

The Co-operative Bank

Core Bank Prime Residential Mortgage Book Update

18th – 20th May 2016

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Agenda

- 1) **The Co-operative Bank**
- 2) **Core Bank Mortgage Portfolio**
- 3) **Mortgage Servicing Overview**
- 4) **RMBS Investor Reporting & Contact information**
- 5) **Appendix – Silk Road 3 RMBS Performance**

Section 1

The Co-operative Bank

Strategic update

In light of market conditions and recent developments, the Bank has adjusted its strategic plan to re-optimize its balance sheet

Recent Developments

- Lower-for-longer interest rate environment
- Additional 2015 legacy conduct provisions – PPI in line with other market participants
- Currently weaker pricing environment for any future Optimum securitisation
- Likely lower stressed losses in Optimum
- Required to re-attest to CRR and execute plan to maintain IRB status
- Current market conditions unfavourable to previously planned Tier 2 issuance
- PRA / BoE MREL consultation period closed

Strategic Actions

- **Retain Optimum**
 - Avoids significant loss on sale, due to unfavourable market conditions
 - Retains higher yielding portfolio of assets
 - Retention strategy supported by Optimum credit improvements – average LTV of 72% in Dec 2013 vs average LTV of 61% in Dec 2015
 - Continue to monitor sale opportunities if market improves
- **Re-profile debt issuance**
 - Updated plan, as accepted by the PRA, incorporates MREL qualifying issuance towards the latter part of the plan
 - PRA and BoE strong preference for an earlier profile of MREL issuance subject to market conditions, investor appetite and the Bank's financial performance
- **Explore opportunities in prime secured funding**

ICG compliance now by end of 2019 and meet PRA buffer requirement by end of 2020

No change to Core Bank strategy

2015 highlights

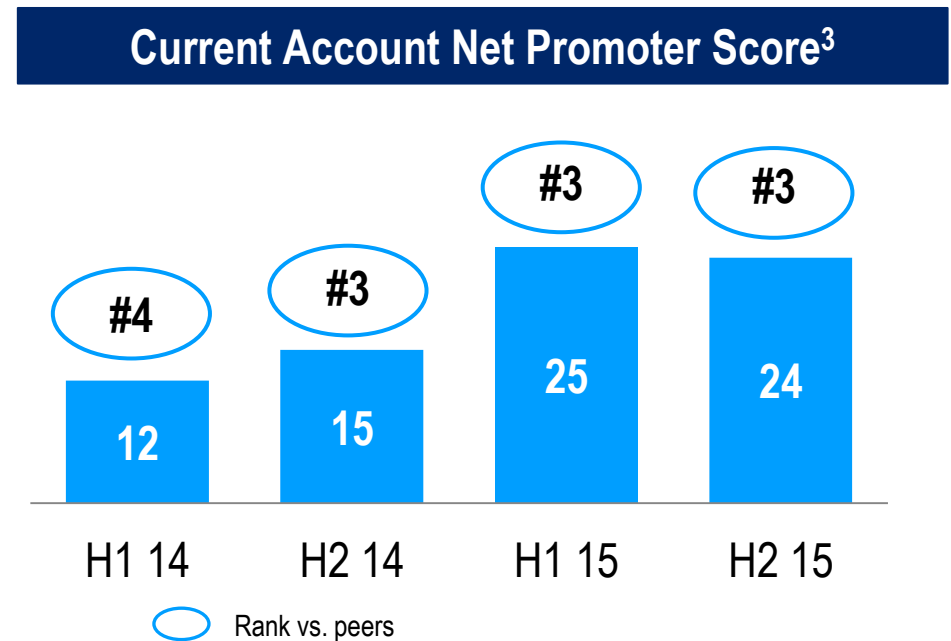
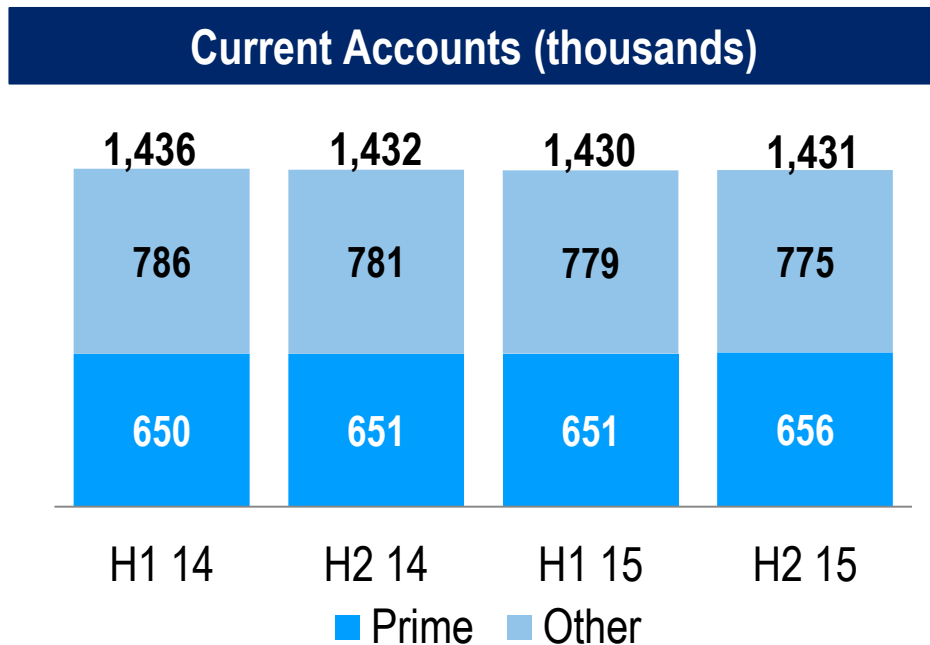
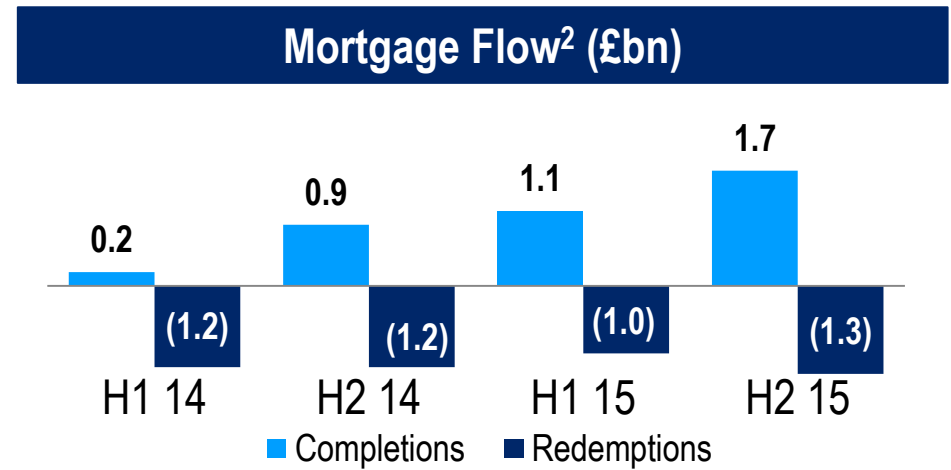
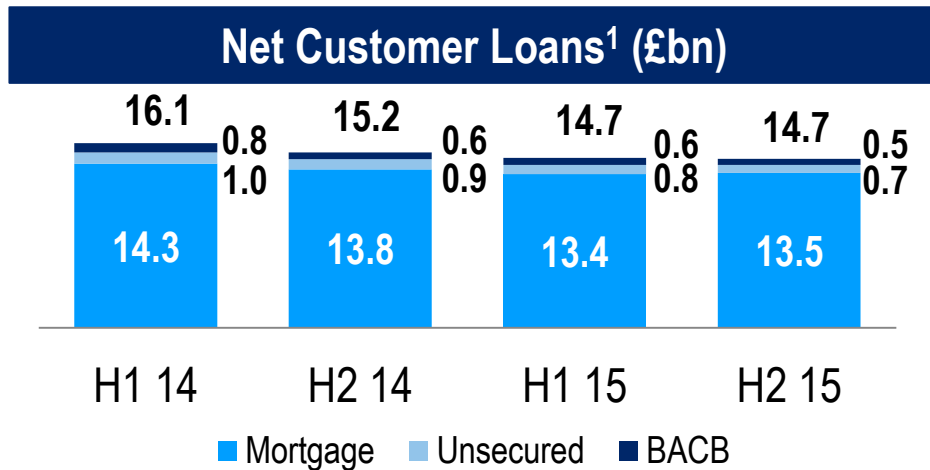
Significant steps taken in implementing the Bank's turnaround strategy

