The Co-operative Bank plc announces that the following document has today been submitted to the National Storage Mechanism and will shortly be available for inspection at www.hemscott.com/nsm.do:

• Interim Financial Report 2015.

A copy of the Interim Financial Report 2015 and an investor presentation are available within the Investor Relations section of our website www.co-operativebank.co.uk/investorrelations

This announcement also contains information for the purposes of compliance with the Disclosure and Transparency Rules, including a consolidated set of financial statements, principal risks and uncertainties, details of related party transactions and a responsibility statement. This information is extracted, in full unedited text, from the Interim Financial Report 2015. Reference to pages and numbers refer to page numbers and notes to the Interim Financial Report 2015 and all 2014 comparatives are as restated in those accounts.

The Co-operative Bank plc

20 August 2015

2015 Interim Results for the Six Months Ended June 30 2015

Summary:

• Capital resilience of the Bank strengthened – Common Equity Tier 1 (CET1) ratio of 14.9% at June 30 2015 (13.0% at December 31 2014) reflecting a reduction in RWAs of £2.5bn and a statutory loss before tax of £204.2m which is better than management targets.
• Deleveraging of Non-core progressed with total assets reducing to £8.0bn from £10.8bn at the end of 2014 resulting in a reduction of £1.9bn of Risk Weighted Assets (RWAs).
• A significant deleveraging event for Non-core was the successful completion of the securitisation of £1.5bn of Non-core residential mortgage assets within the Optimum portfolio which closed in May 2015.
• The Bank's total capital position was improved by the issue of £250m of Tier 2 subordinated debt in July 2015 – this increased the Bank's 30 June 2015 total capital ratio on a pro forma basis to 19.5% from 17.1%.
• Net interest margin increased by 12bps in H1 2015 to 1.32% (1.20% in H1 2014). This improvement is due to a combination of deposit repricing, reduction in overall deposit levels and mix change.
• Total operating costs down to £259.6m for H1 2015 (£297.0 m in H1 2014), reflecting the progress made in the cost reduction programme.
• Increase in project costs to £101.9m (£68.8m in H1 2014) as the Bank delivers the transformation required to address the historic underinvestment in systems and processes.
• Performance of the Core Bank stabilised in H1 2015 – the number of primary current accounts remained broadly stable and the mortgage pipeline is further recovering to required levels.
• Reinvestment in the brand continued in H1 2015 with a new advertising campaign based around ethical credentials and supporting the Bank's distinct current account switching offer.
• No new significant categories of conduct issues in the period, however, the Bank adjusted existing provision for total conduct and legal related charges by £49.0m up from £38.6m in H1 2014 including increases to provisions for packaged accounts, mortgages and CCA.
• On 11 August 2015, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) published the outcome of their enforcement investigations into the decisions, events and processes at The Co-operative Bank over the period from 22 July 2009 to 31 December 2013. Please refer to the separate RNS announcement of that day for further details.
• Focus for management for the remainder of 2015 continues to be the turnaround of the Bank, making it more resilient with a view to building a profitable bank focussed on retail and SME customers over the longer term.

Niall Booker, Chief Executive Officer, said:

"Over the first half of 2015 we have continued to make real progress delivering our turnaround plan focusing on reducing our risk weighted assets to increase our ability to withstand economic stress, on making our IT platform more robust and reshaping the Bank around our individual and small business customers. Our work to improve resilience and reduce costs is on course. In addition, although the Core bank remains work in progress, its performance is also beginning to improve as we increase efficiency, continue to re-invest in the brand and work with customers to offer competitive products that meet their needs. Of course, we have always said that addressing legacy issues will continue to dominate financial performance for some time and there is considerable work ahead towards a full recovery.

Moving forward, we need to stay focused on meeting threshold conditions and continuing to make the Bank more resilient. We must also focus on keeping our products simple; continuing to reinforce risk management and systems; strengthening our culture and maintaining our high levels of service. The transformation of the Bank remains challenging, however, this should not diminish the progress made against our strategic plan. The actions we are taking are creating a resilient bank that can stand alone, distinguished in the marketplace by its values and ethics. This is fundamental to driving value over time for all our stakeholders – customers, colleagues, shareholders and the communities we serve."

Investor enquiries:

Jonathan Berger, Head of Investor Relations: +44 (0) 7595 567 502

Media enquiries:

Tony Langham: +44 (0) 7979 692 287

David Masters: +44 (0) 7825 427 514

About The Co-operative Bank

The Co-operative Bank plc provides a full range of banking products and services to almost 5 million retail and SME (Small and Medium Sized Enterprises) customers. The Bank is committed to values and ethics in line with the principles of the co-operative movement. The Co-operative Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The Co-operative Bank plc customers are protected by the Financial Services Compensation Scheme (FSCS) in the UK.

Forward looking statements

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 this announcement. 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.

Key highlights and outlook

Over the first half of 2015 the management team continued to take significant steps in implementing the Bank's strategy towards turning the Bank around

• Successfully executed two transactions which improved the capital resilience of the Bank. An inaugural £1.5 billion whole structure securitisation of part of the Optimum residential mortgage portfolio closed on 6 May 2015 and Tier 2 notes offering succesfully priced on 24 June 2015 and closed on 1 July 2015.
• Capital position of the Bank strengthened – Common Equity Tier 1 (CET1) ratio of 14.9% at June 30 2015 (13.0% at December 31 2014) as the reduction in RWAs outweighed losses during the period. Moreover, the Bank's 30 June 2015 total capital ratio stood at 17.1% (19.5% pro forma for the Tier 2 notes offering).
• Deleverage on track against the revised plan accepted by the PRA in December 2014.
• Progress has been made in delivering the IT transformation required to address the historic under investment in systems and processes.
• Progress continues in improving day to day management, in embedding cultural change across the organisation and in improving governance.
• Continued brand investment, following the launch of the expanded Ethical Policy announced in January 2015, is building greater customer engagement, stability and restoring trust in the brand.

Statutory losses before taxation of £204.2m as the issues that came to light during 2013 continue to dominate the financial performance of the business

• Compares to a loss of £77.0m in H1 2014 driven primarily by: reduced income in the Non-core Bank as a result of deleverage; losses on asset sales of £38.2m; an increase in project costs to £101.9m as the Bank takes steps to deliver the transformation required and address the historic underinvestment in systems and processes; and reduced impairment gains in Non-core.
• Conduct and legal risk charges increased by £49.0m, including increases to existing provisions for packaged accounts, mortgages and CCA.
• As a result of active management the net interest margin has increased period on period by 0.12% to 1.32% largely driven by the reduced cost of funding.

Simplifying of the business and reducing underlying costs continues

• Total operating costs reduced by £37.4m to £259.6m (H1 2014: £297.0m) mainly due to ATM savings as a result of a reduced ATM estate and savings arising from branch rationalisation, supplier contract management, fraud detection and recovery processes.
• Operating staff costs have decreased year on year by £9.1m to £118.7m (H1 2014: £127.8m). The operating staff numbers (full time equivalents, including contractors but excluding all project staff) have fallen by 191 to 5,850 (H1 2014: 6,041) and direct pay has fallen by £8.0m. This has been partially offset by increases in pension and other costs.
• Further branch closures conducted in 2015 have resulted in branch estate which has halved since 2013.

