

The Co-operative Financial Services Presentation of Annual Results 2009

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Strong business: key headlines

- Merger of 2 strong organisations
 - Clear vision
 - Clear opportunities
- Financial strength
 - Strong profits
 - Statutory operating result of £177m, up 21%
 - Strong capital
 - Total capital ratio of 13.5%
 - Strong liquidity
 - Customer-funding ratio 104%

Strong business: merger rationale

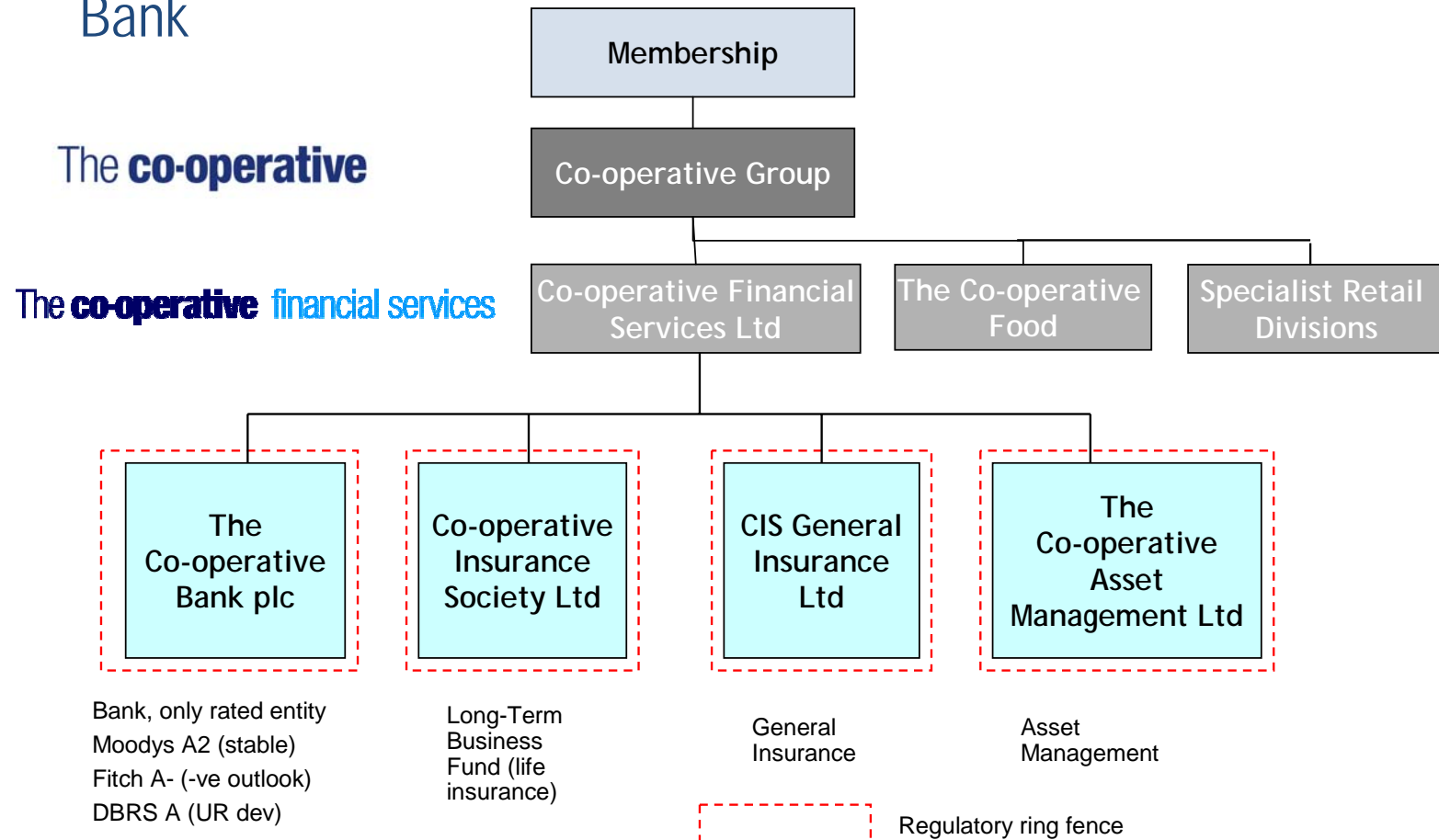
- CFS:
 - Bank
 - Current accounts
 - Internet (smile)
 - General Insurance
 - Life & Savings
- Britannia:
 - Branch network
 - Mortgages
 - Savings

