1H 24 results update

26th July 2024

The co-operative bank

Ethical then, now and always

1H 24 performance

Turnaround priorities complete

- ✓ Financially-resilient, simplified bank
- ✓ Enable liquidity event for shareholders

Financial highlights

£47.1m
Underlying profit before tax
1H 23: £72.2m

£24.2m
Statutory profit before tax
1H 23: £61.8m

1.84%	**19.7%**
NIM	**CET1 ratio**
1H 23: 1.84 %	FY 23: 20.4 %

1H 24 strategic highlights

Flagship IT transformation project complete
Enables planned cost reductions and product releases

Restructuring drives efficiencies in 2H
c.400 roles removed in 1H

Franchise growth [1]
Mortgage applications increased by >100 %
Mortgage pipeline of c.£1.1bn more than doubled
New retail savings accounts opened improved by > 100 %
Business current account's opened increased by 29 %

Return to Covered Bond market
£500m benchmark issuance

Investment credit rating achieved
first time in over a decade (Baa3 – Moody's)

Sale of the Bank agreed
with Coventry Building Society

IT service availability of 99.8%
Improvements in availability across the majority of services in 2024

Trustpilot score of 4.2 (Great)

1. Comparator is 1H 23

Flagship IT transformation project complete

Mortgages

New mortgage platform created

All mortgage customers now on one platform from four

Mortgage servicing moved in-house

Savings

New savings capability established on mainframe

All savings customers now on one platform from two

Delivering strong outcomes

Commercial

Agility on product pricing and launches

Average mortgage size increased from £149k to £217k [1]

Enables further digital capability

Operational

Improved operational efficiency

Improved operational resilience

1. Based on the average size of mortgages post implementation of new mortgage platform versus 2023 average pre implementation

Financial results

The co-operative bank

Ethical then, now and **always**

Underlying profit before tax of £47.1m; in line with expectations

£m	1H 24	1H 23	Change
Net interest income	229.5	245.1	(6 %)
Other operating income	20.1	21.4	(6 %)
Total income	**249.6**	**266.5**	**(6%)**
Underlying costs	(205.4)	(194.0)	(6 %)
Impairment credit / (charge)	2.9	(0.3)	
Underlying profit before tax	**47.1**	**72.2**	**(35%)**
Exceptional projects	(6.2)	(7.5)	17 %
Other exceptional costs	(8.6)	(2.4)	<(100 %)
Non-operating income	0.5	1.4	(64 %)
Profit before tax (pre transaction costs)	**32.8**	**63.7**	**(49%)**
Transaction related costs	(8.6)	(1.9)	<(100 %)
Statutory profit before tax	**24.2**	**61.8**	**(61%)**
Taxation (charge) / credit	(8.8)	41.4	
Statutory profit after tax	**15.4**	**103.2**	**(85%)**

Key performance indicators			
Net interest margin (bps) [1]	184	184	0
RoTE (%) [2]	3.1	13.0	(9.9)
Statutory costs (excluding transaction costs)	(220.2)	(203.9)	16.3
Statutory cost:income ratio (%) [3]	91.5	76.8	(14.7)
Asset quality ratio (bps) [4]	(2.9)	0.3	3.2
CET1 ratio (%) [5]	19.7	20.4	(0.7)

1. Annualised net interest income over average interest earning assets
2. Annualised profit after tax over average equity less intangibles, assuming no further DTA impact
3. Total statutory expenditure over total statutory income (excludes impairment)
4. Annualised impairment (credit) / charge over average customer assets
5. Comparator is FY 23. FY 23 CET1 ratio is prior to dividend payment

Underlying profit before tax £47.1m; 1H 23 £72.2m

Total income reduced by 6% to £249.6m; NIM at 184bps has remained stable year on year

- Net interest income reduced by 6 % to £229.5m; impacted by a lower average mortgage balance (£0.8bn), following action in 2H 23 to optimise for margin.
- H1 23 included non-recurring EIR uplift of £6.6m
- c.£2.6bn mortgage applications in 1H 24; supporting growth in income in the second half of 2024

Underlying costs have increased by 6% to £205.4m

- Increase in customer fraud remediation cost
- Persistent high inflationary environment
- New BoE Levy of £1.1m

Impairment credit of £2.9m; driven by an improvement in macro-economic environment and a release in affordability post-model adjustments (PMA)

Pre transaction exceptional costs have increased by 49% to £14.8m

- £8.6m as a result of restructuring charges which will drive cost savings from 2H 24
- £6.2m projects - flagship transformation programme, which is now largely complete; minimal costs expected in 2H 24 alongside strategic review of suppliers

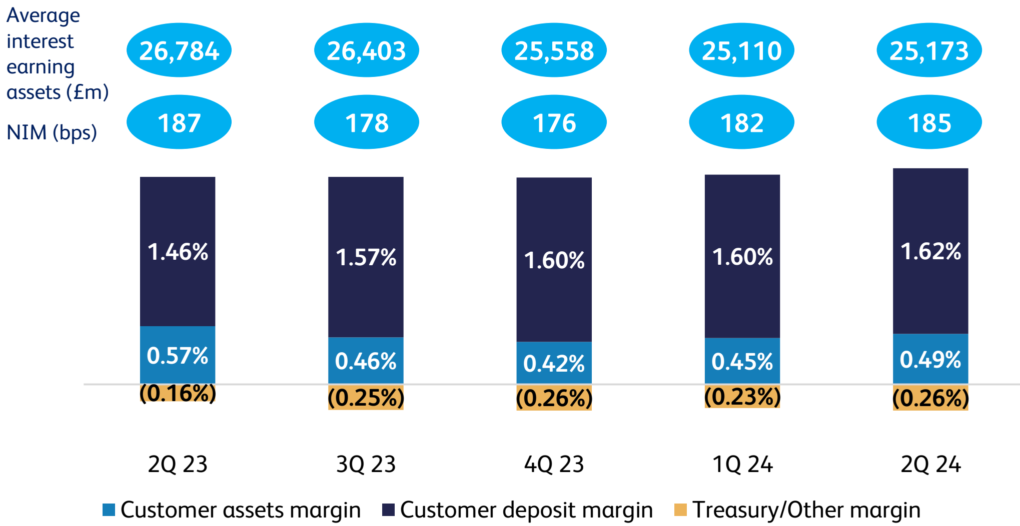
Non-operating income of £0.5m predominantly relates to the revaluation of equity investment in Visa

£8.6m of advisory costs related to the sale of the Bank which is expected to complete in 1Q 25

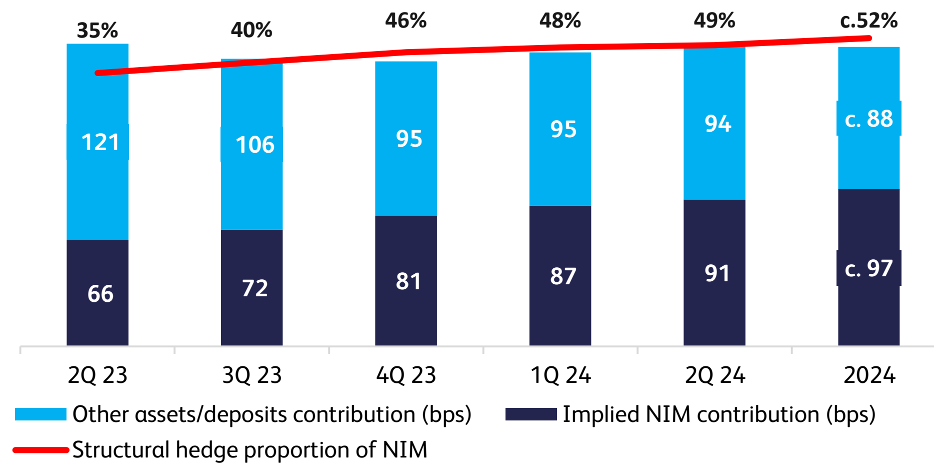
Tax charge of £8.8m relates to the utilisation of deferred tax assets

