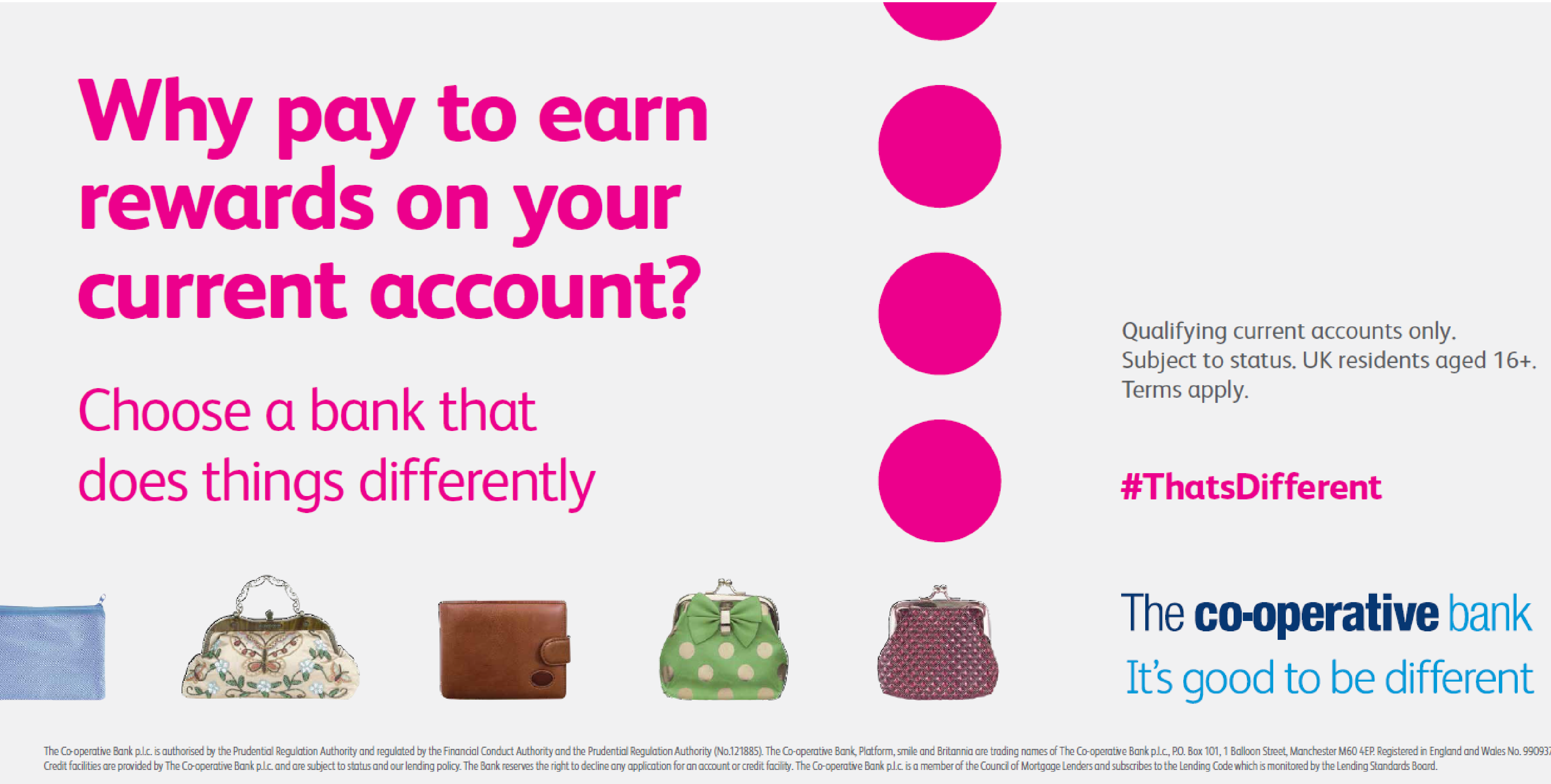
The co-operative bank



2015 Full Year Results

1 April 2016

Agenda

1)	Introduction	Dennis Holt
2)	CEO update	Niall Booker
3)	Financial performance	John Baines
4)	Conclusion	Niall Booker
Q&A		

Section 1

Introduction

Dennis Holt

Section 2

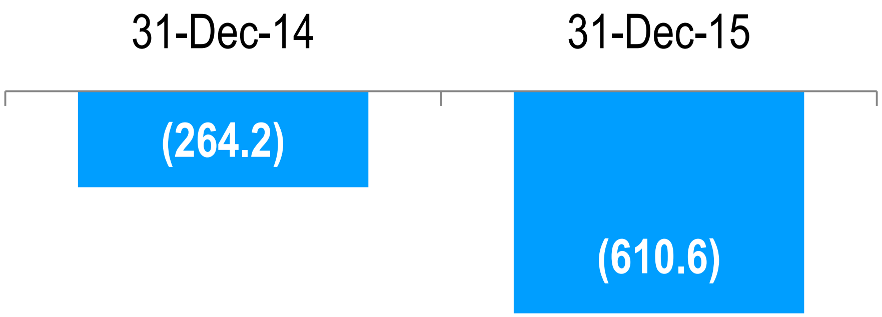
CEO update

Niall Booker

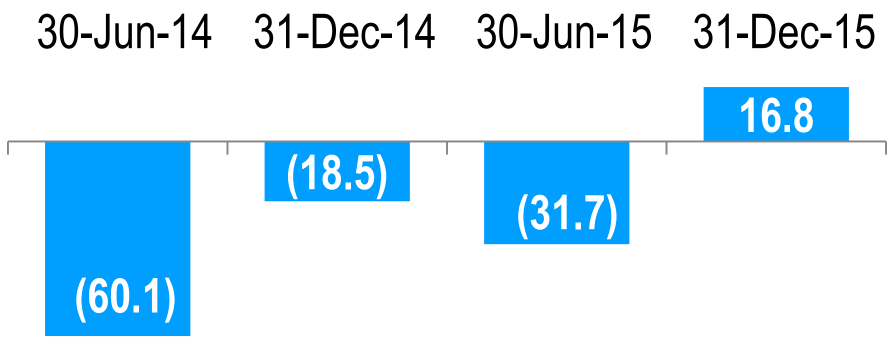
Viable Core bank emerging

Bank losses widened, as expected, given issues of the past – contrasts with the significantly improved Core Bank operating result

Bank Statutory Loss Before Tax (£m)



Core Bank Operating Result (£m)



- Driven by legacy issues:
  - Deleveraging Non-core reduced net interest income (£37.7m) and contributed to losses on asset sales of £121.4m
  - Conduct and legal risk charges increased to £193.7m mainly due to PPI and CCA
  - Project costs remained high (£224.2m) to address historic underinvestment
  - Fair value amortisation increased to £120.4m

- Significantly improved financial performance within the Core Bank with first post-turnaround core operating profit in H215
- Improved FY 2015 operating result (£14.9m loss) as higher net interest income (£15.8m) and reduced costs (£88.4m) more than offset the reduction in non-interest income (£38.0m)

Strategic update

In light of market conditions and recent developments, the Bank has adjusted its strategic plan to reoptimise its balance sheet

Recent Developments

- Lower-for-longer interest rate environment
- Additional 2015 legacy conduct provisions – PPI in line with other market participants
- Currently weaker pricing environment for any future Optimum securitisation
- Likely lower stressed losses in Optimum
- Required to re-attest to CRR and execute plan to maintain IRB status
- Current market conditions unfavourable to previously planned Tier 2 issuance
- PRA / BoE MREL consultation period closed

Strategic Actions

- **Retain Optimum**
  - Avoids significant loss on sale
  - Retains higher yielding portfolio of assets
  - Retention strategy supported by Optimum credit improvements – average LTV of 72% in Dec 2013 vs average LTV of 61% in Dec 2015
  - Continue to monitor sale opportunities if market improves
- **Re-profile debt issuance**
  - Updated plan, as accepted by the PRA, incorporates MREL qualifying issuance towards the latter part of the plan
  - PRA and BoE strong preference for an earlier profile of MREL issuance subject to market conditions, investor appetite and the Bank's financial performance

ICG compliance now by end of 2019 and meet PRA buffer requirement by end of 2020

No change to Core Bank strategy

2015 highlights

Significant steps taken in implementing the Bank's turnaround strategy

Core Bank Rebuild progressing	**Core business performance**	• Doubling of mortgage completions to £2.8bn (vs. redemptions of £2.3bn) • Mortgage book stabilised in H2 2015 • Current accounts stable – y-o-y increase in prime accounts • Managed reduction in deposit levels to £22.4bn (£28.4bn in 2014) • Increase in colleague engagement to 66%
	Digital and capability catch-up	• 22% increase in online and 110% increase in mobile banking payments, with 55% of online and mobile banking users switching to paperless statements • New digital platform being prepared for launch • Capita mortgage outsourcing agreed
	Cost reduction	• 13% reduction in operating expenditure to £492m • 58 branch closures conducted in 2015, 54 further branches to be closed in 2016 • Operating permanent staff numbers have fallen by 18% to 4,470
	Customer–led Ethical Policy	• Building on expanded Ethical Policy launched in January 2015 • New current account, overdraft and credit card propositions guided by this policy
Improving resilience	**Capital and Liquidity**	• CET 1 ratio of 15.5% – reduction in RWAs outweighed losses • Completed issuance of £250m Tier 2 notes in July 2015 • Primary liquidity reduced by £2.0bn in 2015
	Non-core deleveraging	• £5.4bn decrease in Non-core customer assets • Successfully completed two Optimum securitisations (£3.1bn) • £4.4bn overall reduction in Non-core RWAs
	Operational and IT resilience	• Enterprise Services Outsourcing to IBM progressing • IT remediation programme achieved all 2015 targets • Continued to embed Risk Management Framework across the organisation

Creating an efficient and financially sustainable UK retail and SME bank

A differentiated proposition

37% of UK consumers (c. 17m people) want or would consider switching to an ethical bank[1]

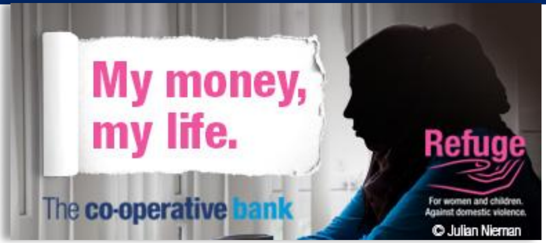
The Co-operative Bank

- Differentiated in the market through values and ethics (a customer-led ethical policy), brand and customer service excellence
- This 'difference' needs to be experienced each and every time a customer interacts with us:
  - Take away the irritants of banking
  - Fix the small things that get in the way of making the day-to-day easy
  - Be honest, open and transparent
  - Make banking more personal
  - Apply common sense
  - Treat customers as individuals and provide help when needed
- Frictionless banking underpinned by personalised service when things go wrong

Recent Awards

- *YouGov BrandIndex* Most Improved UK Brand of 2015
- Current account awarded a 5 star rating by *Moneyfacts*
- Intermediary Lender of the Year, *Your Mortgage* awards
- Recognised in four *ICMI Top 50 Companies for Customer Service* awards categories including winners of Best Large Call Centre
- Ranked #3 vs peers in current account customer service[2]

Return to Campaigning



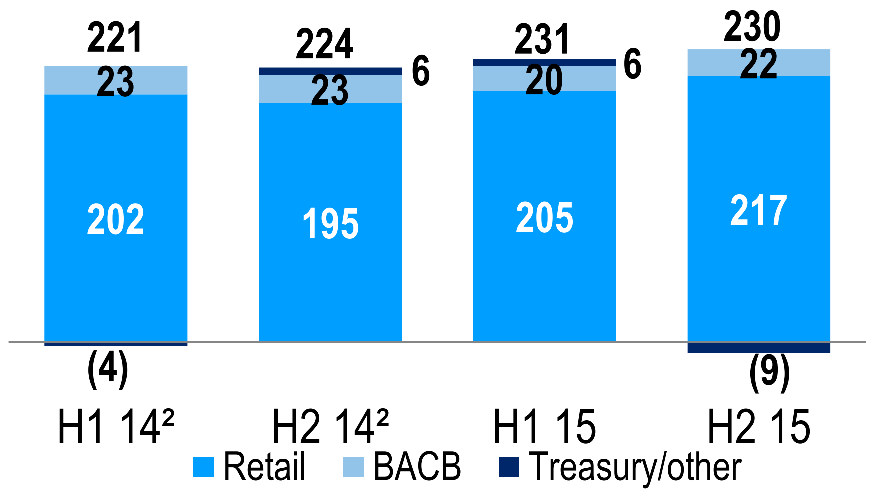
Making the difference every day

1. Key take-outs from recently completed market segmentation study and customer engagement work
2. Source: GfK FRS

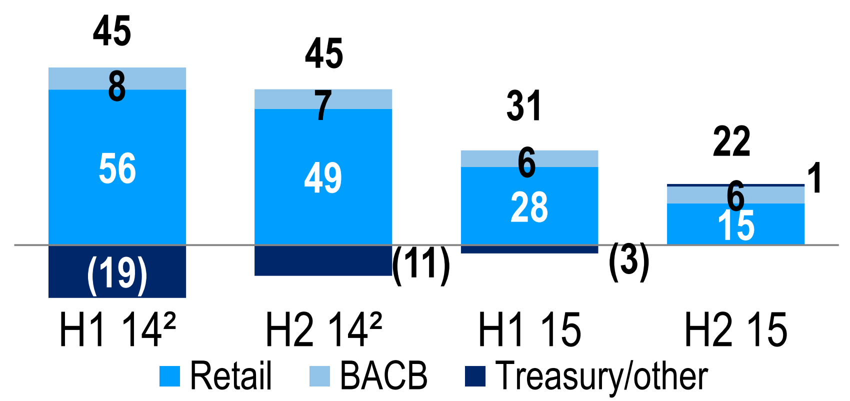
Core income

£16m increase in net interest income partially offset by lower other income (lower by £38m). Improved NIM due to a combination of deposit repricing, managed reduction in deposit levels and mix change

