Factbook

Annual Results 2023

The co-operative bank
Ethical then, now and **always**

A landmark year for The Co-operative Bank

After celebrating 150 years of ethical banking, and launching our updated Ethical Policy in 2022, it was important to all of us at The Co-operative Bank that we take steps to build on this momentum, and live up to our position as the original ethical bank.

We have continued to deliver on our transformation journey and completed our first portfolio acquisition in over a decade, as well as maintaining our position as the UK's most ethical bank. I was pleased to report **statutory profit before tax of £71.4m and a CET1 ratio of 20.4%,** prior to proposed dividend, reflecting our strong capital position.

In 2023 we completed vital steps on our transformation journey and delivered against our strategic objectives, with significant progress in our multi-year IT improvement programme and the insourcing of mortgage operations, including c. 400 colleagues, from Capita. In 2024, we will complete the final steps of this significant transformation which is a key enabler of the next phase of our strategy.

Our long-term commitment to our planet and protecting the environment remains a key priority and is in line with our ambitious decarbonisation plans, we have committed to aligning our Scope 1 and 2 direct emissions to net zero by 2030 and have taken steps towards this by reporting Scope 3 emissions data for the first time.

As part of our social commitments, we significantly increased our volunteering impact with **over 2,300 colleague volunteering days completed** (up from 594 days in 2022), directly contributing to the communities we serve. In respect of governance, our **Charitable Fund has provided almost £1m** of funding for key projects and initiatives in 2023, with oversight from our executive governance committee.

Whilst we are successfully delivering against the challenging objectives we set ourselves for this phase of our strategy, we acknowledge that there is more to accomplish as we aim to expand and grow.

We are already beginning to leverage the benefits of our **IT Simplification programme,** and in the early months of 2024 we completed most of our migration of mortgages from the **'legacy'** system to our new platform and experienced large mortgage volumes.

The Bank is now well placed to maximise and optimise efficient and sustainable growth aligned to our strategic objectives and ethical position, with our customers always at the heart of what we do.

In March 2024, we were delighted to secure an investment grade long-term deposit rating from credit ratings agency Moody's. This is a significant milestone for The Co-operative Bank and highlights the strides we have made in returning the Bank to sustainable profitability, our strong capital position and the significant progress we have made to date in delivering our ambitious transformation programme underpinned by our commitment to our values and ethics.

"I'd like to extend my thanks to all of our customers, colleagues, suppliers and investors for giving our bank a mandate to stand up to make a difference on the issues that are important to you."

Nick Slape

Nick Slape, Chief Executive Officer

Our 2023 Sustainability Highlights

Out Environmental Social Governance (ESG) rating

Our commitment to the co-operative values and ethics on which the Bank was built over 150 years ago makes us a natural leader in Environmental, Social and Governance (ESG). Our unique, customer-led Ethical Policy defines how we do business and we regularly poll our customers, colleagues and stakeholders to ensure they have a say in how our business is run.

For the third year running, The Co-operative Bank has been rated as the UK's best Environmental, Social and Governance (ESG) rated high street bank by leading ESG risk rating agency, Sustainalytics.[1]

In 2023, we also maintained our ratings from other ESG risk rating agencies, receiving an AAA rating from MSCI[2], and a Prime Rating of C with ISS, reinforcing our position as a leader in ESG.

