Our Ethical Policy. Our customers shaped it. We live by it.

For all the right reasons.

The co-operative bank
co-operativebank.co.uk

2015 Interim Results

20 August 2015

74,187 participants took part in our Ethical Poll in June 2014.

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

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H1 2015 highlights

Taken significant steps to implement the Bank's strategy – results on track

Core Bank Rebuild

- Rebuild of the Bank progressing
- Improvement in NIM due to reduced retail funding costs, despite a ~10% y-o-y reduction in Core loan book
- Maintaining stability in the Core bank:
  - Mortgage origination: first half year of positive mortgage flow
  - Current accounts
  - NPS scores
- Cost reduction programme remains on track
- Mortgage administration outsourcing agreed
- Digital catch-up underway with development of new digital platform

Improving Resilience

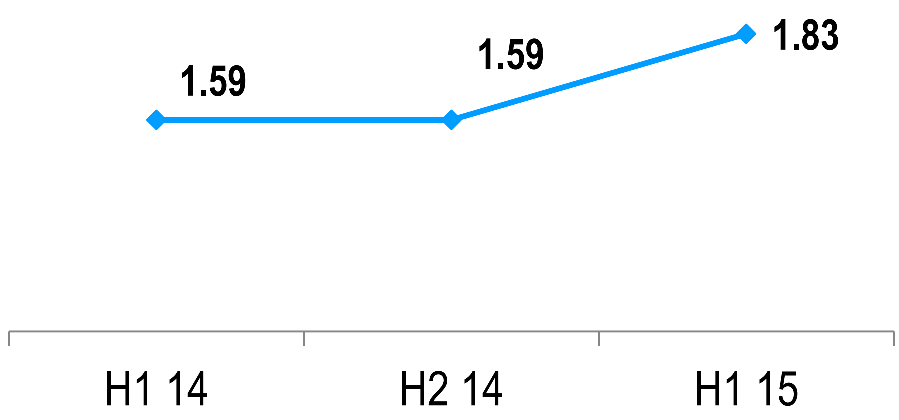
- CET1 ratio of 14.9% at June 30, 2015 (13.0% at 2014)
- Deleverage of Non-core continues to improve resilience at disciplined valuations - £1.9bn reduction in RWAs with net valuation gains of £44.6m
- Successfully completed the £1.5bn Optimum securitisation in May 2015
- Successfully completed £250m Tier 2 Notes offering in June 2015 (closed July 2015)
- Enterprise services outsourcing – IBM discovery phase completed
- IT remediation programme as per plan

Creating an efficient and financially sustainable UK retail and SME bank

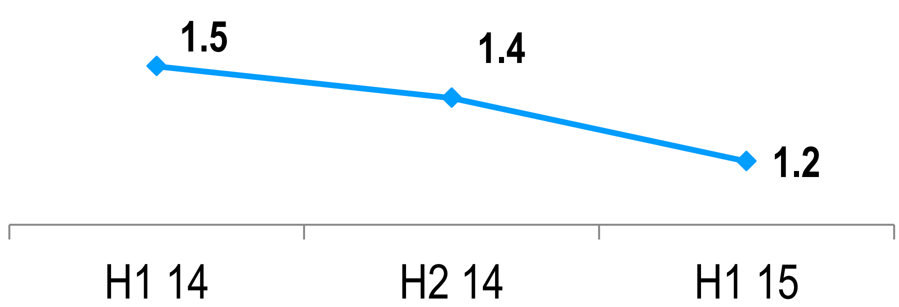
NIM improvement

NIM improvement due to a combination of deposit repricing, reduction in deposit levels and mix change

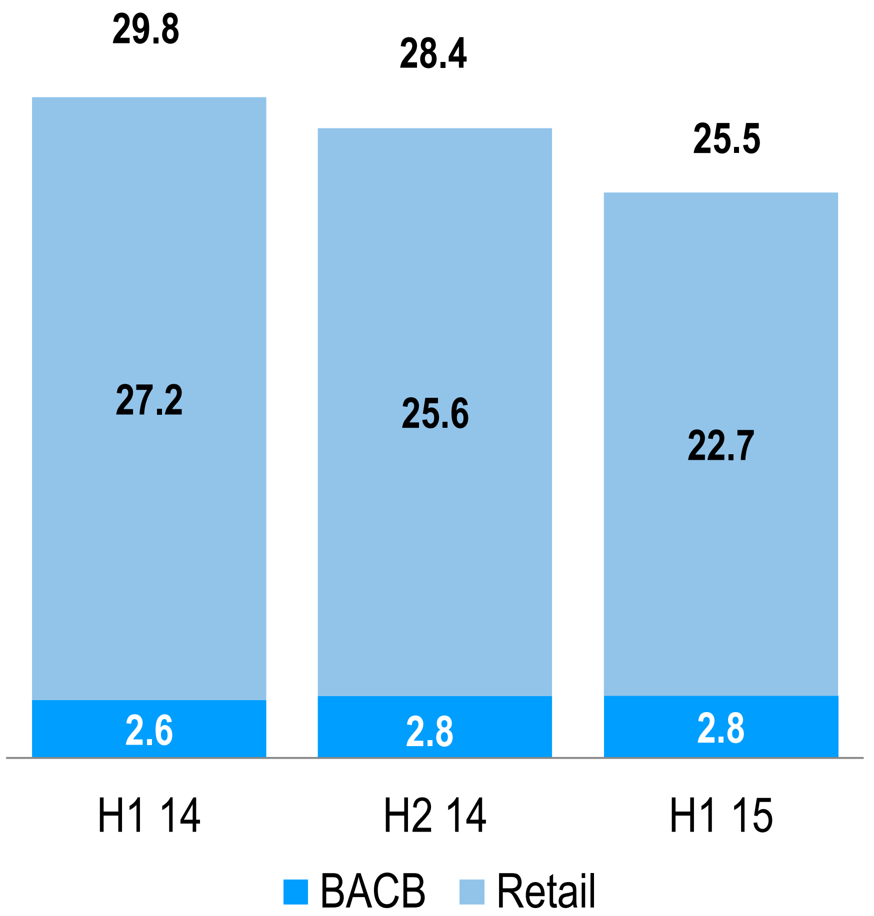
Core Net Interest Margin (%)



Average Retail Liability Gross Margin (%)

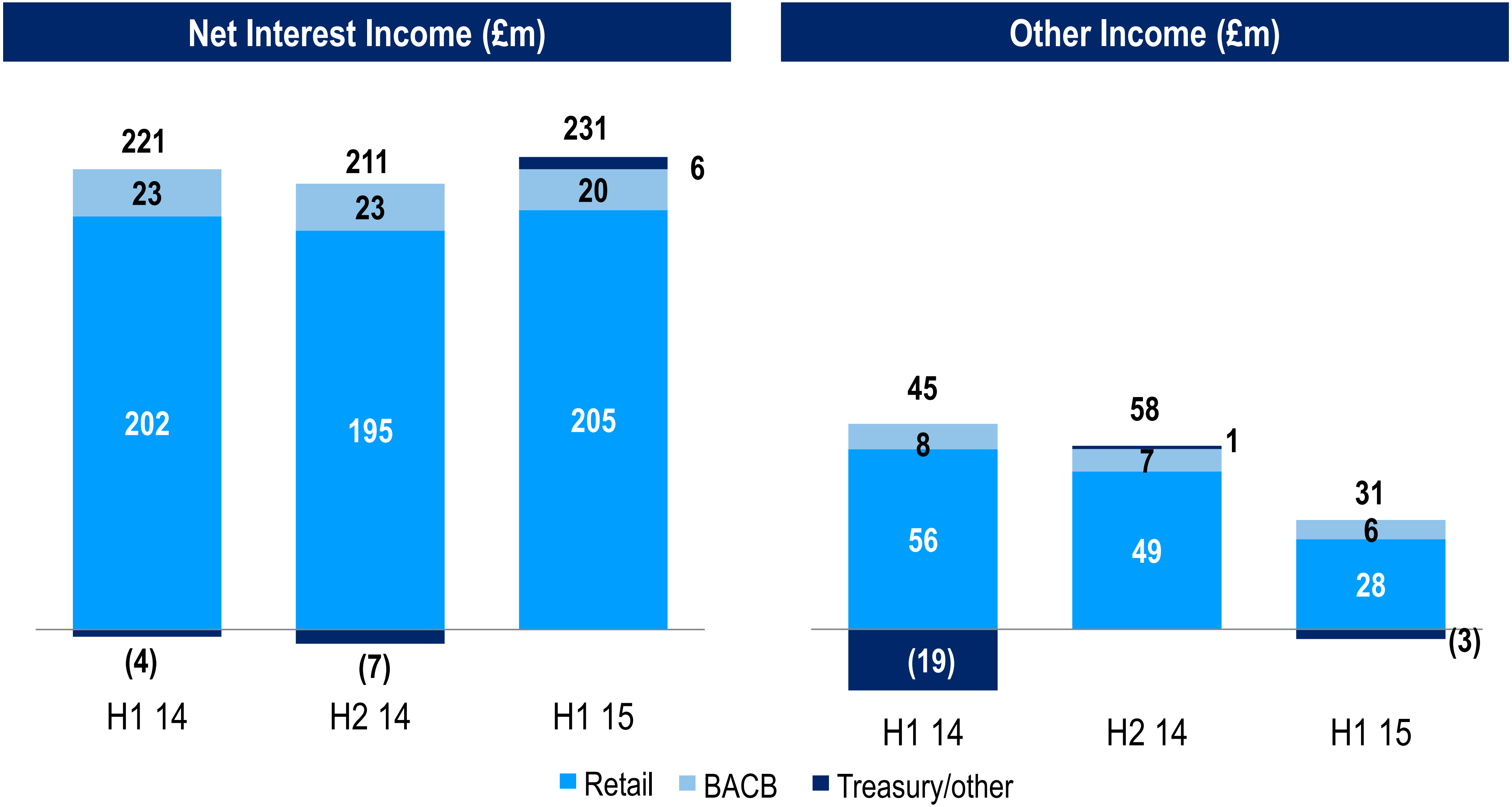


Deposits (£bn)



Core income

Increased net interest income offset by lower other income due to cessation of ATM fees and reduced merchant interchange rates in line with guidance



1 Includes Retail, BACB and Treasury/other

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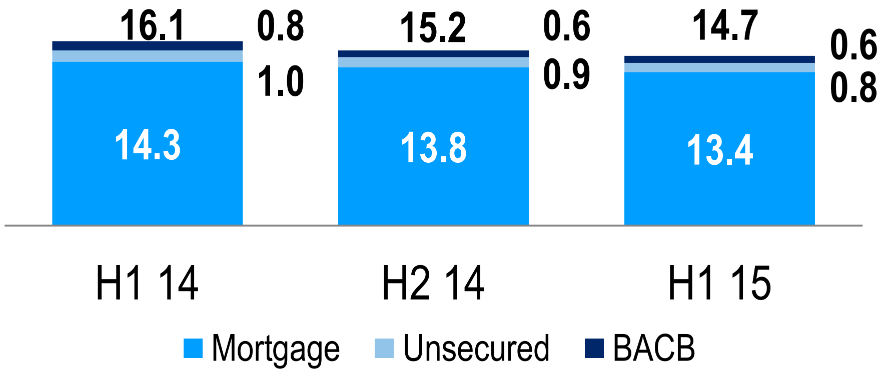
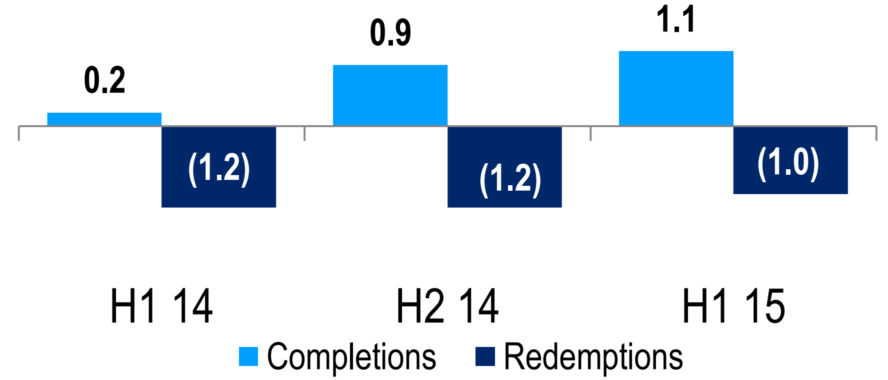
Maintaining stability in the Core bank

