

The **co-operative** banking group

2011 ANNUAL RESULTS

29 March 2012

Barry Tootell – Chief Executive

James Mack – Chief Financial Officer

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Co-operative Banking Group

Business highlights & strategy – Barry Tootell

Financial performance

- Profit
- Capital
- Liquidity & funding
- Asset quality

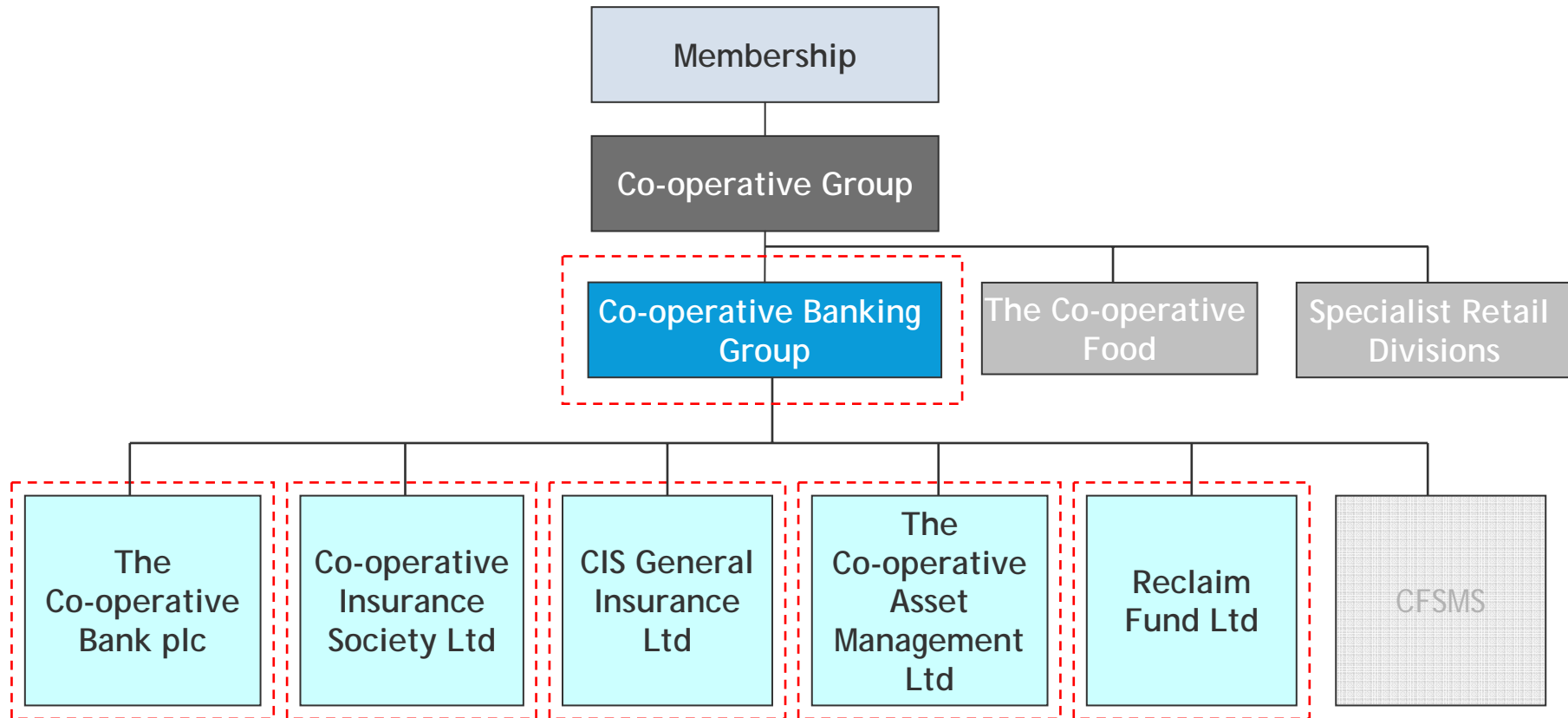
Transforming our business

Outlook

Highlights

- Stable operating result
- Resilient capital and liquidity position
- Carefully managed asset quality
- Integration and transformation delivering benefits
- High levels of customer advocacy
- Improving franchise
- Europe's most sustainable bank