Rating Agency	Rating	Scale	Latest update
MSCI	AAA	AAA to CCC	2023
Sustainalytics	8.5 (Negligible)	0 to 100	2023
ISS ESG	C	A+ to D-	2023

- In 2023, The Co-operative Bank was recognised by Morningstar Sustainalytics as an **ESG Industry Top Rated and Regional Top Rated company[1].**
- We joined with **Friends of the Earth to bring back nature**. Over the coming years, our Postcode Gardeners will help to restore greenery and wildlife in over **1,000 nature-deprived spaces.**
- We were **one of only three banks** labelled as an **Eco Provider by consumer champion Which?**[3].
- Our colleagues donated **2,335 volunteering days** and **51% of our colleagues volunteered** in their local communities.
- In 2023, **319** groups were supported by the programme. This included 100 groups that completed the incorporation journey to become a co-operative, along with those that received direct support, completed the UnFound Accelerator programme, attended webinars and our first Co-op Hackathon. In total, **2,181** groups have now been supported since the programme started in 2016.
- We launched our campaign with **Shelter to transform the private rented sector**. We're urging the government to pass a robust **Renters Reform Bill** and protect those at risk of homelessness.
- We continued to refuse banking services to businesses whose activities **conflict with our Ethical Policy**. There are **258 businesses** subject to enhanced screening and **9 businesses** declined banking services.
- We championed an **inclusive society** by supporting **Pride events** in Manchester and Stoke-on-Trent.
- Together with our customers, we donated and raised over **£1.5 million for charity in 2023.**

1. As of October 2023, The Co-operative Bank received an ESG Risk Rating of 8.5 from Morningstar Sustainalytics and was assessed to be at negligible risk of experiencing financial impacts from ESG factors. In no event should this Risk Rating be construed as investment advice or expert opinion as defined by the applicable legislation.

2. Rated by MSCI with an ESG Risk Rating of AAA in 2023.
3. Which? Eco Provider for Current Accounts. October 2023.

Our 2024 targets and commitments

Environmental

In 2024 we will make strong progress against our Net Zero commitments as we strive to decarbonise the Bank and achieve Net Zero status by 2050.

Scope 1 & 2: We will reduce Scope 1 & 2 emissions by approximately 10% by:

- Reducing energy consumption by 6% from 2023 levels through optimising energy use across our branches and offices
- Ensure all electricity procured by the Bank is renewable (REGO backed or suitable comparable REGO alternative) by end of 2024
- Progressing our data management programme of work by delivering energy efficiency improvements throughout 2024.

Scope 1, 2 & 3: We will commence development of a robust Net Zero Transition Plan which will outline a pathway to Net Zero Greenhouse Gas Emissions that delivers real economy decarbonisation in line with our Net Zero commitments and Just Transition principles.

In 2024, we will increase biodiversity in 300 spaces across 12 sites as we work towards our long term target to replenish 1,000 nature-depleted spaces by the end of 2025. We'll do this with our partner, Friends of the Earth, by introducing community gardeners who will engage with at least 1,100 community members and 30 community groups.

We will continue to help our customers to understand the environmental impacts of their actions and become more sustainable by:

- Conducting customer research to understand how we can better support them with reducing their home emissions
- Working with strategic partners to help customers identify the actions they can take to become more sustainable
- Enhancing our online Sustainability Hub content to engage and inform customers on the actions they can take to reduce their carbon footprint or have a positive impact in their community.

In line with current work on Net Zero Transition planning, we will review our products and propositions offering to ensure they support our customers in their decarbonisation journey.

Social

We will amplify the voices of our customers with our campaign for fairer renting, which demands the transformation of the private rented sector to ensure safe and secure housing for all. We'll do this in partnership with Shelter, by calling for the introduction of a robust Renters Reform Bill, and will work with our customers to raise awareness and grow support for the campaign.

We'll demonstrate our support for registered charities, community interest companies and co-operatives, through increasing Community Directplus Accounts by 6% compared to 2023[1] and supporting them in their missions to drive positive change across our communities.

We will continue to give back to our communities by providing charities and community groups 2,000 days of support from colleagues through our volunteering programme.

Governance

The Co-operative Bank Charitable Fund commits a proportion of Bank profits to driving positive social and environmental change, whilst responding to the needs of our communities.

We aspire to have 45% of senior positions filled by women. In 2024 we will develop a new Diversity & Inclusion strategy that will aim to enhance our commitment to the Women in Finance Charter and broaden all aspects of our diversity commitments going forward, and set an end date to achieve our 45% target.

