The co-operative bank

Investor Day

20 May 2015

CURRENT ACCOUNT SWITCH GUARANTEE

Switch your current account to us today.

Simply use our Current Account Switch Service to switch a minimum of two Direct Debits which must remain active until the incentive payment is made. You must pay in at least £800 within 31 days of your switch completing. Eligibility terms apply and minimum monthly deposit required. Please speak to us today for full terms and conditions, or visit co-operativebank.co.uk/125switchterms.

For all the right reasons.

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Agenda

1) Introduction	Dennis Holt	09:30 – 09:35
2) Strategic update	Niall Booker	09:35 – 10:20
3) Financial update	John Baines	10:20 – 10:45
Coffee Break		*10:45 – 11:00*
4) Core bank	Liam Coleman	11:00 – 11:45
5) Information Technology	Steve Friedlos	11:45 – 12.15
6) Conduct & risk management	Chris Page	12:15 – 12:30
Lunch		*12:30 – 13:10*
7) Non-core bank	Grahame McGirr	13:10 – 13:40
8) Liquidity	Ashley Lillie	13:40 – 14:10
9) UK regulatory overview	Daniel Mundy	14:10 – 14:30

Section 1

Introduction

Dennis Holt - Chairman

Section 2

Strategic update

Niall Booker – Chief Executive Officer

Our strategy

To become an efficient and financially sustainable UK Retail and SME Bank that is distinguished by its values and ethics

A strategy which over time drives value for all stakeholders

1. Delivers a resilient, standalone bank which can prosper in its own right distinguished in the market place by adherence to values and ethics
2. Enables the Bank to play a role in any future consolidation
3. Has no cost to taxpayers and minimises the likelihood of taxpayers support in the unlikely event of resolution
4. Creates value for customers, shareholders, employees, communities we serve and meets regulatory requirements

A multi-year turnaround plan

Turnaround plan very much under way

Original focus	Current focus
• Initial priorities were to stabilise the Bank: • Capital • Liquidity • Conduct risk discovery • Group separation	• Building on initial priorities: • Rebuild and grow the Core bank • Shrink Non-core to make the Bank more resilient to potential future severe stresses • Conduct remediation / risk management • IT and operational resilience • Cost reduction

What will the Core bank look like?

Creating an efficient and financially sustainable UK Retail and SME Bank

Key steps on the journey

- Controlled mortgage and asset growth
- Current account growth – customer led ethical policy
- Improved NIM by increasing margins on deposits
- Full regulatory compliance – prudential and conduct
- Legacy issues remediated
- Efficient and competitive cost base
- Building profits and control RWAs
- Significant digitalisation

End point

- Digital led, multi channel offering
- Outsourced where we do not have scale or excellence
- Rebuilt SME franchise
- Brand reflecting:
  - First class customer service – retaining some degree of personal interaction
  - Distinguished by our ethics and values
- Simple, transparent and few products

Frictionless banking

Values and ethics

We are committed to a customer led ethical policy

74,187 participants took part in our Ethical Poll in June 2014.
The Co-operative Bank p.l.c., P.O. Box 101, 1 Balloon Street, Manchester M60 4EP. Registered in England and Wales no.990937.

- Part of our DNA and drives our distinctive brand positioning
- Critically important to existing customers, key driver of retention over last 18 months, has some appeal to younger generations
- Not for everyone but more than 50% of non customers are interested in a Bank that provides great service but does it ethically
- Has to be more than “what we don’t do”
- Key is to invest in products and services that bring values and ethics to life
  - Recently launched overdraft proposition

Section 3

Financial update

John Baines – Finance Director

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Q1 2015 trading update

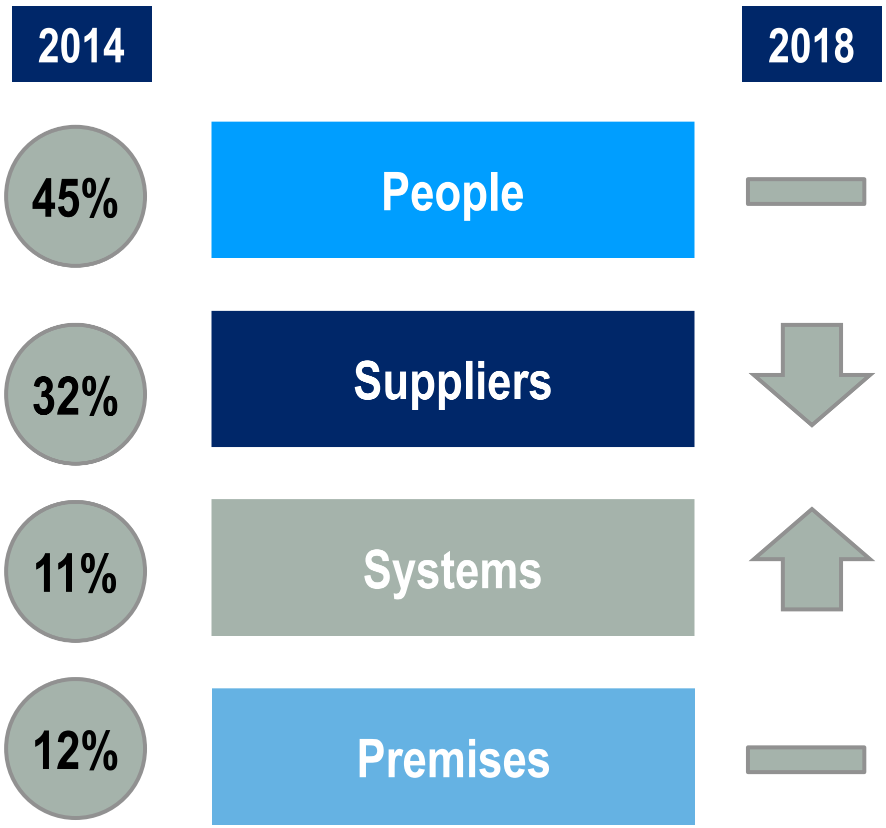
Continued progress in implementing the turnaround plan

KPIs	• Mortgage applications and completions above plan expectations during Q1 2015 with completions totalling £0.5bn • Redemptions at £0.5bn have trended downwards in Q1 2015 compared to H2 2014 • Current account portfolio remained broadly stable
Income	• Net interest income slightly ahead of expectations due to pricing actions on retail deposits, lowering funding costs
Costs	• Cost reduction programme remains on track • Project portfolio being managed to budget with ongoing prioritisation of project portfolio
Liquidity	• Retail deposit pricing actions, notably in re-pricing Selected Access Saver products, led to managed reductions in deposits thus lowering surplus liquidity
Conduct	• Planned conduct remediation activities to be substantially progressed in 2015

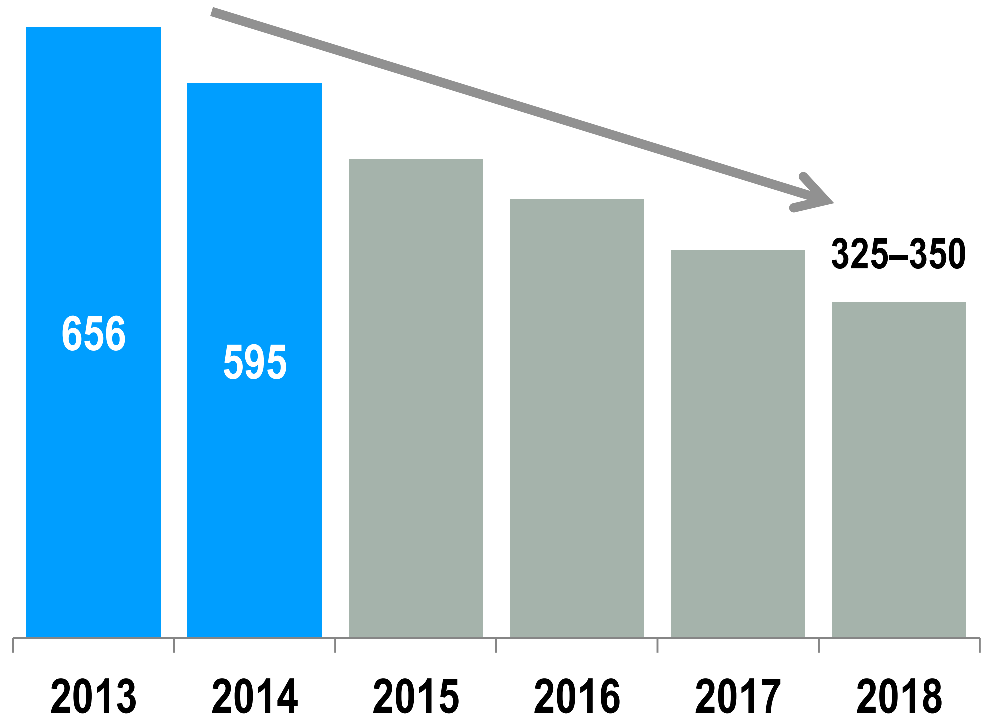
Cost reduction perspective

Comprehensive cost reduction programme will address key cost drivers – delivering a more competitive cost base

Bank cost drivers



Operating cost base evolution (£m)



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2015 – 2018: Key cost saving initiatives

Cost reduction programme remains on track

		2015	2016-18

Efficiency Savings	• Continued reduction in permanent FTEs through further efficiency savings
	  • End to end process improvement – Lean
	  • Process automation
	  • Channel shift
		✓	✓

Procurement	• Incremental savings year on year to 2018 • Improved management and control of all 3rd party expenditure • Enabled by procurement outsource and P2P	✓	✓
ATMs	• Rationalisation of ATM network following disposal of Group ATMs	✓	
Premises	• Premises implementation strategy to rationalise estate in line with planned FTE reductions		✓

2015 – 2018: Key cost saving initiatives

Cost reduction programme remains on track

		2015	2016-18
Digital	• Channel shift enabling efficiency benefits and increased revenue • Digital catch up • STP – loans		✓
Branch transformation	• Ongoing transformation and rationalisation of the branch network	✓	✓
Outsourcing	• Efficiency savings from outsourcing back office activity and some corporate service activities • Mortgages • Corporate services • Other back office functions	✓	✓
Non-cost reduction projects			
Enterprise Services / Separation	• IT separation and remediation		
Regulatory	• Ongoing delivery of regulatory requirements		

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Legacy inefficiencies

Historical underinvestment has led to numerous inefficiencies across the bank

EXAMPLE 1: Core bank

- Loan apps take 7 - 10 days to process vs today's less than 24 hours (often instant) industry benchmark
- Straight through loan processing (STP) on a digitised base required

EXAMPLE 2: Core bank

- Mortgage application to offer is currently 20 days (was 30-40 days) vs 7 - 15 days in rest of the market
- Lean work ongoing to see where opportunities to remove inefficiencies or changes to credit process required

EXAMPLE 3: Core bank

- 2 savings platforms across the bank including legacy Britannia
- Requires consolidation to remove IT cost, terms and conditions etc

EXAMPLE 4: Finance

- 5 General Ledgers
- c. 17k monthly reconciliations requires high level of manual intervention
- Process automation and consolidation of data driving efficiencies

EXAMPLE 5: Target Operating Model (TOM)

- Will deliver a clear operating model with defined accountabilities, with process and service alignment to customer requirements and an appropriate governance structure
- This maximises efficiencies , eliminates duplication and focuses on revenue growth, customer acquisition and customer retention

