The Co-operative Financial Services
2011 interim results

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Co-operative Financial Services

Business highlights & strategy – Barry Tootell

Financial performance

- Profit
- Capital
- Liquidity & funding
- Asset quality

Transforming our business

Outlook

Business highlights

- The first half of 2011 has been a strong start to the year for CFS:
  - Improved operating result
  - Resilient capital position
  - Strengthened liquidity
  - Robust asset quality
  - Integration and transformation delivering benefits
  - Continue to attract high levels of customer advocacy
  - Improving franchise
  - Europe’s most sustainable bank for the second year running

Distinctive force in financial services

- Member owned, customer led, ethically guided, financially strong
- Uniquely diversified amongst UK mutuals
- Purpose, givens, values and vision
- Balanced scorecard approach

Financial

We are seen as a financially strong business.

Customer

We are seen as the financial services arm of the Co-operative Group and customers repeatedly choose us for their primary financial services relationship and recommend us to others.

To be the UK's most admired Financial Services Business

People

Our people are proud to work for us and advocate CFS as an employer and a service provider – we have UK leading employee advocacy scores.

Process

We are seen as a highly efficient business.
We operate within a clearly defined risk appetite.

Current market conditions

- Overall market conditions remain challenging
  - Uncertainty within the Eurozone
  - UK economy continuing to recover slowly from the crisis
  - Prolonged low base rate environment unlikely to end before the end of this year, and may only rise slowly in 2012
  - Current account switching remains a barrier to new competition
  - Suppressed lending markets eased slightly, but still subject to selective pricing
  - Conclusion of ICB review due mid September

Brand / franchise strength

- Strong reputation and customer focus
  - Most diverse mutual in UK financial services
  - Servicing over 8 million customers
  - Prudent approach, providing stability for customers
  - Continue to be recognised as an influential brand
- Growth in our relationship banking model
  - Continued investment to engage with and deepen customer relationships
  - Current account servicing through Britannia branches
  - Expansion of network

Awards and achievements

Proud to be...
Europe's Most sustainable bank

Probably the only bank people are **petitioning for.**

PinkPaper readers' awards 2011

WHO CAN YOU TRUST? Moneywise CUSTOMER SERVICE AWARDS 2011

When the people of Horbury asked us to open a branch, that's exactly what we did.

Switch to a current account from The Co-operative Bank.
Also available at: Britannia

The **co-operative** bank
good with money

INTELLIGENT CHOICE AWARD
CUSTOMER SATISFACTION HOME INSURANCE

INTELLIGENT CHOICE AWARD
CUSTOMER SERVICE MOTOR INSURANCE

BEST BUY which? www.which.co.uk

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Financial performance – James Mack

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Transforming our business

Outlook

CFS financial performance

Profitability | Asset quality | Capital | Liquidity

- Operating result up 20%
- Income up 17% reflecting growth across most areas of the business
- Continued control of costs
- Higher claims cost reflecting: growth in business volumes, bad weather and worsening experience of bodily and legal claims across the industry
- PPI charge of £90m

CFS - 6 months to June	2011 £m	2010 £m	Change %
Income	786	674	17%
Operating costs - steady state	(336)	(338)	1%
Operating costs - strategic initiatives	(17)	(21)	20%
Claims	(256)	(162)	(57%)
Impairment losses	(46)	(43)	(7%)
Operating result	**131**	109	20%
Significant items	(35)	(22)	(57%)
PPI provision	(90)	-	-
FSCS	(8)	(3)	(130%)
Other	3	(8)	143%
Profit before tax, distributions & fair value amortisation	**2**	76	(97%)
Fair value amortisation	17	(23)	174%
Profit before taxation & distributions	**19**	53	(64%)

Diversified business

Profitability | Asset quality | Capital | Liquidity

- Relationship based approach
  - High customer advocacy
  - Current account primacy
- Increased volumes of General Insurance business

CFS - 6 months to June	2011 £m	2010 £m	Change %
Retail	68	40	69%
CABB & Optimum	22	26	(16%)
Other *	42	44	(4%)
Operating result	131	109	20%

- Controlled lending in higher quality market segments
  - Gross lending of £1.4bn in first 6 months of 2011
- Excellent funds retention/attraction
  - 92% ISA retention

* Other includes Treasury, Unity Trust Bank, Other Shareholder Capital and CFS Management Services

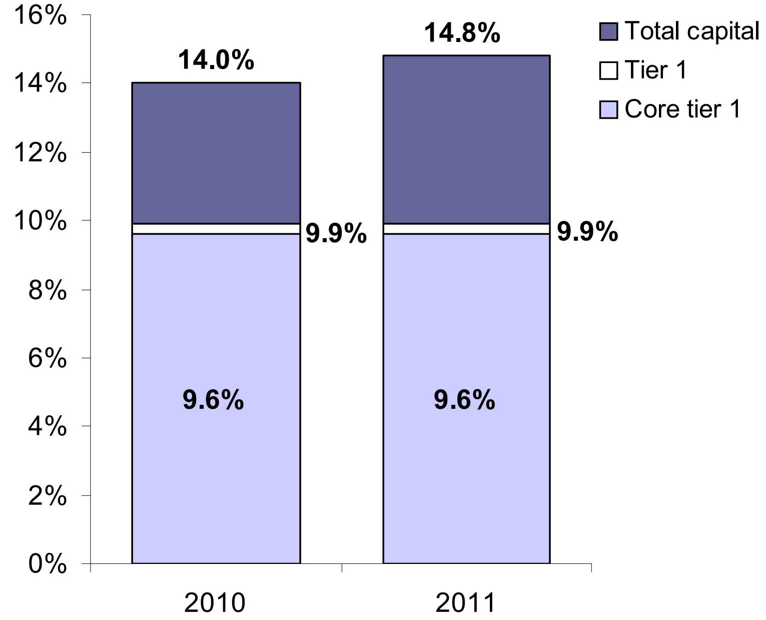
Profitability | Asset quality | Capital | Liquidity

