3Q 2022 Results

10 November 2022

150 years of ethical banking

The co-operative bank

Full capital compliance; profits exceed £100m

Statutory profit before tax
£102.8m

Adjusted RoTE [1]
14.0 %

Pro-forma CET1 ratio
20.2 %

+310bps organic growth[2]

Net interest margin
1.59 %

Key capital and financial milestones achieved

Fully compliant with capital requirements plus buffers one year ahead of schedule

Strong capital position with a resilient balance sheet

Most guidance metrics upgraded

Investment in operational capacity

c.200 additional FTE in the contact centres across Retail and SME

Average speed to answer on target for less than 5 minutes

Maintained IT service stability

Mortgage and savings transformation progressed

Savings platform substantially delivered with two new savings products launched

Key elements of mortgage platform system testing completed

Capita colleagues set to join the Bank in 1Q 23

Strong ethical leadership

Green asset financing on track with £159m deployed

Award winning [3] and ESG leader for both MSCI and Sustainalytics [4]

New ethical brand campaign launched

1. Basis of preparation outlined on page 4
2. Including unaudited profits and removing regulatory adjustments
3. Most Ethical Bank – UK 2022, as awarded by CFI
4. Rated by Morningstar Sustainalytics with a score of 8.3. (Next peer rated at 13.0); MSCI rating of AAA as of July 2022

Financial results

The co-operative bank

Profit before tax of £102.8m; underlying profit of £103.1m

£m	3Q 22	3Q 21	Change
Net interest income	329.1	233.6	41 %
Other operating income	33.7	25.6	32 %
Total income	**362.8**	**259.2**	**40%**
Operating expenditure	(270.5)	(247.7)	(9 %)
Impairment charge	(1.3)	(0.3)	(>100 %)
Non-operating income	11.8	17.3	(32 %)
Profit before tax	**102.8**	**28.5**	**>100%**
Taxation	(34.6)	22.2	(>100 %)
Profit after tax	**68.2**	**50.7**	**35%**

Adjustments to profit before tax			
Exceptional project expenditure	8.9	16.1	45 %
Other exceptional (gains)	(8.6)	(19.7)	(56 %)
Underlying profit before tax	**103.1**	**24.9**	**>100%**
Key performance indicators			
Net interest margin (bps) [1]	159	124	35
Adjusted RoTE (%) [2]	14.0	3.8	10.2
Cost:income ratio (%) [3]	72.2	89.6	17.4
Asset quality ratio (bps) [4]	0.8	0.2	(0.6)
CET1 ratio (%) [5]	19.3	20.7	(1.4)

1. Annualised net interest income over average interest earning assets
2. Underlying profit minus current tax over CET1 resources
3. Total statutory expenditure over total statutory income (excludes impairment)
4. Annualised impairment charge over average customer assets
5. Comparator is FY 21

Profit before tax of £102.8m; income growth drives positive jaws of 31 %

Total income increases by 40% to £362.8m

- Net interest income increases 41 % to £329.1m; improving deposit margins following increases in the base rate to 2.25 %

Operating expenditure increases 9% to £270.5m:

- Staff costs increased by 8 % to £86m
- Non-staff costs increased by 8 % to £157m
- Project costs total £28m including £8.9m of exceptional strategic spend

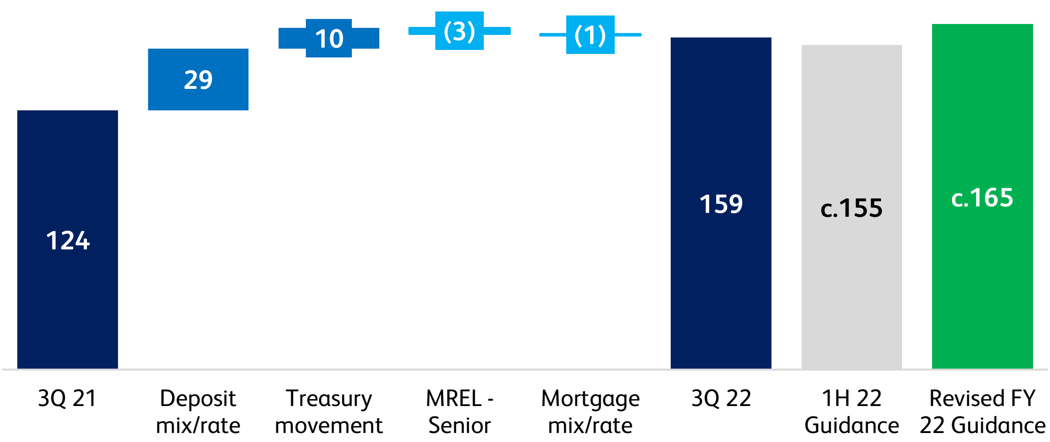
Impairment charge of £1.3m; reflects adjustments for affordability across secured and unsecured portfolios as a result of cost of living pressures

Non-operating income of £11.8m reduced by 32%; includes the partial sale and revaluation of Visa shareholding as well as an exceptional profit in Q1 on disposal of a small legacy loan book

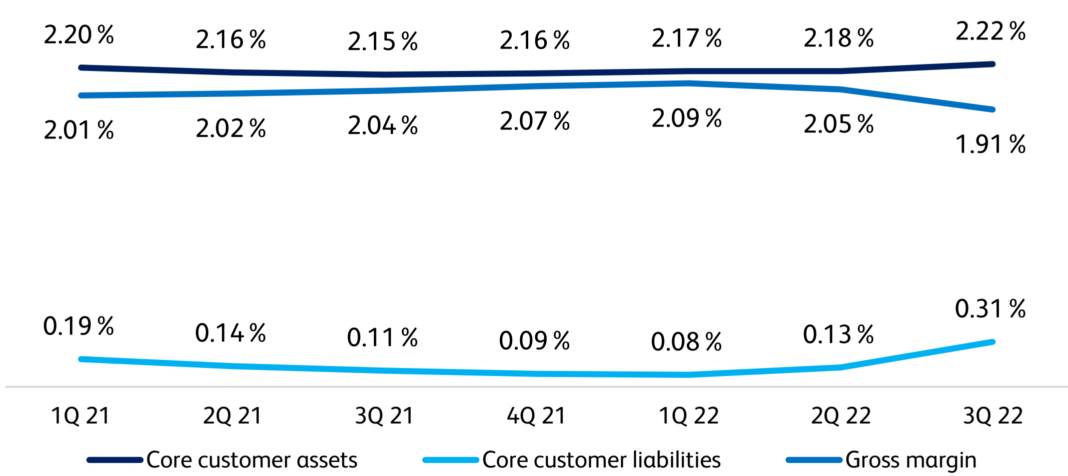
Tax charge of £34.6m; impact of decrease in the banking surcharge from Q1

Bank NIM improves 35bps in the period

Net interest margin (bps)



Customer rate corridor[1]

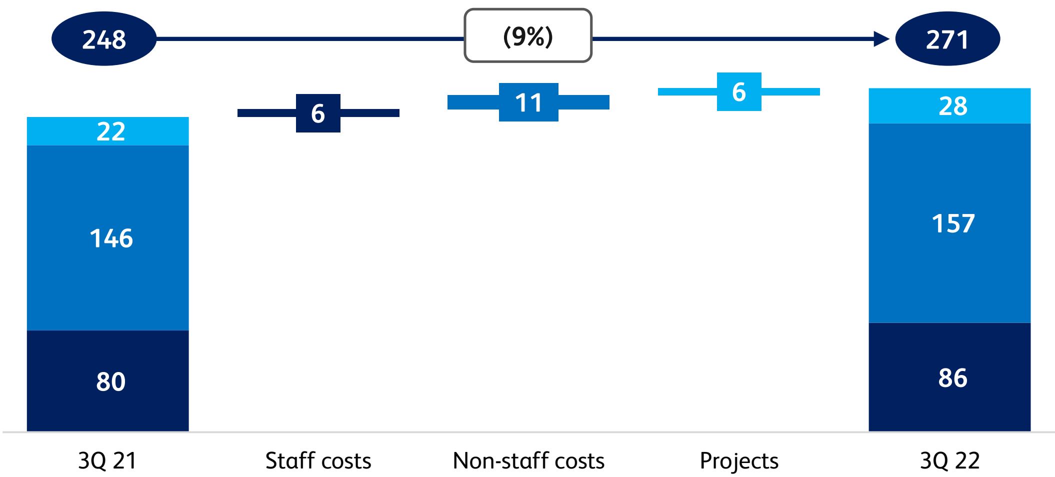


- NIM increased to 159bps driven by widening deposit margins as the base rate increased to 2.25 %
- Increasing market rates will result in the Bank exceeding guidance; revised guidance now c.165bps
- Treasury movement impacted by the removal of the covered bond and higher returns on the HQLA portfolio
- Reduction in customer rate corridor as marginal increase in mortgage pricing is offset by deposit pass-back action