Mortgage originations recovering to required levels while current account base remains stable - contractual repayments continue to reduce overall loan stock

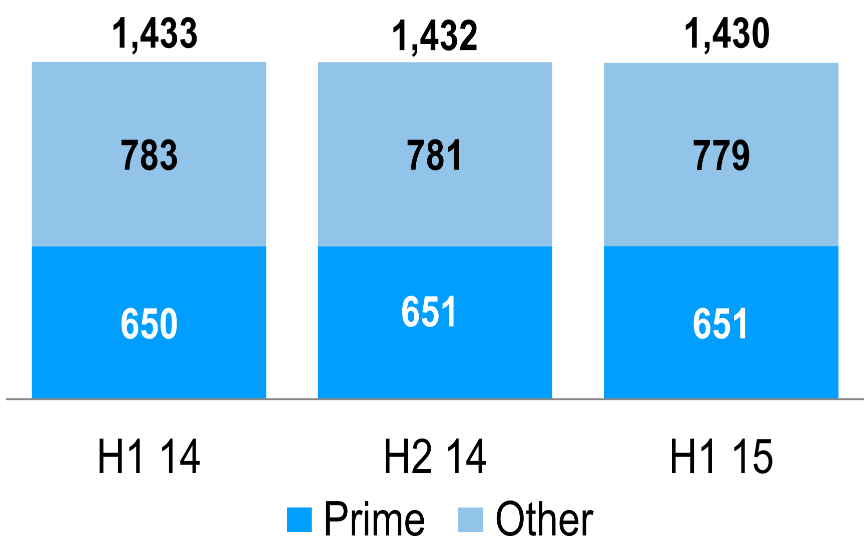
Net Customer Loans[1] (£bn)



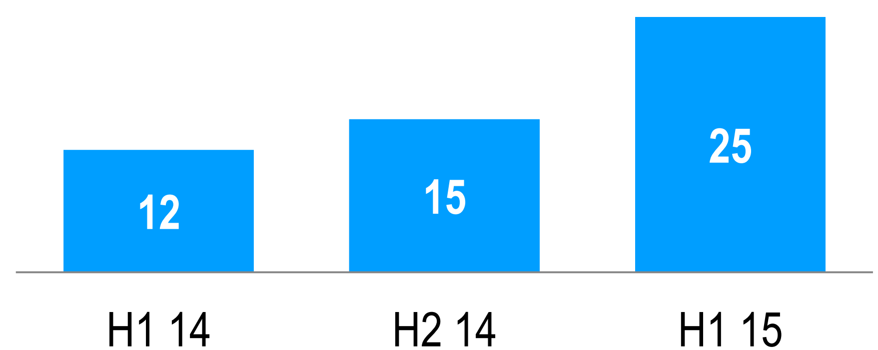
Mortgage Flow[2] (£bn)



Current Accounts (thousands)



Current Account Net Promoter Score[3]



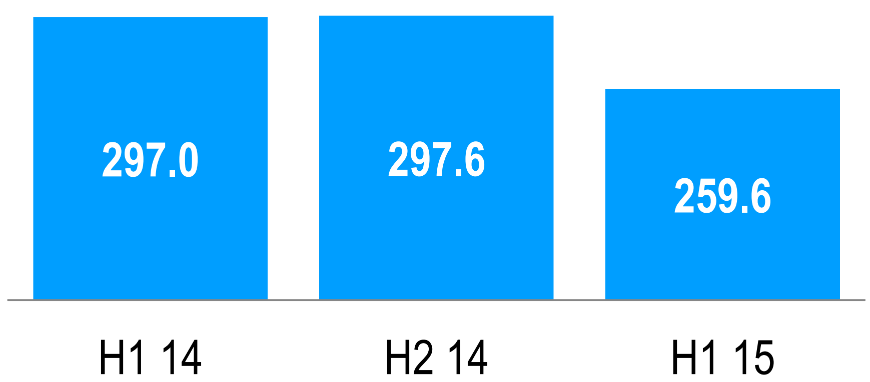
1. Excludes UTB
2. Excludes contractual repayments
3. Source: GfK FRS

Early signs of recovery in the Core bank

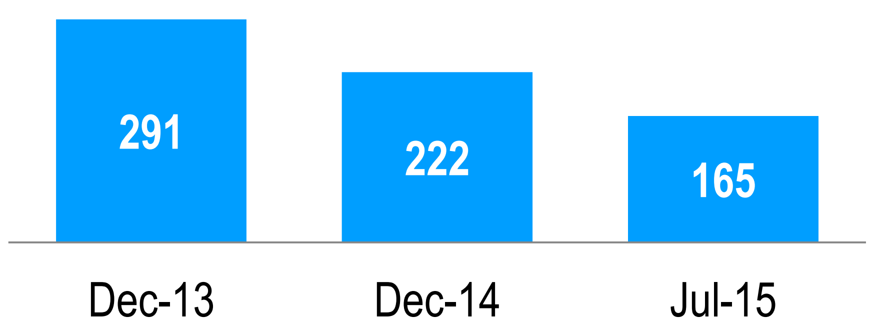
Cost reduction remains on track

Sustainable cost reductions are being delivered

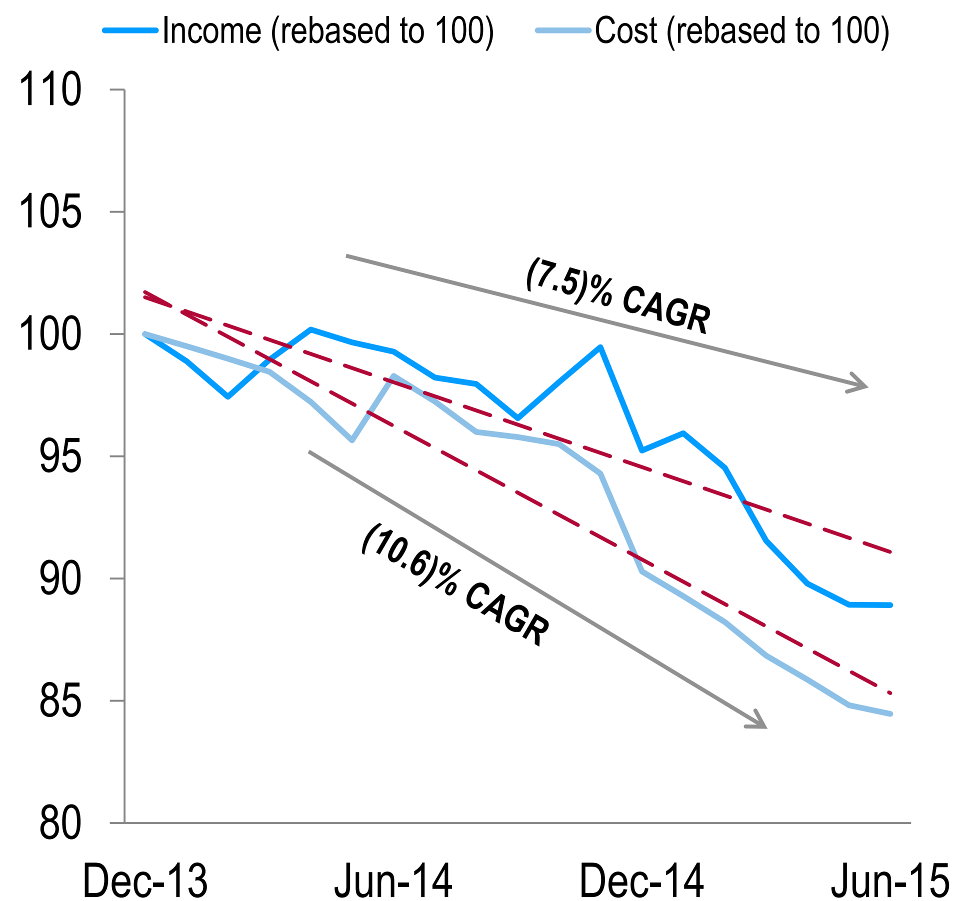
Operating Costs (£m)



Branches



Income / Cost Relationship[1]



Moving towards a simpler and more efficient retail bank

1. Excludes UTB

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Core bank transformation

Significant transformation underway but much still to be done

Mortgage Outsourcing

- Mortgage administration by Capita started 1 August 2015
- Western Mortgage Services (WMS) transitioned to Capita ownership as part of overall agreement
- Servicing of more than 200,000 mortgage accounts and £20bn of lending

Branches

- Branch network to provide a simple, convenient gateway to direct channels
- Branch automation capability is key to migrating branch customers to self-service
- H1 2015 branch closure programme complete

Digital Catch-up

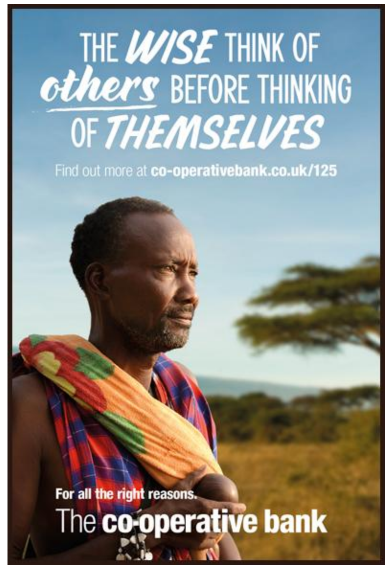
- Enhanced customer services within existing internet banking platform (released 2015)
  - Online registration for internet banking
  - Paperless statement
  - Password reset
  - Digital-specific products
  - Moved from 9th to 3rd in internet banking satisfaction since November 2014
- New digital platform features (2016 releases)
  - New product propositions for digital, incorporating STP to deliver rapid fulfilment
  - "New to Bank" current account proposition, online account opening, electronic ID verification
  - Upgrade of mobile app

Delivering cost reduction and improved customer experience

Investing in the brand

Building on our customer-led ethical policy

Marketing	New Products



- Ethical policy relaunch helped to further rebuild the brand
- New TV ad elicited a strong response
- Further spend in H2

New overdraft proposition

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

Fixed rate credit card

- Successful launch - offering customers some protection against future interest rate rises

Building greater customer engagement, stability and restoring trust

Ensuring IT resilience

Significant transformation underway but much still to be done

Enterprise Services Outsourcing

- Discovery phase completed in May
- Moved into execution phase
  - Data Centre fit-out
  - Security proving
  - Application and Data Separation
  - Service Transition planning
  - Testing
- On track to migrate key business applications onto the IBM platform in mid-2016

IT Remediation

- Continued progress towards remediation of known IT vulnerabilities
  - Progressive removal of potential Single Points of Failure
  - Maintenance catch-up programme
- Desktop technology refresh
- Data network separation

Laying the foundations for future bank technology

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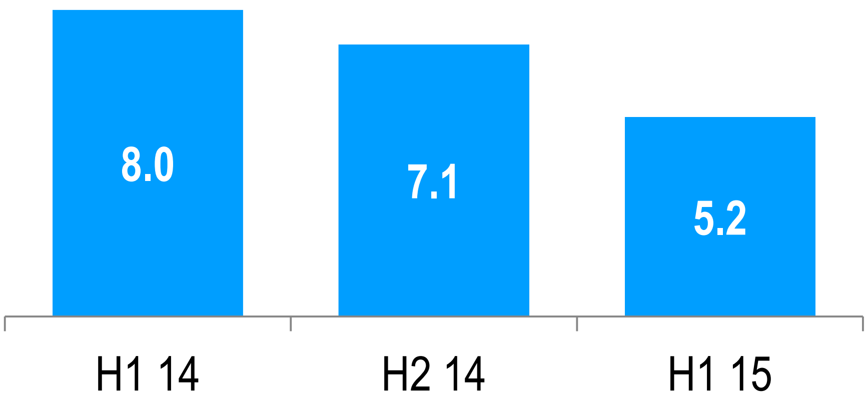
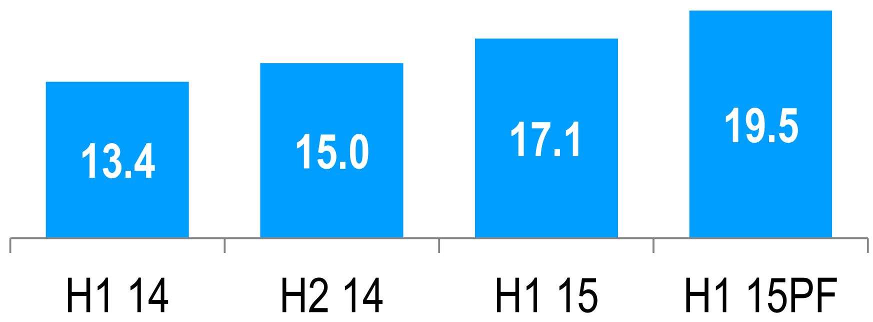
Improved capital resilience