The Co-operative Group – organisation structure

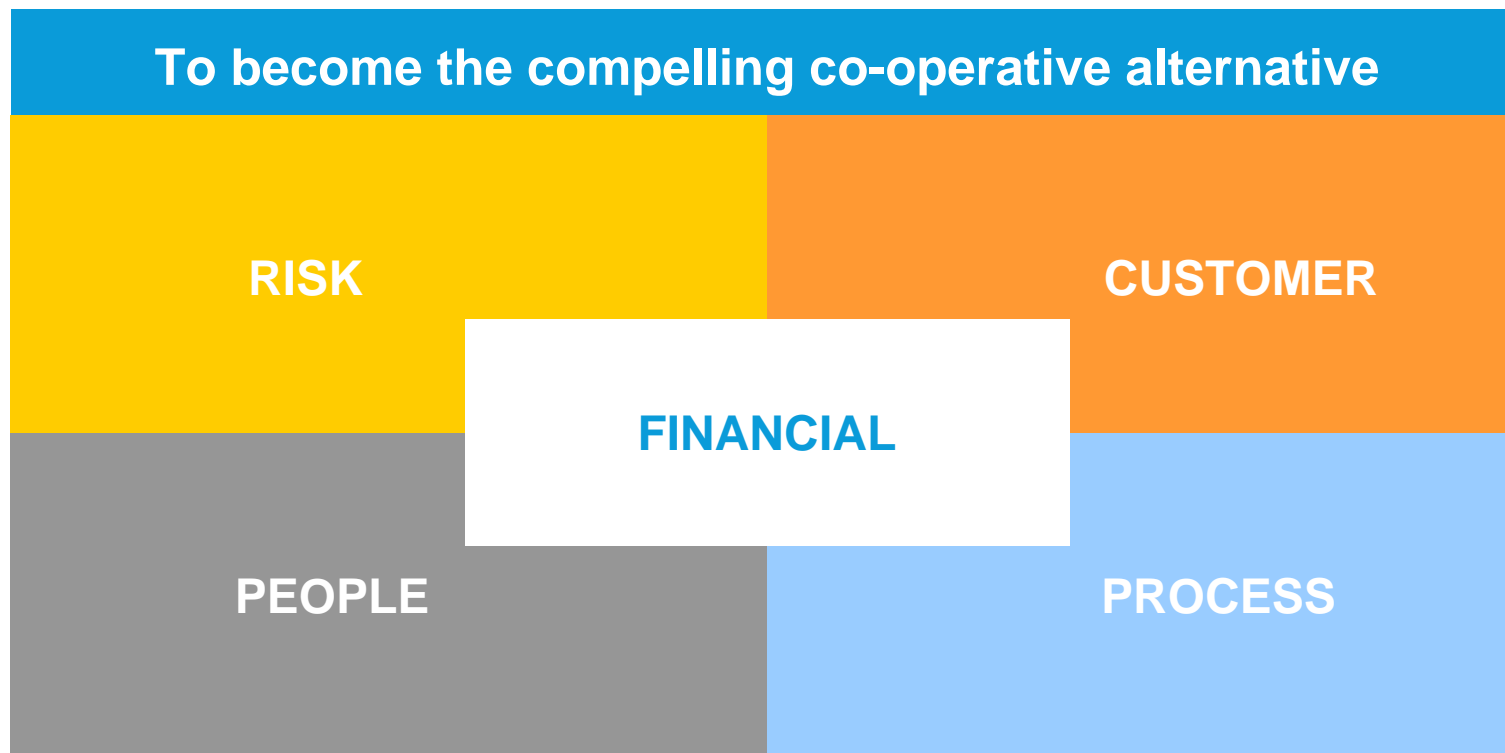


Regulatory ring fence

Bank key indicators

Core tier 1 9.6% (2010: 9.6%)	Operating profit £141m (2010: £145m)	Liquid asset ratio 15.5% (2010: 9.7%)
Total capital ratio 14.7% (2010: 14.0%)	Net interest margin 123 bps (2010: 135bps)	Loan to deposit ratio 94% (2010: 102%)

Balanced scorecard



Current market conditions

- Overall market conditions remain challenging
- Prolonged low base rate environment
- Slow recovery and possibility of double dip recession
- Increasing regulation
- Ongoing instability and uncertainty within the eurozone

