2014 Interim Results Presentation

22 August 2014

The co-operative bank

Agenda

1)	Introduction	Richard Pym
2)	CEO update	Niall Booker
3)	Financial performance	John Baines
4)	Conclusion	Niall Booker
5)	Q&A	

Section 1

Introduction

Richard Pym — *Chairman*

Personnel changes at The Co-operative Bank Board

- **Board appointments in 2014**
  - Dennis Holt – Senior Independent Non-Executive Director
  - Laura Carstensen – Independent Non-Executive Director and Chair of the Values and Ethics Committee
  - Maureen Laurie – Independent Non-Executive Director and Chair of the Board's Remuneration Committee
  - Derek Weir – Independent Non-Executive Director appointed under Relationship Agreement
- **One further Director to be nominated under the Relationship Agreement**
- **Each of Silver Point and Perry Capital has been granted the right to nominate a Director**
- **Co-operative Group entitled to nominate a Director**
- **The Chairman of the Bank will leave the board and Dennis Holt will act as interim Chairman of the Bank from 1 October 2014**
- **Full and rigorous process to appoint his permanent replacement has begun**

The Co-operative Bank Board

Richard Pym[1]
Chairman

Maureen Laurie
Non-Executive Director

Dennis Holt[2]
Senior Independent Director

Richard Coates
Non-Executive Director

Graeme Hardie
Non-Executive Director

Derek Weir
Non-Executive Director

Laura Carstensen
Non-Executive Director

Bill Thomas
Non-Executive Director

Niall Booker
Chief Executive Officer

1 Leaves Board on 1 October 2014
2 Interim Chairman from 1 October 2014

Section 2

CEO update

Niall Booker — *CEO*

Key messages

Capital and Liquidity Improved

Credit Book Stabilised

Conduct Risk Stabilised

Corporate Governance Improved

Embedding of Co-operative Values and Ethics and brand development commenced

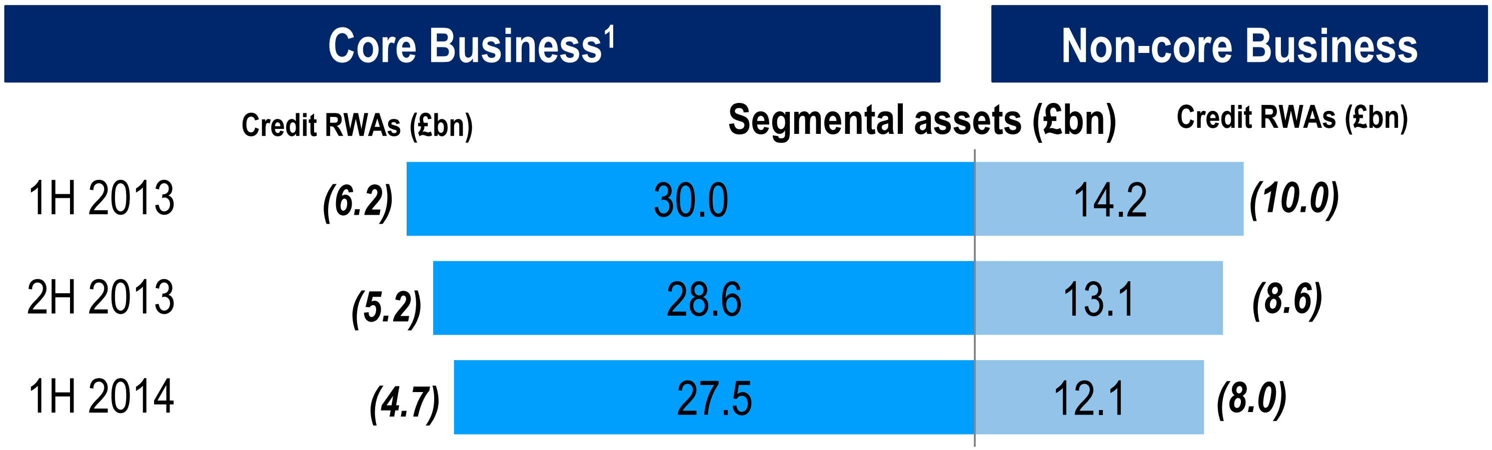
Cost reduction continues

Progress on Systems and Separation

Turnaround underway and bank getting back on track

Continuing to Reshape the Bank

Core Business: focused on right sizing and digital investment. Non-core Business: de-levered as planned



Core Business

- Core Business continues to be reshaped with the foundations being laid for future growth with focus on digital investment
- Asset origination behind target due to:
  - actions taken to slow asset growth to preserve liquidity in 2013
  - new mortgage regulation coming into force in April 2014
  - customer redemptions ahead of expectation
- Focus on increased asset growth to increase revenue and reduce excess liquidity impact on Core Business NIM
- Managed reduction in deposit levels to reflect deleverage and reduce dependency on marketing leading rates

Non-Core Business

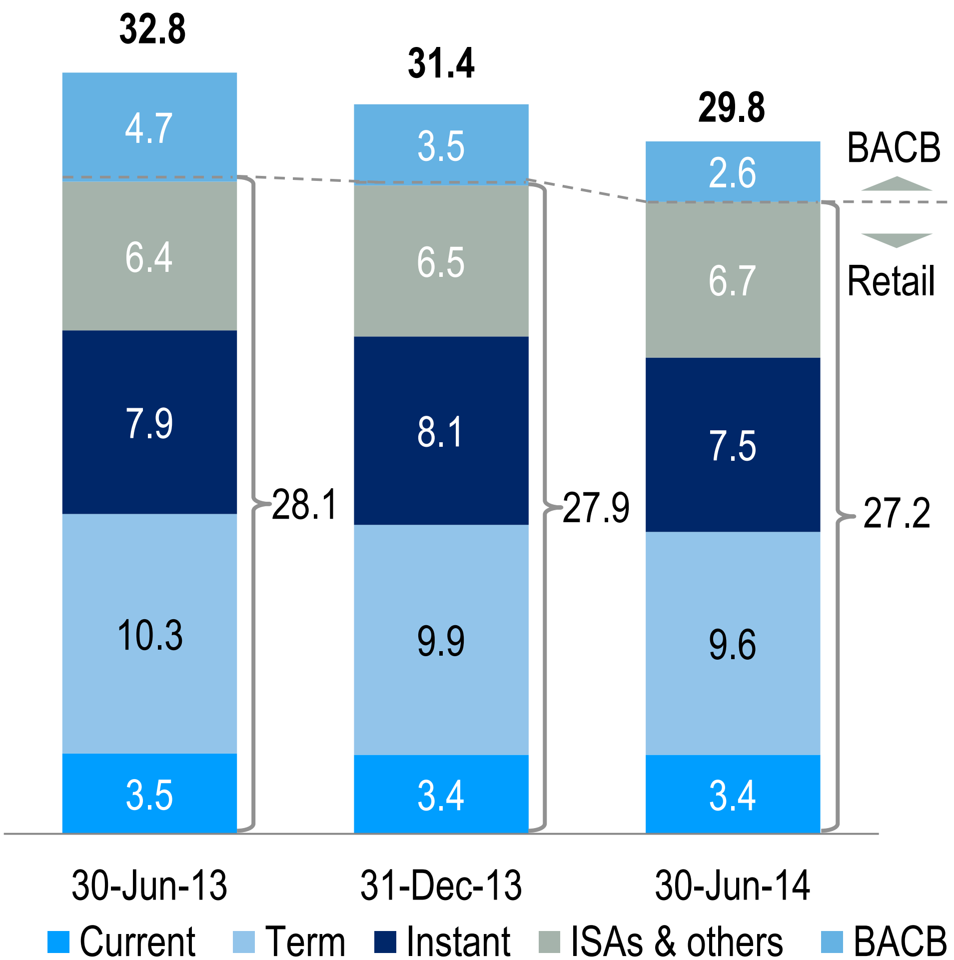
- Proactive asset management has enabled:
  - deleverage ahead of plan
  - deleverage at a lower cost than forecast
  - write back of certain provisions
- This has help boost the CET1 and Leverage ratios

1 Includes Retail, BACB, Treasury and Unity Trust Bank

Core Business franchise

Stable retail deposit base but small outflow on current accounts due to negative news flow

Stable retail deposits (£bn)



Current account numbers

	H2 2013	H1 2014
C/A liabilities	£3.4bn	£3.4bn
Switches in	4,210	9,722
Switches out	26,379	37,921
Net switches	(22,169)	(28,199)
Ending stock	1.499 million	1.436 million