All colleagues will have at least one Environmental, Social and Governance related objective for 2024, helping to motivate and empower them to perform at their best, with a clear sense of direction in delivering against the ethical commitments in our customer-led Ethical Policy and ESG strategy.

1. Based on Q3 forecast for 2023 year end accounts.

A strong 2023 performance

The Co-operative Bank provides a range of banking products and services to c.2.5m Retail customers and a sizable and growing customer base of business customers, providing mortgages, business loans, credit cards and deposit products.

As the **UK's best rated ESG high street bank**[2] our purpose is to provide customers with a real ethical alternative to other high street banks in the UK.

Key financial performance metrics (Dec 2023)

Strong earnings:	**£71.4m** Profit before tax vs. £132.6m in FY22
Focused on growth efficiency & capital: Total income increased with net interest margin (NIM) increasing by **14** basis points (bps) from **166bps to 180bps,** mainly reflecting improving deposit margins following increases in the Bank of England base rate. Operating expenditure increased reflecting higher staff costs, and **higher exceptional costs** compared to **2022**	**3%** Income growth increased by £15.8m to £515.2m vs FY 22

£20.4bn Loan Book	**£477m** Net Interest Income	**1.80%** Net Interest Margin[3]
£19.2bn Customer deposits	**£120.9m** Underlying PBT[4]	**10.1%** Statutory RoTE[5]
	0.3bps Asset quality ratio[6]	**20.4%** CET1 ratio prior to proposed dividend

2023 Financial performance summary

(£m)	FY 23	FY 22
Net interest income	477.0	458.3
Operating expenses	(445.5)	(372.7)
Impairment charge	(0.6)	(6.4)
Profit before tax	**71.4**	**132.6**
Net interest margin (bps)[7]	180	166
Cost:income ratio (%)[8]	86.1	72.8
RoTE (%)[9]	10.1	1.3
Asset quality ratio (bps)[10]	0.3	3.1

2024 Targets/projections

During 2023 we delivered improved financial performance and continued to invest in the Bank. Our financial outlook for 2024 remains positive.

Net interest margin	Total statutory costs	Continue to traget a sustainable RoTE (%)	Expect to deliver an asset quality ratio	Customer assets
c.185bps	c.£410m[11]	c.10%	<5bps	c.£20-21bn

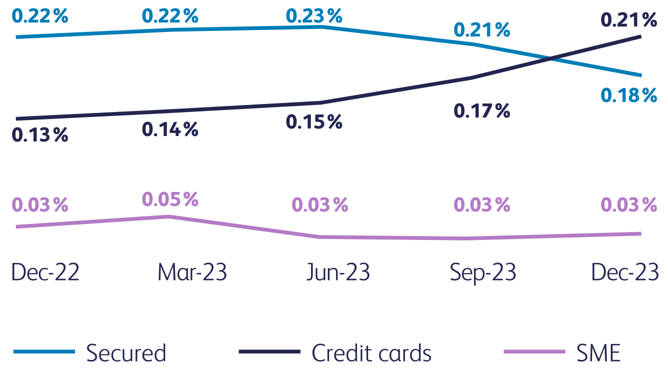
Notes: (2) Rated by Morningstar Sustainalytics in the Regional Banks sub-industry with a score of 8.5 as of October 2023; (3) FY23 net interest income divided by average interest earning assets; (4) Statutory profit before tax plus exceptional project expenditure less other exceptionals; (5) Statutory RoTE is based on profit after tax over average equity less intangibles; (6) Impairment charge divided by average customer assets; (7) Net interest income over average interest earning assets; (8) Total statutory expenditure over total statutory income (excludes impairment); (9) Profit after tax over average equity less intangibles; (10) Impairment charge over average customer assets; (11) guidance excludes advisory costs relating to strategic options

We have a low risk lending profile

The asset quality ratio (AQR) remains low, reflecting the Bank's low-risk lending profile. AQR for the Bank as a whole as at year-end reflects a low charge of 0.3bps (FY 22: 3.1bps). The average core mortgage book loan-to-value (LTV) **remains low at 55.7%** (FY 22: 53.5%).

