

Company Announcement Office Statement – 25 August 2011

THE CO-OPERATIVE FINANCIAL SERVICES STATEMENT TO THE COMPANY ANNOUNCEMENTS OFFICE (incorporating the results for The Co-operative Bank Plc)

The Co-operative Group, the world's largest consumer co-operative today, 25 August, releases its interim results, for the 26 weeks ended 2 July 2011. The results of its financial services business Co-operative Financial Services (CFS), which are fully consolidated within its parent's accounts, are detailed below.

The Co-operative Financial Services (CFS)

Highlights of The Co-operative Financial Services (CFS) financial results for the six months to 30 June 2011:

- **Strong financial performance**
 - Operating result of £131.3m, up 20.1%
 - Income up 16.7%
 - Like for like costs down 4%
- **Continued financial strength**
 - Significant increase in customer funding ratio to 113% (2010:107%)
 - Robust core tier 1 ratio maintained at 9.6% (2010: 9.6%)
 - Strong capital ratio of 14.8% (2010: 14.0%)
- **Strong sales and business retention**
 - Customer deposits up 5%
 - Gross written premiums up 32.5%
 - New current account openings up 73% at 56,000
- **Ethical leadership**
 - International award in sustainable banking for second year running
 - First insurer to ethically screen General Insurance investments
 - £1bn lending committed to renewable energy projects

Barry Tootell, Acting Chief Executive at The Co-operative Financial Services, said:

“For the second year running, our distinctive business approach has won international recognition when we were named Europe’s most sustainable bank. This unwavering commitment to sustainability ensured the organisation emerged from the financial crisis stronger and has been the bedrock for further strong performance during the first half of 2011 with operating profits up 20% to £131m.

“Our unique blend of high colleague and customer satisfaction, strong financial performance and market leading social responsibility practices provides the basis for our ambitious and exciting growth plans. With confidence in the UK banking sector still weak there remains a clear demand for a serious challenger to the big banks, who will provide more competition and raise the bar in terms of customer service.

“As a proven and established provider we are investing heavily in our business so we can be that compelling alternative. Our investment plans remain firmly on track and our increased capability will provide the opportunity for us to grow both organically and through acquisition where appropriate.”

Demonstrating sustainable business performance

Strong profit

CFS's sustainable approach has delivered a strong performance with operating profits up 20.1% to £131.3m despite the depressed economic conditions and the challenging interest rate environment.

Profits before taxation, distributions and fair value amortisation increased 21.7%, excluding a Payment Protection Insurance (PPI) provision

CFS made a PPI mis-selling provision of £90m. Whilst an industry-wide issue, as a member-owned organisation, it is committed to doing the right thing for customers, especially when it gets things wrong. It will ensure those customers that were mis-sold PPI are dealt with fairly.

Income rose 16.7% on 2010 with increased contributions from both Retail and Corporate and Business Banking.

Prudent management of the balance sheet has been maintained. The customer funding ratio – customer deposits compared to the amount of unsecuritised customer loans – has increased to 113% (December 2010: 107%). This has supported continued lending with gross total advances of £1.4bn during the first half of 2011. The capital position remains resilient and secure, with a stable core tier 1 ratio of 9.6%. This leaves the organisation well placed to handle increasing future regulatory challenges and economic uncertainty.

Robust cost management

CFS maintained its robust focus on controlling costs. Steady state costs reduced £1.8m despite strong inflationary pressures that included the rise in VAT at the start of the year. Excluding inflationary impacts, like-for-like costs fell 4%. Cost savings via synergies have been a key focus of the integration with Britannia. The combined business is on course to save £70m on an annualised basis during 2011, £21m ahead of target.

Impairment charges were £3m higher than 2010 and have been substantially contained despite the impacts from the challenging economic environment on customers. Late mortgage arrears, where arrears exceed 2.5% of the loan balance, fell from 1.67% in December to 1.41% at the end of June 2011. Support continues to be provided to those customers that fall into financial difficulties.

General Insurance claims were 57% higher. This is due to a continued and significant rise in the amount of new business being written, but also the impact of severe weather claims and further rises in personal injury claims that still plague the industry.

Increasing sales and growth

CFS's business is performing strongly in its core markets. Customer deposits grew 5.0% to £35.9bn since the end of 2010. This shows continued trust in the organisation and provides the basis for continued lending, including to the SME market.

The Bank increased the number of new current accounts opened in the first half of 2011 to 56,229, up 73% compared to last year and evidence that it is increasingly being seen as a genuine market alternative. With the Independent Commission on Banking likely to propose ways of making switching current accounts easier when it reports on 12 September, CFS believes this represents further opportunity to support its primary current account growth plans.

