1H 23 results update

28 July 2023

The co-operative bank
Ethical then, now and **always**

1H 23 performance

Robust capital position

- Successful issuance of £200m Green MREL-qualifying debt
- Significant headroom to capital requirements
- Organic CET1 ratio generation of 30bps [1]

Strong asset quality and liquidity position

- Average core mortgage LTV 55.8%
  FY 22: 53.5 %
- Number of secured accounts >3 months in arrears remain stable (0.15%)
- LCR spot position of 224.0% gives significant liquidity surplus

Transforming our business

- Positive outlook on credit rating [2]
  1 notch below investment grade
- Migrated c.60% of savings accounts on to the new platform
- Successfully onboarded c.400 Capita colleagues

Financial highlights

£61.8m
Statutory profit before tax
1H 22: £61.9m

13.0%
RoTE [3]
1H 22: 5.3 %

20.1%
CET1 ratio
FY 22: 19.8 %

1.84%
Net interest margin
1H 22: 1.51 %

1. 60bps on a proforma basis; see page 14 for further details
2. Moody's rated Ba1 December 22
3. Basis of prep on page 5

Transformation remains on track

2023 progress so far	Remaining deliverables	
Mortgage platform testing materially complete	Upgrade originations solution	Q3 23
Three savings products launched on mainframe	Deliver enhanced product capabilities	Q3 23
c.60% of savings customers migrated on to the new platform	Complete savings migration	Q3 23
Completed in-housing of mortgage operations colleagues from Capita	Complete mortgage migration	Q1 24
	Complete decommissioning of legacy estate	Q2 24

Opportunities into 2024 and beyond

Outcomes of multi-year transformation and insourcing

- Improved customer experience through enhanced use of technology
- Moving three platforms onto one…
- …Drives efficiencies through improved and automated processes

Financial results

The co-operative bank

Ethical then, now and **always**

Profit before tax of £61.8m; underlying profit of £72.2m

£m	1H 23	1H 22	Change
Net interest income	245.1	208.2	18 %
Other operating income	21.4	21.4	0 %
Total income	**266.5**	**229.6**	**16%**
Operating expenditure	(205.8)	(175.1)	(18 %)
Impairment (charge) / credit	(0.3)	2.8	<(100 %)
Non-operating income	1.4	4.6	(70 %)
Profit before tax	**61.8**	**61.9**	**(0%)**
Taxation credit / (charge)	41.4	(33.5)	>100 %
Profit after tax	**103.2**	**28.4**	**>100%**

Adjustments to profit before tax			
Exceptional project expenditure	7.5	5.5	(36 %)
Other exceptional losses / (gains)	2.9	(3.8)	<(100 %)
Underlying profit before tax	**72.2**	**63.6**	**14%**

Key performance indicators			
Net interest margin (bps) [1]	184	151	33
RoTE (%) [2]	13.0	5.2	7.8
Cost:income ratio (%) [3]	76.8	74.8	(2.0)
Asset quality ratio (bps) [4]	0.3	(2.7)	(3.0)
CET1 ratio (%) [5]	20.1	19.8	0.3

1. Annualised net interest income over average interest earning assets
2. Annualised profit after tax over average equity less intangibles, assuming no further DTA benefit in 2H 23
3. Total statutory expenditure over total statutory income (excludes impairment)
4. Annualised impairment charge / (credit) over average customer assets
5. Comparator is FY 22

Profit before tax of £61.8m; 1H 22 £61.9m

Total income increases by 16% to £266.5m

- Net interest income increases 18 % to £245.1m; supported by improving deposit margins following increases in the base rate

Operating expenditure increases 18% to £205.8m:

- Strategic decision to complete key projects such as Capita in-sourcing and our mortgage and savings transformation programme
- Strategic investment in our transformation programme driving benefits from 2024
- Inflationary pressures and hiring front line staff

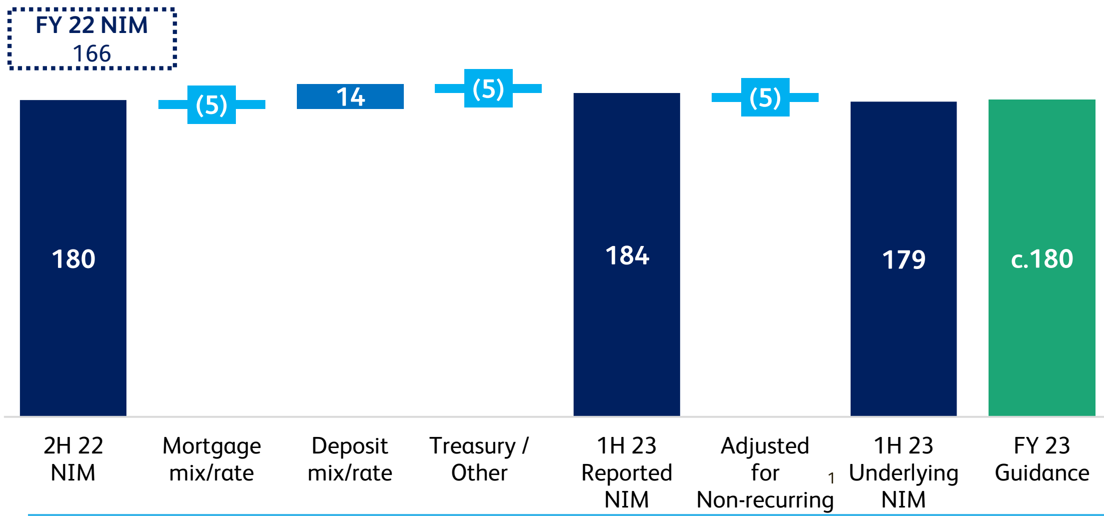
Impairment charge of £0.3m; increased provision in macroeconomics offset by refinement of unsecured modelling, overall strong asset quality

Non-operating income of £1.4m; predominantly related to Visa shareholding, 2022 reflects the sale of a small loan portfolio

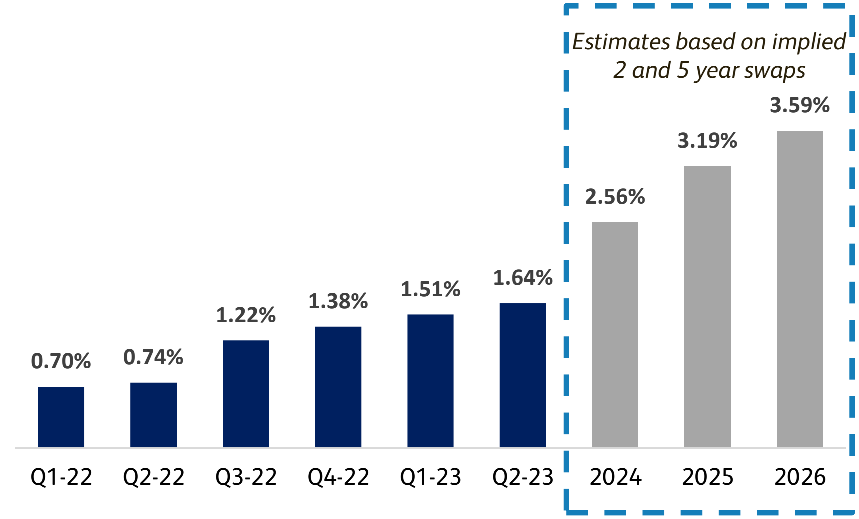
Tax credit of £41.4m; driven by further deferred tax asset recognition of historical tax losses partially offset by the tax charge on profits in the period

Net interest margin remains stable

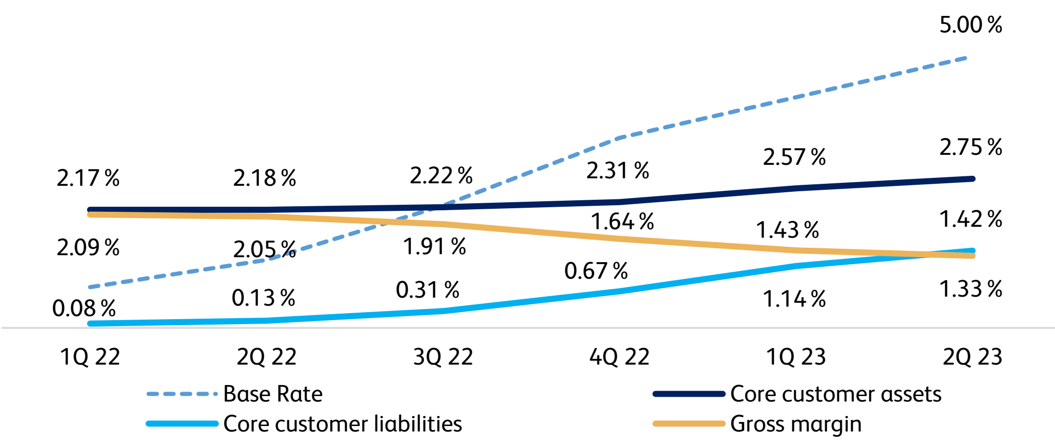
Net interest margin (bps)