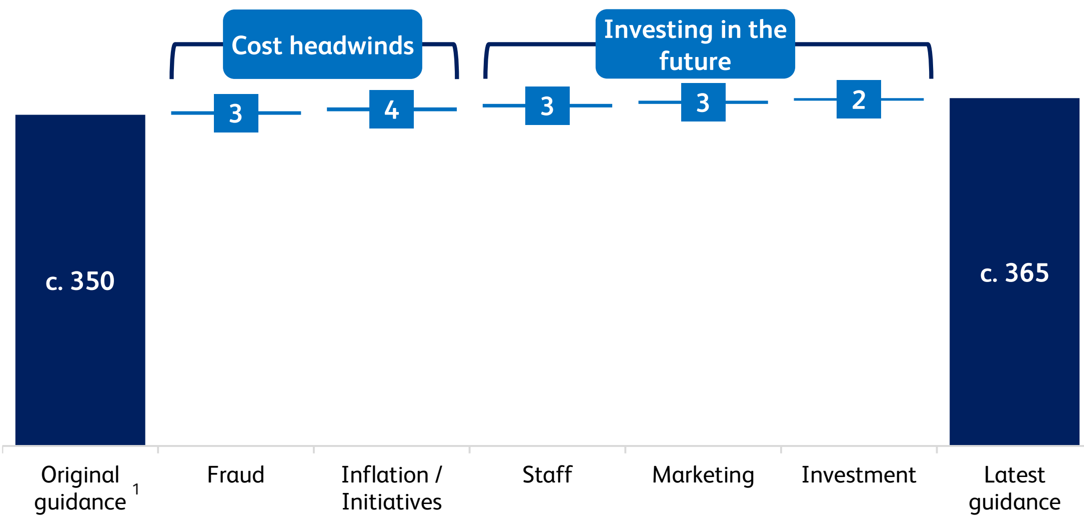
1. Calculated as annualised core customer income over core customer average balances for the period

Increased operating expenditure; investment accelerated

Operating expenditure (£m)



Statutory cost guidance (£m)



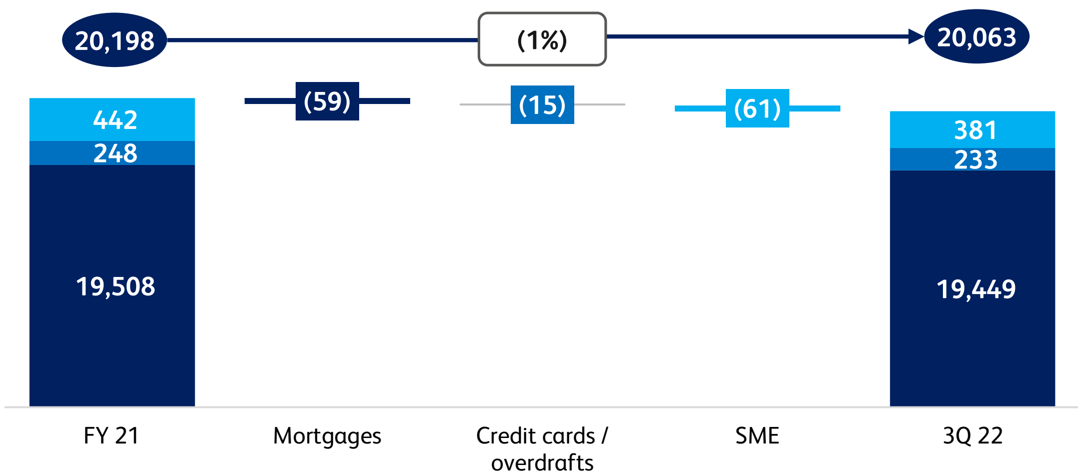
Operating expenditure increased by 9 % compared to 3Q 21:

- Staff costs increased by £6m:
    - Largely due to phasing of performance related pay and inflationary pressures
- Non-staff costs increased by £11m:
    - c.£3m increase in fraud costs
    - c.£3m increase in marketing costs primarily due to the launch of our new brand campaign
    - c.£2m impact of cost releases in 2021 relating to final outcomes from our branch closures
    - c.£2m lower PPI releases
- Project costs increased by £6m driven primarily by the mortgage and savings transformation
- Original guidance updated from c.£350m to c.£365m due to cost headwinds and conscious investment decisions

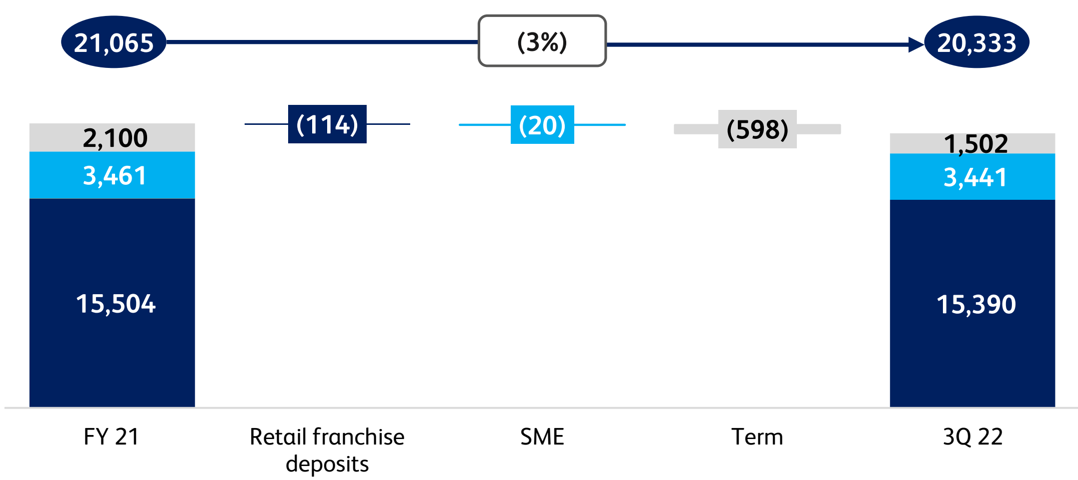
1. Original guidance at the start of 2022; guidance was updated at 1H 22 to c.£360m

Core customer balances broadly stable

Core customer assets flow (£m)



Core customer deposit flow (£m)

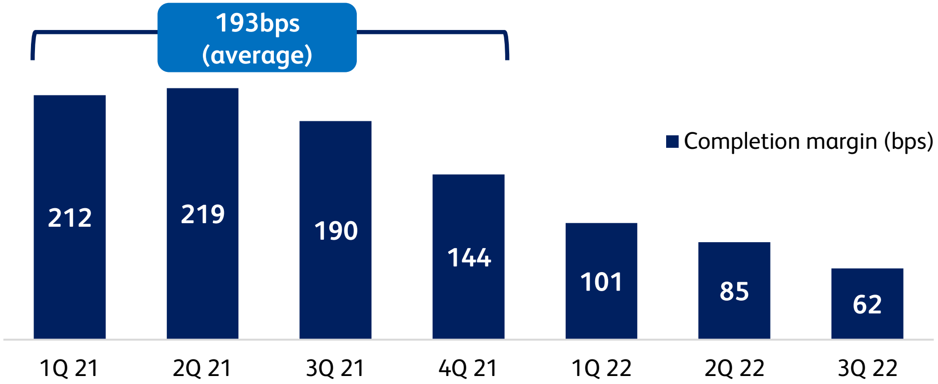


- **Marginal reduction in core customer assets by 1%;** primarily through repayments of bounce back loans (BBLs) and reduction in mortgage balances as we prioritise Bank margins
- Pipeline of c.£1.5bn as we enter the final quarter of 2022 returning to more normalised, pre-pandemic levels
- **Deposits reduce by 3%;** deposits remain fairly stable compared to year end. Term Deposit reduction reflecting re-pricing actions taken

