Factbook

Annual Results 2022

The co-operative bank

An ethical approach to banking for over 150 years

2022 was a milestone year for The Co-operative Bank, marking the first year of the 'Growth and Efficiency' phase of our strategic plan which represented a critical stage in our transformation, as we proudly celebrated our 150th anniversary.

We improved our profitability substantially and returned to full compliance with regulatory capital requirements including all buffers for the first time in ten years. We also delivered key milestones in our Simplification programme - our multi-year strategic programme to rationalise our IT infrastructure which will deliver significant efficiencies and enable growth options over the longer term. Our mortgage book remains stable, low risk and well positioned in a higher rate environment and our franchise and SME deposits continue to show resilience.

In June 2022, we launched our updated **Ethical Policy.** This followed the 'Values and Ethics Poll' customer consultation in 2021, through which 47,177 of our customers and colleagues shared their views. For 30 years, our Ethical Policy has remained a unique document within UK banking and a sign of our long-term commitment to the co-operative values on which we were built 150 years ago. **No other UK bank makes ethical business commitments based on the views of their customers.** We are extremely grateful to every customer who took part in the poll and helped to shape our updated Ethical Policy.

Overwhelmingly, our customers told us their most pressing ethical concern is **protecting the environment.** We have therefore looked at the businesses we refuse banking services to, further strengthening the exclusion statements for business activities that cause harm to biodiversity and the environment. We've also made commitments to take definitive action on our own environmental impact, to help our customers on their sustainability journeys and to raise our corporate voice to campaign for the preservation and restoration of ecosystems and reverse the decline in biodiversity.

As we look ahead, there is always much more to do but we can now look forward with some confidence as we have successfully steered our bank into a strong financial position, building a solid foundation that will allow us to grow and invest in the ethical projects that our **customers and colleagues tell us matter to them.**

Nick Slape

Nick Slape, Chief Executive

** Research conducted by Opinium among a nationally representative panel of 2,000 UK adults between 20 May 2022 – 24 May 2022

** Via Bank Green's Report - Banking on Climate Chaos 2022 - Banking on Climate Chaos

Our 2022 Sustainability Highlights

For over 150 years we've pioneered ethical banking, driving positive social and environmental change for our people, planet and communities. In 2022, we were proud to celebrate several notable achievements:

- We were recognised as the **UK's best ESG high street bank** by Sustainalytics for the second year running[1].

Our approach to ethical banking make us a natural leader in ESG and our improved ratings according to Sustainalytics, MSCI[2] and ISS[3] illustrate market confidence in our environmental and social commitments.

Rating Agency	Rating	Scale	Latest update
MSCI	AAA	AAA to CCC	Jul-22
Sustainalytics	8.3 (Negligible)	0 to 100	Jul-22
ISS ESG	C	A+ to D-	Jul-22

- We received the **UK's most ethical Bank Award** from CFI (Capital Finance International).
- We led the **campaign on environmental protection with Zero Hour,** the campaign for the Climate and Ecology Bill.
- We became the **first UK high street bank to be part of the Fossil Free Banking Alliance.** Founded by Bank.Green, the alliance helps climate-conscious consumers to choose a bank that isn't financing the climate crisis.
- We published the sixth update to our **unique customer-led Ethical Policy,** shaped with the collective input of over 370,000 customer responses.
- We celebrated another year of being **beyond carbon neutral,** reducing our operational greenhouse gas emissions by 33%.
- Together with our customers we raised over **£1.6m for charity in 2022.**
- Our colleagues donated **4,170 volunteering hours,** giving back to our local communities and helping people to thrive.
- We continued to **refuse banking services to any organisations involved in the production, extraction or exploration of fossil fuels,** a commitment we've had for over 30 years.

1. Rated by Morningstar Sustainalytics in the Regional Bank's sub-industry with a score of 8.3 as of 8 July 2022.
2. The Co-operative Bank was given an AAA ESG Risk Rating by MSCI in 2022.
3. ESG Corporate Rating last modified 12 July 2022.

Our 2023 targets and commitments

Environmental

Scope 1 & 2: Reduce direct scope 1 & 2 emissions related to energy consumption by 6% in 2023 with a Net Zero status by 2030.

Scope 3: Develop a robust programme of work as we strive to decarbonise the Bank and achieve Net Zero status by 2050.

Replenish nature-deprived spaces: Support the reversal of nature loss and improvement in biodiversity across the UK.

Increase recycling further: Aim to recycle at least 75% of operational waste.

Support customer sustainability: Help our customers to measure, manage and improve their sustainability.

Introduce new 'green' mortgage products and increase the proportion of A or B EPC rated property mortgage lending by 20% year-on-year.

Social

Campaign to transform the private renting sector: Protect people at risk of homelessness.