Blended structural hedge rate [2]



Customer corridor [3]

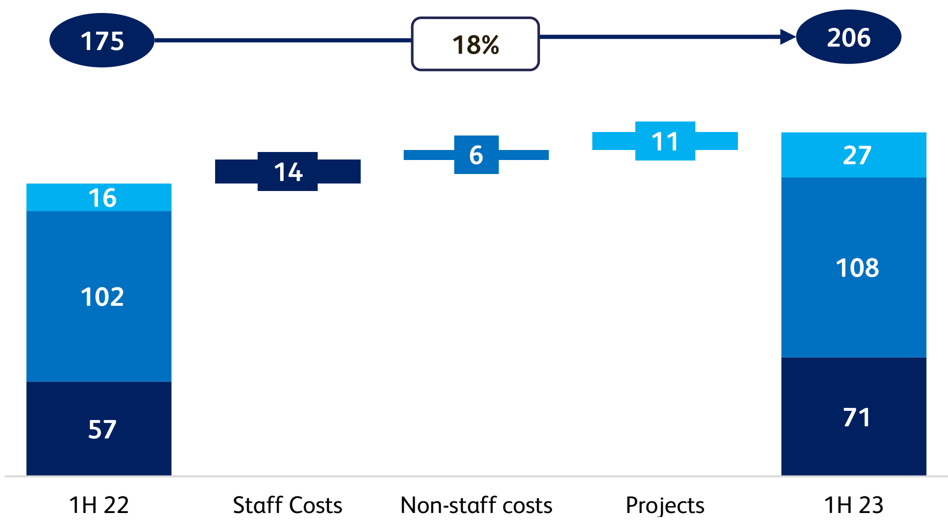


- NIM vs 2H 22 has remained stable despite mortgage margin pressures. We are actively managing volumes in the current environment; on track to achieve full year guidance of c.180bps
- SVR based component of our EIR assets is £25.8m and is equivalent to 0.5 months for the whole fixed rate mortgage book
- 10 % of our customers spend an average of 5 months on SVR before refinancing; in the last 6 months we have observed more customers reverting to SVR
- Increase in cost of deposits, driven by passback action, outweighs impact of increase in mortgage pricing; blended passback of c.60 % since January 2022 to all retail savings customers

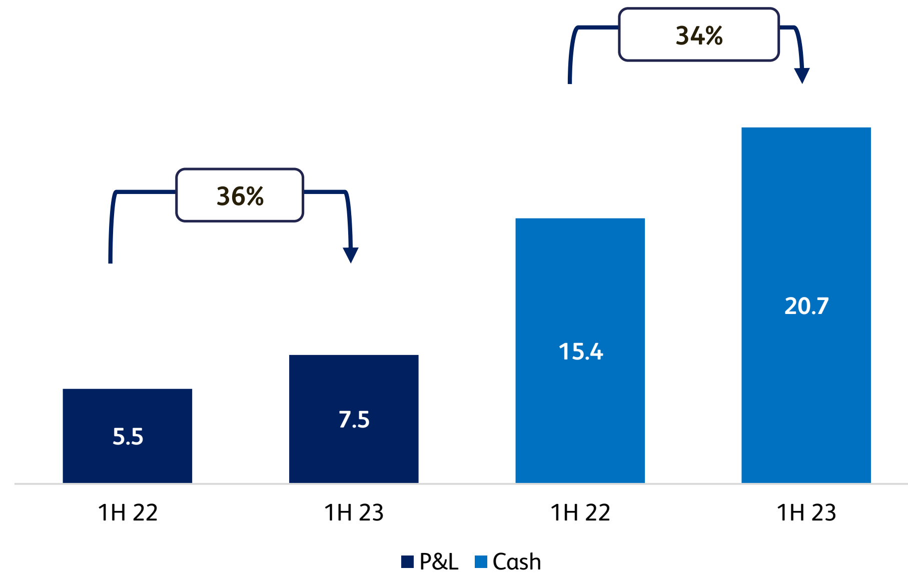
1. Removal of £6.6m one off EIR impact in the period
2. Includes c.£8bn of NIBBs (average tenor of c.2.5 years) and £2.7bn of instant access savings (average tenor of c.1year)
3. Calculated as annualised core customer income over core customer average balances for the period

Accelerating transformation spend to realise benefits

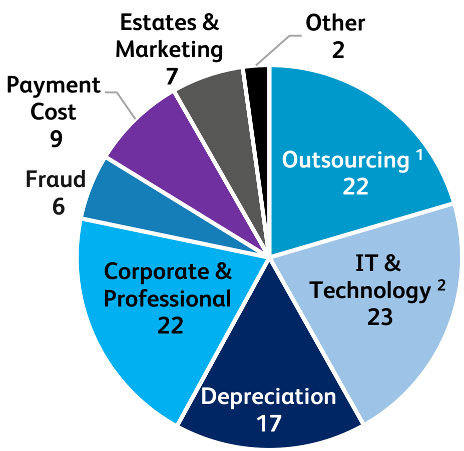
Operating expenditure (£m)



Strategic spend (£m)



Non staff costs (£m)



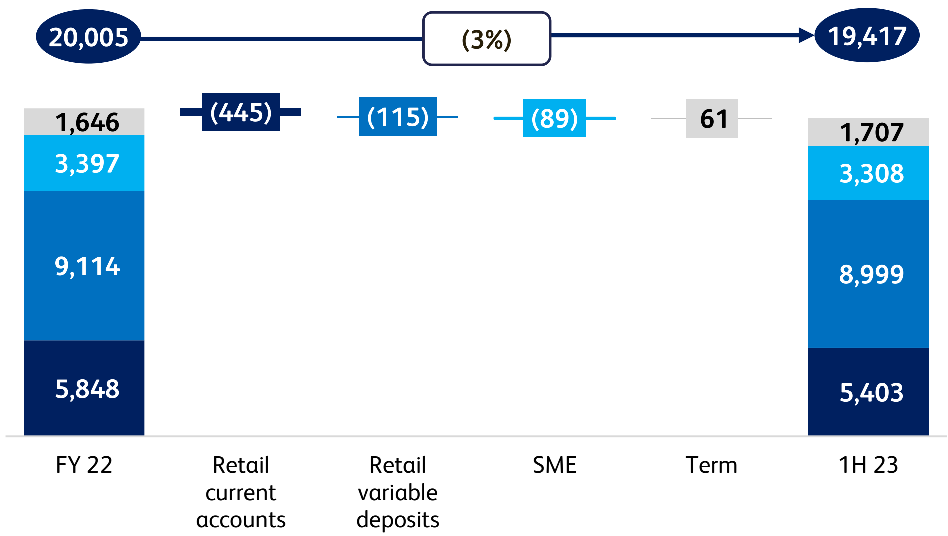
Increased operating expenditure as higher investment in transformation projects which will realise future benefits:

- Expect increased costs to continue but remains in line with guidance of c.£420m as we spend more on exceptional projects to drive future efficiencies
- Increase in staff costs driven by higher FTE vs 1H 22, including the insourcing of capita operations colleagues

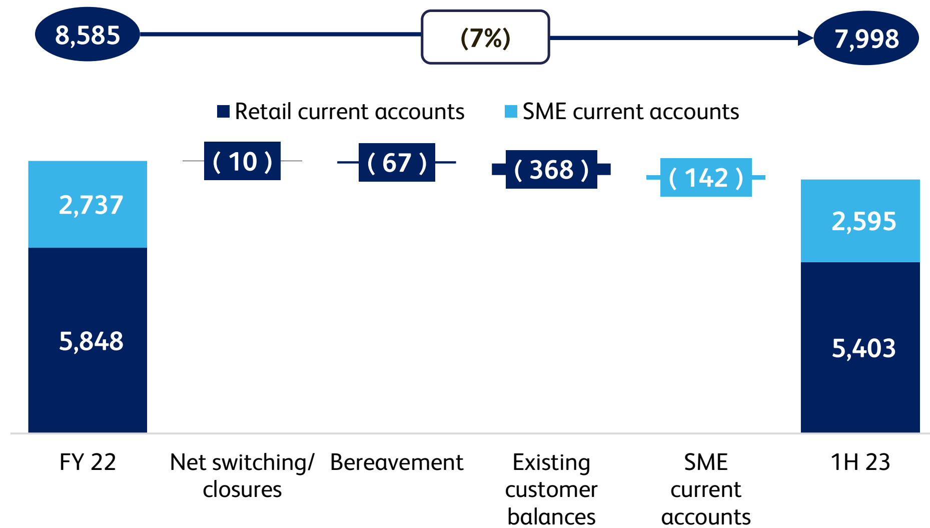
1. Includes £21m of IT managed services
2. IT & Technology includes license fees, IT equipment, maintenance & development, and network costs

