The co-operative financial services
good with money

Capital Markets Presentation

30 April 2008

Agenda

David Anderson, Chief Executive, CFS

- Measures of success

Barry Tootell, Finance & Risk Director, CFS

- CFS Performance

David Anderson, Chief Executive, CFS

- Last year's what next
- Progress in the year
- What next

Martyn Wates, Chief Financial Officer, tCG

The **co-operative** financial services
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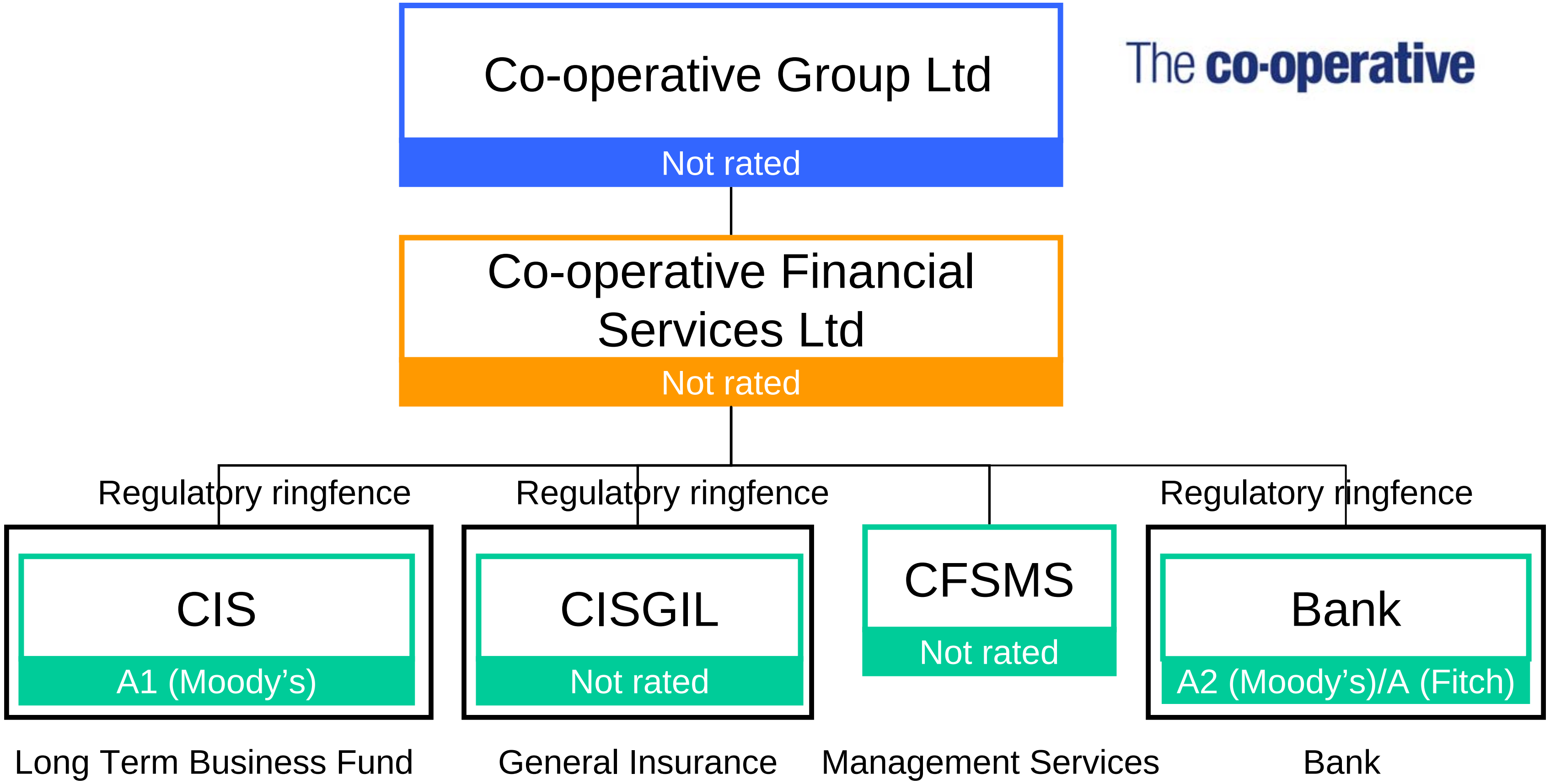
David Anderson, Chief Executive, CFS
Measures of success

Structure



Co-operative Group Ltd
Not rated
Co-operative Financial Services Ltd
Not rated
Regulatory ringfence
Regulatory ringfence
Regulatory ringfence
CIS
A1 (Moody's)
CISGIL
Not rated
CFSMS
Not rated
Bank
A2 (Moody's)/A (Fitch)
Long Term Business Fund
General Insurance
Management Services
Bank

Vision – to be the UK's most admired financial services business

- **Measures of success**
  - Profit generation to create a sustainable model
  - Market leading customer satisfaction
  - Market leading colleague satisfaction
  - Market leading social responsibility approach
  - Membership growth

Measures of success

Profit generation to create a sustainable model

- CFS shareholder profit increased £9.2m and in line with budgets
- General Insurance operating profit £67.1m (2006:£37.0m)
- Bank underlying profit £82.2m (2006: £76.3m)
- Target for new business profit for Life & Savings narrowly missed
- Life & Savings maintenance expenses – better than target by 10.5%

Measures of success

Market leading customer satisfaction

From GFK NOP's Financial Research Survey:

Retail Bank	79.4% v 65.3% (top 5 by market share)
General Insurance	75.4% v 70.7% (top 5 by market share)
Life & Savings	40.3% v 42.9% (rest of market)

Market leading colleague satisfaction

52% favourable response in ECHO survey

Target : improve to High Performance Norm level (73%) by 2010/11

Measures of success

Market leading social responsibility approach

1. Unprompted awareness of social responsibility

Bank – first (2006, first), CIS-third (2006, second)

