

The **co-operative** financial services
good with money

Capital Markets Presentation

23 April 2009

Agenda

David Anderson, Chief Executive, CFS

- Our Co-operative Difference
- Measures of Success

Barry Tootell, Chief Financial Officer, CFS

- CFS Performance
- Trading Group Update

David Anderson, Chief Executive, CFS

- Last year's what next
- Progress in the year
- What next

The **co-operative** financial services
good with money

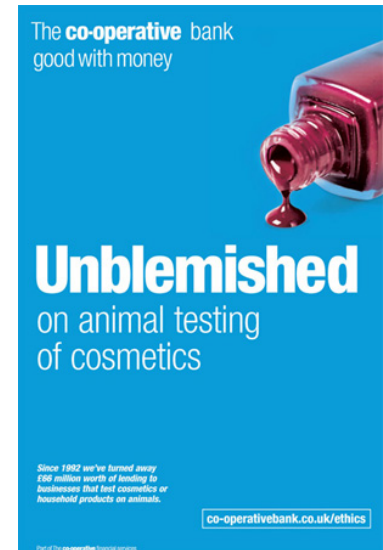
David Anderson, Chief Executive, CFS
Measures of success

2008 – a momentous year

In 2008, our new brand identity was launched.

Good with money means providing our customers with outstanding service and meeting their financial needs while at the same time trying to make the world a fairer place for everyone.

Our brand demonstrates our point of difference as we are owned by The Co-operative, members are our owners. They help to direct our campaigns and policies and through their participation they are rewarded with a share of the profits.



Our Co-operative difference

The Co-operative Bank's new Ethical Policy

In 1992, The Co-operative Bank launched its **Ethical Policy** and remains the only high-street bank that turns away business based on its customers' ethical concerns.

Since launching its ethical stance The Co-operative Bank has turned away business to the value of £1 billion, but **it has also contributed to a massive £3.8 billion net growth in our corporate lending.**

In Autumn 2008, we initiated our fifth customer consultation on the Bank's Ethical Policy.

A record **80,000 customers responded to a detailed questionnaire** and the consultation showed that 97 per cent of customers fully support our Ethical Policy.

As a result of customer feedback we will now decline business with connections to three new areas involving human rights, ecological impact and animal welfare.



Our Co-operative difference

The Co-operative Insurance Ethical Engagement Policy

In 2005, The Co-operative Insurance launched a **unique customer-led Ethical Engagement Policy** where we use our influence as a shareholder to push for positive change in the companies in which we invest.

It's based on our **customers' views and is developed with their support**. The Policy reflects their views on a range of ethical issues: from human rights to the transfer of arms to oppressive regimes; and from the environment to animal welfare.

The **Policy directs influence on our investments** because as a corporate investor we carry a lot of influence, and when it comes to issues of concern to our customers, we are prepared to push for change within the companies that we invest in.



Vision & Measures

Our vision – *to be the UK's most admired financial services business* – supported by five key performance measures all colleague objectives are aligned to. These measures are:

- **Profit generation** to create a sustainable business
- Market leading **colleague satisfaction**
- Market leading **customer satisfaction**
- Market leading **social responsibility** approach and
- **Membership growth**

Measures of success

Profit generation to create a sustainable model

- **CFS shareholder profit** was £147.0m (2007: £155.4m)
- Very strong **Bank** performance with profit **£85.6m** (2007:£50.4m)
- **General Insurance** operating profit £8.4m (2007: £67.1m)
- Profitability of new business for **Life & Savings** increased
- Record **dividend** to Co-operative Group of £72.1m to support **member** dividend and **social goals** programme

Measures of success

Market leading **customer satisfaction**

From GFK NOP's Financial Research Survey:

Retail Bank 76.5% v 63.3% (top 5 by market share)

General Insurance 78.5% v 68.7% (top 5 by market share)

Life & Savings 44.2% v 44.8% (rest of market)

Market leading **colleague satisfaction**

64% engagement score (2007: 53%) in ECHO survey

Target : improve to High Performance Norm level (73%) by 2010/11

Measures of success

Market leading **social responsibility** approach

- CFS “Company of the Year” by Business in the Community for its impact on society
- Bank 3rd and highest ranking financial services company in Sunday Times Best Green Companies Award

