

Secured Investor: Business Update

A woman with blonde hair tied up and a young child are in a garden. They are looking at a wooden crate filled with fresh vegetables, including tomatoes and leafy greens. The scene is outdoors with trees and foliage in the background, suggesting a sunny day.

April 2024

The **co-operative** bank

Ethical then, now and **always**

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FY 2023 Financial Results

Year of transformation

Capital

Tier 2 refinanced

3rd green
issuance
successfully
completed

+70bps organic
capital
generation ¹

Retail and SME

Average
customer
balances remain
high

SME gross new
lending grown by
32%

Revitalising
branch network

Customer focus

Trustpilot score



4.2 (Great)

Average speed
to answer
significantly
improved

Complaints per
1,000 customers
reduced to 3.6 ²

Financial highlights

£71.4m

Statutory profit before tax

FY 22: £132.6m

£120.9m

Underlying profit before tax

FY 22: £136.0m

1.80%

NIM

FY 22: 1.66%

10.1%

RoTE ³

FY 22: 1.3%

20.4%

CET1 ratio ⁴

FY 22: 19.8%

Credit ratings

BB+

Fitch

Increased 3
notches in 12
months

1. Excludes RWA impact of portfolio acquisition and proposed dividend
2. The volume of regulated banking and credit complaints per 1,000 customers over a rolling 6 month period
3. Basis of prep on page 8
4. Prior to proposed dividend

Simplification to be completed in 2024

Achieved in 2023

New mortgage platform for new business

Launched interest only products

Average mortgage size has increased to £189k from £149k¹



New savings product capability established on mainframe

Fixed Term Deposit

Select Access Saver
Base Rate Tracker

Fixed Rate ISA
Regular Saver



Majority of savings migrated to the new platform

67% of accounts migrated



Initiated mortgage customer migration



Mortgage servicing in-sourcing complete



What to expect in 2024



Complete savings migration

H1 24



Complete mortgage migration

H1 24



Complete decommissioning of legacy estate

H2 24



2024 Simplification delivered

1. Based on the average size of mortgages post implementation (4Q 23) versus 2023 average pre implementation

Committed to the Bank's ESG agenda

ESG ratings



Sustainalytics score of **8.5** makes us the UK's best ESG-rated high street bank for the third year running ¹



MSCI rating of **AAA** Achieving top MSCI score ²



ISS rating of **C** Improved to 55 from 51.55 ³

2023 Highlights

Best Charity Banking Provider by Moneyfacts
8th consecutive year



Partnered with Shelter to campaign for fairer renting

Almost quadrupled our impact in the community by increasing our volunteering days to 2,335



Signed up to the mortgage charter

£220m eligible green assets originated in 2023



- In October 2023, The Co-operative Bank received an ESG Risk Rating of 8.5 and was assessed by Morningstar Sustainalytics to be at negligible risk of experiencing material financial impacts from ESG factors. In no event should the Sustainalytics Rated badge be construed as investment advice or expert opinion as defined by the applicable legislation. See disclaimer on page 32
- In 2023, The Co-operative Bank received a rating of AAA (on a scale of AAA-CCC) in the MSCI ESG ratings assessment
- ESG Corporate Rating last modified 8th September 2023

Delivering on our priorities

We said we would...



Explore opportunities to optimise capital stack



Simplify and transform the Bank



Franchise growth



Leverage values and ethics strengths



We delivered...

Issued MREL-qualifying debt

Refinanced Tier 2

Proposed dividend declaration



Complete in-housing of Capita colleagues

Migration of savings and mortgage customers materially complete



New platform for additional product capability

First portfolio acquisition in over a decade



Campaigned for fairer renting

Best charity banking provider

Market leader in ESG



Financial results

The **co-operative** bank

Ethical then, now and **always**

Sustainable underlying profit in line with expectations

£m	FY 23	FY 22	Change
Net interest income	477.0	458.3	4%
Other operating income	38.2	41.1	(7%)
Total income	515.2	499.4	3%
Operating expenditure	(445.5)	(372.7)	(20%)
Impairment charge	(0.6)	(6.4)	91%
Non-operating income	2.3	12.3	(81%)
Profit before tax	71.4	132.6	(46%)
Taxation credit / (charge)	58.3	(110.5)	>100%
Profit after tax	129.7	22.1	>100%

Adjustments to profit before tax			
Exceptional redress	28.9	0.0	<(100%)
Exceptional project expenditure	22.5	15.6	(44%)
Other exceptional (gains) / losses	(1.9)	(12.2)	(84%)
Underlying profit before tax	120.9	136.0	(11%)

Key performance indicators

Net interest margin (bps) ¹	180	166	14
RoTE (%) ²	10.1	1.3	8.8
Cost:income ratio (%) ³	86.1	72.8	(13.3)
Asset quality ratio (bps) ⁴	0.3	3.1	2.8
CET1 ratio (%) ⁵	20.4	19.8	0.6
Tangible net asset value per share (p) ⁶	14	13	1

Underlying profit before tax has decreased 11% to £120.9m;

- **Total income up by 3%; NIM at 180bps in line with guidance and increased 14bps year on year**
- **Underlying costs** (operating expenditure excluding exceptional costs) up by 10%, driven by;
 - Insourcing of mortgage operations in Q1 (accounting benefit from 2024 onwards as EIR of fees previously capitalised unwinds)
 - Impact of accelerated investment into continuous improvement projects and contact centre recruitment
- **Impairment charge of £0.6m;** driven by revised macroeconomics earlier in the year and a decline in forward looking Commercial Real Estate property values offset by a £1.6m release relating to one specific legacy connection.

Statutory profit before tax of £71.4m includes (£28.9m) of customer redress and an increase in exceptional project expenditure to (£22.5m);

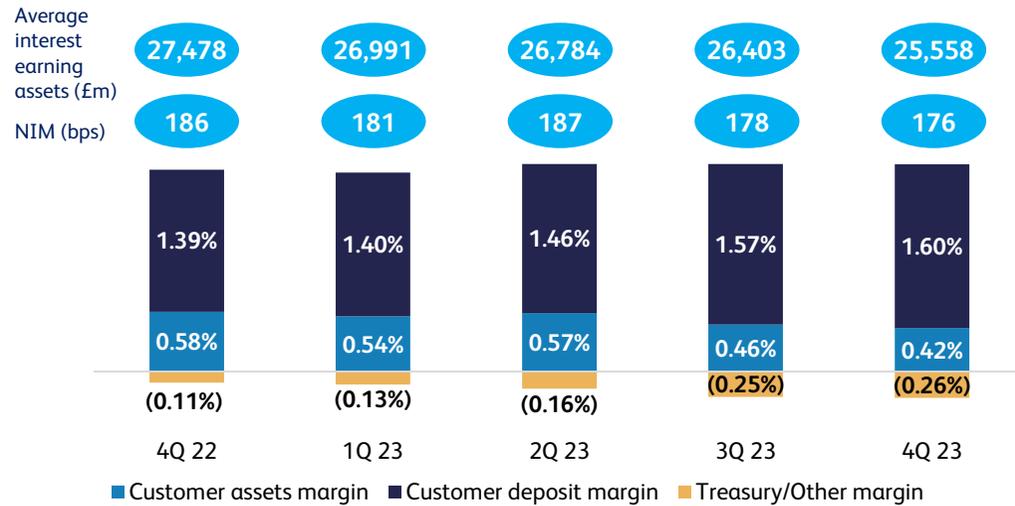
- Exceptional legacy mortgage redress of £28.9m
- £14.7m spend in relation to our flagship transformation programme
- £7.8m of advisory costs as the Bank explores strategic options
- 2022 gain of £12.2m includes the sale of a small loan portfolio and the sale / revaluation of VISA shares

Tax credit relates predominantly to recognition of deferred tax asset in relation to historical tax losses

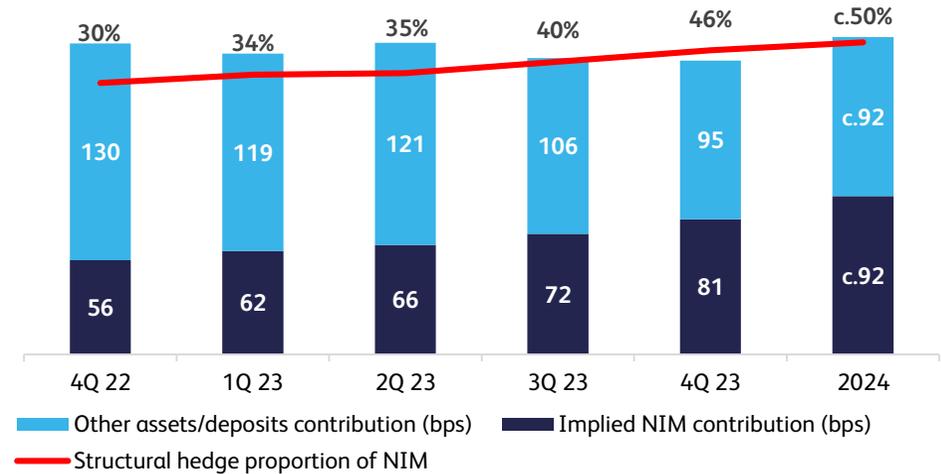
1. Net interest income over average interest earning assets
2. Profit after tax over average equity less intangibles
3. Total statutory expenditure over total statutory income (excludes impairment)
4. Impairment charge over average customer assets
5. CET1 ratio prior to proposed dividend
6. Tangible equity over number of shares