2. Performance in BitC Corporate Responsibility Index

CFS – Platinum ranking. 98% score, sector leader

3. Performance in Environment Index

CFS – Platinum Ranking. 99.8% score

Membership growth

- 370,000 tCG members held CFS products at Sept
- Wide scope - CFS targets 1 million Group members who are within our target segment, but not CFS customers.
- Membership central to relationship business & our product set

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Barry Tootell, Finance & Risk Director, CFS
Financial Performance

CFS P&L

£'m	2006	2007	Change
Banking underlying result	76.3	82.2	5.9
SIV write downs		(31.8)	(31.8)
General Insurance operating result	37.0	67.1	30.1
Other shareholder activities (excluding STIF)	32.9	37.9	5.0
Result pre investment fluctuations	**146.2**	**155.4**	**9.2**
membership dividend	(2.0)	(2.0)	-
STIF	(11.5)	(3.9)	7.6
Profit before significant items	**132.7**	**149.5**	**16.8**

Significant costs

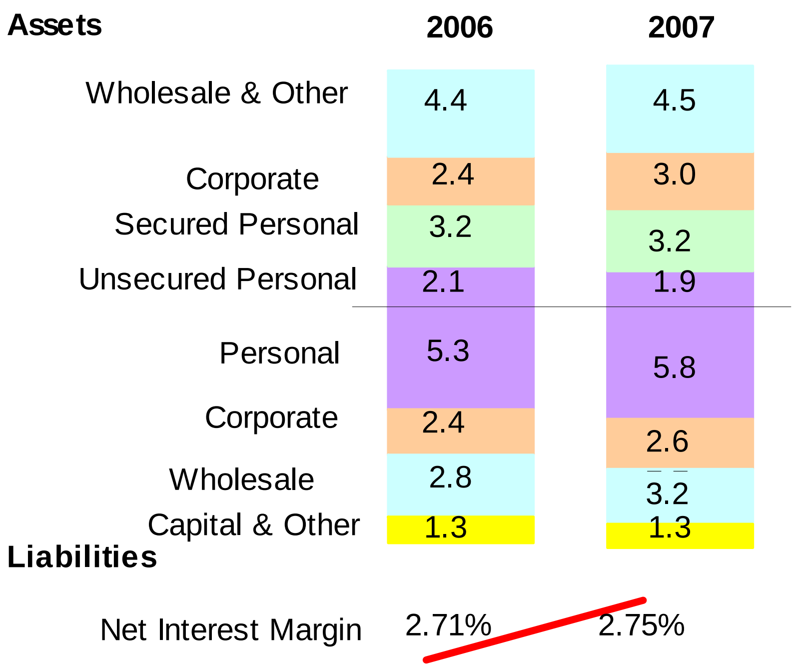
£'m	2007 Restructuring costs £'m	2006 Restructuring costs £'m	2006 Gain on implementation of PACE pension scheme £'m	2006 Total £'m
General Insurance	(29.5)	(13.0)	4.0	(9.0)
Banking	(38.0)	0.0	109.2	109.2
Other Shareholder	0.0	(0.5)	0.0	(0.5)
Total Shareholder	(67.5)	(13.5)	113.2	99.7
Long-term business	(37.6)	(11.9)	3.6	(8.3)
Total	(105.1)	(25.4)	116.8	91.4

Bank – Profit & Loss

£m	2006	2007	Change
Net Interest Income	320.3	334.8	14.5
Non Interest Income	201.2	188.7	(12.5)
Operating Income	**521.5**	**523.5**	**2.0**
Operating Expenses	(339.9)	(339.3)	0.6
Impairment Losses	(105.3)	(102.0)	3.3
Underlying profit	**76.3**	**82.2**	**5.9**
Structured investment write downs	0.0	(31.8)	(31.8)
Operating profit before tax and significant costs	**76.3**	**50.4**	**(25.9)**
Cost Income Ratio	**65.2%**	**64.8%**	**0.4%**

Income Drivers

Average Balances £'bn



Average balances and interest margins

	2006 £'m	2007 £'m
Net interest income	**320.3**	**334.8**
Average balances		
Interest-earning assets	11,827	12,193
Interest bearing liabilities	10,072	10,319
Interest - free liabilities	1,755	1,874
Average rates		
Gross yield on interest-earning assets	5.97%	6.50%
Cost of interest-earning liabilities	3.82%	4.47%
Interest spread	2.15%	2.03%
Contribution of interest-free liabilities	0.57%	0.69%
Net interest margin	2.71%	2.75%