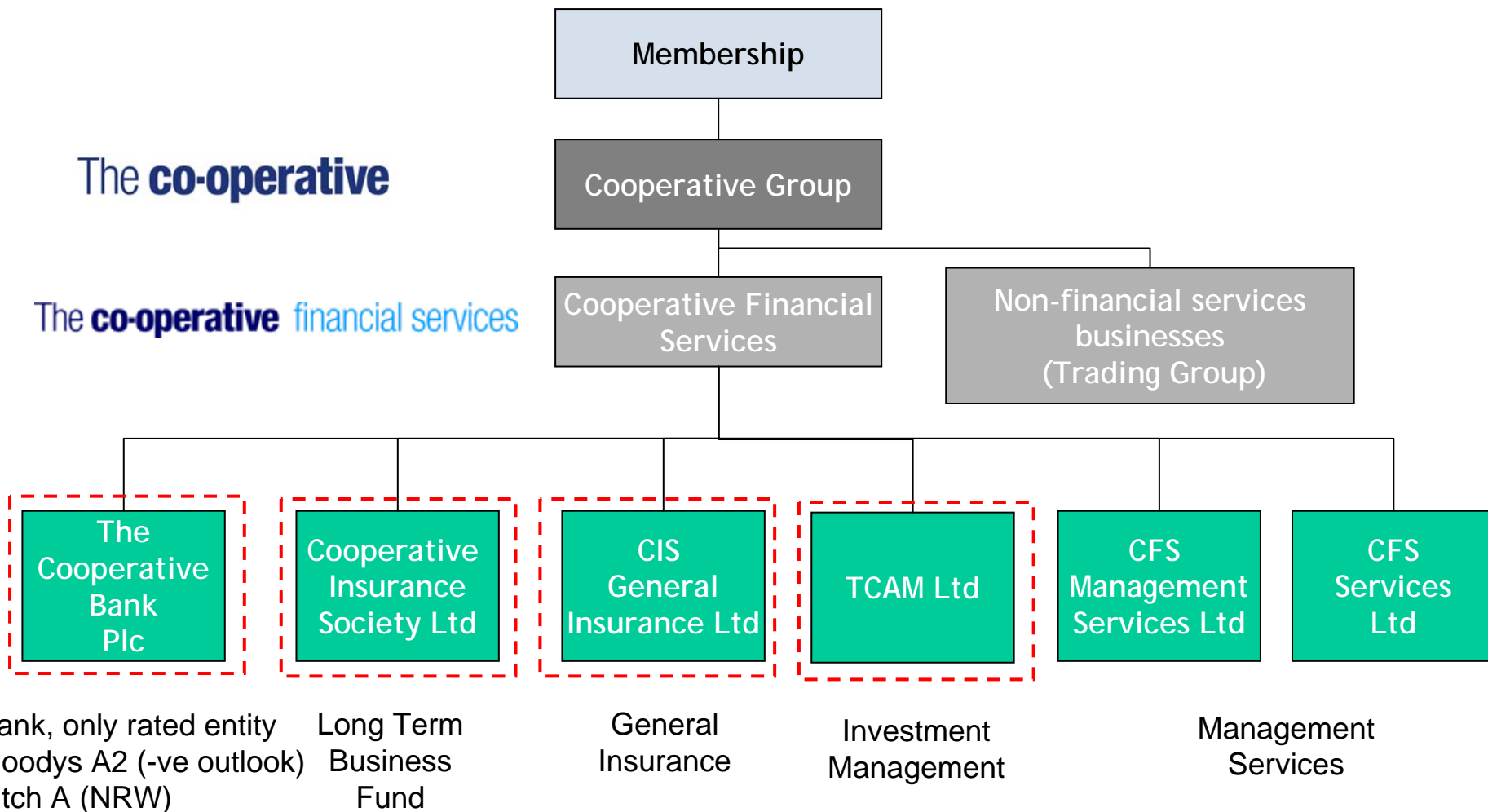
Membership growth


- Over 140,000 CFS customers recruited as Co-operative Group members during the year, an increase of 33% compared to 2007
- Co-operative Group membership grown to over 3 million members
- Membership central to relationship business & our product set

The **co-operative** financial services
good with money

Barry Tootell, Chief Financial Officer, CFS
Financial Performance

Structure



 Regulatory ring fence

CFS P&L

£m	2006	2007	2008
Banking underlying result	76.3	82.2	136.3
Impairment losses on Investments		(31.8)	(50.7)
General Insurance operating result	37.0	67.1	8.4
Other shareholder activities (excluding STIF)	32.9	37.9	53.0
Results pre investment fluctuations	146.2	155.4	147.0
FSCS levy			(10.5)
Membership dividend	(2.0)	(2.0)	(6.6)
STIF	(11.5)	(3.9)	12.2
Profit before significant items	132.7	149.5	142.1
Significant items	99.7	(67.5)	(78.0)
Profit after significant items	232.4	82.0	64.1

Significant costs

£'m	2006 £'m	2007 £'m	2008 £'m
General Insurance	(9.0)	(29.5)	(30.9)
Banking	109.2	(38.0)	(47.1)
Other Shareholder	(0.5)	0.0	0.0
Total Shareholder	99.7	(67.5)	(78.0)
Long-term business	(8.3)	(37.6)	(46.3)
Total	91.4	(105.1)	(124.3)

