2013 Full Year Results Presentation

11 April 2014

Updated version 28 April 2014

The co-operative bank

Agenda

1)	Introduction	Richard Pym
2)	CEO update	Niall Booker
3)	Financial performance	John Baines
4)	Conclusion	Niall Booker
5)	Q&A	

Section 1

Introduction

Richard Pym — *Chairman*

Governance reforms to The Co-operative Bank Board

- **Previous standards fell seriously short of what was required**
- **Board renewal process well underway**
  - A number of new Directors have joined since January 2013 to strengthen and broaden the experience on the Board
  - Dennis Holt – Senior Independent Non-Executive Director
- **Still work to do - currently recruiting 4 additional Directors**
  - 2 Shareholder Nominated Directors
  - Independent Non-Executive Director to Chair the Values and Ethics Committee
  - Independent Non-Executive Director with HR experience to chair the Remuneration Committee
  - Co-operative Group has 2 seats which are currently vacant

The Co-operative Bank Board

Richard Pym
Chairman

Dennis Holt
Senior Independent Director

Merlyn Lowther[1]
Non-Executive Director

Anne Gunther[1]
Non-Executive Director

Richard Coates
Non-Executive Director

Graeme Hardie
Non-Executive Director

Bill Thomas
Non-Executive Director

Niall Booker
Chief Executive Officer

1 Retires at 2014 AGM

Section 2

CEO update

Niall Booker — *CEO*

Key messages

2013 was a very difficult year for the Bank

Core Bank franchise has seen significant stability

Progress in addressing conduct and legal issues

Focus for 2014: becoming a smaller, efficient bank retaining Co-operative values

Plan to raise £400m of CET1 capital to strengthen the capital base

Completing the turnaround will take time but fundamentals beginning to fall into place

Laying the ground work

Stronger foundation

	November plan	Progress
1 Built liquidity to withstand stress	• Stability post credit rating downgrades	• Liquidity built by August 2013 • Successfully navigated turbulence of late 2013 • Broadly stable retail deposit base
2 Generated capital	• Recapitalisation plan to meet PRA requirements • Bond conversion via LME plus incremental capital	• LME generated £1.2bn of CET1 including £125m of new capital by end 2013 • Group contribution of £313m by end 2014[2]
3 Laid foundation for the business turnaround	• Strategic review has led to: – Redefinition of Core and Non-core[1] – Reduction of non-core assets – Review of conduct and legal risk – New IT plan and data remediation – Reduction in cost base – Strengthened Board and executive management team	• Refocus on Retail and SME franchise • Non-core assets of £1.5bn sold or run off in H2 2013 • Ongoing review of conduct and legal issues • New IT plan approved; data remediation • Cost control programme underway • Key appointments made; more to come

1 Based on redefinition as disclosed in the Bank's 11 per cent. Subordinated Notes due 2023 (Tier 2) prospectus dated 4-Nov-13
2 Net of £20m paid by 31-Dec-13

Strategic plan and vision

A four to five year turnaround plan to return to sustainable profitability

Overarching strategy

Leverage brand strength and high levels of customer satisfaction

Reduce overall risk profile
Liquidity, capital and day-to-day business

Reduce risk-weighted assets
Minimise impact on capital

Act in accordance with Co-operative values and ethical principles
Doing the right thing by our customers

CORE BUSINESS

Simplify and focus on retail & SME customers
Enhance returns

NON-CORE BUSINESS

Actively manage to achieve the most appropriate value for each portfolio or target for run down or exit
Taking into consideration liquidity and capital requirements

Efficient and profitable bank underpinned by Co-operative values focussed on retail and SMEs

Reshaped Bank

Core Business focused on our Retail and SME franchise with Non-core Business prudently de-levered

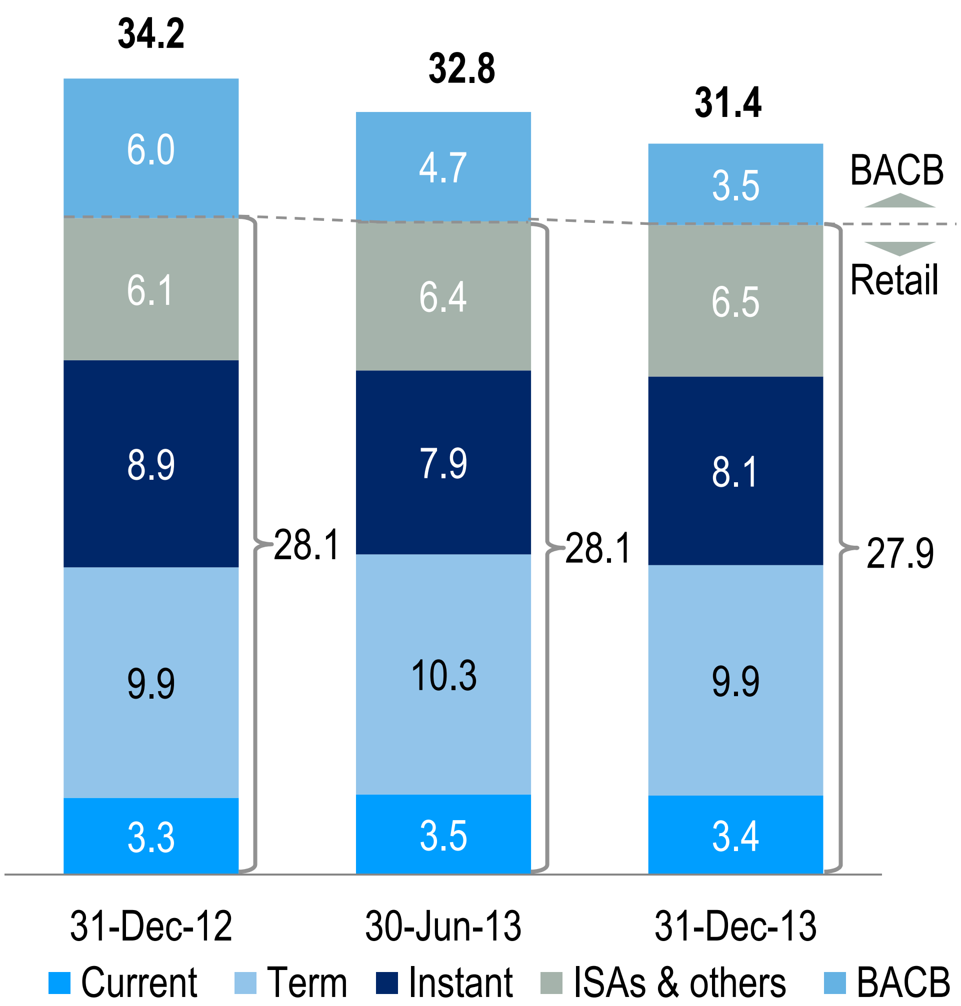
	Core Business[3]	Non-core Business
Definition	• Retail (mass market) and SME (typically <£25m turnover) • Consistent with the Bank's strategy and risk appetite	• Non-performing, defaulted, unprofitable and/or capital intensive • Incompatible with Core Business' platform • Inconsistent with the Core Business strategy and risk appetite
Focus	• Retail and SME franchise including charities and co-operatives • Relationship-based • Where Bank has strong market credentials, relationships and expertise • Easy-to-understand products	• Corporate banking assets—Corporates, CRE, PFI, Housing associations, Local authorities, REAF • Optimum • Illius
Segmental assets[1]	**£28.6bn** (£30.0bn in Jun-13)	**£13.1bn** (£14.2bn in Jun-13)
CRD IV Credit RWAs[1,2]	**£5.2bn** (£6.2bn in Jun-13)	**£8.6bn** (£10.0bn in Jun-13)

1 As at 31 December 2013 and 30 June 2013
2 CRD IV fully loaded rules basis. Respective RWAs (31-Dec-13) under Basel 2 of £4.4bn (Core Business) and £8.3bn (Non-core Business)
3 Includes Retail, BACB, Treasury and Unity Trust Bank

Core Business franchise

Stable retail deposit base and awards for customer satisfaction

Stable retail deposits (£bn)



Strong and differentiated brand

The co-operative bank

Fair **Responsible** **Trusted**

Awards for customer satisfaction

uSwitch.com Awards 2013

"Top Rated" in 7 other categories

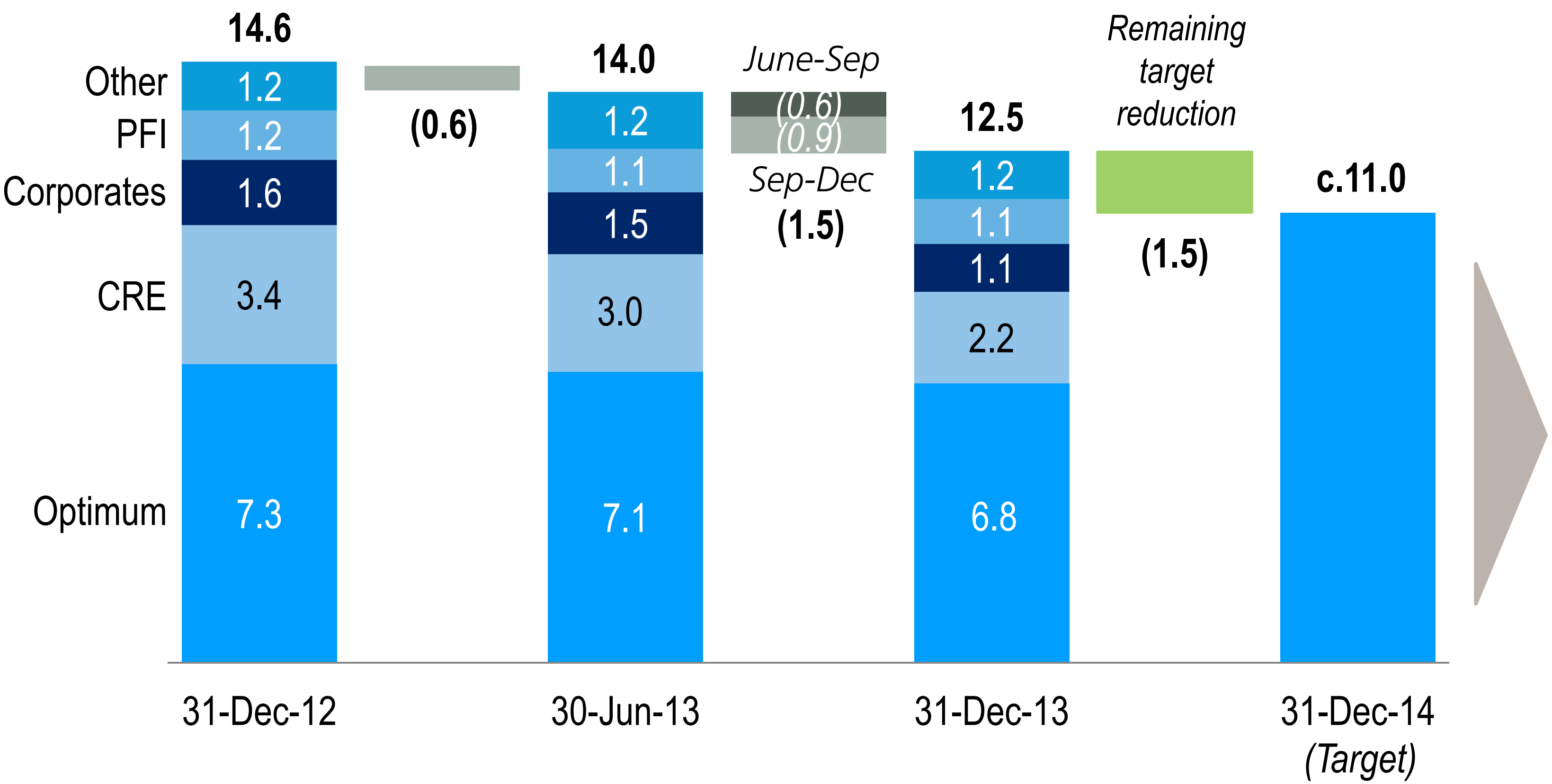
- "Best High Street Bank" in Jan 2014 Customer Satisfaction Index
- 76% customers rate Bank an 8 or above out of 10 (June 2013)[1]

1 Optimisa research

Non-core Business

Deleveraging progressing ahead of plan; 2014 year-end deleveraging target updated

Non-core loans[1,3,4] (net, £bn)



Continue deleveraging thereafter at a slower pace

Target remains to achieve deleveraging that does not materially reduce the CET1 ratio of the Bank[2] as a whole