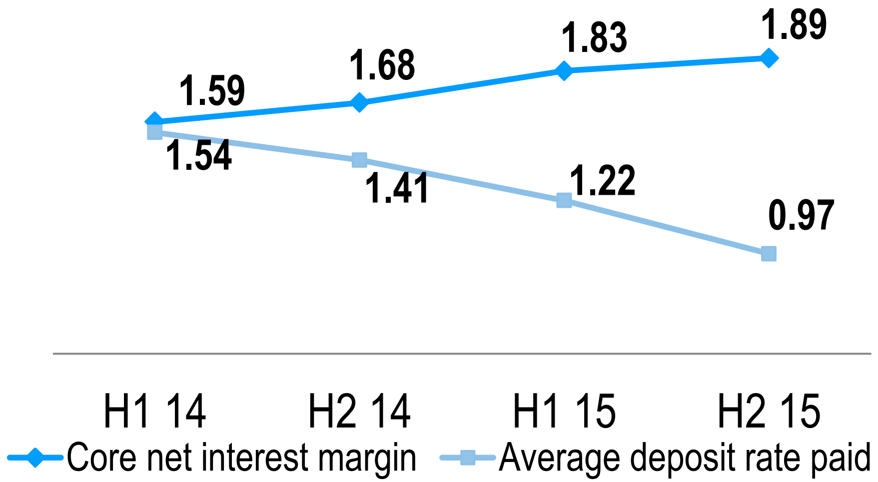
Net Interest Income (£m)



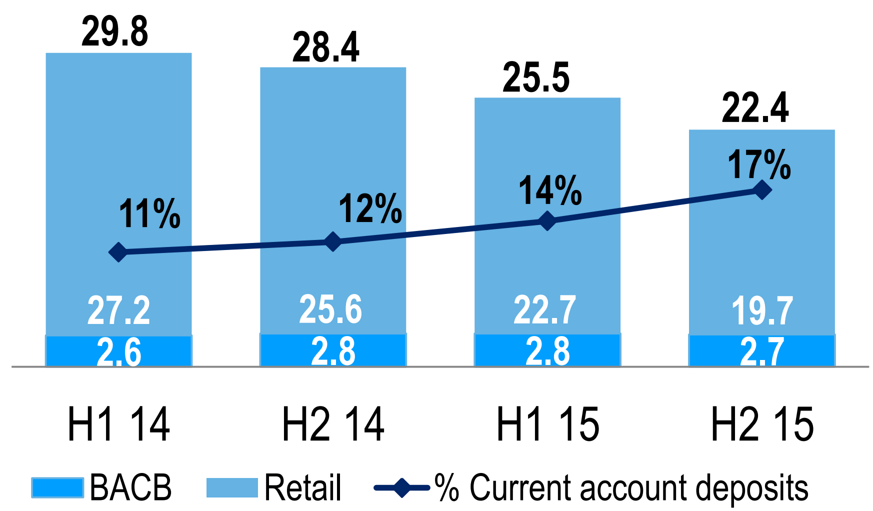
Other Income (£m)



Core NIM and Average Deposit Rate Paid (%)



Deposits (£bn)



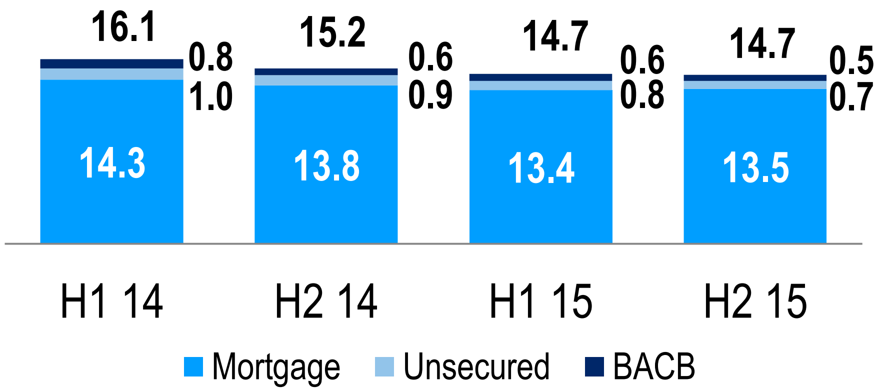
1 Includes Retail, BACB and Treasury/other

2 As a result of a change in accounting policy in the year, there has been a re-classification of income from net interest income to non-interest income. See Bank Income Statement of the 2015 Annual Report and Accounts for additional information

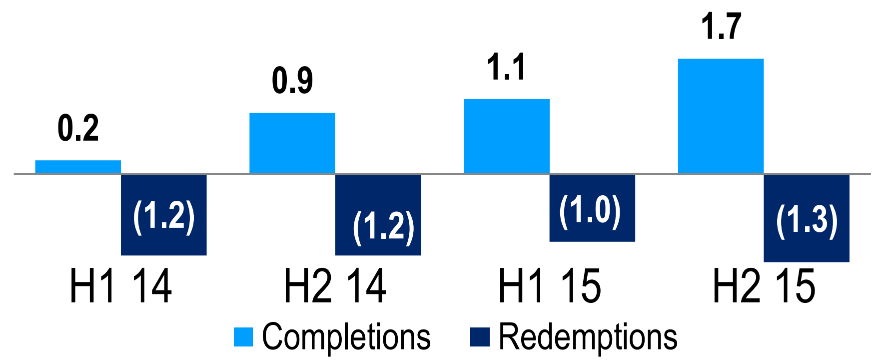
Improving Core bank performance

Stable mortgage book in H2 2015 due to improved mortgage originations – current account franchise and customer service excellence maintained

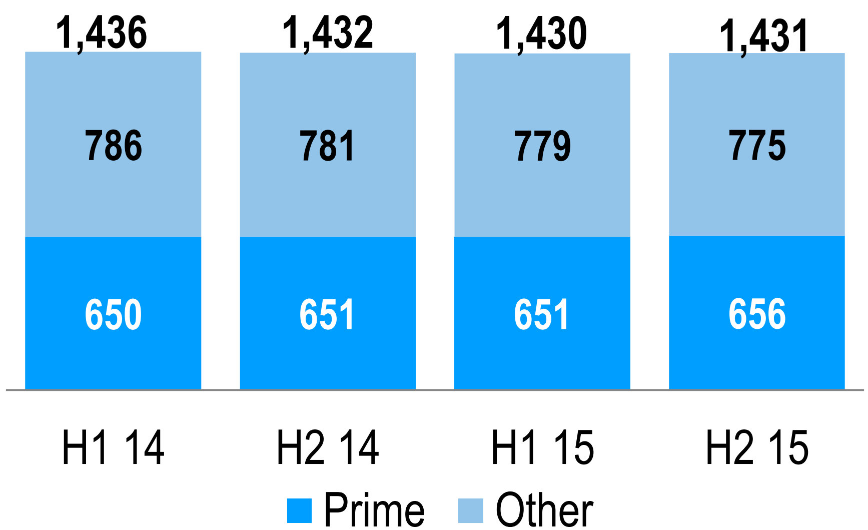
Net Customer Loans[1] (£bn)



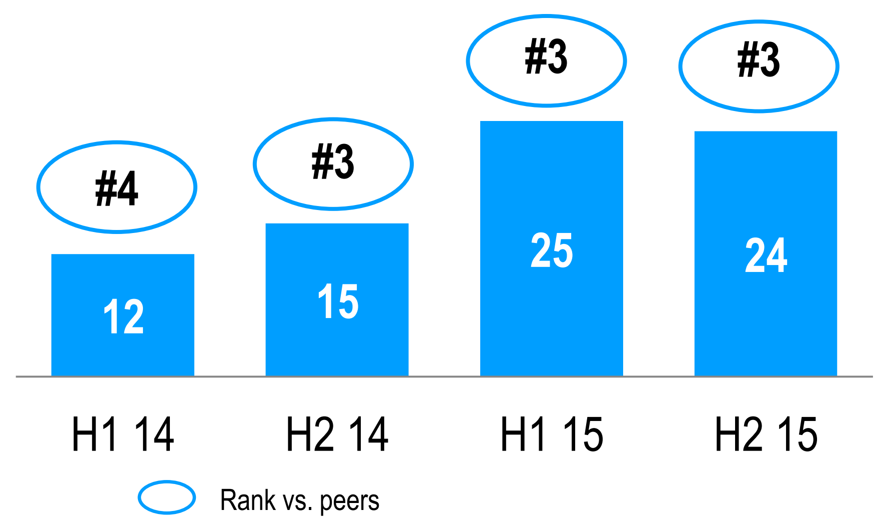
Mortgage Flow[2] (£bn)



Current Accounts (thousands)



Current Account Net Promoter Score[3]



1. Excludes UTB
2. Excludes contractual repayments
3. Source: GfK FRS

Platform for growth established

New products underpinned by ethical policy

Customer-led ethical policy reinforces status as the ethical alternative

New overdraft proposition (Apr 2015)

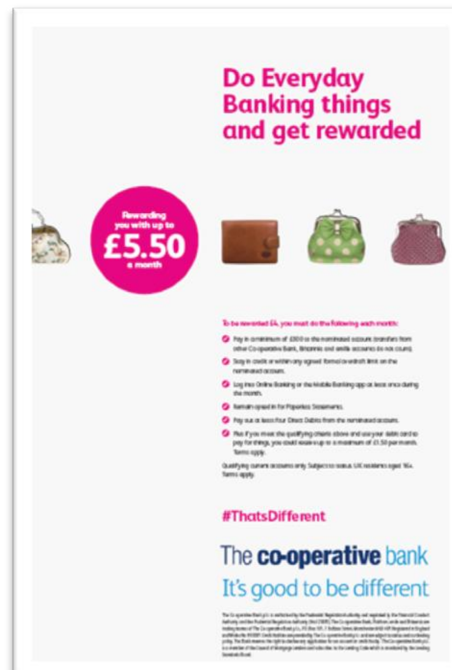
- Minimising fees and charges and developed based on customers' feedback

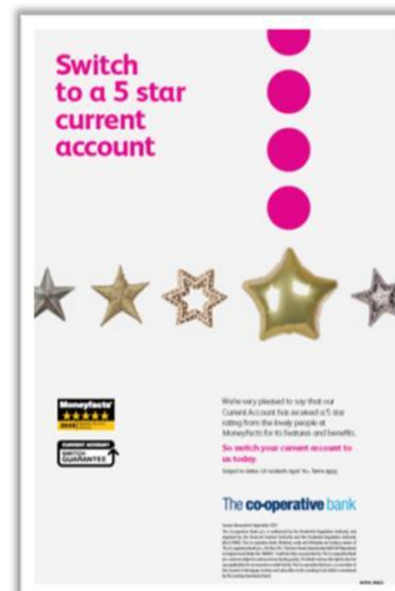
New balance transfer credit card (Nov 2015)

- Does not penalise the cardholder by withdrawing their zero percent offer for small mistakes on their account

New rewards based current account (Jan 2016)

- Giving customers the chance to be rewarded for everyday banking



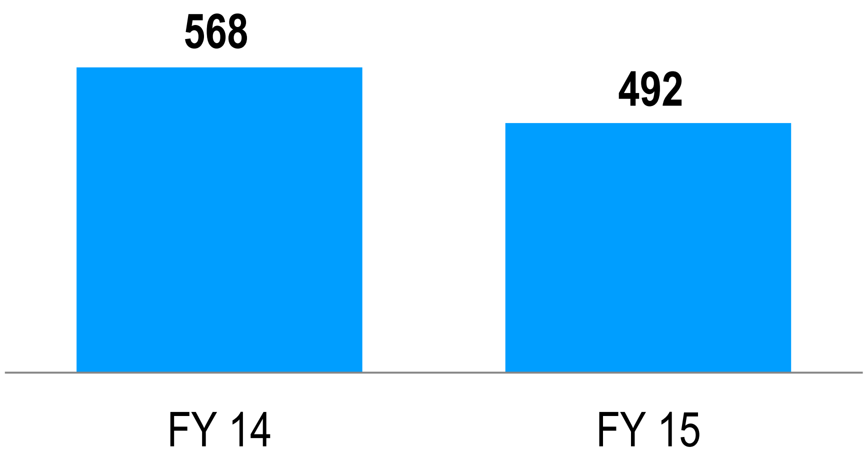


The co-operative bank

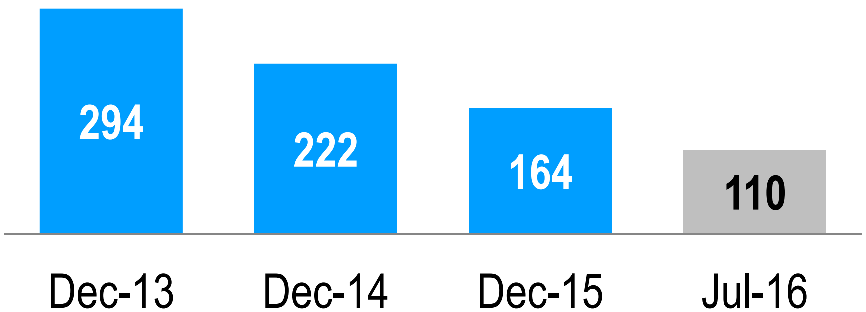
Cost reduction remains on track

Sustainable cost reductions are being delivered

Operating Costs[1] (£m)