Rising swap rates outpace gross customer rates

Mortgage margin [1] (bps)

Mortgage book margins (bps) *3Q 21* 151 *3Q 22* 151

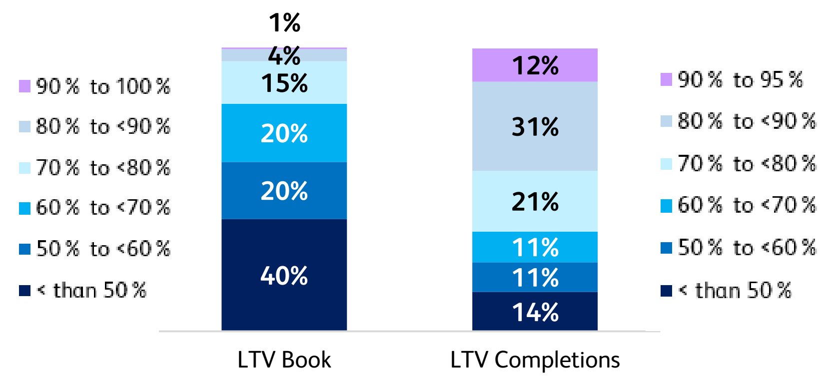


1. Margin calculated as gross rate minus swap

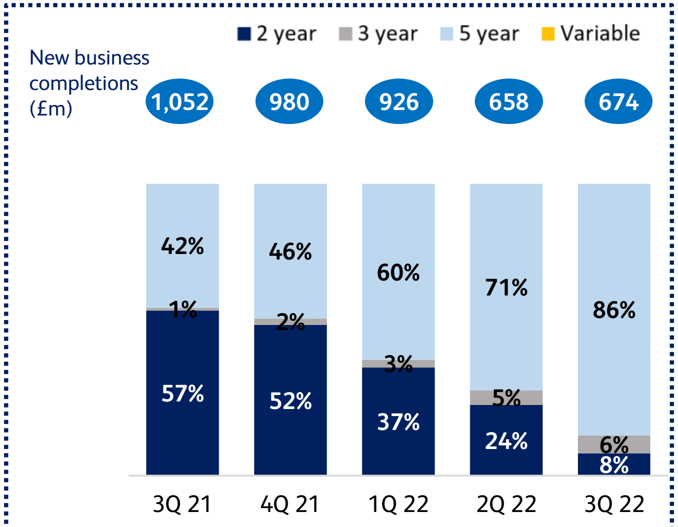
Mortgage split by LTV book / completions

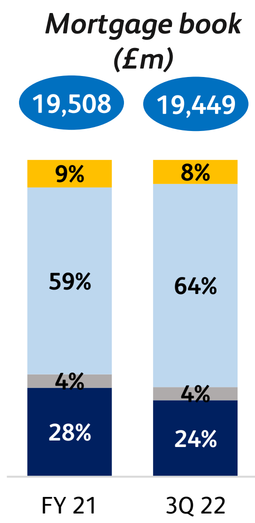
Average core mortgage LTV 53.3%

Average completion LTV 71.8%



Completions by tenor

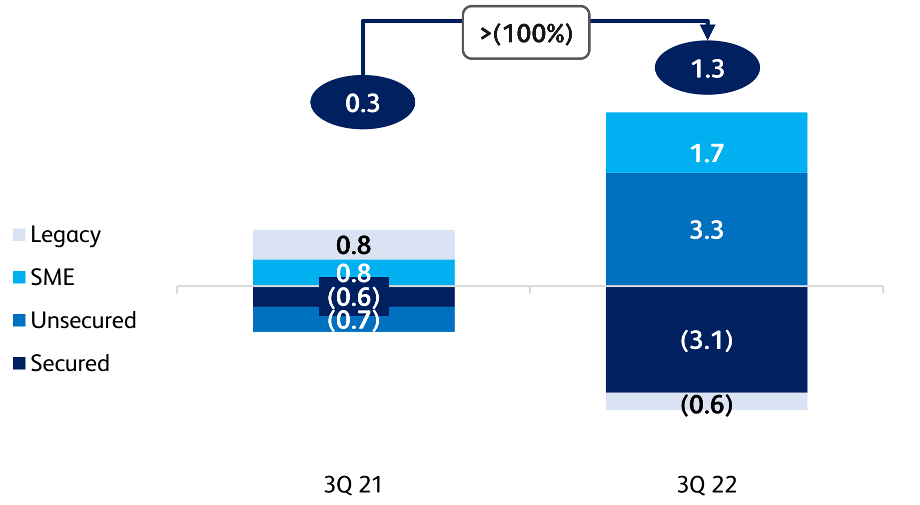




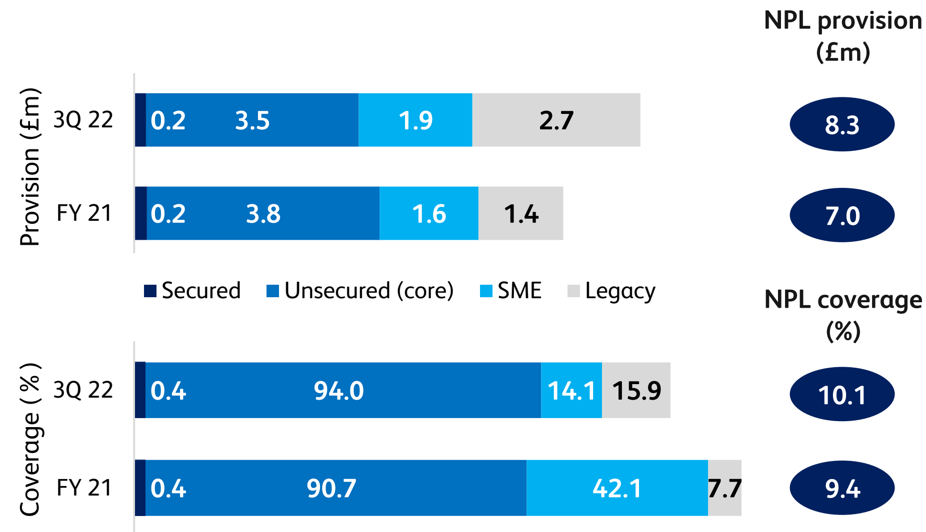
- Limited pass-back to new mortgage business following rising market rates, drives down margins
- Mortgage pipeline of c.£1.5bn as at 3Q 22 increasing by c.£0.4bn in the third quarter
- Customers seeking longer term financial certainty, opting for longer tenor mortgages

Asset quality ratio remains low despite cost of living pressures

Impairment charge / (credit) (£m)



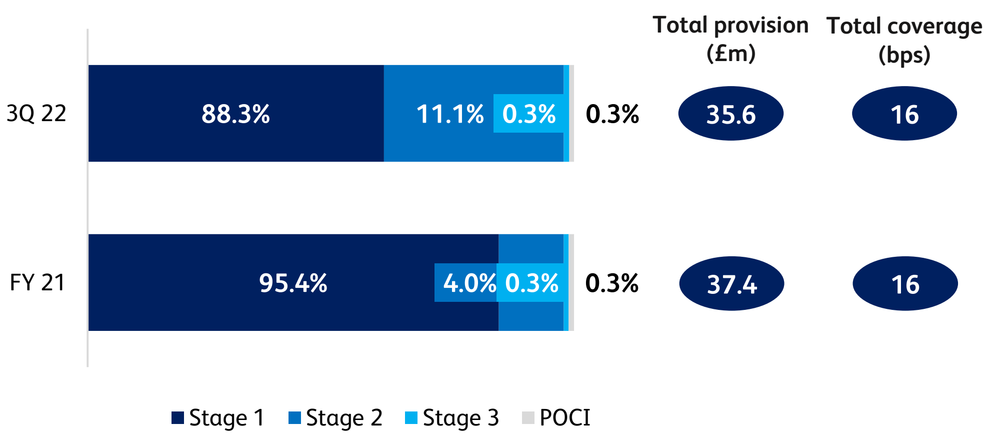
NPL coverage [1]



