

# October 2021 Investor event

11 October 2021

Proud to be the  
UK's best ESG rated  
high street bank\*

The **co-operative** bank  
for people with **purpose**

\*Rated by Sustainalytics in the Regional Banks subindustry with a score of 9.2 as of June 11, 2021

# Investor Event 2021

## Speakers



**Louise Britnell**  
CFO



**Nick Slape**  
CEO



**Maria Cearn**  
MD Customer & People



**Gary McDermott**  
Treasurer & Head of Investor Relations

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A video replay of the investor event can be found on the investor relations website at:

<https://www.co-operativebank.co.uk/investorrelations>

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# Welcome and introduction

## Because of what we have delivered...

Return to profitability

Organic capital generation

Franchise growth

Deleveraged high risk assets

Simplified our Bank

## and because of...

Our 150 year anniversary

Strong management team

Delivered first two stages of our  
turnaround

Natural reflection point as we look to  
establish a sustainable advantage

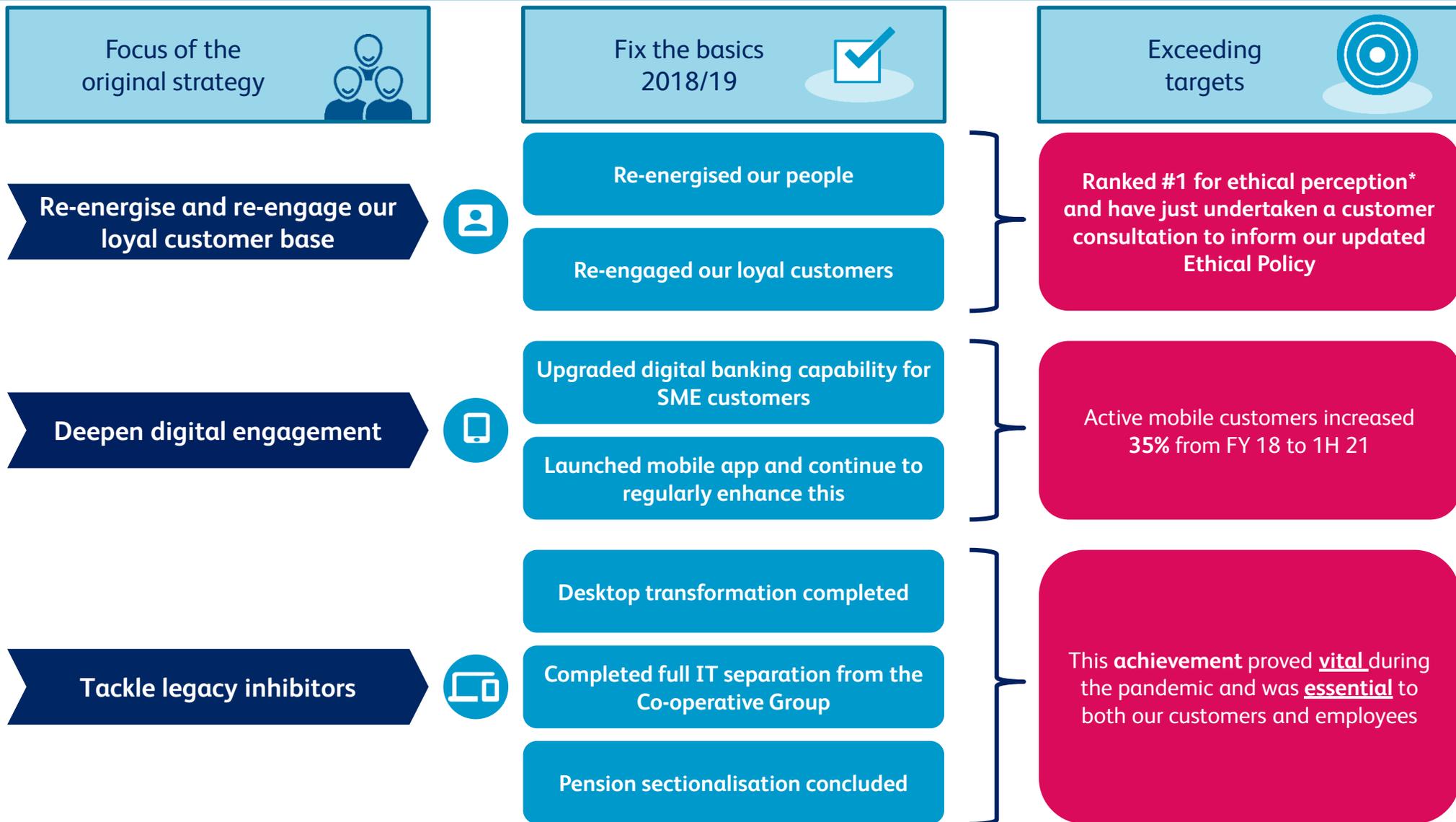
Our market leading ESG credentials

Now is the right time for a strategy refresh

# The story so far - Where the Bank is today

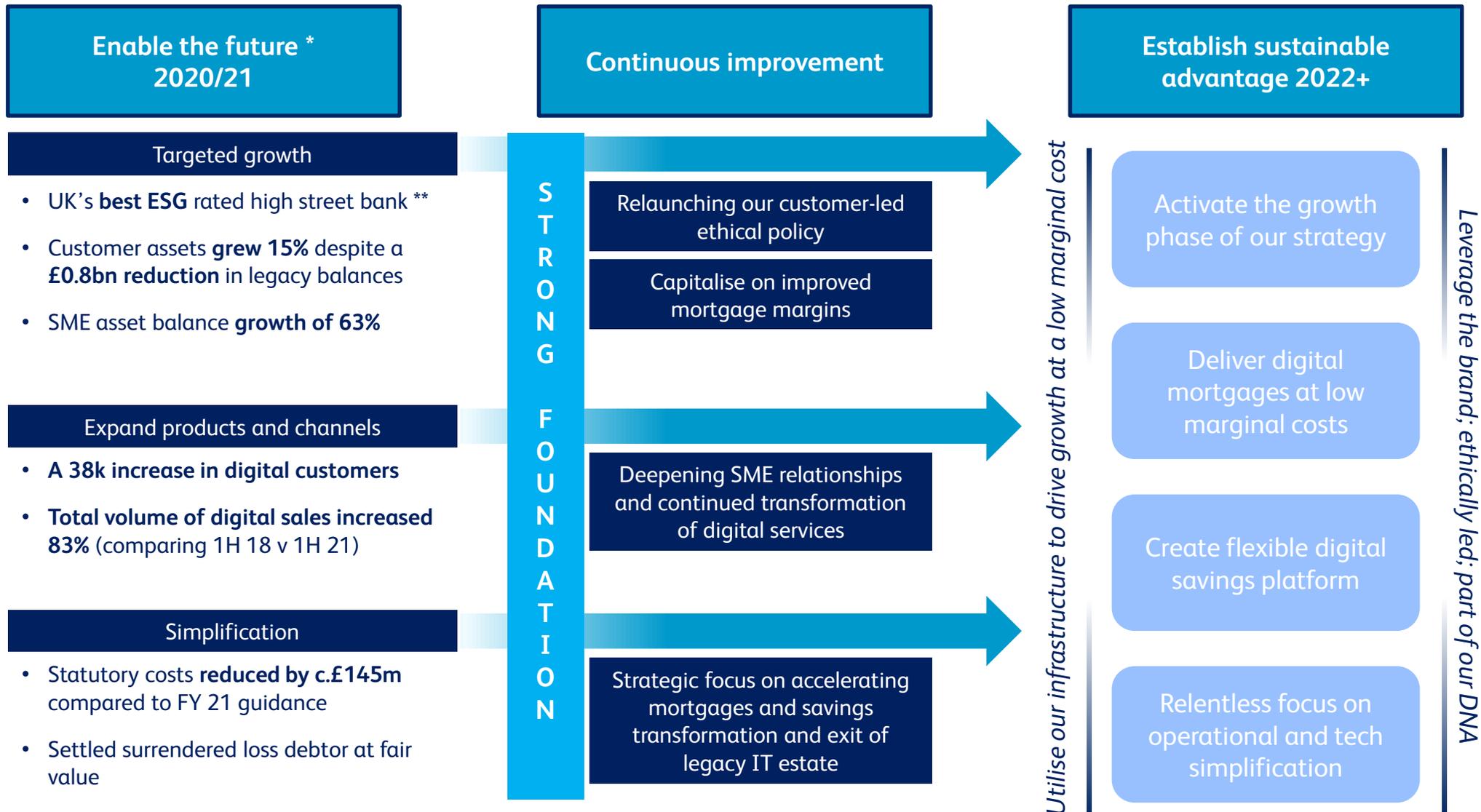
1. Track record of delivery
2. 1H 21 highlights

# Track record of delivery: Story so far 2018 to 1H 21



\* Hall & Partners Brand Tracking Survey

# Strong foundation built for continuous improvement



\* Comparison is FY 18 to 1H 21 unless otherwise stated

\*\* From the ESG-rating agency, Sustainalytics

# 1H 2021 highlights...

## ...set the scene for our strategic refresh

### Profits



After 10 years of loss making - delivered an underlying profit of £13m and a statutory profit of £21m. Confident of return to sustainable profitability