1 Does not include Illius assets which are not classified as loans
2 Deleveraging in such a manner that the anticipated future losses from deleveraging do not materially exceed the capital that is released from the reduction in RWAs
3 Includes hedge risk provision but excludes other accounting adjustments
4 30-Jun-13 loans shown as per the LME presentation which does not reflect a subsequent perimeter change moving £100m from Core to Non-core. The changes related to perimeter are reflected in the 31-Dec-12 and 31-Dec-13 numbers

Please note that footnotes 3 and 4 have been added to the presentation published on 11 April 2014 to provide additional clarity

Conduct risk — Actions taken

Significant work has been undertaken to review areas of risk and make appropriate provisions

Conduct risk	Actions taken	Provision charges (£m) H1 2013 (unaudited[1])	H1 2013 (audited[2])	H2 2013	FY 2013 (audited)
PPI	• Revised policy to reflect current regulatory requirements • Adjustment of key provision assumptions • Agreed retrospective reviews of historic at-risk complaint decisions • Developing process efficiencies to reduce costs of operations	25	53	50	103
Interest rate swap mis-selling	• Full past business review performed (including by external experts) • Redress calculations based on latest guidance from FCA and Skilled Person Review • Customers who might be affected pro-actively approached and majority now contacted	10	10	23	33
Breaches of the Consumer Credit Act (legal provision)	• Certain breaches of the Consumer Credit Act require interest and arrears charges to be refunded • Extensive analysis of breaches to assess their nature and consequences • Ongoing review of CCA documentation as well as operational reviews	0	29	81	110
Conduct redress related to mortgage products	• Mortgage Business Review (MBR) identified a number of risks and issues based on requirements of Mortgage Conduct of Business and Mortgage Market Review • MBR fixing issues for go forward position, forbearance may be required • Remediation projects underway to provide redress to areas impacted	4	49[3]	65	114
Other	• Bank has agreed to an industry wide scheme of arrangement regarding third party identity protection insurance • Other risks are areas with identified process failings e.g. orphan cash	26	26[3]	26	52
	Total	65	167	244	412

1 As disclosed in the Bank's interim financial report 2013 dated 29 August 2013
2 As disclosed in the Bank's 11 per cent. Subordinated Notes due 2023 (Tier 2) prospectus dated 4 November 2013
3 £11.3m of provisions previously classified as Other in the H1 2013 audited accounts reclassified as Conduct redress related to mortgage products for comparability to H2 2013 data

Investment in transformation

Transformation of the Bank's operating platform has started but will continue to require high levels of investment particularly in IT where significant risks remain

1 Mandatory

- Regulatory compliance
- Risk remediation
- Resilience activities
- Management information

2 Enablement of the strategy

- Digital catch-up
- Improving product pricing and credit decisioning
- Branch closures
- Non-IT process optimisation

3 Delivery of the strategy

- Systems rationalisation
- Channel optimisation and integration
- Enabling customer self-service
- Automated processes and workflow

Progress[1]

- Investments in IT projects in 2013 – focussed on improving resiliency, capability and process
- Completed mapping risks to critical business services – clearer understanding of risks
- Concluded major resilience review
- Projects to address most significant operational, compliance and conduct risks underway
- Digital proposition approved and in execution
- Review of outsourcing strategy in process

The currently budgeted turnaround execution cost in the region of £500m over the next 3 financial years will be regularly assessed as the plan is executed

1 Progress to date

Core Business — Operating costs

Cost savings programme is in execution

Cost savings programme

1. **Simplification of product offering**
   - ✓ *Efficiency gains in operations and IT functions*
2. **Rebalancing of distribution towards digital and other self-service channels**
   - ✓ *Rationalisation of branch network (target reduction of at least 15% by end 2014)*
     - – *Reduction of 15% (51 branches) achieved in 2013*
3. **Business efficiency improvements (IT and non-IT enabled)**
   - ✓ *Reduce administrative costs*
     - – *FTE reduced by around 1,000 in 2013*
4. **Delayering of management**
5. **Full integration of Britannia Building Society within Bank**

Target cost income ratio for Core Business <60% in the longer term

Strengthened Bank executive team

Niall Booker
Chief Executive Officer

John Baines
Chief Financial Officer

Bob Rickert
Chief Operating Officer

Grahame McGirr
Chief Risk Officer and Head of Non-core

Julie Harding
HR Director

Liam Coleman
Treasurer

Steve Britain
Acting Head of Core

Brona McKeown
General Counsel & Company Secretary

Values and ethics — How we will deliver

We are committed to retaining Co-operative values and ethical principles

- A commitment to Co-operative values and ethical principles is enshrined in our constitution
- Critical to differentiating the Bank from our competitors
- Have constituted a Values and Ethics Committee of the Board to be chaired by an independent director
- Re-engaging with our customers on our Ethical Policy

Section 3

Financial performance

John Baines — *CFO*

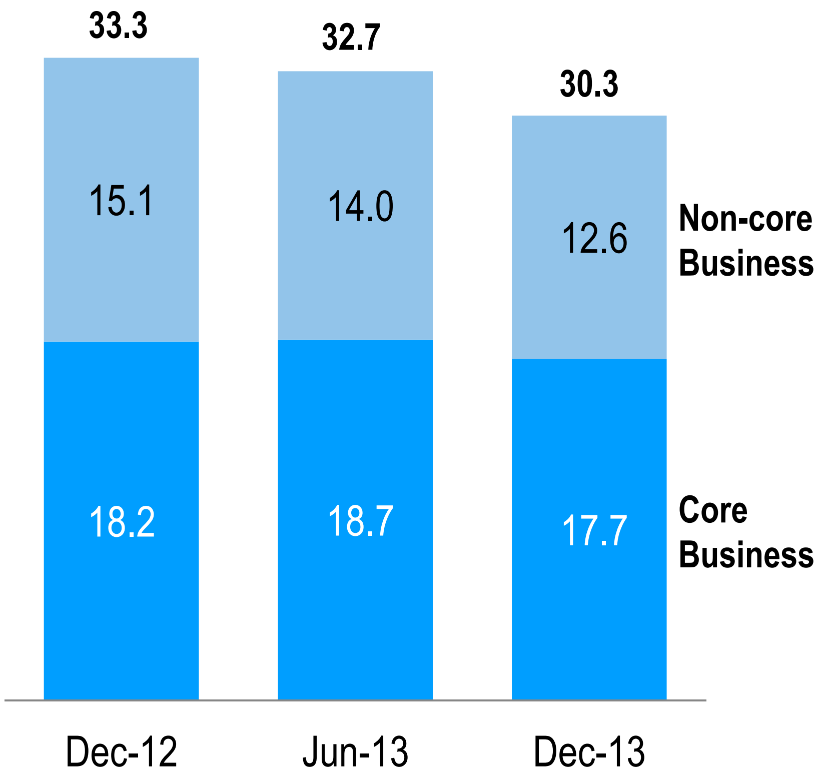
2013 results summary — Balance sheet

Controlled balance sheet reduction supported by stable funding profile

Balance sheet (£bn)

	31-Dec-12[1]	30-Jun-13[1]	**31-Dec-13[1]**	*Change y-o-y*
Customer loans (net)	33.3	32.7	**30.3**	*(9.0%)*
Total assets	**49.8**	**46.6**	**43.4**	***(12.9%)***
Customer deposits	36.8	34.9	**33.0**	*(10.3%)*
Wholesale liabilities & Other	11.1	10.7	**8.6**	*(22.5%)*
Total liabilities	**47.9**	**45.6**	**41.6**	***(13.2%)***
Equity	**1.9**	**1.0**	**1.8[2]**	***(5.3%)***
Loan-to-deposit ratio	*92%*	*94%[6]*	*95%*	*3*
NPL ratio[3,5]	*12.3%*	*12.3%*	*11.6%*	*(0.7)*
NPL coverage ratio[4,5]	*25.2%*	*33.8%*	*32.5%*	*7.3*

Customer loans[7,8] (net, £bn)



1 31-Dec-12 restated to be comparable to 31-Dec-13 with CFSMS now held on Bank's balance sheet. 30-Jun-13 has not been restated
2 31-Dec-13 equity includes Group's 2014 Contribution
3 Calculated as impaired customer balances (incl. watchlist) / gross customer balances
4 Calculated as allowance for losses (excluding losses for hedging risk) on customer balances / impaired customer balances (including watchlist)
5 Management reporting basis
6 LTD ratio shown is as per the LME presentation (calculated as net customer loans including fair value adjustments for hedged risk / customer deposits). This would be 97% if re-calculated on the same basis as 31-Dec-12 and 31-Dec-13 (gross customer loans / customer deposits)
7 Core Business numbers include Unity Trust Bank (UTB)
8 30-Jun-13 loans shown as per the LME presentation which does not reflect a subsequent perimeter change moving £100m from Core to Non-core. The changes related to perimeter are reflected in the 31-Dec-12 and 31-Dec-13 numbers

Erratum: Please note that the 31-Dec-13 NPL and coverage ratios and the 31-Dec-12 customer loans (net) breakdown in the presentation published on 11 April 2014 were incorrect and have been corrected in this version. 30-Jun-13 total customer loans (net) and Non-core customer loans (net) figures have been amended for consistency to 31-Dec-12 and 31-Dec-13 figures. Footnotes 3 and 4 have been amended and footnotes 6, 7 and 8 have been added to provide additional clarity

2013 results summary — Income statement

Higher operating costs, credit impairment, higher than expected conduct provisions and one-off costs continue to significantly impact profitability

Income statement (£m)			
Management basis[1]	FY 2012	FY 2013	*Change y-o-y*
Net interest income	545.8	503.4	*(7.8%)*
Non-interest income	225.4	191.7	*(15.0%)*
Operating income	771.2	695.1	*(9.9%)*
Operating costs — steady state	(568.2)	(650.7)	*14.5%*
Operating costs — strategic initiatives	(14.8)	(34.8)	*135.1%*
Impairment losses	(468.7)	(516.2)	*10.1%*
Operating result	**(280.5)**	**(506.6)**	***80.6%***
Non-operating costs[2]	(83.9)	(90.9)	*8.3%*
Intangible asset impairment	(150.0)	(148.4)	*(1.1%)*
Conduct provisions	(149.7)	(411.5)	*174.9%*
Profit from LME	-	688.3	*nm*
Fair value amortisation[5]	15.2	(52.1)	*nm*
Bank separation costs	-	(39.4)	*nm*
FSCS levies	(24.8)	(25.6)	*3.2%*
Loss before tax	**(673.7)**	**(586.2)**	***(13.0%)***
NIM (bps)[3]	*111*	*109*	*(2)*
Cost to income ratio[4]	*73.7%*	*93.6%*	*19.9*

1 Reconciliation to statutory accounts available in the Annual Report and Accounts 2013 (Note 5)
2 Includes share of post tax profits from joint ventures (FY2013: £0.7m; FY 2012: £1.2m)
3 Calculated as net interest income / average assets
4 Calculated as operating costs (steady state) / income. Operating cost (steady state) of £303m for H1 2013
5 The fair value of debt securities in issue is significantly above the carrying value as a result of the carrying value being net of merger fair value adjustments. The carrying values of debt securities in issue are expected to increase, as the merger fair value adjustments continue to unwind, by £110m in 2014, £150m in 2015, £180m in 2016 and by £60m in 2017

Conduct risk — Actions taken

Significant work has been undertaken to review areas of risk and make appropriate provisions

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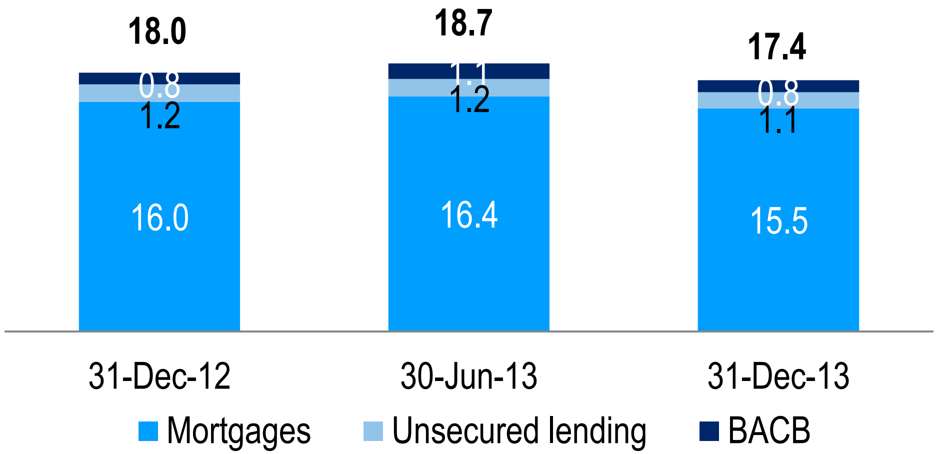
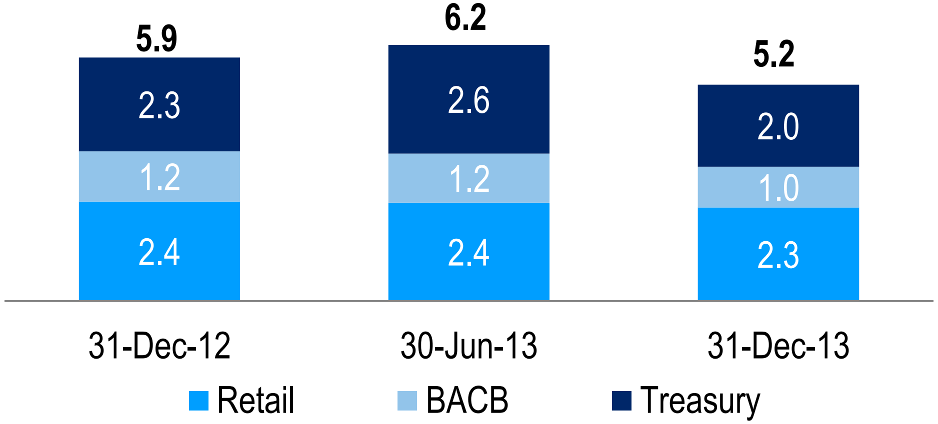
Core Business — Balance sheet dynamics