Performance of the Core Bank further stabilised in the first half of the year

• The reactivation of new business origination activities in 2014 has helped drive an increase in mortgage completions to £1,084.0m in H1 2015 (H2 2014: £921.0m), with completions through the Bank's intermediary channel accounting for 88% of total retail mortgage completions as the Bank's offering becomes more competitive in this segment.
• Alongside this increase in inflows, mortgage redemptions (excluding contractual repayments) have fallen £177.2m to £1,047.2m since H2 2014, partly reflective of targeted retention initiatives.
• Rebalancing of savings portfolio and bringing pricing of deposits in line with the market, has enabled the Bank to develop a more sustainable cost of funding. Retail customer liabilities reduced by £2,832.8m to £22,729.5m as a result.
• Overall current account numbers have remained more stable in the first half of 2015, with a net outflow of 2,250 (H1 2014: 62,646) as work continues to re-establish the Bank's position in a very competitive market, and the proportion of prime accounts has also remained steady at 45.5% (H1 2014: 45.5%).

New initiatives launched and customer propositions being developed building on expanded Ethical Policy

• Expanded customer-led Ethical Policy launched in January 2015.
• New overdraft proposition minimising fees and charges developed based on customers' feedback - the first step to improving the Bank's current account proposition.
• Competitive mortgage rates for range of homebuyers including fee free proposition and, what was, the UK's lowest ever headline 2 year fixed rate of 1.09%.
• Investment in branch formats in 2015.

Focus for 2015 continues to be on derisking the Bank and on making it more resilient

• Continued reduction of RWAs primarily through further reducing the Optimum portfolio through securitisation, subject to market conditions.

• Planned issuance of £150m of non-Tier 1 capital, subject to market conditions, to fulfil plan accepted by the PRA in December 2014 and build resilience in advance of potential further capital requirements.
• Project portfolio being managed to budget with ongoing prioritisation of project portfolio.
• Continued investment in the brand and development of products and services which reflect the expanded Ethical Policy.
• Further improvement in margins, processes, cost control and asset generation in the retail business.
• Continue to embed Risk Management Framework and strengthen the culture of the organisation.
• Recommence work on SME business.

Detailed Financial Review

Deleveraging of the Non-core Optimum Business

The Bank's plan requires a reduction in Non-core assets, which are particularly vulnerable to the Bank of England's hypothetical severe stress. The reduction in the size of the Optimum portfolio will significantly improve the Bank's resilience to a severe economic downturn.

On 6 May 2015 the Bank successfully closed its inaugural whole structure securitisation of part of its Non-core Optimum residential mortgages portfolio through the issuance of notes and residual certificates by Warwick Finance Residential Mortgages Number One plc ("Warwick Finance 1").

Warwick Finance 1 comprises a portfolio of £1.5bn residential mortgages, issuing rated Residential Mortgage Backed Securities (RMBS) and residual certificates to investors. In addition the Bank retained 65% of the Class A Notes on settlement. The Class A Note retention is the only position retained by the Bank within the Warwick Finance 1 capital structure.

The successful completion of the transaction formed a key component of the Bank's plan to accelerate the de-leveraging of its Non-core assets, in which Optimum is included.

Overall impact of the Warwick Finance 1 transaction

The table below shows the effect of the Warwick Finance 1 transaction on Optimum's balance sheet:

	31 December 2014[1]	Contractual repayments	Redemptions	Possession sales	Allowance for losses[2]	Fair value amortisation	Other	Pre-Warwick 30 June 2015	Impact of Warwick Finance 1 Transaction	Accounting reclassification required post Warwick Finance 1 Transaction	30 June 2015[3]
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Optimum Balance Sheet											
Gross customer balances	**6,450.1**	(35.7)	(191.9)	(9.4)	-	-	(0.1)	**6,213.0**	(1,493.7)	-	**4,719.3**
Allowance for losses	**(21.9)**	-	-	-	14.2	-	0.4	**(7.3)**	18.2	(20.4)	**(9.5)**
Fair value adjustments	**(76.3)**	-	-	-	-	1.5	0.1	**(74.7)**	4.6	20.4	**(49.7)**
Other accounting adjustments	**4.3**	-	-	-	-	-	15.7	**20.0**	-	-	**20.0**
Net carrying value	**6,356.2**	**(35.7)**	**(191.9)**	**(9.4)**	**14.2**	**1.5**	**16.1**	**6,151.0**	**(1,470.9)**	**-**	**4,680.1**

1,3 Refer to Risk Management section for further information on loans and advances to customers
2 £14.2m decrease to allowance for losses, including parameter refresh and improvement in underlying asset quality

The net cash proceeds were £1,483.8m (after £36.9m build out of the general reserve in Warwick Finance 1), giving rise to a £9.9m loss on disposal of £1,493.7m gross loans and advances before the associated release of credit risk provisions, fair value reserves and transaction costs. Incorporating these elements, the overall impact on the Bank's impact on the income statement was £5.9m.

In addition, the Bank continues to hold £0.7bn of RMBS assets following retention of 65% of the Class A Notes on settlement. These assets are classified as Available for Sale.

The table below shows the overall effect of the Warwick Finance 1 transaction on the Bank's income statement:

	Loss on disposal of assets	Release of allowance for losses	Release of conduct risk provision[1]	Release of merger fair value	Transaction costs	30 June 2015
	£m	£m	£m	£m	£m	£m
Net interest income	-	-	-	-	-	-

(Losses)/Gains on asset sales[2]	(9.9)	18.2	(4.2)	-	(7.0)	(2.9)
Non-interest income	-	-	-	-	-	-
Operating income	**(9.9)**	**18.2**	**(4.2)**	**-**	**(7.0)**	**(2.9)**
Operating expenditure	-	-	-	-	-	-
Projects	-	-	-	-	-	-
Impairment gains/(losses) on loans and advances[3]	-	-	-	(3.7)	-	(3.7)
Operating result	**(9.9)**	**18.2**	**(4.2)**	**(3.7)**	**(7.0)**	**(6.6)**
FSCS Levy	-	-	-	-	-	-
Share of post tax profits from joint ventures	-	-	-	-	-	-
Conduct/legal risk	-	-	4.2	-	-	4.2
Fair value amortisation	-	-	-	8.3	-	8.3
Profit/(loss) before taxation	(9.9)	18.2	-	4.6	(7.0)	5.9

[1] £4.2m Conduct Risk provision was transferred to Warwick Finance 1 as part of the transaction.
[2] £2.9m total loss on asset sale is reflected in Non-core gains/(losses) on asset sales.
[3] £3.7m impairment gain on loans and advances is reflected in Non-core impairment gains/(losses) on loans and advances.

