The Co-operative Financial Services
2010 annual results

30 March 2011

The co-operative financial services

The world's most sustainable bank

Britannia

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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

Financially strong

People

Our people are proud to work for us

To be the UK's most admired Financial Services Business

Customer

Primary financial services relationship and recommended to others

Process

Highly efficient business within a clearly defined risk appetite

Awards and achievements

Proud to be the World's Most Sustainable Bank

Our ethics in action: why we're No.1

Financial Times Sustainable Bank of the Year award,

Top high street bank in the JD Power survey of financial provider **customer satisfaction**

Ranked **5th UK businesses in Which?** customer service survey

Both Co-operative Group and Co-operative Bank feature in the top ten most influential brands in the UK in the annual poll from the Thought Leadership Group

And some of the other external recognition we attracted…

INTELLIGENT CHOICE AWARD
CUSTOMER SATISFACTION HOME INSURANCE
CUSTOMER SERVICE MOTOR INSURANCE

THE QUEEN'S AWARDS FOR ENTERPRISE: SUSTAINABLE DEVELOPMENT

WHO CAN YOU TRUST? Moneywise CUSTOMER SERVICE AWARDS 2010

THE SUNDAY TIMES BEST GREEN COMPANIES 2010

CFS headlines

- Robust financial performance
  - Underlying operating profit up on 2009
  - Income improved despite impact of low interest rates (net interest margin 138bps, up 14bps on like-for-like basis)
  - Tight cost control
  - Impairment down (36% on 2009 like-for-like basis)
- Balance sheet reflects underlying strength
  - Well-managed asset quality (22% reduction in late arrears)
  - Core tier 1 ratio strengthened (9.6% at Dec-10)
  - Improved liquidity and funding, customer funding ratio increased (107%)
- Building a platform for growth and transformation
  - Delivered significant cost synergies in 2010, ahead of expectations
  - Moving towards integrated customer proposition
- High customer advocacy (7.5% ahead of our competitors)
- 89% of our people are proud to work for us

Current market conditions

- Overall market conditions remain difficult
  - UK continuing to recover slowly from the crisis
  - Prolonged low base rate environment
  - Low switching of current accounts remains a barrier to competition
  - Banks recapitalising to higher levels and driving funding through customer deposits
  - Suppressed lending markets, more selective
- The outlook has improved, but uncertainty remains
  - 2011 likely to have little or no growth, gaining confidence that 2012 onwards will see the UK recovering
  - Potential for further fallout from the Eurozone sovereign debt crisis
  - Conflicting pressures of growing inflation versus suppressed world demand make future changes to interest rates uncertain

Resilient response

- Compelling co-operative alternative
  - Continuing focus on easy, fair, personal and responsible service
- Stability and success
  - Balancing financial strength with the needs of our customers and our people
- From stabilisation to transformation
  - Pioneering transformation programme underway
- Support of our people and customers
  - Industry leading levels of employee engagement
  - High customer advocacy figures

CFS financial performance

Profitability | Asset quality | Capital | Liquidity

Statutory performance

- Underlying profit up 28%
- Profit before tax, distributions and fair value amortisation up 3%
- Profit for 2009 includes Britannia business from 1 August 2009

Statutory P&L	2010 £m	2009 £m	Change %
Income	**1,394**	1,128	24%
Operating costs - steady state	**(705)**	(547)	(29%)
Claims	**(347)**	(281)	(24%)
Impairment losses	**(96)**	(108)	11%
Underlying operating profit	**246**	193	28%
Significant items & change costs	**(103)**	(70)	(49%)
PPI Provision	**(4)**	-	-
FSCS	**(12)**	(4)	(211%)
Other	**1**	5	(77%)
Profit before tax, distributions & fair value amortisation	**128**	125	3%
Fair-value amortisation	**(14)**	99	(114%)
Profit before taxation & distributions	**114**	224	(49%)

CFS financial performance

Profitability | Asset quality | Capital | Liquidity

Like-for-like performance

- Underlying profit up 12%
- Income improved despite ongoing margin pressures
- Higher claims cost from higher business volumes and adverse weather impact
- Significant reduction on impairment
- Operating costs reflect new business investment and VAT increases. Synergy benefits have been used to absorb inflationary pressures

Like - for - like P&L	**2010 £m**	2009 £m	Change %
Income	**1,394**	1,328	5%
Operating costs - steady state	**(705)**	(677)	(4%)
Claims	**(347)**	(281)	(24%)
Impairment losses	**(96)**	(150)	36%
Underlying operating profit	**246**	220	12%
Significant items & change costs	**(103)**	(97)	(7%)
PPI Provision	**(4)**	-	-
Sub debt buy-back	**-**	58	-
FSCS	**(12)**	(2)	(505%)
Other	**1**	5	(77%)
Profit before tax, distributions & fair value amortisation	**128**	184	(30%)
Fair-value amortisation	**(14)**	99	(114%)
Profit before taxation & distributions	**114**	283	(60%)

