

# The **co-operative** banking group

## **2012 INTERIM RESULTS**

**10 September 2012**

Barry Tootell – Chief Executive

James Mack – Chief Financial Officer

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# Co-operative Banking Group

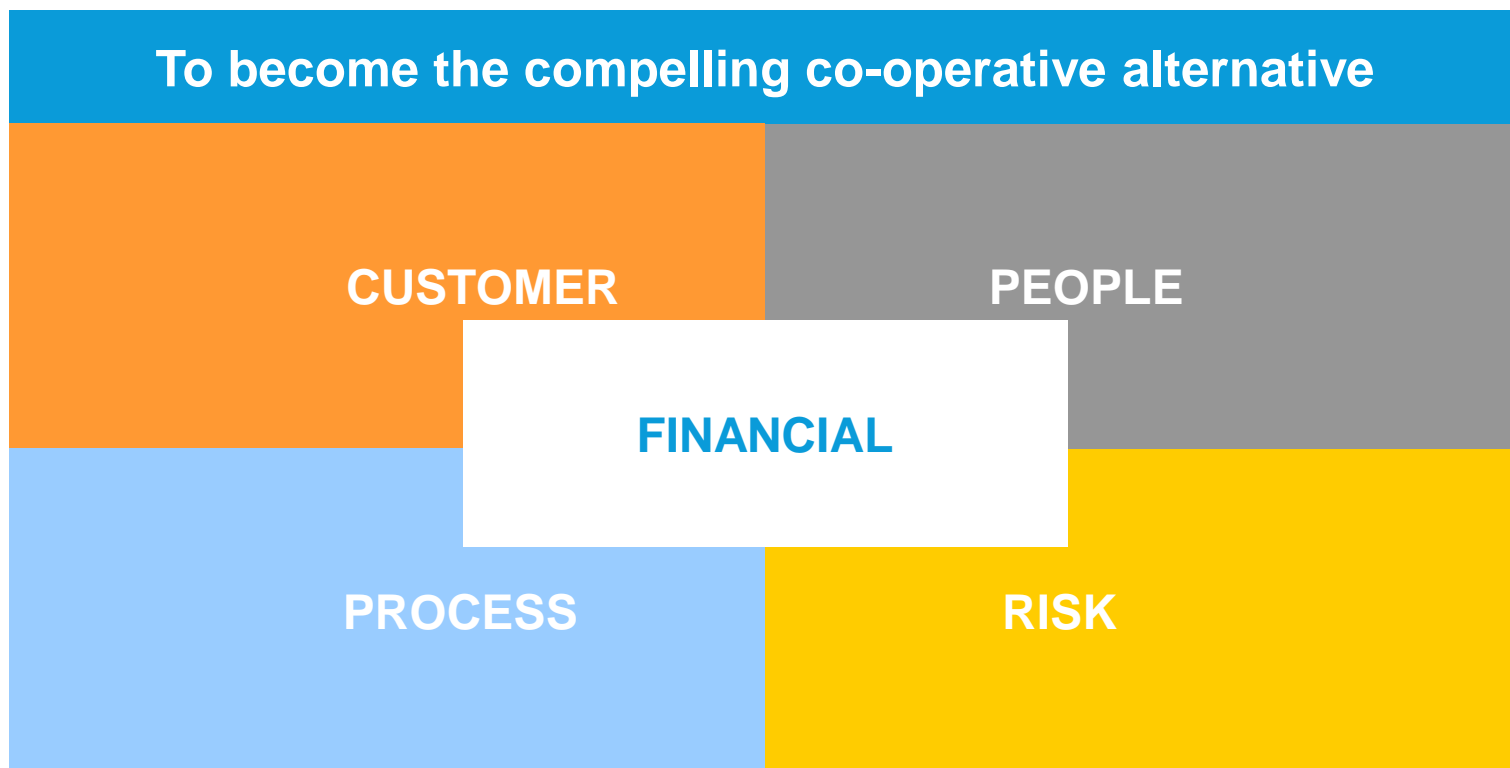
Business highlights & strategy – Barry Tootell

Financial performance

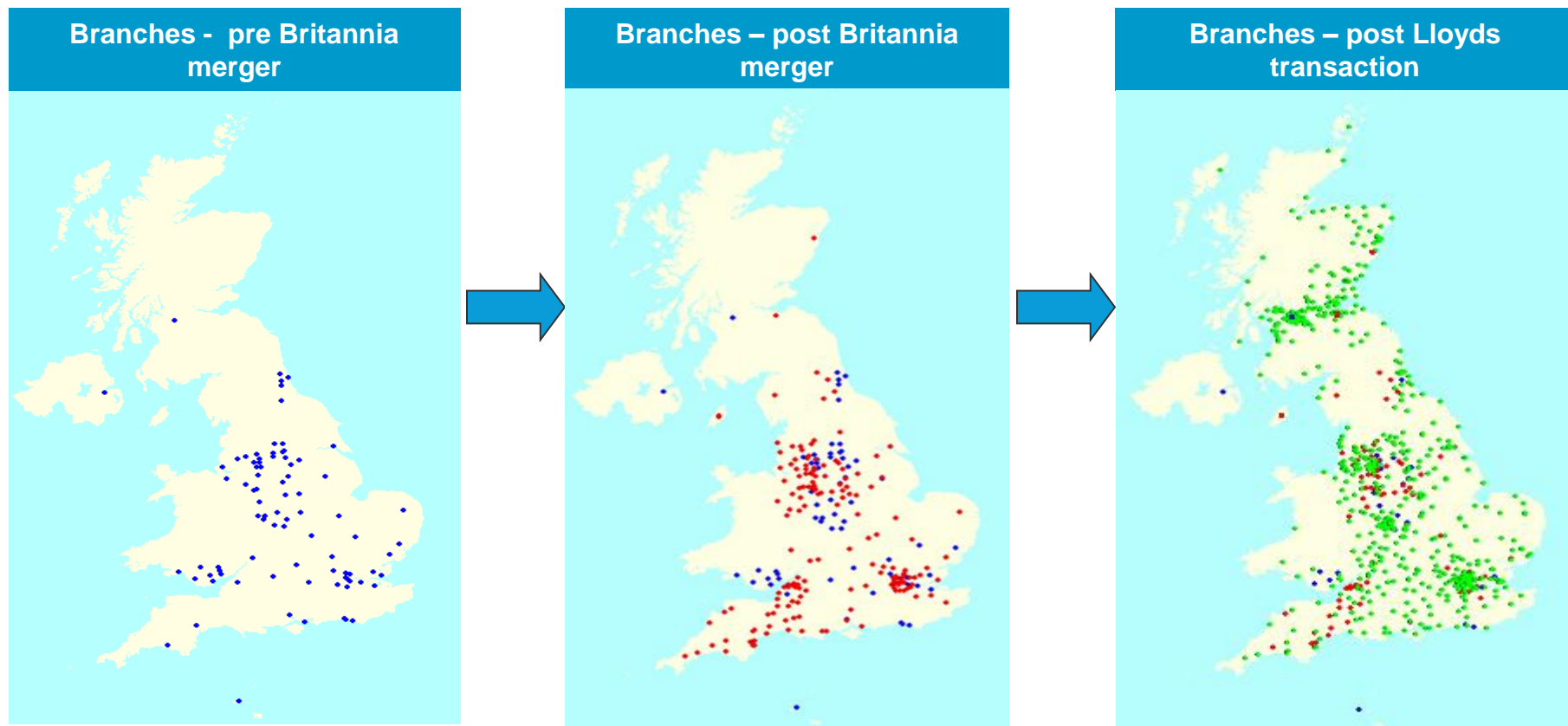
- Profit
- Capital
- Liquidity & funding
- Asset quality