Significant cross sales are now being realised from the integration with Britannia. More than 22,000 current accounts have been opened in Britannia branches during 2011 along with 9,000 new Co-operative home insurance products, more evidence of the huge opportunity to grow the business organically.

CFS is now working closer with its parent and the family of businesses within the Co-operative Group. Earlier this year the Group came together under a new single executive structure to support ambitious

plans to unify the business and brand, to support the continuing renaissance of The Co-operative Group as a major UK retailer and financial services provider.

This relationship has already seen banking facilities being introduced on a trial basis in selected Co-operative stores to widen the Bank's branch network. One of these outlets, in Horbury, West Yorkshire, followed a petition from residents to establish a branch after all other banks pulled out of the town, a demonstration of how CFS will respond to the needs of its customers and members. There has also been a successful pilot scheme with Co-operative Legal Services for legal advice being made available to customers in the Bank's branch network. .

The integration continues to build on the considerable strengths of both heritage businesses. CFS is investing more than £700m to transform its banking capability and scale. This includes:

- A new online business banking service which launched last year providing an enhanced service for business customers.
- General Insurance products now available to customers in Britannia branches.
- Full servicing of current accounts will shortly be made available in the 245 Britannia branches for the first time, effectively giving customers a near four-fold increase in outlets to conduct their banking.
- The existing credit card platform will be replaced before the year end with a leading edge system that will enable the delivery of market-leading products and services tailored to customer needs.
- Replacing the core banking platforms with some of most modern systems in the industry to further improve the customer experience through improved functionality.

Ethical leadership

CFS is playing an integral role in delivering The Co-operative Group's groundbreaking Ethical Plan which launched in early 2011. This saw the General Insurance operation become the first in the world to ethically screen the £1bn of investments which underpin its business. The Corporate Banking division also committed £1bn to small to medium scale renewable energy projects. It believes lending to the sector delivers local economic and social benefits, which is completely aligned to its co-operative ethos.

General Insurance has continued to be a pioneer within a market facing significant social and economic pressures. Earlier this year it launched an innovative new insurance scheme for young drivers which incorporates 'smartbox' pay-as-you-drive technology and rewards responsible driving with cheaper motor insurance premiums. In what has been described by commentators as 'market changing', this policy will hopefully inspire a new generation of responsible young motorists.

This long standing commitment to social responsibility has been key to enhancing the trust and reputation of the business. In a further sign of that trust, CFS was chosen by the Government to run the Reclaim Fund which launched in March to administer the industry's dormant account money. The fund will operate as an independent subsidiary and is not included in the CFS operating result since it is run on a not for profit basis.

High customer and colleague advocacy

CFS believes customer and colleague advocacy directly supports its plans to attract new customers and grow sustainably. Customer advocacy, integral to CFS's relationship-based strategy, remains well ahead of the competition. Its products and high levels of service continue to be regularly recognised by respected independent sources:

- Co-operative Insurance won most trusted motor insurer at the Moneywise Customer Service Awards. smile was voted most trusted current account provider and best for online service and the Bank was named best for branch service at the same awards.
- Co-operative Insurance won best home insurance provider at the annual Moneyfacts Consumer Awards.
- At the Credit Card Awards, the Co-operative Bank received the best charity credit card award.
- The Bank also made the short-list for best financial services provider at the Which? Awards for the third year running.

The organisation's employee engagement remains strong despite it being a period of major change for the business.

CFS remains the only financial services mutual allowing members to earn a financial reward based on their products. The total of member payments and dividends to support its social goals and community initiatives was £47.3m.

Retail, Corporate and Business Banking and Optimum analysis

CFS consists of the following main business segments – Retail, Corporate and Business Banking (CABB) and Optimum.

- The Retail business provides financial products and services to individuals and households. It includes Retail Banking, General Insurance, Long-Term Life and Savings and Asset Management. The long-term business fund is not included in the shareholder results as the business is run in the interests of the policyholders.
- CABB incorporates the business-to-business elements of CFS and includes corporate banking, business banking and Platform, the intermediary mortgage lender.
- Optimum is a closed book of intermediary introduced and acquired loan book assets.

Retail

The Retail business operating result was £67.9m for the first half of 2011, 69% higher than 2010 and an outstanding performance given the economic pressures.

Net interest income rose from £191m to £199m following a strong performance in the mortgage book which remains focused on delivering growth through high quality assets with the average loan to value remaining below 50%.

