	5.10%	Retained
Leek 22	Optimum	261	Non-Conf	368	Aaa	N/A	36.41%	2.44%	Retained
Cambric 1	Platform/Optimum	666	Prime   Non-Conf	901	Aaa	2017 H1	42.32%	0.51%	Retained
		<b>3,683</b>		<b>4,759</b>					

*\*Source: Published Investor Reports- Dec 2014*

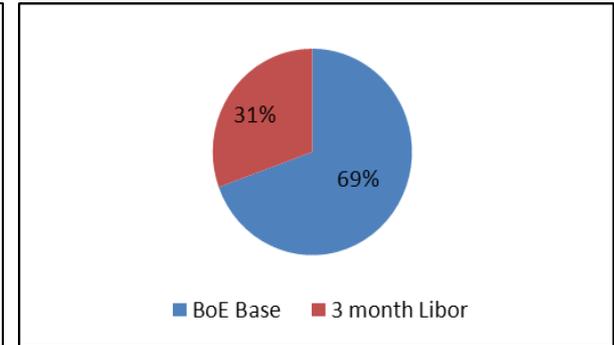
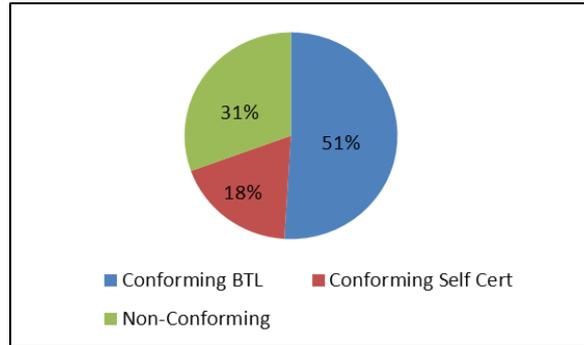


- Owner Occupied & BTL, 1<sup>st</sup> lien collateral originated through Intermediary arm, Platform or acquired via 3<sup>rd</sup> parties
- Standalone, static pools, pass-through structuring
- Fully funded, non-amortising reserve funds. No reserve fund drawings experienced
- Leek 17-19: Strong AAA Enhancement post 2011 restructuring
- “Best in Class” credit performance vs UK Non-Conforming peers
- Back-up Cash Manager (Citibank) installed for each active RMBS & Covered Bond programme in early 2014 following successful note-holder consent solicitation exercises

# Leek RMBS (Public): Mortgage Collateral

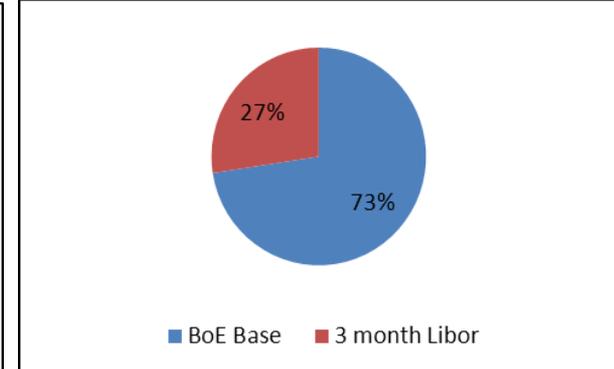
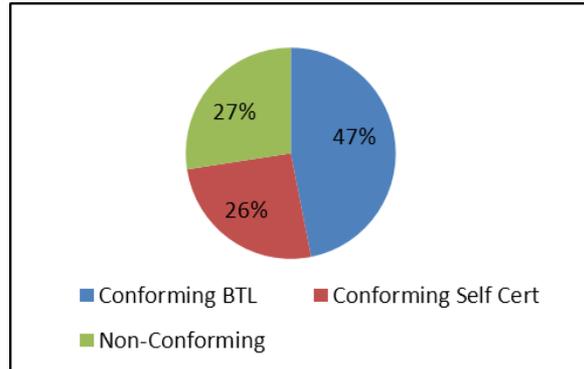
## LEEK 17 (2006)

- WA Seasoning: 9.2 years
- Current WA LTV: 78%
- Interest Only: 82%
- London & SE: 48%
- WA Interest Rate: 2.6%