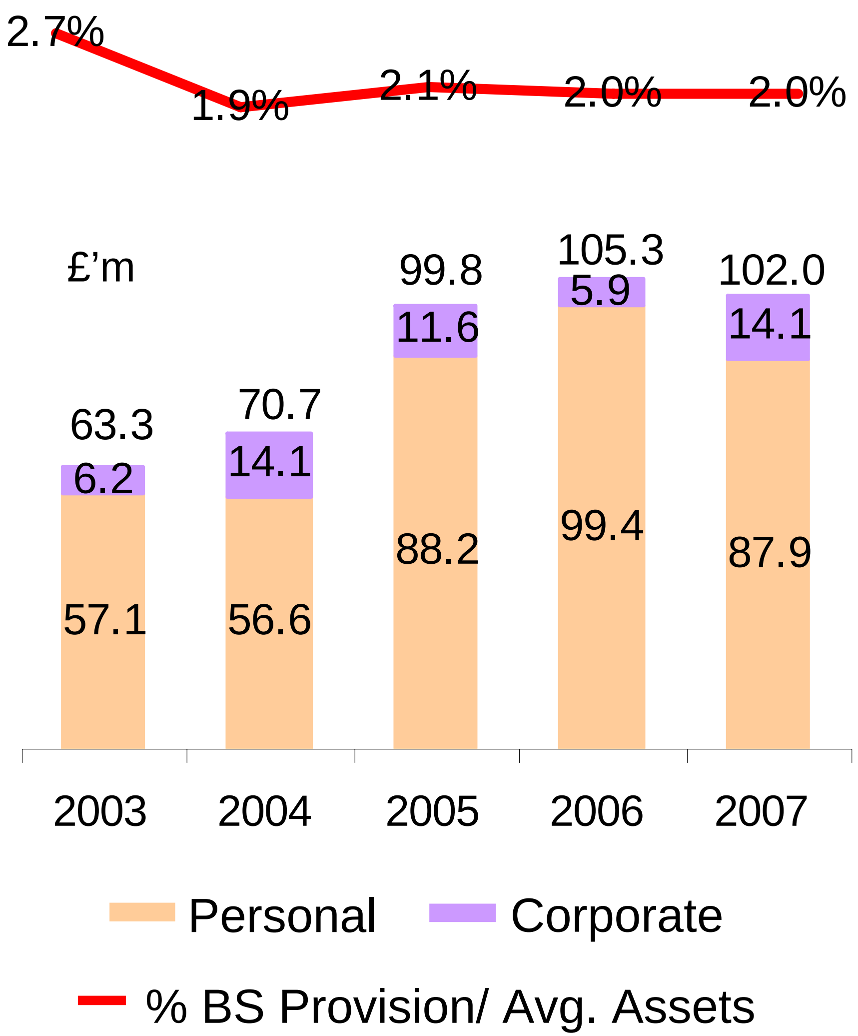
Non Interest Income

£m	2006	2007	Change
Fees and commission receivable	193.6	187.7	(5.9)
Insurance commission income	38.8	29.2	(9.6)
Fees and commission payable	(33.8)	(33.3)	0.5
Other income, including dealing	2.6	5.1	2.5
Non-interest income	**201.2**	**188.7**	**(12.5)**

Operating Expenses

£m	2006	2007	Change
Staff Costs - Wages & salaries	109.6	111.1	(1.5)
- Pensions & social security costs	23.4	21.4	2.0
Other staff costs	9.3	12.8	(3.5)
	142.3	**145.3**	**(3.0)**
Other administration expenses	173.2	171.3	1.9
Depreciation & amortisation	24.4	22.7	1.7
Operating expenses	**339.9**	**339.3**	**0.6**

Bad Debts



- Reduced personal unsecured bad debt charge
- High quality mortgage portfolio
- Partially off set by increased Corporate charge due to specific Football Club provision.

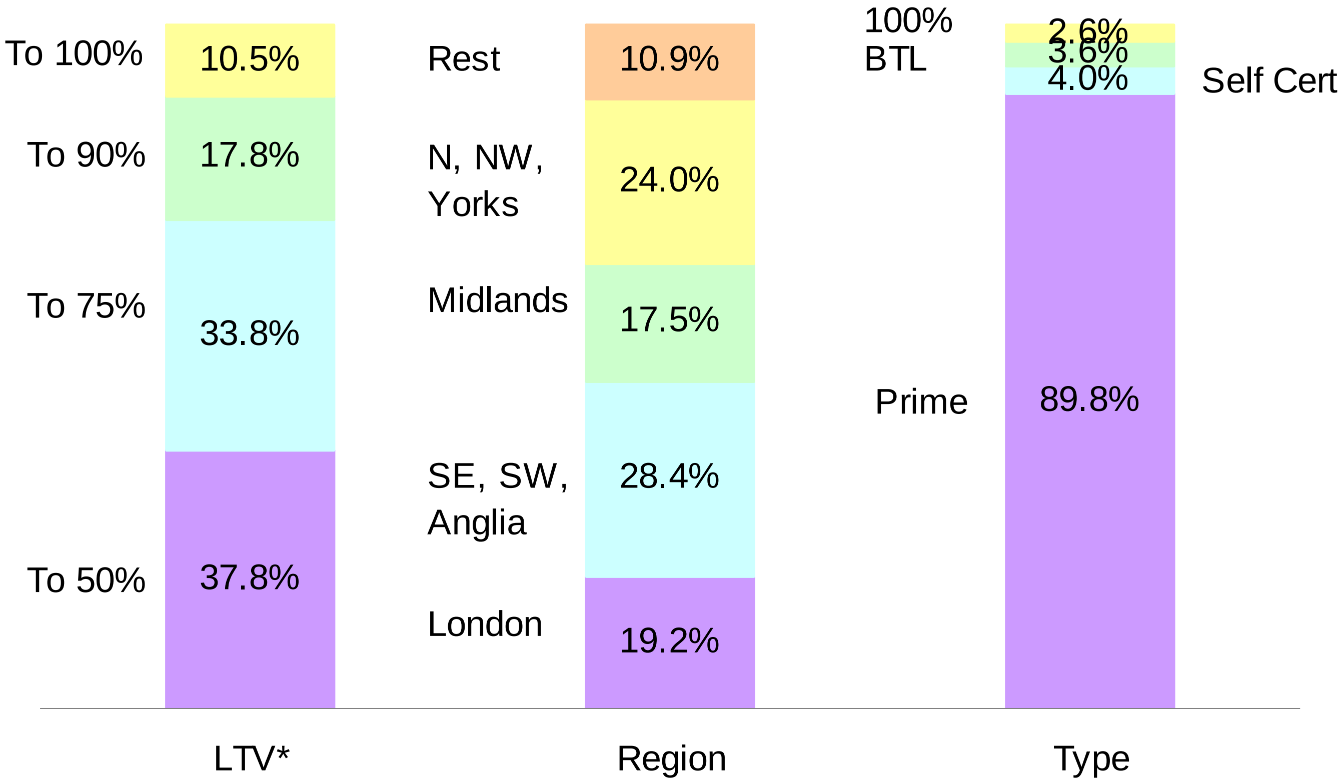
Segmental Analysis

Operating profit by segment

£m	**2006**	**2007**	**Change**
Retail	34.2	47.1	12.9
Corporate	55.1	57.5	2.4
Wholesale	3.9	(11.3)	(15.2)
Central Costs	(16.9)	(11.1)	5.8
Underlying profit	**76.3**	**82.2**	**5.9**