Secured accounts that are greater than three months in arrears represented **0.21% of total accounts** (FY 22: 0.13%).

Accounts > 3 months in arrears[5]



High quality loan book

(£m)	FY 23	FY 22
Average LTV new business	66.0%	71.2%
Average LTV core mortgage book	55.7%	53.5%

Impairments

Net impairment charge of

£0.6m vs FY 22: £6.4m

Credit impairment losses reduced by 91% in 2023 compared to 2022. 2023 impairment charge is driven by a decline in forward looking commercial real estate property values and revised macroeconomics earlier in the year slightly offset by a £1.6m release relating to one specific connection.

Our capital position remains strong

CET1 ratio has increased from

19.8% to 20.4%

(prior to proposed dividend of c. 0.3%)

The reported CET1 ratio of 20.4% (FY 2022: 19.8%) remains well above the regulatory minimum (14.3%, including CRD IV buffers), and the increase is driven by profits in the period. Organic CET1 generation of 70bps excluding the impact of the Sainsbury's Bank portfolio acquisition.

Risk-weighted assets (RWAs) totalled

£4.8bn vs FY 22: £4.8bn

Remained stable during the year.

The PRA leverage ratio[6] of

4.1% vs FY 22: 4.0%

This has increased, as a result of higher CET1 resources. The Group is not bound by a minimum leverage ratio, since its Retail deposits are less than £50bn.

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

6. CET1 resources divided by leverage exposures

Fully capital compliant including all buffers well above regulatory minimum requirements

The reported CET1 ratio of 20.4% (FY 2022: 19.8%) remains well above the regulatory minimum (14.3%, including CRD IV buffers). The Group has a TCR of 13.1% of RWAs, which is required to be met by a minimum of 9.8% of CET1 capital resources, and a maximum of 3.3% Tier 2 capital resources.

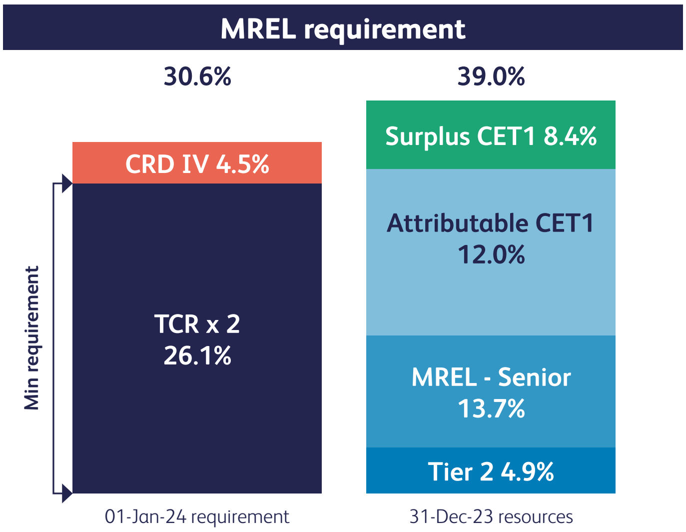
At the end of 2023, the Group had Pillar 1 requirements equivalent to 8.0% (FY 2022: 8.0%) of total RWAs and an Individual Capital Requirement ("ICR") equivalent to 5.05% of total RWAs (FY 2022: 5.05%).

	FY 23	FY 22
CET1 ratio[1]	20.4%	19.8%
Risk-weighted assets (£m)	4,781	4,816
PRA leverage ratio	4.1%	4.0%

MREL-qualifying resources increased by £264.5m

MREL-qualifying resources increased by £264.5m to £1,863.8m, predominantly due to the successful £200m Green MREL Senior transaction in May 2023.