Core Bank Rebuild progressing	Core business performance	<ul style="list-style-type: none"> • Doubling of mortgage completions to £2.8bn (vs. redemptions of £2.3bn) • Mortgage book stabilised in H2 2015 • Current accounts stable – y-o-y increase in prime accounts • Managed reduction in deposit levels to £22.4bn (£28.4bn in 2014) • Increase in colleague engagement to 66%
	Digital and capability catch-up	<ul style="list-style-type: none"> • 22% increase in online and 110% increase in mobile banking payments, with 55% of online and mobile banking users switching to paperless statements • New digital platform being prepared for launch • Capita mortgage outsourcing agreed
	Cost reduction	<ul style="list-style-type: none"> • 13% reduction in operating expenditure to £492m • 58 branch closures conducted in 2015, 54 further branches to be closed in 2016 • Operating permanent staff numbers have fallen by 18% to 4,470
	Customer-led Ethical Policy	<ul style="list-style-type: none"> • Building on expanded Ethical Policy launched in January 2015 • New current account, overdraft and credit card propositions guided by this policy
Improving resilience	Capital and Liquidity	<ul style="list-style-type: none"> • CET 1 ratio of 15.5% – reduction in RWAs outweighed losses • Completed issuance of £250m Tier 2 notes in July 2015 • Primary liquidity reduced by £2.0bn in 2015
	Non-core deleveraging	<ul style="list-style-type: none"> • £5.4bn decrease in Non-core customer assets • Successfully completed two Optimum securitisations (£3.1bn) • £4.4bn overall reduction in Non-core RWAs
	Operational and IT resilience	<ul style="list-style-type: none"> • Enterprise Services Outsourcing to IBM progressing • IT remediation programme achieved all 2015 targets • Continued to embed Risk Management Framework across the organisation

Creating an efficient and financially sustainable UK retail and SME bank

Improving Core bank performance

Stable mortgage book in H2 2015 due to improved mortgage originations – current account franchise and customer service excellence maintained



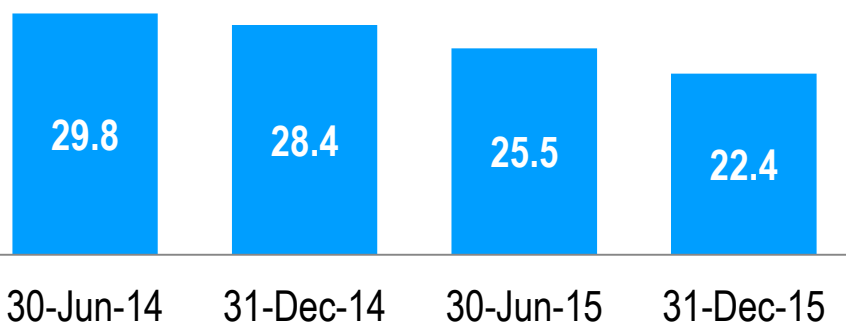
1. Excludes UTB
 2. Excludes contractual repayments
 3. Source: GfK FRS

Platform for growth established

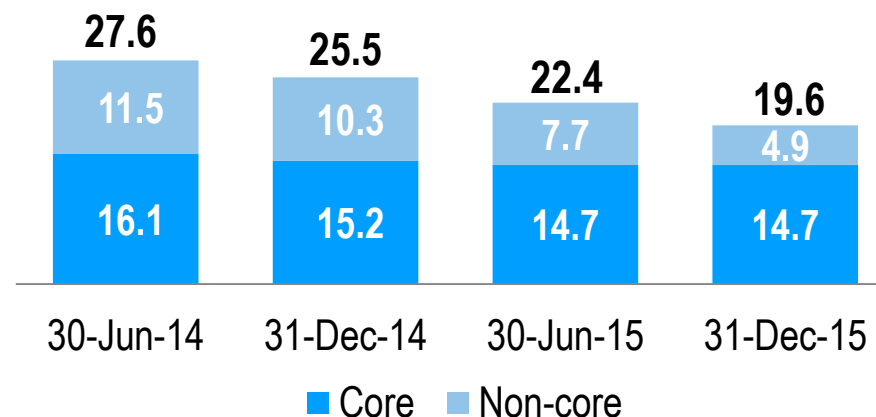
Balance sheet highlights

Core loan book has stabilised. Managed reduction in fixed term, instant and ISA deposits

Customer Deposits (£bn)



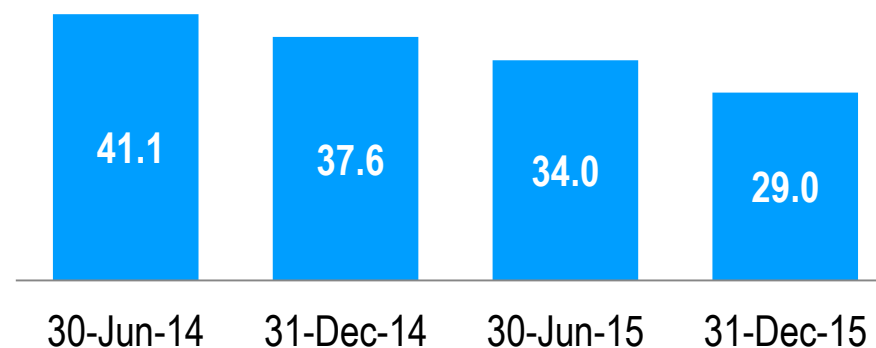
Net Customer Loans³ (£bn)



Other Selected Balance Sheet Data

	31/12/14	31/12/15	Change
Equity (£bn)	2.0	1.4	(0.6)
Loan-to-deposit ratio ⁴	85%	86%	1pp
NPL ratio ^{1,3}	10.0%	4.9%	(5.1)pp
NPL coverage ratio ^{2,3}	26.8%	27.2%	0.4pp

Total Assets (£bn)



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

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

3 Management reporting basis

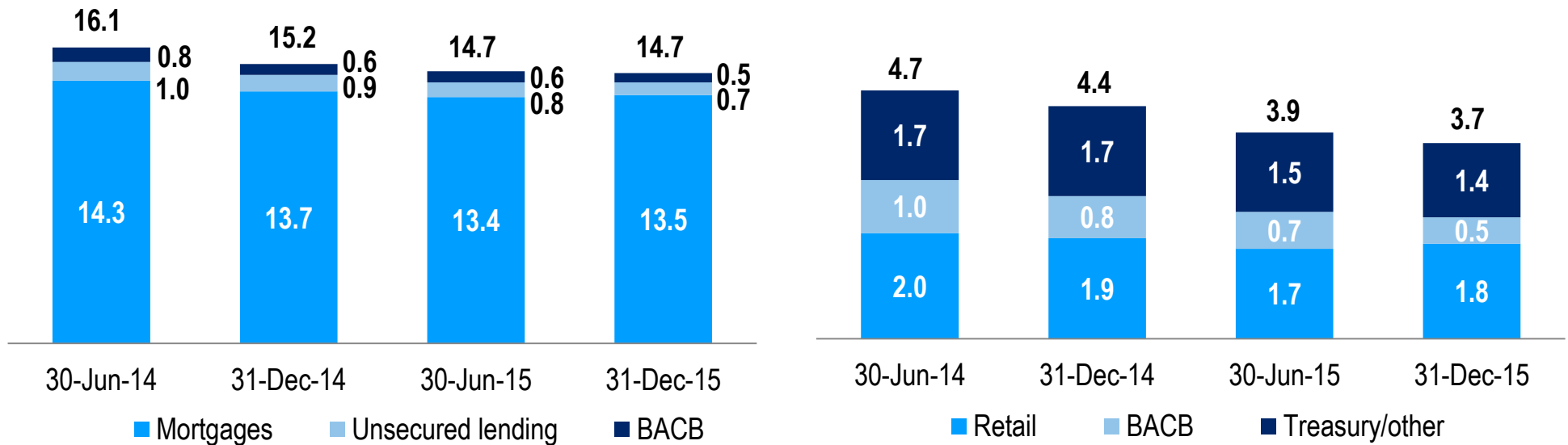
4 LTD ratio calculated as net customer loans including fair value adjustments for hedged risk / customer deposits).

