Update following the publication of the Bank of England Stress Test

16 December 2014

The co-operative bank

Background

Top 8 Banks Resilience Stress Tested by PRA following FPC recommendation in March 2013

Guidance for stress testing set in April 2014

Main stresses 35% HPI and 30% commercial property decline, 4.2% base rates

Scenario excludes £400m capital raise, 1H14 de-leverage and impairment write backs

Scenario includes £313m in 2014 committed by Group at LME

Bank submitted its assessment in July 2014 to PRA based on December 2013 data

Bank indicated in August 2014 (page 45, 2014 Interim Financial Report)
that was unlikely to past the tests

PRA Test Results and Conclusions

Bank's CET1 capital resources are projected to be exhausted in the hypothetical stress

Key vulnerability is historic higher-risk residential mortgages and corporate real estate assets

The PRA expectation for the Capital buffer is being re-set to take into account additional analysis from stress test

All firms to maintain capital buffers that provide insulation against stress scenarios

PRA Board required Bank to submit a revised capital plan which has been accepted by the PRA Board

Plan will reduce its RWAs by approx £5.5bn by end-2018

Achieved the targets set over the last eighteen months in terms of building its capital base

Plan will deliver a level of resilience commensurate with a bank of its future size and business model

Strategic plan and vision - unchanged

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

Bank’s Updated Turnaround Plan

Bank has not been required to raise additional equity capital from the severe stress test

PRA has accepted Bank’s revised plan with rephased and significant RWA reduction

Bank will focus on the reduction of its Non-core residential mortgage portfolio (“Optimum”)

Optimum’s reduction over the period to 2018 will significantly improve the Bank’s resilience to a severe economic downturn

Greater certainty that Bank will not be profitable in 2016

Turnaround plan is subject to the same principal risks and uncertainties as set out in the 2014 Interim Financial Report. In addition, execution of the revised plan requires market conditions for reduction of Optimum to remain favourable

Bank financial targets - Update

Turnaround plan in execution

	Financial targets	Unchanged
Core Business	• Cost income ratio < 60% in the longer term • Low double digit RoE over a longer term period • Controlled customer lending growth from 2015	✓ ✓ ✓
Non-core Business	• Net loans reducing to c. £11.0bn by end 2014 • Achieve deleveraging that does not materially reduce the CET1 *ratio* of the Bank[1] as a whole	✓ ✓
Bank	• Do not expect to make a profit in 2014, 2015 and 2016 • Total RWAs targeted to fall below £7.5bn by end of 2018[2]	Revised New
Guidance	• Expect CET1 ratio to be materially above previous guidance of c.10% (including Dec 2014 Group contribution) at end of December 2014 • Post 2014, our CET1 ratio is expected to decline before subsequently recovering	✓ ✓

1 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
2 Calculation of RWAs may change over time as a result of changes to regulatory policy or its interpretation

Disclaimer

This presentation is the property of The Co-operative Bank p.l.c. (the Bank). By accessing this presentation you represent, warrant and agree that you will not attempt to reproduce or transmit the contents (in whole or part), directly or indirectly, of this presentation by any means. For the purposes of this notice, "presentation" means this document, its contents or any part of it, any oral presentation, any question or answer session and any written or oral material discussed or distributed during the presentation meeting. The contents of this presentation must be kept confidential by attendees at such presentation and must not be reproduced, printed, distributed, passed on directly or indirectly, to any person or otherwise.

The distribution of this presentation outside the UK may be restricted by law and therefore persons outside the UK into whose possession this presentation comes should inform themselves about and observe any such restrictions as to the distribution of this presentation. Except as provided in this disclaimer, neither this presentation, nor any copy of it, may be taken, transmitted or distributed, directly or indirectly, in or into any jurisdiction other than the UK. Recipients represent and warrant that (i) they are not based in a jurisdiction where possession or distribution of this presentation contravenes any securities legislation or any other applicable laws, (ii) they are not resident in a territory outside the UK, (iii) they are not acting as nominee or agent for any person or persons who by virtue of their residence or incorporation would not be entitled to subscribe for shares or securities in the Bank, (iv) they have not taken any action which will or may result in the Bank or its subsidiaries or any of their respective directors, officers, employees or agents acting in breach of any regulatory or legal requirement.

This presentation does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for any shares or any other securities nor shall it (or any part of it) or the fact of its distribution, form the basis of, or be relied on in connection with, any contract therefor.