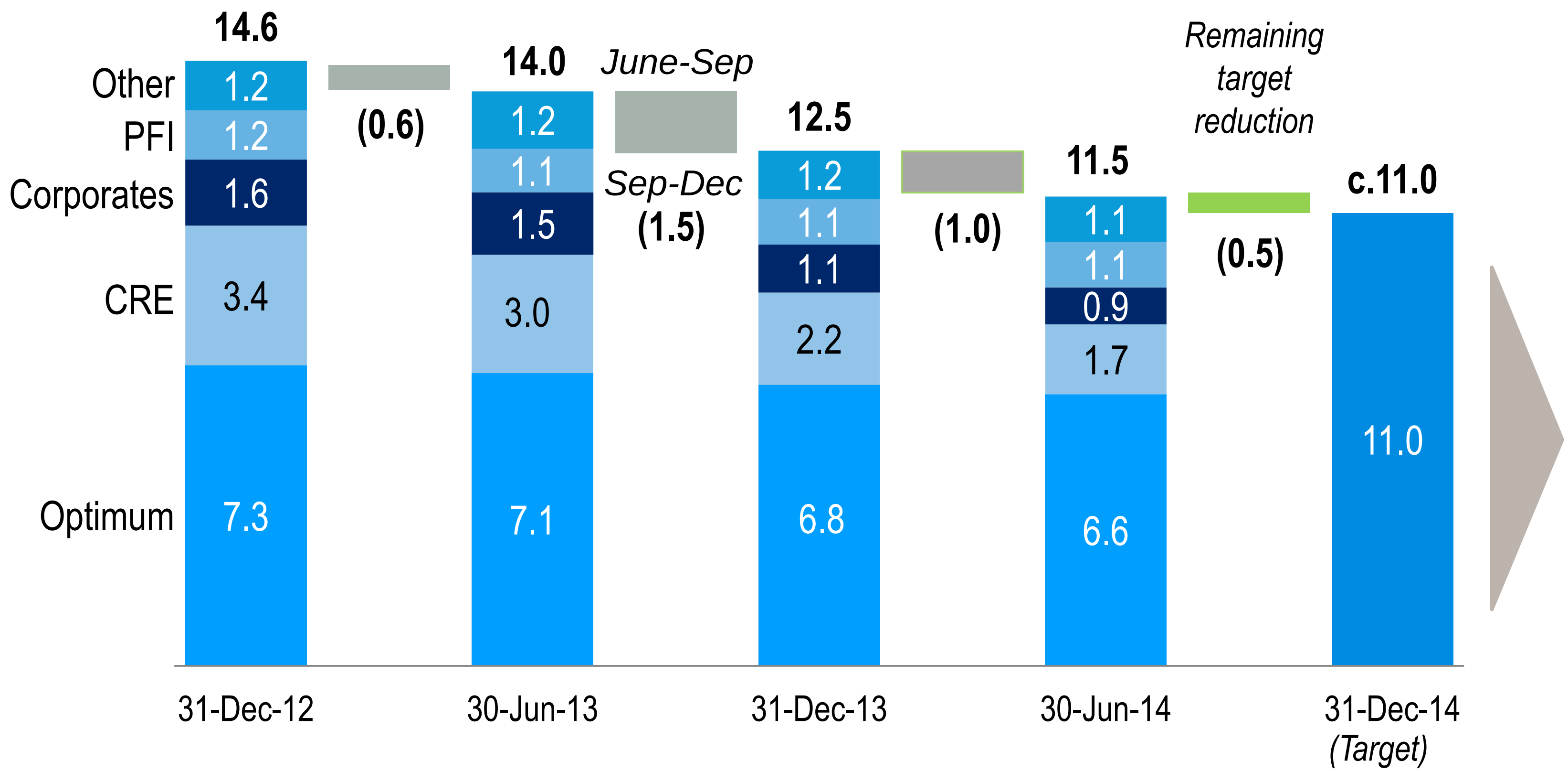
Brand Franchise

- Values and Ethics Poll launched and closed with more than 73,000 customers participating
- Details of results will reshape future approach
- Investment in Digital Strategy (400k mobile downloads)
- Additional marketing activity following release of the customer Values and Ethics Poll

Non-core Business

Deleveraging progressing ahead of plan and at lower cost than forecast helped by macro economics

Non-core loans[1,3,4] (net, £bn)



Continue deleveraging thereafter at a slower pace

Target remains to achieve deleveraging that does not materially reduce the CET1 ratio of the Bank[2] as a whole

1 Does not include Illius assets which are not classified as loans
2 Deleveraging in such a manner that the anticipated future losses from deleveraging do not materially exceed the capital that is released from the reduction in RWAs
3 Includes hedge risk provision but excludes other accounting adjustments
4 30-Jun-13 loans shown as per the LME presentation which does not reflect a subsequent perimeter change moving £100m from Core to Non-core. The changes related to perimeter are reflected in the 31-Dec-13 and 30-Jun-14 numbers

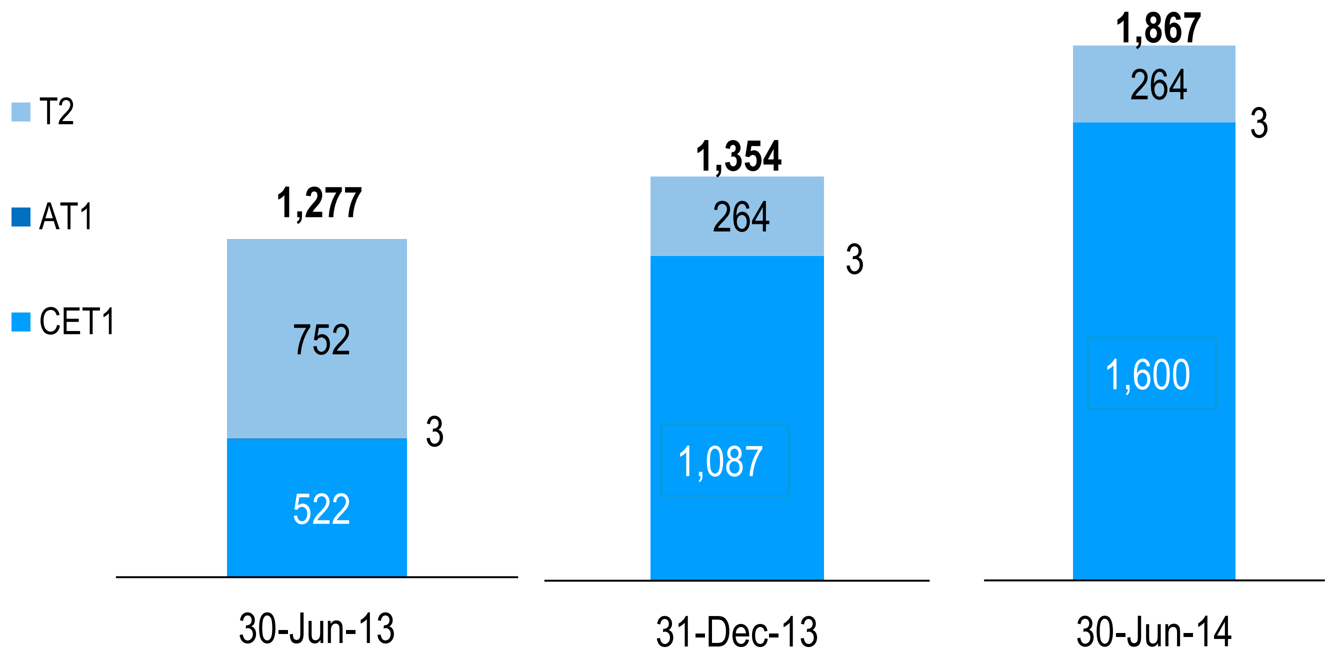
Please note that footnotes 3 and 4 have been added to the presentation published on 11 April 2014 to provide additional clarity

Strengthened Capital Position

£400m capital raising completed in May resulting in a further strengthened capital position

Capital position[1] (£m)

30-Jun-13	31-Dec-13	30-Jun-14	Group Contribution



	30-Jun-13	31-Dec-13	30-Jun-14
CET1 ratio	3.0%	7.2%	11.5%
Leverage ratio	1.1%	2.4%	3.7%

- Co-operative Group contribution: £313m
  - £150m paid in H1
  - £163m due by 31 Dec-14

Stress Testing

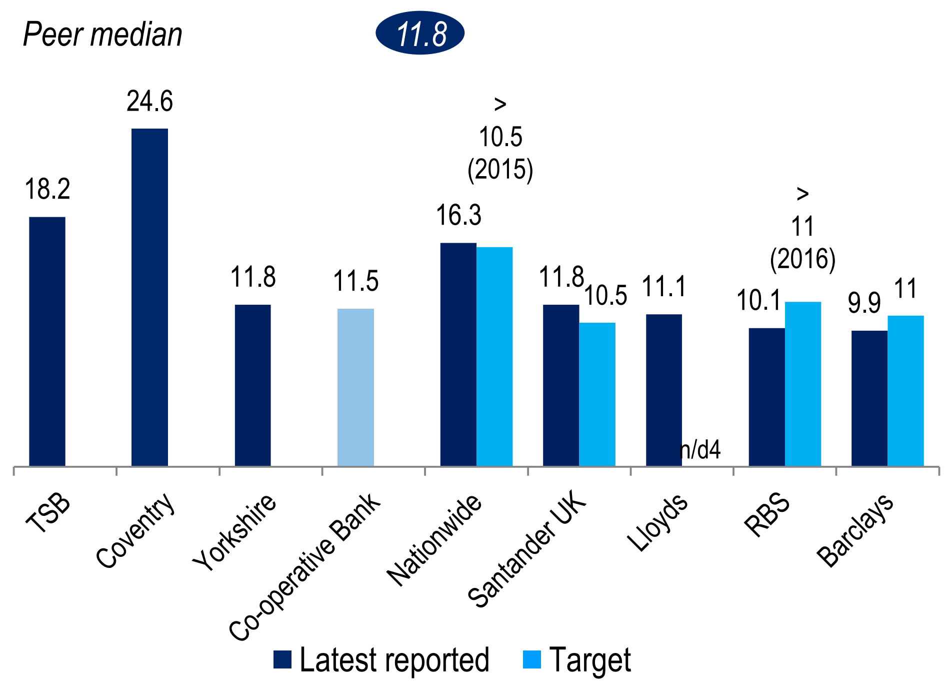
- Bank conducts continuous stress testing
- 31-Dec-13 data submitted to FCA and PRA in June 2014
- Consideration in Q4 2014
- Management actions taken in 2014