Well diversified business

Profitability | Asset quality | Capital | Liquidity

- Continuing to benefit from diversification between Retail and CAM business
- Controlled lending growth in higher quality market segments
- Strong customer funding, enhanced through retention and growth of deposits
- High level of customer advocacy, 7.5% ahead of our competitors
- 79% increase in current account switchers during 2010
- Improved profitability of General Insurance business
- Written premiums up 35%, driven by 10% year on year increase in 'in force' policies

Like-for-like	**2010 £m**	2009 £m	Change %
Retail	**58**	26	125%
CAM	**154**	145	6%
Other	**34**	49	(30%)
Underlying operating profit	**246**	220	12%

Tight control of CFS costs

Profitability | Asset quality
Capital | Liquidity

- Policy of tight control and governance on underlying costs is a key focus for the business going forward
- The total reported costs have increased 4% in 2010, however on a like for like basis the underlying costs have improved 2%, allowing for:
  - The impact of inflation
  - Full year impact of the asset management business (tCAM)
- Total costs savings of £29m have been achieved in 2010 through synergy savings and management actions
- In year synergy benefits of £41m have been achieved by the end of 2010 (post merger initiatives)

Profitability | Asset quality | Capital | Liquidity

Stable CFS capital position

- Bank core tier 1 ratio of 9.6% (2009: 8.7%)
- Bank capital ratio of 14.0% (2009: 13.5%)
- Significant capital surplus within CFS
- Continued stable Bank capital surplus

	Dec-10 £m	Dec-09 £m
Bank surplus over Pillar 1	**1,175**	1,045
GI *	**73**	70
Other surplus capital	**417**	547
Total	**1,665**	1,662

* Excess over Minimum Capital Requirement (MCR)

Bank financial performance

Profitability | Asset quality | Capital | Liquidity

Statutory performance

- Underlying profit up 34%
- Profit before tax, distributions and fair value amortisation up 1% on 2009
- Profit for 2009 includes Britannia business from 1 August 2009

Statutory P&L	2010 £m	2009 £m	Change %
Income	**822**	653	26%
Operating costs - steady state	**(556)**	(414)	(34%)
Impairment losses	**(96)**	(112)	15%
Underlying operating profit	**171**	127	34%
Significant items & change costs	**(82)**	(50)	(63%)
PPI Provision	**(4)**	-	-
FSCS	**(12)**	(4)	(211%)
Other	**1**	(0)	800%
Profit before tax, distributions & fair value amortisation	**74**	73	1%
Fair-value amortisation	**(14)**	99	(114%)
Profit before taxation & distributions	**60**	172	(65%)

Bank financial performance

Like-for-like performance

- Underlying profit up 11%
- Income remained resilient despite ongoing margin pressures
- Significant reduction on impairment
- Profit before tax, distributions and fair value amortisation steady after adjusting for gain on sub debt buy-back in 2009
- Tight cost control

Like - for - like P&L	**2010 £m**	2009 £m	Change %
Income	**822**	852	(4%)
Operating costs - steady state	**(556)**	(544)	(2%)
Impairment losses	**(96)**	(154)	38%
Underlying operating profit	**171**	154	11%
Significant items & change costs	**(82)**	(77)	(6%)
PPI Provision	**(4)**	-	-
Sub debt buy-back	**-**	58	-
FSCS	**(12)**	(2)	(505%)
Other	**1**	(0)	450%
Profit before tax, distributions & fair value amortisation	**74**	133	(44%)
Fair-value amortisation	**(14)**	99	(114%)
Profit before taxation & distributions	**60**	232	(74%)