Opportunity to streamline the Bank and to drive planned cost savings

Section 4

Core bank

Liam Coleman – Director, Retail & Commercial Bank

Brand update

Improving brand metrics supported by a refreshed range of customer propositions

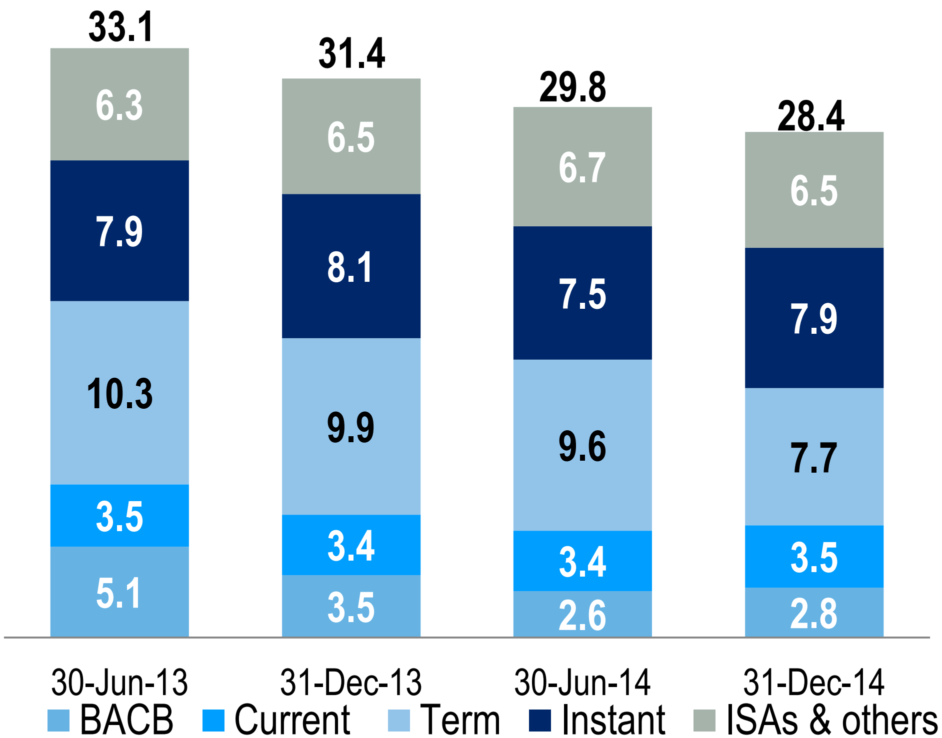
Oct 2014 ✓	Nov 2014 ✓	Jan 2015 ✓	Feb/Mar/ April 2015 ✓
Announce and articulate our brand positioning	Enhance product propositions	Demonstration of the Bank with tangible evidence	Positioning the Bank as a credible provider of banking services
⇩	⇩	⇩	⇩
Business Re-launch campaign re-stating our Values & Ethics	Launched promotional loan rate and fixed rate credit card	Launched the Bank's NEW Ethical Policy	£125 Switching Campaign; New Overdraft reinforcing our point of difference

- One core acquisition brand - The Co-operative Bank (except in the intermediary mortgage market)
- A resilient brand with customer and brand metrics recovering
- Values and ethics, our key differentiator to other bank brands, continue to be associated with The Co-operative Bank.
- Ranked 3rd in the market for both Current Account Net Promoter Score (since October 2014) and Current Account Customer Satisfaction (since December 2013)
- .. and closing the gap to 2nd place

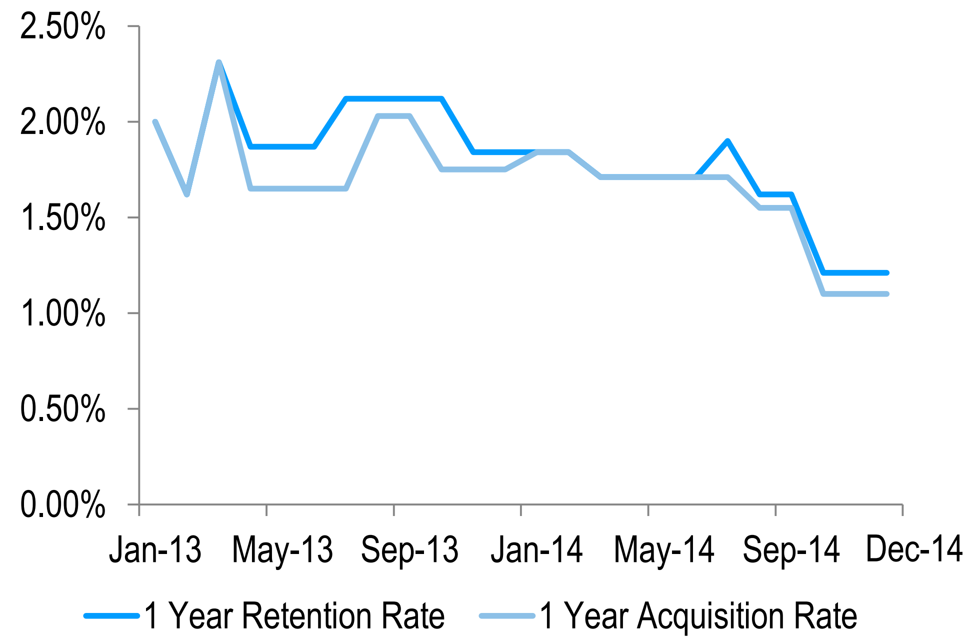
Deposits & funding costs

Managed reduction of high liquidity combined with a significant reduction in funding costs in 2014

Customer Deposits (£bn)



Fixed Term Deposit Rates



- Despite the loss of some current accounts, deposit balances were flat to full year
- Intentionally reduced the most expensive term funding to reduce excess liquidity (Term and ISA & other books)
- Fixed term deposit costs have reduced significantly over the past two years
- Further Instant Access re-pricing actions taken in Q1 2015 to reduce excess liquidity

Core Business numbers exclude Unity Trust Bank (UTB)

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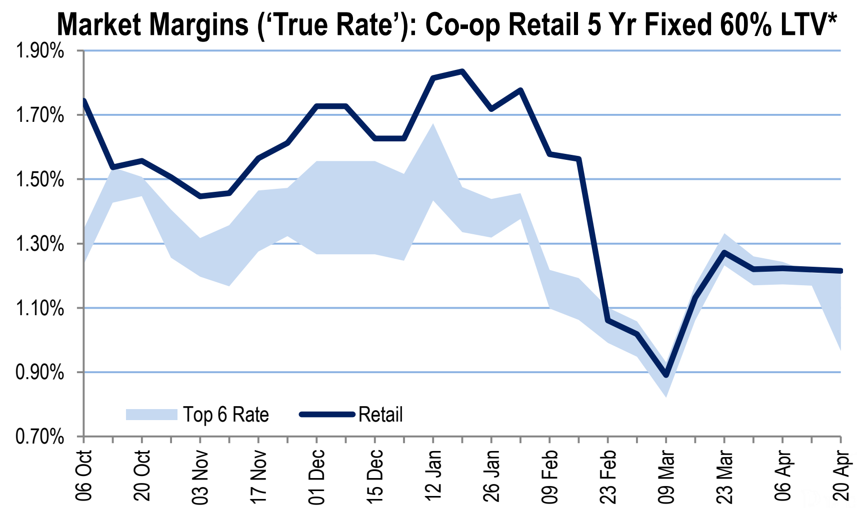
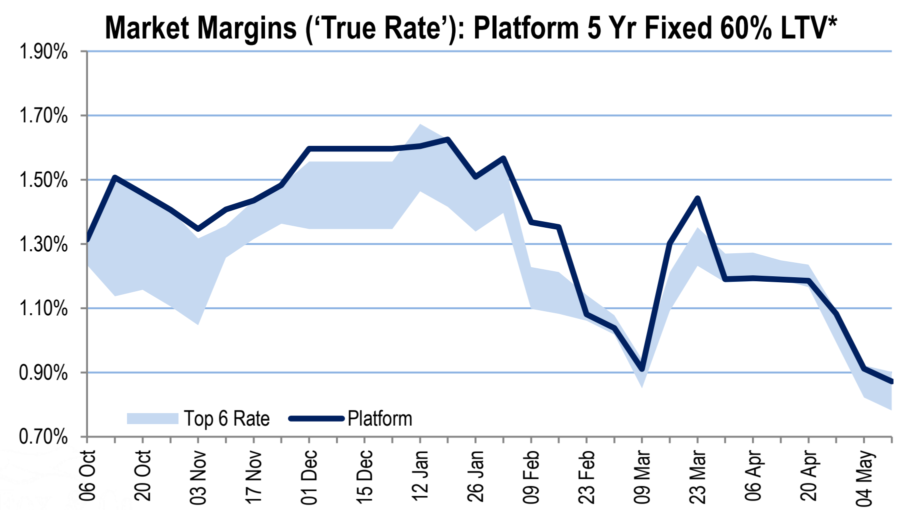
Mortgage lending

New mortgage lending has enjoyed a strong start to the year, with the Bank making its presence felt in a competitive market

2014	2015
• Liquidity management the priority in H1 • MMR reshapes the customer experience • Competitive positioning in H2 led to improving intermediary mortgage sales • Exited 2014 with strong mortgage pipeline • Mortgage balances reduced as a greater number of mortgages came to the end of their natural term or switched to a competitor	• Selective competitive retail market pricing in a price driven market • Improvements to onboarding processes • Further process re-engineering underway • Plans to outsource mortgage operations to improve capability and reduce costs





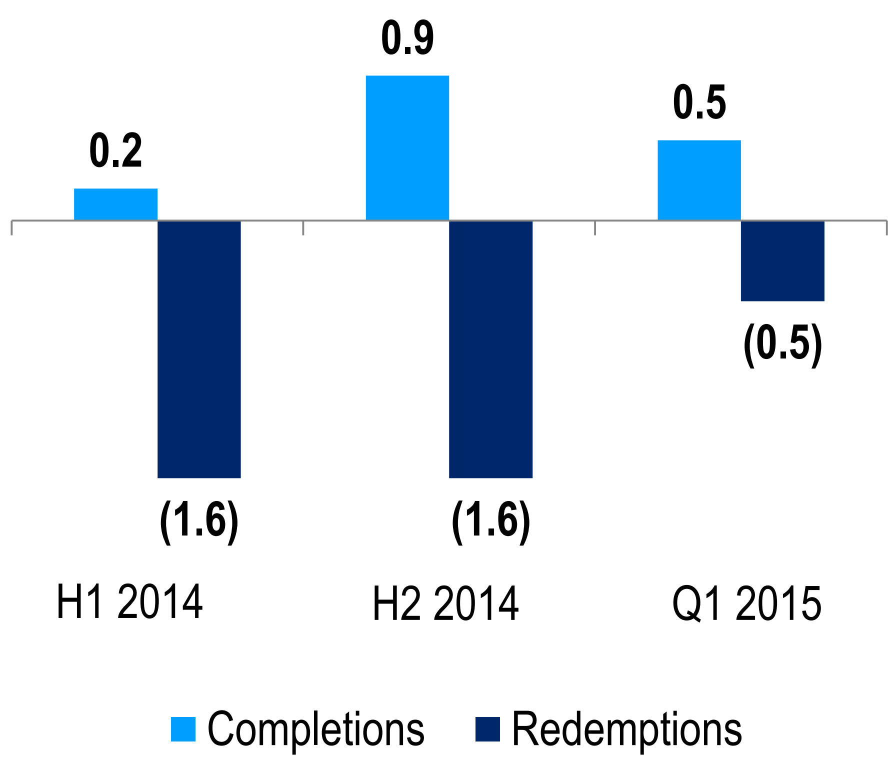
*True Rate = headline rate + product fee – swap rate

Top 6 Range = the six most competitive products (MoneyFacts)

Mortgage lending

New mortgage lending has enjoyed a strong start to the year supported by competitive pricing and new propositions

2014 Mortgage Flow (£bn)



2015

- Mortgage applications and completions above plan expectations in Q1 2015
- Retention remains challenging but performance has improved year on year
- Healthy mortgage pipeline
- Competitive offer - New propositions brought to market, including fee free proposition and the UK's lowest ever 2 year fixed headline rate
- Service improvements to the intermediary offering with more to come

Current accounts

Importance of current accounts

- Current account franchise is central to Core Bank plan delivery
- Important source of funding
- Fee and NIM generator
- Offers a platform to serve more needs over the life of the customer relationship

2014: H2 v H1

- 16% increase in the volume of current account sales
- 46% reduction in the volume of current accounts closed
- 40% reduction in the volume of accounts switching out
- Stable prime base

2015

- Continued intense competition
- Switching campaign continues through Q2 2015
- Working with customers to develop a new current account proposition

Credit cards and overdrafts

New propositions refreshing the customer offer; important enabler to deepening relationships with customers

Cards	Overdrafts
• Credit Card acquisition currently ahead of plan in Q1 2015 • Credit Card acquisition has more than doubled since the launch of the new 3 year Fixed card (6.9% APR) in Q4 2014 • Further developments in the pipeline	• Revitalised and simplified overdraft launched • Annual service and unpaid item fees removed • Informal overdraft fees and quarterly charge caps reduced • Changes made in line with ethical policy commitments

Business and Commercial Banking

With the separation of Co-operative Asset Management and Business and Commercial Banking, 2014 saw the start of the development of a true SME business

