Secured Investor: Mortgage Business Update

28th October 2019

The co-operative bank
for people with purpose

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The Co-operative Bank – Corporate Overview

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Positive strategic progress and financial performance ahead of expectations

YTD results demonstrate positive financial performance, despite a challenging UK Retail Banking market and economic uncertainty

- **Resilient business performance** despite market pressures
- We will **remain focused on cost reduction** whilst **investing in our brand, digital capabilities and enhancing our product offering**
- **'Fix the basics' spend expected to track lower than guidance**
- **Successful Tier 2 issuance of £200m**
- **Upgraded credit rating from Moody's** a positive step as we look to build our future

Core income up 1% £189.4m (2018:186.9m)

Cost: Income ratio ahead of Plan 101% (*115%)

High quality, low risk loan book-average mortgage LTV 57.2%

Strong capital base CET1 21.9% (*19%)

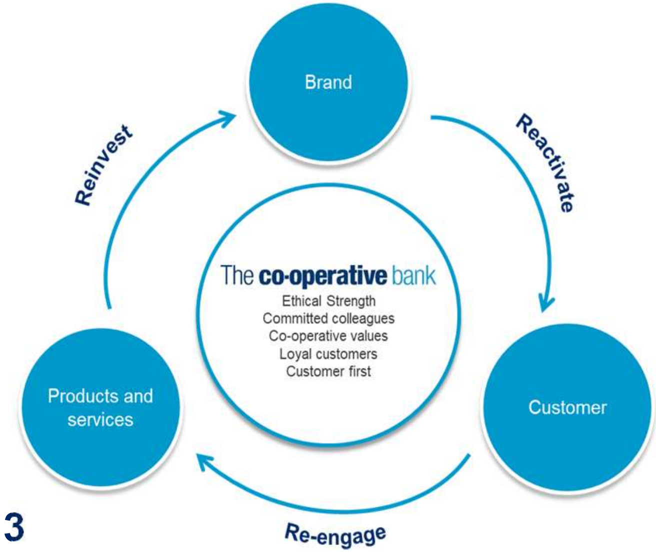
*2019 in-force full year guidance

Upgraded cost, capital & investment guidance as we remain confident in accelerating delivery of strategic objectives

Tangible evidence of 'fixing the basics' with further progress towards building our future

In H1 we delivered a series of initiatives re-energising our people, re-activating our unique brand and re-engaging our loyal customers

- Continued **award winning customer service** improving NPS scores, growing our customer base and improving retention rates
- Successful **brand campaign** reaching customers across multiple channels
- Embedding **customer first principles** underpinning our values and ethics as a key differentiator
- Optimisation of retail product mix enabling **controlled growth in a subdued market**
- **Following C&I bid success** Q2 saw the **first growth in SME customers since 2013**
- **Extension of free SME 30 month introductory period** makes it **the best-in-market introductory deal**
- **Enhancing our digital offering** including the launch of our new mobile app
- **Progress against key strategic** projects including desktop transformation, separation and mortgage and savings re-platforming



Committed to investing in our future and becoming the ethical digital Bank

Progress in our multi-year transformation plan, 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	Establish Sustainable Advantage 2022+

Fix the Basics
2018/19

- **Deliver financial performance**
- **Successful issuance of Tier 2**
- **Re-energised our people**
  New performance framework
- **Upskilled IT, change and supplier management**
- **Re-engaged loyal customers**
  Successful multi-media brand campaign and award winning customer service
- **Enhanced digital engagement**
  Mobile app users 384k up from 350k since February migration
- **Tangible progress with key strategic projects and supplier partnerships**
  Desktop transformation near completion, separation and re-platforming progressing to plan

Enable the Future
2020/21

- Targeted customer segment growth
- Cost savings driven by supplier rationalisation
- Simplified organisation driving lower cost
- Targeted capability enhancements
- Invest BCR funding to enhance SME banking
- Digitisation and IT platform rationalisation

Establish Sustainable Advantage
2022+

- The ethical digital Bank
- Digital mortgages delivered at low marginal costs
- Flexible digital savings platform
- SME banking North West challenger

Finding growth in a competitive market

	The Co-operative Bank	Wider market
Retail Lending	• **£1.1bn mortgage balance growth since 1H 18** • **Margins maximised** through LTV optimisation and controlling new business volumes • **Broadened BTL proposition**, increasing customer channel choice, service and digital enhancements	• **Highly competitive market, intense pricing** forcing **margin compression** • **Lenders** offering **higher LTV/LTI** to support returns • **SVR attrition** forcing pressure on income • **Housing market subdued**
Retail Deposits	• **Continued customer momentum-** increase in new savings and current account customers and strong customer retention rates • **New Select Access Saver product generating £220m** new to bank balances (>100% growth YoY)	• **Current account switching market flat** over past 18 months, spikes driven by switch incentive campaigns • **Term market hit significantly by lower swap rates** • **High Cost of Credit** and **reforms to pricing structures** creating additional challenges
SME and Charities	• **c.85,000** SME customers • **£15m successful C&I bid** supporting ambition to increase market share in key growth segment • **Delivery of enhanced digital capability** increasing customer engagement	• **Fierce competition for SME deposits** placing value on “more than banking” with focus on mobile functionality • **Expectations** to **digitise products and services** growing exponentially • **Challengers and fintechs investing heavily** in improved propositions

2019 Interim Financial Performance and Core Bank Mortgage Portfolio

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Financial performance ahead of expectations with CET1 ratio at 21.9%

£m	1H 19	1H 18	Change
Retail	140.5	146.8	(4%)
SME	27.9	28.0	(0%)
Core Customer income	**168.4**	**174.8**	**(4%)**
Treasury	21.0	12.1	74%
Total Core income	**189.4**	**186.9**	**1%**
Legacy/other	1.8	6.0	(70%)
Total income	**191.2**	**192.9**	**(1%)**
Operating costs	(185.0)	(175.2)	(6%)
Continuous improvement spend	(8.2)	(9.4)	13%
Operating expenditure	(193.2)	(184.6)	(5%)
Impairment (loss)/gain	(0.8)	2.9	<(100%)
Underlying (loss)/profit	**(2.8)**	**11.2**	**<(100%)**
Loss before tax	**(38.5)**	**(39.5)**	**3%**
Ratios			
Customer NIM[1]	1.83%	2.08%	(25)bps
Underlying cost:income ratio[2]	101.0%	95.7%	(5.3)pp
Cost of Risk[3]	1bp	(2bps)[4]	(3)bps
CET1 ratio %	21.9%	22.3%[4]	(0.4)pp

Underlying loss of £2.8m with core income 1% higher

Income broadly in line at £191.2m

- Retail down £6.3m through sustained mortgage margin pressure leads to NIM compression
- Treasury optimisation/revaluations drives £8.9m improvement
- Continued Legacy run-off reduces income by £4.2m

Expenditure increases 5% to £193.2m

- Renewed focus on brand and people investment offsets management actions
- C:I ratio tracking ahead at 101% (guidance c.115%)

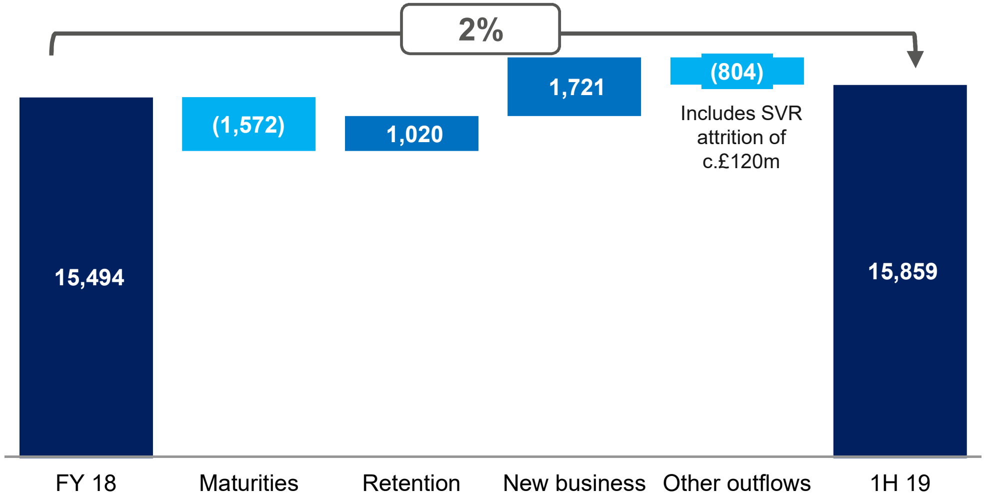
Credit quality remains strong with net cost of risk of 1bp