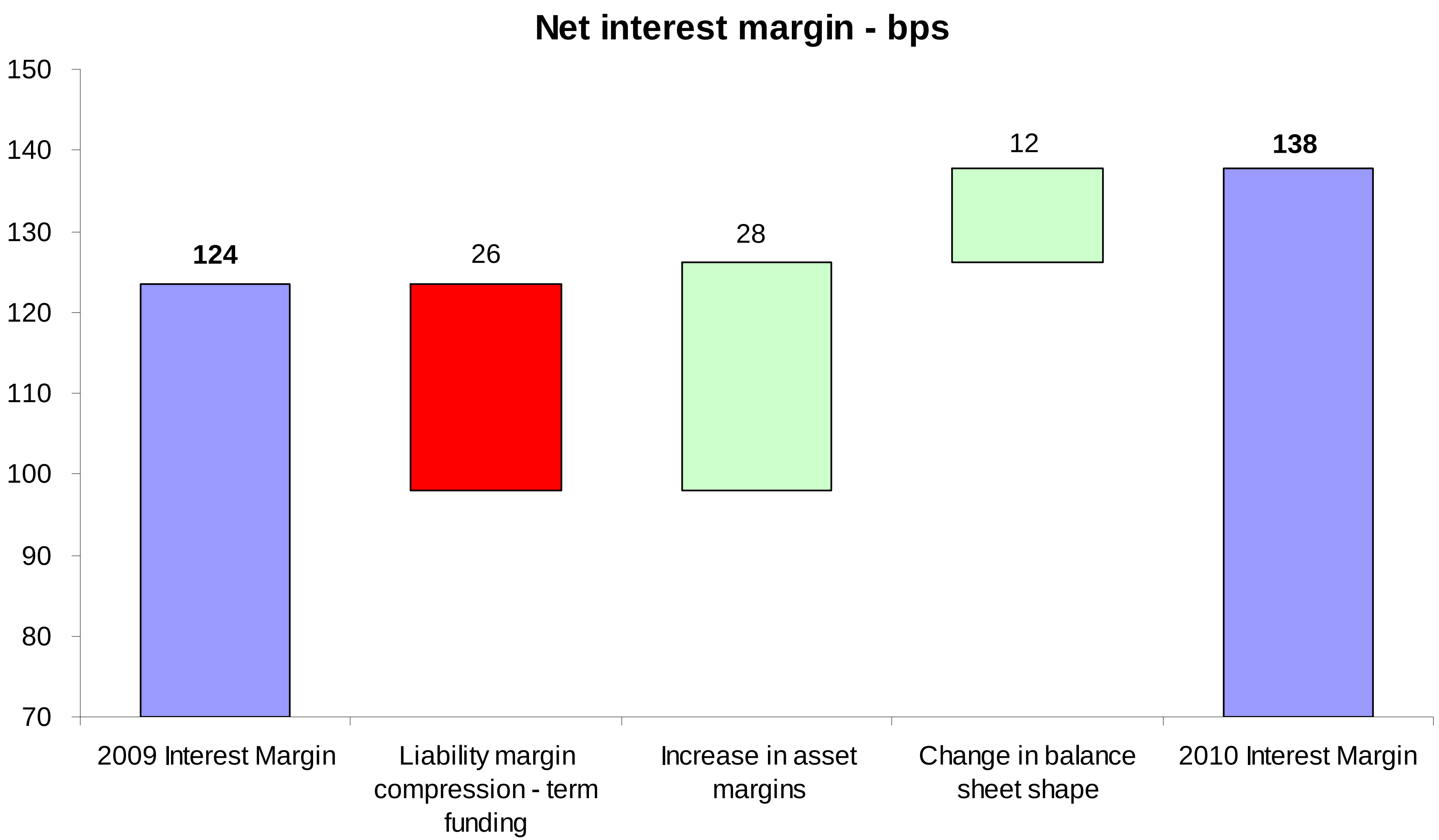
Prudent balance sheet

Profitability | Asset quality | Capital | Liquidity

- Customer funding ratio* improved to 107% (2009: 104%)
  - Customer assets up 3%
  - Customer deposits up 5%
- Term customer funding up 17%
- Current accounts up 13%
- Excellent funds retention/attraction (e.g. ISA retention 97%)
- Increase in pool of high quality liquid assets to 9.7% (2009: 5.6%)