2006 Gain on implementation of PACE pension scheme was £109.2m in Bank, £4m in GI and £3.6m in LTBF

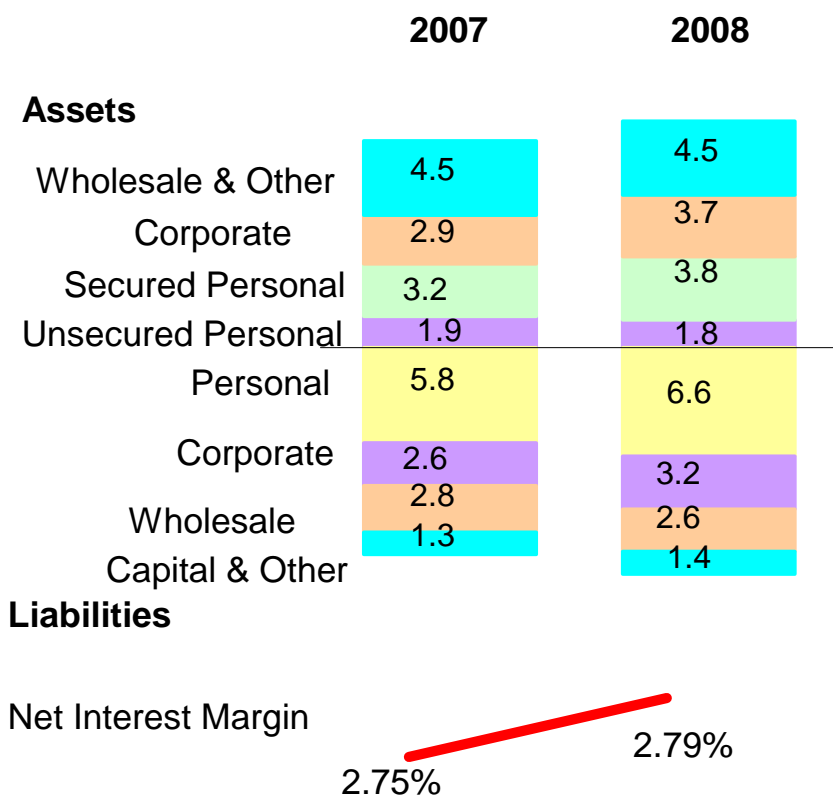
Bank – Profit & Loss

£m	2006	2007	2008
Income	521.5	523.5	569.4
Operating Costs	(339.9)	(339.3)	(336.3)
Bad Debts	(105.3)	(102.0)	(96.8)
PBT - pre investment losses	76.3	82.2	136.3
Impairment losses on Investments	0.0	(31.8)	(50.7)
PBT - post investment losses	76.3	50.4	85.6
FSCS levy	0.0	0.0	(10.5)
Membership dividend	(1.2)	(1.3)	(4.7)
Significant items	109.0	(38.0)	(47.1)
Profit post significant items	184.1	11.1	23.3
Cost Income ratio (%)	65.2%	64.8%	59.1%

	Spot Balances		
	2006	2007	2008
Customer Deposits £bn	8.4	8.9	10.6
Customer Lending £bn	8.0	8.5	9.9
Deposit:loans (%)	105%	105%	107%

Income Drivers

Average Balances £'bn



Average balances and interest margins

	2007 £'m	2008 £'m
Net interest income	334.8	374.3
Average balances		
Interest-earning assets	12,193	13,419
Interest bearing liabilities	10,319	11,415
Interest - free liabilities	1,874	2,004
Average rates		
Gross yield on interest-earning assets	6.50%	6.07%
Cost of interest-earning liabilities	4.47%	3.97%
Interest spread	2.03%	2.10%
Contribution of interest-free liabilities & amortisation	0.72%	0.69%
Net interest margin	2.75%	2.79%

Non Interest Income

<u>£m</u>	2006	2007	2008
Fees and commission receivable	193.6	187.3	202.3
Insurance commission income	38.8	29.2	23.5
Fees and commission payable	(33.8)	(33.3)	(35.6)
Other income, including dealing	2.6	5.5	4.9
Non-interest income	201.2	188.7	195.1

Operating Expenses

<u>£m</u>	2006	2007	2008
Staff Costs - Wages & salaries	109.6	111.1	108.2
- Pensions & social security costs	23.4	21.4	20.9
Other staff costs	9.3	12.8	22.1
	142.3	145.3	151.1
Other administration expenses	173.2	171.3	165.1
Depreciation & amortisation	24.4	22.7	20.1
Operating expenses	339.9	339.3	336.3

Bad Debts

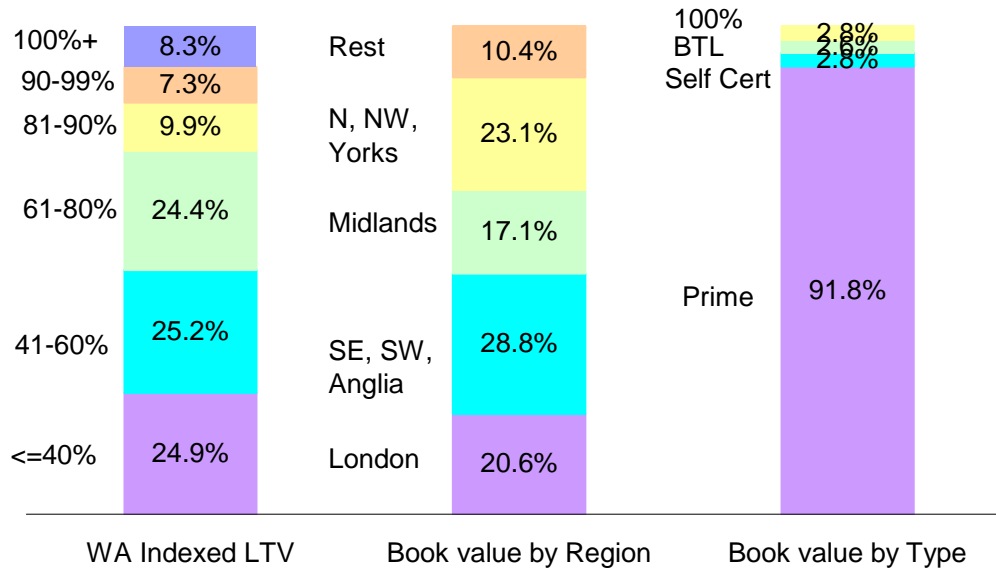
	Bad debt charge	Average Balance	Charge as % of Average Balance
2006			
	£m	£m	%
Mortgages	0.2	3,169.7	0.0%
Unsecured Retail	99.2	2,160.0	4.6%
Corporate	5.9	2,400.0	0.2%
Total	105.3	7,729.7	1.4%
2007			
	£m	£m	%
Mortgages	0.3	3,167.7	0.0%
Unsecured Retail	87.6	1,913.4	4.6%
Corporate	14.1	2,918.8	0.5%
Total	102.0	7,999.9	1.3%
2008			
	£m	£m	%
Mortgages	1.5	3,810.2	0.0%
Unsecured Retail	83.3	1,710.2	4.9%
Corporate	12.0	3,678.7	0.3%
Total	96.8	9,199.1	1.1%