Transforming our business

# Balanced scorecard



# Verde – a strategic journey



# Bank key indicators

## Core tier 1

**9.6%**

(2011: 9.6%)

## Operating profit

**£11m**

(Core £84m / Non Core (£73m))

(HY 2011: £109m)

(Core £106m / Non Core £3m)

## Liquid asset ratio

**12.7%**

(2011: 15.5%)

## Total capital ratio

**14.8%**

(2011: 14.7%)

## Net interest margin

**103 bps**

(2011: 123bps)

## Loan to deposit ratio

**101%**

(2011: 94%)

# Franchise strength



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**The Card & Payments Awards**



# Co-operative Banking Group

Business highlights & strategy

Financial performance – James Mack

- Profit
- Capital
- Liquidity & funding
- Asset quality

Transforming our business



# Banking Group financial performance

## Co-operative Banking Group – financial highlights

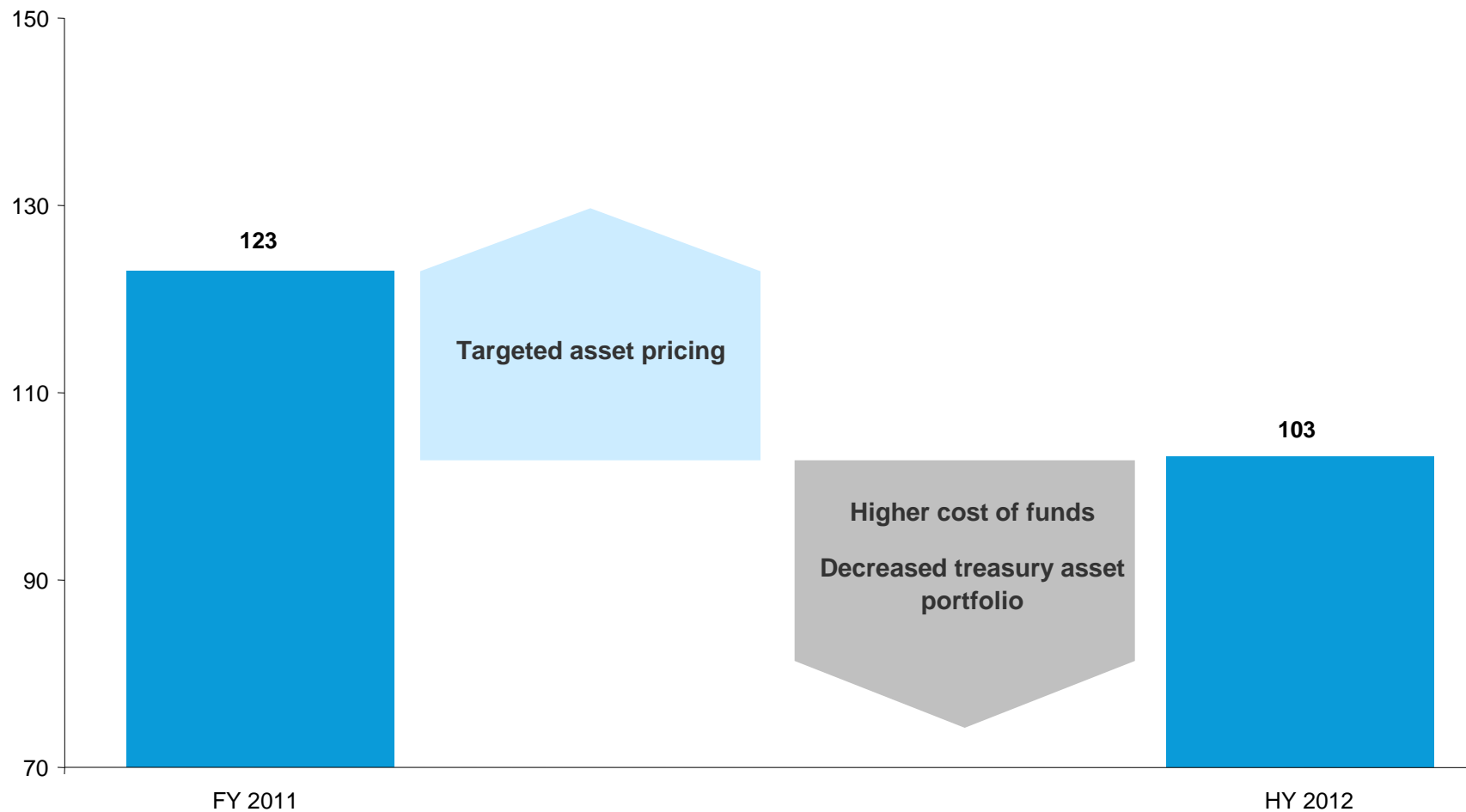
	H1 2012 £m	H2 2011 £m	H1 2011 £m
Income	711	726	773
Operating costs	(347)	(345)	(344)
Claims	(223)	(239)	(256)
Impairment losses	(92)	(69)	(46)
<b>Operating result</b>	<b>49</b>	<b>73</b>	<b>128</b>
- Core	122	68	125
- Non Core	(73)	5	3
Significant items	(25)	(56)	(35)
Costs relating to Project Verde	(20)	-	-
Group recharges	(12)	-	-
PPI Provision	(40)	-	(90)
Other	(1)	(9)	(7)
Fair value amortisation	20	70	17
<b>Profit / (loss) before taxation &amp; distributions</b>	<b>(29)</b>	<b>78</b>	<b>13</b>