* Excluding securitised loans

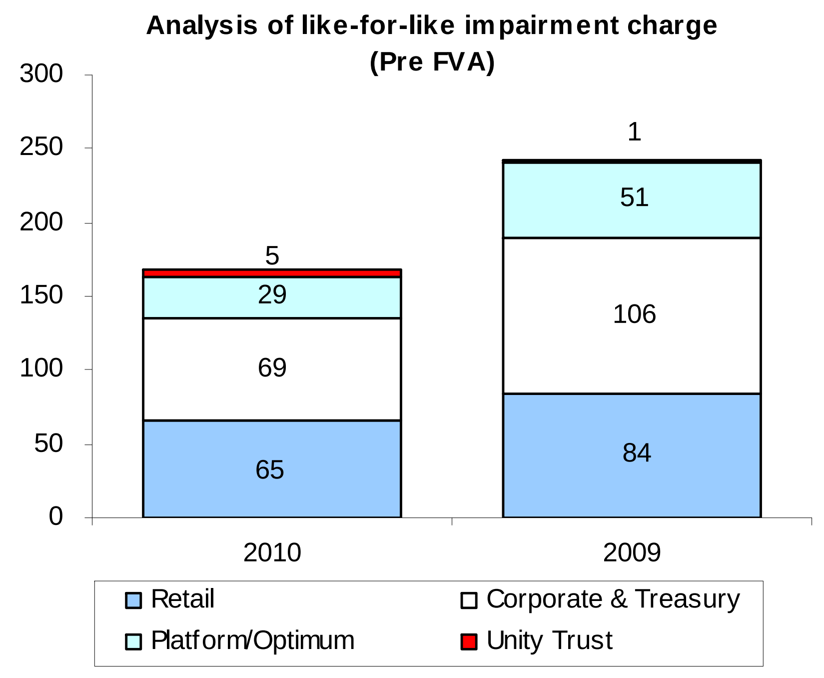
Net interest margin



Significant reduction in impairment

Profitability | Asset quality | Capital | Liquidity

- Impairment charge, including credit fair value, reduced by 38% to £96m (2009: £154m)
- Despite difficult market conditions, pre FVA impairment down 31% on 2009
- Continued focus on credit risk, and prudent provisioning
- Tightening of credit risk management strategy
- Improved arrears collection processes, 22% reduction in >=2.5% arrears
- Substantial FVA asset protection



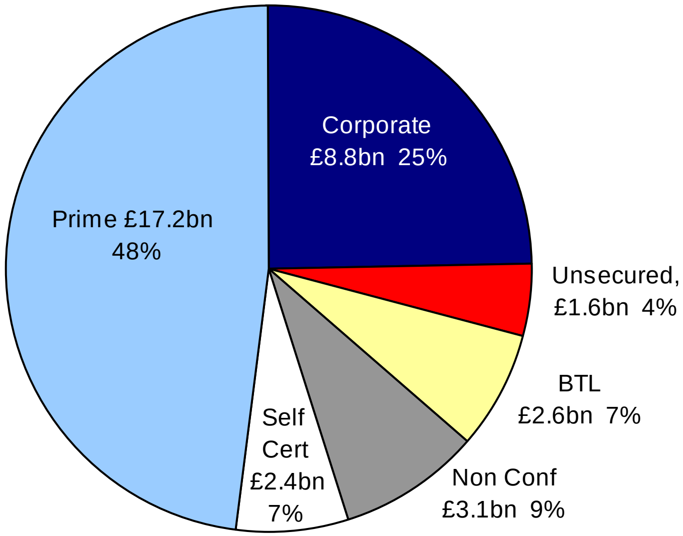
Like-for-like Impairment summary	2010 £m	2009 £m	Change %
Pre FVA	**168**	242	31%
Post FVA	**96**	154	38%

Well managed asset quality

Profitability | **Asset quality** | Capital | Liquidity

- Very high quality residential book, with focus on affordability
  - Low LTV profile (average 61% LTV on new business)
  - Low and continued fall in >2.5% arrears (22% down on 2009)
  - Predominantly prime mortgage book (68%, up from 66% at Dec-09)
  - Well seasoned specialist book (92% originated before 2008)
- Well managed Optimum portfolio
  - Clear focus on back book management and low/falling genuine arrears
- Platform repositioned to focus predominantly on prime lending
- Tight control of unsecured lending
  - Reduction in bad debt charge and stable arrears balance
  - Decrease in credit card exposures as result of limit reduction programme
- Strong corporate portfolio and stable risk profile
- Assets from heritage Britannia business covered by fair value adjustments

High quality loan portfolios



Of which, assets from heritage Britannia business are covered by prudent FVA protection

Heritage Britannia assets with credit FVA protection

£m	Gross balances	LEL + existing provision at merger	W/off since merger	LEL provision remaining	as % of assets
Retail residential	10,731	10	(2)	8	0.1%
Optimum / Platform	9,343	310	(105)	205	2.2%
Corporate	3,499	312	(46)	266	7.6%
Loans & Advances	**23,573**	**632**	**(154)**	**479**	**2.0%**
Treasury	4,941	112	(27)	85	1.7%
Total	**28,514**	**744**	**(181)**	**564**	**2.0%**