Cost of living pressure drives a reduction in current account balances

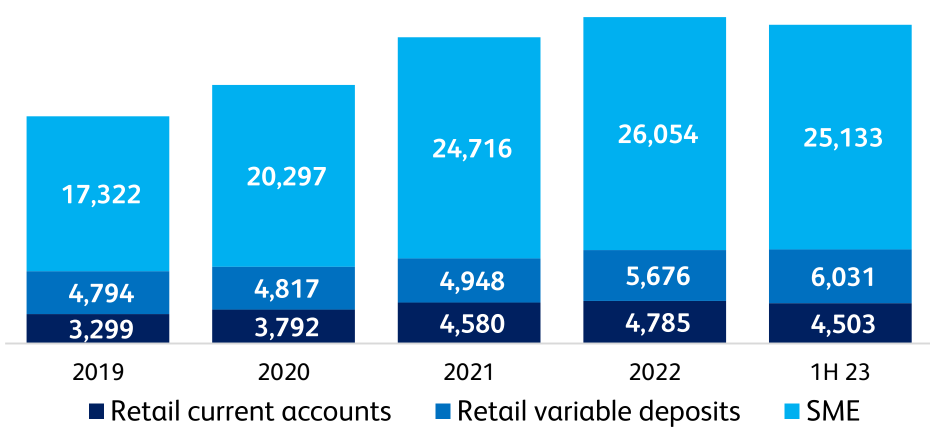
Core customer deposits (£m)



Retail and SME current account movement (£m)



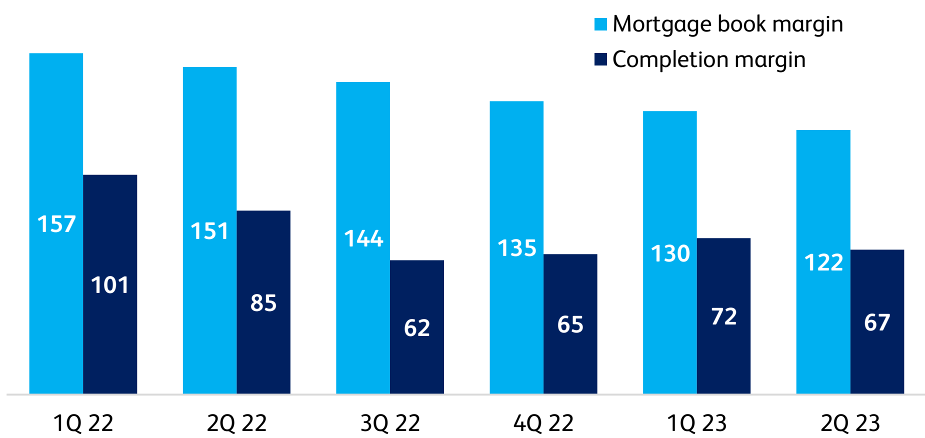
Average customer balance movement (£)



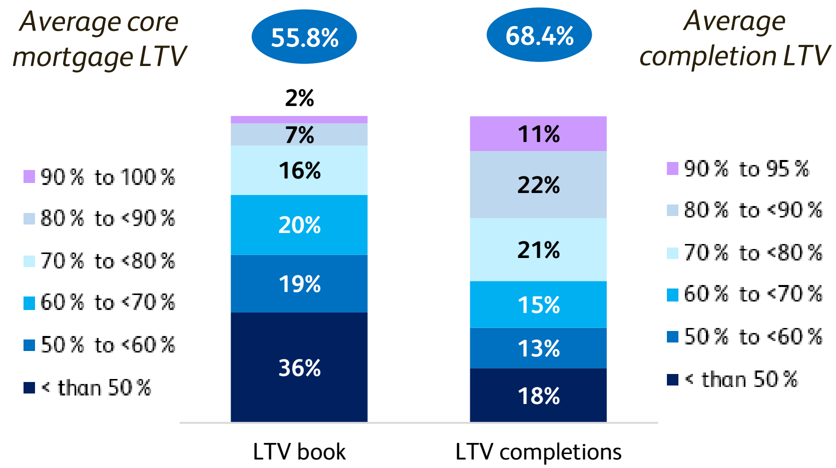
- Current account reduction – cost of living impacts on average balances
- Bereavement makes up a large proportion of our current account closures
- Small reduction in balances as a result of switch outs mitigated by ‘Refer a Friend’ switching incentive
- Customer average balances remain higher than pre COVID-19 levels

Low risk mortgage portfolio

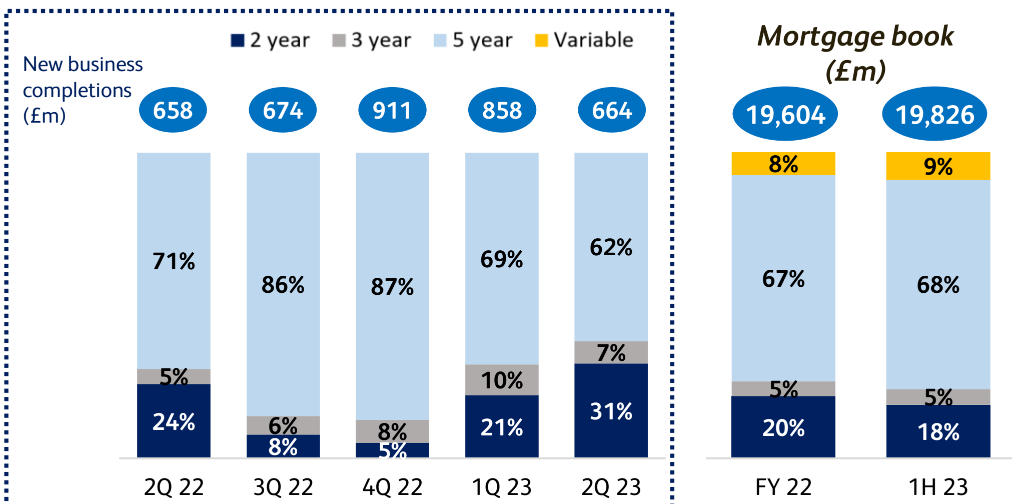
Mortgage margin [1] (bps)



Mortgage split by LTV book / completions



Completions by tenor

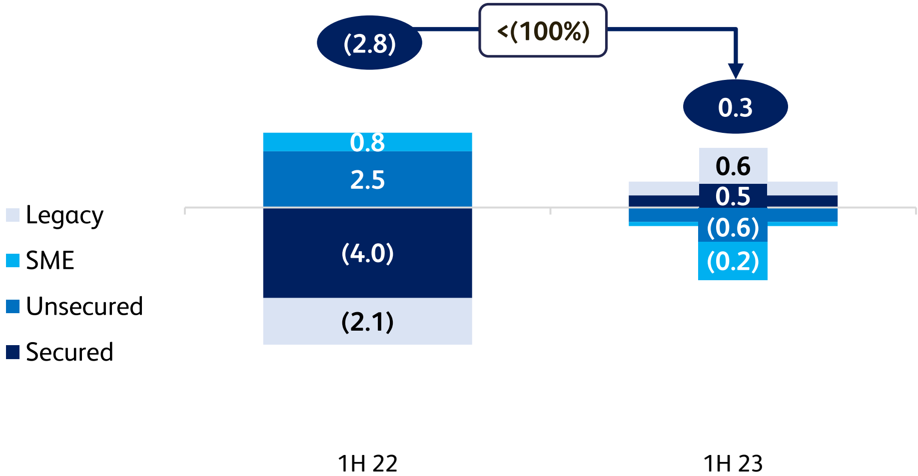


- Industry-wide margin pressure on mortgages drives down mortgage book margins
- Mortgage volumes managed during the period leading to an adjustment to the customer asset guidance for 2023
- Average core mortgage LTV of 55.8% with only 9% of the mortgage book >80% LTV
- Customer preference shifts towards 2 year tenor during the period due to the higher rate environment

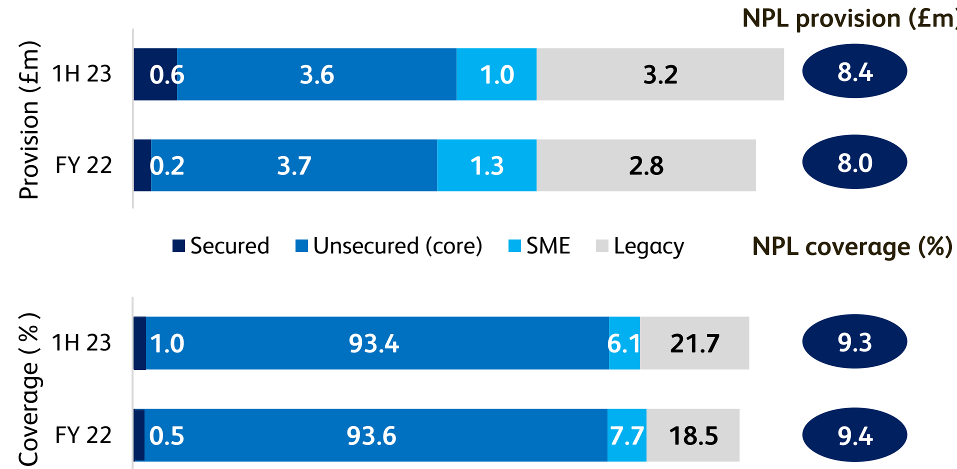
1. Margin calculated as gross rate minus swap