Cost control

- Operating costs reduced despite the impact of strong inflationary pressures
- On a like-for like basis excluding inflation, operating costs have fallen by 4% on the first 6 months of 2010
- Reflects continued focus on control of costs across CFS

Stable capital

- Capital position remains resilient
  - Bank core tier 1 ratio of 9.6% maintained
  - Bank total capital ratio improved to 14.8%
- Capital stable despite PPI impact
  - Capital injected from surplus held within CFS
- Rigorous stress testing undertaken



£bn	2010	**2011**
Risk weighted assets	19.5	**20.4**
Core tier 1 capital	2.0	**2.1**
Total capital	2.7	**3.0**

Bank financial performance

Profitability | Asset quality | Capital | Liquidity

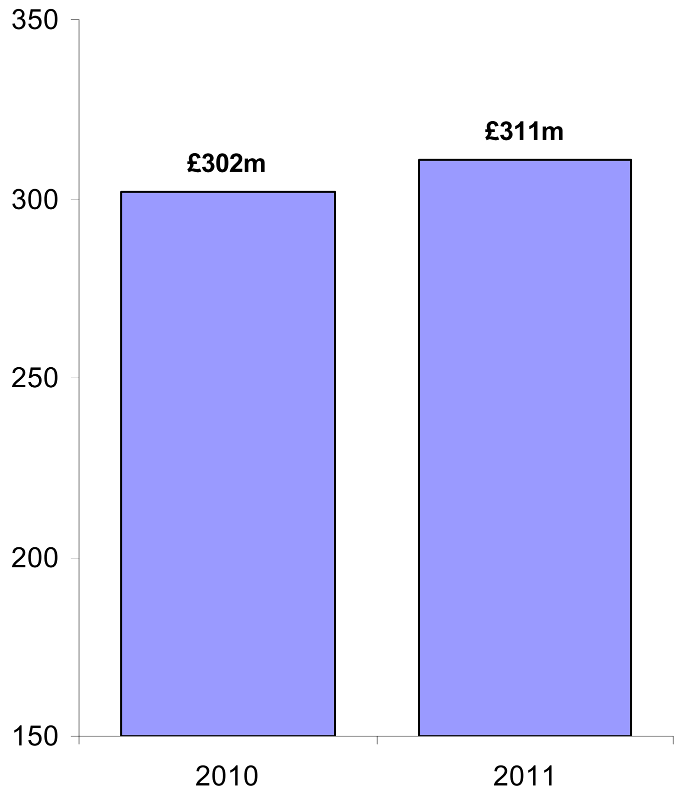
- Operating result up 37%
- Income up 8%
- Continued control of costs
- Impairment charge remains contained at £46m
- Profit includes provision of £90m relating to PPI

Bank - 6 months to June	2011 £m	2010 £m	Change %
Income	**435**	403	8%
Operating costs - steady state	**(269)**	(266)	(1%)
Operating costs - strategic initiatives	**(11)**	(15)	26%
Impairment losses	**(46)**	(43)	(7%)
Operating result	**109**	79	37%
Significant items	**(28)**	(18)	(51%)
PPI provision	**(90)**	-	-
FSCS	**(6)**	(3)	(79%)
Other	**0**	0	(25%)
(Loss)/profit before tax, distributions & fair value amortisation	**(15)**	58	(125%)
Fair value amortisation	**17**	(23)	174%
Profit before taxation & distributions	**2**	36	(94%)

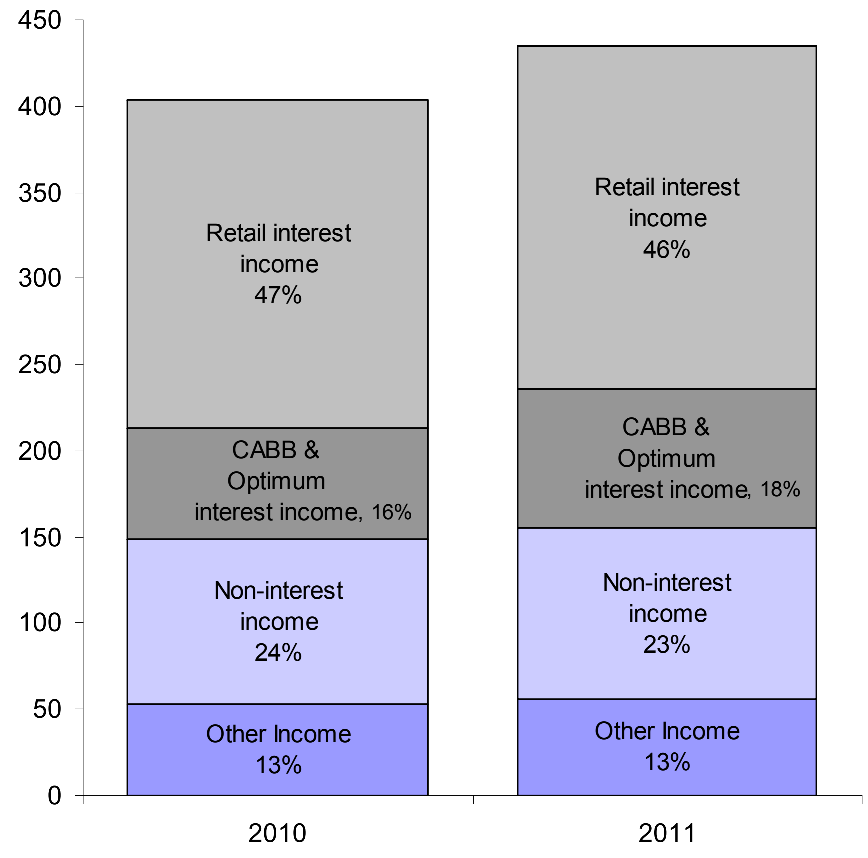
Profitability | Asset quality | Capital | Liquidity