Despite the challenges of continuing low interest rates, the Retail Bank achieved a significant improvement with an operating result of £59.3m, up from £28.7m in 2010. There has been a 13% rise in customers who regard the Bank as their main current account provider, demonstrating the success of CFS's relationship-based approach.

Non-interest income improved 7.9% to £92.6m, helped by an increase in package account fee income following the rise in prime current accounts held. Impairment losses were significantly lower, down 41%, following improved arrears collection and a decline in credit card balances.

The General Insurance business achieved strong growth in both gross written and net earned premiums, up 33% and 34% respectively. The higher levels of income have of course driven an increase in claims associated with the volume of new insurance business. Claims experience also reflects higher personal injury claims and the impact of the bad weather towards the end of 2010.

New-business profitability in the Long-Term Business Fund was £7.2m compared with £8.5m in 2010. The present value of new-business premiums for 2011 was in line with 2010 despite a reduction in the number of its financial advisers. Maintenance expenses were broadly unchanged at £24m in 2011.

CABB and Optimum

The CABB and Optimum operating result reduced from £25.7m to £21.6m following a rise in impairment losses in the difficult economic environment. Specialist expertise and support continues to be provided to those businesses that enter financial difficulties.

Net interest income increased 24.8% to £80.4m following excellent progress in growing liability balances from £4.2bn in June 2010 to £6.7bn in June 2011. This was supplemented by continued measured growth in Corporate Banking and Platform asset books through selected and high quality new business.

Having expanded its regional corporate banking centres from 10 to 20 since 2007 to support business growth, two further new centres are planned during 2011.

Platform has focused on quality mortgage lending, including buy to let, advancing £250m in the first half of the year with strong margins being achieved.

The Optimum portfolio has performed well and shows a gradual reduction in book size. Improvements in arrears management have continued, with arrears greater than 2.5% of the loan balance falling by more than a fifth. The fair valuation of the portfolio at merger continues to provide a high degree of cover against potential losses.

Included within other divisions of CFS is the Treasury function, which has been responsible for maintaining both a strong and stable liquidity base together with access to diverse sources of funding for the Bank.

Treasury delivered a strong financial performance on the investment portfolio and funded competitively in the wholesale markets. It completed a Lower Tier 2 exchange in April that saw the majority of an existing tranche of subordinated debt exchanged into new issuance worth £132m, and a further £143m of additional funds generated. This was followed in July 2011 by the second prime mortgage securitisation since the merger, worth approximately £730m, further evidence of the confidence in the business from the financial markets.

Post balance sheet events

In July, CFS announced the outcome of its Life & Savings strategic review. This concluded that customers and members would be best served by extending its partnership with AXA to provide in-branch financial advice that existed across the 245 branches of Britannia to its 90 Co-operative Bank branches. As a result, it proposes to withdraw the field-based advice channel. The business has also entered exclusive talks with Royal London about the sale of its life insurance and asset management subsidiaries.

In July, Neville Richardson stepped down as Chief Executive of CFS and Chief Financial Officer Barry Tootell took over as Acting Chief Executive. As a result, James Mack was appointed Acting Chief Financial Officer. James was previously financial controller within CFS.

Looking forward

Despite the economic challenges following the financial crisis, CFS continues to grow, winning both new retail and business customers who are attracted to its trusted brand and strong reputation for customer service.

Market conditions remain challenging with the UK economy continuing to recover slowly. CFS will maintain its support for customers as they feel the effects of economic uncertainty, relatively high inflation and cuts in public spending.

The mortgage and property markets remain subdued with many customers choosing not to remortgage when their initial offer expires. The prolonged period of low interest rates is increasingly unlikely to end this year, and likely to only rise slowly in 2012.

There remains potential for further fallout from the eurozone sovereign debt crisis. The Co-operative Bank's strong liquidity position should ensure it remains well placed to weather any continued disruption. Whilst the Bank has minimal direct exposure to the euro peripheral areas, it continues to monitor events closely.

The Bank's strong liquidity position leaves it well placed to weather the continued disruption in the European debt markets, and any future impact from the review by Moody's of systemic support within the UK banking sector.

The benefits of the integration and transformation programme following the Britannia merger are being seen through increased sales, enhanced customer service and reduced costs. Customers are now able to carry out full servicing of their bank accounts via Britannia branches, giving customers 245 more outlets to conduct their banking.