Net interest margin increased in the period [1]

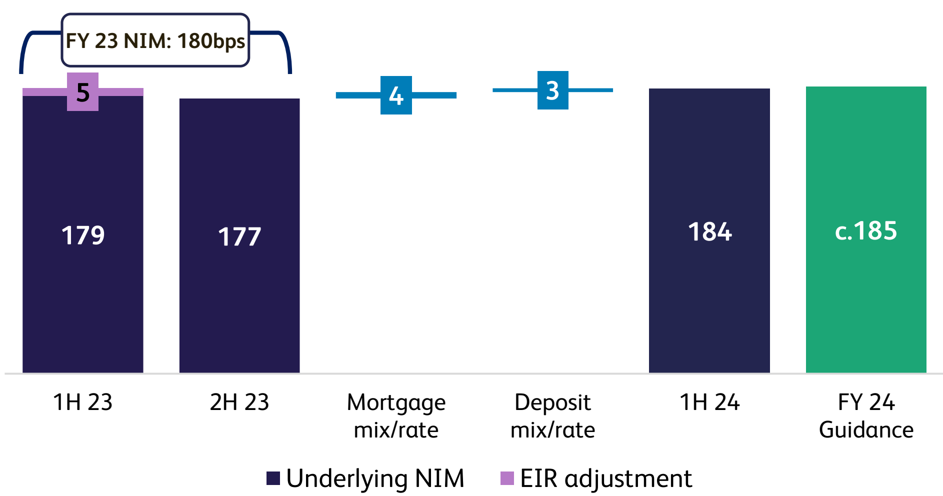
NIM build evolution



Structural hedge contribution to NIM (bps)



Net interest margin (bps)

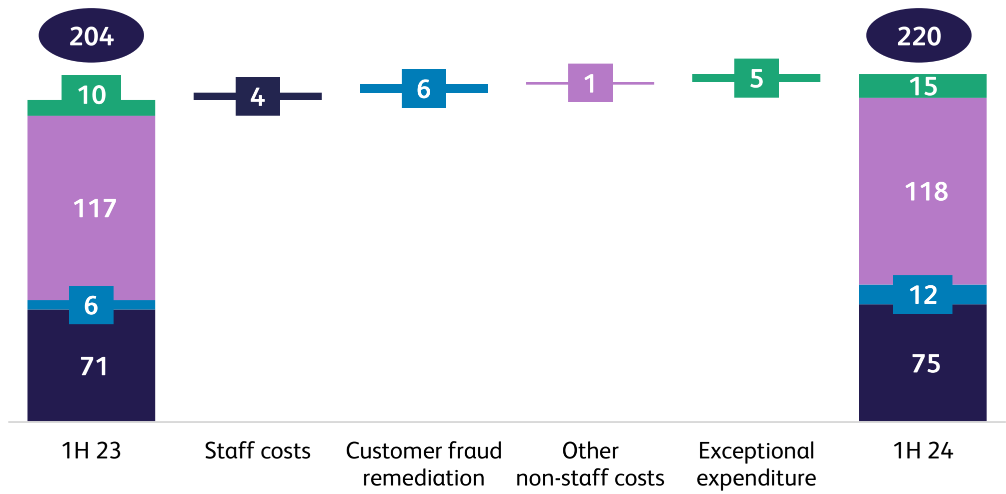


- NIM improved by 7bps in 1H 24 vs 2H 23 supported by better margins period on period as well as benefits from the structural hedge
- Significant increase in application volumes in 1H 24 at higher margins, following a period of volume management across 2023 where margins were low; on track to achieve full year guidance of c.185bps
- £0.4bn reduction in average interest earning assets in 1H 24, driven by TFSME repayments
- Structural hedge tailwinds will support NIM growth in 2H 24

1. Excluding 1H 23 non-recurring EIR adjustment

Costs in line with expectations and expected to fall in the second half of 2024

Operating expenditure (£m) [1]



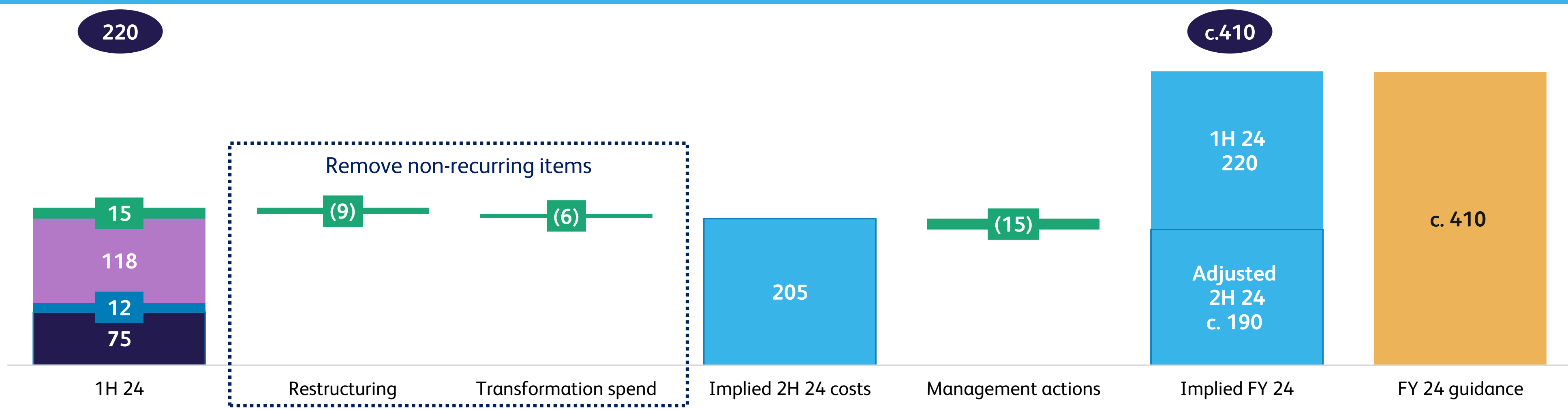
Operating expenditure (excluding transaction related costs) increased by 8%

- Staff costs – inflation linked pay rises
- Underlying non staff costs excluding customer fraud remediation – largely in line; high inflationary environment offset by efficiencies. Includes £1m impact of new BoE levy
- Exceptional costs – include project spend of £6.2m and £8.6m restructuring

Investment in restructuring in 1H to drive cost reduction in 2H

- Costs expected to remain in line with guidance of c.£410m
- Management actions include efficiency benefits from 1H 24 restructuring and fraud mitigation driven by new prevention strategies and fraud defences

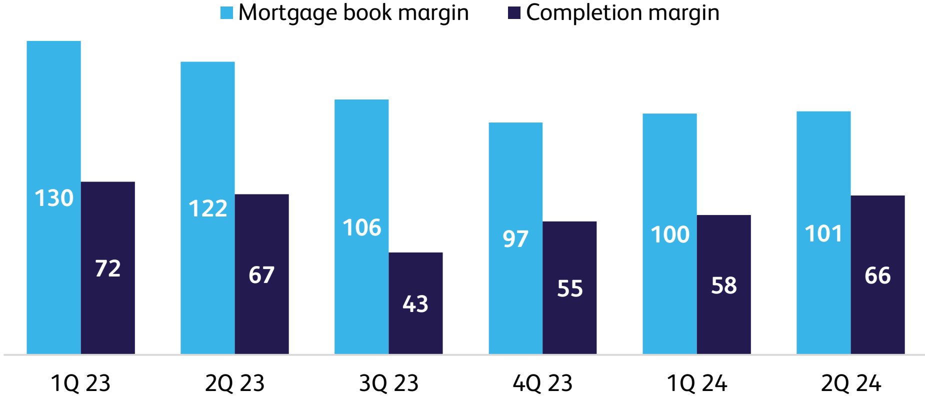
Implied 2H 24 expenditure (£m) [1]