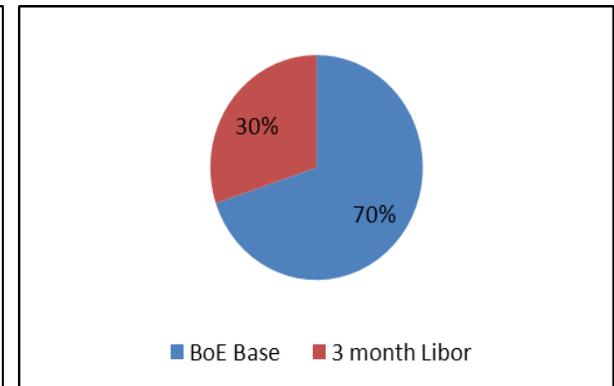
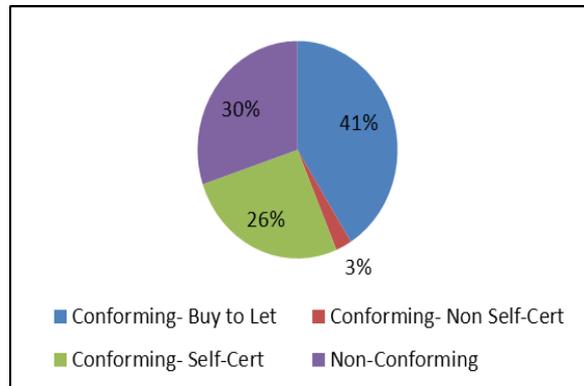
## LEEK 18 (2006)

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## LEEK 19 (2007)

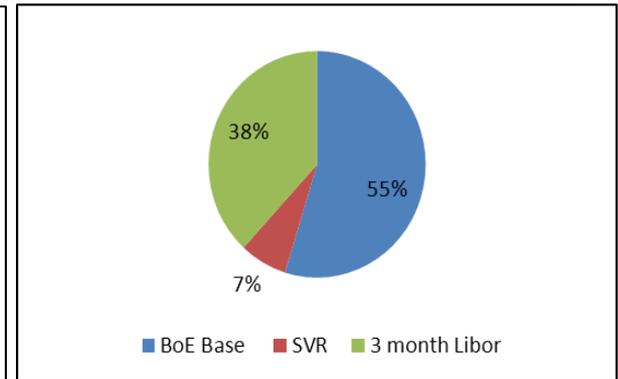
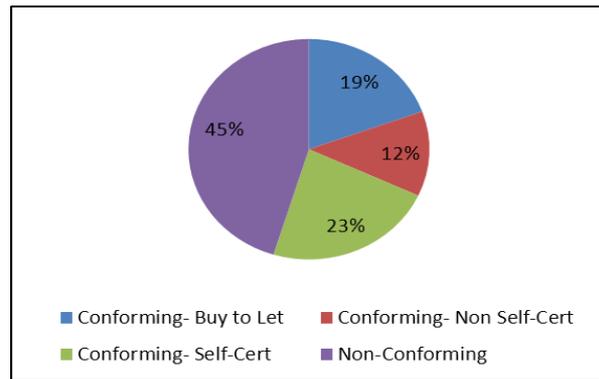
- WA Seasoning: 8.2 years
- Current WA LTV: 80%
- Interest Only: 84%
- London & SE: 49%
- WA Interest Rate: 2.5%