Impact on Regulatory Capital

The table below shows the effect of the Warwick Finance 1 transaction on the Bank's credit risk weighted assets (RWAs):

	31 December 2014	**Disposal of Optimum assets**	**Warwick Finance 1 Class A Notes**	**Other Movements**	**30 June 2015**
	£m	**£m**	**£m**	**£m**	**£m**
Optimum credit RWAs	3,526.0	(856.2)	-	(41.0)	2,628.8
Warwick Finance 1 RMBS credit RWAs [1]	-	-	52.1	-	52.1
Total	**3,526.0**	**(856.2)**	**52.1**	**(41.0)**	**2,680.9**

[1] Warwick Finance Residential Mortgages Number One plc RMBS are held within the Bank's Treasury business unit

The Bank's credit RWAs have reduced by a net £804.1m as a result of the transaction.

At 30 June 2015, the Warwick Finance 1 transaction has contributed a benefit of 1.2% to the Bank's CET1 ratio, reflecting the £804.1m reduction in credit RWAs together with a £10.7m increase to Common Equity Tier 1 as a result of net gains on the disposal of assets (£5.9m) and a reduction in Expected Loss (EL) Gap (£4.8m).

Fair value of the Optimum portfolio

Within the Optimum portfolio, the majority of assets are measured at amortised cost in accordance with the Bank's accounting policies as outlined in note 1. The carrying value represents the gross customer balances less any allowance for losses and merger fair value adjustments. At 30 June 2015 the value was £4,680.1m (31 December 2014: £6,356.2m).

The fair values of the Optimum portfolio have been calculated using the future lifetime income approach. Under this approach, fair value is measured by determining discounted expected cashflows, derived using expected redemption profiles of the portfolio, and discounting these cashflows at current market rates for products with similar characteristics and risk profiles. The current market rate used is assumed to encompass the time value of money plus a risk premium to account for the inherent uncertainty in the timing and amount of future cashflows arising from a book of mortgage assets.

	30 June 2015		**31 December 2014**	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	£m	£m	£m	£m
Optimum				
Loans and advances to customers	**4,680.1**	**3,946.6**	6,356.2	5,113.1

The table above shows that the fair value of the Optimum portfolio is £733.5m lower than the carrying value as at 30 June 2015 reflecting the adopted approach to determining fair value as outlined above.

However, this fair value is not intended to represent the value which could be achieved as part of a structured disposal, as the valuation method is applied to the individual assets in the Optimum portfolio. The Bank sold the mortgage servicing rights to the residual note holders in the Warwick Finance 1 transaction. If the notes are called there may be the potential for the residual noteholders to extract further value from the portfolio through alternative mortgage servicing arrangements.

Furthermore, the nature of the Warwick Finance 1 transaction, being a whole structure securitisation, enabled the Bank to achieve favourable pricing through stratification of the portfolio which allowed the Bank to better position the risk profile of the underlying mortgage assets to the purchasers' risk appetite. Additionally, other market conditions which could impact pricing in any such transaction include the market appetite for similar securities along with the available supply.

In summary, the fair values reported under International Financial Reporting Standards (IFRS) may not represent the value achievable in a structured disposal. The value achieved may be impacted by the market conditions prevailing at that time and thus may not be achievable in any future transactions.

2015 Financial Performance

Total Bank financial performance

The financial results for the first half of 2015 reflect the good progress made in delivering against the primary areas of focus outlined in the strategic plan, including reduction of the Bank's operating costs, continued deleverage of Non-core assets and investment to transform the Bank's core operations.

The Bank has continued to successfully deleverage its balance sheet whilst delivering a 12bps improvement in its net interest margin compared to H1 2014. This improvement is largely driven by a reduction in the Bank's overall cost of funding arising on both Retail customer deposits and wholesale funding structures. In addition, the Bank has successfully reactivated lending activity and has seen a significant increase in completions in the intermediary mortgage lending channel.

H1 2015 saw the successful completion of two significant transactions; the Warwick Finance 1 transaction whereby the Bank securitised £1.5bn of Non-core residential mortgage assets within the Optimum portfolio, the largest publically marketed deal of this type in the UK market since 2007, together with the issuance of £250.0m of Tier 2 capital.

The Bank has also delivered cost savings relative to the prior year, reflecting the progress made against the cost reduction initiatives. These are focused on the improvement and simplification of Bank processes in addition to third party savings and branch rationalisation, whilst significant investment has also been made to transform the business into a simpler and more efficient retail bank.

However, the financial performance of the business continues to be impacted by legacy issues as the Bank progresses with the transformation required, and this is reflected in the Bank's statutory loss before taxation for H1 2015 of £204.2m.

The numbers referenced and presented on these pages are on a management accounts basis.

Bank performance

	June 2015	Restated June 2014	Change
	£m	£m	£m
Net interest income	**233.6**	249.2	(15.6)
(Losses)/Gains on asset sales	**(38.2)**	1.9	(40.1)
Non-interest income	**41.1**	56.2	(15.1)
Operating income	**236.5**	307.3	(70.8)
Operating expenditure	**(259.6)**	(297.0)	37.4
Projects	**(101.9)**	(68.8)	(33.1)
Impairment gains on loans and advances	**44.6**	86.7	(42.1)
Operating result	**(80.4)**	28.2	(108.6)
FSCS Levy	**(20.5)**	(25.3)	4.8
Share of post tax profits from joint ventures	**-**	(0.1)	0.1
Conduct/legal risk	**(49.0)**	(38.6)	(10.4)
Fair value amortisation	**(54.3)**	(41.2)	(13.1)
Loss before taxation	**(204.2)**	(77.0)	(127.2)

Net interest margin	**1.32%**	1.20%	0.12%
Cost income ratio[1]	**94.5%**	97.2%	2.7%

[1] Operating expenditure divided by operating income excluding (losses)/gains on asset sales

The Bank's loss before taxation of £204.2m is £127.2m higher than H1 2014. The primary drivers for the loss are:

• net losses on asset sales of £38.2m (H1 2014: £1.9m net gain) as a result of the deleverage of Non-core assets to improve the Bank's stressed capital resilience;
• an overall net impairment gain of £44.6m (H1 2014: £86.7m), arising as a result of the targeted workout approach;
• an increase in project costs of £33.1m, to £101.9m, as the Bank takes steps forward to deliver the transformation required and address the historic underinvestment in systems and processes;
• £49.0m of conduct and legal risk charges, including increases to existing provisions for packaged accounts, mortgages and CCA, as the Bank continues to progress the remediation of impacted customers;
• £41.1m of non-interest income, a reduction of £15.1m compared to prior year following disposal of part of the ATM estate and an industry-wide impact of changing interchange fee regulations; and
• operating expenditure of £259.6m (H1 2014: £297.0m). The reducing cost base reflects the progress made in the cost reduction programme, focused on the improvement and simplification of Bank processes in addition to third party savings and branch rationalisation.