Branches



2016 Key Cost Initiatives

- Further branch transformation
  - Branch network focused to provide a simple, convenient gateway to direct channels
  - Branch automation and self-service
  - Enabled through the Digital channel strategy
- Premises strategy aligned to FTE reduction programmes
- 3rd party contract savings
- Target Operating Model (TOM) driving organisation simplification and process efficiencies
- ATM supplier consolidation
- IT support and software licence rationalisation
- Additional headcount reductions

Moving towards a simpler and more efficient retail bank

1. Operating costs presented on revised basis – see appendix for reconciliation

2016 project priorities

Key programmes to drive transformation. Major projects remain on track

Operational

- **Regulatory reporting**

Remediation, Integration & Resilience

- **Enterprise Services Outsourcing** (ESO) with IBM
- **Data** - Optimise data and reporting
- **Savings** - Simplify product set and platforms
- **AML / Customer Management**
- **Core IT** - remediation progamme and desktop transformation
- **Risk Management Framework**

Strategic

- **Mortgage Processing -** outsource of mortgage processing, onboarding, retention, to Capita
- **Branch transformation** – closures, self service & automation
- **Unsecured Loans** - outsource unsecured loan processing (instant approvals, straight-through processing)
- **Digital**
- **Premises** - relocation and refurbishment
- **Cultural transformation**

2016-17 CATEGORY TOTALS

Operational	Remediation, Integration & Resilience	Strategic
c. £60m[1]	**c. £110m[1]**	**c. £130m[1]**

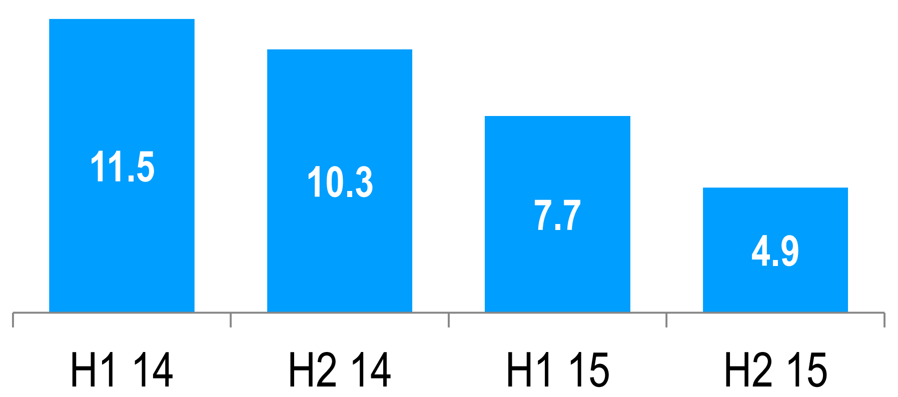
c. £300m project budget[1] in 2016-2017

1. Revised basis including depreciation

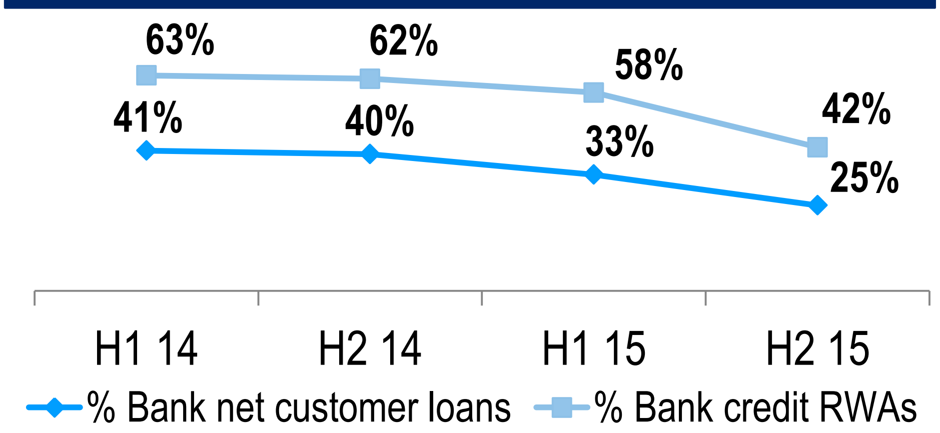
Non-core deleveraging

Successfully accelerated deleverage of Non-core in 2015

Customer Assets (£bn)



Non-core Evolution (%)



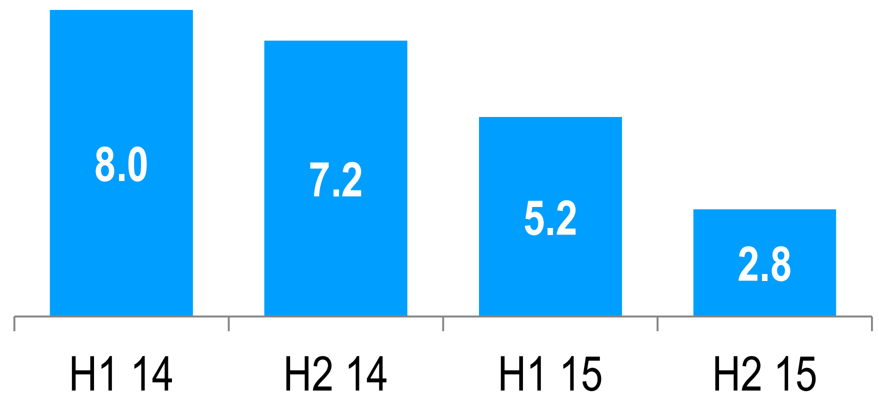
- £5.4bn reduction in Non-core customer assets:
  - Optimum portfolio (£3.4bn)
  - CoAM (£2.0bn) including: PFI (£446m), renewable energy portfolio (£264m)
- £120.6m loss on asset sales:
  - PFI (£30.6m), Corporate mortgage backed securities (£14.9m), portfolio of corporate assets (£14.2m)
  - Optimum (£53.2m)
- **Non-core priorities for 2016**
  - Continued Corporate CoAM deleveraging
  - Monitor Optimum – consolidate Optimum servicing with Core
  - Continue to manage ‘rebanking’ and workouts
  - Transfer £250m PFI and c.£98m REAF to BaCB

Significant work already undertaken in deleveraging Non-core – more to do in 2016

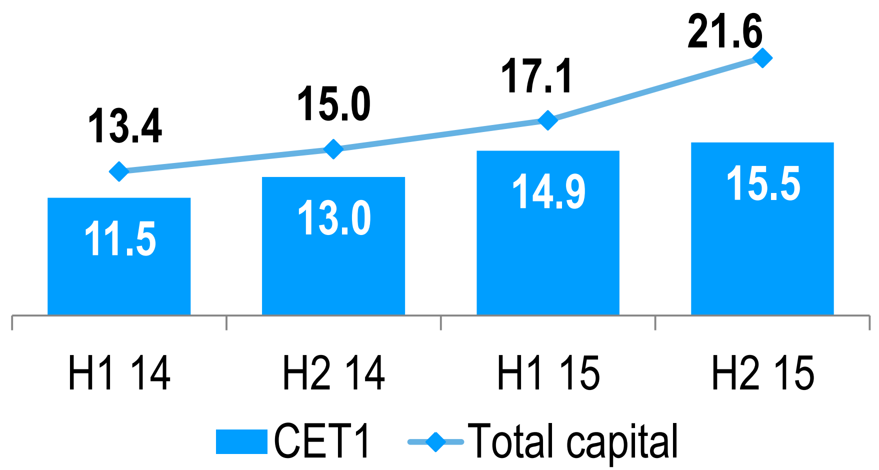
Improved capital resilience

Deleverage of Non-core and Tier 2 notes issue has improved resilience to severe stress

Non-core RWAs (£bn)



Capital Ratios (%)

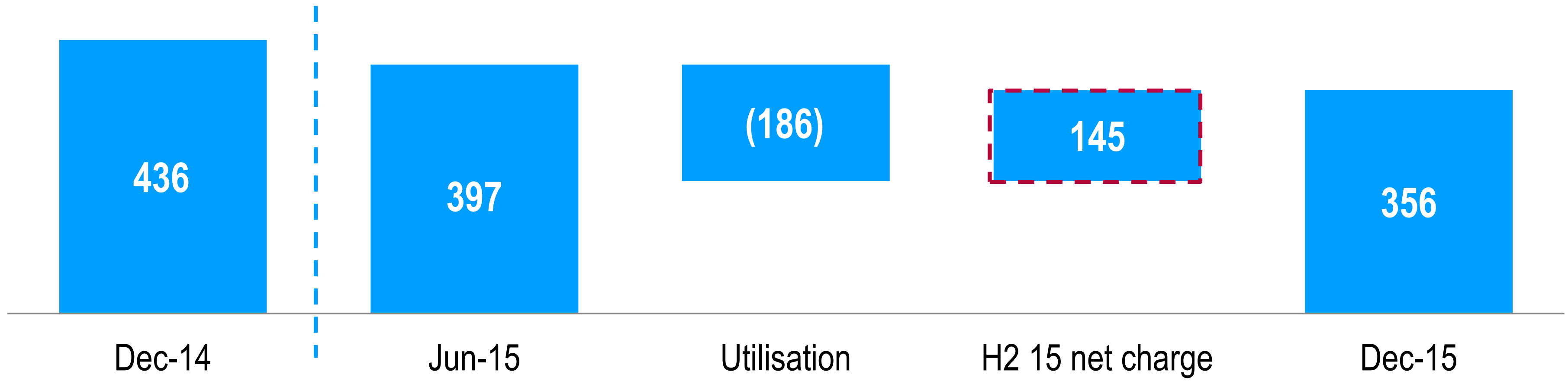


- Two securitisations (£3.1bn) of Non-core residential mortgages within the Optimum portfolio
  - Warwick 1 (£1.5bn) closed in May 2015, bank retained 65% of class A notes
  - Warwick 2 (£1.6bn) closed in September 2015, bank retained 80% of class A notes
- £250m of Tier 2 capital raised in July 2015

Conduct and legal risk

Progress made in addressing legacy conduct issues – however, material increased charges for PPI and CCA

Conduct Risk Provisions (£m)



PPI ***H2 charge - £71.8m***	• Proactive business review substantially complete • Higher inbound complaint levels than expected • Minimal Plevin impact (£1.3m) • Provisioned to end of H1 18 (proposed time bar)

CCA
H2 charge - £69.2m
	• Open account redress materially complete – daily interest loss rate reduced to £13k (Mar 16) from >£100k in 2015. Work continues on the closed accounts population
	• Key drivers for the H2 charge include:
	  • Extension of the programme due to slower pace of delivery than expected
	  • Persistent data complexity issues
	  • Larger non-compliant population given additional available data – c. 285k vs c. 245k reported in H1 15
	  • Additional accounts coming into scope or existing accounts having a different redress start date (includes Career Development Loans)

No new significant areas of conduct risk identified

Section 3

Financial performance

John Baines

Income statement

Presented on a management accounts basis

Bank Performance (£m)

	2014	2015	Change
Net interest income	493.4	471.5	(21.9)
Losses on asset sales	(14.4)	(121.4)	(107.0)
Non interest income	115.1	69.9	(45.2)
Operating income	**594.1**	**420.0**	**(174.1)**
Operating costs	(568.4)	(491.9)	76.5
Operating projects	(71.0)	(49.7)	21.3
Impairment gains	171.7	48.6	(123.1)
Operating result	**126.4**	**(73.0)**	**(199.4)**
Remediation projects	(145.6)	(124.5)	21.1
Strategic projects	(60.5)	(99.7)	(39.2)
Share of profits from JVs	0.6	0.7	0.1
Conduct / legal risk	(101.2)	(193.7)	(92.5)
Fair value amortisation	(83.9)	(120.4)	(36.5)
Loss before taxation	**(264.2)**	**(610.6)**	**(346.4)**
NIM	**1.22%**	**1.42%**	**0.20%**

Reduced income from lower asset base

Reflects accelerated deleverage in Non-core

Reduction in income from Link interchange and decreased overdraft fees following launch of the new overdraft proposition

Driven by Non-core disposals at favourable prices to net book value. Revised valuations of assets in an improving economic environment.