# Bank financial performance

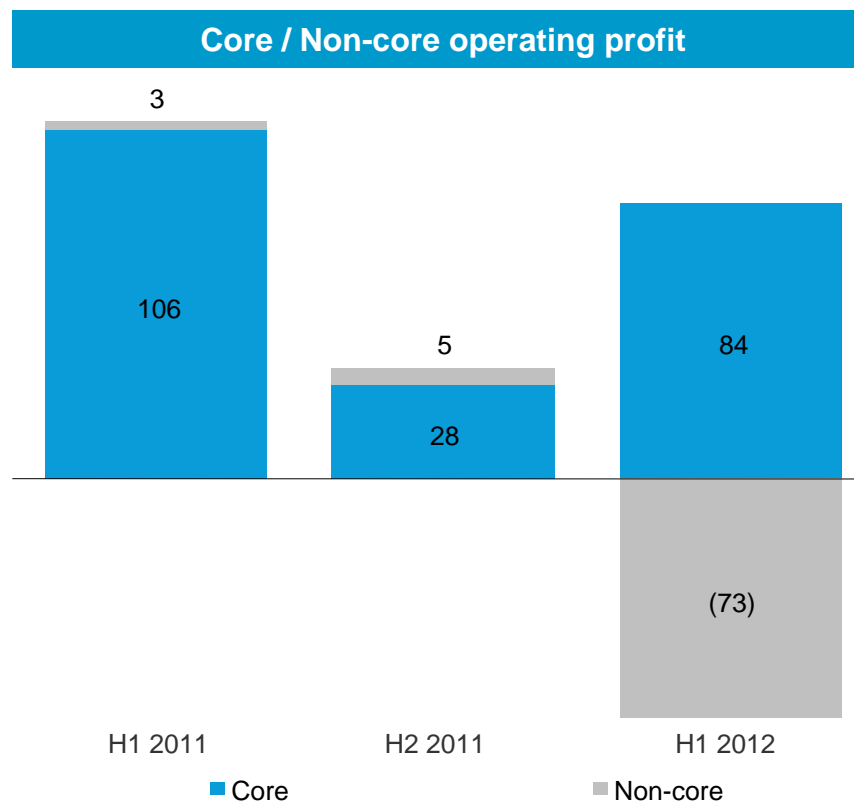
## Co-operative Bank – financial highlights

	H1 2012 £m	H2 2011 £m	H1 2011 £m
Income	<b>385</b>	383	435
Operating costs	<b>(282)</b>	(282)	(280)
Impairment losses	<b>(92)</b>	(69)	(46)
<b>Operating result</b>	<b>11</b>	33	109
<b>- Core</b>	<b>84</b>	28	106
<b>- Non Core</b>	<b>(73)</b>	5	3
Significant items	<b>(19)</b>	(26)	(28)
Costs relating to Project Verde	<b>(20)</b>	-	-
Group recharges	<b>(10)</b>	-	-
PPI Provision	<b>(40)</b>	-	(90)
Other	-	(9)	(6)
Fair value amortisation	<b>20</b>	70	17
<b>Profit / (loss) before taxation &amp; distributions</b>	<b>(59)</b>	68	2

# Net interest margin



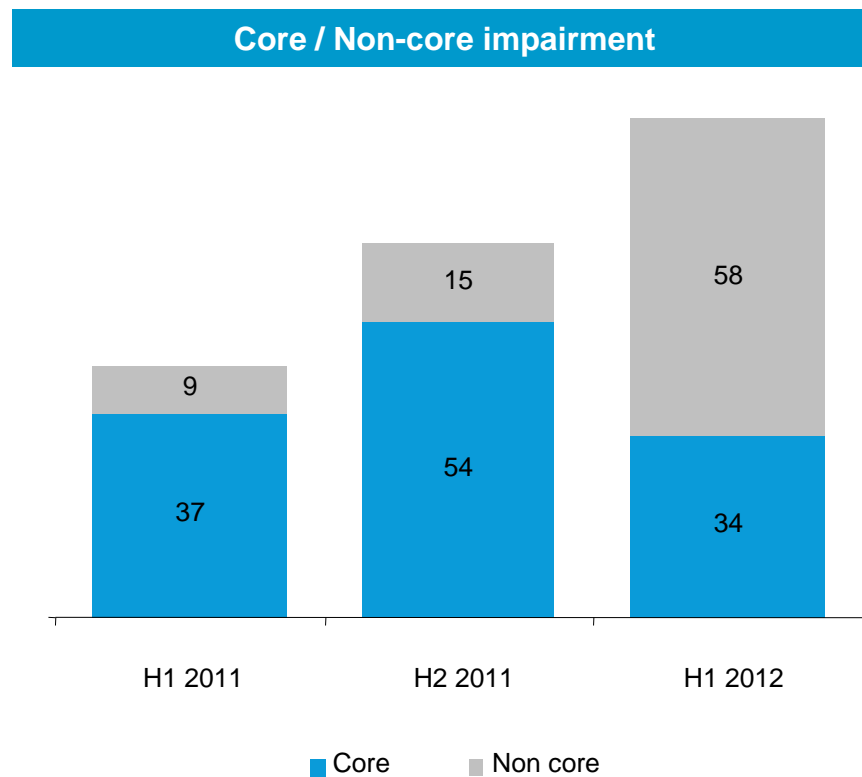
# Segmental financial performance



**Segmental operating profit**

£m	H1 2011	H2 2011	H1 2012
Retail banking	58	34	<b>32</b>
CABB - core	20	(11)	<b>30</b>
CABB - non core	3	5	<b>(73)</b>
Other	28	5	<b>22</b>
<b>Operating result</b>	<b>109</b>	<b>33</b>	<b>11</b>