Expect to continue in 2021 onwards and continued improvement in C:I ratio

### Capital & MREL



Capital generative; CET1 % up 90bps, successful capital issuances in 2019 & 2020 trading 300bps and 450bps lower in yield\*

Will issue further capital to meet end state MREL requirements from Jan 2023

### Balance sheet



£3.1bn gross lending at strong margins with a shift towards 5-year tenor providing some protection on margin erosion. £1.5bn pipeline heading into 2H 21. £482m off balance sheet DTA available to shelter taxable profits

Will diversify income to offset margin compression

\* See page 39 for further details

# 1H 2021 highlights...

## ...set the scene for our strategic refresh

### Customer & ESG



Our customers remain loyal as we lead the market with our ESG credentials with our SME customer base continuing to grow

Continue to lead the way in improving ESG and driving our USP

### External recognition



Credit rating improvement\*; Moody's upgrade to B2 and Fitch upgraded to B+ in July 2021

Maintain momentum to achieve ratings in line with peers

### Legacy



Significant deleveraging of high risk assets and completion of complex expensive projects to fix the basics

Investment funding available to drive capital generative projects

**A capital generative, low risk bank with a strong and loyal customer base built on market leading ESG credentials**

\* Long term unsecured credit rating

# Strategy refresh

1. Why we aim to refresh our strategy
2. How ESG drives our strategy
3. Business segment strategy

# Why we aim to refresh our strategy...

**2022 marks the 150 year anniversary of The Co-operative Bank**, and as we prepare for this milestone, we celebrate our strong franchise, strong customer base and strong brand. We have completed many of the aims we set out to achieve and look to provide further clarity on the third phase - establish sustainable advantage