The phased roll out of the full banking solution across the whole of the merged organisation from 2012 will further improve the customer experience and allow CFS to develop its offering and meet the changing needs of customers via increased online and mobile technology. This will give CFS the scale and enhanced capability to further grow organically, exploit new markets, and support potential expansion through acquisition.

In addition, the opportunities arising from closer working with the family of businesses throughout the Co-operative Group will enable further synergies and create new opportunities for organic growth.

The strong performance so far in 2011 leaves CFS on track to achieve its vision of becoming the UK's most admired financial services business.

CFS consolidated income statement
For the period ended 30 June 2011

£m	Total shareholder return before significant items	Significant items	Total shareholder (1)	Long term business (2)	Reclaim Fund Limited (3)
2011					
Interest and investment income	718.7	-	718.7	326.1	
Interest paid	(365.5)	-	(365.5)	-	(0.1)
Amounts received in respect of dormant accounts	-	-	-	-	279.8
Gross earned insurance premiums	304.7	-	304.7	229.5	-
Premiums ceded to reinsurers	(15.6)	-	(15.6)	(9.1)	-
Commissions and fees receivable	139.3	(90.0)	49.3	25.5	-
Gains less losses from traded investments	12.8	-	12.8	(101.3)	-
Commission and fees payable	(39.2)	-	(39.2)	(15.9)	-
Other	30.6	-	30.6	-	-
Net revenue	785.8	(90.0)	695.8	454.8	279.7
Net claims incurred	(255.5)	-	(255.5)	(487.2)	-
Technical charges	-	-	-	55.7	-
Impairment losses on investments	(1.3)	-	(1.3)	-	-
Impairment losses on loans and advances	(44.8)	-	(44.8)	-	-
Net revenue after claims and impairment	484.2	(90.0)	394.2	23.3	279.7
Change in unallocated divisible surplus	-	-	-	70.8	-
Dormant accounts reclaim provision	-	-	-	-	(111.9)
Provision for distribution to the Big Lottery Fund	-	-	-	-	(113.4)
Tax attributable to policyholders	-	-	-	10.9	-
Operating expenses	(352.9)	(34.7)	(387.6)	(105.0)	(4.4)
Operating result	131.3	(124.7)	6.6	-	50.0
Fair value amortisation	16.7	-	16.7	-	-
Short term investment fluctuations	3.1	-	3.1	-	-
Share of post-tax profits from joint ventures	0.3	-	0.3	-	-
Financial services compensation scheme levies	(7.6)	-	(7.6)	-	-
Profit before taxation and distributions	143.8	(124.7)	19.1	-	50.0
Membership dividend	(13.3)	-	(13.3)	-	-
Profit before taxation	130.5	(124.7)	5.8	-	50.0
Taxation	(34.7)	33.0	(1.7)	-	-
Minority interests	(1.5)	-	(1.5)	-	-
Net profit for the period	94.3	(91.7)	2.6	-	50.0

(1) Total shareholder excludes Reclaim Fund Limited as ultimately all funds are distributable to the Big Lottery Fund.

(2) Long term business operating expenses include £7.2m of significant items relating to non-recurring restructuring costs and financial services compensation scheme levies of £3.3m.

(3) Reclaim Fund Limited operating expenses include £4.1m of one-off start up costs.

CFS consolidated income statement
For the period ended 30 June 2010

£m	Total shareholder return before significant items	Significant items	Total shareholder (1) (3)	Long term business (2)
2010				
Interest and investment income	694.3	-	694.3	324.0
Interest paid	(338.0)	-	(338.0)	-
Gross earned insurance premiums	229.4	-	229.4	256.7
Premiums ceded to reinsurers	(13.4)	-	(13.4)	(8.2)
Commissions and fees receivable	133.4	-	133.4	22.4
Gains less losses from traded investments	3.6	-	3.6	98.6
Commission and fees payable	(38.1)	-	(38.1)	(16.5)
Other	2.3	-	2.3	(4.0)
Net revenue	673.5	-	673.5	673.0
Net claims incurred	(162.3)	-	(162.3)	(473.5)
Technical charges	-	-	-	(161.9)
Impairment losses on investments	-	-	-	-
Impairment losses on loans and advances	(43.0)	-	(43.0)	-
Net revenue after claims and impairment	468.2	-	468.2	37.6
Change in unallocated divisible surplus	-	-	-	56.2
Tax attributable to policyholders	-	-	-	(8.6)
Operating expenses	(358.9)	(22.1)	(381.0)	(85.2)
Operating result	109.3	(22.1)	87.2	-
Fair value amortisation	(22.6)	-	(22.6)	-
Short term investment fluctuations	(8.4)	-	(8.4)	-
Share of post-tax profits from joint ventures	0.4	-	0.4	-
Financial services compensation scheme levies	(3.3)	-	(3.3)	-
Profit before taxation and distributions	75.4	(22.1)	53.3	-
Membership dividend	(8.7)	-	(8.7)	-
Profit before taxation	66.7	(22.1)	44.6	-
Taxation	(22.6)	6.2	(16.4)	-
Minority interests	-	-	-	-
Net profit for the period	44.1	(15.9)	28.2	-

(1) No comparative data is published for Reclaim Fund Limited as trading commenced during 2011.