Stable Mortgage portfolio

£3.3bn mortgage book at YE 07



- 15% overall sector cap on BTL, 100% and self cert
- Now exited BTL and 100%
- Min LTV reduced from 95% to 90% 21 March

* LTV at last valuation, not indexed

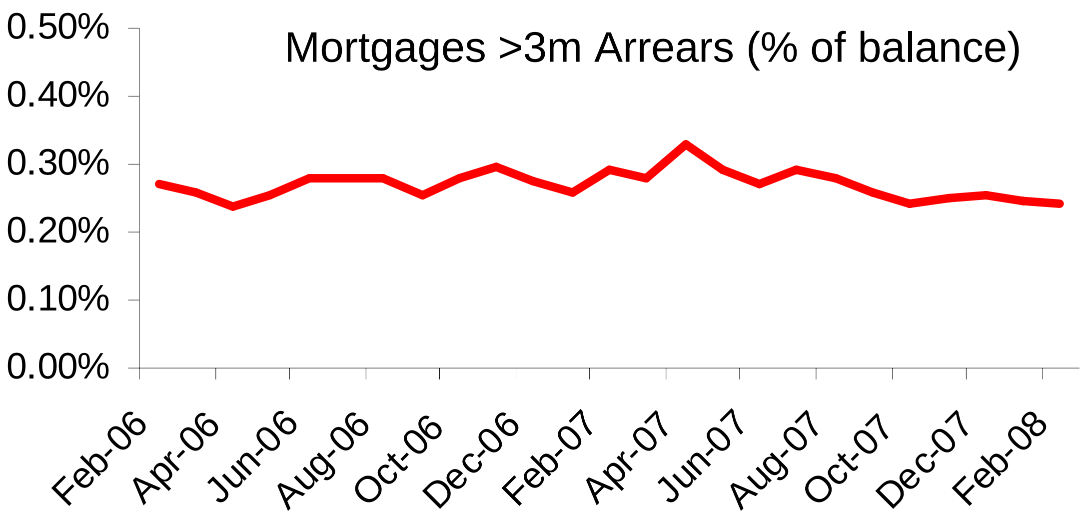
Low Risk Mortgage book

As enter 2008:

•Improving margins

•Changing the mix of business towards lower LTV

•Higher risk segments exited and managing/pricing for risk and liquidity requirements