# Leek RMBS (Retained): Mortgage Collateral

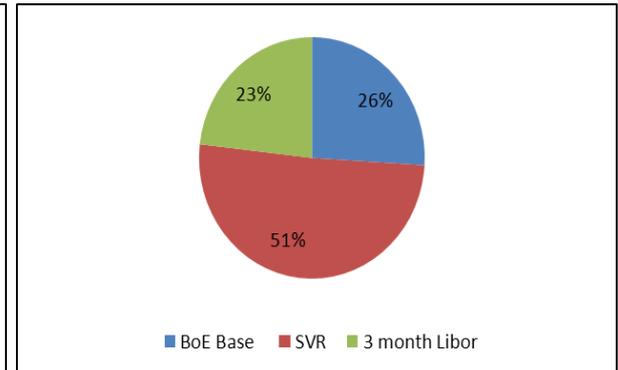
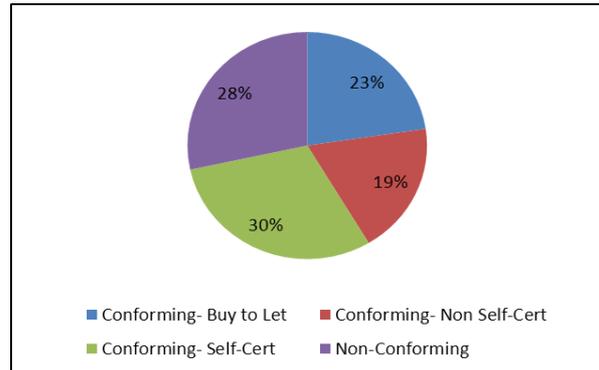
## LEEK 20 (2008)

- WA Seasoning: 7.5 years
- Current WA LTV: 83%
- Interest Only: 79%
- London & SE: 44%
- WA Interest Rate: 2.96%



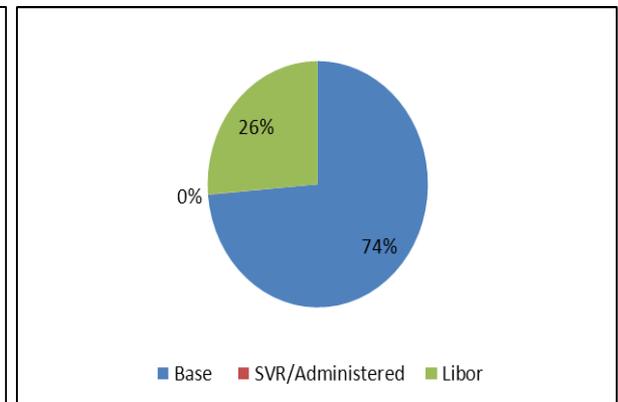
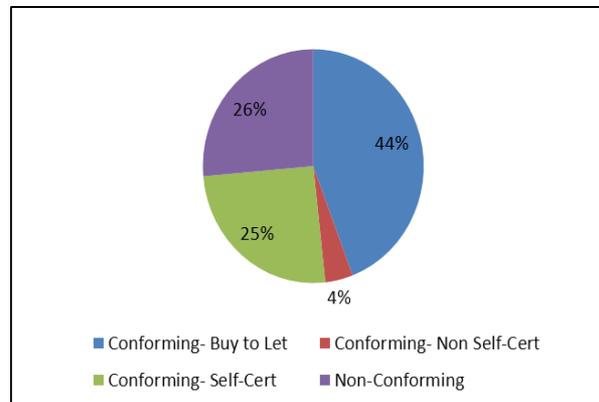
## LEEK 21 (2008)

- WA Seasoning: 8.1 years
- Current WA LTV: 85%
- Interest Only: 81%
- London & SE: 40%
- WA Interest Rate: 2.5%