Loss before tax improves 3% to £38.5m including strategic investments of £52.7m

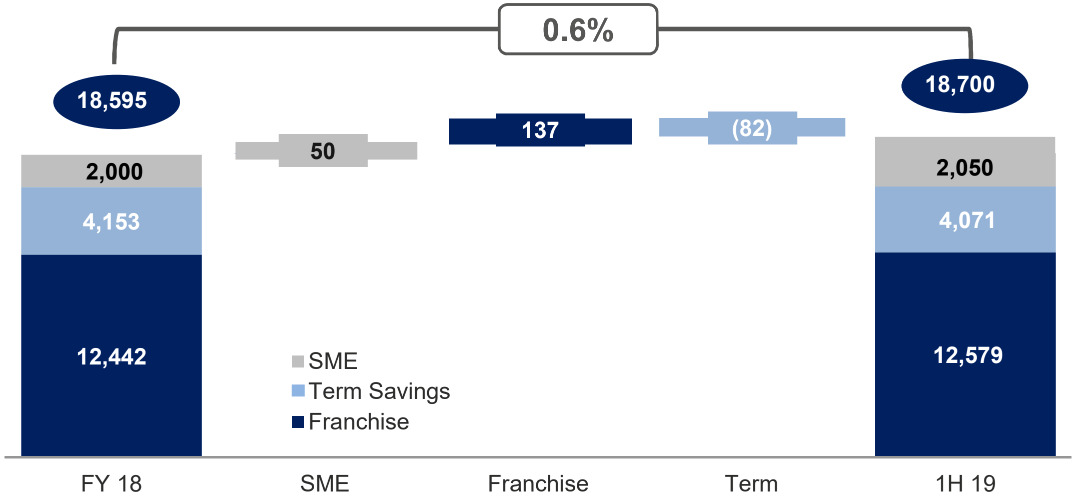
1. NIM calculated as total net interest income over average gross customer assets
2. Underlying cost:income ratio is calculated as operating expenditure over total income (excl losses on asset sales)
3. Cost of Risk is calculated as impairment divided by average total customer assets
4. Balance sheet ratios show FY 18 as comparative in place of 1H 18

Controlled growth in core customer balance sheet, cost of deposits remains low

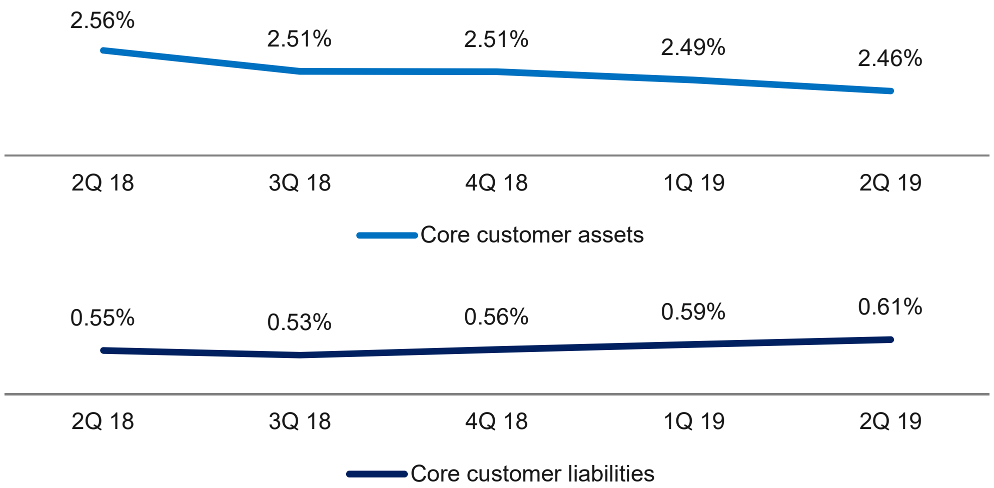
Mortgage flows (£m)



Core customer deposit flows (£m)



Gross customer deposit and lending rates[1]

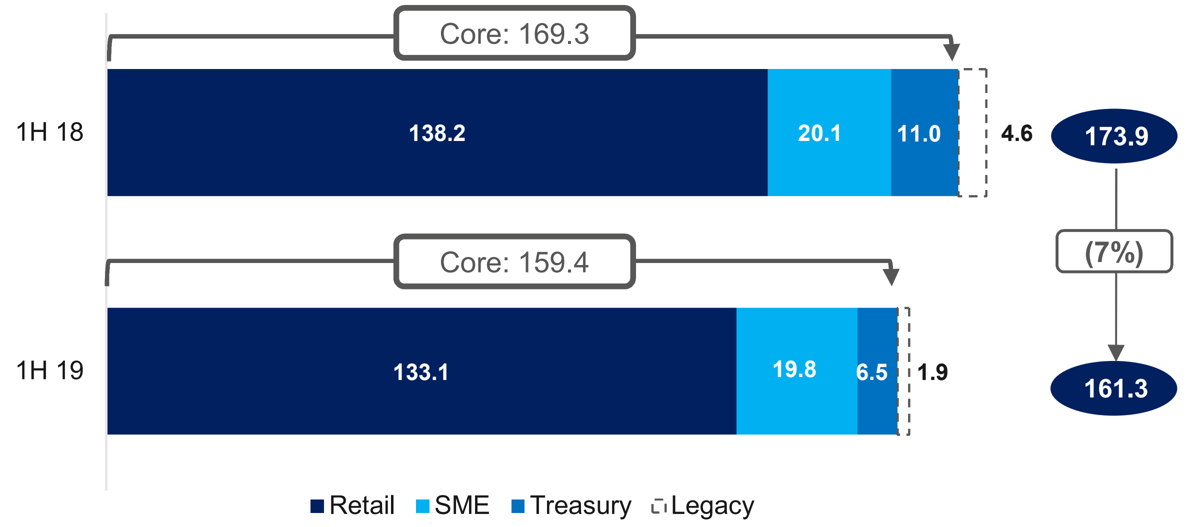


- 2% growth in mortgages through Platform new business, improved retention and propositions
- 1.3% growth in lower cost Retail franchise and SME deposits with 2% reduction in term funding
- Sustained mortgage margin pressure drives 10bps reduction in core asset rates, however cost of deposits remains low at 61bps, 14bps below base rate
- Revising down customer asset and liability growth in 2019

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

Net interest income down 7% with anticipated NIM contraction

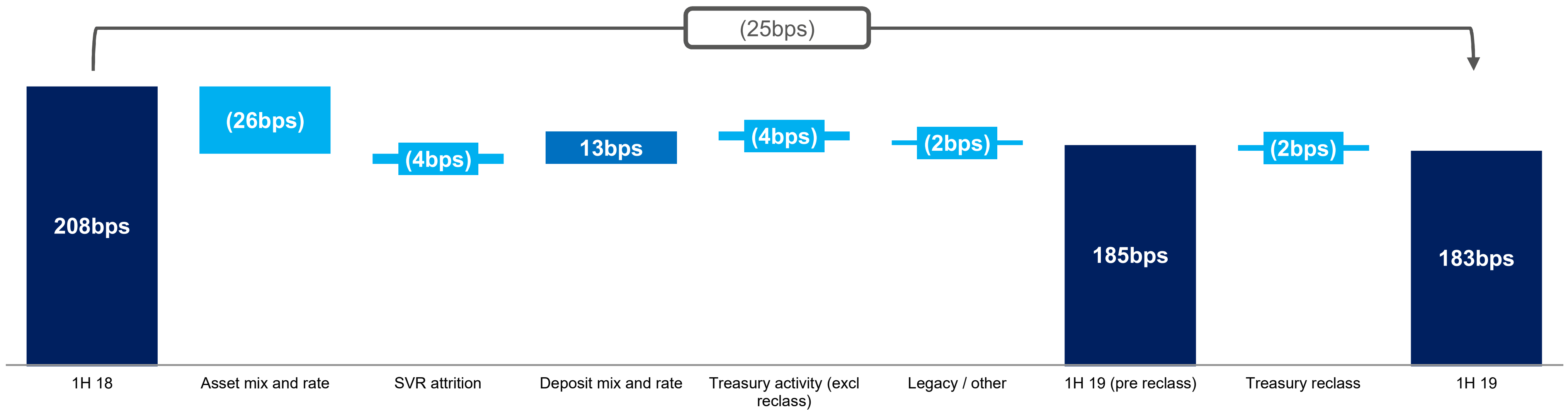
Net interest income (£m)



NII of £161.3m with SME stable

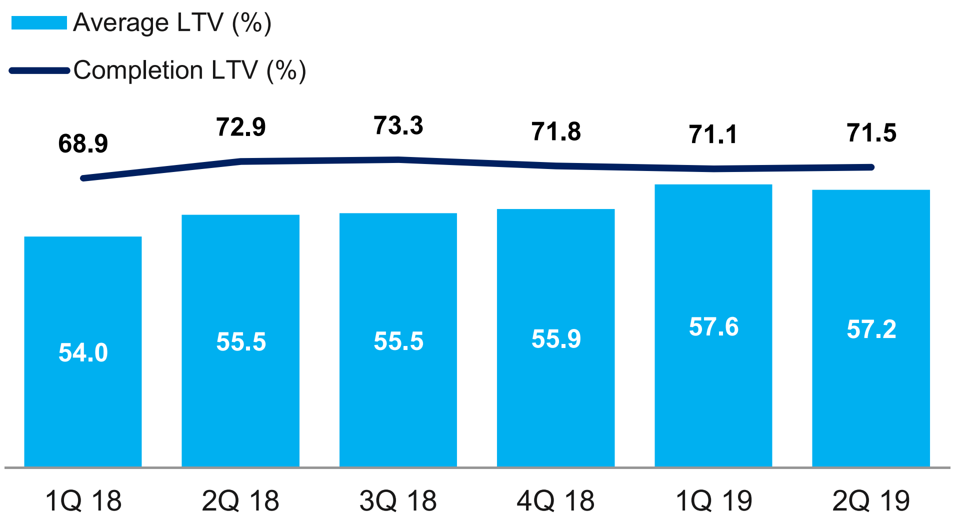
- Retail NII down 4% as competitive mortgage margins and SVR mix is partially offset by improving deposit costs
- Treasury NII down due to Tier 2 and lower MBS balances. Hedging adjustments offset in non-interest income
- Legacy NII represents only 1% of interest income, down from 3% in 1H 18
- Underlying NIM reduces to 185bps. Now expect 2019 NIM of c.170bps reflecting lower external rate expectations