NPL ratio (bps) [2]

FY 21	3Q 22
32	36

Exposure by stage [3]



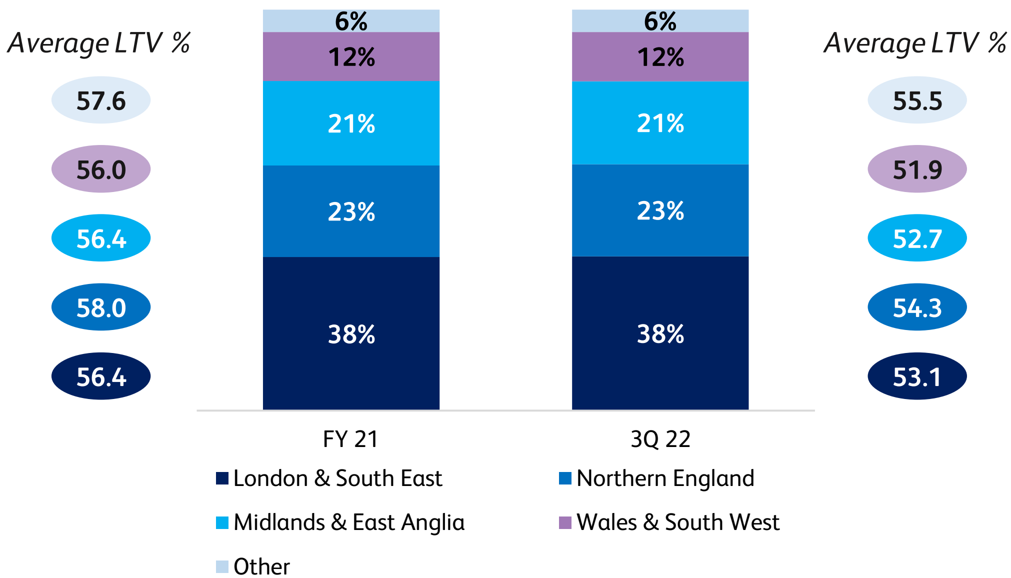
Net impairment charge of £1.3m reflects low levels of default across the Bank:

- Arrears remain low and stable across all portfolios
- To date, minimal impact from the rising costs of living
- Provisions increased in 3Q driven by current economic climate, offset by the earlier COVID release

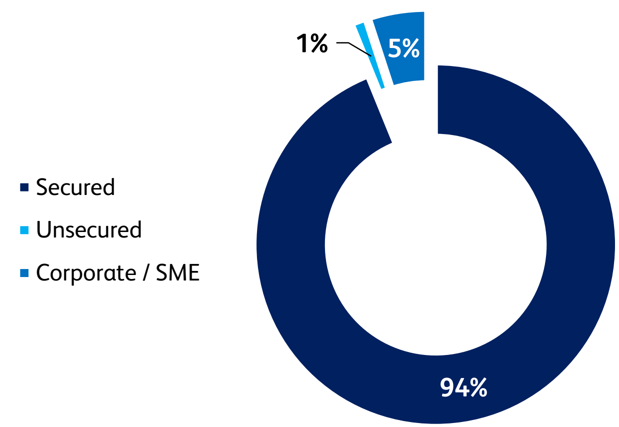
1. NPL coverage ratio calculated as NPL provision over NPL balance (all excluding performing POCI)
2. NPL ratio calculated as non-performing exposure (excluding performing POCI) over total exposure
3. Includes balances relating to FVTPL

High quality assets well diversified across regions

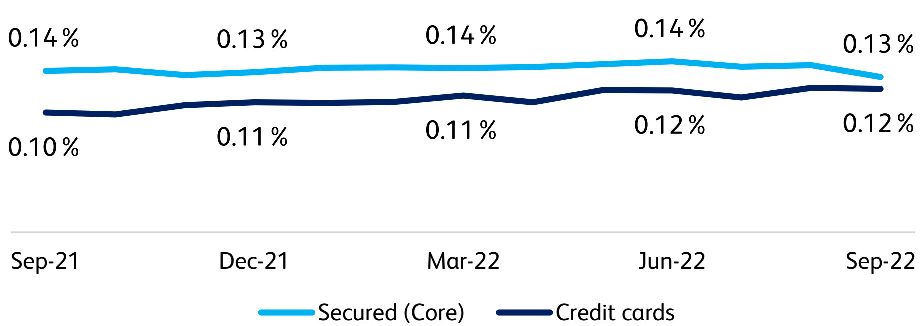
Mortgage split by geography



Lending mix



Accounts >3 months in arrears[1]

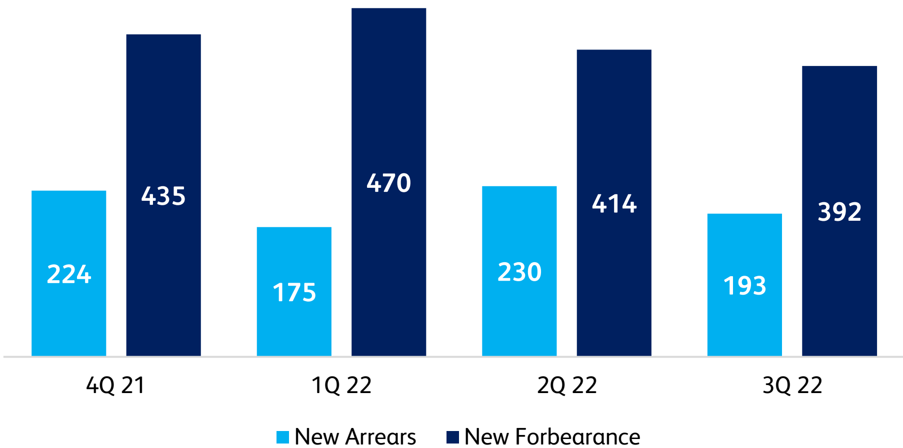


- Mortgage split across regions remains stable with all geographical areas having an average LTV lower than 56 %
- Increased defaults are unlikely to drive material credit losses due to relatively low LTVs on existing balances
- 0.13 % of secured accounts in arrears equates to 190 accounts and £17.2m of balances

1. Volume of accounts in arrears over total volume of accounts

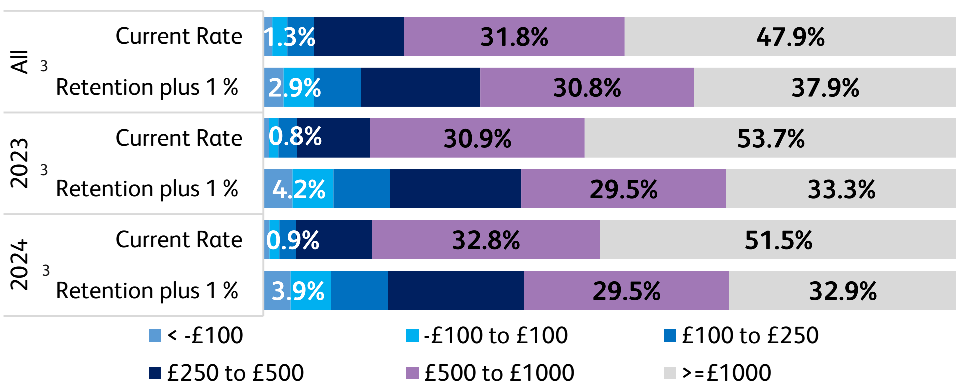
A low risk portfolio benefiting from robust credit risk strategies

New secured arrears and forbearance (volume)



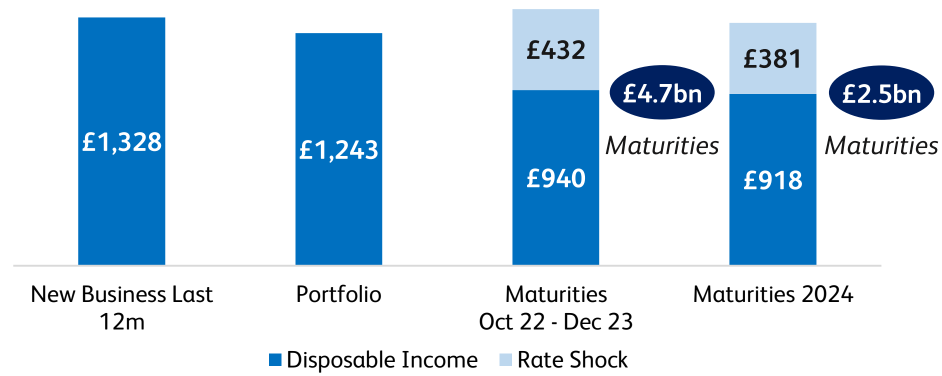
Note: these are gross new in flows and not representative of increases in arrears and forbearance stock given cure volumes. For context YoY there has been a 14 % reduction in forbearance stock.