(2) Long term business operating expenses include £1.6m of significant items relating to non-recurring restructuring costs and financial services compensation scheme levies of £0.2m.

(3) The interest income and interest paid reporting lines for the 2010 half year comparatives have been re-presented in line with presentation changes made within the 2010 year end CFS financial statements.

DETAILED RESULTS ANALYSIS FOR THE CO-OPERATIVE BANK PLC

To fulfil reporting requirements specific, details on the performance of The Co-operative Bank are detailed below:

Member owned, customer led and ethically guided - The Co-operative Bank is increasingly seen as the compelling co-operative alternative to the plc banks, as a key part of The Co-operative Financial Services.

The Co-operative Bank operating result and profit before taxation

	2011 £m	2010 £m	Change £m	Change %
Income	434.6	403.2	31.4	7.8
Operating costs – steady state	(268.6)	(265.6)	(3.0)	(1.1)
Operating costs – strategic initiatives	(11.3)	(15.2)	3.9	25.7
Impairment losses	(46.1)	(43.0)	(3.1)	(7.2)
Operating result	108.6	79.4	29.2	36.8
Significant items	(27.7)	(18.3)	(9.4)	(51.4)
Payment Protection Insurance (PPI) provision	(90.0)	-	(90.0)	-
Share of post tax profits from joint ventures	0.3	0.4	(0.1)	(25.0)
Financial services compensation scheme (FSCS) levies	(5.9)	(3.3)	(2.6)	(78.8)
(Loss)/profit before tax, distributions and fair value amortisation	(14.7)	58.2	(72.9)	(125.3)
Fair value amortisation	16.7	(22.6)	39.3	173.9
Profit before tax and distributions	2.0	35.6	(33.6)	(94.4)
Membership dividend	(11.8)	(6.7)	(5.1)	(76.1)
Profit before taxation	(9.8)	28.9	(38.7)	(133.9)

The operating result of £108.6m was 36.8% higher than 2010, a robust performance given the challenging economic conditions and low interest rate environment, representing the notable strength of the underlying business.

Profit before taxation and distributions included a provision for Payment Protection Insurance (PPI) mis-selling of £90.0m. Although this is an industry wide issue, as a member owned organisation, we are committed to doing the right thing for our customers, especially when we get things wrong. We will deal with their complaints in a fair, personal, easy and responsible manner. Excluding PPI, profit before taxation, distributions and fair value amortisation was significantly higher than 2010, by 29.4%

Income was 7.8% higher in the first half of 2011, compared to 2010, reflecting income growth across most areas of the business and benefiting from notable profits on sale of investment securities as part of prudent liquidity management.

Although steady state costs remained broadly in line with the first half of 2010, this was despite the impact of strong inflationary pressures on the cost base (from the VAT increase, increased pension contributions and other inflationary pressures). Excluding this inflationary impact, like for like costs have fallen by 3%, reflecting the continued policy of tight cost control, close headcount management, ongoing procurement initiatives, and the impact of synergy savings and management actions.

Impairment charges, £3m higher than 2010, have been substantially contained. Late mortgage arrears (>2.5% of balance) fell from 1.67% at the end of December 2010 to 1.41% at the end of June 2011.

In the first half of 2011 a profit distribution of £11.8m has been made to individual members of The Co-operative Group based on their account holdings with the Bank.

The capital and liquidity profile of the business continues to be robust. Despite the fierce competition for customer funds, the Bank has maintained an enviable customer funding ratio, at 113% (December 2010: 107%), demonstrating high levels of customer confidence and trust. This strong liquidity position leaves the business well placed to weather the continued disruption in the European debt markets, and any future impact from the review by Moody's Rating Agency of systemic support within the UK banking sector. Total customer deposits have grown significantly from the end of 2010, while gross total advances of £1.4bn were extended to our customers during the first half of 2011. The capital position has remained secure, with a stable core tier 1 ratio of 9.6% and total capital ratio of 14.8%. We remain in a position of strength to meet the increasing regulatory challenges faced by the industry.