Asset quality remains strong

Impairment charge / (credit) (£m)



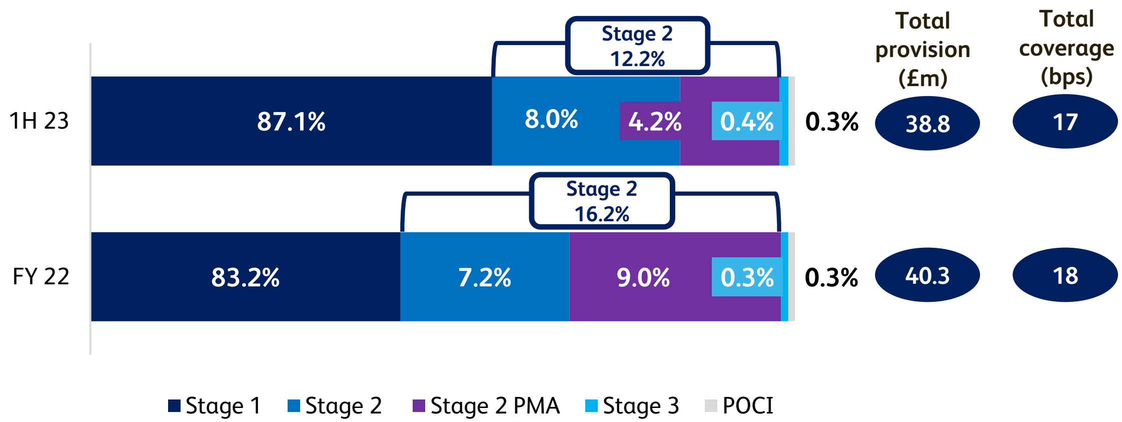
NPL coverage [1]



NPL ratio (bps) [2]

FY 22	1H 23
38	41

Exposure by stage



Net impairment charge of £0.3m:

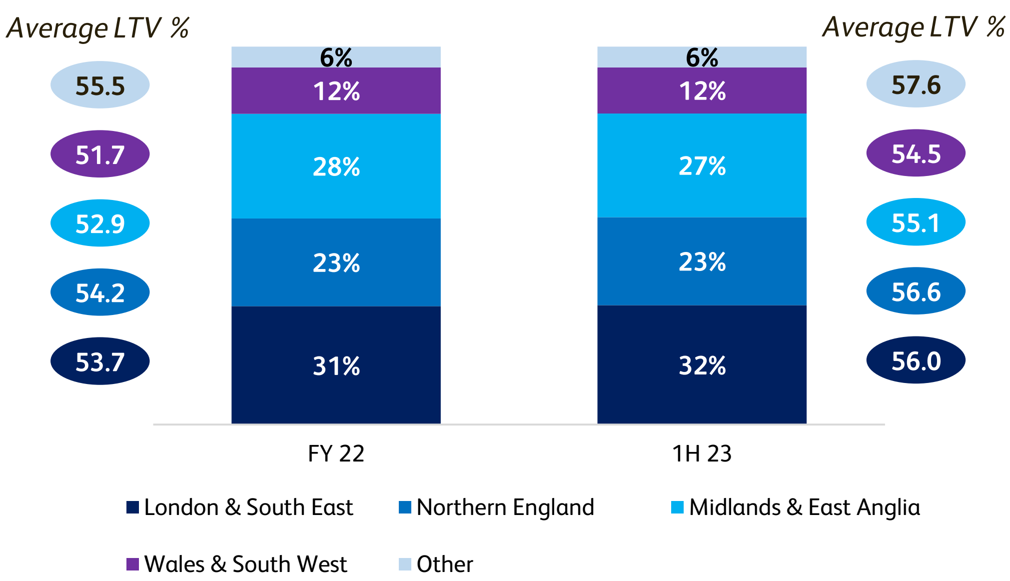
- Secured impairment charge of £0.5m; relates to revised macroeconomics leading to an increase in affordability coverage
- Unsecured impairment credit of £0.6m; driven by a refinement of the IFRS9 modelling
- Stage 2 exposures have reduced due to reassessment of secured affordability PMA in 1Q 23, partially offset by an increase for worsening economics, most notably an increase in the base rate outlook

1. NPL coverage ratio calculated as NPL provision over NPL balance (all excluding performing POCI)
2. NPL ratio calculated as non-performing exposure (excluding performing POCI) over total exposure
3. Includes balances relating to FVTPL

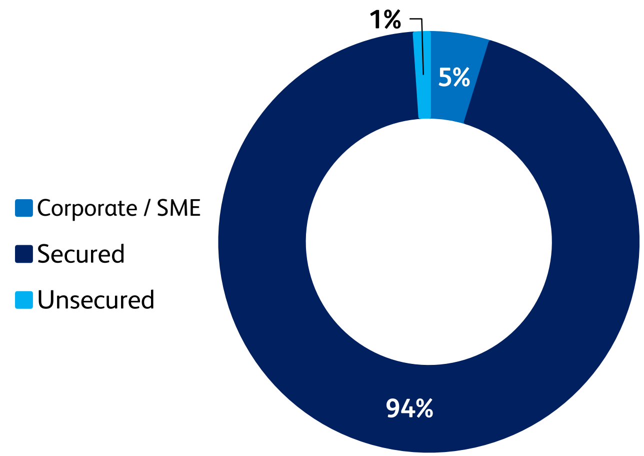
High quality assets well diversified across regions

- Mortgage split across regions remains stable with all geographical areas having an average LTV lower than 58 %
- Increased defaults are unlikely to drive material credit losses due to relatively low LTVs on existing balances
- Minimal exposure to unsecured and corporate lending with 94 % of our customer loans relating to secured mortgages

Mortgage split by geography [1]



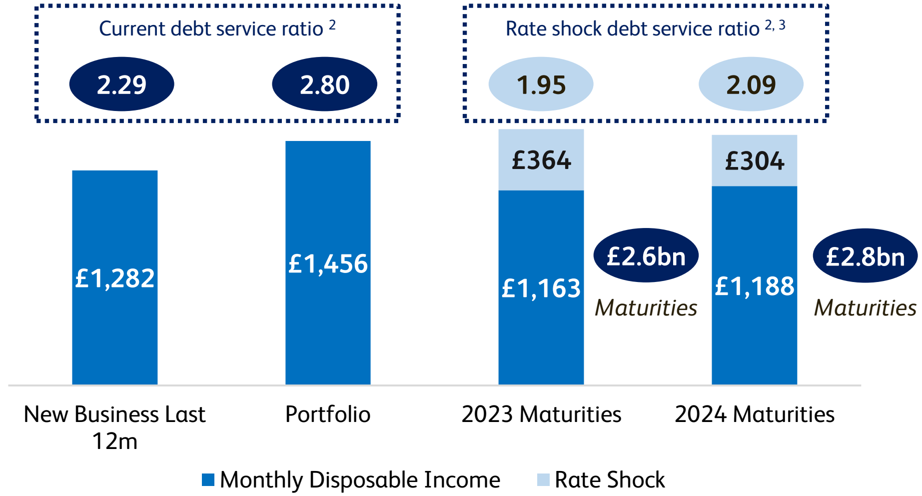
Lending mix



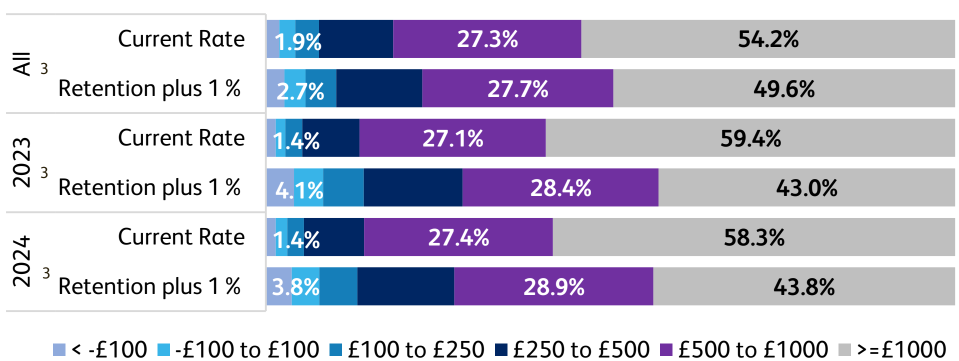
1. Regional split now based on Government Office Regions (was Economic Planning Regions). 2022 has been re-presented on the same basis.