NIM guidance for 2023 achieved; growth expected in 2024

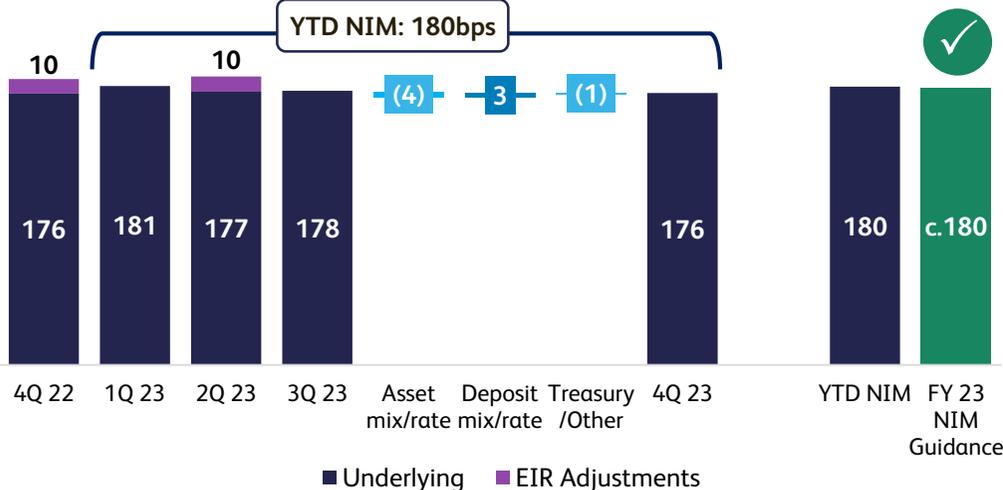
NIM build evolution



Structural hedge contribution to NIM (bps)



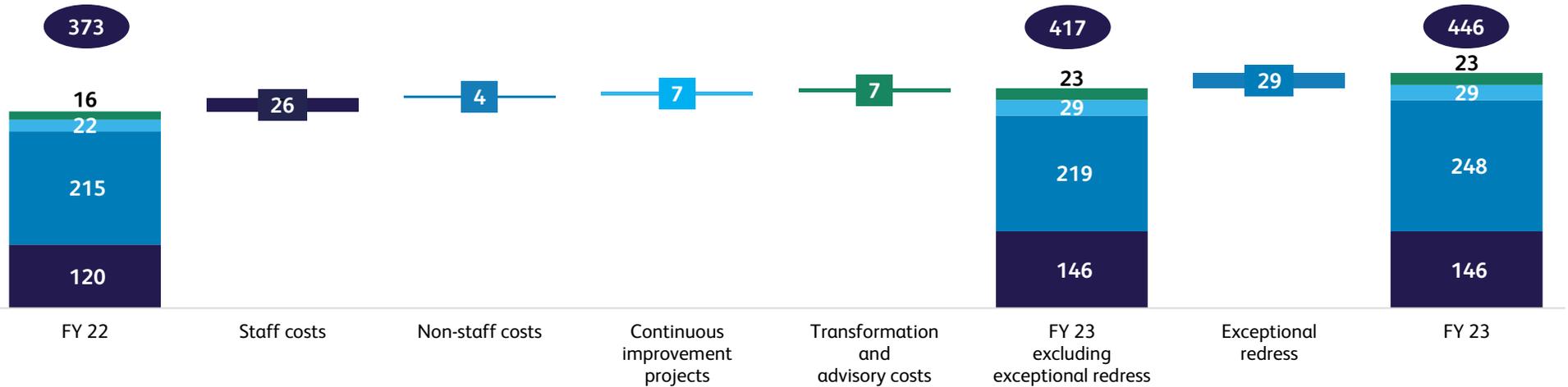
Net interest margin (bps)



- NIM broadly flat quarter on quarter; lower mortgage margins offset by widening deposit margins
- Full year NIM guidance delivered with net interest income of £477.0m
- £0.8bn reduction in average interest earning assets in the quarter, driven by TFSME repayments
- Structural hedge tailwinds will support NIM growth in 2024. FY 24 NIM guidance is set at c.185bps

Statutory costs excluding redress in line with guidance

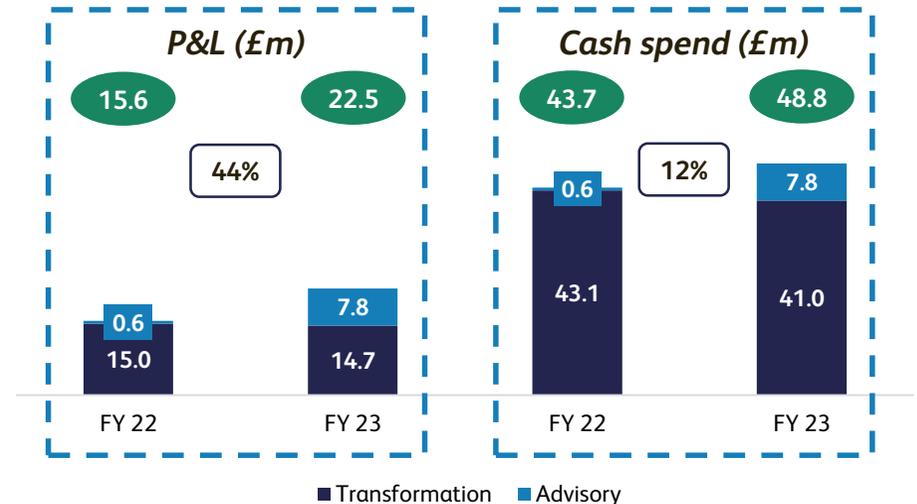
Operating expenditure (£m)



Costs adverse to guidance of c.£420m as a result of an increase in remediation and redress in the final quarter; Underlying expenditure reflects:

- Increase in staff costs due to planned insourcing and investment in contact centres, along with inflationary pay rises
- Increase in underlying non-staff costs (excl. projects and redress) of only 2% despite inflationary pressure
- Increase in projects by £14m to £52m includes accelerated continuous improvement projects alongside strategic investment. Capex rate YTD of 47%

Transformation and advisory costs (£m)



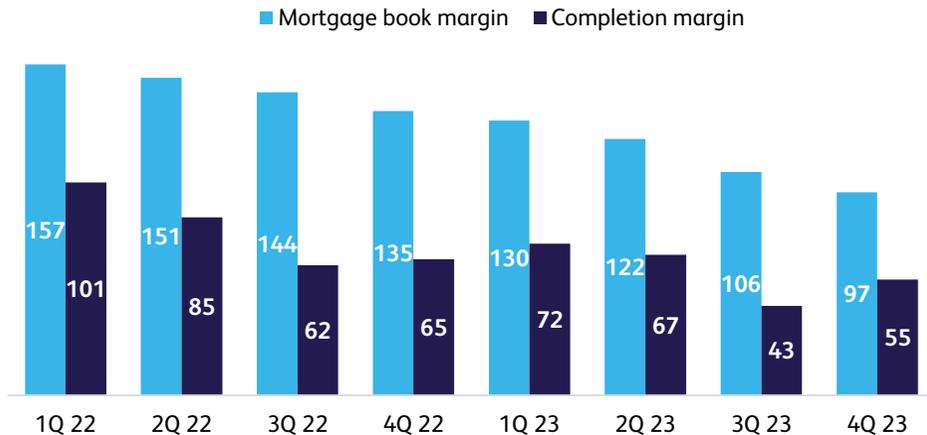
Retail performance

The **co-operative** bank

Ethical then, now and **always**

Low average LTV; predominantly prime residential portfolio

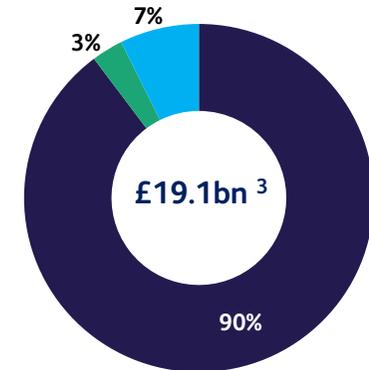
Mortgage margin (bps) ¹



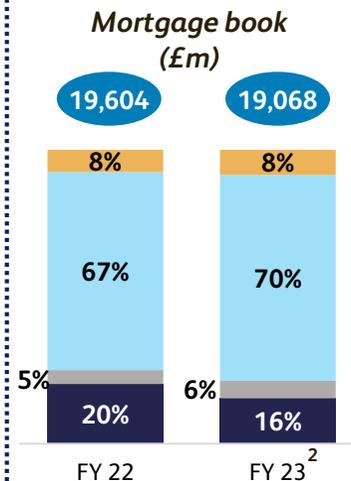
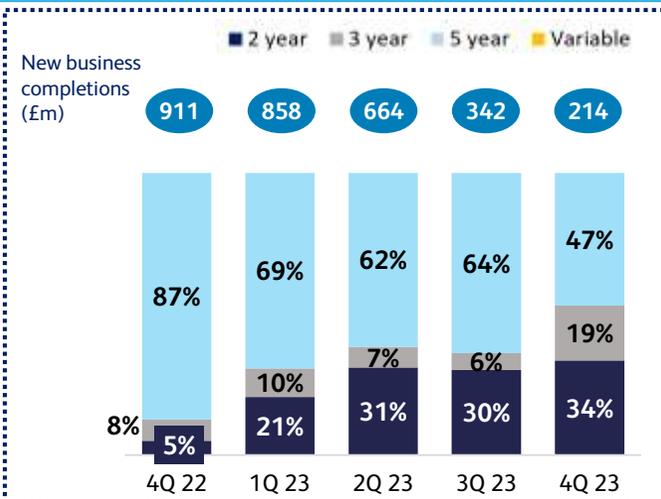
Mortgage product split