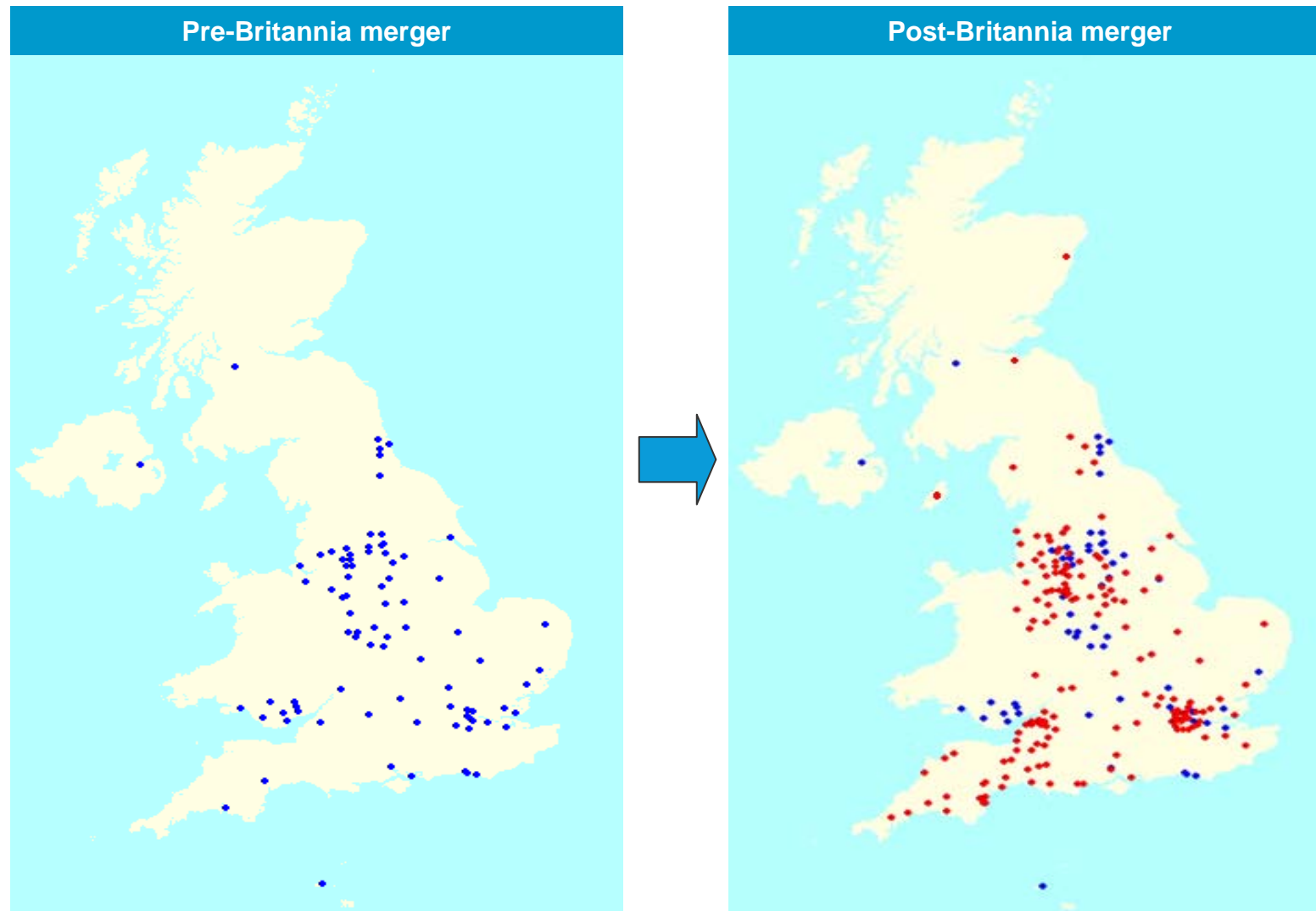
Franchise strength



Proud to be...
Europe's most sustainable bank



Open for business – branch network



Co-operative Banking Group

Business highlights & strategy

Financial performance – James Mack

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Transforming our business

Outlook

Banking Group financial performance

Co-operative Banking Group – financial highlights

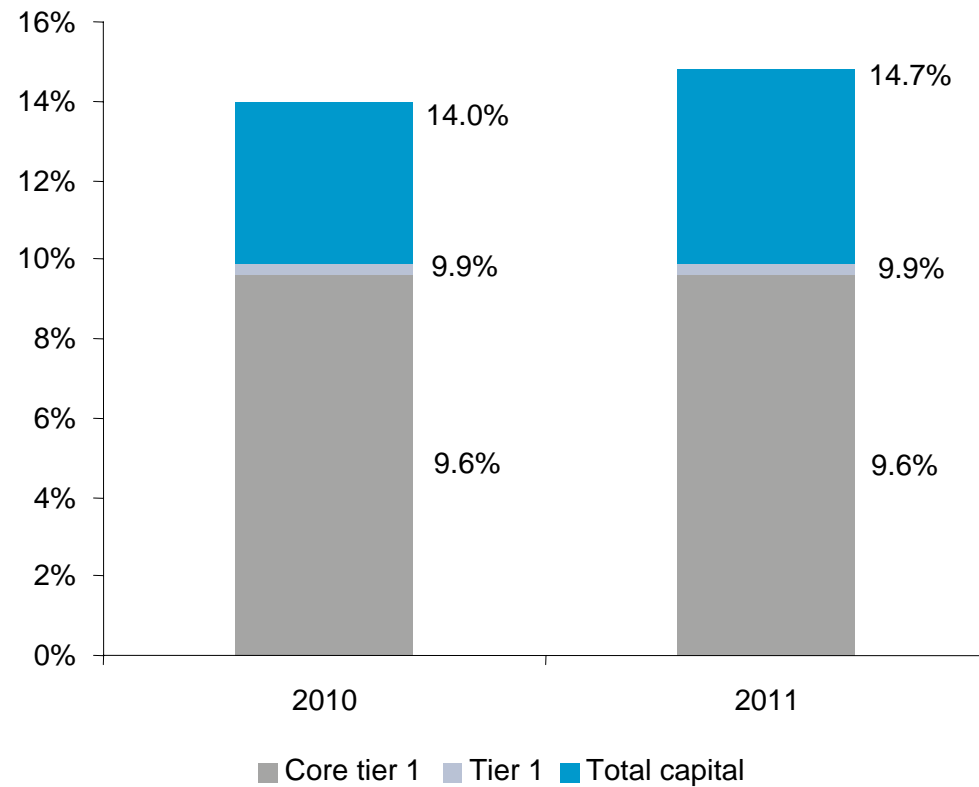
	2011 £m	2010 £m	Change %
Income	1,499	1,368	10%
Operating costs - steady state	(668)	(685)	2%
Operating costs - strategic initiatives	(21)	(38)	44%
Claims	(494)	(347)	(42%)
Impairment losses	(115)	(96)	(20%)
Discontinued operations	15	8	97%
Operating result	216	210	3%
Significant items	(90)	(66)	(37%)
PPI provision	(90)	(4)	(1993%)
FSCS	(17)	(12)	(36%)
Fair value amortisation	86	(14)	708%
Other	0	1	(71%)
Profit before taxation & distributions	106	114	(7%)

Bank financial performance

Co-operative Bank – financial highlights

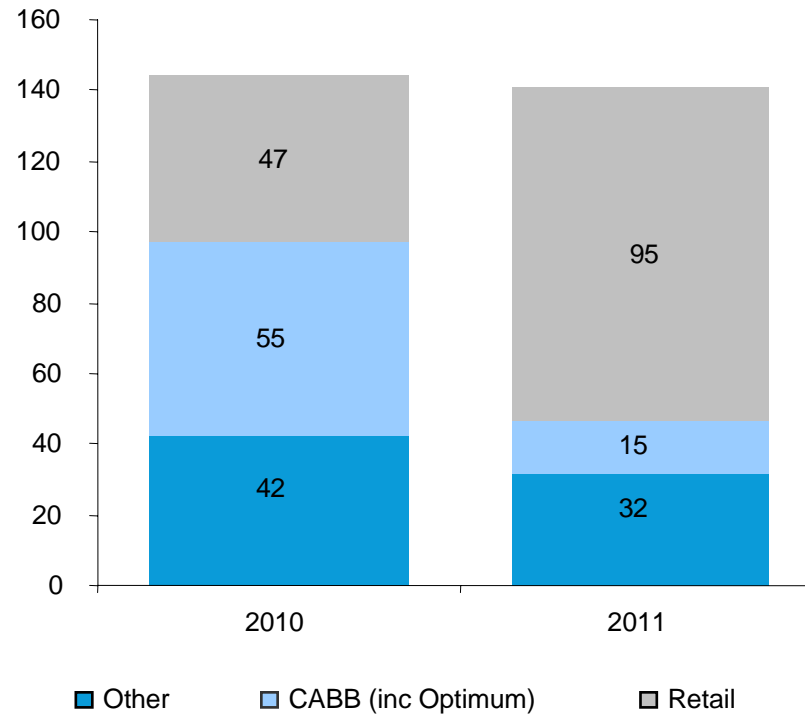
	2011 £m	2010 £m	Change %
Income	818	822	(1%)
Operating costs - steady state	(548)	(556)	1%
Operating costs - strategic initiatives	(13)	(26)	48%
Impairment losses	(115)	(96)	(20%)
Operating result	141	145	(2%)
Significant items	(53)	(56)	4%
PPI provision	(90)	(4)	(1993%)
FSCS	(15)	(12)	(26%)
Fair value amortisation	86	(14)	708%
Other	0	1	(71%)
Profit before taxation & distributions	70	60	17%