2014	2015
• Strategic review of Business and Commercial Banking • Plan established to optimise the business in the short term • Product sets reviewed • Teams restructured • Balance sheet stabilised	• Laying foundations for the future • Piloting new ways of working and simplified processes eg. credit • Selective re-setting and re-pricing of the product range • Co-location of relationship manager teams in branches

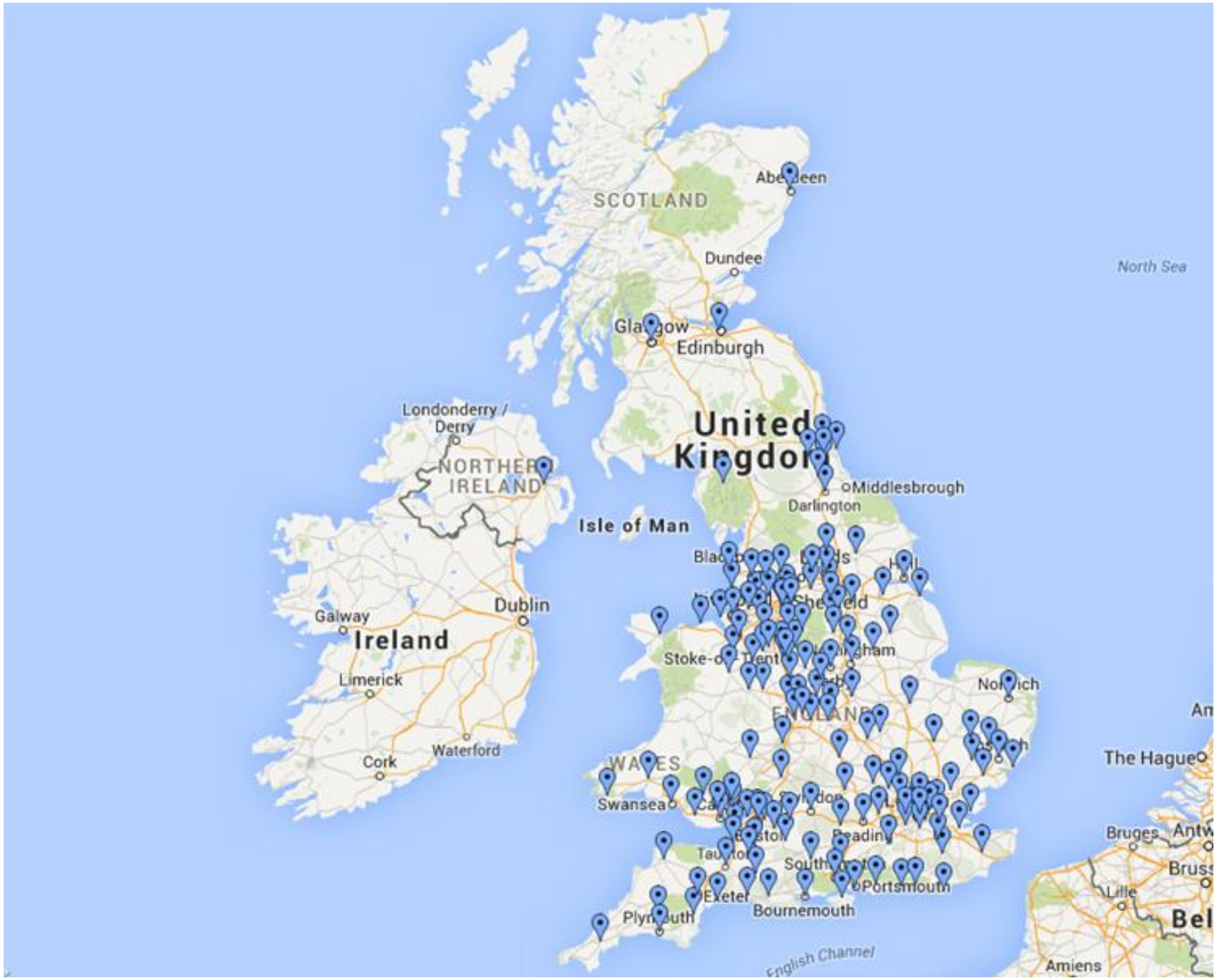
Branch strategy

The plan for resizing and reinvesting in this key delivery channel is on track

Achievements to date	Going forward
• **Branch Closures** • 2014 closure plan delivered • 57 further closures by July 2015 to 165 (halving the estate since 2013) • Low customer complaints and balance attrition in line with expectations • Customer experience and NPS scores remain high • Retained branch network larger than pre-merger • **Branch Investment** • Investment in flagship branch formats	• **Branch Investment** • Further investment in core branch formats in 2015 • Move to better locations on an opportunistic basis • New capability (e.g. multi-channel appointment booking system) • **Enabling self service and customer choice** • Increased branch ATM capability • Investigating solutions for passbook customers • Cash and Cheque deposit machines • Colleague activity refocused on meeting complex customer needs

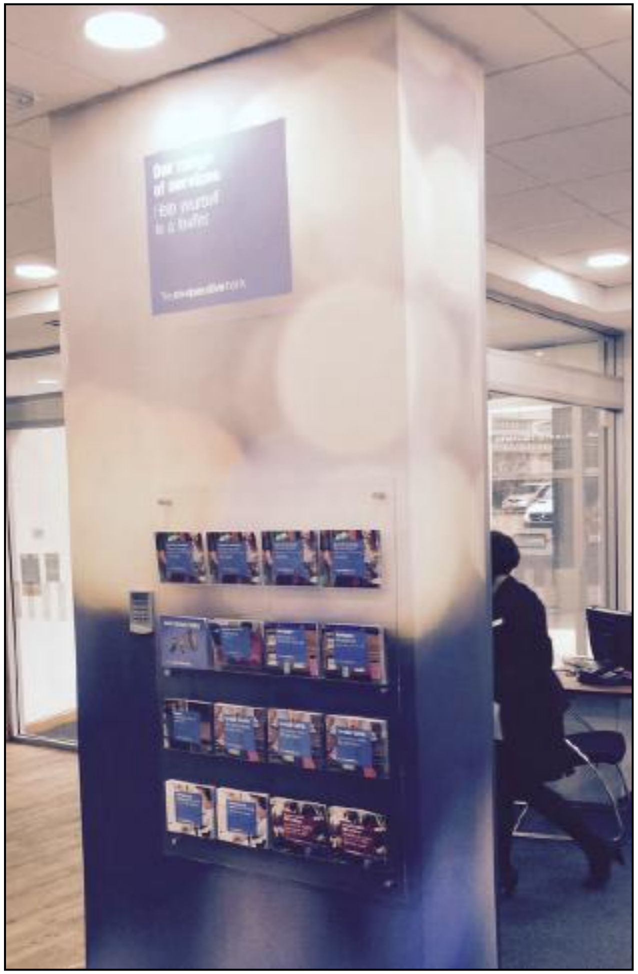
Branch network

Retained branch network remains significantly greater than the Bank's footprint pre-merger, with locations in key markets across the UK



Branch formats

Investment in branch formats in 2015 will enhance the colleague and customer experience



Digital strategy

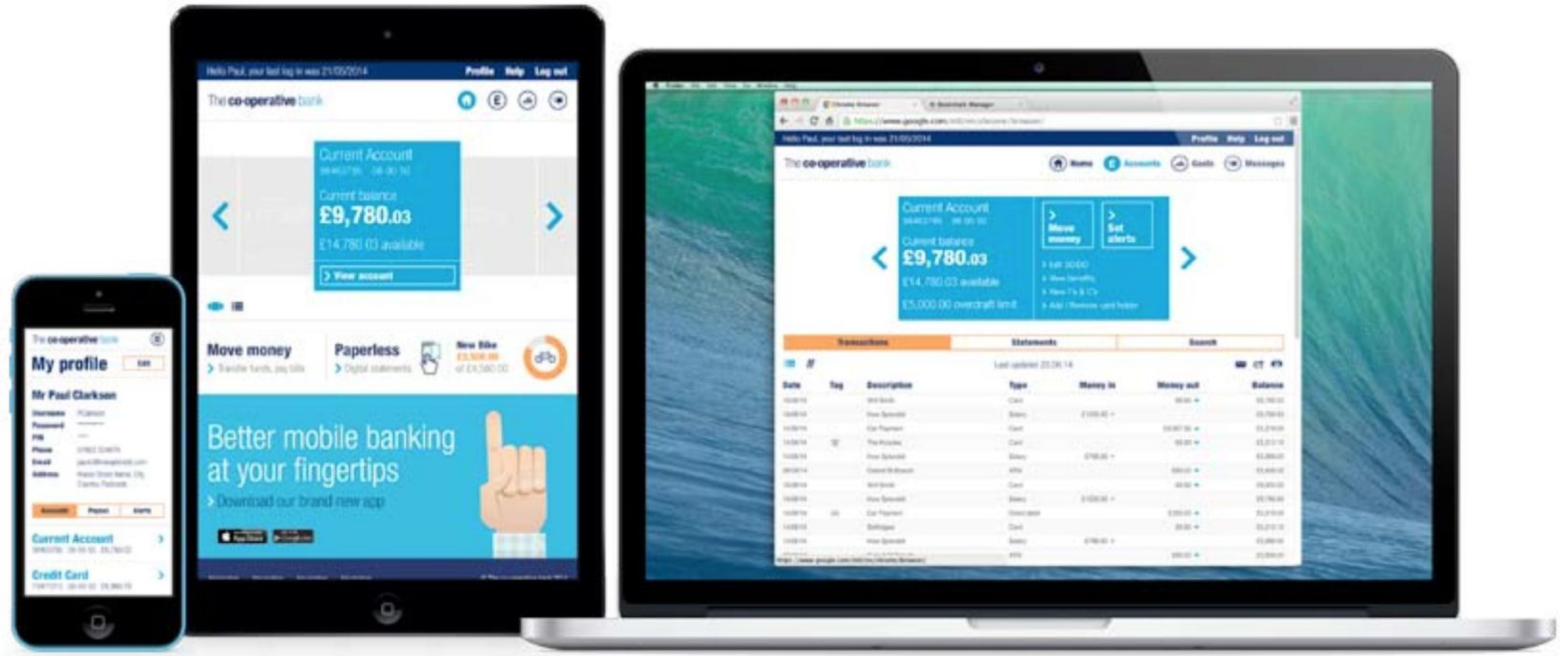
Significant recent changes to our digital offering are already delivering benefits

Achievements to date	Results
• Digital transformation roadmap agreed by the Board • Introduction of paperless statements in Dec 2014 (current accounts, savings and loans) with customer take-up above expectations • Improved mobile app introduced in Q1 2015 • Internet banking online registration capability • Internet banking cross sales introduced Jan 2015 (Easy Click savings)	• On time and on budget delivery • Cost saving relating to paperless statement functionality currently 130% of target • Mobile product applications increased • Total digital savings sales increased since introduction

Near term digital developments

Online banking update due in Q4 2015 with a responsive and consistent design across devices

Improved webpage design



Other

- Agreed additional plan investment
- Simplified customer journey for product applications
- Strengthened online platform with scalable infrastructure to implement future improvements
- Further planned delivery in 2015 includes: Fixed Rate Credit Card 'easy click' functionality, E-Savings account, Migration to new online platform, Automated processing for Online loan applications and Online search and sort functionality

Development ongoing in 2015 to enable further shift in activity from other channels

Section 5

Information Technology

Steve Friedlos – Chief Information Officer

IT Priority Drivers

Reliance on Co-operative Group

- Unsustainable – Bank and Co-operative Group share systems yet are separate entities
- Undesirable – No strategic intent for Group to be a 3rd party service provider; Bank needs a banking-industry standard of IT service

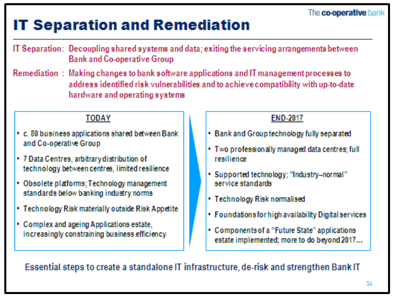
Under-investment in IT

- Bank IT estate was the subject of two attempted major refresh projects 2008-2013, both abandoned
- Current estate shows symptoms of >5 years under-investment and "bare-minimum" maintenance

Service and Stability

- Day-to-day service stability for customers and staff is good
- Systems supporting customer-facing bank staff are dated but not out of line with some competitors

IT Separation & Remediation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IT Separation and Remediation

IT Separation : Decoupling shared systems and data; exiting the servicing arrangements between Bank and Co-operative Group

Remediation : Making changes to bank software applications and IT management processes to address identified risk vulnerabilities and to achieve compatibility with up-to-date hardware and operating systems

TODAY
- c. 80 business applications shared between Bank and Co-operative Group
- 7 Data Centres, arbitrary distribution of technology between centres, limited resilience
- Obsolete platforms; Technology management standards below banking industry norms
- Technology Risk materially outside Risk Appetite
- Complex and ageing Applications estate, increasingly constraining business efficiency

END-2017
- Bank and Group technology fully separated
- Two professionally managed data centres; full resilience
- Supported technology; "Industry–normal" service standards
- Technology Risk normalised
- Foundations for high availability Digital services
- Components of a "Future State" applications estate implemented; more to do beyond 2017...