Average LTV **55.7%**

- Prime resi.
- Prime resi. I/O
- BTL



Completions by tenor

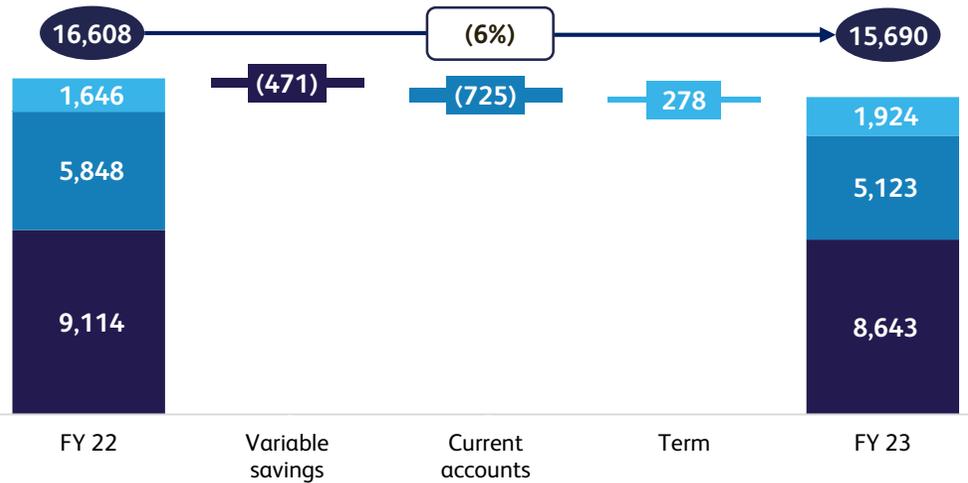


- Industry-wide margin pressure on mortgages drives down mortgage book margins
- 93 % of mortgage book consists of prime residential mortgages which have an average LTV of 56.3 % ; Average LTV for mortgage book is 55.7 %
- Shift in tenor split in final quarter with higher percentage split of 3 year mortgages
- Portfolio acquisition demonstrates focus towards identifying appropriate opportunities

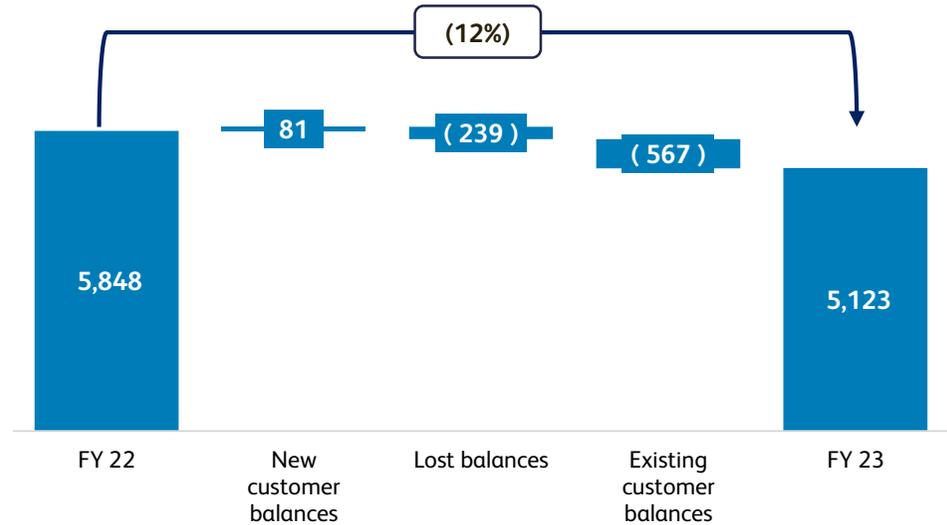
1. Margin calculated as gross rate minus swap
 2. Tenor split excludes the mortgage portfolio acquisition balances of c.£0.3bn
 3. Includes 0.1 % of self-certified, almost prime, and non-conforming mortgages

Retail average balances remain higher than pre-covid levels

Retail deposits (£m)



Retail current account movement (£m)



Retail average customer balance movement (£)



- Current account reduction – cost of living impacts on average balances
- Reduction in customer account existing balances drives average current account balances down
- Lost balances of £239m includes £118m of bereavement
- Retail variable deposit average balances remain high as higher rates incentivise customers to save

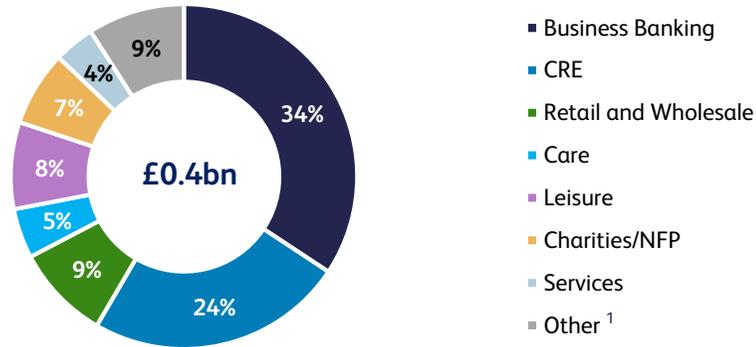
SME performance

The **co-operative** bank

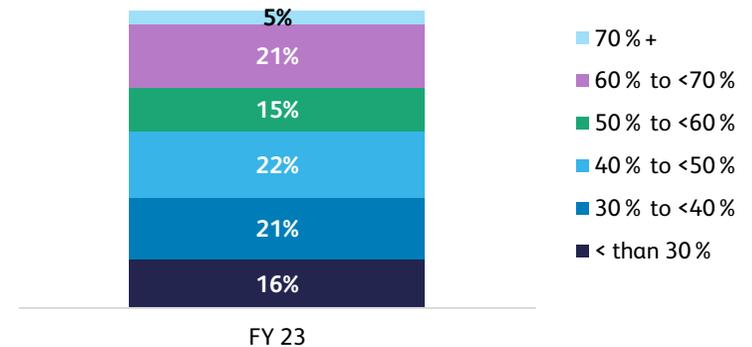
Ethical then, now and **always**

Diversified SME portfolio

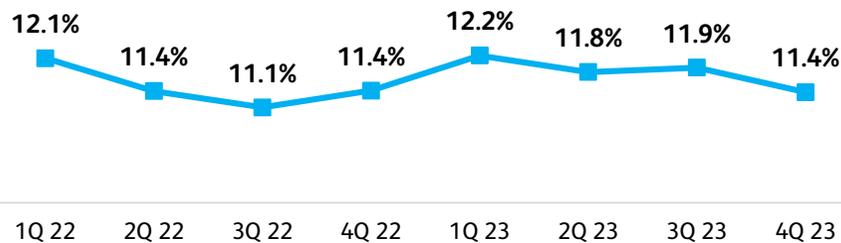
SME lending by sector



Commercial Real Estate LTV Exposure



SME loan to deposit ratio



Blended cost of funds (bps)

FY 22

6

FY 23

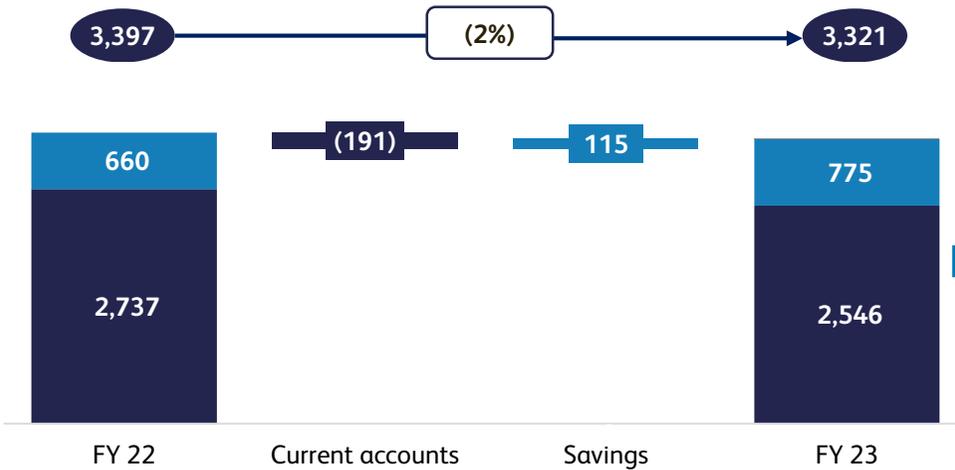
36

- Business Banking remains the largest sector of our lending at 34%
- CRE exposure remains low with only 5% being greater than 70% LTV
- Blended cost of funds of 36bps and a loan-to-deposit ratio of 11.4%, provides a low cost source of funding for the Bank

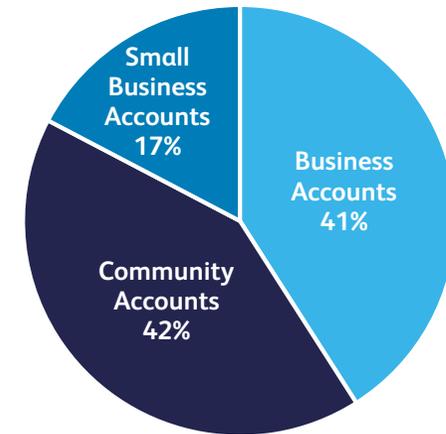
1. Other includes, but not limited to, manufacturing, renewable energy, housing associations and transport/communication

SME deposits remain stable

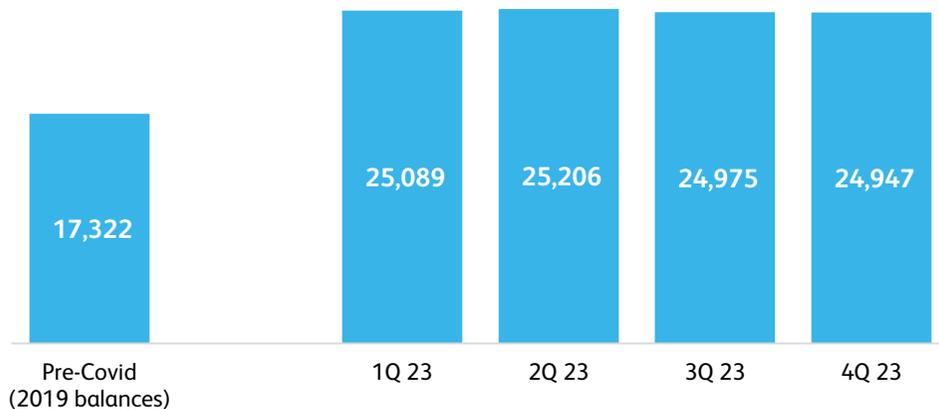
SME deposit flow (£m)



SME current accounts



SME average customer balance movement (£)