Active management/workouts

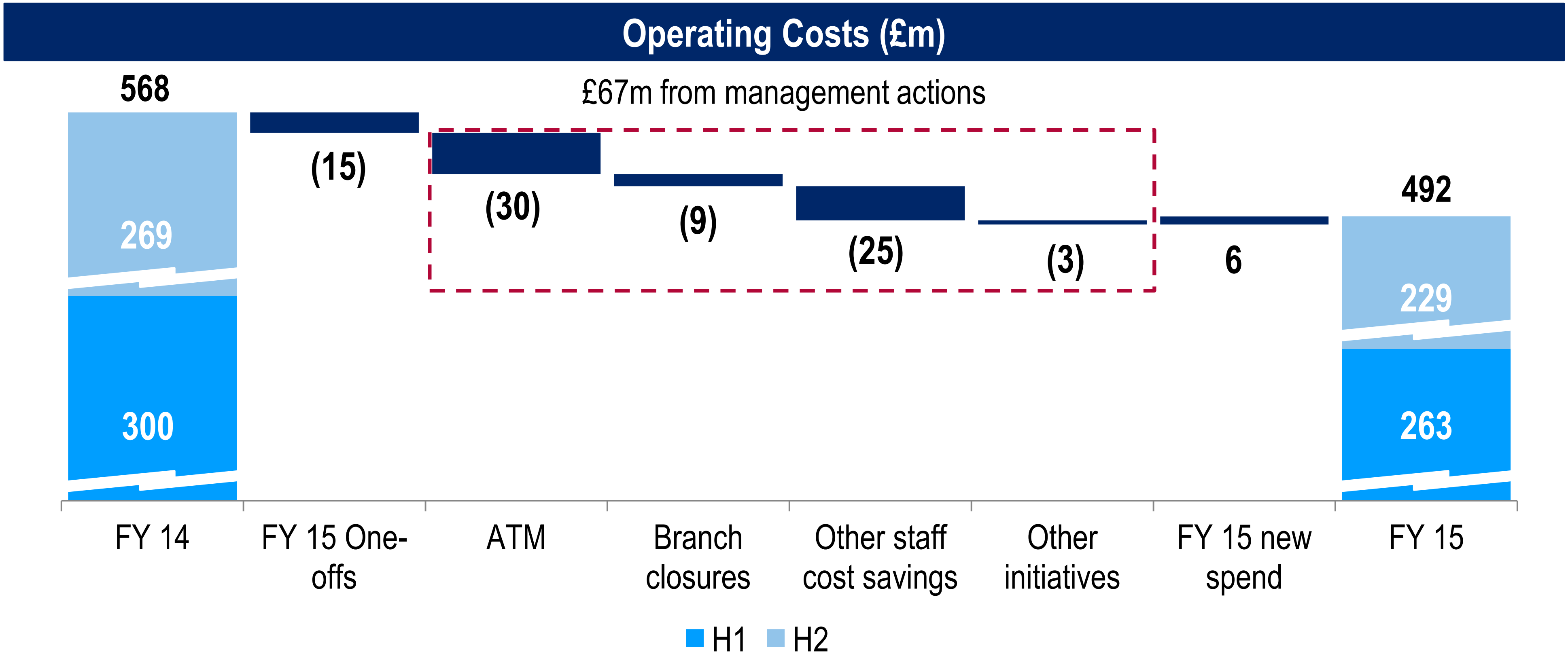
Conduct provision charges increased mainly due to PPI and CCA

Unwind of the fair value adjustments associated with the merger with Britannia Building Society

These numbers are presented on a management accounts basis. A reconciliation of these numbers to the statutory accounts basis is provided in the segmental information in Note 3

Operating costs bridge

£76m net cost reduction year on year



- £9m one off savings relating to property disposals, provision releases and £5.4m relating to a reduction in FSCS levy
- Management actions delivering £67m of "in-year" cost saving in 2015
- New spend related to investment in the brand and digital marketing

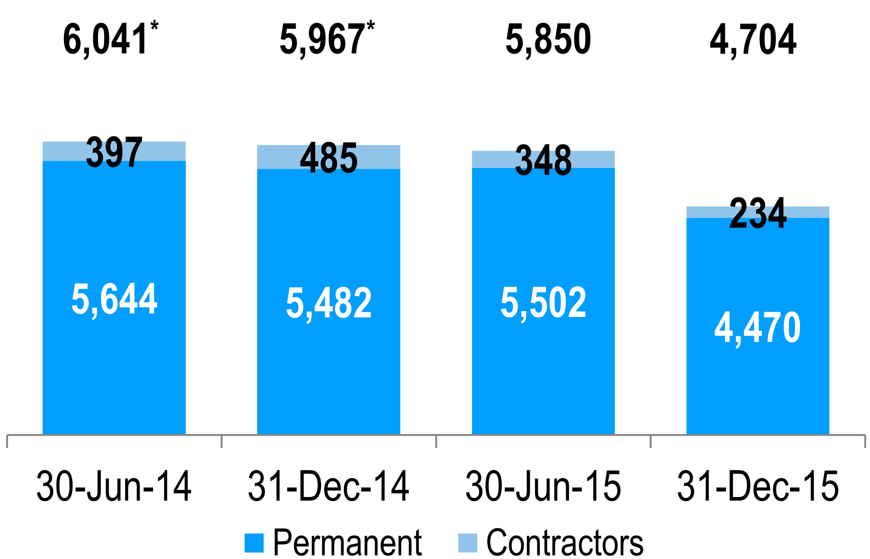
c. 60% cost income ratio in the longer term

Target c. £270m operating cost base in 2018

Operating costs – staff

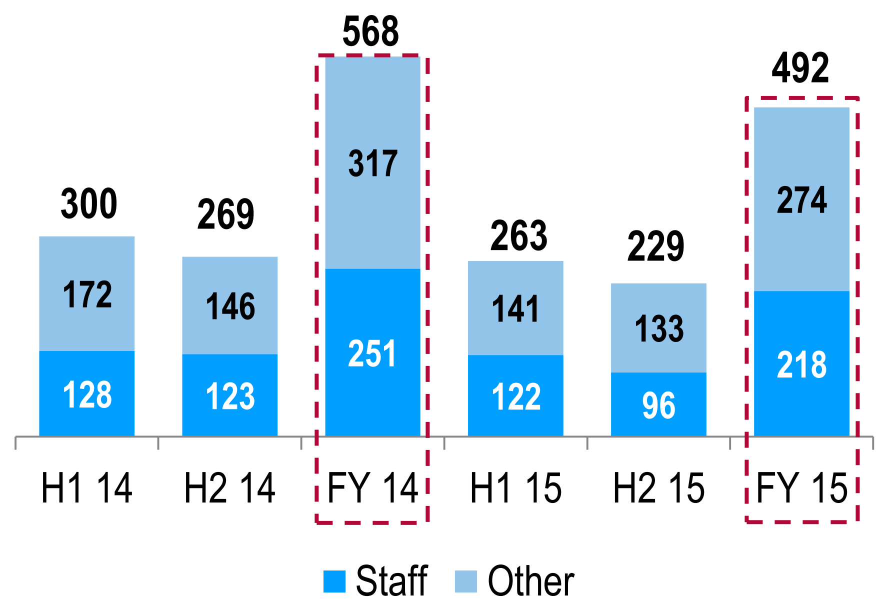
Headcount reduction and branch closures are delivering sustainable cost savings

FTE Headcount



Excludes project staff

Operating Costs (£m)



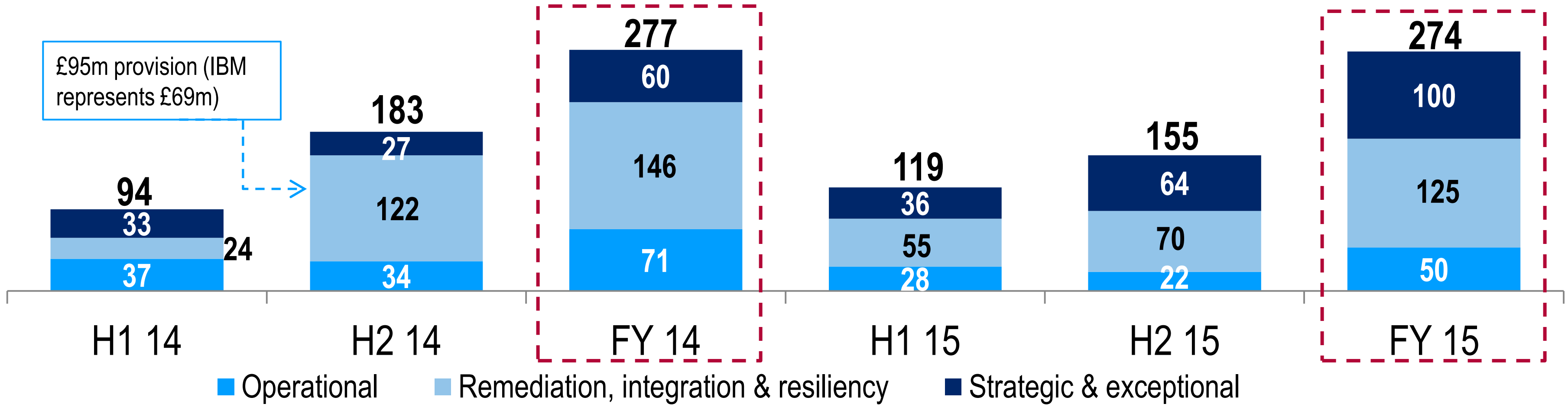
- Permanent staff year on year reduction of 18% delivered through branch closures, the outsourcing of mortgage processing operations to Capita on 1 August 2015 and process simplification and efficiencies
- Contractor reduction of 52% through removal of roles and conversion to permanent roles
- Net £33m reduction in staff costs:
  - £20m reduction in direct staff costs
  - £13m reduction in contractor costs

* Excludes FTE transferred from Co-operative Group who were previously invoiced through recharge process 30-Jun-14 (80), 31-Dec-14 (38)

Project costs

Delivering resilience, cost reduction and proposition development

Project Costs (£m)



Operational	Remediation, integration and resiliency	Strategic & Exceptional

• Spend to ensure regulatory and mandatory minimums are met (regulatory reporting, corporate simplification, FSCS, cheque imaging)
• Includes depreciation* of £23m (2014 - £34m)
	• IT remediation and separation
	  • £44m – ESO/separation
	  • Reduction on 2014 spend due to one-off provision utilisation of £51m
	  • £14m – finance transformation
	  • £11m – IT remediation
	  • Includes depreciation* of £4m (2014: £6m)
		• Transformational in nature and deliver significant cost savings or income benefits to the business
		  • £16m – branch transformation
		  • £33m – mortgages outsourcing
		  • £16m – digital
		  • £8m – organisational design
		  • Includes depreciation* of £8m (2014: £11m)

* Revised basis of preparation – project costs include associated depreciation from previous investments

Core Business

A viable Core Bank emerging – simpler and more efficient

Core Contribution (£m)	2014	2015	Change
Net interest income	444.8	460.6	15.8
Losses on asset sales	(2.1)	(0.8)	1.3
Non-interest income	90.4	52.4	(38.0)
Net income	**533.1**	**512.2**	**(20.9)**
Direct costs	(188.6)	(165.2)	23.4
Impairment gains / (losses)	3.5	(0.3)	(3.8)
Contribution result	**348.0**	**346.7**	**(1.3)**
Head office overheads	(355.6)	(311.9)	43.7
Operating projects	(71.0)	(49.7)	21.3
Operating result	**(78.6)**	**(14.9)**	**63.7**

Retail business continues to benefit from the increased new business origination activities

Improved NIM due to managed reduction in deposits level, pricing and mix change

Reduction in income from Link interchange and decreased overdraft fees following launch of the new overdraft proposition

Continued focus on reducing underlying costs – 12% reduction in total costs

Return to operating profitability in the Core Bank before the end of 2017

Non-core Business — Contribution

Result driven by lower net interest income, losses on asset sales and reduced net impairment gains

Non-core Contribution (£m)

	2014	2015	Change
Net interest income	48.6	10.9	(37.7)
Losses on asset sales	(12.3)	(120.6)	(108.3)
Non-interest income	24.7	17.5	(7.2)
Net income	**61.0**	**(92.3)**	**(153.3)**
Direct costs	(24.2)	(14.8)	9.4
Impairment gains	168.2	48.9	(119.3)
Contribution result	**205.0**	**(58.1)**	**(263.1)**

Significant reduction in net interest income following targeted asset deleveraging

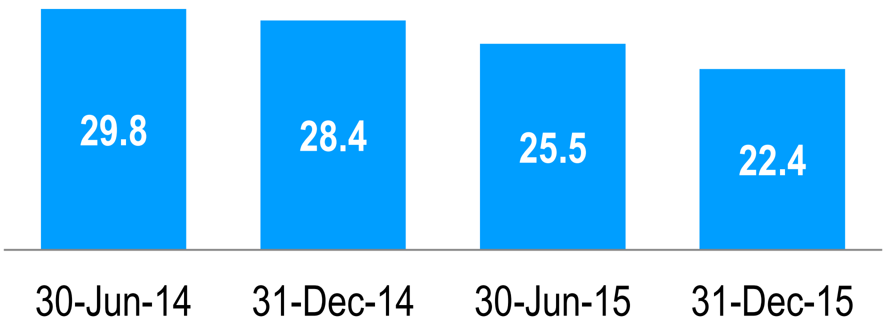
(£m)	2015
PFI	(30.6)
Corporate mortgage backed securities	(14.9)
Portfolio of corporate assets	(14.2)
Optimum	(53.2)
Other	(7.7)
Gains / (losses)	**(120.6)**

(£m)	2014	2015
Workout	98.1	65.3
New Impairments	(18.7)	(41.0)
Revaluations	60.6	4.1
Modelling and other	28.1	20.5
Gains (losses)	**168.2**	**48.9**

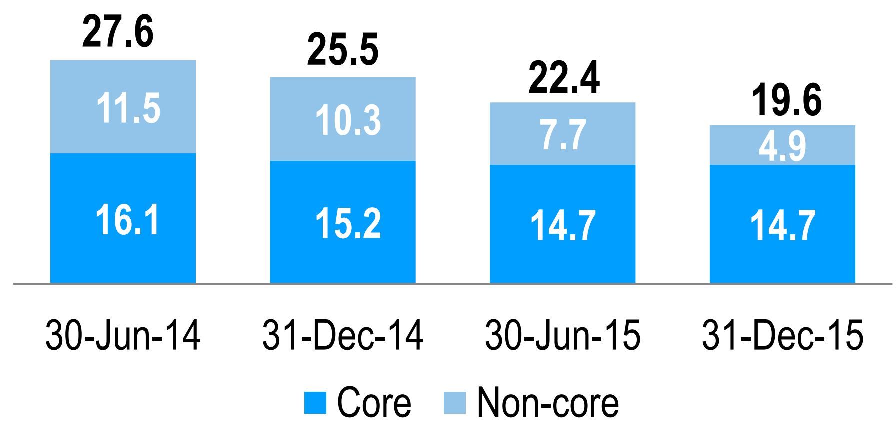
Balance sheet highlights

Core loan book has stabilised. Managed reduction in fixed term, instant and ISA deposits