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

Non-core RWAs (£bn)



Capital Ratio[1] (%)



Warwick Securitisation

- May 2015
- £1.5bn whole structure securitisation
- Bank retained 65% of Class A notes

Tier 2 Notes

- June 2015 (closed in July 2015)
- £250m of Tier 2 capital raised
- 8.5% coupon

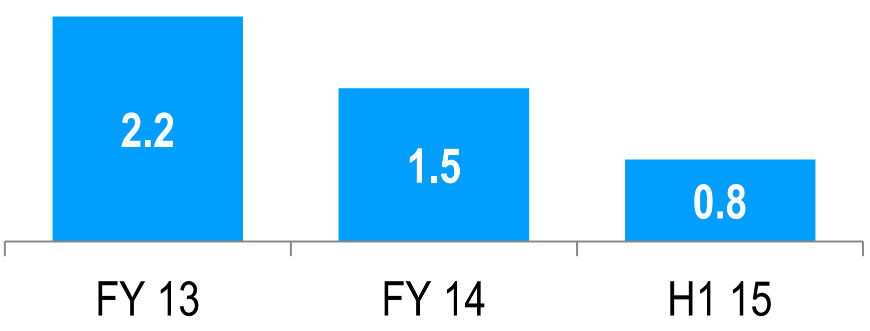
Additional Optimum securitisation and debt issuance planned in 2015, subject to market conditions

1. H1 15 capital is pro forma for the Tier 2 notes issue which closed in July 2015

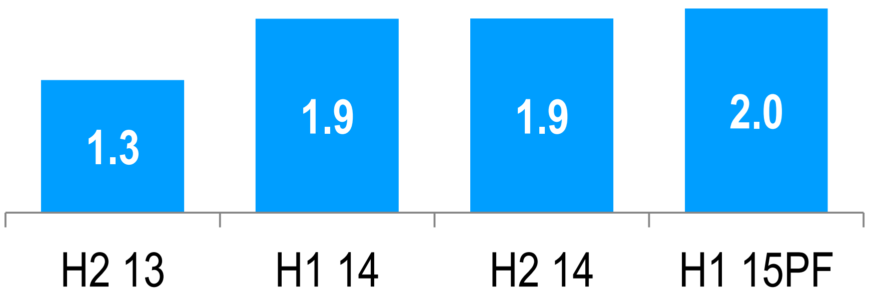
Reduced asset risk improves capital resilience

Fair value delta has reduced significantly since 2013

Fair Value Delta[1] (£bn)



Capital[2] (£bn)



Planned deleveraging of non-core will further reduce the FV delta

1. Difference between the carrying value and fair value of assets. Fair value is measured by determining discounted expected cashflows, derived using expected redemption profiles of the portfolio, and discounting these cashflows at current market rates for products with similar characteristics and risk profiles. The current market rate used is assumed to encompass the time value of money plus a risk premium to account for the inherent uncertainty in the timing and amount of future cashflows arising from a book of mortgage assets. This fair value is not intended to represent the value which could be achieved as part of a structured disposal
2. H1 15 capital is pro forma for the Tier 2 notes issue which closed in July 2015

Strengthening governance and culture

Work continues to address legacy issues

Risk management framework	• Continued work on the embedding of the Risk Management Framework • Will present a more accurate picture of our non-credit, non-market related capital requirements

Five Rs	• Clear and consistent explanation of strategy to employees through the 'Five Rs':
	  • **Rebuild** our franchise
	  • **Reduce** our costs
	  • **Revitalise** our channels
	  • **Reinforce** our risk management
	  • **Re-energise** our people

Target Operating Model (TOM)	• Progressing development of TOM • Critical enabler to creating a simplified Bank to deliver low friction customer experience
Employee engagement	• Five Rs showing signs of traction • Employee engagement moved from 50% in Oct 14 to 56% in Apr 15
Conduct remediation	• £49m of additional conduct charges in H1 15 mainly driven by CCA and packaged accounts – updates to known issues • Planned conduct remediation activities to be substantially progressed in H2 15

Driving through cultural change will continue to take time

Section 3

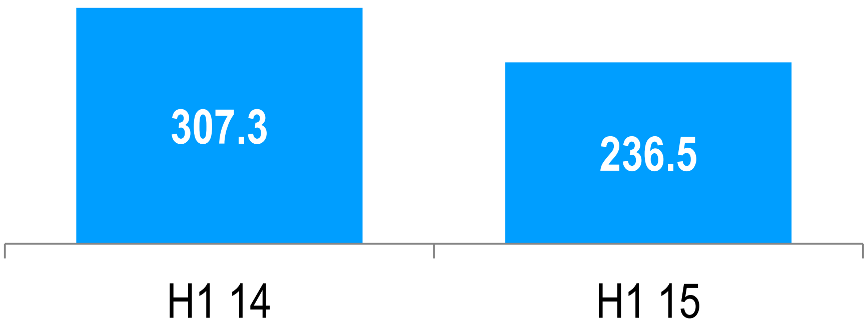
Financial performance

John Baines

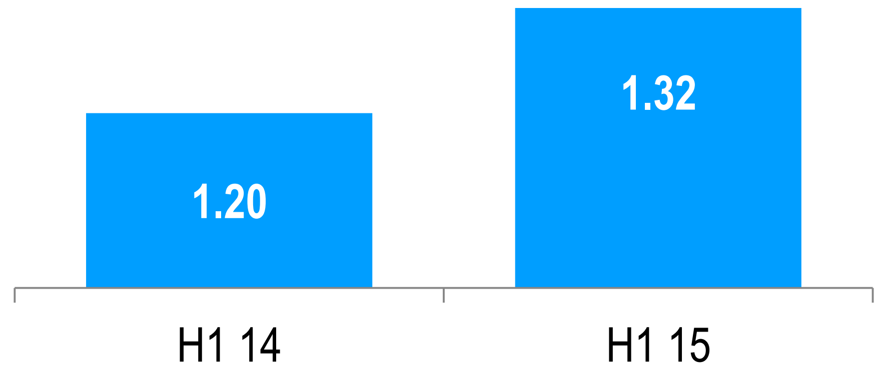
H1 2015 income statement snapshot

Positive NIM movement but reduced profitability mainly due to lower income from lower asset base, losses on asset sales and higher project costs – ahead of expectations

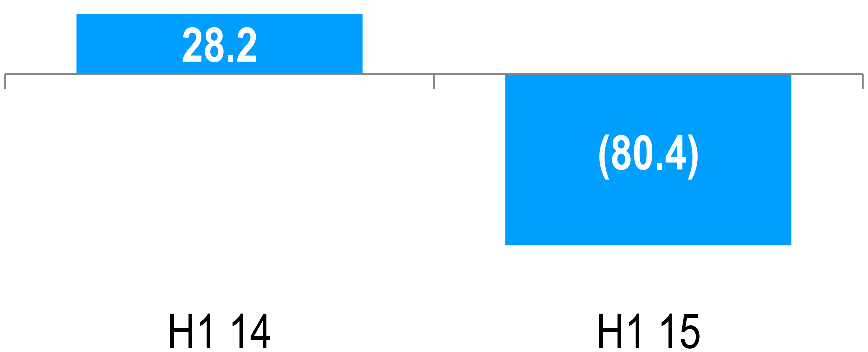
Operating Income (£m)



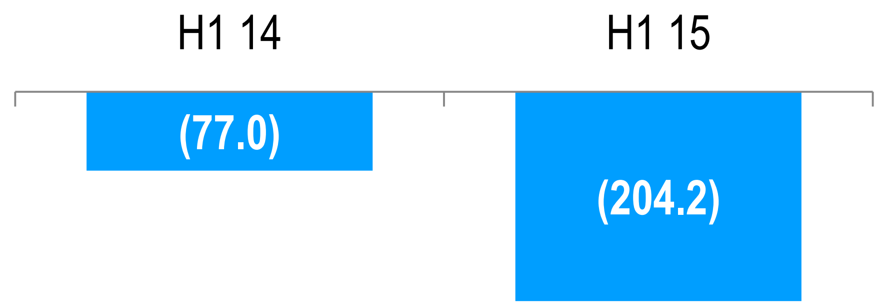
Total Bank NIM (%)



Operating Result (£m)



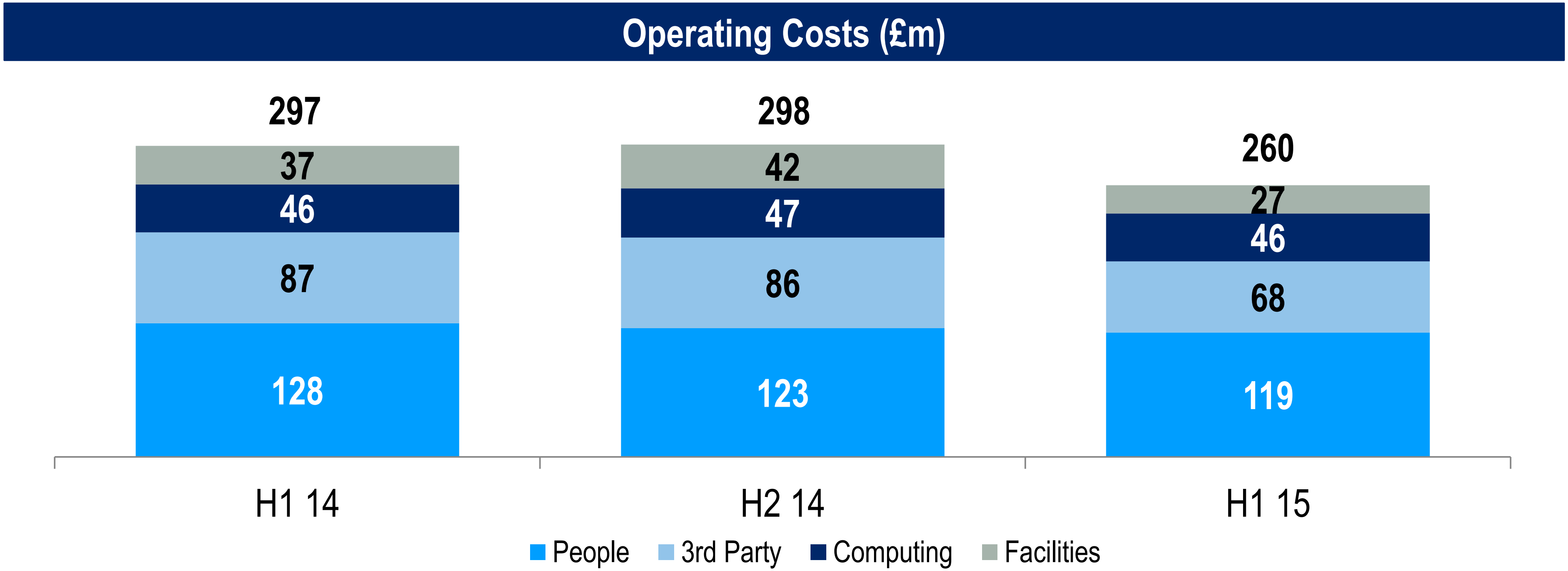
Profit (Loss) Before Tax (£m)