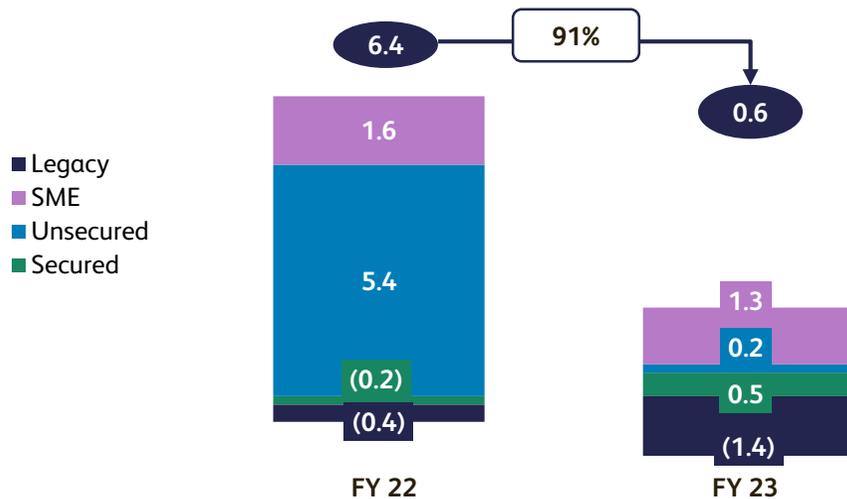


- 2% reduction in SME deposits, following some marginal unwind of excess balances built up over the pandemic as well as the repayment of Bounce Back Loan balances
- 30% of SME deposit balances are serviced through relationship managers
- SME deposit franchise underpinned by a strong relationship with community customers
- SME average balances have remained fairly stable throughout the year

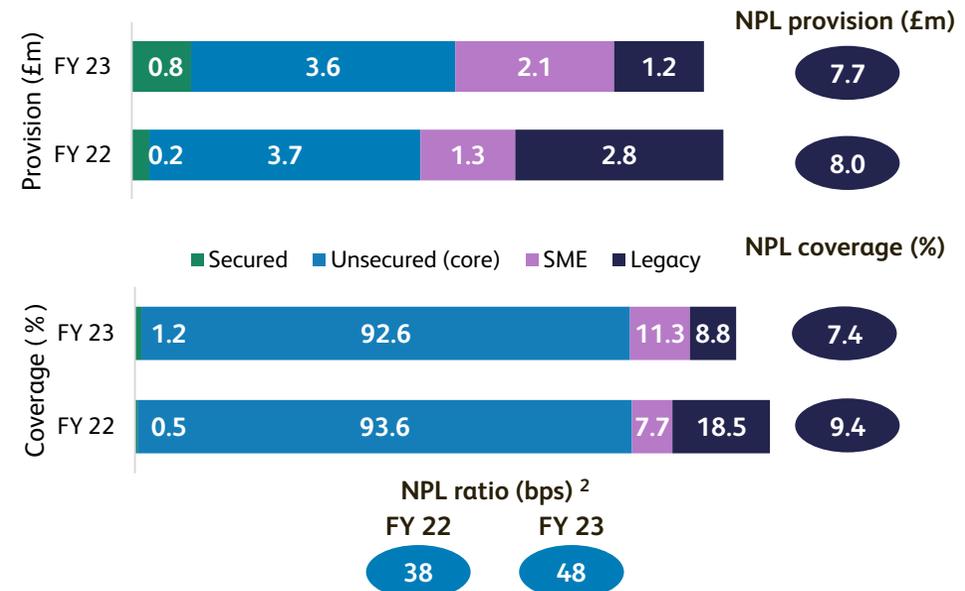
Credit, capital and liquidity

Resilient customer credit quality

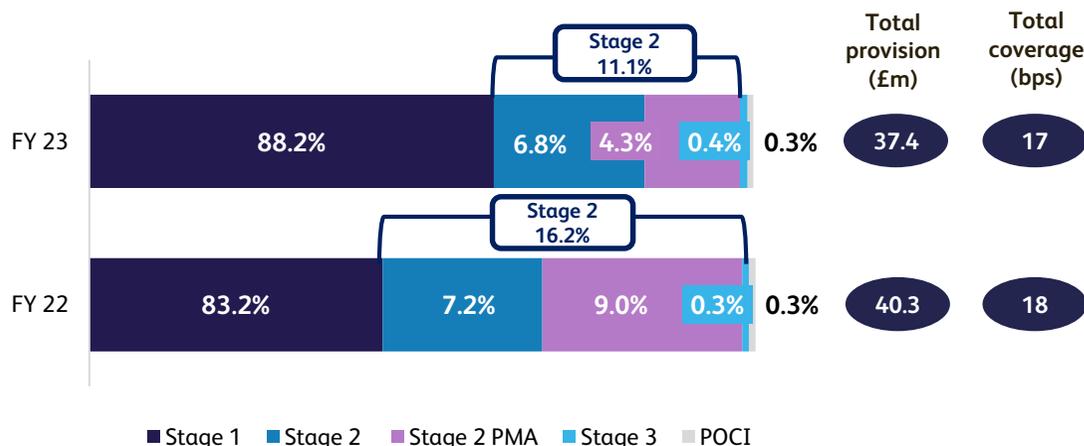
Impairment charge / (credit) (£m)



NPL coverage ¹



Exposure by stage ³



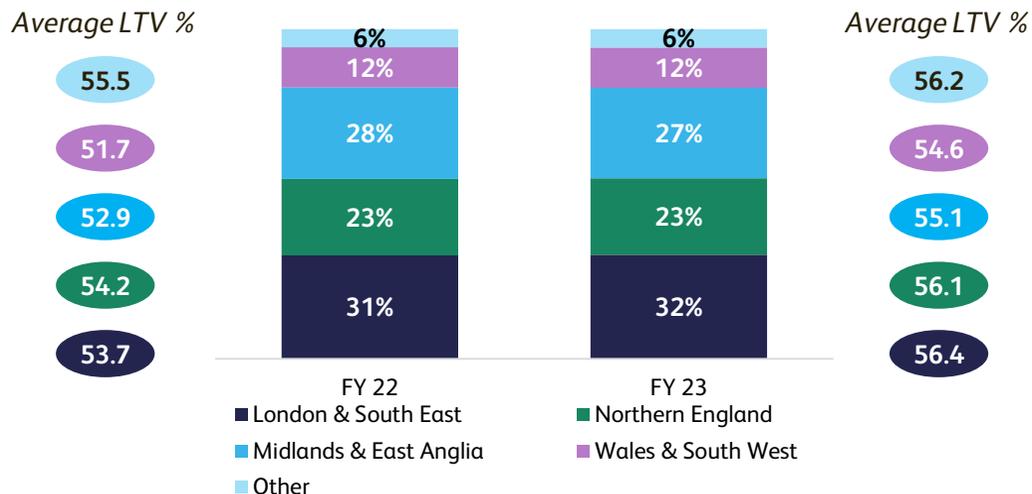
Net impairment charge of £0.6m:

- Secured impairment charge of £0.5m; relates to worsening macroeconomics in the year, offset by releases in adjustments relating to affordability and cladding;
- SME charge of £1.3m; driven by a decline in forward looking Commercial Real Estate property values and one specific connection
- Legacy impairment credit of £1.4m; predominantly due to one specific connection (£1.6m)
- Stage 2 PMA reduced to 4.3%; FY 22 PMA included potential increase in defaults following rising cost of living pressures and worsening macro-economics

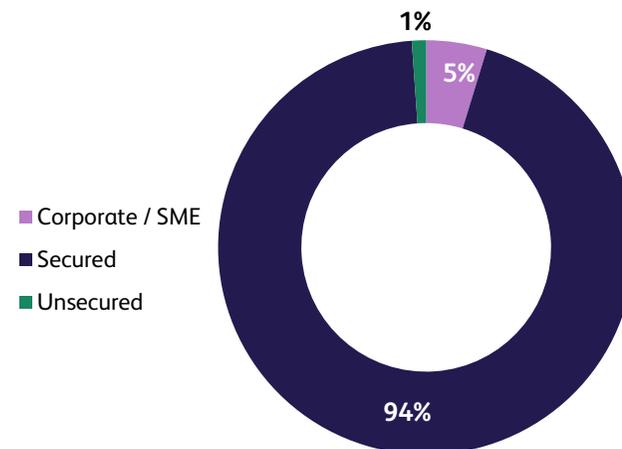
1. NPL coverage ratio calculated as NPL provision over NPL balance (all excluding performing POCI)
 2. NPL ratio calculated as non-performing exposure (excluding performing POCI) over total exposure
 3. Includes balances relating to FVTPL