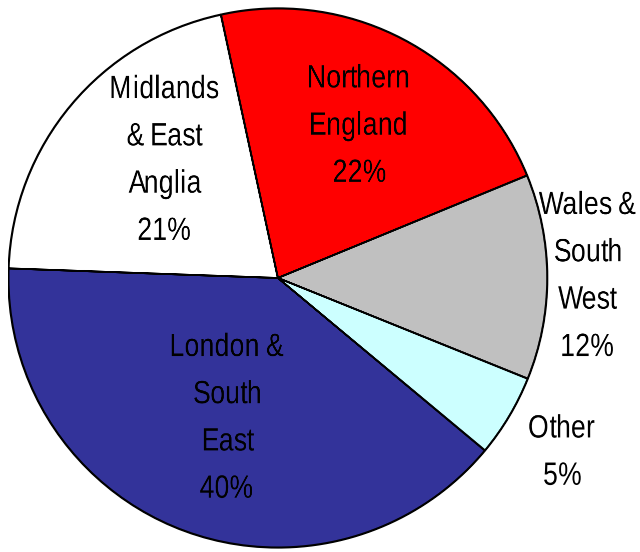
Stable residential portfolio

Profitability | Asset quality | Capital | Liquidity

- Increased predominance of Prime
- Broad geographic spread across UK
- Clear focus on
  - New lending quality
  - Back book management
- Non conforming book originated before 2008 covered by FVA and provisions
- Low, and stable LTVs
  - Average weighted indexed on book 52.1% (2009: 51.9%)
  - Average weighted on new lending 60.9% (2009: 59.1%)

	Dec-10 £bn	**% of book**	***Change (Dec-09)***
Prime	**17.2**	68%	*+ 2.4%*
BTL	**2.6**	10%	*- 0.4%*
Self Cert	**2.4**	10%	*- 1.0%*
Non Conforming	**3.1**	12%	*- 1.1%*
Total	**25.3**		

Regional analysis - December 2010



The co-operative financial services

The world's most sustainable bank

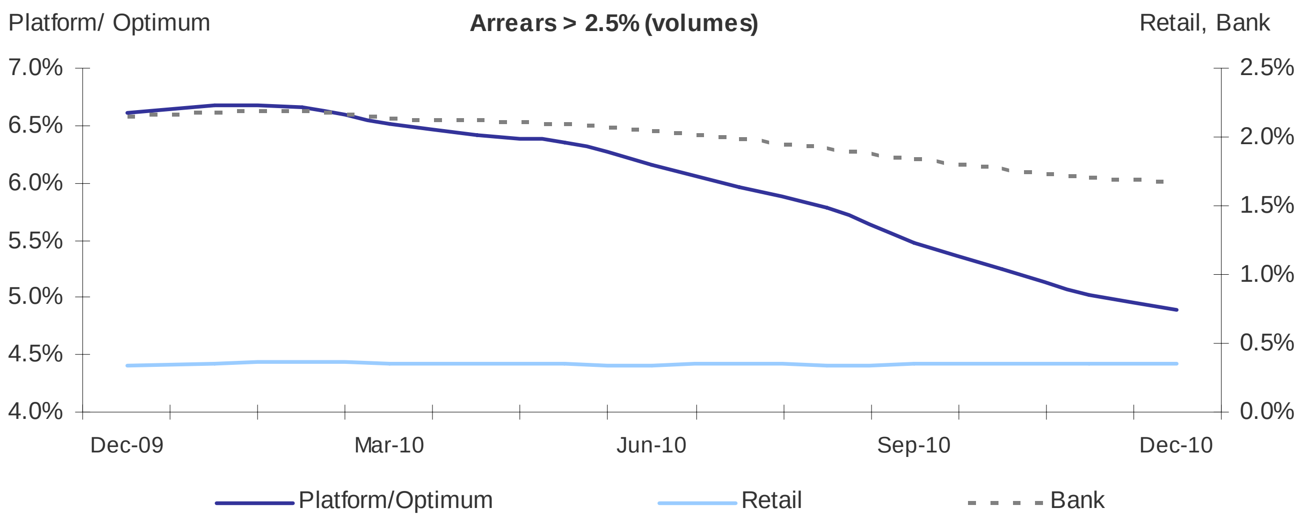
Britannia

Reducing residential arrears

Profitability | Asset quality | Capital | Liquidity

- Well managed arrears, with ongoing actions
- >= 2.5 % arrears have fallen by 22% on 2009
- Significant improvement in Platform/Optimum book