Charges in respect of the Financial Services Compensation Scheme (FSCS) Levy have reduced on the comparative period to £20.5m (H1 2014: £25.3m). The unwind of the fair value adjustments associated with the merger of The Co-operative Bank and Britannia Building Society continues to impact the income statement with a charge of £54.3m (H1 2014: £41.2m).

Operating Expenditure

	June 2015 £m	June 2014 £m	Change £m
Core direct costs	**(90.5)**	(98.5)	8.0
Non-core direct costs	**(6.1)**	(14.2)	8.1
Total direct costs	**(96.6)**	(112.7)	16.1
Operations and Central Costs	**(163.0)**	(184.3)	21.3
Total operating costs	**(259.6)**	(297.0)	37.4
Of which: staff costs	**(118.7)**	(127.8)	9.1

Total operating costs reduced by £37.4m to £259.6m (H1 2014: £297.0m). The movement breaks down into the following categories:

• ATM savings as a result of a reduced ATM estate of £11.0m;
• Other cost reduction initiatives of £20.0m including savings arising from: branch rationalisation, FTE reduction, supplier contract management, fraud detection and recovery processes;
• One-off non-recurring savings in H1 2015 of £6.0m relating to property provisions; and
• H1 2014 included £10.2m of one-off costs not recurred in 2015.

These cost savings were partially offset by an increase in marketing spend related to the brand relaunch of £3.6m, pension costs increase of £2.0m and bonus increase of £3.0m.

Operating staff costs have decreased year on year by £9.1m to £118.7m (H1 2014: £127.8m). The operating staff numbers (full time equivalents, including contractors but excluding all project staff) have fallen by 191 to 5,850 (H1 2014: 6,041) and direct pay has fallen by £8.0m. This has been partially offset by increases in pension and bonus costs.

Project Expenditure

	June 2015 £m	June 2014 £m	Change £m
Operational projects	**(21.5)**	(20.3)	(1.2)
Remediation, integration and resiliency projects	**(40.5)**	(20.9)	(19.6)
Strategic projects	**(39.9)**	(27.6)	(12.3)

Total project expenditure	**(101.9)**	(68.8)	(33.1)

The Bank summarises its investment spend activity into three broad categories:

Operational projects relate to changes in the regulatory environment and smaller business led initiatives, including process improvements. H1 2015 expenditure was £21.5m and is broadly in line with prior year (H1 2014 £20.3m), ensuring the regulatory and mandatory requirements of the Bank are met.

Remediation, integration and resiliency projects spend was £40.5m (H1 2014: £20.9m) and includes IT remediation and resiliency along with activity associated with Bank separation. £17.3m of activity relating to Enterprise Services outsourcing and separation from the Co-operative Group has been expensed in H1 2015. The Bank also incurred costs of £23.2m on other projects including embedding new systems and processes.

Strategic projects include projects that are transformational in nature and deliver significant cost savings or income benefits to the business, including Branch Transformation, Digital and Mortgages outsourcing. Expenditure amounted to £39.9m in H1 2015 (H1 2014: £27.6m).

These categories include permanent, contract or temporary resource costs working on projects within the Bank.

Capital Expenditure

	June 2015	June 2014	Change
	£m	£m	£m
Operational projects	**0.8**	2.7	(1.9)
Remediation, integration and resiliency projects	**4.2**	0.7	3.5
Strategic projects	**30.2**	(5.3)	35.5
Total project capital expenditure	**35.2**	(1.9)	37.1

Overall Capital Expenditure from projects amounted to £35.2m in the period to 30 June 2015. This relates to investment in improving the Bank's Digital offering, outsourcing of mortgages administration, upgrading the Bank's financial processes and improving its accounting capabilities in line with the strategic plan. The first six months of 2014 included a £5.8m impairment of work in progress assets within Strategic projects related to branch IT infrastructure.

In addition, the Bank had provisions of £112.3m as at 31 December 2014 relating to separation from the Co-operative Group, of which £36.6m has been utilised in 2015.

Impairment gains and losses

	June 2015	June 2014	Change
	£m	£m	£m
Core impairment	**(2.7)**	(1.5)	(1.2)
Non-core impairment	**47.3**	88.2	(40.9)
Net impairment gains on loans and advances	44.6	86.7	(42.1)

The Bank recognised a net impairment gain of £44.6m in H1 2015 (H1 2014: £86.7m).

The Core Bank impairment charge of £2.7m (H1 2014: £1.5m) was primarily driven by underlying credit movements on the unsecured book, partially offset by improving HPI and lower secured balances.

The Non-core impairment gain of £47.3m (H1 2014: £88.2m) predominantly reflects the workout approach. Non-core corporate assets have been disposed of at favourable prices and, together with a number of loan restructures, resulted in the release of previously recognised impairment provisions driving a net impairment writeback of £50.7m.

Conduct and legal risk

The Bank provided an additional £49.0m (H1 2014: £38.6m) during the first half of 2015 in respect of conduct and legal risk. This primarily comprises £20.0m pertaining to H1 2015 interest on non-CCA compliant unsecured loans which will be refunded to the customer, in addition to increases to existing provisions for Mortgages and CCA delivery costs of £15.0m. In addition, the provision for packaged accounts has been extended by £16.8m as a result of increased inbound complaints. This new component of packaged accounts remains susceptible to complaint volumes.

A 2014 decision of the UK Supreme Court (Plevin) held that, judged on its own facts, non-disclosure of the amount of commissions payable in connection with the sale of single premium PPI to a customer could create an unfair relationship under provisions of the UK Consumer Credit Act. In line with other banking industry participants, The Co-operative Bank plc is participating in an active financial services industry wide dialogue with the FCA and the FOS to determine any possible wider impact of such decision on its historical sales of single and repeat premium PPI. The decision has a potential impact on a number of the Bank's customers who may have a claim for PPI mis-selling and treatment of prior claims. Due to this uncertainty, it is not currently possible to estimate the financial impact the Plevin decision could have and there can be no assurance that the outcome of this matter will not be material.

The Bank also released £4.2m of provisions in relation to mortgages within the Optimum portfolio that have been transferred to Warwick Finance Residential Mortgages Number One plc as part of the securitisation.

Business segment financial performance

	June 2015	Restated June 2014	Change
	£m	£m	£m
Retail contribution	**152.0**	177.7	(25.7)
BaCB contribution	**21.7**	20.8	0.9
Core contribution excluding Treasury/other	**173.7**	198.5	(24.8)
Treasury/other contribution	**(5.1)**	(34.4)	29.3
Core contribution result	**168.6**	164.1	4.5
Non-core contribution result	**15.9**	117.2	(101.3)
Head Office Overheads	**(163.0)**	(184.3)	21.3
Project costs	**(101.9)**	(68.8)	(33.1)
Operating result	**(80.4)**	28.2	(108.6)

Core business contribution excluding Treasury is £24.8m down on H1 2014 as a result of reduced non-interest income, partially offset by lower direct costs.