Robust credit risk strategies contribute to our low risk profile

Platform mortgage residential affordability [1]



Platform assessed disposable income [1]

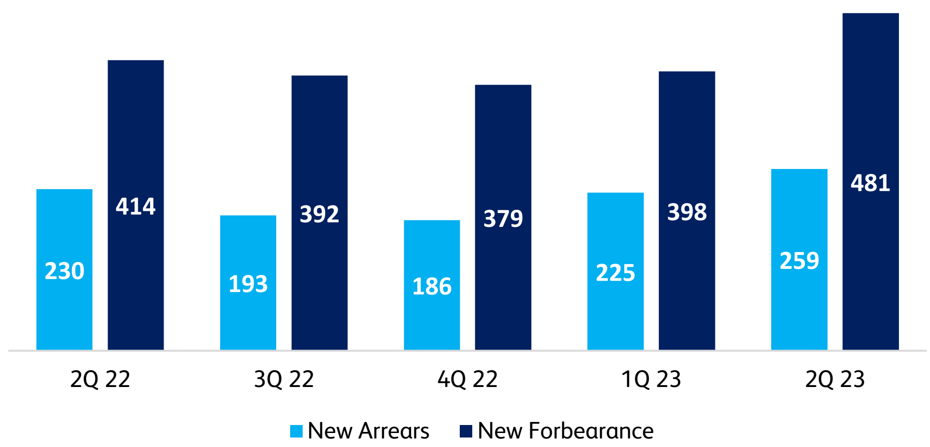


- The average level of disposable income for the portfolio is £1,456 per month and 90 % of these customers have a disposable income estimated to be >£250, based on their current mortgage rate
- Applying a rate shock to customers with products maturing in the next 2 years, average disposable income reduces to £1,163 per month (maturing in 2023) and £1,188 (maturing in 2024)
- An estimated 2.7 % of customers across the book have a disposable income of <-£100 when a retention rate plus 1 % is applied; with a blended average LTV of 56 %
- Of all accounts maturing before 2025, 4 % have an LTV of greater than 80 % with 0 % >90 % LTV

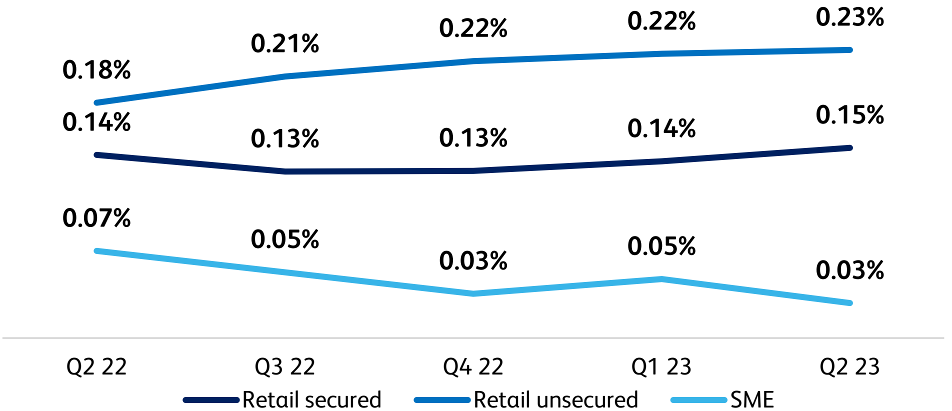
1. Best estimates with multiple assumptions applied including (but not limited to) inflated starting income and credit commitments using CAIS data. Some accounts excluded due to anomalies
2. Calculated as total disposable income divided by sum of mortgage repayment (before mortgage payment has been taken)
3. Retention rate varies between 5.37 % and 5.77 % depending on LTV and based on 5 year fixed rates

Demand for forbearance is low demonstrating resilience

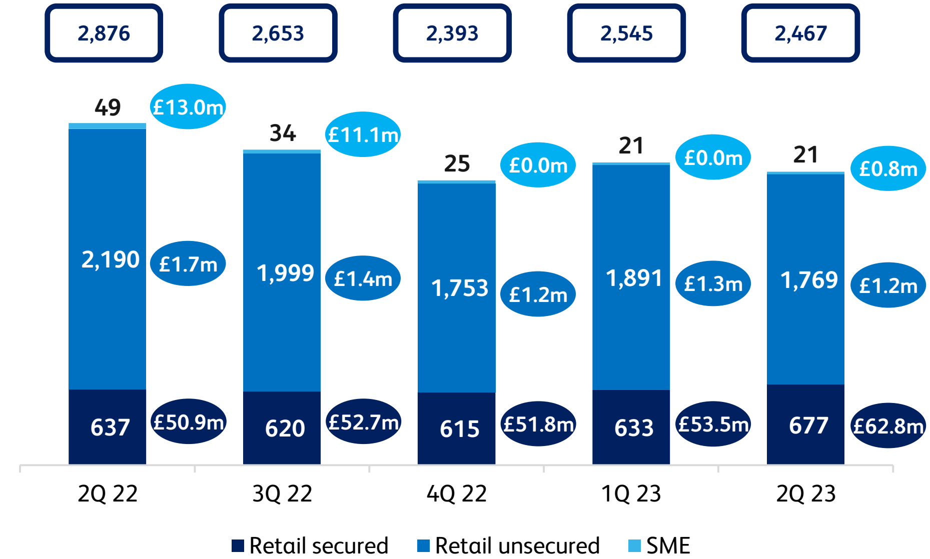
New secured arrears and forbearance (#) [1,2]



Accounts >3 months in arrears [3,4]



Total forbearance (#) [2,4]

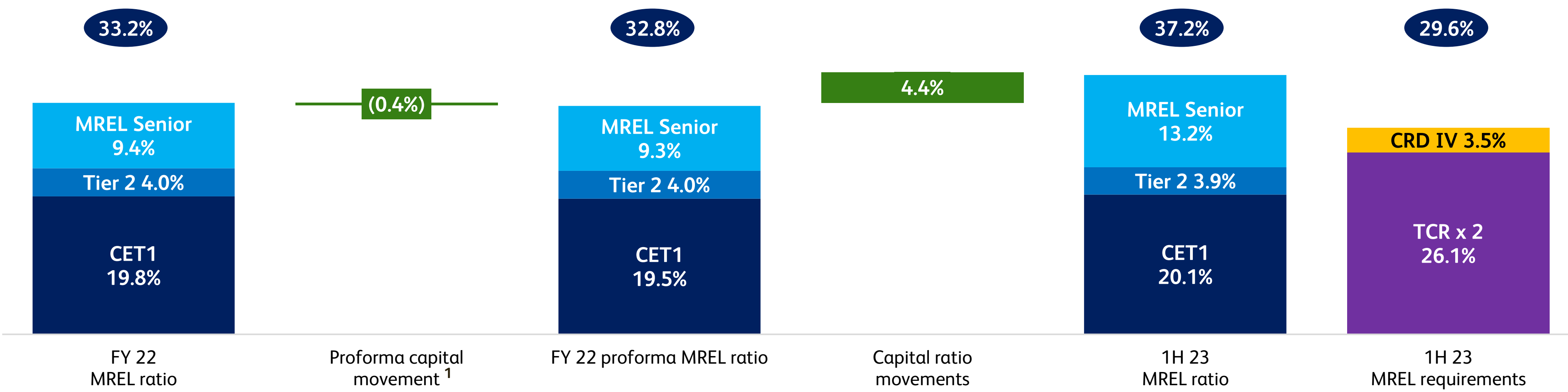


- Secured customers new in forbearance remains low in the quarter representing only 0.3 % of total secured accounts
- Unsecured forbearance remains low and is 0.5 % of total balances
- Signed up to the mortgage charter to support customers in financial difficulty
- 0.15 % of secured accounts in arrears equates to 216 accounts and £22.2m of balances

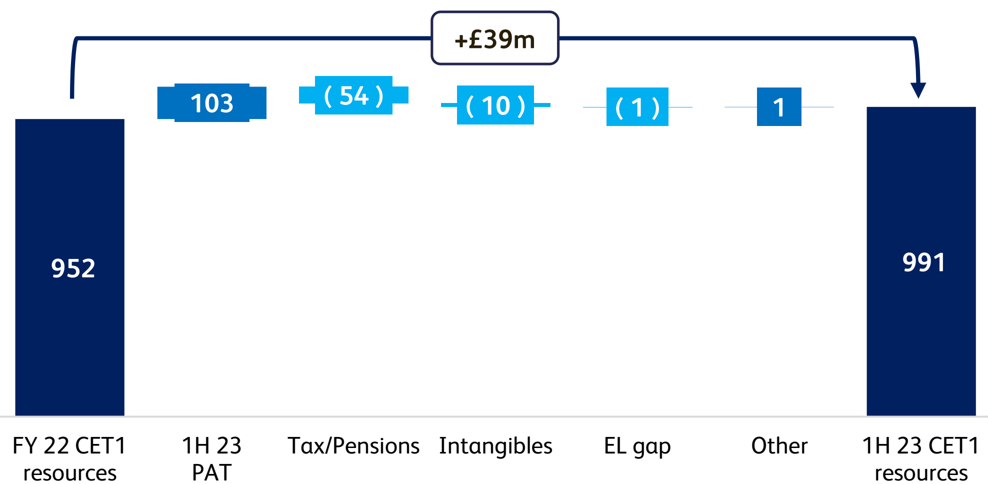
1. These are gross new inflows and not representative of increases in arrears and forbearance stock given cure volumes
2. Forbearance covers a range of treatments including, but not limited to, deferral of payments and an adjustment to regular payment terms
3. Volume of accounts in arrears over total volume of accounts; recognised as >3 months over limit on overdraft, 3+ missed payments on a loan, credit card or mortgage, or >3 months over limit on credit card
4. Excludes government backed Bounce Back Loans (BBLs)