Accounts in arrears remain low

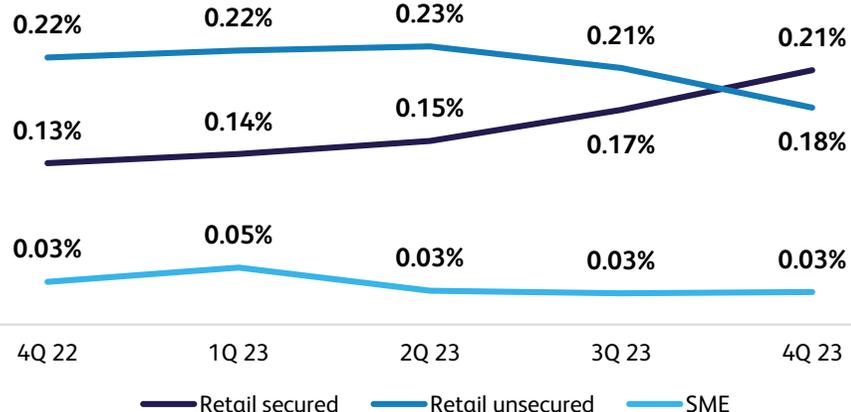
Mortgage split by geography ¹



Lending mix



Accounts >3 months in arrears ²

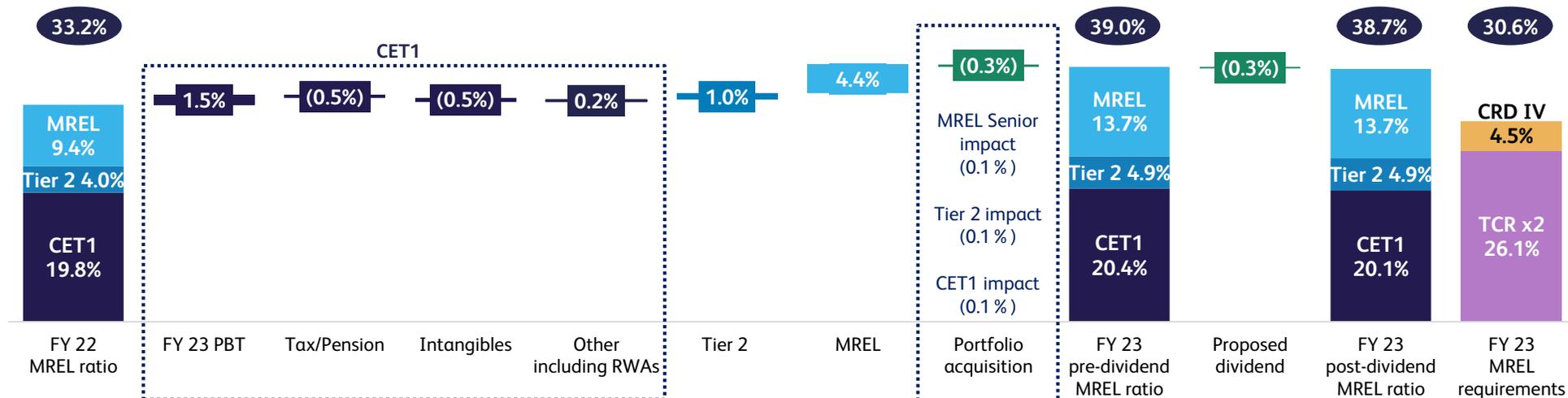


- Mortgage split across regions remains stable with all geographical areas having an average LTV lower than 57 %
- Increased defaults are unlikely to drive material credit losses due to relatively low LTVs on existing balances
- 0.21 % of secured accounts greater than 3 month in arrears equates to 291 accounts and £35.0m of balances
- Reduction in unsecured accounts greater than 3 months in arrears to 0.18 %

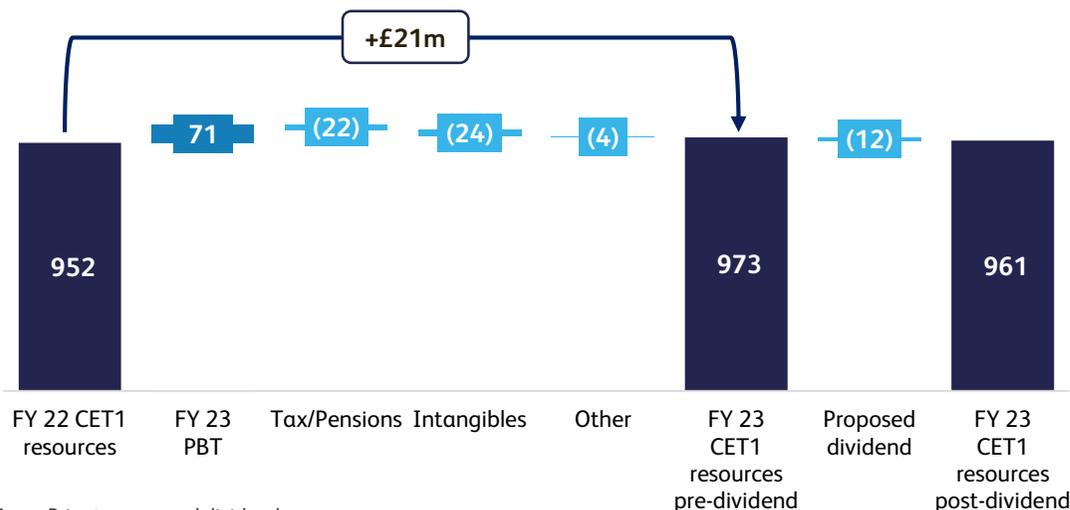
1. Regional split now based on Government Office Regions (was Economic Planning Regions). 2022 has been re-presented on the same basis
 2. Volume of accounts in arrears over total volume of accounts; recognised as >3 months over limit on overdraft, 3+ missed payments on a loan, credit card or mortgage, or >3 months over limit on credit card. Excludes government backed Bounce Back Loans (BBLs)

Resilient capital position; supports intention to commence dividend distributions

Capital ratios development



CET1 resource evolution (£m)

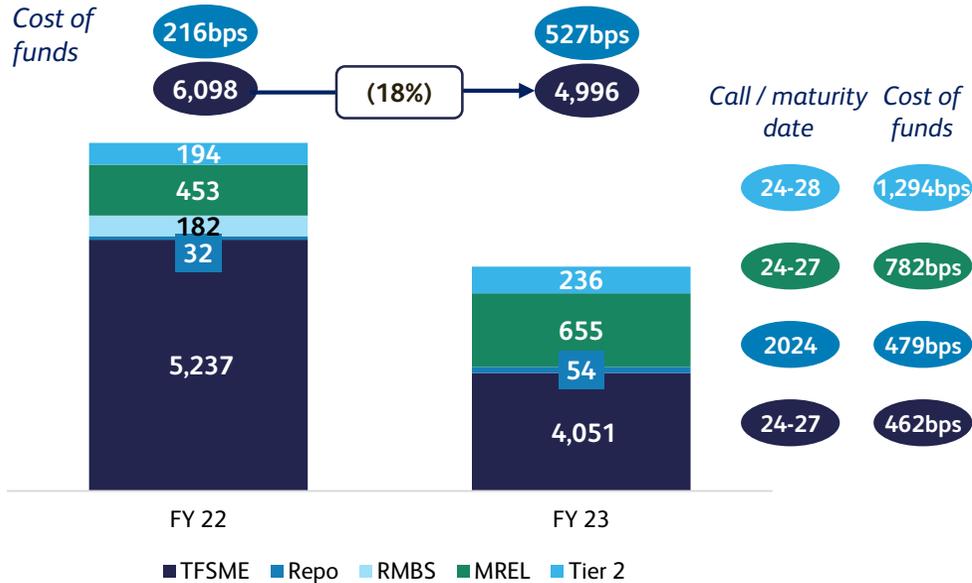


- Proposed dividend, subject to approval, of £12m reduces CET1 ratio by 0.3%
- The Bank maintains a significant headroom to MREL plus CRD IV buffers (requirement c.£1.5bn) with a surplus of £402m¹
- Portfolio acquisition impacted CET1 ratio by c.0.1% due to slight increase in RWAs; CET1 benefit will be realised over time
- Surplus of £291m to CET1 minimum requirements plus CRD IV buffers¹

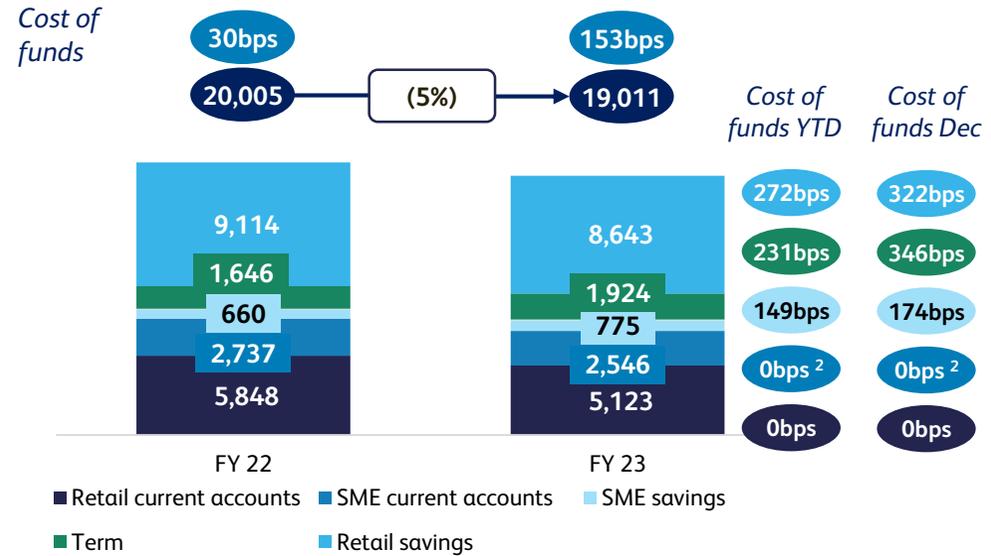
1. Prior to proposed dividend

Low blended cost of funds at 240bps

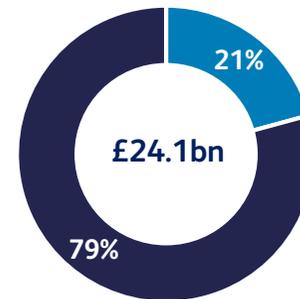
Wholesale funding (£m)



Customer funding (£m) ¹



Funding mix



Blended cost of funds (bps)

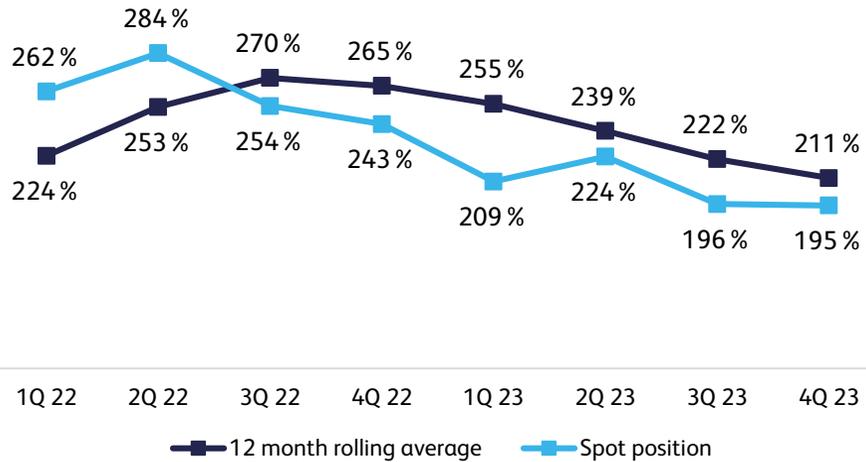


- Blended cost of funds increases to 240bps; remains materially lower than the base rate
- Repaid c.£1.2bn of TFSME in total for 2023 with c.£4.0bn remaining
- 80.8 % (FY 22: 81.2 %) of our core customer deposits are insured through FSCS; levels remain stable despite market volatility