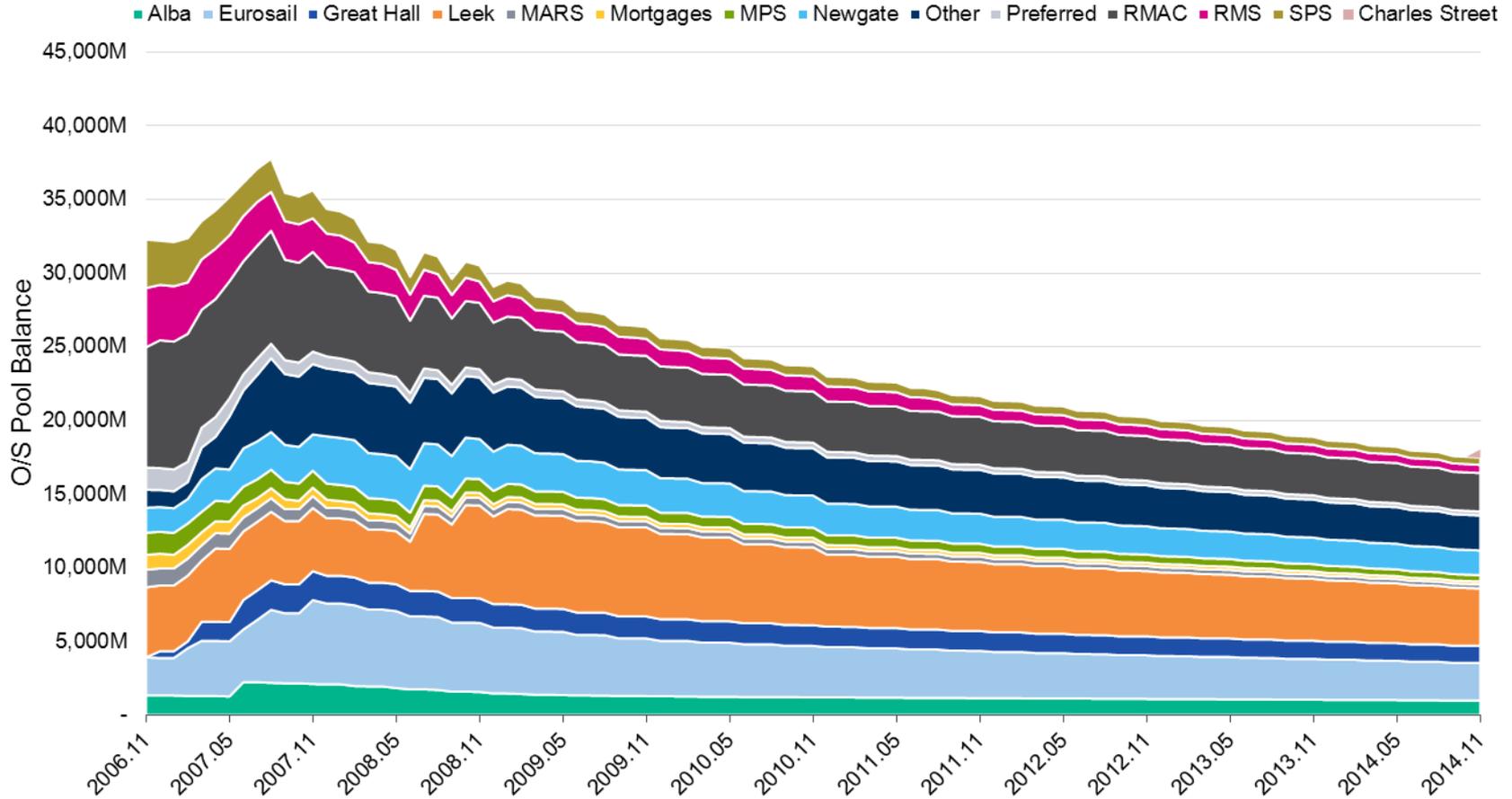


## LEEK 22 (2009)

- WA Seasoning: 7.3 years
- Current WA LTV: 73%
- Interest Only: 79%
- London & SE: 42%
- WA Interest Rate: 2.7%