Smaller Core Business continues to operate with excess funding

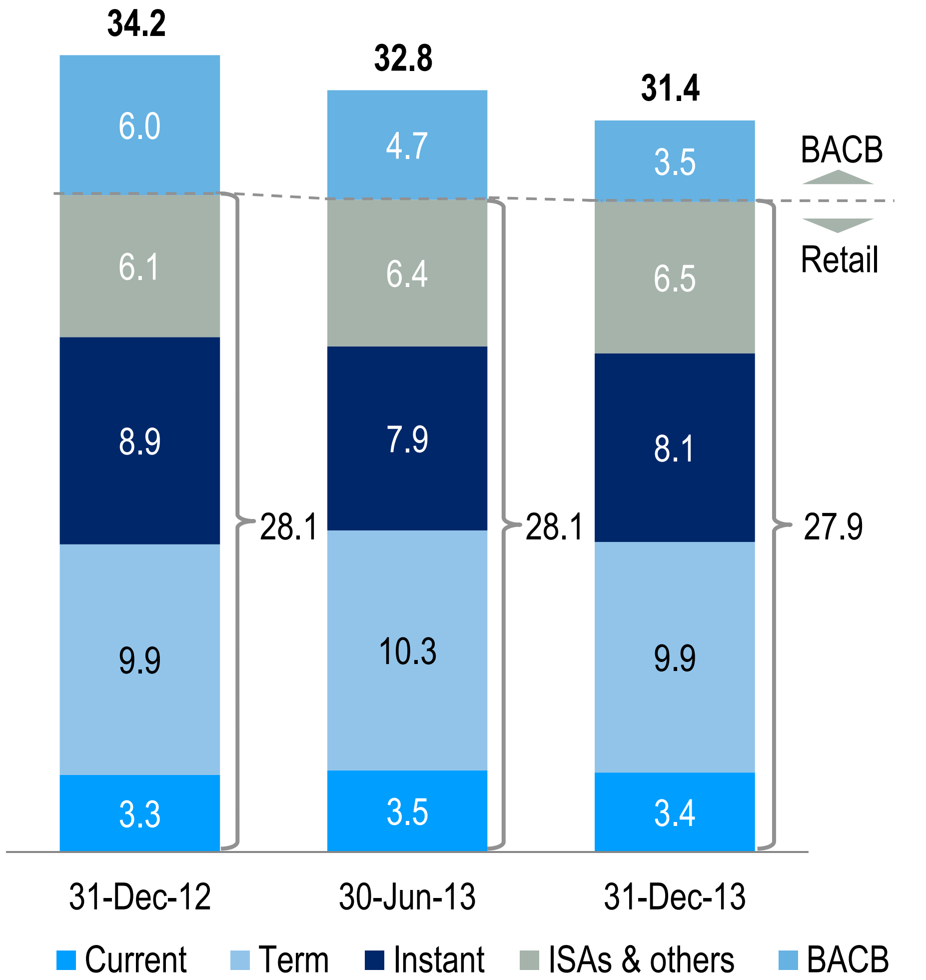
Net loans[2,3] (£bn)



Credit RWAs[1] (£bn)



Customer deposits (£bn)



1 CRD IV Credit RWAs (fully loaded rules basis)
2 Net loans as at 30-Jun-13 held as per LME presentation which includes UTB. 31-Dec-12 and 31-Dec-13 exclude UTB
3 30-Jun-13 loans shown as per the LME presentation which does not reflect a subsequent perimeter change moving £100m from Core to Non-core. The changes related to perimeter are reflected in the 31-Dec-12 and 31-Dec-13 numbers

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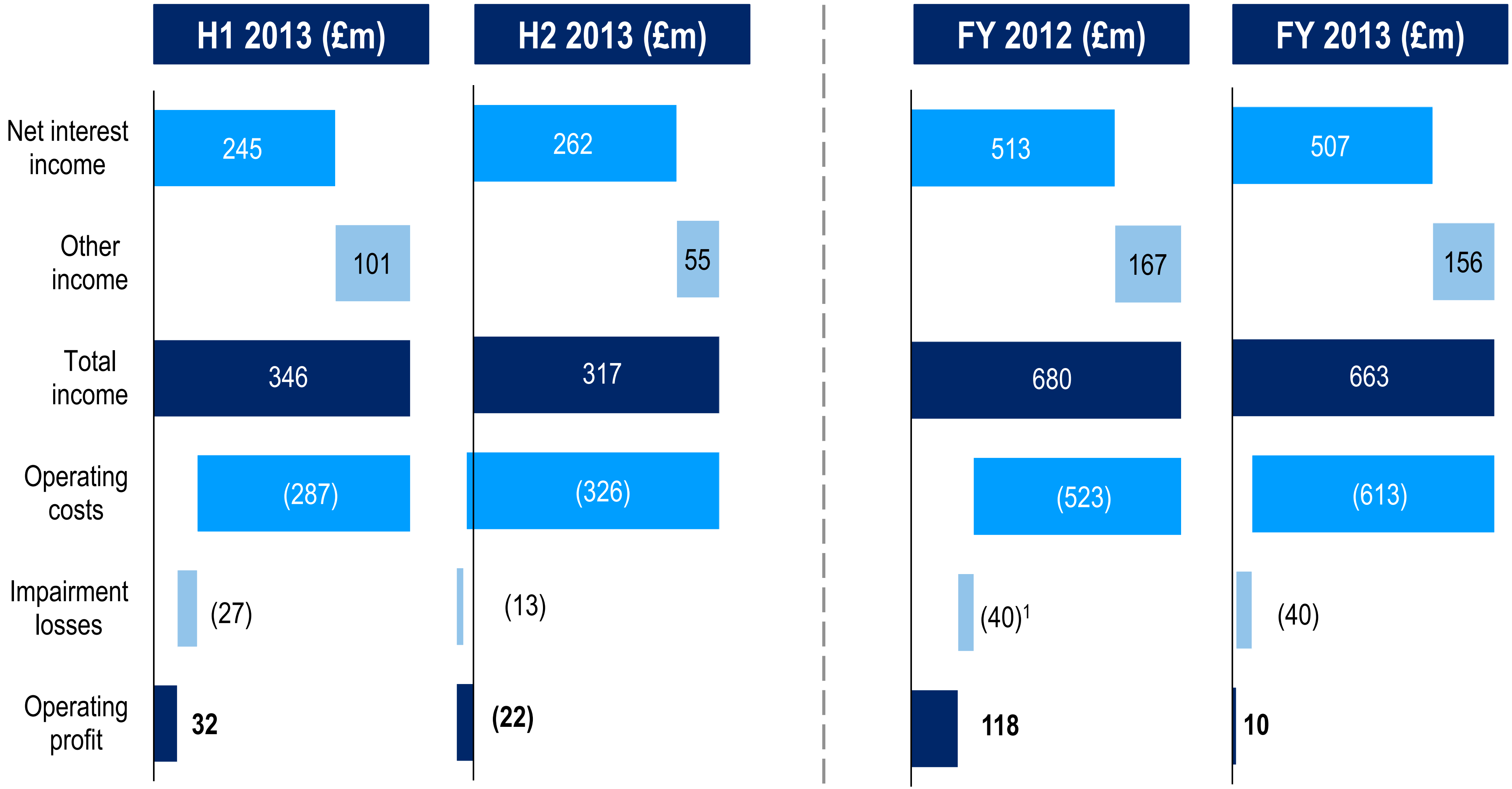
Core Business — Profitability

Remains profitable for the full year at the operating level but at low level



Targeting low double digit RoE over a longer term period

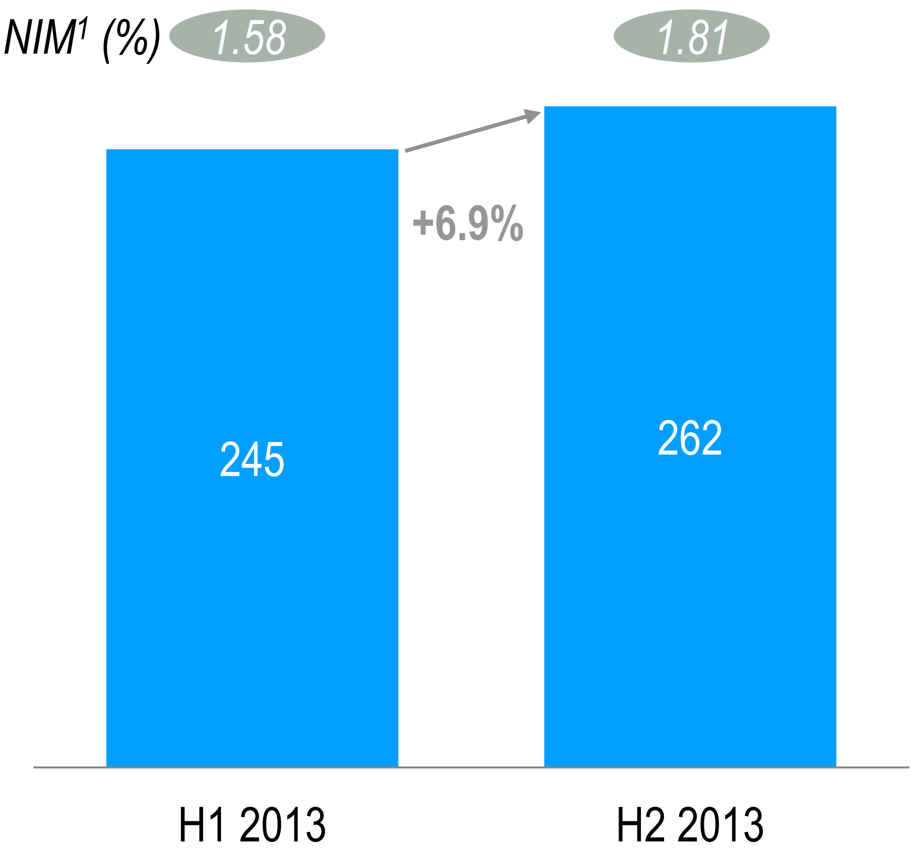
The co-operative bank

1 Includes impairments gains of £5m

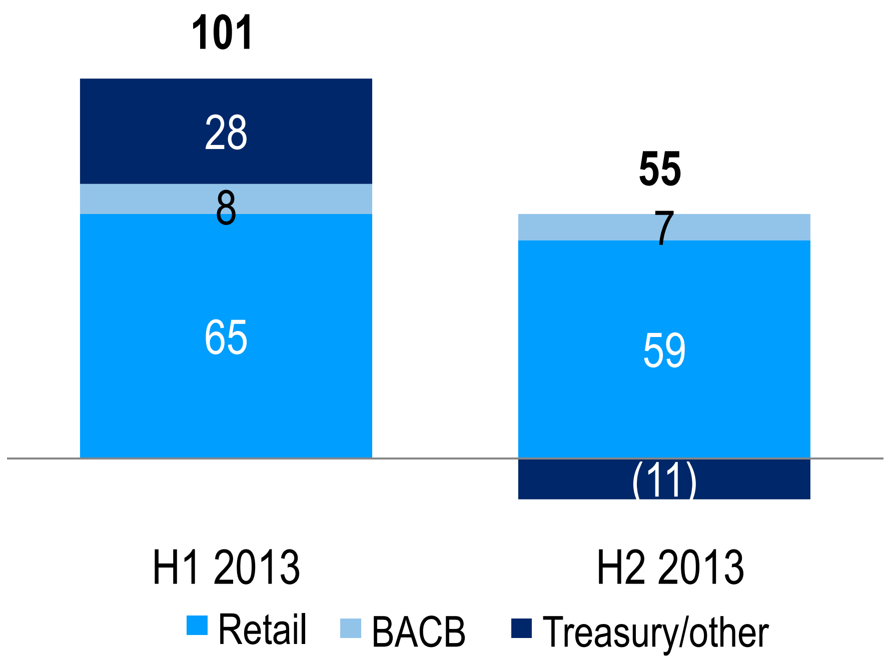
Core Business — Revenue

Growth in Core NIM through the year; H1 2013 other income flattered by sale of treasury assets