Essential steps to create a standalone IT infrastructure, de-risk and strengthen Bank IT

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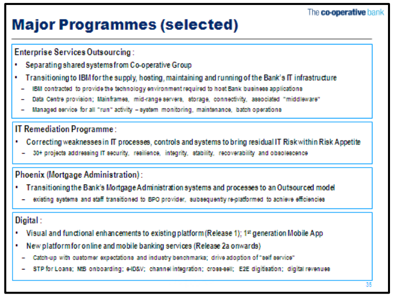
Major Programmes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Major Programmes (selected)

Enterprise Services Outsourcing :
- Separating shared systems from Co-operative Group
- Transitioning to IBM for the supply, hosting, maintaining and running of the Bank's IT infrastructure
  - IBM contracted to provide the technology environment required to host Bank business applications
  - Data Centre provision; Mainframes, mid-range servers, storage, connectivity, associated "middleware"
  - Managed service for all "run" activity – system monitoring, maintenance, batch operations

IT Remediation Programme :
- Correcting weaknesses in IT processes, controls and systems to bring residual IT Risk within Risk Appetite
  - 30+ projects addressing IT security, resilience, integrity, stability, recoverability and obsolescence

Phoenix (Mortgage Administration) :
- Transitioning the Bank's Mortgage Administration systems and processes to an Outsourced model
  - existing systems and staff transitioned to BPO provider, subsequently re-platformed to achieve efficiencies

Digital :
- Visual and functional enhancements to existing platform (Release 1); 1st generation Mobile App
- New platform for online and mobile banking services (Release 2a onwards)
  - Catch-up with customer expectations and industry benchmarks; drive adoption of "self service"
  - STP for Loans; NtB onboarding; e-ID&V; channel integration; cross-sell; E2E digitisation; digital revenues

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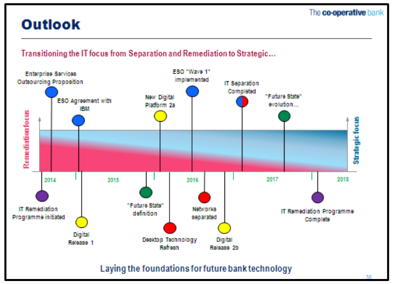
Outlook



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Essential steps to create a standalone IT infrastructure, de-risk and strengthen Bank IT

The co-operative bank

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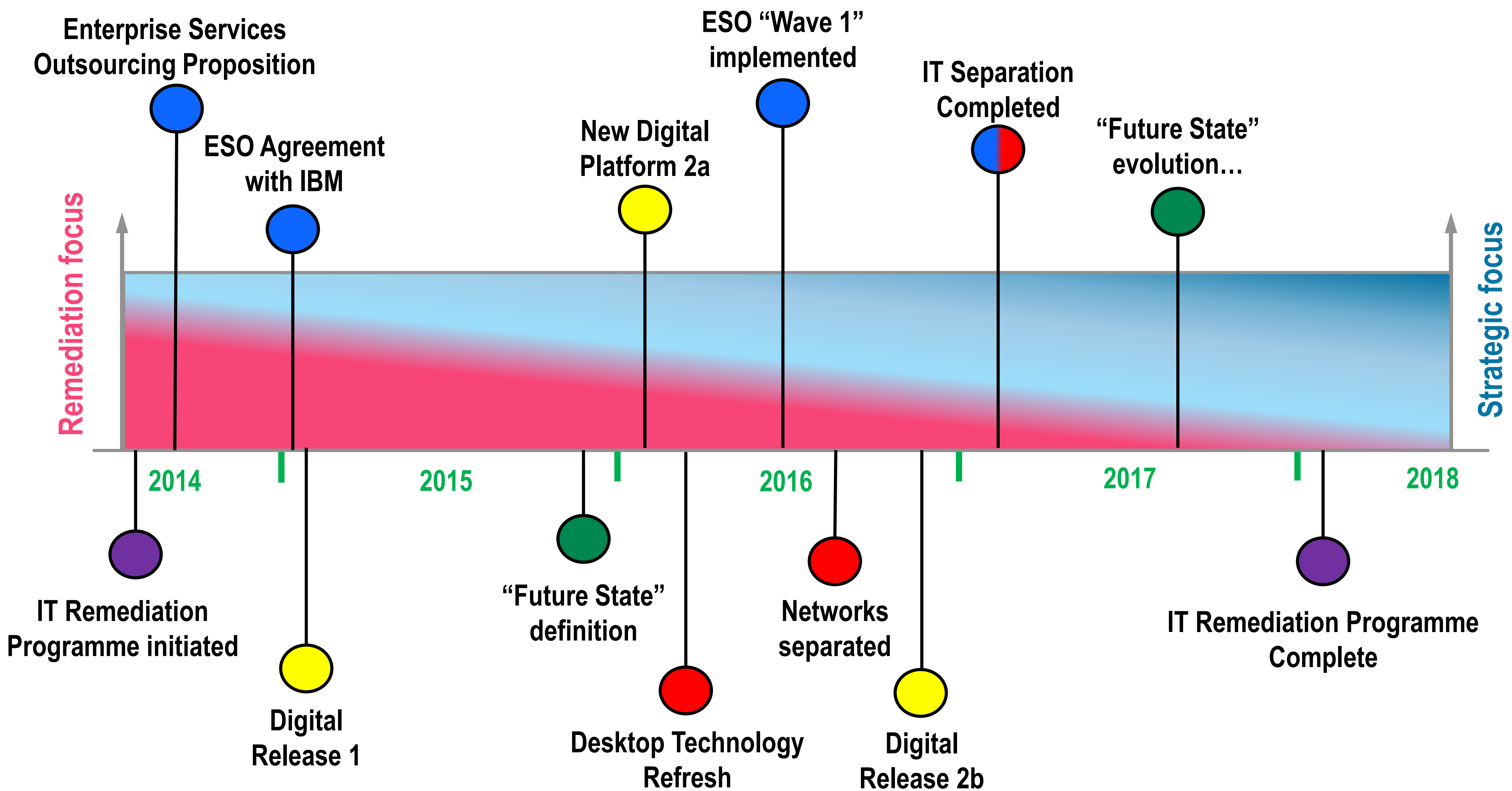
  - STP for Loans; New-to-Bank onboarding; e-ID&V; channel integration; cross-sell; E2E digitisation; digital revenues

Outlook

Transitioning the IT focus from Separation and Remediation to Strategic…



Laying the foundations for future bank technology

Section 6

Conduct & risk management

Chris Page – Chief Risk Officer

Delivering redress & remediation

Planned conduct remediation activities to be substantially progressed in 2015

PPI *Provision: £352m*	• Will be substantially completed under current regulatory parameters by Q3 2015 • c. 67k of cases already redressed (c. 16k remaining) • Future regulatory actions and scope remain a risk
Mortgages *Provision: £127m*	• Low complexity mortgage issues – c. 400k issues to address (>10% already redressed) • Scope of forbearance (high complexity) redress still to be completed • Planned customer redress to be substantially complete by end of 2015 • Remains an area of intense regulatory scrutiny
CCA *Provision: £162m*	• c. 240k customers identified – redress commenced with high volume solution testing due in Q2 • Initial focus has been on open loans and secondly on closed loans • Planned Customer redress to be substantially progressed by end of 2015 • Extracting high volumes of data from archives remains difficult
Packaged accounts *Provision: £17m*	• Steadily increasing number of complaints from late 2014 • 4 risk cohort characteristics have been identified but population sizes have not been confirmed • Proactive remediation to commence in Q3 2015
Mitigating future conduct risk	• Annual product reviews under current regulatory parameters conducted on most retail on-sale products – reviews still to be conducted on BACB and selected off-sale products • Regulatory assurance monitoring • Enhanced oversight from Internal Audit

PPI provision reflects lifetime E2E provisions (as at Dec 31, 2014)
CCA, Mortgages and Packaged Accounts provisions are same as 2014 year end as no redress paid in 2013/14

Threshold conditions

Bank is actively addressing deficiencies in regulatory requirements

2014 Annual Report and Accounts - p26

Regulatory Position

In December 2014 the Bank submitted a revised plan to the PRA. The revised plan was accepted by the PRA and runs from 2015-2019. Once delivered, it will help the Bank to comply with FCA and PRA regulatory requirements and expectations.

The following section summarises the Bank's position in relation to deficiencies against regulatory requirements and expectations. These deficiencies have existed for some time, and will continue for some years to come, while the Bank executes its plan.

Capital

The Bank meets its Pillar 1 capital requirements under normal economic conditions. This is the minimum required under the Capital Requirements Regulation. However, the Bank has insufficient capital to withstand a severe stress.

The Bank's revised plan is expected to remediate this position towards the end of the plan period (mainly through Risk Weighted Asset (RWA) reduction to reduce risks that the Bank is exposed to, and cost reduction to mitigate ongoing losses).

The PRA provides Individual Capital Guidance (ICG) for each bank. This represents guidance on the capital (Pillar 2a) a firm should hold over Pillar 1. Although the Bank was temporarily above ICG at 31 December 2014, the Bank has insufficient capital to sustainably meet its ICG until the later years of its plan.

The Bank's plan remediates this issue by 2018.

Capital Requirements Regulations (CRR)

The Bank is not currently compliant with all of the requirements to model credit risk internally.

The Bank plans to remediate this issue during 2015.

Solo Consolidation

Until its expiry in September 2014, the Bank had regulatory approval to operate under a 'solo-consolidation' permission, which allowed it to be regulated for prudential purposes as though the Bank and specified solo-consolidated subsidiaries formed a single legal entity. In March 2015, the Bank was granted a new permission to apply solo consolidation, though with respect to a smaller number of subsidiaries. The Bank and its subsidiaries do not have the processes in place to comply with regulatory reporting obligations resulting from this change, or with large exposure requirements in respect of exposures to certain FCA-authorised subsidiaries. The Bank intends to address these issues to a timetable set by the regulators. The Bank has already acted to ensure its FCA-authorised subsidiaries comply with capital requirements on an individual basis.

Technology

As indicated previously, the Bank's infrastructure is in need of an upgrade in numerous respects. Across the Bank's IT infrastructure there are varying levels of resilience and recoverability and whilst a basic level of resilience to a significant data centre outage is in place, the Bank does not currently have a proven end-to-end disaster recovery capability.

The migration of IT infrastructure to an IBM platform (announced on 23 January 2015) is expected to deliver proven end-to-end disaster recovery capability by the end of 2016.

The Bank has received written confirmation from the FCA that the technology issue detailed above constitutes a breach of the FCA's Threshold Conditions[1]. The FCA is closely supervising the firm as it works towards restoring compliance with the Appropriate Resources (non-financial resources) Threshold Condition on this issue. The FCA is not currently proposing further immediate supervisory intervention or the immediate exercise of any additional regulatory powers as a result of this assessment. The FCA reserves the right to take action in the future in relation to this breach. The PRA's general policy is not to communicate its assessment of its position in relation to the PRA Threshold Conditions. However, both the PRA and FCA are closely monitoring the position of the Bank and the Bank remains in continual dialogue with both regulators.

1. Threshold Conditions are set out in Schedule 6 of the Financial Services and Markets Act 2000 as amended by the Financial Services and Markets Act 2000 (Threshold Conditions) Order 2013. Threshold Conditions set out the minimum standards to be met relating to financial and non-financial resources, including capital, risk management, liquidity, and technology. The Threshold Conditions differ depending on whether a firm is PRA-regulated or not.
The Bank is regulated by both PRA and FCA, and certain of the Bank's subsidiaries may in future also be regulated on an individual basis by the FCA.

