

The Co-operative Bank PLC - £15M Award

Key Achievements to Date

In Q2 2022, we have continued to see strong customer feedback and increasing adoption of our new services. We also expanded the range of value-added services available to our SME customer base:

- We launched a new referral process with our new sustainability partner, Zellar, as we build out the range of Value-Added Products and Services available to our SME customers. Zellar is a software platform for SMEs to measure, manage and improve their sustainability journey, providing bespoke plans and support for SMEs to improve their sustainability practices and reach Net Zero.
- We have continued to see excellent customer feedback from our new onboarding journey, with customer NPS for this new journey remaining high at +70.
- We have continued to drive digital adoption, with 28% of our SME customers now registered for our mobile app, an increase of 2% in Q2 2022.

Assessment Period 12 (April 1st, 2022 – June 30th, 2022)

TRANSFORMING OUR SME PROPOSITION

With Pool B investment, we will accelerate our strategy towards better supporting UK SMEs. We commit to modernising our business current account proposition by improving our digital service and providing value added services for SMEs.

Our investment will have three key areas of focus:

- 1. Modernising the way our SME customers are able to bank with us with an enhanced digital service**
- 2. Developing products and personalised business support services to help small businesses thrive**
- 3. Making banking faster paced for SMEs through improved infrastructure and automation**

In order to deliver our transformation, we will commit £18m of the Bank's own funds to supplement £15m from the Capability and Innovation Fund. We expect that our transformation will run to the end of 2022 and will provide a solid platform for sustainable growth of our SME proposition in the long term.

We remain on track with this public commitment. In Q2 2022, we have continued our investment and have now spent £30.6m of the total £33m investment funds from the Capability and Innovation fund and the Bank's own funds as we near the completion of the delivery of the initiatives included in our Business Case. We remain committed to completing this investment by the end of 2022 and continue to see good customer metrics in relation to the new products, services and customer journeys delivered so far.

MODERNISING OUR DIGITAL SERVICE FOR SMES

We commit to modernising the way our SME customers are able to bank with us by enhancing our digital service. We will deliver a new mobile app for our SME customers, which will also enable customers to access their personal accounts. This will remove traditional barriers between business and personal banking and provide customers with a more convenient, faster digital service.

This new mobile app will build on our online banking service and add an additional channel to complement our award winning branch and telephony teams, providing customers with modern, digital service whilst maintaining our strong heritage of great customer service.

We remain on track with this public commitment. We continue to see further adoption of our digital services, with 28% of our customer base now using the mobile app which we launched in 2021. Following the delivery of an upgrade to our online banking platform in Q1 2022, we have made iterative improvements to this service through the second quarter of the year and will continue to develop the functionality of our digital services over the long term.

HELPING SMES THRIVE

We commit to helping SMEs thrive by launching a new business credit card proposition and building a suite of personalised business support tools. This will provide businesses with access to value-added services that will remove burdensome overheads and help us to better meet the needs of small businesses and provide the all-round business support services they need.

We will partner with FinTechs and other specialist providers to give SMEs better access to business insurance, integration between online banking and accounting software, business admin packages, smart invoicing and support with setting up new businesses. This will help SMEs at key moments of truth to help them develop and grow.

We remain on track with this public commitment. In Q2 2022, we launched a new referral process with our new sustainability partner, Zellar, as we build out the range of Value-Added Products and Services available to our SME customers. Zellar is a software platform for SMEs to measure, manage and improve their sustainability journey, providing bespoke plans and support for SMEs to improve their sustainability practices and reach Net Zero. Zellar is the latest expansion of our range of value-added services available to our SME customers, adding to the existing suite of Business Insurance, Business Concierge, Incomeing and Merchant Services.

We also remain on track to enhance our SME Credit Card functionality later in 2022 by adding product servicing features into our online banking channel.

MAKING BANKING FASTER PACED FOR SMES

We commit to making banking faster paced for SMEs by digitising our onboarding journey and common account servicing tasks to provide SMEs with a frictionless customer experience. Our investment will enable customers to open an account on the same day as they apply which will remove a traditional barrier to switching for SMEs.

