



H1 2023 Interim Results

1 August 2023



Agenda

Overview

Daniel Frumkin, Chief Executive Officer

Financial performance

James Hopkinson, Chief Financial Officer

Strategy

Daniel Frumkin, Chief Executive Officer

Overview

Daniel Frumkin

Chief Executive Officer

Committed to being the #1 community bank – the model works

We're the best high street bank
for in-store service quality for the 10th time running¹



Strong colleague engagement
95% of our Voice of the Colleague scores are above Glint Global Benchmark



Community focused



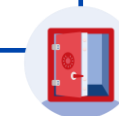
First ever champion
of women's
and girls' cricket



+50% increase in accounts opened
during weekends and before 9am
or after 3pm on weekdays vs. 1H22



+11% Safe Deposit Box visits
during weekends and before 9am or after 3pm
on weekdays vs. 1H22



Local Business Manager in every store

>120 Local Business Managers
across our 76 stores



We have 76 stores and we plan to open 11 more by end 2025²

Our stores are open early 'til late, seven days a week

Customer recognition and industry awards



CMA 2022
#1 high street
bank for in-store
service quality¹



**British Large
Mortgage Loan
Lender**



**British Business
Credit Card**



**Top 10 Most
Loved
Workplace[®]
certified³**

1. #1 high street bank for overall service quality in every CMA survey Aug 2018 – Feb 2023. Competition and Market Authority's Service Quality Survey in February 2023. 2. Partially funded by the Capability and Innovation Fund. Final locations to be determined. 3. Backed by Best Practice Institute (BPI) research and analysis.

3rd consecutive quarter of underlying profitability

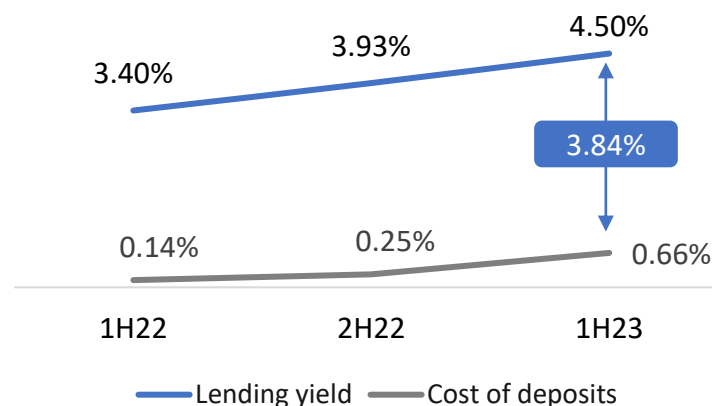
Strong, resilient franchise continues to win customers

- +207k** New accounts opened in 1H23
- +8%** PCA openings vs. 2H22
(106k PCA openings in 1H23)
- +20%** BCA openings vs. 2H22
(23k BCA openings in 1H23)
- +£88m** Deposit inflows in June, positive trend continued into July

Transformed financial performance

Lending yield continues to improve offsetting rising cost of deposits

Lending yield and cost of deposits, %



1H23 Profitable on a statutory basis

Primed for profitable growth

Continued cost discipline
(costs down 3% both H/H and Y/Y)¹

Balance sheet mix optimised for
risk-adjusted returns on capital

Scaleable and dynamic asset
generating engines built

Managing asset originations within
available capital

Stable business, primed to scale up profitably; significant margin accretion potential

Financial performance

James Hopkinson

Chief Financial Officer

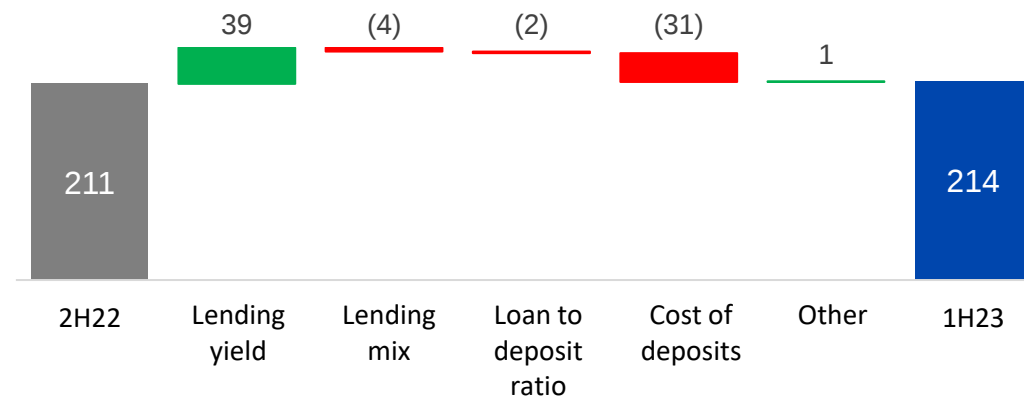
Customer growth and the balance sheet positioning underpinning profitability in H1

£m	1H23	2H22	1H22	HoH	YoY
Net interest income	221.5	223.3	180.9	(0.8%)	22.4%
Net fees and other income	63.3	62.6	55.3	1.1%	14.5%
Net gains on sale of assets	0.8	-	-	n.m.	n.m.
Total underlying revenue	285.6	285.9	236.2	(0.1%)	20.9%
Underlying operating costs	(258.2)	(266.5)	(266.3)	(3.1%)	(3.0%)
Expected credit loss expense	(11.3)	(22.0)	(17.9)	(48.6%)	(36.9%)
Underlying profit/ (loss) before tax	16.1	(2.6)	(48.0)	n.m.	n.m.
Non-underlying items	(0.7)	(7.9)	(12.2)	(91.1%)	(94.3%)
Statutory taxation	(2.7)	(0.5)	(1.5)	n.m.	80.0%
Statutory profit/ (loss) after tax	12.7	(11.0)	(61.7)	n.m.	n.m.

Underlying EPS	7.8p	(2.0p)	(28.5p)	n.m.	n.m.
Net interest margin	2.14%	2.11%	1.73%	3bps	41bps
Cost of deposits	0.66%	0.25%	0.14%	41bps	52bps
Underlying cost to income ratio	90%	93%	113%	(3ppts)	(23ppts)
Cost of risk ¹	0.18%	0.33%	0.29%	(15ppts)	(11ppts)

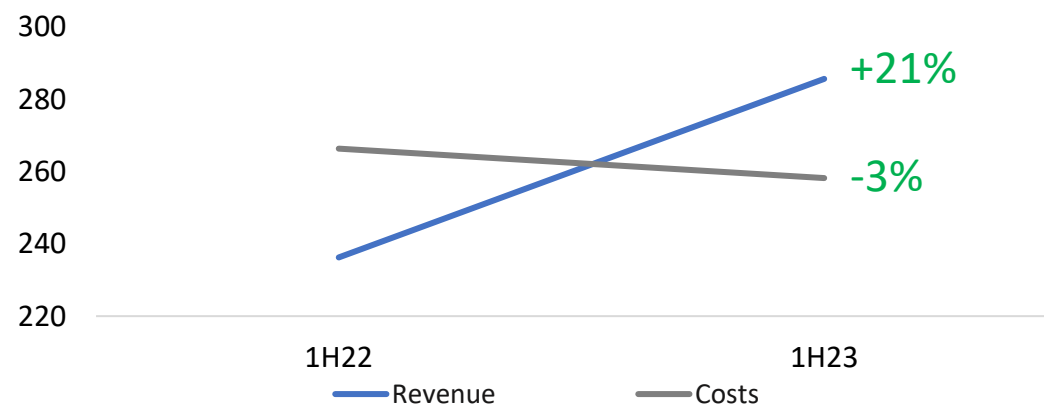
NIM up 3bps in 1H23 driven by yield tempered by higher cost of deposits

NIM, bps



+24% positive operating jaws in 1H23

Underlying revenue and costs, £m



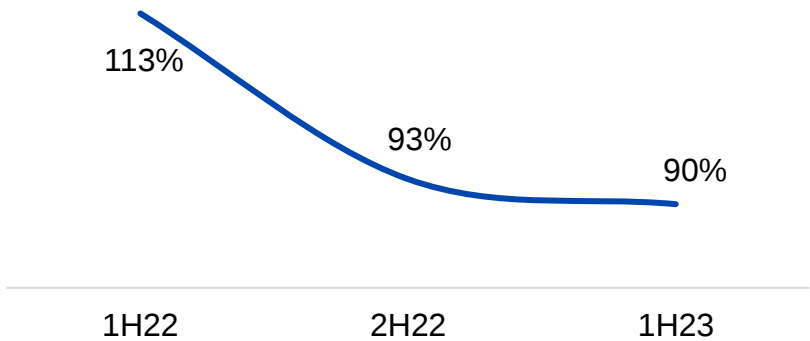
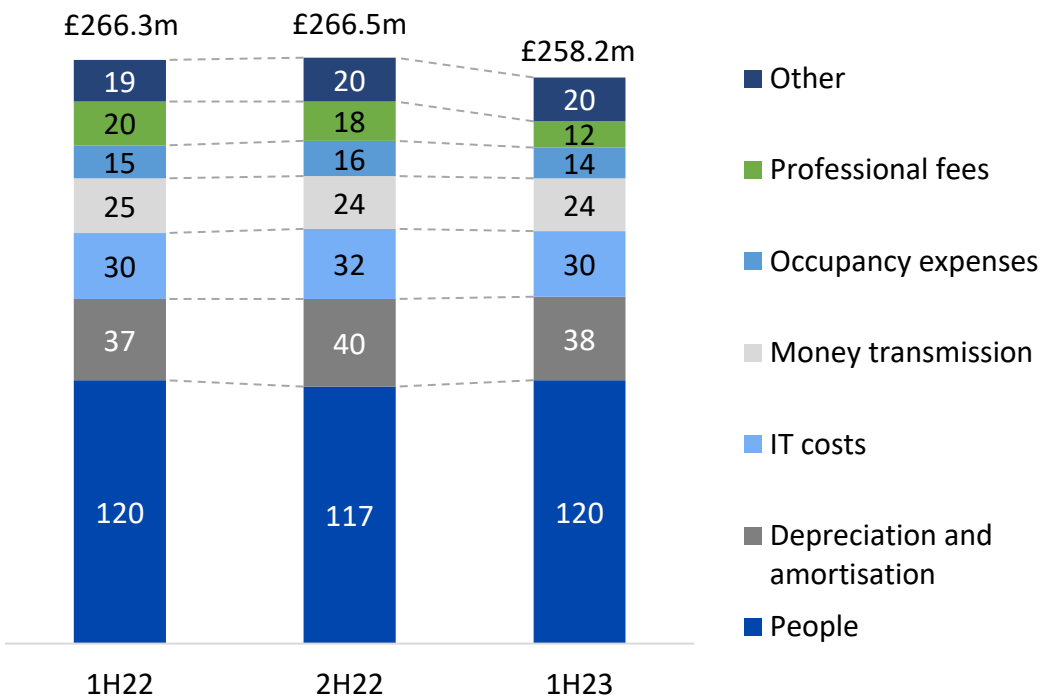
Continued disciplined cost management despite inflation