Customer net interest margin



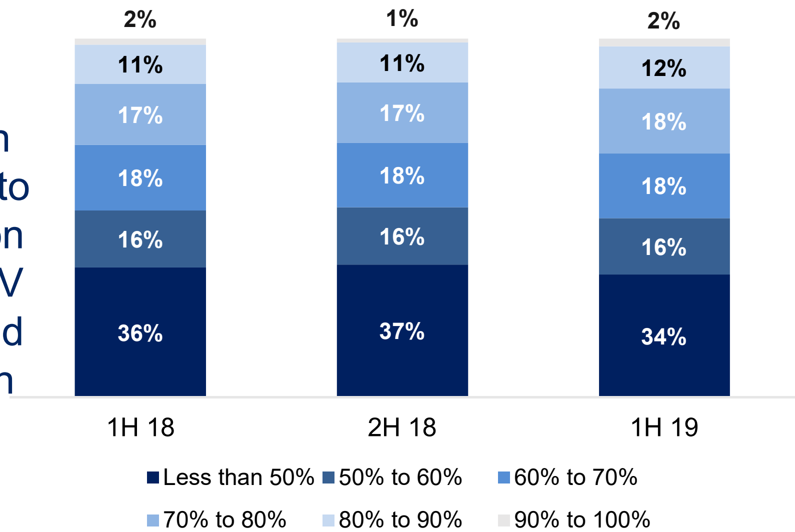
Well diversified and low LTV mortgage book

Average retail mortgage LTV (%)

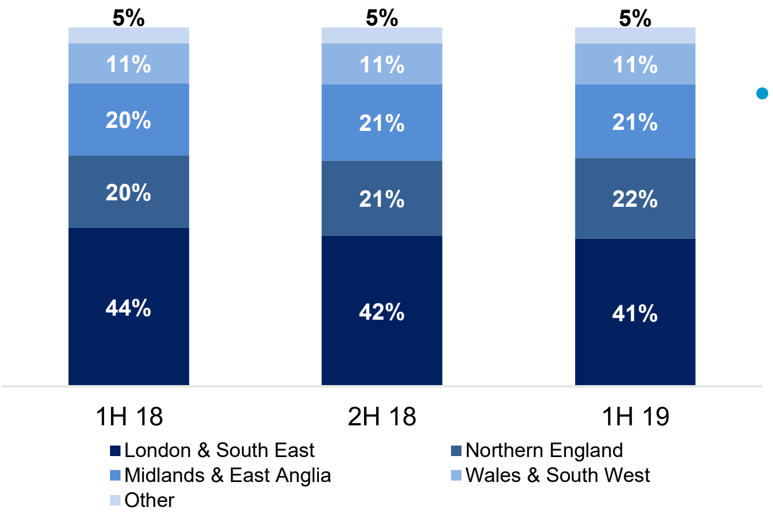


LTV split by band

- Marginal increase in LTVs due to introduction of 95% LTV lending and pressure in HPI

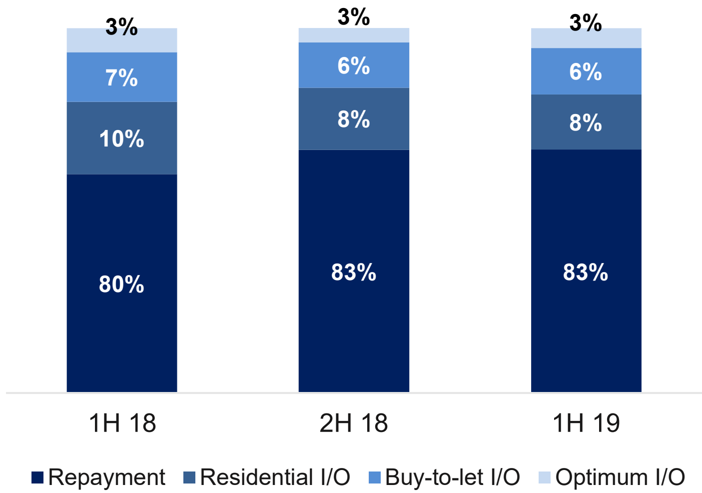


Core mortgage book by geographic split



- Exposure to London and South East continues to reduce

Mortgage repayment type



- Interest only exposure reduces from 20% to 17% of book

Loss before tax driven by investment in key strategic projects

£m	1H 19	1H 18	Change
Underlying (loss)/profit	(2.8)	11.2	<(100%)
Fix the Basics	*(38.6)*	*(29.5)*	*(31%)*
Enable the Future	*(10.2)*	*(4.3)*	*<(100%)*
Cost to achieve	*(3.9)*	*(11.6)*	*66%*
Strategic project costs	(52.7)	(45.4)	(16%)
Net customer redress charge	(2.5)	(11.0)	*77%*
Non-operating income	19.5	5.7	>100%
Loss before tax	**(38.5)**	**(39.5)**	**3%**
Tax	2.5	80.9	(97%)
(Loss)/profit after taxation	**(36.0)**	**41.4**	**<(100%)**

Loss before tax of £38.5m is 3% improvement on 1H 18

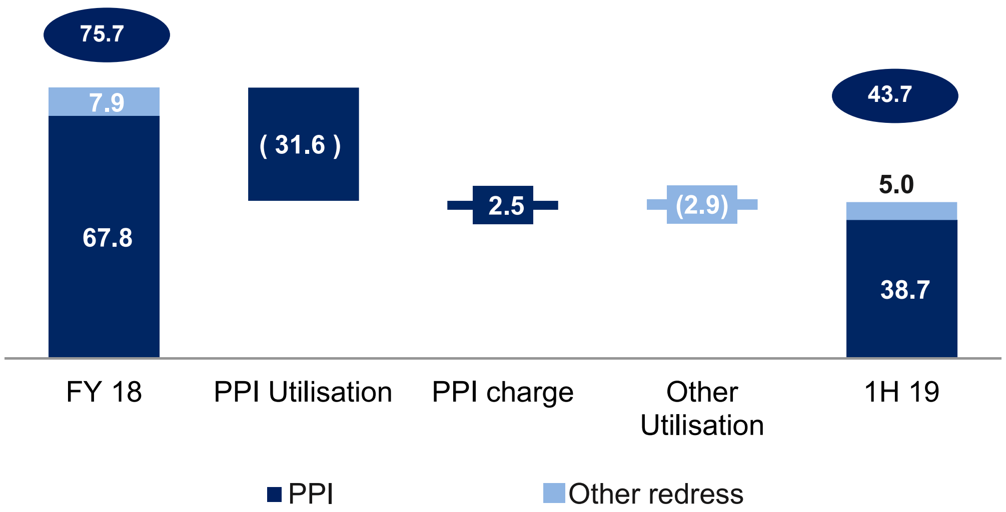
- 16% increase in strategic investment, as we enter the final stage of 'Fix the basics'

£13.8m increase in non-operating income includes:

- £7.8m increase in the surrendered loss debtor (book value £41m, gross value £132m)
- £3.1m deferred consideration from Vocalink
- £8.6m pension discount unwind

Tax credit lower due to Pace sectionalisation in 2018. DTA asset of £375m, unrecognised losses of £2.1bn

Redress Provision (£m)



Remaining PPI provision of £38.7m

- £2.5m charge reflecting FCA clarification on certain redress timescales
- Recent enquiry volumes have increased but latest conversion rates are lower than previous experience
- Current coverage up to December based on historical run rate and provision stock
- Provision will be reassessed in 2H 19

2019 guidance revised to reflect strong capital performance and sustained NIM pressures

		2019	2020	2023	Comments
Customer NIM (bps)	Revised	c.170 ↓	c.160 ↓	→	Assumes delay in first rate rise to 2020 and an orderly Brexit
	In-force	175 - 180	160 - 165	180 - 185	
Cost:income ratio (%)	Revised	< 110 ↓	c.105 ↓	→	Focus will be to drive underlying profits by taking cost action to mitigate NIM compression
	In-force	c.115	105 - 110	c.75	
Franchise investment (£m)	Revised	140 - 150 ↓	90 - 110 ↓	→	
	In-force	150 - 170	100 - 120	50 - 70	
CET1 ratio (%)**	Revised	c.20.5 ** ↑	c.18** ↑	19 – 20** ↑	Capital guidance upgraded for each year
	In-force	c.19	16 - 17	18 - 19	
Core[1] customer assets (£bn)	Revised	c.17 ↓	c.18 ↓	c.23 →	2019 balance sheet focus is on price/volume
	In-force	c.17.5	c.19.5	c.23	
Core[1] customer liabilities (£bn)	Revised	18.5 - 19 ↓	c.19.5 ↓	c.24 ↓	
	In-force	c.19.5	c.21	c.25	