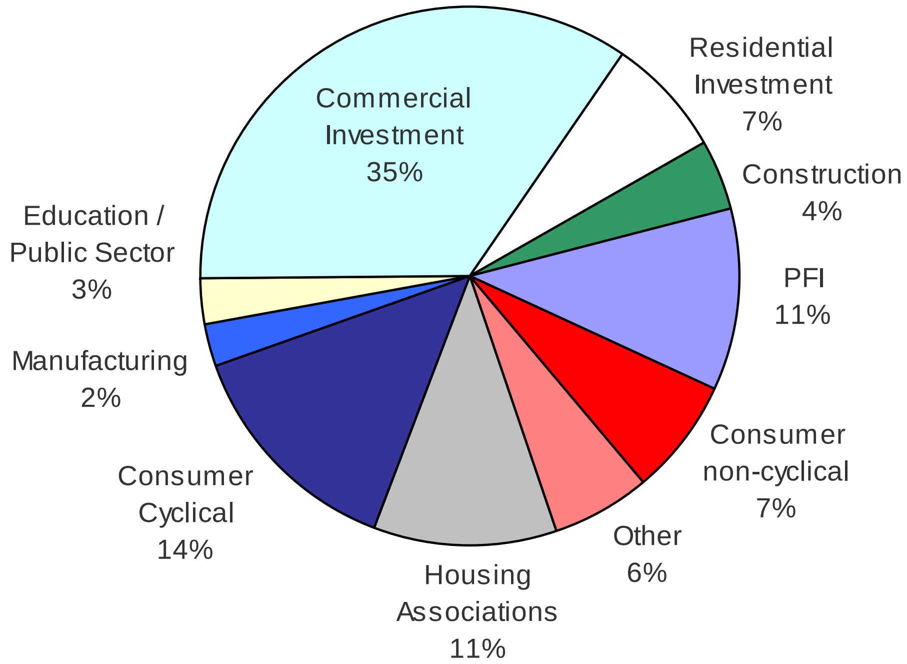
	At Dec-10		
	Book (No.)	**>=2.5% arrears**	***Change (Dec-09)***
Prime	200,499	0.45%	*- 6%*
BTL	22,994	0.40%	*- 50%*
Self Cert	15,695	2.98%	*- 19%*
Non Conforming	28,510	10.53%	*- 22%*
Total	**267,698**	**1.67%**	***- 22%***



Diversified corporate portfolio

Profitability | Asset quality
Capital | Liquidity

- £8.8bn portfolio (£10.5bn drawn and undrawn)
- Risk appetite: comprehensive structure of portfolio limits
- Centralised underwriting provides strong control & governance

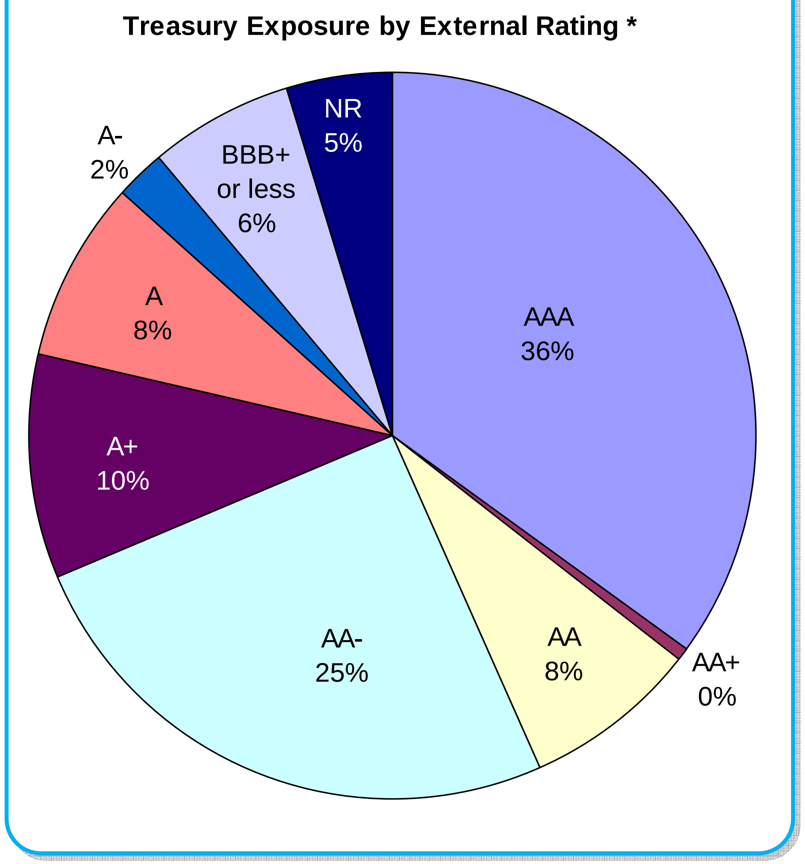


Definition of sectors;

- Consumer cyclical - football clubs, garages/ retail of motor vehicles, hotels, restaurants, clubs/ institutes, services and transport
- Consumer non-cyclical – care, retail distribution
- Other - utilities, renewable energy, professionals, leasing and other financial institutions

