

# The Co-operative Bank Update & Warwick Finance Residential Mortgages Number 1 PLC (WFRM1) Review

Global ABS 2015 – Barcelona  
16<sup>th</sup> – 18<sup>th</sup> June 2015

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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.

# Agenda

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**Co-operative Bank**

**Warwick Finance Residential Mortgages Number 1 PLC (WFRM1) Review**

**WFRM1 Portfolio Overview**

**Optimum Asset Overview**

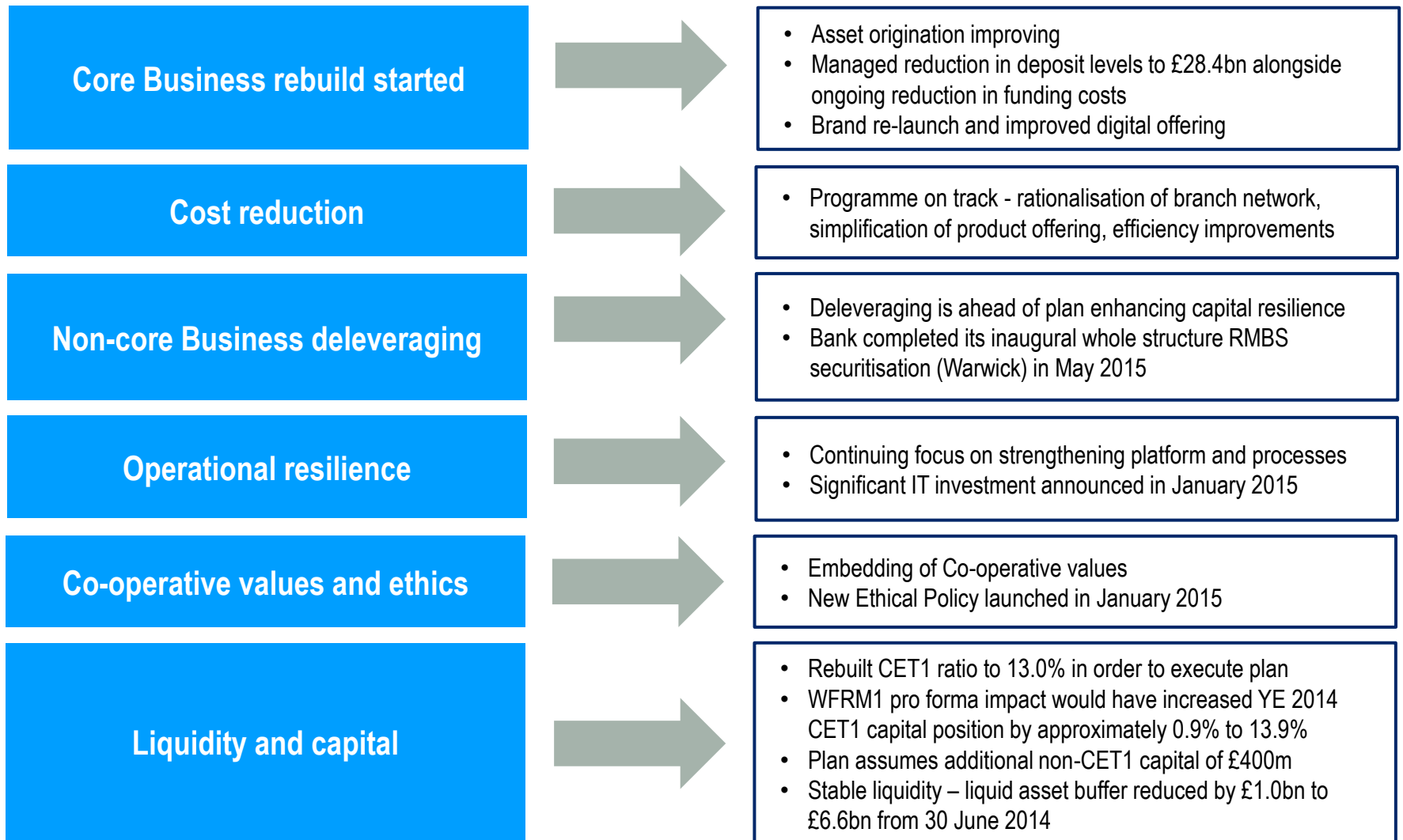
**WMS Mortgage Servicing**

**RMBS Investor Reporting & Contact Information**

**Appendix - Leek & RMAC RMBS Performance**

# Co-operative Bank

## Key Highlights



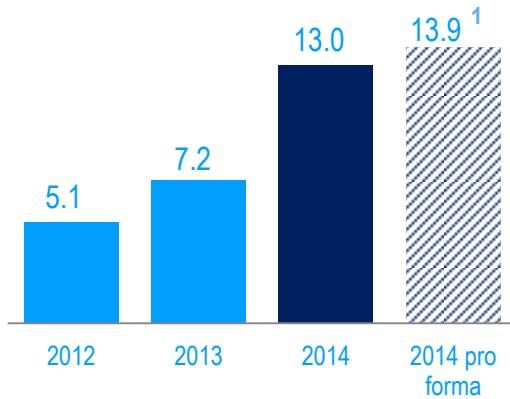
### Continued progress in implementing the turnaround plan

<b>KPIs</b>	<ul style="list-style-type: none"><li>• Mortgage applications and completions above plan expectations during Q1 2015 with completions totalling £0.5bn</li><li>• Redemptions at £0.5bn have trended downwards in Q1 2015 compared to H2 2014</li><li>• Current account portfolio remained broadly stable</li></ul>
<b>Income</b>	<ul style="list-style-type: none"><li>• Net interest income slightly ahead of expectations due to pricing actions on retail deposits, lowering funding costs</li></ul>
<b>Costs</b>	<ul style="list-style-type: none"><li>• Cost reduction programme remains on track</li><li>• Project portfolio being managed to budget with ongoing prioritisation of project portfolio</li></ul>
<b>Liquidity</b>	<ul style="list-style-type: none"><li>• Retail deposit pricing actions, notably in re-pricing Selected Access Saver products, led to managed reductions in deposits thus lowering surplus liquidity</li></ul>
<b>Conduct</b>	<ul style="list-style-type: none"><li>• Planned conduct remediation activities to be substantially progressed in 2015</li></ul>

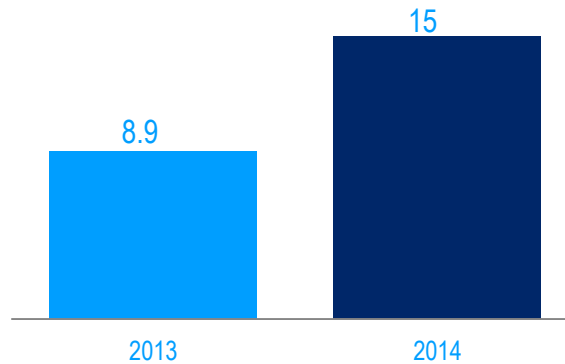
# Co-operative Bank

## Financial Highlights

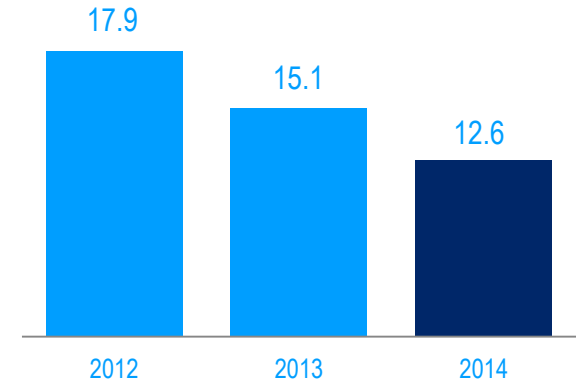
### Common Equity Tier 1 (CET1) Ratio (%)



