Q1 2022 Results

05 May 2022

150 years of ethical banking

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Q1 22 delivers £30.5m profit before tax and £250m MREL – senior inaugural green bond

Financials	Business and market	ESG
Profit before tax £30.5m	Progress on strategic transformation	Inaugural green label issuance
Adjusted RoTE 12.0%	Successful £250m MREL - qualifying capital issuance	Responding to the cost of living pressures on colleagues
CET1 ratio 18.1%	Focus on operational challenges	£440k raised for DEC Ukraine Humanitarian Appeal
Cost:income ratio 73.2%		
Metrics tracking in line or ahead of 2022 guidance	Active management of mortgage volumes to preserve margins	On track to achieve ESG commitments

Fifth consecutive profitable quarter

£m	Q1 22	Q1 21	Change
Net interest income	99.9	71.2	40 %
Other operating income	10.3	10.0	3 %
Total income	**110.2**	**81.2**	**36%**
Operating expenditure	(84.7)	(82.0)	(3 %)
Impairment	(0.5)	(1.3)	62 %
Non-operating income	5.5	9.3	(41 %)
Profit before tax	**30.5**	**7.2**	**>100%**
Taxation	(37.5)	(2.3)	<(100 %)
(Loss) / Profit after tax	**(7.0)**	**4.9**	**<(100%)**

Adjustments			
Exceptional project expenditure	1.7	4.3	60 %
Other exceptional (gains) / losses	(4.7)	(8.9)	(47 %)
Underlying profit before tax	**27.5**	**2.6**	**>100%**

Key performance indicators			
Net interest margin (bps) [1]	146	119	27
Adjusted RoTE (%) [2]	12.0	1.2	10.8
Cost:income ratio (%) [3]	73.2	90.6	17.4
Asset quality ratio (bps) [4]	0.9	2.7	1.8
CET1 ratio (%) [5]	18.1	20.7	(2.6)

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 £30.5m; income growth drives positive jaws of 33 %

Total income increases by 36% to £110.2m:

- **Net interest income increases 40% to £99.9m;** Higher mortgage balances at improved margins, supported by improving deposit margins following increases in the base rate to 75bps

Operating expenditure increases 3% to £84.7m:

- Non-staff costs remain stable at £51.9m
- Project costs total £6.1m; including £1.7m of exceptional costs related to simplification
- Staff costs of £26.7m have increased 6 % largely due to the phasing of performance related pay being made earlier than the previous year

Impairment of £0.5m; low levels of defaults across the portfolio

Non-operating income of £5.5m reduced by 41%; includes the exceptional profit on disposal of a small legacy loan book as well as the revaluation of Visa shares

Tax charge of £37.5m; following a reduction in the value of the Bank's deferred tax assets due to a decrease in the banking surcharge from 8 % to 3 %

All key ratios improved with the exception of CET1 ratio as expected due to regulatory impacts

Statutory position continues to converge towards underlying position as we reduce exceptional items. The reconciliation is shown in the table