Platform assessed disposable income [1]



Platform mortgage residential affordability [1]

Current debt service ratio [2]		Rate shock debt service ratio [2, 3]	
2.53	2.57	1.76	1.81

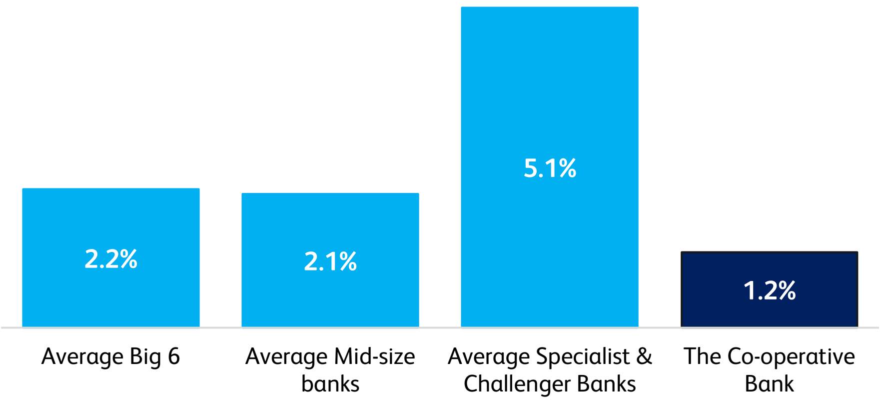


- The average level of disposable income for the portfolio is £1,243 per month and 93 % of these customers have a disposable income estimated to be >£250, based on their current mortgage rate
- Applying a rate shock to customers with products maturing in the next 2 years, average disposable income reduces to £940 per month (maturing before Dec-23) and £918 (maturing in 2024)
- An estimated 2.9 % 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 57 %
- Of all accounts maturing before 2025, 3.1 % have an LTV of greater than 80 % with 0 % >91 % 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 5.67 % and 5.99 % depending on LTV

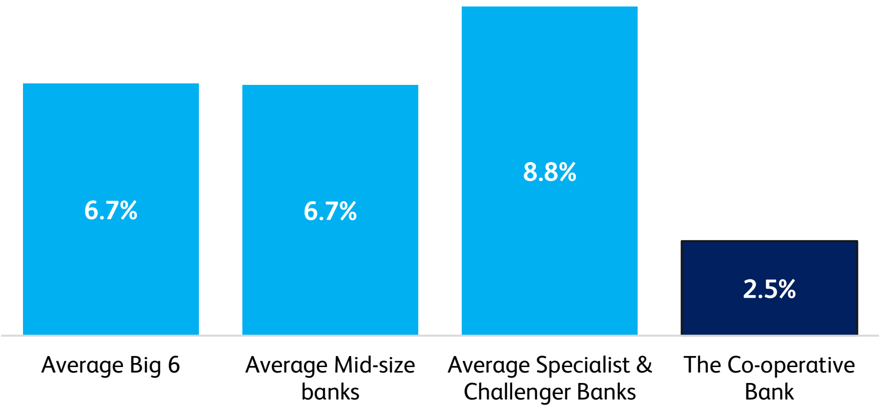
High quality Bounce Back Loan portfolio; performing ahead of peers

Suspected fraud as % of drawn values [1]

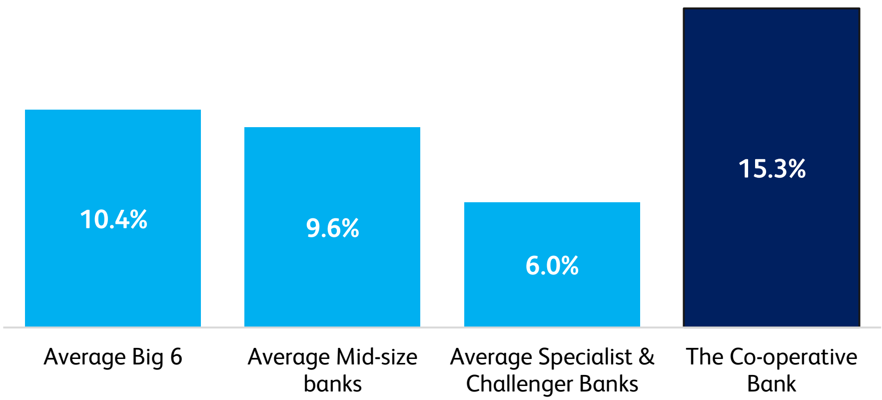


- Bounce back loans were only made available to existing customers; allowing for better controls and reduced chance of fraud
- 8^{th} lowest bank (out of 25) for fraud claims as % of drawn values
- Only 2.5 % of balances are in arrears; highlighting high quality portfolio

% loans in arrears (balances) [1]



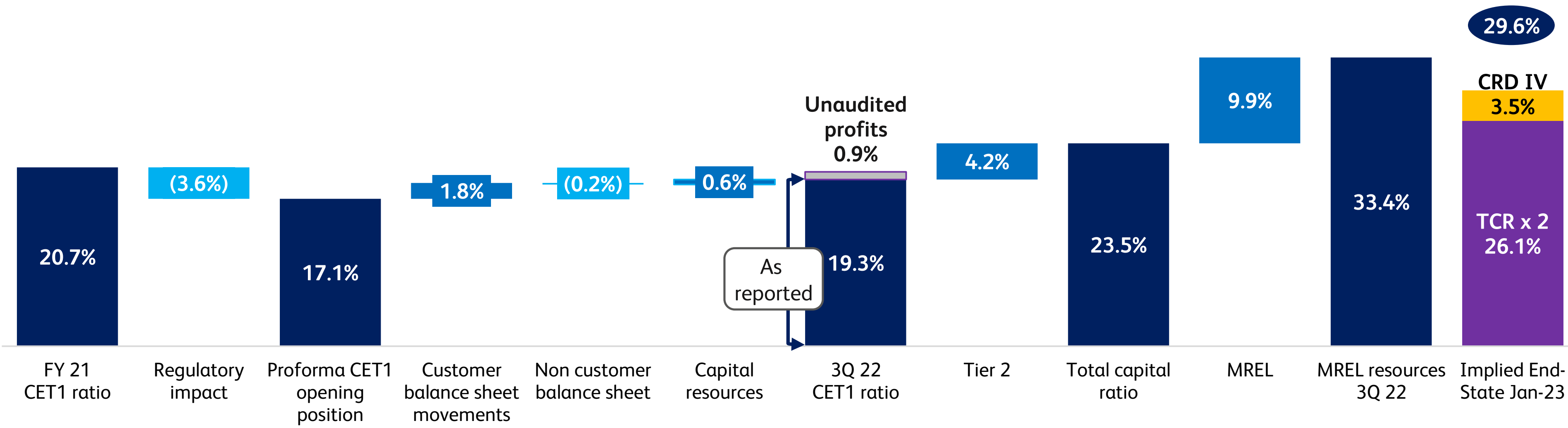
% loans repaid in full (balances) [1]



