2018 results and strategy update

28 February 2019

The co-operative bank

Disclaimer

Caution about Forward Looking Statements

This document contains certain forward looking statements with respect to the business, strategy and plans of The Co-operative Bank Holdings Limited and the Co-operative Bank plc (including its 2019-2023 Financial Plan, referred to as the ("Plan") and its current targets, goals and expectations relating to its future financial condition and performance, developments and/or prospects. In particular, it includes targets under the summary section of this document and the "Outlook for 2019" section of the key highlights and outlook in the annual report and accounts. Forward looking statements sometimes use words such as 'may', 'will', 'seek', 'continue', 'aim', 'anticipate', 'target', 'projected', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', 'achieve', 'predict', 'should' or in each case, their negative or other variations or comparable terminology, or by discussion of strategy, plans, objectives, goals, future events or intentions. Forward looking statements, including statements about The Co-operative Bank Holdings Limited and The Co-operative Bank plc or its directors' and/or management's beliefs and expectations, are not historical facts or guarantees of future performance. By their nature, forward looking statements involve risk and uncertainty because they are based on current plans, estimates, targets, projections, views and assumptions and are subject to inherent risks, uncertainties and other factors both external and internal relating to the Plan, strategy or operations, which may result in not being able to achieve the current targets, predictions, expectations and other anticipated outcomes expressed or implied by these forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. Accordingly, undue reliance should not be placed on forward-looking statements.

Important factors that could affect the outcome of forward-looking statements

There are a large number of important factors which could adversely affect the operating results and financial condition, the ability to implement its Plan and cause the miss of targets or affect the accuracy of forward-looking statements. These include the risks and uncertainties associated with the successful execution of the Plan summarised in the 'Principal Risks and Uncertainties' section of the 2018 Annual Report. These include risks and factors such as: ability to respond to a change in its business environment or strategy and successfully deliver all or part of the Plan and desired strategy when planned or targeted; changes in the relationship with the Co-operative Group; ability to complete the remaining transformation, remediation and change programmes when planned and in line with target costs; whether any deficiencies in appropriate governance and related programme management processes would impede the satisfactory delivery of the transformation programme when planned and in line with targeted costs which would impact associated cost reductions or income generation plans; the ability to successfully deliver important management actions required to implement the strategy and the Plan; whether base rates will increase as soon as and as much as is forecasted in the Plan or whether competitive pressures reduce the market share achieved or do not enable net interest margins to increase as envisaged in the Plan or that regulatory pressure constrain the anticipated growth in volumes; whether growth in new mortgage origination is significantly less than assumed in the Plan; whether the SVR book will perform as forecasted; whether liquidity and funding can be accessed at an appropriate cost to fund the requisite level of asset origination targeted in the Plan, including the risk that future central bank funding facilities and initiatives may be unavailable dependent on the terms and conditions; changes in the business, such as fee changes result in cash outflows and a lower than expected overall non-interest income; significant changes to existing or new conduct or legal risk provisions during the life of the Plan; whether RWAs are significantly greater than those assumed in the Plan due to worsening economic conditions and the risk that any material increases in RWAs will significantly increase our capital requirements; whether the planned cost reductions are achieved when planned, or at all; operating costs being higher than assumed in the Plan, the cost to income ratio continuing to negatively impact its profitability and its capital position; whether the Bank will be able to achieve all capital requirements and MREL when planned; whether it is possible to complete Tier 2 debt and MREL qualifying debt issuances when planned, on acceptable terms, or at all; the PRA or other regulators exercising their discretion and withdrawing their support for the Plan; whether it is possible to recognise the amount of deferred tax assets stated in the Plan and generates the profits before and after tax targeted in the Plan when expected, or at all. The risks and uncertainties presented above are not an exhaustive list of the risks that could be faced and represent a view based on what is known today.

Any forward-looking statements made in this document speak only as of the date of this document and the Bank expressly disclaims any obligation or undertaking to provide or release publicly any updates or revisions to any forward-looking statements contained in this document as a result of new information or to reflect any change in the expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based, except as required under applicable law or regulation.

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Introduction

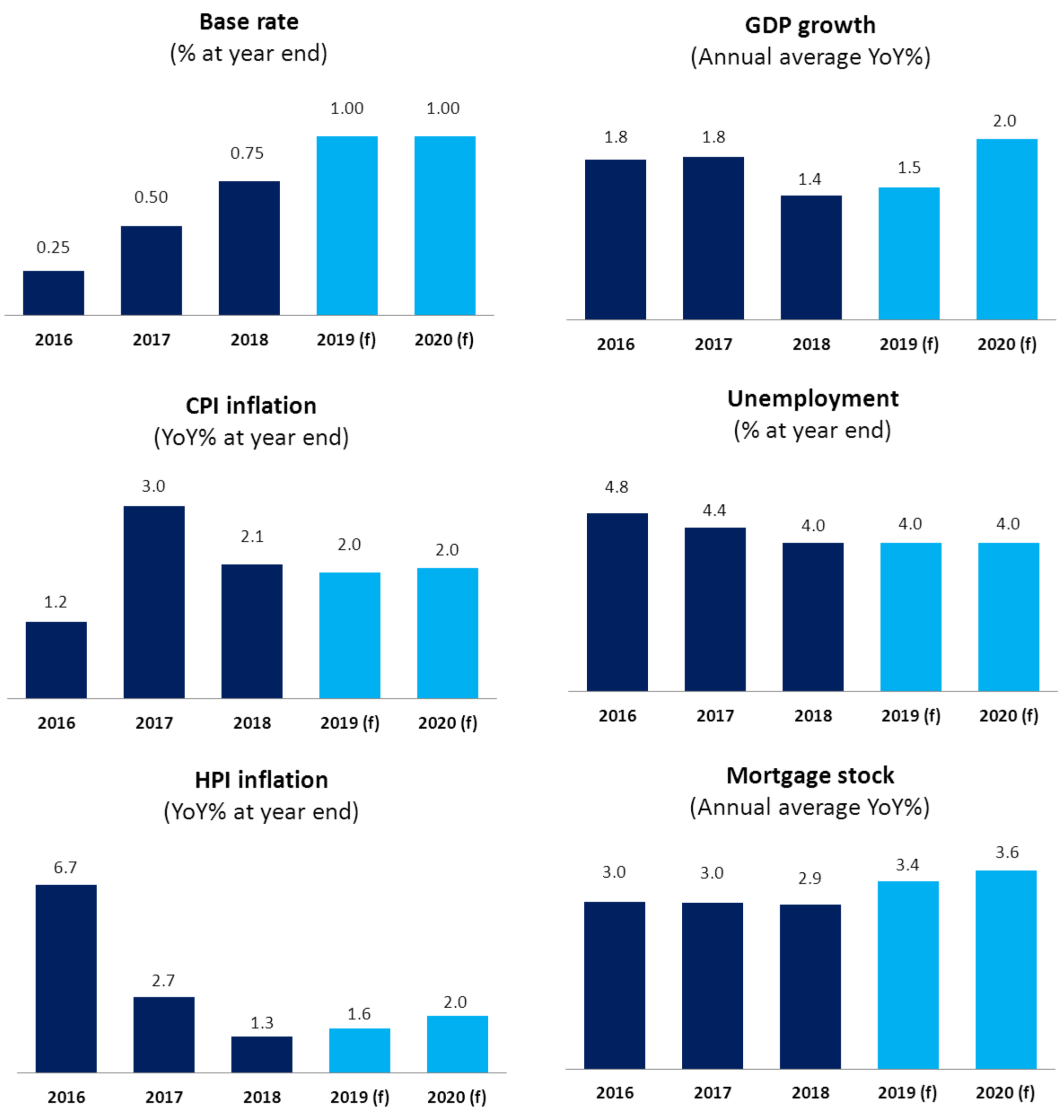
Andrew Bester
Chief Executive Officer

Progress towards sustainable organic profitability

- **Operating profit of £14.9m is £98.9m ahead of 2017**
- **£1bn customer asset growth** fuelled by strong mortgage completions
- **13% operating expenditure reduction** compared to 2017
- **Sectionalisation of the Pace pension scheme delivered**
- Plans developed to issue **£400m of MREL eligible debt in 2019, including ~£200m of Tier 2 debt**
- Colleague engagement score at **highest since 2013 with a score of 80%**
- Strategic planning concluded and plan agreed to **re-energise The Co-operative Bank franchise and brand**

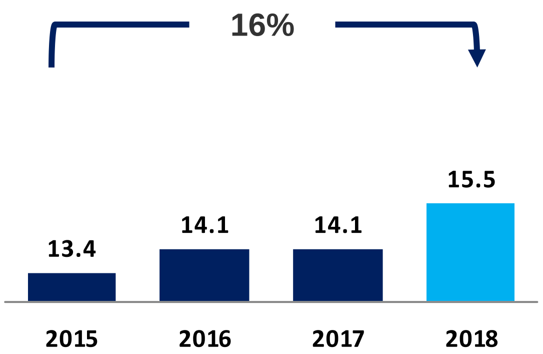
UK economy shows signs of relative stability; however uncertainty remains, driven by Brexit

- With Brexit on the short-term horizon, **UK economic uncertainty is unusually high**
- Steady base rate environment supports expectations **margins will remain compressed over the medium-term, although base rate flightpath remains volatile**
- Low levels of unemployment and low but positive HPI supports expectations that the **Bank's asset quality will remain high with a book comprised of low LTV mortgages**
- **Mortgage stock continues to grow at c.3%** as demand remains subdued, highlighting the competitive environment for mortgage originations

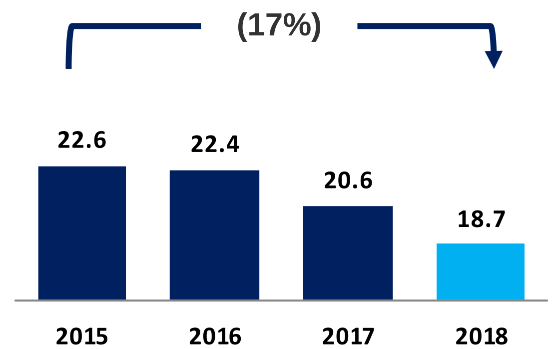


Period of balance sheet de-risking and cost cutting leaves the Bank with a solid platform for future growth