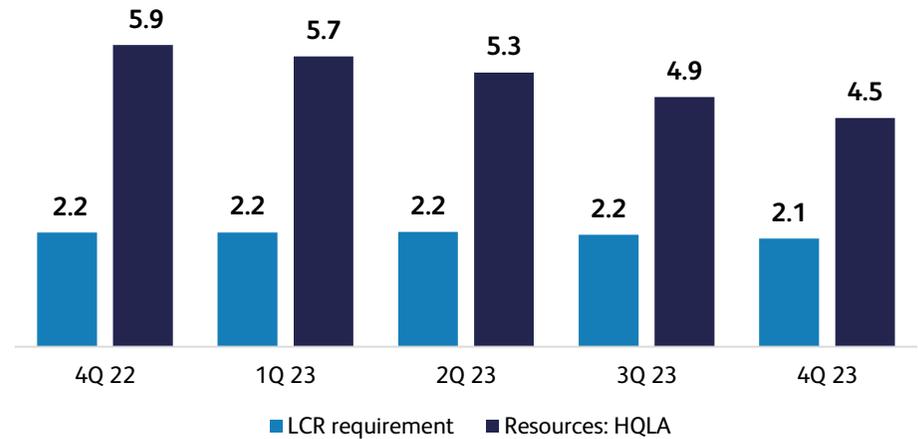
1. Excludes legacy balances of £62m (FY 22: £60m)
 2. SME current accounts includes a small amount of off-sale current accounts that are interest bearing

Strong liquidity position

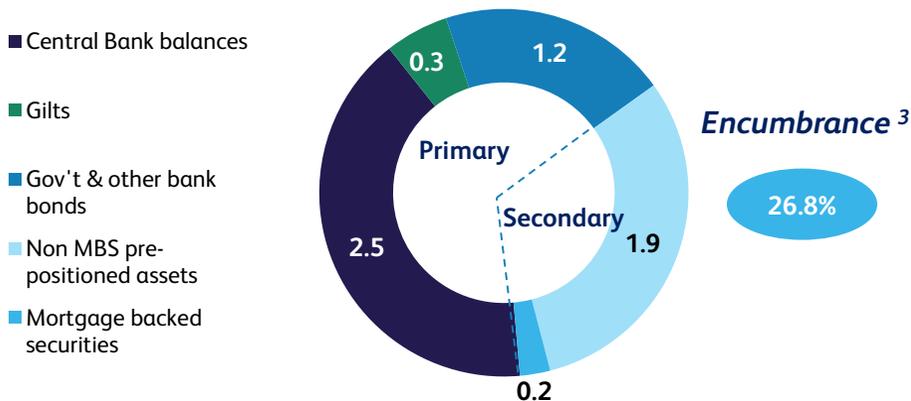
Liquidity coverage ratio ¹



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
- All fixed income security positions hedged to manage interest rate risk
- c.£1.4bn headroom to target Pillar 1 LCR of 130%

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

	FY 23 actuals	Achieved 2023 guidance	2024 guidance
Total statutory costs ¹ (£m)	445.5 416.6m excl. exceptional redress ²	✘	c.410
Net interest margin (bps)	180	✓	c.185
RoTE (%)	10.1	✓	c.10
Asset quality ratio (bps)	0.3	✓	<5
Customer assets (£bn)	20.3	✓	20-21

CET1 ratio medium-term target of 15-17 %

2024 base case economics ³	GDP	HPI	Unemployment	Base Rate
	0.1%	(5.6%)	4.7%	4.5%

1. Statutory costs includes BAU, projects and exceptional costs for the Bank. 2024 guidance excludes advisory costs relating to strategic options
 2. Excluding exceptional redress impact, would have achieved FY 23 guidance of c.£420m
 3. Guidance dependent on latest economic assumptions

Strong momentum into the next phase of our strategy

Growth pillars

Current account & deposits



Focus on increasing customers across both retail and SME

Support the Bank's low cost funding base

Mortgages



Diversify our mortgage book

Offering more tailored solutions for brokers

SME lending



Growth through a steady evolution of SME propositions

Growth enablers

Operating model transformation



ESG & ethical banking propositions



Further disclosure

The **co-operative** bank

Ethical then, now and **always**



Environmental

2023: At a glance

Launched the first Bank-funded Postcode Gardener sites in the most nature-deprived communities across the country



Collated data to report on our Scope 3 indirect emissions for the first time
Scope 1 and 2 emissions reduced by c.30% since 2021



Campaigned alongside Zero Hour to further promote the Climate & Ecology Bill



Recognised as a Which? Eco provider

2024: Targets

Decarbonising the Bank

Reduce our Scope 1 & 2 emissions by c.10% whilst developing a transition plan in line with our Net Zero commitments and supporting our customers in their own decarbonisation journey

Supporting biodiversity

Replenish nature-deprived spaces and introduce community gardeners to engage with over 1,000 community members

Helping customers to understand their environmental impact

Conduct customer research to understand how to best reduce customer home emissions, develop engaging educational content and enhance our Sustainability Hub



Social

2023: At a glance

Branch relocations have improved accessibility for customers



Colleagues completed **almost four times more volunteering hours compared to 2022**, with over 2,300 days completed in total

Over **£1.5m of community investment** donated through our charity partners



Supported thousands of customers through our partnership with Citizens Advice

Collected over 3,500 ¹ letters as part of Amnesty International UK Write for Rights campaign



2024: Targets

Continue the campaign for fairer renting

Call for the introduction of a Renters Reform Bill, and work with customers to raise awareness and grow support for the campaign

Give back to our community

Contribute 2,000 volunteering days

Further support our charity and community-interest customers

Increase the number of Community Direct Plus accounts, supporting their mission to drive positive change across our communities

1. Approximate value based on digital click rates of participating customers and letters collected in branches or across Bank sites



Governance

2023: At a glance

Launch of The Co-operative Bank Charitable Fund
Donated almost £1m to our charity partners from this fund alone



Raised c.£130k for the DEC's Turkey Syria appeal and became official members of the Rapid Response Network



Introduction of ESG mandatory training to all colleagues

43.3% of senior roles held by women
Improved our gender pay gap



2024: Targets

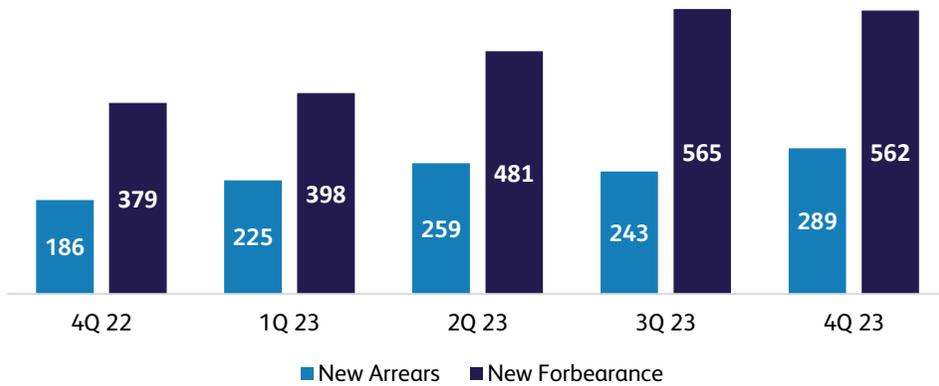
The Co-operative Bank Charitable Fund
Continue to commit a proportion of Bank profits to drive positive social and environmental change whilst responding to the needs of our communities

Equality, Diversity and Inclusion
Remain committed to our aspirational target of 45% of senior positions held by women

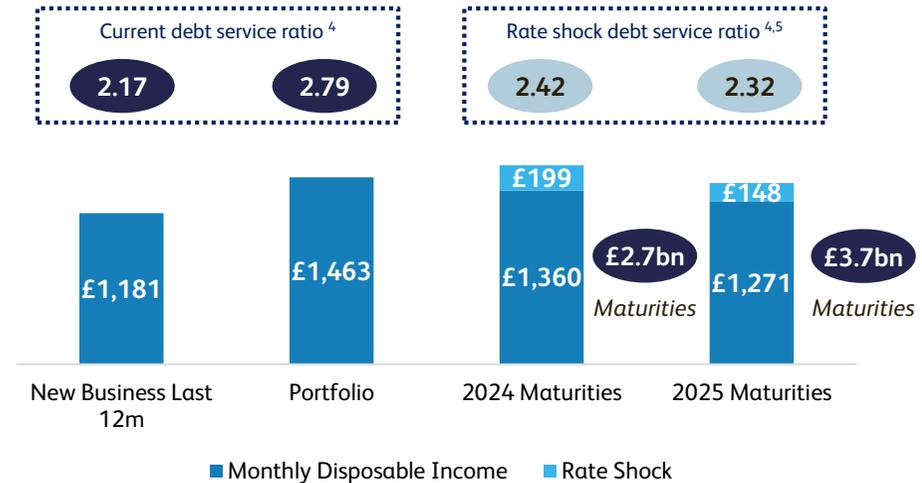
Colleague ESG objectives
Requirement for all colleagues to hold at least one ESG-related performance objective