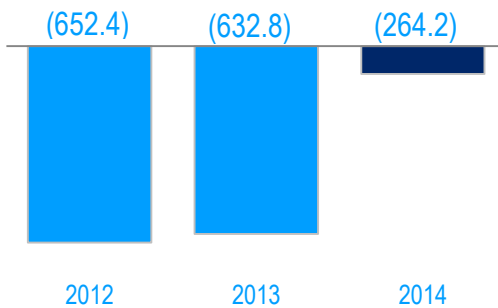
### Total Capital Ratio (Fully Loaded) (%)



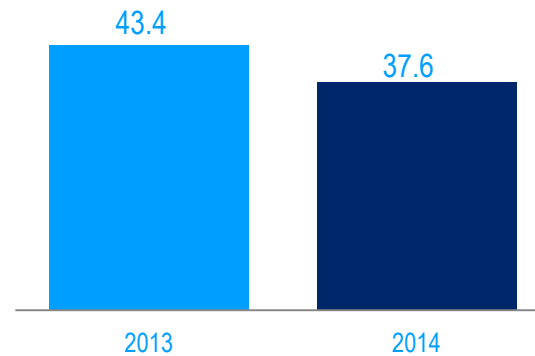
### Total RWAs (£bn)



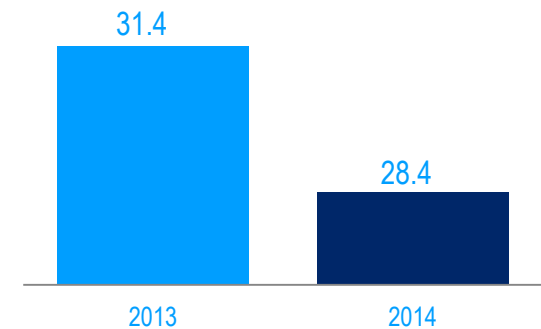
### Statutory Profit (Loss) Before Tax (£m)



### Total Assets (£bn)



### Customer Deposits (£bn)



1. WFRM1 transaction's pro forma impact would have increased the Bank's 31 December 2014 core equity tier one ("CET1") capital position by approximately 0.9% to 13.9%

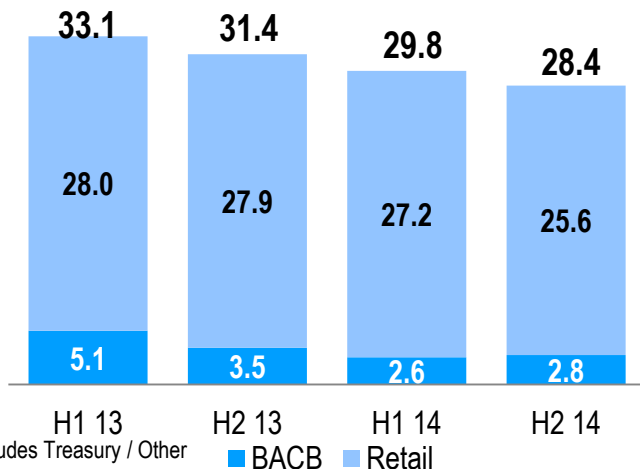
Note: 2012 and 2013 figures have been restated, please see note 3 of the FY 2014 Annual Accounts for details

# Co-operative Bank

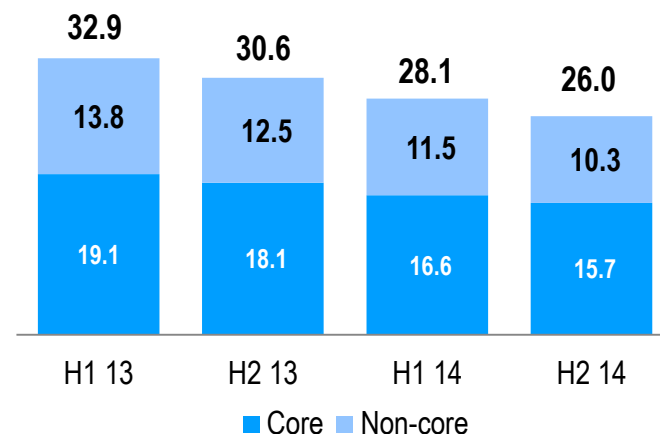
## Balance Sheet Highlights

### Balance sheet has reduced during the year

#### Customer Deposits (£bn)



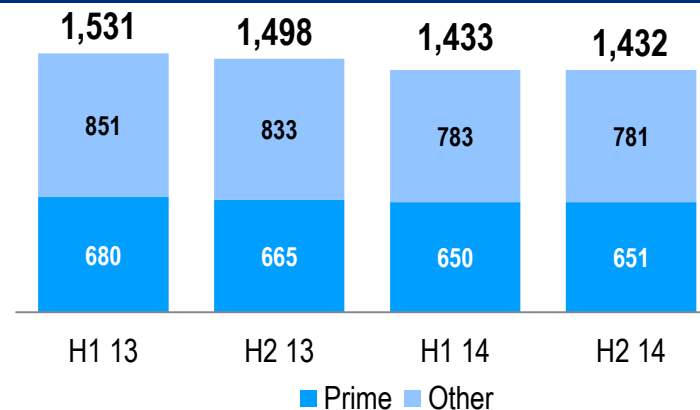
#### Net Customer Loans<sup>6</sup> (£bn)



#### Other Selected Balance Sheet Data

	31/12/13	31/12/14	Change
Equity (£bn)	1.8 <sup>1</sup>	2.0	0.2
Loan-to-deposit ratio <sup>5</sup>	92%	85%	(7)pp
NPL ratio <sup>2,4</sup>	11.4%	10.0%	(1.4)pp
NPL coverage ratio <sup>3,4</sup>	32.1%	26.8%	(5.3)pp

#### Current Accounts (thousands)



1 31-Dec-13 equity include Group's 2014 Contribution in full

2 Calculated as impaired customer balances (incl. watchlist) / gross customer balances

3 Calculated as allowance for losses (excluding losses for hedging risk) on customer balances / impaired customer balances (including watchlist)

4 Defined as... loans Management reporting basis

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

6 Core Business numbers include Unity Trust Bank (UTB)

# Co-operative Bank

Overarching Strategy Remains The Same

## Faster deleveraging going forward enhancing capital resilience

Leverage brand strength and high levels of customer satisfaction

Reduce overall risk profile  
*Capital and resilience of its day-to-day business, liquidity*

Reduce risk-weighted assets  
*Minimise impact on capital*

Act in accordance with Co-operative values and ethical principles  
*Doing the right thing by our customers*

### CORE BUSINESS

Simplify and focus on retail & SME customers  
*Enhance returns*

### NON-CORE BUSINESS

Actively manage to achieve the most appropriate value for each portfolio or target for run down or exit  
*Taking into consideration liquidity and capital requirements*

To become an efficient and financially sustainable UK Retail and SME Bank that is distinguished by its values and ethics

Can now move towards building profitability in the longer term



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# Warwick Finance Residential Mortgages Number 1 Plc (WFRM1)