Significant headroom to MREL plus CRD IV buffers of £378m

Capital ratios development



CET1 resource evolution (£m)

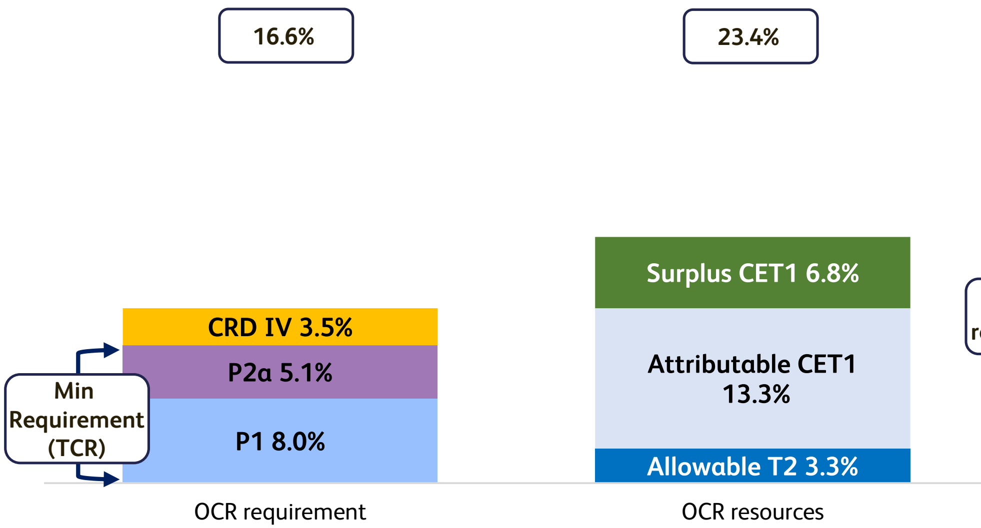


- CET1 ratio increased 60bps on a proforma basis [1]
- Successful issuance of £200m MREL – qualifying funds in May, MREL resources now fully optimised
- **The Bank maintains a significant headroom to MREL plus CRD IV buffers (requirement c.£1.5bn) with a surplus of £378m**
- Latest estimate of fully loaded Basel 3.1 impact would reduce the CET1 ratio by c.3.8 % [2]

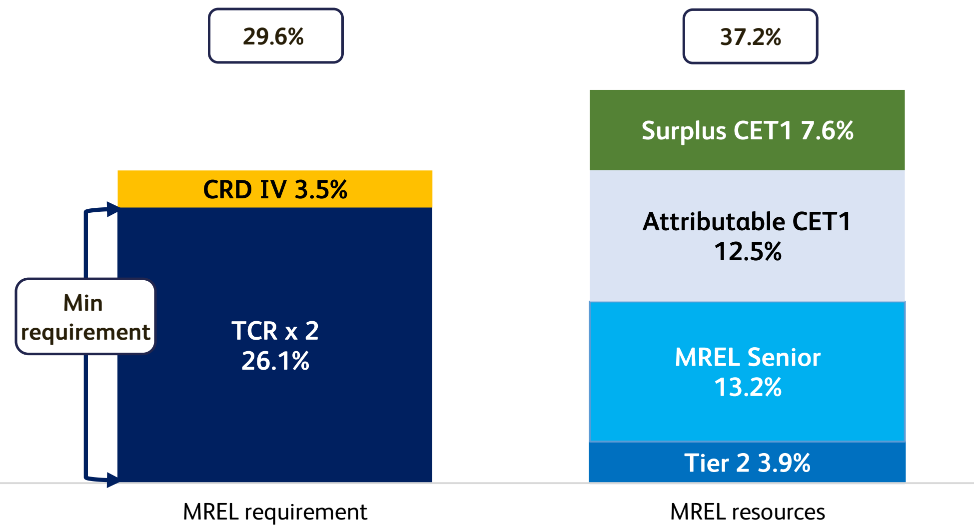
1. Pro-rata of annual impact of Pillar 1 RWA update for operational risk recognised in 1Q 23
2. Based on Dec-22 CET1 ratio and consultation response submitted to PRA

£507m surplus to TCR minimum capital requirements

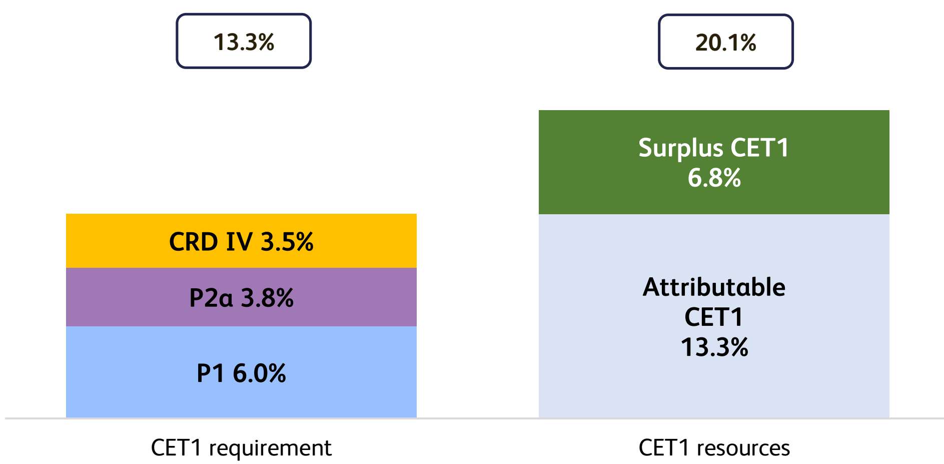
OCR requirement [1]



MREL requirement [1]



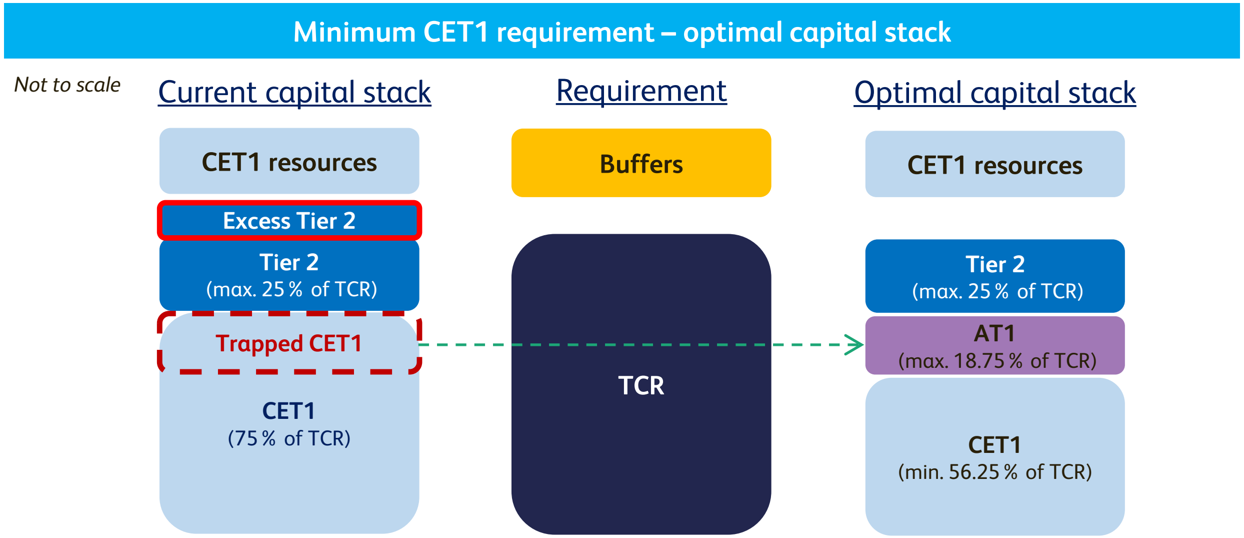
CET1 requirement [1]