Robust credit risk strategies drive low risk portfolio

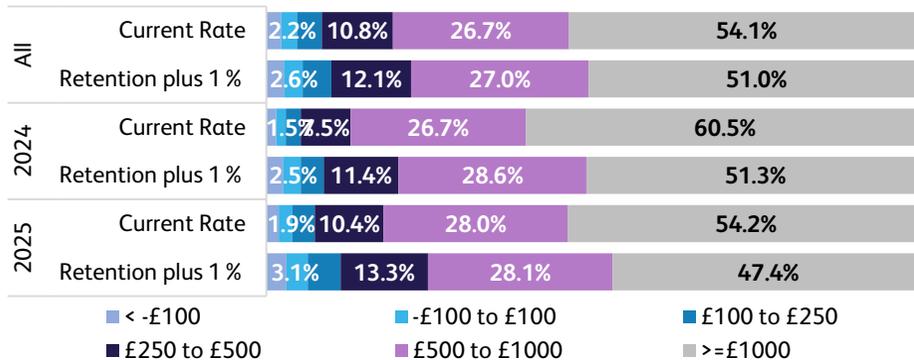
New secured arrears and forbearance (#) ^{1,2}



Mortgage residential affordability ³



Assessed disposable income ³



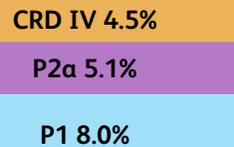
- Secured customers new in forbearance remains low representing only 0.4 % of total secured accounts
- Supported 484 customers through the mortgage charter, of which 92 % are interest only
- The average level of disposable income for the secured portfolio is £1,463 per month and 92 % of these customers have a disposable income estimated to be >£250, based on their current mortgage rate

- These are gross new inflows and not representative of increases in arrears and forbearance stock given cure volumes.
- Forbearance covers a range of treatments including, but not limited to, deferral of payments and an adjustment to regular payment terms
- 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
- Calculated as total disposable income divided by sum of mortgage repayment (before mortgage payment has been taken)
- Retention rate varies between 5.03 % and 5.18 % depending on LTV and based on 5 year fixed rates

£505m surplus to TCR minimum capital requirements

OCR requirement ^{1,2}

17.5%



OCR requirement

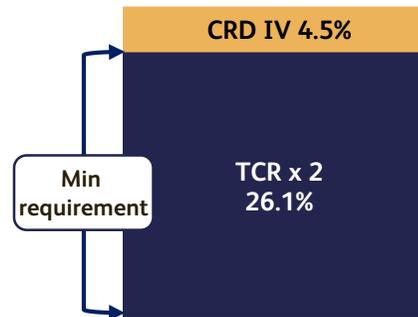
23.7%



OCR resources

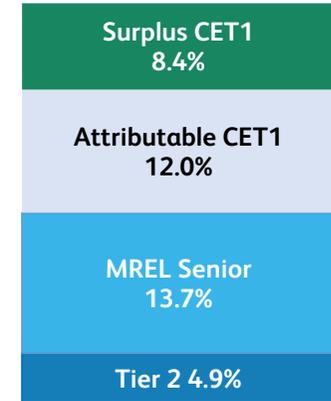
MREL requirement ^{1,2}

30.6%



MREL Requirement

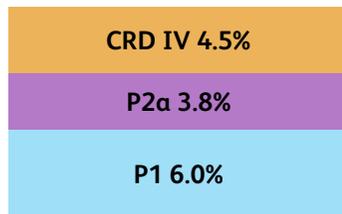
39.0%



MREL Resources

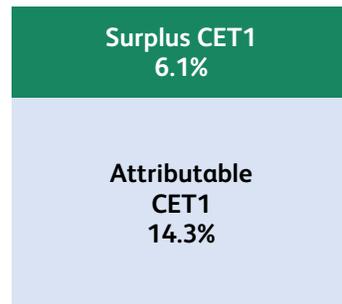
CET1 requirement ^{1,2}

14.3%



CET1 requirement

20.4%



CET1 resources

- £505m surplus ² (with total capital resources of 23.7 %) to TCR minimum requirements of 13.1 %
- £616m surplus to MREL minimum requirements (excluding CRD IV buffers); MREL resource ratio of 39.0 % ²

1. Requirements based on 31-Dec-23 risk weighted assets
 2. Prior to proposed dividend

Segmental performance

Segmental £m	Retail			SME			Legacy & central items			Total		
	FY 23	FY 22	Change	FY 23	FY 22	Change	FY 23	FY 22	Change	FY 23	FY 22	Change
Net interest income	377.3	397.0	(19.7)	97.7	69.3	28.4	2.0	(8.0)	10.0	477.0	458.3	18.7
Other operating income	21.8	22.7	(0.9)	15.8	18.7	(2.9)	0.6	(0.3)	0.9	38.2	41.1	(2.9)
Total income / (expense)	399.1	419.7	(20.6)	113.5	88.0	25.5	2.6	(8.3)	10.9	515.2	499.4	15.8
Staff costs	(113.5)	(92.8)	(20.7)	(28.3)	(24.7)	(3.6)	(3.8)	(2.9)	(0.9)	(145.6)	(120.4)	(25.2)
Non-staff costs	(181.7)	(179.4)	(2.3)	(35.7)	(33.5)	(2.2)	(1.6)	(1.6)	0.0	(219.0)	(214.5)	(4.5)
Continuous improvement projects	(25.1)	(16.4)	(8.7)	(3.7)	(5.4)	1.7	(0.3)	(0.3)	0.0	(29.1)	(22.1)	(7.0)
Operating expenditure	(320.3)	(288.6)	(31.7)	(67.7)	(63.6)	(4.1)	(5.7)	(4.8)	(0.9)	(393.7)	(357.0)	(36.7)
Impairment (charge) / credit	(0.7)	(5.2)	4.5	(1.3)	(1.6)	0.3	1.4	0.4	1.0	(0.6)	(6.4)	5.8
Underlying profit / (loss)	78.1	125.9	(47.8)	44.5	22.8	21.7	(1.7)	(12.7)	11.0	120.9	136.0	(15.1)
Balance sheet	FY 23	FY 22	Change	FY 23	FY 22	Change	FY 23	FY 22	Change	FY 23	FY 22	Change
Assets	19,302.9	19,841.3	(538.4)	378.4	388.2	(9.8)	6,390.0	7,903.3	(1,513.3)	26,071.3	28,132.8	(2,061.5)
Liabilities	15,690.4	16,607.8	(917.4)	3,320.7	3,396.8	(76.1)	5,651.2	6,829.2	(1,178.0)	24,662.3	26,833.8	(2,171.5)

- Significant increase in SME underlying profit is due to a mainly deposit focused balance sheet benefitting from the rising rate environment

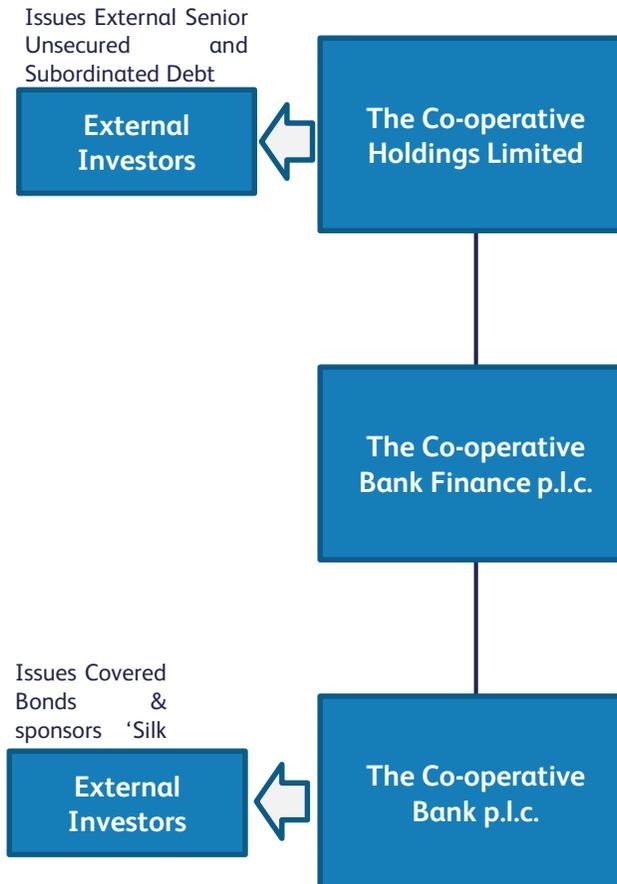
Covered Bond Programme Update

Secured Issuance Update

Covered Programme Update

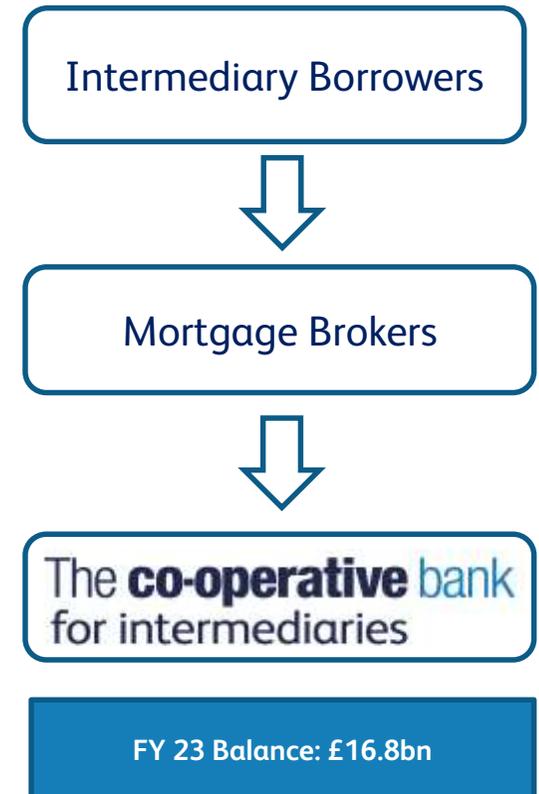
- The Co-operative Bank last issued a Sterling Covered bond in 2011 (matured in 2021)
- Throughout 2024 and 2025, the Co-operative Bank intends to refinance its remaining TFSME drawings via secured wholesale and retail markets
- Accordingly, the Co-operative Bank is considering issuance of Covered Bonds and has updated its programme to reflect the changes in UK regulated covered bond market standards, including the inclusion of SONIA
- The programme retains its regulated status