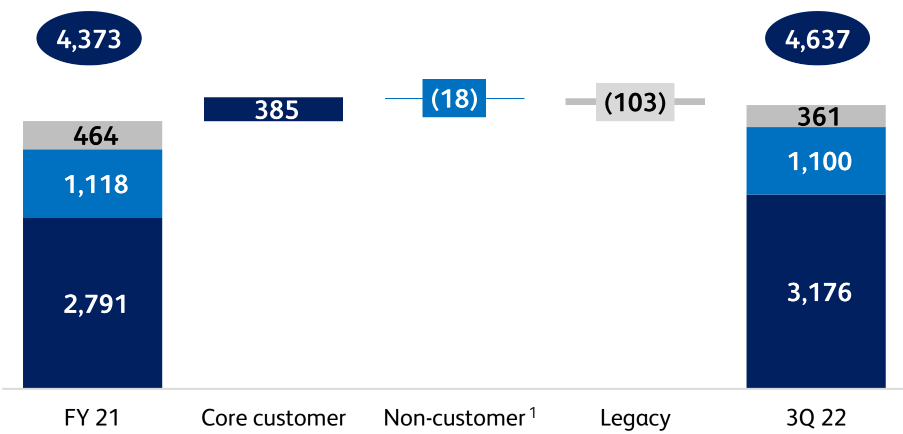
1. BBLS data only available as at 31 July 2022 [COVID-19 loan guarantee schemes repayment data - GOV.UK (www.gov.uk)]

Total buffer compliance; achieved one year ahead of schedule

Capital resources development



RWA (£m)

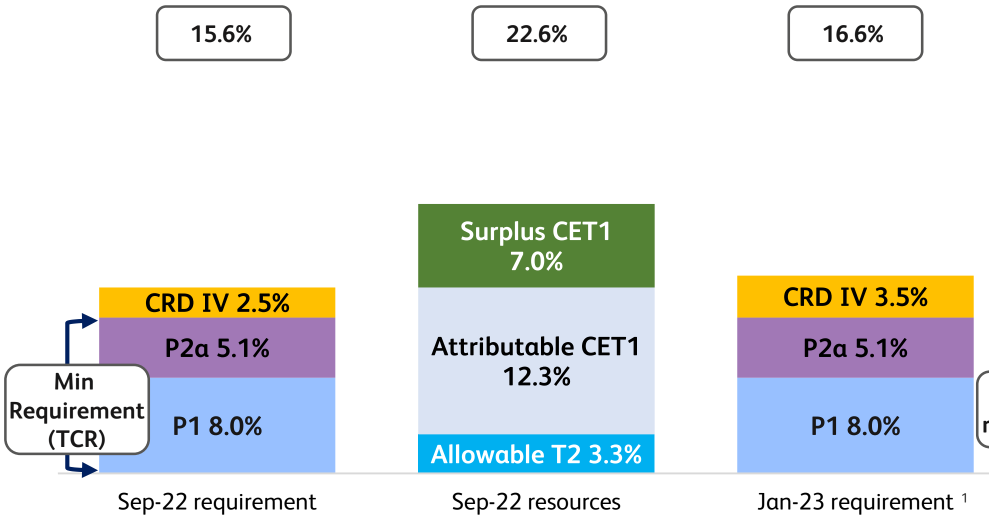


- c.3.6 % reduction in CET1 ratio due to regulatory impacts
- Opening CET1 position following the removal of the regulatory impacts was 17.1 %
- Organic capital growth in the year of 2.2 % (excluding unaudited profits)
- **The Bank maintains a significant headroom to interim MREL plus CRD IV buffers (requirement c.£1.1bn) with a surplus of £429m and has sufficient capital versus implied end-state plus CRD IV**
- RWAs attributable to core customer balances increase includes the impact of regulatory adjustments for PS11/20

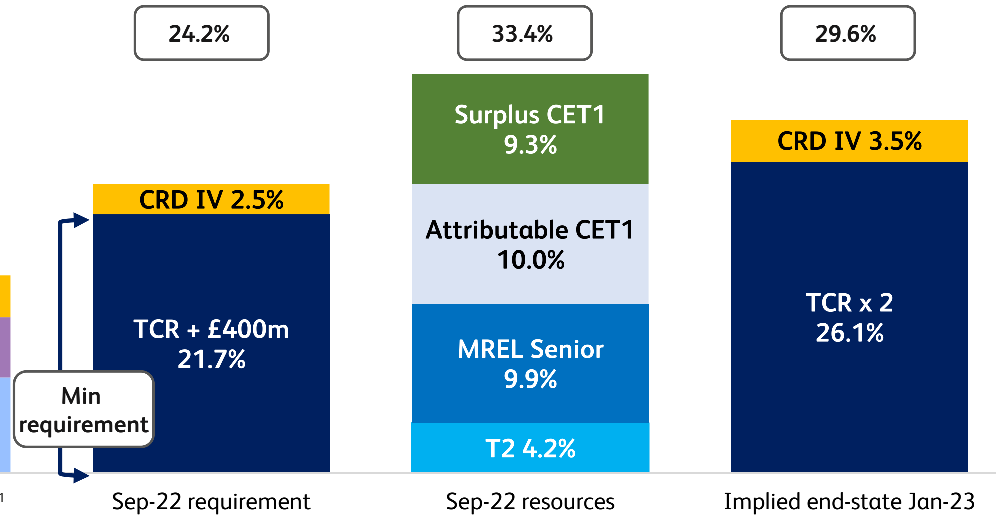
1. Non-customer RWAs include operational risk, treasury and other central assets