1. Balance sheet guidance rebased to core customer balance growth following segmentation of legacy, which includes £1.4bn of assets as at 1H 19

** update: 16th September 2019- as a result of an additional PPI provisions charge estimate (range- £55m-£75m) the Bank now expects its CET1 ratio to conclude 2019 between 19.5% and 20%

Platform Mortgage Origination & Credit Risk

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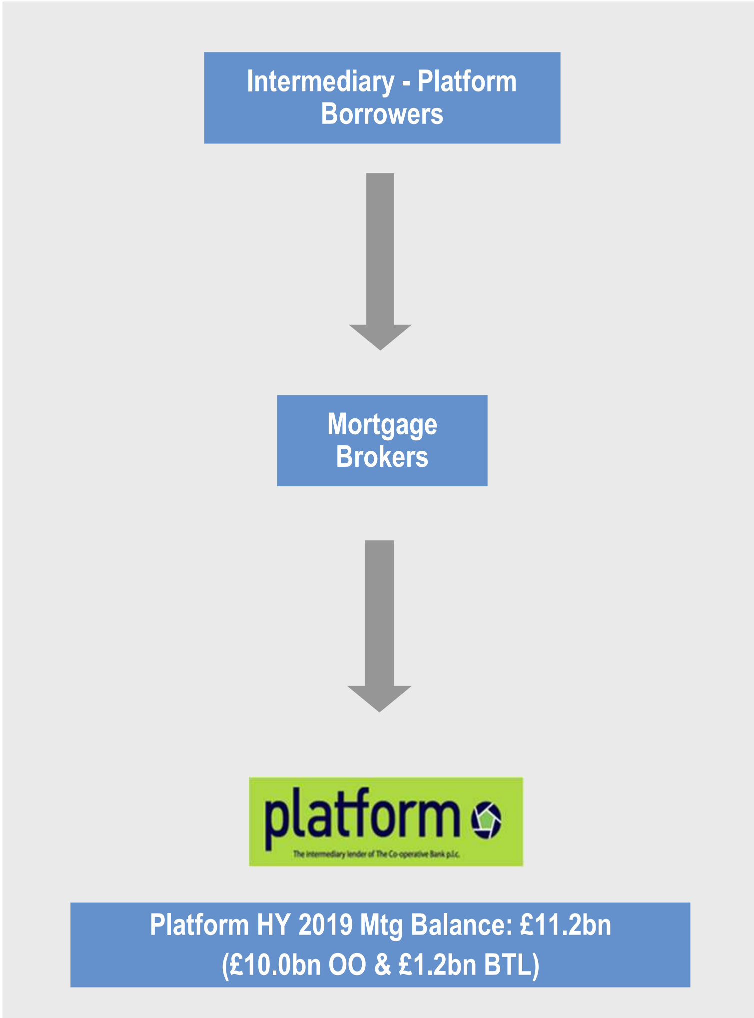
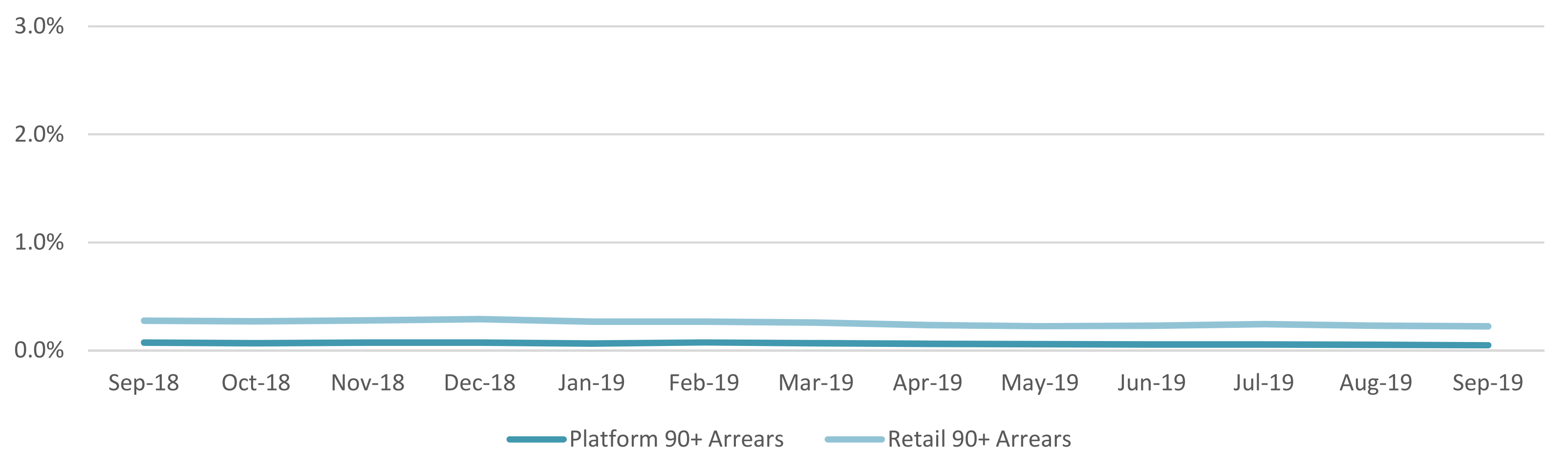
Retail Mortgage Portfolio

Retail Mortgage originations delivered through the intermediary channels via the Platform brand

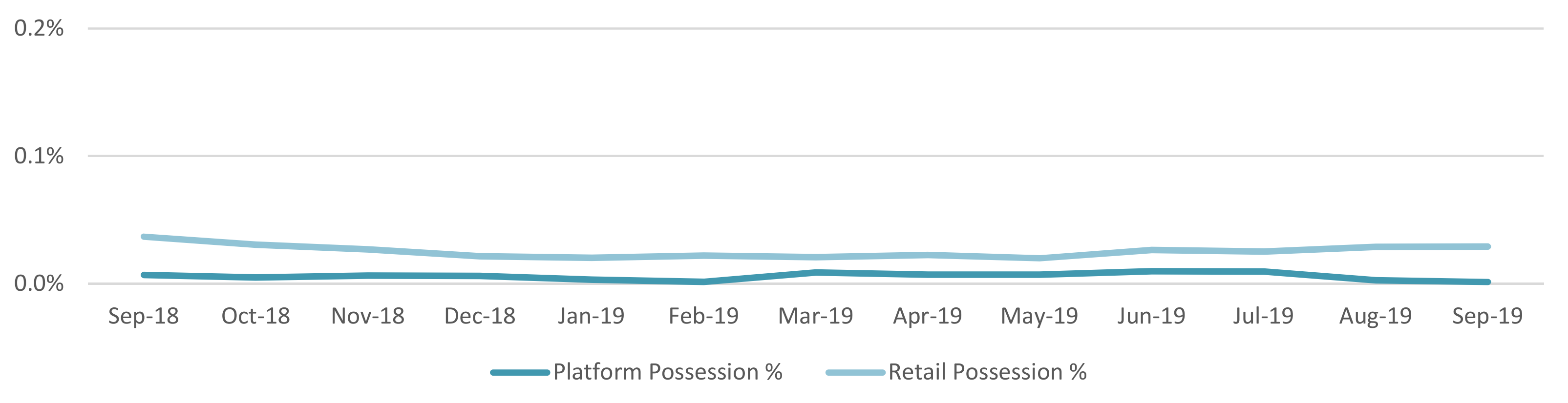


Retail Mortgage Book Performance

90 Days + % Month-by-month – Number of Accounts



Possession Stock % Month-by-month – Number of Accounts



* Data includes BTL mortgages

Platform: Product Range

Current Platform owner occupied product offering:

Fixed	• Rates are fixed for set period of time (2 to 5 year products are currently offered) • On sale fixed rates revert to SVR following the expiry of the fixed period
Tracker	• Rate linked to the BoE Base Rate for a specified term (2 year products currently offered) • BoE Base Rate changes passed on by the 1st of the following month, or the month subsequent (if BoE decision is after 10th of a particular month) • On sale tracker rates revert to SVR following the expiry of the initial tracker period
Standard Variable Rates	• Standard Variable Rate (SVR) is a managed rate and is usually varied following a change in BoE Base Rate. However, SVR can be varied outside of any change to BoE Base Rate. • Current SVR 4.99%

Purpose	• Purchase; Remortgage; Additional Lending
Overpayments	• 10% of the Outstanding Balance can be repaid in a 12 month period without ERCs being charged
Payment Holidays	• Only allowed on certain mortgage types and subject to certain conditions (requires prior overpayments; minimum 6 months payments made on loan)

Platform: Underwriting

Key Underwriting Guidelines

Borrower

- All applications are subject to affordability assessment, income multipliers controls in place <=80%LTV maximum multiplier 4.85, >80% 4.49
- All applications must pass our credit score, to support scoring increased controls for adverse credit, no Bankruptcies or IVA's, default <=£500 and CCJ <=£100
- All applications must meet acceptable income criteria, all income used to support the mortgage must be fully evidenced

Collateral

- Bank must have first legal charge over the security
- Located in England, Scotland, Wales or Northern Ireland (existing customers only)
- Two acceptable valuation types: Physical Valuation and AVM
- Unacceptable security criteria
- Standard construction and MMC acceptable
- New build:
  House/Bungalow 85%
  Flat/Maisonette 80%