Legacy issues continue to dominate the financial performance of the Bank

Operating costs movement

£37m cost reduction during H1 2015



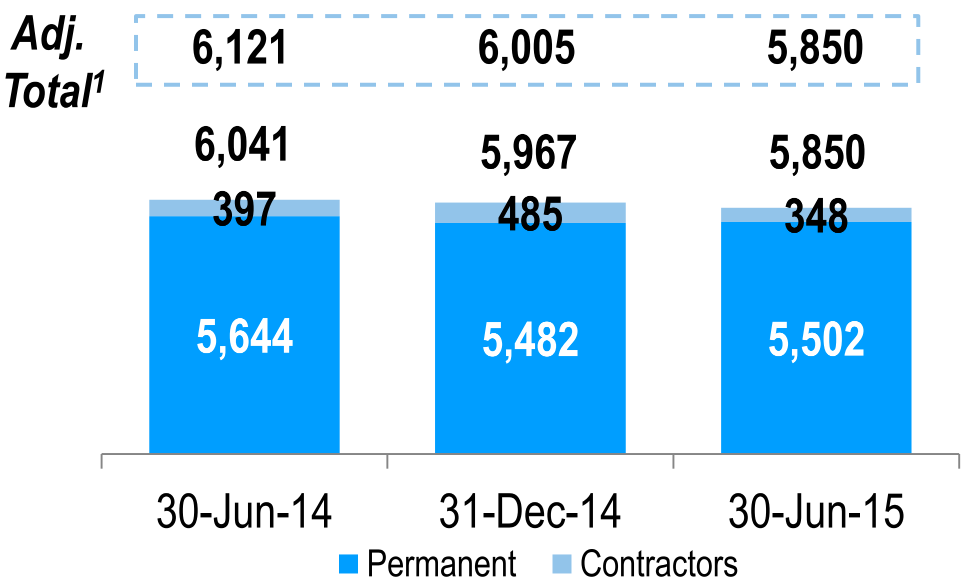
- Operating cost reduction of £37m delivered in H1 2015:
  - c£11m savings as a result of a reduced ATM estate
  - c£20m cost reduction initiatives arising from: branch rationalisation, FTE reduction, supplier contract management, fraud detection and recovery processes
  - One-off non recurring savings in H1 2015 of £6m, relating to property provisions
  - H1 2014 included c.£10m of non recurring one-off costs
  - Cost savings were partially offset by increases in marketing spend, pension, bonus and other costs of c.£10m

Sustainable cost reductions being delivered

Operating costs – staff

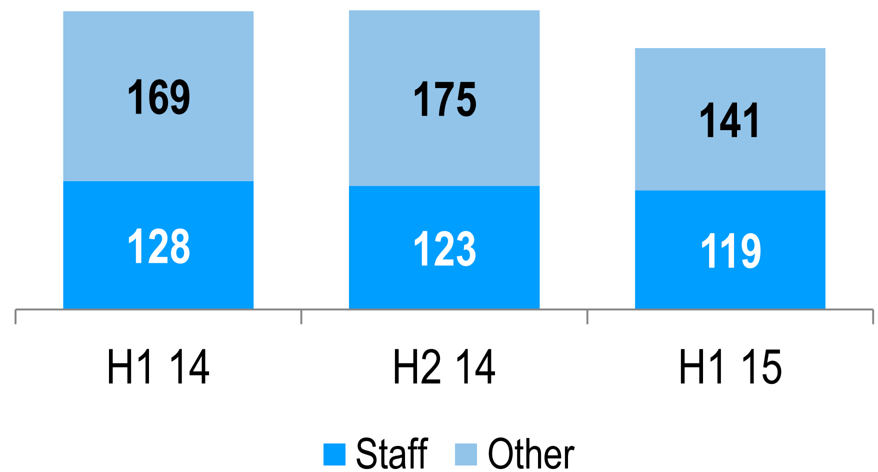
Headcount reductions and branch closures are starting to deliver sustainable cost reductions

FTE



Excludes project staff

Operating Costs (£m)

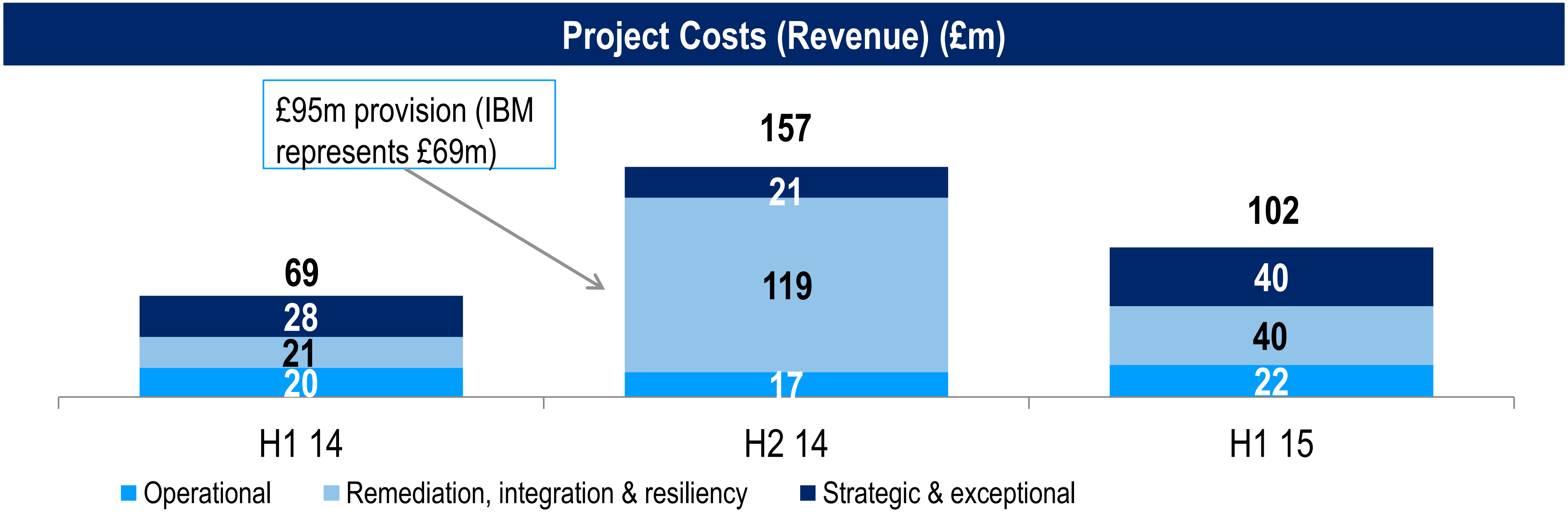


- Total operating FTE reduction in H1 15 of 191 (3.2%) compared to H1 14 – 4.4% reduction on an adjusted basis
- Contractors have been converted into permanent FTEs in H1 15
- Net £9m reduction in staff costs:
  - £4m reduction in permanent staff costs and £5m reduction in contractor costs

1. Adjusted total reflects FTE transferred from Co-operative Group who were previously invoiced through recharge process

Project costs

Delivering resilience, cost reduction and proposition development



Operational

- Spend to ensure regulatory and mandatory minimums are met
  - Including regulatory reporting, FATCA etc.
- Broadly in line with previous periods

Remediation, Integration and Resiliency

- IT remediation and resiliency along with separation
- £17m relating to ESO/separation
- £23m on other projects - new systems and processes
- Significant reduction on 2014 spend due to one-off provision

Strategic & Exceptional

- Transformational in nature and deliver significant cost savings or income benefits to the business:
  - Branch transformation
  - Mortgage outsourcing

Significant project costs remain through 2015 and 2016

Income statement

Presented on a management accounts basis

Bank Performance (£m)	H1 2014	H1 2015	Change
Net interest income	249.2	233.6	(15.6)
(Losses) / gains on asset sales	1.9	(38.2)	(40.1)
Non interest income	56.2	41.1	(15.1)
Operating income	**307.3**	**236.5**	**(70.8)**
Operating costs	(297.0)	(259.6)	37.4
Project costs	(68.8)	(101.9)	(33.1)
Impairment gains (losses)	86.7	44.6	(42.1)
Operating result	**28.2**	**(80.4)**	**(108.6)**
FSCS levy	(25.3)	(20.5)	4.8
Share of profits from JVs	(0.1)	-	0.1
Conduct / legal risk	(38.6)	(49.0)	(10.4)
Fair value amortisation	(41.2)	(54.3)	(13.1)
Loss before taxation	**(77.0)**	**(204.2)**	**(127.2)**

Reflects Bank deleverage in Non-core

Net impairment gains largely as a result of active management and improved economic conditions. Almost all from Non-core

Conduct provision charges increased mainly due to CCA and packaged accounts

Unwind of the fair value adjustments associated with the merger with and Britannia Building Society continues to impact the income statement

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 4

Business segmental contribution

Operating result markedly lower due to lower Core income and reduced impairment gains

Bank Operating Result (£m)

	H1 2014	H1 2015	Change
Retail contribution	177.7	152.0	(25.7)
BACB contribution	20.8	21.7	0.9
Core ex. Treasury / other	**198.5**	**173.7**	**(24.8)**
Treasury / Other contribution	(34.4)	(5.1)	29.3
Core contribution result	**164.1**	**168.6**	**4.5**
Non-core contribution result	**117.2**	**15.9**	**(101.3)**
Operations & central costs	(184.3)	(163.0)	21.3
Project costs	(68.8)	(101.9)	(33.1)
Operating result	**28.2**	**(80.4)**	**(108.6)**

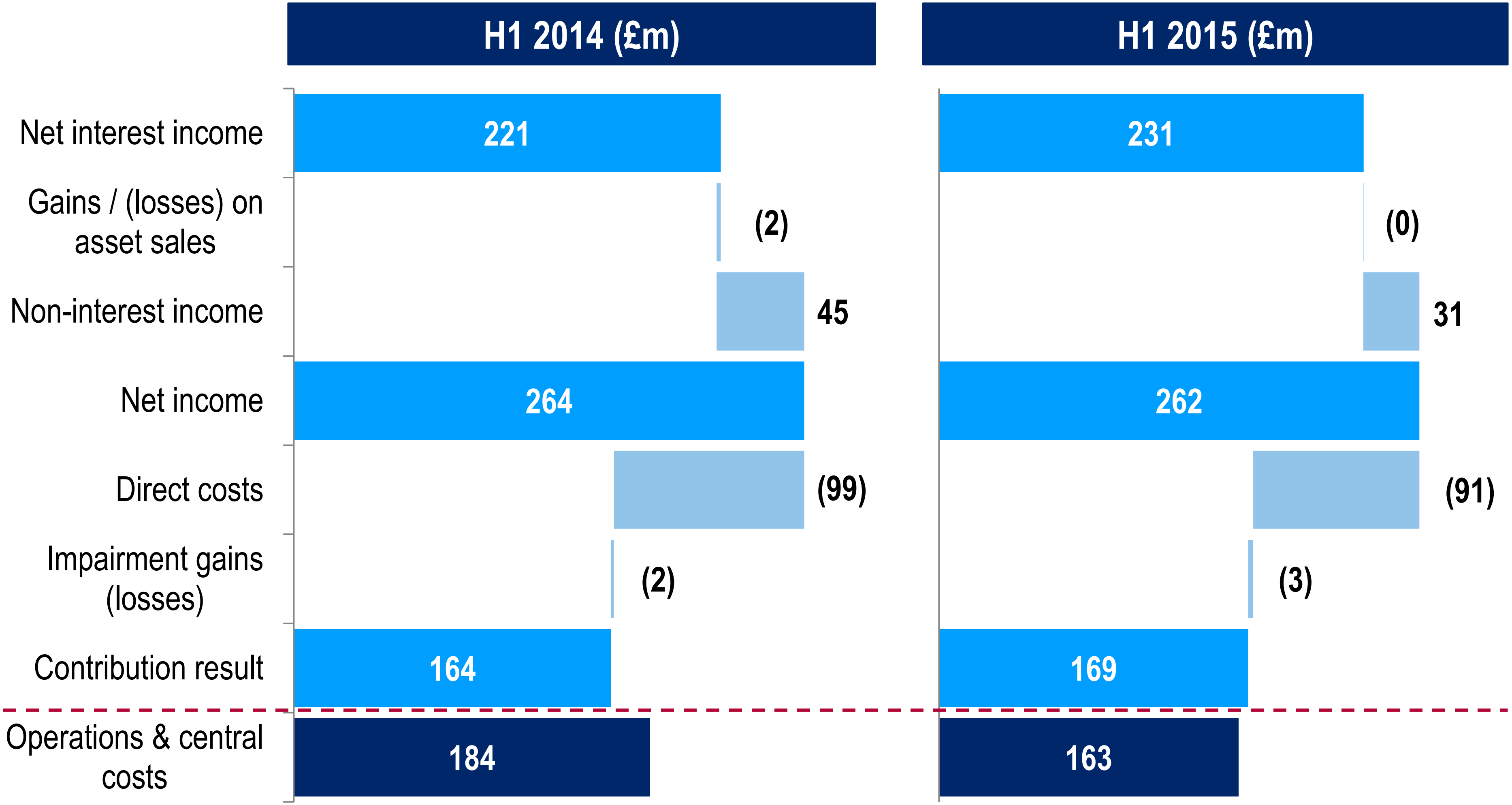
Decrease due to a reduction in income, partially offset by net impairment write backs and lower direct costs