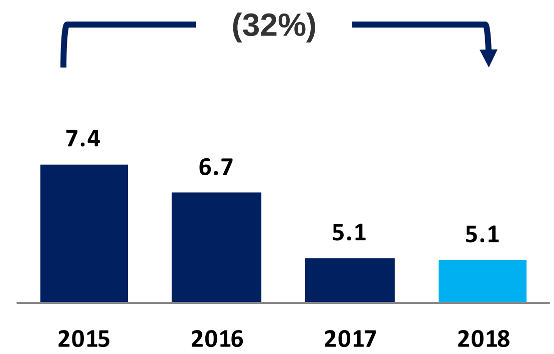
Mortgages[1] £bn



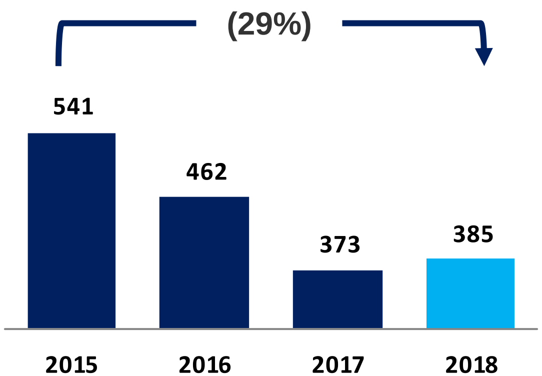
Customer deposits £bn



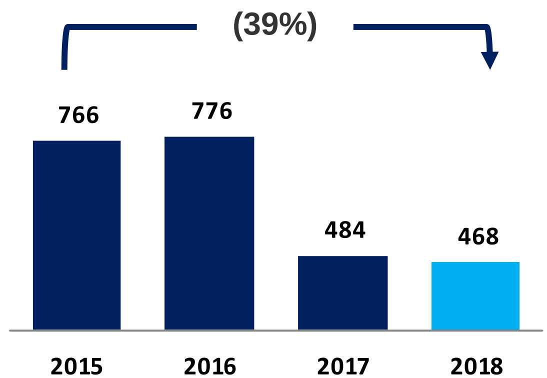
RWAs £bn



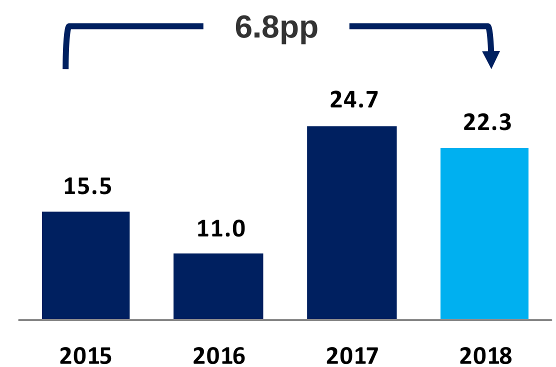
Total income[2] £m



Total costs[3] £m



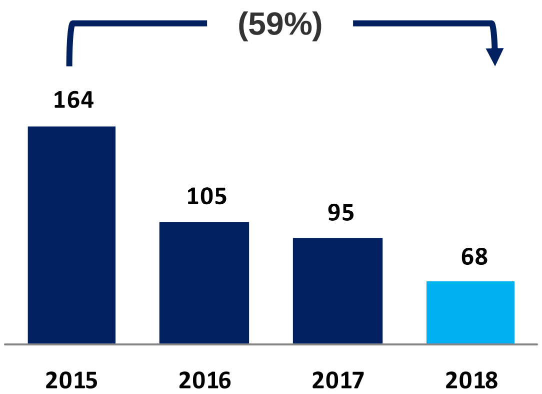
CET1 ratio (%)



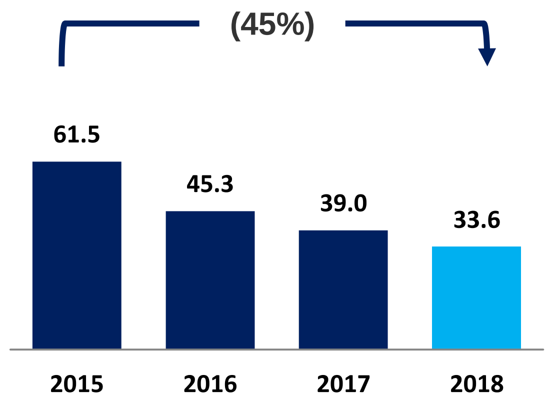
1. Retail and Platform mortgages, excludes Optimum
2. Consists of total non-interest income and net interest income (excludes losses on asset sales)
3. Total operating expenditure plus total strategic project spend

During a challenging period the Bank has maintained its position as the UK's ethical retail bank with a loyal customer base

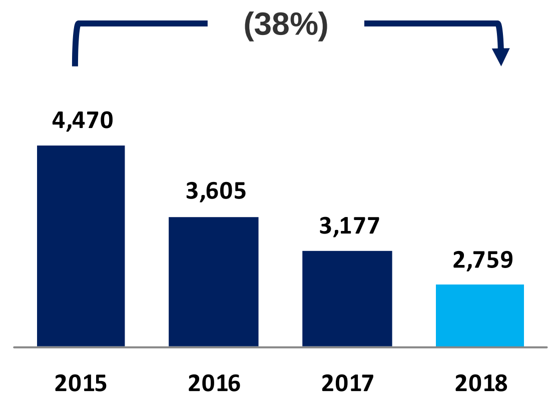
Total branches



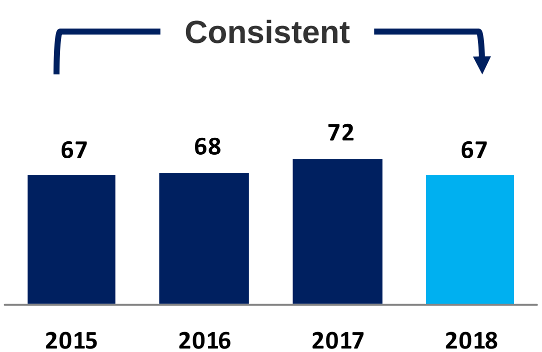
Premises cost £m



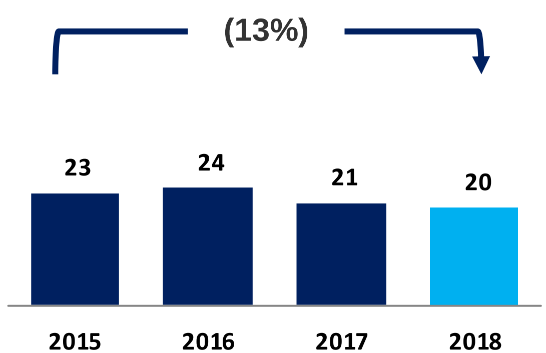
FTE[1]



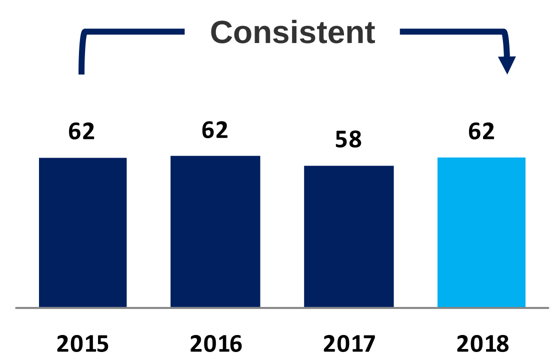
Ethical perception %



Current accounts NPS[2]



Branch customer feedback[2]



1. FTE excluding project staff
2. Based on the average score throughout the year

We have grown whilst markets remained competitive and faced into an uncertain macro picture

	The Co-operative Bank	Wider market
Retail Lending	• Positive mortgage **net lending continues** • Highest volume of mortgage completions since 2010 • **Mortgage margin pressure** persists	• Housing market subdued especially in South East • Competitive mortgage pricing, indications of further NIM contraction • Slowing consumer credit growth
Retail Deposits	• Current account **balances are stable** • Optimised customer deposit base to reduce the Bank's cost of funds • Renewed focus on improving customer experience and proposition	• Improving savings rates following base rate rise and from challengers • Deposit growth and saving ratio below long run average • Continued shift from term to instant access
SME and charities	• **7th largest SME franchise in UK with c.85,000 customers** • Selected by the Banking Competition Remedies **to take part in Incentivised Switching Scheme** • Focus on new account opening and funnel improvements	• Increased competition for SME deposits • RBS Alternative Remedies driving proposition enhancements, interest and competition in this market

Financial Results

Nick Slape
Chief Financial Officer

The co-operative bank

First operating profit since 2013 with 11% income growth and 13% cost reduction. Adjusted PBT in line with 2017

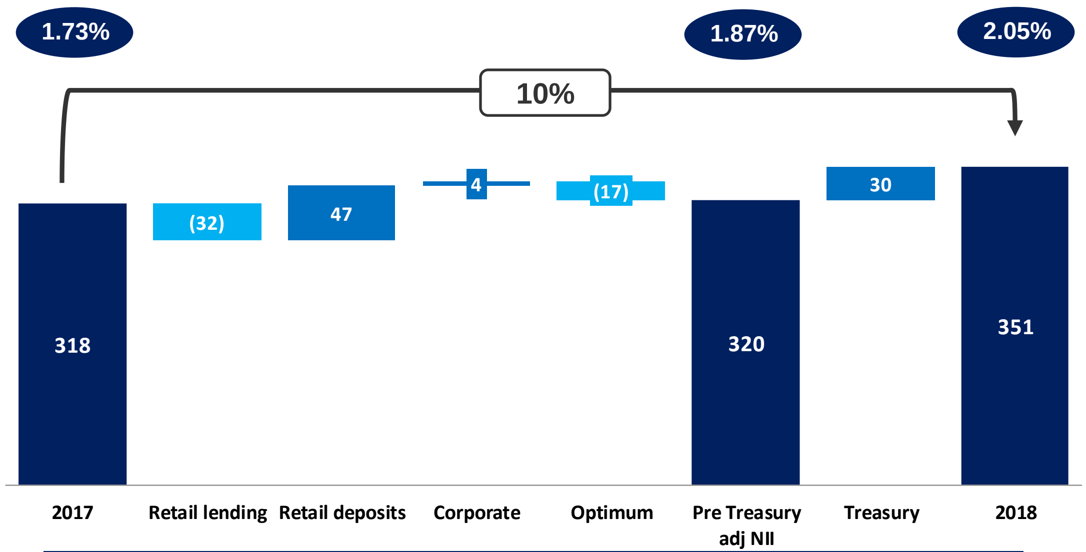
£m	2018	2017	Change
Retail interest income	289.8	274.1	6%
Corporate[1] interest income	45.8	41.5	10%
Optimum interest income	11.5	28.7	(60%)
Total customer interest income	**347.1**	**344.3**	**1%**
Treasury/Other net interest income	3.4	(26.7)	113%
Total net interest income	**350.5**	**317.6**	**10%**
Customer fee income	32.7	36.6	(11%)
Other operating income/(expense)	2.0	(8.2)	124%
Total income	**385.2**	**346.0**	**11%**
Operating expenditure	(374.0)	(431.1)	13%
Credit impairment gains	3.7	1.1	>100%
Operating profit/(loss)	**14.9**	**(84.0)**	**118%**
Adjusted profit/(loss) before tax	**(140.7)**	**(140.3)**	**0%**
NIM[2]	2.05%	1.73%	32bp
Operating cost:income ratio[3]	97.1%	115.7%	(18.6)pp