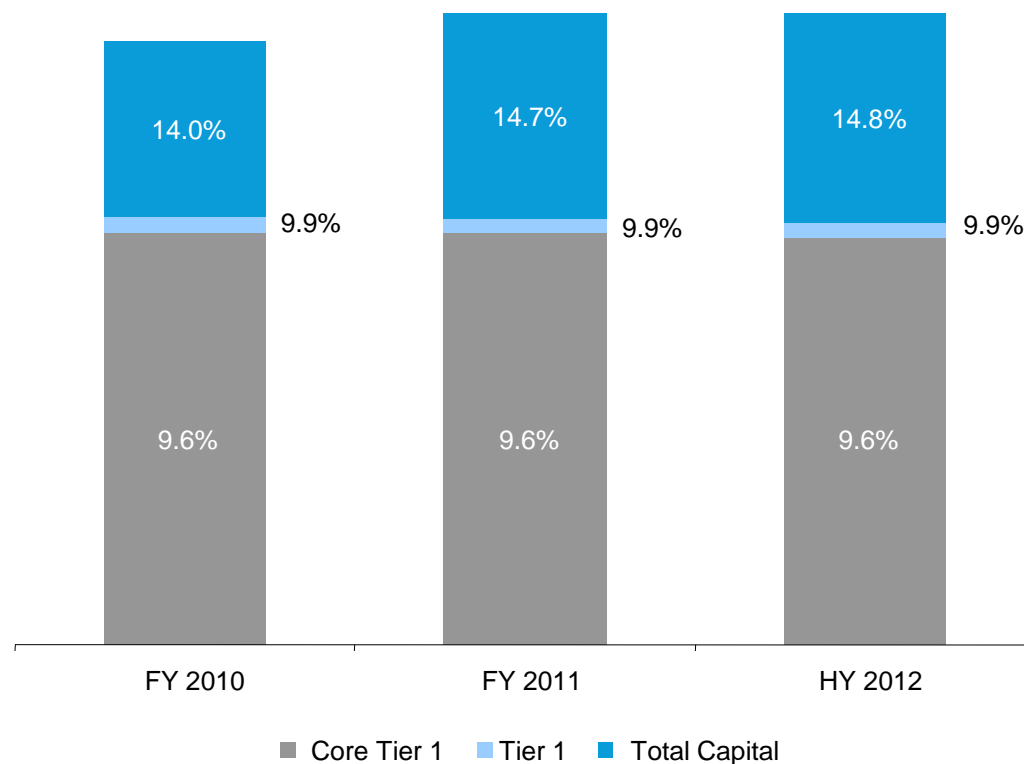
# Impairment



**Segmental impairment**

£m	H1 2011	H2 2011	H1 2012
Retail banking	18	16	<b>18</b>
CABB - core	18	43	<b>18</b>
CABB - non core	9	15	<b>58</b>
Other	1	(5)	<b>(2)</b>
<b>Total Bank</b>	46	69	<b>92</b>

# Bank capital



Capital summary			
£bn	FY 2010	FY 2011	HY 2012
Risk weighted assets	19.5	20.3	<b>20.7</b>
Core tier 1 capital	2.0	2.1	<b>2.1</b>
Total capital	2.7	3.0	<b>3.1</b>
Basel III CT1			<b>8.3%</b>

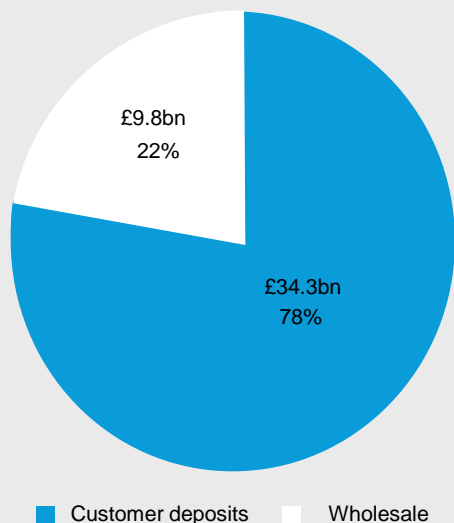
# Bank balance sheet

## Bank balance sheet

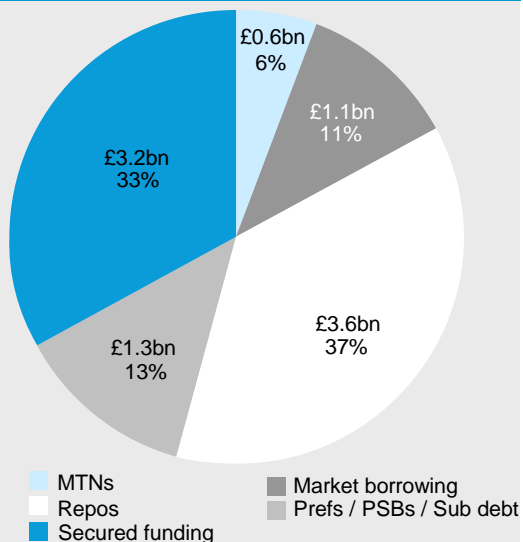
	<b>HY 2012</b>	FY 2011	FY 2010
	£bn	£bn	£bn
Loans and advances to customers	34.7	34.3	35.1
Cash and balances at central banks	4.3	6.7	1.7
Loans and advances to banks	2.4	2.0	2.4
Investment securities	5.0	4.6	4.9
Other assets	1.2	1.4	1.4
<b>Total assets</b>	<b>47.6</b>	<b>49.0</b>	<b>45.6</b>
Amounts owed to customers	34.3	36.6	34.3
Wholesale liabilities	4.4	3.3	2.9
Debt securities in issue	4.1	4.2	4.2
Other liabilities	1.2	1.4	1.1
Minority interest	0.0	0.0	0.0
Other borrowed funds	1.3	1.3	1.0
Equity	2.3	2.2	2.0
<b>Total liabilities &amp; equity</b>	<b>47.6</b>	<b>49.0</b>	<b>45.6</b>
<b>Loan to deposit ratio</b>	<b>101%</b>	<b>94%</b>	<b>102%</b>