We will invest in a digital credit engine and the automation of internal processes, combining new technology with our strong process governance and risk management practices. This will enable us to truly modernise our customers' experience of opening and maintaining their account and provide us with a platform for future continuous improvement of our service for SMEs.

We remain on track with this commitment. We continued to see good customer feedback from our new onboarding journey, with an improved NPS of +70 in Q2 2022 and an average account opening time of 6 days. We continue to enhance our key customer journeys and remain on track to extend the eligibility of our new onboarding journey in 2022.

Original Commitment:

OUR AMBITION FOR OUR CUSTOMERS AND THE MARKET

We will deliver exceptional customer service through our people and through our improved digital channels, and combined with our range of personalised business support tools, we will provide comprehensive support for our SME customers. Our SME customers will enjoy reduced administrative burden, enabling them to focus on helping their customers and growing their businesses.

By delivering this transformation, we commit to growing our market share to 5% of the banked SME market by 2025, more than doubling our current share of 2.3%. This reflects our ambition to be the digital, ethical bank for SMEs and to cement our position as a genuine alternative to the “Big 5” banks who have dominated the market for so long.

This will contribute to improving competition in the UK SME banking market, and compounded with the impact of the improvements made by other C&I Fund recipients, we aim to help increase the number of SMEs holding BCAs by 2 percentage points.

Rationale for change:

We remain committed to growing our market share as we outlined in our Original Business Case and have grown our SME customer base since commencing our transformation.

We have re-baselined our projected customer base growth over the next 5 years based on our position as at the end of 2021, market factors, and also based on the size of businesses we are attracting. Throughout ISS and during H2 2021 we continued to attract slightly larger businesses than we assumed in our Original Business Case. We are onboarding less microbusinesses but more well-established businesses with more sophisticated needs, in some cases requiring the support of a Relationship Manager.

Previously we have measured our market share against 'banked' SMEs based on data of UK SMEs who use a business current account rather than a personal current account. The emergence of new challengers, and the impact of government backed lending schemes has changed this dynamic since our Original Business Case. Going forward, we will therefore measure our market share of overall UK SMEs, using a basis which is consistent with other CIF award winners and which we have started to report against in our quarterly reporting submissions.

New Commitment:

OUR AMBITION FOR OUR CUSTOMERS AND THE MARKET

We commit to growing our SME customer base by more than 50% and growing our market share to 3% of UK SMEs by 2026. We will do this by having an attractive proportion for a broad range of SME customers from Sole Traders, microenterprises, and start-ups to well established SME businesses. As such, we will grow our market share of SMEs with employees or multiple officials to 8% by 2026.

We are on track with this revised public commitment and our SME customer base has remained stable in Q2 2022 with 103,000 BCAs. We plan to significantly grow our SME customer base through continued improvements to our proposition and by growing awareness of our proposition through

marketing activities. As at the end of Q2 2022, 71% of our BCAs were held by SMEs with employees or multiple officials as we continue to focus on serving a broad range of SME customers.

ONGOING SUPPORT

As part of our transformation, we aim to create ~213 new jobs, of which ~178 will be frontline staff focused on serving our SME customers. In addition, we will add operations and technical staff including risk specialists, digital expertise, relationship managers and operational delivery staff. This will support the sustainable growth of our SME proposition following the delivery of our transformation. These roles will be funded by the Bank on an ongoing basis in addition to the Bank's co-investment of £18m in the transformation of our proposition for SMEs.

We remain on track with this public commitment and have now exceeded our original recruitment commitment of 213 new roles. In Q2 2022, we recruited a further 36 colleagues, taking our recruitment since the start of our transformation to 223 new colleagues as we expand our SME business. Recruitment has continued to focus on our Customer Contact channels to ensure that we are well equipped to serve our SME customer base. This recruitment continues to be funded outside of our committed £18m of co-investment.