Loan

- Original term 5 - 40 years
- Interest only is not available for residential mortgages
- Loan purpose limits in place, business or speculative purposes are not acceptable
- Shared ownership and shared equity not acceptable, HTB is the only acceptable shared equity scheme
- Loans outside Capita's processing authority, referrals, outside of criteria or trigger high risk rules are assessed by Bank underwriters

Max LTV

Loan Size	Max LTV
Up to £350k	95%
Up to £500K	90%
>£500k to £750k	85%
>£750k to £1m	80%
>£1m to £2m	75%

- Loan purposes:

Purchase	95%
Remortgage only	90%
Remortgage for legal interest	90%
Remortgage home improvements	85%
Remortgage debt consolidation	75%
Remortgage capital raise	75%

Recent criteria changes implemented

November 2018	• Affordability calculator parameters refresh
December 2018	• AVM strategy, updated to have a tiered LTV and confidence level approach across residential purchase and remortgage applications. Changes implemented in December-18 to increase LTV limits to 80% LTV for remortgage and 70% for purchase
February 2019	• Implementation of the use of personal income to support a rental shortfall on BTL applications
May 2019	• BTL property section updated to state that Housing Benefit tenants can be considered • New Build Warranty section updated • Acceptable property types reviewed to add modern methods of construction
October 2019	• Implemented annual Affordability model refresh, with stress rate change from a standard SVR +3% to SVR+1% for £ for £ remortgage applications and applications where the product that will be >= 5 year fix

Platform: Origination / Underwriting Process

Stage 1: Point of Sale & Processing – Capita & Bank

- Application is made via a sales channel
- If the application passes credit score, policy and affordability checks, the application is transferred electronically to the New Lending Team (Capita) for processing
- Supporting documentation evidence is requested from the broker/applicant
- For Broker channel, the valuation is instructed by Capita providing initial assessment/underwrite is acceptable, outstanding documentation not already submitted by the Broker is requested by Capita. For Direct channels, the valuation and documents are requested at point of sale by the Mortgage Advisor

Stage 2: Underwriting – Bank

- Application form, valuation report, references and supporting documents are assessed by the New Lending Department (Capita) where they are processed
- Where the application is outside Capita's processing authority, referrals or high risk rules are triggered, the application is referred to RCU for an underwriting assessment and decision
- Also if any aspect of the application is found not to meet lending criteria, it can be referred to RCU for assessment by an Underwriter

Stage 3: Offer/ Approval – Capita & Bank

- Providing all documentation is satisfactory, the application is approved and the offer of advance is issued
- Fraud/AML check's are in place and if flagged would need to be action and satisfied

Stage 4: Completion - Capita

- Completion usually occurs within 1 to 3 months of application, although the customer has up to 6 months to complete from application date
- The solicitor returns the Certificate of Title to the completions team in the New Lending Department within Capita to request the completion funds on a specific date

Referral Process: Bank - Retail Credit Underwriting, Credit Risk

- Any application which does not meet lending criteria can be referred to Underwriting for consideration and individual assessment

Platform: Affordability

The monthly disposable income (MDI) is calculated for the applicant/s via the method outlined below:

MDI = **Net Monthly Income**

- Gross Income is captured from applicant and verified
- Affordability rules applied on verified gross income (i.e. only use 50% of bonus)
- Net Income calculated by applying latest HMRC tax (2019/20 thresholds), personal allowance and NI rates to verified gross income
- Net income used is <u>not</u> as per payslip

− **Credit Commitments**

- Unsecured credit commitments
- Calculated based on the data held by Experian or provided by the applicant

− **Other Significant Expenditure**

- Committed expenditure that is less typical and captured during the application, e.g. child care, maintenance, secured loans
- This expenditure is declared by the applicant/s and 100% is used

− **Council Tax (of new property)**

- Estimates the council tax band for the property using quarterly HPI
- Calculates the average payment for a property in each band as at 2019/20

− **Basic Expenditure (ONS driven)**

- ONS data as at 2017/18 used to estimate typical 'basic essential' and 'basic quality of living' costs to derive basic expenditure
- Methodology uses household income and household composition segmentation

− **Stressed Mortgage Payment**

Mortgage payment is calculated based on the amount and term requested by the applicant/s and is stressed at the SVR at date of application plus either 1% or 3%
(Assumes capital and interest repayment method)

− **Help to Buy Equity Loan Payment**

Monthly interest only payment calculated based on a flat 3% interest rate applied to the equity loan amount (Help to Buy applications only)

<u>Result</u>

<u>Retail Direct:</u>
If MDI >=£0 then affordability pass, <£0 = affordability fail.
<u>Platform:</u>
If MDI >=£0 then affordability pass, <£0 = down sell a revised loan amount.

Platform: Valuations

Stage 1: Instruction

- The Bank system assesses whether a physical valuation is required or an Automated Valuation Model valuation (AVM)
- Where an AVM is required the system requests a valuation via the AVM provider (Hometrack)
- Where a physical valuation is required an instruction is submitted to the valuation panel manager (e.surv) via the Quest system
- The valuation panel manager (e.surv) operates a carefully selected panel of approved valuers throughout England, Wales, Scotland and Northern Ireland to undertake work on behalf of the Bank

Stage 2: Completing valuation

- The valuations panel manager requests a valuation from one of three suppliers e.surv, Connells, Countrywide
- The visit is booked and a RICS qualified and fully experienced valuer who is within the locality in which the property lies completes the valuation using the agreed Bank valuation form. The valuer will also refer to the Bank valuers guidance notes to assess suitability
- Where an AVM is required the AVM provider will return a valuation and corresponding confidence level back. If this meets the banks criteria the system will allow the AVM to be used, if not a physical valuation is requested

Stage 3: Valuation return

- Usually within c.5 working days the physical valuation is returned using the Quest system. Where an AVM is requested, this is returned almost immediately
- The valuation form is reviewed by either a Capita processor or an Underwriter
- In instances where there may be queries for the valuer, these can be raised using the Post Valuation Query (PVQ) forms

Platform: Valuation Criteria

Valuation Criteria

- A valuation is required on all property used as security
- Two valuation options available are:
  - Physical valuation by a suitably qualified RICS surveyor, AssocRICS/MRICS/FRICS and fully experienced in carrying out this type of work within the locality in which the property lies. For Scottish valuations, the Bank will agree to a re-type of the valuation on the Home Report, if the Home report was completed by a valuer currently on our approved panel of valuers and the Home Report was completed no more than 3 months prior
  - Automated valuation (AVM) currently provided by Hometrack

All valuations must be carried out in accordance with the following:

- The R.I.C.S. Valuation – Professional Standards (currently known as the Red Book), or any subsequent revision
- The Bank valuers Guidance Notes
- The Conditions of Engagement between the Bank and E.surv, Connells as well as Countrywide including their panel valuers
- Secured Lending Criteria
- Be in standard format
- Be completed by an authorised panel valuer
- Be addressed to Platform / Bank

Current AVM Criteria:

Residential Remortgage:

- Residential re-mortgage applications only
- Estimated property value must be between £75,000 and £750,000 for London & South East and £75,000 and £500,000 for the rest of the UK
- Maximum Loan to Value of 80% (based on the customer's estimated valuation)
- Confidence level >=4 where <=65%LTV
- Confidence level >=5 where >65% LTV and <=75% LTV
- Confidence level >=6 where >75% LTV and <=80%LTV

Residential Purchase:

- Estimated property value must be between £100,000 and £700,000 for London & South East and £500,000 for the rest of the UK. In addition the AVM result must not exceed the purchase price
- Maximum Loan to Value of 70% (based on the customer's estimated valuation)
- Confidence level >=4.5 where <=40%LTV
- Confidence level >=5 where >40% LTV and <=60% LTV
- Confidence level >=6.5 where >60% LTV and <=70%LTV

Mortgage Servicing Overview

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Mortgage Servicing Overview

Capita Arrangement

- In August 2015 the Bank outsourced its mortgage processing including mortgage operations, contact centre & arrears to Capita in order to improve service levels and to gain cost improvements, with circa 754 Bank staff transferred to Capita via a TUPE arrangement. Capita acquired WMS as part of the agreement and manages the outsourcing arrangement from this company
- The current Bank mortgage systems and processes are still in operation under Capita whilst the new systems are in development by Capita and their suppliers, Capita Mortgage Software Solutions (CMSS) and Unisys
- Bank has in place a Capita relationship management team with responsibility for oversight of servicing delivery with a defined Governance structure in place
- The Bank will continue to determine and set the servicing policies and underwriting applicable to all mortgage loans to which its subsidiaries hold legal title – including arrears, default and enforcement procedures
- The current contract is due to expire at the end of 2020. Bank and Capita are currently negotiating an extension to this contract

Mortgage Servicing/ Arrears Management Overview

Mortgage Servicing & Arrears Structure

Company	**Capita**			
Operation	**Servicing**		**Arrears**	
Location	Leek	Plymouth	Leek	Plymouth
Systems	Click (Platform), Sopra (Britannia), Sopra (Co-op), Tamar (Platform), Summit (Co-op/Britannia)		Collect, Tamar, File Net, Card Payment system, Aspect Dialler, Summit	