Investment in branches: Regenerate and relocate some of our existing branches to support the communities in which they're located.

Community support: Commit at least £30m lending to support businesses, organisations or co-operatives to improve our communities and the environment.

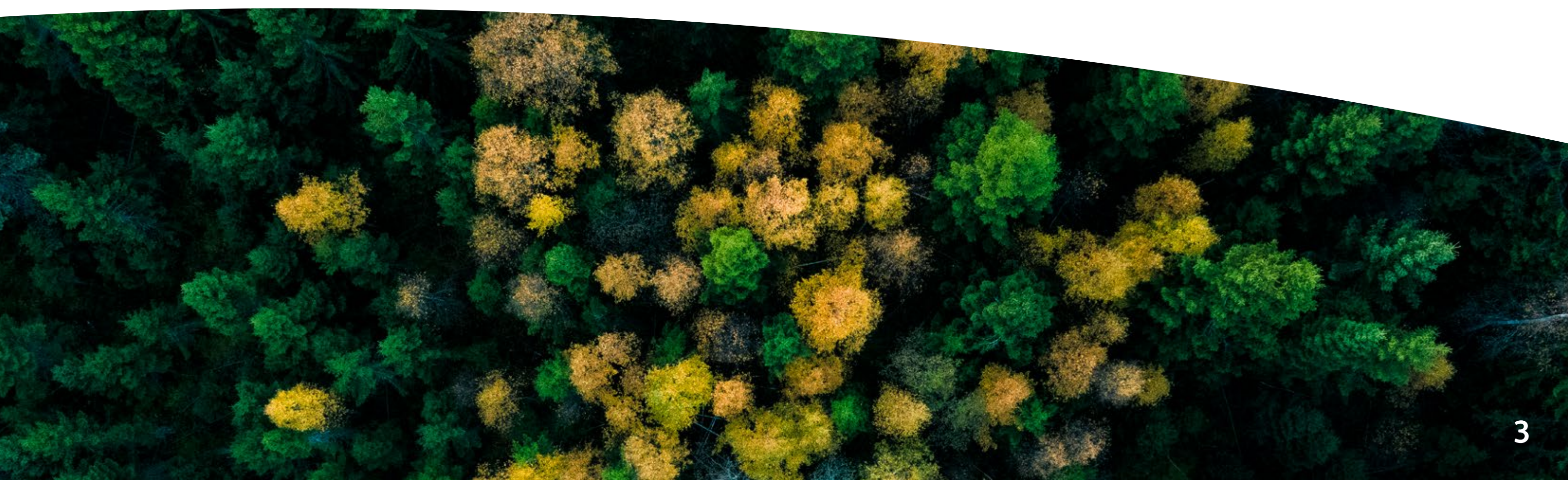
Putting our values into action: Give back to our communities by increasing colleague volunteering hours by 50%.

Governance

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

Women in senior positions: Remain committed to our aspirational target to have 45% of senior positions filled by women.

Training for all colleagues: Ensure that all colleagues, including Board and Executive Committee Members, undertake additional training in Environmental, Social and Governance related risks.



A strong 2022 performance

The Co-operative Bank provides a range of banking products and services to c.2.7m Retail customers and a sizable and growing customer base of c.94k customers, providing business loans, credit cards and deposit products.

We're currently the **13th largest lender** in the UK by net loans and ranked 3rd highest vs. UK high street banks for current account customer satisfaction[1]

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 and non-financial performance metrics (Dec 2022)

Strong earnings:	**£132.6m** Profit before tax vs. £31.1m in FY'21
Focused on growth efficiency & capital: Total income increased with net interest margin (NIM) increasing by 41 basis points (bps) from 125bps to 166bps, mainly reflecting improving deposit margins following increases in the Bank of England base rate. Operating expenditure has increased reflecting higher staff costs, and higher marketing and fraud costs compared to 2021.	**38%** Income growth increased by £137.9m to £499.4m vs FY'21

£20.9bn Loan Book	**£458m** Net Interest Income	**1.66%** Net Interest Margin[3]	
£20.1bn Customer deposits	**£136m** Underlying PBT[4]	**13.7%** Adjusted RoTE[5]	**1.3%** Statutory RoTE[5]
3rd highest vs. UK high street banks for current account satisfaction	**3.1bps** Asset quality ratio[6]	**19.8%** FL CET1 ratio[7]	

2022 Financial performance summary

(£m)	FY 22	FY 21
Net interest income	458.3	323.9
Operating expenses	(372.7)	(346.1)
Impairment charge	(6.4)	(1.1)
Profit before tax	**132.6**	**31.1**
Net interest margin (bps)[1]	166	125
Cost:income ratio (%)[2]	72.8	91.5
Adjusted RoTE (%)[3]	13.7	4.7
Asset quality ratio (bps)[4]	3.1	0.5

2023 Targets/projections

During 2022 we delivered improved financial performance and continued to invest in the Bank. Our financial outlook for 2023 remains positive.