Net interest income (£m)



Other income (£m)

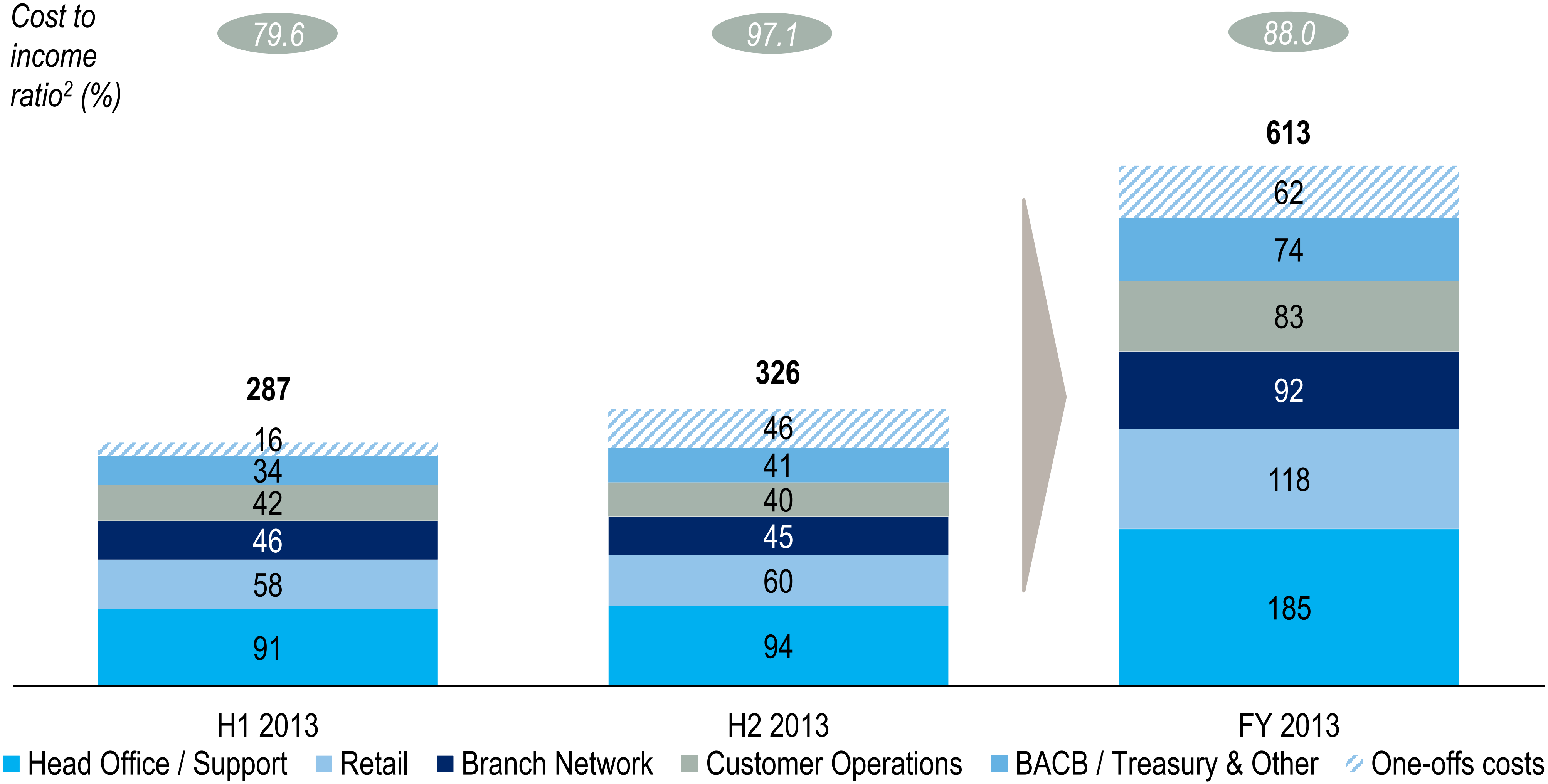


1 Includes Retail, BACB and Treasury/other

Core Business — Operating costs

Operating costs remain elevated

Operating costs (£m)[1]

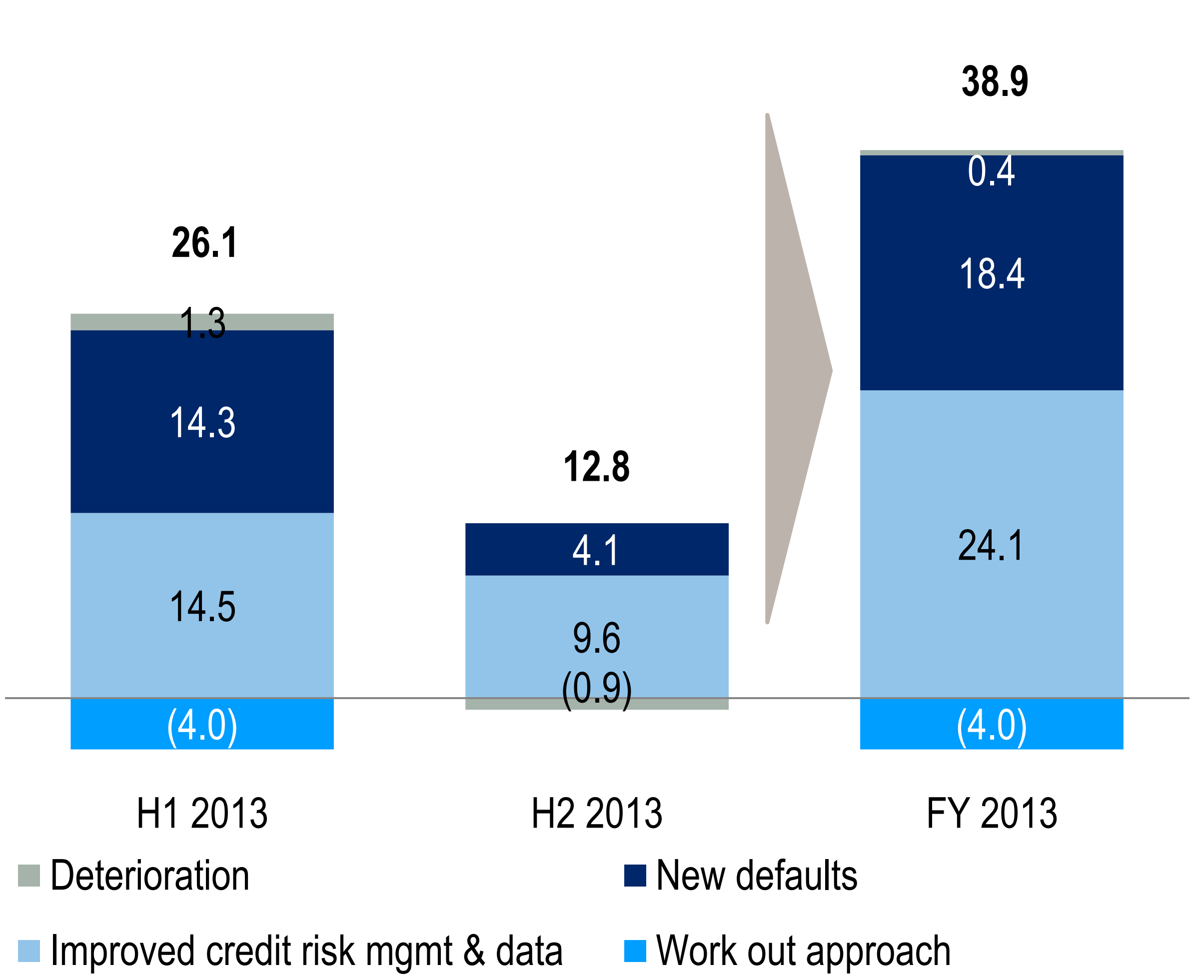


1 Includes strategic initiatives
2 Calculated as operating costs (steady state) / income

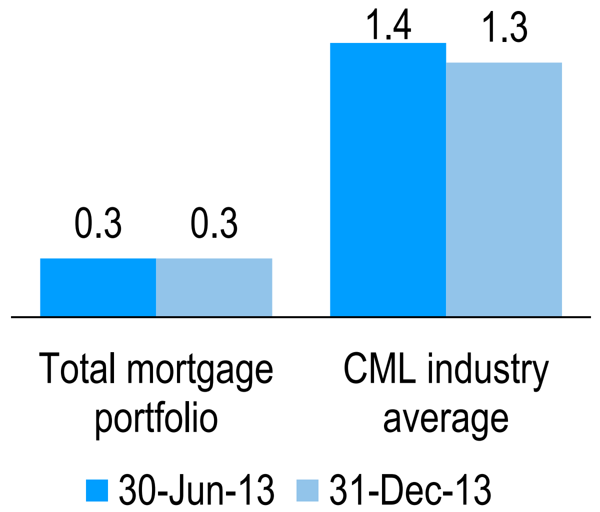
Core Business — Asset quality

Remains a high quality portfolio

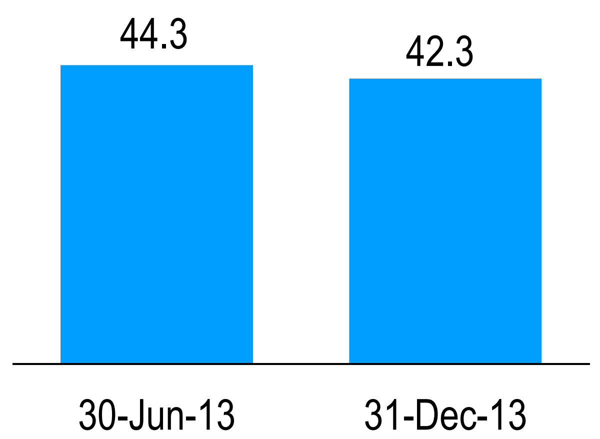
Impairments (£m)



Arrears[1]



Average LTV (mortgages, %)