Treasury/other contributed a loss of £5.1m (H1 2014: £34.4m) predominantly driven by lower direct costs, together with a small increase in net income reflecting reduced funding costs and lower losses on assets held at fair value through profit or loss.

Non-core contribution has decreased significantly to £15.9m (H1 2014: £117.2m), driven by losses on asset sales (£38.1m in H1 2015) and lower net impairment gains compared to the prior year.

The detailed commentary regarding the drivers behind the results are included in the following sections.

Core

	June 2015	Restated June 2014	Change
	£m	**£m**	**£m**
Net interest income	**231.3**	220.9	10.4
Losses on asset sales	**(0.1)**	(2.1)	2.0
Non-interest income	**30.6**	45.3	(14.7)
Net income	**261.8**	264.1	(2.3)
Direct costs	**(90.5)**	(98.5)	8.0
Impairment losses on loans and advances	**(2.7)**	(1.5)	(1.2)
Contribution result	**168.6**	164.1	4.5
Net interest margin	**1.83%**	1.59%	0.24%

	June 2015	December 2014	Change
	£m	**£m**	**£m**

Assets	**25,365.5**	25,476.2	(110.7)
Liabilities	**30,344.0**	33,391.0	(3,047.0)

Core Bank contribution, comprising Retail, BaCB and Treasury and other, was up £4.5m on H1 2014. Core Bank Liabilities have reduced significantly during the period to 30 June 2015, from £33,391.0m at 31 December 2014 to £30,344.0m at 30 June 2015 as the Bank's funding and liquidity requirements have reduced.

Retail contribution has fallen to £152.0m (H1 2014: £177.7m). This deterioration is reflective of a significant reduction in non-interest income following disposal of part of the ATM estate and the industry-wide impact of reduced interchange fee income.

BaCB contribution has increased £0.9m relative to H1 2014 although income has reduced following customer balance sheet contraction over the period.

Treasury/other has contributed a loss of £5.1m (H1 2014: £34.4m loss), primarily reflective of increased non-interest income following the repayment of £550.0m of Funding for Lending Scheme (FLS) balances since 30 June 2014, together with lower accounting volatility on assets held at fair value through profit or loss.

Retail

	June 2015 £m	June 2014 £m	Change £m
Net interest income	**204.9**	201.5	3.4
Non-interest income	**28.1**	55.9	(27.8)
Net income	**233.0**	257.4	(24.4)
Direct costs	**(76.4)**	(78.4)	2.0
Impairment losses on loans and advances	**(4.6)**	(1.3)	(3.3)
Contribution result	**152.0**	177.7	(25.7)
Net interest margin	**2.87%**	2.53%	0.34%

	June 2015 £m	December 2014 £m	Change £m
Customer assets	**14,187.5**	14,611.4	(423.9)
Customer liabilities	**22,729.5**	25,562.3	(2,832.8)

The Retail business continues to benefit from the reactivation of new business origination activities in the year to 31 December 2014 following the previous prioritisation of liquidity needs over new business origination in the latter part of 2013 and early 2014. This renewed focus has helped drive an increase in mortgage completions to £1,084.0m in the first six months of 2015 compared to £921.0m in the last six months of 2014, with completions through the Bank's intermediary channel accounting for 88% of total Retail mortgage completions as the Bank's offering becomes more competitive in this segment. Alongside this increase in inflows, mortgage redemptions (excluding contractual repayments) have fallen £177.2m to £1,047.2m since the six months to December 2014, partly reflective of targeted retention initiatives.

Maintaining strong levels of liquidity was a focus for the first half of 2014. In the period to 30 June 2015 the Bank has continued to manage the reduction in high priced deposits by rebalancing its savings portfolio and bringing pricing of deposits in line with the market, enabling the Bank to develop a more sustainable cost of funding. As a result, Retail customer liabilities reduced by £2,832.8m to £22,729.5m.

Retail current account numbers have remained more stable in the first half of 2015, with a net outflow of 2,250 (30 June 2014: net outflow of 62,646). As outlined in the Chief Executive Statement earlier in this document work continues to re-establish the Bank's position in a very competitive market, and the proportion of prime accounts has also remained steady at 45.5% (30 June 2014: 45.5%).

Whilst Retail customer assets have reduced by £423.9m over the period to 30 June 2015 to £14,187.5m, both Retail net interest income and net interest margin have increased, reflecting a reduction in the Bank's interest expense on deposits and wholesale liabilities.

Retail non-interest income reduced to £28.1m (H1 2014: £55.9m), reflecting a reduction in income from Link interchange as a result of the sale of part of the ATM estate. In addition, industry-wide impacts of revised interchange regulations have reduced the Bank's card transaction fee income.

Business and Commercial Banking (BaCB)

	June 2015	June 2014	Change
	£m	£m	£m
Net interest income	**20.3**	23.0	(2.7)
Non-interest income	**5.6**	7.9	(2.3)
Net income	**25.9**	30.9	(5.0)
Direct costs	**(5.2)**	(8.7)	3.5
Impairment gains/(losses) on loans and advances	**1.0**	(1.4)	2.4
Contribution result	**21.7**	20.8	0.9
Net interest margin	**6.98%**	5.70%	1.28%

	June 2015	December 2014	Change
	£m	£m	£m
Customer assets	**554.0**	620.0	(66.0)
Customer liabilities	**2,775.0**	2,837.0	(62.0)

The BaCB business H1 2015 contribution result of £21.7m (H1 2014: £20.8m) represents a £0.9m improvement on the prior year.

Customer liabilities reduced £62.0m to £2,775.0m reflecting fixed term deposit outflows following a change in BaCB's pricing strategy to more closely align to the market. In addition, customer assets decreased £66.0m to £554.0m (30 June 2014: £620.0m) largely as a result of out of cycle maturities, including repayment of The Co-operative Group balances.

Net interest income has reduced by £2.7m; however, the net interest margin has improved by 128bps to 6.98% (H1 2014: 5.70%). BaCB's balance sheet is in a net liability position and as a result its net interest margin is sensitive to reductions in customer assets.

Non-interest income has reduced by £2.3m to £5.6m as a result of the transfer of the Bill Payment service and associated income to Non-core operations.

Treasury/Other

	June 2015	Restated June 2014	Change
	£m	£m	£m
Net interest income	**6.1**	(3.6)	9.7
Losses on asset sales	**(0.1)**	(2.1)	2.0
Non-interest income	**(3.1)**	(18.5)	15.4
Net Income	**2.9**	(24.2)	27.1
Direct costs	**(8.9)**	(11.4)	2.5
Impairment gains on loans and advances	**0.9**	1.2	(0.3)
Contribution result	**(5.1)**	(34.4)	29.3
Net interest margin	**0.12%**	(0.07%)	0.19%

	June 2015	December 2014	Change
	£m	£m	£m
Assets	**10,624.0**	10,244.8	379.2
Liabilities	**4,839.5**	4,991.7	(152.2)

Treasury net interest expense decreased by £9.0m to £0.3m (H1 2014: £9.3m), whilst net interest income in the Bank's Core - Other business unit, including Unity Trust Bank, increased by £0.7m to £6.4m.