£441m surplus to TCR minimum capital requirements

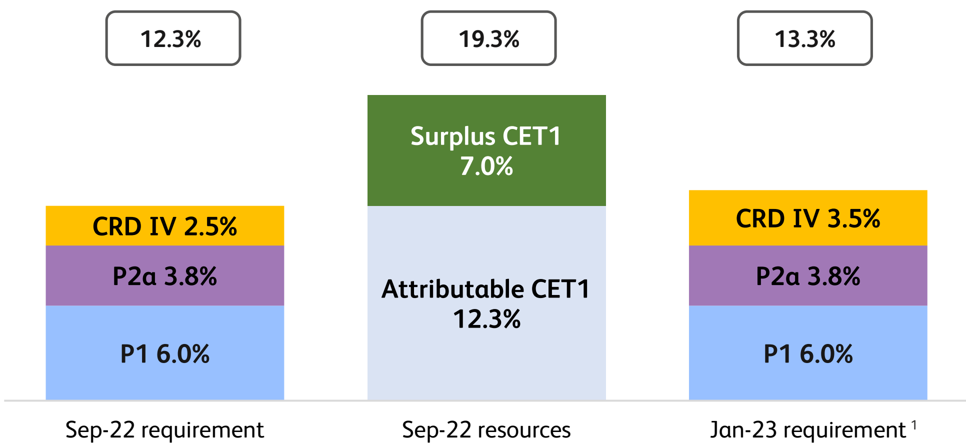
OCR requirement



MREL requirement



CET1 requirement

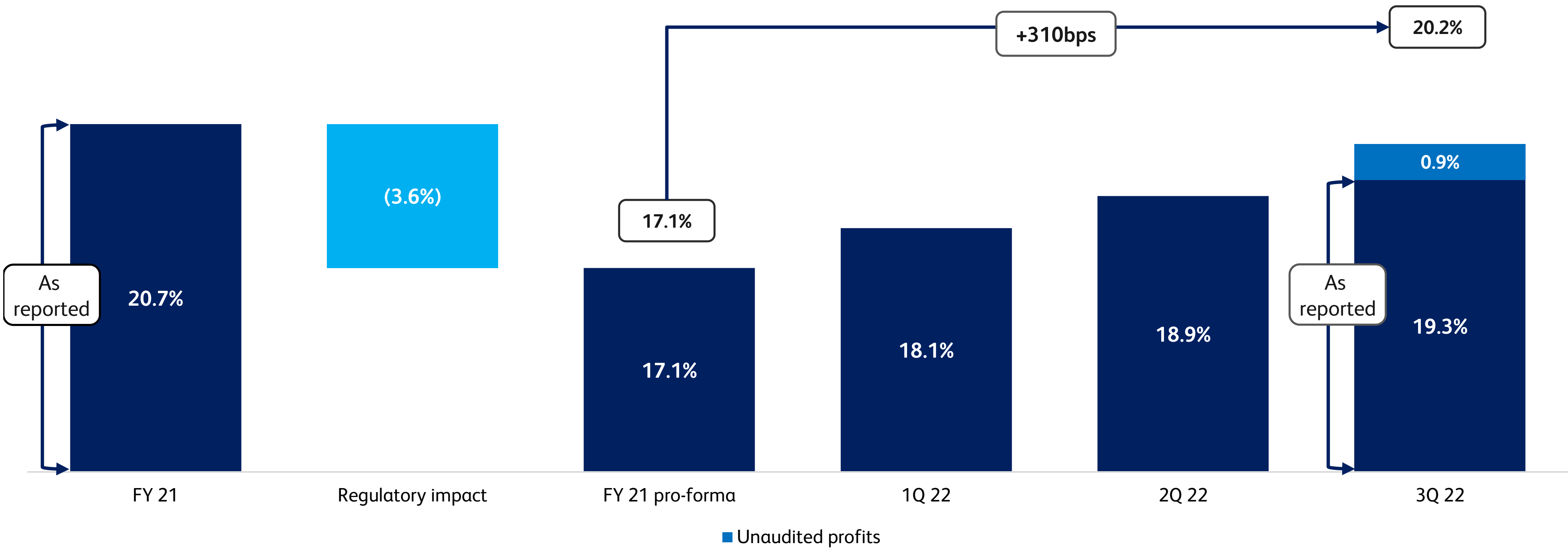


- £441m surplus (with total capital resources of 22.6 %) to TCR minimum requirements of 13.1 %
- £545m surplus to transitional MREL minimum requirements (excluding CRD IV buffers); MREL resource ratio of 33.4 %

1. Requirements based on 3Q 22 risk weighted assets

Successive quarters of organic capital growth

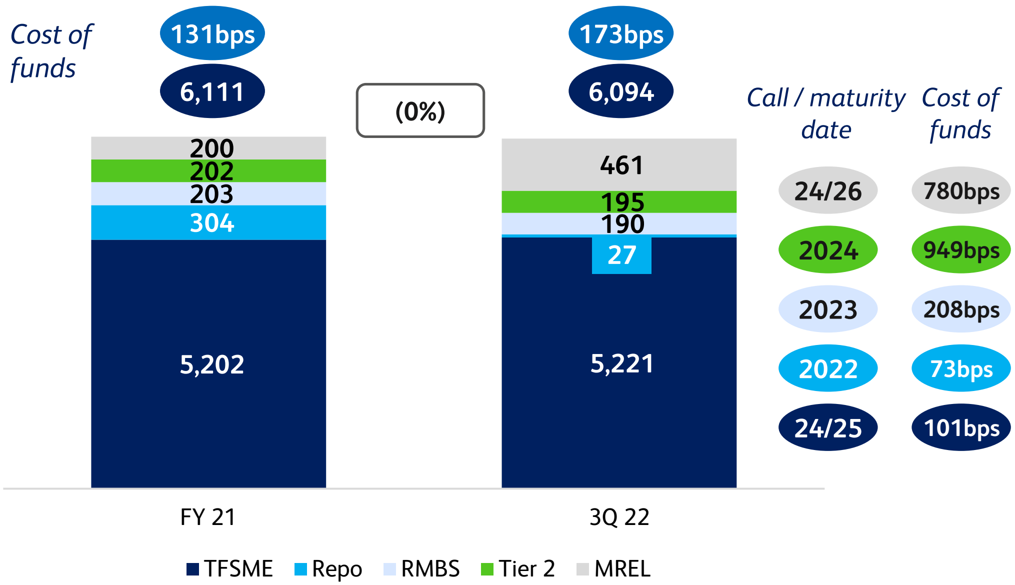
CET1 ratio organic development



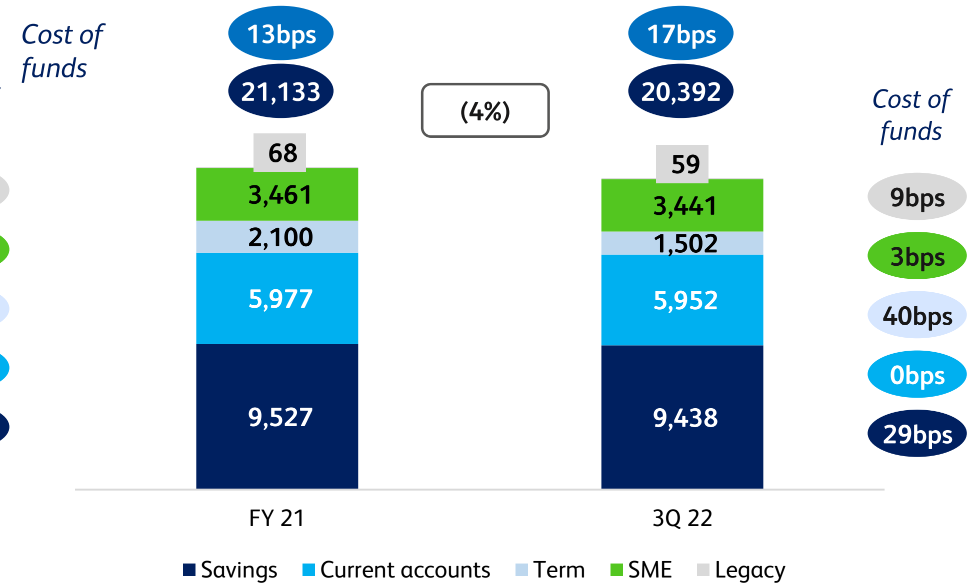
- Since FY 21, organic CET1 ratio generation of 310bps (including unaudited profits) driven by profit generation
- Organic capital growth in the year of 220bps (excluding unaudited profits)
- Surplus of 700bps to minimum CET1 ratio (excluding unaudited profits) or c.£325m
- Revised FY 22 guidance upgraded to c.20.5 % from c.19 % announced at 1H 22

Total blended cost of funds has increased to 53bps

Wholesale funding (£m)

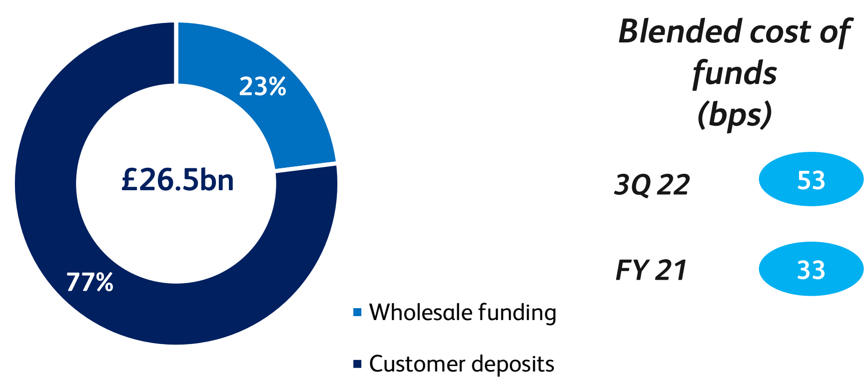


Customer funding (£m)