1 CRD IV fully loaded rules basis

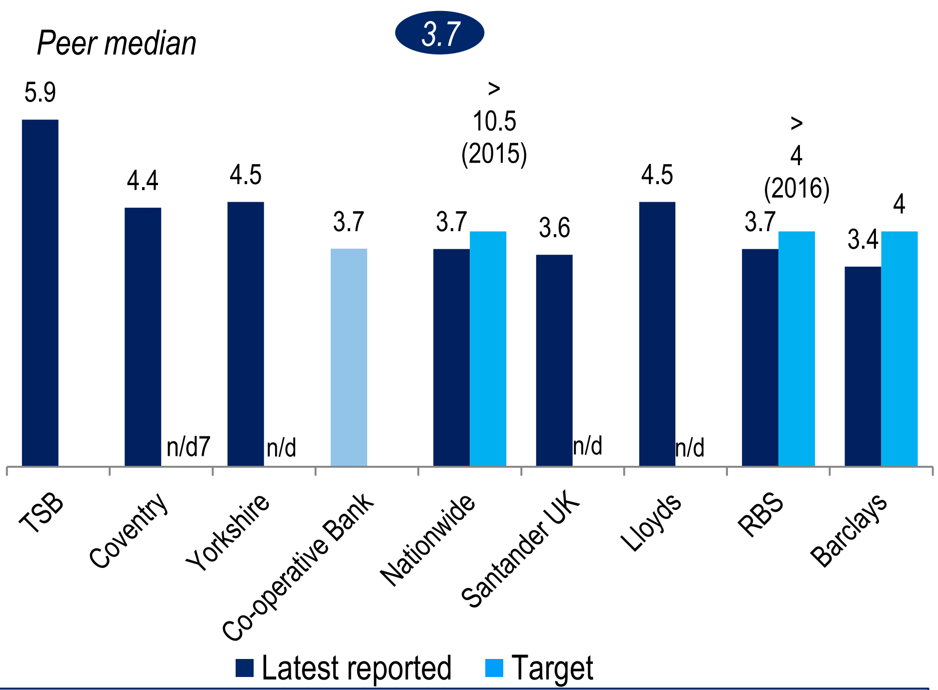
Peer Comparison

Bank capital and leverage ratios are comparable to its peers

CET1[1] ratio vs. peers



Leverage[1] ratio vs. peers



Capital Headwinds

- Stress tests and regulators' desires for higher capital ratios
- Pension risk
- Regulatory investigations and potential fines
- Transaction timing

Source: Company disclosure as at 30-Jun-14, except Nationwide (04-Apr-14)
1 CRD IV fully phased rules basis. Leverage ratio is based on BCBS January 2014 proposal for Coventry, Nationwide, Lloyds, RBS and Barclays and on PRA adjusted for Santander UK

Section 3

Financial performance

John Baines — *CFO*

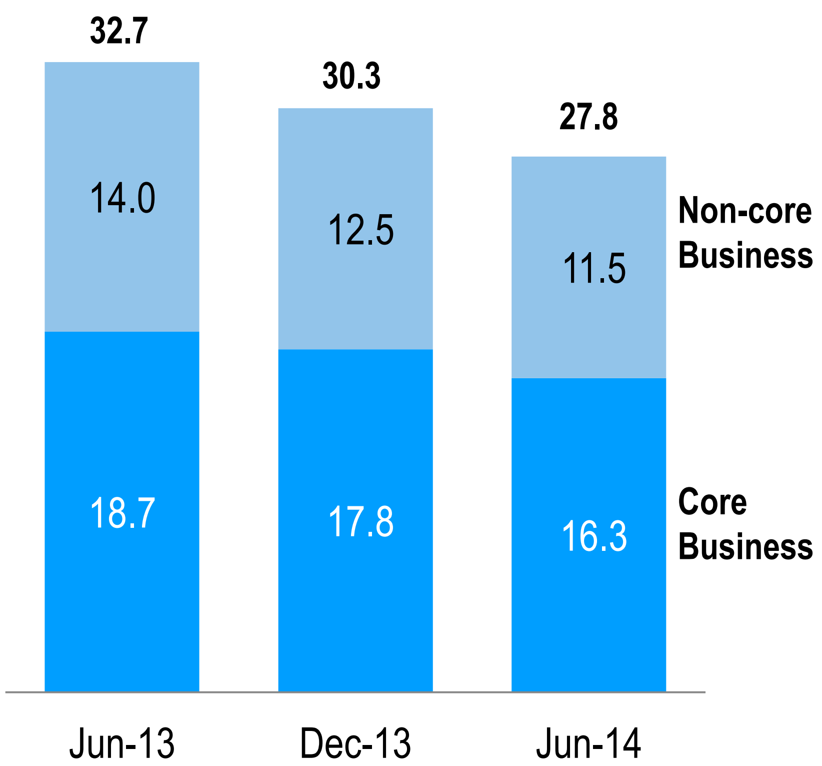
H1 2014 results summary — Balance sheet

Controlled balance sheet

Balance sheet (£bn)

	30-Jun-13	31-Dec-13	***30-Jun-14***	*Jun-14 vs Dec-13*
Customer loans (net)	32.7	30.3	***27.8***	*(8.3%)*
Total assets	**46.6**	**43.4**	***41.1***	***(5.3%)***
Customer deposits	34.9	33.0	***31.5***	*(4.5%)*
Wholesale liabilities & Other	10.7	8.6	***7.5***	*(12.8%)*
Total liabilities	**45.6**	**41.6**	***39.0***	***(6.3%)***
Equity	**1.0**	**1.8**[1]	***2.1***[1]	***16.7%***
Loan-to-deposit ratio[5]	*94%*	*92%*	*88%*	*(4.0%)*
NPL ratio[2,4]	*12.3%*	*11.4%*	*11.5%*	*0.1%*
NPL coverage ratio[3,4]	*33.3%*	*32.1%*	*28.4%*	*(3.7%)*

Customer loans[6] (net, £bn)



1 31-Dec-13 and 30-Jun-14 equity include Group's 2014 Contribution in full
2 Calculated as impaired customer balances (incl. watchlist) / gross customer balances
3 Calculated as allowance for losses (excluding losses for hedging risk) on customer balances / impaired customer balances (including watchlist)
4 Management reporting basis
5 LTD ratio calculated as net customer loans including fair value adjustments for hedged risk /customer deposits).
6 Core Business numbers include Unity Trust Bank (UTB)

H1 2014 results summary — Income statement

Lower asset balances and high operating costs has impacted profitability, off-set by reduced credit impairments

Income statement (£m)

Management basis	1H 2013	2H 2013	1H 2014[1]	*Change 1H 14 vs 2H 13*
Net interest income	241.0	257.7	247.9	*(4%)*
Non-interest income	106.4	75.3	60.6	*(20%)*
Operating income	347.4	333.0	308.5	*(7%)*
Operating costs — steady state	(307.2)	(348.6)	(297.0)	*(15%)*
Operating costs — projects	(48.9)	(115.8)	(68.8)	*(41%)*
Impairment losses	(491.9)	(20.1)	86.7	*531%*
Operating result	**(500.6)**	**(151.5)**	**29.4**	***119%***
Share of profit from joint ventures	0.3	0.4	(0.1)	*(125%)*
Intangible asset impairment	(148.4)			-
Conduct – CCA de-recognition	(29.0)	(81.0)	(29.0)	*(64%)*
Conduct - Other	(134.0)	(167.5)	(9.6)	*(94%)*
Profit from LME		688.3		-
Fair value amortisation[4]	(8.2)	(43.9)	(41.2)	*(6%)*
FSCS levies	(24.7)	0.6	(25.3)	*(4317%)*
Loss before tax	**(844.6)**	**245.4**	**(75.8)**	***(131%)***
NIM (bps)[2]	*102*	*114*	*117*	
Cost to income ratio[3]	*88.4%*	*104.7%*	*96.3%*	

1 Reconciliation to statutory accounts available in the Interim Financial Report 2014 (Note 4)
2 Calculated as net interest income / average assets
3 Calculated as operating costs (steady state) / income.
4 Further details available see note 19 of the Interim Financial Report 2014

H1 2014 results summary — Operating Costs

Headcount reductions and Branch closures are starting to deliver sustainable cost reductions

Operating Costs (£m)

	1H 2013	2H 2013	1H 2014
Staff Costs	124	131	128
Non Staff Costs	183	218	169
Operating Costs	**307**	**349**	**297**
One-off costs / non-routine items			
Staff Costs	0	9	13
Non Staff Costs	16	37	9
Total one-off / non-routine items	**16**	**46**	**22**
Costs adjusted for one-off / non-routine items			
Staff Costs	124	122	115
Non Staff Costs	167	181	160
Total adjusted Operating Costs	**291**	**303**	**275**

Operating Costs

- Delivery of structural changes which will provide sustainable cost savings
  - 43 Branch closures in H1 2014 – further planned in H2 2014
  - FTE year on year reductions of 21%, 13% in H1 2014
- Contractor costs increased year on year as short / medium term resource required to support Bank transition
- Fees increased as a result of accelerated deleveraging activity

H1 2014 results summary — Project Costs

Increase on remediation, integration and resilience project spend

Project Costs (£m)

	1H 2013	2H 2013	1H 2014
Operational projects	13	21	20
Remediation, integration and resiliency projects	5	10	21
Strategic projects and exceptional items	31	85	28
Total Project Costs	**49**	**116**	**69**

Project Costs

- Operational projects – regulatory changes including MMR and MCOB
- Remediation, integration and resiliency – IT Remediation and separation of Bank from Co-operative Group
- Strategic projects and exceptional items – Digital and severance costs

Conduct risk

Review of processes and products continues but no new categories of conduct risk have been provided for

Conduct risk	Update	Provision charges (£m) H1 2013	H2 2013	H1 2014 (unaudited)
PPI	• The H1 2014 PPI provision reflects the latest expectations of customer claims volumes, uphold rates, pay out data and costs	53	50	5
Interest rate swap mis-selling	• No further charge requirement in H1 2014	10	23	0
Breaches of the Consumer Credit Act (legal provision)	• The H1 2014 CCA provision is to cover refunds on interest charged in H1 on Loans which are not CCA compliant • The CCA provision includes £16m for the first half of 2014 of interest foregone per prior guidance plus an additional amount of £13m due to revision of previous estimates from 2013	29	81	29
Conduct redress related to mortgage products	• A review of methodology led to the additional requirement for mortgage related provision due to the availability of better information as work continues through the remediation process	49	65	5
Other	• No further charge requirement in H1 2014	26	26[1]	0
	Total	167	244	39