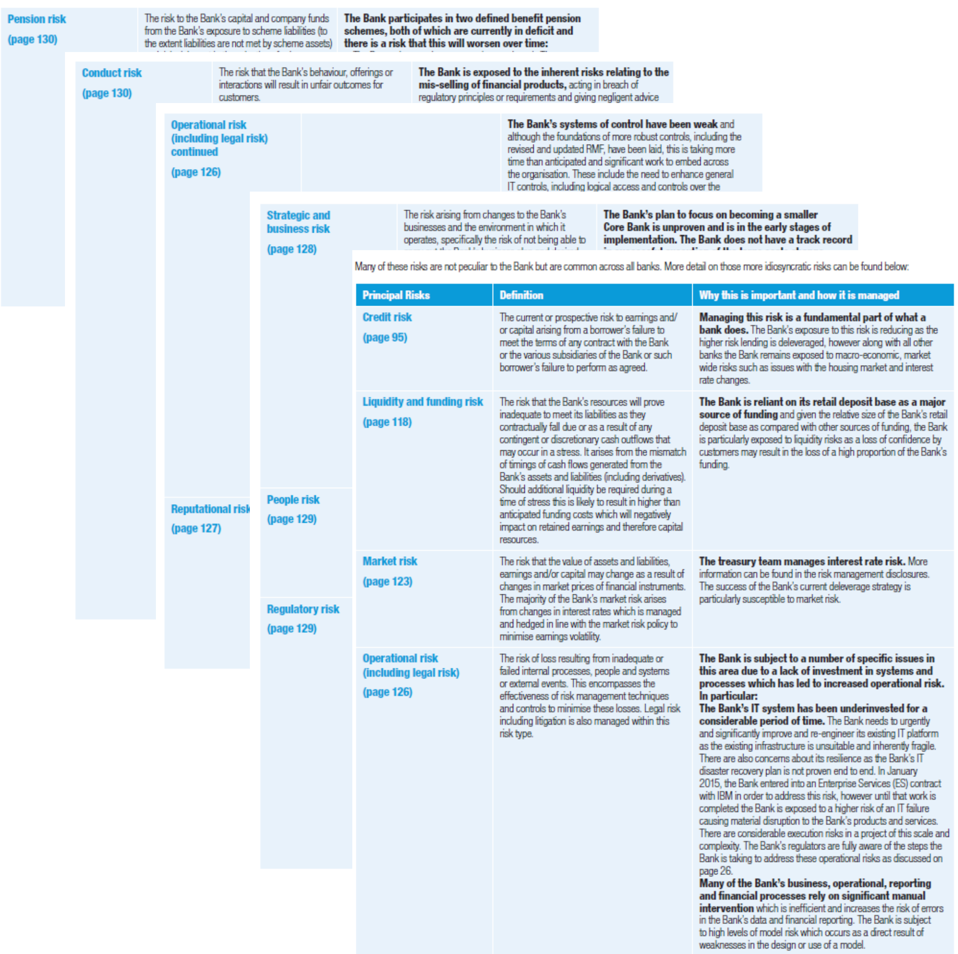
Summary

- **Capital** – meets current Pillar 1 requirements. Turnaround plan will deliver ICG compliance by 2018
- **CRR** – risk modelling improvements underway
- **Solo consolidation** – timetable agreed with regulator to address issues
- **Technology** – investment underway to address IT resilience

Risk management framework

Still facing substantial risks but progress continues – successfully reducing Bank risk will reduce capital requirements over time

2014 Annual Report and Accounts - p28-32



Pension risk (page 130) — The risk to the Bank's capital and company funds from the Bank's exposure to scheme liabilities (to the extent liabilities are not met by scheme assets) — **The Bank participates in two defined benefit pension schemes, both of which are currently in deficit and there is a risk that this will worsen over time:**

Conduct risk (page 130) — The risk that the Bank's behaviour, offerings or interactions will result in unfair outcomes for customers. — **The Bank is exposed to the inherent risks relating to the mis-selling of financial products,** acting in breach of regulatory principles or requirements and giving negligent advice

Operational risk (including legal risk) continued (page 126) — **The Bank's systems of control have been weak** and although the foundations of more robust controls, including the revised and updated RMF, have been laid, this is taking more time than anticipated and significant work to embed across the organisation. These include the need to enhance general IT controls, including logical access and controls over the

Strategic and business risk (page 128) — The risk arising from changes to the Bank's businesses and the environment in which it operates, specifically the risk of not being able to — **The Bank's plan to focus on becoming a smaller Core Bank is unproven and is in the early stages of implementation. The Bank does not have a track record**

Reputational risk (page 127)

People risk (page 129)

Regulatory risk (page 129)

Many of these risks are not peculiar to the Bank but are common across all banks. More detail on those more idiosyncratic risks can be found below:

Principal Risks	Definition	Why this is important and how it is managed
Credit risk (page 95)	The current or prospective risk to earnings and/or capital arising from a borrower's failure to meet the terms of any contract with the Bank or the various subsidiaries of the Bank or such borrower's failure to perform as agreed.	**Managing this risk is a fundamental part of what a bank does.** The Bank's exposure to this risk is reducing as the higher risk lending is deleveraged, however along with all other banks the Bank remains exposed to macro-economic, market wide risks such as issues with the housing market and interest rate changes.
Liquidity and funding risk (page 118)	The risk that the Bank's resources will prove inadequate to meet its liabilities as they contractually fall due or as a result of any contingent or discretionary cash outflows that may occur in a stress. It arises from the mismatch of timings of cash flows generated from the Bank's assets and liabilities (including derivatives). Should additional liquidity be required during a time of stress this is likely to result in higher than anticipated funding costs which will negatively impact on retained earnings and therefore capital resources.	**The Bank is reliant on its retail deposit base as a major source of funding** and given the relative size of the Bank's retail deposit base as compared with other sources of funding, the Bank is particularly exposed to liquidity risks as a loss of confidence by customers may result in the loss of a high proportion of the Bank's funding.
Market risk (page 123)	The risk that the value of assets and liabilities, earnings and/or capital may change as a result of changes in market prices of financial instruments. The majority of the Bank's market risk arises from changes in interest rates which is managed and hedged in line with the market risk policy to minimise earnings volatility.	**The treasury team manages interest rate risk.** More information can be found in the risk management disclosures. The success of the Bank's current deleverage strategy is particularly susceptible to market risk.
Operational risk (including legal risk) (page 126)	The risk of loss resulting from inadequate or failed internal processes, people and systems or external events. This encompasses the effectiveness of risk management techniques and controls to minimise these losses. Legal risk including litigation is also managed within this risk type.	**The Bank is subject to a number of specific issues in this area due to a lack of investment in systems and processes which has led to increased operational risk. In particular:** **The Bank's IT system has been underinvested for a considerable period of time.** The Bank needs to urgently and significantly improve and re-engineer its existing IT platform as the existing infrastructure is unsuitable and inherently fragile. There are also concerns about its resilience as the Bank's IT disaster recovery plan is not proven end to end. In January 2015, the Bank entered into an Enterprise Services (ES) contract with IBM in order to address this risk, however until that work is completed the Bank is exposed to a higher risk of an IT failure causing material disruption to the Bank's products and services. There are considerable execution risks in a project of this scale and complexity. The Bank's regulators are fully aware of the steps the Bank is taking to address these operational risks as discussed on page 26. **Many of the Bank's business, operational, reporting and financial processes rely on significant manual intervention** which is inefficient and increases the risk of errors in the Bank's data and financial reporting. The Bank is subject to high levels of model risk which occurs as a direct result of weaknesses in the design or use of a model.

Key focus areas

- **Execution** risk of implementation of strategic plan – Revitalised TOM with reinforced SYSC and risk management framework to mitigate emerging/future risk
- **Regulatory** risk from increased scrutiny and FCA type issues – proactive re-energised risk management with E2E remediation
- **Operational / IT** risk from outdated systems/channels – reduced costs through prioritisation and rebuilding capability through investment in people, IT and processes

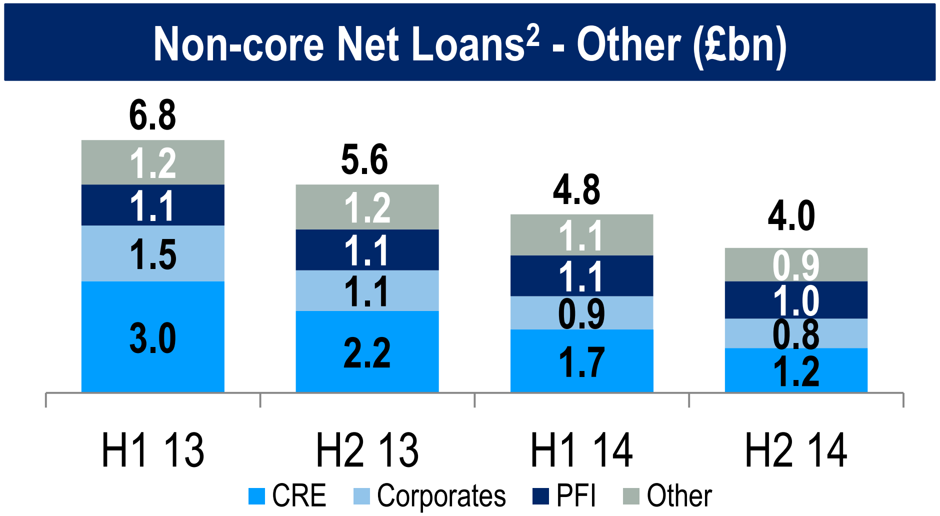
Section 7

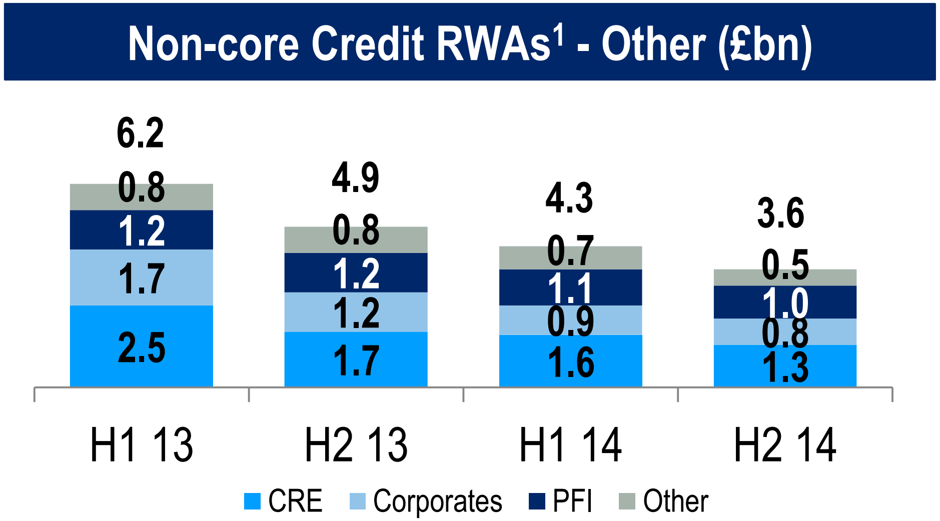
Non-core bank

Grahame McGirr - Managing Director of COAM

Non-core — achievements to date

Deleveraged ahead of target through 2013 and 2014





Key achievements since inauguration

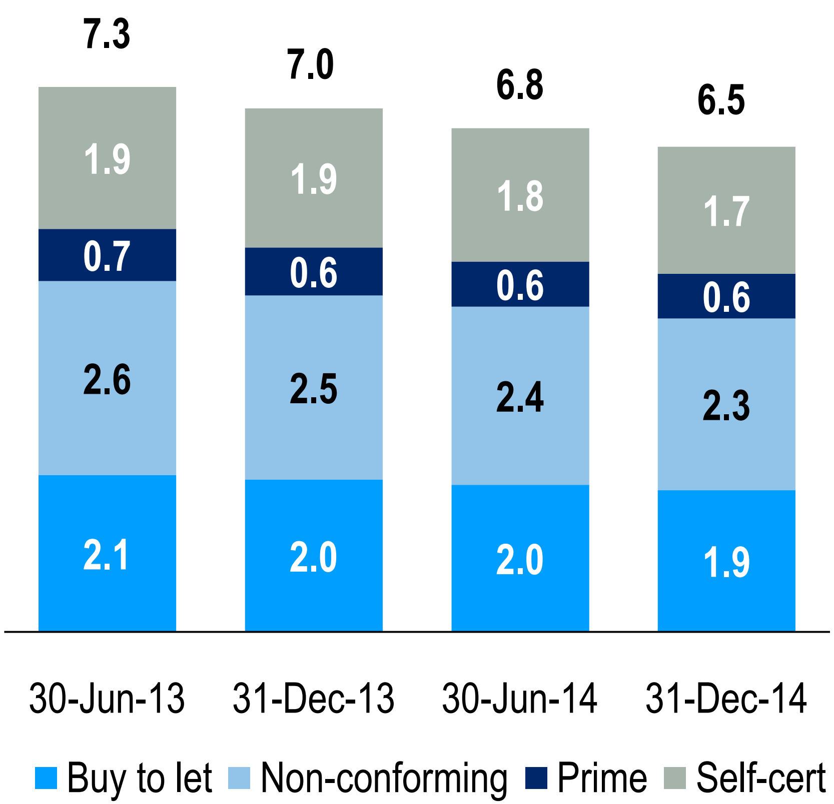
- Sale of Illius Portfolio (Property) completed November 2014
- SPA for REAF (Renewable Energy) sale signed in December 2014
- Revalued the entirety of the Commercial Real Estate portfolio
- Exceeded deleverage target by c.£700m during 2014
- Dealt with the majority of the customers on a consensual basis, ensuring positive outcomes