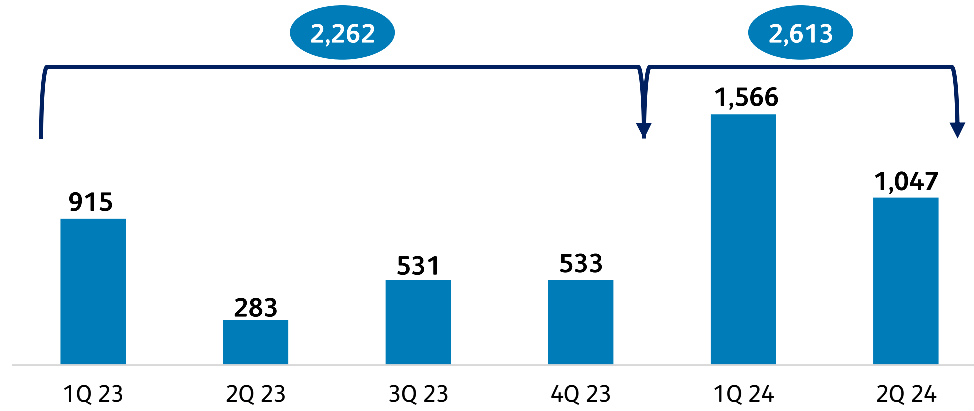
1. Excludes transaction related costs

Completion margins increased quarter on quarter

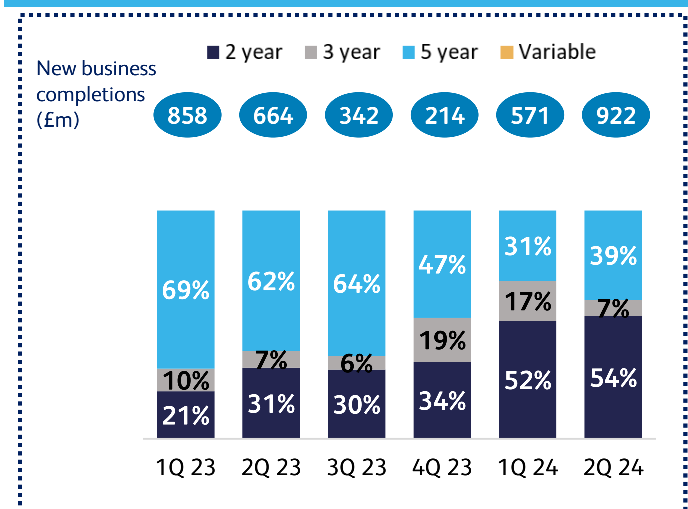
Mortgage margin (bps) [1]

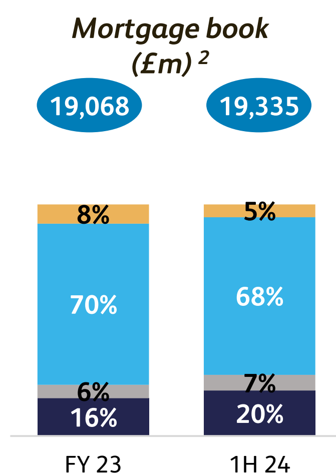


New business applications (£m)



Completions by tenor



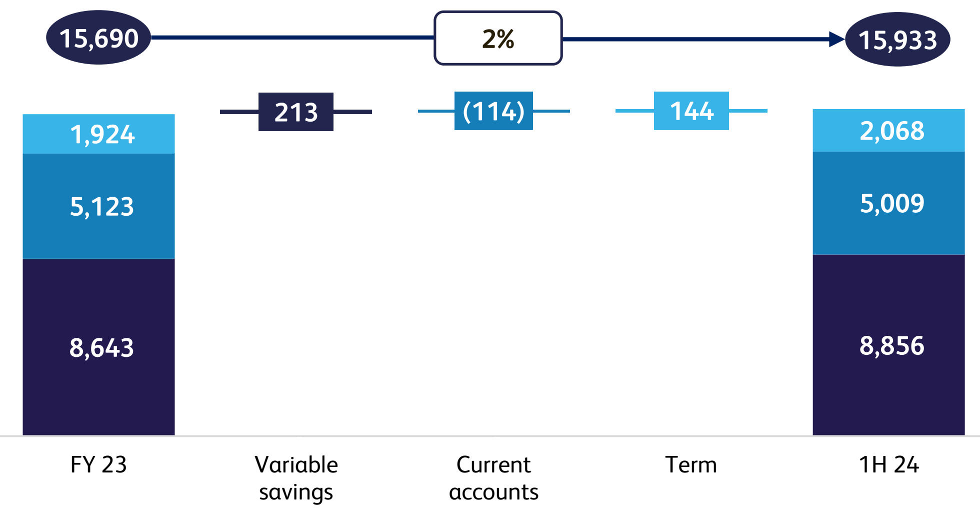


- Action taken in 2023 to reduce new business volumes to preserve overall Bank margins; New business margins have increased in 1H 24, driving an increase in new business volumes
- Mortgage applications in 1H 24 have already exceeded the whole of 2023 applications
- Mortgage pipeline of c.£1.1bn has almost doubled since 2H 23, which will positively impact 2H 24
- Gross lending of c.£2.7bn remains stable (1H 23: c.£2.6bn) [3]
- On track to achieve customer asset guidance of £20-21bn
- New business in 2024 is weighted towards 2 year mortgages

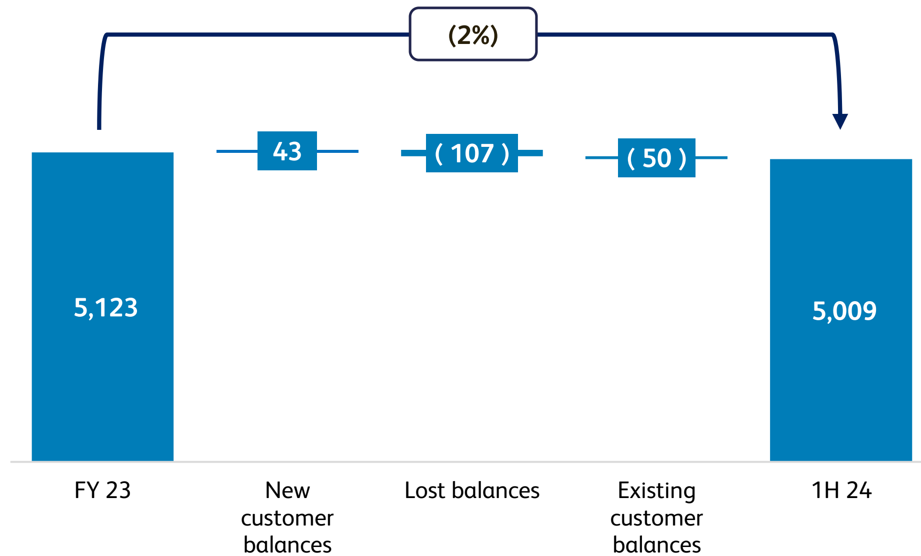
1. Margin calculated as gross rate minus swap
2. Tenor split excludes the mortgage portfolio acquisition balances
3. Gross lending consists of new business and retention