This presentation does not constitute an offer for, sale of, or a solicitation to purchase or subscribe for, any securities in the United States. No securities of the Bank have been, or will be, registered under the US Securities Act of 1933, as amended (the Securities Act), and securities of the Bank may not be offered or sold in the United States absent an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. No money, securities or other consideration is being solicited and, if sent in response to the information contained herein, will not be accepted. Subject to limited exceptions, neither this presentation nor any copy of it may be taken, transmitted or distributed, directly or indirectly, into the United States, its territories or possessions. Any failure to comply with this restriction may constitute a violation of U.S. securities laws.

In the United Kingdom, this publication is directed only at persons who (i) are persons who have professional experience in matters relating to investments falling within Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended; or (ii) are Professional Clients (as defined by FCA Rules), all such persons in (i) and (ii) together being referred to as “relevant persons”. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons. If you are not a relevant person, you should not attend the presentation and should immediately return any materials relating to that meeting currently in your possession. By receiving this presentation, you represent and agreed that you are a relevant person.

Neither this presentation nor any copy hereof may be accessed or distributed in any jurisdiction where its access or distribution may be restricted by law. Persons who access or receive this presentation should make themselves aware of and observe and adhere to such restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of any such jurisdictions. In particular, neither this presentation nor any copy of the information contained in it is for access or distribution directly or indirectly in Canada, Australia, New Zealand, South Africa, Switzerland or Japan.

Although the statements of fact in this presentation have been obtained from and are based upon sources that are believed to be reliable, their accuracy is not guaranteed by the Bank or any of its advisers and any such information may be incomplete or condensed. All opinions and estimates included in this presentation are subject to change without notice. None of the Bank, its advisers or any other party is under any duty to update or inform you of any changes to such information, provide you with access to additional information or correct any inaccuracies in any such information which may become apparent.

Basel III has been implemented in the EU through the new Capital Requirements Regulation and a further iteration of the Capital Requirements Directive. Together the new rules are known as CRD IV and came into effect from 1 January 2014. The European Banking Authority is providing technical standards relating to CRD IV, some of which are not yet finalised. CRD IV disclosures in this presentation are based on the Bank's interpretation of published rules. There is a risk that the final content of the technical standards may differ materially from current expectations and that the Bank may become subject to regulatory capital requirements not currently anticipated or provided for.

In the December 2013 PS7/13 Policy Statement PRA announced that, with the exception of available-for-sale unrealised gains, CRD IV deductions and filters would be implemented in full from 1 January and there would be no transition to full implementation. All CRD IV disclosures in this presentation are shown on a fully loaded basis.

By receiving and/or attending this presentation, you agree to be bound by the restrictions in this disclaimer and will be taken to have given the representations, warranties and undertakings contained in this presentation, including that (i) you have read and agree to comply with the contents of this presentation including, without limitation, the obligation to keep this presentation and its contents confidential; and (ii) you will not at any time have any discussion, correspondence or contact concerning the information in this presentation with any of the directors or employees of the Bank or its subsidiaries nor with any of their suppliers, or any governmental or regulatory body without the prior written consent of the Bank.

Recipients of this presentation (and any related materials) should not base any behaviour in relation to qualifying investments or relevant products (as defined in the Financial Services and Markets Act 2000 ("FSMA") and the Code of Market Conduct made pursuant to FSMA), which would amount to "market abuse" for the purposes of FSMA, on the information in this presentation (and any related materials) until after the information has been made generally available. Nor should the recipient use the information in this presentation (and any related materials) in any way which would constitute market abuse.

Disclaimer

This presentation is published solely for informational purposes and should not be treated as giving investment advice. It has no regard to the specific investment objectives, financial situation or particular needs of any recipient. This presentation speaks as of the date hereof and has not been independently verified. No representation, warranty or other assurance, express or implied, is or will be made in relation to, and no responsibility is or will be accepted by the Bank or any of its advisers as to the accuracy, correctness, fairness or completeness of the information or opinions contained in this presentation. The Bank and its respective affiliates, agents, directors, partners and employees, accept no liability whatsoever for any loss or damage howsoever arising from any use of this presentation or its content or otherwise arising in connection therewith.