Strong business: strategic context

- Merger achieved
 - Legislation change
 - Member vote in favour 88%
- Stability maintained
 - Strong results
 - High level of customer and employee confidence
 - Employee pride in merged organisation up significantly to 94%
- Transformation underway
 - Significant progress
 - £43m synergies will be delivered by end 2010, well ahead of business case
 - Opportunity with competitors in disarray

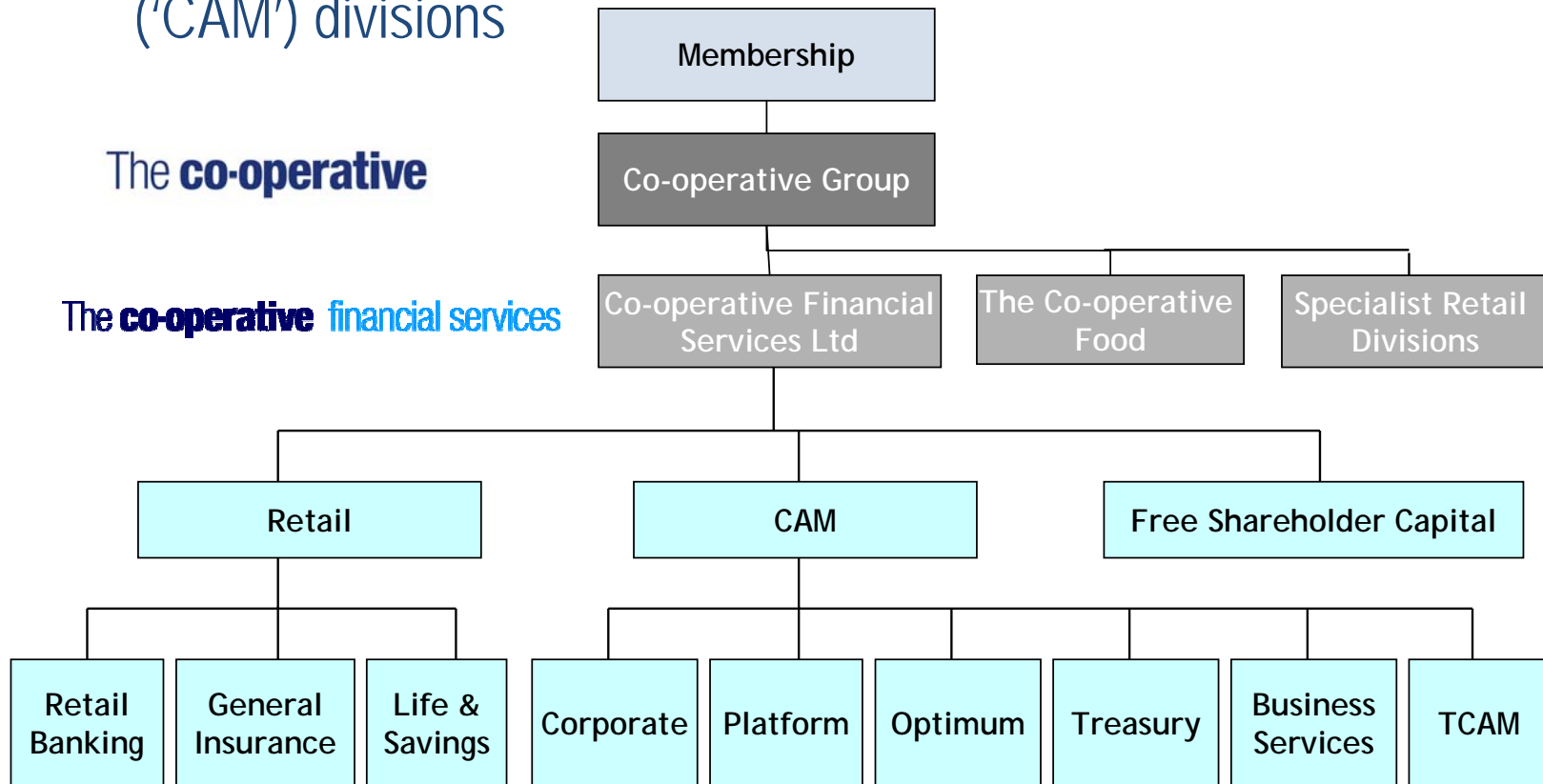
Strong business: organisation structure

- At merger Britannia balance sheet absorbed into Co-operative Bank



Strong business: management structure

- Business managed via Retail, and Corporate and Markets ('CAM') divisions

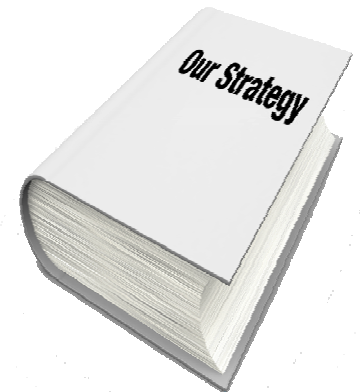


Strong business: profile

- Distinctive new force in financial services
- Increased scale
- Full product range
- Multi-channel distribution
- Systemic importance as clearing bank
- The most broadly based financial services mutual

Strong business: strong culture

- Our vision
 - To be the UK's most admired financial services business
- Our purpose
 - To be a pioneering business delivering sustainable financial services for members and society
- Givens and values:
 - Drive the business
 - Build on both heritage businesses
- Employee pride in merged organisation up significantly to 94%



Financial strength: comparatives

- Financial results comparatives:
 - Statutory * /pro forma **
 - Pre/post fair value adjustments
 - CFS/Co-operative Bank
- All information included
- Strong results, whichever comparison is made

* Statutory results include 5 mths Britannia business post merger