# UK non-Conforming RMBS Market

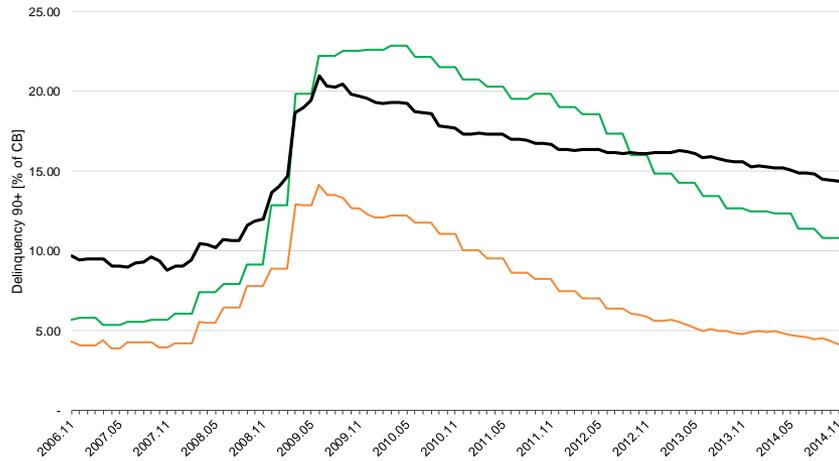


Source: Moody's Investors Service, periodic investor/servicer reports

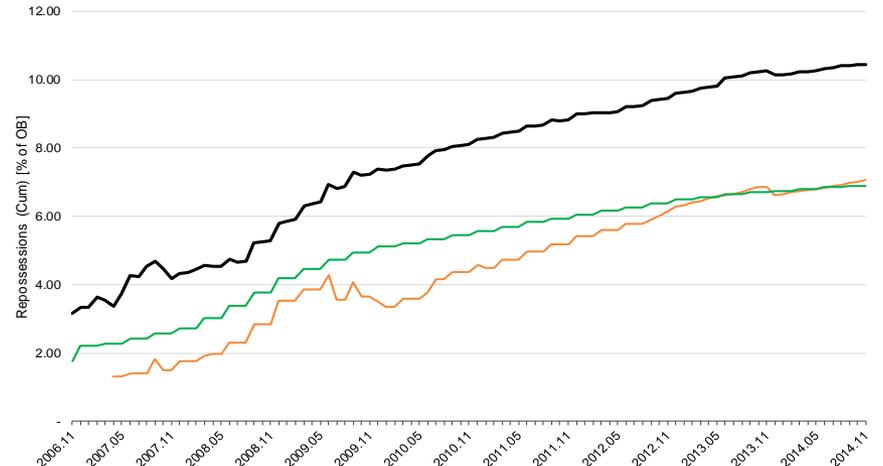
# Historical Leek RMBS Performance



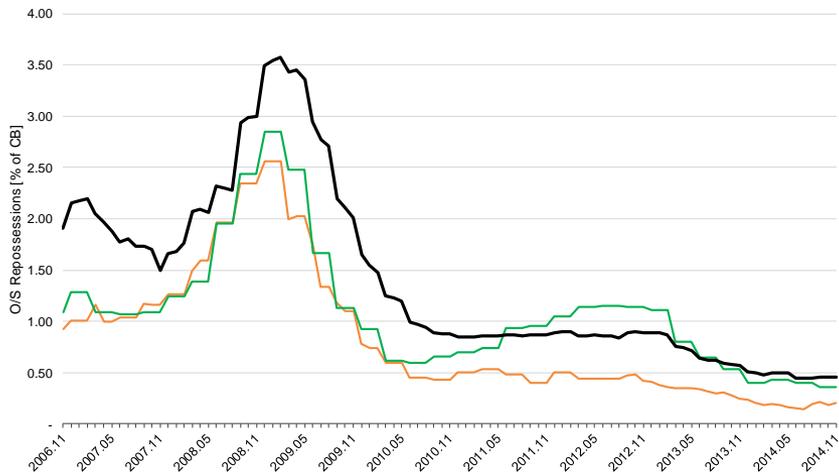
UK Non-Conforming RMBS 90+ Days Delinquency - Trend by series



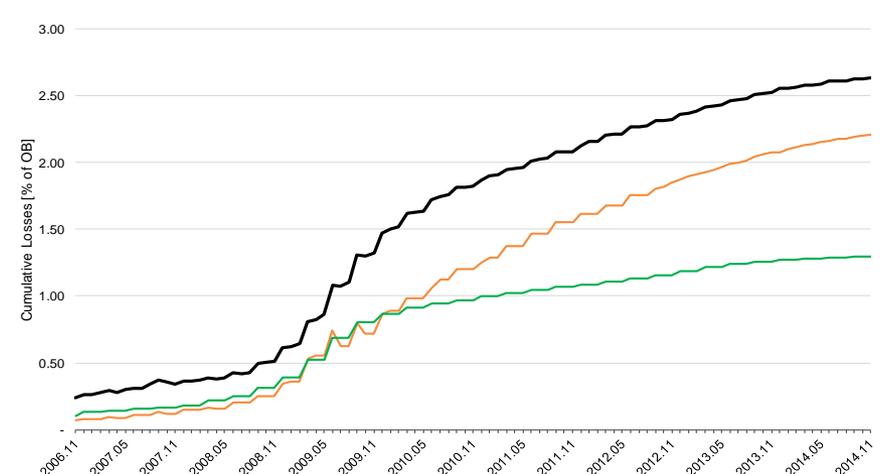
UK Non-Conforming RMBS Cum Repossessions - Trend by series