Bank income trend

Net interest income* (£m)



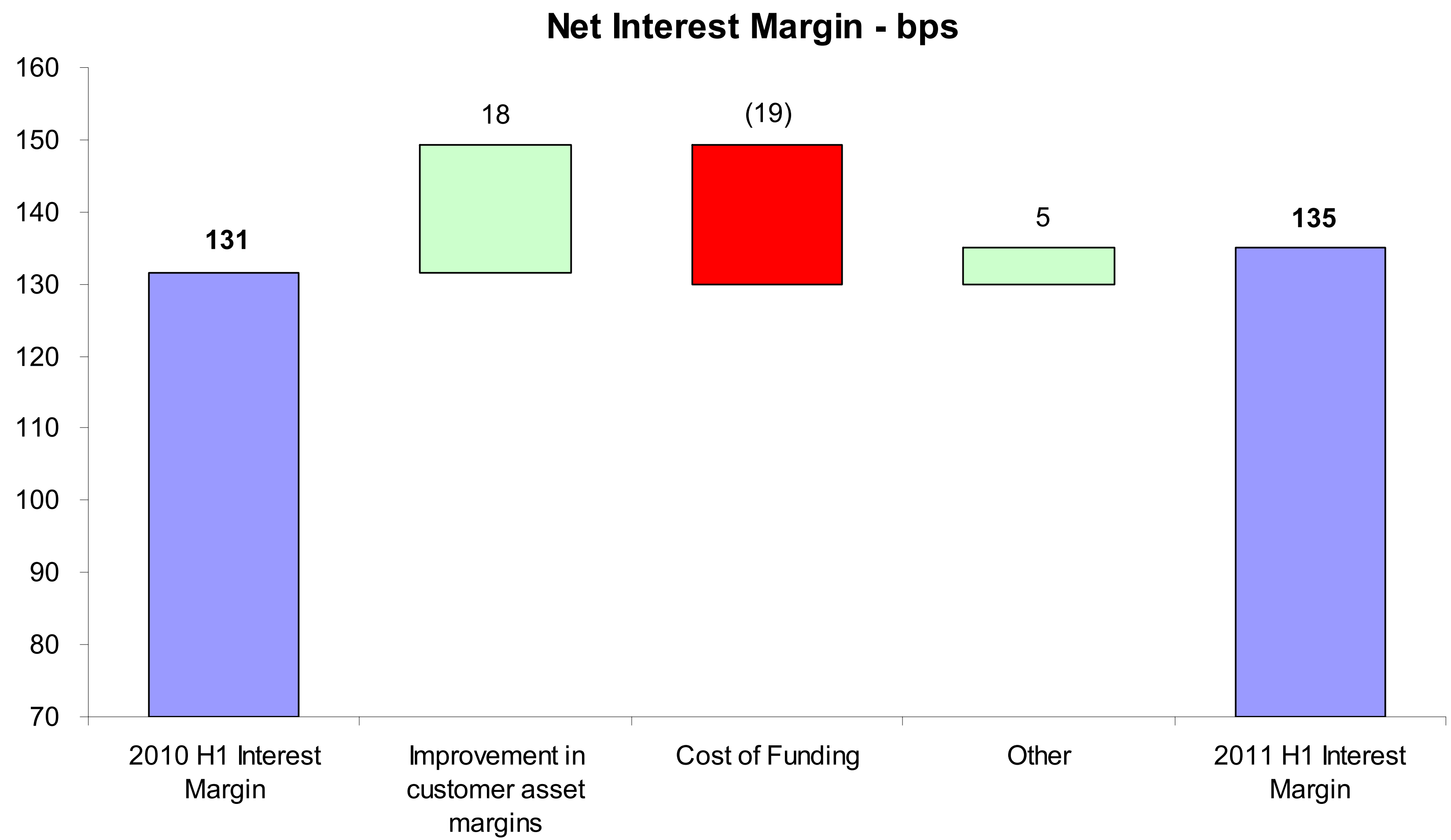
Total income (£m)