1 CRD IV Credit RWAs (fully loaded rules basis)
2 Includes hedge risk provision but excludes other accounting adjustments

Optimum securitisation

On 6 May 2015, closed the inaugural £1.5 billion whole structure securitisation of part of Optimum - Warwick Finance Residential Mortgages Number 1 Plc

Optimum Gross Customer Balances (£bn)



Key highlights

- Backed by a pool of Optimum mortgages originated by Platform Funding Limited (PFL) and GMAC-RFC Limited (GMAC)
- Maintained 5% retention in the transaction, satisfied through a random selection of loans
- Largest fully marketed placement of U.K. Non-Conforming RMBS paper post-crisis
- Upsized to a final issuance of £1.5bn from £1.2bn with Bank retaining 65% of Class A
- Received strong investor interest with all classes oversubscribed
- c. +0.9% pro forma impact on 31 December 2014 CET1 ratio

Plan for Optimum to be substantially disposed of by 2018 through a series of transactions, subject to market conditions

What is next?

Continuing focus on deleveraging the non-core portfolio - however, execution risks remain across the residual portfolio

CRE
Net loans: £1.2bn
RWAs: £1.3bn

- Substantial deleverage of CRE portfolio planned for 2015
- Driven significantly by non-performing workouts
- Larger value assets deleveraged during 2014, high volume of refinancing/workouts required with a portfolio sale of smaller assets being assessed

Corporates
Net loans: £0.8bn
RWAs: £0.8bn

- Modest deleverage Corporate portfolio planned for 2015
- Driven by rebanking and non-performing workouts
- High number of small value assets, being assessed on an individual borrower basis to negotiate exit ahead of contract

PFI
Net loans: £1.0bn
RWAs: £1.0bn

- Significant deleverage PFI portfolio planned for 2015
- Strong value of the pipeline of agreed transactions
- Sales settle on an individual basis and not as part of a portfolio sale

Other
Net loans: £0.9bn
RWAs: £0.5bn

- Includes Housing Association
- Modest deleverage planned for 2015
- Long dated contracts on low margins make refinancing negotiations difficult

Optimum
Net loans: £6.3bn
RWAs: £3.5bn

- Working with investment banks to determine timing, structure and quantum in order to preserve commercial flexibility

Note: All loans and RWAs data as of December 31, 2014

Section 8

Liquidity

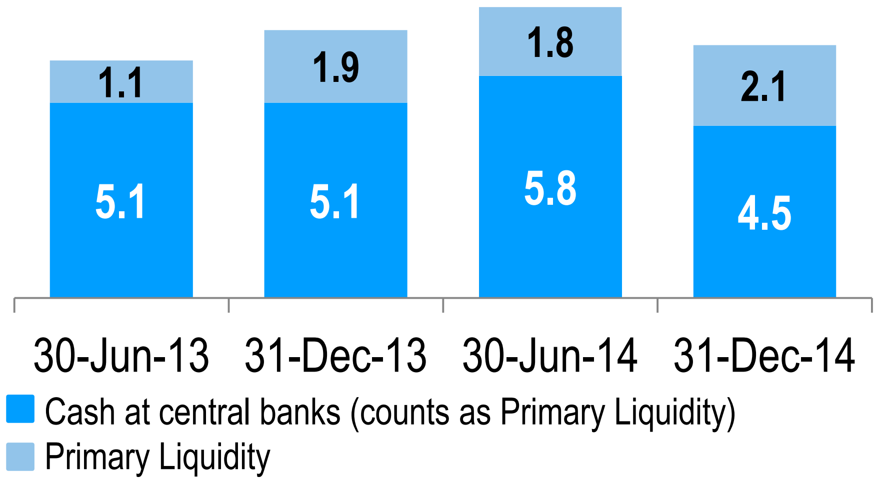
Ashley Lillie – Treasurer

The co-operative bank

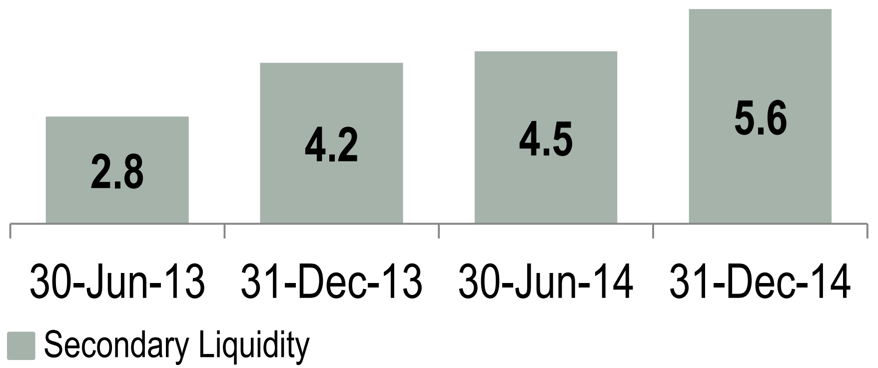
Liquidity holdings

Liquidity profile remains prudent

Primary Liquidity (£bn)



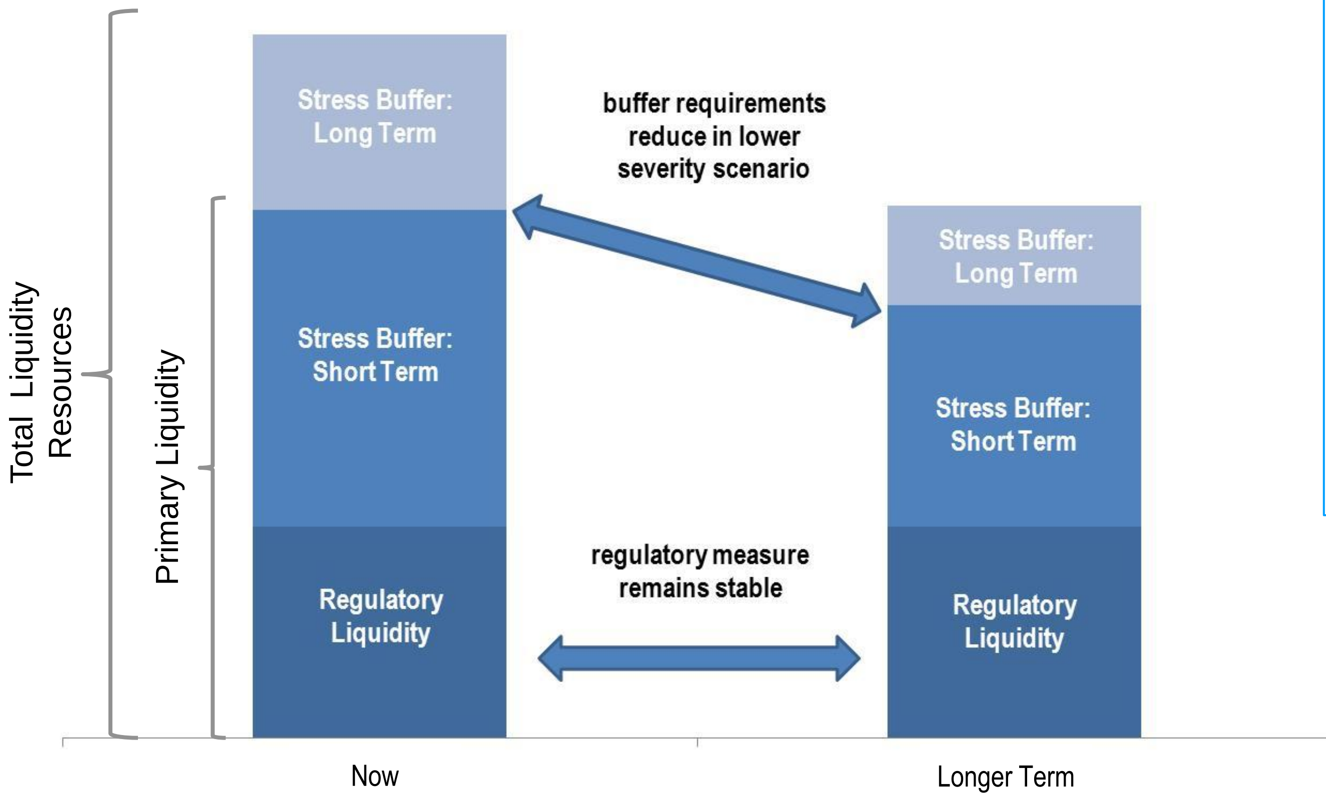
Secondary Liquidity (£bn)



- Primary Liquidity reflects current PRA definition of Liquid Assets, and includes Bank of England reserve account, gilts/T-bills and Multilateral Development Bank bonds
- Primary liquidity reduced in H2 2014, and while it will vary depending on cashflows, is expected to typically reduce over time as maturing wholesale is repaid and retail deposits (particularly fixed deposits) reduce

- Secondary Liquidity largely comprises assets eligible for discounting with central banks. This has increased as the Bank continued its programme of positioning available mortgages, loans and retained positions

Liquidity Risk Appetite (LRA)