- Mortgages – high quality mortgage book with very low arrears levels
- Unsecured Retail – reducing bad debt charge due to reducing book size. Charge rate % has increased slightly
- Corporate – high quality corporate book with historically low bad debt charge

Segmental Analysis

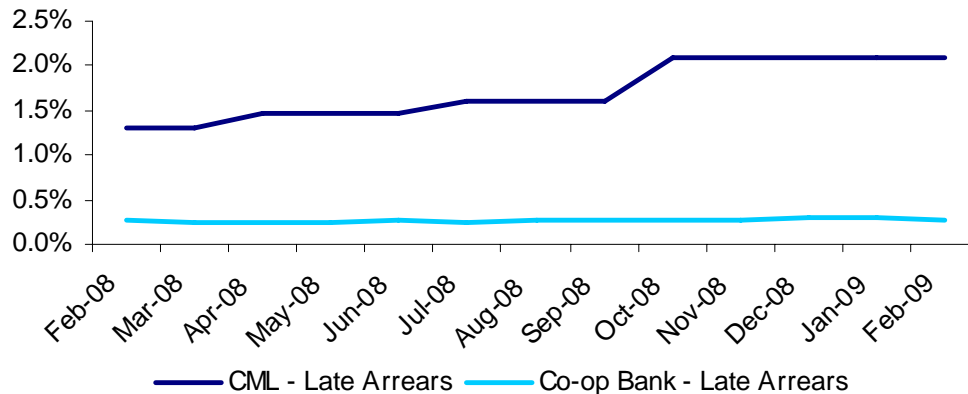
Operating profit before tax, investment write down and significant items		
<u>£m</u>	2007	2008
Retail Banking	38.0	41.0
Corporate Banking	55.8	79.6
Wholesale Banking	(11.6)	15.7
Operating profit	82.2	136.3

High Quality Mortgage portfolio

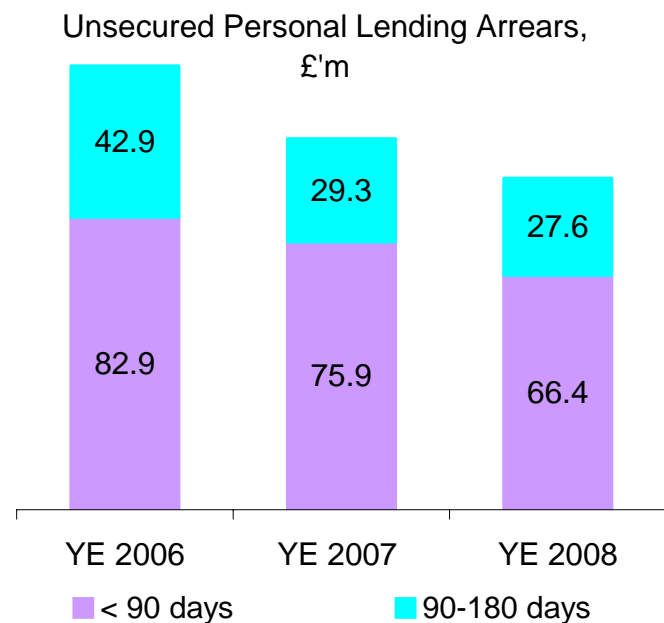
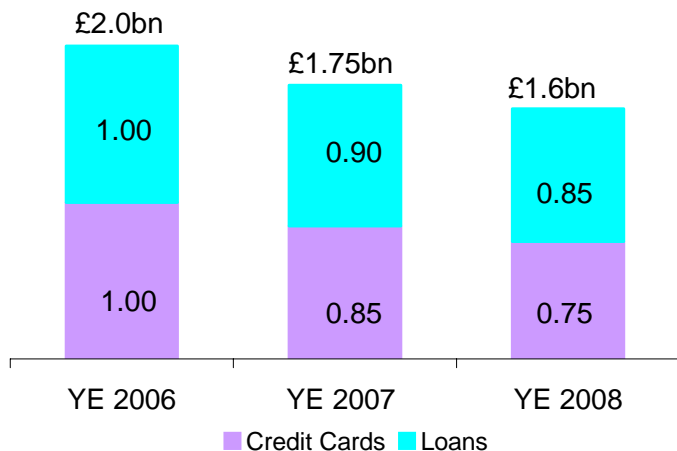


- £4.1bn mortgage book at end of 2008
- £1.5m bad debt charge
- Average Loan Value £79.2k
- Indexed Book LTV 61%
- New business LTV 53%
- High quality book, no arrears deterioration experienced to date