* excludes fair value amortisation

Net interest margin

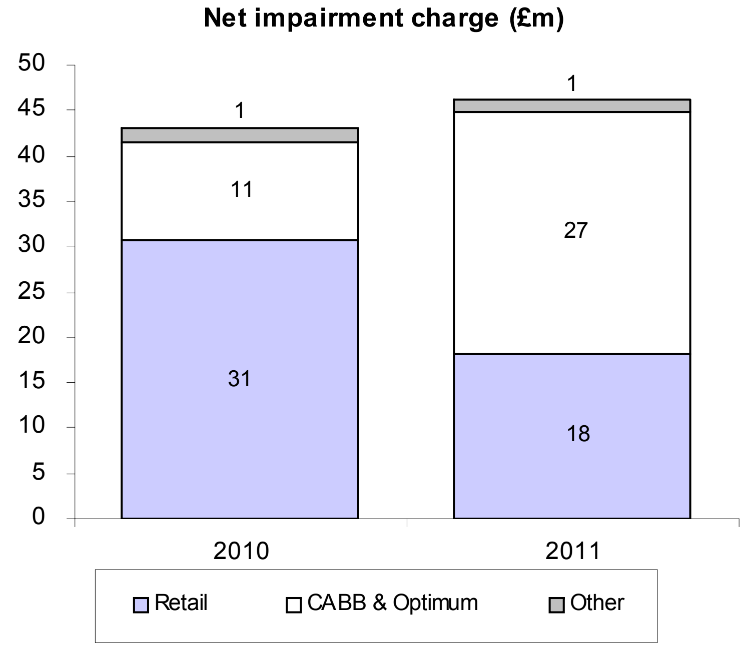
Profitability | Asset quality | Capital | Liquidity



Controlled Bank impairment charge

Profitability | Asset quality | Capital | Liquidity

- Continuing control of impairment reflects
  - Continued focus on credit risk, and prudent provisioning
  - Tightening of credit risk management strategy
  - Improved mortgage arrears collection processes
  - Late arrears ≥ 2.5% down to 1.41% (18% improvement on end 2010)
- Substantial FVA protection
- Before FVU, impairment charge in-line with H1 2010



Six months to June	2010 £m	**2011 £m**	Change %
Net impairment charge	43	**46**	7%

PPI

Profitability | Asset quality | Capital | Liquidity

- Focus is on being fair and easy to deal with for our customers
- Prudent approach taken to provision
- Methodology finalised after consultation with FSA and external benchmarking
- £4m provided in 2010 accounts for pipeline cases
- Total £90m provided post the judicial review
- Includes forecast costs associated with the redress and administration of PPI cases
- Provision assumes that proactive review of some post 2005 sales will be required

Bank balance sheet

Profitability | Asset quality | Capital | Liquidity

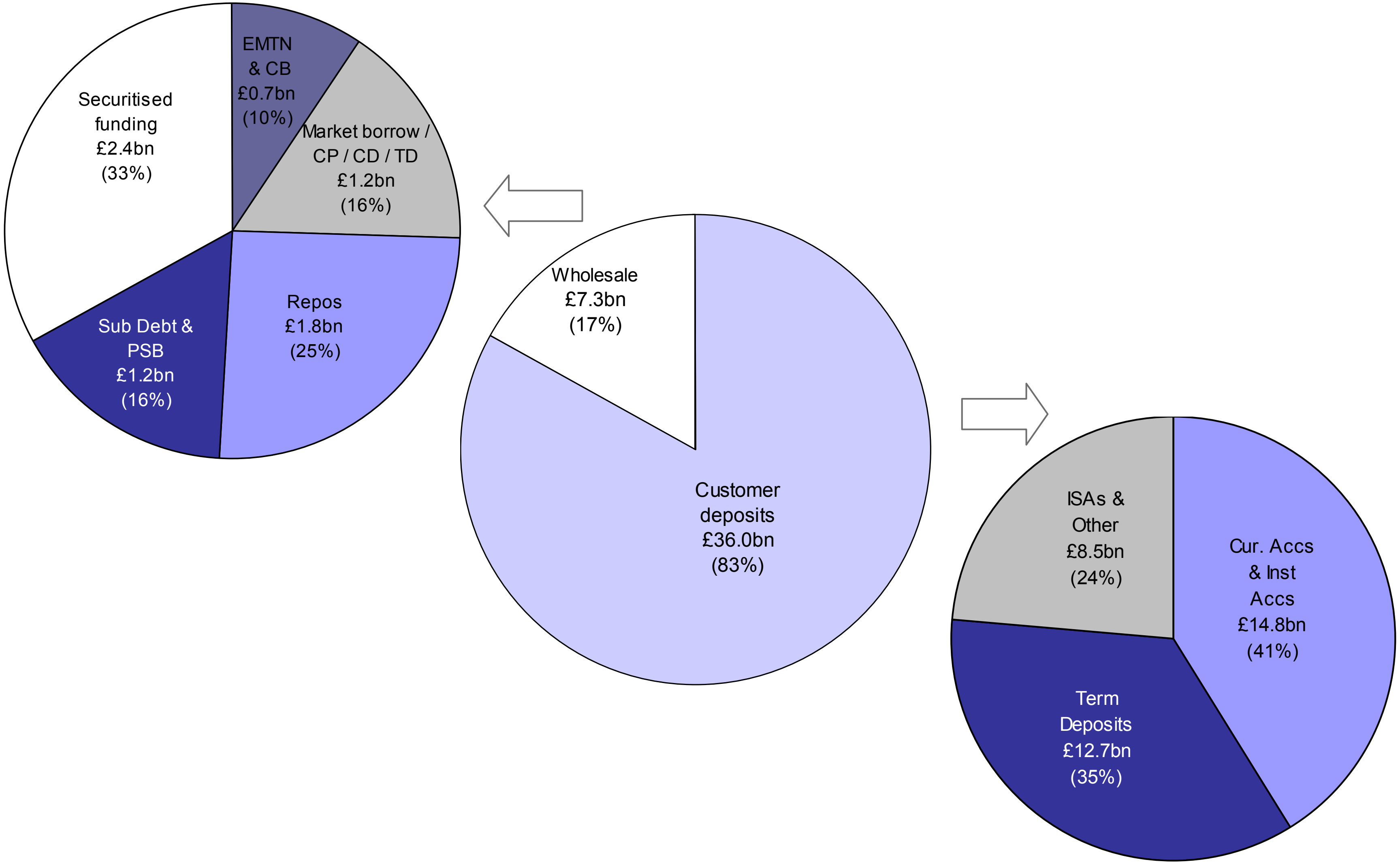
- Loan to deposit ratio of 96%, improved from 102% at end 2010
  - Current accounts up
  - Term deposits up
- Customer funding ratio* improved to 113% (107% end 2010)
- Continue to strengthen liquidity