## U.K. non-conforming RMBS Product Issuance: Transaction Highlights

- The Co-operative Bank plc's ("The Bank's") first whole structure securitisation of non-conforming UK mortgages, structured to achieve SRT and de-consolidation, assisting the Bank in managing its risk weighted assets by reducing its non-core Optimum portfolio
- BofAML was Sole Arranger & Joint Lead Manager across all tranches. Morgan Stanley and Citibank were appointed Joint Lead Managers for the Investment Grade tranches.
- WFRM 1 is backed by a pool of mortgages from the "Optimum" residential mortgage portfolio originated by Platform Funding Limited ("PFL") and GMAC-RFC Limited ("GMAC")
- Given 100% of the pool are floating rate mortgages, the transaction did not require a swap agreement

New Issue April 28, 2015

**£1,500,000,000**

**Warwick Finance Residential  
Mortgages Number 1**

The **co-operative** bank

*Class A Notes: £1,088,000,000*  
*Class B Notes: £180,090,000*  
*Class C Notes: £52,480,000*  
*Class D Notes: £30,000,000*  
*Class E Notes: £40,530,000*  
*Class F Notes: £46,550,000*

**Structuring Bookrunner**

**Bank of America**  
**Merrill Lynch**

**Transaction Highlights**

- The inaugural issuance, WFRM1, generated significant investor demand and represented a market first as the largest fully marketed placement of U.K. Non-Conforming RMBS paper post-crisis
  - The deal was upsized to a final issuance of £1.5BN from £1.2BN originally, with Co-op retaining 65% of Class A, which was less than the 70% originally envisaged
  - The books were received strong investor interest with Classes A to C oversubscribed by 1.1 to 1.4x, and Classes D to F well oversubscribed at 4.1 – 5.5x
  - WFRM1 Class B tranche is the largest mezzanine double-A rated public placement across all asset classes in either Sterling or Euro post-crisis
  - The transaction represented the largest UK non-conforming deal ever securitised in Sterling RegS format
  - The transaction priced on Tuesday, April 28<sup>th</sup>, and attracted 27 unique investors
  - All tranches priced in line or tighter than Initial Price Thoughts

# Warwick Finance Residential Mortgages Number 1 Plc (WFRM1)

## U.K. non-conforming RMBS Product Issuance: Capital Structure

Capital Structure										
Class	Expected Rating (M/S) <sub>(sf)</sub>	CCY	Size	% of Total <sup>(1)</sup>	Credit Enhancement <sup>(2)</sup>	WAL (yrs) <sup>(3)</sup>	Coupon (bps)	Step-up Coupon (bps)	Issue Price	Final Spread (bps)
A (Placed)	Aaa / AAA	GBP	380,800,000	72.50%	29.50%	3.81	3M £L + 100	3m £L + 150	99.10%	3M £L + 125
A (Retained)	Aaa / AAA	GBP	707,200,000	72.50%	29.50%	3.81	3M £L + 100	3m £L + 150	99.10%	3M £L + 125
B	Aa2 / AA	GBP	180,090,000	12.00%	17.50%	5.14	3M £L + 120	3m £L + 190	96.93%	3M £L + 185
C	A2 / A+	GBP	52,480,000	3.50%	14.00%	5.14	3M £L + 150	3m £L + 225	96.95%	3M £L + 215
D	Baa2 / A	GBP	30,000,000	2.00%	12.00%	5.14	3M £L + 180	3m £L + 270	96.06%	3M £L + 265
E	Ba2 / BBB	GBP	40,530,000	2.70%	9.30%	5.14	3M £L + 220	3m £L + 370	93.45%	3M £L + 365
F	B3 / BB	GBP	46,550,000	3.10%	6.20%	5.14	3M £L + 270	3m £L + 455	93.10%	3M £L + 425
Principal Residual Certificates	N/A	GBP	62,995,004	4.20%			N/A		N/A	N/A
Revenue Residual Certificates	N/A	GBP	N/A	N/A			N/A		N/A	N/A
General Reserve Fund		GBP	29,874,206	2%						
Total:			1,500,645,004							

<sup>(1)</sup> Total being Current Balance and Borrower Overpayments

<sup>(2)</sup> Credit Enhancement includes subordination of the Notes and the Principal Residual Certificates, the availability of the General Reserve Fund (subject to certain Cumulative Default Triggers), excess Available Revenue Receipts and the Overpayment Ledger

<sup>(3)</sup> WALs assumes 6% CPR, no defaults or delinquencies and the Portfolio Option is exercised on the step-up date

## Transaction Overview

### Optimum Portfolio

- Following the merger between Britannia Building Society ("Britannia") and The Bank (in August 2009), the Optimum Portfolio was established to focus on the management of pre-2009 Platform intermediary lending and purchased mortgage books including GMAC originated assets

### Key Structural Features

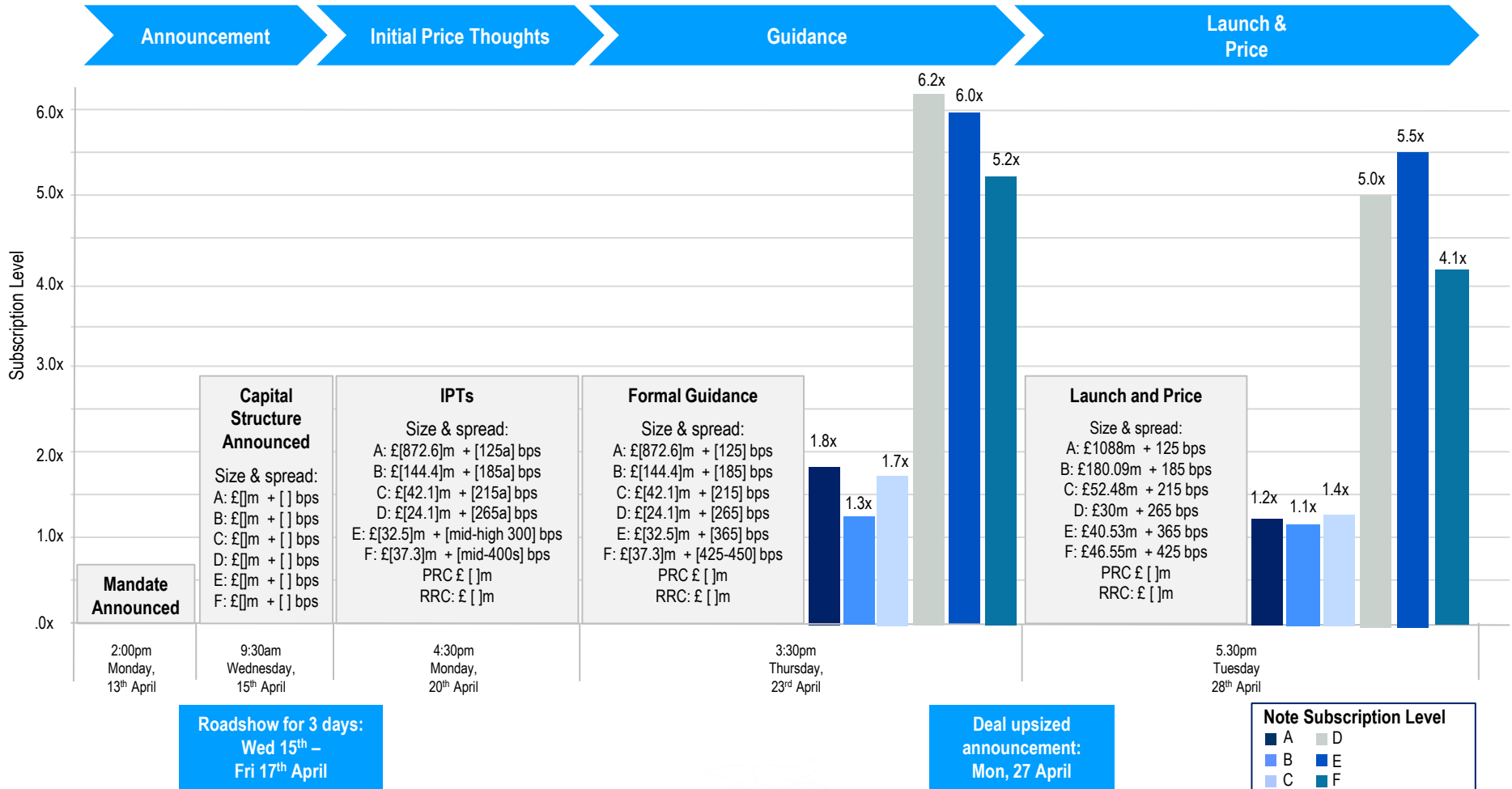
- Class A to F Notes were listed with the UKLA and issued under Reg S format
- The expected maturity date is on the step-up date, June 2020, after which, if the Portfolio Option is not exercised, the margins on the Class A to F Notes will increase
- General Reserve Fund of 2% funded upfront
- The first interest payment date is 21 September 2015