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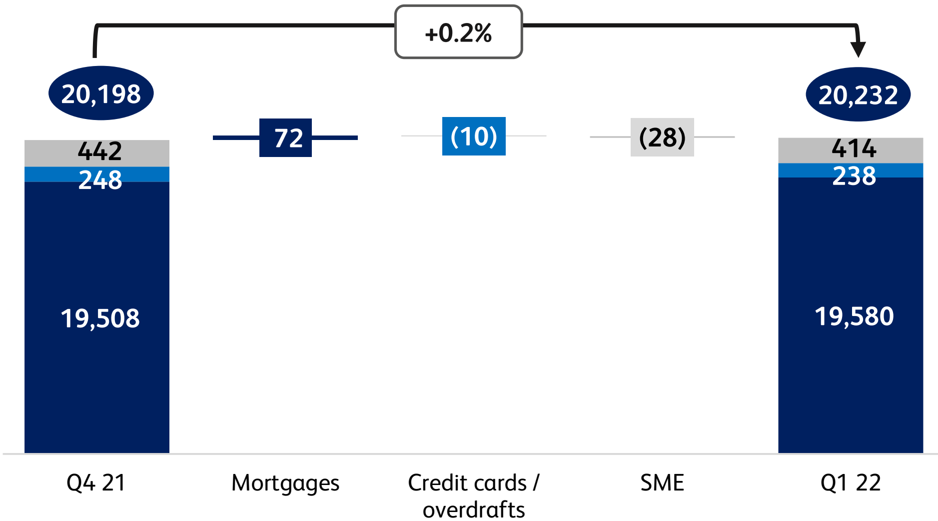
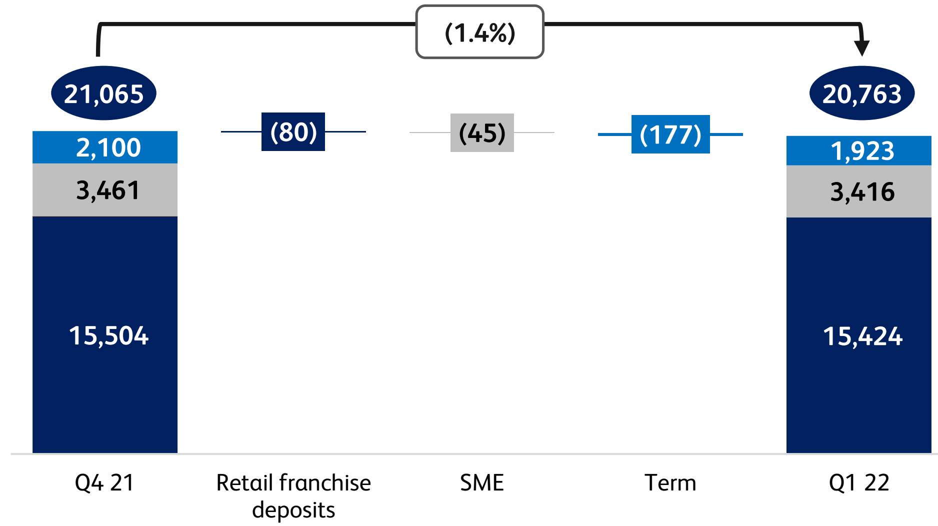
Bank NIM improves 17bps quarter on quarter

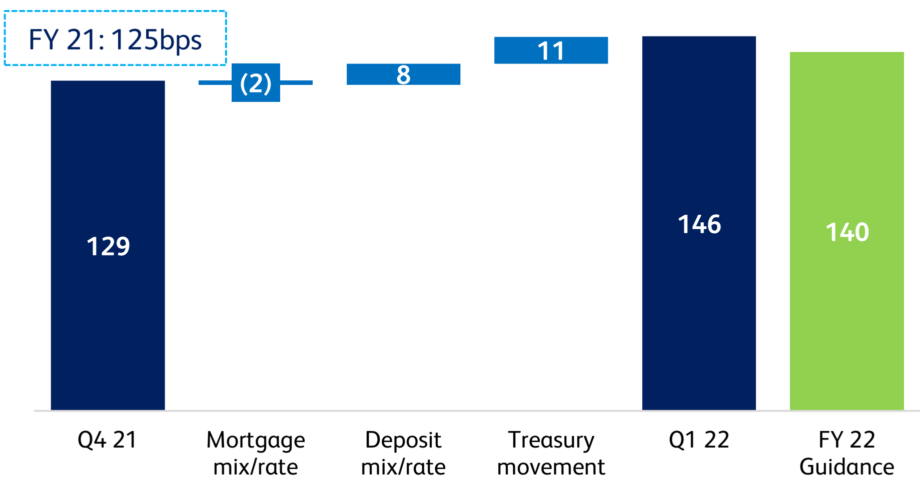
Core customer assets flow (£m)



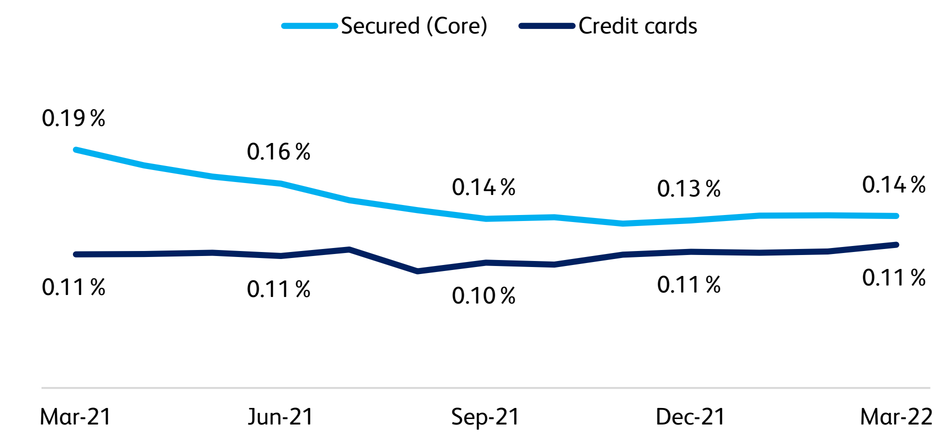
Core customer deposits flow (£m)