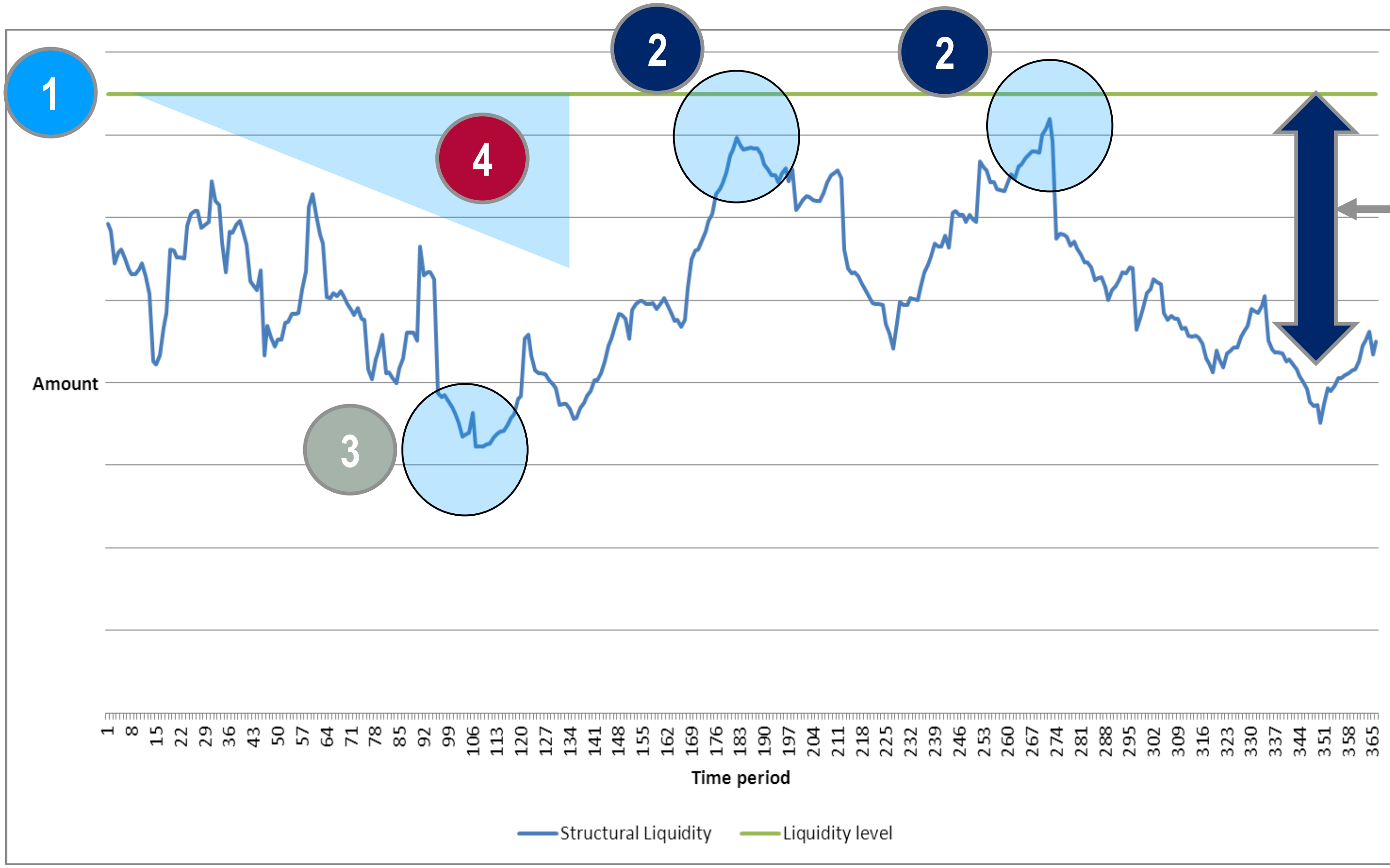


Structural Liquidity defined by the Bank's risk appetite and influenced by factors including:

- Regulatory requirement
- Bank's financial position
- Market's liquidity position
- Credit ratings
- Assets pipeline
- Term maturity concentrations
- Level of payments flows
- Non-sticky deposits

- Liquidity risk appetite framework has inherent flexibility
- Flexibility allows the management to adjust its appetite in line with its susceptibility to different stress, broadly defined as marketwide, idiosyncratic, and a combination of both
- As the Bank position changes, the probability of a larger combined stress occurring changes. Flexibility within the LRA framework allows ALCO and the Board to most appropriately reflect the liquidity risks faced by the Bank. Liquidity risk appetite is calibrated against the most applicable stress in the current or forecast conditions

Liquidity management: example



Operational liquidity

- Key drivers:
  - Number of funding or de-funding levers
  - Time to implement levers
  - Customer behaviour
  - Market environment
  - Volatility in forecasting

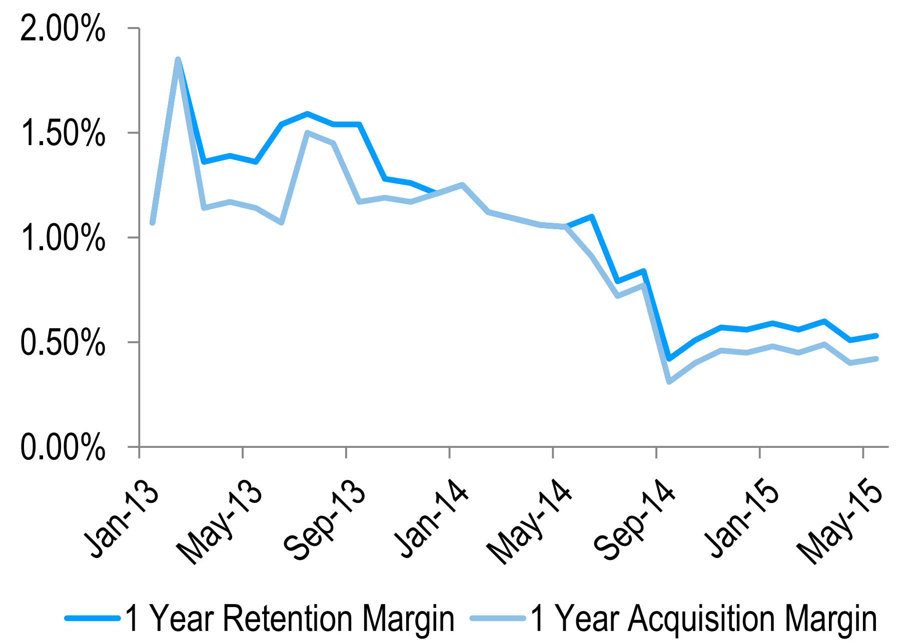
1. Actual liquidity level is maintained constant at a small surplus above the peak structural liquidity requirement
2. Structural liquidity level peaks due to inflows or outflows, this may be driven by e.g. retail maturities
3. Low point of structural liquidity as cashflow requirements reduce. Seek to reduce the overall requirement over time
4. Optimal position is to reduce liquidity when the structural requirement is lower. If the requirement increases in the shorter term, the operational liquidity level may increase if levers are slow to implement

Reducing cost of surplus liquidity

Targeting a reduction in liquidity over time as bank resilience improves

- **Key levers to lower liquidity levels over time:**
  - Reduction in retail deposits – focused on fixed term deposits
  - Repayment of maturing wholesale funding
  - Improving capital resilience will allow relaxation of risk appetite thus lowering liquidity levels
- **Constrained in use of other assets:**
  - Limited choices given stress scenarios and additional capital requirements
  - Overall market risk
  - 90 day duration assets – reserve account vs CDs at LIBOR

Fixed Term Deposit Costs



Section 9

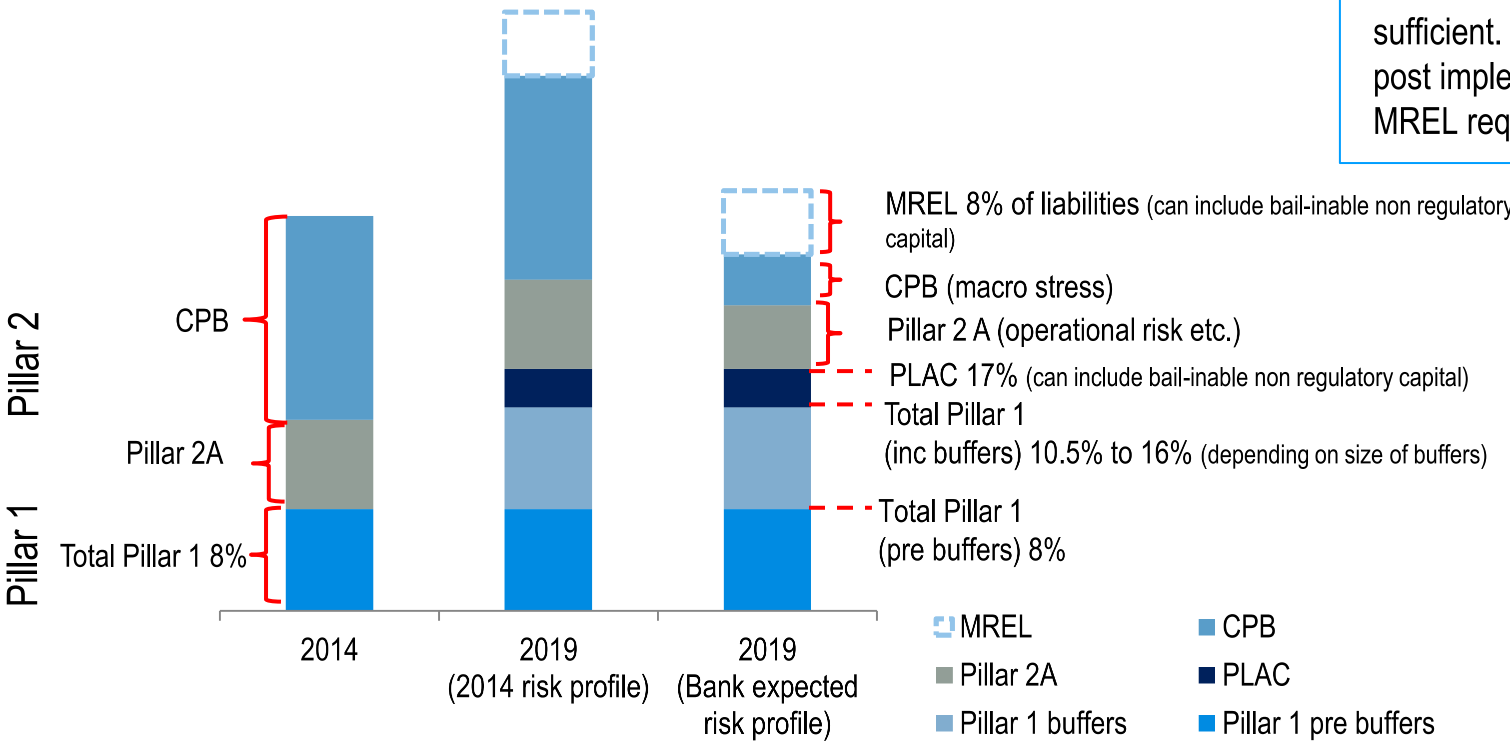
UK regulatory overview

Daniel Mundy – Director of Strategic Planning, Performance & Analytics

Current regulations – capital

Pillar 1 requirements will increase due to regulatory changes i.e. implementation of Basel III buffers. Bank's Pillar 2 requirements are expected to decrease due to actions to reduce risk. Without these actions overall capital requirements would increase

Minimum Capital Requirements[1]



Current market view is ~12% capital ratio is sufficient. Potentially rising to ~ 20% in 2019 post implementation of buffers and PLAC / MREL requirements

Resolvability not yet a primary focus, but will be introduced via MREL and PLAC requirement, and requirement to ensure sufficient bail-inable capital

MREL requirement is linked to balance sheet size not risk profile

Primary PRA focus is on:

- 7% CET1 ratio (NB: currently above minimum of 4.5% European requirement)
- Pillar 2A – revising approach and reducing Bank risk
- Risk reduction – PRA measuring the Bank against £7.5bn[2] RWAs by end 2017

Bank is not part of the Bank of England 2015 stress tests, but may be re-included from 2016. However it is still subject to other stress test requirements

1. Graphs for illustration only. All metrics within the graph are assessed against RWAs, with exception of MREL which is measured against liabilities
2. Calculation of RWAs may change over time as a result of changes to regulatory policy or its interpretation

Impact of future regulations

Resolvability / Capital Buffers

Ring-fencing – ring-fencing of non-trading book activities for Banks with retail / SME deposits > £25bn

Systemic Risk Buffer – Ring-fenced Banks to hold capital buffer of between 0 to 3%, and leverage ratio buffer of between 0 to 1.05%

MREL – EU Banks to hold additional capital that is eligible to be converted to regulatory capital in event of recovery or resolution. MREL requirement is measured against liabilities

PLAC – UK ring-fenced banks to hold additional capital that is eligible to be converted to regulatory capital in event of recovery or resolution. PLAC requirement is measured against RWAs

Calculation of Capital Requirements

Credit Risk
– Reduced reliance on external credit ratings with risk weights determined through risk factors e.g. CET1 ratio for banks, LTV for retail mortgages
- Capital ratio floor based on the standardised approach

Securitisation – recalibration resulting in increase in risk weights e.g. senior AAA positions increased from current 7% to between 15% to 20% risk weight

Regulators at early stage of reviewing frameworks for other areas – e.g. credit risk models, derivatives, operational risk

Generally expected to increase capital requirements

Co-operative Bank Response

- Capital plan is forward looking and focused on resolvability requirements, risk reduction and future legislation:
  - rebuilt capital base through CET1 raising
  - deleveraging of high risk portfolios e.g. Optimum and other COAM assets
- Regulator dialogue and negotiations:
  - Regarding ICG compliance & monitor of RWA forecasts rather than CPB compliance
  - MREL compliance at end of plan rather than 2016, resulting in the Bank not required to issue additional senior secured debt in 2015
- Member of British Bankers Association steering group on regulation and other joint regulatory bodies