Continued cost discipline – costs down 3% both Y/Y and H/H

Cost: income ratio continues to improve

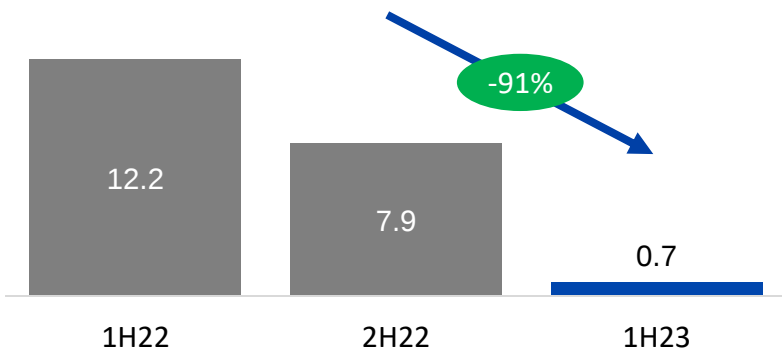
Underlying costs, £m

Underlying cost: income ratio, %



Exceptional items significantly reduced

Exceptional items, £m



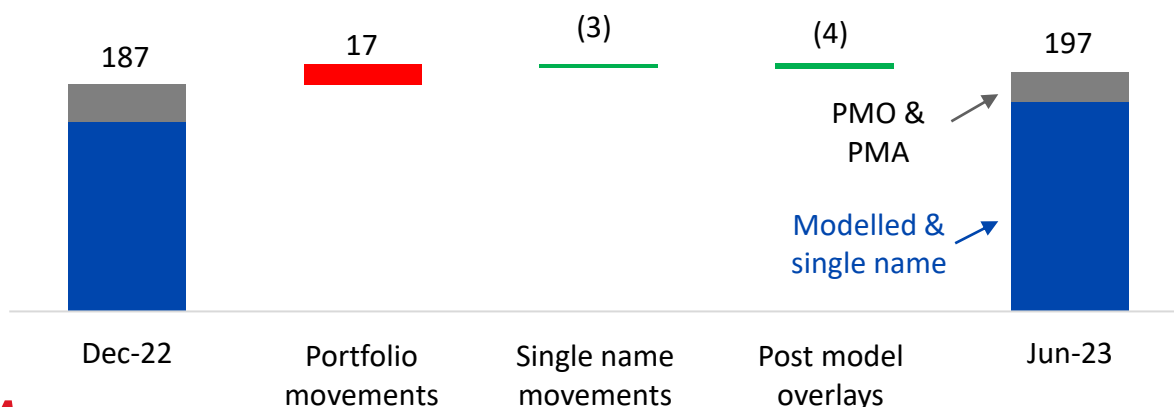
- We have supported majority of our colleagues with pay increases in each period
- Continued reduction in the number of contractors in 2022 yielding benefit in 1H23
- Launched Agile methodology for change within a fixed capacity model

Resilient, diversified balance sheet but capital constrained

£m	1H23	2H22	1H22	HoH	YoY
Loans and advances to customers	12,572	13,102	12,364	(4.0%)	1.7%
Treasury assets	8,023	7,870	9,036	1.9%	(11.2%)
Other assets	1,152	1,147	1,166	0.4%	(1.2%)
Total assets	21,747	22,119	22,566	(1.7%)	(3.6%)
Deposits from customers	15,529	16,014	16,514	(3.0%)	(6.0%)
Deposits from central banks	3,800	3,800	3,800	0.0%	0.0%
Debt securities	573	571	577	0.4%	(0.7%)
Other liabilities	875	778	706	12.5%	23.9%
Total liabilities	20,777	21,163	21,597	(1.8%)	(3.8%)
Shareholders' funds	970	956	969	1.5%	0.1%
Total equity and liabilities	21,747	22,119	22,566	(1.7%)	(3.6%)
Risk weighted assets	7,802	7,990	7,702	(2.4%)	1.3%
Loan to deposit ratio	81%	82%	75%	(1ppts)	6ppts
Tangible book value per share	£4.42	£4.29	£4.30	3.0%	2.8%

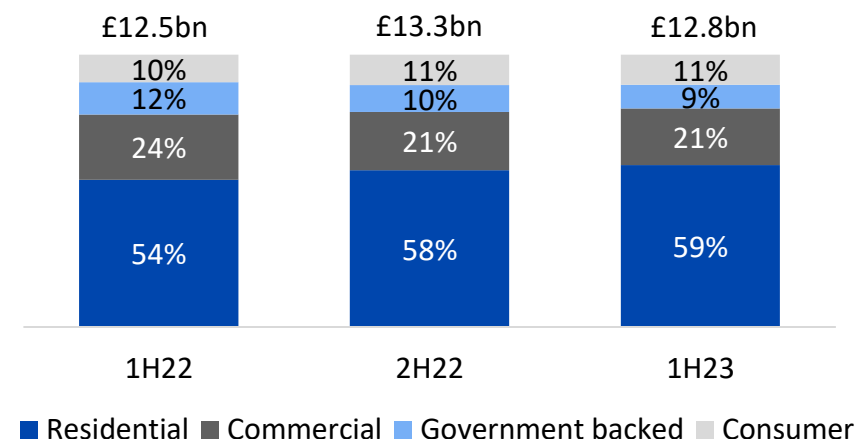
ECL provision increased reflecting Consumer portfolio maturation¹

Expected credit loss, £m



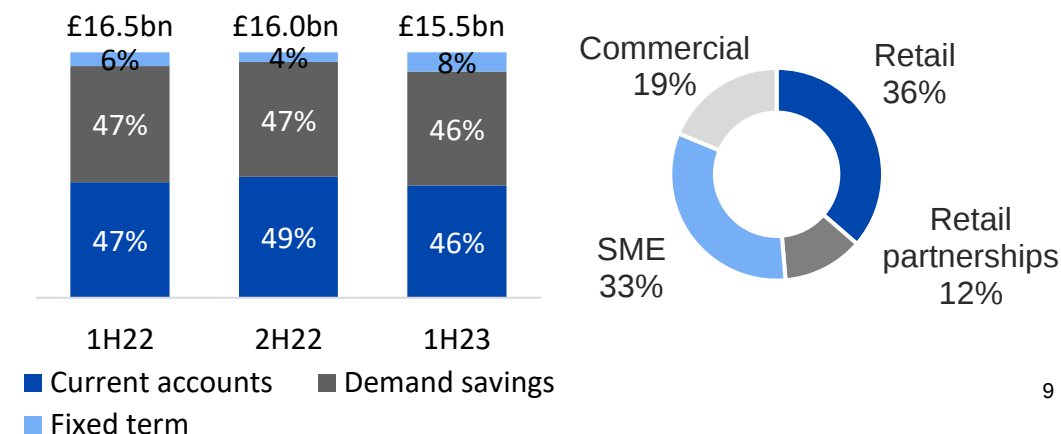
Lending actively constrained to optimise available capital

Gross loans to customers, £bn



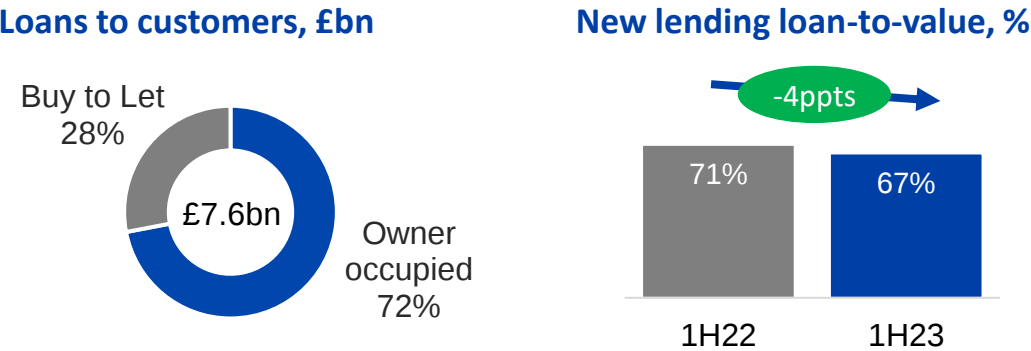
Deposits outflows stabilised in Q2, June and July seeing inflows