The Group's MREL requirement is equivalent to two times TCR, resulting in a total MREL requirement of £1,247.8m. The Group's current MREL resources total £1,863.8m, providing significant headroom to current MREL requirements. The Group currently has a CRD IV buffer of 4.5% of RWAs above the TCR. This buffer increases the MREL requirement to £1,461.4m giving a surplus of £402.4m.

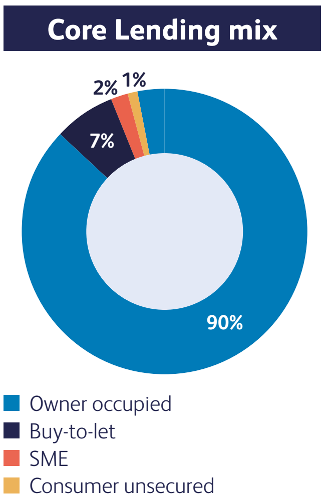


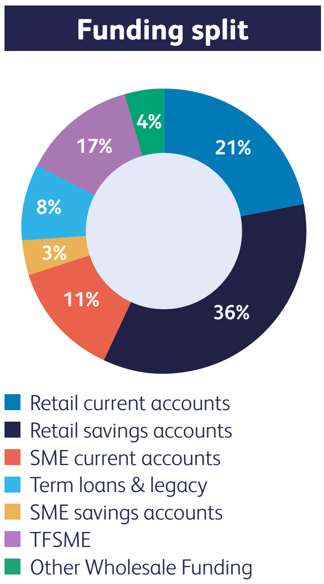
Liquidity and funding remains strong and well above the 100% regulatory minimum

Liquidity remains strong and significantly above the 100% regulatory minimum. The Bank's Liquidity Coverage Ratio (LCR) reduced by 54 basis points to 211.4% (FY 2022: 265.3%) calculated on a 12 month rolling average in line with Pillar 3 requirements.

The Bank's Loan to Deposit ratio was 106%, emphasising the predominance of customer funding in our model.

Low cost customer funding profile with blended total cost of funds of 240bps in 2023.





1. prior to proposed dividend

Strategically preserved Bank margins by managing new business volumes

Retail secured balances have reduced to **£19.1bn** (FY 22: £19.6bn) which includes £0.3bn in respect of the acquisition of the Sainsbury's Bank mortgage portfolio. Secured balances have reduced by £0.5bn as we have actively managed new business volumes to preserve Bank margins.

Average completion margins reduced from 77bps to **61bps** compared to 2022. Whilst completion margins remain low, the comparatively low volume of business at these margins has mitigated the impact on the blended book margin.

Our balance sheet remains stable with a low-risk portfolio

Customer deposit balances across both Retail and SME customer segments reduced to **£19.0bn** (FY 22: 20.0bn) following a decrease in customer average balances primarily attributed to the cost of living crisis.

Our individual current account average balance decreased to **£4,367** (FY 22: £4,785), however this remains higher than before the outbreak of COVID-19. We have seen a shift towards term deposits in the year, which has increased to **£1.9bn** (FY 22: £1.6bn), as customers look to take advantage of higher interest rates.

Segmental summary

(£m)	FY 23	FY 22
Retail mortgages	19,067.6	19,604.3
Retail unsecured	235.3	237.0
SME assets	378.4	388.2
Core assets	**19,681.3**	**20,229.5**
Legacy & central items	6,390.0	7,903.3
Total assets	**26,071.3**	**28,132.8**
Retail deposits	15,690.4	16,607.8
SME deposits	3,320.7	3,396.8
Core liabilities	**19,011.1**	**20,004.6**
Legacy & central items	5,651.2	6,829.2
Equity	**1,409.0**	**1,299.0**
Total liabilities and equity	**26,071.3**	**28,132.8**