# Warwick Finance Residential Mortgages Number 1 Plc (WFRM1)

U.K. non-conforming RMBS Product Issuance: Timeline & Book Building

## Timeline & Book Building Chronology

- Significant investor interest allowed WFRM1 to price at the tight end of the IPTs across all tranches
- Investor strengthened from IPT through to pricing reflected in the overall structure being 1.8x oversubscribed

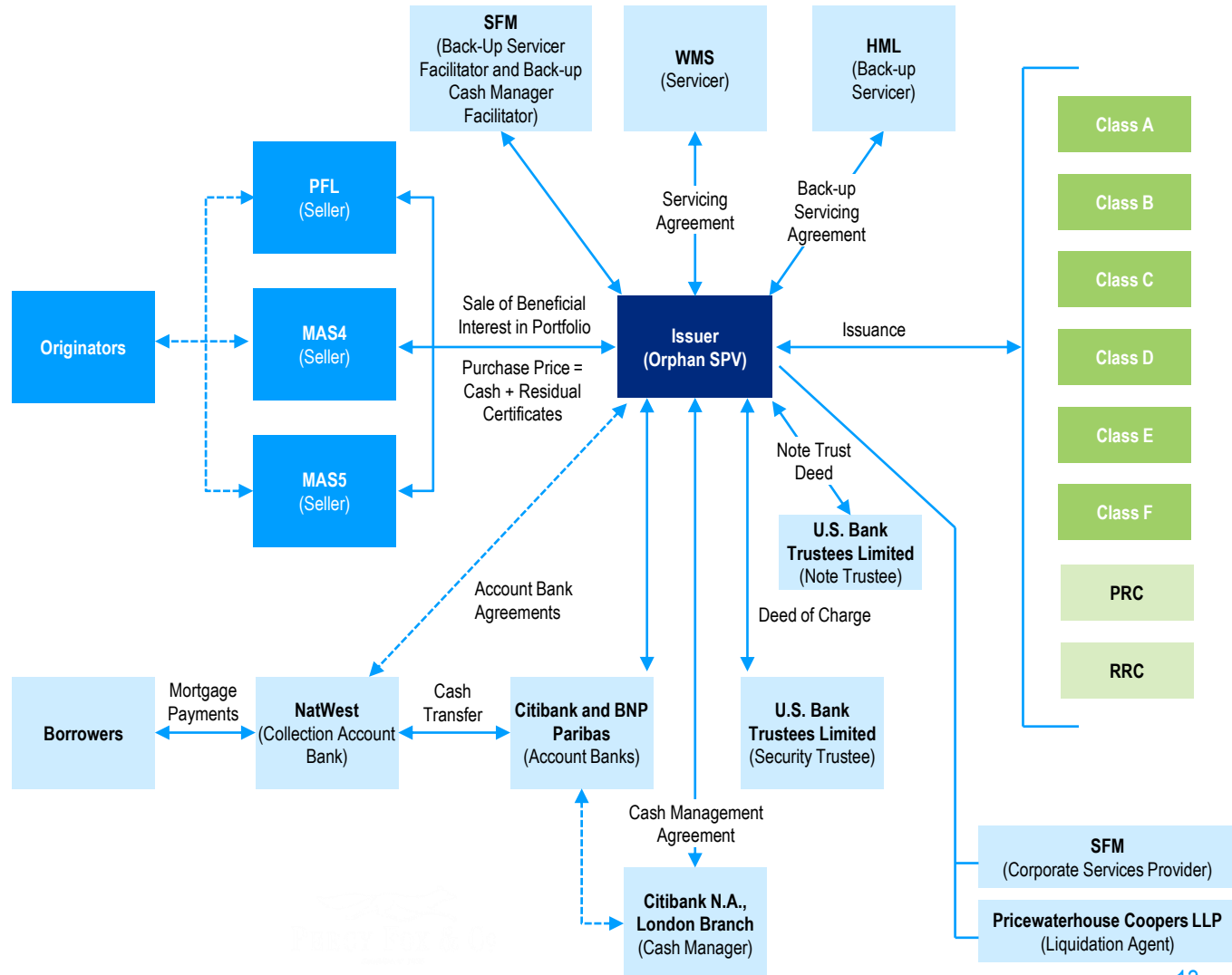


# Warwick Finance Residential Mortgages Number 1 Plc (WFRM1)

## U.K. non-conforming RMBS Product Issuance: Structure Diagram

### UK Securitisation Transaction Structure

- WFRM1 is a standalone, pass-through securitisation following the standard UK set up for such transactions
- PFL, MAS4 and MAS5 sold the beneficial interest in the Portfolio to WFRM1
- WFRM1 issued the rated Notes (Reg S) together with the Principal Residual Certificates (the "PRC") and the Revenue Residual Certificates (the "RRC")
- PFL, MAS4 and MAS5 each comply with the retention requirement under Article 405 of the CRR, Article 51 of the AIFMD Level 2 Regulation and Article 254(2) of the Solvency II Delegated Act
- The 5% retention for each Seller was a randomly selected representative sample of similar Loans which would otherwise have been securitised in the transaction
- Western Mortgage Services Limited ("WMS") will continue to service the Portfolio and Homeloan Management Limited ("HML") is appointed as Back-up Servicer at closing
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# WFRM1 Portfolio Overview

U.K. non-conforming RMBS – Provisional Pool

## WFRM1 Provisional Pool Selection

Step 1

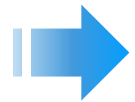
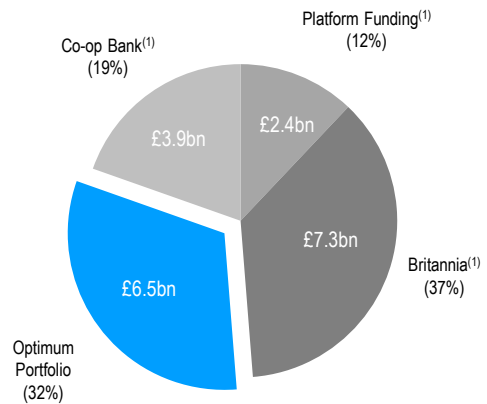
Step 2