- **Total income is 11% higher than 2017** driven by:
  - Optimisation of the deposit base, two base rate rises across 2017 and 2018 and the removal of Tier 2 debt in 2017
  - Partially offset by a reduction in mortgage margins and lower Optimum balances
  - Other income higher due to non-repeat of loss on sale from the 2017 Optimum securitisation
- **Operating expenditure reduction** driven by 2018 initiatives and enduring 2017 reductions, primarily driven by:
  - Rationalisation of premises
  - Reductions across FTE
- **Credit impairment gains** of £3.7m largely driven by a single corporate connection
- **NIM** and **operating cost:income** ratio benefit from the removal of the Tier 2 debt with expectations this will reverse as debt is issued in 2019

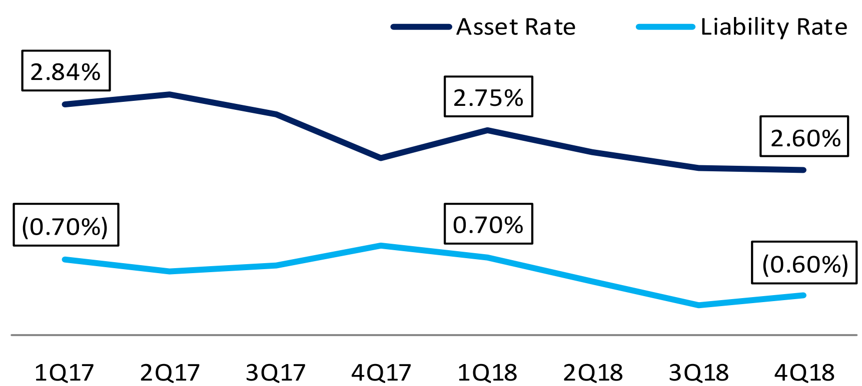
1. Corporate includes SME liabilities and Corporate assets
2. NIM calculated as total net interest income over average gross customer assets
3. Operating cost:income ratio calculated as operating expenditure over total income (excl losses on asset sales)

10% net interest income growth is driven by deposit optimisation and restructuring of debt, offset by margin compression on mortgages

Net interest income[1] and NIM (£m)



Customer rate evolution

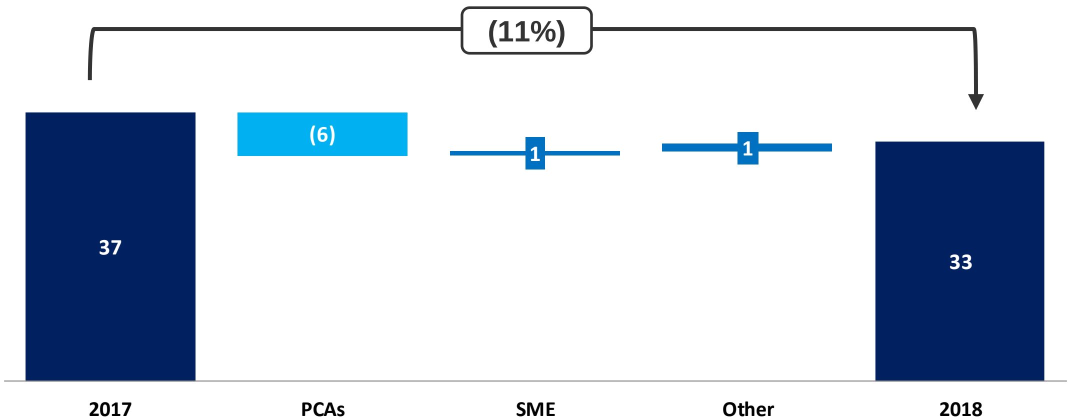


- **10% NII growth in 2018**, which was in part driven by the restructuring of T2 debt and the repayment of Senior Unsecured notes in 2017
- Customer income increased by £2m which is driven by
  - **Retail deposits £47m improvement** as margins improve driven by higher base rate and term savings rate optimisation
  - **Partially offset by a reduction in retail lending** due to sustained low new business margins, reducing SVR mix and reduced Optimum balances
- **Customer rate corridor stable** around 200bps in 2018, with reduction in asset rate offset by optimisation of deposits
- Due to the issuance of MREL debt and continued pressure on mortgage margins, **NIM is expected to reduce to 175-180bps in 2019**

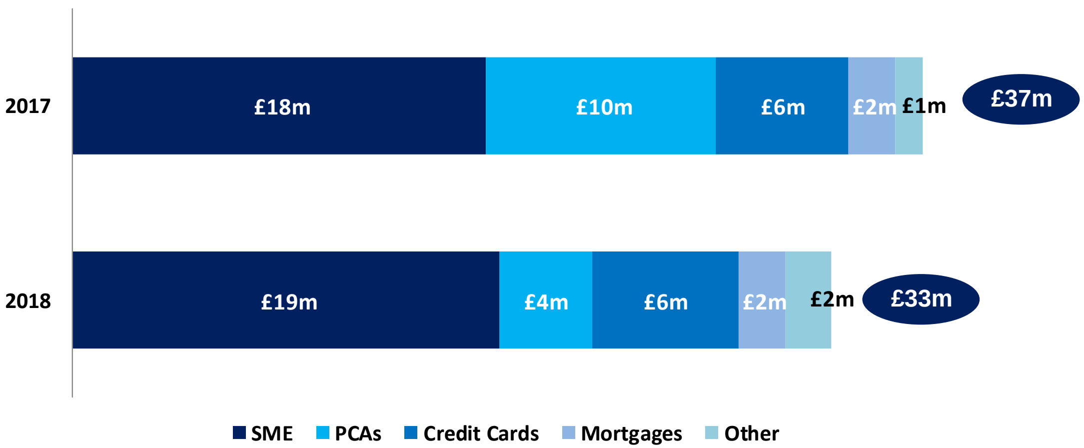
1. Net interest income shown excludes liquidity transfer pricing

Decrease in fee income is driven by a rise in PCA expense from the Everyday Rewards proposition and lower packaged account volumes

Customer fee income[1] (£m)



Fee income split



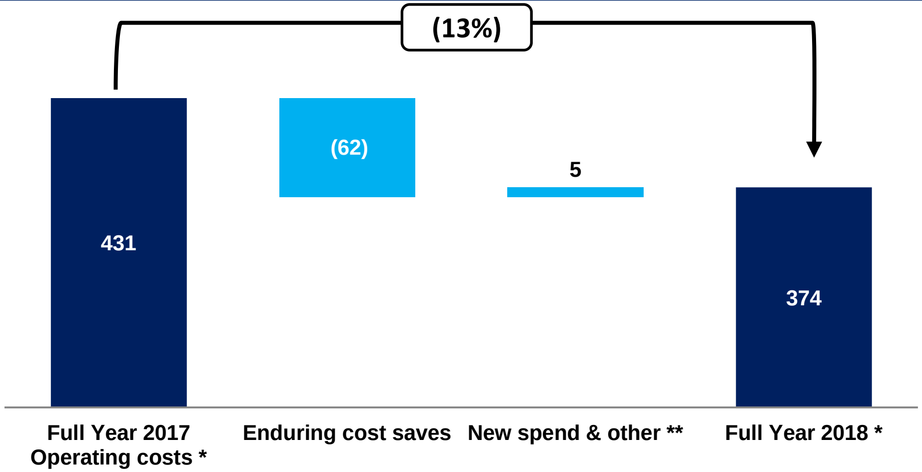
- **PCA** – reduction in personal current accounts fee income driven by:
  - Continued increase in the volume of customers opting into the Everyday Rewards proposition
  - Lower packaged account volumes results in reduced commission
- **SME** – remains stable despite marginal balance attrition due to revised tariff

- Highest proportion of fees received from the **SME portfolio**, which remains a key growth product
- Credit card fee income is now the second largest contributor which is stable at £6m in 2018

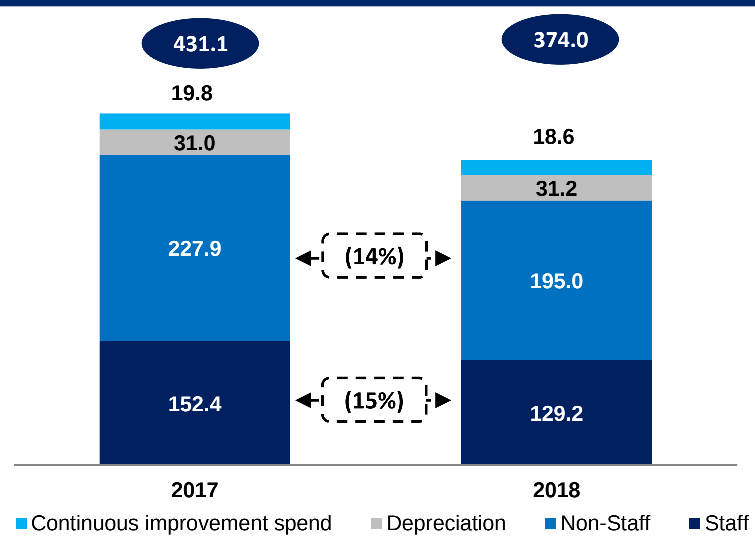
1. PCA fee income includes overdrafts

Operating costs reduce by 13% in the year driven by lower staff costs, rationalisation of premises and reduced third party spend

Operating costs bridge (£m)