Bank capital



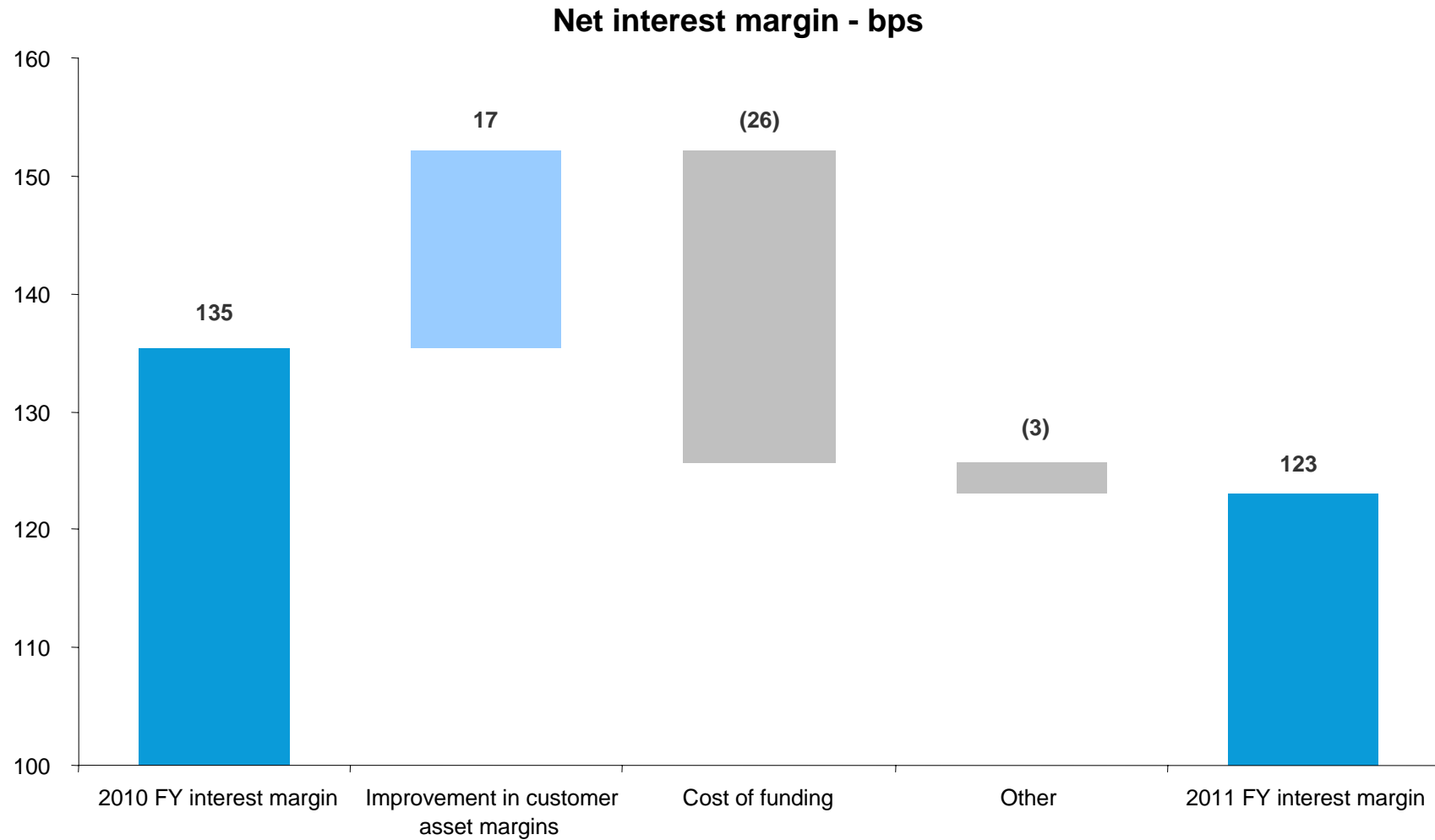
Capital summary		
£bn	2010	2011
Risk weighted assets	19.5	20.3
Core tier 1 capital	2.0	2.1
Total capital	2.7	3.0

Bank financial performance

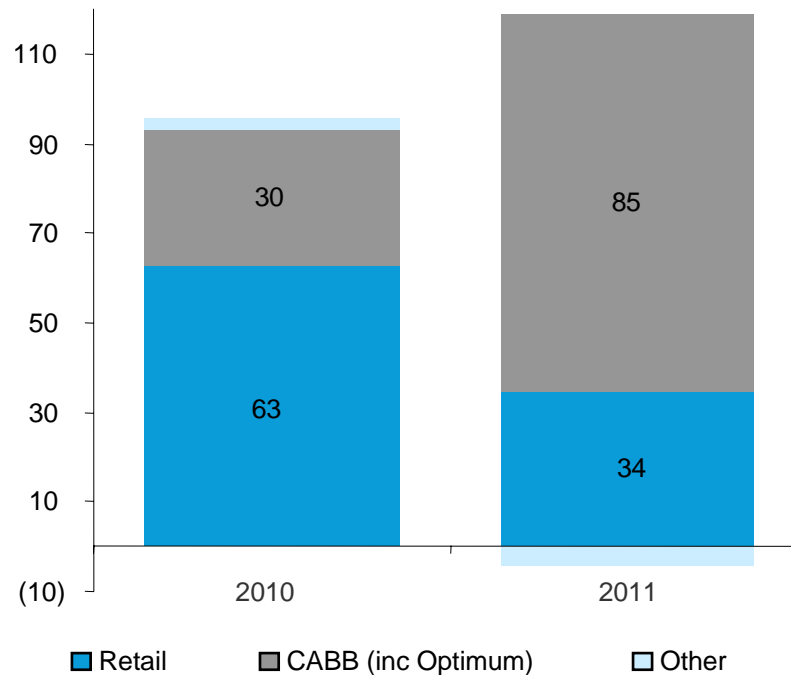


Segmental profit			
	2010	2011	Change
	£m	£m	%
Retail	47	95	100%
CABB & Optimum	55	15	(73%)
Other	42	32	(25%)
Operating result	145	141	(2%)

Net interest margin (underlying)



Impairment



Net impairment charge			
	2010 £m	2011 £m	Change %
Net impairment charge*	96	115	(20%)