Primary Group Issuance Structure



The Co-operative Bank For Intermediaries

Retail Mortgage originations delivered through the intermediary channels



The Co-operative Bank for Intermediaries Mortgage Book

Mortgage Book Overview

Book Summary Statistics

Current Balance	£ 16,824,091,714
Number of Loans	108,568
Average Balance	£ 154,964

Loan Purpose

Owner Occupied	77 %
BTL	6 %
Further Advance	17 %

Repayment Type

Repayment Loans	92.8 %
Interest Only Loans	7.2 %

Arrears

Arrears Stock (1 month + payments in arrears)	0.3 %
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Interest Rate Type

Fixed Rate Loans	96.2 %
SVR Loans	1.5 %
BBR	2.3 %
Other	0.0 %

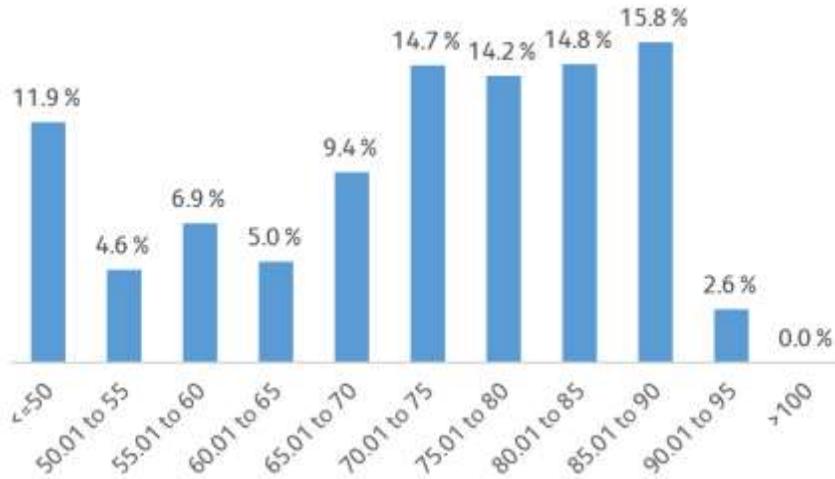
Further Book Summary Statistics*

Weighted Average Seasoning	38 Months
Weighted Average Remaining Term	281 Months
Weighted Average OLTV	72.0 %
Weighted Average ILTV	59.0 %
London/South East as % of Book	32 %

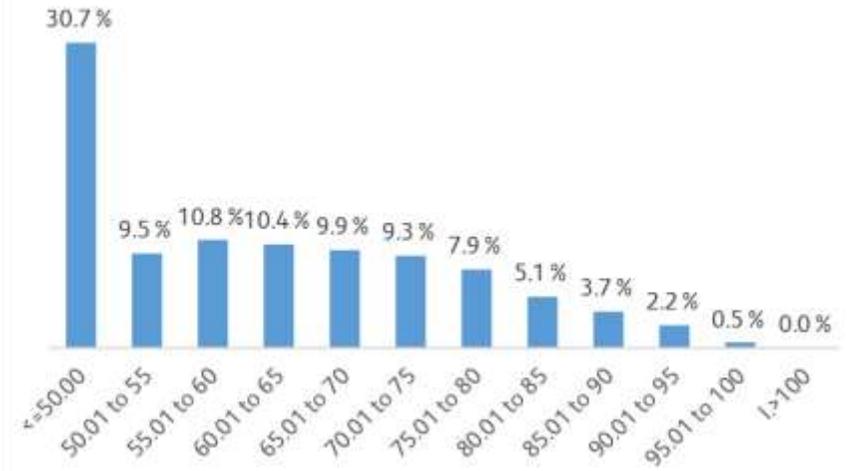
* Based on 31st Dec 2023 data
Source: Co-operative Bank Company information

Mortgage Book Distribution

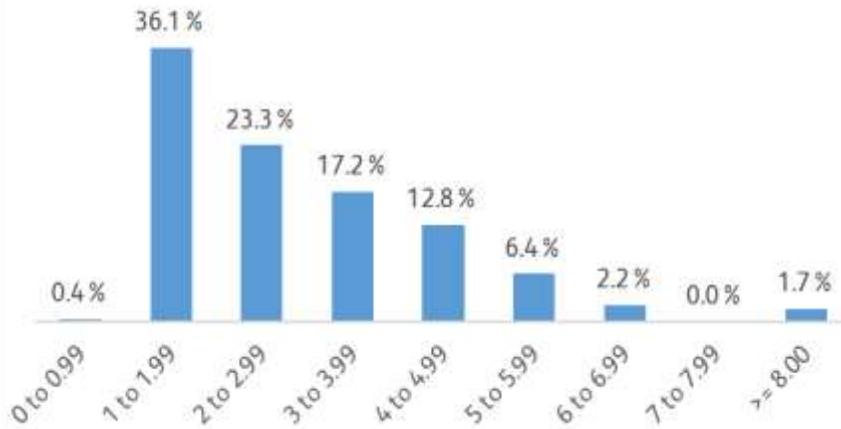
OLTV %



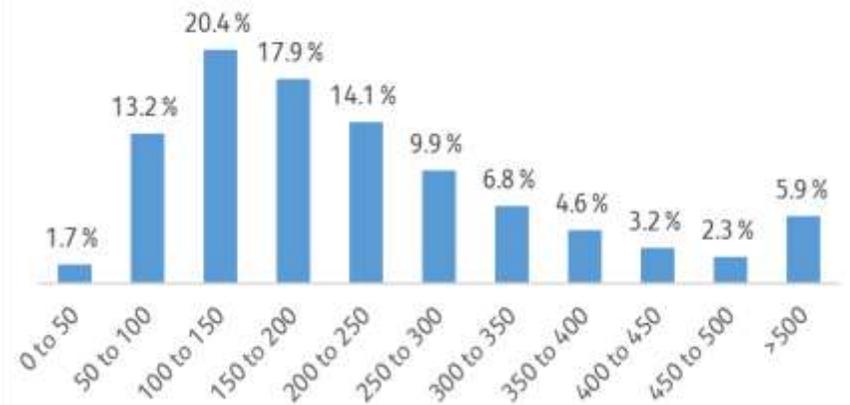
ILTV %



Interest Rate %



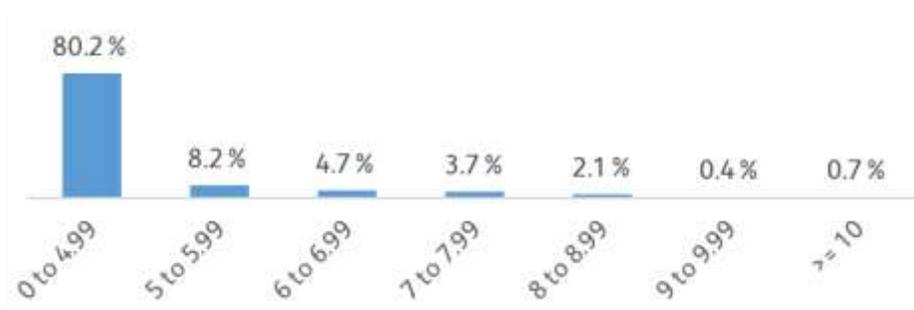
Balance (£'000) %



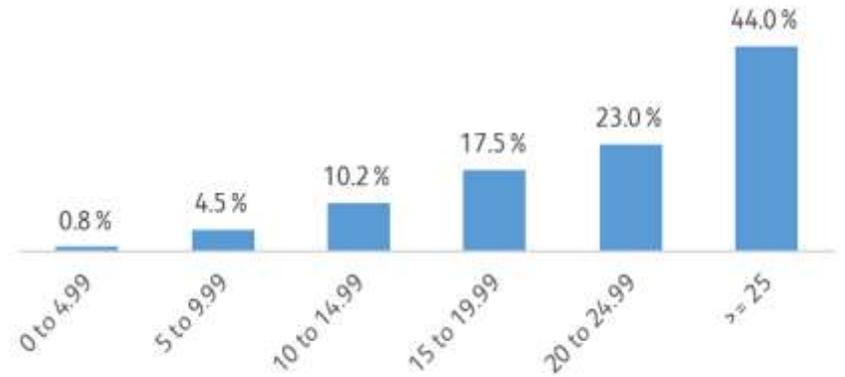
* Based on 31st Dec 2023 data
Source: Co-operative Bank Company information

Mortgage Book Distribution Cont'd

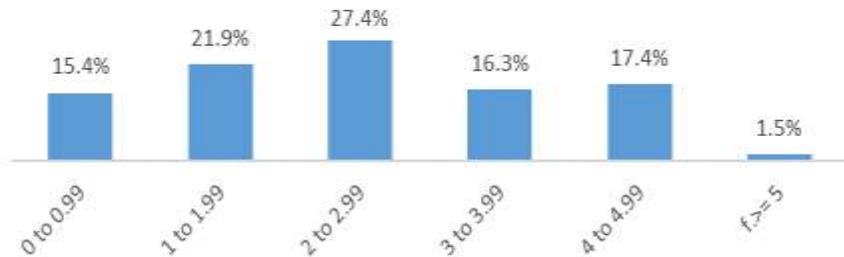
Seasoning, Years



Remaining Term, Years



Remaining Teaser, Years



Regional Distribution



Disclaimer

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This document contains certain forward-looking statements with respect to the business, strategy and plans of The Co-operative Bank Holdings Limited and its subsidiaries (“the Group”), (including its updated long-term forecast) and its current targets, goals and expectations relating to its future financial condition and performance, developments and/or prospects. Forward-looking statements sometimes can be identified by the use of words such as ‘may’, ‘will’, ‘seek’, ‘continue’, ‘aim’, ‘anticipate’, ‘target’, ‘projected’, ‘expect’, ‘estimate’, ‘intend’, ‘plan’, ‘goal’, ‘believe’, ‘achieve’, ‘predict’, ‘should’ or in each case, by their negative or other variations or comparable terminology, or by discussion of strategy, plans, objectives, goals, future events or intentions.

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