Fix the basics  
2018/19



Enable the future  
2020/21



Establish sustainable  
advantage 2022+

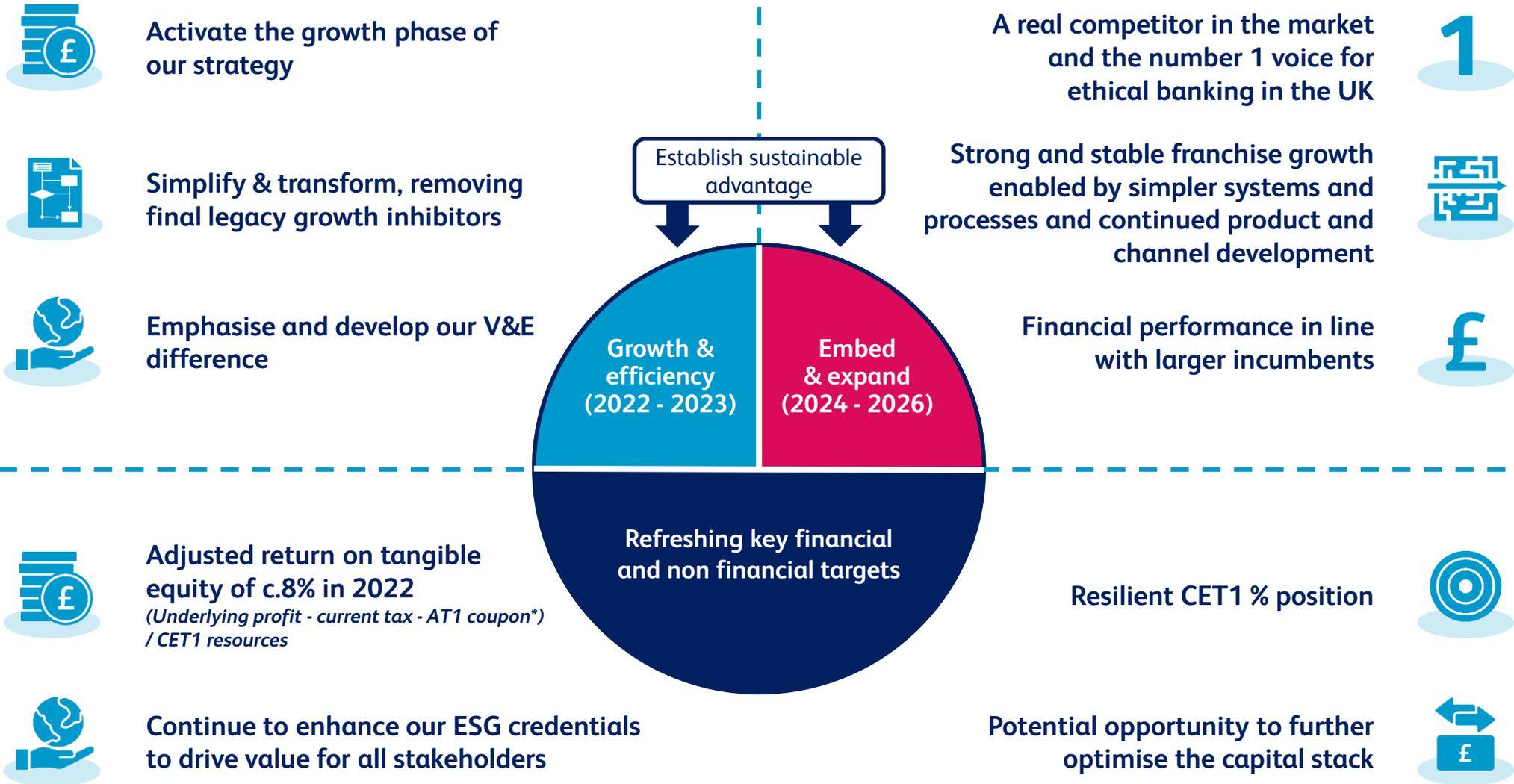


We also recognise that **the past 12 months have fundamentally changed the world**, propelling community commitment and co-operation to the forefront of the nations' conscience

**Our aim is to accelerate the Bank's strategic vision**, establishing sustainable advantage by trusting in our customer-led ethical policy, our Co-operative values and our committed colleagues, whilst removing cost and income inhibitors. This will deliver a sustainable bank i.e. fully restored capital buffers, organically generating capital with a thriving customer franchise

By refreshing the strategic vision now, we can reflect on these changes, our accelerated plans and further opportunities to safeguard and build **the future of the Bank** to ensure it remains as a **thriving, ethical bank at the heart of its community**; right where it started 150 years ago

# What we are aiming to achieve...



\* AT1 currently zero

# A refreshed strategy provides the opportunity to refresh market guidance...

...new complete view of market guidance from 2022

	Guidance	2022	2024
<i>New metric &amp; calculation</i>	Net interest margin (%)	125 - 135	>135
<i>New metric</i>	Total statutory costs (£m)	<335	<300
<i>Metric &amp; calculation maintained</i>	Asset quality ratio (%)	5 - 10	c. 5
<i>Metric &amp; calculation maintained</i>	CET1 ratio (%)	18 - 20	c. 19
<i>New metric</i>	Adjusted return on tangible equity (%)	c. 8	>10
<i>Metric &amp; calculation maintained</i>	Customer assets (£bn)	21 - 22	>22

Any previous guidance or forward-looking information provided has been withdrawn

*Detail on metric changes on pages 36 - 38*

# ESG strategy

The **co-operative** bank  
for people with **purpose**

# Our co-operative heritage is at the heart of our business...

## ...our values and ethics guide our ESG focus

- The Co-operative Bank was **formed in 1872** as the Loans and Deposits department of the Co-operative Wholesale Society.
- Nearly **150 years later**, our **unique customer-led Ethical Policy**, first launched in **1992**, is one of the main reasons our customers choose to bank with us.
- We are **determined to retain our position as 'number 1 for ethical perception'**\* with a commitment to protect the environment, make a positive difference to society and reflecting co-operative values and ethics in everything we do.
- Co-operative values and ethical policies have **been written into our Articles of Association** since November 2014.
- **Our Values and Ethics Committee is a Board Committee** with Sue Harris as its independent chair, which ensures values and ethics remain at the heart of the Bank.



# A leader in environmental and social issues for 150 years

...our commitment to co-operative values & ethics makes us a natural leader in ESG



# Our co-operative values & ethics make us a natural leader in ESG...

...proud to be the UK's best ESG rated high street bank \*



Sustainalytics score of

**9.2**

makes us the UK's best ESG rated high street bank.



MSCI rating of

**A**

consistently achieved A rating for the last 5 years



\*\* ISS rating of

**C-**

2<sup>nd</sup> decile rank versus peer group

## Leading on ESG in 2022 and beyond

- ✓ Comprehensive engagement with ESG ratings agencies **to achieve fair and accurate ESG risk rating scores** across the board
- ✓ Continue to **lead the market** as the original Ethical Bank, committed to co-operative values and ethics
- ✓ Deliver our updated **Values and Ethics strategy** and **ambitious ESG commitments**
- ✓ Launch **our updated customer-led Ethical Policy** in 2022, which will refresh our business principles and the social issues we campaign on

\* Rated by Sustainalytics in the Regional Banks subindustry with a score of 9.2 as of June 11, 2021

\*\* ESG Corporate Rating last modified: 2020-08-21

# Environmental: targets and achievements...

## ...continuing the momentum into 2022 and beyond

- For over 25 years we have refused banking services to businesses or organisations involved in the extraction or production of fossil fuels.
- We are **already a net zero bank**, in fact we've been **beyond carbon neutral since 2007** and are committed to maintaining this position.
- We have **programmes in place to reduce our environmental impact**, including zero waste to landfill and energy reduction across our operations.
- We are **signatories of the UN Principles for Responsible Banking** and supporters of the Climate and Ecological Emergency Bill.

### 2021 progress

- ✓ Maintain our **beyond carbon neutral** status in 2021
- ✓ We are on track to **reduce our operational GHG emissions** intensity ratio to 1.9 in 2021 from our 2019 baseline of 2.4
- ✓ Maintained **zero waste to landfill** and increased percentage of operational waste recycled
- ✓ We continue to source 100 % of **electricity from renewables**
- ✓ Submit our first 18 month **report to UNEP FI**
- ✓ Supported **environmental campaigns and programmes** working closely with the Climate and Ecological Emergency Bill Alliance

### Ambition

- Maintain our **beyond carbon neutral** position with ambitions to further reduce Scope 1 & 2 emissions and report Scope 3
- By the end of 2022 we will **reduce our operational GHG emissions** intensity ratio to 1.8 from our 2019 baseline of 2.4
- Having achieved zero waste to landfill in 2020, we will **aim to be recycling 60% of operational waste** by the end of 2022
- We will continue to **support environmental campaigns and add our voice to calls** to address the climate and ecological emergency



# Social: targets and achievements...

## ...continuing the momentum into 2022 and beyond

- We refuse banking services to businesses that fail to uphold human rights, take an irresponsible approach to payment of tax or that are involved in irresponsible gambling or the provision of payday loans.
- We're **tackling youth homelessness** with Centrepoin, taking **action against economic abuse** with Refuge and **standing by human rights defenders** with Amnesty International UK.
- We work with national partners to **support our most vulnerable customers**.
- We remain **committed to supporting the co-operative sector** and offer free banking services to co-operative businesses.