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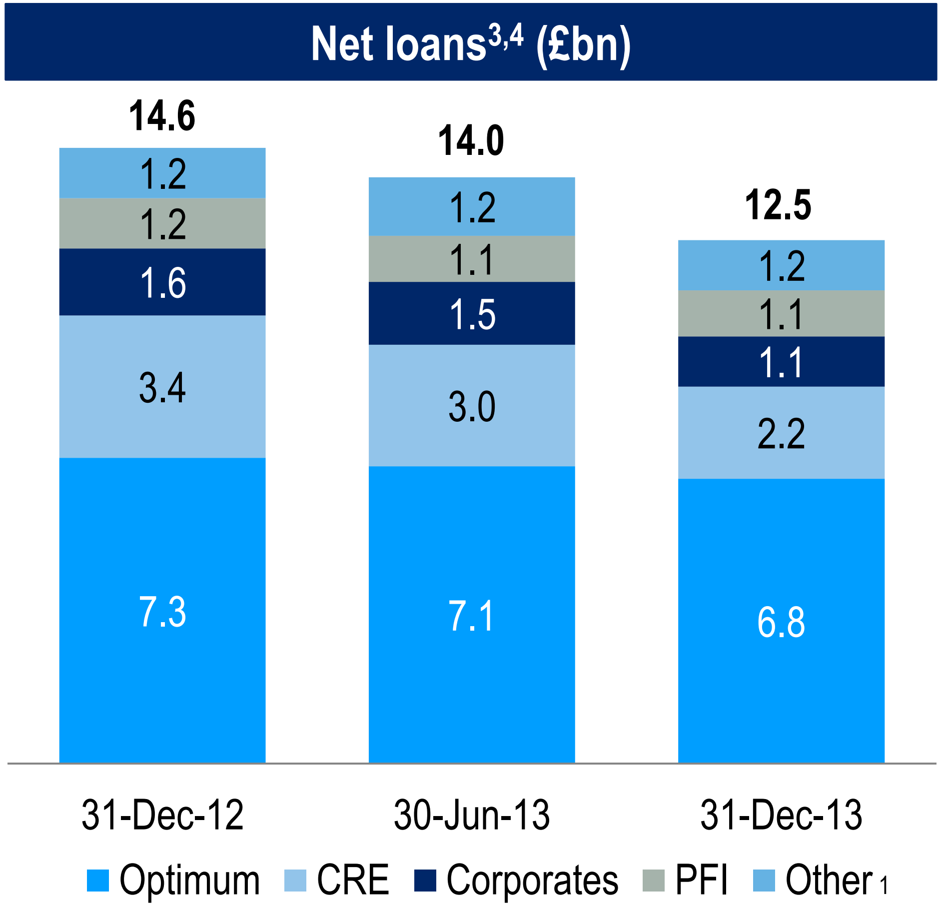
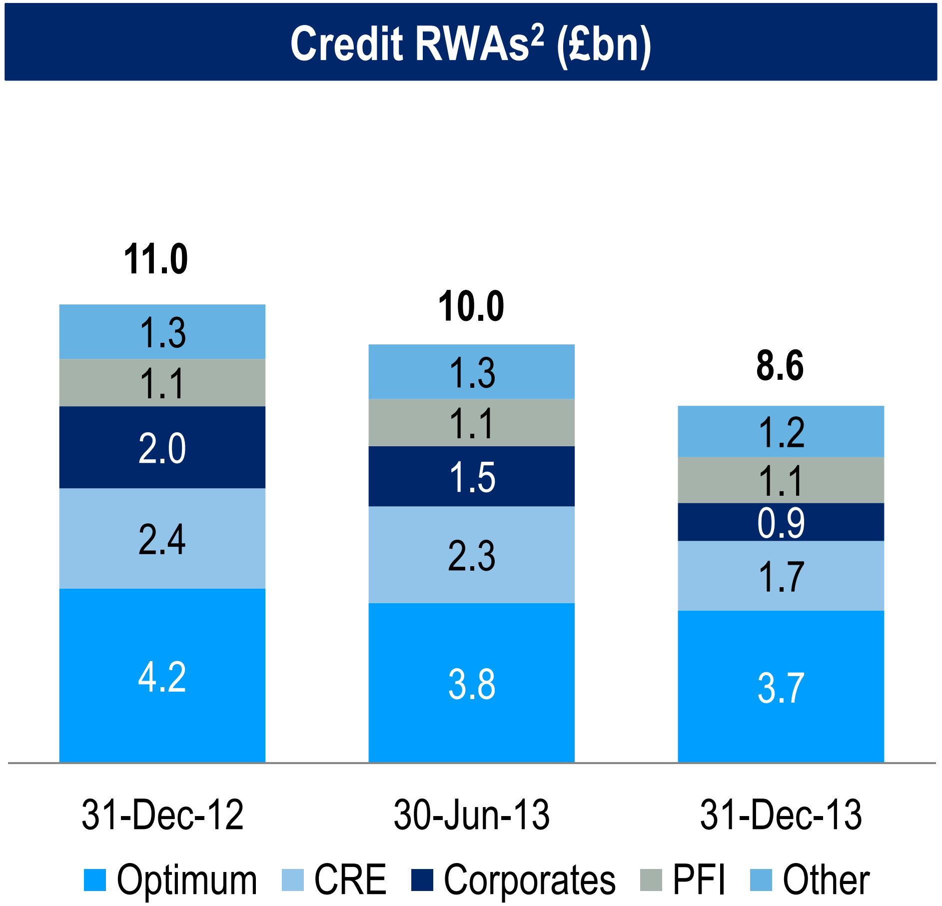
1 Proportion of mortgage accounts with >2.5% in arrears

Non-core Business — Balance sheet dynamics

Good progress in deleveraging





Non-core remains a large part of the Bank at 41% of Bank's net loans and 62% of Credit RWAs[2]

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
4 30-Jun-13 loans shown as per the LME presentation which does not reflect a subsequent perimeter change moving £100m from Core to Non-core. The changes related to perimeter are reflected in the 31-Dec-12 and 31-Dec-13 numbers

Please note that footnotes 3 and 4 have been added to the presentation published on 11 April 2014 to provide additional clarity

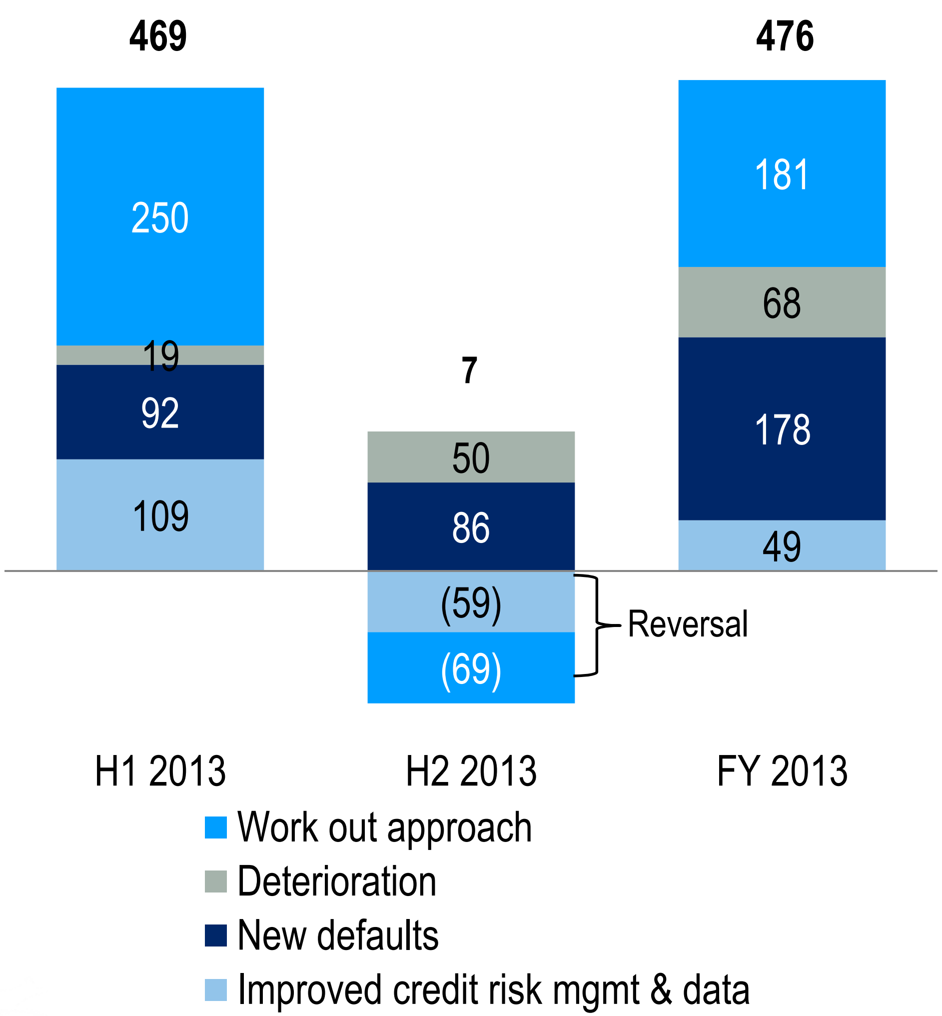
Non-core Business — Profitability

Impairment losses elevated in 2013 but H2 2013 saw significant improvement

Income statement (£m)

	FY 2012	FY 2013
Operating income	90.3	31.9
Operating costs	(59.9)	(72.3)
Impairment losses	(429.0)	(476.3)
Operating result	**(398.6)**	**(516.7)**
NIM (bps)[1]	*21*	*(3)*

Drivers of impairment losses (£m)



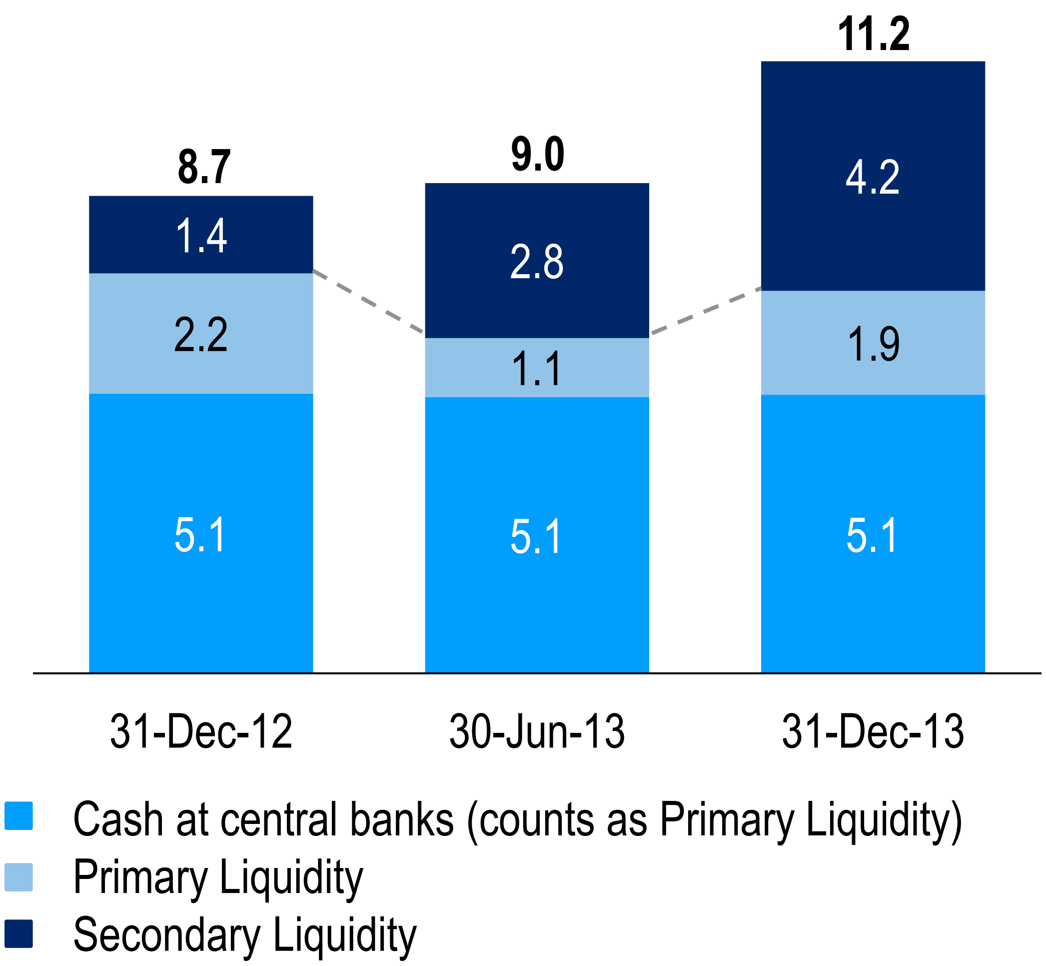
The co-operative bank

1 NIM calculated as net interest income / average assets

Liquidity

Liquidity profile remains stable

Total liquidity resources (£bn)