Step 3

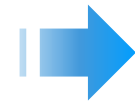
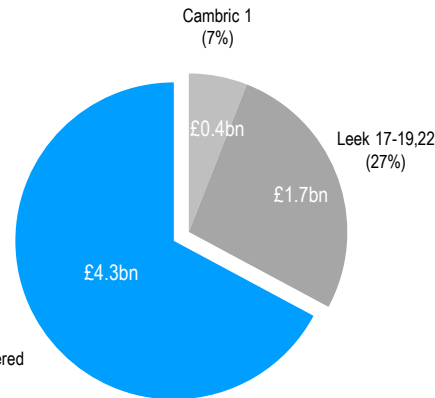
Co-op Bank Mortgage Portfolio (£bn)

Optimum Portfolio (£bn)

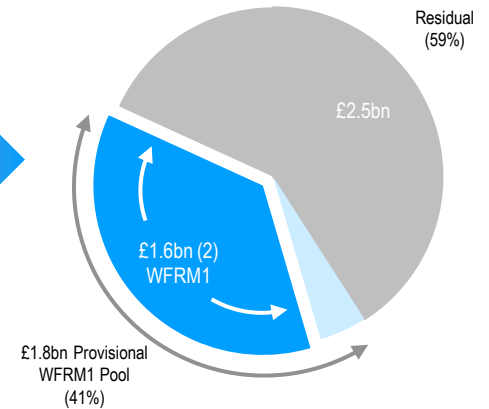
Optimum Unencumbered (£bn)



Unencumbered (67%)



£1.8bn Provisional WFRM1 Pool (41%)



Note: figures may not sum to totals due to rounding

<sup>(1)</sup> Core Bank residential mortgage assets

<sup>(2)</sup> £1.6bn Deal Size includes the 5% retained by the Sellers

# WFRM1 Portfolio Overview

U.K. non-conforming RMBS – Provisional Pool

## Provisional Pool Key Characteristics

	PFL	GMAC	Total:
Cut-off Date	31/12/2014	31/12/2014	31/12/2014
Balance (£)	992,199,906	795,588,135	1,787,788,041
Number of Loans	9,455	6,388	15,843
Number of Loan Parts	9,862	6,573	16,435
Average Loan Balance (£)	104,939	124,544	112,844
WA OLV (%)	77.33	84.48	80.51
WA Indexed CLTV (%) <sup>1</sup>	70.18	79.18	74.19
WAC (%)	2.73	3.95	3.27
WA Seasoning (Years)	8.33	8.12	8.24
WA Time to Reset (Months)	0	0	0
WA Remaining Term (Years)	14.33	14.32	14.32
3M LIBOR Index (%)	42.92	24.82	34.87
BBR Index (%)	57.01	35.96	47.64
SVR Index (%)	0.07	39.22	17.49
BTL (%)	26.44	21.79	24.37
IO (%)	70.27	80.78	74.95
CCJs (%)	6.02	9.06	7.37
Bankruptcy or IVA (%)	1.99	2.16	2.07
Self Certified (%)	50.82	41.9	46.85
Current Loans (%)	82.42	91.46	86.44
30-60 Days in Arrears (%)	6.53	4.06	5.43
60-90 Days in Arrears (%)	3.08	1.62	2.43
90+ Days in Arrears (%)	7.97	2.86	5.70



# WFRM1 Portfolio Overview

U.K. non-conforming RMBS – Provisional Pool

## Comparison of WFRM1 with Market Comparables

- The table below sets out in comparison the WFRM1 issuance against precedent comparable trades
- The WFRM1 transaction is unique in terms of its unprecedented size of issuance to the primary market within the U.K. Non-Conforming RMBS space
- The transaction achieved the lowest AAA credit enhancement compared to recent U.K. non-conforming RMBS transactions

	WFRM1	Celeste <sup>(1)</sup>	RMS 28 <sup>(2)</sup>	Slate No.2 <sup>(1)</sup>	Thrones 2014-1 <sup>(1)</sup>	Moorgate 2014-1 <sup>(1)</sup>	Rochester Financing No.1 <sup>(2)</sup>
Closing	May-15	Mar-15	Mar-15	Oct-14	Jul-14	Apr-14	Oct-13
Collateral Balance (GBP)	<b>1,787,788,041</b>	254,567,336	513,292,458	408,257,444	311,042,283	510,045,026	376,216,372
Avg CBAL (GBP)	<b>112,844</b>	177,895	120,237	120,867	146,995	133,765	109,017
WA OLTV (%)	<b>80.51</b>	83.20	76.89	81.67	84.68	81.46	76.20
WA CLTV (%)	<b>76.88</b>	83.10	75.17	81.67	82.43	79.34	75.00
WA Indexed CLTV (%)	<b>74.19</b>	79.60	75.29	66.39	78.26	89.60	77.04
WA Seasoning (months)	<b>98.88</b>	86.51	76.00	91.32	81.24	83.04	54.80
CCJs (%)	<b>7.37</b>	1.09	24.59	13.28	10.30	8.03	30.80
BO/IVA (%)	<b>2.07</b>	0.00	0.84	7.20	1.95	2.93	6.50
90+ Arrears (%)	<b>5.70</b>	0.38	0.58	0.00	0.50	3.21	0.00
Self Certified (%)	<b>46.85</b>	2.75	61.08	0.00	46.93	56.43	39.82
Buy to Let (%)	<b>24.37</b>	94.66	13.62	1.00	26.27	35.91	5.10
Interest Only (%)	<b>74.95</b>	98.95	70.29	60.23	86.20	83.58	59.60
WAC (%)	<b>3.27</b>	2.67	4.83	3.85	3.10	2.95	3.67
<b>AAA's</b>							
CE%	29.50	37.15	30.00	20.00	41.00	34.65	37.50
OWAL	3.81	3.69	3.78	5.40	4.33	3.87	3.40
Spread	3m£L + 125	3m£L +115	3m£L +115	3m£L +110	3m£L +105	1m£L +105	3m£L +145

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**Co-operative Bank**

**Warwick Finance Residential Mortgages Number 1 PLC (WFRM1) Review**

**WFRM1 Portfolio Overview**

**Optimum Asset Overview**

**WMS Mortgage Servicing**

**RMBS Investor Reporting & Contact Information**

**Appendix - Leek & RMAC RMBS Performance**

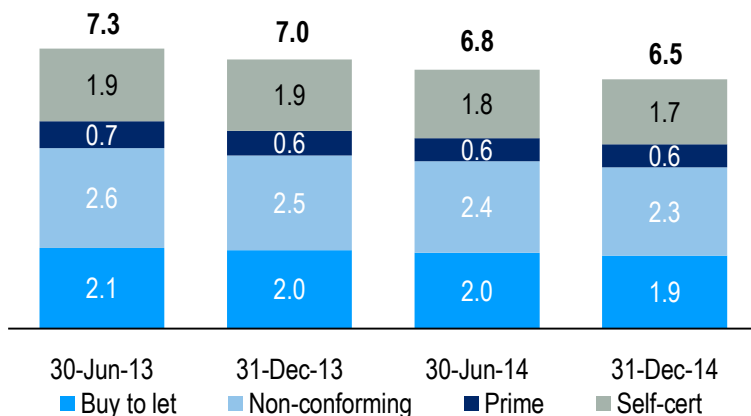
# Optimum Asset Overview

## Summary Overview

### Optimum Overview and Strategy

Following WFRM1, the Non-Core Optimum Portfolio on a pro-forma basis is a £5.0bn\* legacy residential mortgage book comprised of BTL and owner occupied loans originated by PFL, or acquired from 3<sup>rd</sup> parties pre 2009. Optimum will be substantially disposed of by 2018 through a series of transactions