Deposits increased; driven by savings balances

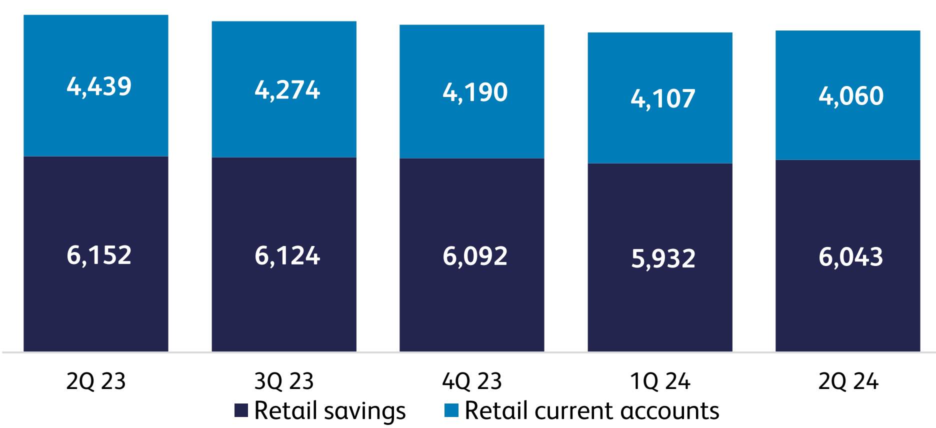
Retail deposits (£m)



Retail current account movement (£m)



Retail average customer balance movement (£)

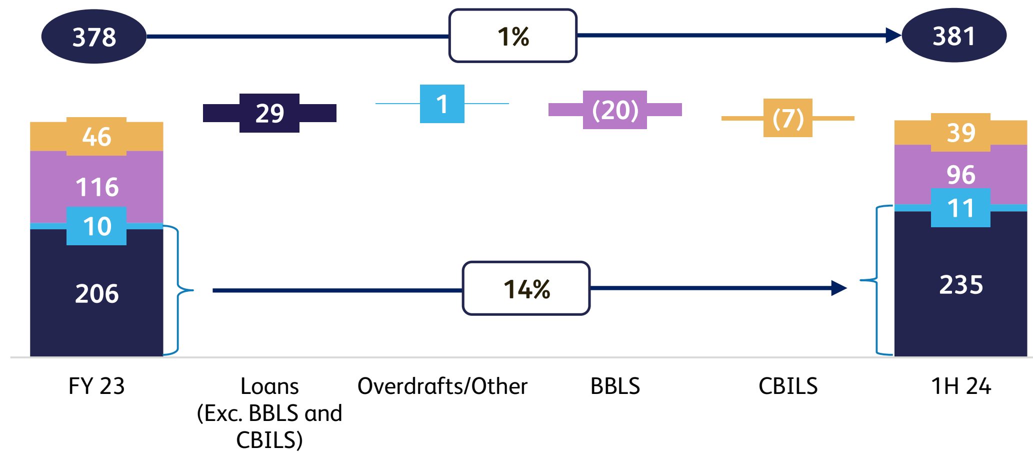


- Current account average balances broadly stable at c.£4,000
- Lost balances of £107m include £59m of bereavement
- Existing customer balance reduction partly driven by movement to savings products
- Savings balances increased by 3 % with retail savings average balances remaining high as higher rates incentivise customers to save

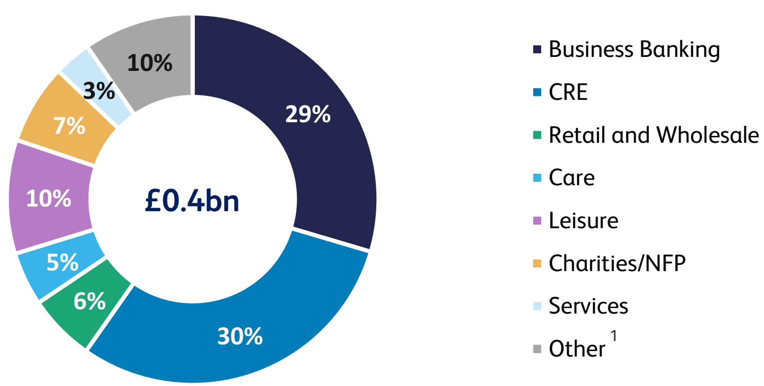
Growth in SME lending reflects our strategic objectives

- SME loans, excluding government backed lending, increased by 14% to £246m; SME new lending in 1H 24 of £53m
- Since 4Q 23, average loan value per application has increased
- SME loan pipeline of c.£201m as at 1H 24; with a pre offer pipeline of £192m
- Diversified SME portfolio, with CRE and Business Banking being the largest of our lending sectors at 59% combined

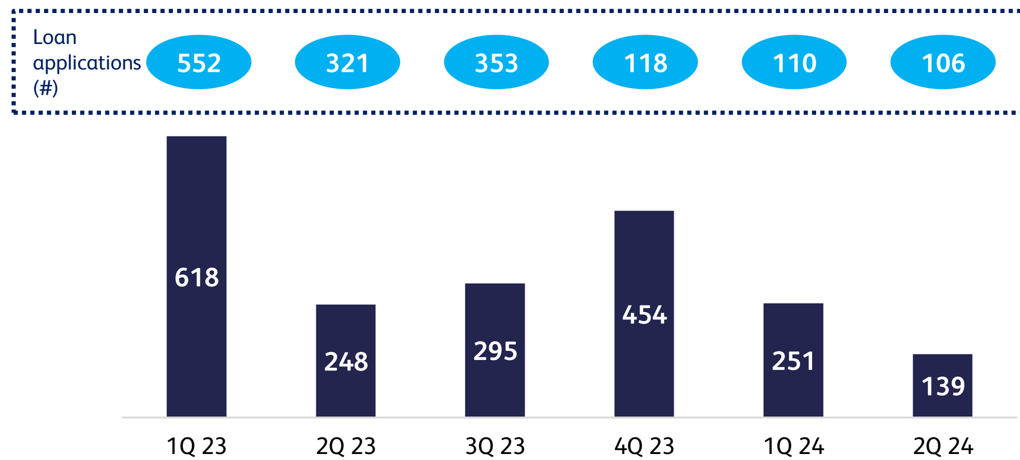
SME assets (£m)



SME lending by sector



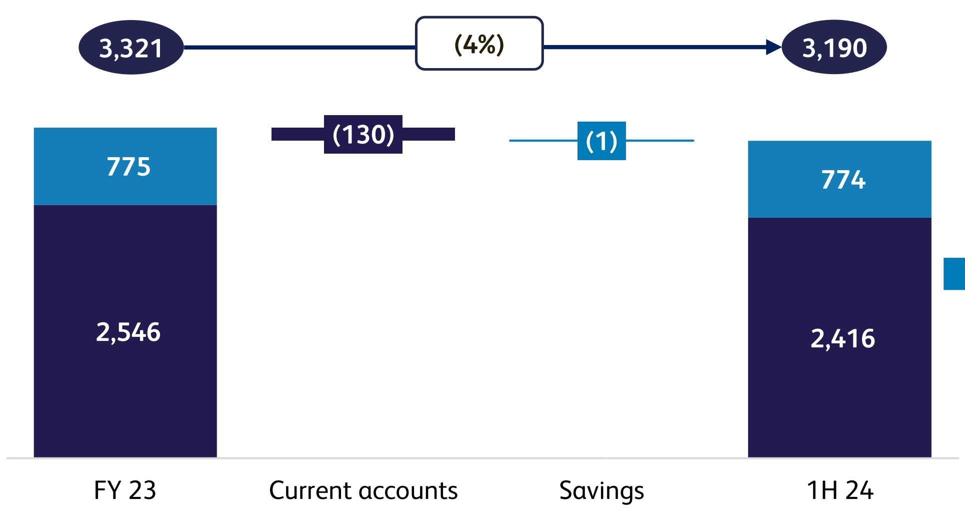
SME Loan Applications (£m)