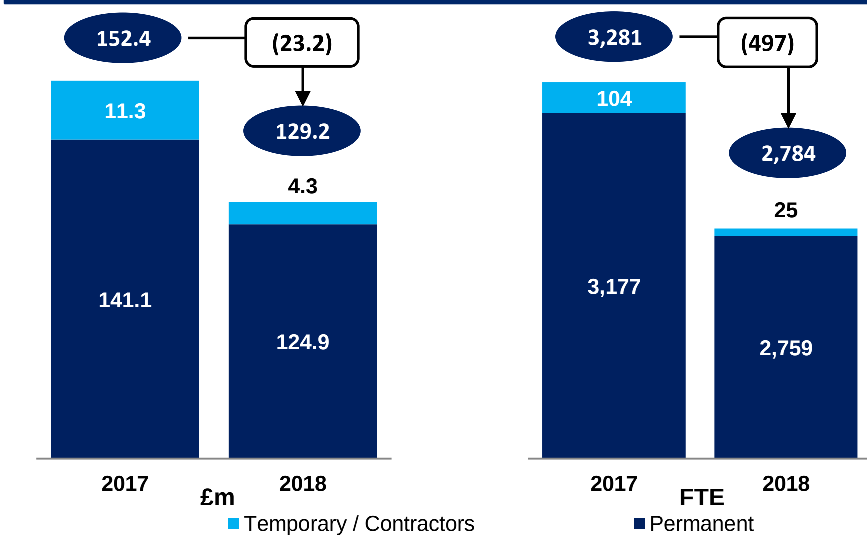
Operating costs (£m)



* Includes depreciation and continuous improvement spend

** Includes cost in support of Restructuring activity and enduring impact of delivered projects

Staff costs (£m) & FTE[1]



- Full year operating costs have reduced by 13% driven by:
  - **Staff costs** down £23.2m due to numerous initiatives, with FTE reducing by 497 vs 2017; 79 of these were temporary staff or contractors
  - **Non-staff costs** (excl depreciation) down £32.9m largely due to reductions in third party spend and rationalisation of premises
  - **Continuous improvement spend** is in line with 2017. Spend in 2018 has been focussed on regulatory & mandatory projects, such as GDPR, and other non-strategic projects
  - **Continuous improvement spend to increase in 2019**. Combined with lower income the **operating cost:income ratio is expected to increase in 2019 to c.115%**

1. FTE numbers include both active and inactive staff but exclude project staff

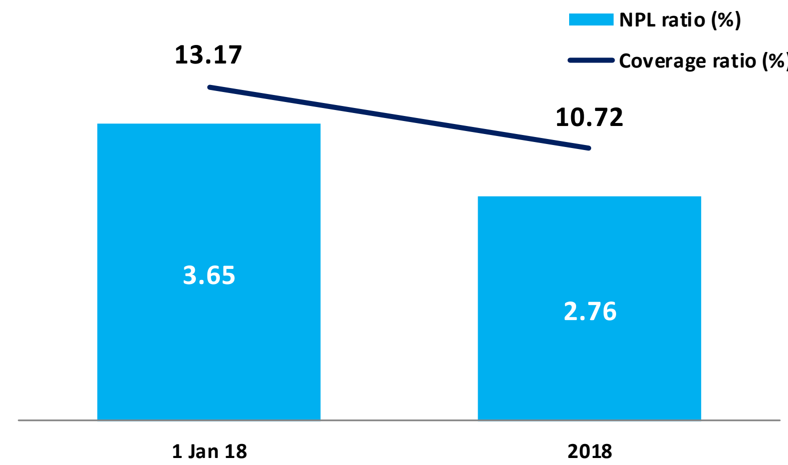
High quality loan book with impairment release in consecutive years

Selected Risk KPIs

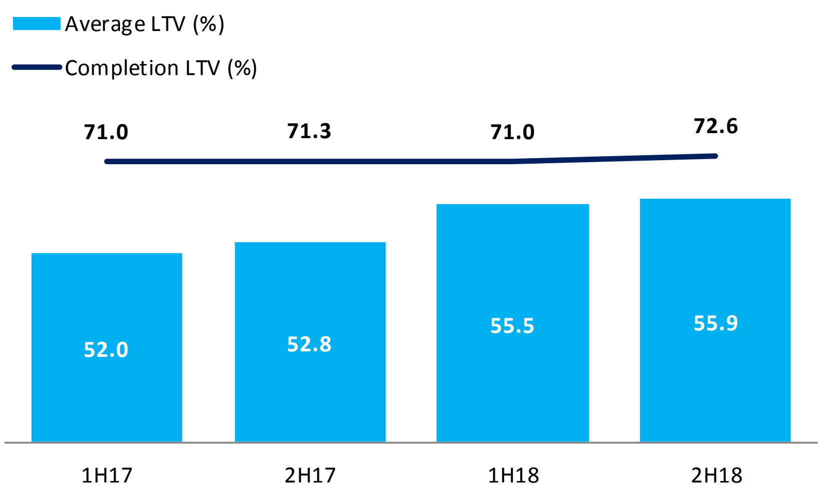
£m	2018	1 Jan 18	Change
Impairment release*	3.7	1.1	>100%
Impairment provision	52.7	80.9	(35%)
Retail Secured	*12.3*	*11.5*	*7%*
Unsecured	*12.5*	*27.6*	*(55%)*
Optimum	*5.0*	*8.0*	*(38%)*
Corporate	*22.9*	*33.8*	*(32%)*
Non-performing loans	491.6	614.1	(20%)
Gross customer L&A	17,787	16,825	6%
Total book coverage ratio[1]	0.30%	0.48%	(18)pp

*impairment for 01 Jan 2018 is the 2017 year end position

NPL[2] & coverage ratio[3]



Average retail mortgage LTV[4]



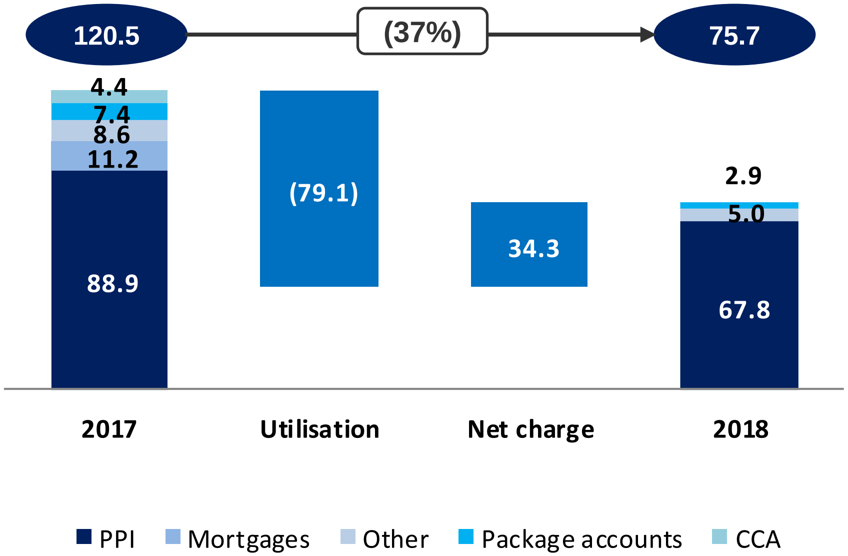
- Increase in **impairment release** largely driven by a single corporate connection
- **Impairment provision reduces** in the year due to reductions in corporate assets and debt sales on the unsecured book
- **NPL ratio reduction** reflects write offs following debt sales. Coverage reduces with allowance for loss reduction
- **Retail mortgage LTV increases** due to mix of higher LTV business and run off of lower LTV direct mortgages
- **Cost of risk expected to remain low in 2019**

1. Total book coverage ratio is calculated as impairment provision on customer balances divided by gross customer loans and advances
2. Calculated as total non-performing loans divided by gross customer loans and advances
3. Coverage ratio is calculated as impairment provision on customer balances divided by total non-performing loans.
4. Average retail mortgage LTV has been indexed to latest house price estimates

Loss before tax of £140.7m driven by below the line items including strategic change, redress charges and other one-off items

£m	2018	2017	Change
Operating profit/(loss)	14.9	(84.0)	118%
Strategic change	(94.3)	(53.3)	(77%)
Net customer redress charge	(31.7)	(27.4)	(16%)
Non-operating income/(expense)	(29.6)	24.4	(221%)
Adjusted profit/(loss) before taxation	**(140.7)**	**(140.3)**	**0%**
Taxation	72.0	16.7	>100%
Adjusted profit/(loss) after taxation	**(68.7)**	**(123.6)**	**(44%)**
Impact of restructure	-	356.3	(100%)
Profit/(loss) after taxation	**(68.7)**	**232.7**	**(130%)**

Customer redress provision[1] (£m)

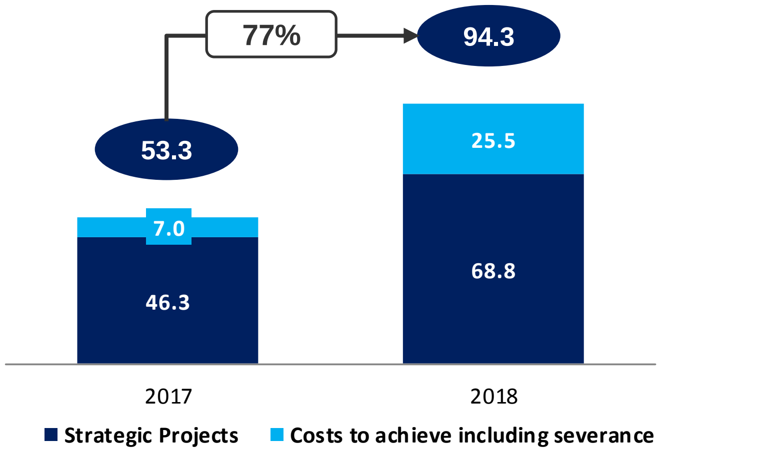


- **Strategic change** spend increases as a number of projects commenced in 2018, see following slide for detail
- **Net customer redress** driven by sustained levels of PPI claims ahead of the August 2019 time-bar. Remaining provision of £68m
  - 2018 observed a lower volume of complaints in H2 than H1, but the average weekly complaint number is expected to rise from 690/week observed in 2018 (total 35.9k for the year) by 9% to 755/week in 2019 (total 30.2k to time-bar)
- **Non-operating income/(expense)** decrease driven by:
  - £75m gain in 2017 due to the revaluation of the pension asset and gain on Vocalink sale
  - £28m surrendered loss debtor write down in 2018
  - £12m GMP equalisation expense in 2018
  - Partially offset by conclusion of FV unwind in 2017 and 2018 IAS 19 pension discount unwind
- **Tax credit of £72m** is driven by the impact of Pace sectionalisation as DTAs are recognised