#### Gross Customer Balances (£bn)



#### Portfolio Overview

- Predominantly interest-only loans – 79.7%
- Average indexed LTV – 73.1%
- 90+ days past due and default balance has reduced from £579.9m (8.3% of total customer balances) in 2013 to £473.2m (7.3%) in 2014

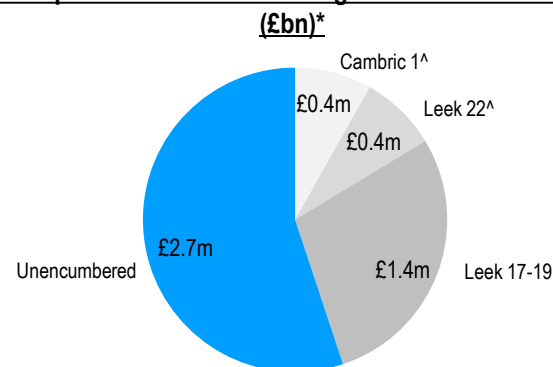
#### Bank of England Stress Tests

- The Optimum Portfolio was particularly vulnerable to the Bank of England hypothetical severe stress tests in 2014 and consumes significant capital

#### Strategy

- In the revised plan submitted to and accepted by the PRA, the overarching strategy of the Bank remains the same, however the Bank has committed to an earlier deleverage of the Optimum Portfolio
- Following the successful securitisation of WFRM1, the Bank will continue to execute a series of transactions to substantially dispose of Optimum by the end of 2018

#### Pro-forma Optimum Position Following the Securitisation of WFRM1



\* Figures may not sum to total due to rounding

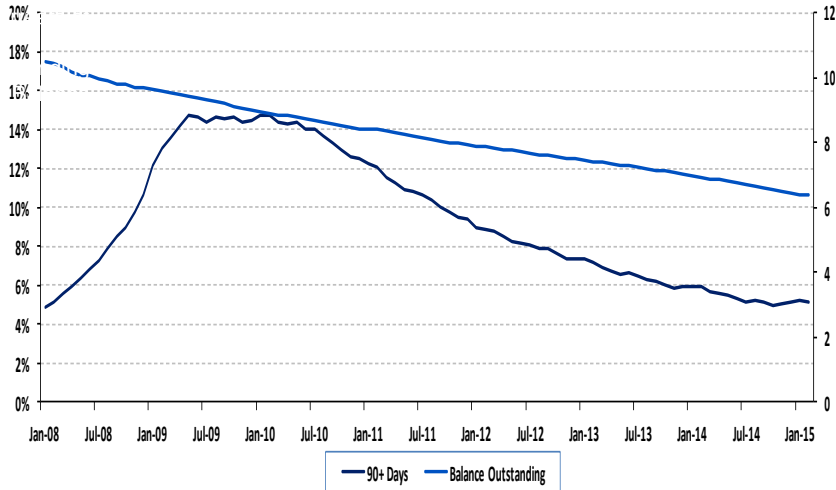
^ Cambric and Leek 22 RMBS transactions fully retained by the Bank

The Bank remains committed to the continued de-leverage of its Optimum Portfolio

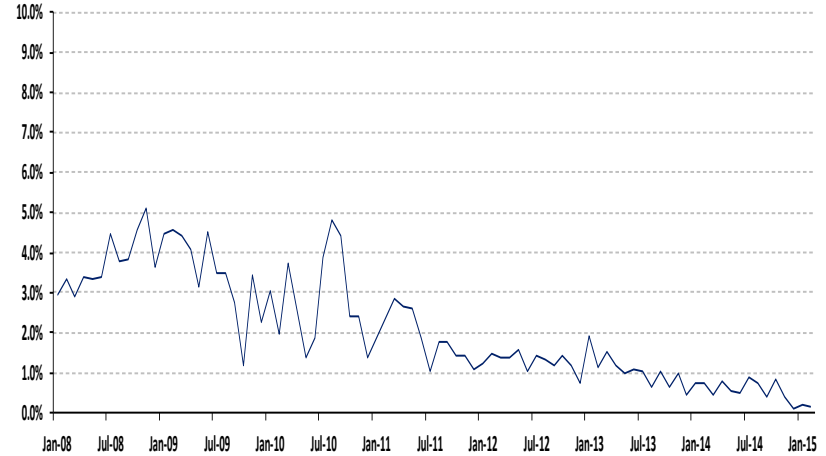
# Optimum Asset Overview

## Historical Portfolio Performance

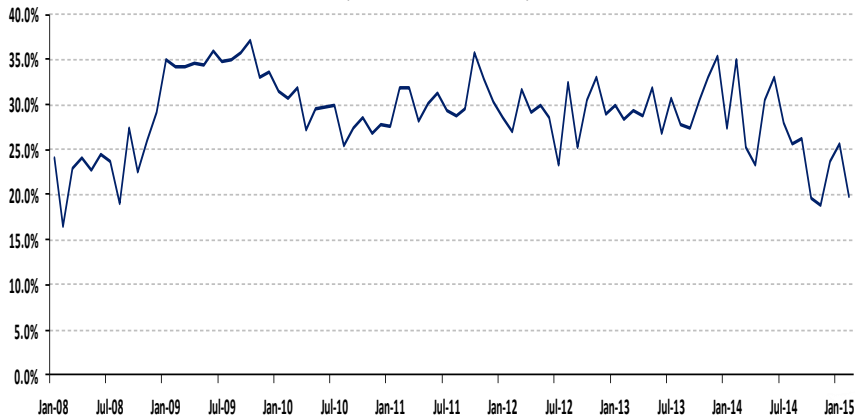
### Optimum Portfolio – Outstanding Balance and 90+ Days Arrears



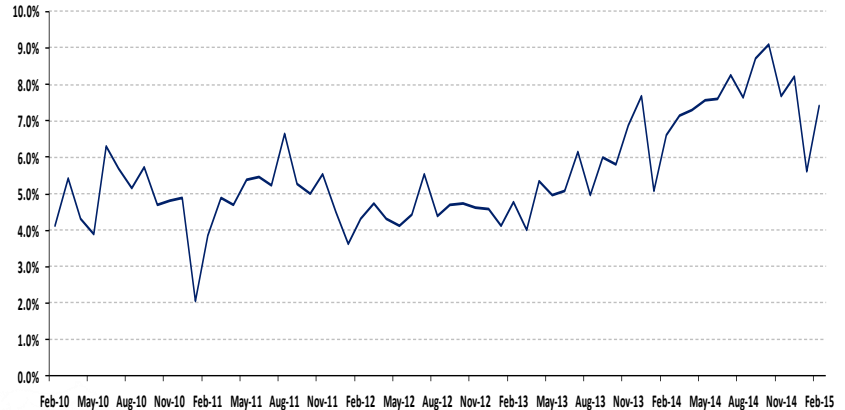
### Optimum Portfolio – Monthly Default Rate (Annualised)



### Optimum Portfolio - Loss Severity



### Optimum Portfolio – Historical Annualised Principal (scheduled & unscheduled) Payment Rate



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**Appendix - Leek & RMAC RMBS Performance**

### Overview

- Established in 1996
- Over £10bn ( over 95k accounts) of assets under administration
- Wholly owned subsidiary of the Bank
- 305 full-time employees (8 years average tenure)
- 65% of staff have over 5 years of servicing experience and 25% have more than 10 years of experience

### Key Clients

#### Servicer

- Non-Core Optimum and WFRM1 - £6.5Bn, Core Bank Platform - £2.4Bn, Third parties - £1.2Bn, etc.