Core Business — Loans & RWAs

Net loans have stabilised as mortgage balances grew during the second half of the year

Net Loans (£bn)

Credit RWAs (£bn)



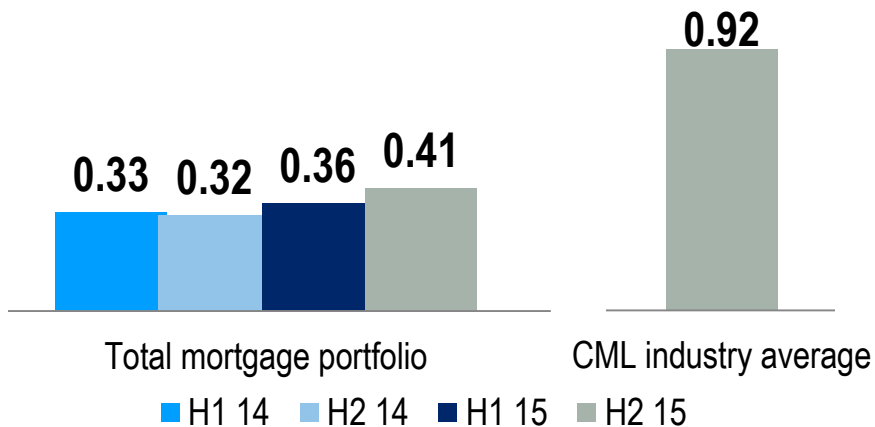
- Highest level of new mortgage lending since 2010 has driven higher mortgage balances in H2 2015
- RWAs stabilised in line with overall loan book

Mid to high single digit Core Bank balance sheet growth in 2016 and 2017

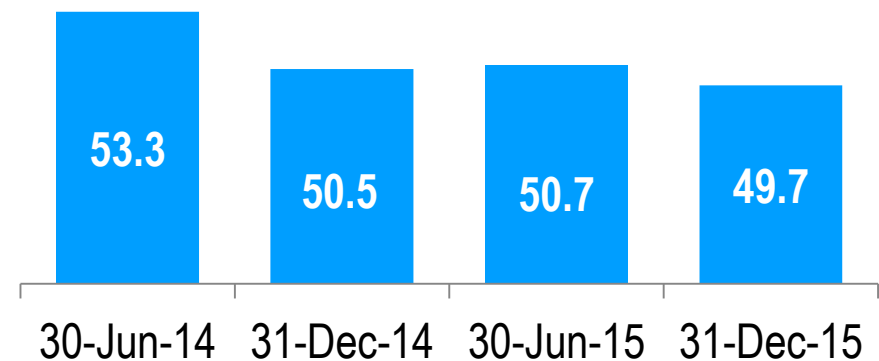
Core Business — Asset quality & split

High quality mortgage portfolio with arrears significantly below the industry average

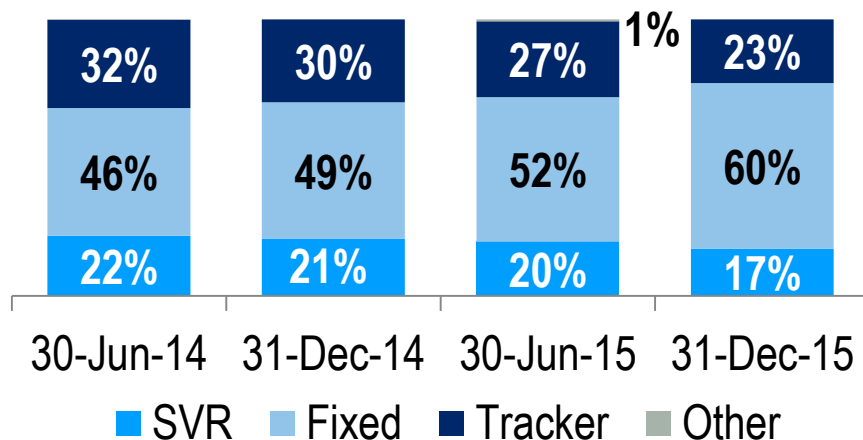
Arrears (%)¹



Average Mortgage LTV (%)



Mortgage Book Split



Impairment gains / (losses) (£m)

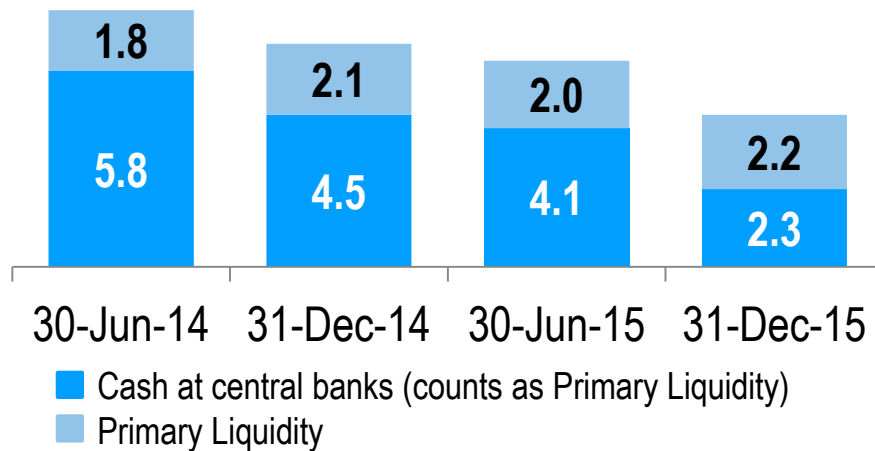
	2014	2015
Workout	6.5	-
Modelling & other	6.7	5.4
New impairments	(9.7)	(5.7)
Revaluations	-	-
Total	3.5	(0.3)

¹ Proportion of mortgage accounts with >2.5% in arrears

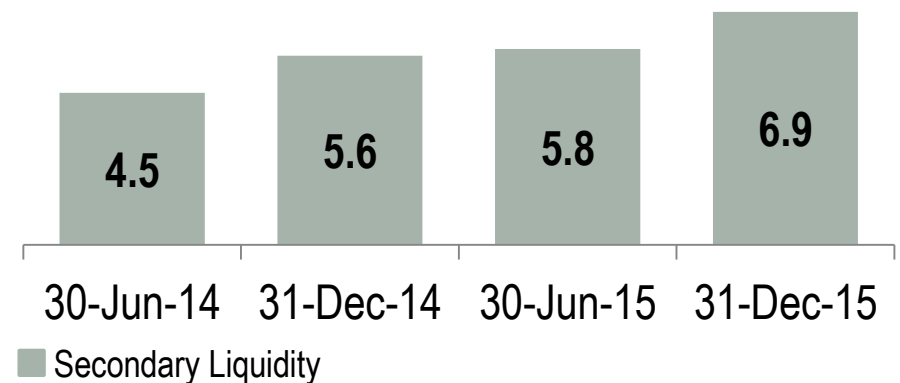
Liquidity

Bank continues to actively reduce expensive primary liquidity in spite of deleveraging activities generating cash

Primary Liquidity (£bn)