### 2021 progress

- ✓ **We supported the co-operative sector** through sponsorship of Co-ops Congress and funding The Hive, a support programme for new and growing co-operatives
- ✓ **Continued to support our charity partners** with £1.7m now donated to tackle youth homelessness since 2017 and action taken to increase support for survivors of economic abuse
- ✓ **Colleague volunteering on track to increase** by at least 10% in 2021

### Ambition

- Committed to **continuing to support the co-operative sector** and increasing our co-operative business customer base in 2022
- We will **work with key charity partners** to create opportunities for our customers, colleagues and charity partners to bring about meaningful social change
- Seek opportunities to **support our local communities** with a particular focus on the North West

Help us to support young human rights defenders.

We have proudly partnered with Amnesty International UK for over 25 years, standing together in support of those who are at risk as a result of defending human rights. Join our Colleague Amnesty to get involved.

The co-operative bank for people with purpose

# Governance: targets and achievements...

## ...continuing the momentum into 2022 and beyond

- Our **values and ethics and ESG commitments are guided by our customers**, whose views inform our unique customer-led Ethical Policy.
- Our ESG commitments are a **key part of our bank strategy**.
- Our **board level Values & Ethics Committee oversees the adoption of co-operative values and ethics** within the organisation and reports annually to the board of Co-operatives UK, on compliance with our commitments to the co-operative sector.

### 2021 progress

- ✓ **Customer consultation undertaken** which will inform an update to our Ethical Policy, to be launched in 2022
- ✓ Continued to **screen and decline business customers** where a conflict with our Ethical Policy is identified
- ✓ Values and Ethics Committee provides **ESG oversight** and will agree the terms by which Executive pay will be linked to ESG targets from 2022 onwards
- ✓ We now have **women in 42% of senior positions** and have restated our target to 45 % by the end of 2023

### Ambition

- Maintain leading Sustainalytics rating and **achieve fair and accurate ESG risk rating scores** across the board
- We will develop **ESG focused products and services**
- From 2022 onwards, part of **Executive pay will be linked to achieving our ESG targets**
- In 2022 we will **launch an update to our Ethical Policy** along with **renewed and updated ESG commitments** shaped by the views of our customers

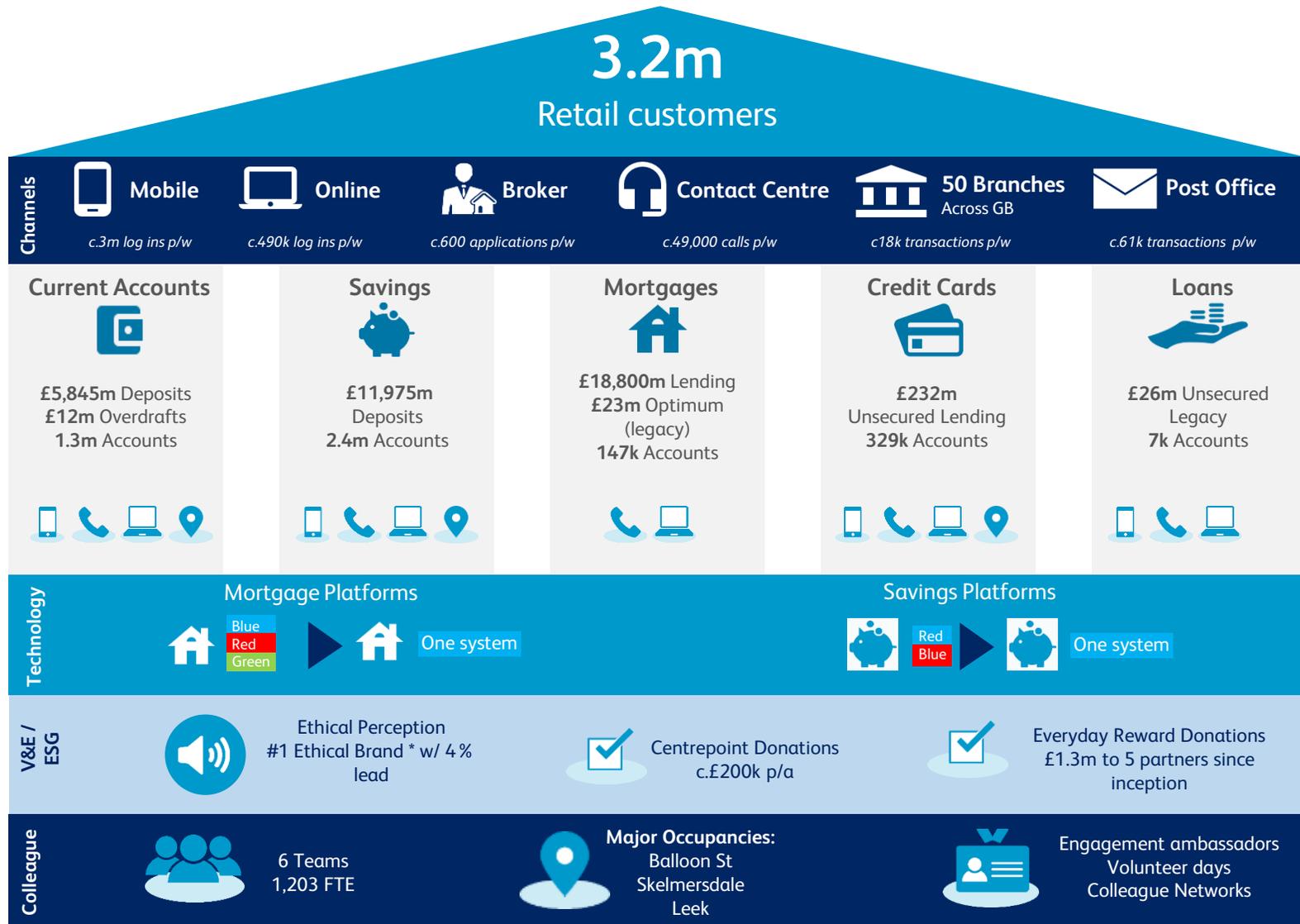
# Business segment strategy

1. Retail
2. SME

# Retail strategy

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for people with **purpose**

# Retail Banking at a glance...



\* Based on Hall & Partners Brand Tracking Survey

# Retail segment performance 1H 2021



## Awards & achievements

- Moneyfacts Branch Network of The Year (4th consecutive year)
- Moneyfacts Best Current Account Provider
- Donated £1.3m since 2016 to partner charities through Everyday Rewards current accounts