Deposits from customers, £bn



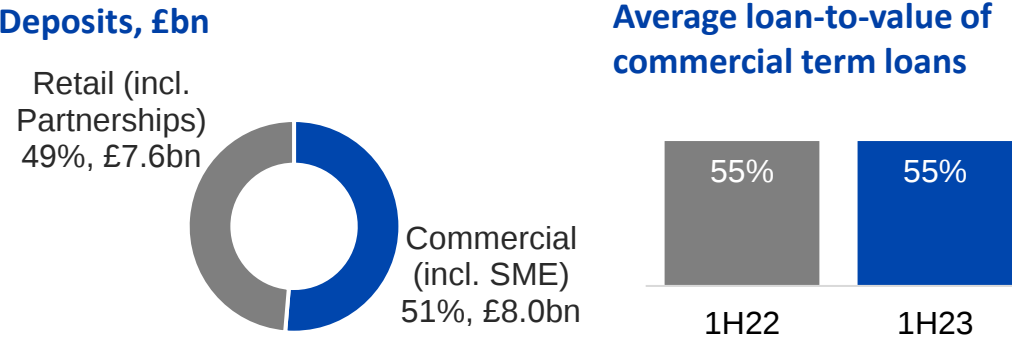
Lending managed for risk adjusted returns, credit metrics stable

Mortgages (59% of lending) – credit quality remains stable



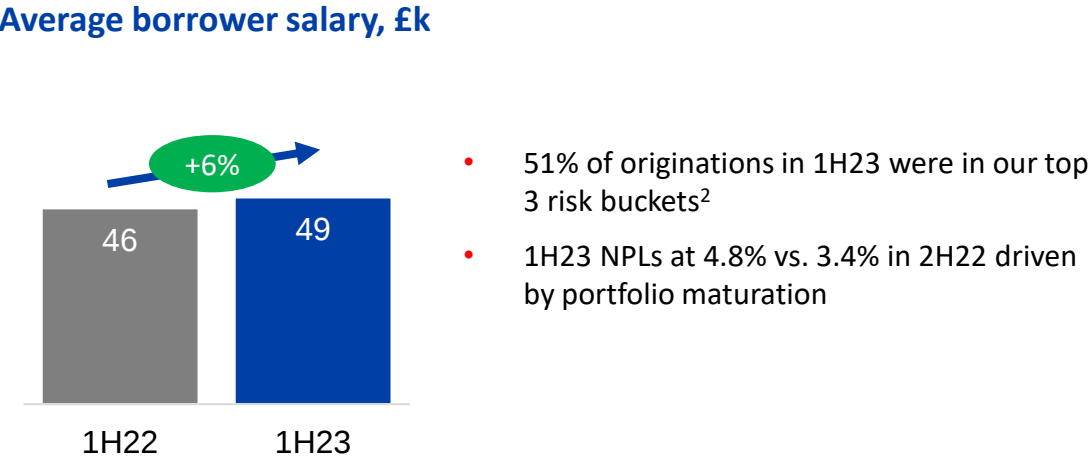
- Average portfolio LTV of 58% with none >100% LTV
- Buy to Let was 14% of new lending in 1H23
- 15% of Owner occupied and 11% of Buy to Let will mature in 2H23

Commercial¹ (30% of lending) – stable performance, growth opportunity

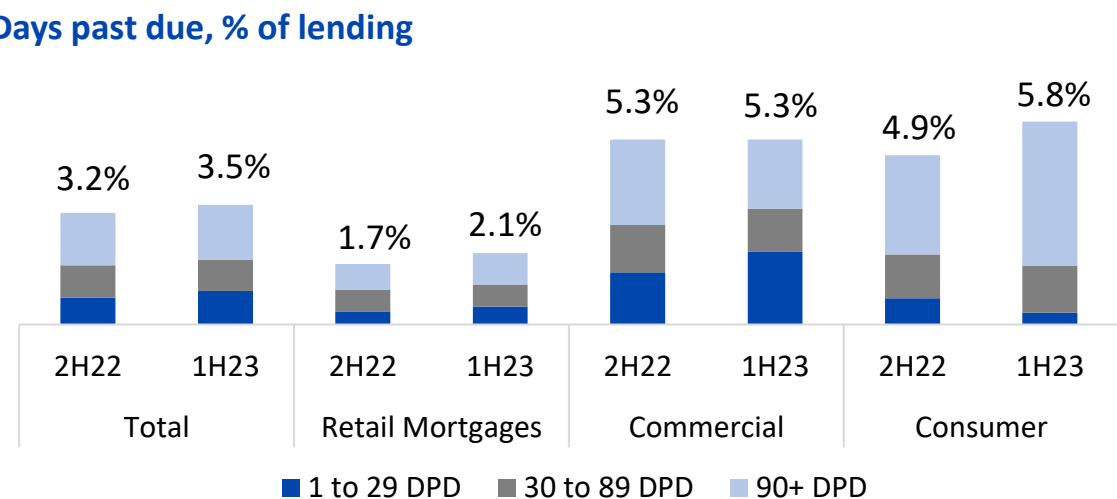


- 90% of term lending ex. PBTL and BBLS is floating rate
- Term lending book is highly collateralised
- CRE down 9% vs. 2H22, 23% of Commercial book ex. Gov't schemes, LTV stable at 45%

Consumer (11% of lending) – portfolio continues to mature



Days past due profile – reflecting controlled asset origination

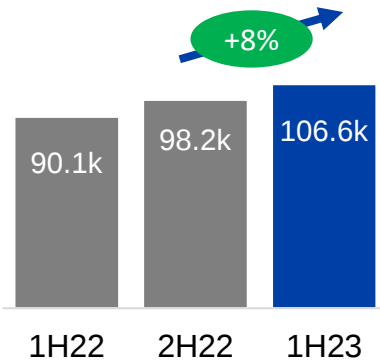


1. Including Government-backed lending. 2. Internal credit risk metrics.

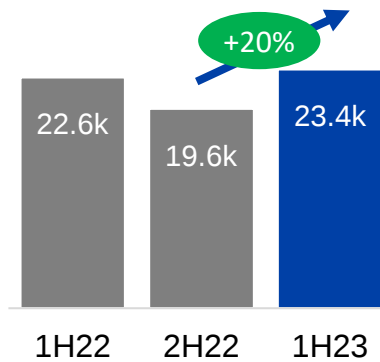
Market-wide reductions in current account balances partially offset in June and July

Customer acquisition remains strong

Personal current account openings, '000

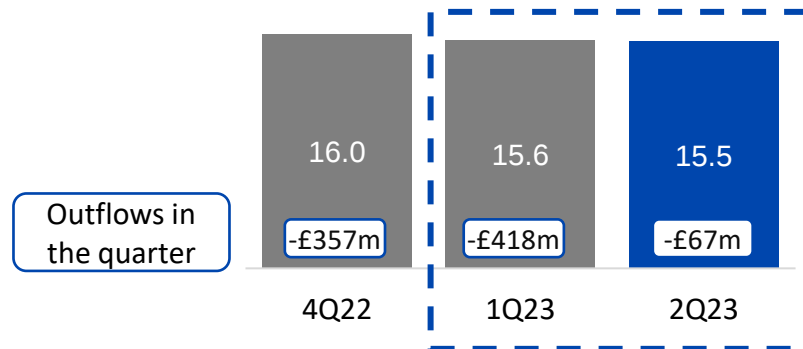


Business current account openings, '000



Deposits shows signs of stabilising, seeing positive trends

Deposits from customers, £bn



Significant majority of deposits insured by FSCS

Service-led core deposit franchise remains resilient

+207k

new account openings in 1H23

+129k

new current accounts in 1H23

+£88m

deposit inflows in June

- Seeing increased direct debits to Energy & Utility companies as well as lenders
- Average balances impacted by cost of living