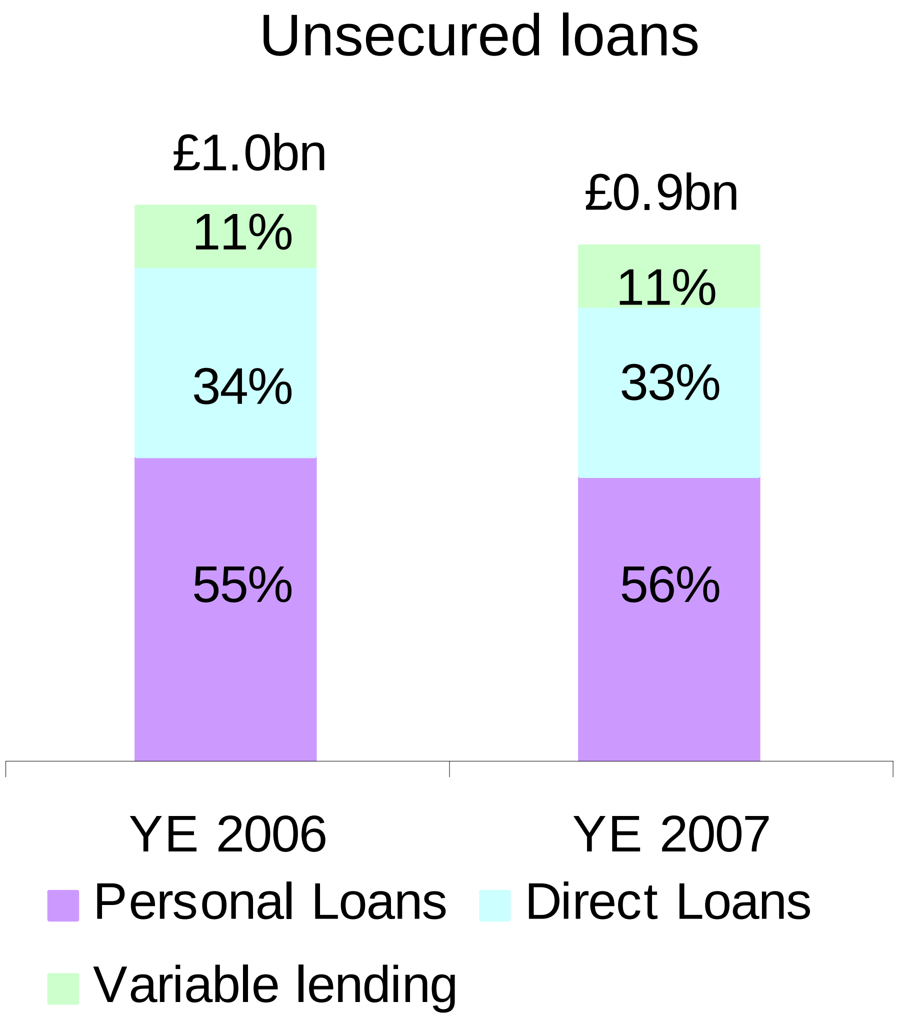


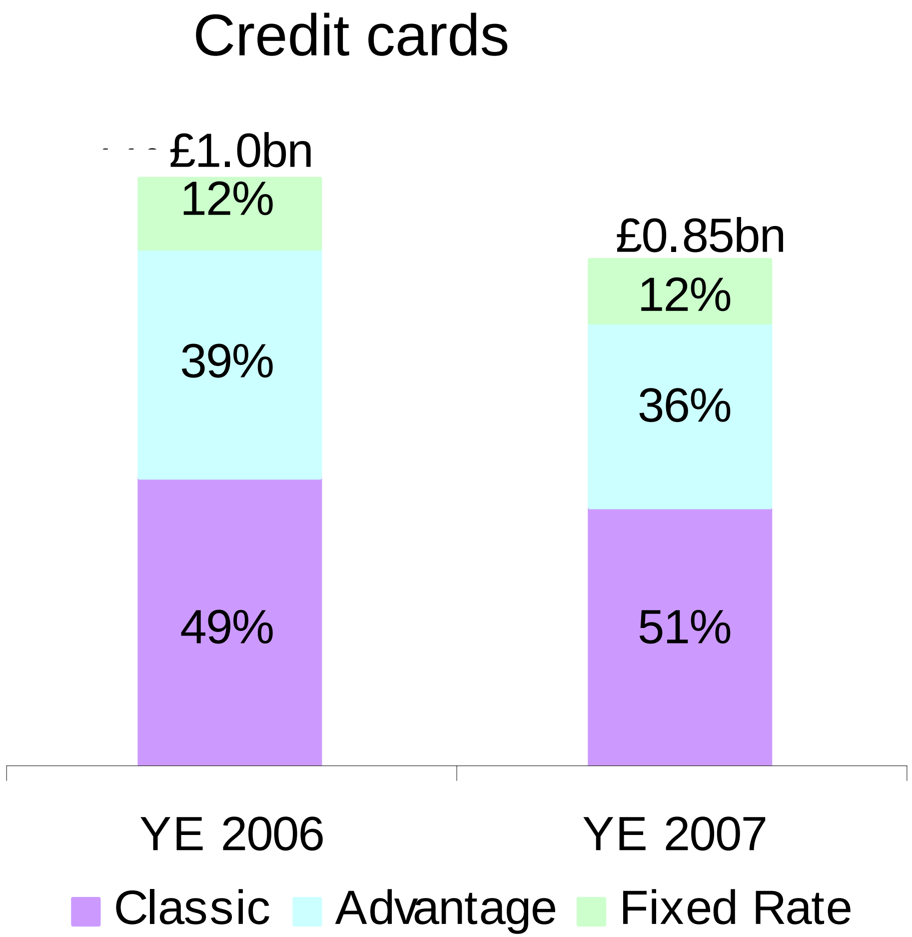
Statistics

- £0.3m bad debt charge
- 77% new to Bank
- Avg Loan £70k
- Book LTV* 47%
- New business LTV 53%
- No arrears deterioration post year end

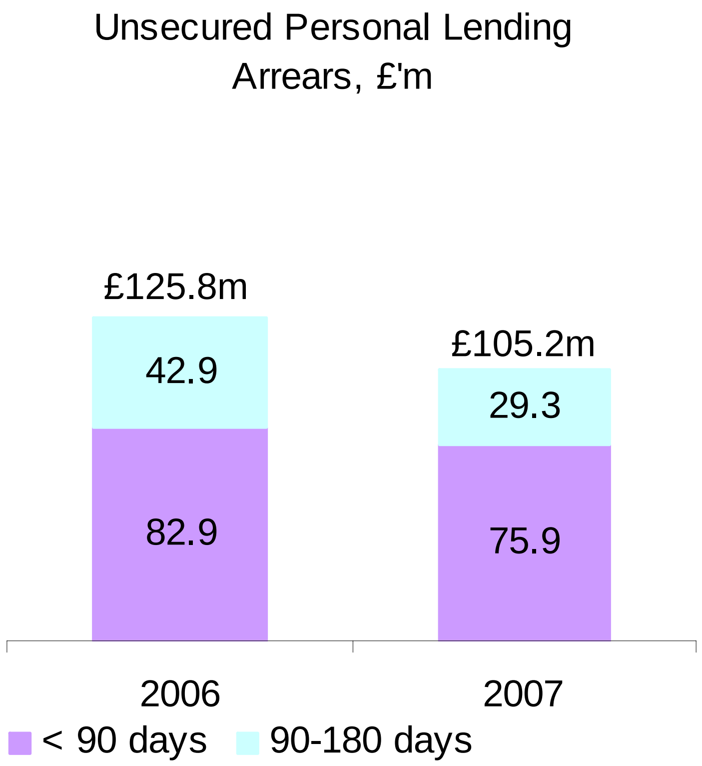
* LTV at last valuation, not indexed

Unsecured Personal Lending





Personal lending - arrears



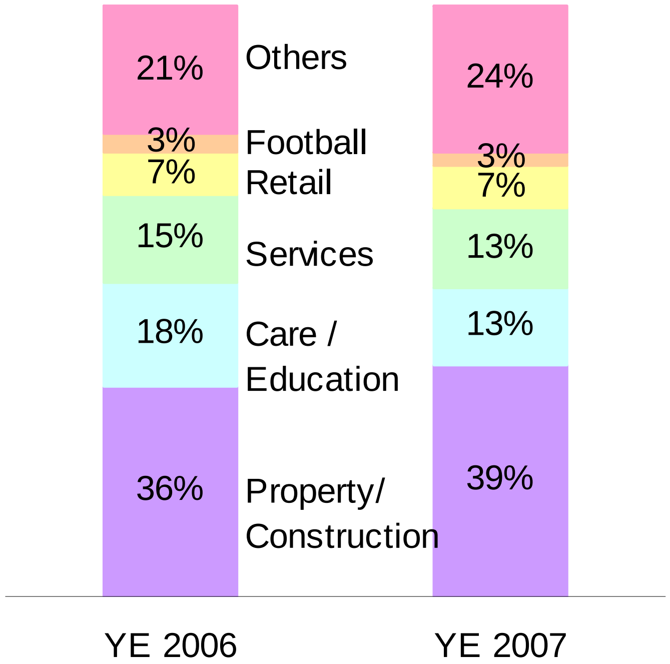
- Bad debt charge for Retail decreased from 1.9% of book balance to 1.7%, due to focus on secured lending, and continued activity on unsecured portfolio