The Co-operative Bank plc
Consolidated statutory income statement for the period ended 30 June 2011

£m	Period ended 30 June 2011			Period ended 30 June 2010		
	Before significant items	Significant items	After significant items	Before significant items	Significant items	After significant items
Interest receivable and similar income	803.5	-	803.5	857.2	-	857.2
Interest expense and similar charges	(473.9)	-	(473.9)	(570.9)	-	(570.9)
Net interest income	329.6	-	329.6	286.3	-	286.3
Fee and commission income	123.5	(90.0)	33.5	121.7	-	121.7
Fee and commission expense	(25.1)	-	(25.1)	(28.6)	-	(28.6)
Net fee and commission income	98.4	(90.0)	8.4	93.1	-	93.1
Net trading (expense)/income	(3.0)	-	(3.0)	2.1	-	2.1
Other operating income	28.6	-	28.6	6.2	-	6.2
Operating income	453.6	(90.0)	363.6	387.7		387.7
Operating expenses	(282.2)	(27.7)	(309.9)	(287.9)	(18.3)	(306.2)
Financial services compensation scheme levies	(5.9)	-	(5.9)	(3.3)	-	(3.3)
Impairment losses on loans and advances	(44.8)	-	(44.8)	(43.0)	-	(43.0)
Impairment losses on investments	(1.3)	-	(1.3)	-	-	-
Operating profit	119.4	(117.7)	1.7	53.5	(18.3)	35.2
Share of post tax profits from joint ventures	0.3	-	0.3	0.4	-	0.4
Profit before taxation and profit-based payments	119.7	(117.7)	2.0	53.9	(18.3)	35.6
Profit-based payments to members of The Co-operative Group	(11.8)	-	(11.8)	(6.7)	-	(6.7)
(Loss)/profit before taxation	107.9	(117.7)	(9.8)	47.2	(18.3)	28.9
Income tax	(31.0)	31.2	0.2	(17.1)	5.0	(12.1)
(Loss)/profit for the period	76.9	(86.5)	(9.6)	30.1	(13.3)	16.8
Attributable to:						
Equity shareholders	75.4	(86.5)	(11.1)	30.1	(13.3)	16.8
Minority interests	1.5	-	1.5	-	-	-
	76.9	(86.5)	(9.6)	30.1	(13.3)	16.8
Earnings per share	0.92p	(1.06)p	(0.14)p	0.66p	(0.29)p	0.37p

The significant items in 2011 relate to

- a £27.7m (2010: £18.3m) programme of investment and integration and £90.0m (2010: £nil) provisions made for customer redress.

The Co-operative Bank plc
Consolidated statement of comprehensive income
For the period ended 30 June 2011

£m	30 June 2011	30 June 2010
(Loss)/profit for the period – equity shareholders	(11.1)	16.8
Profit for the period – minority interests	1.5	-
(Loss)/profit for the period	(9.6)	16.8
Other comprehensive income:		
Changes in cashflow hedges		
Net changes in fair value recognised directly in equity	15.6	35.6
Income tax	(3.6)	(9.9)
Net losses transferred from equity to income or expense	0.1	-
Changes in available for sale assets		
Net changes in fair value recognised directly in equity	7.3	(19.8)
Income tax	(2.5)	5.5
Net gains transferred from equity to income or expense	(1.6)	-
Income tax	0.4	-
Other comprehensive income for the period, net of income tax	15.7	11.4
Total comprehensive income for the period	6.1	28.2
Attributable to:		
Equity shareholders	4.8	28.2
Minority interests	1.3	-
Total comprehensive income for the period	6.1	28.2