Our refreshed strategy

Ethical banking & community impact

Focused product suite across Retail and SME

Efficiency and capabilities for sustained performance

Growth pillars

Create appealing experiences for **Customers** throughout life cycle (Onboarding, Servicing, Retention, Existing)

Current Account and Deposits
Grow Retail and SME customers and low-cost funding

Mortgages
Grow in niches with balanced risk appetite, by offering more tailored solutions for brokers

SME Lending
Grow via a steady evolution of SME propositions with balaced risk appetite

Ensure diversity across asset mix and fee income/total income share

Growth enablers

Accelerate **change** through the right resourcing, processand tooling

Focus and efficiency to achieve competitive cost levels

People, tech & data capabilities that match the growth ambition

Develop digital journeys that target customer expectations

Focus on the right portfolio that ensures business-line profitability

Optimise sales & service **channels**

Foster fulfilling workplace culture to boost employee satisfaction and empower workforce

ESG & ethical banking propositions

Continue to develop and **leverage the Bank's core reputational strengh** & make it tangible

Embed into all custmer interactions - branding, marketing, channels, products, digital

In 2021, we refreshed and extended our strategy to cover a period from 2022 through to 2026 in which we have outlined two key phases: the 'Growth and efficiency' phase reflecting the period until the end of 2023, followed by the 'Embed and expand' phase. During the 'Growth and efficiency' phase we fully restored all remaining regulatory capital buffers supported by organic capital generation through continued profitability, all whilst delivering for our customers and colleagues.

As we enter the second phase of our strategy, 'Embed & Expand', the Bank has refreshed and extended its strategic focus for the period 2024 to 2028, which enabled by our transformation, leverage the associated benefits and expand our growth ambitions.

Our refreshed strategy is focused on three core growth pillars; current accounts and deposits, mortgages and SME lending, with the aim to deliver a more commercially-focussed mid-tier banking model, growing beyond current market shares.

Our refreshed strategy

Example 2028 KPIs:

Increase in active Retail current accounts:

40%

Increase market share of SME total deposits:

x2

Across current accounts and deposits, we will transform our onboarding processes through an improved digital-first approach and accelerated account opening journeys. In addition, we will increase our market share of segmented retail and Business customers through targeted propositions.

Example 2028 KPIs:

Increase in new business completions:

x2

Net growth in mortgage balances:

30%

In mortgages, we will drive lending through a balanced risk-based lending criteria, increasing the diversification of the mortgage book through executing niche market opportunities, as well as offering a more bespoke service for our brokers.

Example 2028 KPIs:

Net growth in SME customer assets:

£700m

Increase market share of SME total deposits:

x3

For SME, we will target lending growth through focussing on selected industries and developing targeted propositions to help address growing client needs.

The success of the strategy is underpinned by accelerating change through the right resourcing, processes & tooling whilst ensuring a fulfilling workplace culture to boost employee satisfaction and empower our workforce.

ESG and ethical banking will continue to be fundamental to how we operate. We will continue to develop and leverage the Bank's core reputational strength and continue to embed ESG into all customer interactions.

Significantly improved credit ratings projected to return to investment grade long-term ratings in the future

The Bank secured an investment grade credit rating with Moody's in March 2024, when they upgraded our long term deposit rating to Baa3. Additionally, we received a further ratings increase from Fitch, upgrading three notches in twelve months, moving us to BB+. Both of these upgrades are as a result of the Bank maintaining sustainable profitability, a strong liquidity and capital position and the substantial progress made in delivering our transformation programme. Current Bank ratings are presented in the table below and we anticipate future performance will deliver a return to investment grade long-term ratings.

Rating Agency	Long Term Rating	Short Term Rating	Outlook	Latest Update[1]
Moody's	Baa3	P-3	Positive	Mar-24
Fitch	BB+	B	Positive	Jan-24

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Information correct as of 04/2024
MKT95041

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