UK Non-Conforming RMBS OS Repossessions - Trend by series



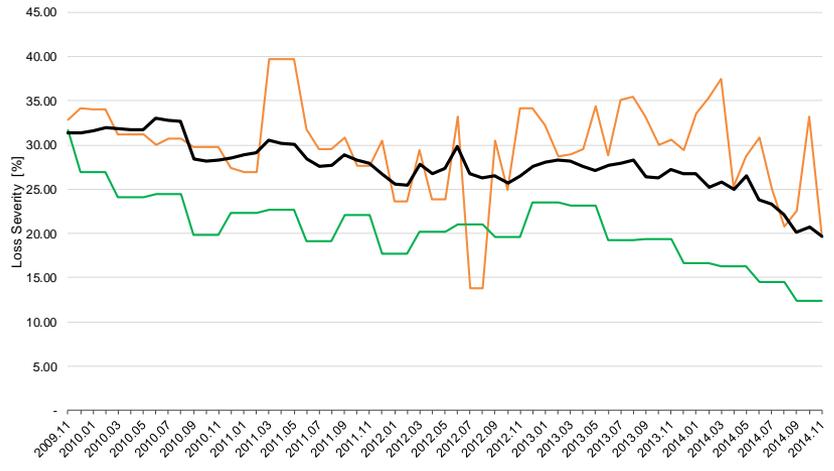
UK Non-Conforming RMBS Cum Losses - Trend by series



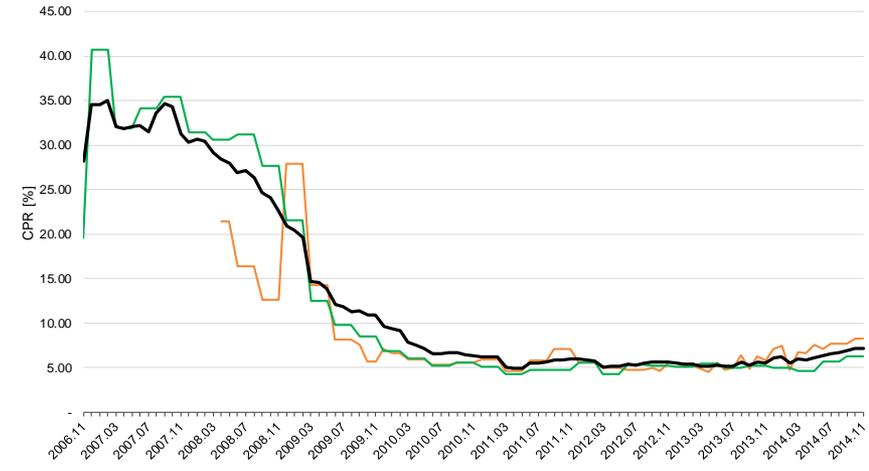
# Historical Leek RMBS Performance



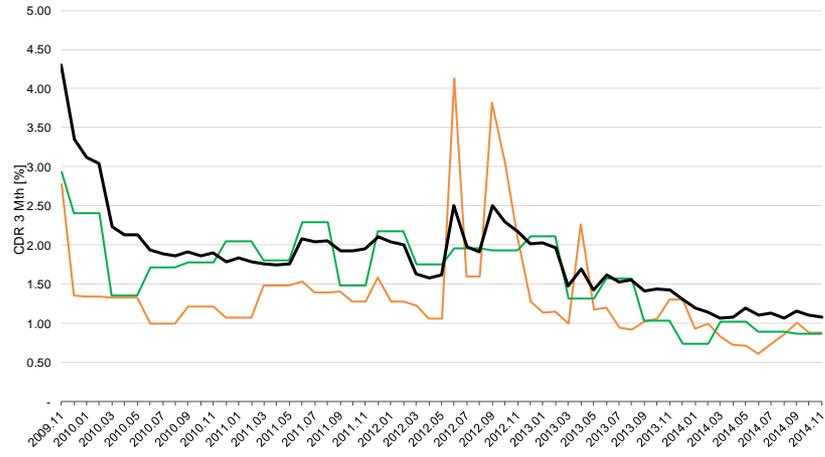
UK Non-Conforming RMBS Loss Severities - Trend by series