Customer Deposits (£bn)



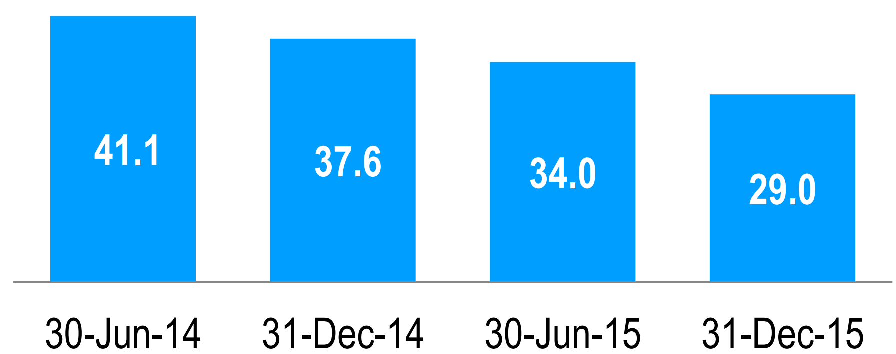
Net Customer Loans[3] (£bn)



Other Selected Balance Sheet Data

	31/12/14	**31/12/15**	*Change*
Equity (£bn)	2.0	1.4	*(0.6)*
Loan-to-deposit ratio[4]	85%	86%	*1pp*
NPL ratio[1,3]	10.0%	4.9%	*(5.1)pp*
NPL coverage ratio[2,3]	26.8%	27.2%	*0.4*

Total Assets (£bn)

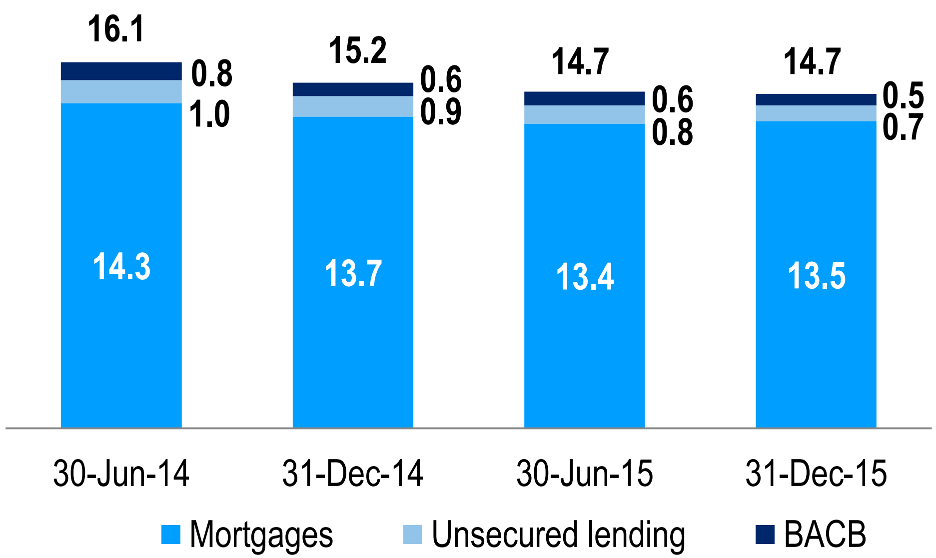


1 Calculated as impaired customer balances (incl. watchlist) / gross customer balances
2 Calculated as allowance for losses (excluding losses for hedging risk) on customer balances / impaired customer balances (including watchlist)
3 Management reporting basis
4 LTD ratio calculated as net customer loans including fair value adjustments for hedged risk /customer deposits).

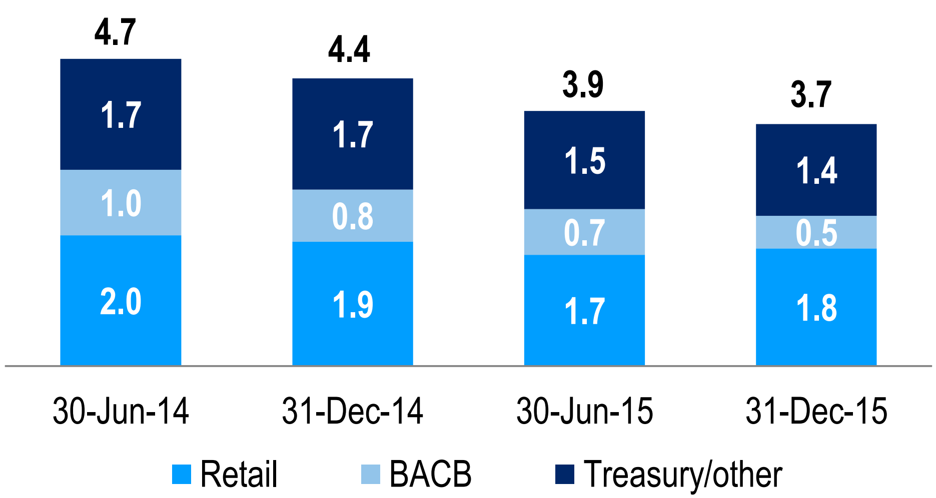
Core Business — Loans & RWAs

Net loans have stabilised as mortgage balances grew during the second half of the year

Net Loans (£bn)



Credit RWAs (£bn)



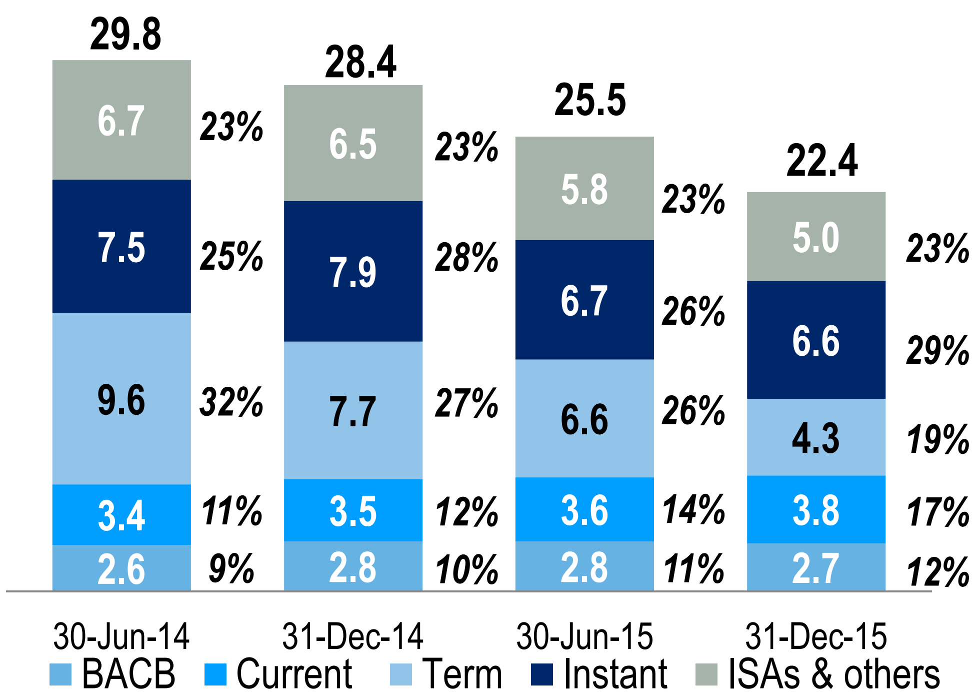
- Highest level of new mortgage lending since 2010 has driven higher mortgage balances in H2 2015
- RWAs stabilised in line with overall loan book

Mid to high single digit Core Bank balance sheet growth in 2016 and 2017

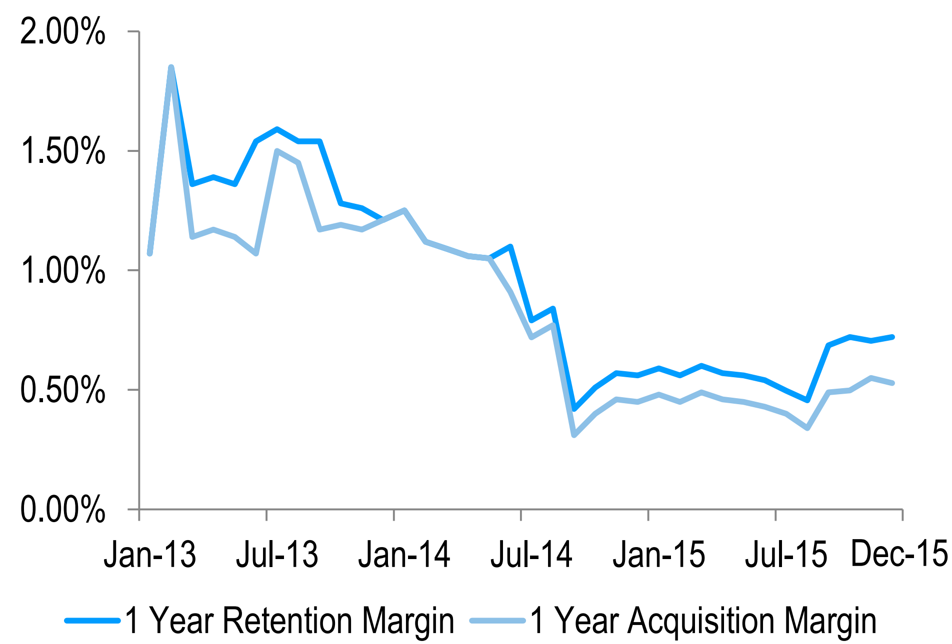
Core Business — Deposits & funding costs

Managed reduction of liquidity combined with a significant reduction in funding costs

Customer Deposits[1] (£bn)



Fixed Term Deposit Costs



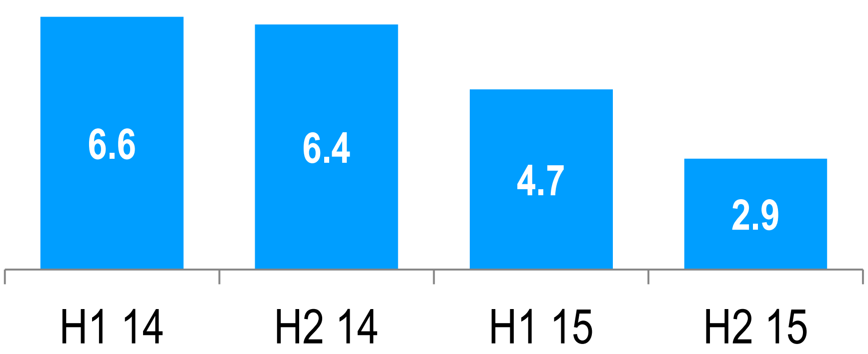
- £6.0bn managed reduction in deposits
- Current account deposit balances are up £0.3bn since December 2014
- Intentionally reduced the most expensive term funding to reduce liquidity (Term and ISAs & others books)

1. Management reporting basis

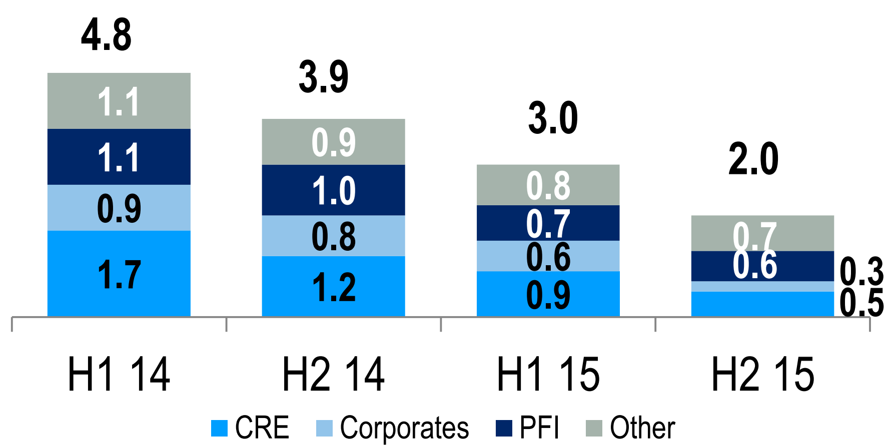
Non-core Business — Balance sheet dynamics

Non-core represents 25% of total net customer loans and 42% of Credit RWAs[2]

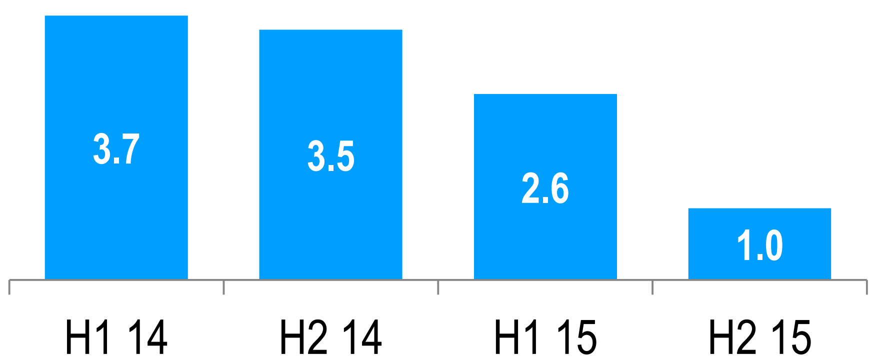
Non-core Net Loans[1,3] - Optimum (£bn)