Balances supporting the Bank's liquidity buffer - highly liquid eligible assets, including cash, gilts and multi-lateral development bonds - reduced by £1.5bn on an average basis when compared to the period to 30 June 2014 reflecting the reducing liquidity requirements of the Bank. This gave rise to a reduction in interest income from these assets.

Wholesale funding, specifically securitisation issuance and repos reduced, predominantly due to lower repo balances and the repayment of Silk Road 1 and 2 and Meerbrook 8. The reduced funding costs on lower balances were partially offset by lower internal income following the deleveraging of Optimum assets.

The Bank purchased £0.7bn of the Warwick Finance Retail Mortgages Number One plc RMBS senior tranche as part of the first phase of the Optimum asset disposal program. In addition to this a £250.0m Tier 2 subordinated debt issuance was successfully completed in June 2015. Although these balances are included in the balances presented above, neither of these transactions had a significant impact on Treasury net interest income as they were both completed towards the end of the period to 30 June 2015.

Non-interest income in the H1 2015 was £15.4m higher than the H1 2014 due to lower (FLS) fees following a reduction in the FLS balance from £0.9bn at 30 June 2014 to £0.35bn at 30 June 2015. In addition to this, increased non-interest income also reflects lower accounting volatility on assets accounted for at fair value through profit or loss and a reduction in securitisation set-up costs.

Non-core

	June 2015	December 2014	Change
	£m	£m	£m
Corporate CoAM	**3,006.9**	3,930.1	(923.2)
Optimum	**5,021.0**	6,822.9	(1,801.9)
Assets	**8,027.9**	10,753.0	(2,725.1)
Corporate CoAM	**356.9**	557.4	(200.5)
Liabilities	**356.9**	557.4	(200.5)
Customer assets	**7,743.3**	10,253.0	(2,509.7)
Customer liabilities	**356.9**	557.4	(200.5)

The Bank continues to perform against its targeted reduction of Non-core assets. These assets have a higher proportional risk weighting compared to Core Bank assets and deleverage reduces the Bank's exposure to credit risk, particularly under a severe stress scenario. Non-core customer assets decreased by £2,509.7m to £7,743.3m. This includes £1.8bn reduction in Optimum assets, comprising a £1.5bn as a result of the Warwick Finance 1 transaction and £0.3bn of contractual repayments and redemptions.

On 10 December 2014 the Bank exchanged a Sale and Purchase contract for the sale of a portfolio of renewable energy assets with a carrying value of £323.0m. The transaction was conditional upon gaining consent to the transfer from the underlying borrowers. On 14 July 2015 the Bank successfully completed the sale of the first tranche of five loans with an aggregate carrying value of £47.6m.

Non-core liabilities have reduced by £200.5m to £356.9m in line with expectations. As the Bank continues its non-core deleveraging strategy customers have migrated their accounts to other financial institutions.

	June 2015	Restated June 2014	Change
	£m	£m	£m
Net interest income	**2.3**	28.3	(26.0)
(Losses)/gains on asset sales	**(38.1)**	4.0	(42.1)
Non-interest income	**10.5**	10.9	(0.4)
Net income	**(25.3)**	43.2	(68.5)
Direct costs	**(6.1)**	(14.2)	8.1
Impairment gains on loans and advances	**47.3**	88.2	(40.9)
Contribution result	**15.9**	117.2	(101.3)

H1 2015 Non-core contribution of a £15.9m (H1 2014: £117.2m) reflects net impairment gains on loans and advances of £47.3m (H1 2014: £88.2m). The specialist team continues to focus on distressed-asset workout and turnaround capability and this approach, together with the improving economic environment, has resulted in write-back of previously recognised impairment of assets on disposal.

The Non-core result is further impacted by significant losses on asset sales, £38.1m (H1 2014: £4.0m gain) reflecting prevailing market conditions as the Bank executes the strategic deleverage of Non-core assets, together with a decrease in net interest income of £26.0m to £2.3m, following targeted asset reduction. Non-core losses on asset sales of £38.1m include £4.2m of Conduct Risk provisions relating to the Warwick Finance 1 transaction.

Outlook

The Bank's overarching strategy remains unchanged. Good progress has been made in the first half of 2015 against objectives in the plan; however there is much work still to be done. The focus in the second half of the year will be continued deleverage of Non-core assets, investment in and simplification of the Bank's Core franchise and improvement of the Bank's capital resilience over the longer term.

Significant risks remain over delivery of the plan. Legacy conduct risk issues continue to impact the industry, whilst the Bank, along with all other financial institutions, is significantly impacted by changes in the economic environment.

The required remediation and strategic investment together with the continued unwind of fair value reserves recognised following the merger with the Britannia Building Society is expected to drive losses in the Bank for at least the next two years. As a result, the Bank's CET1 ratio is expected to reduce in the medium term, before it improves again.

Chairman's statement

The transformation required to rebuild The Co-operative Bank as a viable alternative to the traditional banks is not an easy task and we are very aware of the considerable challenges our colleagues have faced.

The Co-operative Bank is a significantly stronger organisation than it was when the current management team joined the business in 2013 and, 18 months into our five year plan to turn the business around, we continue to make solid progress on our journey to a full recovery.

Under the leadership of our Chief Executive Officer, Niall Booker, we have further strengthened our overall capital resilience in this period. We completed the first significant tranche of our disposal of Optimum, a Non-core residential mortgage portfolio, in May, and, we successfully raised £250m of Tier 2 capital despite a volatile market backdrop. Our transformation of the business into a simpler and more efficient retail bank is also progressing in line with our plan. Competitive pressures and a low interest rate environment continue to present challenges for the retail banking sector as a whole, but our performance is beginning to return to a more normalised position as we further invest in the brand and actively market our services to customers.

The investigations by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) into what went wrong at the Bank are very important and the Board takes the terms of their recent notices and public censures extremely seriously. On behalf of the Bank, I would like to apologise again to customers for these past failings and reassure them that the Bank is a significantly stronger organisation today under the leadership of the current senior management team. The facts underlying the failings were largely set out in Sir Christopher Kelly's independent report published in April 2014, and, since then, the Bank has made material progress addressing these shortcomings by enhancing the Bank's governance, its processes, systems and practices. It has also significantly strengthened its Board and rebuilt its capital position. Nevertheless the Board is fully focused on continuing to remediate the findings of the investigation and strengthening the culture of the organisation. Of course, we have always said the turnaround will take time and there is further work ahead towards a full recovery.

As I said in our 2014 Annual Report and Accounts, we are well advanced in assembling a Board with the quality and experience to effectively oversee our transformation programme. In the first half of 2015, we welcomed two shareholder nominated directors. Charles Bralver joined as a Non-executive Director in April 2015 and Aidan Birkett as an independent Non-executive Director in July 2015. We will make further announcements about the remaining positions in due course.