** Pro forma results include 12 mths both heritage businesses for both 2008 and 2009 and exclude any benefits from FVA

Financial strength: CFS statutory results

£m	2009	2008	Change
Income	1,128	1,056	73
Costs	(563)	(470)	(93)
Claims	(281)	(265)	(16)
Impairment	(108)	(174)	66
Operating result	177	147	30 + 21%
Significant items	(54)	(78)	24
Other	1	2	(1)
Profit before tax, interest FVA and dividends	125	71	54 + 76%
Fair value amortisation	99		99
Profit before tax and dividends	224	71	153

2009 profits: CFS pro forma results

£m	2009	2008	Change
Net income	1,386	1,424	(39)
Costs	(693)	(702)	9
Claims	(281)	(265)	(16)
Impairment	(238)	(289)	51
Operating result	174	169	6 + 3%
Significant items	(54)	(78)	24
Merger costs	(27)		(27)
Other	3	(18)	20
Profit before tax and dividends	96	73	23 + 32%

- Excludes any benefit from either interest or credit FVA
- Strong income performance in challenging times
- Costs controlled, down 1.3%, and impairments down 17.7%

2009 profits: Co-operative Bank statutory results

£m	2009	2008	Change
Operating income	653	569	84
Operating expenses	(426)	(336)	(89)
Impairment	(112)	(148)	35
Operating result	115	86	30 + 35%
Significant items	(38)	(47)	9
Other	(4)	(11)	7
Profit before tax, interest FVA and dividends	73	28	45
Fair value amortisation	99		99
Profit before tax and dividends	172	28	144

2009 profits: Co-operative Bank pro forma results

£m	2009	2008	Change
Net income	910	938	(28)
Costs	(556)	(568)	13
Impairment	(242)	(263)	21
Operating result	112	107	5 + 5%
Significant items	(38)	(47)	9
Merger costs	(27)		(27)
Other	(2)	(30)	28
Profit before tax and dividends	45	30	15 + 49%

- Excludes any benefit from FVA
- Strong income performance in challenging times
- Costs controlled, down 2%, and impairments down 8%