<u>Provisioning Rates</u>

	2006	**2007**
Visa	5.5%	5.6%
Other unsecured	3.5%	3.5%

Corporate lending

2007 £3.6bn corporate lending (2006 : £2.8bn)



Property/Construction:

Investment properties 76%
Residential construction 9%
Commercial construction 15%

•Average lending balances increased by £509m (21%) in 2007

•Expanding customer base / new Corporate Banking Centres

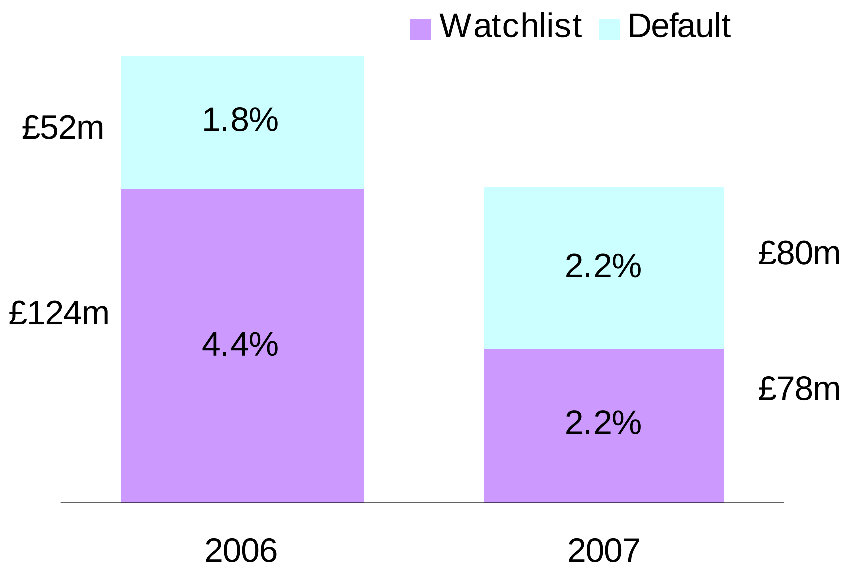
•Selected involvement in the syndicated lending sector and participation in PFI transactions.

•Growth goals subject to liquidity requirements.