Well managed asset quality - Treasury

- Total Treasury portfolio exposure £7.5bn*, 89% of which is rated Fitch A- or higher
  - Investment portfolio assets (incl. ABS/MBS) c. £4.8bn, 84% of which are rated Fitch A- or higher
- Total liquid assets of £4.4bn (2009: £2.6bn)
- Exposure to B-PIIGS counterparties
  - Reduced term and exposure: 41% (£0.4bn) in short term (<3m) money markets
  - 50% (£0.5bn) comprised of senior debt securities maturing by mid 2012



* Total treasury assets as valued for credit risk purposes

Profitability | Asset quality | Capital | Liquidity

Stable Bank capital

- Core tier 1 ratio of 9.6% (2009: 8.7%)
- Continued stable Bank capital
- Rigorous stress testing via ICAAP and reviewed by FSA
- Reverse stress testing undertaken per FSA requirements
- Implementation of new FSA Capital Planning Buffer requirements
- Sufficient capital to fund banking Transformation programme

	Dec-10	Dec-09
Total capital ratio	**14.0%**	13.5%
Core tier 1 ratio	**9.6%**	8.7%

Leek Note restructure

Profitability | Asset quality | Capital | Liquidity

Background

- Manage capital impact of fair value unwind of 'Leek Notes'
- Outstanding notes will not be called at step up and call date
- Leek companies will enter into a consent solicitation which, if approved, will restructure the notes

Restructure of Notes

- Maturity date of restructured notes 5 years after the original step-up date
- Investor put option to Co-operative Bank
- Additional circa £150m of UK gilts will be added to each series of Leek Notes
- Investors in the AAA notes will receive an additional coupon payment enhancing the value of the notes

For further information see the RNS dated 30 March 2011

Lower Tier 2 exchange

Background

- The Bank will not call the EURO 184m Lower Tier 2 (LT2) at the first call date 18 May 2011. The Bank instead will offer an exchange of the existing debt into a new LT2 security

Details of the exchange

- Exchange existing LT2 into new LT2 security on a par-for-par basis

Timescale

- Mid April 2011 – detailed announcement on specific terms and conditions of the exchange

Leek restructure and LT2 exchange

Profitability | Asset quality
Capital | Liquidity

Rationale

- Leek Note restructure and LT2 exchange ensures the Bank manages and maintains appropriate levels of capital
- Our commitment to investors has been the key driving force
- The restructuring process will ensure the Bank can deliver investors with
  - Certainty of maturity, and
  - Enhanced value of the restructured Leek Notes

Stable liquidity and funding

Profitability | Asset quality
Capital | **Liquidity**

- Strong growth in liability balances to fund asset growth
  - Customer deposits up by £1.5bn
  - Customer funding ratio* improved to 107% (2009: 104%)
- Customer behaviour shift due to low rate environment
  - From demand to term
  - Lower customer spend through current accounts and credit cards
- Competitive advantage from mutuality and ethical stance
- Best ISA season since 2002 (97% retained)
- Multi channel distribution (e.g. direct sales, web, branch network)
- Strong wholesale funding - Silk road securitisation and MTN completed

* Excluding securitised loans

Transforming our business

- In Q4 2009 we developed a 3 year plan focused on integrating and transforming our business
- Our investment in transformation activity will be in excess of £700m over 3 years and supports delivery of our key strategic outcomes. Of this, circa 50% is capital expenditure
- During this period we will replace our legacy core banking platform with a modern flexible package which will make us more agile as an organisation and enable growth. We will be the first clearing bank to re-platform
- Following the merger, integrating our business has been a priority and significant progress has been made to date
- We are embedding a relationship banking model focused on delivering excellent customer service
- Being a value led organisation is key to our success so we will continue to focus on embedding our target culture

The steps on our journey

2010	2011	2013	2013-2020
Coming Together	**Banking in Britannia Branches**	**Integrated Co-operative Banking**	**Compelling Co-operative Alternative**
A joined up business, operating under the new Organisational Design and working together to deliver our strategy. BTP release one	Heritage Britannia branches operate as a Bank and are recognised as part of the Co-operative family	A fully integrated bank, with one set of systems and processes Customer relationship model embedded. 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

Transformation progress so far

Highlights:

- Synergy benefits from our merger continue to exceed expectations
- Operational efficiencies achieved without adverse customer impact
- 1.4 million Britannia customers have become Co-operative members
- Customers can now open Co-operative bank accounts in Britannia branches
- Customers can obtain Britannia ISA products in Co-operative branches
- Corporate customers are now benefiting from a modernised online banking platform (1st release of bTp).
- Piloting of our Financial Services offering in Co-operative Food stores – 4 pilots now live, increasing to 9 pilots over the next 2 years
- New organisation design fully rolled out across the company, and work to implement single terms and conditions for all colleagues is well under way