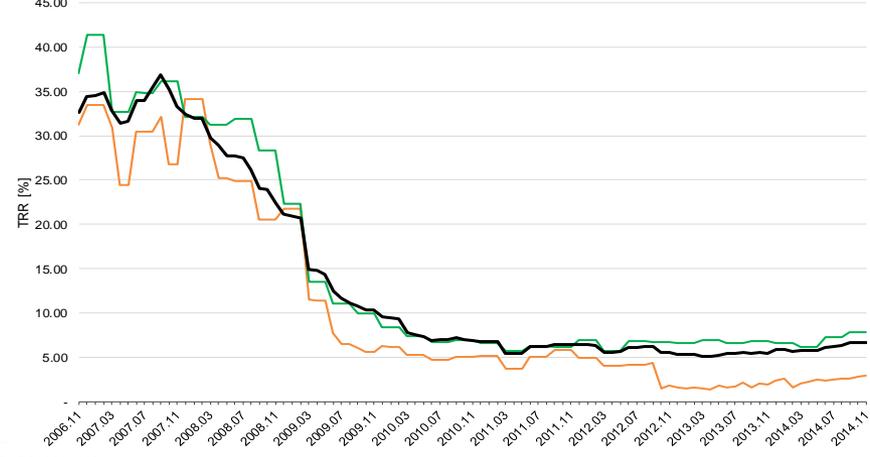
UK Non-Conforming RMBS CPR - Trend by series



UK Non-Conforming RMBS 3M CDR - Trend by series



UK Non-Conforming RMBS TRR - Trend by series



Source: Moody's Investors Service, periodic investor/servicer reports

# Agenda

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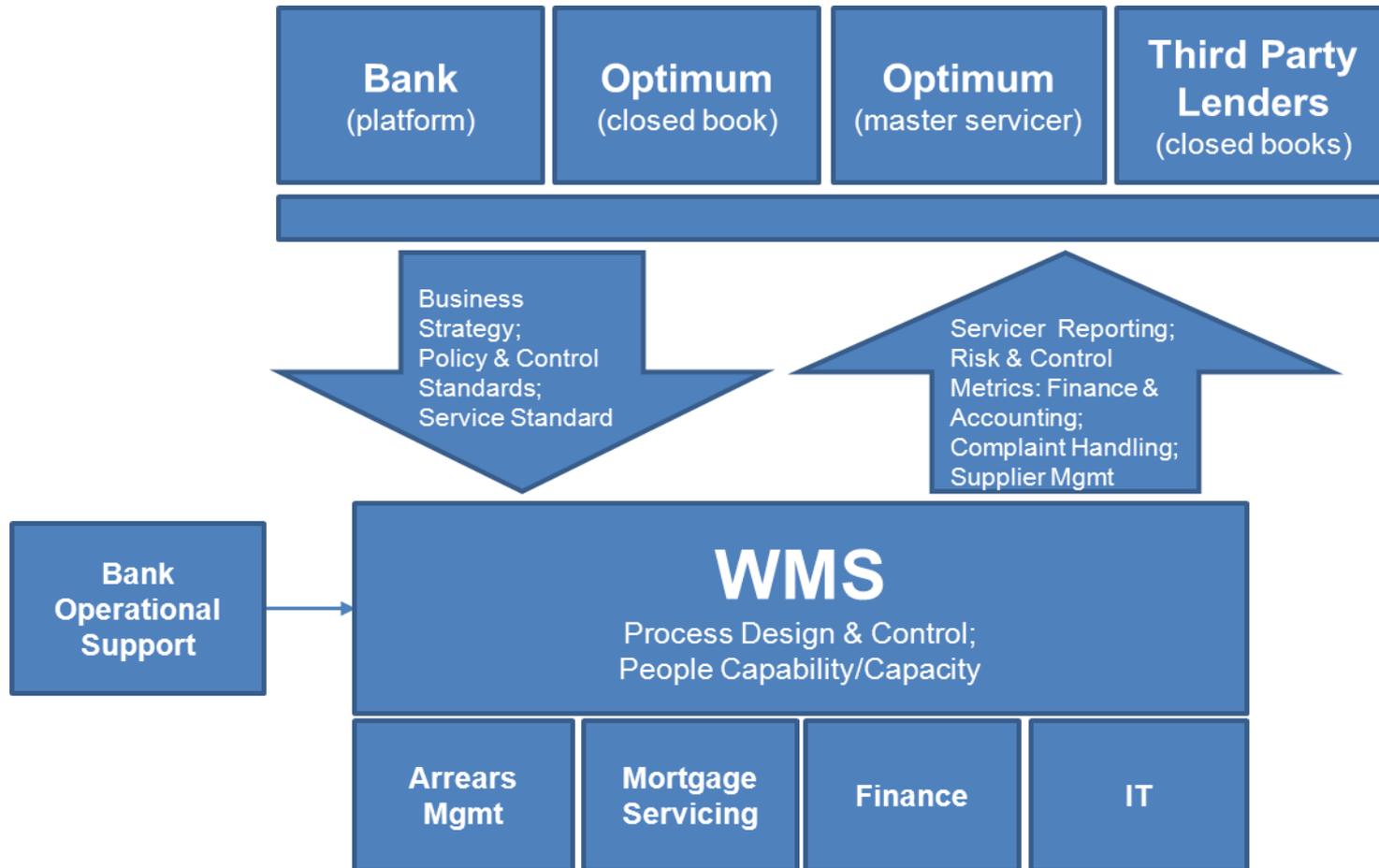
**Co-operative Bank/ Optimum Asset Overview**