The Co-operative Bank plc
Consolidated balance sheet
At 30 June 2011

£m	30 June 2011	31 December 2010
Assets		
Cash and balances at central banks	3,489.9	1,735.6
Loans and advances to banks	2,296.2	2,394.1
Loans and advances to customers	34,359.1	34,977.3
Fair value adjustments for hedged risk	169.5	166.8
Investment securities – loans and receivables	918.9	1,917.3
Investment securities – available for sale	3,827.8	2,985.8
Derivative financial instruments	837.1	931.9
Equity shares	7.2	7.2
Investments in joint ventures	2.8	2.5
Goodwill	0.6	0.6
Intangible fixed assets	43.3	45.1
Investment properties	170.8	162.3
Property, plant and equipment	88.9	98.5
Amounts owed by other Co-operative Group undertakings	78.0	0.6
Other assets	46.5	52.5
Prepayments and accrued income	26.5	16.2
Deferred tax assets	68.1	87.0
Total assets	46,431.2	45,581.3
Liabilities		
Deposits by banks	2,711.4	2,938.6
Customer accounts	34,175.5	32,320.0
Customer accounts – capital bonds	1,573.3	1,794.7
Debt securities in issue	3,385.3	4,212.2
Derivative financial instruments	601.9	702.4
Other borrowed funds	1,177.6	975.4
Amounts owed to other Co-operative Group undertakings	255.9	188.5
Other liabilities	121.8	146.8
Accruals and deferred income	109.5	131.3
Provisions for liabilities and charges	141.3	55.8
Current tax liabilities	11.5	42.5
Total liabilities	44,265.0	43,508.2
Capital and reserves attributable to the Bank's equity holders		
Ordinary share capital	410.0	410.0
Share premium account	8.8	8.8
Retained earnings	1,674.8	1,598.9
Available for sale reserve	(9.4)	(13.1)
Cashflow hedging reserve	49.1	36.9
	2,133.3	2,041.5
Minority interests	32.9	31.6
Total equity	2,166.2	2,073.1
Total liabilities and equity	46,431.2	45,581.3

The Co-operative Bank plc
Consolidated statement of cash flows for the period ended 30 June 2011

£m	Period to 30 June 2011	Period to 30 June 2010
Cash flows from operating activities		
(Loss)/profit before taxation	(9.8)	28.9
Adjustments for:		
(Increase)/decrease in prepayments and accrued income	(50.4)	7.1
Decrease in accruals and deferred income	(128.1)	(99.5)
Interest payable in respect of subordinated liabilities	13.1	22.3
Effect of exchange rate movements	(58.1)	46.0
Effect of non-cash pension costs	-	0.1
Impairment losses on loans and advances	47.5	43.0
Movement on investment impairments	1.3	-
Depreciation and amortisation	11.8	13.1
Interest amortisation	(7.6)	-
Amortisation of investments	19.7	(36.5)
(Profit)/loss on disposal of fixed assets	(0.5)	0.6
Unwind of fair value adjustments arising on transfer of engagements	(16.7)	22.6
Preference dividend	2.8	2.8
	(175.0)	50.5
Decrease in deposits by banks	(227.2)	(2,942.7)
Increase in customer accounts	1,634.7	1,381.3
(Decrease)/increase in debt securities in issue	(890.0)	836.1
Decrease in loans and advances to banks	909.3	185.0
Decrease/(increase) in loans and advances to customers	654.5	(44.4)
(Increase)/decrease in amounts owed by other Co-operative Group undertakings	(77.4)	72.4
Increase in amounts owed to other Co-operative Group undertakings	67.4	1.7
Net movement of other assets and other liabilities	78.9	129.1
Income tax paid	(16.0)	(33.9)
Net cash flows from operating activities	1,959.2	(364.9)
Cash flows from investing activities		
Purchase of property, plant, equipment and software	(11.2)	(16.2)
Proceeds from sale of property, plant and equipment	-	2.1
Proceeds from sale of investment property	0.5	-
Purchase of investment securities	(2,240.1)	(750.1)
Proceeds from sale and maturity of investment securities	2,696.8	2,043.8
Net cash flows from investing activities	446.0	1,279.6
Cash flows from financing activities		
Interest paid on subordinated loanstock	(21.5)	(20.8)
Repayment of subordinated loanstock	(82.2)	-
Issuance of subordinated loanstock	275.0	-
Preference share dividends paid	(2.8)	(2.8)
Capital contribution from parent	87.0	-
Dividends paid to minority shareholders in subsidiary undertaking	-	(0.8)
Net cash flows from financing activities	255.5	(24.4)
Increase in cash and cash equivalents	2,660.7	890.3
Cash and cash equivalents at beginning of the financial period	3,403.2	2,387.3
Cash and cash equivalents at end of the financial period	6,063.9	3,277.6
Cash and balances with central banks	3,453.7	1,556.1
Loans and advances to banks	2,290.2	1,186.4
Short term investments	320.0	535.1
	6,063.9	3,277.6

The Co-operative Bank plc
Consolidated statement of changes in equity
For the period ended 30 June 2011