- New professional mortgage product aimed at young professionals
- Piloted return to direct mortgage lending through Co-operative Bank brand and made it easier for customers to adjust their existing mortgage
- Launched refer-a-friend current account proposition

- Strong mortgage market in 2020 and 1H 2021 fuelled by the stamp duty moratorium and customers changing living habits; purchase market started to slow in late 1H in part due to declining stock levels
- Deposit market relatively stable as low base rate and access to TFSME reduced competitor pricing and demand
- Current account market has seen signs of return to normal through 1H with a number of competitors re-introducing switch incentives



## Market developments



## Upcoming targets / releases

**Lending:** enabled in part by delivery of Bank's simplification programme

- Re-launch of residential interest-only products
- New-to-Bank credit card offering

**Deposits / other:** strengthening the Bank's ethical product offering and making it easier for customers to bank with us

- Introduction of ethical investment proposition through new Bank partnerships
- Gambling blocks and card management in app

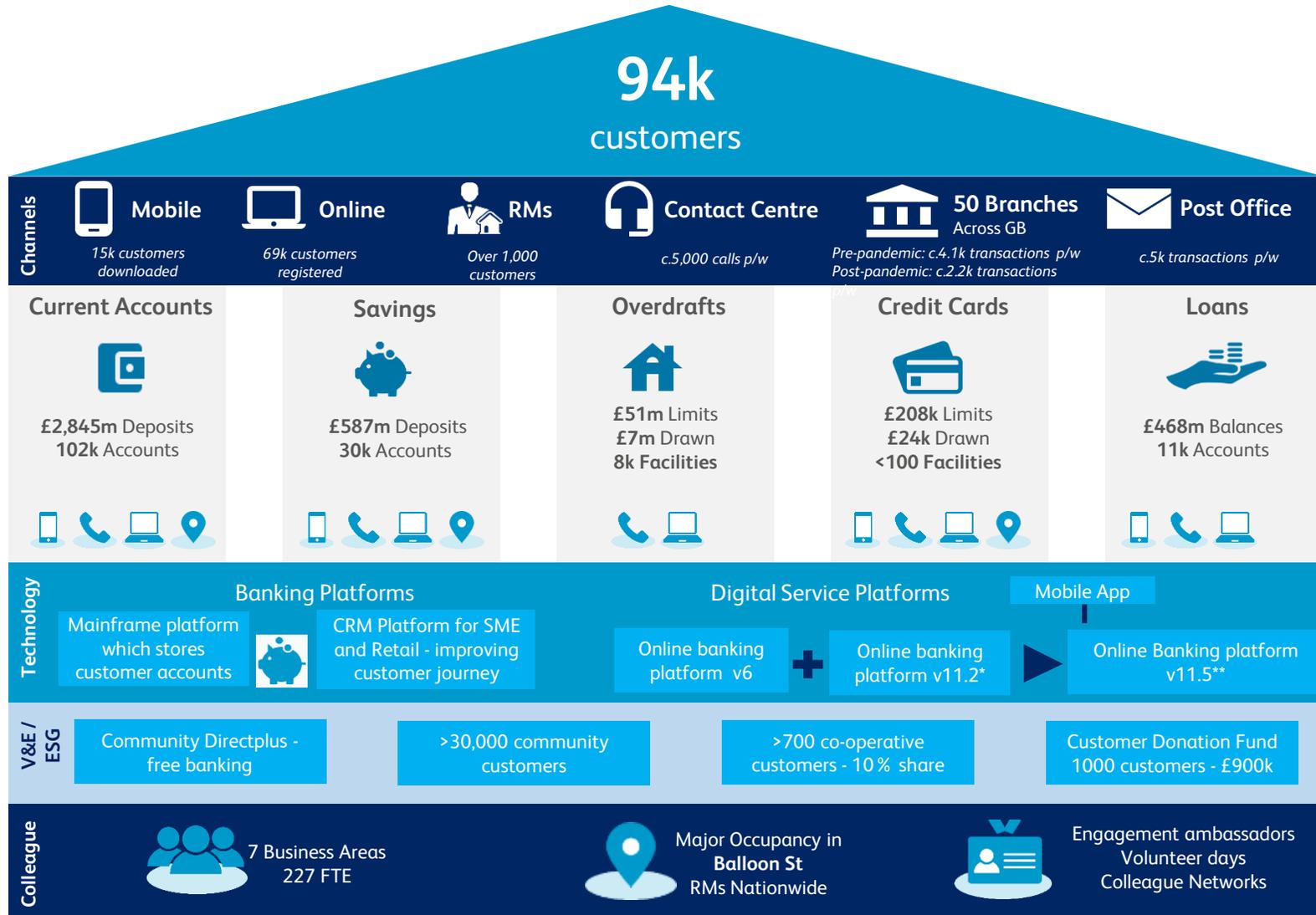
# Key proposition opportunities in Retail...

Our early priorities focus on our existing core customer base, where our proposition currently does not serve all their needs and we see opportunities for growth aligned to our Values and Ethics/ESG strategy of serving the underserved market

Opportunity	Rationale	Target
Credit builder propositions (secured and unsecured)	Supporting customers who may struggle to access lending solutions via the high street	Initially credit cards and secured lending. Other unsecured lending to be reviewed
Helping young people access housing	An opportunity to differentiate with a 'co-operative' solution allowing depositors to fund a shared ownership portfolio directly	Build life-long trusted relationships
Ethical Living / Sustainability	We want to reward customers who behave in an ethical way, this is aligned to our brand and will drive affinity with new and existing customers	Highlight flagship ethical differentiation
Youth proposition	Establish franchise relationships with a demographic that is underrepresented in the Bank's existing customer base	Build life-long trusted relationships
Supporting older generations	We will look to partner with third parties to broaden our range of products and services whilst remaining efficient	Supporting our existing customers with a wider product set