Activity	• Applications processed Offer to Completion
	• Servicing of completed accounts through to Redemption:
	    • Account queries
	    • Redemptions
	    • Statement exceptions
	    • Financial transactions
	    • Deeds management
	    • Charge registrations
	• Customer contact centre
	• Mortgage Advice Existing Customers
			• Servicing of Residential and BTL Mortgage accounts, pre-litigation and Litigation accounts
			• Inbound and Outbound calls
			• Full review of the account to include:
			    • Income and expenditure
			    • Past, present and future information gathering of customer circumstances
			    • Matching appropriate solutions for customer's situation
			• Use of external service providers for home visits and traces
			• Signposting of free external advice organisations
			• Manage Asset Managers to ensure adherence to SLA's and sale guidelines
			• QA framework to assess on-going competence
			
			• Bespoke Sensitive and Vulnerable customer management teams split across Capita and Bank	

Platform: Arrears Process

Stage 1 | Stage 2 | Stage 3 | Stage 4 | Stage 5

Stage 1: Accounts =<1 month subscription enter Arrears Management system at due date

Action: Letters sent with Financial Planner followed by subsequent outbound telephone/dialler calls to assess circumstances and find a solution

Stage 2: Account not brought up to date or arrears increased

Action: Outbound Telephone/Dialler calls are made with letters generated. The account is reviewed for possible Field Agent

Stage 3: Account not brought up to date or no contact

Action: Outbound Telephone calls are made and Field Agent is instructed. Account Reviewed

Stage 4: Account not brought up to date or no contact

Action: Issue letter warning customer that litigation action will follow if the arrears are not reduced

Stage 5: Account not brought up to date or no contact

Action: Mortgage Account transferred to the Litigation Department

Platform: Litigation Process

Stage 6: Commence litigation

Action: Outbound Phone calls to customer to resolve situation and instruction sent to solicitors

Action: Litigation pack is produced and sent to the Solicitors. We also ask Solicitors to request a Court Hearing date

Stage 7: Hearing date received

Stage 8: Hearing Date takes place and possession order is granted

Action: plan set as per the Court Order

Stage 9: Court Order plan fails

Action: Outbound Telephone Calls and Letter sent to bring Plan up to date, If not Solicitors Enforce Court Order

Eviction Date received

Action: Repossessed and Property sold

Recoveries

Stage 6 Stage 7 Stage 8 Stage 9

Platform: Forbearance Techniques

- Loan modification techniques include:
  - Term Extensions
    The maturity of the loan is extended to reduce the monthly payment
  - Assisted Voluntary Sale (AVS)
    Unlike a repossession, the borrower can live in the property until it is sold
  - Concessions
    The borrower is allowed to make reduced payments on a temporary basis to assist with a short term financial hardship
  - Arrangements
    The borrower repays the outstanding arrears over a period of time by making payments above the contractual amount
  - Arrears Capitalisation (Infrequent)
    Outstanding arrears are added to the capital value of the loan to be repaid over the remaining term

- Following customer dialogue, the selected modification avenue, if suitable, is employed on a case by case basis by an individually assigned and experienced collector following an extensive review process

Silk Road RMBS

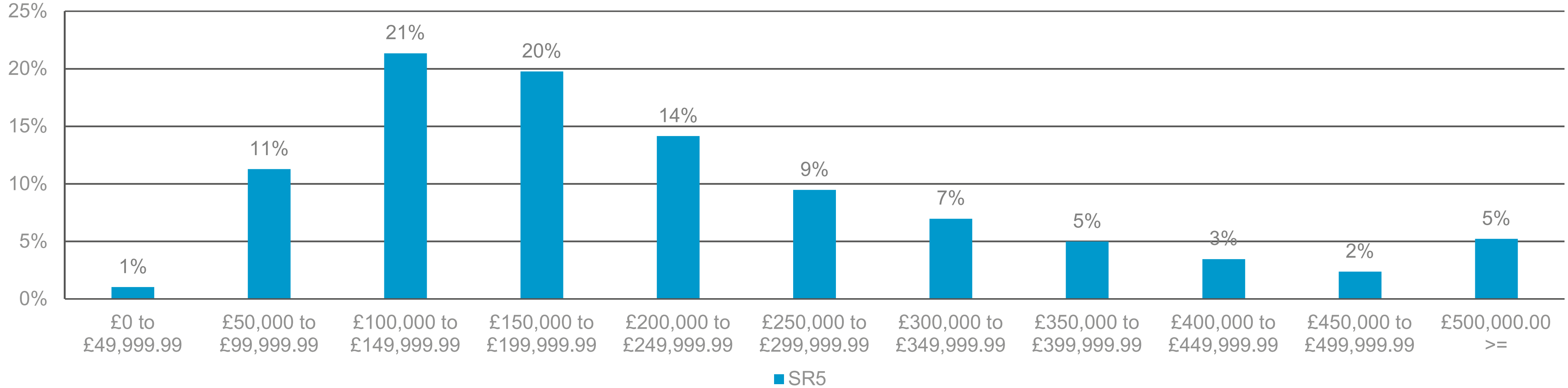
The co-operative bank
for people with purpose

Platform & Road No. 5 Portfolio Overview and Comparables

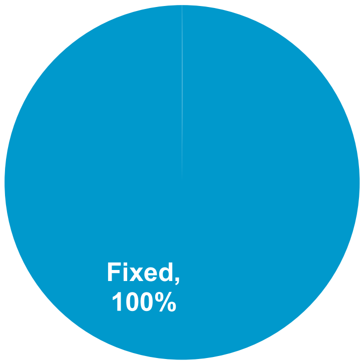
	Whole Platform Book	Silk Road No. 5	Albion No. 4	Oak No. 3	Bowbell No. 2	Friary No. 5	Gosforth 2018-1	CMF 2018-1
Date	Jun-19	Jun-19	Sep-19	Aug-19	May-19	Mar-19	Sep-18	May-18
Collateral Balance	11,187,736,684	582,783,253	437,781,706	375,983,705	2,266,781,113	523,080,056	1,725,081,960	285,532,264
Number of borrowers	71,241	3,556	3,155	2,642	14,940	4,472	9,671	1,806
Av. current balance	157,041	163,887	138,758	142,310	151,726	116,942	178,376	158,102
WA seasoning (months)	21	11	23	15	28	20	30	12
WA remaining term (yrs)	23	25	22	24	24	20	22	25
WA OLTV (%)	71.34	73.0	67.6	71.9	79	67.6	65.9	72.5
WA CLTV (%)	63.20	71.1	63.7	69.9	74.2	64.1	60.7	70.7
OLTV >=80%	34.12	41.0	35.7	39.4	62.5	31.4	26.1	34.1
CCJs (%)	0.01	0.0	0	0	0	0	0	0
BO/IVA (%)	0.01	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<90 arrears (%)	0.16	0.0	0.0	0.0	0.0	0.0	0.0	0.0
90+ arrears (%)	0.06	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Buy-to-let (%)	10.27	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Right-to-buy (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Flexible loans (%)	0.19	0.0	0.0	0.0	0.0	0.2	100	0.0
Interest-only loans (%)	9.47	0.0	18.6	10.6	8.6	8.2	5.6	0.0

Silk Road No. 5 Portfolio Overview

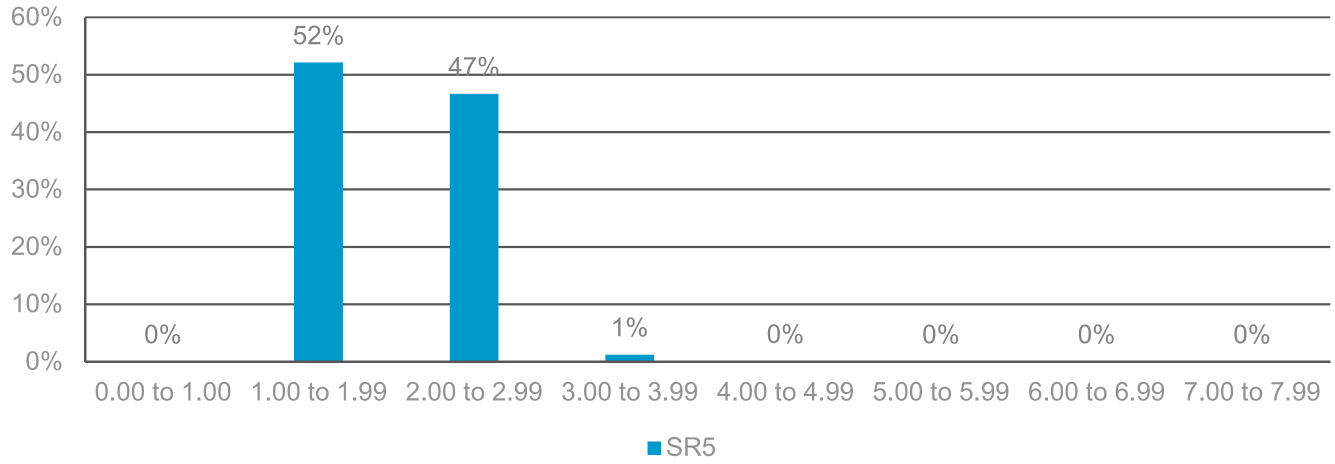
Current Balance (£)