Quarterly Bank NIM (bps)



Accounts >3 month in arrears[1]



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

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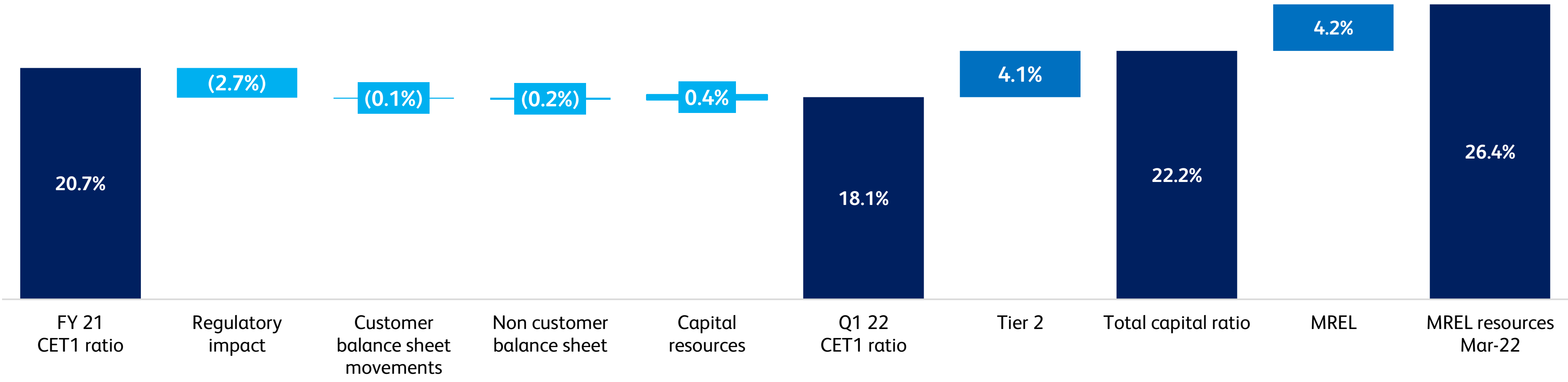
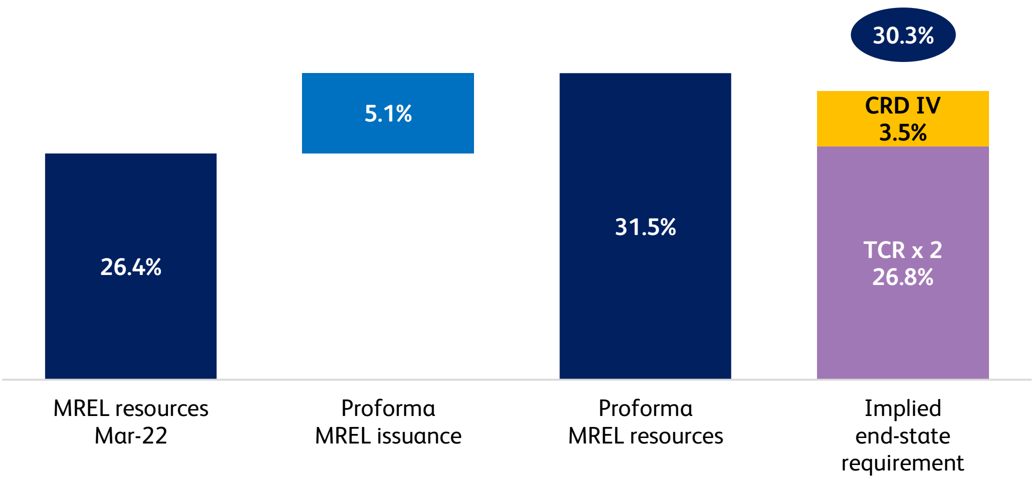
Successful issuance of £250m MREL - qualifying funds

Capital resources development



Proforma MREL development [1]



- c.2.7 % reduction in CET1 ratio due to regulatory changes
  - c.2 % reduction due to PS11/20
  - c.0.6 % reduction due to reversal of software intangibles
- **The Bank maintains a significant headroom to interim MREL + CRDIV buffers of £115m (requirement c.£1.2bn);** proforma implies £365m surplus to interim MREL requirements and £59m to end-state
- Successful issuance of £250m MREL - qualifying funds with accounting recognition date from April; significant progress made in meeting end-state requirements as demonstrated on a proforma basis