Strong funding and liquidity, significantly above regulatory minima

81%

Loan: deposit ratio

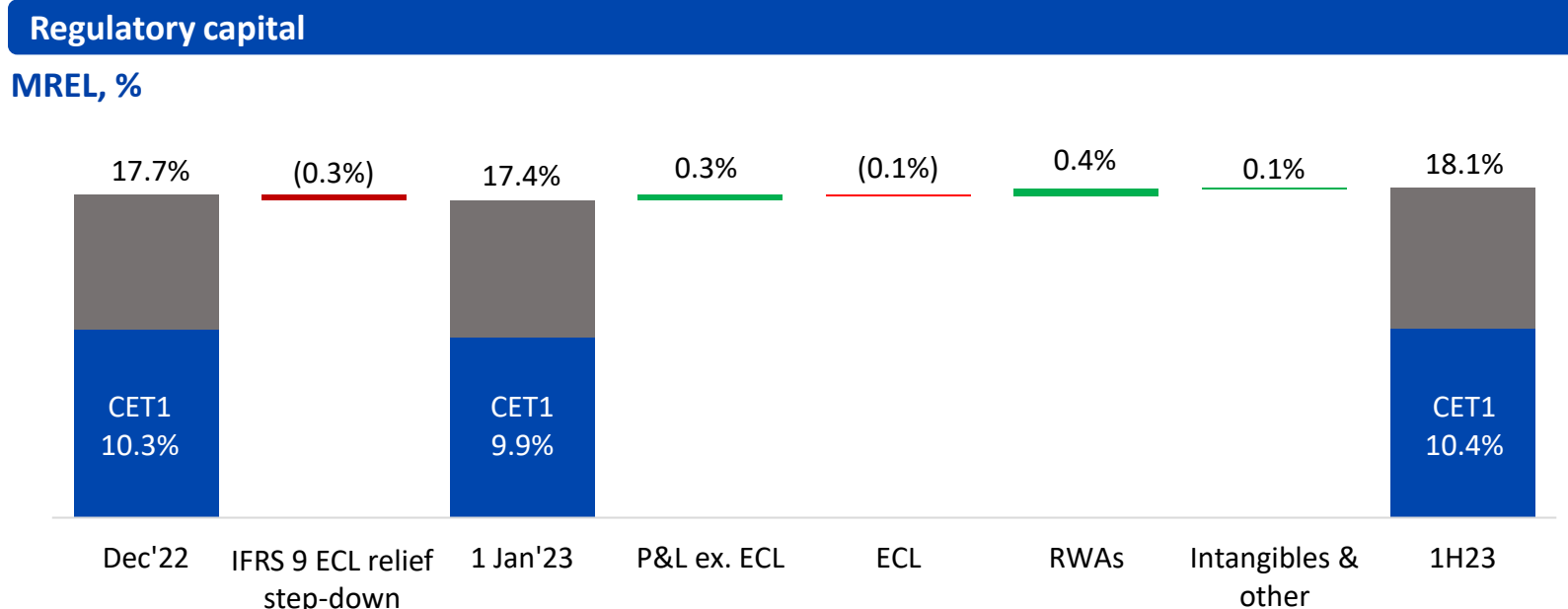
214%

Liquidity coverage ratio

132%

Net stable funding ratio

Capital accretion is increasing the headroom to minimum requirements



Capital no longer absorbed by losses; remain in buffers

- ~70bps MREL ratio accretion from 1 Jan'23
- Actively managing asset originations while operating within capital buffers
- CCyB increase on 5th July moved Tier 1 into combined buffers
- Tier 2 eligibility for MREL further extended until maturity in June 2028¹
- P2A reduced to 0.36% on 1 Jan'23
- IFRS 9 ECL relief step-down on 1 Jan'23 reduced capital by 30bps
- AIRB application in progress

Regulatory capital minima

	Position @ 30 June	Minimum excl. buffers ²	Minimum incl. buffers as at 30 Jun ³	Min. incl. buffers post CCB increase on 5 Jul ³
CET1	10.4%	4.7%	8.2%	9.2%
Tier 1	10.4%	6.3%	9.8%	10.8%
Total capital	13.2%	8.4%	11.9%	12.9%
MREL	18.1%	16.7%	20.2%	21.2%



1. Adjustment agreed by the Bank of England – eligibility until maturity date of 26 June 2028. The Tier 2 Notes were not called in June 2023 and as such the coupon for this instrument reset to 9.139% in line with the contractual terms. 2. Based on capital requirements as at 31 December 2022, excluding all buffers. 3. Based on capital requirements at 31 December 2022 plus buffers, excluding any confidential PRA buffer, if applicable.

2023 guidance reiterated

	2022	2023 guidance	1H23
NIM	1.92%	▲ NIM accretion over 2023 tempered by limited ability to leverage balance sheet	2.14%
Lending yield	3.67%	▲ Continue optimising mix for maximum risk adjusted returns on regulatory capital	4.50%
CoD	0.20%	▲ Pricing will reflect rate environment and competitive pressures, expect strong account acquisition to offset lower average customer balances	0.66%
Underlying costs	£533m	▲ Inflationary pressures expected to moderately outweigh cost initiatives	£258m
Cost of risk	0.32%	— Watchful of economic cycle but not yet seeing significant signs of stress	0.18%
RWAs	£8.0bn	— Managed for optimal risk adjusted returns on regulatory capital as lending growth constrained by capital availability	£7.8bn
MREL	17.7%	▲ Continue to operate within buffers with increasing headroom to regulatory minima	18.1%

Targeting mid-single digit RoTE by 2024



Green = positive



Stable



Red = negative

Note: directional guidance relative to 2022 results.

Strategy

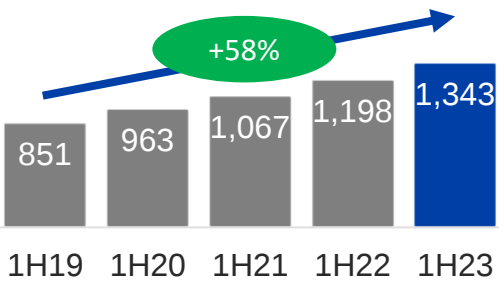
Daniel Frumkin

Chief Executive Officer

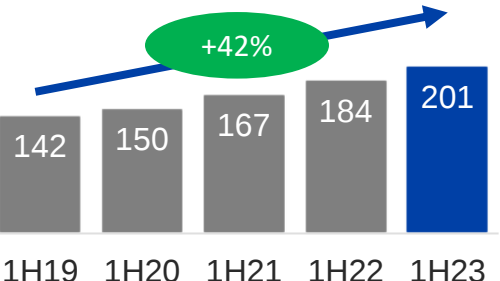
Service-led core deposit model advantaged through the cycle

Strong growth in customer numbers driving deposit balances

Personal current accounts, '000



Business current accounts, '000



+129k new current accounts in 1H23

Deposit franchise is positioned for continued customer growth

✓ Our high street franchise continues to grow at pace

✓ Deposit pricing discipline embedded

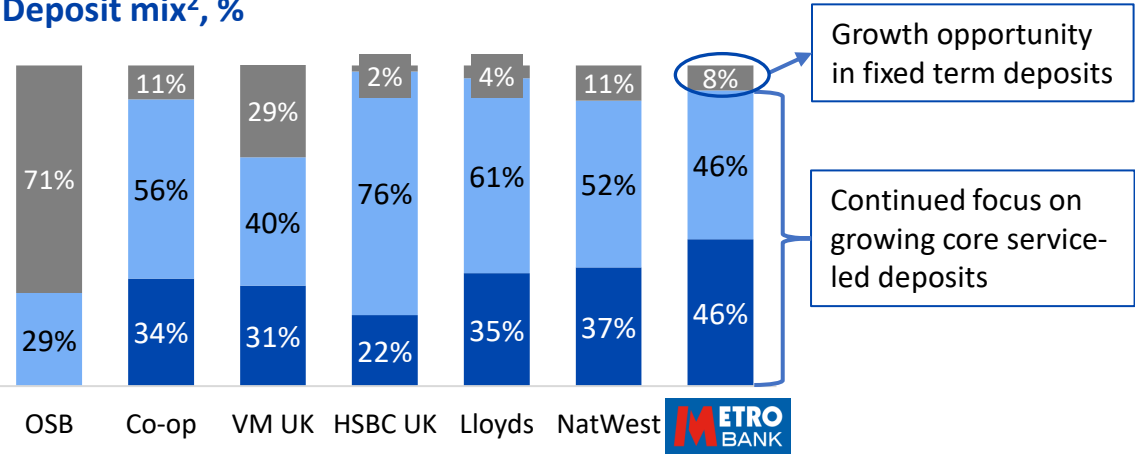
✓ Tactically growing fixed rate deposits

✓ Continued investment in digital capabilities

Opportunity to further enhance growth

- Existing stores still growing
- New Communities – 11 new stores in the North of England 2024-25¹
- Growth in underweight deposit products e.g. Cash ISA and Easy Access
- New current account propositions
- Enhanced Business Overdraft helps win transactional relationships
- Capability e.g. digital, automated ISA transfers/ switching

Deposit mix², %



■ Current accounts ■ Demand savings ■ Term deposits

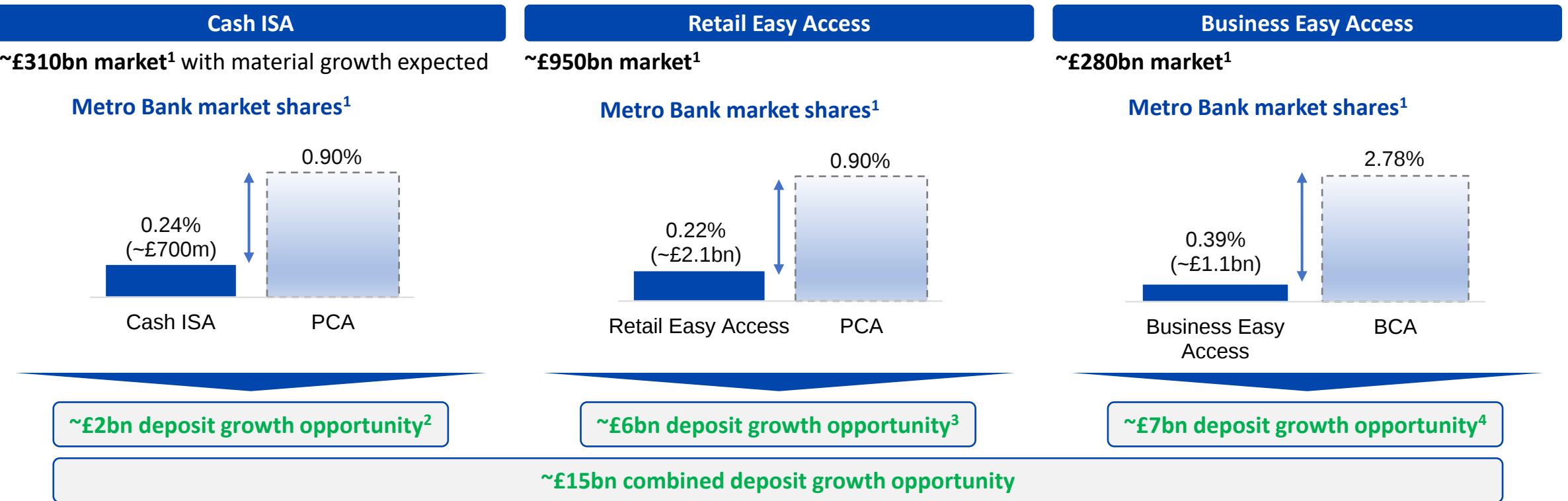
Growth opportunity in fixed term deposits

Continued focus on growing core service-led deposits



1. Partially funded by the Capability and Innovation Fund. Final locations to be determined. 2. Metro Bank, Lloyds, NatWest and Co-op as at 1H23; OSB, HSBC UK as of FY22; VMUK as of 1H23 (March). For HSBC – Demand Savings assumed as Interest-bearing liabilities net of Subordinated instruments, debt securities, Repos and Due to Banks.