# Funding and liquidity

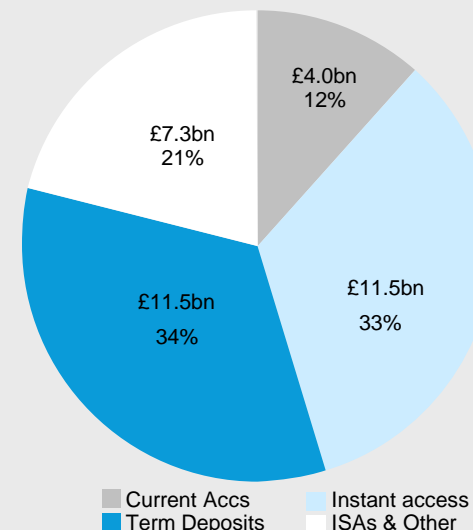
## Funding mix



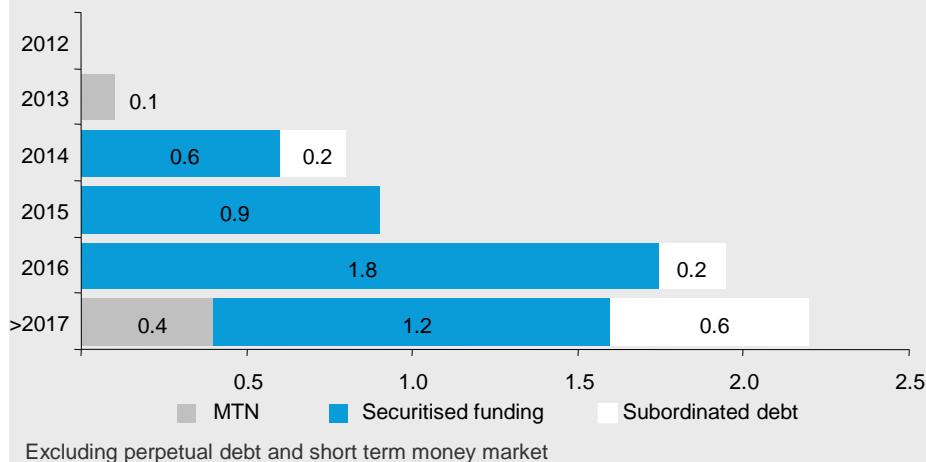
## Wholesale funding



## Customer deposits



## External funding maturity (£bn)



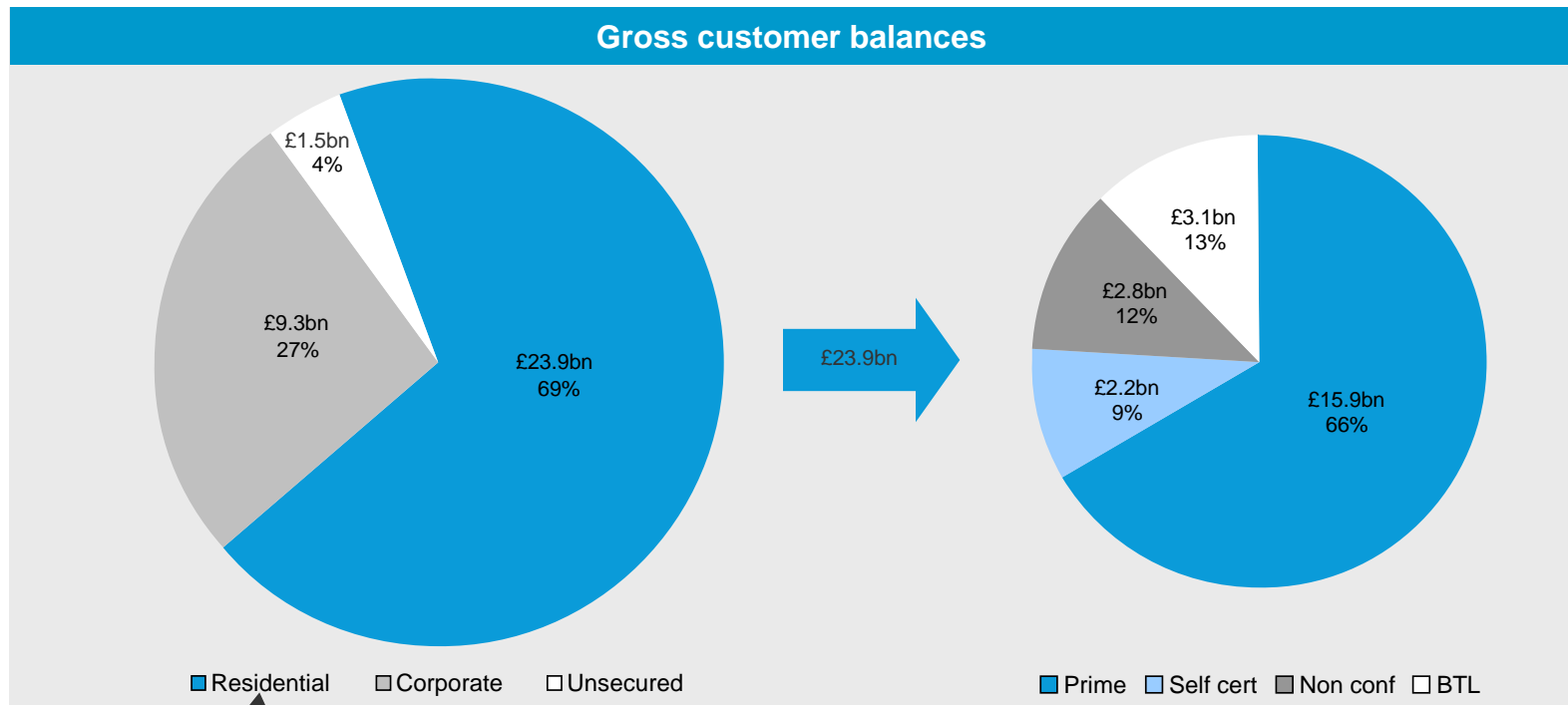
## Liquidity

- High quality liquid assets
- Liquid asset ratio\* of 12.7% (2011: 15.5%)
- Total liquid assets of £5.9bn (2011: £7.6bn)

\* 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
Core	Retail secured	16,223	365	6	3	9	3%
	Unsecured*	1,507	298	-	248	248	83%
	Corporate	5,849	204	-	83	83	41%
Non Core	Optimum	7,723	1,574	122	8	130	8%
	Corporate	3,484	893	250	82	332	37%
	<b>Total HY 2012</b>	<b>34,785</b>	<b>3,334</b>	<b>378</b>	<b>425</b>	<b>803</b>	<b>24%</b>
	YE 2011	34,406	3,188	396	382	778	24%

\*includes debt collection agency balances

# Residential portfolio by LTV band

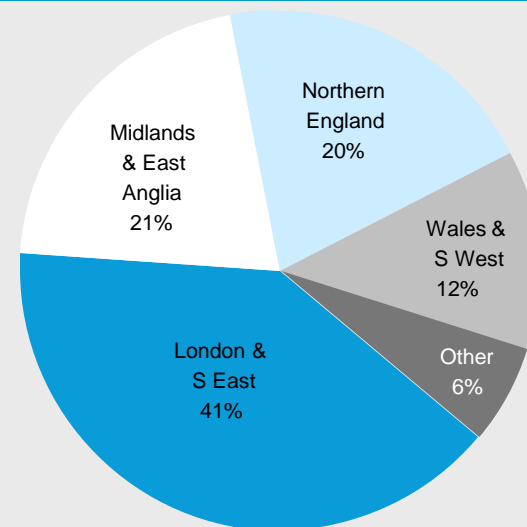
## Banded LTV by product

	Core				Non core				Total book	
	Prime	BTL	Self Cert	Non Conf	Prime	BTL	Self Cert	Non Conf	Jun-12	Dec-11
Average LTVs	43.1%	62.8%	43.9%	57.0%	78.1%	80.7%	78.5%	83.1%	<b>53.5%</b>	52.7%
New business LTVs	57.9%	62.8%	n/a	56.1%	n/a	n/a	n/a	n/a	<b>59.0%</b>	60.4%
<b>Book by indexed LTV</b>										
<=50%	36.3%	11.2%	39.3%	22.2%	7.7%	5.0%	7.2%	5.3%	<b>25.5%</b>	26.1%
<=75%	37.8%	78.1%	53.9%	69.3%	9.6%	25.7%	20.1%	14.7%	<b>33.4%</b>	32.0%
<=100%	23.0%	10.7%	6.4%	7.7%	44.2%	52.2%	51.1%	42.0%	<b>30.4%</b>	31.5%
>100%	2.9%	0.1%	0.4%	0.8%	38.4%	17.1%	21.6%	38.0%	<b>10.7%</b>	10.4%
Gross customer balances (£bn)	15.2	0.9	0.1	0.1	0.7	2.2	2.1	2.7	<b>23.9</b>	23.7