% of Accounts in Late (> 3 months) Arrears

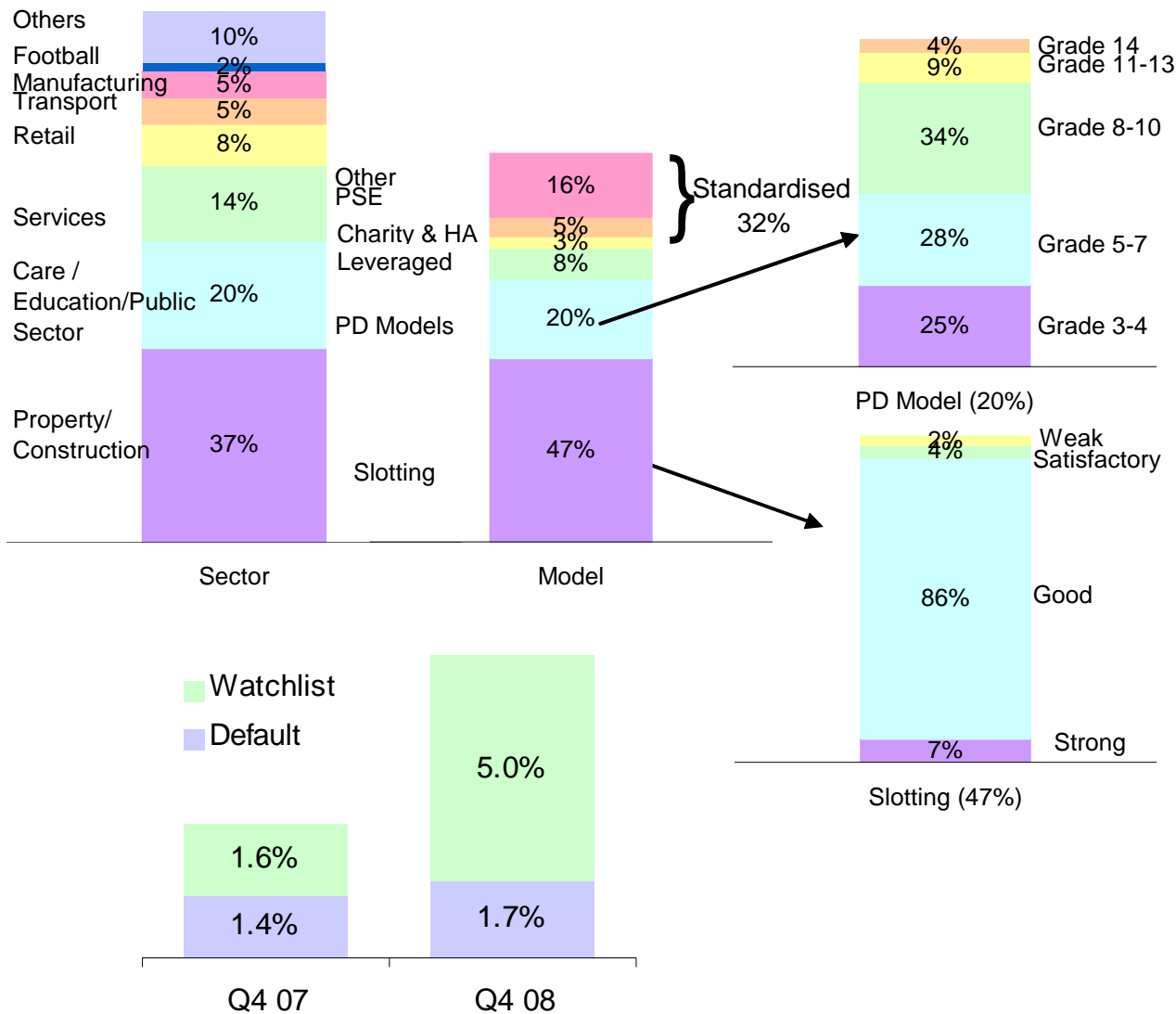


Unsecured Personal Lending



- £1.6bn retail unsecured book at end of 2008
- £83.3m bad debt charge, reduced from £87.6m last year
- Bad debts to average balance ratio increased from 4.6% to 4.9%
- Increased focus on secured lending rather than unsecured
- Unsecured focused on relationship products and customers