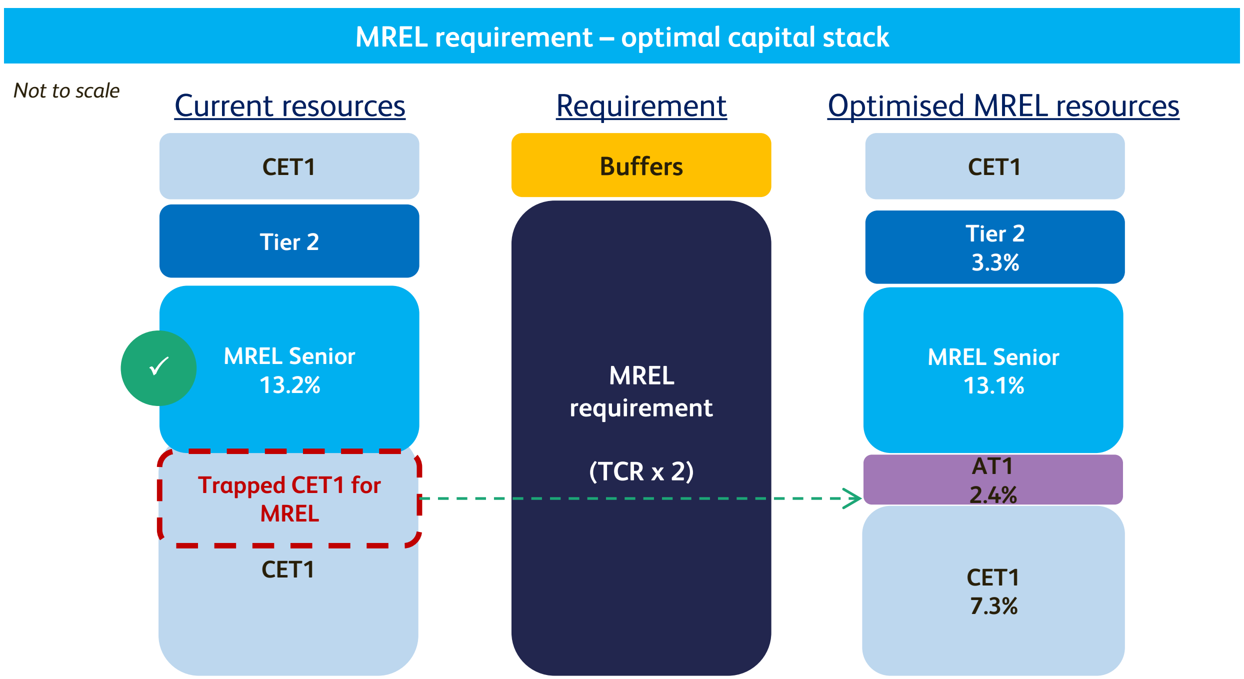


- £507m surplus (with total capital resources of 23.4 %) to TCR minimum requirements of 13.1 %
- £551m surplus to MREL minimum requirements (excluding CRD IV buffers); MREL resource ratio of 37.2 %

1. Requirements based on 30-Jun-23 risk weighted assets

MREL Senior is now fully optimised

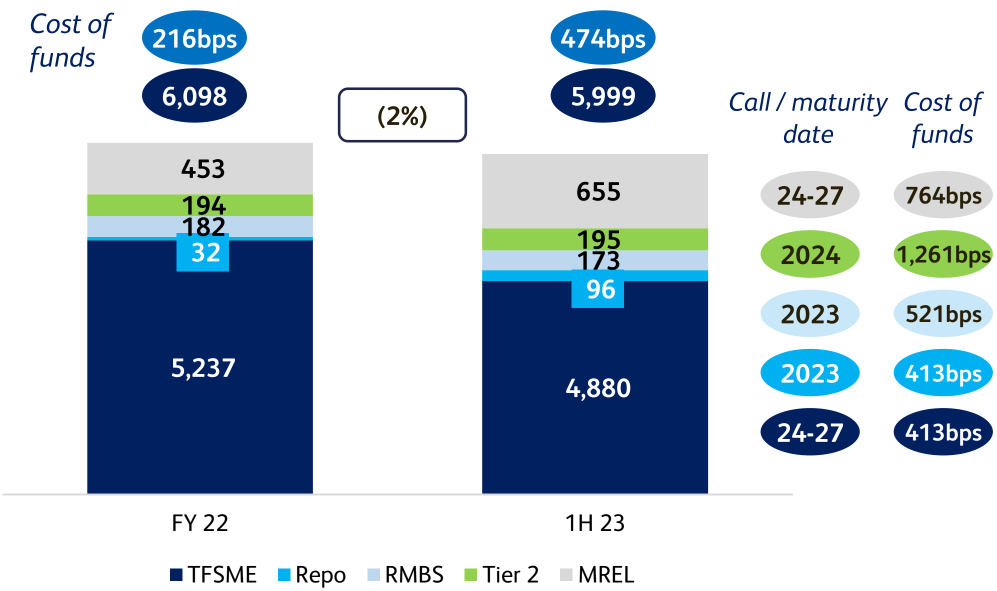




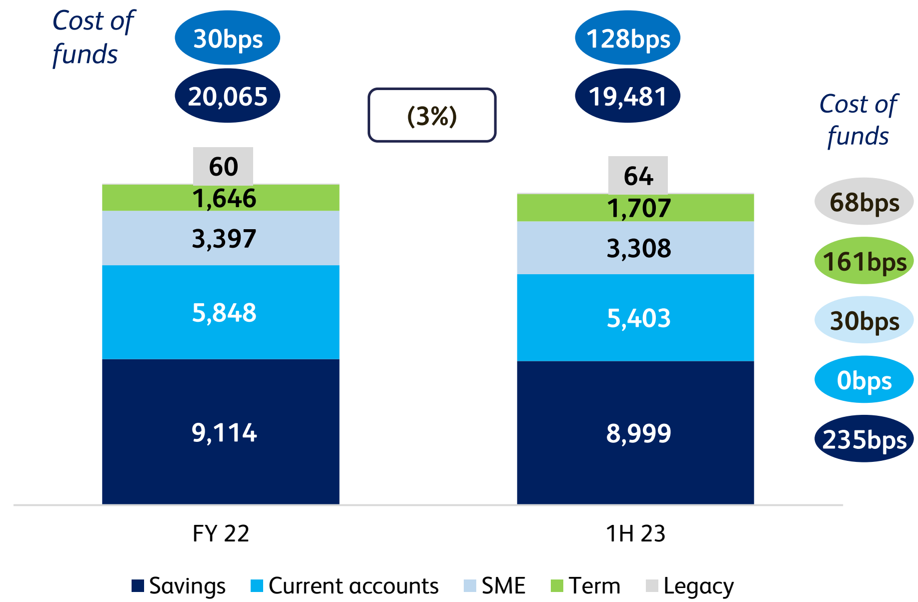
- Current capital stack is overly dependent on CET1 capital; inefficient structure
- Opportunity to optimise with a more cost effective and efficient stack
- Surplus CET1 provides future optionality for dividends and investment
- The Bank has now optimised its MREL Senior resources
- Medium target CET1 ratio of c.15 % with AT1 and c.17 % without

Total blended cost of funds remains low relative to base rate

Wholesale funding (£m)

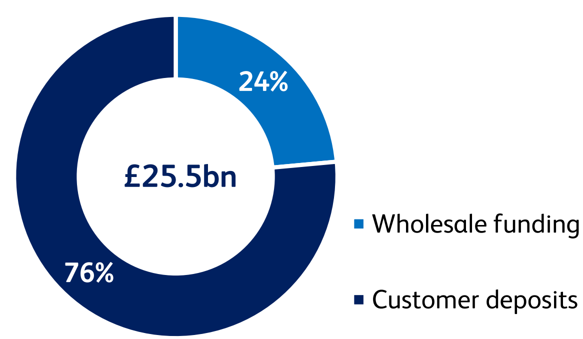


Customer funding (£m)



- Blended cost of funds increases to 210bps; remains materially lower than base rate
- £4.9bn TFSME provides significant low cost term funding and supports wholesale cost of funds at 474bps
- Repaid £376m of TFSME in the period and expect to repay c.£1.2bn in total for 2023
- 81.4 % (FY 22: 81.2 %) of our core customer deposits are insured through FSCS; levels remain stable despite market volatility
- MREL increased following £200m MREL issuance in May 2023

Funding mix

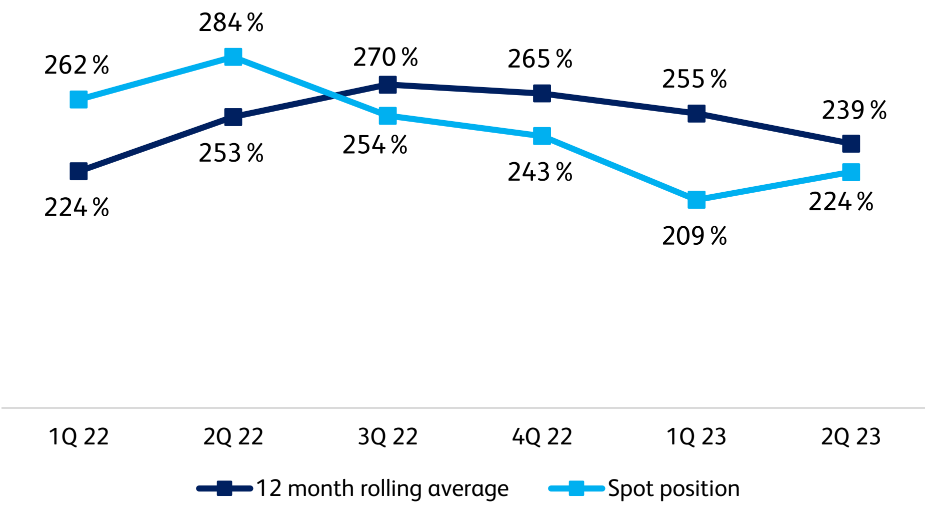


Blended cost of funds (bps)