Current Interest Rate Type Silk Road No. 5*



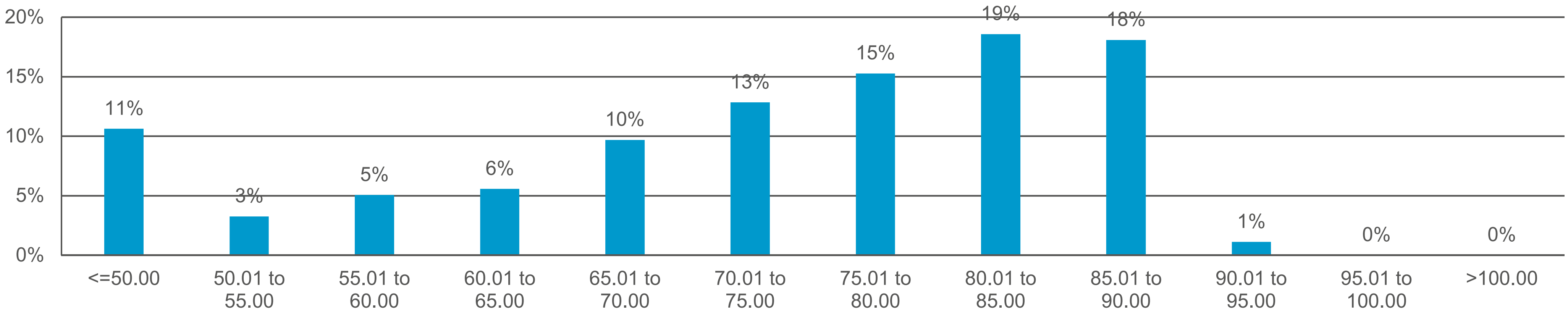
Current Interest Rate (%)*



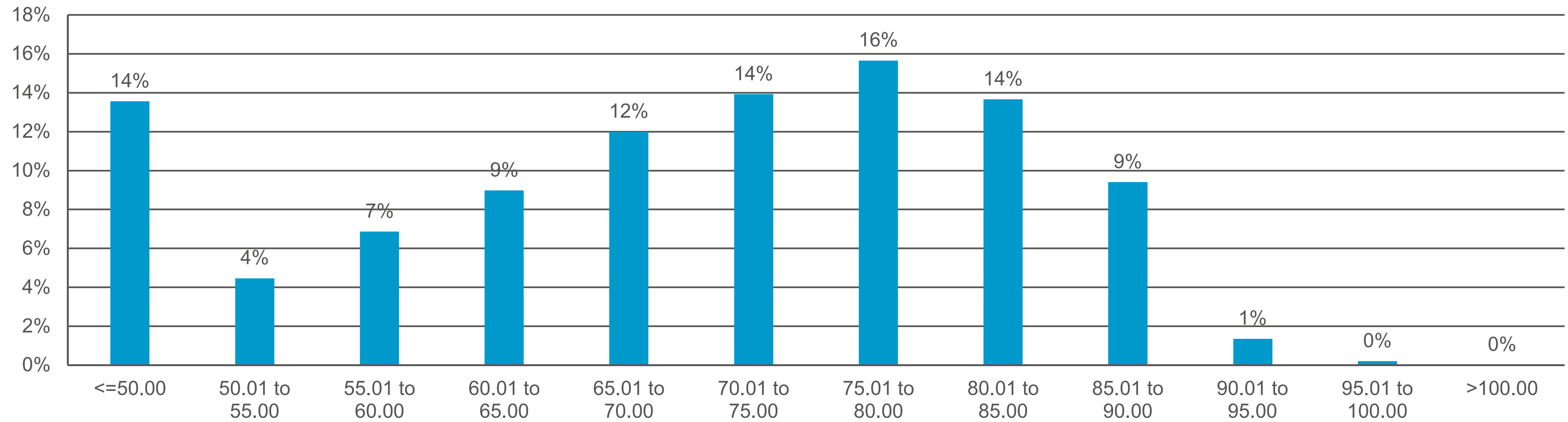
* By % of Current Balance

Silk Road No. 5 Portfolio Overview

Original LTV (%)*



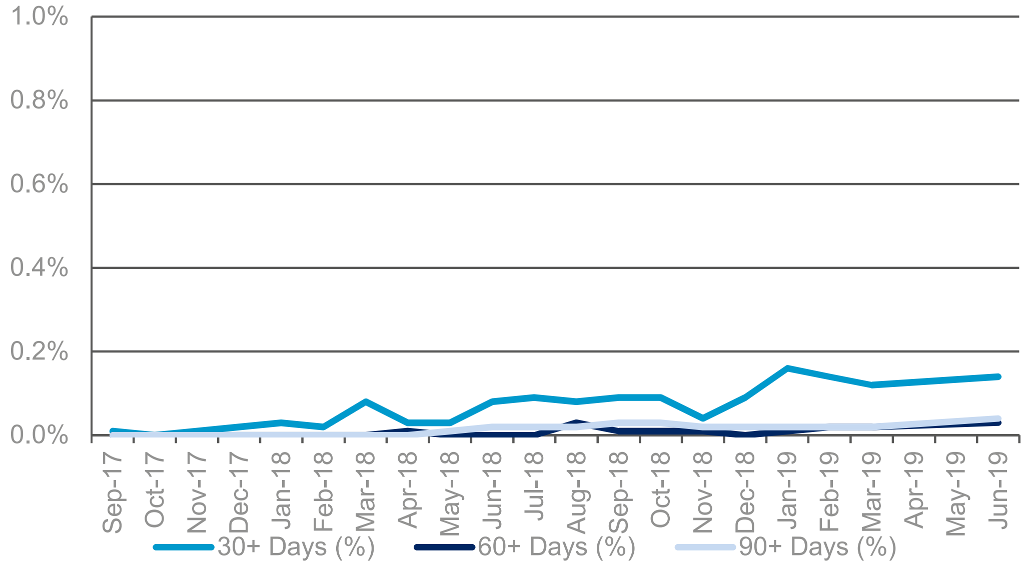
Indexed Current LTV (%)*



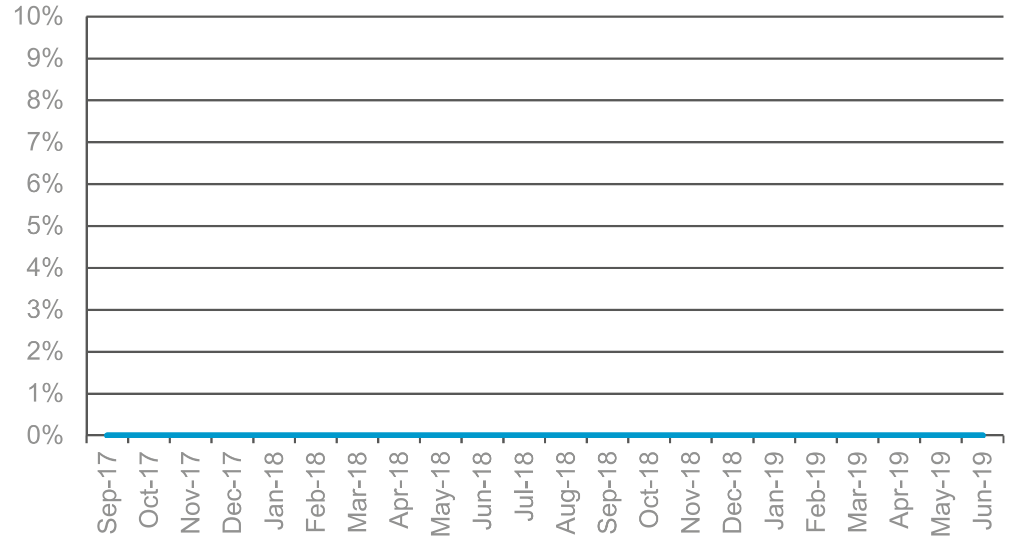
* By % of Current Balance

Silk Road No. 4 Historical Performance

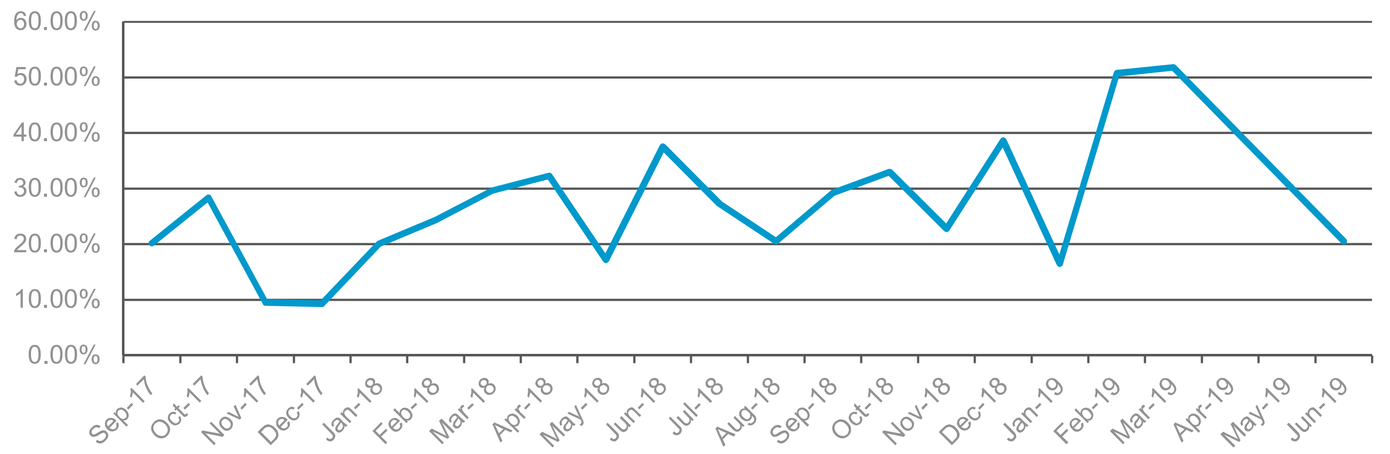
Delinquencies*



Cumulative Losses*



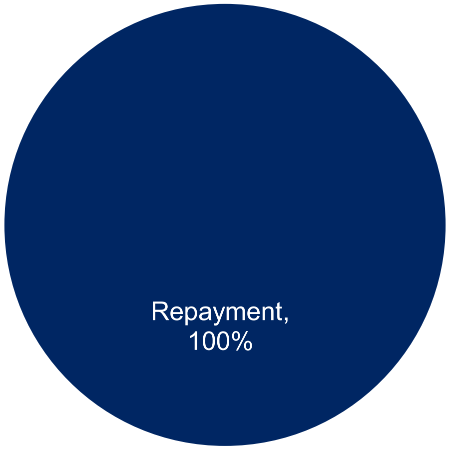
Annualised PPR*



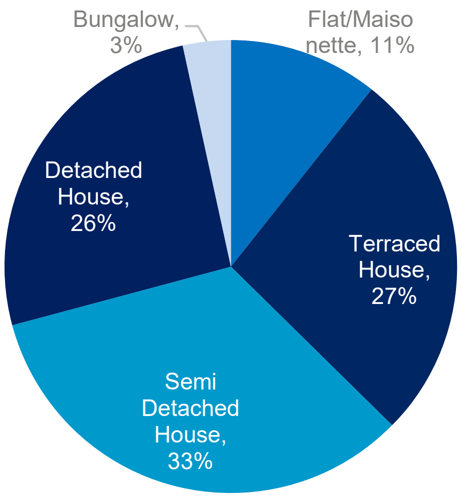
* By % of Current Balance

Silk Road No. 5 Portfolio Overview

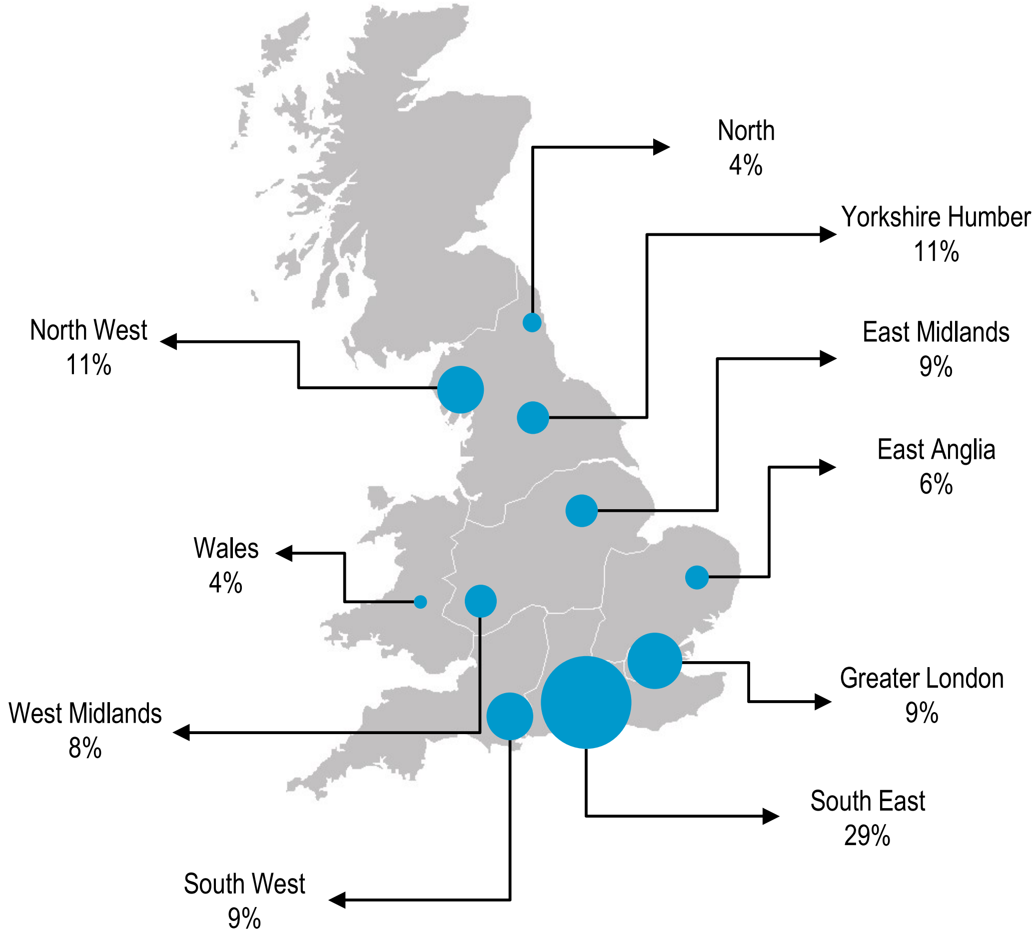
Repayment Type *



Property Type *



Geographic Distribution SR5*



* By % of Current Balance

Appendix

The co-operative bank
for people with purpose

Core balance growth lower than expectations in order to optimise margins across customer assets and deposits

£m	1H 19	FY 18	Change
Retail lending	16,187	15,847	2%
SME	208	291	(29%)
Core customer assets	**16,395**	**16,138**	**2%**
Core Treasury	4,504	4,502	0%
Total core assets	**20,899**	**20,640**	**1%**
Legacy assets	1,444	1,527	(5%)
Other assets	1,061	936	13%
Total assets	**23,404**	**23,103**	**1%**
Retail deposits	16,650	16,595	0%
SME	2,050	2,000	3%
Core customer deposits	**18,700**	**18,595**	**1%**
Core Treasury	2,444	2,309	6%
Total core liabilities	**21,144**	**20,904**	**1%**
Legacy liabilities	149	119	25%
Other liabilities	371	330	12%
Total liabilities	**21,664**	**21,353**	**1%**
Equity	1,740	1,750	(1%)
Total liabilities and equity	**23,404**	**23,103**	**1%**

- Retail lending growth through Platform brand with £1.7bn of completions and increased levels of retention
- Core SME balance reduction as limited new business activity at present
- Legacy assets reduce 5% in line with expectations
- Retail deposits increase marginally due to growth in current account balances
- SME deposit growth driven by growing customer base
- Equity drops £10m as loss is offset by revaluation of pension scheme surplus

Winner of a range of awards including 'most trusted mainstream Bank'

Continuing to provide award winning customer service

- moneywise Customer Service Awards 2019: Most Trusted Mainstream Bank
- Fairer Finance: Fairer Finance Gold Ribbon status on our Current Accounts