#### Standby Servicer

- Kensington and Bluestone

### Services

#### Mortgage Servicing

- Customer queries, payments, product variations, etc.

#### Arrears Management

- Customer dialogue, loan modifications, etc.

#### Third Party Management

- Solicitors, asset managers, LPA receivers, etc.

### Quality Control / Audit

- WMS is dedicated to the quality of the services it provides and has a quality assurance team of 15.5 FTEs, which is led by 2 managers
- Collection advisors are regularly reviewed and each permanent advisor has 7 quality checks per month

### Infrastructure

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

### Technology / Business Continuity

- The SunGard Offsite Recovery Contract provides recovery facilities (work area, telephony and IT) for 200 business users and the recovery timeframe is 24 hours from disaster invocation
- Business continuity tests are carried out twice a year and an annual incident management test is run once a year

### Capita

- As announced in November 2014, the Bank intends to outsource its mortgage servicing operations and to sell its mortgage servicing subsidiary, 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 legal title- including arrears, default and enforcement procedures

### Loan Modifications

- Loan modification techniques include:
  - **Term Extensions**  
The maturity of the loan is extended to reduce the monthly payment
  - **Assisted Voluntary Sale (AVS)**  
Unlike a repossession, the borrower can live in the property until it is sold
  - **Concessions**  
The borrower is allowed to make reduced payments on a temporary basis to assist with a short term financial hardship
  - **Arrangements**  
The borrower repays the outstanding arrears over a period of time by making payments above the contractual amount
  - **Arrears Capitalisation (Infrequent)**  
Outstanding arrears are added to the capital value of the loan to be repaid over the remaining term
- Following customer dialogue, the selected modification avenue, if suitable, is employed on a case by case basis by an individually assigned and experienced collector following an extensive review process
- Product Switches are no longer permitted under the Sellers' lending criteria for the Optimum portfolio. For the avoidance of doubt, the following variations will not be considered Product Switches. Variations -
  - (a) agreed with a Borrower to control or manage arrears on the Loan
  - (b) from interest-only to repayment or part-repayment to control or manage repayment of capital shortfalls
  - (c) in the maturity date of the Loan unless the maturity date would be extended to a date later than three years before the Final Maturity Date of the Notes

### Forbearance Details

Optimum	2014 <sup>(1)</sup>	
	Loans Subject to Forbearance (£ MM)	% Optimum Book (£6.5Bn)
Concessions	16.7	0.26%
Arrangements	169.6	2.63%
Term Extensions	7.5	0.12%
Assisted Voluntary Sale	1.2	0.02%
Interest Only Switches	5.0	0.08%
Capitalisations	0.2	0.00%
	200.2	3.10%

Optimum	2013 (Restated) <sup>(1)</sup>	
	Loans Subject to Forbearance (£ MM)	% Optimum Book (£7.0Bn)
Concessions	30.5	0.43%
Arrangements	286.1	4.08%
Term Extensions	19.9	0.28%
Assisted Voluntary Sale	-	-
Interest Only Switches	10.1	0.14%
Capitalisations	0.4	0.01%
	347.0	4.95%

<sup>(1)</sup> Source: Annual Report and Accounts 2014 (page105)



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# RMBS Investor Reporting and 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 for Leek and Silk Road transactions are updated quarterly online at <https://boeportal.co.uk/theco-operativebank>. Registration is required to access this material
- Investor Reports, cash flow models, documentation and loan data for WFRM 1 available online at <https://sf.citidirect.com>
- 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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Treasurer:	Ashley Lillie	e: <a href="mailto:ashley.lillie@cfs.coop">ashley.lillie@cfs.coop</a>	t: +44 207 977 2986
Capital Markets:	Gary McDermott	e: <a href="mailto:gary.mcdermott@cfs.coop">gary.mcdermott@cfs.coop</a>	t: +44 161 201 7805

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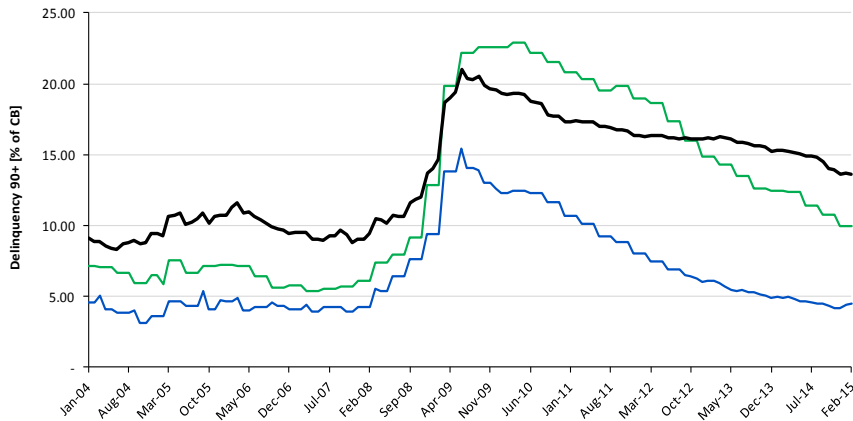
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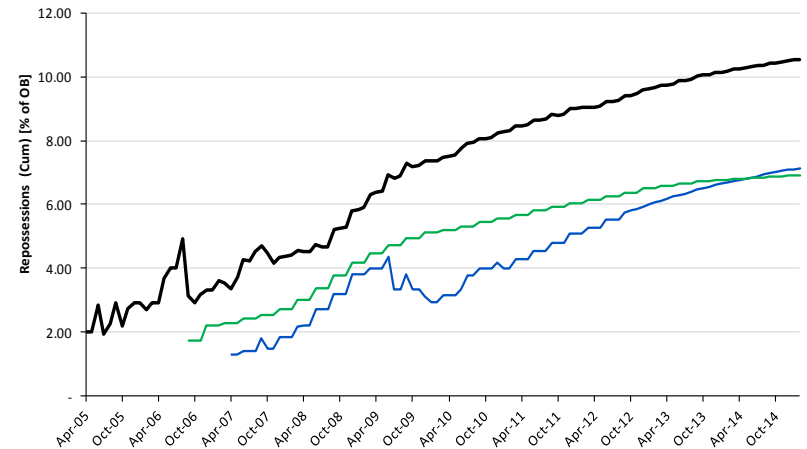
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# Leek & RMAC RMBS Performance