# SME strategy

# SME Banking at a glance...



\* Migration to be complete by end of Q3 2021

\*\* Launching Q4 2021

# SME segment performance 1H 2021



## Awards & achievements

- Moneyfacts Charity Bank of the Year (6th consecutive year)
- All three of the Bank's primary business current account offerings are rated 5 star by Moneyfacts
- In 1H 2021, our Customer Donation Fund provided £25k to 25 community customers to fund community projects. We have now supported 1,097 community organisations with £962k of funding through this scheme
- Launched new business credit card and new mobile app for SME customers
- Launched a Business Concierge service in partnership with Assurant, providing legal, HR and tech support for customers
- Launched the co-branded 'Incomeing' app with BankiFi, a 'request to pay' service to SMEs collect invoice payments

- The Bounce Back Loan Scheme and Coronavirus Business Interruption Loan Scheme closed for applications at the end of March. The Bank provided over £320m of lending to support customers through these schemes, with over £70bn provided overall to UK SME's
- The Incentivised Switching Scheme closed at the end of H1. The Bank attracted over 10,000 NatWest customers through the scheme, a 15 % share of all switched customers, well above market share of 6 %



## Market developments

- Launch of a new online banking platform to further improve our digital customer service
- Launch of a smart invoicing product, enabling customers to issue invoices and better manage their finances in the mobile app
- Continuous improvements to our new onboarding journeys to make these available to more customers
- Continuous improvements to our mobile app, adding more functionality
- Launch of an online Business Exchange, providing our customers with personalised information to help them run their business



## Upcoming targets / releases

# Key product opportunities in SME...

Our early priorities focus on our existing core customer base, where our proposition currently does not serve all their needs and we see opportunities for growth aligned to our Values and Ethics/ESG strategy of serving the underserved market

Opportunity	Rationale	Target
ESG and ethical products	An estimated 3.9 million SMEs, 70% of market, are purpose-driven businesses with a strong desire to make a difference for their customers and local communities	Becoming the digital ethical alternative for UK SMEs
Develop lending capabilities	Based on straight through processing and leveraging our new technology developed through our SME investment	Development of advanced core business products
Larger customers	Gradual expansion of existing or developing propositions to 'medium' sized customers	Activating our aspirations in the 'M' of SME
Cash flow management	We will develop advanced smart invoicing as a value-add service, making it easier for our customers to optimise their cash flow	Represents the next stage to our existing smart invoicing ambitions

# Financial guidance & targets

1. Recap on current market guidance
2. New market guidance
3. Opportunities to utilise excess CET1 resources

# Strategy refresh provides opportunity to revisit guidance...

...first a recap of current market guidance

	2021	2022	2024
Customer NIM (bps)	145 - 155	155 - 165	160 - 170
Underlying cost:income ratio (%)	85 - 95	70 - 80	60 - 70
Asset quality ratio (bps)	5 - 10	5 - 10	c. 5
Franchise cash investment (£m)	45 - 50	20 - 30	20 - 30
CET1 ratio (%)	17 - 18	18 - 20	>20
Customer assets (£bn)	20 - 21	21 - 22	22 - 23

We've redefined and simplified the guidance. Despite these changes, we will maintain current guidance measures for the 2021 financial year before a new guidance framework is adopted from 2022 onwards



# A refreshed strategy provides the opportunity to refresh market guidance...

...new complete view of market guidance from 2022

			Guidance	2022	2024
Customer net interest margin	→	New metric & calculation	Net interest margin (%)	125 - 135	>135
Underlying C:I ratio	→	New metric	Total statutory costs (£m)	<335	<300
Franchise cash investment	→	Metric & calculation maintained	Asset quality ratio (%)	5 - 10	c. 5
		Metric & calculation maintained	CET1 ratio (%)	18 - 20	c. 19
		New metric	Adjusted return on tangible equity (%)	c. 8	>10
		Metric & calculation maintained	Customer assets (£bn)	21 - 22	>22

**Adjusted return on tangible equity (ROTE %)**

$$\frac{\text{(Underlying profit - current tax - AT1 coupon*)}}{\text{CET1 resources}}$$

\* AT1 currently zero

- Returned to profitability
- Introduction of an equity measure
- Removes any one off significant items
- Reflects CET1 as a key tangible equity metric