Deposit growth – other opportunities to increase market share over the medium term



Key growth drivers

- Improved ISA capability – digital/ automated switching from 1Q24
- Enhanced pricing capabilities from 1Q24
- New digital origination capabilities – mobile acquisition from 1Q24
- Continued customer number growth
- Engagement activities to drive share of wallet within existing base

Asset origination capabilities – UK's only full-service challenger bank

	Mortgages	Commercial	SME	Asset finance	Invoice Finance	Unsecured personal loans	Credit cards/ overdrafts	Auto finance
Product offering	✓✓✓	✓✓	✓	✓✓	✓✓	✓✓✓	✓	✓
Scaleable	✓✓✓	✓✓	✓✓	✓✓	✓✓	✓✓✓	✓	✓✓
Systems	✓✓✓	✓✓	✓✓	✓	✓✓	✓✓✓	✓	✓✓
Expertise	✓✓✓	✓✓✓	✓✓	✓✓✓	✓✓✓	✓✓✓	✓	✓✓
Potential opportunity	✓✓✓	✓✓✓	✓✓✓	✓✓	✓✓	✓✓	✓✓	✓✓✓
NIM accretion	✓	✓✓✓	✓✓✓	✓✓	✓✓✓	✓✓✓	✓✓✓	✓
Risk-adjusted return on regulatory capital	✓✓✓	✓✓✓	✓✓	✓✓	✓✓✓	✓	✓✓	✓

Unique growth opportunity with significant margin accretion potential

Strategic pillars have delivered

Revenue
+21% vs. 1H22

Costs
-3% vs. 1H22

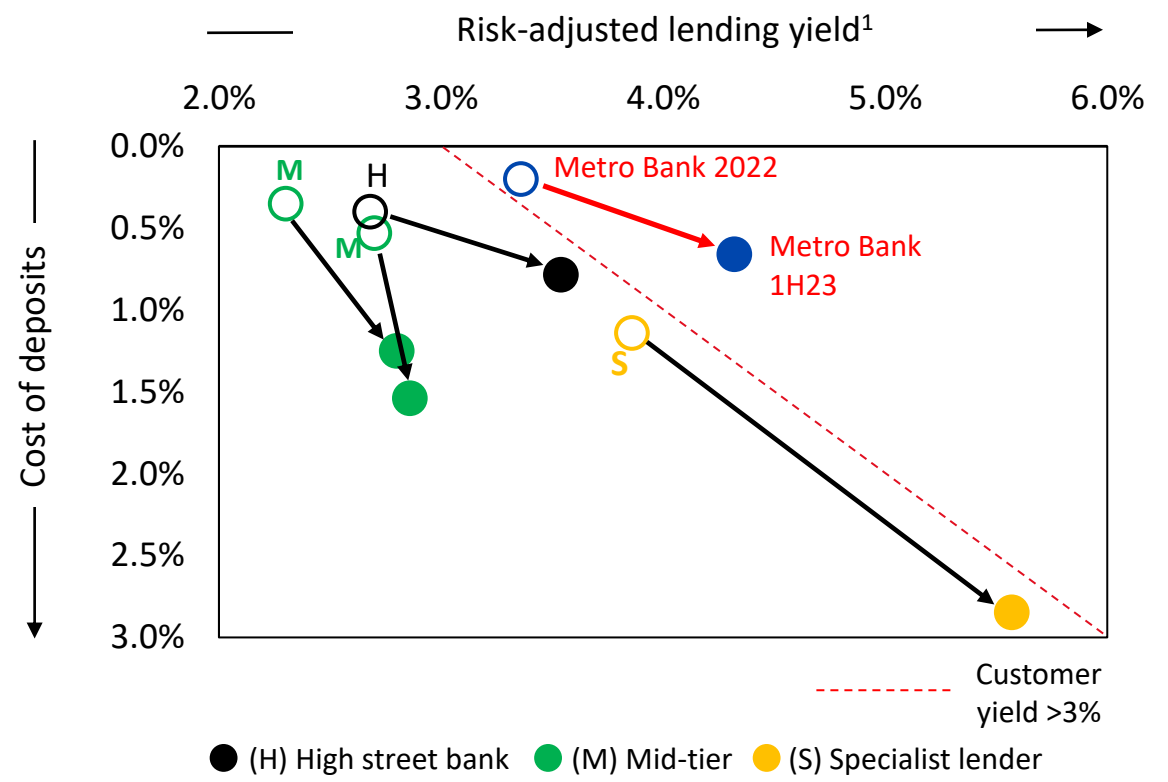
Infrastructure
Risk and resilience,
technology platforms

Communications
Engaged colleagues;
brand recognition

Balance sheet
optimisation
Optimised mix for risk-
adjusted returns

- M** Service-led model providing core deposits
- M** Diversified asset generating capability
- M** Scalable cost base ready for revenue growth
- M** Resilient risk and control environment
- M** Strategic optionality to leverage unique position once capital structure is optimised

Structural advantage in risk-adjusted spreads FY22 – 1H23



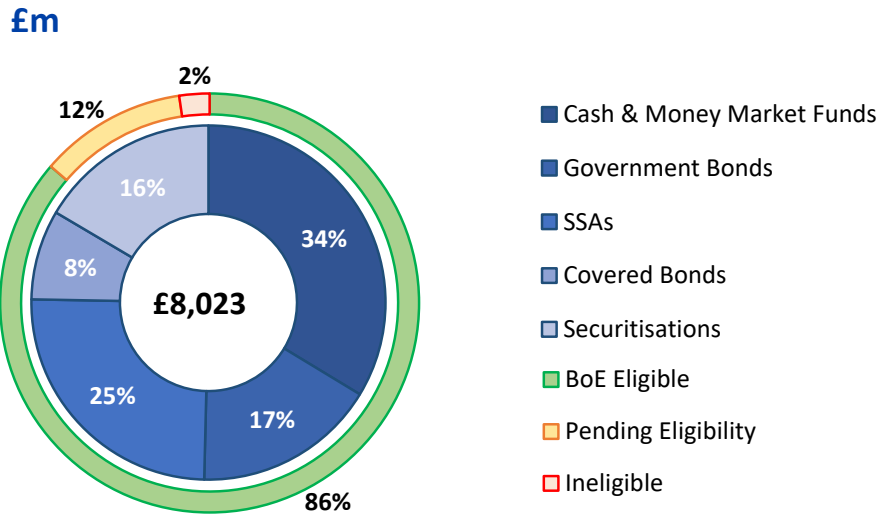
1. Income on loans to customers/average customer loans less loan losses/average customer loans. Peer data is latest reported.

Q&A

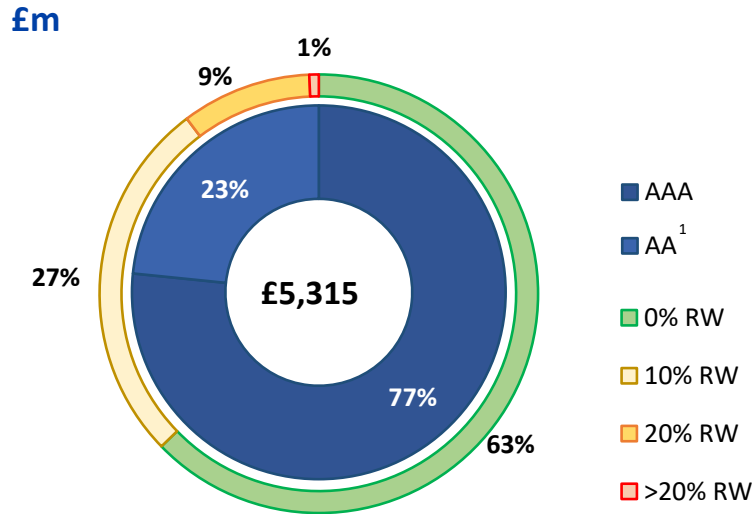
Appendix

Low risk Treasury Portfolio, strong liquidity position

Portfolio composition and central bank eligibility



Non-cash portfolio credit rating and Risk Weights



£m	Carrying value	Fair value	Δ
Amortised Cost	4,826	4,502	(324)
Fair Value through OCI	489	489	-

Low risk Treasury portfolio

- Investment income up 250% vs. 1H22 at £111m; effective yield of 2.8% (1H22: 0.7%)
- Low risk density (1H RWA exit of ~£270m)
- Weighted average portfolio repricing duration
 - 1.1 years including cash
 - 1.6 years excluding cash
- In 2H23, there are £560m securities maturing at a yield of 3.7%
- As at 30 June 2023 investment balances were £5.3bn, of which £1.5bn (28%) with a weighted average yield² of 3.17% will mature in the next 18 months