2009 balance sheet: CFS statutory position

£m	2009	2008
Loans and advances to customers	34,129	10,288
Wholesale assets	12,031	6,097
Other assets	2,032	854
Total assets	48,192	17,239
Customer accounts	32,759	11,758
Wholesale liabilities	6,088	1,079
Debt securities in issue	3,334	568
Insurance contracts	870	883
Other borrowed funds	947	358
Other liabilities	1,307	607
Minority interest	34	33
Equity	2,853	1,953
Total liabilities and equity	48,192	17,239

- Proactive and prudent balance sheet management
- Customer funding ratio 104%

– Excludes Life & Savings business

2009 balance sheet: CFS pro forma position

- Reduced reliance on wholesale funding leading to reduction in total assets
- Customer funding ratio 104% (2008: 104% on like for like basis)

£m	2009	2008
Loans and advances to customers	34,129	34,160
Wholesale assets	12,031	15,968
Other assets	2,032	2,870
Total assets	48,192	52,998
Customer accounts	32,759	31,713
Wholesale liabilities	6,088	8,841
Debt securities in issue	3,334	5,831
Insurance contracts	870	883
Other borrowed funds	947	1,085
Other liabilities	1,307	1,680
Minority interest	34	33
Equity	2,853	2,932
Total liabilities and equity	48,192	52,998

— Excludes Life & Savings business

2009 balance sheet: Co-operative Bank pro forma

- Reduced reliance on wholesale funding leading to reduction in total assets
- Customer funding ratio 104% (2008: 104% on like for like basis)

£m	2009	2008
Loans and advances to customers	34,113	34,046
Wholesale assets	10,432	14,176
Other assets	1,574	2,536
Total assets	46,119	50,758
Customer accounts	32,475	31,645
Wholesale liabilities	6,082	8,835
Debt securities in issue	3,334	5,835
Other borrowed funds	947	1,093
Other liabilities	1,404	1,591
Minority interest	34	33
Equity	1,843	1,726
Total liabilities and equity	46,119	50,758

2009 balance sheet: appropriate FVA

<u>Loans, deposits and other</u>	£bn	<u>Debt securities</u>	£bn
Retail	(0.7)	Debt securities in issue	0.9
Corporate	(0.2)	Other borrowed funds	0.2
Treasury	(0.4)		
Other	(0.1)		
	(1.4)		1.1
Net fair value adjustments affecting core tier 1 capital			(0.3)
Reduction in expected losses			0.4
Other			(0.1)
Net regulatory capital adjustments			0.0

Strong capital: robust year end position

- Strong capital ratios
- Minimal impact from FVA at merger:
 - £28m impact on total capital
 - No impact from Credit Risk FVA (equal to BASEL II expected loss figures)

Bank capital ratios

Dec-09

**Excl 09
profits Incl 09
profits**

Total Capital Ratio	13.5%	13.9%
Tier 1 Ratio (incl PSBs)	10.4%	10.8%
Tier 1 Ratio (excl PSBs)	9.0%	9.4%
Core Tier 1 Ratio	8.7%	9.1%

Strong capital: robust year end position

Bank capital	£m
Core Tier 1 Capital	1,738
Preference Shares	60
PSBs	257
Upper tier 2 revaluation reserve	3
Lower tier 2 sub. debt	614
less: capital deductions	(112)
Capital resources	2,560
Pillar 1 capital requirement	1,514

Strong liquidity: robust year end position

- Strong liquidity
 - Significant surplus over regulatory requirements
- Strong retail funding
 - Customer funding ratio 104%
- Strong wholesale funding
 - Solid funding base
 - Active drive for long term funds

2009 profits: strong pro forma CFS results

- **Retail business:**
 - Full range of financial products and services to individuals, households and small businesses in the UK
 - Remains profitable, despite low interest rate environment and recession
- **Corporate and Markets ('CAM') business:**
 - Business to business activities
 - Profit growth due to better margins and recovery from 2008 investment provisions

- Excludes any benefit from FVA

£m	2009	2008	Change
Retail	12	109	(97)
CAM	113	(4)	118
Free Shareholder Capital	49	64	(15)
Operating result	174	169	6