This presentation and any related materials may contain or incorporate by reference certain "forward-looking statements" regarding the belief or current expectations of the Bank or the Bank Board (as applicable) about the Bank's financial condition, results of operations and business described in this presentation. Generally, but not always, words such as "aim", "target", "will", "would", "expect", "propose", "intend", "plan", "estimate", "endeavour", "indicate", "anticipate", "project", "achieve" or their negative variations or similar expressions identify forward-looking statements. Examples of forward-looking statements include, among others, statements regarding the Bank's future financial position, income growth, assets impairment charges and provisions, business strategy, capital, leverage and other regulatory ratios, estimates of profitability, projected levels of growth in the banking and financial markets, projected costs, original and revised commitments and targets in connection with the turn-around plan, deleveraging actions, estimates of capital expenditures and plans and objectives for future operations and other statements that are not historical fact. Such forward-looking statements are not guarantees of future performance. Rather, they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance, achievements or developments of the Bank or the industry in which it operates to differ materially from any future results, performance, achievements or developments expressed or implied from the forward-looking statements.

The principal risks and uncertainties to the ability of the Bank to implement its plan and to achieve the results set out in the plan were set out in the Bank's Interim Financial Report 2014 and continue to apply to the revised plan. The Bank faces particular challenges including (but not limited to): market conditions persisting; ability to achieve the targeted cost savings; completing the remediation programme; support from third parties in remediating its IT platform; the PRA not exercising its wide-ranging powers in respect of the Bank or the plan; ability to retain customers and deposits; the timing and quantum of impacts to capital from its asset reduction exercise; meeting its planned improvements in net interest margin; a possible further 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 forecasts.

Many of the risks and uncertainties also relate to factors that are beyond the Bank's ability to control or estimate precisely which include (without limitation) factors such as: UK domestic and global economic and business conditions; the Bank's ability to implement successfully its four to five year business plan to improve its financial, operational performance and capital position; market related risks, including but not limited to, changes in interest rates and exchange rates; changes to law, regulation, accounting standards or taxation, including changes to regulatory capital or liquidity requirements and the Bank's ability to meet those requirements; the ability to access sufficient funding to meet the Bank's liquidity needs including through retail deposits; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or sovereign financial issues; changes to the Bank's credit rating; the effect of competition and the actions of competitors; the impact of potential disruption to the Bank's IT and communications systems; the ability to attract and retain skilled personnel; uncertainties regarding the extent of the Bank's exposure to pensions related liabilities; exposure to increased and ongoing regulatory scrutiny, legal proceedings, regulatory investigations or complaints, including with respect to conduct issues and other factors.

A number of material factors could cause actual results to differ materially from those contemplated by the forward-looking statements. The forward-looking statements contained in this presentation speak only as of the date of this presentation. Except as required by law, neither the Bank nor any of its respective affiliates or representatives undertakes any obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise. Recipients of this presentation should not place any reliance on the forward-looking statements and are advised to make their own independent analysis and determination with respect to the forecast periods.

Furthermore, you should consult with your own legal, regulatory, tax, business, investment, financial and accounting advisors to the extent that you deem it necessary, and make your own investments, hedging and trading decisions based upon your own judgement and advice from such advisers as you deem necessary and not upon any view expressed in this material.

Certain data in this presentation has been rounded. As a result of such rounding, the totals of data presented in this presentation may vary slightly from the arithmetic totals of such data.

The CET1 ratio projections on the slide "Bank financial targets" (the "Projections") are based on numerous assumptions regarding the Bank's present and future business strategies and the environment in which the Bank will operate in the future. The Bank cautions readers that no forward-looking statement is a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statement. Forward-looking statements involve inherent known and unknown risks, uncertainties and contingencies because they relate to events and depend on circumstances that may or may not occur in the future and may cause the actual results, performance or achievements of the Bank to be materially different from those expressed or implied by such forward looking statements. Many of these risks and uncertainties relate to factors that are beyond the Bank's ability to control or estimate precisely and past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance.

As a result, the Bank's actual CET1 ratio may differ materially from the Projections. The Projections have not been independently verified and no representation or warranty, express or implied, is made or given by or on behalf of the Bank or any relevant director, officer, employee, agent, affiliate or adviser, as to, and no reliance should be placed on, the accuracy, completeness or fairness of the Projections or opinions expressed in relation thereto and no responsibility or liability is assumed by any such persons for the Projections or opinions or for any errors or omissions. The Projections are subject to correction, completion and change without notice. Except as required by applicable law, the Bank undertakes no obligation to revise the Projections to reflect any change in the Bank's expectations with regard thereto or any subsequent events or circumstances.

The Projections assume no material profits or losses and are not intended, or to be construed, as a profit forecast or to be interpreted to mean that earnings per share for the current or future financial years will necessarily match or exceed the historical published earnings per share.