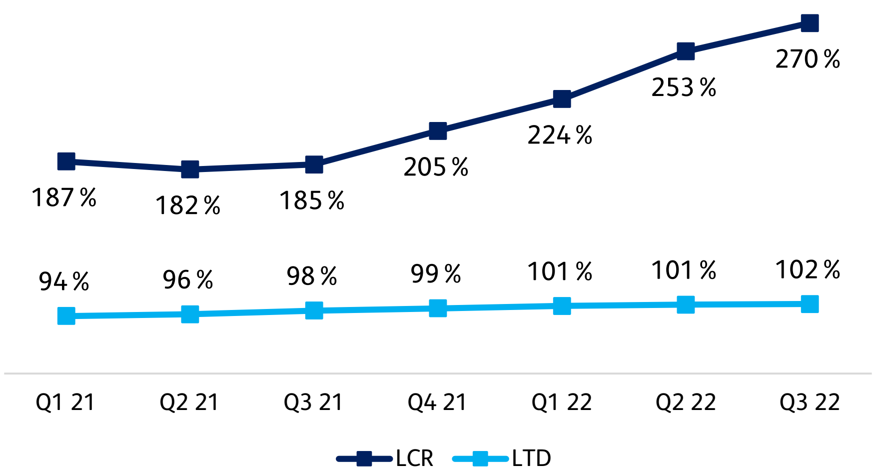
- £5.2bn TFSME provides significant low cost term funding and maintains wholesale cost of funds at 173bps
- Repo funding has reduced due to market disruption which has impacted gilt values
- MREL increased following £250m MREL issuance in April this year
- Total blended cost of funds has increased due to base rate rises

Funding mix

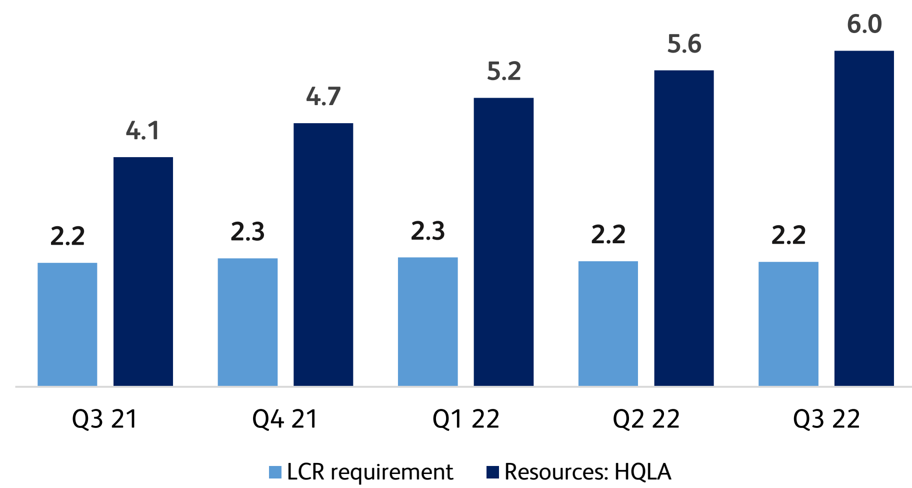


Significant liquidity surplus

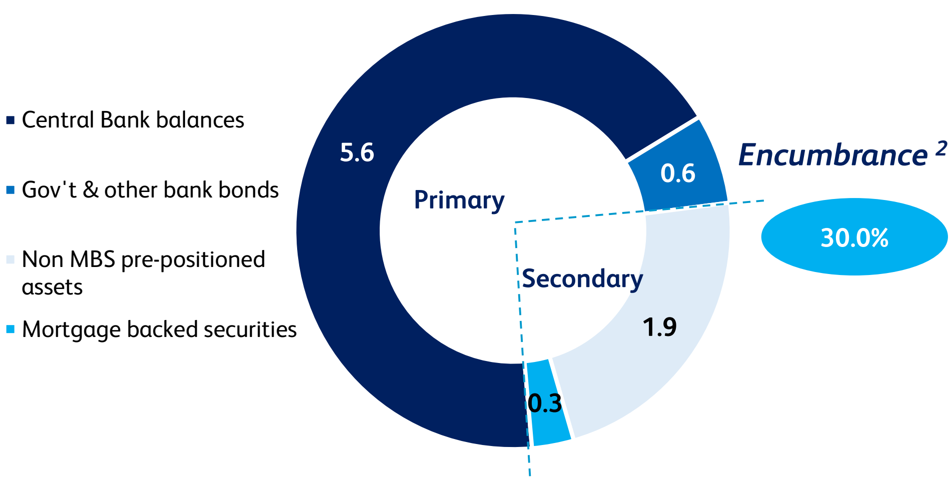
Loan to deposit / liquidity coverage ratios [1]



LCR requirement / HQLA resources (£bn)



Liquidity profile (£bn)



- Improvement in LCR is mainly driven by HQLA, elevated in quarter from slower mortgage pipeline conversion
- LCR requirement remains relatively flat, reflecting mortgage pipeline variability as well as wholesale contractual inflows and maturities
- Loan-to-deposit ratio increases due to growth in lending supported by TFSME drawn down
- All fixed income security positions hedged to manage interest rate risk

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

Tracking ahead or in line with the majority of guidance metrics

	Net interest margin (bps)	Total statutory costs (£m)	Adjusted RoTE (%)	Asset quality ratio (bps)	CET1 ratio (%)	Customer assets (£bn)
3Q 22 Actuals	159	270.5	14.0	0.8	19.3	20.7
Guidance at 1H 22	**c.155**	**c.360**	**c.13**	**<2**	**c.19**	**c.22**
Revised Guidance	c.165	c.365	c.14.5	**<2**	c.20.5	c.21

Base case economics	2022
GDP	3.5%
HPI	8.3%
Unemployment rate	3.9%
Base rate	3.75%

Guidance dependent on base economic assumptions

Delivering our commitments in 2022

2022 priorities committed[1]	3Q 2022 update
Simplify and transform our core mortgages and savings system	Savings on track for 4Q 22; mortgage platform testing – key elements completed
In-house mortgage servicing	Capita colleagues set to join the Bank in 1Q 23
Enhance our ESG credentials	Award winning ethical Bank with improved ESG ratings
Achieve an adjusted RoTE of c.8 %	Target exceeded

2023 commitments already delivered

Fully compliant with capital requirements plus buffers	Achieved one year ahead of schedule

1. Included in our 2021 full year investor presentation

Appendix:
Segmental information

The co-operative bank

Segmental performance

Segmental £m	Retail			SME			Legacy & central items			Total		
	3Q 22	3Q 21	Change	3Q 22	3Q 21	Change	3Q 22	3Q 21	Change	3Q 22	3Q 21	Change
Net interest income / (expense)	287.6	204.9	82.7	46.9	34.9	12.0	(5.4)	(6.2)	0.8	329.1	233.6	95.5
Other operating income	19.3	13.4	5.9	13.9	12.0	1.9	0.5	0.2	0.3	33.7	25.6	8.1
Total income / (expense)	**306.9**	**218.3**	**88.6**	**60.8**	**46.9**	**13.9**	**(4.9)**	**(6.0)**	**1.1**	**362.8**	**259.2**	**103.6**
Staff costs	(66.5)	(62.5)	(4.0)	(17.4)	(15.6)	(1.8)	(2.1)	(1.9)	(0.2)	(86.0)	(80.0)	(6.0)
Non-staff costs	(131.9)	(122.9)	(9.0)	(24.1)	(23.9)	(0.2)	(1.1)	(1.2)	0.1	(157.1)	(148.0)	(9.1)
Continuous improvement projects	(10.8)	(5.1)	(5.7)	(4.3)	(0.7)	(3.6)	(0.2)	(0.2)	-	(15.3)	(6.0)	(9.3)
Operating expenditure	(209.2)	(190.5)	(18.7)	(45.8)	(40.2)	(5.6)	(3.4)	(3.3)	(0.1)	(258.4)	(234.0)	(24.4)
Impairment	(0.2)	1.3	(1.5)	(1.7)	(0.8)	(0.9)	0.6	(0.8)	1.4	(1.3)	(0.3)	(1.0)
Underlying profit / (loss)	**97.5**	**29.1**	**68.4**	**13.3**	**5.9**	**7.4**	**(7.7)**	**(10.1)**	**2.4**	**103.1**	**24.9**	**78.2**

Balance sheet	3Q 22	FY 21	Change	3Q 22	FY 21	Change	3Q 22	FY 21	Change	3Q 22	FY 21	Change
Assets	19,682	19,756	(74)	381	442	(61)	9,102	9,126	(24)	29,165	29,323	(158)
Liabilities	16,892	17,604	(712)	3,441	3,461	(20)	7,061	6,506	555	27,394	27,571	(177)

Disclaimer

Caution about Forward-Looking Statements

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