Net interest margin	Total statutory costs	Continue to target a sustainable RoTE (%)	Expect to deliver an asset quality ratio	Customer assets
c.180 bps	c.£420m	c.10%	<5bps	c.£22bn

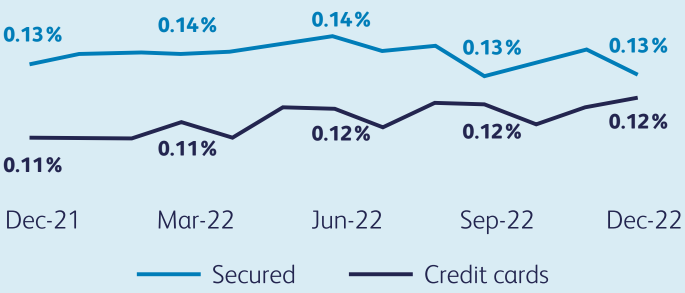
Notes: (1) Based on Which? Survey (October 2022); (2) Rated by Morningstar Sustainalytics in the Regional Banks sub-industry with a score of 8.3 as of 8 July 2022; (3) FY22 net interest income divided by average interest earning assets; (4) Statutory profit before tax plus exceptional project expenditure less other exceptionals; (5) Adjusted RoTE based on underlying profit before tax net of current tax divided by CET1 resources; FY22 RoTE disclosed on an adjusted basis to remove the impact of the defined benefit pension asset arising from the PACE pension scheme of c.£0.4bn which is not recognised as CET1 capital. Following the de-risking of the PACE pension scheme, the quantum of asset not recognised as CET1 capital has decreased significantly so the Bank going forward will disclose RoTE on a statutory basis. Statutory RoTE is based on profit after tax divided by average tangible equity; (6) Impairment charge divided by average customer assets; (7) Excluding IFRS 9 transitional relief; (8) Relates to net loans and advances in the UK;

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 3.1bps (FY 21: 0.5bps). The average core mortgage book loan-to-value (LTV) **remains low at 53.5%** (FY 21: 56.8%).

Secured accounts that are greater than three months in arrears represented **0.13% of total accounts** (FY 21: 0.13%).

Accounts > 3 months in arrears[5]



High quality loan book

(£m)	FY 22	FY 21
Average LTV new business	71.2%	73.3%
Average LTV core mortgage book	53.5%	56.8%

Impairments

Net impairment charge of

£6.4m vs FY 21: £1.1m

This reflects a deterioration in the Bank's macro-economic forecasts along with adjustments for affordability across secured and unsecured portfolios as a result of cost of living pressures. This is partially offset by the net impact of Covid provision releases and reflects the ongoing monitoring of customer arrears data in the post-pandemic period.

Our capital position remains strong

CET1 ratio has reduced from

20.7% to 19.8%

This remains well above our regulatory minimum of 13.3%. CET1 ratio reduction is driven by the impact of regulatory adjustments for PS11/20 and software intangibles. Organic CET1 ratio generation in 2022 totalled 350bps before the impact of regulatory adjustments, reflecting profit for the period.

Risk-weighted assets (RWAs) totalled

£4.8bn vs FY 21: £4.4bn

With a stable balance sheet the majority of the movement is the result of regulatory adjustments for PS11/20.

The PRA leverage ratio[6] of

4.0% vs FY 21: 3.8%

This has increased, as a result of higher CET1 resources and lower exposures. 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 CET1 ratio of 19.8% (2021: 20.7%) remains well above the regulatory minimum. The Group has a Total Capital Requirement (TCR) of 13.1% of Risk Weighted Assets (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.

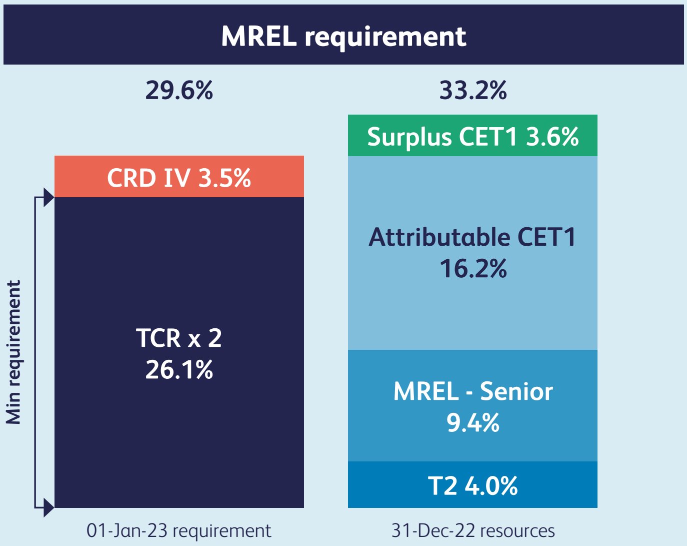
At the end of 2022, the Group had Pillar 1 requirements equivalent to 8.0% (2021: 8.0%) of total RWAs and an Individual Capital Requirement (ICR) equivalent to 5.05% of total RWAs (2021: 6.08%).