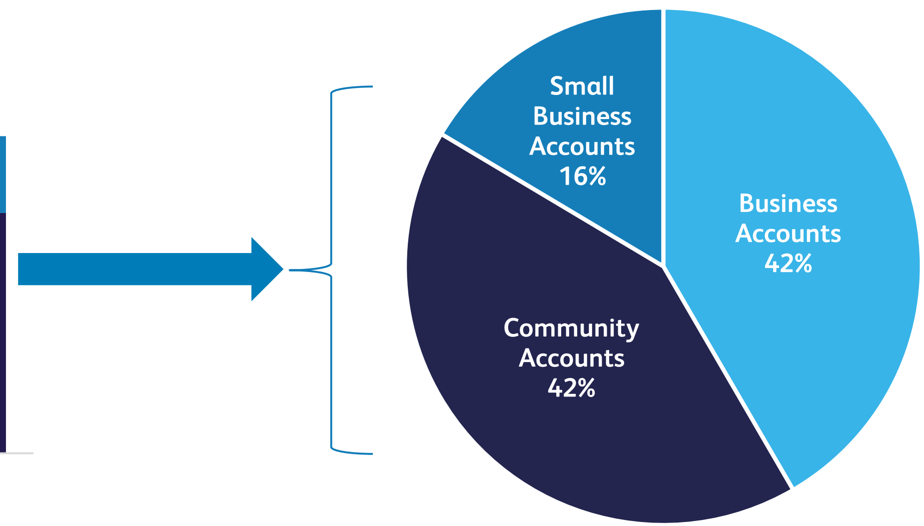
1. Other includes, but not limited to, manufacturing, renewable energy, housing associations and transport/communication

Supporting community accounts remains a core part of our strategy

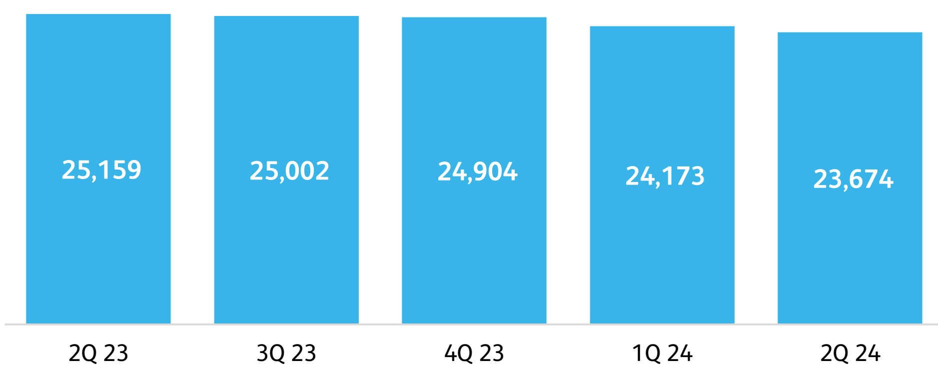
SME deposit flow (£m)



SME current accounts



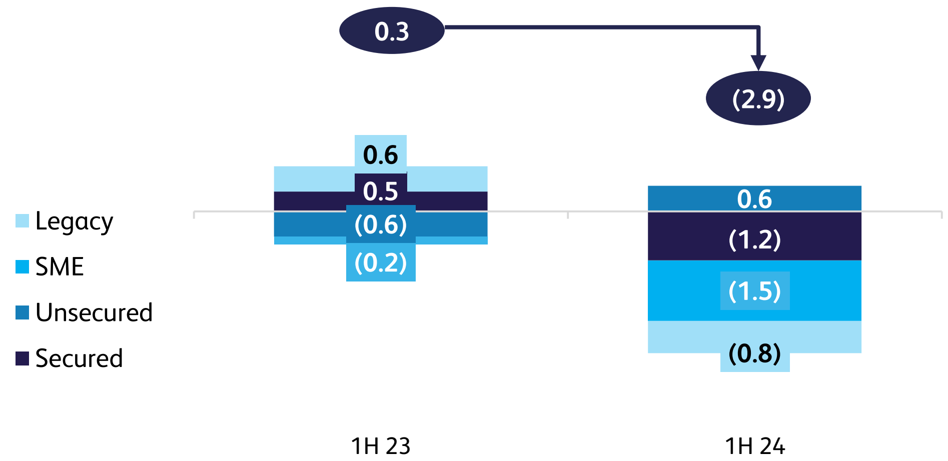
SME average customer balance movement (£)



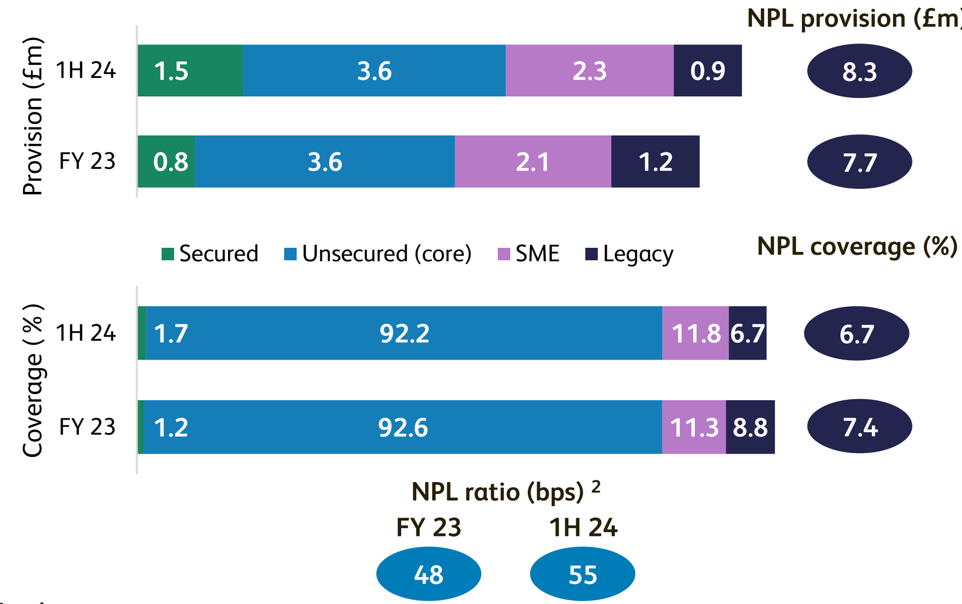
- 4% reduction in SME deposits, following some marginal unwind of excess balances built up over the pandemic as well as the repayment of Bounce Back Loan balances
- SME deposit franchise underpinned by a strong relationship with c.43,000 community current accounts, increasing by 4% vs 1H 23
- SME average balances have remained fairly stable during the past 12 months

Low risk, resilient portfolio

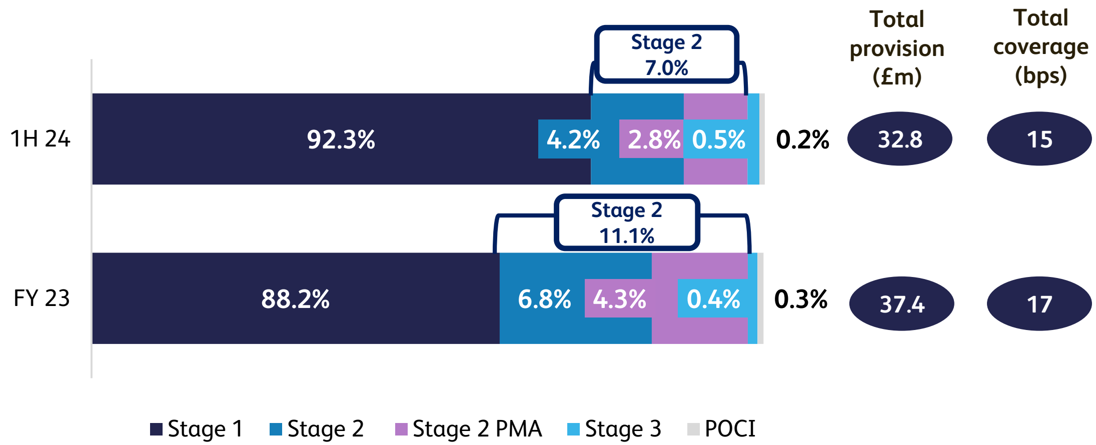
Impairment charge / (credit) (£m)



NPL coverage [1]



Exposure by stage [3]