Corporate lending



- **£4.4bn corporate book at end of 2008, increased by £0.8bn from 2007**

- **£12m bad debt charge, reduced from £14.1m last year**

- **Property & Construction, LTV 70%:**

76% Investment Property

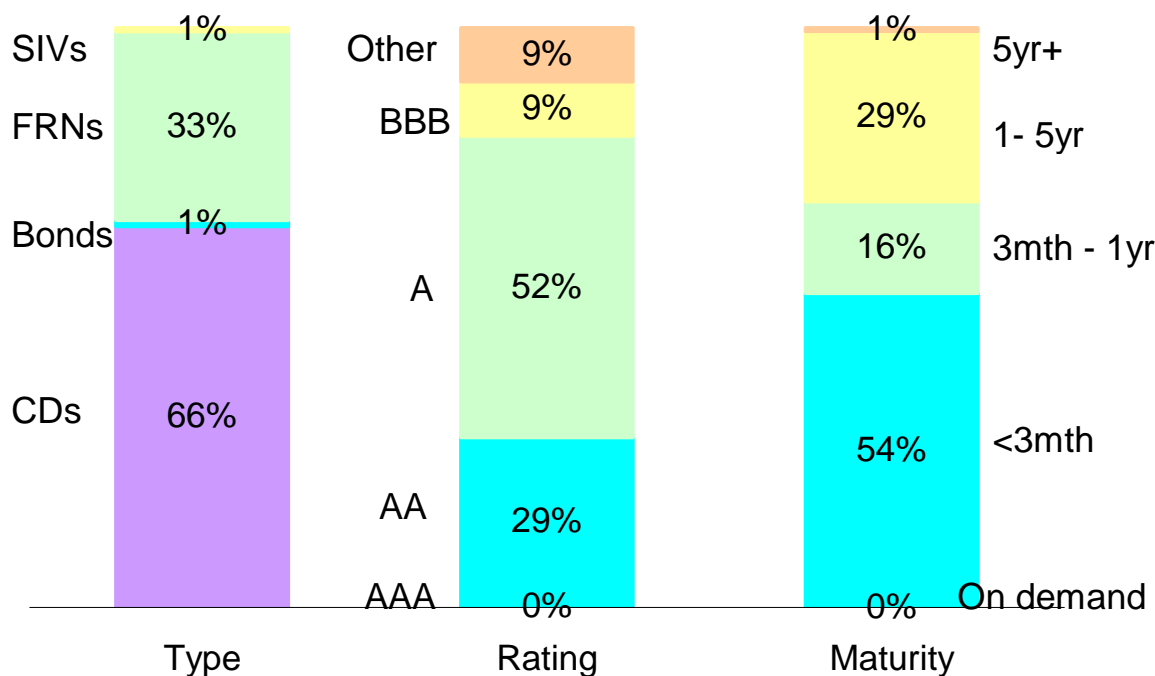
9% Residential construction

15% Commercial construction

- **Expanding corporate centres to develop more relationship customers**

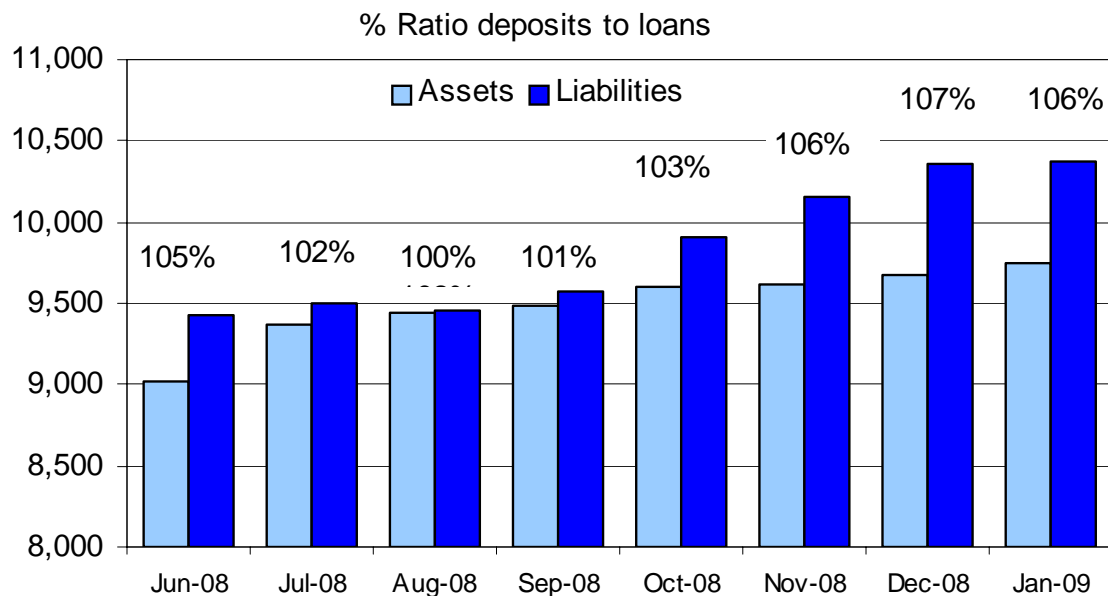
- **Growth goals subject to liquidity and capital requirements**

Wholesale



- £2.2bn debt securities book
 - Fair Value £2.2bn
 - AfS Reserve -£16.6m
 - Cashflow hedge reserve £59.1m
- Prime book, except for:
 - £15m (post provision) invested in one SIV and one credit trading vehicle
- £50.7m P&L impairment on SIVs, CTVs and FRNs for the year

Funding



Note: Figures for Bank excluding Treasury (measured at low point in monthly cycle)

- Continuing activity to lengthen customer deposit base. Target funding ratio has been revised to 96% by the end of 2009
- No term debt wholesale market issuance is currently possible, hence a cautious approach to retail funding is being taken