Economic outlook

- Overall assumption: slow recovery for UK economy
- Planning assumptions for 2011 – 2013
  - Muted GDP growth
  - Base rate remaining low initially, but then increasing
  - Moderate HPI growth
  - Unemployment to peak in 2011

Well placed for future success

- Robust financial performance
  - Underlying operating profit up on 2009
  - Income improved despite impact of low interest rates (net interest margin 138bps, up 14bps on like-for-like basis)
  - Tight cost control
  - Impairment down (36% on 2009 like-for-like basis)
- Balance sheet reflects underlying strength
  - Well-managed asset quality (22% reduction in late arrears)
  - Core tier 1 ratio strengthened (9.6% at Dec-10)
  - Improved liquidity and funding, customer funding ratio increased (107%)
- Building a platform for growth and transformation
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  - Moving towards integrated customer proposition
- High customer advocacy (7.5% ahead of our competitors)
- 89% of our people are proud to work for us

Appendices

CFS balance sheet

	2010 £m	2009 £m	Change %
Loans and advances to customers	**35,160**	34,156	3%
Investments and cash	**10,366**	12,031	-14%
Other assets	**2,033**	2,032	0%
Total assets	**47,559**	48,219	-1%
Amounts owed to customers	**34,232**	32,759	4%
Wholesale liabilities	**2,945**	6,088	-52%
Debt securities in issue	**4,212**	3,334	26%
Insurance and investment contracts	**963**	870	11%
Other liabilities	**1,340**	1,334	0%
Minority interest	**32**	34	-6%
Other borrowed funds	**975**	947	3%
Equity	**2,860**	2,853	0%
Total liabilities & equity	**47,559**	48,219	-1%

Excludes Life & Savings business

Bank balance sheet

	2010 £m	2009 £m	Change %
Loans and advances to customers	**35,145**	34,231	3%
Investments	**9,033**	10,432	-13%
Other assets	**1,403**	1,476	-5%
Total assets	**45,581**	46,139	-1%
Amounts owed to customers	**34,303**	32,805	5%
Wholesale liabilities	**2,939**	6,082	-52%
Debt securities in issue	**4,212**	3,334	26%
Other liabilities	**1,079**	1,094	-1%
Minority interest	**32**	34	-6%
Other borrowed funds	**975**	947	3%
Equity	**2,041**	1,843	11%
Total liabilities & equity	**45,581**	46,139	-1%

Customer assets	**34,978**	34,165	2%
Less securitised assets	**(2,833)**	(2,692)	5%
Customer deposits	**34,303**	32,805	5%
Customer funding ratio	**107%**	104%	3%

Our business – The Co-operative Group

- We're wholly owned by The Co-operative Group , the world's largest consumer-owned business, with around 6 million members, 117,000 employees and 4,500 UK retail outlets (more than McDonalds UK and M&S combined).
- Some of the other members of The Co-operative Group family are:
  - The Co-operative Food
  - The Co-operative Travel
  - The Co-operative Pharmacy
  - The Co-operative Legal Services
  - The Co-operative Funeralcare
  - The Co-operative Online Shop

Our business – The Co-operative Group

- The group is led by its principles and values, which influence the products and services of each of the businesses.
- It recognises the need to manage and develop the businesses in an ecologically sustainable and socially responsible manner.
- Group results showed a strong performance:
  - Group revenue up 9% to £13.7bn
  - Group profit before tax up 2% to £310m
- The Co-operative Group underwent what has been the greatest period of change in its history between 2007 and 2009. 2010 has seen it start to consolidate many of those changes, so that despite the challenges of the recession, it has performed well and is set for strong future growth

Our Purpose, Vision, Values and Givens

Purpose
To be a pioneering business delivering sustainable financial services for members and society

Vision
To be the UK's most admired financial services business

Values
- As a co-operative, we put our members and customers first in all we do
- We take personal and social responsibility
- Together we will create a great place to work, grow and develop
- We strive relentlessly to be faster, better, more successful
- We are open and fair and committed to excellent communication

Givens
- We champion co-operative values and principles and ethics
- We are financially prudent and strong
- We share profits with members
- We only do business consistent with our values and principles

Brand / franchise strength

- We operate in a wide spread of markets within financial services including:
  - Retail Banking
  - General Insurance
  - Corporate Banking
  - Intermediary Lending
  - Life & Savings
  - Investment Management
- Combined businesses have a total of 8 million customers; 5 million are customers of our Bank
- Over 330 branches plus call centres across the UK and internet offering
- Co-operative principles differentiate us from the big banks
  - Attracting new customers and retaining existing customers and members
  - High level of customer advocacy, 7.5% ahead of our competitors
  - We pay dividends to members not shareholders
  - 79% increase in current account switchers during 2010

For further information please contact cfsinvestorrelations@cfs.coop