## 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

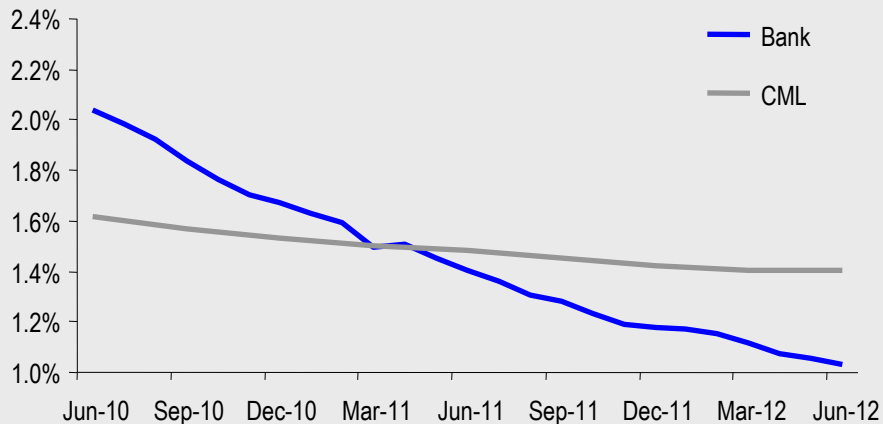


# Residential arrears

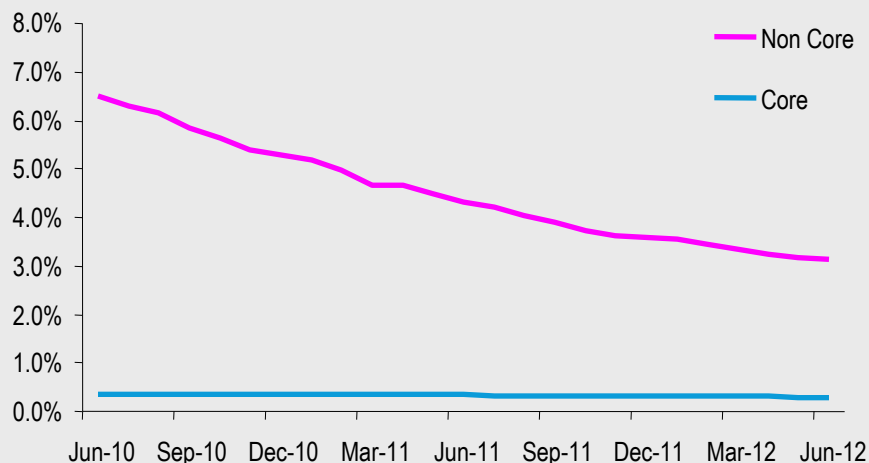
## Arrears > 2.5% (volumes)

	No. of mortgages	Jun-12	Dec-11
Prime	182,092	0.37%	0.39%
BTL	27,764	0.23%	0.23%
Self Cert	14,370	1.91%	2.18%
Non Conforming	26,027	6.08%	7.01%
<b>Total</b>	<b>250,253</b>	<b>1.03%</b>	<b>1.18%</b>

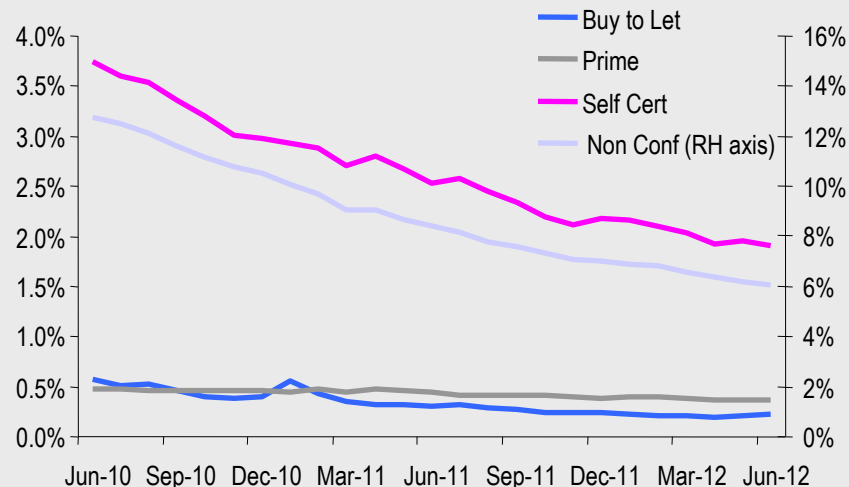
## Arrears > 2.5% (volumes)