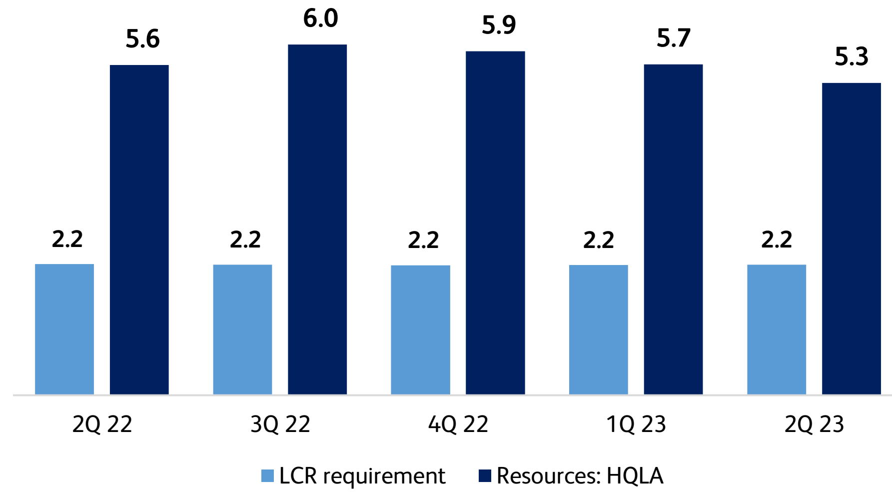
FY 22	73
1H 23	210

Strong liquidity position

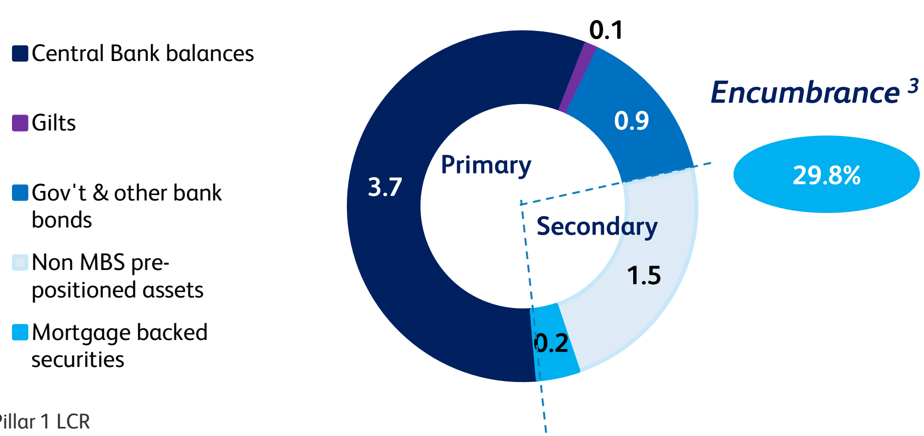
Liquidity coverage ratio [1]



LCR requirement / HQLA resources (£bn) [2]



Liquidity profile (£bn)



- LCR has increased in 2Q compared to 1Q due to a slight reduction in requirements as a result of a smaller mortgage pipeline. Q1 was also impacted by maturing FRISA balances at the end of the financial tax year
- LCR requirement is driven primarily by deposit outflows with minimal wholesale contractual inflows and maturities, as well as reflecting variability in mortgage pipeline position
- All fixed income security positions hedged to manage interest rate risk

1. Pillar 1 LCR
2. Calculated in line with Pillar 3 on a 12 month rolling basis
3. EBA definition calculated as the carrying amount of encumbered assets and collateral divided by total assets and collateral

2023 outlook

	1H 23 actuals		FY 23 guidance
Net interest margin (bps)	184	On track	c.180
Total statutory costs (£m)	205.8	On track	c.420
RoTE (%)	13.0	Adjusted	>10 Previous guidance **c.10%**
Asset quality ratio (bps)	0.3	On track	<5
Customer assets (£bn)	21.1	Adjusted	20-21 Previous guidance **c.£22bn**

	GDP	HPI	Unemployment	Base Rate
2023 latest economics [1]	**0.5%**	**(4.7%)**	**3.8%**	**5.75%**

1. Guidance dependent on latest economic assumptions

Appendix

The co-operative bank

Ethical then, now and **always**

Segmental performance

Segmental £m	Retail			SME			Legacy & central items			Total		
	1H 23	1H 22	Change	1H 23	1H 22	Change	1H 23	1H 22	Change	1H 23	1H 22	Change
Net interest income	199.2	183.6	15.6	45.2	28.8	16.4	0.7	(4.2)	4.9	245.1	208.2	36.9
Other operating income	12.8	12.1	0.7	8.3	9.0	(0.7)	0.3	0.3	0.0	21.4	21.4	0.0
Total income / (expense)	**212.0**	**195.7**	**16.3**	**53.5**	**37.8**	**15.7**	**1.0**	**(3.9)**	**4.9**	**266.5**	**229.6**	**36.9**
Staff costs	(55.3)	(44.0)	(11.3)	(14.0)	(11.3)	(2.7)	(1.8)	(1.3)	(0.5)	(71.1)	(56.6)	(14.5)
Non-staff costs	(88.0)	(86.2)	(1.8)	(17.1)	(15.6)	(1.5)	(0.8)	(0.7)	(0.1)	(105.9)	(102.5)	(3.4)
Continuous improvement projects	(15.1)	(6.5)	(8.6)	(1.7)	(3.1)	1.4	(0.2)	(0.1)	(0.1)	(17.0)	(9.7)	(7.3)
Operating expenditure	(158.4)	(136.7)	(21.7)	(32.8)	(30.0)	(2.8)	(2.8)	(2.1)	(0.7)	(194.0)	(168.8)	(25.2)
Impairment credit / (charge)	0.1	1.5	(1.4)	0.2	(0.8)	1.0	(0.6)	2.1	(2.7)	(0.3)	2.8	(3.1)
Underlying profit / (loss)	**53.7**	**60.5**	**(6.8)**	**20.9**	**7.0**	**13.9**	**(2.4)**	**(3.9)**	**1.5**	**72.2**	**63.6**	**8.6**

Balance sheet	1H 23	FY 22	Change	1H 23	FY 22	Change	1H 23	FY 22	Change	1H 23	FY 22	Change
Assets	20,059.0	19,841.3	217.7	391.4	388.2	3.2	7,205.1	7,903.3	(698.2)	27,655.5	28,132.8	(477.3)
Liabilities	16,109.0	16,607.8	(498.8)	3,308.1	3,396.8	(88.7)	6,837.0	6,829.2	7.8	26,254.1	26,833.8	(579.7)

Quarterly income statement

£m	2Q 23	1Q 23	4Q 22	3Q 22	2Q 22	1Q 22	4Q 21	3Q 21	2Q 21	1Q 21
Net interest income	125.0	120.1	129.2	120.9	108.3	99.9	90.3	84.2	78.2	71.2
Other operating income	10.4	11.0	7.4	12.3	11.1	10.3	12.0	7.0	8.6	10.0
Total income	**135.4**	**131.1**	**136.6**	**133.2**	**119.4**	**110.2**	**102.3**	**91.2**	**86.8**	**81.2**
Operating expenditure	(104.3)	(101.5)	(102.2)	(95.4)	(90.4)	(84.7)	(98.4)	(85.4)	(80.3)	(82.0)
Impairment (charge) / credit	(0.8)	0.5	(5.1)	(4.1)	3.3	(0.5)	(0.8)	(0.4)	1.4	(1.3)
Non-operating income / (expense)	0.9	0.5	0.5	7.2	(0.9)	5.5	(0.5)	1.7	6.3	9.3
Profit before tax	**31.2**	**30.6**	**29.8**	**40.9**	**31.4**	**30.5**	**2.6**	**7.1**	**14.2**	**7.2**
Taxation credit / (charge)	26.5	14.9	(75.9)	(1.1)	4.0	(37.5)	144.0	(1.3)	25.8	(2.3)
Profit / (loss) after tax	**57.7**	**45.5**	**(46.1)**	**39.8**	**35.4**	**(7.0)**	**146.6**	**5.8**	**40.0**	**4.9**
Adjustments to profit before tax										
Exceptional project expenditure	3.0	4.5	3.5	3.4	3.8	1.7	12.7	6.4	5.4	4.3
Other exceptional losses / (gains)	2.9	0.0	(0.4)	(4.8)	0.9	(4.7)	0.8	(1.5)	(9.3)	(8.9)
Underlying profit before tax	**37.1**	**35.1**	**32.9**	**39.5**	**36.1**	**27.5**	**16.1**	**12.0**	**10.3**	**2.6**

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