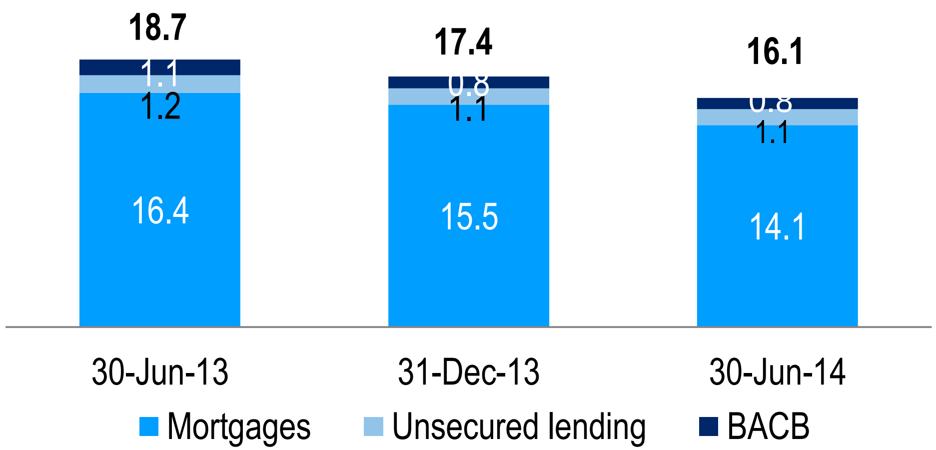
The co-operative bank

1 £11.3m of provisions previously classified as Other in the H1 2013 audited accounts reclassified as Conduct redress related to mortgage products for comparability to H2 2013 data

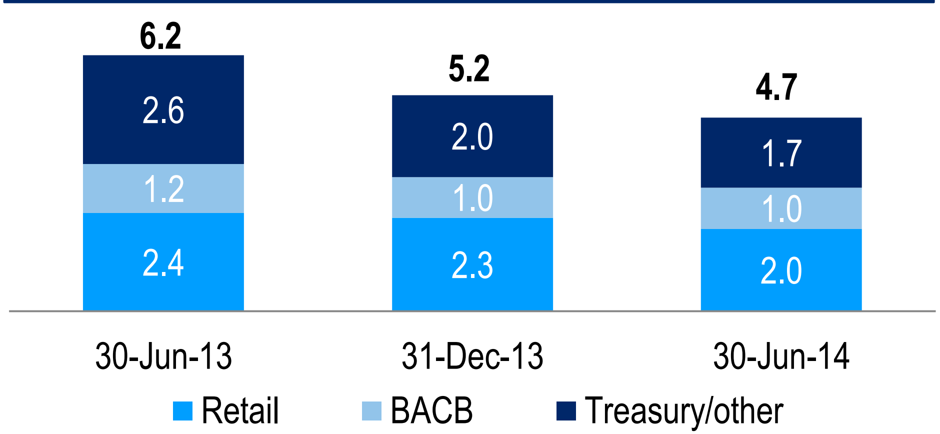
Core Business — Balance sheet dynamics

Core Business with stable retail deposit base

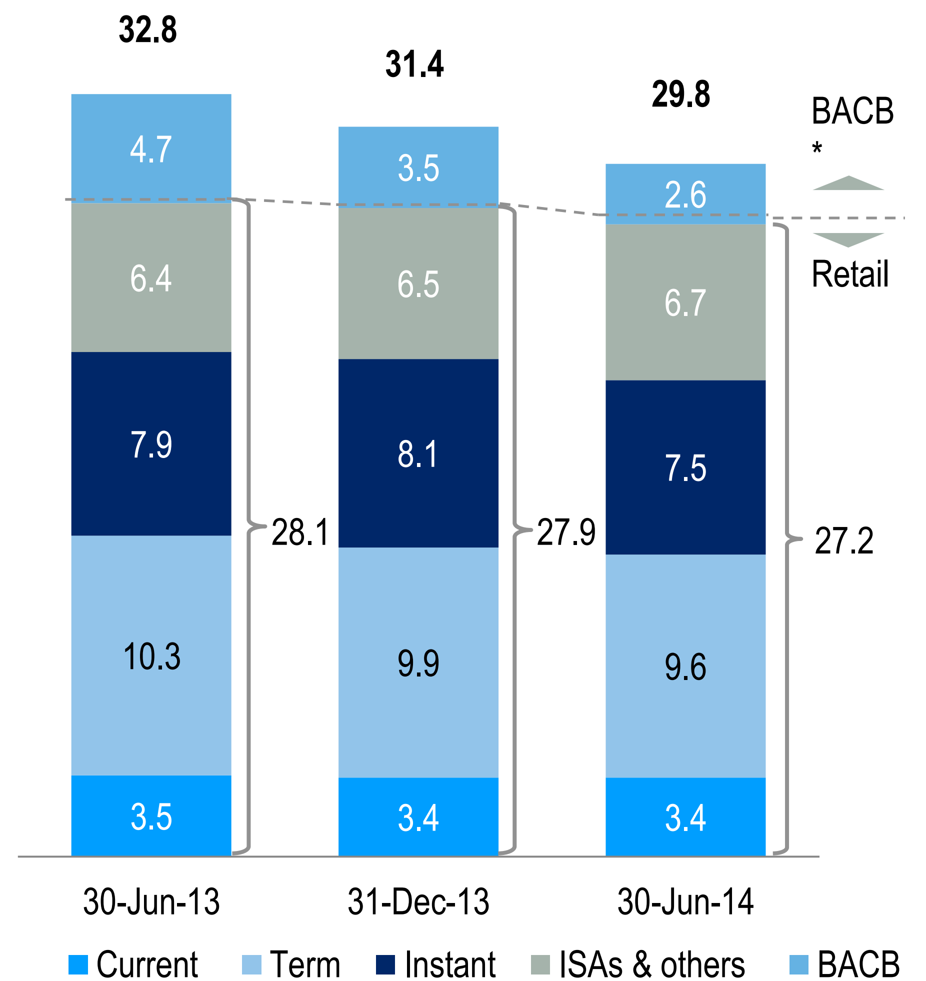
Net loans[2,3] (£bn)



Credit RWAs[1] (£bn)



Customer deposits (£bn)



** Expected run off of BACB FTD following credit downgrade in 2013*

The co-operative bank

1 CRD IV Credit RWAs (fully loaded rules basis)
2 Net loans as at 30-Jun-13 held as per LME presentation which includes UTB. 31-Dec-13 and 30-Jun-14 exclude UTB
Please note that footnote 2 has been added to the presentation published on 11 April 2014 to provide additional clarity

Core Business — Profitability

Core net interest income has decreased due to low mortgage originations, further depressed by cost of liquidity held in Treasury

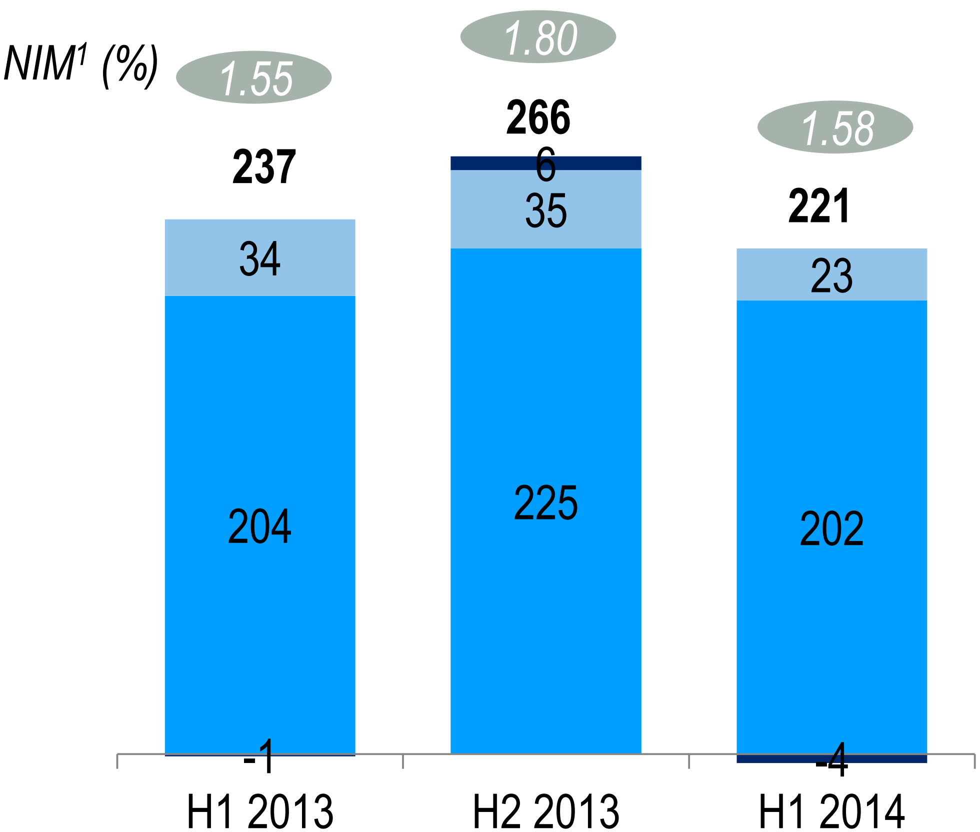
	H1 2013 (£m)	H2 2013 (£m)	H1 2014 (£m)
Net interest income	237	266	221
Other income	101	45	46
Total income	338	311	267
Operating costs	(324)	(418)	(333)
Impairment losses	(23)	(17)	(2)
Operating loss	**(10)**	**(123)**	**(68)**