Attributable to equity holders of the company

Period from 1 January 2011 to 30 June 2011	Share capital	Share premium	Available for sale reserve	Cashflow hedging reserve	Retained earnings	Total	Minority interest	Total equity
£m								
At the beginning of the period	410.0	8.8	(13.1)	36.9	1,598.9	2,041.5	31.6	2,073.1
Total comprehensive income for the period	-	-	3.7	12.2	(11.1)	4.8	1.3	6.1
Capital contribution	-	-	-	-	87.0	87.0	-	87.0
Total equity	410.0	8.8	(9.4)	49.1	1,674.8	2,133.3	32.9	2,166.2
Period from 1 July 2010 to 31 December 2010								
Balance at the beginning of the period	230.0	8.8	(11.8)	64.1	1,579.6	1,870.7	32.8	1,903.5
Total comprehensive income for the period	-	-	(1.3)	(27.2)	19.3	(9.2)	(1.2)	(10.4)
Transactions with owners recorded directly in equity:								
Increase in share capital	180.0	-	-	-	-	180.0	-	180.0
Total equity	410.0	8.8	(13.1)	36.9	1,598.9	2,041.5	31.6	2,073.1
Period from 1 January 2010 to 30 June 2010								
Balance at the beginning of the period	230.0	8.8	2.5	38.4	1,562.8	1,842.5	33.6	1,876.1
Total comprehensive income for the period	-	-	(14.3)	25.7	16.8	28.2	-	28.2
Transactions with owners recorded directly in equity:								
Dividend	-	-	-	-	-	-	(0.8)	(0.8)
Total equity	230.0	8.8	(11.8)	64.1	1,579.6	1,870.7	32.8	1,903.5

On 24 June 2011, the Bank's parent company, Co-operative Financial Services Limited, made a capital contribution of £87.0m.

BASIS OF PREPARATION

EU law (IAS Regulation EC1606/2002) requires that the annual consolidated financial statements for the year ended 31 December 2011 are prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee guidance as issued by the European Union.

The information in the interim financial report 2011 is unaudited and does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The comparative figures for the financial year ended 31 December 2010 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The interim financial report 2011 was approved by the Board of Directors on 24 August 2011.

The condensed consolidated interim financial report for the half year ended 30 June 2011 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. The interim financial report should be read in conjunction with the 2010 financial statements, which have been prepared in accordance with IFRS as adopted by the European Union.

ACCOUNTING POLICIES

The accounting policies, methods of computation and presentation adopted by the Bank in the preparation of its interim financial report 2011 are those which the Bank currently expects to adopt in its 2011 financial statements and are consistent with those disclosed in the 2010 financial statements.

GOING CONCERN

In common with many financial institutions, the Bank meets its day to day liquidity requirements through managing both its retail and wholesale funding sources, and is required to maintain a sufficient buffer over regulatory capital requirements in order to continue to be authorised to carry on its business. The Bank's forecasts and objectives, taking into account a number of potential changes in trading performance and funding retention, show that the Bank should be able to operate at adequate levels of both liquidity and capital, for the foreseeable future. The Bank has also considered a number of stress tests on capital and liquidity and these provide assurance that the Bank is sufficiently capitalised and is comfortably in excess of liquidity stress tests

Consequently, after making enquiries, the directors are satisfied that the Bank has sufficient resources to continue in business for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the interim financial report. This is in accordance with the Financial Reporting Council's 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' report.

USE OF ESTIMATES AND JUDGMENTS

The preparation of financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Payment protection insurance (PPI) provision

The Bank has recognised a provision of £90.0m in respect of PPI policies as a result of discussions with the FSA and a judgment handed down by the UK High Court. The provision represents management's best estimate of the anticipated costs of related customer contact and redress, including administration expenses. However, there are still a number of uncertainties as to the eventual costs from any such contact and redress given the inherent difficulties of assessing the impact of detailed implementation of the FSA policy, uncertainties around the ultimate emergence period for complaints and the activities of claims management companies, all of which will significantly affect complaints volumes, uphold rates and redress costs.

The provision requires significant judgment by management in determining appropriate assumptions, which include the level of complaints, uphold rates, proactive contact and response rates, Financial Ombudsman Service referral and uphold rates as well as redress costs used to determine the best estimate of the anticipated costs of redress.

Investment securities

The 2010 financial statements outlined critical estimates and judgements, related fair value adjustments and associated unwinds.

As part of its review of future cash flows in relation to all financial instruments the Bank has considered those relating to a pool of low value treasury assets within the investment security book with a nominal value of £64.2m. Following the increase in indicative prices and expected future cash flows on these instruments the recoverable amount on these assets has been reassessed with an associated increase in profit of £10.0m. If the estimate of future recoverable amounts was 1% higher/lower the impact would be to increase/decrease profit by £0.2m.