	2011 £m	2010 £m	Change %
Loans and advances to customers	34,607	35,145	-2%
Investments	10,533	9,033	17%
Other assets	1,291	1,403	-8%
Total assets	**46,431**	**45,581**	2%
Amounts owed to customers	36,005	34,303	5%
Wholesale liabilities	2,711	2,939	-8%
Debt securities in issue	3,385	4,212	-20%
Other liabilities	986	1,079	-9%
Minority interest	33	32	3%
Other borrowed funds	1,178	975	21%
Equity	2,133	2,041	5%
Total liabilities & equity	**46,431**	**45,581**	2%

* Customer deposits / (customer assets less externally issued securitisations)

Well spread sources of funding

Profitability | Asset quality | Capital | Liquidity



Treasury liquidity and funding

Profitability | Asset quality | Capital | Liquidity

- High quality liquid assets
  - Liquid asset ratio* of 11.5% at June 2011
  - £12bn unencumbered assets
- Wholesale funding
  - Successful completion of Silk Road 2 securitisation. £0.7bn of long term funding raised. High quality order book

External funding maturity

£bn	2012	2013	2014	2015	2016	> 2017
MTN		0.1		0.0		0.4
Securitised funding			0.7	1.1	0.6	1.4
Subordinated debt			0.2		0.2	0.6
Total	**0.0**	**0.1**	**0.9**	**1.1**	**0.7**	**2.4**

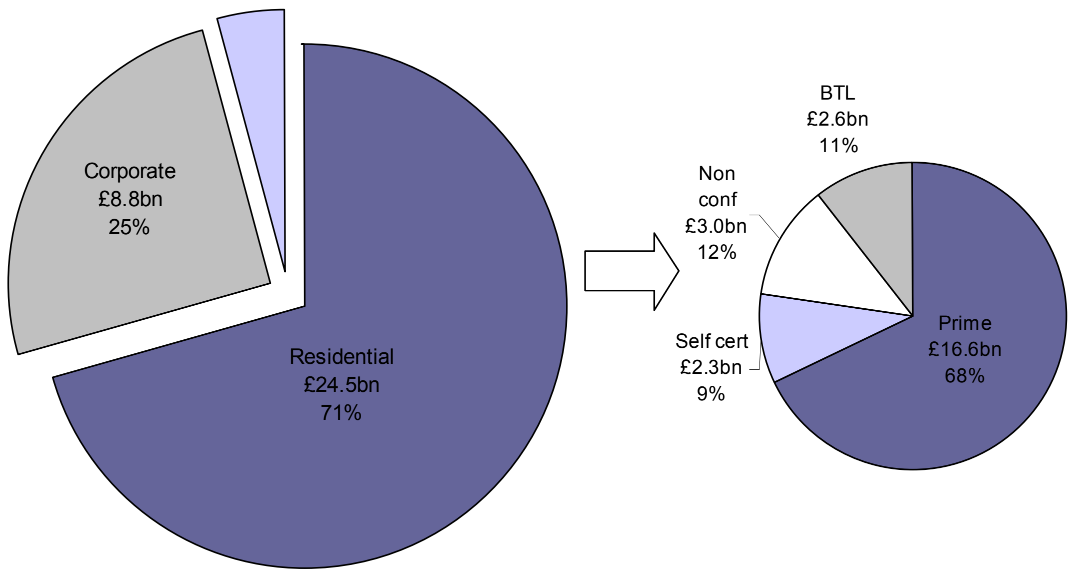
(excluding perpetual debt, short term money market)