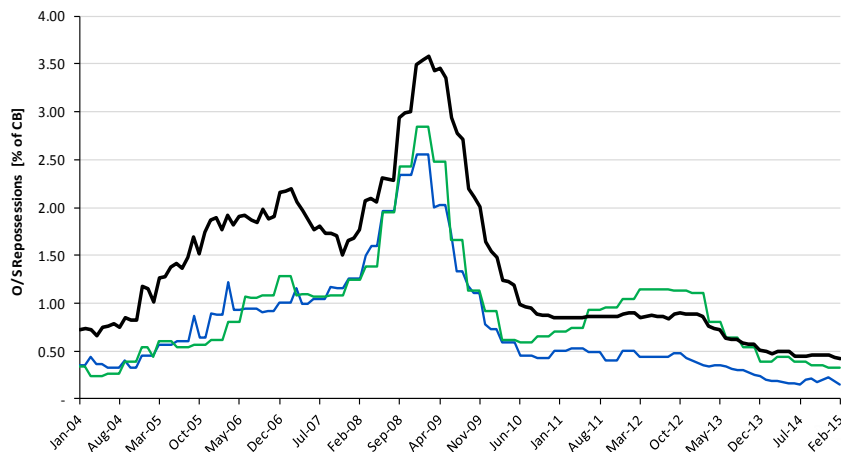
## UK Non-Conforming RMBS 90+ Days Delinquency - Trend by Series



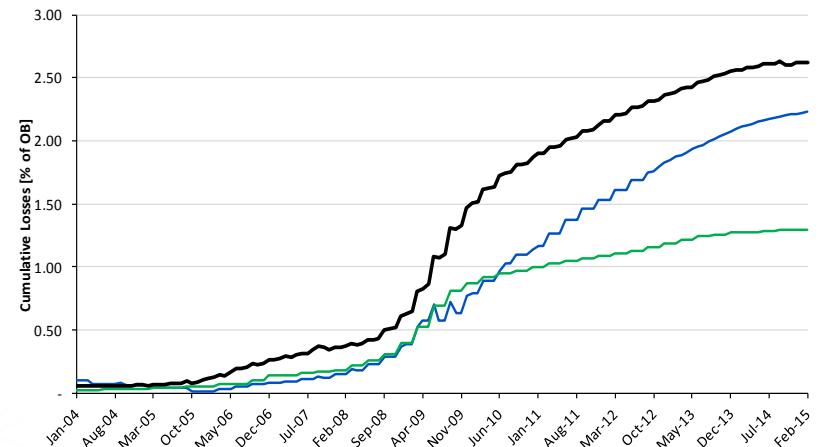
## UK Non-Conforming RMBS Cum Repossessions - Trend by Series



## UK Non-Conforming RMBS OS Repossessions - Trend by Series



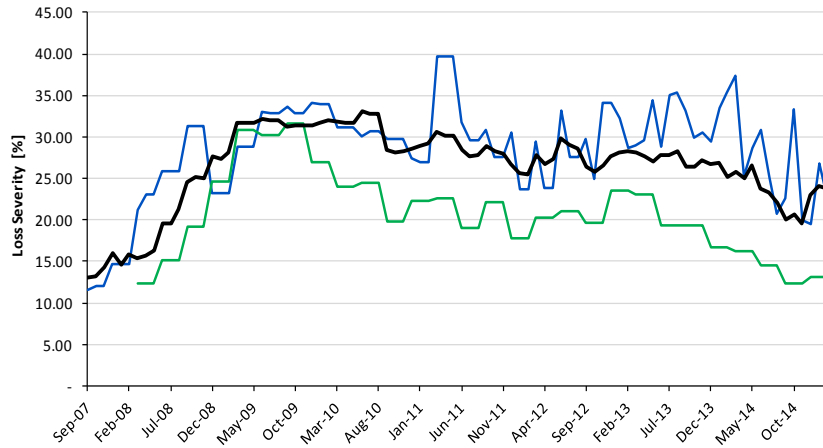
## UK Non-Conforming RMBS Cum Losses - Trend by Series



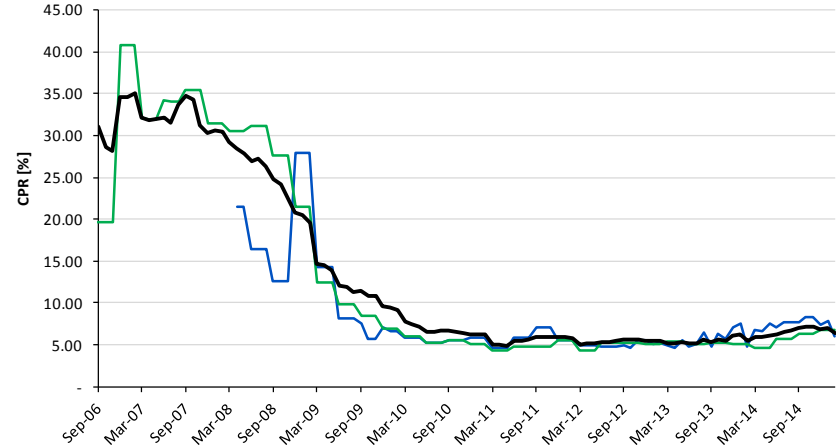
— Leek — RMAC — Index

# Leek & RMAC RMBS Performance

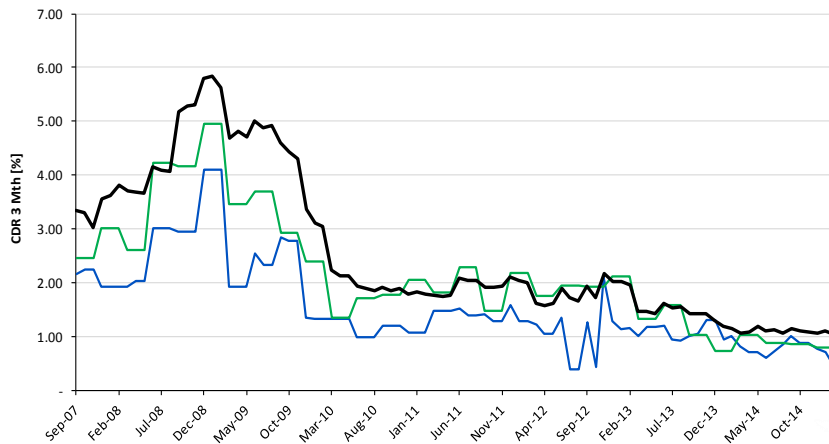
## UK Non-Conforming RMBS Loss Severities - Trend by Series



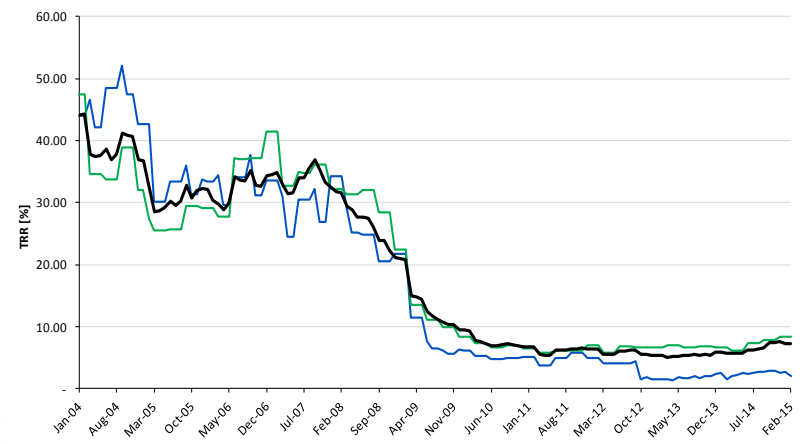
## UK Non-Conforming RMBS CPR - Trend by Series



## UK Non-Conforming RMBS 3M CDR - Trend by Series



## UK Non-Conforming RMBS Total Redemption Rate - Trend by Series



— Leek — RMAC — Index