## Core / Non core > 2.5% (volumes)

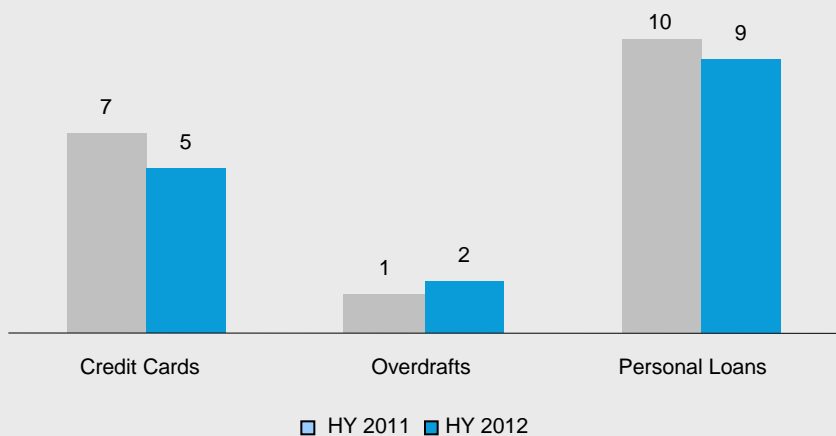


## Arrears > 2.5% (volumes)

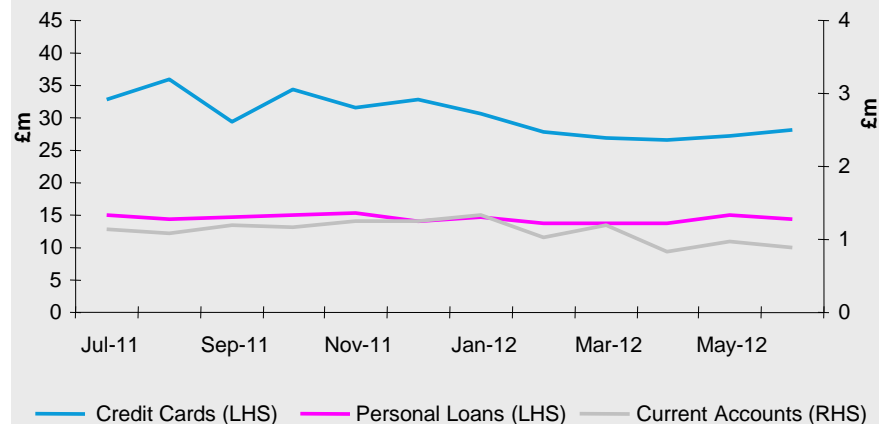


# Unsecured lending – risk profile

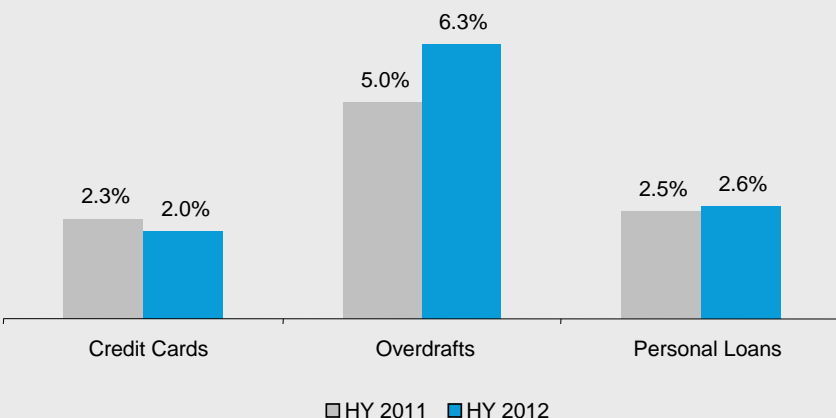
## Impairment charge (£m)



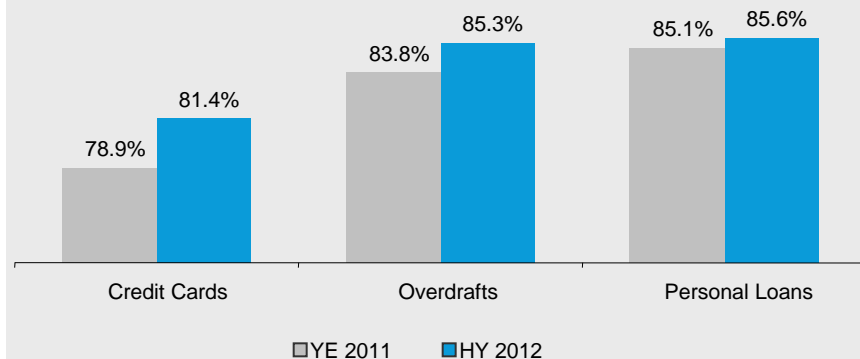
## Balances entering arrears



## Net charge ratio (NCR)



## Credit protection as % of impaired balances



# Analysis of corporate lending – Core book

## Core book (£m)

Sector	Total Exposure	Watchlist Exposure	Default Exposure	Covered by collateral, impairment or FVA	Expected Performance	At-Risk
Commercial Investment	1,564	181	49	207	19	4
Residential Investment	153	14	4	16	1	-
Commercial Development	310	48	12	49	7	3
Residential Development	113	14	5	17	2	-
PFI	1,317	-	15	2	13	-
Housing Associations	280	-	-	-	-	-
Services	1,069	49	25	40	34	-
Renewable Energy / Utilities	677	-	10	10	-	-
Education / Public Sector	326	-	-	-	-	-
Other	2,095	132	22	72	72	11
<b>Total</b>	<b>7,904</b>	<b>439</b>	<b>141</b>	<b>414</b>	<b>147</b>	<b>19</b>

## Commercial real estate LTVs (Core)

	<=50%	50%<=80%	>80%	Book avg.	Non-default / non-FVA covered book avg.	New business avg.
Commercial Investment	14%	59%	27%	75%	71%	57%
Residential Investment	31%	55%	13%	62%	61%	47%
Commercial Development	13%	59%	29%	87%	76%	69%
Residential Development	42%	37%	22%	63%	62%	42%
<b>HY 2012</b>	<b>17%</b>	<b>57%</b>	<b>26%</b>	<b>75%</b>	<b>70%</b>	<b>58%</b>

# Analysis of corporate lending – Non core book

## Non core book (£m)

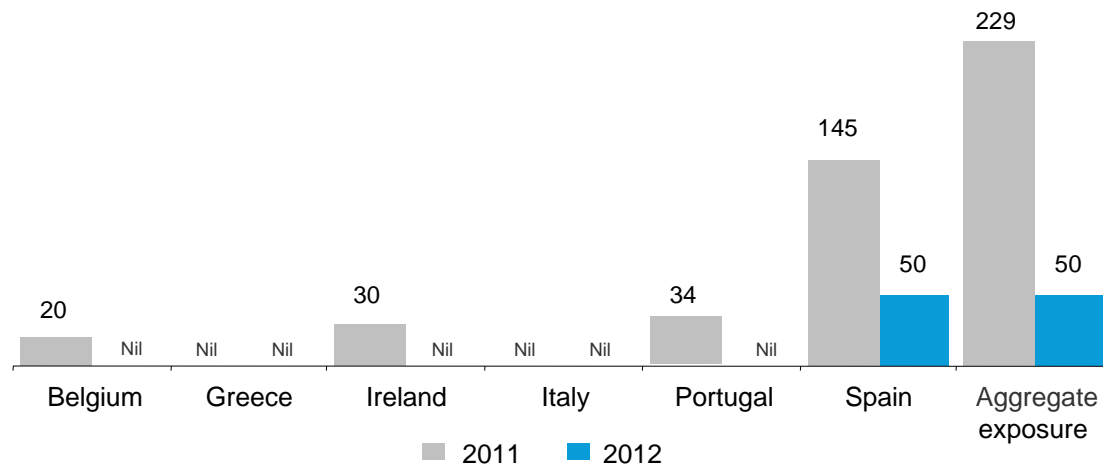
Sector	Total Exposure	Watchlist Exposure	Default Exposure	Covered by collateral, impairment or FVA	Expected Performance	At-Risk
Commercial Investment	2,030	1,117	476	1,404	168	21
Residential Investment	329	35	79	104	10	-
Commercial Development	-	-	-	-	-	-
Residential Development	-	-	-	-	-	-
PFI	-	-	-	-	-	-
Housing Associations	910	-	-	-	-	-
Services	-	-	-	-	-	-
Renewable Energy / Utilities	29	-	-	-	-	-
Education / Public Sector	-	-	-	-	-	-
Other	270	51	165	182	33	2
<b>Total</b>	<b>3,568</b>	<b>1,203</b>	<b>721</b>	<b>1,690</b>	<b>211</b>	<b>23</b>