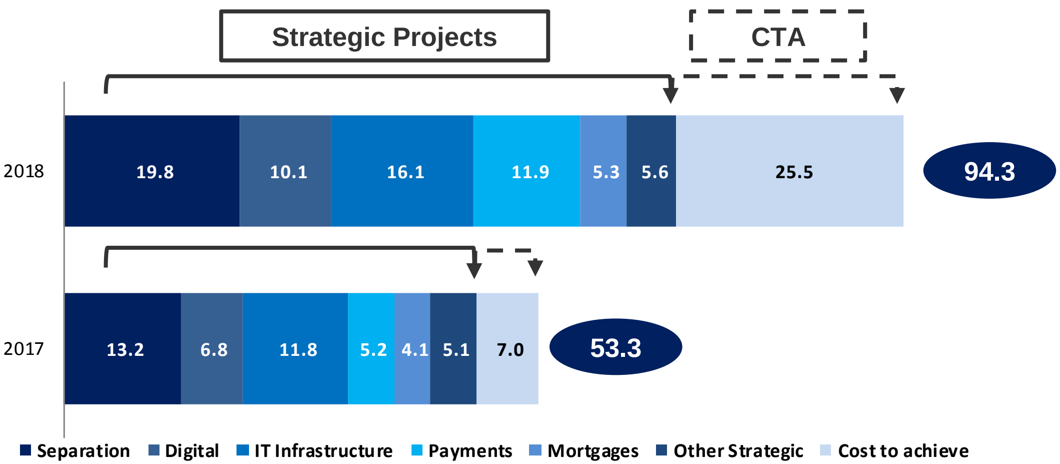
1. Provision increase of £34.3m does not include income statement release of £2.5m relating to utilised redress funds recovered from the Warwick securitisations

Increase in strategic spend in 2018 on significant projects such as IT Separation. Spend expected to increase in 2019

Strategic Change (£m)



Strategic spend breakdown (£m)



- **Total strategic spend increases by £41m,** split between strategic projects (£22.5m) and costs to achieve (£18.5m)
  - The **increase in strategic projects** is driven by a number of projects from 2017 which have incurred further spend in 2018
  - The **increase in costs to achieve** relates to severance costs & branch transformation which has unlocked further enduring cost reduction in 2018
- The **strategic project spend in 2018** of £68.8m has been largely incurred on IT separation (£19.8m), Digital (£10.1m), IT Infrastructure (£16.1m) and Payments (£11.9m)
- **Spend to continue in 2019** as IT separation and desktop complete along with the commencement of new projects such as mortgage and savings re-platforming
- Total cash spend in 2018 across all projects was £133m. **Cash spend is expected to increase to £150-170m in 2019**

£1bn customer asset growth driven by highest year of mortgage completions since 2010. Customer liabilities optimised

£m	2018	2017	Change
Mortgages	15,495	14,105	10%
Unsecured	477	584	(18%)
Corporate	1,163	1,442	(19%)
Optimum	530	594	(11%)
Other	69	20	n.m
Total customer assets	**17,734**	**16,745**	**6%**
Treasury assets	4,502	7,258	(38%)
Other assets	867	487	78%
Total assets	**23,103**	**24,490**	**(6%)**
Franchise deposits	12,442	12,899	(4%)
Term deposits	4,154	5,430	(23%)
SME deposits	2,119	2,225	(5%)
Other	22	81	(73%)
Total customer liabilities	**18,736**	**20,635**	**(9%)**
Treasury liabilities	2,309	2,088	11%
Other liabilities	308	262	18%
Total liabilities	**21,353**	**22,985**	**(7%)**
Equity	1,750	1,506	16%
Total liabilities and equity	**23,103**	**24,490**	**(6%)**

- **£1.4bn increase in mortgages** driven through Platform
- **Unsecured** portfolios run down due to closure of new loan business propositions in 2018
- Continued natural attrition of the **Optimum** and **corporate** portfolios
- **Treasury assets** reduce as excess cash balances are utilised
- **Franchise deposits** reduce largely as an effect of branch consolidation activity
- **Term deposits** reduce due to deposit optimisation following excess liquidity generated from the TFS and Optimum securitisation
- **SME deposits** reduce by 5% due to branch closure and revised tariff
- Increase in **equity** driven by Pace pension surplus recognised post sectionalisation
- **Customer assets and customer liabilities expected to increase in 2019 to c.£19bn and c.£19.5bn respectively**

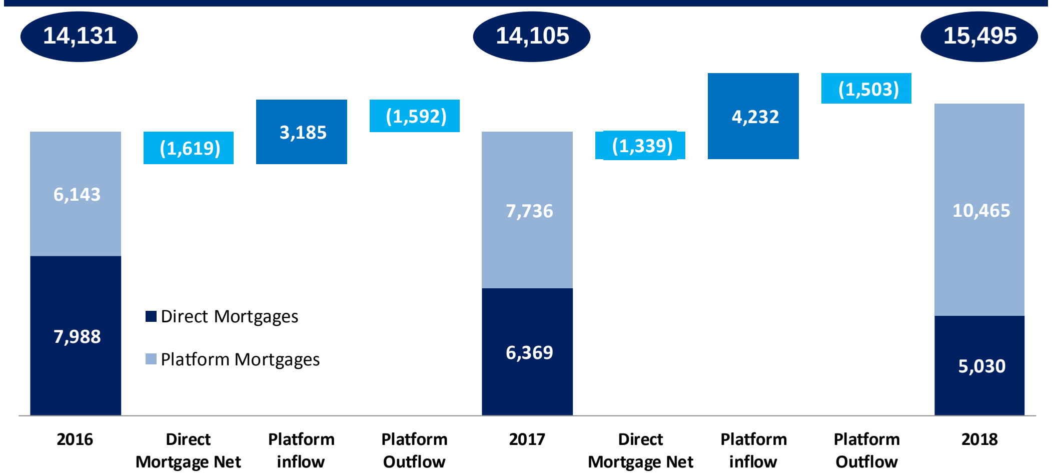
1. The products shown within the balance sheet are provided on a gross basis excluding accounting adjustments

Strong balance growth although market pressure compresses mortgage margins

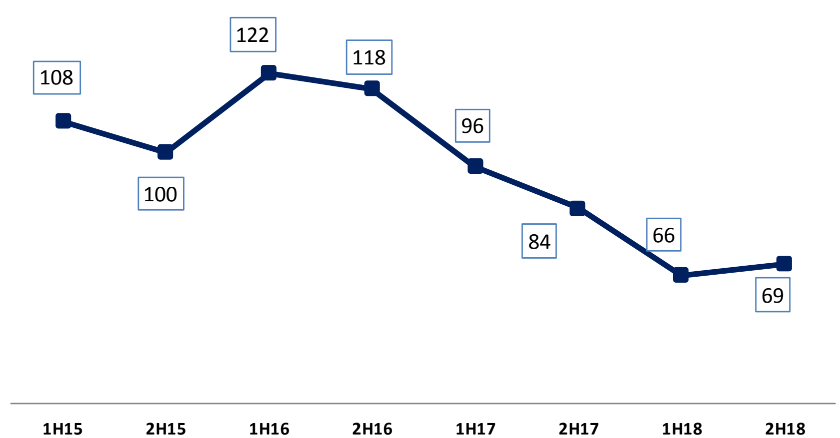
Retail assets	2018	2017	Change
Mortgages			
Total balance £m	**15,495**	**14,105**	**10%**
Impairment £m	(1.3)	(6.8)	81%
RWAs £m	1,871	1,428	31%
Book LTV	55.9%	52.8%	3.1pp
Average completion LTV	71.6%	70.9%	0.7pp
Unsecured			
Total balance £m	**477**	**584**	**(18%)**
Impairment £m	(5.9)	(2.2)	(168%)
RWAs £m	475	521	(9%)

- **£4.2bn of mortgage** completions with a 0.3% increase in new lending market share to 1.6%
- **Lower completion margins** across the market drives mortgage book margin compression
- **RWAs increase** as higher risk weighted Platform mortgages replace lower weighted retail mortgages
- **Unsecured balances** continue to run down reducing the overall exposure to risk
- **Secured impairment reduction** driven by one off model adjustments in 2017

Mortgage balance flows (£m)



Market completion margin[1] (bps)



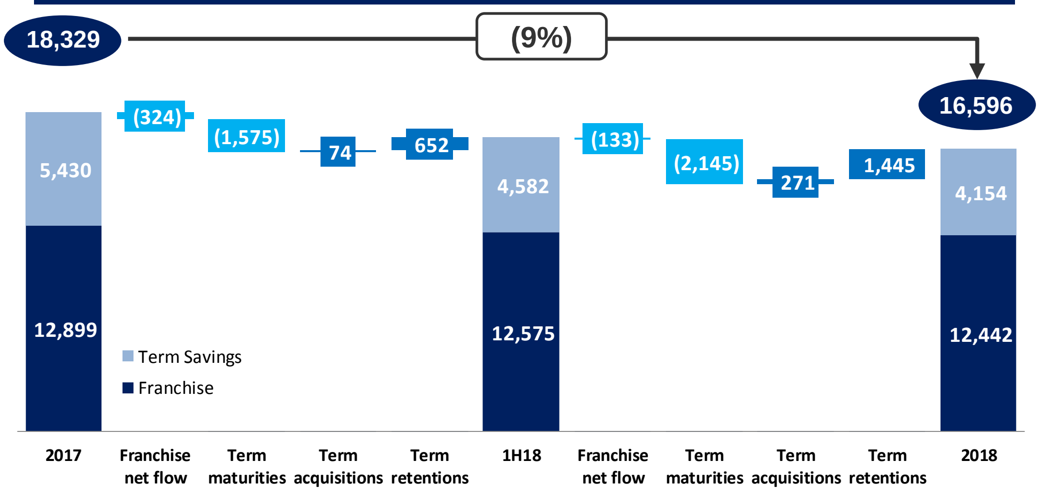
1. Bank of England data for 75% two year fixed completions over respective average two year swap rate

6bps reduction in cost of funds in 2H18 vs 2H17 driven by deposit optimisation. Stable current account balances