Targeting low double digit RoE over a longer term period

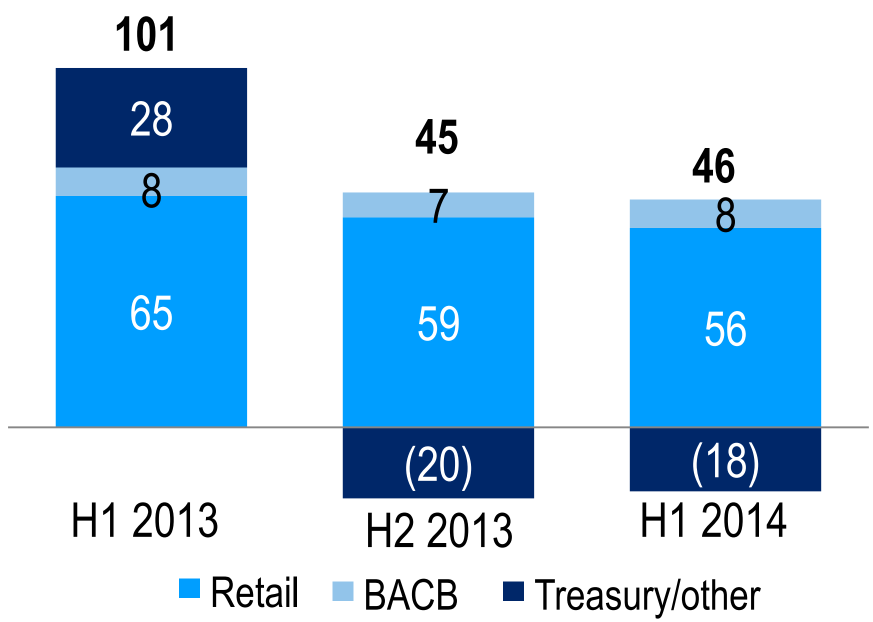
Core Business — Revenue

NIM negatively impacted by combination of loss of BACB deposit, excess liquidity and lower assets

Net interest income (£m)



Other income (£m)



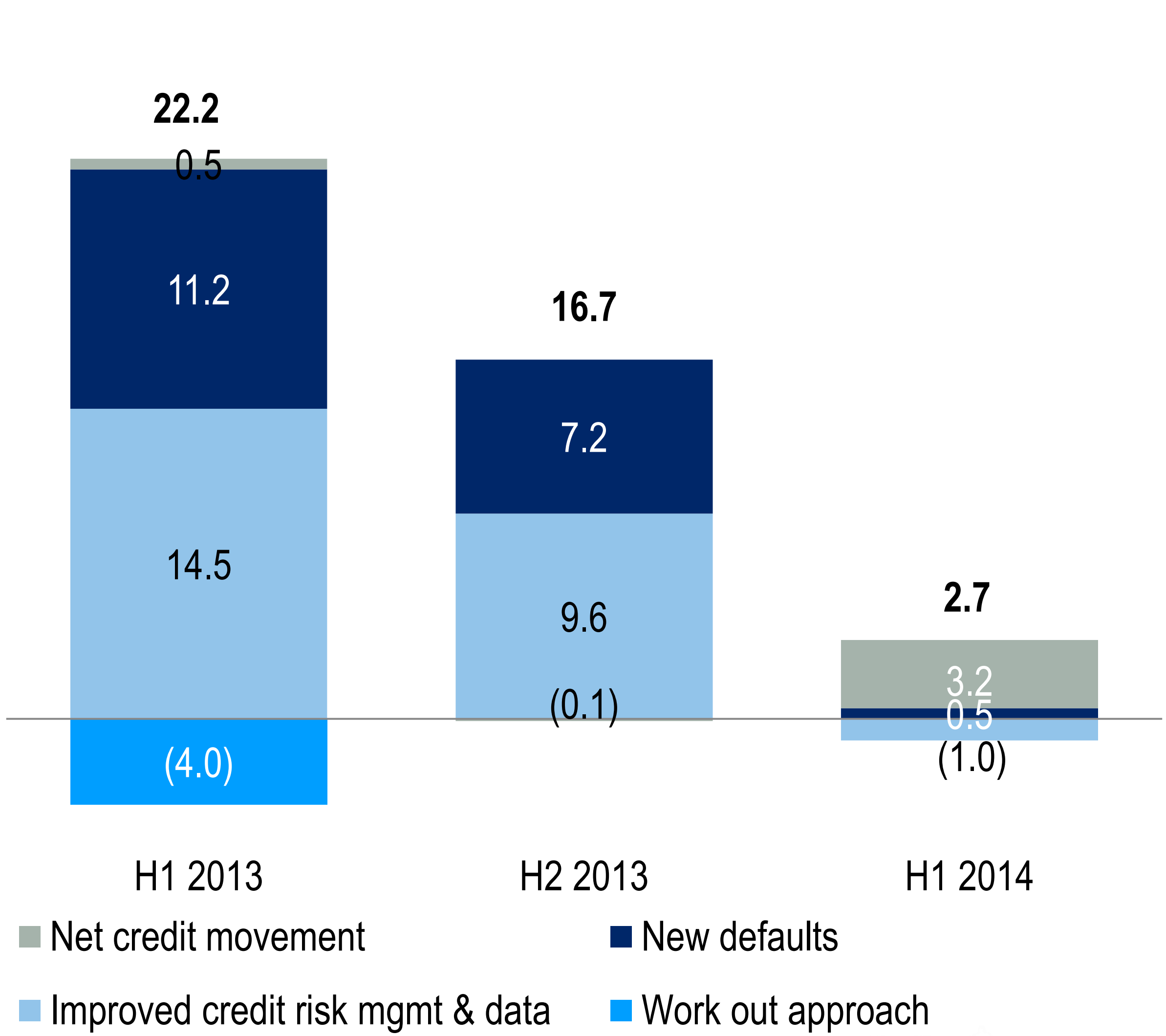
The co-operative bank

1 Includes Retail, BACB and Treasury/other

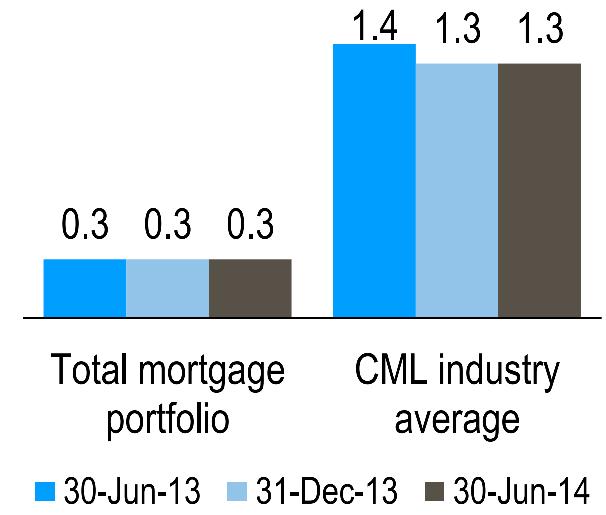
Core Business — Asset quality

High quality portfolio

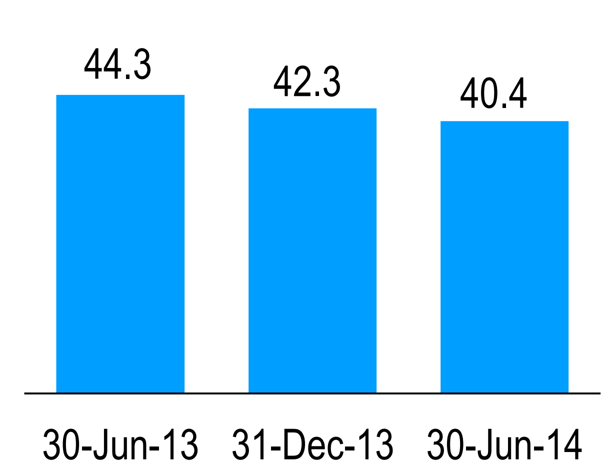
Impairments[2] (£m)



Arrears[1]



Average LTV (mortgages, %)