Secondary Liquidity (£bn)



- Primary liquidity of £4.5bn – reduced by £2.0bn
- Liquid asset ratio¹ of 15.6% (17.4% as at 31 Dec 14)
- Balances held at the central bank have decreased
- FLS – £200m repaid in 2015, fully repaid in Jan 2016

- Assets eligible for discounting with central banks increased during 2015 – comprised of mortgage portfolio and retained positions in bank securitisations

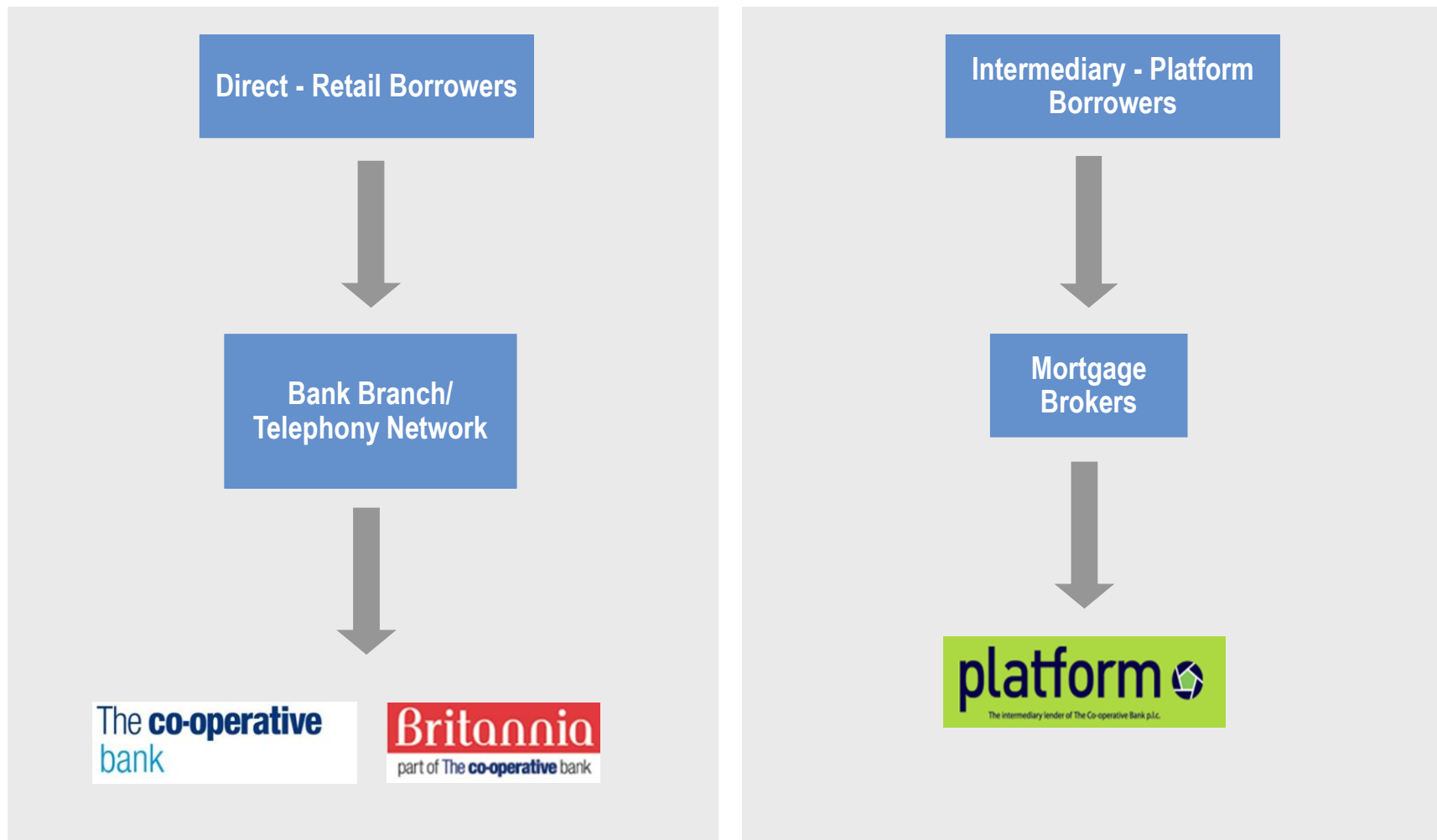
¹ Calculated as primary liquidity divided by total assets

Section 2

Core Bank Mortgage Portfolio Overview

Core Bank mortgage portfolio brands

Core Bank Mortgage originations delivered through Retail (Direct, through 164* branches) and Platform (Intermediary) channels