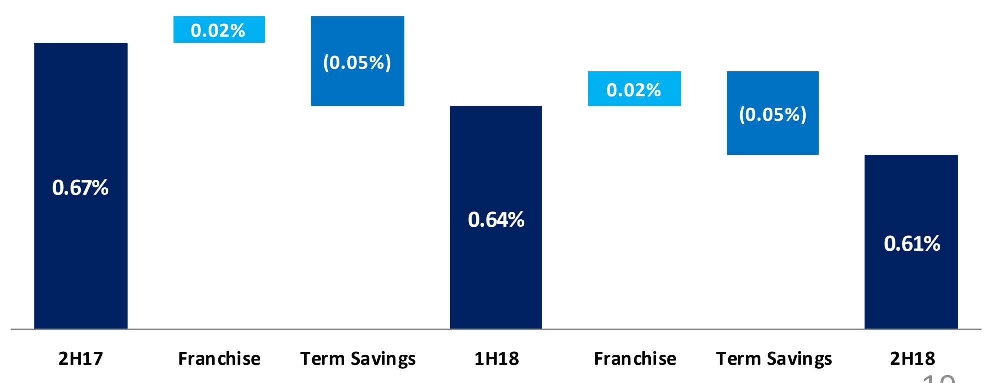
Retail deposits	2018	2017	Change
Franchise deposits			
Personal current accounts £m	4,199	4,187	0%
Variable savings £m	8,243	8,713	(5%)
Total balance £m	**12,442**	**12,899**	**(4%)**
Total PCA stock	1,306,589	1,393,015	(6%)
of which: Total prime PCA stock	626,841	647,535	(3%)
Term deposits			
Total balance £m	**4,154**	**5,430**	**(23%)**

- **Total franchise balances** reduce by 4% partially driven by in-year branch closures
- **Total prime current account** stock reduces however balances remain broadly stable
- **Term savings balances** reduce driven by optimisation of deposits
- **Cost of deposits** reduce over the year driven by optimisation of term savings

Customer deposit flows (£m)



Cost of deposits[1]



1. Calculated as blended gross rates over the average balance for the six month period

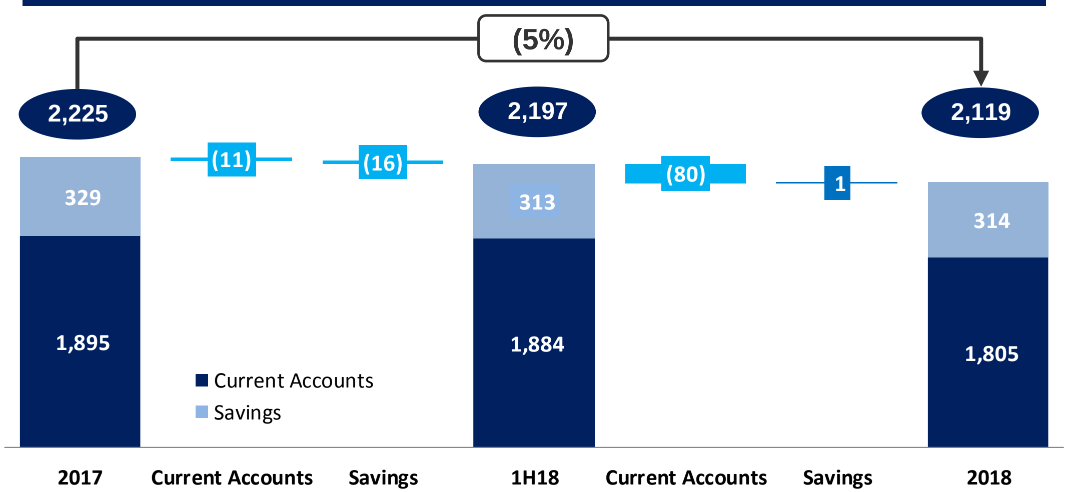
SME remains a key part of the franchise with a unique opportunity in 2019 from the incentivised switching scheme

Corporate assets	2018	2017	Change
Total balance £m	**1,163**	**1,442**	**(19%)**
Impairment £m	9.3	4.6	102%
RWAs £m	972	1,243	(22%)

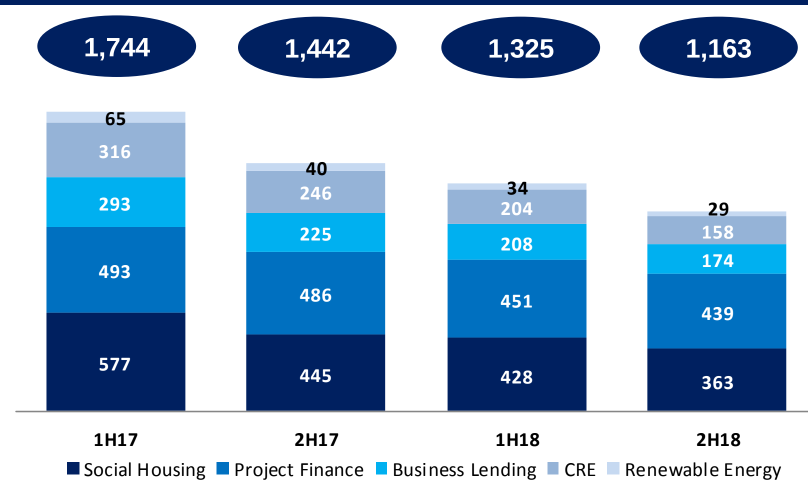
SME deposits	2018	2017	Change
Current account balance £m	1,805	1,896	(5%)
Savings balance £m	314	329	(5%)
Total balance £m	**2,119**	**2,225**	**(5%)**

- **Marginal anticipated reduction in SME** balances over the year as the Bank has rationalised its branch estate and the revised tariff
- The **Incentivised Switching Scheme** provides a unique opportunity for the Bank to attract SME customers
- **Corporate asset** strategy remains under review
- **Impairment write back** largely driven by a provision release relating to a single connection
- **RWAs reduce** as balances continue to run down

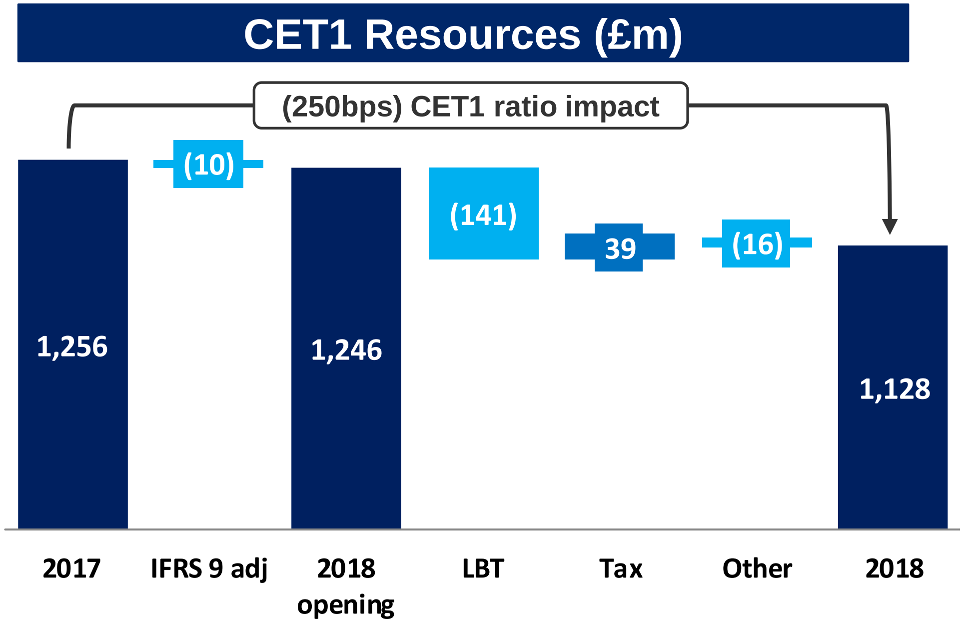
SME deposit flow (£m)

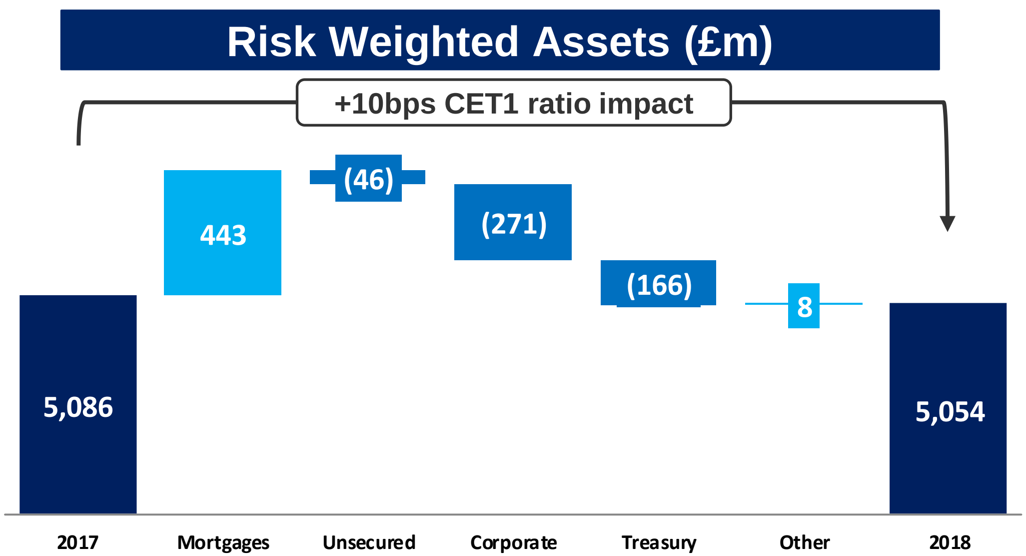


Corporate assets split (£m)



CET1 resources reduce as the Bank remains loss making against a stable RWA profile with mortgage growth offset by other reductions





- **CET1 resources reduction driven by:**
  - **Loss** before tax of £141m
  - **Tax benefit from recognition of DTAs** for accelerated capital allowances driven by Pace sectionalisation
  - **Other** variances include contributions to pension schemes and movements in intangibles, FVOCI and EL Gap

- **Risk Weighted Assets £32m reduction driven by:**
  - **£1.4bn** net mortgage lend growing the balance sheet
  - Partially offset by **natural attrition of the corporate and unsecured portfolios**
  - Treasury decreased as a result of exposure to securitisations and reduced level of repos compared to 2017