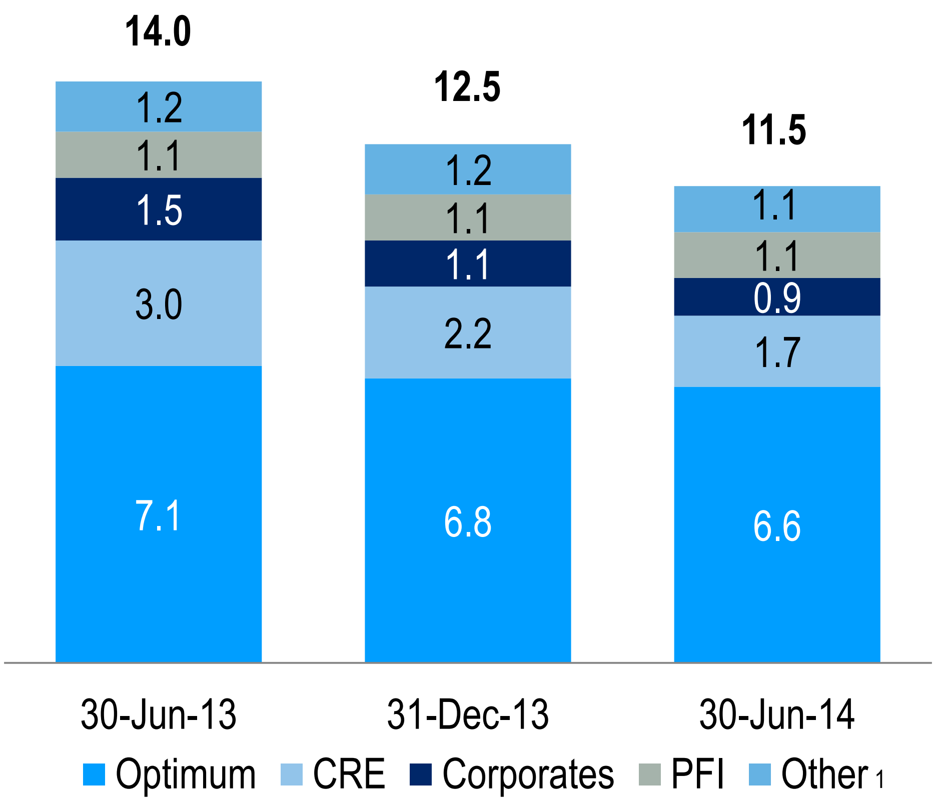


1 Proportion of mortgage accounts with >2.5% in arrears
2 Excludes Unity Trust Bank

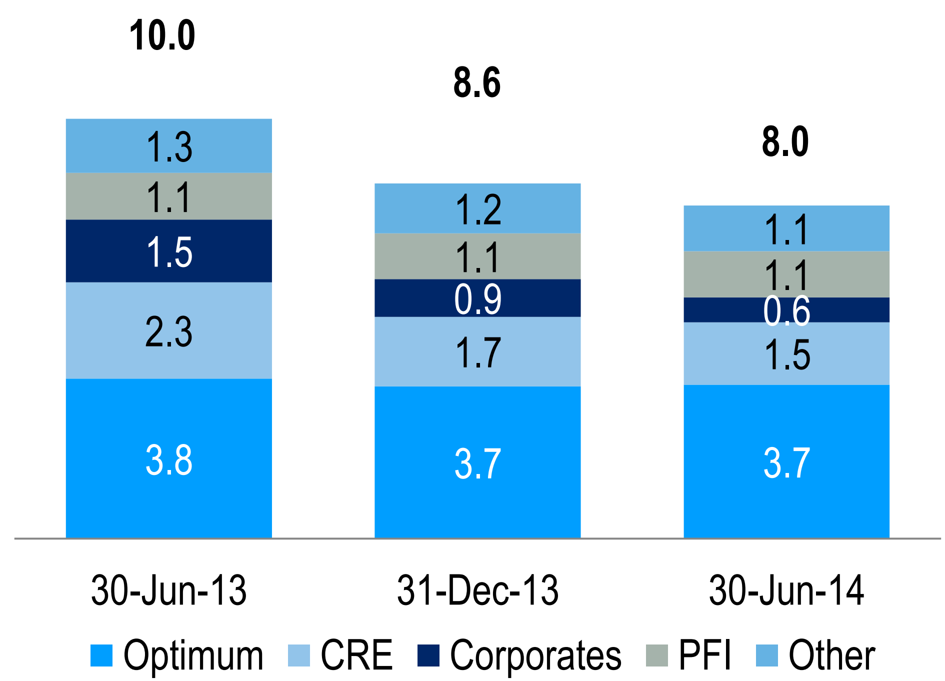
Non-core Business — Balance sheet dynamics

Proactive asset management resulted in deleveraging and decreasing concentration risk ahead of plan

Net loans[3,4] (£bn)



Credit RWAs[2] (£bn)



Non-core remains a large part of the Bank at 41% of Bank's net customer loans and 63% of Credit RWAs[2]

1 Does not include Illius which is not considered as loans
2 CRD IV Credit RWAs (fully loaded rules basis)
3 Includes hedge risk provision but excludes other accounting adjustments
4 30-Jun-13 loans shown as per the LME presentation which does not reflect a subsequent perimeter change moving £100m from Core to Non-core. The changes related to perimeter are reflected in the 31-Dec-14 and 30-Jun-14 numbers

Please note that footnotes 3 and 4 have been added to the presentation published on 11 April 2014 to provide additional clarity

The co-operative bank

Non-core Business — Profitability

Impairment losses elevated in 2013 but H1 2014 saw significant improvement

Income statement (£m)

	H1 2013	H2 2013	H1 2014
Net interest income	*4.5*	*(8.3)*	*27.0*
Non interest income	*5.9*	*29.9*	*14.9*
Total operating income	10.4	21.6	41.9
Operating costs	(31.7)	(42.9)	(32.8)
Impairment losses	(469.1)	(7.2)	88.2
Operating result	(490.4)	(28.5)	97.3

Drivers of impairment write backs (£m)

	CoAM	Optimum	Non core
Two key cases	41.5	-	41.5
Write back on debt sales/Net other work outs	36.2	-	36.2
Write back from revaluations	22.1	-	22.1
New charges from new & existing defaults	(33.9)	10.2	(23.7)
Collective movement	13.3	(1.2)	12.1
Impairment losses	**79.2**	**9.0**	**88.2**

Improved economic conditions allowed for:

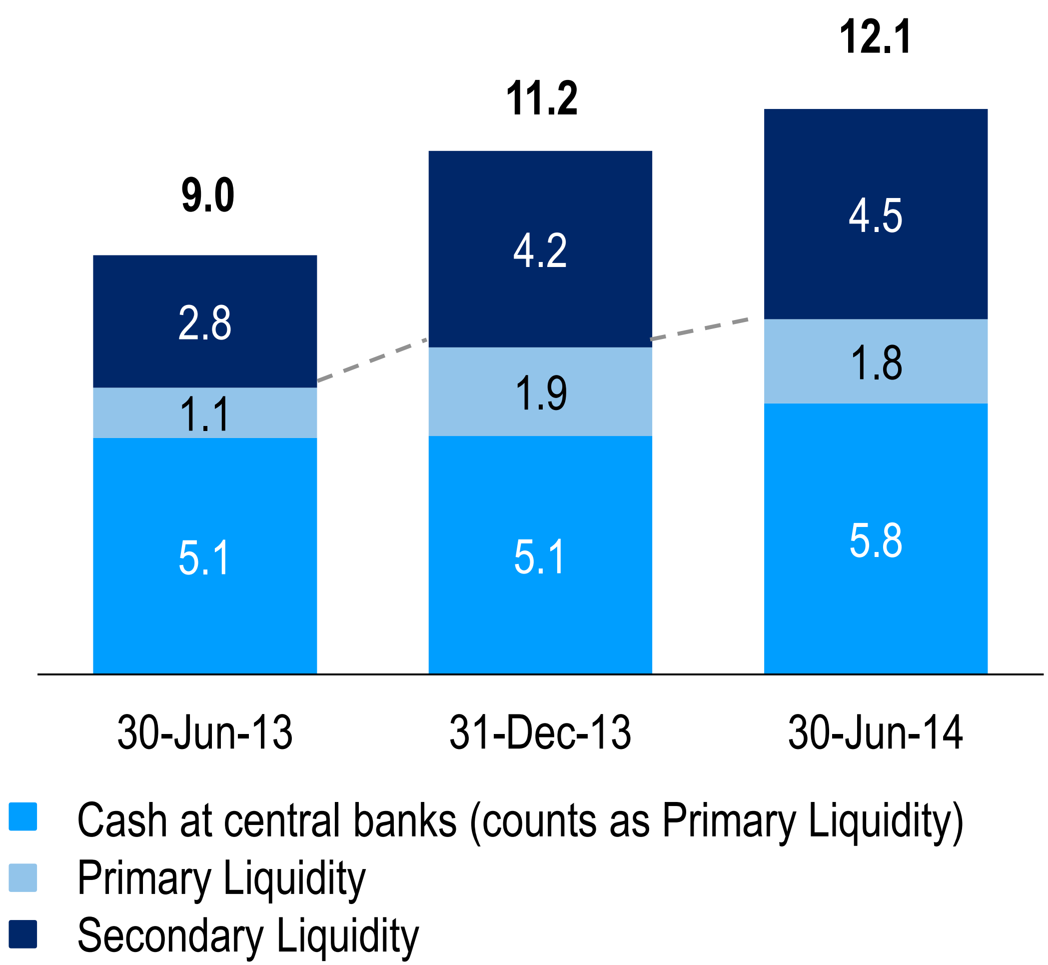
- selective management of deleverage
- write back of impairment provisions and recommencement of interest charging on previously defaulted loans
- formal trade sales and a pro-active re-banking of Corporate clients

- Two key CoAM proactively managed cases account for just under half of the write back in May/June 2014
- The sale or other disposal of Corporate CoAM assets accounts for a further 43% of the write back
- The impact of other writebacks including a reduction in the collective provision is broadly offset by charges on new and existing defaults

Liquidity

Liquidity profile remains prudent

Total liquidity resources (£bn)