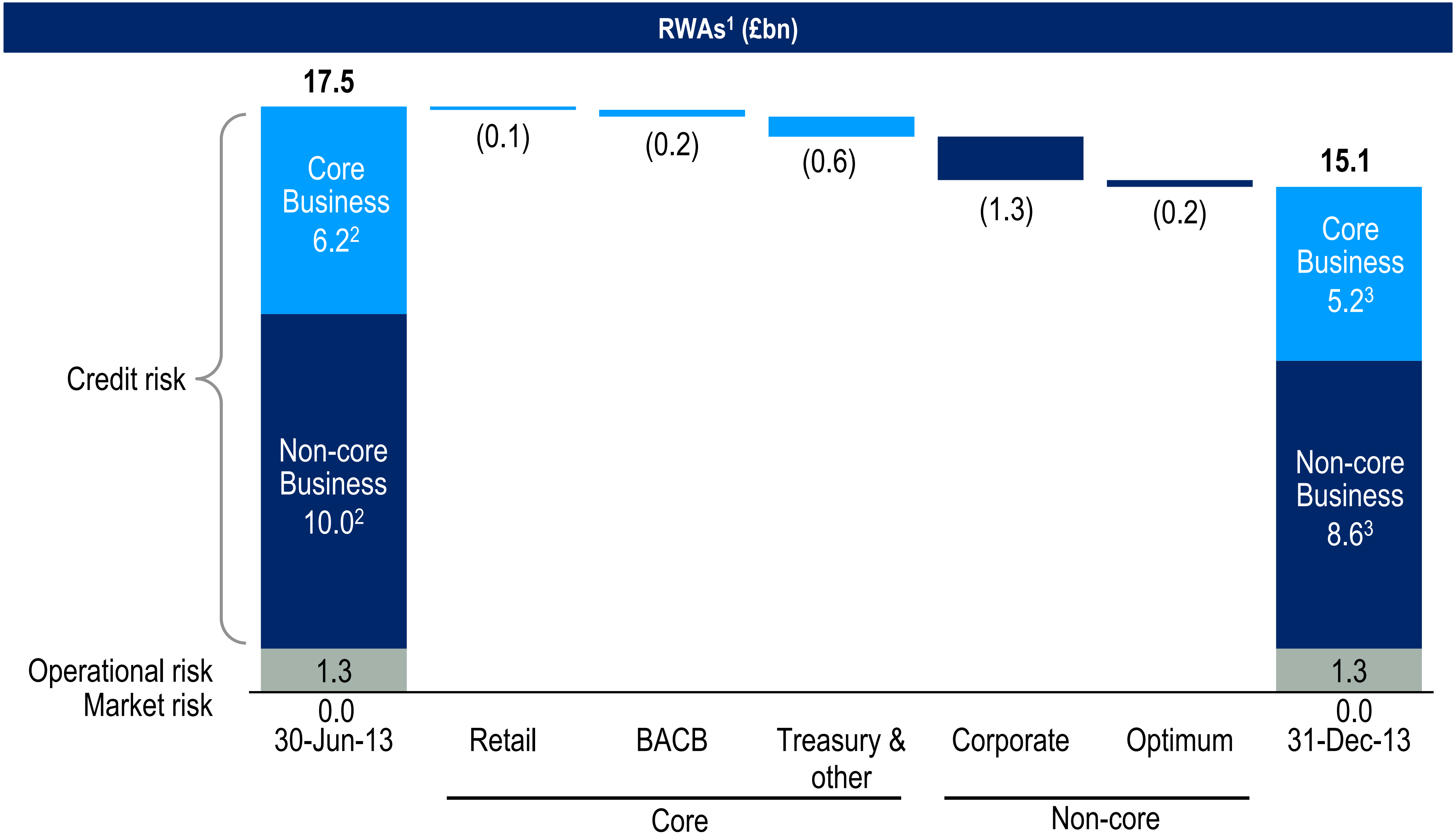
- Liquid asset buffer of £7.0bn (as at 31-Dec-13)
- Liquid asset ratio[1] of 16.0% (as at 31-Dec-13)
- Assets eligible for discounting with central banks increased during H2 2013
- Balances held at the central bank have remained stable during H2 2013
- Non-buffer assets have reduced from £188m (as at 30-Jun-13) to £5m (as at 31-Dec-13)

The co-operative bank

1 Calculated as primary liquidity divided by total assets

RWA development

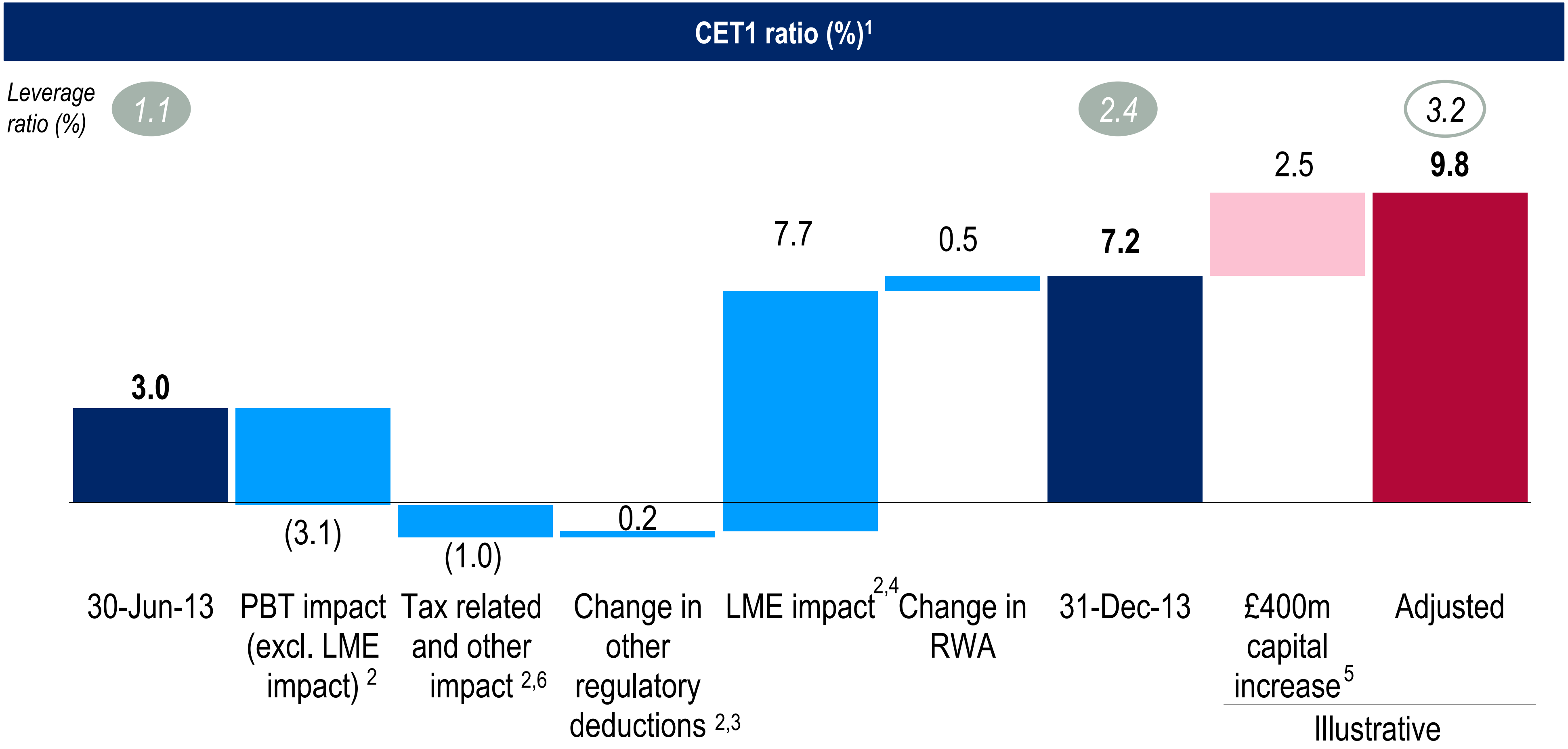
13.7% decrease in RWAs[1] since June 2013



1 CRD IV fully loaded rules basis
2 Core Business – Retail £2.4bn, BACB £1.2bn, Treasury & Other: £2.6bn; Non-core Business – Corporate: £6.2bn, Optimum: £3.8bn
3 Core Business – Retail £2.3bn, BACB £1.0bn, Treasury & Other: £2.0bn; Non-core Business – Corporate: £4.9bn, Optimum: £3.7bn

CET1 ratio development

2013 year end CET1 ratio at 7.2% and leverage ratio at 2.4%, both missing previously stated targets. Additional £400m CET1 required to rebuild CET1 ratio



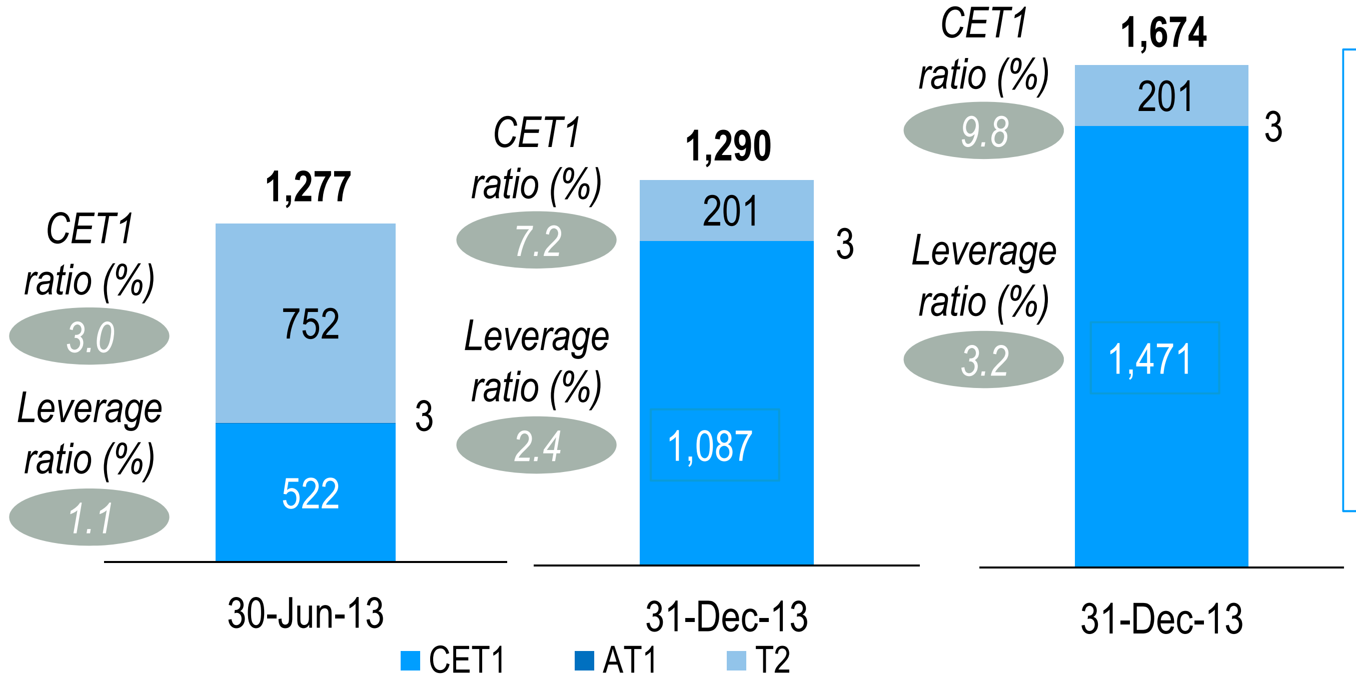
1 CRD IV fully loaded rules basis
2 Calculated against 31-Dec-13 RWA of £15.1bn
3 Improvement in EL gap largest contributor
4 LME impact of £1.2bn
5 Net of assumed fees
6 Key drivers: Half year movement (P&L and reserves) £9.6m; impact of reduction in tax rate £(20.1)m; write off of prior year DTA £(62.7)m; The Co-operative Group related tax impact £(102.7)m. See appendix for more details

Capital position

Proposed capital raise would reset Bank's capital starting point and enable the Bank to further implement its turnaround plan

Capital position[1] (£m)

30-Jun-13	31-Dec-13	(illustrative) 31-Dec-13 + £400m[2]	Recap Plan impact (2014)



- Co-operative Group contribution: £313m[3]
  - £50m paid in Jan-14
  - £100m due by Jun-14
  - £163m due by 31 Dec-14

	30-Jun-13	31-Dec-13	31-Dec-13
RWA[1] (£bn)	17.5	15.1	15.1
Balance sheet exposure[4] (£bn)	49.1	45.6	45.6

1 CRD IV fully loaded rules basis
2 Net of assumed fees
3 Total Group contribution of £333m of which £20m was paid in Dec-13 and taken into account in the 31-Dec-13 CET1
4 Denominator for the leverage ratio calculation