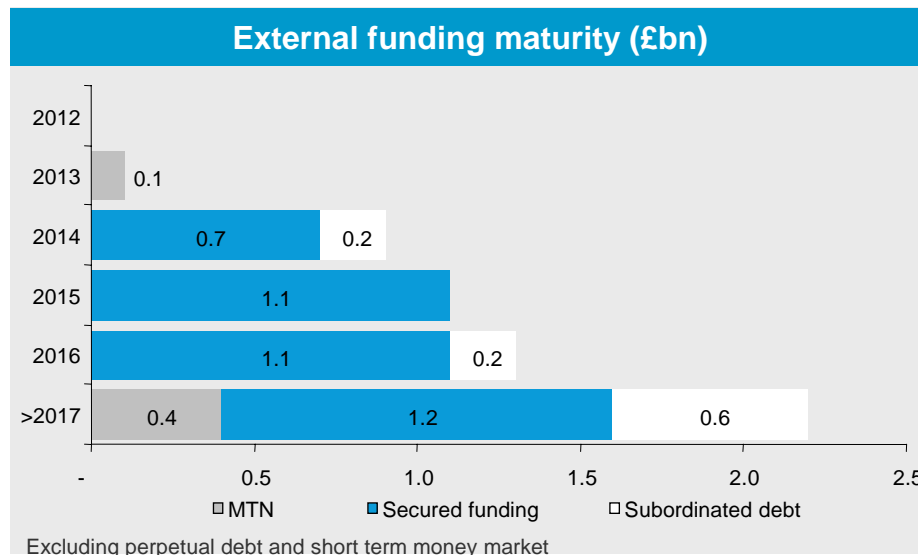
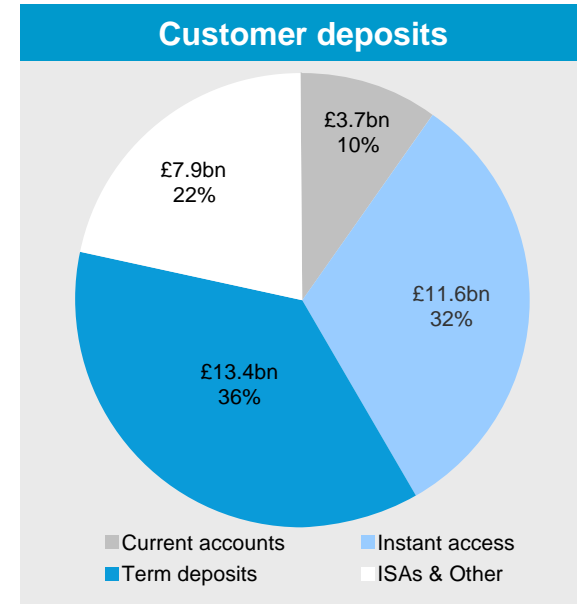
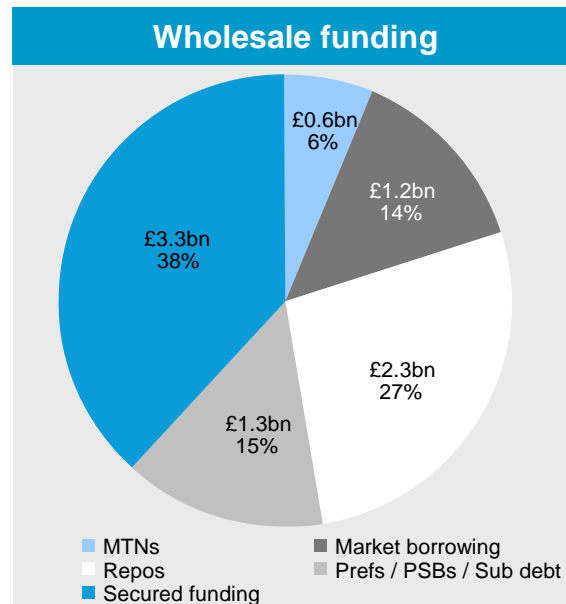
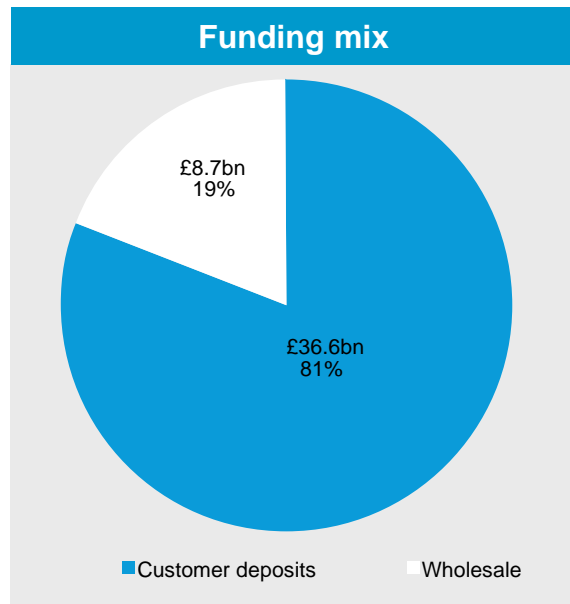
* Net of fair value adjustments

Bank balance sheet

Bank balance sheet			
	2011 £bn	2010 £bn	Change %
Loans and advances to customers	34.3	35.1	(2%)
Cash and balances at central banks	6.7	1.7	286%
Loans and advances to banks	2.0	2.4	(16%)
Investment securities	4.6	4.9	(7%)
Other assets	1.4	1.4	(2%)
Total assets	49.0	45.6	7%
Amounts owed to customers	36.6	34.3	7%
Wholesale liabilities	3.3	2.9	12%
Debt securities in issue	4.2	4.2	(1%)
Other liabilities	1.4	1.1	30%
Minority interest	0.0	0.0	3%
Other borrowed funds	1.3	1.0	29%
Equity	2.2	2.0	10%
Total liabilities & equity	49.0	45.6	7%
Loan to deposit ratio	94%	102%	
Customer funding ratio*	118%	107%	

* Customer deposits / (customer assets less externally issued securitisations)