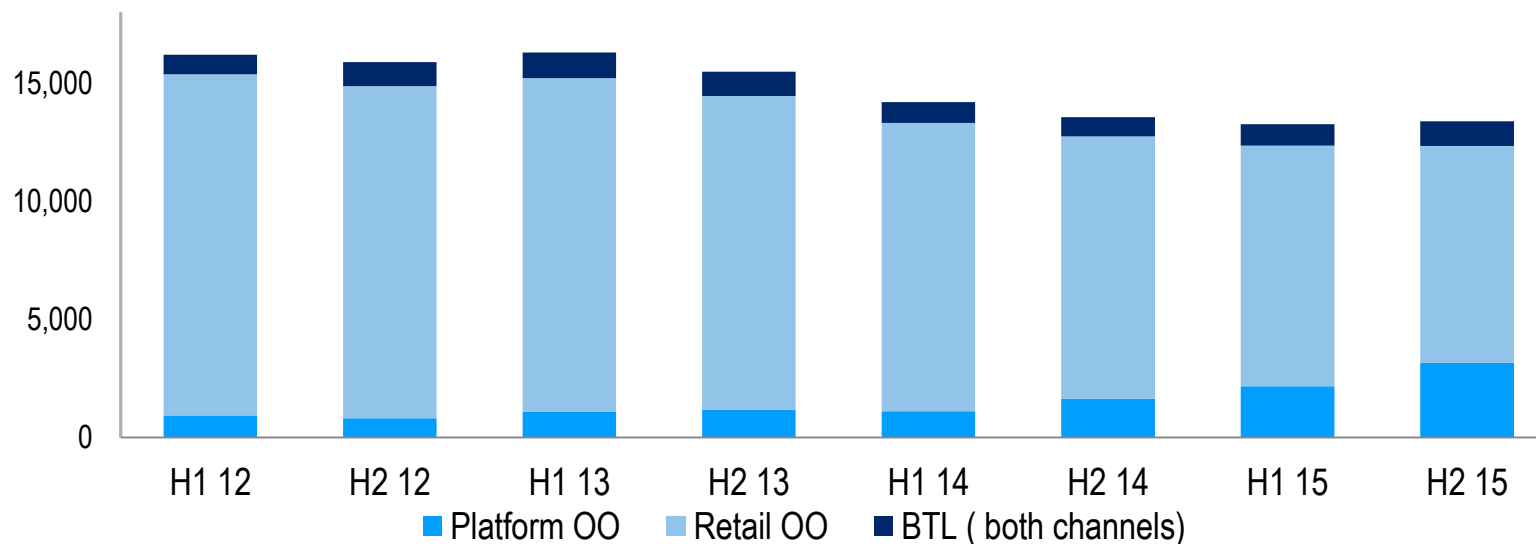


Core Bank mortgage book

Core Bank Mortgage Origination Strategy

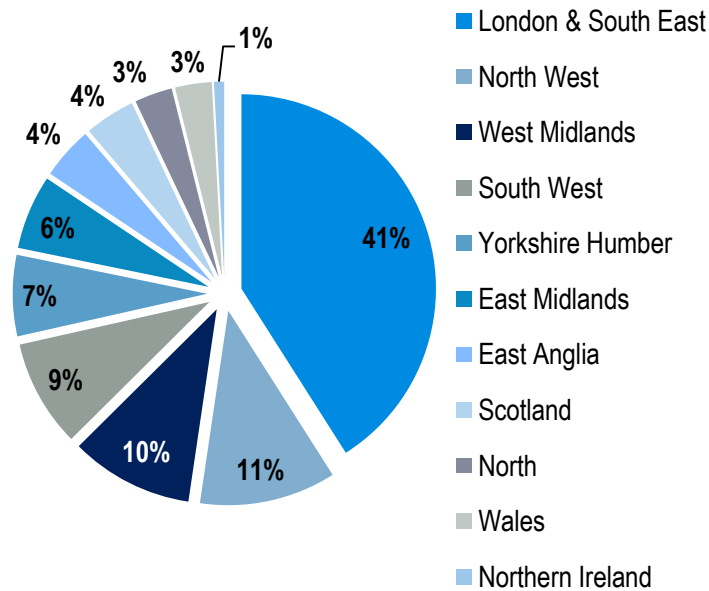
- The Bank employs one Owner-occupied lending policy applicable to both direct and intermediary channels – ensures the same quality of customer is acquired regardless of channel.
- The Bank targets the same broad customer groups (First Time Buyers etc.) through both channels
- BTL lending is wholly originated through Platform, owing to the highly intermediated nature of this market
- Future Core Bank mortgage growth will be primarily delivered through Platform (>85% and expected to grow), reflecting the increased share of intermediated business in the wider market
- From 2Q 2016, Bank holds legal title to all existing and future Core Bank Platform originated mortgages

Core Bank Mortgage Portfolio Breakdown (£m)

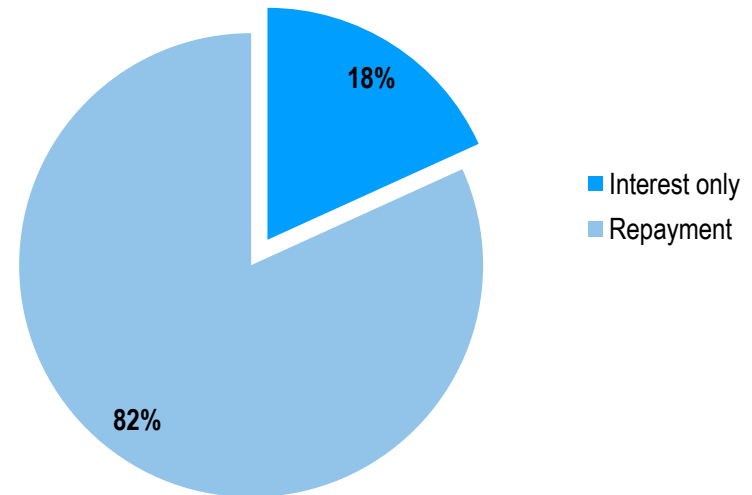


Owner-occupied Core Bank mortgage breakdown

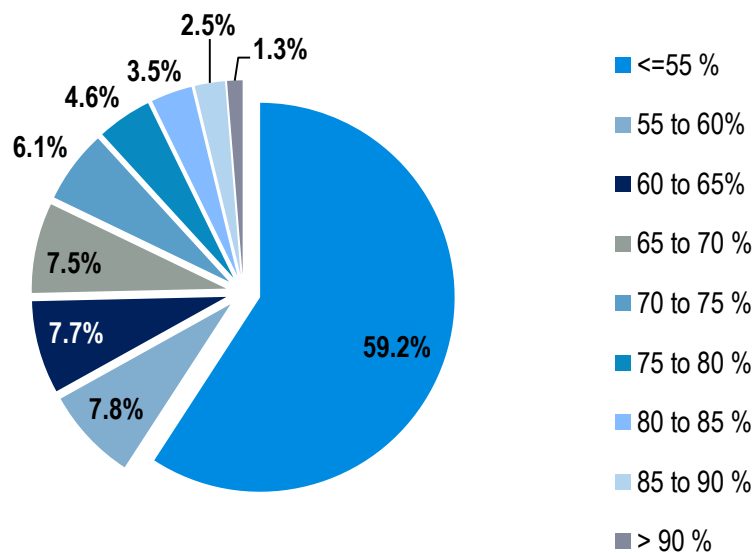
Regional Breakdown



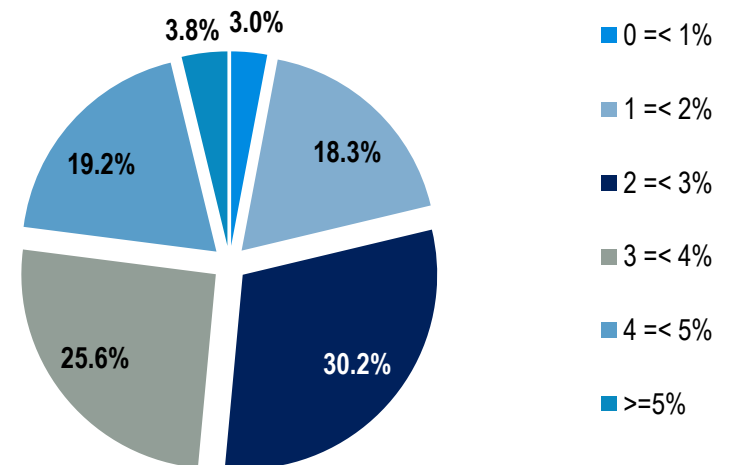
Repayment Type



Indexed LTV Split



Interest Rate Split



Core Bank mortgage book

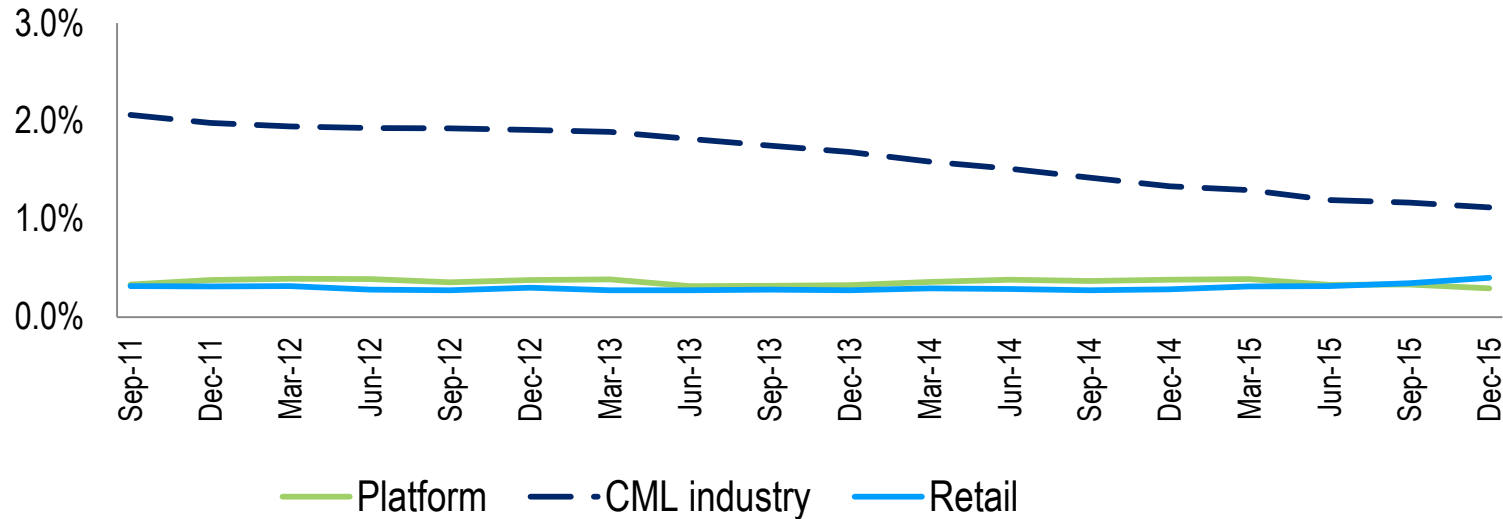
Summary	Core Book OO	Platform OO**	Silk Road 3	
Cut-off date	31/12/2015	31/12/2015	31/12/15	<ul style="list-style-type: none"> The Bank's core mortgage book holds a large stock of low LTV balances reflecting the high credit quality of the book Low Interest Only % (Bank withdrew Non-BTL IO products in 2012 for all new lending) 90 days + arrears levels for the Prime book (Intermediary & Direct) remain very low and continue to track significantly below the CML industry average Lending remains focussed on high credit quality business which supports the low LTV profile exhibited
Total balance (£bn)	12.3	3.2	0.3	
Number of mortgage accounts	133,355	19,246	4,075	
Average mortgage account balance (£)	92,425	164,075	84,197	
WA OLTV (%)	67%	72%	66%	
WA ILTV (%)*	48%	65%	41%	
WAC (%)	3.04%	2.81%	3.39%	
WA Seasoning (years)	5	1	7	
WA Remaining term (years)	17	24	14	
Fixed rate (%)	59%	91%	53%	
3ML index (%)	0%	1%	0%	
BBR index (%)	26%	7%	25%	
SVR index (%)	14%	0%	22%	
WA remaining term to reversion (months)	27	28	29	
IO + Mixed (%)	17%	3%	30%	
Current loans (%)	98.7%	99.4%	99.1%	
90+ days in arrears (%)	0.36%	0.22%	0.10%	
London & South East (%)	41%	52%	36%	