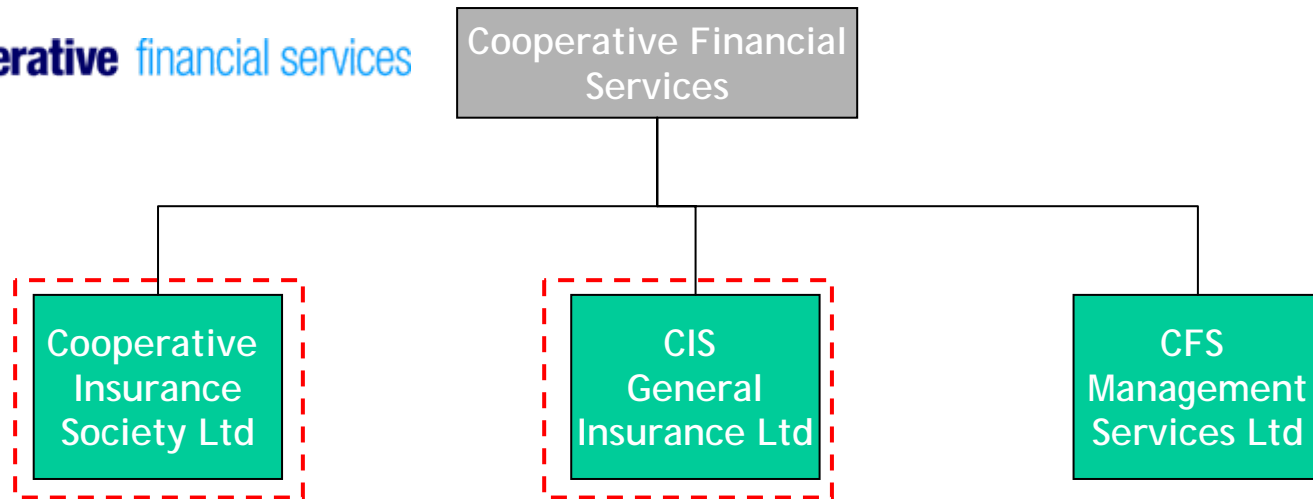
Capital

	P13 07	P13 08
	£m	£m
Pillar 1 Capital requirement	652	725
Pillar 2 Capital requirement	157	169
Capital required (ICG)	809	894
Tier 1 Capital Available	703	749
Tier 2 Capital Available	230	265
Total Capital Available	933	1,014
Buffer	124	120
Core Tier 1 Ratio	7.9%	7.6%
Tier 1 ratio	8.6%	8.3%
Overall capital ratio	11.4%	11.2%

- CFS injected an additional £120m equity post year end to allow the Bank to be eligible for the Credit Guarantee Scheme (not planning to utilise)
- Post capital injection Tier 1 ratio would be 9.6% and overall ratio 12.5%

Co-operative Insurance

The **co-operative** financial services



Long Term Business Fund
(mutual)

Underwrites all Life &
Savings business

General Reserve belongs to
the shareholder but supports
the Life Fund & GI run off

General Insurance

Underwrites all new
GI & reinsures
existing GI running
off in CIS

Management
Services

Service company
holding all insurance
infrastructure
including employing
staff

General Insurance

<u>£m</u>	2006	2007	2008
Net earned premiums	487.8	419.5	382.8
Net incurred claims	(359.0)	(269.7)	(265.0)
Other income	5.0	0.5	1.8
Non significant operating costs and commissions	(165.1)	(139.8)	(138.5)
Investment return on GI capital & reserves	72.6	62.8	34.6
Technical Profit before interest	41.3	73.3	15.7
Interest on subordinated debt	(4.3)	(6.2)	(7.3)
Technical Result after interest	37.0	67.1	8.4
Claims ratio	73.6%	64.3%	69.2%
Combined ratio	107.4%	97.6%	105.4%

LTBF

Mutual - all profits retained for the benefit of policyholders

- 3 million with-profits policies in force
- Strong progress on embedding administration services with Capita
- Despite difficult economic conditions, the capital position has remained relatively robust

<u>Long Term Business Fund</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Assets under Management	£19.4bn	£18.9bn	£16.9bn
Realistic Working Capital	£1.1bn	£1.0bn	£0.6bn
Working capital ratio	6.4%	5.7%	3.7%
Risk capital margin (RCM) cover	11.2	11.7	3.9
RCM cover, incl. £200m General Reserve	13.2	14.1	5.3
Gross Written Premiums	£497.5m	£534.2m	£497.9m
New Business Contribution	£36.5m	£30.9m	£35.2m
Maintenance costs	£84.7m	£77.2m	£69.5m

Key Challenges - 2009

Further **challenges** and uncertain **economic** outlook

- Low interest rate environment puts pressure on interest margin
- To date mitigated by favourable Treasury performance

General insurance business revenue growth to be reinvigorated

Cost base to be **managed** given potential pressures on income and bad debts

Corporate **bad debt** performance to date remains benign

- Watch list has increased
- Expectation for bad debts to increase with ongoing economic deterioration

- Somerfield Acquisition
- Lothian Merger
- Completion of 1,575 Refits. By year end 2,522 (59%) of the estate completed
- United Merger - Successfully integrated
- Like for like trading profit up over 20% year on year

Trading Group like for like

The **co-operative**

	Statutory accounts			Like for like	
	2008	2007	incr	2007	incr
Sales	6,187	4,890	26.5%	5,815	6.4%
Federal sales	1,297	1,414		1,414	
Total	7,483	6,304	18.7%	7,229	3.5%
Trading profit	266	185	44.2%	221	20.5%
Pensions service cost	11	11		11	
Property disposals	58	50		50	
Investment property change	(62)	(18)		(18)	
Profit before significant items	274	227	20.5%	265	3.5%
Significant items	(39)	(115)			
Profit after significant items	234	113	108.0%		