**Optimum Asset Overview | Leek RMBS Performance**

**WMS Mortgage Servicing**

**RMBS Investor Reporting & Contact Information**

# WMS – Third Party Mortgage Servicer



# WMS - Overview

Over £10bn assets under administration – ~95k accounts

## Background

- Established in 1996
- December 2001
  - Platform's servicing operations transferred to WMS
- Based in Plymouth
  - providing servicing operations for Platform, as well as several smaller non-affiliated mortgage providers
- Wholly owned subsidiary of The Co-operative Bank

## Services

- Mortgage Servicing
  - Customer queries
  - Payments
  - Product variations
- Arrears Management
  - Pre-arrears to Litigation
- 3<sup>rd</sup> party Management
  - Solicitors
  - Asset Managers
  - LPA receivers

## People

- 305 FTE
  - 189 customer facing
- 8 years Average Tenure

## Infrastructure

- Tamar (1985)
  - Mortgage Processing
- Planet (2001)
  - Further advance application processing
- Genesis (2002/3)
  - Insurance; Redemptions
- Collect (2009)
  - Arrears System – end user
- Telephony
  - Ayaya - end user
- Full systems recovery capability
  - tested bi-annually

- Balances represent customer balances as at 31<sup>st</sup> December 2014

# WMS - Capita Outsourcing Announcement

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- As announced in November 2014, the Co-operative Bank p.l.c. (the “Bank”) intends to outsource its mortgage servicing operations and to sell its mortgage servicing subsidiary, Western Mortgage Services Limited (WMS), to a third party mortgage servicer
- The Bank has selected Capita plc (“Capita”) as its preferred bidder to undertake the Bank’s mortgage servicing operations
- The agreed heads of terms envisage that Capita will acquire WMS
- The Bank will continue to determine and set the servicing policies and underwriting applicable to all mortgage loans to which its subsidiaries hold title- including arrears, default and enforcement procedures

# Agenda

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**Co-operative Bank/ Optimum Asset Overview**

**Optimum Asset Overview | Leek RMBS Performance**

**WMS Mortgage Servicing**

**RMBS Investor Reporting & Contact Information**

# Investor Reporting & Contact Information

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- Bank of England ('BoE') compliant investor reporting & loan level data tapes are available for all transactions
- All RMBS documentation, investor reports, cash flow models & loan data are updated quarterly online at <https://boeportal.co.uk/theco-operativebank>. Registration is required to access this material
- Investor Reports are also published quarterly via Bloomberg ("SLKRD", "LEEK", CAMBI" MTGE <GO>) and at <http://www.co-operativebank.co.uk/investorrelations/debtinvestors/leekprogrammes>

## Contact Information:

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