Asset Quality: strong total residential book

- Prime loans comprised 96% of 2009 mortgage completions
- Average indexed LTV stable at 52% *
- Arrears (>2.5% of balance) steadily falling (down 3% from peak)
- Early arrears (>1.5% of balance) down 9% from peak
- Possession stock down by 54% in 2009 from the peak
- Transfer of intermediary/acquired mortgage back-book to Optimum, to support specific management focus

* Prior to positive impact of fair value adjustments

Asset Quality: high quality Retail book

- Low risk £15.2 bn Retail mortgage portfolio
 - Average LTV 42%
 - Continued low arrears: less than 0.4% of book with arrears > 2.5% loan balance, (CML average 1.7% at Q4 2009)
- Tight control of unsecured bad debt charge:
 - £80.1m in 2009, £3.1m lower than 2008

Asset Quality: intermediary and acquired books

- Current focus: high quality, low risk loans to prime market
- Diversified £8.8bn residential lending portfolio
- Broad UK geographic spread
- Total arrears down 13% from peak; early arrears down 7% from peak

Asset Quality: corporate book

- Good quality corporate book
- Property lending: majority to low risk customers and high prime tenants (12% government & local authority/NHS)
- Low arrears and impairments across combined investment property portfolio

Outlook: well positioned for future success

- Merger of 2 strong organisations
 - Clear vision
 - Clear opportunities
- Financial strength
 - Strong profits
 - Statutory operating profit of £177m, up 21%
 - Strong capital
 - Total capital ratio of 13.5%
 - Strong liquidity
 - Customer funding ratio 104%
- Transformation underway
 - Significant progress, favourable outlook

Background information

Strong business: overview

- Distinctive new force in financial services
 - Member owned, customer led, ethically guided, financially strong
 - Members rewarded via a share of profits
- Increased scale
 - £69 bn assets (including L&S), 12,000 colleagues, 8.4m customers
- Full product range
 - Banking, savings, investment, insurance and mortgage services
- Multi channel distribution
 - Expanded network of c. 350 branches, British-based call centres, internet
- Systemic importance as clearing bank

Strong business: overview

- The most broadly based financial services mutual

The **co-operative**
insurance

Britannia



platform 

The **co-operative**
bank

The **co-operative**
asset management

Strong business: structure and group context

- Wholly owned by the Co-operative Group
 - World's largest consumer-owned business, with c. 5m members, 117,000 employees, 4,500 UK retail outlets (more than McDonalds UK and M&S combined)
 - Diverse businesses (food, travel, pharmacy, legal, funeral care)
 - Ethical group ethos governing products and services of each business
 - Significant re-branding exercise underway, largest in UK corporate history

Food, banking, travel, pharmacy, funeralcare, insurance.
We choose to do business in a way that's
good for everyone



Strong business: strong mission

- Our givens
 - We champion co-operative values and principles and ethics
 - We are financially prudent and strong
 - We share profits with members
 - We only do business consistent with our values and principles
- Our values, as a co-operative
 - We put our members and customers first in all we do
 - We take personal and social responsibility
 - Together we will create a great place to work, grow and develop
 - We strive relentlessly to be faster, better, more successful
 - We are open and fair and are committed to excellent communication



Strong business: recent successes

- Excellent results from new colleague survey:
 - Response rate: 80%
 - Average engagement score: 87%
 - Pride in merged organisation up significantly to 94%, primarily due to “Next Chapter” events to explain vision

Strong business: recent successes

- Multiple accreditations and awards



Strong balance sheet: robust liquidity

- Strong customer funding
 - Current account growth in 2009: 10.4%
 - Customer funding ratio: 104%; mutual & ethical business attracts deposits; further growth opportunities via extensive distribution channels
 - Current account inflows: £570m in 2009
 - C. £1.5 bn guaranteed equity bonds (average life 2 years)
 - 92% of ISA customers retained over tax year end
 - £7.9bn fixed term retention & new business in 2009

Strong balance sheet: robust liquidity

- Strong wholesale funding
 - Active drive for long term funds
 - Solid funding base, diversified sources and reduced reliance on government schemes; £3.2bn securitised funding (excl FVA)
 - Further £2.5 bn RMBS bonds created in February 2010
 - Conscious decision to extend funding maturity profile; 21% out beyond 5 years

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