

## Third Quarter Trading Update 2019

The Co-operative Bank p.l.c.

7 November 2019

The Co-operative Bank ("the Bank") is pleased to provide an update on its performance in the nine months to 30 September 2019

### Continued progress in fixing the basics

- Enhancements to our customer journeys include the launch of the Bank's first in-app complete sales journey for instant access savings supporting an increase in our current account NPS score to +27
- Renegotiation of key contracts supporting our transformation and generating cost savings, including renewal of our Capita mortgage servicing and IBM as our key IT strategic partner in October
- Desktop transformation and the separation programmes are nearing completion. Continued digital momentum including the launch of our new SME platform
- Maintained focus on de-risking the legacy portfolio including £314m securitisation of the Optimum mortgage book; legacy assets now represent under 5% of the Bank's total assets
- CET1 ratio resilient at 20.7% and ahead of guidance despite £60m PPI charge
- Notification received post 3Q results of a further reduction in PRA Individual Capital Requirement ("ICR") to 6.54% of RWAs, reduced from 8.69% (10.04% as at Dec 17). This equates to a revised Total Capital Requirement ("TCR") of 14.54% effective from November 2019

### Balance sheet growth driven by resilient mortgage performance

- Strong core mortgage growth continues with balances up 3.4% driven by £2.6bn of new business completions and increased levels of customer retention
- Cost of funds stable at 60bps, 15bps below base rate, due to 3.5% growth in both Retail franchise and SME deposits and management of more expensive term balances

### Underlying profit £2.3m year to date with core income in line with 2018

- Core income stable at £285.2m (3Q 18: £284.2m) as a number of treasury gains including Visa shareholdings (£18.4m) and the optimisation of treasury assets has offset reduced income from the Retail franchise
- Total income down 2% to £286.8m (3Q 18: £292.3m) driven by de-risking of the Legacy portfolio
- Customer NIM reduces to 1.76% as expected (3Q18: 2.07%), driven by sustained margin pressure
- Operating expenditure broadly flat at £281.3m (3Q 18: £280.2m) as management actions to reduce costs are offset by continued investment in brand marketing
- Underlying cost:income is ahead of guidance at 98.1%; full year guidance upgraded to <105% (previously <110%)
- Cost of risk remains low at 2bps, reflecting low impairment charge of £3.2m. Average LTV of the mortgage book stable at 56.3%
- Loss before tax increases 36% to £118.6m (3Q 18 loss: £87.0m) which primarily reflects the 3Q 19 PPI charge of £60.0m

### CET1 ratio of 20.7% remains ahead of guidance

- Management actions to reduce RWAs offset the impact of the PPI charge
- The Bank's MREL requirements increased to an equivalent of TCR plus £200m on 1 July 2019. The Bank remains committed to building further MREL funding

### Update on Total Capital Requirement

Post 3Q results, the Bank received a revised TCR from the PRA. The requirement, effective from November 2019, has reduced from 16.69% and is now set at 14.54% of RWAs. At 3Q 2019 the Bank is reporting a surplus to TCR of £387.8m. Applying the new requirement, the surplus to TCR on a pro-forma basis would be £463.9m, a £76.1m improvement.

### Increased PPI provision of £60m

- In September the Bank announced that it expected a further PPI provision of £55m-£75m to be required in light of substantially greater volumes of complaints and enquiries than expected in the final month prior to the complaint deadline
- In the period subsequent to that announcement, the Bank has refined estimates and has recognised a charge of £60m in the third quarter which is within the range originally announced
- The Bank estimates that it received approximately 15% of its total volume of complaints in the week leading up to time-bar or afterwards (being expected complaint volumes that will follow from the auto-conversion of enquiries where PPI is found). This high volume of complaints received means that processing is still ongoing and the Bank will not know the final cost of PPI remediation until 1H 2020.

### Chief Executive Andrew Bester said:

“We are continuing to make positive progress and delivering our plan in what is a challenging UK retail banking market, against ongoing economic uncertainty. We continue to put the needs of our customers first, making enhancements to our customer journeys, and this is reflected in a further increase in our current account NPS, remaining third in the UK. We have achieved ongoing growth in our mortgage book thanks to some agile pricing and strong broker relationships, supported by growth in both our Retail franchise and SME deposits. I am pleased with the progress we are making in simplifying and de-risking the Bank. Our capital position remains ahead of guidance, with a strong CET1 ratio. I am encouraged by the recent reduction in Total Capital Requirements as we continue the transformation of the Bank.

“While we have incurred charges in respect of higher than expected PPI complaints in the third quarter our underlying performance is encouraging and many of the issues that are key to our development in future years are being addressed. Significant improvements to our digital proposition, progress towards the separation of our IT infrastructure from the Co-op Group, and continued investment in our distinct ethical brand have supported our resilient business performance this quarter. A market where consumers are seeking greener and ethical choices presents an opportunity for the Co-operative Bank. These actions will provide a platform for the Bank’s development in future years.”

Andrew Bester, CEO, and Nick Slape, CFO, will host an investor call on 7<sup>th</sup> November 2019 at 2pm UK time followed by a short Q&A session. Details of the call can be found below:

United Kingdom (local): 020 3059 5868  
All other locations: +44 20 3059 5868

Additional materials can be found on the Bank’s investor portal which can be found at the following address:  
<https://www.co-operativebank.co.uk/investorrelations>

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### About The Co-operative Bank

The Co-operative Bank p.l.c. provides a full range of banking products and services to about 3.5 million retail and c.85k small and medium sized enterprises (“SME”). The Bank is committed to values and ethics in line with the principles of the co-operative movement. The Co-operative Bank is the only high street bank with a customer-led ethical policy, which gives customers a say in how their money is used. Launched in 1992, the Policy has been updated on five occasions, with new commitments added in January 2015 to cover how the Bank operates its business, products and services, workplace and culture, relationships with suppliers and other stakeholders and campaigning.

The Co-operative Bank p.l.c. is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The Co-operative Bank p.l.c. eligible customers are protected by the Financial Services Compensation Scheme in the UK, in accordance with its terms.

**Note:** all figures contained in this trading update are unaudited. This announcement contains inside information.