* Based on Original Valuation indexed using Halifax 2015 Q3 Non Seasonally Adjusted Regional House Price Indices

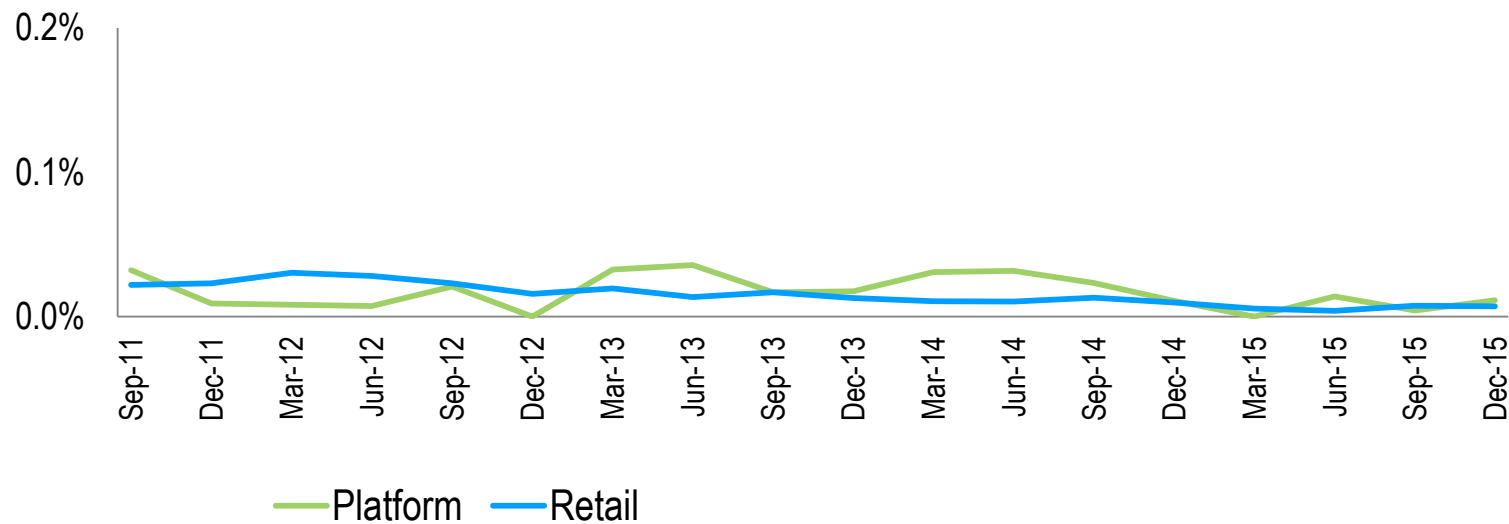
** Platform OO being a subset of the Core Bank OO

Core Bank mortgage book

90 Days + % Month-by-month – Number of Accounts (CML Benchmarking)



Possession Stock % Month-by-month – Number of Accounts



* Data includes BTL mortgages

Core Bank mortgage book – lending criteria

The Bank employs one Owner-occupied lending policy which applies to both direct and intermediary channels which ensures the same quality of customer is acquired regardless of channel

Key Secured Lending Criteria

- All new residential lending must be on a capital repayment basis. In force since May 2012
- Maximum Loan to Value for new prime residential mortgage lending highlighted below:

Maximum LTV	Co-operative (Max loan size)	Britannia (Max property value)	Platform (Max loan size)
90%	£315,000	£350,000	£500,000
85%	£500,000	£500,000	£750,000
80%	£750,000	£750,000	£750,000
75%			£1,000,000
70%	£1,000,000	£1,000,000	£1,500,000*
60%	Unlimited	Unlimited	£1,500,000

- Maximum age at expiry of mortgage term for residential lending increased from 68 to 75 (from Sep 2015)
- Maximum LTI reduced to 4.49 times the total verified income, prior to deductions made as part of the customers affordability assessment (from Oct 2015)
- Foreign currency income – all income must be UK sterling denominated, where the customer is new to bank (European Union Mortgage Credit Directive) (from Feb 2016)
- Consumer Buy to Let (Accidental Landlord) cases not accepted (EU Mortgage Credit Directive) (from Feb 2016)

* from May 2016

Core Bank mortgage book – underwriting

- Underwriting decisions are carried out by the Bank's underwriters for all three Bank brands
- For all applications outside of CAPITAs authority a graduated Mandate structure is in place which is executed through Bank employed underwriters reporting into the Risk function
- Average experience/tenure of the Bank underwriting team is 8 years
- Affordability
 - On the direct lending brands (Co-operative and Britannia) a model was implemented in September 2012 that estimates the applicant's net disposable, factoring in Tax and NI, Council Tax, estimated credit commitments and other committed and regular household expenses
 - New mortgage repayment estimated based on a 6.99% interest rate
 - Retail cases that fail affordability and have an income multiple of less than 4.49x multiple are only referred to an underwriter if they are either an existing borrower or the sales advisor chooses to manually refer the case.
 - For Platform branded mortgages, the model works in the same way except that it calculates a maximum loan amount that can be offered, rather than declining an application
- Conversion rate (application to completion) as follows:
 - Co-operative Bank (direct channels – residential mainstream) - 81% conversion
 - Platform (BTL) - 69% conversion
 - Platform (Residential Mainstream) - 79% conversion
- Valuation
 - In July 2012 Bank appointed Countrywide Surveying Services (CSS) as our panel manager for all mortgage valuations
 - Valuations using an Automated Valuation Model (AVM), whether done as a desk-top valuation, or a stand-alone assessment, are only allowed for re-mortgage applications where the LTV is 60% or lower up to maximum property value of £500k

Section 3

Mortgage Servicing Overview

Mortgage servicing overview

Capita Arrangement

- In August 2015 the Bank outsourced its mortgage processing including mortgage operations, contact centre & arrears to Capita in order to improve service levels and to gain cost improvements, with circa 710 Bank staff transferred to Capita via a TUPE arrangement. Capita acquired WMS as part of the agreement and manages the outsourcing arrangement from this company
- The agreement aims, over time, to consolidate the Bank's three mortgage systems on to a new mortgage system, resulting in:
 - Operational cost reduction
 - Improved retention performance
 - Improved service provision
- The current Bank mortgage systems and processes are still in operation under Capita whilst the new systems are in development by Capita and their suppliers, Capita Mortgage Software Solutions (CMSS) and Unisys
- Bank has in place a Capita relationship management team with responsibility for oversight of servicing delivery with a defined Governance structure in place
- 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

WMS Overview

- Established in 1996
- 758 full-time employees (average tenure 8.6Yrs)
- 503 people have a length of tenure over 5Yrs
- 330 people have a length of tenure over 10yrs

WMS Key Clients

Servicer

- Non-core Optimum ~£2.9bn, Core Bank ~£13.5bn, Third parties ~£4.2bn, etc.