Section 4

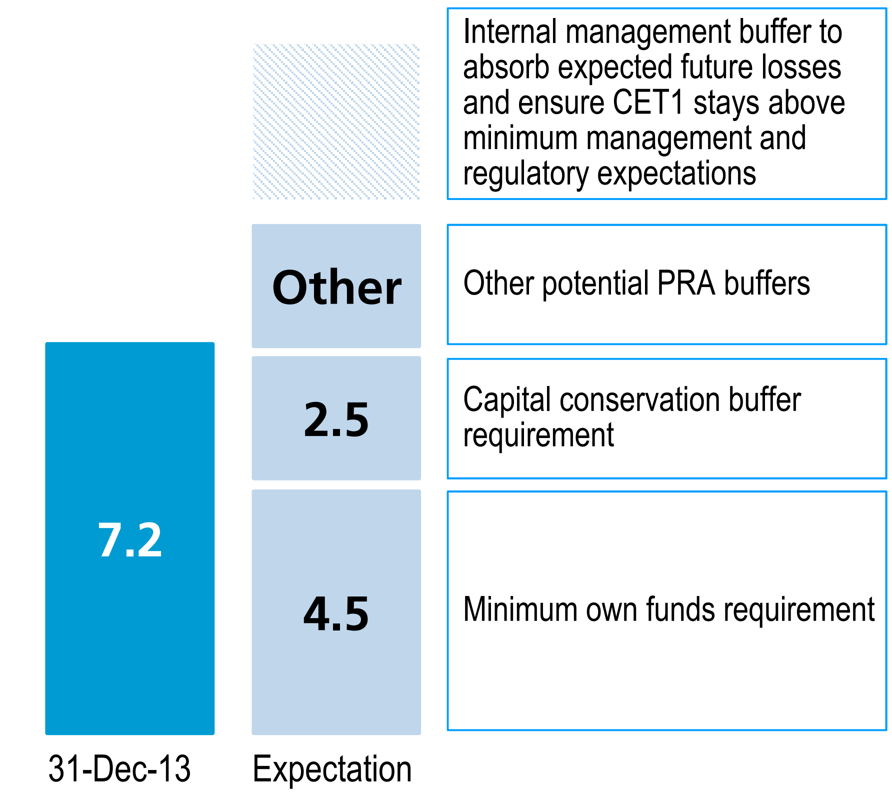
Conclusion

Niall Booker — *CEO*

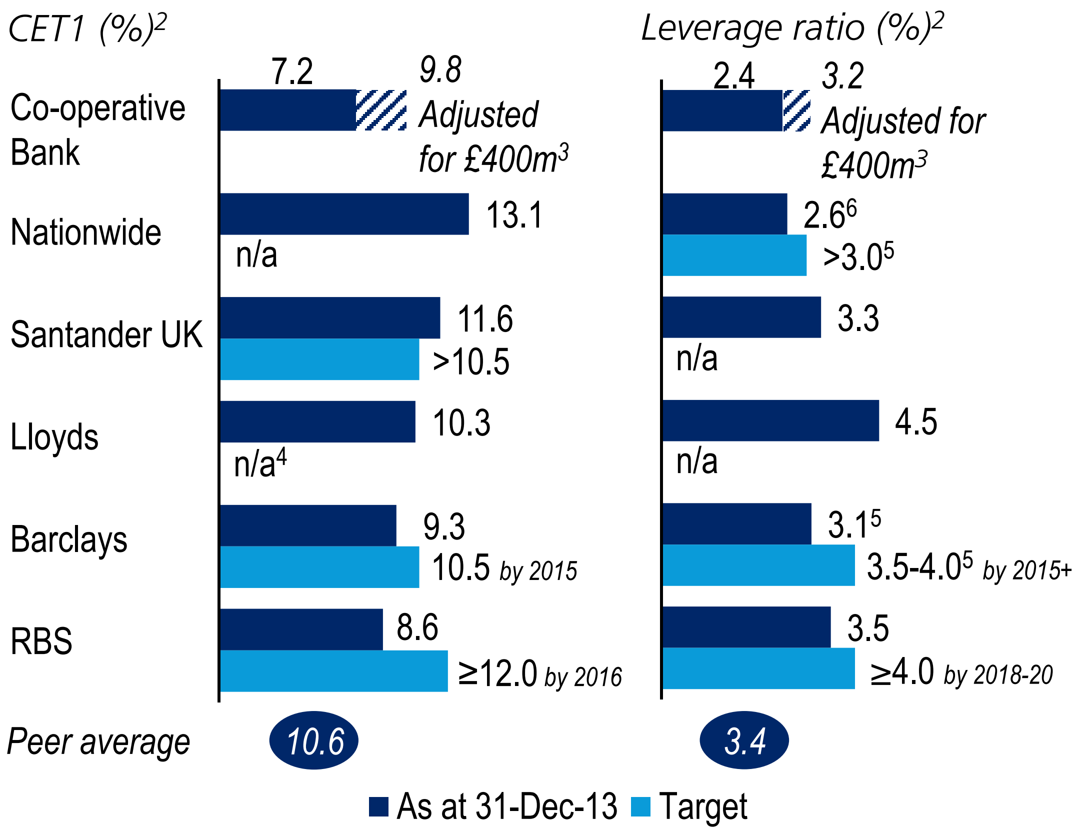
Sizing CET1

Bank requires £400m of additional CET1 to ensure it is prudently capitalised to deliver its turnaround plan

CET1 ratio (%)[1,2]



Benchmarking



Do not expect to make a profit in 2014 or 2015

Expect the year end 2014 CET1 ratio, including the impact of the 2014 contribution from The Co-operative Group but excluding the capital raising, to be broadly similar to the 2013 year end ratio (though with some volatility during the year)

Post 2014, our CET1 ratio is expected to decline before subsequently recovering

Source: Company disclosures
1 Not to scale
2 CRD IV fully loaded rules basis unless indicated otherwise
3 Net of assumed fees of £16m (i.e.£384m)
4 Expects to generate around 2.5% over the next 2 years (pre-dividend
5 On a PRA adjusted leverage ratio basis
6 Pre £1bn AT1 issue in 2014

Bank financial targets

Turnaround plan in execution

	Financial targets	Unchanged	31-Dec-13
Core Business	• Cost income ratio < 60% in the longer term • Low double digit RoE over a longer term period • Controlled customer lending and deposit growth from 2015	✓ ✓ ✓	• Cost income ratio 88.0% • Low profitability • Assets[1] £28.6bn • Credit RWAs[1] £5.2bn
Non-core Business	• Net loans reduced to c.£11.0bn by end 2014; continue deleveraging thereafter at a slower pace • Achieve deleveraging that does not materially reduce the CET1 *ratio* of the Bank[3] as a whole	Updated from <£11.5bn ✓	• Assets[1] £13.1bn • Net loans £12.5bn • Credit RWAs[1] £8.6bn
Bank	• Do not expect to make a profit in 2014 or 2015	Updated	• Significant net loss
New capital guidance	• Expect the year end 2014 CET1 ratio, including the impact of the 2014 contribution from The Co-operative Group but excluding the capital raising, to be broadly similar to the 2013 year end ratio (though with some volatility during the year) • Post 2014, our CET1 ratio is expected to decline before subsequently recovering	New New	• CET1 ratio 7.2%[2]

1 Segment assets and CRD IV Credit RWAs (fully loaded rules basis) as at 31-Dec-13. Respective RWAs under Basel 2 of £4.4bn (Core Business) and £8.3bn (Non-core Business)
2 Based on CRD IV fully loaded rules
3 i.e. deleveraging in such a manner that the anticipated future losses from deleveraging do not materially exceed the capital that is released from the reduction in RWAs

Key messages

2013 was a very difficult year for the Bank

Core Bank franchise has seen significant stability

Progress in addressing conduct and legal issues

Focus for 2014: becoming a smaller, efficient bank retaining Co-operative values

Plan to raise £400m of CET1 capital to strengthen the capital base

Completing the turnaround will take time but fundamentals beginning to fall into place

Appendix

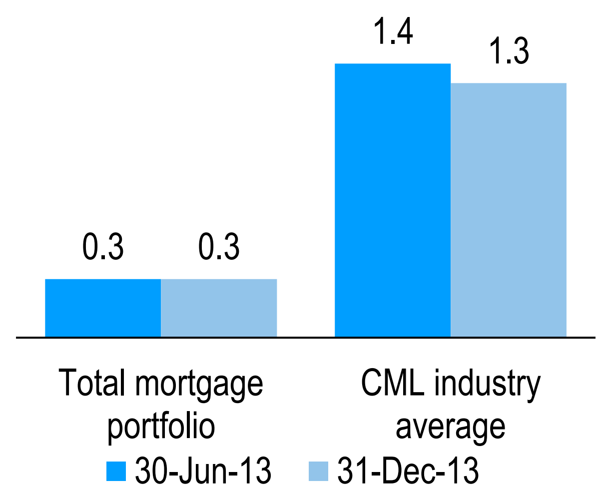
Core Business — Mortgage portfolio

High quality mortgage book

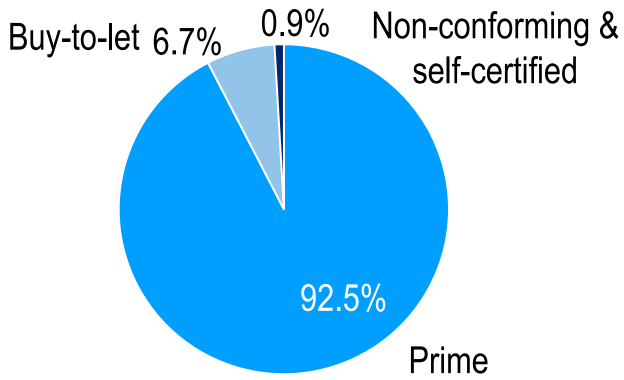
LTV breakdown (31-Dec-13)

(%)	Prime	Buy-to-let	Self certificated	Non-conforming	Total
Average LTVs	41.4	59.0	41.3	51.5	**42.3**
New business LTVs	64.6	64.7	n/a	52.7	**64.5**
Book by indexed LTVs					
<= 50%	39.4	14.6	47.3	31.3	**37.8**
50% to 75%	40.3	82.5	48.9	65.1	**43.2**
75% to 100%	19.2	2.8	3.5	2.7	**17.9**
> 100%	1.1	-	0.3	0.9	**1.1**
% of accounts with >2.5% arrears	0.3	-	-	2.9	**0.3**
New lending[1] (£m)	2,023.3	128.1	-	2.4	**2,153.8**

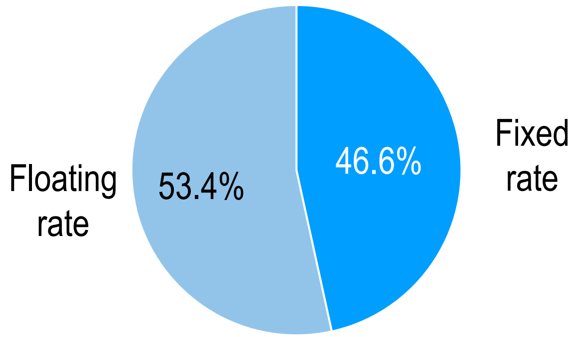
Arrears[2] (%)



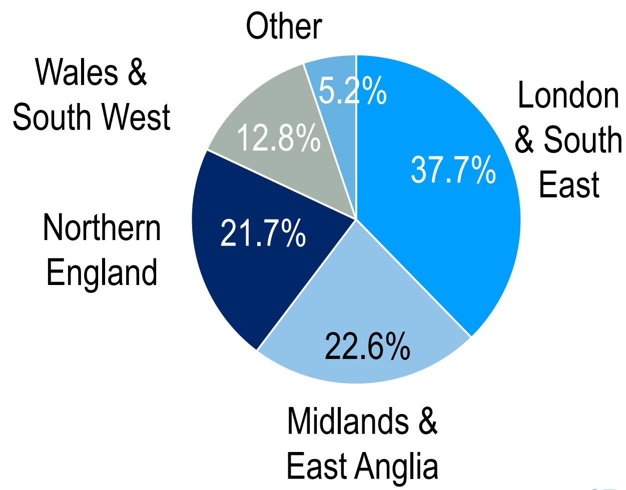
By type[3] (31-Dec-13)



By product[3] (31-Dec-13)



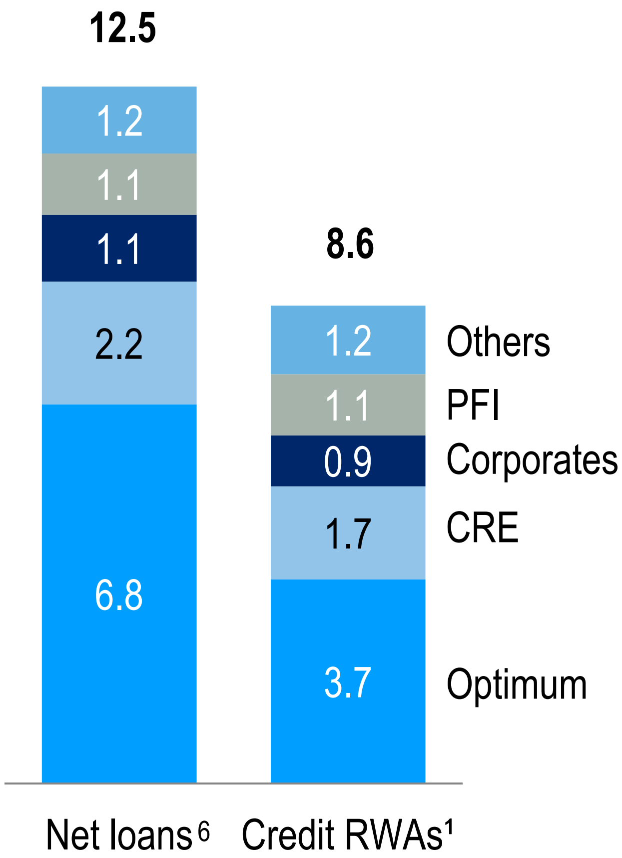
By geography[3] (31-Dec-13)