* Measured as cash & gilts as a proportion of total Bank liabilities

Profitability | Asset quality | Capital | Liquidity

High quality loan portfolios

Gross customer balances



Assets with credit fair value protection

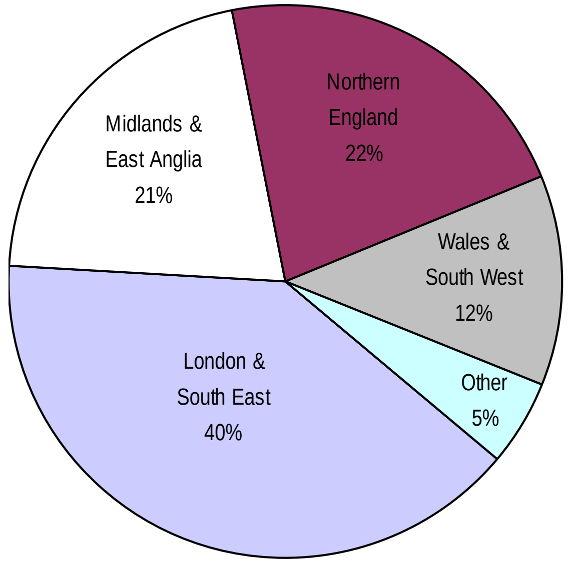
£m	Gross balances	LEL + existing provision at merger	Amount written off since merger	LEL provision remaining	LEL remaining as % of assets
Retail residential	10,191	10	**(3)**	7	0.1%
Optimum / Platform	9,329	310	**(133)**	177	1.9%
Corporate	3,486	312	**(58)**	254	7.3%
Loans and advances	**23,006**	**632**	**(194)**	**438**	**1.9%**
Treasury	3,319	112	**(47)**	65	2.0%
Heritage Britannia book	**26,325**	**744**	**(241)**	**503**	**1.9%**

Stable residential portfolio

- Stable portfolio mix with 68% prime
- Broad and stable geographic spread across UK
- Clear focus on
  - New lending quality
    - Focused on prime owner-occupied & buy to let
    - Average new business LTV 62%
  - Management of Optimum back book
- Non-conforming book
  - 92% originated before 2008
  - Covered by FVA and provisions

£m	Jun-11	% of book
Prime	16,594	68%
BTL	2,646	11%
Self Cert	2,312	9%
Non Conforming	2,975	12%
Total	24,527	

Regional analysis - June 2011



Stable residential portfolio

	Jun-11 £bn	% of book	Credit FV protection £m	Impairment Provision £m	Total coverage £m / % *
Prime	16.6	68%			
BTL	2.6	11%			
Self Cert	2.3	9%			
Non Confirming	3	12%			
Total	**24.5**		**184**	**8**	**192 / 12.6%**

- Prudent levels of balance sheet coverage from credit fair value protection and impairment provisions

* Coverage measured as credit FV protection plus impairment provisions as a percentage of impaired customer balances

Profitability | Asset quality | Capital | Liquidity

Residential portfolio by LTV Band

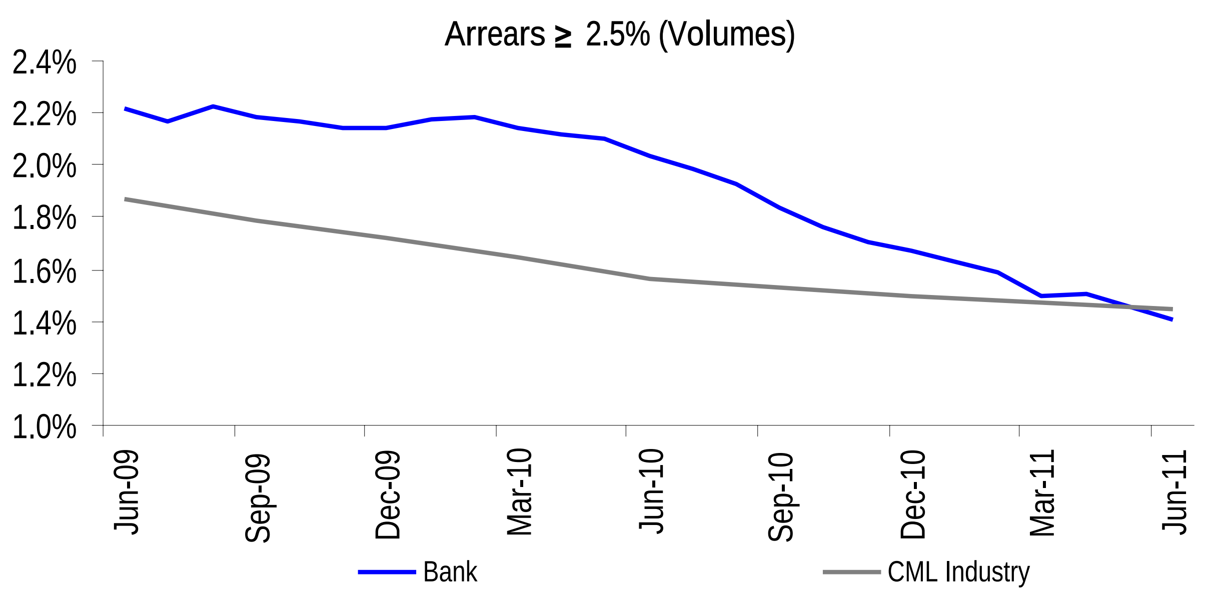
	Prime	Buy to let	Self cert	Non conf	6 months to: Jun-11 Average	Dec-10 Average
Average LTVs					**53.6%**	52.1%
New business LTVs					**61.7%**	62.8%
Book by indexed LTV						
≤ 50% LTV	35.1%	5.4%	8.5%	5.7%	**25.8%**	27.3%
≤ 75% LTV	33.7%	30.4%	20.9%	16.0%	**30.0%**	31.1%
≤ 100% LTV	25.9%	48.3%	49.1%	39.9%	**32.2%**	31.9%
> 100% LTV	5.3%	15.9%	21.5%	38.4%	**12.0%**	9.7%
Gross customer balance	£16.6bn	£2.6bn	£2.3bn	£3.0bn	**£24.5bn**	£25.2bn

- No new lending >90% LTV
- Property prices have driven an increase in >100% LTVs compared with December 2010
- Fair value assessed book accounts for the majority of >100% LTVs
- Average weighted indexed LTV on book remains low at 53.6%