Reduced loss reflecting improved non-interest income, reduced losses on asset sales and lower costs

Driven by losses on asset sales and lower net impairment gains

Core Business — Contribution

Higher net interest income through lower funding costs offset by reduced non-interest income



Core bank contribution has exceeded operations and central costs

Note: Operations & central costs have not been allocated to either Core or Non-core. Core will represent vast majority of cost base in the longer term

Non-core Business — Contribution

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

Non-core Contribution (£m)

	H1 2014	H1 2015	Change
Net interest income	28.3	2.3	(26.0)
Gains / (losses) on asset sales	4.0	(38.1)	(42.1)
Non-interest income	10.9	10.5	(0.4)
Net income	**43.2**	**(25.3)**	**(68.5)**
Direct costs	(14.2)	(6.1)	8.1
Impairment gains / (losses)	88.2	47.3	(40.9)
Contribution result	**117.2**	**15.9**	**(101.3)**

Significant reduction in net interest income following targeted asset reduction

Reflects market conditions as the Bank deleverages non-core assets

Active management and asset disposals at favourable prices have continued to result in further impairment gains

Valuations of assets have been revised

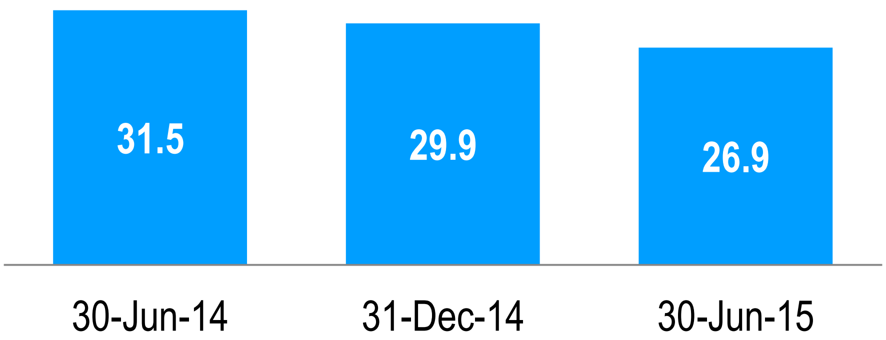
(£m)	H1 2014	H1 2015
Workout	36.8	50.5
New Impairments	(13.4)	(17.1)
Revaluations	52.9	10.7
Modelling and other	12.0	3.2
Gains (losses)	**88.3**	**47.3**

1. H1 2014 comparables have been restated – see Note 3 of the Interim Results

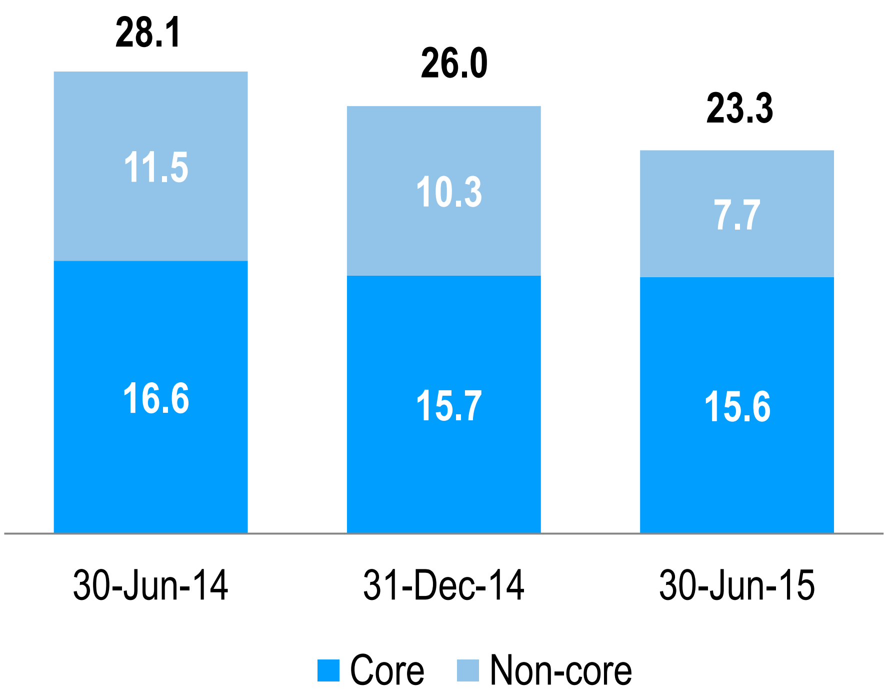
Balance sheet highlights

Management action has reduced fixed term, instant and ISA deposits. Core loan book has stabilised as expected

Customer Deposits (£bn)



Net Customer Loans[3,4,5] (£bn)



Other Selected Balance Sheet Data

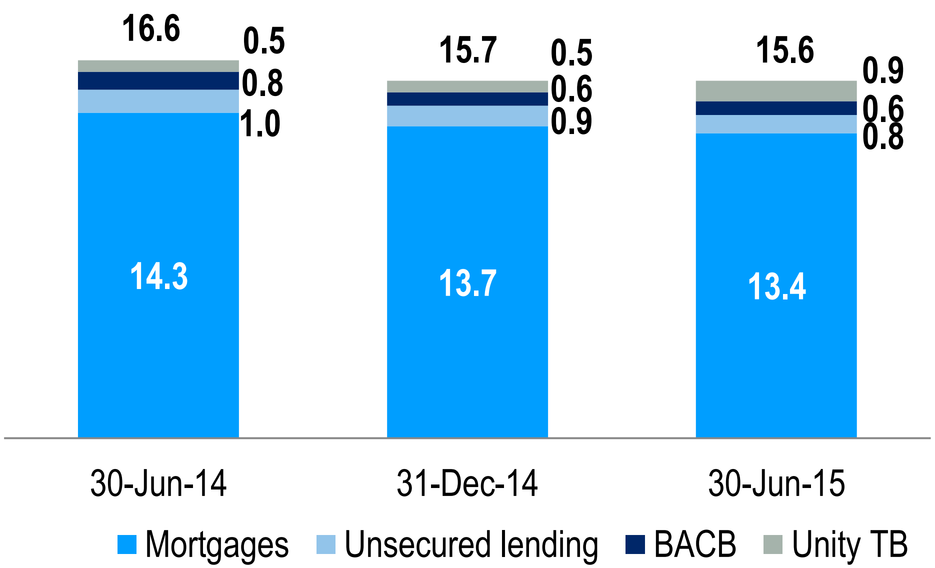
	31/12/14	30/06/15	*Change*
Equity (£bn)	2.0	1.8	*(0.2)*
Loan-to-deposit ratio[4]	85%	83%	*(2)pp*
NPL ratio[1,3]	10.0%	7.7%	*(2.3)pp*
NPL coverage ratio[2,3]	26.8%	33.2%	*6.4pp*

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).
5 Core Business numbers include Unity Trust Bank (UTB)

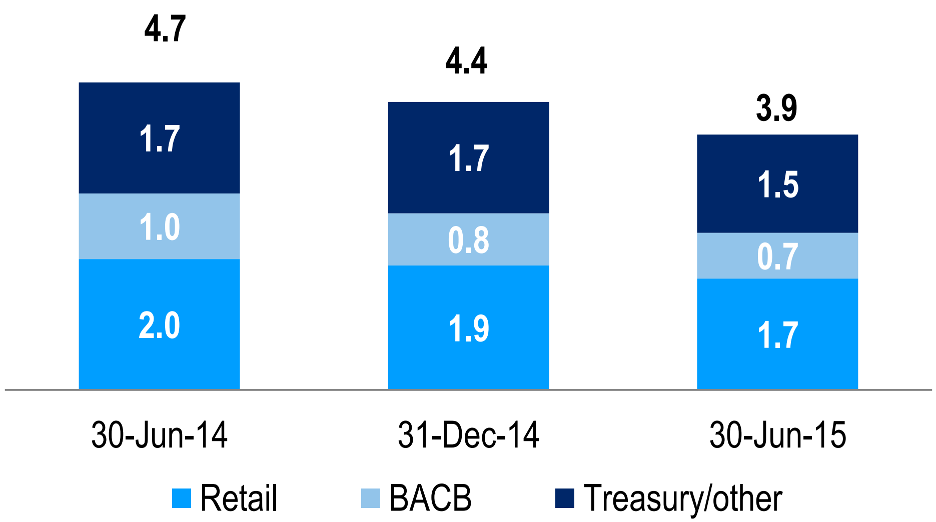
Core Business — Loans & RWAs

Net loans have reduced due to lower mortgage balances. RWAs have reduced accordingly

Net Loans (£bn)



Credit RWAs[1] (£bn)



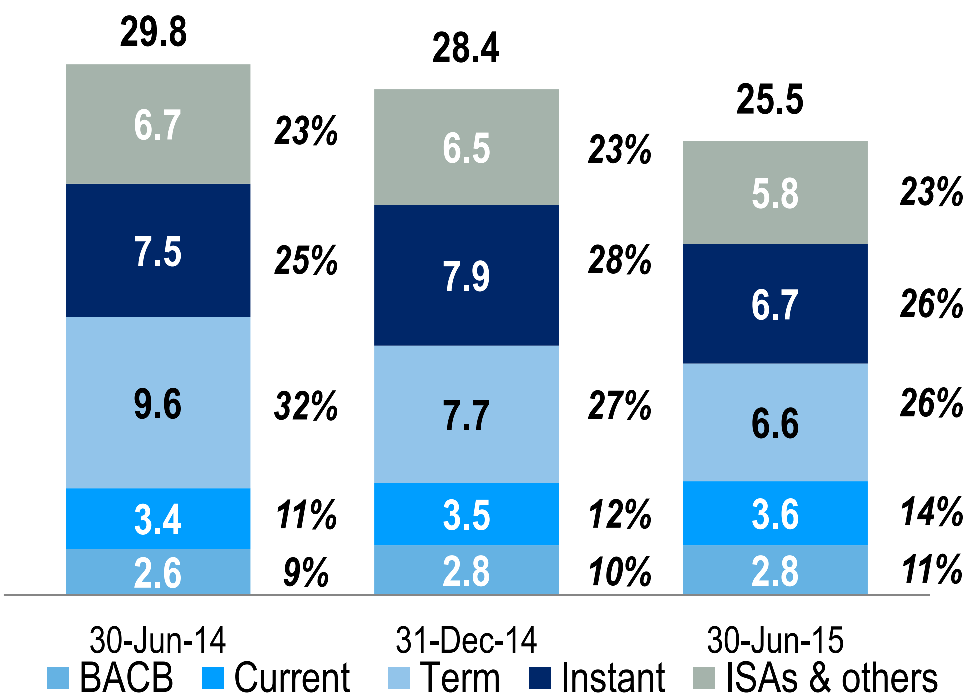
- Slowed the decline in mortgage lending as the pipeline recovers to required levels
- RWAs have fallen in line with net loans in retail (mortgages and unsecured lending), BACB and Treasury has also fallen during the period