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Appendix

Change in regulatory landscape

1 UK regulator		2 UK regulators	Policy driven by Europe / worldwide
		PRA (subsidiary of the Bank of England) **-** Prudential regulation Other arms of the Bank of England, include the Financial Policy Committee (FPC) which sets policy to reduce systemic risks to protect and enhancing the resilience of the UK financial system	**Legislation mainly European** – national regulators (e.g. PRA) have less flexibility to set requirements, but have to regulate firms against EU requirements - Regulation set through EU e.g. MREL is an EU initiative
FSA (Financial Services Authority) Less intrusive regulation. Minimal one to one firm dialogue	**FSA** More intrusive regulation. Regular dialogue with individual firms Increased information requirements	**FCA** Conduct regulation	**Basel Committee** - increasing assessment of compliance Basel Committee increasing their reviews of national compliance with regulatory frameworks it has set.
Pre 2008	**2008 - 2012**	**2013 onwards**	**2014 onwards**

INCREASED COMPLEXITY

Other current regulations

Leverage Ratio

- Measure of Tier 1 capital against assets + % of off balance sheet
- Current minimum requirement of 3%, expected to rise by 2019 for ring-fenced banks (retail and SME deposits > £25bn), but actual requirement not yet finalised
- Penalises lower risk assets (same capital required to be held for leverage ratio for all assets), as not risk sensitive

Large Exposures

- 25% total capital threshold for lending to counterparty groups
- Exposures > 10% of total capital are deemed to be large exposures and are reportable to the PRA
- Threshold may move to being against Tier 1 capital, rather than total capital in future
- Regulators considering implementing lower threshold (15%) between globally important banks, which may then be filtered to a lower level (e.g. domestically important banks)

Liquidity

- Current requirement to meet liquid asset buffer (Pillar 2 requirement); no Pillar 1 requirement
- LCR introduces Pillar 1 requirement for sufficient high quality liquid assets to survive a stress scenario lasting for 30 days. 80% requirement from October 2015, 90% in 2017 then 100% from 2018
- NSFR introduces Pillar 1 requirement for more stable sources of funding using a time horizon of one year. It will be introduced from 2018

Common regulatory abbreviations

CET1	**Common Equity Tier 1** - The highest quality of capital. Mainly consists of share capital / premium and retained earnings
AT1	**Additional Tier 1** – Other high quality capital. Usually consists of preference shares. For the Bank contains some elements of minority interests. CET1 + AT1 = Tier 1
Tier 2	Lower, subordinated form of capital, but still meets requirements for regulatory capital. Tier 1 + Tier 2 = total regulatory capital
Pillar 1	Capital required to be held against credit, operational and market risk
Pillar 2A	Capital required to be held for risks not captured by Pillar 1 e.g. concentration risk, pension risk, additional operational risk. Pillar 1 + Pillar 2A is also known as ICG (Individual Capital Guidance)
CPB	**Capital Planning Buffer** – buffer to ensure Pillar 1 + Pillar 2A requirements can be met under a stress. Also known as Pillar 2B
Capital Conservation Buffer	A Basel III capital buffer. Phased in from 2016 at 0.625% per annum, until maximum of 2.5% in 2019. PRA has effectively implemented now through 7% CET1 requirement
Countercyclical Buffer	A Basel III capital buffer. Used to build up a buffer in the good times to be released in the bad times. Based on location of exposures. Currently 0% in the UK. Set by jurisdiction up to max of 2.5%
SRB	**Systemic Risk Buffer** – buffer applied to ring-fenced banks up to max of 3%. Implemented from 2019
MREL	**Minimum Requirement for Eligible Liabilities** - requirement for ring-fenced Banks to hold instruments that either meet definition of regulatory capital or can be converted into regulatory capital against a % (TBC) of liabilities
PLAC	**Primary Loss Absorbency Capacity** – requirement for ring-fenced Banks to hold instruments that either meet definition of regulatory capital or can be converted into regulatory capital up to 17% of RWAs
RWAs	**Risk Weighted Assets** – Pillar 1 calculation of risk, largely dependent on riskiness of underlying loans
PRA	**Prudential Regulation Authority** – UK Prudential Regulator. The Bank is jointly regulated by the PRA and FCA (Financial Conduct Authority). The PRA is part of the Bank of England
LCR	**Liquidity Coverage Ratio** – Basel III liquidity ratio focussing on 30 day outflows. Implemented from October 2015
NSFR	**Net Stable Funding Ratio** - Basel III liquidity ratio focussing on 1 year time horizon. Implemented from 2018

The co-operative bank

Conduct background

PPI	• Mis-selling of payment protection insurance including inappropriate sales practices or reward structures • Current regulatory expectation and industry practice is that customers to whom banks made pre-2005 sales of PPI do not need to be proactively contacted • Potential impact of recent Plevin vs Paragon Supreme Court decision which deals with the disclosure of commission amounts for sales of single premium PPI. This has potentially industry wide impact and is currently under review. Could open further cohorts of PPI redress across the industry. Financial Ombudsmen Service (FOS) is considering impact of Plevin on its approach to PPI complaints referred to it

Mortgages	• 1st workstream - various mortgage related issues needing refunds:
	  • Inappropriate charging of fees such as Early Repayment Fees and late payment fees
	  • Incorrectly charged 1st ever mortgage payment for selected mortgages, by only collecting interest and not the capital meaning that customers paid more over the life of the loan
	  • Certain customers did not receive T&Cs which allowed fee tariff to be increased over time
	  • Considers how arrears payments have been autocapped with compound interest
	• 2nd workstream - reviewing instances of over forbearance on closed customer files and customer detriment in respect of live mortgages where the treatment of customers in arrears may not have been appropriate

CCA	• Consumer Credit Act regulates consumer lending and governs the way in which banks provide consumer credit (e.g. unsecured loans, credit cards). Requirements are highly technical and depending on the nature of the breach, the bank may no longer enforce the loan without a court order and/or customer is not liable to pay interest or arrears charges on the loan until compliance is restored • Bank has Identified instances of non compliance in relation to statement issuance and wording and also in relation to the issuance of Notice of Sums in Arrears • If statement is not fully technically compliant interest cannot be charged until compliance is restored and statement issued showing the correct amount of interest and principal • Restoration of compliance requires data extraction, interest and principal recalculation over extended periods
Packaged accounts	• Identified potential conduct risks in relation to the misselling of packaged accounts - an industry issue • Provision to reimburse customers for premiums previously paid for packaged current account benefits relating to four separate cohorts of customers (Over 80s; dual insurance cover; non-UK residents and inactive accounts) • Not been in response to a specific decision by the regulator but where the Bank considers that customer detriment may have arisen

Selected accounting policies (i)

Items that continue to be the focus of investor questions

Deferred Tax Assets	• £292.9m unrecognised DTAs as of 31 December 2014 (note 22 in the ARA) – predominantly comprised of unutilised carryforward tax losses carried forward and separate to the Group Tax Receivable • Will continue to build as the bank makes losses in 2015 and 2016 • Recognition will depend upon the Board having a high level of confidence in future profitability, stability and resilience • Treatment of bank carryforward losses in the UK changed in April 2015 – losses incurred post April 2015 have to be utilised first with losses prior to April 2015 being utilised once those losses have been exhausted. Even then, those losses can only be applied to 50% of taxable profit in any one year
Fair Value Amortisation	• At the time of the merger with Britannia in 2009, Leek note securitisations were brought on to the balance sheet as liabilities below par. This created a credit in the merger reserve account (retained earnings) and a debit in carrying value • As the notes redeem to par, generates a fair value amortisation unwind as per p234 of the ARA, which is a below the line item on the income statement • Note that the Fair Value Amortisation line item in the management income statement reflects total bank fair value amortisation not just the Leek notes • Note that the deferred tax liabilities offset part of the Leek note unwind from a balance sheet perspective

Selected accounting policies (ii)

Items that continue to be the focus of investor questions

Group Tax Receivable	• £126.8m Group Tax Receivable as of December 31 2014 • Bank surrendered a portion of its 2012 and 2013 tax losses to Group, in return for payment. The arrangement is that Group will only pay Bank for these losses when they materialise into actual cash tax savings for Group, which, with Group's own losses situation, is forecast to spread out over a long period of time. In addition, the utilisation is also dependent upon tax rules around capital allowances. Therefore, the Bank is scheduled to receive what it is owed by Group in instalment payments over a number of years. Each year end, Group provides Bank with a forecast of how much it is expecting to pay on each instalment date, and this will change year on year depending on Group's own tax profile • As this forecast payment schedule runs out over a long period of time, the Bank has to discount the amounts receivable in its accounts to reflect the fact that it will not have the benefit of the amounts for a long time, as opposed to a receivable due in the very near future which would be worth more in real terms

Selected accounting policies (iii)

Items that continue to be the focus of investor questions

Risk Weights	• Residential mortgages currently have a c. 6% risk weighting which is consistent with other UK banks. The introduction of a 15% risk weight floor is under discussion but implementation and/or timing is uncertain • Risk weights of securitisations are also due to change under Basel Committee proposals due for implementation by 2018 (e.g. retained AAA moving from 7% to 20%)
Expected Loss Shortfall	• £191.5m deduction to CET1 capital as of December 31, 2014 • This is the amount that the regulatory expected loss (EL) calculation is greater than the provisions made by the bank • The Bank does utilise the IRB methodology for calculating EL. Worth noting that every bank's impairments will differ from the regulatory EL • The Bank's EL shortfall is sizeable reflecting the large non-core book; particularly Corporate and CRE. EL shortfall will reduce over time as non-core deleverages and accordingly reduce the deduction to capital

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The information, statements and opinions in this document do 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.

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This document contains certain forward looking statements with respect to the business, strategy and plans of The Co-operative Bank and its current goals and expectations relating to its future financial condition and performance. Statements that are not historical facts, including statements about The Co-operative Bank's or its directors' and/or management's beliefs and expectations, are forward looking statements. By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend upon circumstances that will or may occur in the future. Factors that could cause actual business, strategy, plans and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements made by the Bank or on its behalf include, but are not limited to: general economic and business conditions in the UK and internationally; inflation, deflation, interest rates and policies of the Bank of England, the European Central Bank and other G8 central banks; fluctuations in exchange rates, stock markets and currencies; changes to The Co-operative Bank's credit ratings; changing demographic developments, including mortality and changing customer behaviour, including consumer spending, saving and borrowing habits; changes in customer preferences; changes to borrower or counterparty credit quality; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or other sovereign financial issues; technological changes; natural and other disasters, adverse weather and similar contingencies outside The Co-operative Bank's control; inadequate or failed internal or external processes, people and systems; terrorist acts and other acts of war or hostility and responses to those acts; geopolitical, pandemic or other such events; changes in laws, regulations, taxation, accounting standards or practices; regulatory capital or liquidity requirements and similar contingencies outside The Co-operative Bank's control; the policies and actions of governmental or regulatory authorities in the UK, the European Union, the US or elsewhere; the implementation of the EU Bank Recovery and Resolution Directive and banking reform, following the recommendations made by the Independent Commission on Banking; the ability to attract and retain senior management and other employees; the extent of any future impairment charges or write-downs caused by depressed asset valuations, market disruptions and illiquid markets; market relating trends and developments; exposure to regulatory scrutiny, legal proceedings, regulatory investigations or complaints; changes in competition and pricing environments; the inability to hedge certain risks economically; the adequacy of loss reserves; the actions of competitors, including non-bank financial services and lending companies; and the success of The Co-operative Bank in managing the risks of the foregoing.

The ability of the Bank to implement its revised plan and to achieve the results set out in the plan requires the regulators' continued acceptance of the plan and entails particular challenges including (but are not limited to): ability to execute a substantial re-engineering of the Bank's operating model and a very large and complex IT remediation programme; ability to achieve targeted cost savings; ability to retain customers and deposits; the timing and quantum of impacts to capital from the Bank's asset reduction exercise; meeting its planned improvements in net interest margin; a possible deterioration in the quality of the Bank's asset portfolio; unplanned costs from (for example) conduct risk matters; ability to maintain the Bank's access at an appropriate cost to liquidity and funding and the ability of the Bank to raise further capital assumed in its revised plan. Additional risks and uncertainties are included in the Bank's Annual Report and Accounts for the financial year ended 31 December 2014.

Any forward-looking statements made in this document speak only as of the date they are made and it should not be assumed that they have been revised or updated in the light of new information of future events. Except as required by the Prudential Regulation Authority, the Financial Conduct Authority, the London Stock Exchange plc or applicable law, The Co-operative Bank expressly disclaims any obligation or undertaking to release publicly any updates of revisions to any forward-looking statements contained in this document to reflect any change in The Co-operative Bank's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.