Reducing residential arrears

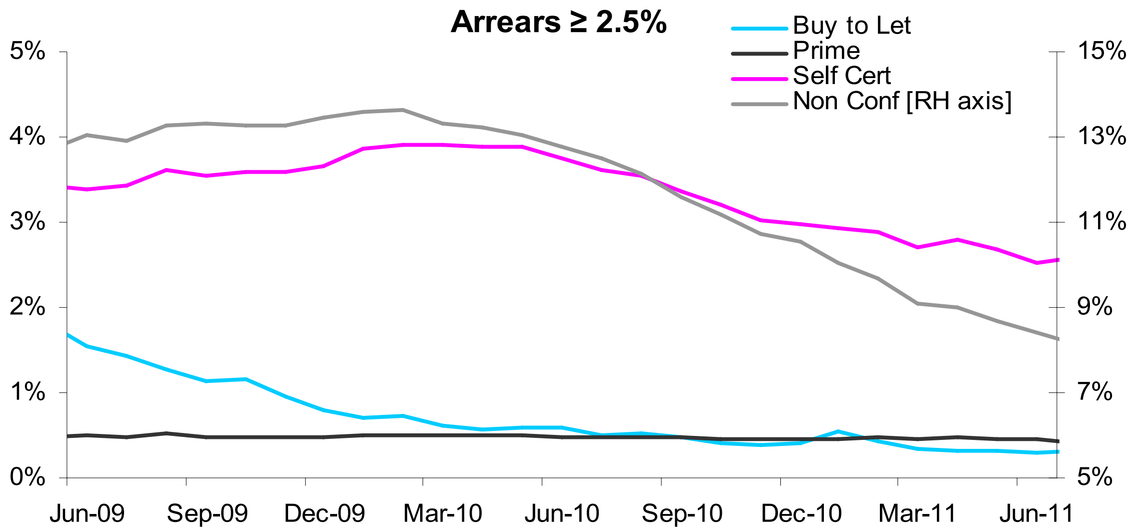
Profitability | Asset quality | Capital | Liquidity

- Well managed arrears, with ongoing actions
- ≥ 2.5% arrears fallen 18% since December 2010
- Below CML average for first time since merger



Reducing residential arrears

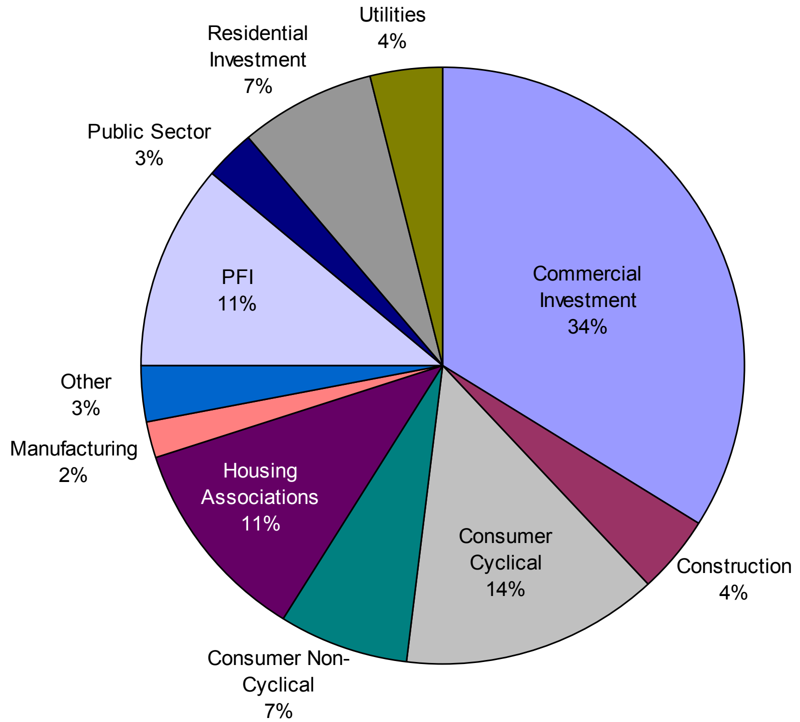
	Jun-2011		
	Book (No.)	≥ 2.5% arrears	*Change (Dec-10)*
Prime	193,236	0.45%	*-4%*
BTL	23,820	0.30%	*-22%*
Self Cert	15,239	2.53%	*-18%*
Non Conforming	27,663	8.41%	*-23%*
Total	**259,958**	**1.41%**	***-18%***



Diversified corporate portfolio

Profitability | Asset quality
Capital | Liquidity

- £10.6bn exposure at June 2011 (£8.8bn drawn balances)
- Risk appetite: comprehensive structure of portfolio limits
- Centralised underwriting provides strong control and governance
- Balance sheet protection (FVA and provisions) of £0.3bn, representing 47% of impaired customer balances