- Which?: Best packaged bank accounts
- Moneyfacts ★★★★★: 5* Rated Standard Current Account and Everyday Extra products
- worship: Worship Savings Account Audit Recognition
- The Sunday Times: Best Buy Current Account

Embedding our customer first principles

Winner of Moneyfacts Branch network of the year

Highly commended branch service and contact centre (2nd and 3rd respectively)

Process simplification optimising digitisation to reducing the number of clicks by 20%

Reduced current account opening time by two days

Product transformation including successful launch of new Select Access Saver and simplification of mortgage processes

We are the only UK high street Bank with a customer-led ethical policy refusing banking services to organisations conflicting with our customers' values and ethics

25 YEARS OF OUR CUSTOMER-LED ETHICAL POLICY

Our unique ethical policy places us as market leader for **non-customer ethical perception** (Hall & Partners)

Placing values & ethics at the heart of everything we do

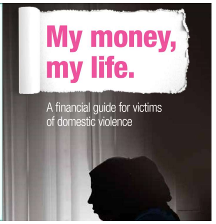
thehive. Building better co-operative businesses

Actively supporting co-operative businesses

centre point give homeless young people a future

Ending youth homelessness in partnership with Centrepoint donating c.£1.1m since May 2017

UK FINANCE



Tackling the issue of economic abuse

- Voted the **UKs most trusted mainstream bank** (Moneywise)
- **49% of UK consumers** within our priority top six customer segments due to ethical alignment and commercial opportunity (CACI 2019)
- Sizeable opportunity to **deepen existing customer** relationships. **40% of customers community based with our values and ethics resonating strongly with them**
- **£650k charity donations to charity partners** through Everyday Rewards since launch, £150k in H1 2019

Commitment to environmental sustainability

Reinforced with upgraded targets to building on previous achievements

39% reduction in carbon emissions 2017 Vs 2018

Zero waste to landfill by the end of 2020

Refuge For women and children. Against domestic violence.

hospice UK

WOODLAND TRUST

AMNESTY INTERNATIONAL

Oxfam

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 MREL qualifying debt issuances when planned, on acceptable terms, or at all; 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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