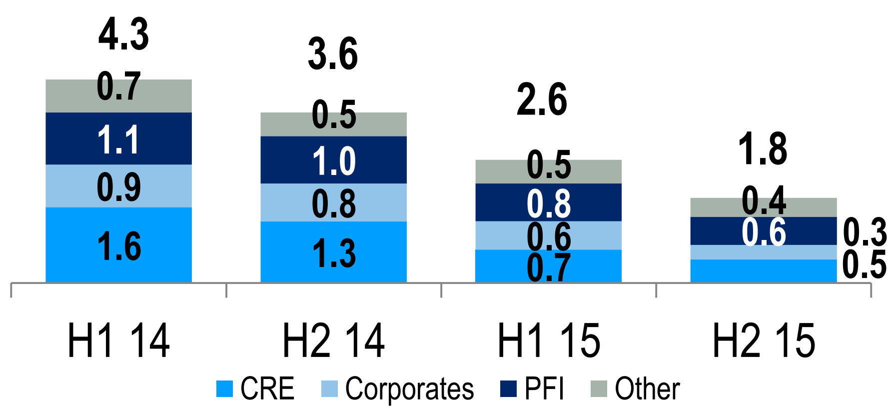
Non-core Net Loans[1,3] - Other (£bn)



Non-core Credit RWAs[2,4] - Optimum (£bn)



Non-core Credit RWAs[2] - Other (£bn)



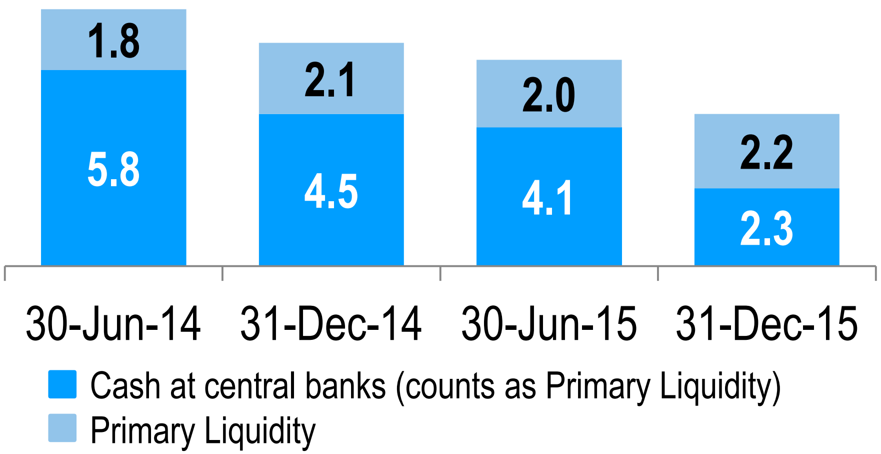
Significant Corporate CoAM deleveraging in 2016

1. Does not include Illius which is not considered as loans
2. CRD IV Credit RWAs
3 Includes hedge risk provision but excludes other accounting adjustments
4 H2 15 includes the reduction in Optimum overlay to £0.3m

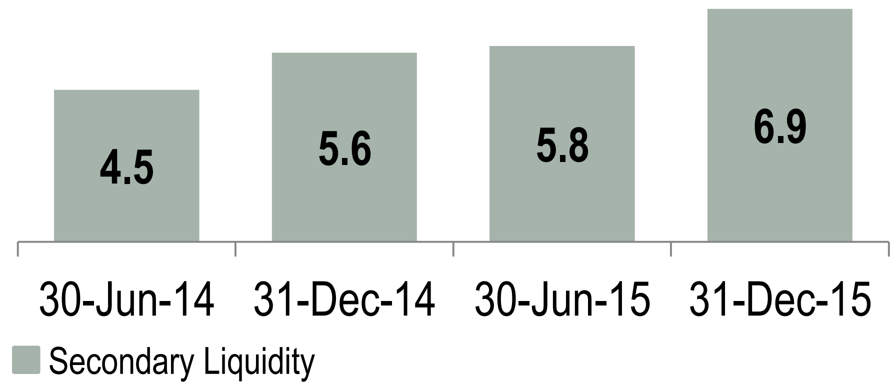
Liquidity

Bank continues to actively reduce expensive primary liquidity in spite of deleveraging activities generating cash

Primary Liquidity (£bn)



Secondary Liquidity (£bn)



- Primary liquidity of £4.5bn – reduced by £2.0bn
- Liquid asset ratio[1] of 15.6% (17.4% as at 31 Dec 14)
- Balances held at the central bank have decreased
- FLS – £200m repaid in 2015, fully repaid in Jan 2016

- Assets eligible for discounting with central banks increased during 2015 – comprised of mortgage portfolio and retained positions in bank securitisations

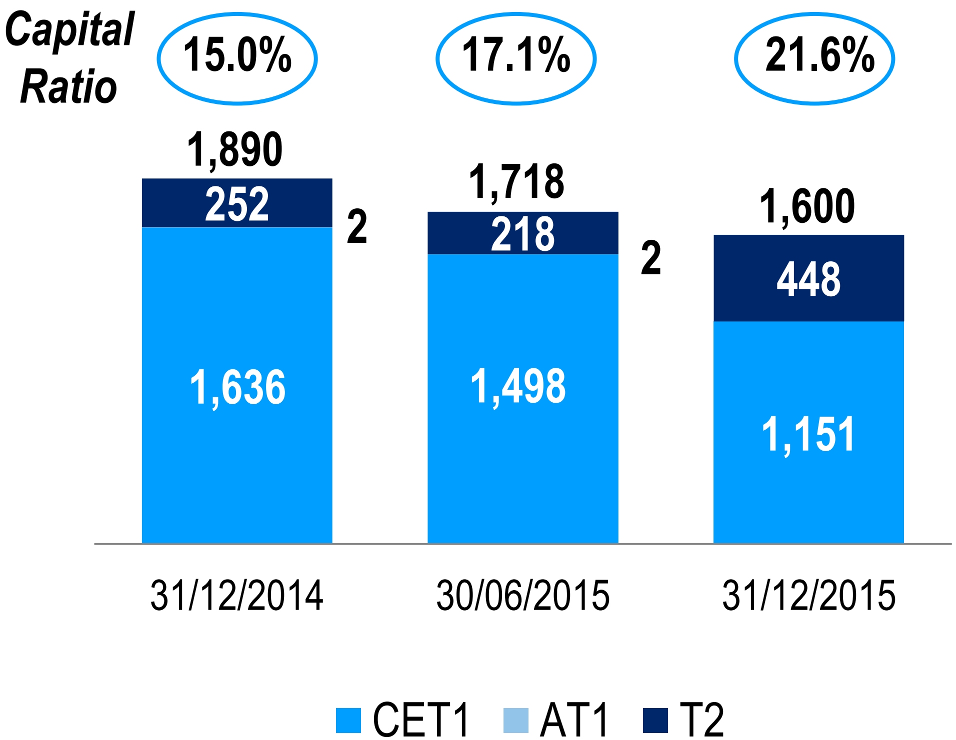
1 Calculated as primary liquidity divided by total assets

Capital position

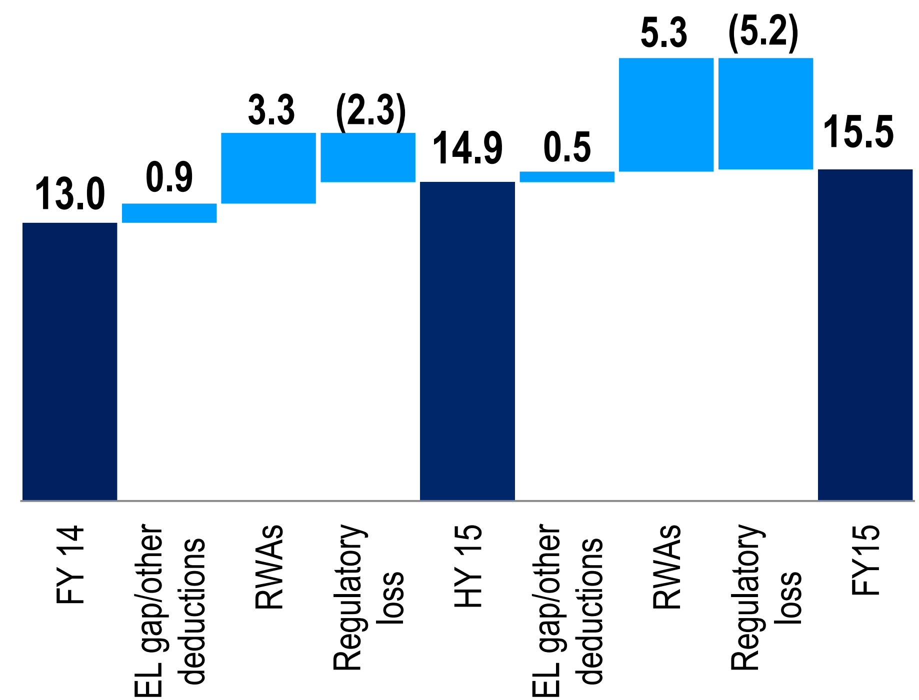
The co-operative bank

Strengthened position from Tier 2 issuance and RWA reduction

Capital Position (£m)



CET1 Ratio Development (%)



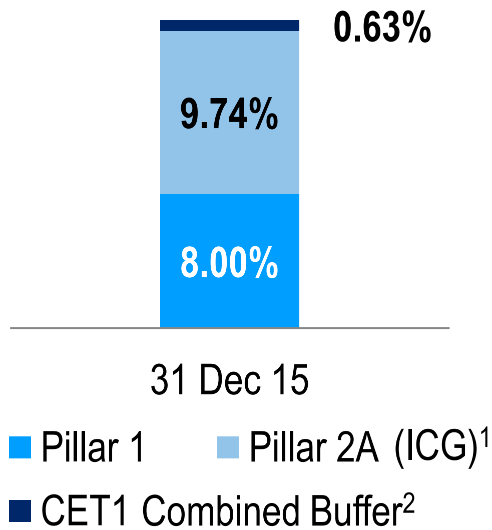
CET1 ratio expected to be >10% at all times and c.20% in long term

The co-operative bank

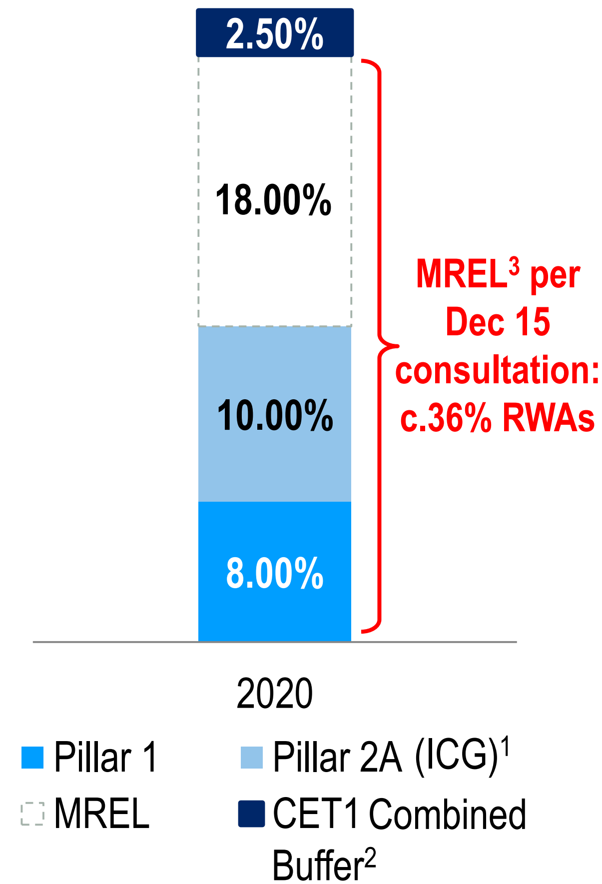
Evolution of capital requirements

2015 → **2020**

Total capital requirement (excl. PRA buffer): 17.74%



Pillar 1	• £m amount to decrease in line with RWA reduction
Pillar 2A (ICG)	• Temporarily compliant in 2015 but deficit to ICG through intervening years before compliance in 2019 • High Pillar 2A due to add-ons for concentration, operational, model, interest rate, pensions and transformation risks • Pension risk add-on in place until 2020 • £m nominal amount reduces but % remains high due to RWA reduction
MREL	• MREL likely to be met with CET1, AT1 and T2 as Bank currently does not have a HoldCo • Issuance programme to recommence in the latter part of the plan
PRA buffer	• Subject to further PRA charges • Expect to be fully compliant with all PRA capital requirements by end 2020 with a CET1 ratio expected to be c. 20%



1. Pillar 2A (ICG) guidance is a point in time assessment. Aggregate Pillar 2A capital charge can be met with 56% CET1 up to 19% AT1 and up to 25% T2
2. CET1 Combined Buffer refers to the CRD IV Combined Buffer Requirement. Currently Co-op Bank is only subject to the 2.5% Capital Conservation Charge (phased in over 4 years from 2016). In future Co-Op Bank may be subject to the Countercyclical Buffer (currently set at 0% in the UK). In February 2016 the PRA consulted on systemic charges for UK Banks, under the consultation it is not expected Co-Op Bank will be subject to a systemic charge, which will not be applicable until 2019 at the earliest
3. Under the Dec-15 Bank of England consultation paper on MREL implementation in the UK, it is expected Co-Op bank will be subject to a Bail in MREL strategy. Under the Bail in strategy proposed by the Bank of England and currently under consultation, the Co-Op Bank's MREL requirement would be (Pillar 1 + Pillar 2A) x 2. Capital used to meet MREL requirements cannot be used to meet the CRD IV Combined Buffer
4. Combined Buffer came into effect on January 1, 2016 and is shown alongside 2015 capital requirements for illustrative purposes