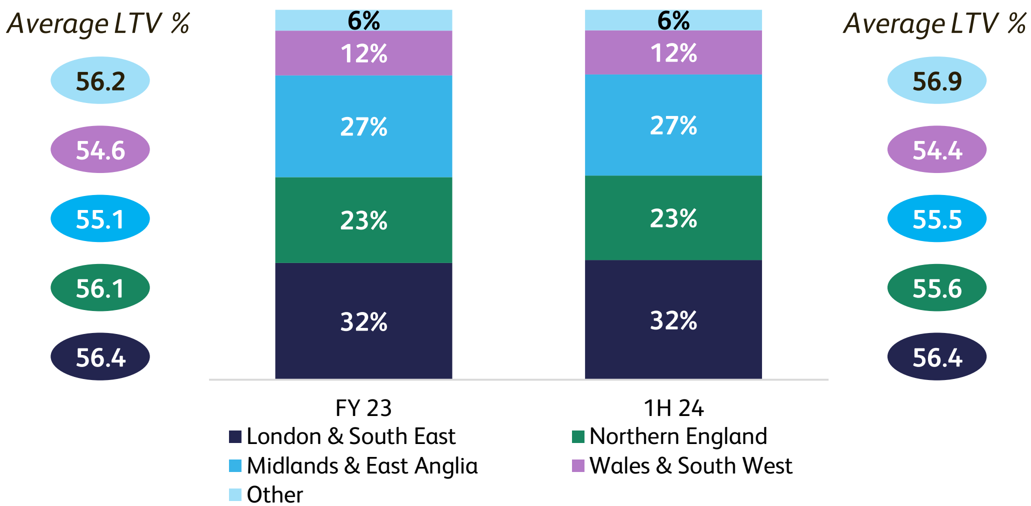
Net impairment credit of £2.9m:

- Secured impairment release of £1.2m; driven by improvement in the macro-economic environment and adjustments relating to affordability
- SME release of £1.5m; driven by lower defaults than expected, combined with a provision release due to improvement in the macro-economic environment and a release in affordability adjustments
- Legacy impairment credit of £0.8m; following the recovery of previously written down corporate cases
- Unsecured charge of £0.6m; due to new defaults in the year, partially offset by a release in model adjustments

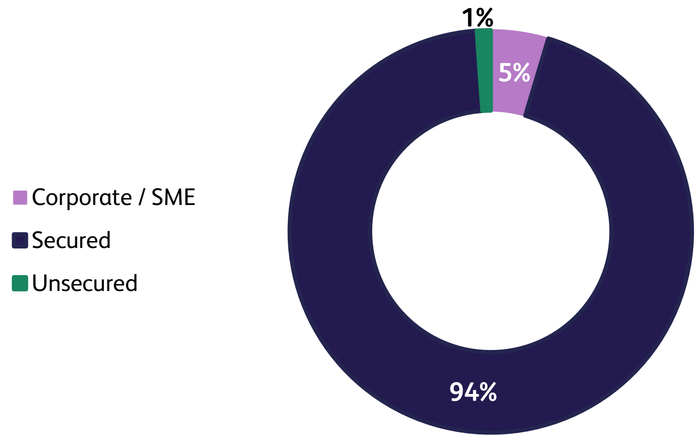
1. NPL coverage ratio calculated as NPL provision over NPL balance (all excluding performing POCI)
2. NPL ratio calculated as non-performing exposure (excluding performing POCI) over total exposure
3. Includes balances relating to FVTPL

Well diversified mortgage book

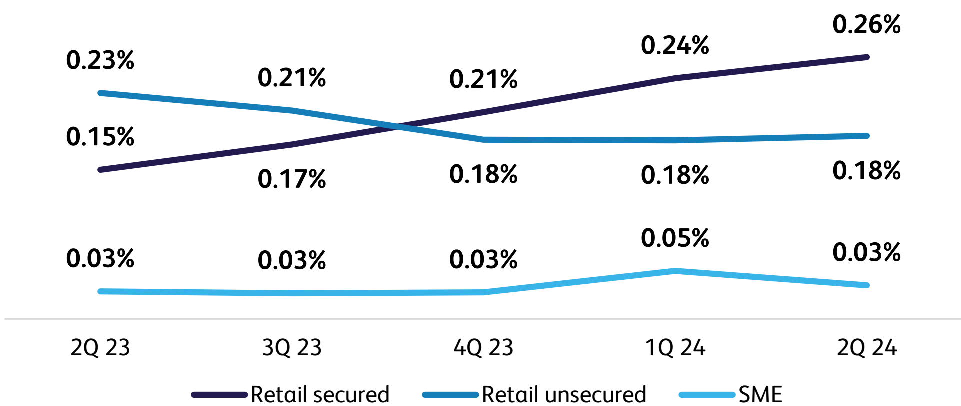
Mortgage split by geography [1]



Lending mix



Accounts >3 months in arrears [2]

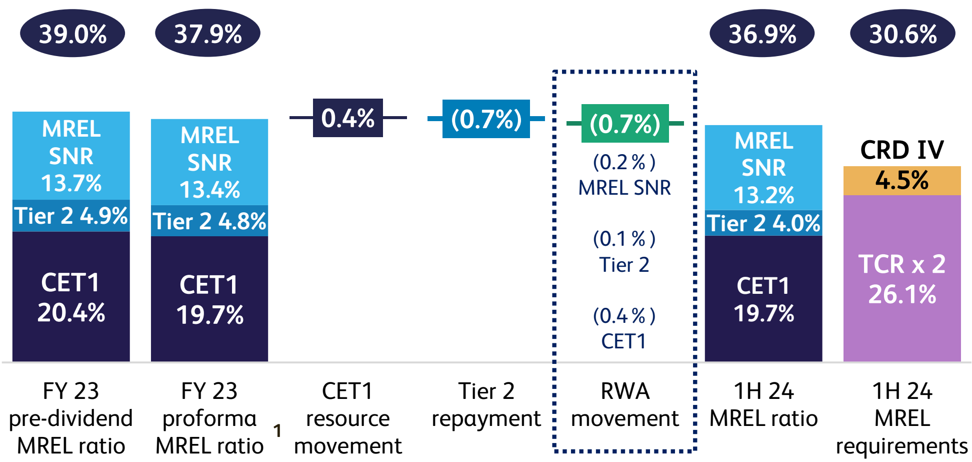


- Mortgage split across regions remains stable with all geographical areas having an average LTV lower than 57 %
- Increased defaults are unlikely to drive material credit losses due to relatively low LTVs on existing balances
- 0.26 % of secured accounts greater than 3 month in arrears equates to 363 accounts and £46.6m of balances
- Unsecured accounts greater than 3 months in arrears remains stable at 0.18 %

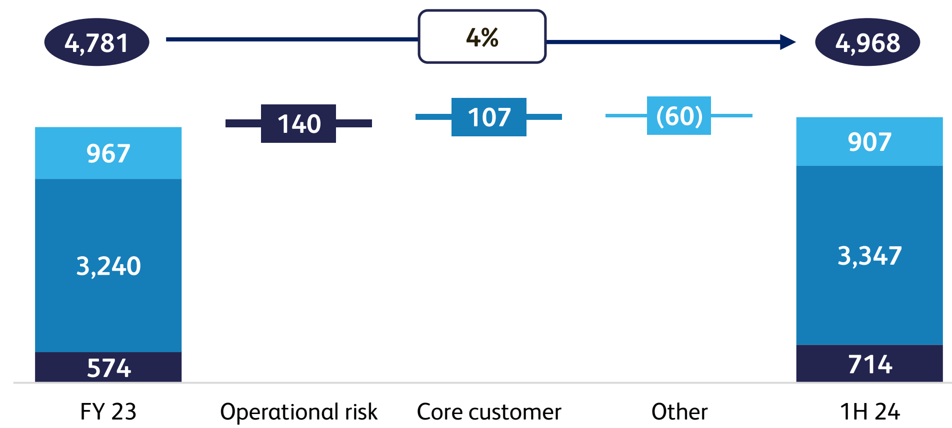
1. Regional split based on Government Office Regions
2. Volume of accounts in arrears over total volume of accounts; recognised as >3 months over limit on overdraft, 3+ missed payments on a loan, credit card or mortgage, or >3 months over limit on credit card. Excludes government backed Bounce Back Loans (BBLs)