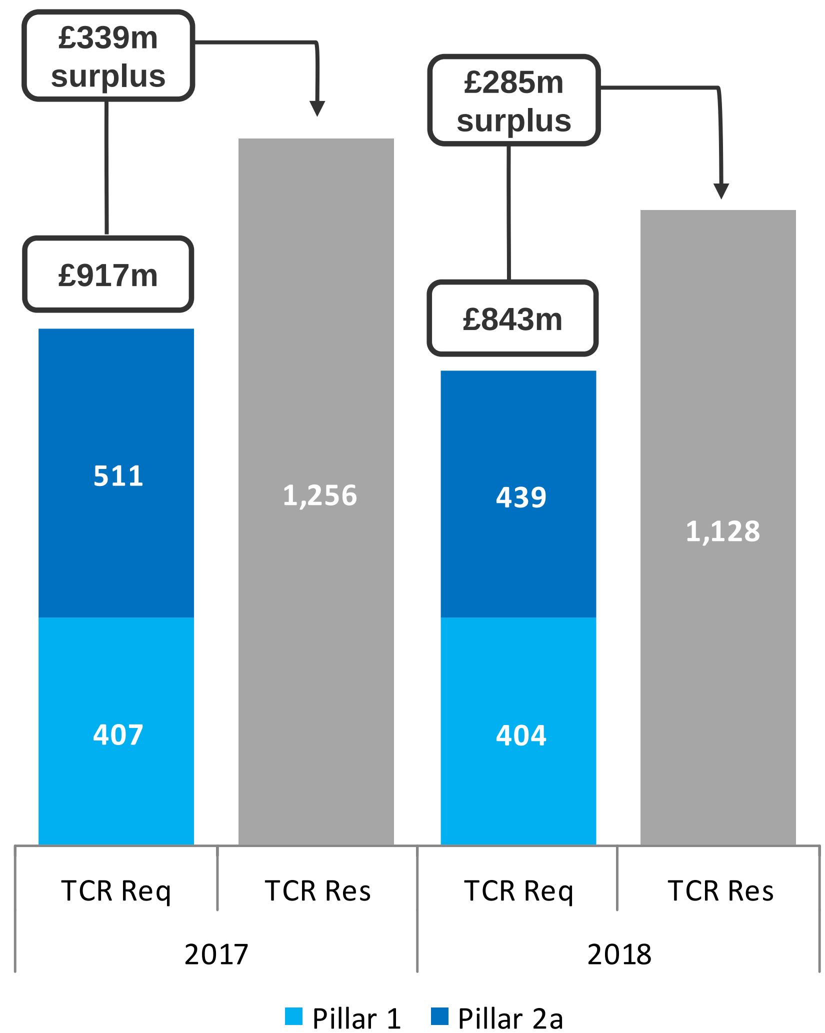
Bank is well capitalised but requires future debt issuances to meet upcoming regulatory requirements

Capital and leverage

Capital metrics	2016	2017	2018
CET1 ratio (%)	11.0	24.7	22.3
Leverage ratio (%)	2.6	4.9	4.7
RWAs (£m)	6,676	5,086	5,054
TCR req (%)	22.5	18.0	16.7
CRD IV req (%)	0.625	1.250	2.875

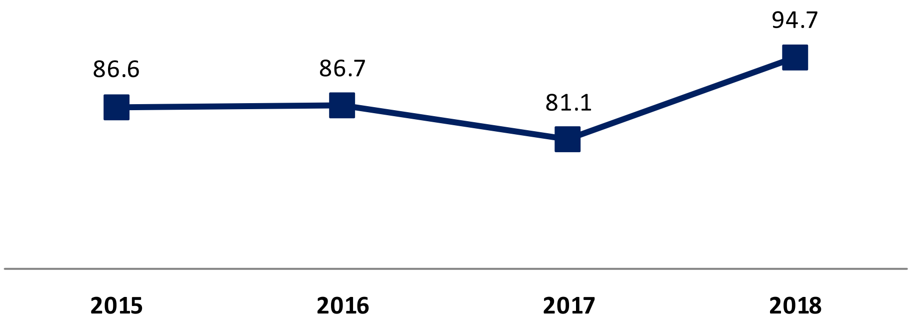
- **CET1 % reduction** (2.4pp) driven by:
  - Reduction in resources (2.5pp)
  - Partially offset by a reduction in RWAs 0.1pp
- **Leverage ratio** reduces by 0.2pp as the reduction in resources is partially offset by the reduced total balance
- **TCR requirement reduces by £74m** compared to 2017. This is offset by the £128m resource reduction resulting in a £54m reduction in the TCR surplus in 2018
- All resources are held in CET1, **requirement to issue MREL qualifying debt** to maintain compliance with key capital metrics
- The expense of the debt and investment into the franchise are the primary reasons why **we expect the CET1 ratio to reduce to c.19% in 2019**

Total Capital Requirements (TCR)

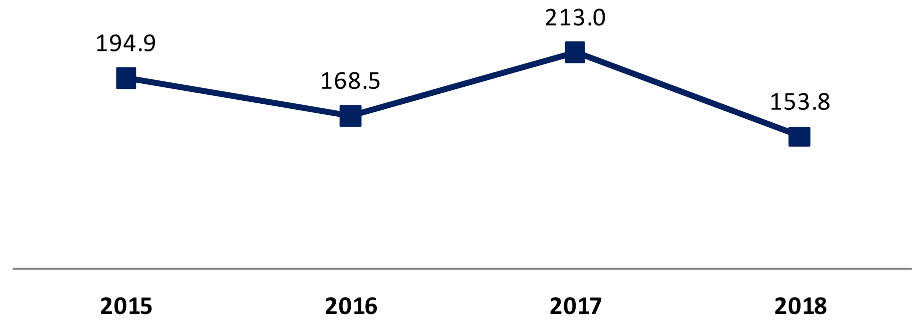


Primary liquidity begins to normalise as mortgage growth and deposit optimisation utilises cash from TFS and Optimum securitisation

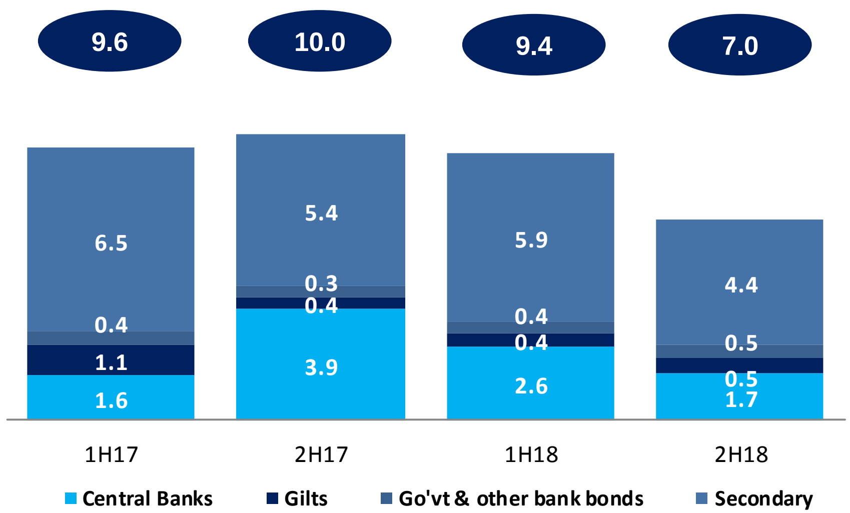
Loan to Deposit (LTD) ratio (%)



Liquidity Coverage Ratio (LCR) (%)



Liquidity by Type (£bn)



- **LTD ratio** trends upwards due to optimisation of deposits and customer asset growth. Expected to stabilise as asset growth is match funded
- **Primary liquidity**[1] and **LCR ratio** have reduced as excess funding driven by TFS drawdown and Optimum securitisation is utilised
- **Secondary liquidity**[2] decreased as the Bank manages its securities holdings, including pension collateral requirements, sales of Warwick notes and drawing of BoE ILTR

1. Primary liquidity consists of liquid assets that are eligible under European Banking Authority (EBA) regulations (high quality liquid assets).
2. Secondary liquidity comprises liquid unencumbered investment securities not included as part of primary liquidity, as well as mortgage and corporate collateral eligible for central bank facilities.

Summary – progress towards sustainable profitability with further work required in 2019

- Progress made to drive value for our loyal customers
- Encouraging financial performance in 2018 with a reducing operating cost:income ratio and first operating profit since 2013
- Investment and MREL issuances required in 2019 to deliver strategy which will see an adverse financial position compared to 2018:
    - **Customer asset and liabilities** to grow to c.£19bn and c.£19.5bn respectively
    - **NIM to reduce from 205bps to 175-180bps** as the Bank issues MREL debt with mortgage margins expected to remain highly competitive
    - **Operating cost:income ratio to increase to c.115%** due to the impacts of income reduction and investment in continuous improvement projects
    - **Cost of risk targeted to remain low** in 2019
    - **Franchise investment of £150-170m** in 2019 to enable the delivery of the strategy
    - **CET1 ratio reduces to c.19%** as investment is made into the franchise and income reduces
- 2019 will be an important year for the Bank but **customer focus will remain at the heart of our strategy**

Strategy Overview

Andrew Bester
Chief Executive Officer

The co-operative bank

The route to creating value

- Continued strong franchise, strong customer base, strong brand

- But there are challenges:
  - Income drivers
  - Cost dynamics
  - Legacy IT
  - Capital dynamics
  - Limited product set and channel capabilities

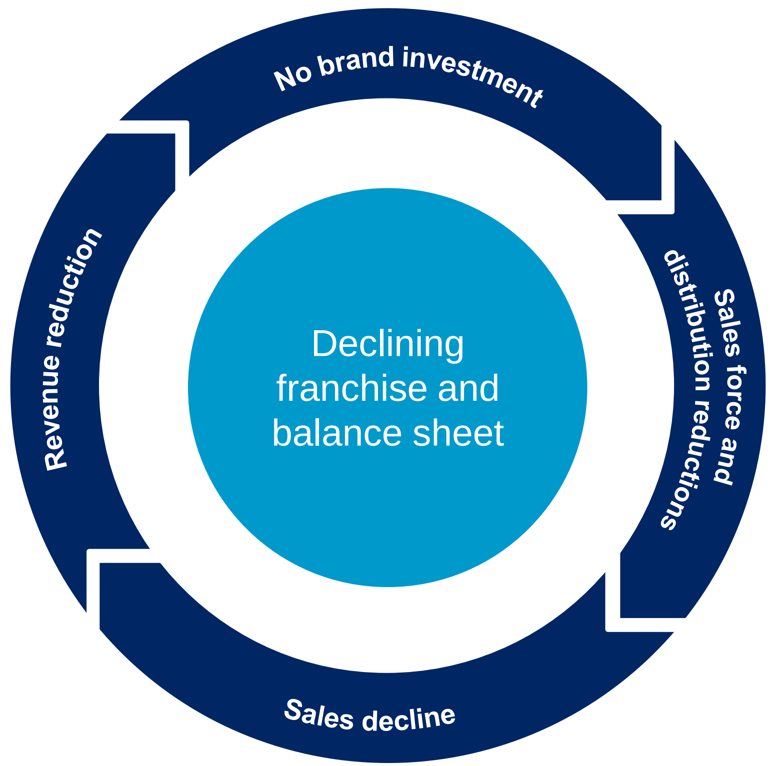
- There is a route to creating value:
  - Eliminate the inhibitors
  - Trust the brand and investing in the franchise
  - Digitally enable the business