Strong funding and liquidity, significantly above regulatory minima

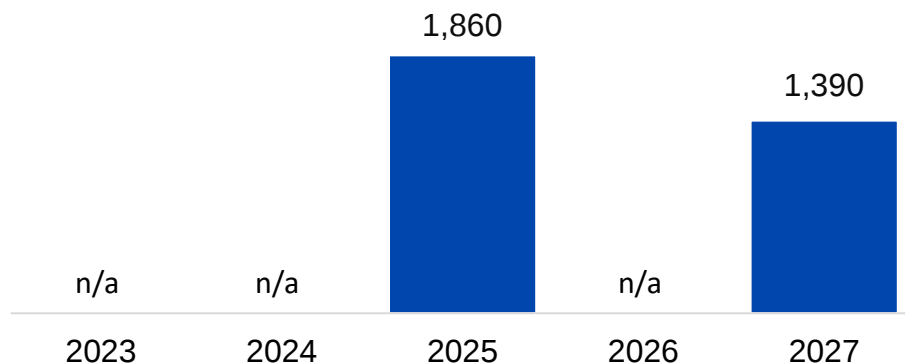
214%
Liquidity coverage ratio

132%
Net stable funding ratio

Wholesale funding profile

TFSME maturities – £3.25bn outstanding

£m



- TFSME provides stable funding at an attractive cost
- TFSME repayments will be made via:
 - reducing excess liquidity from the Treasury portfolio
 - deposit growth over the coming years
 - market wholesale funding

Outstanding debt instruments

£350m MREL

- Call date: Oct-24
- Maturity date: Oct-25

£250m Tier 2

- Not called: Jun-23. Coupon reset to 9.139%
- Maturity date: Jun-28
- Remains eligible for MREL until maturity date of 26 Jun-28¹

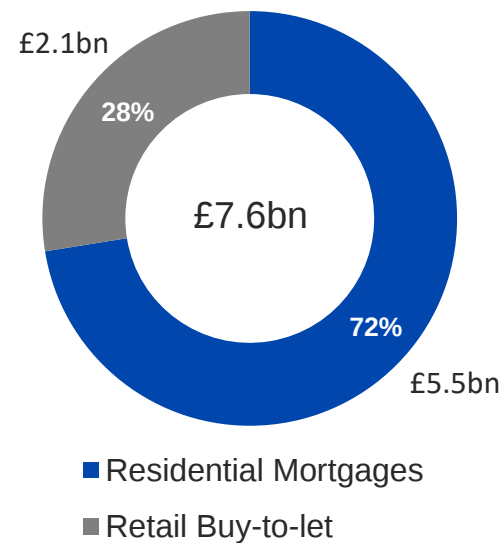
Alternative capital management options exist

Examples include:

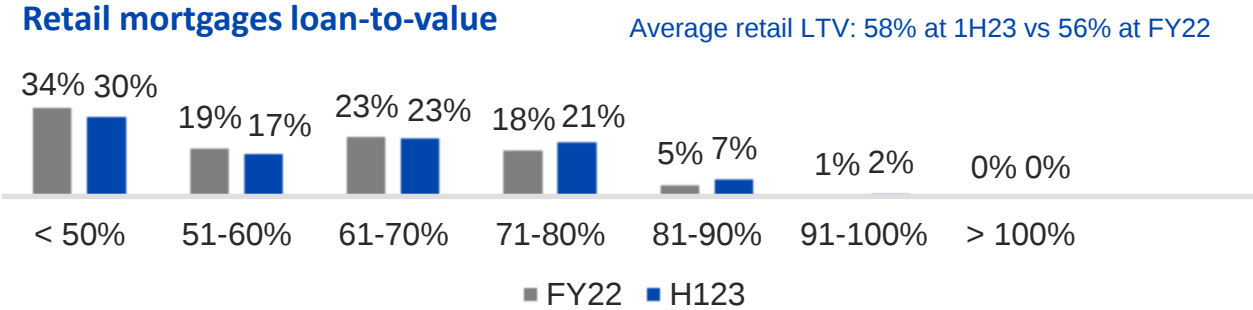
- Securitisations
- Forward flow agreements
- Potential asset sale opportunities

Retail mortgages – overview

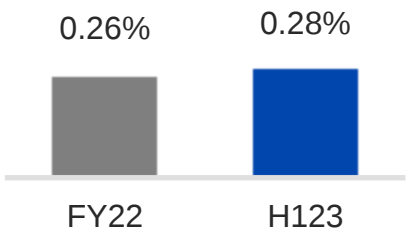
Retail mortgage portfolio



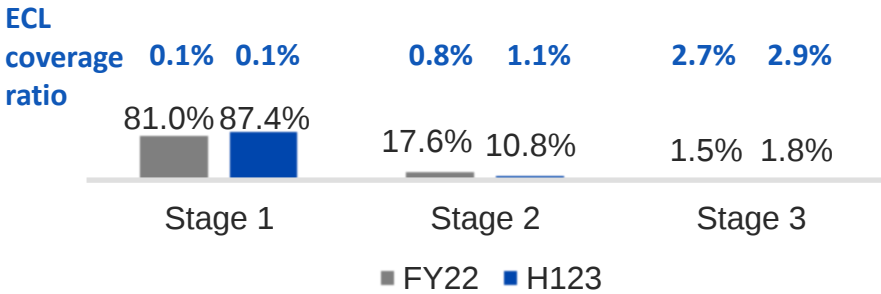
Retail mortgages loan-to-value



ECL coverage ratio



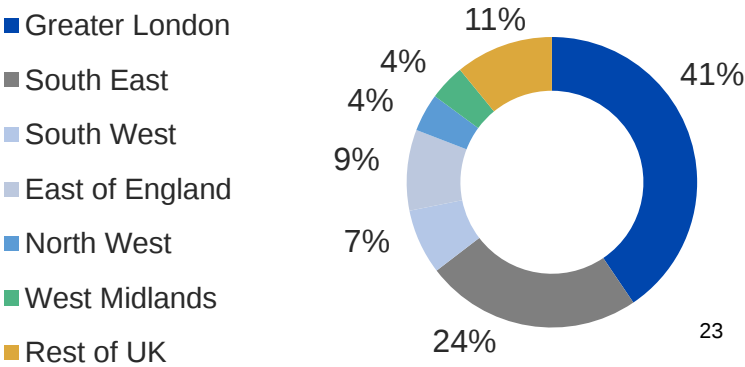
Balance by IFRS9 stage



Mortgage lending remained stable in 1H23

- LTV remains low; none >100% and only 2% between 91% and 100%
- LTV up slightly since FY22 driven by falling house prices (average up from 56% at FY22 to 58% at 1H23)
- As at 30 June 2023 retail mortgage balances were £7.6bn, of which £2.6bn (34%) with a weighted average rate of 2.54% will reprice¹ in the next 18 months
- New lending volumes have reduced in 1H23 (£0.5b in 1H23. £2.2b in 2022)
 - Average new lending LTV reduced from 68% (2022) to 67% (1H23)
 - Credit quality has remained stable, average credit scores have been stable across 2021/2022/1H23
 - Buy-to-let mix has reduced (14% in 1H23. 34% in 2022)
- Stage 2 balance reduction as a result of improvement in macroeconomics. This improvement has been held back as overlays in anticipation of expected interest rate hikes not fully captured in macroeconomic forecast

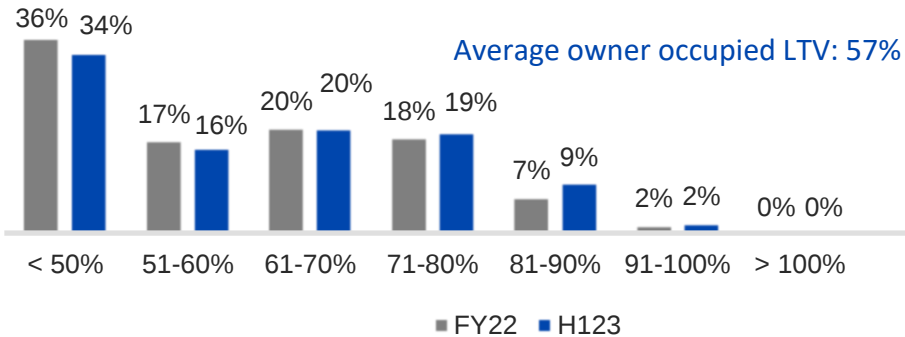
Retail mortgages geographical split



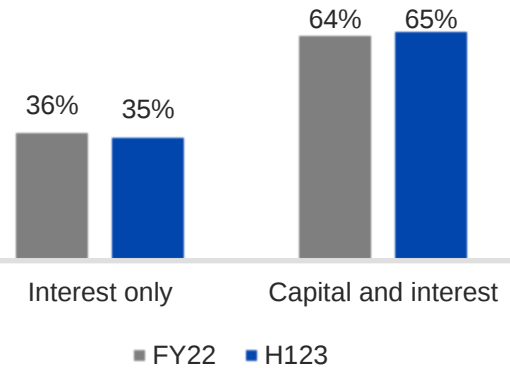
1. Accounts with an initial fixed rate deal finishing by the end of 2024.