•Plans to increase lending commitment to the renewable energy sector

Corporate Credit Quality

Arrears % of book*



*excludes leasing

- Rating System: Migrated to Basel 2 compliant models in 2006

  -Watchlist: Performing, close control

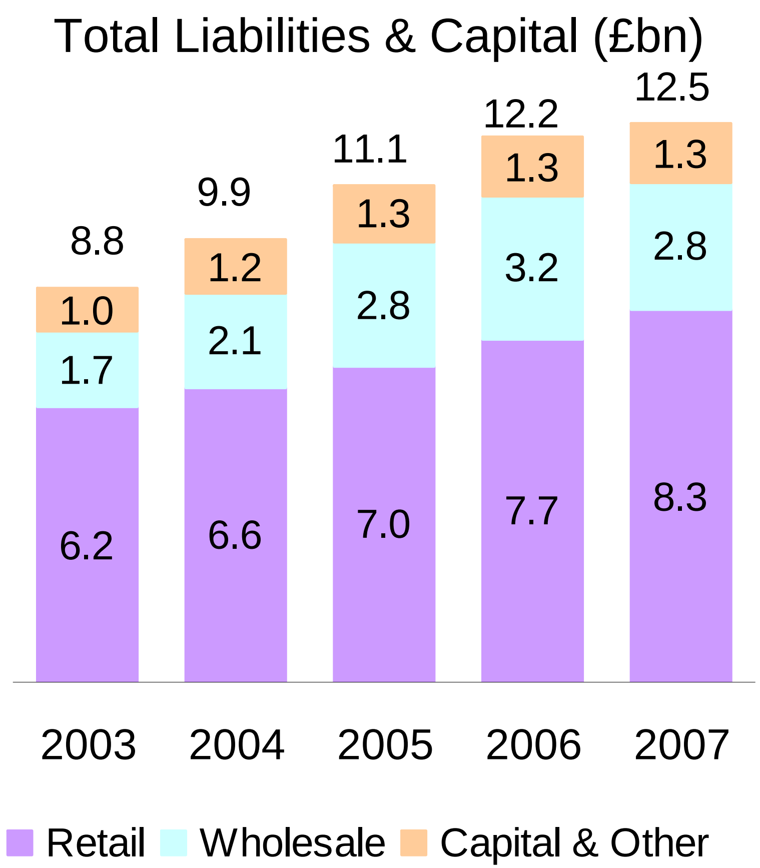
  -Default: Recovery action

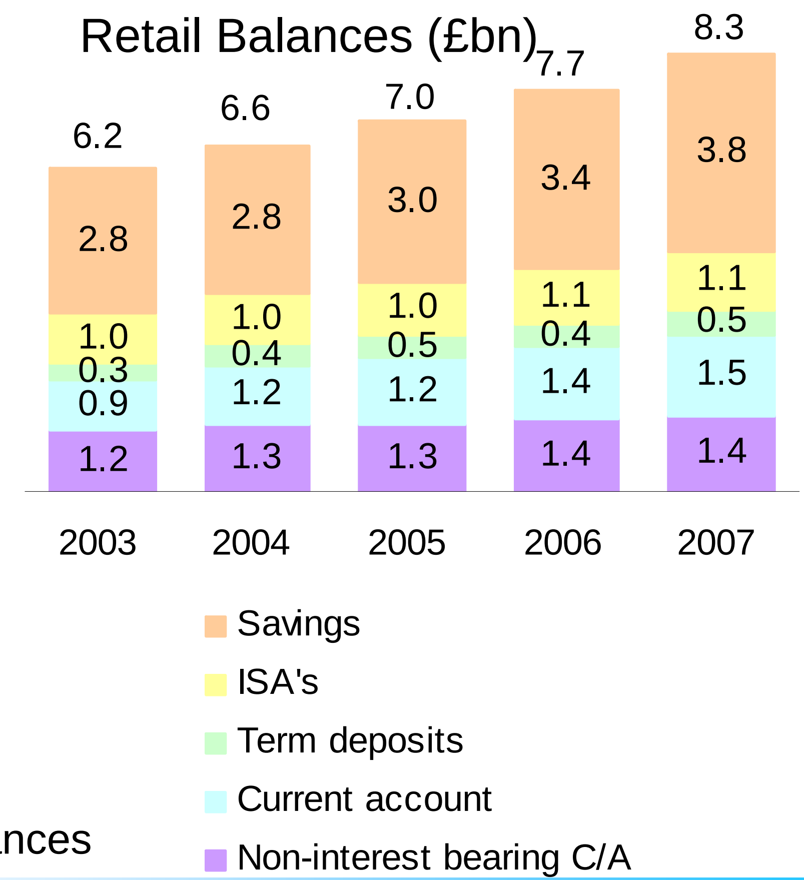
- Credit cycle management and strategy is centrally located
- Bank's credit committee and board discretions are risk based; I.e. driven by Basel rating system grades

- Specialised lending exposure of £2.6bn is 97% good/strong under Basel II

Funding

- Strongly Retail funded. Well balanced approach to growth.
- Deposit base closely monitored and well diversified.
- Offering competitive Personal and Corporate medium term liabilities

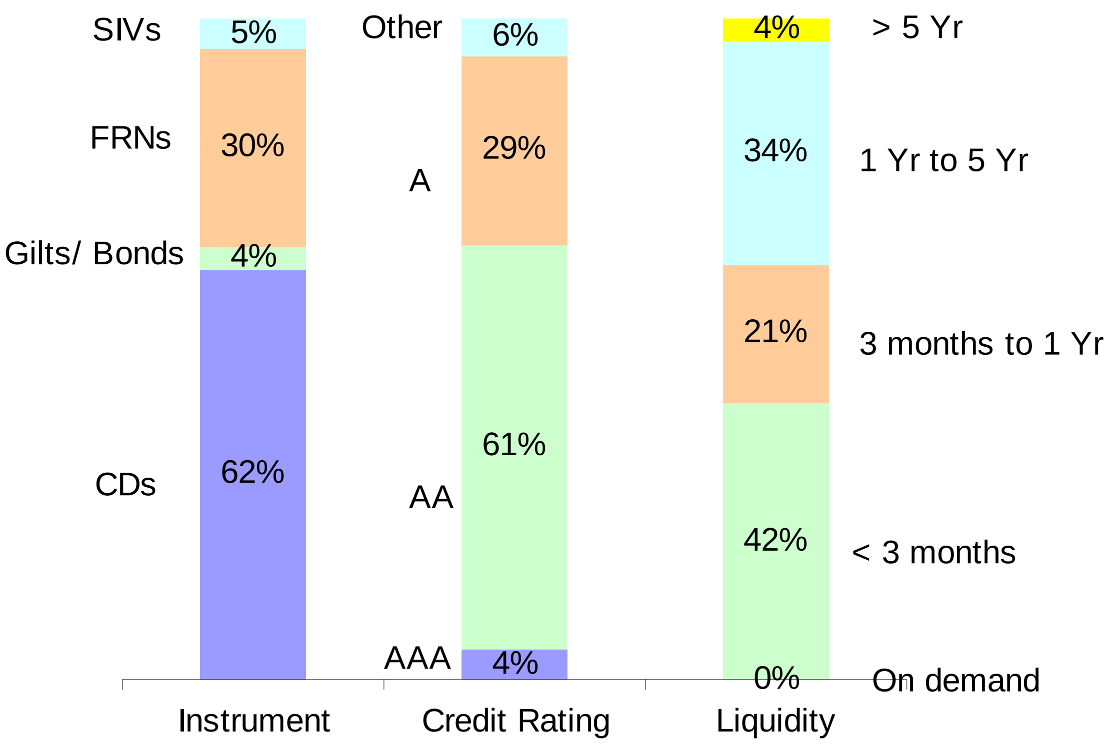




Average Balances

Wholesale

£2.4bn debt securities book:



- Prime & highly liquid book, except for:
- £113m invested in three SIVs and two credit trading funds
- £31.8m P&L impairment on SIVs at year end.
- Building gilt portfolio as FRNs mature

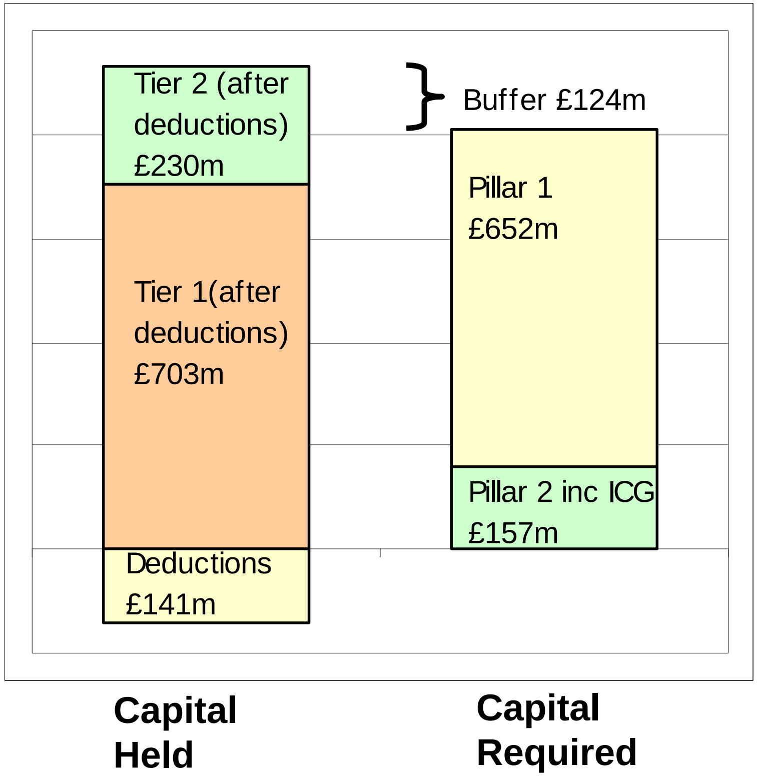
% based on nominal pre impairments - conservative