- Pacing transformation through three horizons
  - Fix the basics (2018/19)
  - Enable the future (2020/21)
  - Establish sustainable advantage (2022 and beyond)

The last five years has been about making us safer

Risk mitigation

Franchise impact



**We can now look to the future with firmer foundations,
a strong brand, loyal customer base and robust capital position**

The Co-operative Bank franchise today

Customer	• Loyal current account customer base 1.3m current accounts • c.4m retail customers • c. 85k SME customers
Channels	• Digital behind competitors • New Mobile App launched • Branch estate reduced to 68 from 345 in 2013 • Highly rated telephony service
Brand	• Highest ethical perception of a UK bank • Unexploited brand potential • Brand reactivation underway
Products	• 7th largest UK SME franchise • Rationalised portfolio over time, focused on current accounts, mortgages and savings • Intermediary mortgage growth engine
People	• Highly engaged workforce • Customer focused heroes in the front line • c. 2,700 colleagues across 6 major sites and 68 branches

Strength of the franchise

Key strengths

- Loyal customers
- Customer-led Ethical Policy
- Co-operative values
- Committed colleagues
- Relevant, award winning products and brand

2018 proof points

WINNER THREE TIMES Business Moneyfacts Award 2016-2018
Best Charity Banking Provider

WINNER TWO TIMES Business Moneyfacts Award 2017-2018
Best Service from a Business Bank

WINNER Moneyfacts Consumer Award 2018
Branch Network of the Year

Which? Recommended Provider Current Accounts June 2018

Moneyfacts ★★★★★ Standard Current Account 2018

Moneyfacts ★★★★★ Packaged Current Account 2018

MoneySavingExpert.com
Top 3 for service

centrepoint give homeless young people a future
Over £1m support from customers and colleagues

thehive. Building better co-operative businesses
Continued support beyond 2019

My money, my life. A financial guide for victims of domestic violence
UK FINANCE
Campaigning for what is right

Trusting the brand and customers to drive value

Working towards becoming the ethical, digital bank

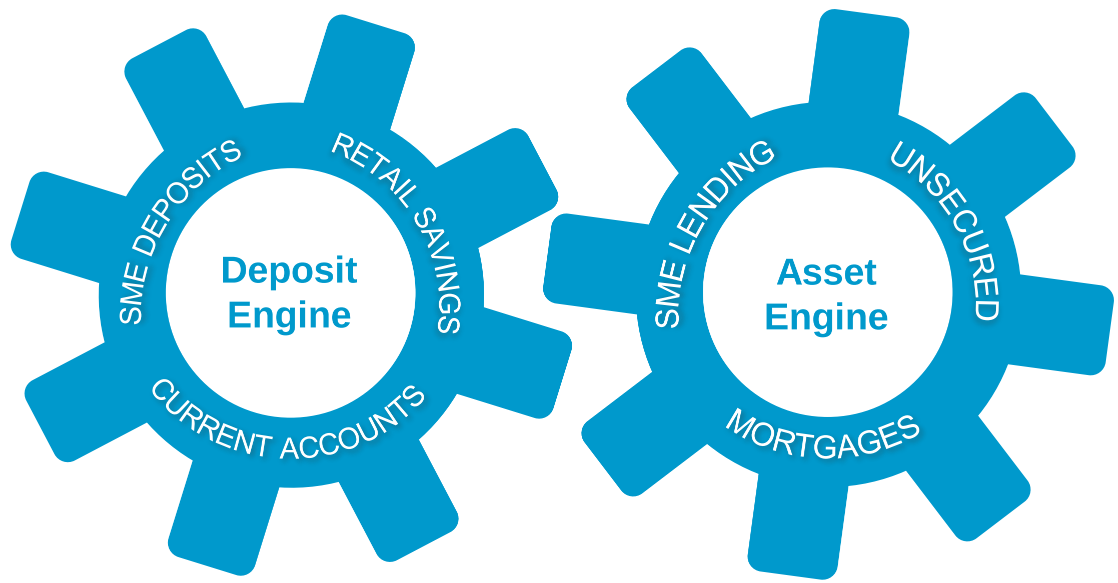
We have a clear mission and focus…

The Co-operative Bank
"for people with purpose"

- **CUSTOMER LED**
- **DIGITALLY ENABLED**
- **RELEVANT PRODUCTS AND SERVICES**
- **ALIGNED DELIVERY**

…that will create value drivers that move the Bank forward

Low cost | **High quality**



Our multi-year transformation plan focuses on enhancing customer experience and driving shareholder value

The transformation plan is broken down into three phases:

Fix the Basics (2018-19)	**Enable the Future (2020-21)**	**Transformation drives sustainable advantage (2022 & beyond)**
Re-shaped Senior Leadership team	❑ Targeted customer segment growth	❑ Digital mortgages delivered at low marginal costs
Delivered modern mobile app for customers	❑ Targeted capability enhancements	❑ Flexible digital savings platform
Pension sectionalisation completed	❑ Build out SME banking	❑ Simplified organisation driving lower costs
Align all colleagues	❑ IT platform rationalisation	❑ SME banking North West challenger
Tackle IT legacy inhibitors		
Re-energise and re-engage loyal customers		
Deepen digital engagement		

Fixing the Basics – 2019 Focus

1 **Re-energise and re-engage our loyal customer base**

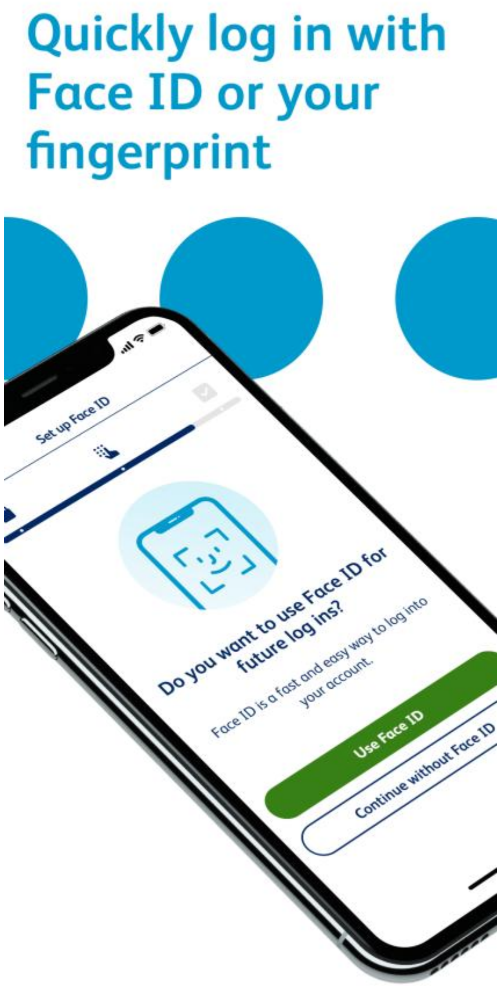
- ❑ Re-activate the ethical Co-operative Bank brand
- ❑ Re-energise front line colleagues
- ❑ Align teams on tactical customer focused service and income improvement

2 **Deepen digital engagement**

- ❑ Continued enhancement of newly-launched Mobile App
- ❑ Drive regular tactical customer experience improvements to Online and Mobile banking
- ❑ Upgrade digital banking capability for SME customers

3 **Tackle IT legacy inhibitors**

- ❑ Complete IT separation from the Co-operative Group
- ❑ Complete desktop transformation
- ❑ Mortgage and Savings re-platforming



Managed reduction of resources and NIM in 2020 as we fix the basics which enables future improvements as we invest in our franchise

Key Metrics	FY 18	2019 Outlook	2019 Target	2020 Target	2023 Target
NIM	2.05%	❑ Reduces with MREL qualifying debt and continued pressures on mortgages	1.75-1.80%	1.60-1.65%	1.80-1.85%
Operating cost:income ratio	97.1%	❑ Expected to deteriorate due to reduced income and an increase in spend on non-strategic projects	c.115%	105-110%	c.75%
Franchise investment[1]	£133m	❑ Investing for future growth	£150-170m	£100-120m	£50-70m
CET1 %	22.3%	❑ Decreases due to above factors and increased investment	c.19%	c.16-17%	c.18-19%
Customer assets	£17.7bn	❑ Expected to increase as the Bank drives origination through its Platform brand	c.£19bn	c.£21bn	c.£24bn
Customer liabilities	£18.7bn	❑ Expected to increase as the Bank rejuvenates its franchise, driving deposit origination to fund balance sheet growth	c.£19.5bn	c.£21bn	c.£25bn

1. Cash spend excl any capitalisation

We can now look to the future with a strong brand, loyal customer base and robust capital position

- Trusted strong brand that we will re-launch in April 2019
- Customer First approach embedded across the organisation from senior management to front-line colleagues
- Continue to develop and deliver award winning products and customer service
- Digital transformation of the Bank underway, including launch of new mobile app
- Highest mortgage completions since 2010 and deposit acquisition optimised to reduce cost of funds
- Aligned multi-year transformation plan that will see us invest £400m to 2023

The Co-operative Bank
“for people with purpose”

Appendix

Glossary

- **Net Interest Margin** (NIM) is calculated as total net interest income divided by average gross customer assets
- **Operating cost:income ratio** (CIR) is defined as operating expenditure plus continuous improvement project spend divided by operating income excluding losses on asset sales
- **Non performing loans** (NPL) is calculated as impaired customer balances divided by customer gross loans and advances
- **Coverage ratio** is calculated as impairment provisions on customer balances divided by gross loans and advances
- **Liquidity Coverage Ratio** (LCR) is the primary regulatory standard for liquidity and Individual Liquidity Guidance is set with reference to LCR. UK banks are required to maintain a minimum of 100%
- **Leverage ratio** is calculated by dividing Total Tier 1 capital (after deductions) by adjusted balance sheet exposure
- **Common Equity Tier 1** (CET1) is equivalent to tangible shareholders' funds less certain capital deductions. Calculated as CET1 resources expressed as a percentage of Risk Weighted Assets (RWAs)