Updated financial targets

Reflects the lower for longer interest rate environment and updated strategic plan

Balance sheet	• Core assets mid to high single digit growth in 2016 and 2017 • CoAM deleveraging of c.£1.3bn in 2016-17, subject to market conditions; Optimum retained • Total assets declining c.£2.6bn in 2016, stable in 2017
Income statement	• Bank NIM increasing by c.15bps by 2017 • Non-interest income declining by c.50% in 2016 • Expected loss on asset sales c.£50m in 2016-2017 • Target operating cost base of c.£270m by end 2018; target cost income ratio[1] of c.60% in the longer term • Project budget of c.£300m[4] total in 2016-17 • Unwind of Leek notes as per Note 39 • Expect to incur Loss Before Tax in 2016/2017 (total Bank); Core Bank operating profitability before end of 2017 • High single digit RoTE[3] in the longer term • Current unrecognised DTA of c.£340m – expect to re-recognise in due course
Capital	• RWAs expected to be c.£5.5bn in 2018[2] • CET1 ratio expected to be >10% at all times and c.20% in long term in order to meet PRA capital requirements • Expect to be fully compliant with Pillar 1+2A by end 2019 and PRA buffer requirement by end 2020

1. Calculated as operating expense and operating projects (including associated depreciation and amortisation) divided by operating income excluding (losses)/gains on asset sales
2 Calculation of RWAs may change over time as a result of changes to regulatory policy or its interpretation
3 Calculated as Profit After Tax divided by average tangible equity (excluding DTAs)
4 Revised basis including depreciation
5 Assumes MREL issuance in latter part of the plan and not the earlier profile of MREL issuance strongly preferred by the PRA and BoE

The co-operative bank

Section 4

Conclusion

Niall Booker

2016 outlook and focus

Core Bank Rebuild	Digital and product development
	Continued improvement in NPS scores
	Cost reduction programme
	Significantly progress transformation work to drive operational efficiencies
Improving resilience	Significantly progress ESO programme
	Corporate CoAM deleveraging
	Continue to embed Risk Management Framework and CRR model improvements

Heading in the right direction

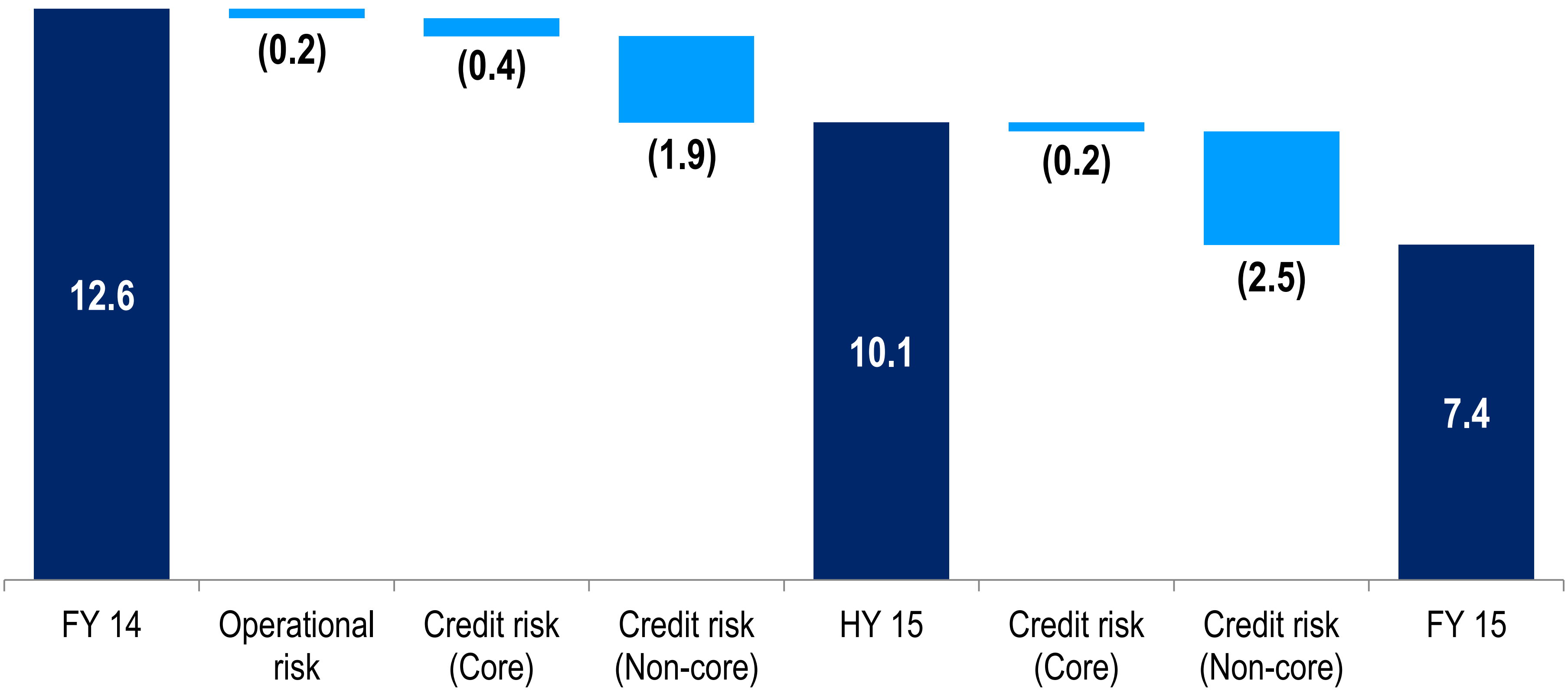
Q&A

Appendix

Risk Weighted Assets

RWAs have decreased by £5.2bn mainly driven by the £4.4bn reduction in Non-core RWAs (£1.6bn from Warwick securitisations)

Risk Weighted Assets (£bn)

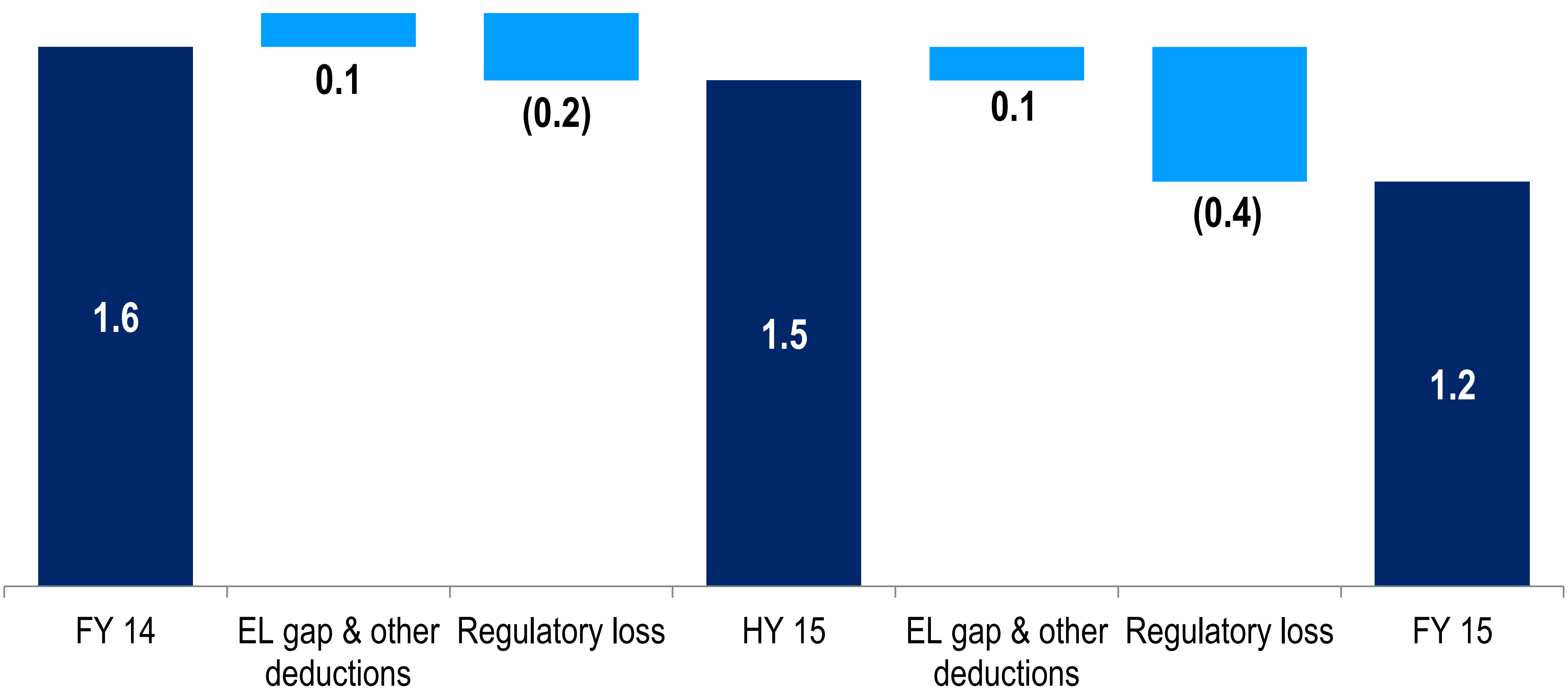


Includes the reduction in Optimum overlay to £0.3m

Common Equity Tier 1

The Bank's CET1 position has decreased by £0.4bn, primarily as a result of the statutory loss after tax for the year of £622.8m

Common Equity Tier 1 (£bn)



Revised basis of preparation – costs

2014	Prior basis £m	Reclass project depreciation £m	Reclass FSCS levy £m	Current basis £m
Total direct costs	(225.6)	12.8	0.0	(212.8)
Operations and Head office overheads	(369.0)	37.8	(24.4)	(355.6)
Total operating costs	**(594.6)**	**50.6**	**(24.4)**	**(568.4)**
Operating projects	(37.2)	(33.8)	0.0	(71.0)
Remediation projects	(140.1)	(5.5)	0.0	(145.6)
Strategic projects	(49.2)	(11.3)	0.0	(60.5)
Total projects expenditure	**(226.5)**	**(50.6)**	**0.0**	**(277.1)**
FSCS levy	(24.4)	0.0	24.4	0.0
Total costs	**(845.5)**	**0.0**	**0.0**	**(845.5)**

2015	Prior basis £m	Reclass project depreciation £m	Reclass FSCS levy £m	Current basis £m
Total direct costs	(191.0)	11.0	0.0	(180.0)
Operations and Head office overheads	(315.7)	22.7	(18.9)	(311.9)
Total operating costs	**(506.7)**	**33.7**	**(18.9)**	**(491.9)**
Operating projects	(27.0)	(22.7)	0.0	(49.7)
Remediation projects	(121.0)	(3.5)	0.0	(124.5)
Strategic projects	(92.2)	(7.5)	0.0	(99.7)
Total projects expenditure	**(240.2)**	**(33.7)**	**0.0**	**(273.9)**
FSCS levy	(18.9)	0.0	18.9	0.0
Total costs	**(765.8)**	**0.0**	**0.0**	**(765.8)**

Business segmental contribution

Operating result markedly lower mainly due to losses on asset sales in Non-core

Bank Operating Result (£m)

	2014	2015	Change
Retail contribution	348.5	323.1	(25.4)
BACB contribution	48.0	45.5	(2.5)
Core ex. Treasury / other	**396.5**	**368.6**	**(27.9)**
Treasury / Other contribution	(48.5)	(21.9)	26.6
Core contribution result	**348.0**	**346.7**	**(1.3)**
Non-core contribution result	**205.0**	**(58.1)**	**(263.1)**
Operations & central costs	(355.6)	(311.9)	43.7
Project costs	(71.0)	(49.7)	21.3
Operating result	**126.4**	**(73.0)**	**(199.4)**

Reduction in non-interest income, partially offset by rise in net interest income and lower direct costs

Certain wholesale funding transactions being called in 2015, positive hedge ineffectiveness at FX swaps and partially repaid FLS facility

Driven by losses on asset sales and lower net impairment gains

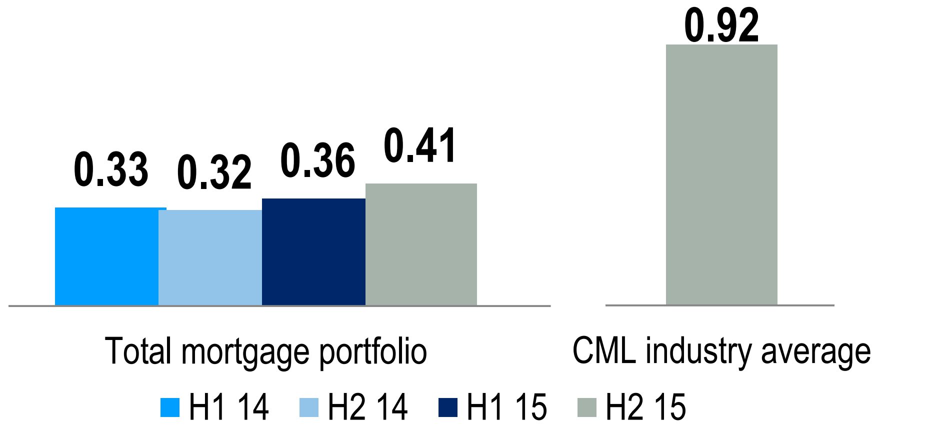
Excluding remediation and strategic projects