Standby Servicer

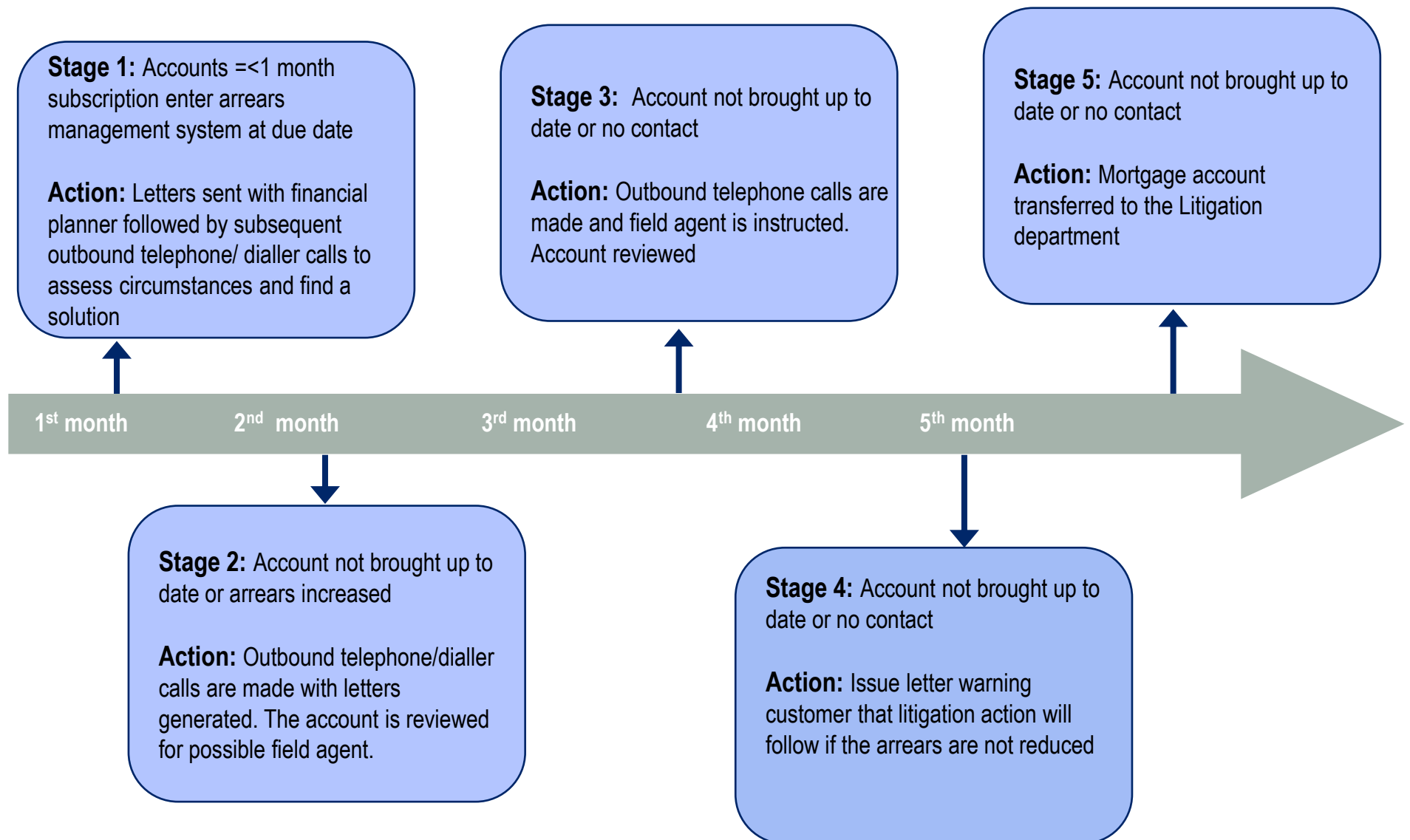
- Kensington and Bluestone

Mortgage servicing overview

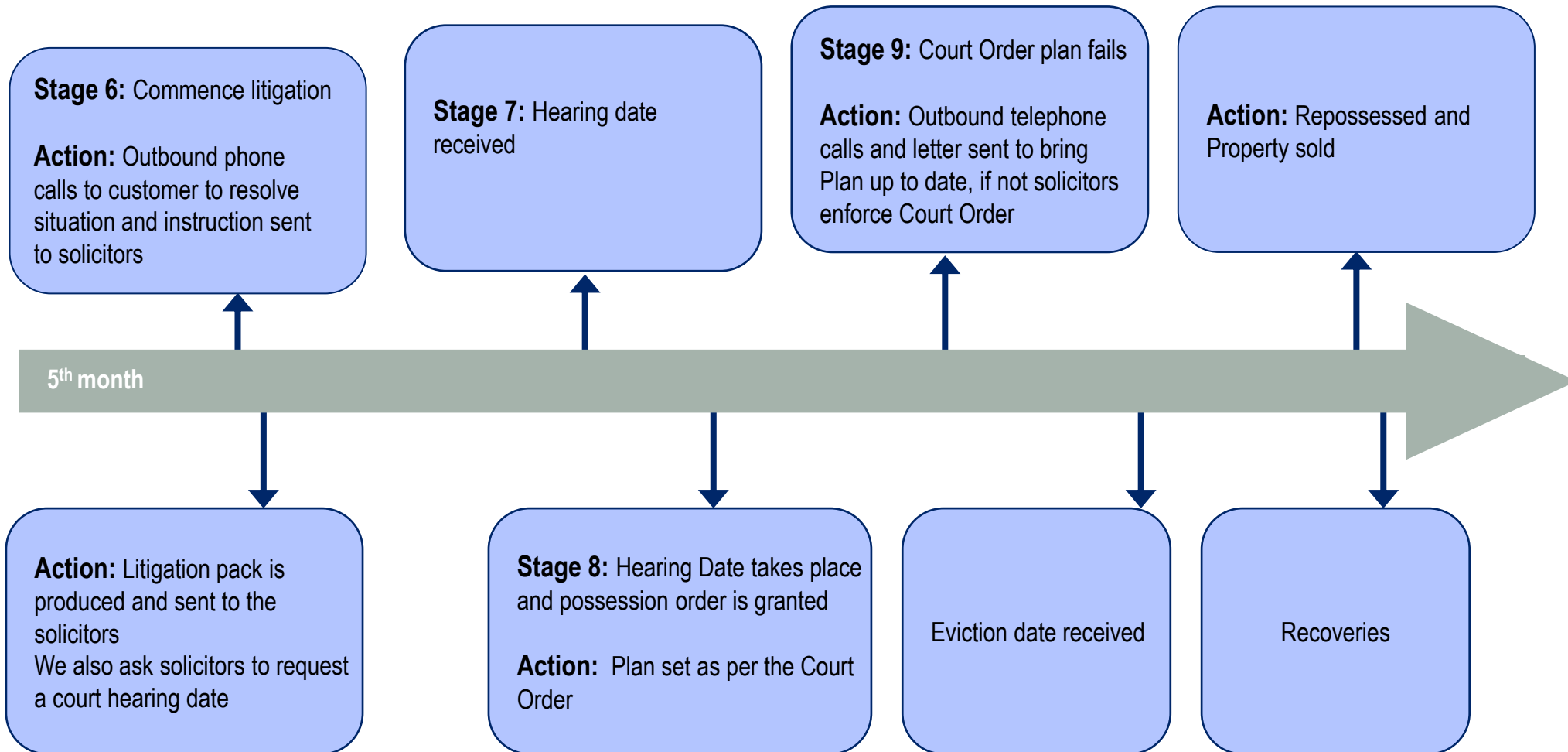
Mortgage Servicing & Arrears Structure

Company	Capita				Bank
Operation	Servicing		Arrears		Underwriting
Location	Leek	Plymouth	Leek	Plymouth	Leek
Systems	Click (Platform), Sopra (Britannia), Sopra (Co-op)	Tamar (Platform)	Collect, Tamar, File Net, Card Payment system, Aspect Dialler, Summit		Sopra (Britannia) Sopra (Co-op) Click (Platform)
Staffing	268 FTE	76 FTE	24 FTE	85 FTE	21 FTE
Activity	<ul style="list-style-type: none"> • Applications processed Offer to Completion • Servicing of completed accounts through to Redemption: <ul style="list-style-type: none"> • Account queries • Redemptions • Statement exceptions • Financial transactions • Deeds management • Charge registrations • Customer contact centre 		<ul style="list-style-type: none"> • Servicing of Residential and BTL Mortgage accounts, pre-litigation and Litigation accounts • Inbound and Outbound calls • Full review of the account to include: <ul style="list-style-type: none"> • Income and expenditure • Past, present and future information gathering of customer circumstances • Matching appropriate solutions for customer's situation • Signposting of free external advice organisations • Manage Asset Managers to ensure adherence to SLA's and sale guidelines 		<ul style="list-style-type: none"> • Assess high risk and complex mortgage applications, including all loans over £250k, self employed and those not meeting lending policy
			<ul style="list-style-type: none"> • Bespoke Sensitive and Vulnerable customer management teams split across Capita and Bank 		

Core Bank mortgage arrears process



Core Bank mortgage litigation process



Section 4

RMBS Investor Reporting & Contact information

RMBS Investor reporting and contact information