1 CRD IV Credit RWAs (fully loaded rules basis)

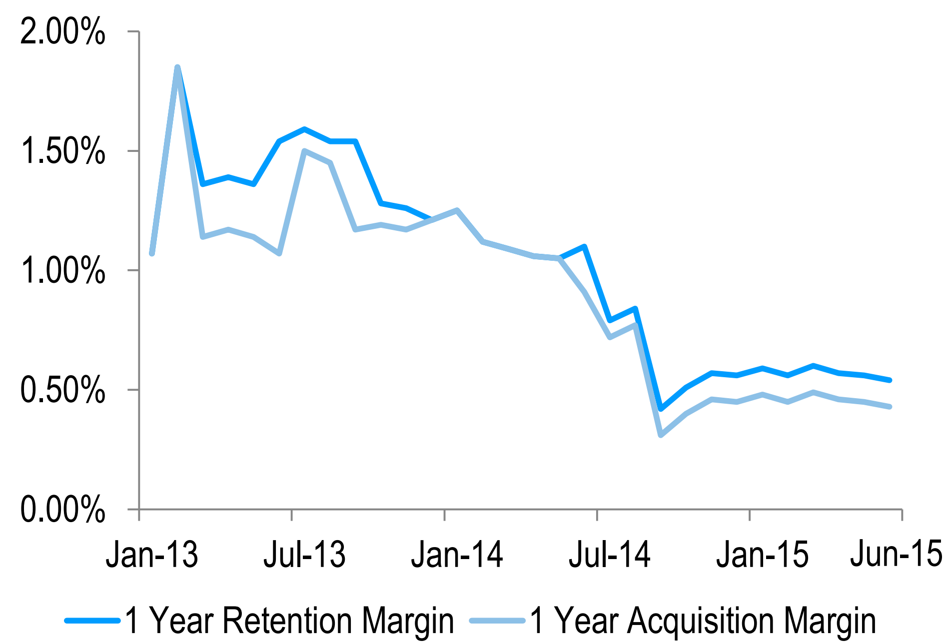
Core Business — Deposits & funding costs

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

Customer Deposits[1] (£bn)



Fixed Term Deposit Costs



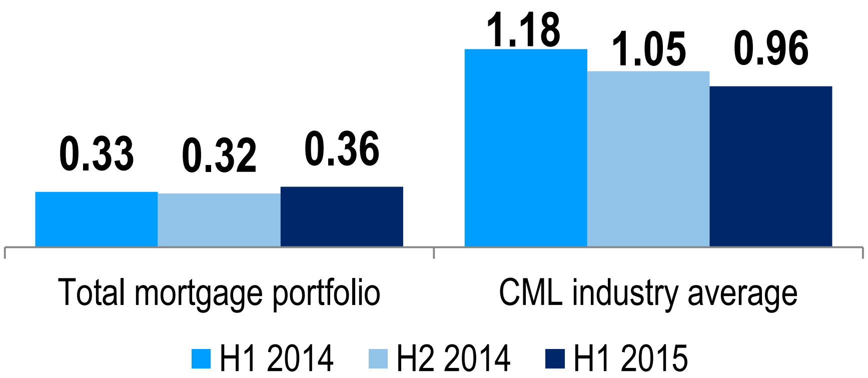
- Current account deposit balances are up £165m since December 2014 with a broadly stable current account base
- Intentionally reduced the most expensive term funding to reduce liquidity (Term and ISAs & others books)

1. Management reporting basis
2. Core Business numbers exclude Unity Trust Bank (UTB)

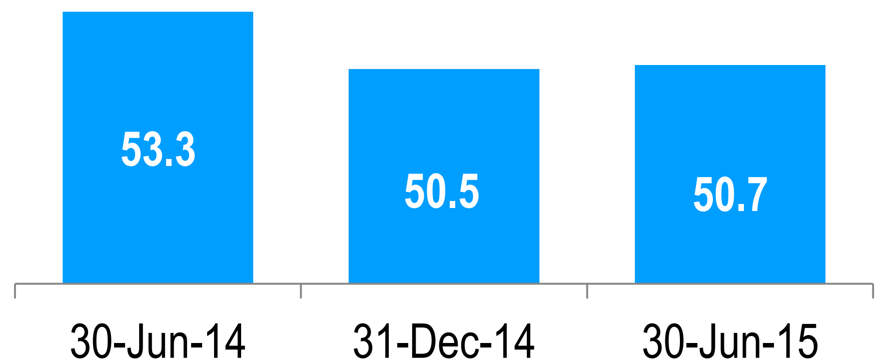
Core Business — Asset quality & split

High quality mortgage portfolio with arrears significantly below the industry average

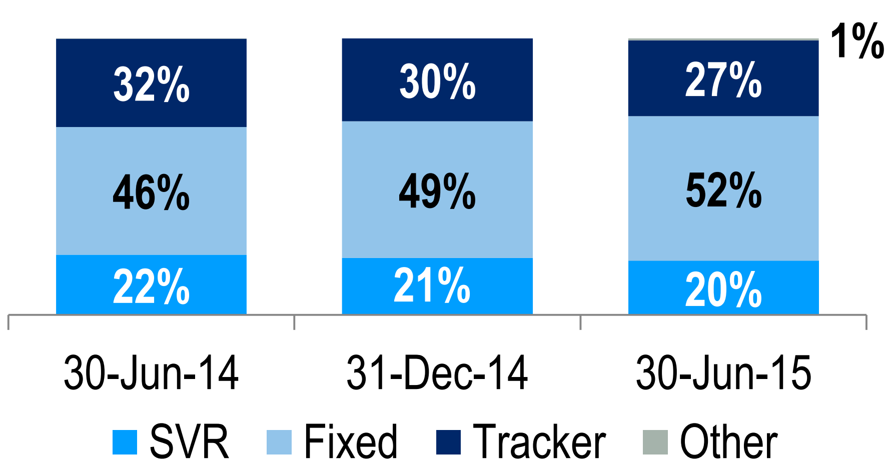
Arrears (%)[1]



Average Mortgage LTV (%)



Mortgage Book Split



Impairments (£m)

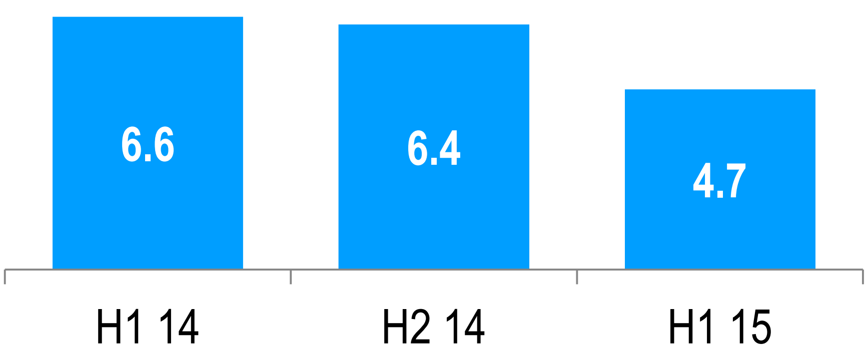
	H1 14	H1 15
Workout	-	-
Modelling & other	2.2	3.0
New impairments	(3.7)	(5.7)
Revaluations	-	-
Total	**(1.5)**	**(2.7)**

1 Proportion of mortgage accounts with >2.5% in arrears

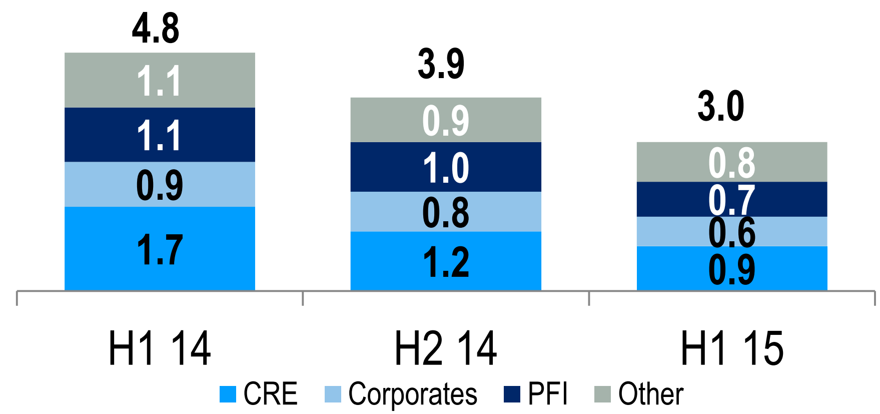
Non-core Business — Balance sheet dynamics

Non-core represents 33% of total net customer loans and 57% of Credit RWAs[2]

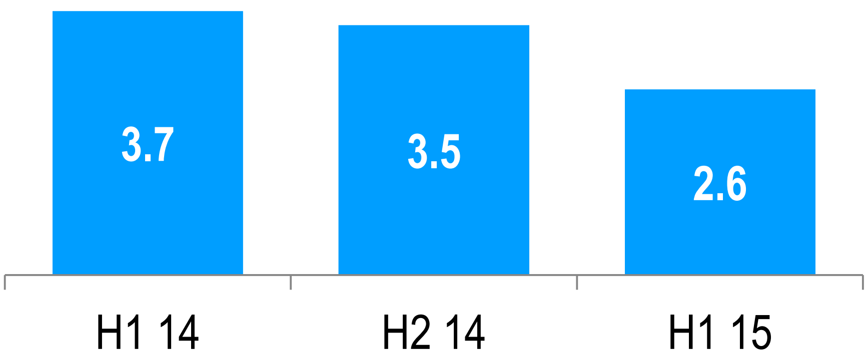
Non-core Net Loans[1,3] - Optimum (£bn)



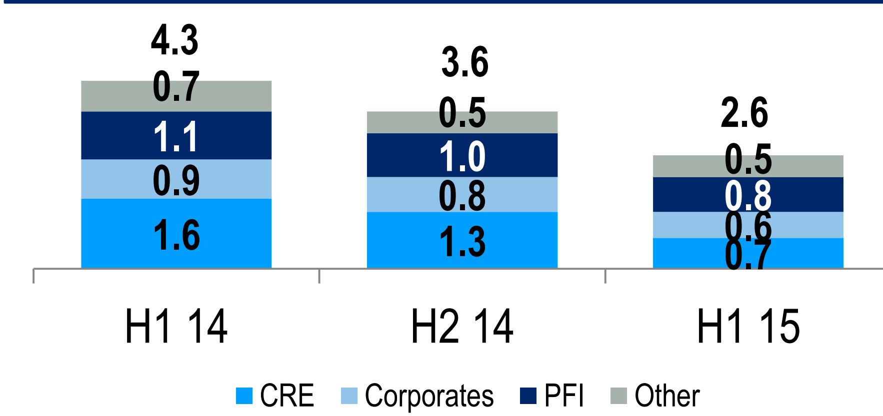
Non-core Net Loans[1,3] - Other (£bn)



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



Non-core Credit RWAs[2] - Other (£bn)



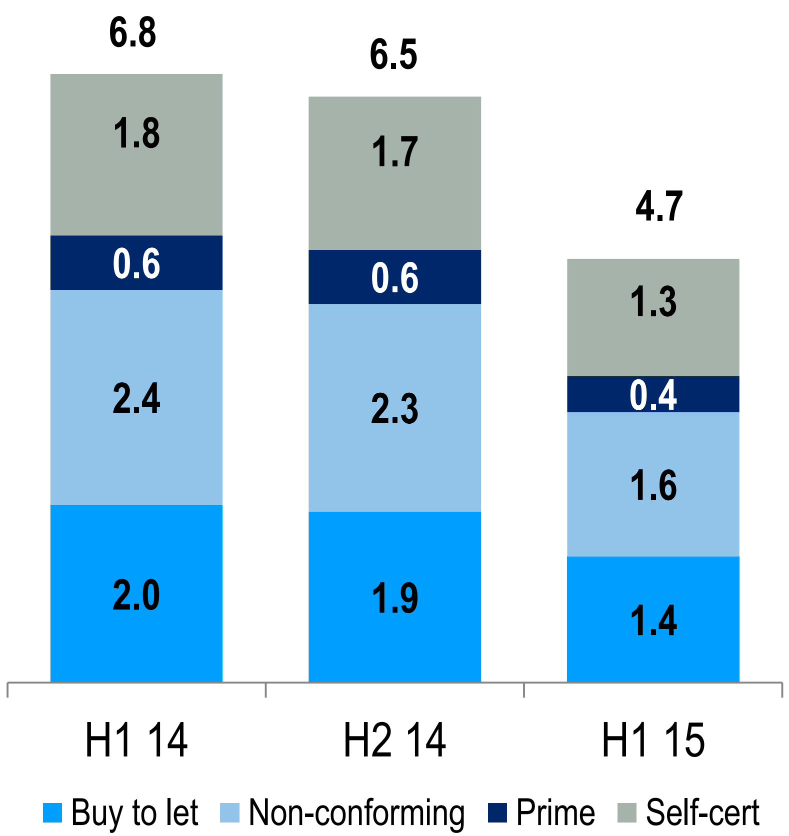
Accelerated deleveraging through Optimum disposal programme. Second transaction planned for 2015