1 Excluding further advances for the period
2 Proportion of mortgage accounts with >2.5% in arrears
3 Based on gross customer balances of £15.5bn

Non-core corporate assets overview

Net loans and RWAs (31-Dec-13, £bn)



Type	Description	NPL ratio[4] (*Coverage*[5])
CRE	• Concentrated with high NPL ratio • Poorly structured • Capital intensive • Now marked to monetisation strategy	59% (38%)
Corporates	• Leveraged, syndicated and relationship connections	33% (52%)
PFI	• Low margin, long dated, high credit quality • Unfavourable market pricing	3% (4%)
Housing Association	• Low margin, long dated, high credit quality • Unfavourable market pricing	- (-)
REAF[3]	• Specialised renewable energy lending • Mainly wind farms	2% (107%)
Illius	• Repossessed buy-to-let properties • Managed through the Co-operative Group Property	na

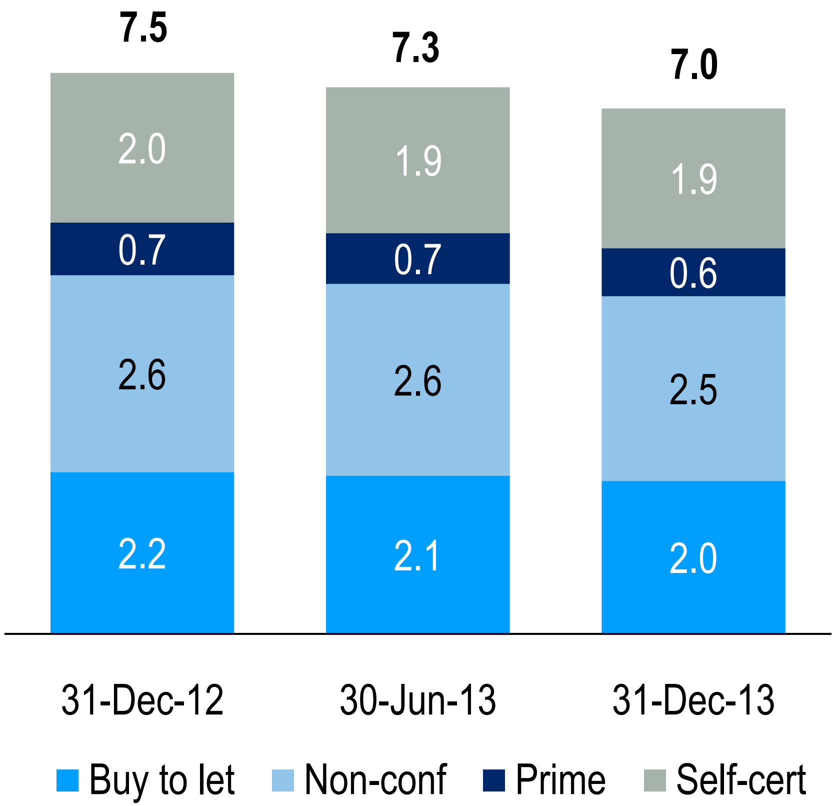
1 CRD IV Credit RWAs (fully loaded rules basis) as at 31-Dec-13
2 Illius assets are not classified as loans but are risk-weighted
3 Renewable Energy and Asset Finance
4 Calculated as impaired customer balances (incl. watchlist) / gross customer balances
5 Calculated as allowance for losses (excluding losses for hedging risk) on customer balances / impaired customer balances (including watchlist)
6 Includes hedge risk provision but excludes other accounting adjustments

Erratum: Please note that the NPL and coverage ratios in the presentation published on 11 April 2014 were incorrect and have been corrected in this version. Footnotes 4 and 5 have been amended and footnote 6 has been added to provide additional clarity

Optimum overview and strategy

Optimum will be run-off over time given nature of the asset

Gross customer balances (£bn)



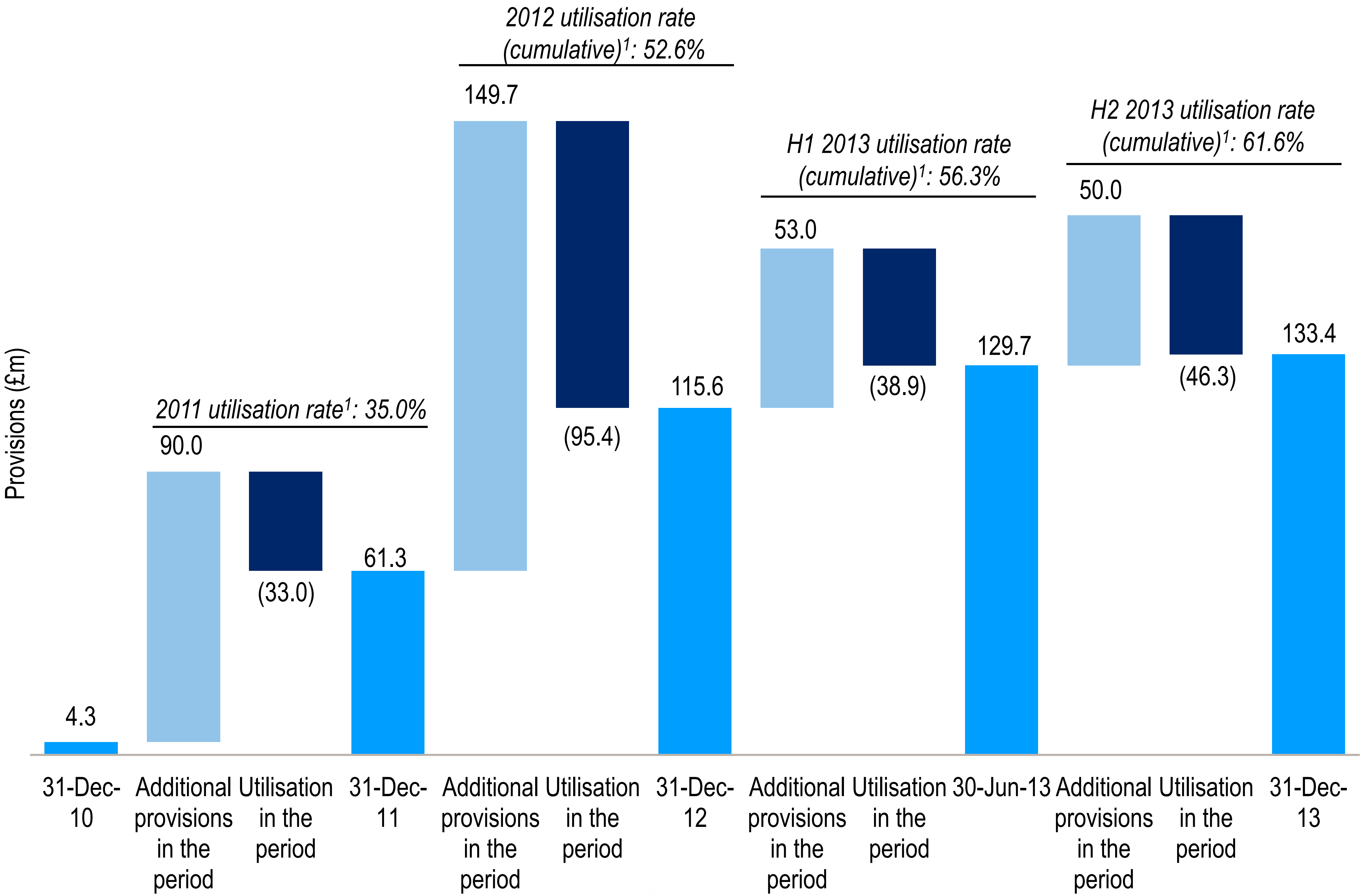
Description

- 90.9% non-prime (£6.4bn)
- 15.6 % non-performing (£1.1bn) with 11.7% coverage
- Average LTV of 74.9%
  - 14.0% (£1.02bn) LTV > 100%
- 78.8% interest-only mortgages (£5.5bn)
- 94% credit repair, non re-bankable (£6.3bn)
- Weighted average life of 7.29 years
- >65.5% encumbered
- Fair value of £5.7bn (vs. carrying value of £6.9bn)
- Arrears of 8.3%

Strategy

- 2013 actions:
  - Calico: second-loss protection trade
  - increased impairment provisions
- Rework and run-off

Bank's PPI provisions and utilisation



1 Calculated as cumulative utilisation expense divided by cumulative provision

Ongoing reviews and investigations

The Bank is the subject of multiple regulatory and other investigations & enquiries into events at the Bank and circumstances surrounding them

- The Treasury Select Committee has been conducting an ongoing review which began in Q2 2013 and has focused on numerous concerns surrounding the Bank. The Committee will publish a report of its findings, the timing of which is not known
- The Sir Christopher Kelly review was announced on 12 July 2013
  - Jointly appointed by the Co-operative Group Limited and the Bank to review the events that led to the Bank's capital action plan to address its £1.5bn capital shortfall
  - It is looking at the decision to merge the Bank with the Britannia Building Society in 2009 and the proposed acquisition of the Verde assets of Lloyds Banking Group
  - It will include an analysis of strategic decision making, management structures, culture, governance and accounting practices and aspects of the role of the Bank's Auditors
  - The intention is for the findings to be publicised at The Co-operative Group's Annual General Meeting in May 2014
- The Treasury announced on 22 November 2013 that it would conduct an independent investigation into events at The Co-operative Bank and the circumstances surrounding them from 2008 including the Verde transaction and Britannia merger
  - The investigation will include a review of the conduct of regulators and Government but is not anticipated to commence until it is clear that it will not prejudice the outcome of the FCA and PRA enforcement investigations
- The PRA announced on 6 January 2014 that it is undertaking an enforcement investigation in relation to the Bank and as part of that investigation will consider the role of former senior managers
- The FCA announced on 6 January 2014 that it will be undertaking enforcement investigations into events at the Bank. The investigation will look at the decisions and events up to June 2013
- The Bank is co-operating with all the investigating authorities. It is not possible to estimate the financial impact upon the Bank should any adverse findings be made

Tax assets and liabilities impact

	Balance sheet view (£m)				CET1 view (£m)				CET1 ratio equivalent (%)	Unrecognised DTA (tax capacity)			
												Temporary differences	
	Total	DTA	DTL	CTA	Total	DTA	DTL	CTA		Total	Losses carried forward	Total	o/w FVAs related
Opening balance 30-Jun-13	**252.4**	**103.5**	**(117.4)**	**266.3**	**211.6**	**55.3**	**(110.0)**	**266.3**	**1.4**	**142.6**	**138.4**	**4.2**	**4.2**
Half year movement (P&L and reserves)	**78.2**	68.6	11.0	(1.4)	**9.6**	–	11.0	(1.4)	**0.1**				
Impact of reduction in tax rate	**(63.1)**	(43.0)	13.9	(34.0)	**(20.1)**	–	13.9	(34.0)	**(0.1)**				
Loss for which DT is not recognised	**(27.7)**	(27.7)	–	–	**–**	–	–	–	**0.0**	**27.4**			
Write off of prior year DTA	**(101.4)**	(101.4)	–	–	**(62.7)**	(55.3)	(7.4)	–	**(0.4)**	**101.4**			
The Co-operative Group related tax impact	**(102.7)**	–	–	(102.7)	**(102.7)**	–	–	(102.7)	**(0.7)**				
Closing balance 31-Dec-13	**35.7**	**(0.0)**	**(92.5)**	**128.2**	**35.7**	**0.0**	**(92.5)**	**128.2**	**0.2**	**271.4**	**198.2**	**73.2**	**35.0**

DTA: Deferred tax assets, DTL: Deferred tax liabilities, CTA: Current tax assets

List of changes

Please note that the following changes have been made to the presentation published on 11 April 2014 to correct incorrect figures, ensure consistency with the LME presentation (05-Nov-13) and provide further reconciliation

Page 11
Footnotes 3 and 4 have been added for clarification

Page 18
NPL ratio and NPL coverage ratio as at 31-Dec-13 have been corrected
Total customer loans (net) figure as at 30-Jun-13 has been amended for consistency to 31-Dec-12 and 31-Dec-13 figures
Non-core customer loans (net) figure as at 30-Jun-13 has been amended for consistency to 31-Dec-12 and 31-Dec-13 figures
Customer loans (net) breakdown as at 31-Dec-12 has been corrected
Footnotes 3 and 4 have been amended for clarification
Footnotes 6, 7 and 8 have been added for clarification

Page 21
Footnotes 2 and 3 have been added for clarification

Page 26
Footnotes 3 and 4 have been added for clarification

Page 38
NPL ratios and NPL coverage ratios have been corrected
Footnotes 4 and 5 have been amended for clarification
Footnote 6 has been added for clarification

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