- 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 are also published quarterly via Bloomberg ("SLKRD", "LEEK" MTGE <GO>) and at <http://www.co-operativebank.co.uk/investorrelations/debtinvestors>

Contact Information:

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Capital Markets :	Gary McDermott	e: gary.mcdermott@cfs.coop	t: +44 161 201 7805

Section 5

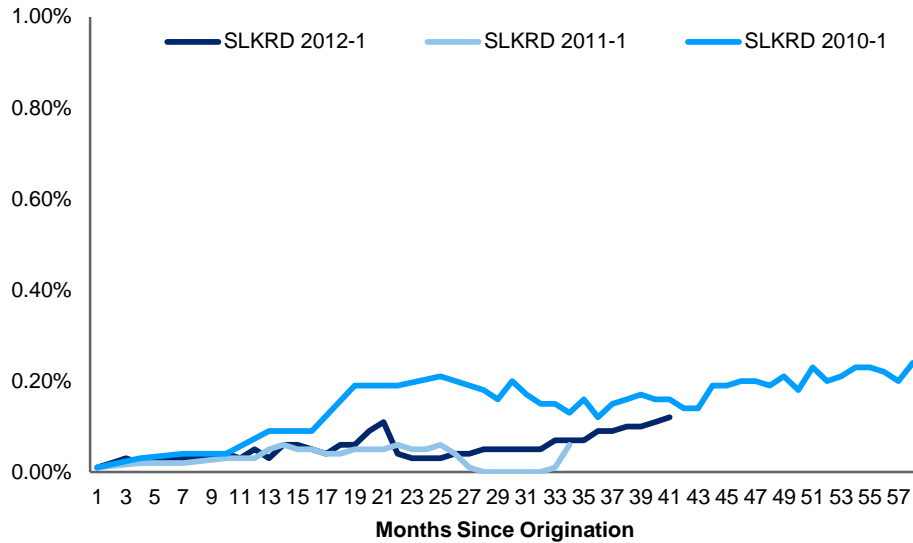
Appendix – Silk Road RMBS Performance

Silk Road 3 collateral characteristic comparison

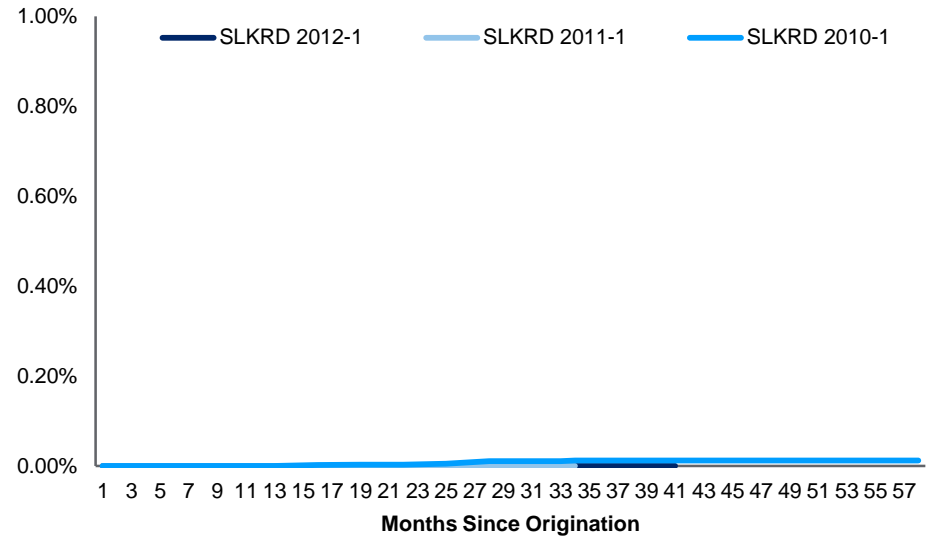
	Silk Road 3	Silverstone 16-1	Darrowby No.4	Friary No.3	Gosforth 2016-1	Duncan 2015-1	Permanent 2015-1	Albion No.3	Lanark 2015-1
Date	Apr 12	Feb 16	Feb 16	Jan 16	Jan 16	Nov 15	Oct 15	Sep 15	Jul 15
Collateral balance (GBP)	793m	13,028m	524m	552m	1,970m	2,329m	17,729m	699m	4,692m
Number of borrowers	7,559	161,545	4,554	4,618	12,481	20,774	245,333	5,268	43,826
Average balance per borrower (GBP)	104,917	80,688	120,549	119,581	157,910	112,122	72,266	132,714	101,067
WA seasoning (months)	54.0	107	2.1	20.8	19.8	41.2	111.6	12.8	42.9
WA remaining term to maturity (yrs)	17.8	15.5	20.4	19.9	21.6	18.8	13.5	23.4	18.7
WA OLTV (%)	63.6	72.2	73.2	68.7	65.9	69.5	67.7	71.4	72.4
WA indexed LTV (%)	58.5	48.5	60.3	61.1	57.2	54.3	52.3	64.3	61.7
OLTV > 80%	24.0	42.7	ND	35.5	ND	36.2	ND	31.6	42.8
CCJ (%)	0.0	0.2	0.0	0.0	0.0	0.0	0% (ND for 29% of the pool)	0.0	ND
<90 days arrears (%)	0.0	0.7	0.0	0.0	0.0	0.0	4.45 (total arrears at closing)	0.0	0.9
90+ days arrears (%)	0.0	0.5	0.0	0.0	0.0	0.0		0.0	0.4
Interest only loans (%)	15.5	31.7	0.7	12.7	5.4	11.6	46.8	17.9	19.9
Self-employed (%)	7.6	9.8	11.0	17.4	24.7	12.0	ND	8.6	7.0
Remortgage (%)	35.2	33.1	41.3	46.2	51.4	30.6	37.0	35.4	42.5
WA Interest rate (%)	4.1	2.6	3.2	2.9	2.8	2.9	3.6	3.1	3.4
Fixed rate loans (%)	63.4	6.2	74.6	88.0	87.2	54.5	26.6	92.1	57
Scottish concentration (%)	5.25	8.2	11.1	0.0	9.8	13.7	9.9	11.2	23.9
London & South East concentration (%)	39.63	31.4	24.2	16.6	49.3	32.5	39.2	33.1	29.0

Silk Road RMBS Performance

>3 month Arrears



Cumulative Losses (%)



Monthly Annualised CPR (%)