Funding and liquidity

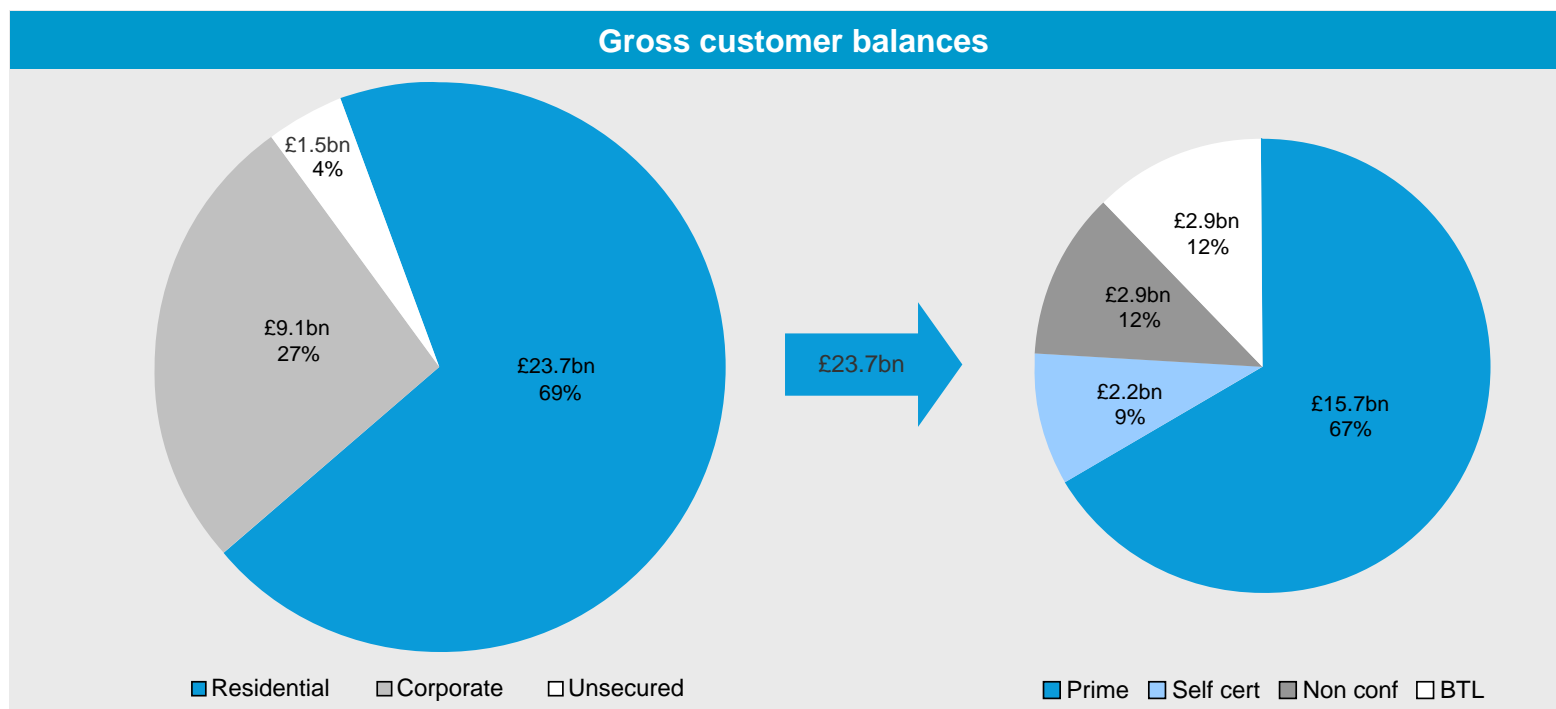


Liquidity

- High quality liquid assets
- Liquid asset ratio* of 15.5% (2010: 9.7%)
- Total liquid assets of £7.6bn (2010: £4.4bn)

* Measured as cash & gilts as a proportion of total Bank liabilities

Loan portfolios



Gross customer balances and credit protection

	Gross balance	Impaired balance	Credit FV protection	Impairment provision	Total credit protection	Total coverage
Retail secured	14,371	265	7	3	10	4%
Platform	1,422	13	-	-	-	1%
Optimum	7,934	1,576	138	8	147	9%
Unsecured	1,536	297	-	163	163	55%
Corporate	9,143	961	252	117	369	38%
Total 2011	34,406	3,111	396	292	688	22%
2010	35,608	2,993	478	223	701	23%

Residential portfolio by LTV band

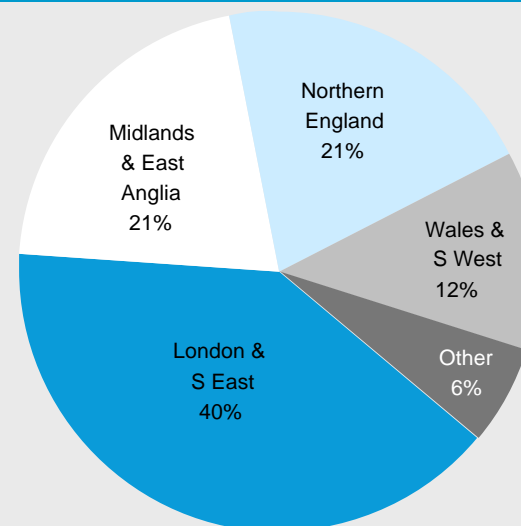
Banded LTV by product

	Prime	Buy to let	Self cert	Non conf	2011	2010
Average LTVs	43.5%	76.1%	76.6%	80.8%	52.7%	52.0%
New business LTVs	59.3%	62.6%	n/a	52.9%	60.4%	60.9%
Book by indexed LTV						
<=50%	35.8%	6.2%	8.8%	5.9%	26.1%	27.3%
<=75%	35.3%	36.7%	21.9%	17.0%	32.0%	31.1%
<=100%	24.5%	45.0%	50.5%	42.2%	31.5%	31.9%
>100%	4.4%	12.1%	18.8%	35.0%	10.4%	9.7%
Gross customer balances (£bn)	15.7	2.9	2.2	2.9	23.7	25.2