## Commercial real estate LTVs (Non core)

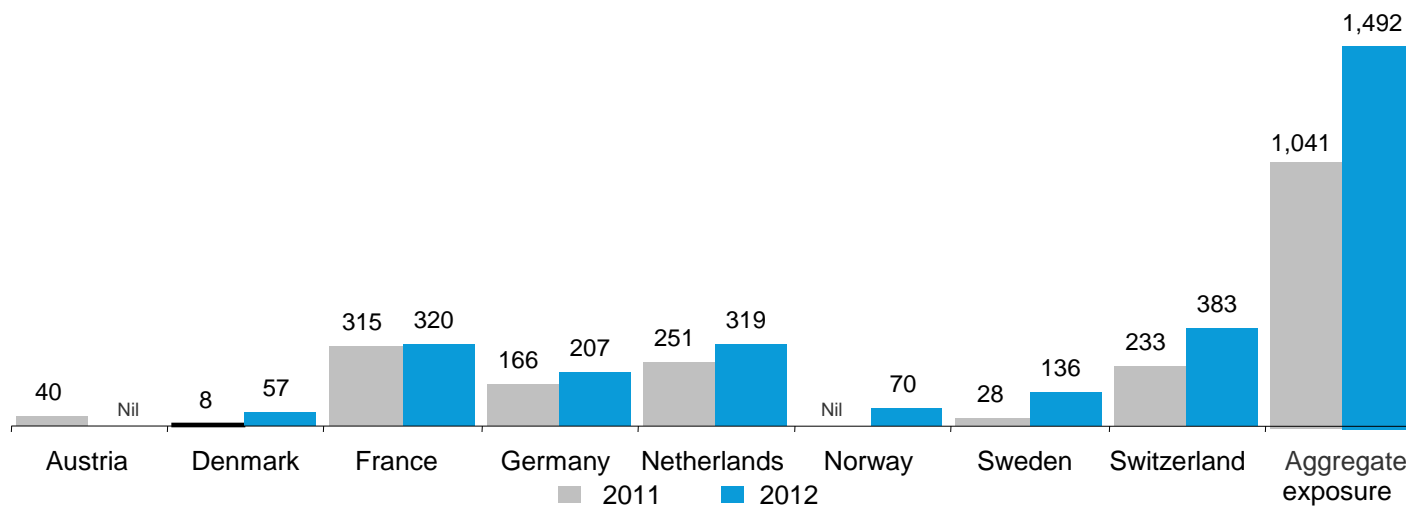
	<=50%	50%<=80%	>80%	Book avg	Non-default / non-FVA covered book avg	New business avg
Commercial Investment	2%	17%	81%	136%	96%	N/A
Residential Investment	14%	38%	47%	113%	70%	N/A
Commercial Development	N/A	N/A	N/A	N/A	N/A	N/A
Residential Development	N/A	N/A	N/A	N/A	N/A	N/A
<b>HY 2012</b>	<b>3%</b>	<b>20%</b>	<b>76%</b>	<b>133%</b>	<b>92%</b>	<b>N/A</b>

# European exposure – financial institutions

## Peripheral European exposure (£m)



## Other European exposure (£m)



# Bank key indicators

## Core tier 1

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(2011: 9.6%)

## Operating profit

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Business highlights & strategy

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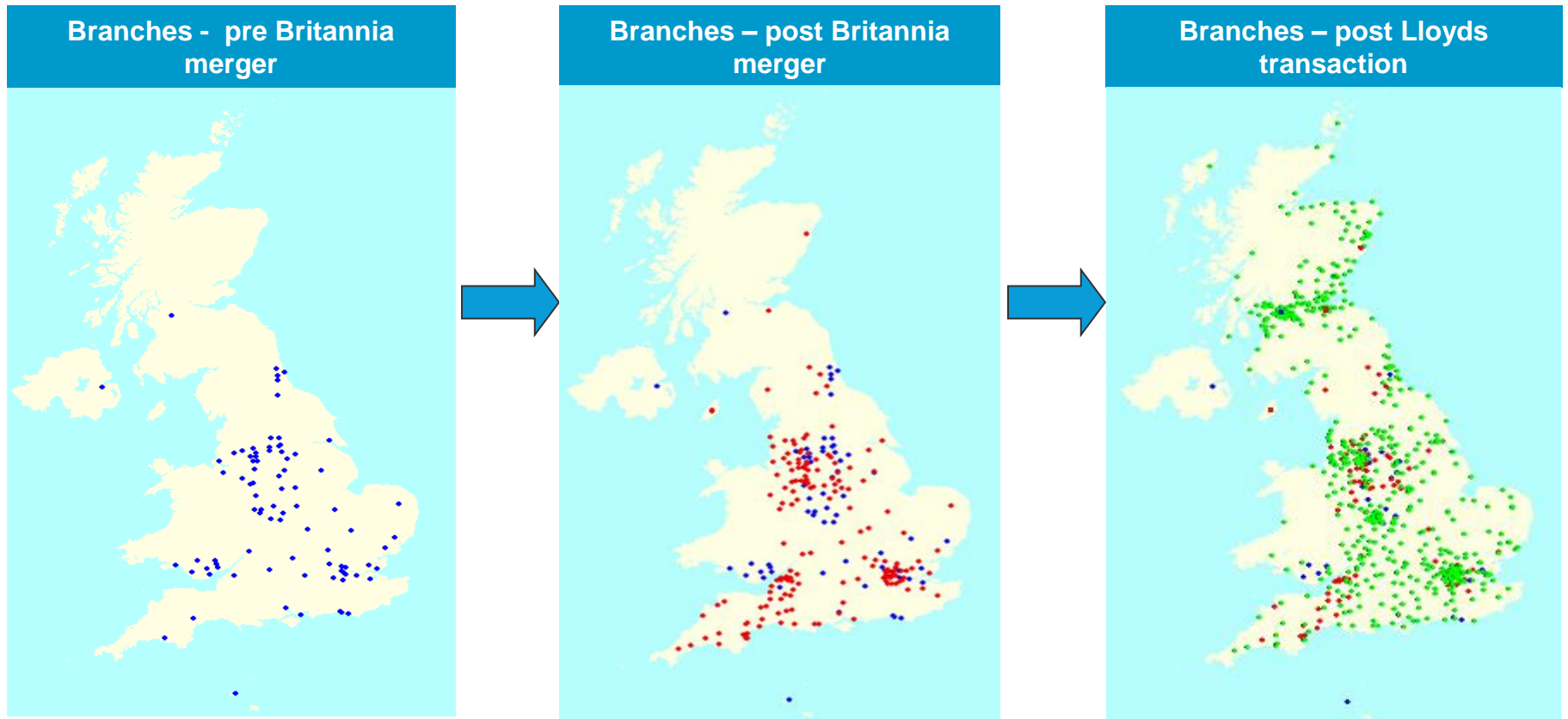
Transforming our business – Barry Tootell

# Transforming our business

Delivered in H1 - highlights

- Delivered requirements of new EU payment services regulations – ‘Faster Payments’
- Mobile banking application launched in June 2012
- Contactless payments technology launched in July 2012
- Legal services and funeral planning products to be piloted within Branch network
- Verde Heads of Terms signed July 2012

# Verde – a strategic journey



**For further information please contact  
investorrelations@cfs.coop**