The co-operative financial services

Europe's most sustainable bank

Britannia

Corporate property lending

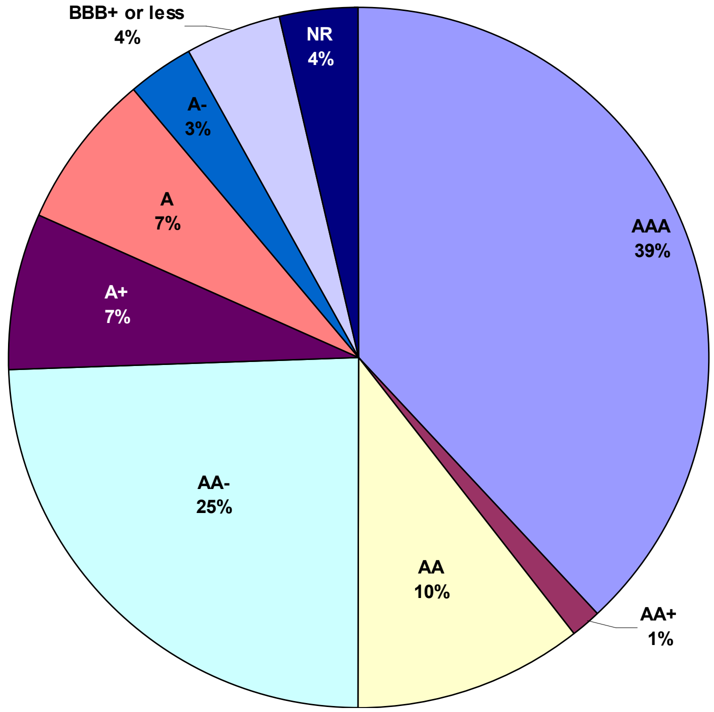
- Majority of property lending to low risk customers with tangible net assets and/or very high quality tenant covenants
- Indexation of property values undertaken
- Low arrears and impairment charges seen across combined investment property portfolio where focus has been on sensitised affordability testing
- Loan and tenant quality tested via credit reviews undertaken at least annually
- Property lending anticipated to remain broadly flat during 2011 - any new lending considered only for well established and managed customers against high quality covenants and risk grades
- Indexed LTV of Corporate lending* improved from 90% at end 2010 to 88% at June 2011

* Portfolio excludes amounts which carry an impairment provision or lifetime expected credit losses

Profitability | Asset quality
Capital | Liquidity

Well managed asset quality - Treasury

- Total Treasury portfolio exposure £7.6bn*, 92% of which is rated A- or higher
  – Investment portfolio assets (incl. ABS/MBS) c. £4.5bn, 88% of which are rated A- or higher
- Total liquid assets of £6.0bn (2010: £4.4bn)



* Total treasury assets as valued for credit risk purposes

Profitability | Asset quality | Capital | Liquidity

European counterparty exposure

- Bank exposure to European counterparties;
  - £1.3bn matures within 30 days
  - Additional £0.6bn matures within a year
- No retail exposure outside the UK
- Underlying term assets in run-off. No new term exposure
- No sovereign exposure to Portugal, Ireland, Italy, Greece or Spain. No exposure to Greece
- Treasury exposure to B-PIIGS banks:
  - 57% (c.£0.7bn) short term money market lending, with majority maturing in < 1m
  - 40% (c.£0.5bn) senior debt securities (94% mature in < 1yr, all mature by mid 2012)

Country	Total exposure £m 30 June 2011
Austria	40
Belgium	212
Denmark	-
Finland	25
France	576
Germany	279
Greece	-
Ireland	106
Italy	237
Luxembourg	-
Netherlands	69
Norway	-
Portugal	36
Spain	555
Switzerland	146
	2,281

Well managed asset quality

Profitability | Asset quality
Capital | Liquidity

In summary;

- High quality residential mortgage book:
  - New lending focused on prime owner-occupied and buy to let (new business 62% average LTV)
  - Predominantly prime back-book (68% of total mortgage book)
  - Well seasoned specialist book (92% originated before 2008)
  - Reducing arrears (18% fall in ≥ 2.5% arrears since December 2010)
- Tight control of unsecured lending in challenging market conditions
  - Reduction in bad debt charge and stable arrears balance
  - Continued decrease in credit card exposures
- Strong corporate portfolio and stable risk profile
- Assets from Britannia business covered by fair value adjustments

Co-operative Financial Services

Business highlights & strategy

Financial performance

- Profit
- Capital
- Liquidity & funding
- Asset quality

Transforming our business – Barry Tootell

Outlook

Transforming our business – progress to date

2010	2011	2012	2014	2015-2020
Coming Together	**Banking in Britannia Branches**	One Bank	One Bank – Efficient & Integrated	Compelling Co-operative Alternative
A joined up business, operating under the new Organisational Design and working together to deliver our strategy. BTP release one	**Britannia branches operate as a Bank and are recognised as part of the Co-operative family**	Single view of our customers to support the relationship model Consistent experience across all channels	A fully integrated bank, with one set of systems and processes Customer relationship model extended Foundations for growth in place	Operation is faster, better, more successful Branch & Corporate Banking Centre networks strengthened 20 million members A fully unified set of co-operative businesses supporting a member centric model

Transforming our business – future plans

2010	2011	2012	2014	2015-2020
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Transforming our business – future plans

- Seeking to maximise customer and commercial benefits of Group scale, reach and reputation
- Potential to create the compelling co-operative alternative across our many different markets
- Will open up potential synergies and cross-sales opportunities
- Project will gather momentum in the second half of 2011
- New governance structure already in place

unity
growing The Co-operative together

Co-operative Financial Services

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Transforming our business

Outlook – Barry Tootell

Well placed for future success

- Integration programme on track
- Investment in systems and processes
- Growing membership
- Recognised for excellence
- Market leading customer advocacy
- Liquidity, capital and profit strong
- New opportunities offered by Project Unity
- The compelling co-operative alternative

For further information please contact cfsinvestorrelations@cfs.coop