Values and ethics sit at the heart of the business and we have a strong environmental record and as a force for good in the communities we operate in. In July, the Bank built on its history of sustainability reporting with the publication of its first independent Values and Ethics Report, covering our activities in 2014, following the launch of our expanded Ethical Policy in January 2015. We look forward to reporting annually on the progress we are making in the new areas of the policy, including the development of our products and services for customers.

The transformation required to rebuild The Co-operative Bank as a viable alternative to the traditional banks is not an easy task and we are very aware of the considerable challenges our colleagues have faced. On behalf of the Board I would like to express our gratitude for their ongoing commitment to serving customers, to customers for their continued loyalty and to investors for their support. There remains much to be done, but we are encouraged by the progress made towards building a sustainably profitable Bank that will meet the expectations of all of our stakeholders.

Dennis Holt

Chairman
19 August 2015

Chief Executive Statement H1 2015

Over the first half of 2015 the management team has continued to make real progress towards turning the Bank around. Our work to improve resilience, to bring aspects of our business back within our risk appetite and to reduce costs is on course, and we are encouraged by the headway we have made in this period. I would like to thank colleagues for their considerable dedication and perseverance as we reshape the business around our individual and small business customers.

The significant reduction in Non-core assets, including the first tranche of our Optimum disposal, and the actions we have taken to improve margins and address the underlying costs of the business continue to strengthen the Bank. The performance of the Core Bank is also beginning to improve as we increase efficiency, continue to re-invest in the brand and start working more closely with customers to develop products and services that better meet their needs.

As we have said before, the financial performance of the business will remain dominated by legacy issues for some time. However, this should not diminish the progress made against our strategic plan. We have come a very long way since June 2013 when our focus was to make sure the Bank avoided resolution and the need for financial support at the expense of the taxpayer. Since then we have raised an additional £1.9bn of Core Tier 1 and £250m of Tier 2 capital, renewed and strengthened our Board, improved our processes and overhauled our governance. There remains much work ahead but the actions we are taking are creating a resilient bank that can standalone, distinguished in the marketplace by its values and ethics. This is fundamental to driving value over time for all our stakeholders – customers, colleagues, shareholders and the communities we serve.

We also recently received the findings of the PRA and FCA investigations. As the Chairman noted at the time, the findings are serious and the Board takes their continued remediation seriously. Many of the issues raised have been addressed and in the case of others the remediation work is in progress. As we have noted several times, the biggest challenge will be changing some aspects of the culture of the organisation and, although there are early signs of encouragement, this is a process that will take some time. We are also continuing our work to embed and improve the Risk Management Framework which was a focus of both of the FCA and PRA investigations.

Performance Review

The Bank made considerable progress against its strategic plan in the first half of 2015. Alongside our success in deleveraging Non-core assets, which are down by £2.7bn in this period, operating costs were also reduced to £259.6m compared to £297.0m in the first half of 2014 as the Bank continued to rationalise its branch network, simplify its processes and reduce third party costs. In addition, the Bank's net interest margin increased by 12 basis points compared to the first half of 2014. This was largely driven by a reduction in the Bank's overall cost of funding as a result of lower prices for retail deposits. We also raised £250m of Tier 2 capital, further improving our financial resilience.

Fixing the legacy issues of the past will continue to impact the financial performance of the business for some time, and the statutory loss before taxation for the first half of 2015 was £204.2m. The main drivers were: the expected unwind of £54.3m of fair value adjustments (FVA) included as part of the Bank's plan; anticipated increased project spend year on year of £101.9m, required to progress the transformation and address the previous underinvestment in systems and processes; and net losses of £38.2m predominantly on sale of the Bank's Non-core assets as the Bank continued to deleverage these assets to build resilience. This compares to net gains on sale of £1.9m in the first half of 2014. Net impairment write backs reduced by £42.1m year on year to £44.6m, reflecting in part a strengthening domestic economy but also the work that was done in restructuring certain facilities.

Although there were no new significant categories of conduct issues in this period, the Bank adjusted the existing provision by an additional £49.0m, up from £38.6m on the same period the previous year. The conduct costs primarily comprise £20.0m of interest on non-CCA compliant unsecured loans, which will be refunded to the customer, and increases to the delivery costs of existing provisions for mortgages and unsecured loans of £15.0m. There is a further provision for the mis-selling of packaged accounts of £16.8m. No new provisions have been made for PPI but we have noted a possible risk around the recent Supreme Court Decision in the Plevin case. Compensation payments in respect of Interest Rate Hedging Products are now materially complete. Customer redress on the larger mortgages and CCA programmes has progressed in H1 with the launch of IT based solutions to improve the pace of customer contact. We intend to have substantially progressed the majority of conduct redress and remediation issues by the end of 2015.

Increased capital and IT resilience

The Bank does not currently meet certain regulatory requirements and expectations. These deficiencies have existed for some time, and will continue for some years to come and the Bank's plan is designed to remediate these over time.

The Bank continues to meet the revised plan accepted by the PRA to dispose of its Non-core assets and increase its capital resilience, with Non-core assets falling from £10.8bn at the end of 2014 to £8.0bn at the half year. There was a corresponding fall in total RWAs from £12.6bn to £10.1bn.

When we announced our 2014 results, we said that we would focus on the reduction of our Non-core residential mortgage portfolio (Optimum), which is particularly vulnerable to severe stress and consumes significant capital. We have made good progress on the disposal so far this year particularly given the capital market headwinds in the second quarter. The initial securitisation of £1.5bn of Non-core residential mortgage assets within the Optimum portfolio, the largest deal of this type in the UK market since 2007, has resulted in a corresponding net reduction of £0.8bn of Risk Weighted Assets (RWAs) and contributed to an improved CET1 ratio of 14.9% at the half year, up from 13.0% at the end of 2014. As we have said previously, we expect to continue to be loss making for at least 2015 and 2016 based on the level of investment required and the continued unwind of our Fair Value Adjustments (FVAs). In the short to medium term our CET1 ratio is still expected to reduce before it improves, due to the impact of RWA reduction being outweighed by the continued losses.

Whilst we have made progress in deleveraging the Optimum portfolio outlined above, we have also further strengthened the Bank's total capital resources through the successful raising of £250m Tier 2 capital, completed in June 2015. This was a significant achievement against a difficult market backdrop and will help the Bank comply with increasing regulatory capital requirements around bail-in-able resources.

We have continued to progress the migration of our IT infrastructure to IBM under the Enterprise Services outsourcing arrangement and this, along with other aspects of our IT remediation programme has continued to improve our IT resilience in the first half of 2015.

Liquidity

The Bank has taken action to lower the level of liquidity that was required to be built up during the issues faced in 2013. This has mainly been delivered by re-pricing certain retail deposits in line with the market, which has led to a managed reduction in deposits and a managed reduction in liquidity. This has also been a major contributory factor in the improved margin seen in the first half of the year.