1 Does not include Illius which is not considered as loans
2 CRD IV Credit RWAs (fully loaded rules basis)
3 Includes hedge risk provision but excludes other accounting adjustments

Optimum overview

Bank will seek to build on the success of the first Optimum securitisation transaction

Gross Customer Balances (£bn)



Warwick 1 – Impact Summary

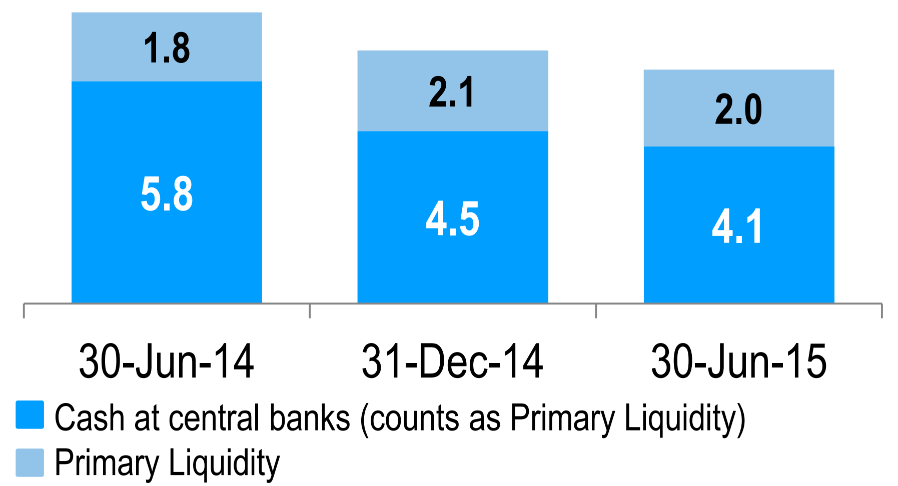
- Net cash proceeds of **£1,483.8m** on a disposal of **£1,493.7m** gross loans and advances
- **£9.9m** loss on disposal – incorporating the associated release of credit risk provisions, fair value reserves and transaction costs, the overall impact on PBT was **£5.9m**
- Continue to hold £0.7bn of RMBS assets following retention of 65% of the Class A Notes
- Significant deleveraging event – reduced credit RWAs by **£804.1m**, increased CET1 by **£10.7m** due to gains on asset sales of **£5.9m** and a reduction in EL Gap of **£4.8m**
- Contributed a benefit of **1.2%** to the Bank's CET1 ratio in H1 15

Optimum deleveraging critical to improving the bank's capital resilience to stress

Liquidity

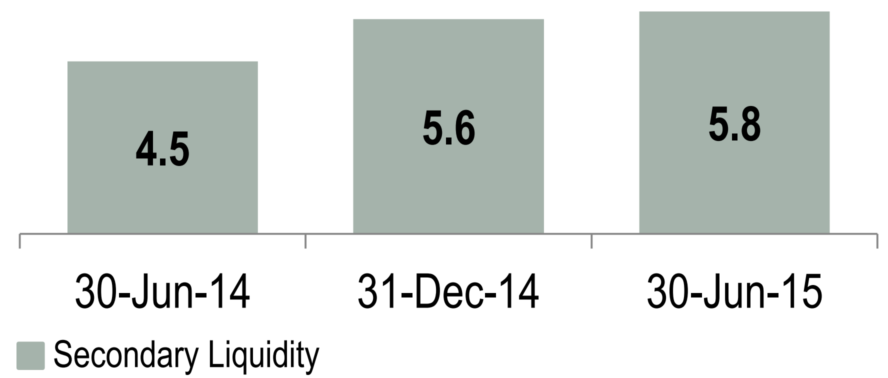
Liquidity has reduced despite significant deleveraging

Primary Liquidity (£bn)



- Liquid asset buffer[1] of £6.1bn – reduced by £0.5bn
- Liquid asset ratio[2] of 17.9% (17.4% as at 31 Dec 14)
- Balances held at the central bank have decreased

Secondary Liquidity (£bn)



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

- **Key levers to lower liquidity levels over time:**
  - Reduction in retail deposits – focused on fixed term deposits
  - Repayment of maturing wholesale funding
  - Improving capital resilience will allow relaxation of risk appetite thus lowering liquidity levels

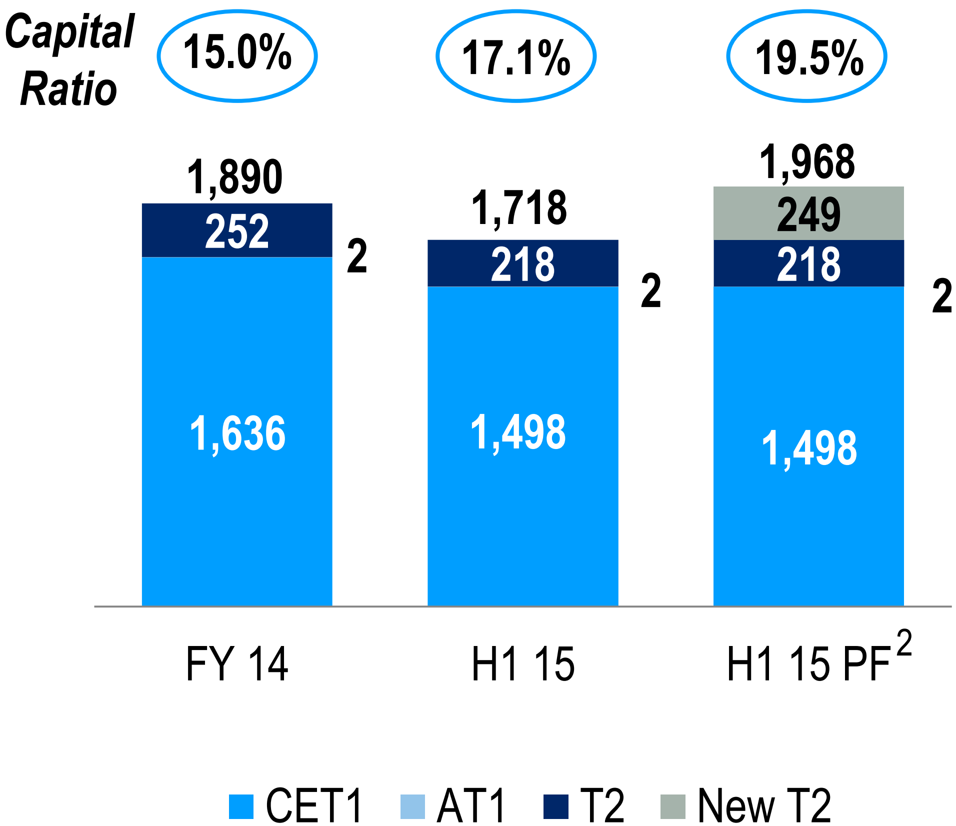
Targeting a further reduction in liquidity over time as bank resilience improves

1 As defined in BIPRU 12.7
2 Calculated as primary liquidity divided by total assets

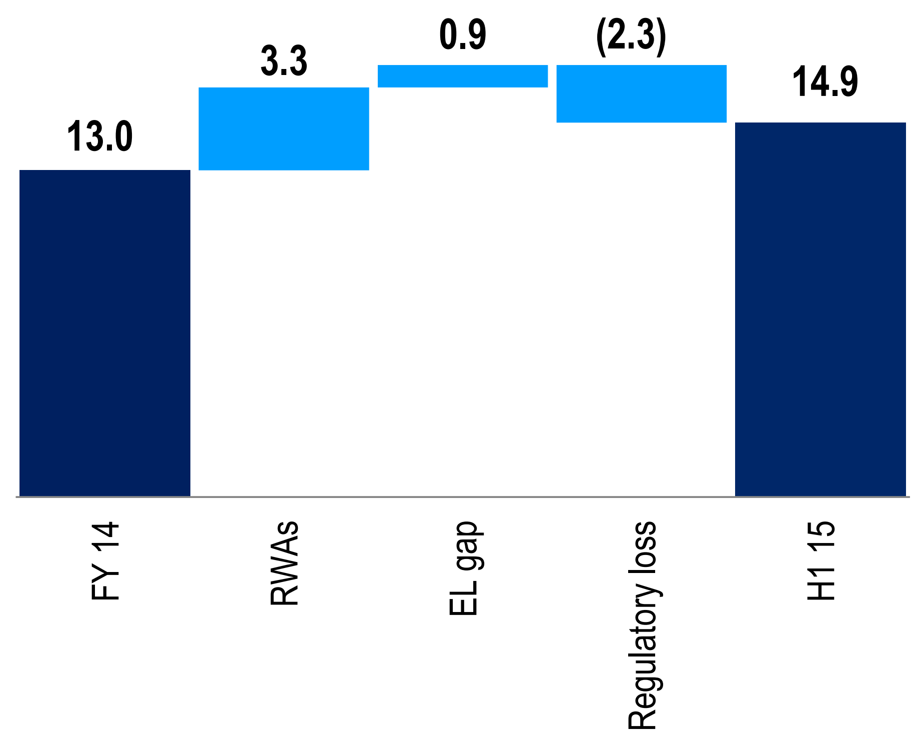
Strengthened capital position

Strengthened position from Tier 2 issuance and RWA reduction, offset by losses

Capital Position[1] (£m)



CET1 Ratio Development (%)



1 CRD IV fully loaded rules basis

2 The Bank issued £250m of Tier 2 capital on 30 June 2015. However, payment for this capital was not received until 1 July 2015, therefore in order to ensure compliance with CRR requirements for capital instruments to be fully paid up, the capital issuance has not been recognised within the Bank's capital resources until July 2015

Section 4

Conclusion

Niall Booker

Conclusion and outlook

Core Bank Rebuild	Digital and product development
	Building on NPS scores
	Cost reduction programme on track
	Talent mapping and succession planning
Improving resilience	Significant transformation work remains
	Optimum deleveraging and non-tier 1 capital issuance
	Further embed cultural and governance change