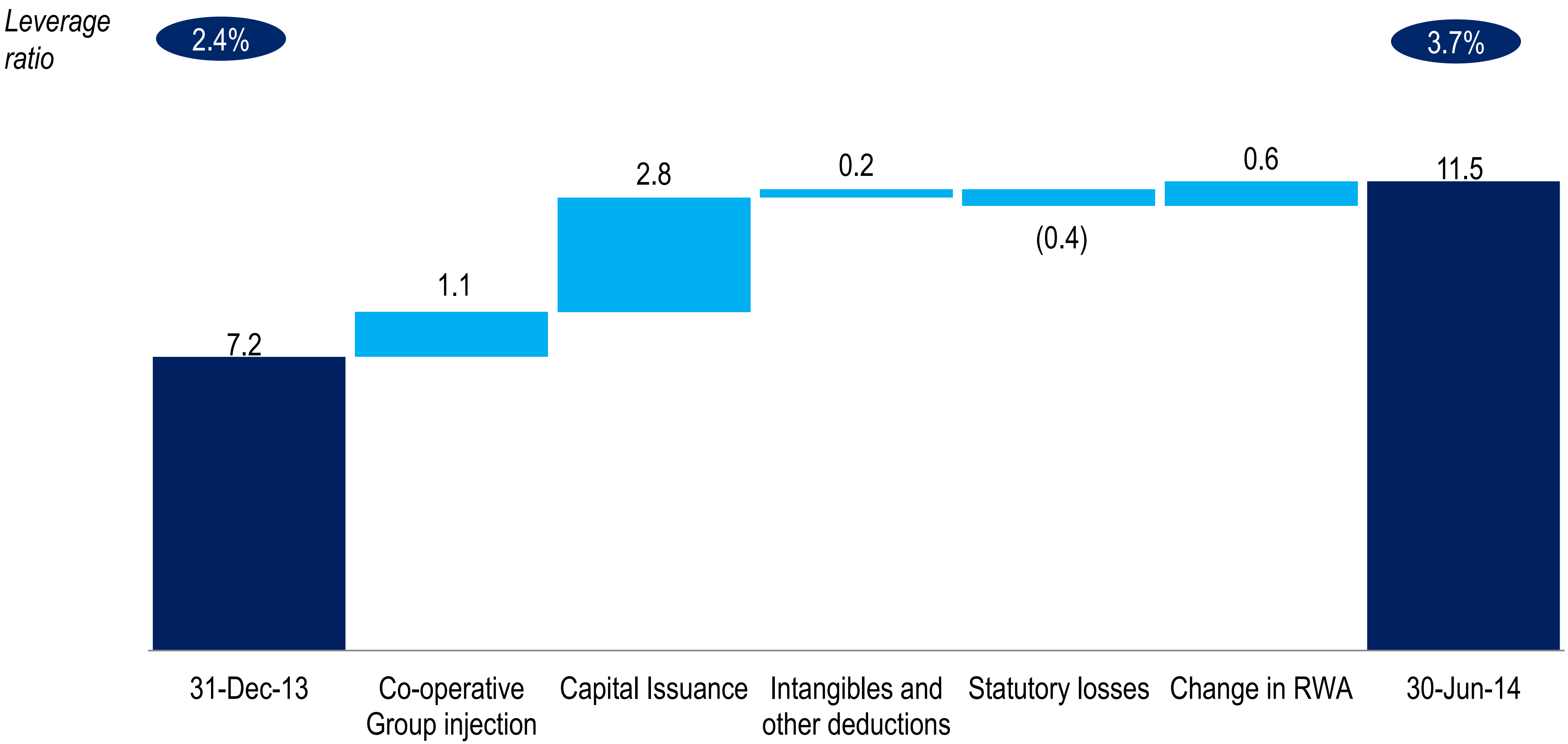
- Liquid asset buffer[1] of £7.6bn (as at 30-Jun-14)
- Liquid asset ratio[2] of 19% (as at 30-Jun-14)
- Assets eligible for discounting with central banks increased during H1 2014
- Balances held at the central bank have increased during H1 2014
- Non-buffer assets stable in H1 2014 at £ 4.5bn (£4.2bn as at 31-Dec-13)
- Excess liquidity continues to impact NIM

1 As defined in BIPRU 12.7
2 Calculated as primary liquidity divided by total assets

CET1 ratio development

30 June 2014 CET1 ratio at 11.5% and leverage ratio at 3.7%

CET1 ratio (%)[1]



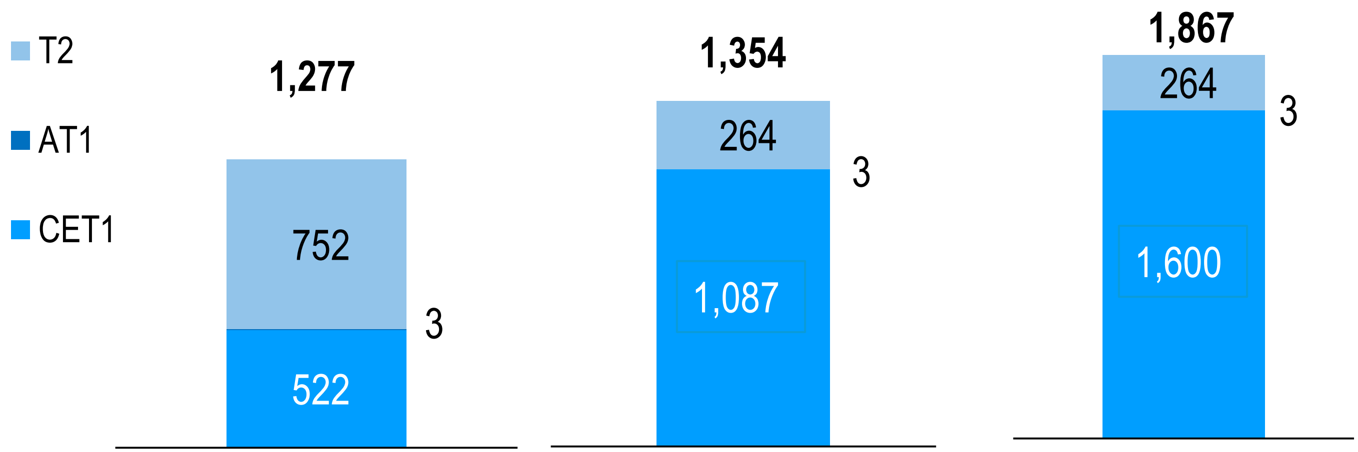
1 CRD IV fully loaded rules basis

Strengthened Capital Position

£400m capital raising completed in May.

Capital position[1] (£m)

30-Jun-13	31-Dec-13	30-Jun-14



	30-Jun-13	31-Dec-13	30-Jun-14
CET1 ratio	3.0%	7.2%	11.5%
Leverage ratio	1.1%	2.4%	3.7%
RWA[1] (£bn)	17.5	15.1	13.9
Balance sheet exposure (£bn)[4]	49.1	45.3	42.8
Fair Value Asset Δ £(bn)[2]	(3.6)	(2.4)	(1.8)

Group Contribution

- Co-operative Group contribution: £313m[3]
  - £150m paid in H1
  - £163m due by 31 Dec-14

Stress Testing

- 31-Dec-13 data submitted to FCA and PRA in June 2014
- Consideration in Q4 2014
- Management actions taken in 2014

1 CRD IV fully loaded rules basis
2 Fair Value Asset Δ calculated as difference between Carry Value and Fair Value of Financial assets
3 Total Group contribution of £333m of which £20m was paid in Dec-13 and taken into account in the 31-Dec-13 CET1
4 Denominator for the leverage ratio calculation

NOT A FORECAST NOT TO BE RELIED ON SUBJECT TO DISCLAIMER

Bank financial targets

Turnaround plan in execution

	Financial targets	Unchanged	30-Jun-14
Core Business	• Cost income ratio < 60% in the longer term • Low double digit RoE over a longer term period • Controlled customer lending growth from 2015	✓ ✓ ✓	• Cost income ratio 102% • Low profitability • Assets[1] £ 27.5 bn • Credit RWAs[1] £ 4.7 bn
Non-core Business	• Net loans reducing to c. £11.0bn by end 2014 • Achieve deleveraging that does not materially reduce the CET1 *ratio* of the Bank[3] as a whole	✓ ✓	• Assets[1] £ 12.1 bn • Credit RWAs[1] £ 8.0 bn
Bank	• Do not expect to make a profit in 2014 or 2015	✓	• Continuing net loss
Guidance	• Expect CET1 ratio to be materially above previous guidance of c.10% (including Dec 2014 Group contribution) • Actual out turn will depend on pace/cost of deleverage, progress on separation activity and performance of the Core bank • Post 2014, our CET1 ratio is expected to decline before subsequently recovering	New	• CET1 ratio 11.5 %[2]

1 Segment assets and CRD IV Credit RWAs (fully loaded rules basis) as at 30-Jun-14.
2 Based on CRD IV fully loaded rules
3 i.e. deleveraging in such a manner that the anticipated future losses from deleveraging do not materially exceed the capital that is released from the reduction in RWAs

Section 4

Conclusion

Niall Booker — *CEO*

Key messages

Capital and Liquidity Improved

Credit Book Stabilised

Conduct Risk Stabilised

Corporate Governance Improved

Embedding of Co-operative Values and Ethics and brand development commenced

Cost reduction continues

Progress on Systems and Separation

Turnaround underway and bank getting back on track

Appendix

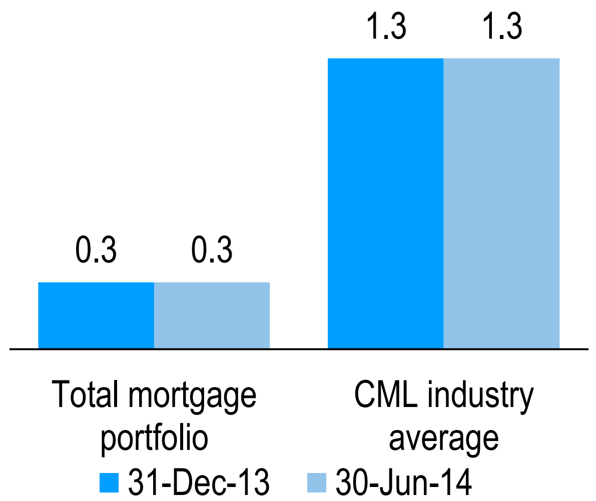
Core Business — Mortgage portfolio

High quality mortgage book

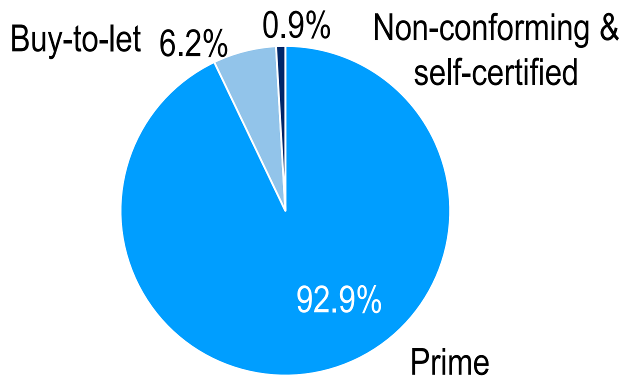
LTV breakdown (30-Jun-14)