Detail on metric changes on pages 36 - 38

Any previous guidance or forward-looking information provided has been withdrawn

# Following restoration of full capital buffers in 2023...

...surplus CET1 provides opportunities



## Opportunities



Re-invest into value generating projects



Further optimisation of capital stack

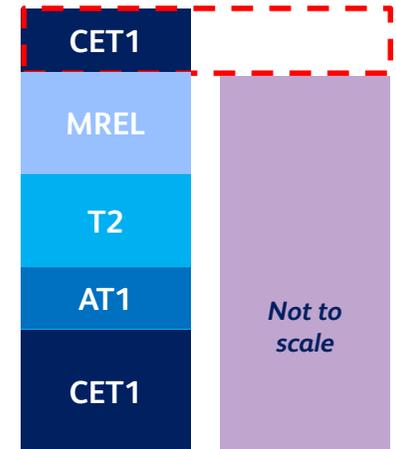
## Outcome



Low risk; capital efficient Bank



Capital resources      Capital requirements

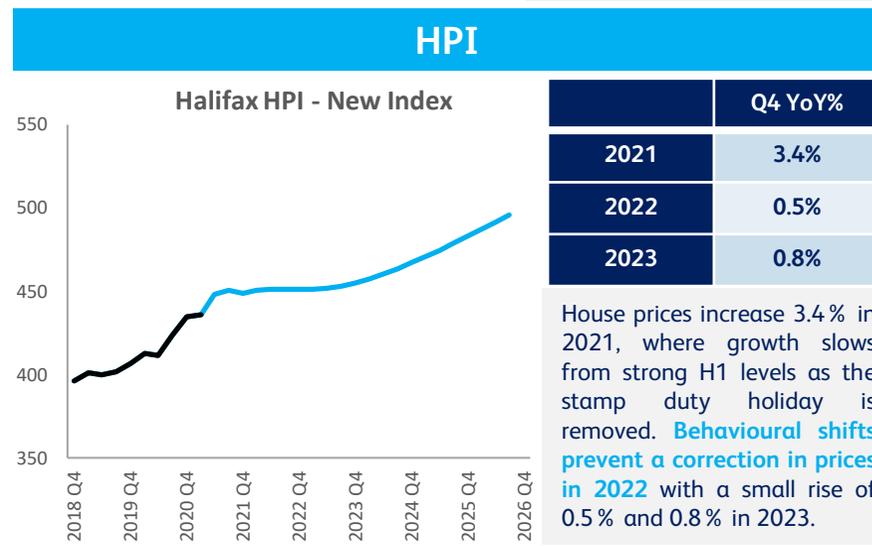
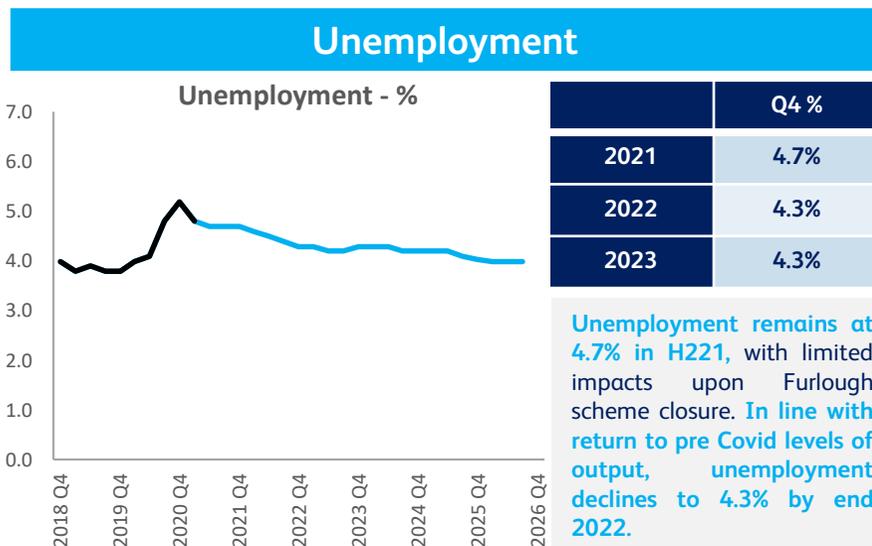
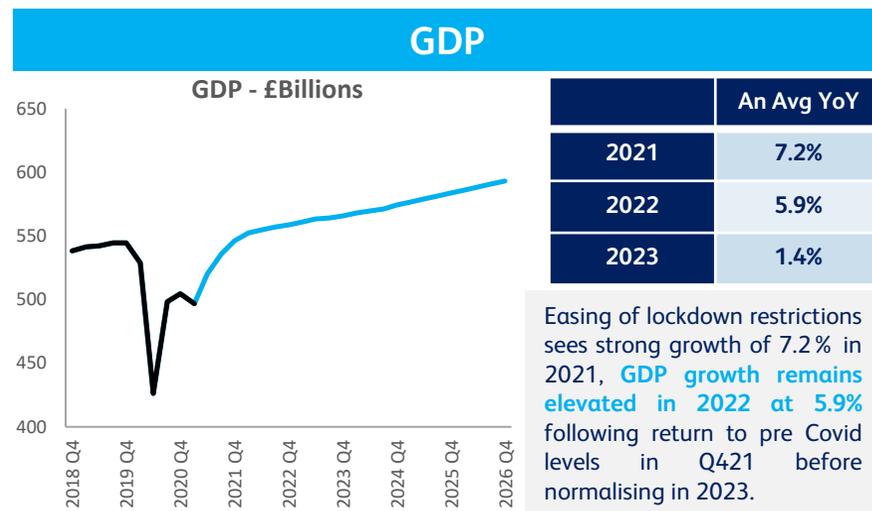
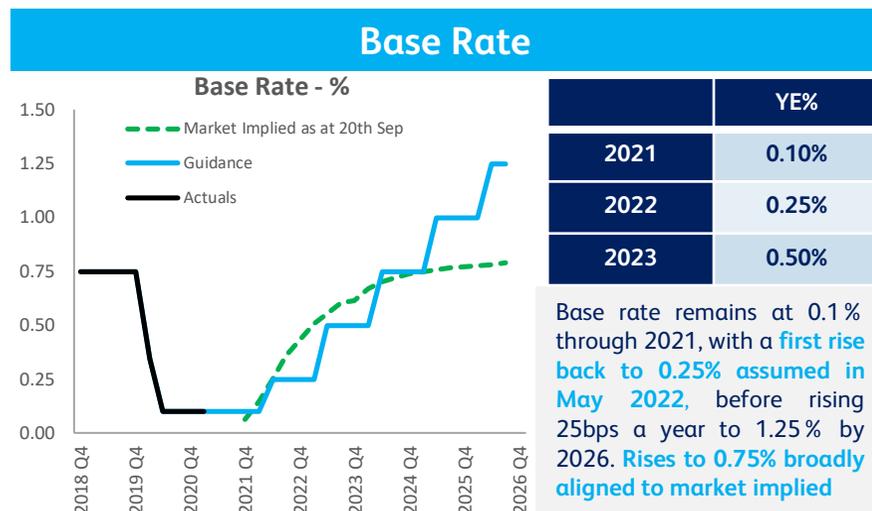


# Appendix

1. Economic assumptions
2. Guidance metric details

# Economic assumptions that underpin guidance

... GDP and unemployment based upon BoE 5<sup>th</sup> August monetary policy report, base rate and HPI set using management judgement



# A refreshed strategy provides the opportunity to refresh market guidance...

...with metrics normalised to bring better transparency and alignment to our peers

Guidance	2021	2022	2024	Comments
Customer NIM (bps)	145 - 155	155 - 165	160 - 170	
	<i>Old basis</i>			
<div style="border: 1px solid black; padding: 5px; width: fit-content;">Old calculation</div>	$\frac{\text{Total net interest income}}{\text{Average customer assets}}$		<div style="border: 1px solid black; padding: 5px; width: fit-content;">Why change?</div>	<ul style="list-style-type: none"> <li>• Currently excludes interest earning treasury assets</li> <li>• Not comparable to peers</li> </ul>
<div style="border: 1px solid black; padding: 5px; width: fit-content;">New calculation</div>	$\frac{\text{Total net interest income}}{\text{Average interest earning assets}}$		<div style="border: 1px solid black; padding: 5px; width: fit-content;">What's changed?</div>	<ul style="list-style-type: none"> <li>• Include average interest earning treasury assets</li> <li>• This will reduce the NIM % as denominator increases</li> <li>• Metric now aligned to peers</li> </ul>
Net interest margin (NIM bps)	115 - 125	125 - 135	>135	
	<i>New basis</i>			

# A refreshed strategy provides the opportunity to refresh market guidance...

...with metrics normalised to bring better transparency and alignment to our peers