Trading profit by business

The **co-operative**

Sales		
2008	2007	Change
£m	£m	%
4,527	4,220	7.3%
744	686	8.4%
274	257	6.7%
262	249	5.0%
34	38	-10.5%
347	366	-5.3%
6,186	5,815	6.4%

Food Operations
Healthcare
Funeralcare
Travelcare
Property
Other businesses
Corporate overheads
Total

Profit		
2008	2007	Change
£m	£m	%
219	182	20.4%
38	44	-13.7%
39	40	-1.8%
5	(1)	
20	24	-17.1%
11	6	97.1%
(66)	(74)	10.2%
266	221	20.5%

Group Income Statement

The **co-operative**

	2008	2007	
	£m	£m	
Revenue	9,399	8,289	13.4%
premiums to insurers	(38)	(1,836)	
Net Revenue	9,361	6,453	45.1%
Operating profit before significant items	393	354	10.8%
Significant items	(117)	(182)	
Operating profit	275	172	59.7%
Net interest	(37)	(31)	
Pensions interest	62	78	
Fair value movement	(82)	(23)	
Financial expense - total	(57)	23	
Profit before payments to and on behalf of members	218	196	11.4%
Payments to and on behalf of members	(102)	(46)	
Profit before tax	116	150	
Taxation	3	(25)	
Profit after tax	119	125	

Group Balance Sheet

The **co-operative**

<u>£m</u>	2008	2007
Fixed Assets	1,899	1,714
Investment Properties	314	386
Goodwill & Intangibles	729	737
Non current assets	306	268
Total fixed assets	3,249	3,105
Net stocks	429	392
Working capital debtors	456	417
Working capital creditors	(931)	(925)
Working capital	(47)	(116)
Other assets / liabilities	(341)	(129)
Pension fund surplus	260	303
Provisions	(552)	(689)
Net debt	(648)	(563)
Trading Group net assets	1,921	1,911
Bank net assets	741	717
CIS - GI business net assets	225	253
CFS & other shareholder net assets	948	923
CFS Group net assets	1,913	1,893
Net assets	3,834	3,804

Strong
balance
sheet: Net
assets
increase
£30m despite
£43m fall in
pension
surplus

Co-operative Food

- 2,260 stores (80 PFSs)
- Avge store size 3,300 sq. ft
- Total sales - £4.8bn
- Cash profit - £326m

Somerfield

- 870 stores (150 PFSs)
- Avge store size 7,000 sq. ft
- Total sales - £4.2bn
- Cash profit - £230m

The new combined business

- **c2,900 stores**
- **average stores size – 4,200 sq ft**
- **c£7bn turnover**
- **CRTG c8% market share**
- **Truly nationwide**
 - (inc. N. Ireland, Scottish Highlands and Islands, Isle of Man, Scilly Isles)
- **Head Office in Manchester**

The **co-operative** financial services
good with money

David Anderson, Chief Executive, CFS

What next - 2008

- CFS Change Plan – continued investment in strategic & operational capability
- CFS presence in larger Co-operative stores
- New current account: Q2
- New packaged account: Q3
- Shared equity mortgages with Places for People
- Regulation: Faster Payments, TCF
- Brand rollout in 2008 - CFS brand April 08

What next - 2008

- CFS Change Plan – continued investment in strategic & operational capability
 - CFS presence in larger Co-operative stores
 - New current account: Q2
 - New packaged account: Q3
 - Shared equity mortgages with Places for People
 - Regulation: Faster Payments, TCF
 - Brand rollout in 2008 - CFS brand April 08
- 

Awards

2008 Moneywise **Mortgage** Awards

- 'Best Remortgage' & 'Best First Time Buyer'
- Highly commended for 'Best flexible mortgage'

BBC **Watchdog** Consumer Survey on **customer satisfaction**

- 2nd **smile**
- 3rd The Co-operative Bank

Which? **smile** 'Best buy current account provider' and highest **customer satisfaction** score

JD Power The Co-operative Bank, 'Best **Customer Service** Provider'

The Co-operative Insurance, 'Best **Online Motor Insurance** Provider' at the Your Money Awards

The Co-operative Financial Services took the Financial Innovation Award for 'Best Corporate **Social Responsibility** Programme'

The Co-operative Financial Services was named '**Company of the Year**' at the Business in The Community (BiTC) awards

Key Challenges - 2009

The Co-operative Financial Services: key challenges in 2009

Continue **growing** the amount of **savings our personal and corporate customers** deposit with us

Grow revenue within our **General Insurance business** by offering customers a full range of channels to do business with us through

Managing our cost base and doing what we can to **control levels of bad debt**

Continue building customers' awareness of our brand on the back of our 2008 campaign and The Co-operative's campaign, which is ongoing

Continue **providing customers** with the **market-leading customer service** they deserve

Britannia Building Society

Early 2009 Boards recommended plans to merge

Subject to Britannia **member vote**, announced at AGM on 29 April 2009

Strengthens the capacity to deliver a **wider range** of **products and services** to **customers and members**

Combines two strong organisations to create a **powerful new mutual force**

Accelerates **renaissance** of The Co-operative Group following merger with United Co-operatives and acquisition of Somerfield

The **co-operative** financial services
good with money

Capital Markets Presentation

23 April 2009