1. TCR includes an ICR requirement of 5.4 % which is equivalent to £266m of 31 March 2022 RWAs

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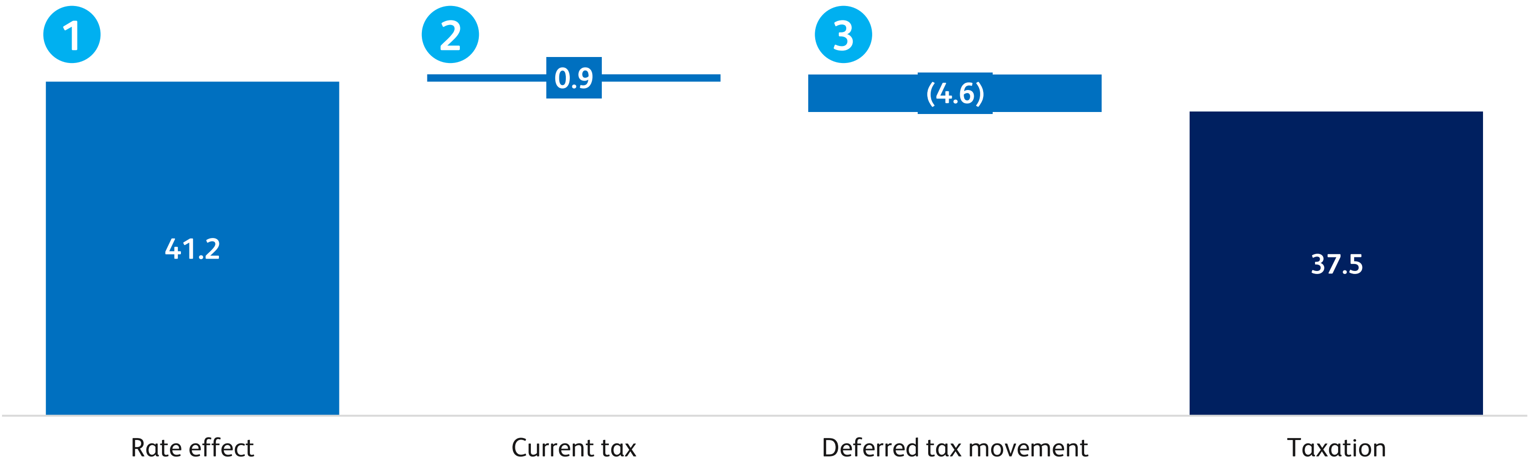
Tax charge of £37.5m reflects reduction in banking surcharge

Composition of tax charge / (credit) in the P&L (£m)



1. **Rate effect charge in the P&L of £41.2m** is driven by the decrease in the recognised deferred tax assets due to the reduction from 8 % to 3 % in the UK banking surcharge (enacted in February 2022 but effective 1 April 2023) as guided in our year end investor presentation

2. **Current tax charge of £0.9m** reflects the tax payable on current quarter profits

3. **Deferred tax movement £4.6m credit**; relating to

   (i) a £10.4m credit to recognise additional historical tax losses

   (ii) a £1.3m charge due to an increase in DTL balances (including pension surplus), and

   (iii) a £4.5m charge due to the utilisation of ACAs and losses previously recognised at FY 21 to shelter current quarter profits.

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Tracking in line or ahead of guidance for 2022

	Net interest margin (bps)	Total statutory costs (£m)	Adjusted RoTE (%)	Asset quality ratio (bps)	CET1 ratio (%)	Customer assets (£bn)
Q1 22 Actuals	146	84.7	12.0	0.9	18.1	20.9
	✓	✓	✓	✓	✓	—
2022	**c.140**	**<350**	**c.8**	**<5**	**c.17**	**c.22**

✓ = **Tracking in line or ahead of guidance**

Base case economics	2022
GDP	4.9 %
HPI	1.3 %
Unemployment rate	4.0 %
Base rate	1.0 %

Guidance dependent on base economic assumptions

Progress made on our 2022 commitments

2022 priorities committed[1]	Q1 2022 updates
Simplify and transform our core mortgages and savings system	Delivering on our transformation plan
In-house mortgage servicing	Progressing in line with expectations
Enhance our ESG credentials	Successful £250m issuance of MREL- senior inaugural green bond
Achieve an adjusted RoTE of c.8 %	Underlying profit before tax of £27.5m Adjusted RoTE of 12.0%

1. Included in our 2021 full year investor presentation

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