Guidance	2021	2022	2024	Comments
<p><b>Underlying cost:income ratio (%)</b></p> <p>Old calculation →</p> <p><math>\frac{\text{Underlying expenditure}}{\text{Underlying income}}</math></p> <p>Why change? →</p>	85 - 95	<p><i>Guidance removed</i></p> <p>70 - 80</p>	<p><i>Guidance removed</i></p> <p>60 - 70</p>	<ul style="list-style-type: none"> <li>Not clear on what income/costs are included</li> <li>Excludes strategic project costs</li> <li>Doesn't align to peers</li> </ul>
<p><b>Total statutory costs (£m)</b></p>	<335	<335	<p><b>New guidance</b></p> <p>&lt;300</p>	<ul style="list-style-type: none"> <li>Includes both underlying and project costs</li> <li>Gives greater clarity on cost targets</li> </ul>
<p>Old calculation →</p> <p><b>Franchise cash investment (£m)</b></p>	45 - 50	<p><i>Guidance removed</i></p> <p>20 - 30</p>	<p><b>Total cash investment spend i.e. not a P&amp;L view</b></p> <p>Why change? →</p> <p>20 - 30</p>	<ul style="list-style-type: none"> <li>Metric does not provide clarity on P&amp;L impact</li> <li>Investment intensive, 'fix the basics' projects, with constrained capital position complete</li> <li>Return to normalised investment spend</li> </ul>

# A refreshed strategy provides the opportunity to refresh market guidance...

...remaining metrics updated with return on tangible equity added

Guidance		2021	2022	2024	Comments
Asset quality ratio (bps)	In force	5 - 10	5 - 10	c. 5	<ul style="list-style-type: none"> <li>Low risk asset book</li> <li>Expected to drive low levels of impairment charges</li> <li>Charges largely relate to balance growth</li> </ul>
	Revised	No change	No change	No change	
CET1 ratio (%)	In force	18 - 19	18 - 20	>20	<ul style="list-style-type: none"> <li>Following optimisation of capital resources</li> <li>CET1 % will reduce as we consider a range of options. See page 33</li> </ul>
	Revised	No change	No change	c.19	
Customer assets (£bn)	In force	20 - 21	21 - 22	>22	
	Revised	No change	No change	No change	

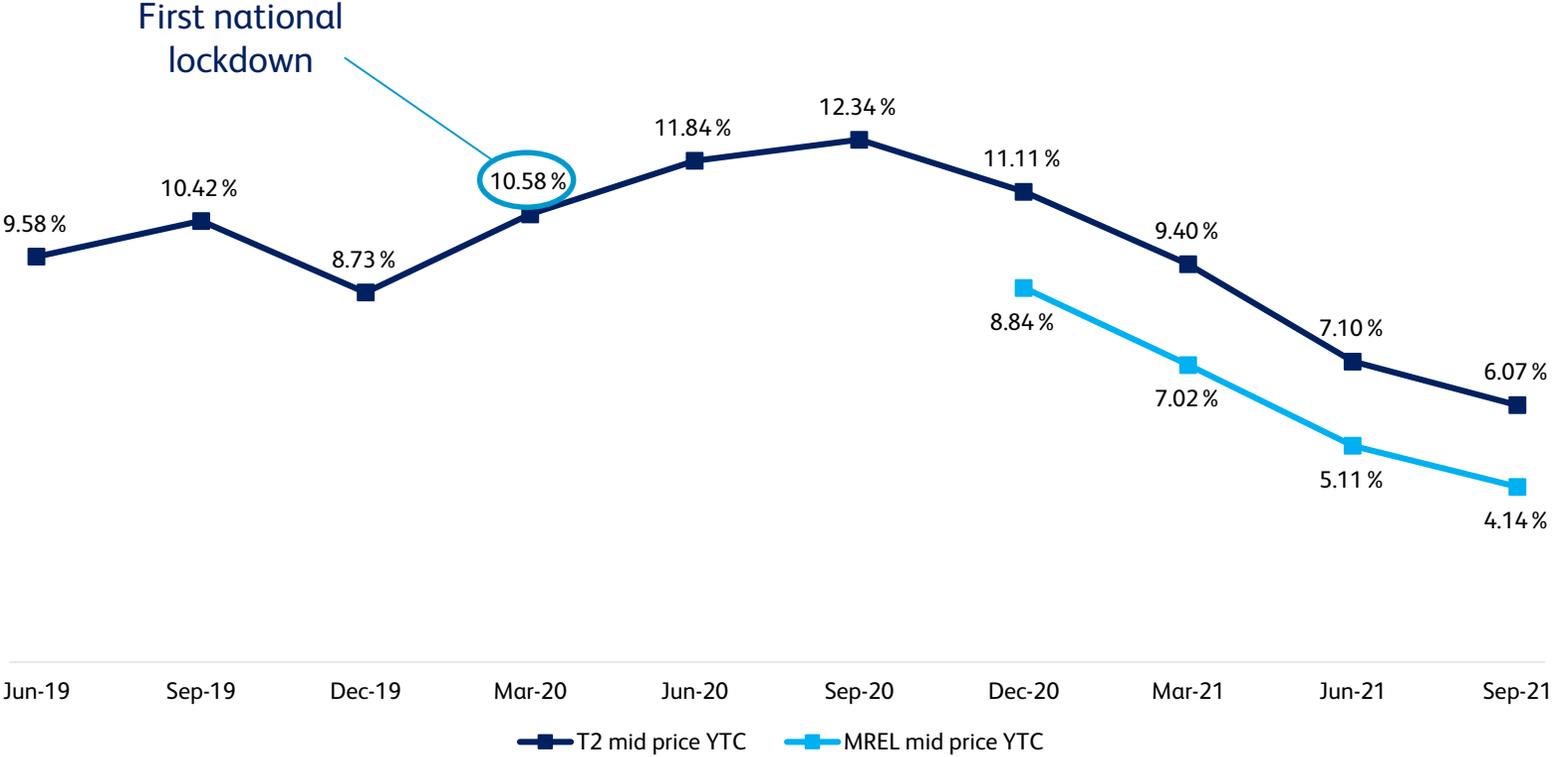
## New guidance metric

<b>Return on tangible equity (ROTE %)</b>  (Underlying profit - current tax - AT1 coupon*) / CET1 resources	c. 5	c. 8	>10	<ul style="list-style-type: none"> <li>Returned to profitability</li> <li>Further DTA to recognise</li> <li>Introduction of an equity measure</li> </ul>
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\* AT1 currently zero

Any previous guidance or forward-looking information provided has been withdrawn

# MREL and T2 pricing materially improved since issuance



Improved pricing reflects positive progress in Bank credit proposition and general market fixed income pricing improvement over period

# Contacts

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