Liquidity

•Liquid balance sheet with 29% of balance sheet being liquid assets at YE 07 (34% YE 06)
•Building gilt portfolio as FRN positions run off.
•Operating in money markets on 2 way basis and have selectively taken funds up to 3 months, paying no more than LIBOR
•Increased deposit to loan ratio* from 85% to 100%
•Bank retail assets 100% funded by retail deposits on this basis at YE 07 and currently.
•Behavioural retail cash gap reports indicate stable retail balance sheet.
•Sufficient liquidity held to cover worst gross experienced retail outflow in 1 month; as well as wholesale requirements.
•Liquidity stress tests enhanced following current market turmoil

*ratio excludes deposit notes and UTB

Strong Capital Base



Solvency ratio: 143.0%

- Strong Basel I capital ratios:
  - 13.5% total
  - 12.2% total exc. Collective Provisions
  - 8.8% tier 1
  - (2006:15.3% total, 9.9% tier 1)
- Bank remains well capitalised under Basel II. Buffer capital of £124m.
- Basel II RAR: 11.4% overall, 8.6% tier 1

Co-operative Insurance

Co-operative Financial Services Ltd
Not rated

Regulatory ringfence

CIS
A1 (Moody's)

Long Term Business Fund (mutual)

Underwrites all Life & Savings business

General Reserve belongs to the shareholder but supports the Life Fund and GI run off

Regulatory ringfence

CISGIL
Not rated

General Insurance

Underwrites all new GI & reinsures existing GI running off in CIS

CFSMS
Not rated

Management Services

Service company holding all insurance infrastructure including employing staff

General Insurance

£m	2006	2007
Gross written premiums	471.3	412.8
Earned premiums	487.8*	419.5
Claims ratio	73.6%*	64.3%
Commission and Expense ratio	33.8%*	33.3%
Combined ratio	107.4%*	97.6%

- Lower earned premiums – shift towards new direct channels, planned exit from higher risk & loss making segments e.g. any driver policies
- Significant improvement in motor claims ratio in 2007 following 2006 process modernisation
- Improved fraud management, pricing, underwriting quality & customer service

*Restated for classification changes

General Insurance

£m	2006	2007
Net earned premiums	487.8	419.5
Net incurred claims		
-Weather events		(37.9)
-Other	(359.0)	(231.8)
Other income	5.0	0.5
Non significant operating costs and commissions	(165.1)	(139.8)
Investment return on GI capital & reserves	72.6	62.8
Technical Profit before interest	**41.3**	**73.3**
Interest on subordinated debt	(4.3)	(6.2)
Technical Result after interest	**37.0**	**67.1**

LTBF

Mutual - all profits retained for the benefit of policyholders

- New business fell slightly short of breakeven target – due to lower than planned number of FAs
- Maintenance expense target beaten

Long Term Business Fund	2006	2007
Assets under Management	£19.4bn	£18.9bn
Realistic Working Capital	£1.1bn	£1.0bn
Working capital ratio	6.40%	5.70%
Risk capital margin (RCM) cover	11.2	11.7
RCM cover, incl. £200m General Reserve	13.2	14.1
PV of New Business Premiums	£497.5m	£466.3m
New Business Contribution	£36.5m	£30.9m
Maintenance costs	£84.7m	£77.2m

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David Anderson, Chief Executive, CFS

What next

CFS Change Plan –
investment in strategic & operational capability

- Customer facing systems & processes
- Integrate customer management & data
- Operational effectiveness (including cost reduction)

- **Increase Corporate Banking Centres from 11 to 22 over next 3 years**
- **Continued focus on consumer bad debt reduction**
- **Testing alternative distribution options**
- **Focus on mortgage sales through Financial Advisers**
- **Brand rollout in 2008**

What next

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•Brand rollout in 2008

Progress in last year

Awards

- Bank named ‘most impressive bank’ in the Times Consumer poll.
- Voted number one high street bank for customer service by BBC watchdog survey. Smile second best internet bank
- smile ‘Best of the Best’ for current accounts – Which
- Mortgages:

  ‘Best Direct Mortgage Lender 2006/7’ – Your Money

  ‘Highly Commended Direct Mortgage Lender 2007/2008’ – Your Mortgage
- Highly commended in ‘best Credit Card Provider-Standard Rate’ for Clear credit card – Money Facts
- ‘Best ‘Online Banking Provider’ and ‘Best Student Account’ – Your Money

What next - 2008

- **CFS Change Plan –**
  continued investment in strategic & operational capability
- **CFS presence in larger Co-operative stores**
- **New current account: Q2**
- **New packaged account: Q3**
- **Shared equity mortgages with Places for People**
- **Regulation: Faster Payments, TCF**
- **Brand rollout in 2008 - CFS brand April 08 – next slide**

Brand


Ruthless
on those who abuse
human rights
Find out more
Time for a new ISA?
Be an early bird now
and choose from
our range of funds
Find out more
We're about to get better at being
good with money
by becoming bigger and stronger
we can look forward to a
brighter future
Find out more
Switch to us
Top
Voted No1 high street
bank for customer
satisfaction
Switch to us
Home insurance
One policy four great cover
options and 10% discount
Find out more
Relationship banking
Managers who are accessible
whenever you need them
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