LTV notes

- No new lending >90% LTV
- Property price falls have driven small increase in the stock of >100% LTVs
- Fair value adjustments cover majority of >100% LTVs

Regional analysis

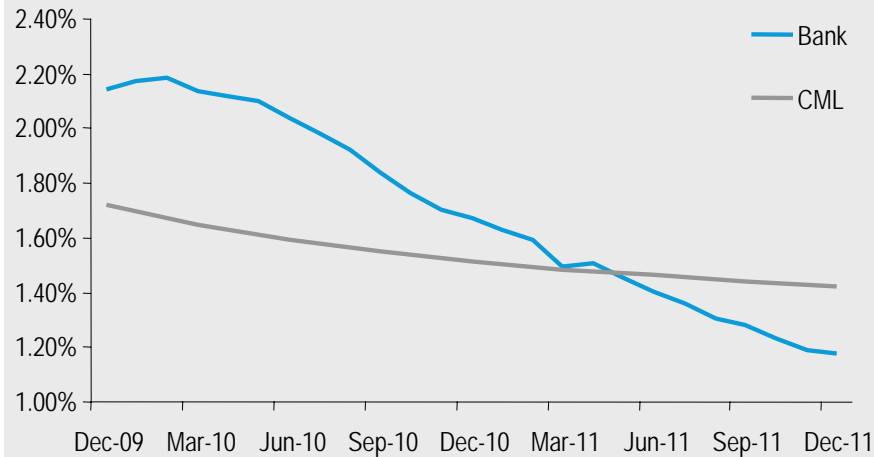


Residential arrears

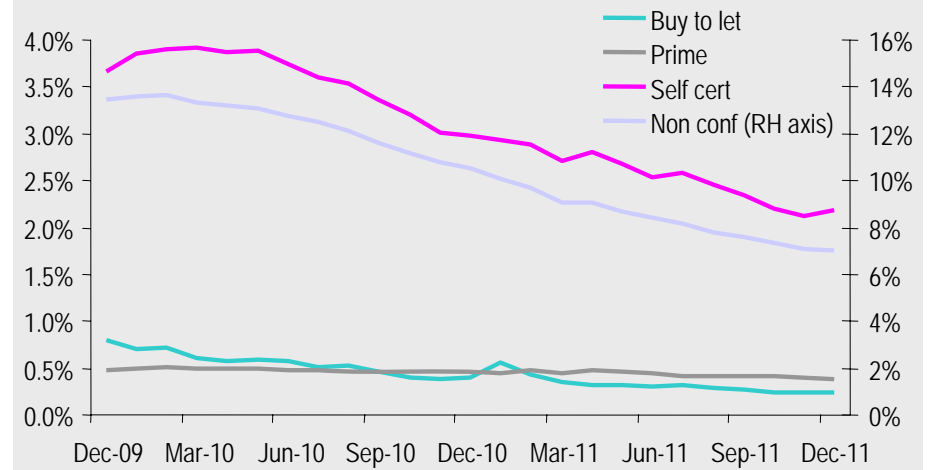
Arrears > 2.5% (volumes)

	No. of mortgages	Dec-2011	Dec-2010	bps
Prime	184,145	0.39%	0.45%	(7)
Buy to let	25,962	0.23%	0.40%	(17)
Self cert	14,743	2.18%	2.98%	(80)
Non conforming	26,752	7.01%	10.53%	(353)
Total	251,602	1.18%	1.67%	(49)

Arrears > 2.5% (volumes)

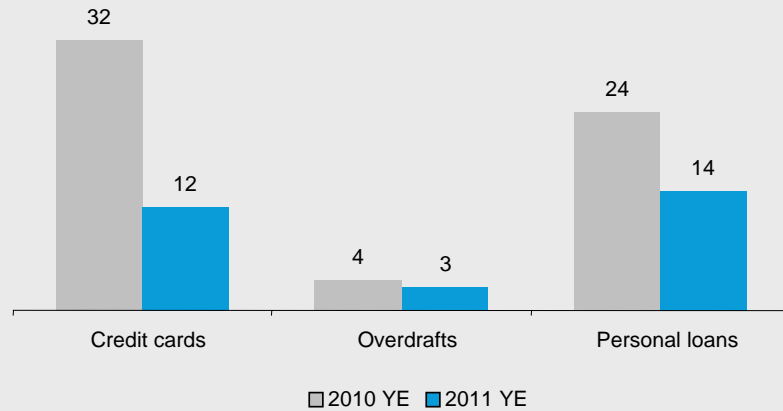


Arrears > 2.5% (volumes)

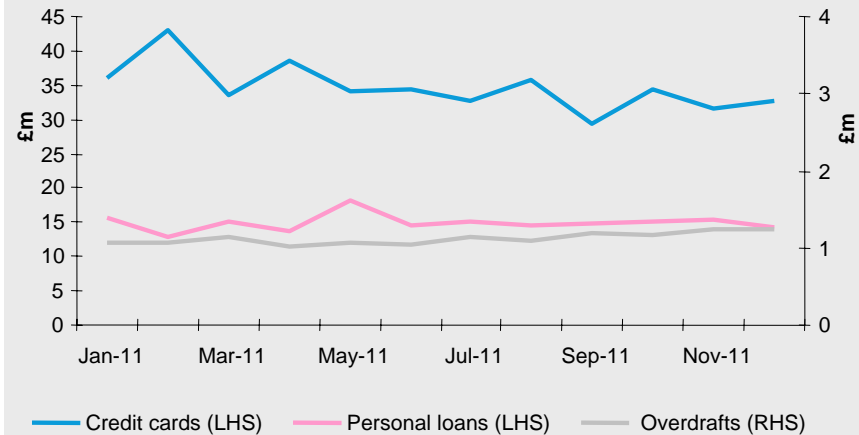


Unsecured lending – risk profile

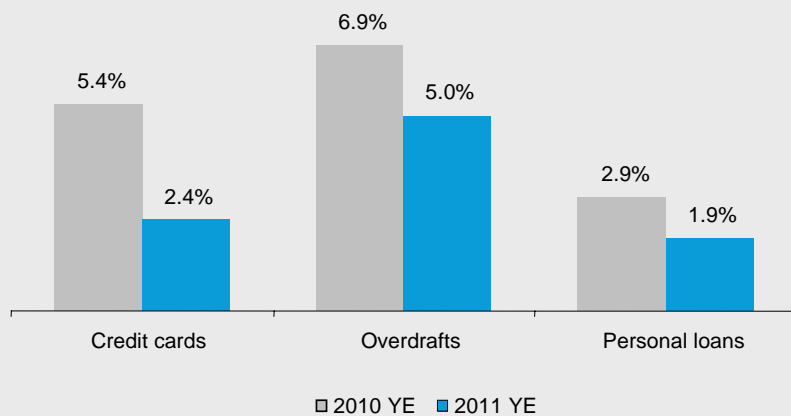
Impairment charge (£m)