On plan and heading in the right direction

Q&A

Appendix

The co-operative bank

Redress & remediation update

Planned conduct remediation activities to be substantially progressed in 2015

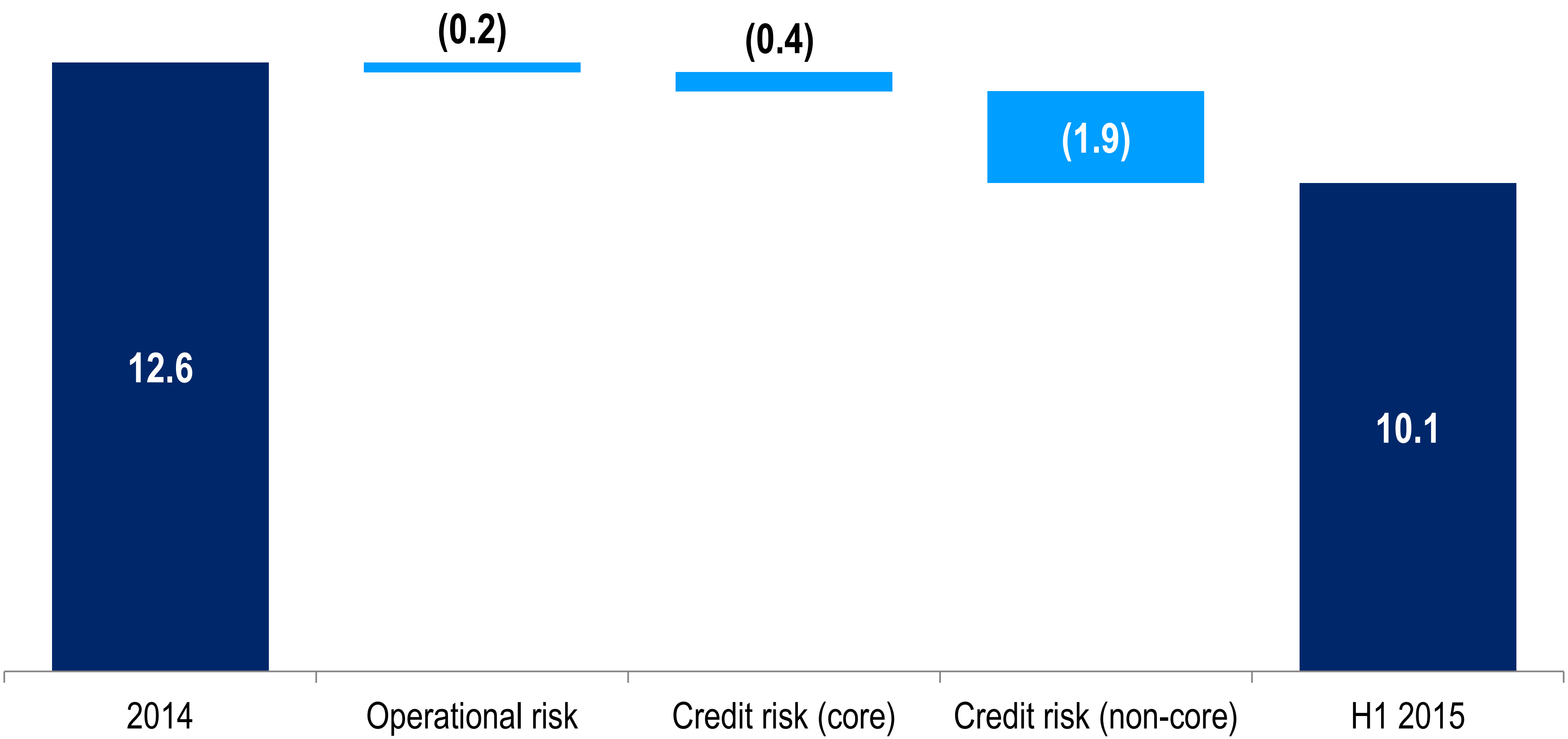
PPI *No new provision*	• Proactive redress will be substantially completed under current regulatory parameters by Q3 2015 • c.72k of cases already redressed (c.10k remaining) • Future regulatory actions and scope remain a risk, noting FCA guidance post Plevin case is outstanding
Mortgages *Provision: £5.1m*	• Low complexity mortgage issues – c. 400k issues to address (>60% already redressed) • Scope of redress for poor mortgage arrears handling agreed • Forbearance case reviews under way • Planned customer redress to be substantially progressed by end of 2015
CCA *Provision: £29.9m*	• c.240k customers identified – redress commenced with high volume solution live in July 2015 • Initial focus has been on open loans and secondly on closed loans • Planned Customer redress to be substantially progressed by end of 2015 • Data quality and availability remains challenging
Packaged accounts *Provision: £16.8m*	• Increased inbound complaint volumes, expected to persist • H1 provision includes new component to reflect the volume of customer complaints received. 2014 provision only reflected estimate of redress based on proactive customer contact • Proactive remediation starting in Q3 2015
Mitigating future conduct risk	• Annual product reviews under current regulatory parameters conducted on most retail on-sale products • Review of all on sale products in BACB has been completed and the process for future annual product reviews is embedded • Regulatory assurance monitoring and enhanced oversight from Internal Audit

CCA, Mortgages and Packaged Accounts provisions (as at June 30 2015) include redress (net of any redress paid to date) and delivery costs

Risk Weighted Assets

RWAs have decreased by £2.6bn since year end mainly driven by the £1.9bn reduction in Non-core RWAs (£0.9bn from the Warwick securitisation)

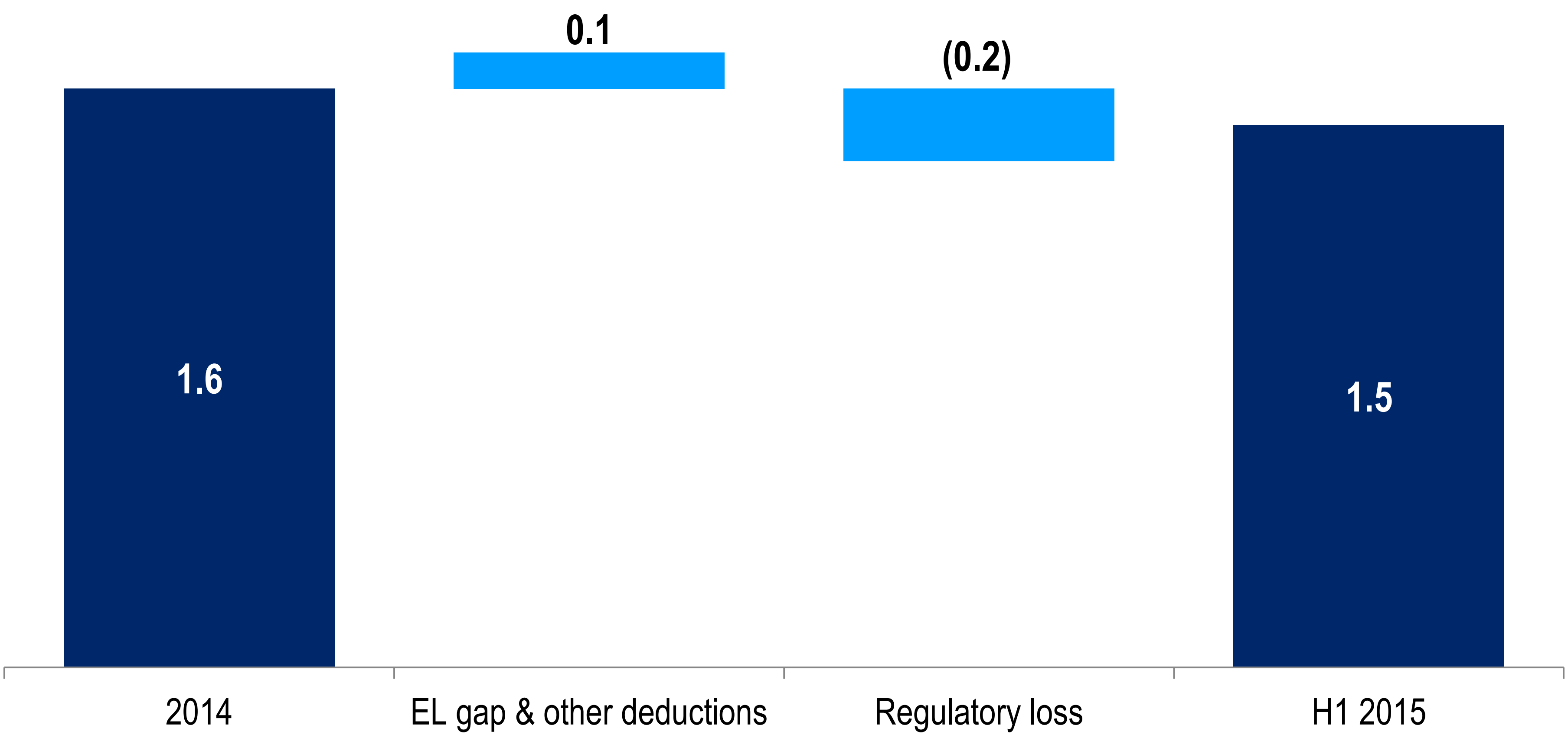
Risk Weighted Assets (£bn)



Common Equity Tier 1

Regulatory loss partially offset by a reduction in the deduction for EL gap driven by a change in methodology to allow netting across defaulted exposures, in line with EBA guidance

Common Equity Tier 1 (£bn)



Warwick 1 – income statement impact

Securitisation generated net cash proceeds of £1,483.8m on a disposal of £1,493.7m gross loans and advances

	Loss on disposal of assets	Release of allowance for losses	Release of conduct provision	Release of merger fair value	Transaction costs	H1 15
Net interest income	-	-	-	-	-	-
(Losses) gains on asset sales	(9.9)	18.2	(4.2)	-	(7.0)	(2.9)
Non interest income	-	-	-	-	-	-
Operating income	**(9.9)**	**18.2**	**(4.2)**	**-**	**(7.0)**	**(2.9)**
Operating costs	-	-	-	-	-	-
Project costs	-	-	-	-	-	-
Impairment gains (losses)	-	-	-	(3.7)	-	(3.7)
Operating result	**(9.9)**	**18.2**	**(4.2)**	**(3.7)**	**(7.0)**	**(6.6)**
FSCS levy	-	-	-	-	-	-
Share of profits from JVs	-	-	-	-	-	-
Conduct / legal risk	-	-	4.2	-	-	4.2
Fair value amortisation	-	-	-	8.3	-	8.3
Profit (loss) before taxation	**(9.9)**	**18.2**	**-**	**4.6**	**(7.0)**	**5.9**

Overall impact on the Bank's PBT was £5.9m

Warwick 1 – balance sheet & capital impact

Warwick 1 securitisation was a significant deleveraging event – reduced credit RWAs by £856.2m, increased CET1 by £10.7m due to gains on asset sales of £5.9m and a reduction in EL Gap of £4.8m

Balance Sheet – Net Carrying Value

	31 Dec 14[1]	Contractual repayments	Redemptions	Possession sales	Allowance for losses[2]	Fair value amortisation	Other	Pre-Warwick 30 Jun 15	Impact of Warwick 1	Accounting reclassification post Warwick 1	30 June 2015[3]
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Optimum Balance Sheet											
Gross customer balances	6,450.1	(35.7)	(191.9)	(9.4)			(0.1)	6,213.0	(1,493.7)		4,719.3
Allowance for losses	(21.9)				14.2		0.4	(7.3)	18.2	(20.4)	(9.5)
Fair value adjustments	(76.3)					1.5	0.1	(74.7)	4.6	20.4	(49.7)
Other accounting adjustments	4.3						15.7	20.0			20.0
Net carrying value	**6,356.2**	**(35.7)**	**(191.9)**	**(9.4)**	**14.2**	**1.5**	**16.1**	**6,151.0**	**(1,470.9)**	**-**	**4,680.1**

RWAs (£m)

	31 Dec 14	Disposal of Optimum assets	Warwick 1 Class A Notes	Other Movements	30 Jun 15
	£m	£m	£m	£m	£m
Optimum credit RWAs	3,526.0	(856.2)	-	(41.0)	**2,628.8**
Warwick Finance 1 RMBS credit RWAs[1]	-	-	52.1	-	**52.1**
Total	3,526.0	(856.2)	52.1	(41.0)	**2,680.9**

Warwick 1 contributed a benefit of 1.2% to the Bank's CET1 ratio in H1 15

[1] Refer to note 1.3.1 for further information on loans and advances to customers at 31 December 2014
[2] £14.2m decrease to allowance for losses, including parameter refresh and improvement in underlying asset quality
[3] Refer to note 1.3.1 for further information on loans and advances to customers at 30 June 2015

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 20 of the 2015 Interim Financial Report, 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

	2015	2016	2017
Leek unwind	**(145)**	**(176)**	**(58)**
Deferred tax liabilities	28	37	12
Income statement impact			
Profit before tax	(145)	(176)	(58)
Tax	28	37	12
Net	(117)	(139)	(46)
Balance sheet impact			
Assets	-	-	-
Debt securities in issue	145	176	58
Deferred tax liabilities	(28)	(37)	(12)
Liabilities	117	139	46
Equity	(117)	(139)	(46)
CET1 impact	(117)	(139)	(46)

Recent UK tax changes

Overview of recent Budget announcements relevant for UK banks

Carryforward Losses (April 2015)

- Treatment of bank carryforward losses in the UK changed in April 2015 – losses incurred post April 2015 have to be utilised first with losses prior to April 2015 being utilised once those losses have been exhausted
- Even then, those losses can only be applied to 50% of taxable profit in any one year

Bank Surcharge (July 2015)

- New 8% corporation tax surcharge on bank profits will be introduced from 1 January 2016.
- Surcharge is an incremental tax over and above corporation tax and applies to different taxable profits than corporation tax
- Profits to which the surcharge applies are the total taxable profits as calculated for corporation tax purposes excluding (i) group relief from non-banking companies and (ii) brought forward losses where the losses arose prior to 1 January 2016. In addition, there is a £25m group allowance to reduce the taxable profits in the year which if not utilised will be lost and cannot be carried forward
- Expect to incur tax losses in 2016 which should be available to offset against the bank surcharge on any subsequent profits
- Potentially affects timing of DTA recognition

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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; 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 2015 Interim Report.

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