The co-operative bank

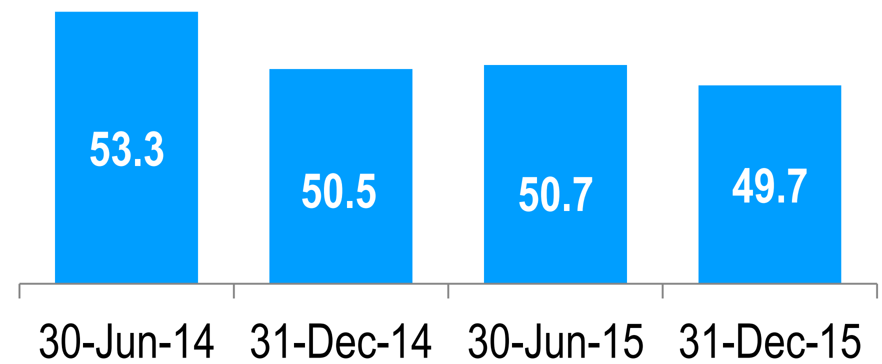
Core Business — Asset quality & split

High quality mortgage portfolio with arrears significantly below the industry average

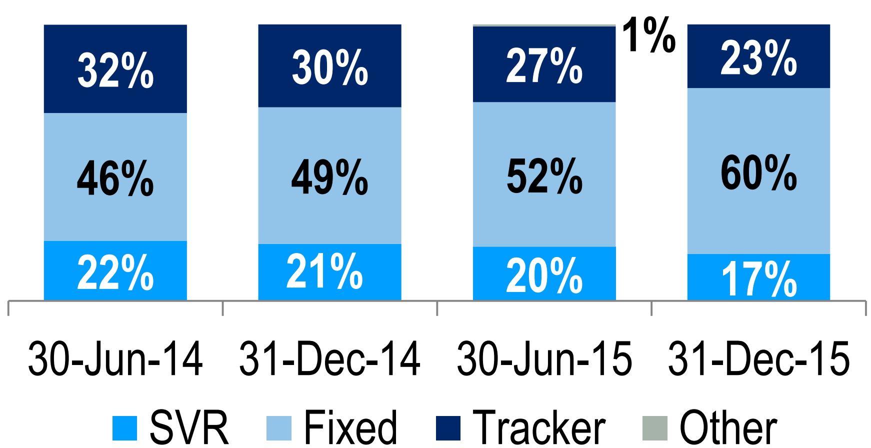
Arrears (%)[1]



Average Mortgage LTV (%)



Mortgage Book Split



Impairment gains / (losses) (£m)

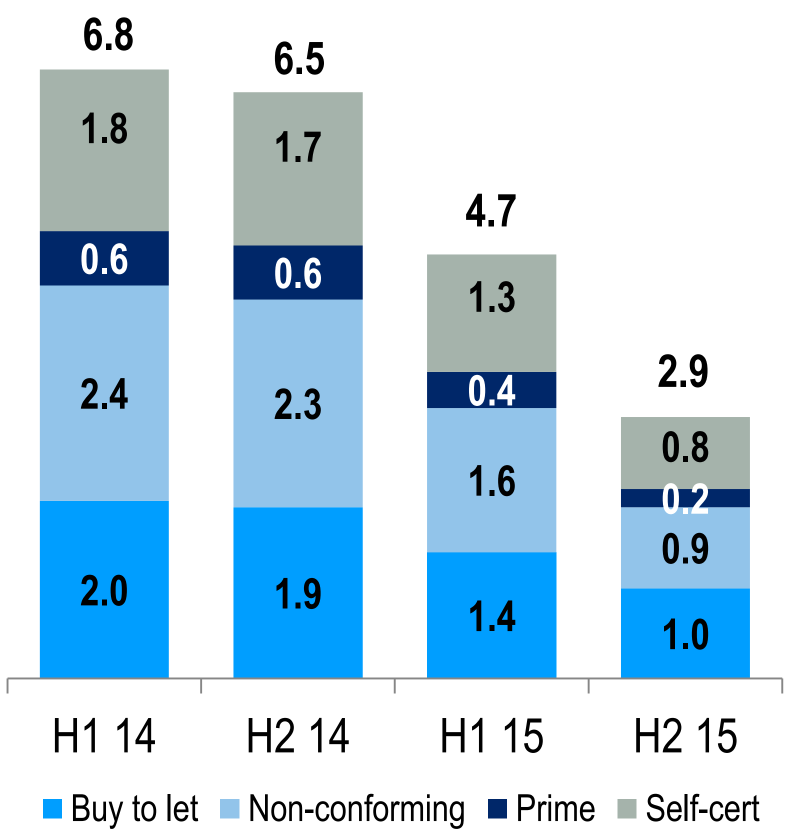
	2014	2015
Workout	6.5	-
Modelling & other	6.7	5.4
New impairments	(9.7)	(5.7)
Revaluations	-	-
Total	**3.5**	**(0.3)**

1 Proportion of mortgage accounts with >2.5% in arrears

Optimum overview

Accelerated deleverage of Optimum portfolio

Gross Customer Balances (£bn)



Warwick 1 and 2 – Impact Summary

- Net cash proceeds of **£3.1bn** on a disposal of **£3.1bn** gross loans and advances
- **£53.2m** loss on disposal – incorporating the associated release of credit risk provisions, fair value reserves and transaction costs, the overall impact on PBT was a **£34.6m** loss
- Continue to hold £1.6bn of RMBS assets following retention of the Class A Notes
- Significant deleveraging event – reduced credit RWAs by **£1.6bn**, reduction in CET1 by **£17.2m** due to net loss on asset sales of **£34.6m** offset by the reduction in EL Gap of **£17.4m**
- Optimum overlay - £1.0bn RWA adjustment reduced to £0.3bn

Improved Optimum credit performance

Optimum average LTV decreased to 61% in December 2015 compared to average LTV of 72% in December 2013. The total value in arrears reduced to £269m compared to £1.01bn in 2013

LTV

	Dec 2013		Dec 2015	
	Balance (£m)		Balance (£m)	
0%-65%	1,489	21%	1,232	43%
65%-75%	1,109	16%	586	20%
76%-80%	725	10%	336	12%
81%-85%	717	10%	237	8%
86%-90%	771	11%	210	7%
91%-100%	1,300	19%	210	7%
100%+	882	13%	75	3%
Total	**6,993**	**100%**	**2,887**	**100%**

Arrears profile

	Dec 2013		Dec 2015	
	Balance (£m)		Balance (£m)	
No arrears	**5,979**	**85.5%**	**2,618**	**90.7%**
1 month	383	5.5%	102	3.5%
2 month	219	3.1%	46	1.6%
3-6 months	229	3.3%	61	2.1%
6+ months	182	2.3%	60	2.1%

Default profile

	Dec 2013		Dec 2015	
Grade	Balance (£m)		Balance (£m)	
Live	**6,307**	**90%**	**2,682**	**93%**
Default	687	10%	205	7%
Total	6,993	100%	2,887	100%

Warwick 1 and 2 – income statement impact

Securitisation generated net cash proceeds of £3.1bn on a disposal of £3.1bn gross loans and advances

£m	Loss on disposal of assets	Release of allowance for losses	Release of conduct provision	Release of merger fair value	Transaction costs	31 Dec 2015
(Losses) gains on asset sales	(68.5)	35.7	(8.8)	-	(11.6)	(53.2)
Operating income	**(68.5)**	**35.7**	**(8.8)**	**-**	**(11.6)**	**(53.2)**
Impairment gains (losses)	-	-	-	(7.6)	-	(7.6)
Operating result	**(68.5)**	**35.7**	**(8.8)**	**(7.6)**	**(11.6)**	**(60.8)**
Conduct / legal risk	-	-	8.8	-	-	8.8
Fair value amortisation	-	-	-	17.4	-	17.4
Profit (loss) before taxation	**(68.5)**	**35.7**	**-**	**9.8**	**(11.6)**	**(34.6)**

Overall impact on the Bank's PBT was a loss of £34.6m

Warwick 1 and 2 – balance sheet & capital impact

The £2.6bn RWA reduction within the Non-core Optimum portfolio is primarily driven by the securitisation of £3.1bn of residential mortgages in 2015 coupled with the £0.7bn reduction in the RWA temporary adjustment

Balance Sheet – Net Carrying Value

	31 Dec 2014[1]	Contractual repayments	Redemptions	Possession sales	Allowance for losses[2]	Fair value amortisation	Fair value accounting reclassificati	Other	Pre-Warwick 31 Dec 2015	Impact of Warwick Finance 1 & 2	31 Dec 2015
	£m	£m	£m	£m	£m	£m		£m	£m	£m	£m
Optimum Balance Sheet											
Gross customer balances	6,450.1	(51.4)	(346.1)	(21.4)					6,031.3	(3,144.5)	2,886.7
Allowance for losses	(21.9)				21.0		(48.0)		(48.9)	35.7	(13.2)
Fair value adjustments	(76.3)					2.8	48.0	0.1	(25.4)	9.8	(15.6)
Other accounting adjustments	4.3							(0.9)	3.4	-	3.4
Net carrying value	**6,356.2**	**(51.4)**	**(346.1)**	**(21.4)**	**21.0**	**2.8**		**(0.8)**	**5,960.3**	**(3,099.0)**	**2,861.3**

RWAs (£m)

	31 Dec 2014	Disposal of Optimum assets	Warwick Finance 1 & 2 Class A Notes	Other Movements[4]	31 Dec 2015
	£m	£m	£m	£m	£m
Optimum credit RWAs	3,526.0	(1,712.4)	-	(837.6)	**976.0**
Warwick Finance 1 & 2 RMBS credit RWAs[3]	-	-	101.2	-	**101.2**
Total	3,526.0	(1,712.4)	101.2	(837.6)	**1,077.2**

[1] Refer to Risk Management section of 2015 Annual Report and Accounts for further information on loans and advances to customers
[2] £21m decrease to allowance for losses, including parameter refresh and improvement in underlying asset quality
[3] Warwick Finance One and Warwick Finance Two RMBS are held within the Bank's Treasury business unit
[4] Other movements includes reduction of Optimum temporary adjustment

Fair value amortisation

Fair value adjustments associated with the Britannia merger continue to impact the accounts

Overview

- At the time of the merger with Britannia in 2009, Leek note securitisations were brought on to the balance sheet as liabilities below par. This created a credit in the merger reserve account (retained earnings) and a debit in carrying value
- As the notes redeem to par, generates a fair value amortisation unwind as per Note 39 of the 2015 Annual Report and Accounts, which is a below the line item on the income statement
- Note that the Fair Value Amortisation line item in the management income statement reflects total bank fair value amortisation not just the Leek notes
- Note that the deferred tax liabilities offset part of the Leek note unwind from a balance sheet perspective

Illustrative Impact

	2016	2017
Leek unwind	**(177)**	**(58)**
Deferred tax liabilities	36	11
Income statement impact		
Profit before tax	(177)	(58)
Tax	36	12
Net	(141)	(47)
Balance sheet impact		
Assets	-	-
Debt securities in issue	177	58
Deferred tax liabilities	(36)	(11)
Liabilities	141	47
Equity	(141)	(47)
CET1 impact	(141)	(47)

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Forward Looking Statements

This document contains certain forward looking statements with respect to the business, strategy and plans of The Co-operative Bank and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about The Co-operative Bank's or its directors' and/or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Bank or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally including the United Kingdom referendum on membership of the European Union scheduled to take place on June 23, 2016; inflation, deflation, interest rates and policies of the Bank of England, the European Central Bank and other G8 central banks; fluctuations in exchange rates, stock markets and currencies; changes to The Co-operative Bank's credit ratings; changing demographic developments, including mortality and changing customer behaviour, including consumer spending, saving and borrowing habits; changes in customer preferences; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes; natural and other disasters, adverse weather and similar contingencies outside The Co-operative Bank's control; inadequate or failed internal or external processes, people and systems; terrorist acts and other acts of war or hostility and responses to those acts; geopolitical, pandemic or other such events; changes in laws, regulations, taxation, accounting standards or practices; regulatory capital or liquidity requirements and similar contingencies outside The Co-operative Bank's control; the policies and actions of governmental or regulatory authorities in the UK, the European Union, the US or elsewhere; the implementation of the EU Bank Recovery and Resolution Directive and banking reform, following the recommendations made by the Independent Commission on Banking; the ability to attract and retain senior management and other employees; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; market relating trends and developments; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints; changes in competition and pricing environments; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and the success of The Co-operative Bank in managing the risks of the foregoing.

The ability of the Bank to implement its revised plan and to achieve the results set out in the plan requires the regulators' continued acceptance of the plan and entails particular challenges including (but are not limited to): ability to execute a substantial re-engineering of the Bank's operating model and a very large and complex IT remediation programme; ability to achieve targeted cost savings; ability to retain customers and deposits; the timing and quantum of impacts to capital from the Bank's asset reduction exercise; meeting its planned improvements in net interest margin; a possible deterioration in the quality of the Bank's asset portfolio; unplanned costs from (for example) conduct risk matters; ability to maintain the Bank's access at an appropriate cost to liquidity and funding and the ability of the Bank to raise further capital assumed in its revised plan. Additional risks and uncertainties are included in the Bank's Annual Report and Accounts for the financial year ended 31 December 2015.

Any forward-looking statements made in this document speak only as of the date they are made and it should not be assumed that they have been revised or updated in the light of new information of future events. Except as required by the Prudential Regulation Authority, the Financial Conduct Authority, the London Stock Exchange plc or applicable law, The Co-operative Bank expressly disclaims any obligation or undertaking to release publicly any updates of revisions to any forward-looking statements contained in this document to reflect any change in The Co-operative Bank's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.