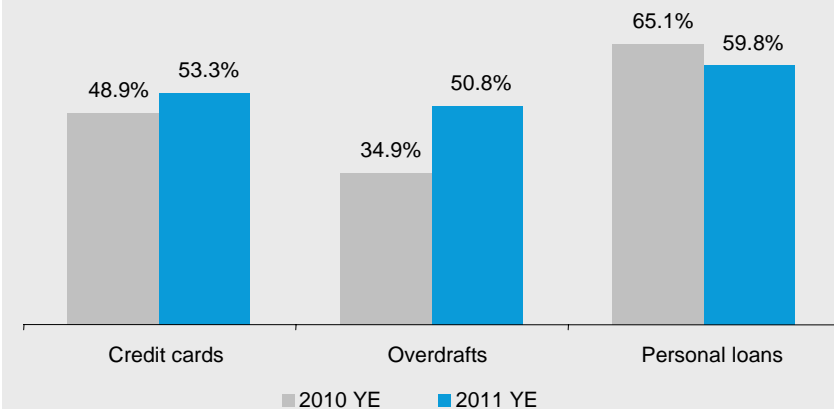
Balances entering arrears



Net charge ratio (NCR)



Credit protection as % of impaired balances



Analysis of corporate lending

Non performing loans analysis (£m)					
Sector	Total Exposure	Watchlist Exposure	Default Exposure	Covered by collateral, impairment or FVA	Net 'at risk'
Education / Public sector	325	-	-	-	-
Services	1,021	38	30	31	37
Housing associations	1,133	-	-	-	-
PFI	1,276	15	-	-	15
Commercial investment	3,679	1,143	563	1,506	200
Residential investment	594	67	155	203	19
Commercial development	287	24	11	32	3
Residential development	121	19	4	21	2
Renewable energy / Utilities	536	-	11	10	1
Other	2,081	141	148	161	128
Total	11,053	1,447	921	1,963	405

Non performing loans analysis	
<ul style="list-style-type: none"> Of 8% in default, 84% already covered by provision, FVA or collateral Of 13% in watchlist, 82% already protected via FVA or secured by collateral Remainder largely expected to perform with minimal at-risk element 	

Corporate - property lending

Commercial real estate LTVs						
	<=50%	50%<=80%	>80%	Book avg	Non-default / Non- FVA covered book avg	New business avg
Commercial investment	5%	34%	60%	109%	87%	69%
Residential investment	13%	28%	59%	100%	75%	63%
Commercial development	11%	45%	44%	102%	91%	54%
Residential development	37%	32%	31%	81%	80%	68%
Overall	7%	34%	59%	106%	86%	67%
2010 comparator	6%	23%	71%	101%	95%	78%

- ### Commercial real estate analysis
- Majority of property lending to low risk customers with tangible net assets and/or very high quality tenant covenants
 - Low arrears and impairment charges seen across non FVA covered investment property portfolio where focus has been on sensitised affordability testing
 - Loan and tenant quality tested via credit reviews undertaken at least annually
 - Property lending anticipated to remain broadly flat during 2012

European exposure

Exposure by country (£m)			
	2011	2010	Change
Austria	40	40	-
Belgium	20	187	(167)
Denmark	8	6	2
Finland	-	25	(25)
France	315	812	(497)
Germany	166	396	(230)
Ireland	30	132	(102)
Italy	-	412	(412)
Netherlands	251	10	241
Portugal	34	34	(1)
Spain	145	484	(339)
Sweden	28	-	28
Switzerland	233	84	149
	1,270	2,622	(1,352)
Short term exposure (<12 mth residual maturity)*	746	2,123	(1,377)
Term exposure (>12 mth residual maturity)*	873	878	(5)
Collateral	(349)	(380)	35
	1,270	2,622	(1,352)
Exposure via senior debt securities*	713	945	(233)
Exposure via other products*	906	2,056	(1,150)
Collateral	(349)	(380)	35
	1,270	2,622	(1,352)

* Exposure to financial institutions before the application of collateral

Bank key indicators

Core tier 1 9.6% (2010: 9.6%)	Operating profit £141m (2010: £145m)	Liquid asset ratio 15.5% (2010: 9.7%)
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Co-operative Banking Group

Business highlights & strategy

Financial performance

- Profit
- Capital
- Liquidity & funding
- Asset quality

Transforming our business – Barry Tootell

Outlook

Transforming our business

Delivery in 2011

- Replaced telephony infrastructure
- Replaced bank mainframe
- First part of new payments system implemented
- Replaced debit and credit card system – an award winning project
- Installed finacle

Transforming our business

What's next

- Connecting interfaces and testing
- Implementation of finacle as our banking system, with customer relationship capability
- Phased account migration

Transforming our business

- Businesses and service functions aligned to provide efficiency across the group
- Unified corporate centre enables synergies across group
- Customer segmentation model will inform and prioritise decision making and marketing activity
- Revitalised membership offer to incentivise and reward cross-trading
- Improved understanding of our customers will truly put them at the heart of everything we do



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Transforming our business

Outlook – Barry Tootell

Well placed for future success

- Integration programme on track
- Investment in systems and processes
- Growing membership and current account base
- Recognised for excellence in service and sustainability
- Market leading customer advocacy
- Liquidity, capital and profit strong
- New opportunities offered by project unity

For further information please contact
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