Retail mortgages – LTV, repayment type and arrears

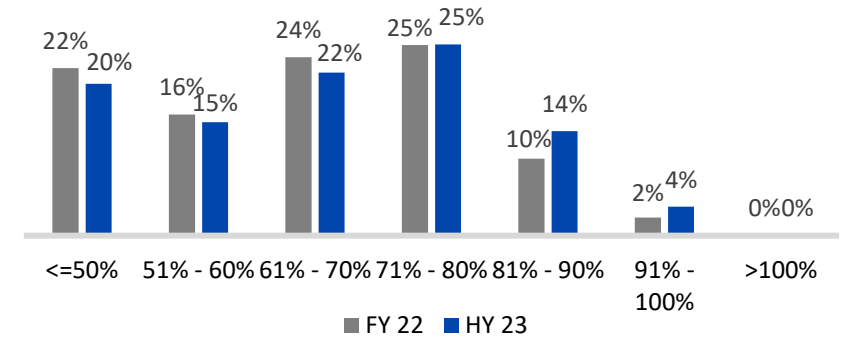
Owner Occupied Loan-to-value profile



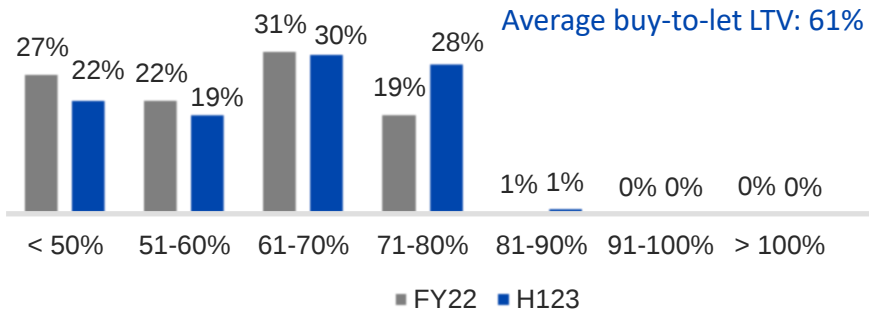
Owner Occupied Repayment type



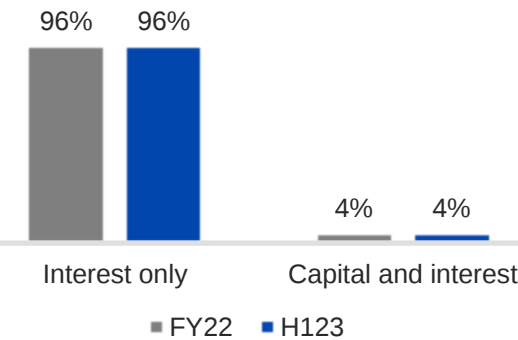
Capital and Interest Loan-to-value Profile



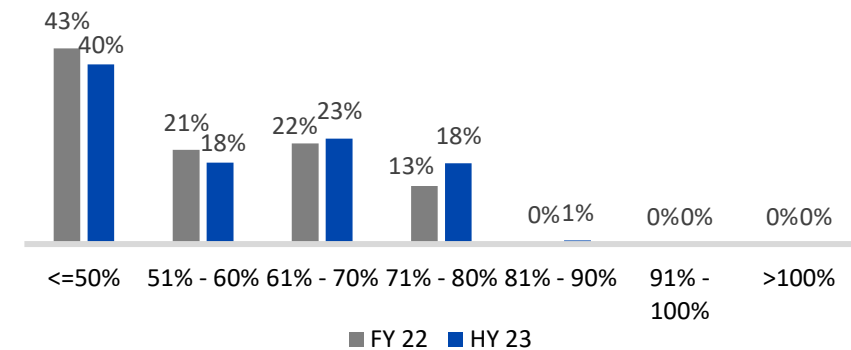
Buy to Let Loan-to-value profile



Buy to Let Repayment type



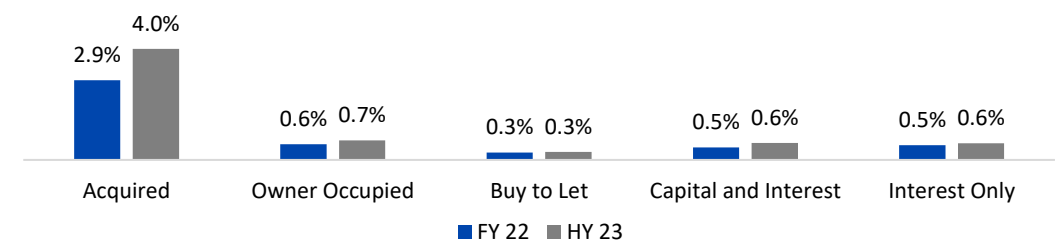
Interest Only Loan-to-value Profile



Arrears

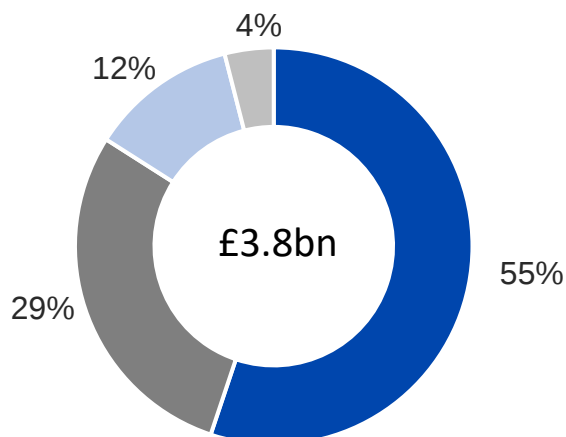
- Arrears remain low on the retail mortgage portfolio and sub-portfolios
- Arrears are lower in the Buy to Let and Interest Only sub-portfolios
- Arrears are favourable to the UK Finance market average on both Owner Occupied and Buy to Let portfolios and at a total level

Retail Mortgages - Arrears by Sub-Portfolio; >= 3 Months in Arrears by Value of Lending



Commercial lending – overview

Commercial lending portfolio



- Term loans
- Government-backed lending
- Asset & invoice finance
- Overdrafts & credit cards

Portfolio composition

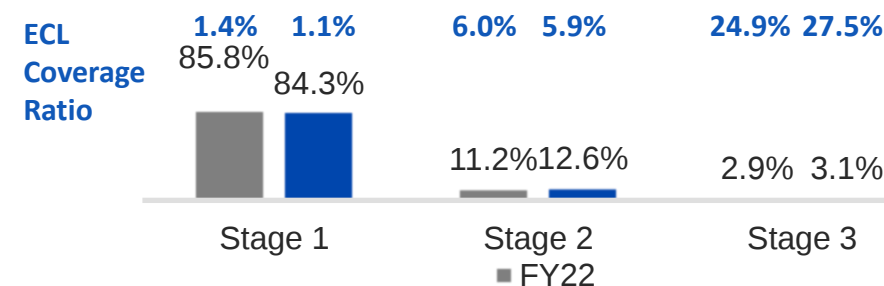
Segment	30 Jun 2023	31 Dec 2022
Term loans	55%	55%
CBILS, CLBILS & RLS	12%	13%
BBLS	17%	19%
Asset & Invoice Finance ¹	12%	10%
Overdrafts & credit cards	4%	3%

Term loans by industry sector²

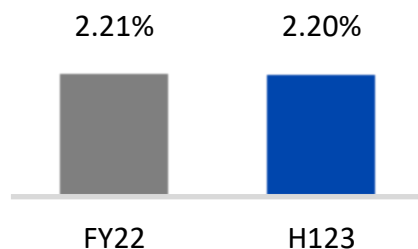
Industry sector (£m)	30 Jun 2023	31 Dec 2022
Real estate (PBTL)	615	731
Real estate (other term loans)	619	681
Hospitality	346	372
Health & Social Work	327	334
Legal, Accountancy & Consultancy	170	196
Other	459	507