Regulatory capital & MREL position remains strong

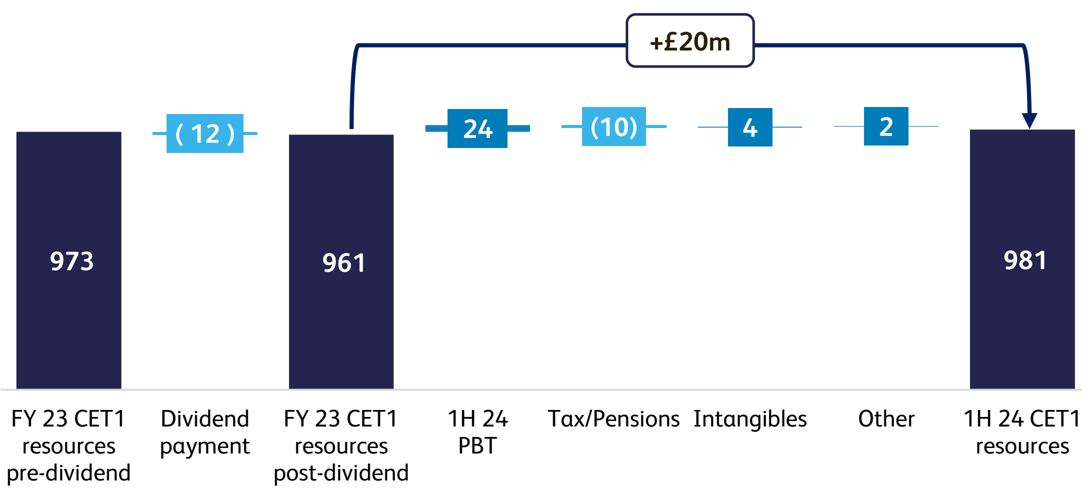
Regulatory capital & MREL ratio development



RWA movement (£m)



CET1 resource evolution (£m)

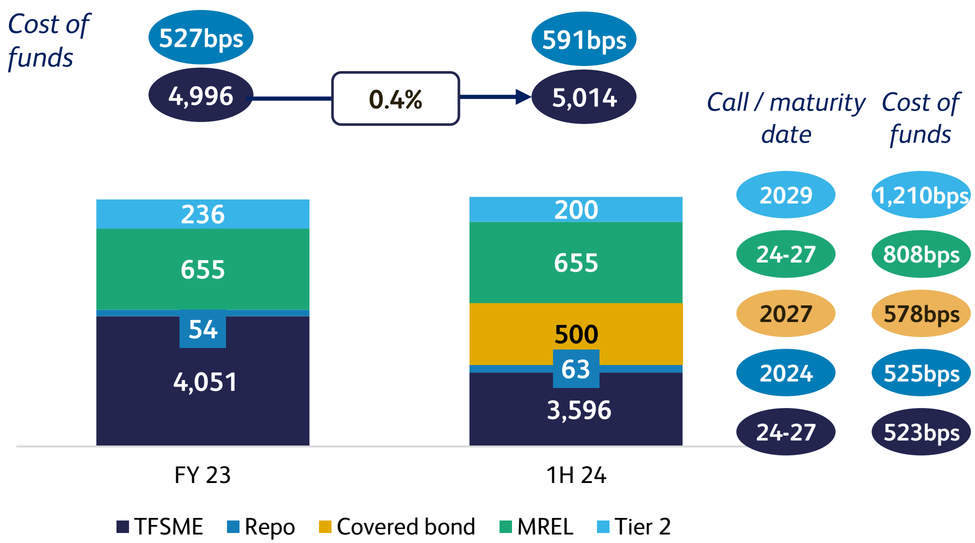


- CET1 ratio reduced 70bps to 19.7 %; impacted by increase in operational risk RWAs and inaugural dividend paid in May (£12m)
- Reduction in Tier 2 capital following the repayment of the remaining April 2024 notes
- The Bank maintains a significant headroom to MREL plus CRD IV buffers (requirement c.£1.5bn) with a surplus of £317m
- Surplus of £272m to CET1 minimum requirements plus CRD IV buffers

1. Proforma ratio adjusted for pro-rata of annual impact of Pillar 1 RWA update for operational risk recognised in 1Q 24 (CET1 40bps, Tier 2 10bps, MREL SNR 30bps) and £12m dividend payment (CET1 30bps)

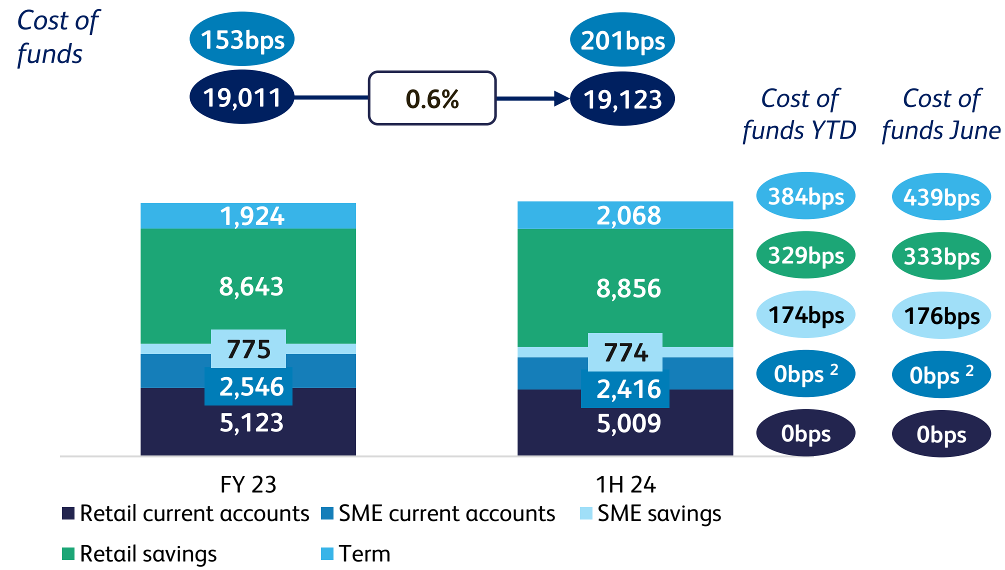
Cost of funds remain low at 285bps

Wholesale funding (£m)

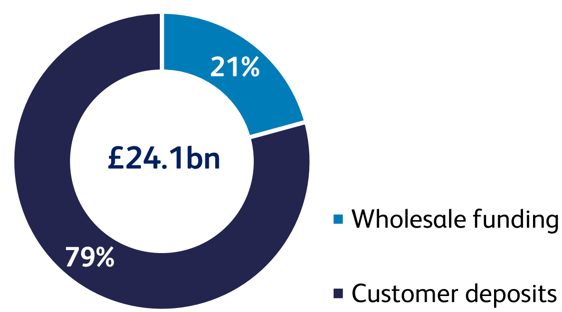


- Covered bond programme launched in H1 with a benchmark £500m three year issuance
- Blended cost of funds increases to 285bps; remains materially lower than the base rate
- Prepaid c.£1.7bn of TFSME in total with c.£3.6bn remaining and further planned repayments in 2H 24
- 81.4 % (FY 23: 80.8 %) of our core customer deposits are insured through FSCS; levels remain stable despite market volatility

Customer funding (£m) [1]