	FY 22	FY 21
CET1 ratio	19.8%	20.7%
Risk-weighted assets (£m)	4,816	4,373
PRA leverage ratio	4.0%	3.8%

MREL-qualifying resources increased by £290.4m

MREL-qualifying resources increased by £290.4m to £1,599.3m predominantly due to the successful £250m MREL issuance under our inaugural Green, Social and Sustainability Framework, which was completed in April 2022.

During the year, the Group became fully compliant with its capital requirements plus total buffers on a sustainable basis for the first time since 2013. This delivery representing a significant milestone for the Bank.

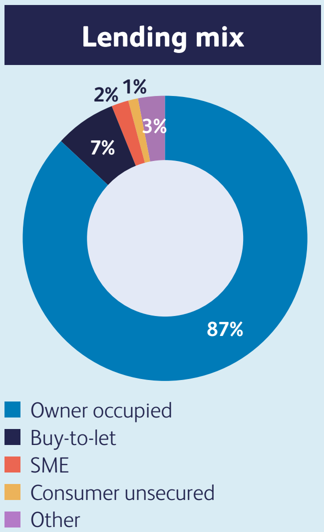


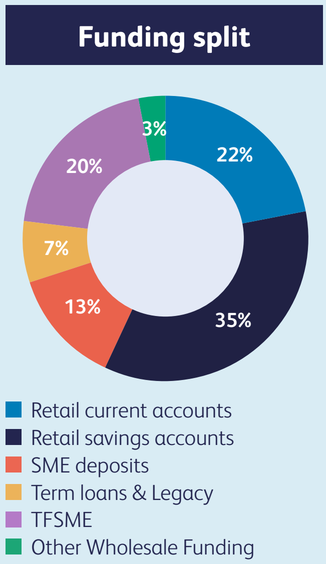
Liquidity and funding remains strong and well above the 100% regulatory minimum

Liquidity remains strong and significantly above the 100% regulatory minimum. The Bank's Liquidity Coverage Ratio (LCR) increased 60 percentage points to 265.3% (2021: 205.3%) calculated on a 12 month rolling average in line with Pillar 3 requirements.

The Bank's Loan to Deposit ratio was 104%, emphasising the predominance of customer funding in our model.

Low cost customer funding profile with blended total cost of funds of 73bps in 2022





Our mortgage pipeline is more normalised and back to pre-pandemic levels

Retail secured balances increased slightly to **£19.6bn** as we actively managed new business volumes to preserve margins.

The Mortgage pipeline was **c.£1.7bn** at year-end (FY 21: £1.2bn) and our mortgage book margins have remained largely stable at 147bps (2021: 154bps).

Our balance sheet remains stable with a low-risk portfolio

Customer deposit balances across both Retail and SME segments reduced to **£20.0bn** (FY 21: £21.1bn), following marginal reductions in excess balances built up during the pandemic.

Our personal current account average balance increased to **£4,785** (FY 21: £4,580) and remains higher than before the pandemic outbreak.

Segmental summary

(£m)	FY 22	FY 21
Retail mortgages	19,604.3	19,507.9
Retail unsecured	237.0	248.1
SME assets	388.2	441.7
Core assets	**20,229.5**	**20,197.7**
Legacy & central items	7,903.3	9,125.6
Total assets	**28,132.8**	**29,323.3**
Retail deposits	16,607.8	17,604.4
SME deposits	3,396.8	3,461.0
Core liabilities	**20,004.6**	**21,065.4**
Legacy & central items	6,829.2	6,506.0
Equity	**1,299.0**	**1,751.9**
Total liabilities and equity	**28,132.8**	**29,323.3**

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

In December 2022, we received a 1 notch upgrade to our long term credit rating from Moody's to Ba1 (from Ba2) representing another step towards returning to investment grade rating. Our rating with Fitch also improved to BB (previously B+). 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	Outlook	Latest Update[1]
Moody's	Ba1	Positive	Dec-22
Fitch	BB	Stable	Feb-23

1. Date at the time of FY 22 results announcement.

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Information correct as of 03/2023

The co-operative bank