(%)	Prime	Buy-to-let	Self certificated	Total
Average LTVs	39.5	57.2	39.2	**40.4**
New business LTVs	58.8	66.0	n/a	**59.4**
Book by indexed LTVs				
<= 50%	42.8	18.0	53.5	**41.4**
50% to 75%	41.7	80.1	43.8	**44.1**
75% to 100%	14.7	1.9	2.6	**13.8**
> 100%	0.7	-	0.2	**0.7**
% of accounts with >2.5% arrears	0.3	-	-	**0.3**
New lending[1] (£m)	242.0	24.2	-	**266.1**

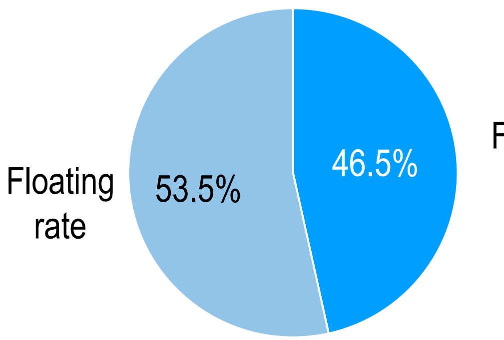
Arrears[2] (%)



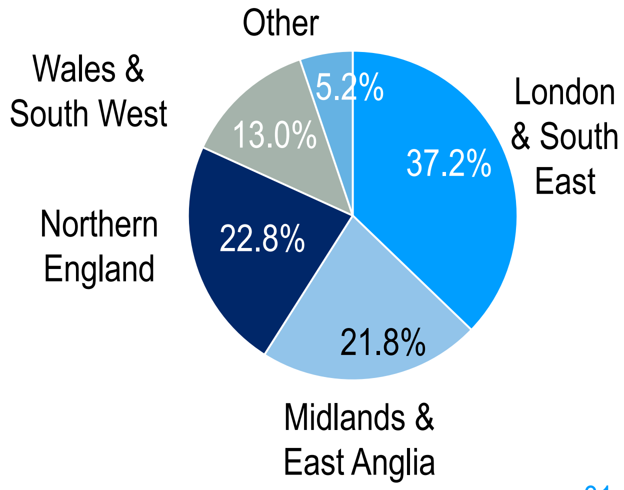
By type[3] (30-Jun-14)



By product[3] (30-Jun-14)



By geography[3] (30-Jun-14)



1 Excluding further advances for the period
2 Proportion of mortgage accounts with >2.5% in arrears
3 Based on gross customer balances of £14.2bn

The co-operative bank

Appendix - H1 2014 results summary — Operating Costs

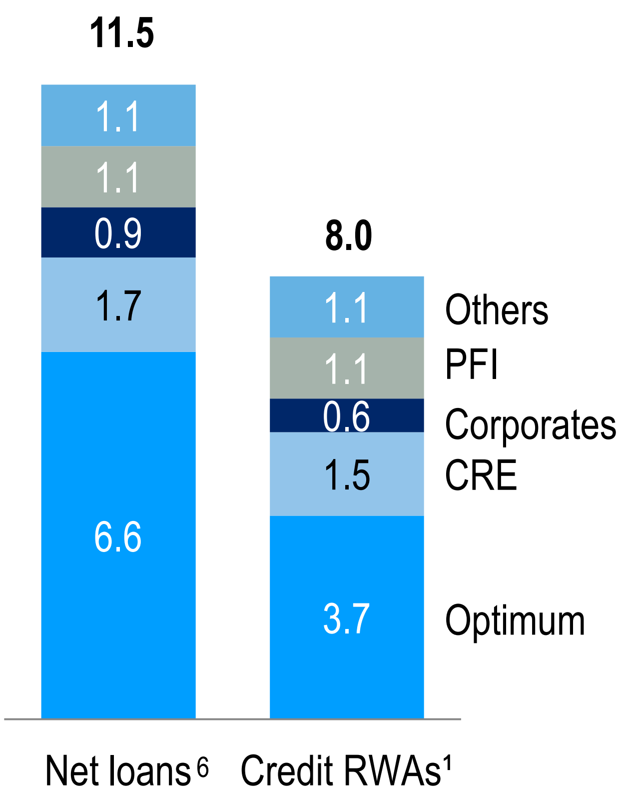
Cost initiatives starting to deliver savings

Operating Costs (£m)

	1H 2013	2H 2013	1H 2014
Staff Costs	124	131	128
Non Staff Costs	183	218	169
Operating Costs	**307**	**349**	**297**
One-off costs / non-routine items			
Separation			10
ATM Rates Provision	16	2	0
Premises dilapidation accounting treatment change		12	
Pension adjustment			3
Short-term contractor costs			5
Bonuses		9	4
Enquiry costs		3	
Data quality provision for legacy issues		20	
Total one-off / non-routine items	**16**	**46**	**33**
Costs adjusted for one-off / non-routine items			
Staff Costs	124	122	115
Non Staff Costs	167	181	160
Total adjusted Operating Costs	**291**	**303**	**275**

Non-core corporate assets overview

Net loans and RWAs (30-Jun-14, £bn)



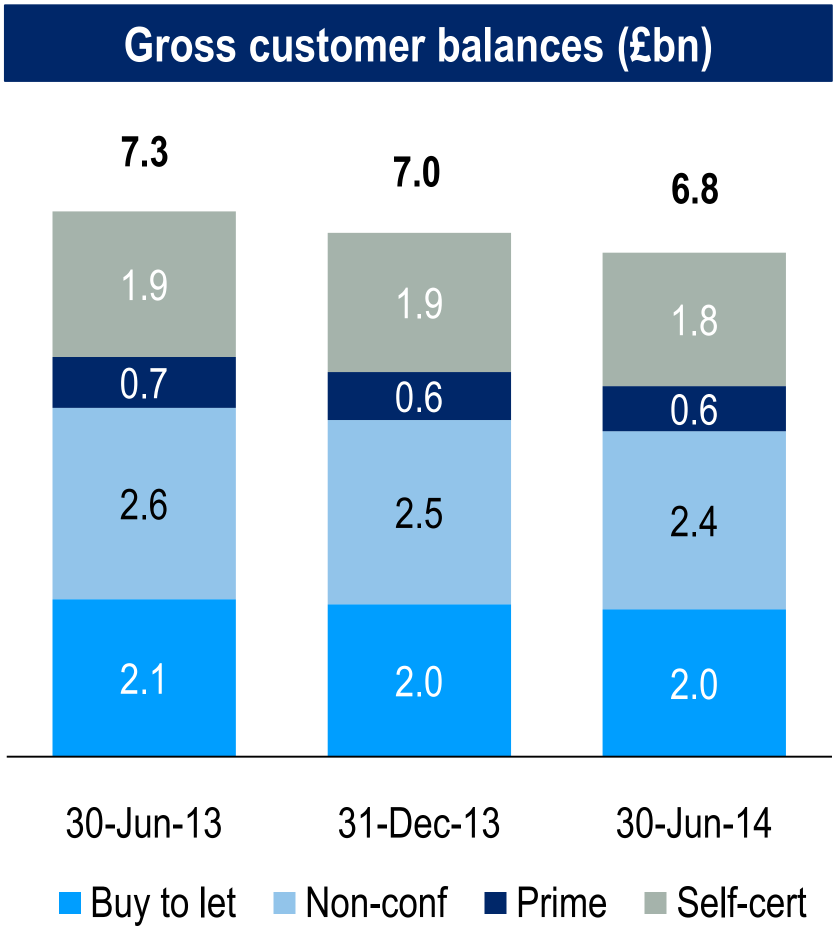
Type	Description	NPL ratio[4] (*Coverage*[5])
CRE	• Concentrated with high NPL ratio • Poorly structured • Capital intensive • Now marked to monetisation strategy	63% (34%)
Corporates	• Leveraged, syndicated and relationship connections	45% (41%)
PFI	• Low margin, long dated, high credit quality • Unfavourable market pricing	3% (38%)
Housing Association	• Low margin, long dated, high credit quality • Unfavourable market pricing	- (-)
REAF[3]	• Specialised renewable energy lending • Mainly wind farms	4% (79%)
Illius	• Repossessed buy-to-let properties	na

1 CRD IV Credit RWAs (fully loaded rules basis) as at 31-Dec-13
2 Illius assets are not classified as loans but are risk-weighted
3 Renewable Energy and Asset Finance
4 Calculated as impaired customer balances (incl. watchlist) / gross customer balances
5 Calculated as allowance for losses (excluding losses for hedging risk) on customer balances / impaired customer balances (including watchlist)
6 Includes hedge risk provision but excludes other accounting adjustments

Erratum: Please note that the NPL and coverage ratios in the presentation published on 11 April 2014 were incorrect and have been corrected in this version. Footnotes 4 and 5 have been amended and footnote 6 has been added to provide additional clarity

Optimum overview and strategy

Optimum will be run-off over time given nature of the asset



Description

- 91.1% non-prime (£6.1bn)
- 15.6 % non-performing (£1.1bn) with 11.7% coverage
- Average LTV of 73%
  - 11.4% (£0.8bn) LTV > 100%
- 79.3% interest-only mortgages (£5.4bn)
- Weighted average life of 7.45 years
- >65.7% encumbered
- Fair value of £5.6bn (vs. carrying value of £6.6bn)
- 3+ Arrears rate of 5.3% (5.9% Dec 2013)

Strategy

- 2014 actions:
  - Improved customer segmentation and portfolio management
  - Review potential for segment sales

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