Excluding BBLS

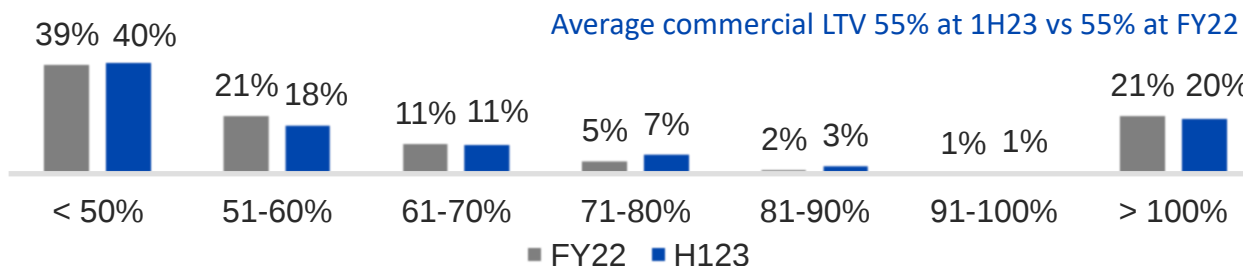
Balance by IFRS9 stage



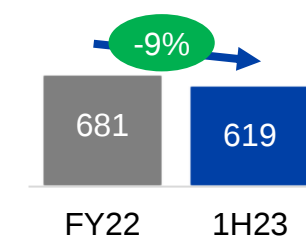
ECL coverage ratio



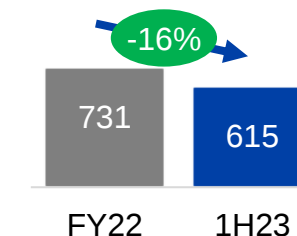
Commercial term lending loan-to-value²



CRE balances, £m

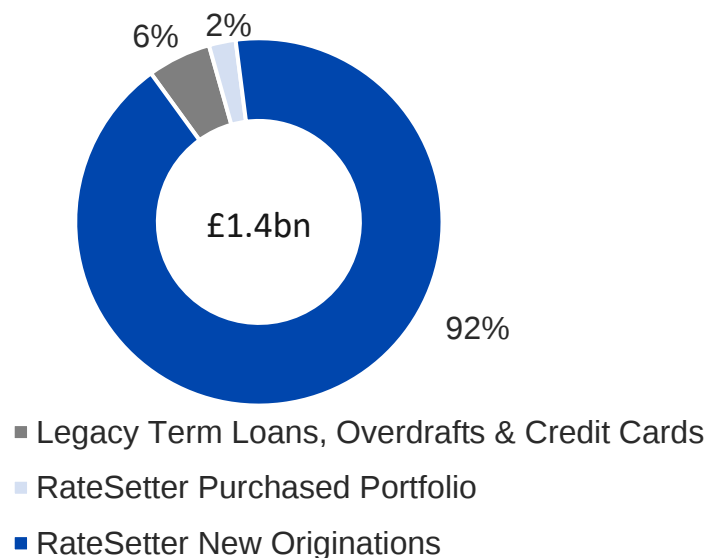


PBTL balances, £m

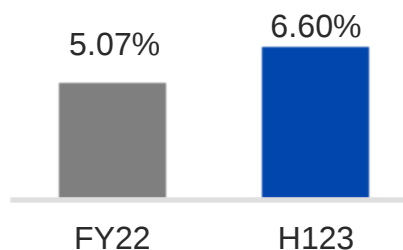


Consumer lending – overview

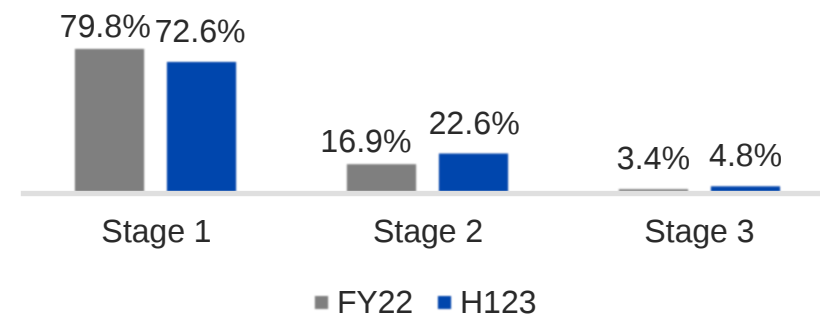
Consumer Lending portfolio



ECL coverage ratio

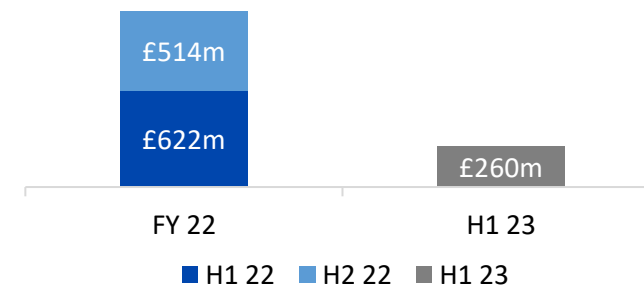


Balance by IFRS9 stages



- Average salary increased from £47.8k in FY22 to £48.7k in 1H23
- 51% of originations in 1H23 were in our top 3 risk buckets
- Launched Auto finance product in Dec'22

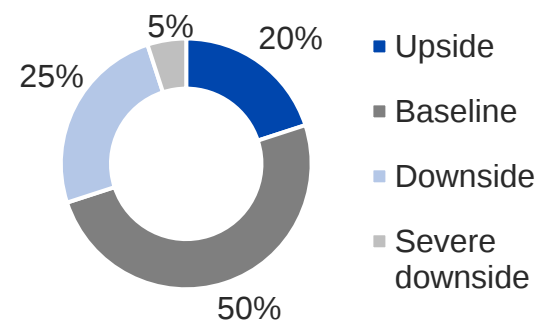
New RateSetter loan originations



Macroeconomic scenarios and provisioning

Application of scenarios and weighting

- 4 probability weighted scenarios: Baseline (50%); Upside (20%), Downside (25%) and Severe Downside (5%)
- Macroeconomic projections provided by Moody's Analytics (June 2023)
- House Price Index (HPI), Commercial Real Estate Index (CRE) and 5-year Mortgage Rate adjusted across all scenarios to reflect further uncertainty in residential & commercial held as overlays



Macroeconomic scenarios¹

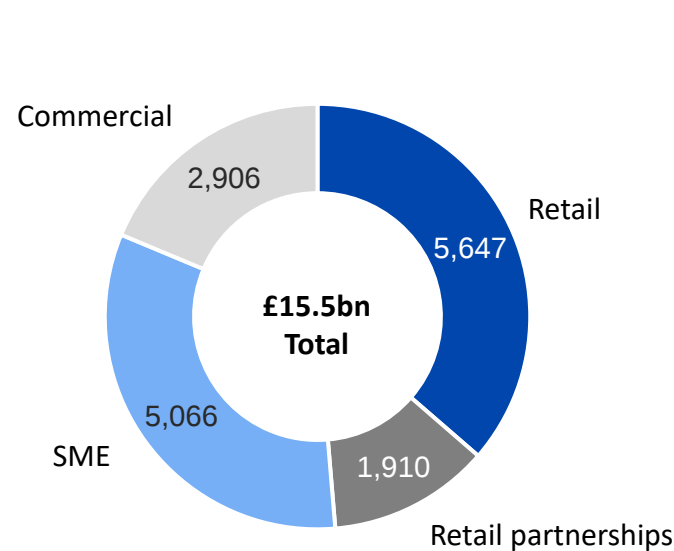
Macroeconomic variable	Scenario	2022	2023	2024	2025	2026	2027
Unemployment (%)	Baseline	3.7%	4.3%	4.5%	4.5%	4.6%	4.6%
	Upside		3.9%	3.8%	3.7%	3.8%	4.1%
	Downside		5.2%	7.2%	7.3%	7.1%	6.5%
	Severe Downside		5.4%	8.5%	8.2%	8.1%	7.6%
House Price Index (YoY%) ¹	Baseline	9.6%	-7.4%	-3.1%	4.7%	2.9%	0.8%
	Upside		-1.5%	6.5%	4.6%	-1.1%	-2.6%
	Downside		-11.8%	-14.7%	-0.1%	4.3%	4.3%
	Severe Downside		-13.6%	-21.5%	-0.9%	4.0%	2.9%
UK GDP (YoY%)	Baseline	0.6%	0.7%	1.0%	1.3%	1.2%	1.4%
	Upside		2.9%	2.5%	1.3%	1.1%	1.5%
	Downside		-2.3%	-2.8%	3.1%	1.7%	1.3%
	Severe Downside		-2.9%	-4.6%	3.1%	3.3%	1.6%
5-year Mortgage Rate (%) ¹	Baseline	5.4%	6.5%	5.6%	4.4%	4.3%	4.3%
	Upside		6.6%	6.0%	4.4%	4.3%	4.3%
	Downside		5.4%	4.2%	3.0%	3.3%	3.4%
	Severe Downside		5.3%	4.2%	2.8%	3.0%	3.0%
Commercial Real Estate (CRE) Index (YoY%) ¹	Baseline	-12.4%	-13.9%	-4.4%	2.6%	0.1%	-1.6%
	Upside		-7.0%	4.2%	2.3%	-3.8%	-4.9%
	Downside		-21.1%	-14.7%	0.5%	2.7%	2.6%
	Severe Downside		-23.9%	-22.7%	2.6%	2.9%	2.0%

PMO – Post Model Overlays

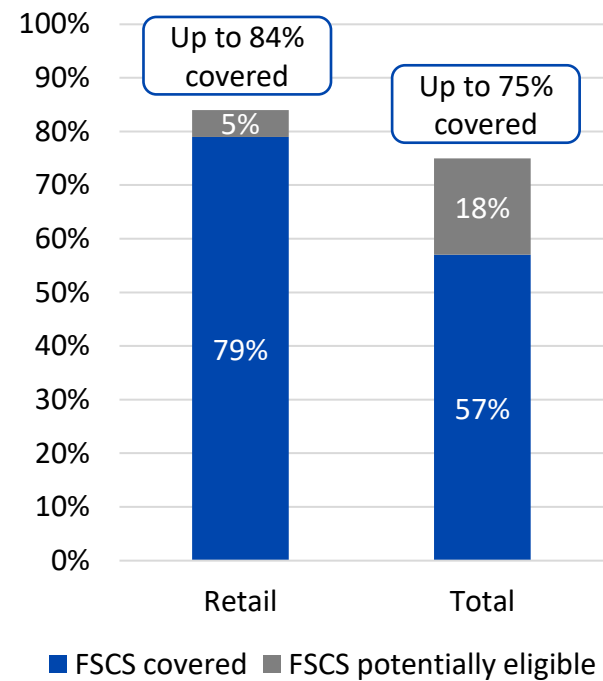
PMO type	£m
High inflation and cost of living	18.1
Climate Change	3.4
HPI and CRE adjustment	4.7
Commercial model enhancements	0.5
SICR ² overlay	(7.2)
Expert Judgement	6.6
Total	26.1 (~13% of ECL stock)

Significant majority of deposits covered by FSCS

Deposits from customers, £m



Covered under FSCS guarantee, %



Average deposit balances, £k

	£k	Jun'21	Jun'22	Jun'23
Retail		6.5	5.5	4.6
Commercial, SME and Other		73.9	72.0	63.6
Total average		13.9	12.9	11.2

- Core customer deposit base continues to be predominantly Retail and SME
 - Low average balances

Up to 84% of Retail deposits and 75% of all deposits covered by FSCS

Disclaimer

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