Funding mix



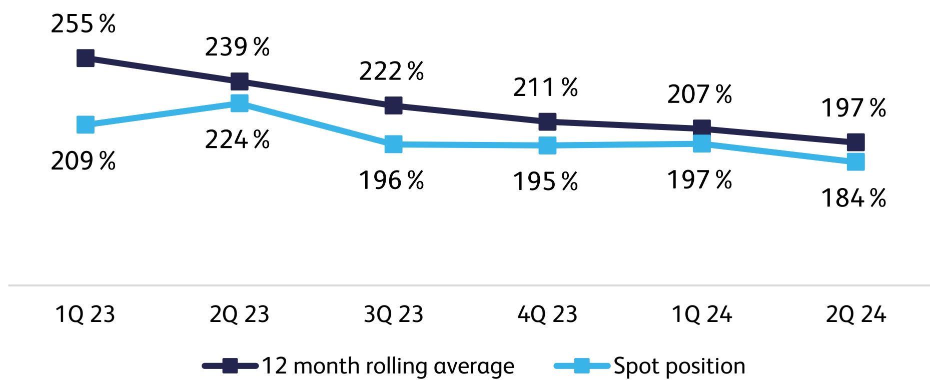
Blended cost of funds (bps)

FY 23	240
1H 24	285

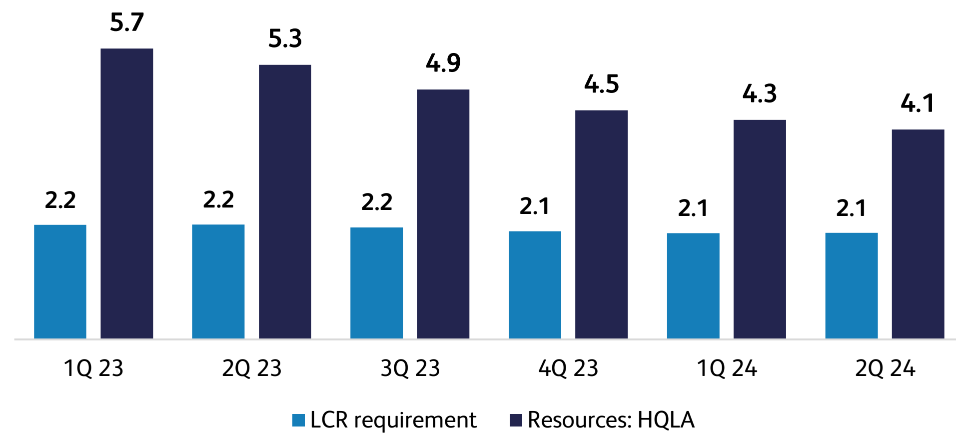
1. Excludes legacy balances of £67m (FY 23: £62m)
2. SME current accounts includes a small amount of off-sale current accounts that are interest bearing

Strong liquidity position

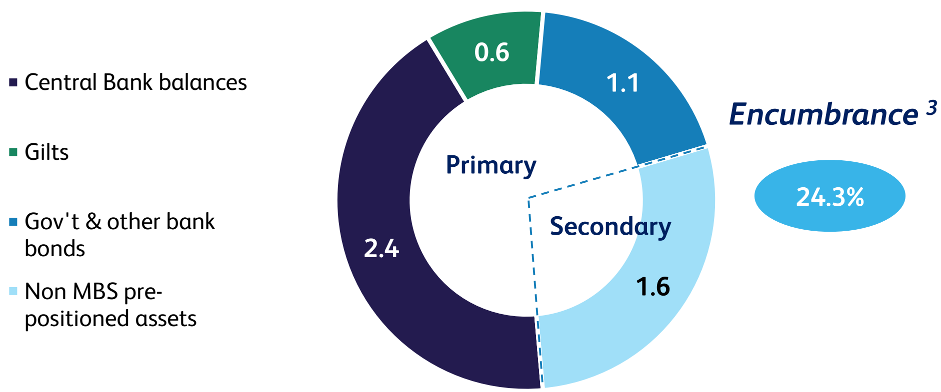
Liquidity coverage ratio [1]



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



Liquidity profile (£bn)



- LCR for the quarter has reduced slightly due to lower HQLA following voluntary TFSME repayments
- LCR requirement is driven primarily by deposit outflows with minimal wholesale contractual inflows and maturities, as well as reflecting variability in mortgage pipeline position
- Loan to deposit ratio is 107.0 % (FY 23: 106.4 %)
- 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

Outlook

	1H 24 actuals		2024 guidance
Total statutory costs [1] (£m)	220.2	On track	c.410
Net interest margin (bps)	184	On track	c.185
RoTE (%) [2]	3.1	On track	c.10
Asset quality ratio (bps)	(2.9)	On track	<5
Customer assets (£bn)	20.5	On track	20-21

CET1 ratio medium-term target of 15-17 %

	GDP	HPI	Unemployment	Base Rate
2024 base case economics [3]	0.1%	2.4%	4.4%	4.75%

1. Statutory costs includes BAU, projects and exceptional costs for the Bank. 2024 guidance excludes transaction related costs
2. Excluding transaction related costs 1H 24 RoTE would equal 4.4 %
3. Guidance dependent on latest economic assumptions

Summary of 1H 24 results

Turnaround priorities complete

Financially resilient, simplified bank

Enable liquidity event for shareholders

Transformation delivered

Further agility on prices and product launches

Improved operational efficiency and resilience

Delivering cost:income efficiency

On track to achieve cost:income ratio of c.50% over the next 4 years

Franchise growth

Mortgage applications increased >100% year on year

SME loans have grown by 14% [1]

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1. Excluding BBLS & CBILS

Further disclosure

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Segmental performance

Segmental £m	Retail			SME			Legacy & central items			Total		
	1H 24	1H 23	Change	1H 24	1H 23	Change	1H 24	1H 23	Change	1H 24	1H 23	Change
Net interest income	177.5	199.2	(21.7)	51.6	45.2	6.4	0.4	0.7	(0.3)	229.5	245.1	(15.6)
Other operating income	12.0	12.8	(0.8)	7.7	8.3	(0.6)	0.4	0.3	0.1	20.1	21.4	(1.3)
Total income / (expense)	**189.5**	**212.0**	**(22.5)**	**59.3**	**53.5**	**5.8**	**0.8**	**1.0**	**(0.2)**	**249.6**	**266.5**	**(16.9)**
Staff costs	(60.2)	(55.3)	(4.9)	(13.0)	(14.0)	1.0	(1.3)	(1.8)	0.5	(74.5)	(71.1)	(3.4)
Non-staff costs	(95.2)	(88.0)	(7.2)	(19.4)	(17.1)	(2.3)	(0.4)	(0.8)	0.4	(115.0)	(105.9)	(9.1)
Continuous improvement projects	(14.2)	(15.1)	0.9	(1.5)	(1.7)	0.2	(0.2)	(0.2)	0.0	(15.9)	(17.0)	1.1
Operating expenditure	(169.6)	(158.4)	(11.2)	(33.9)	(32.8)	(1.1)	(1.9)	(2.8)	0.9	(205.4)	(194.0)	(11.4)
Impairment (charge) / credit	0.6	0.1	0.5	1.5	0.2	1.3	0.8	(0.6)	1.4	2.9	(0.3)	3.2
Underlying profit / (loss)	**20.5**	**53.7**	**(33.2)**	**26.9**	**20.9**	**6.0**	**(0.3)**	**(2.4)**	**2.1**	**47.1**	**72.2**	**(25.1)**

Balance sheet	1H 24	FY 23	Change	1H 24	FY 23	Change	1H 24	FY 23	Change	1H 24	FY 23	Change
Assets	19,563.5	19,302.9	260.6	381.3	378.4	2.9	6,163.2	6,390.0	(226.8)	26,108.0	26,071.3	36.7
Liabilities	15,933.2	15,690.4	242.8	3,190.0	3,320.7	(130.7)	5,591.7	5,651.2	(59.5)	24,714.9	24,662.3	52.6

Disclaimer

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