Core Bank

Financial performance

It remains early days in the re-building of the retail business but we are making progress at this stage in our turnaround. The performance has stabilised, we are returning to a more normalised position in key product areas and continuing to position the bank as a credible provider of banking services.

During the first half of this year we have seen a stronger performance across our key products compared to H1 2014. Mortgage completions have increased, building on the progress made in the second half of 2014 when we disclosed an improved mortgage pipeline through our intermediary business Platform. This has converted into strong intermediary completions for the first half of 2015. Both mortgage applications and completions have increased year on year with completions totalling £1.1bn compared to £0.2bn for the first half of 2014 and £0.9bn in the second half of 2014. Mortgage outflows have also trended downwards in this period but remain an area of focus. Overall this has led to greater stability in net mortgage balances although expected repayments mean that the overall balance of mortgage assets in the Core Bank has declined slightly in the first half of 2015.

We will continue to focus on our mortgage business in the second half of the year, although the market is becoming increasingly competitive and net growth will continue to be impacted by the run off from Standard Variable Rate (SVR) products and people taking the opportunity of rising house prices and therefore higher levels of equity to refinance.

The Bank has continued to rebalance its savings portfolio in this period reflecting a reducing funding requirement from the Non-core business, greater stability in our business and less requirement for a sizable liquidity buffer. As a result, we have taken action to bring the pricing of certain retail deposits in line with the market. This has led to a managed reduction in deposits overall, reduced funding costs and improved net interest margin.

We have further developed our credit card offering, with the successful launch of a 3 year fixed rate card, aiming to offer customers some protection against future interest rate rises.

Retail current account numbers remained broadly stable throughout H1 2015 and we continue to re-establish the Bank's position in a very competitive market. The launch of a new overdraft proposition in April this year has been positively received and is the first product to be co-created with customers on the back of the expanded Ethical Policy launched in January. It is the first step in making our current account offer more compelling. Fewer customers are choosing to move their accounts away from the Bank and overall there was a net outflow of 2,250 current accounts in the first half of 2015 compared to 62,646 in same period last year. We are currently developing a new current account, based on input from our customers, as we continue the work to re-establish the Bank's position in a very competitive market.

Our SME business has remained broadly stable at the reduced level we have seen of late. We have recently begun to focus more on this aspect of our business and we will provide further updates on our plans in this area as appropriate.

Delivering a first-class and frictionless banking service to our customers, which enables them to bank, how, where and when they choose is key moving forward. Our aim remains to provide branches, where we know they are well-used, in parallel with our digital and telephone channels. Digital is now the channel of choice for many of our customers and we are continuing to invest in it, reflecting customers' changing preferences for how they do their day-to-day banking. Customers are embracing the recent improvements made to our digital banking functionality with over 700,000 now actively using online and mobile banking and over 213,000 customers have switched to paperless statements.

Brand investment

Alongside this, our continued brand investment is building greater customer engagement and restoring trust in the brand. We are not trying to be a bank for everyone but we are making progress rebuilding trust and consideration amongst customers who, like us, believe values and ethics have an important role to play in banking. The response to our advertising campaign in the second quarter of this year, based around our ethical credentials, along with the work on products and the relaunch of the ethical policy continued to improve the customer perception of the Bank. We are 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 second place. We will continue to invest further in our brand over the rest of 2015, and to work with our customers to deliver better products for them.

Cost challenges

Critical to the future health of the business is building a more efficient and effective model for the Retail Bank. This, of course, involves difficult people decisions but it is vital that our cost reduction programme in the Core Bank remains on track. The 57 branch closures, announced in February 2015 were completed by July 2015, and as the business has continued to restructure and improve its processes, overall operating staff numbers have continued to fall. For the first half of this year permanent FTE has remained fairly stable but there have been significant reductions in the number of contractors. In the branch network, the digital take up by customers has contributed to a reduction in volumes of transactions of 28 per cent. From January to June 2015 branches have been reduced by 26 per cent and staffing levels have also reduced accordingly. This is not a sustainable level of reduction but it does show we are taking the right action in response to changing market conditions in how customers wish to conduct their day to day banking.

Transformation

The transformation of the Bank remains challenging and work in progress.

We remain focused on achieving capital, IT and operational resilience. We have made good progress and become more resilient every day but this will remain a continued focus for the management team for some time. We have also made progress separating the infrastructure of the Bank from The Co-operative Group and we have begun the work to migrate our IT infrastructure to IBM, which will strengthen our technology platform.

As noted above we have continued work on the embedding of our Risk Management Framework. This will in time allow a more accurate picture of our non-credit, non-market related capital requirements to evolve.

There are significant transformation projects underway in the Bank and we are focused on managing these projects to achieve the continued cost reduction required throughout the plan through improved processes; efficiency savings through outsourcing of some back office functions; greater levels of digitisation; improved management and control of third party costs and the improved resilience of our IT platform.

Outlook

We have delivered a number of important initiatives in line with our strategic plan and, although it remains early days, we are heading in the right direction. Our cost reduction targets are a challenging but important part of our plan.

The performance of the retail bank is improving and its future state is becoming clearer. We need to stay focused on keeping our products simple, maintaining our high level of service, securing the resilience of our IT platform, further embedding our Ethical Policy and reinforcing our Risk Management Framework.

Looking ahead, the deleverage of Non-core assets remains a key focus to improving capital resilience under stress and to delivering the plan. Future sales do, of course, continue to remain vulnerable to some level of market risk, which has increased over recent months, but we remain on track to reduce total RWAs to below £7.5bn by the end of 2017.

Our plan aims to meet the expectations of all our stakeholders. Firstly, it de-risks and reduces the possible burden on the taxpayer and any threat to the financial system as a whole. Secondly, over time it allows us to be an economically viable standalone bank, distinguished by our adherence to values and ethics. Finally, it rebuilds us as a bank that can play a role in any future consolidation in the marketplace. I am grateful for the support of colleagues, customers and shareholders as we continue to deliver against our plan and progress our turnaround.

Niall Booker

Chief Executive
19 August 2015

Principal risks and uncertainties

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. Delivery of the plan 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). During the year 2015 the Bank closed its inaugural whole structure securitisation of part of its Non-core Optimum residential mortgages portfolio through the issuance of notes and residual certificates by Warwick Finance Residential Mortgages Number One PLC ("Warwick Finance One") resulting in a net £0.8bn RWA reduction within the Non-core Optimum portfolio. The successful closing of this transaction forms a key component of the Bank's plan to accelerate the de-leveraging of its Non-core assets, including Optimum.

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 30 June 2015, 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 has implemented a review of its credit risk model requirements against CRR and created a remediation plan which has been accepted by the PRA.

The Bank plans to continue 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 has initiated a project to address these issues to a timetable set by the regulators, and is maintaining on-going dialogue with its regulators in relation to this. The Bank continues 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 technical component failure is in place, the Bank does not have a proven end-to-end capability to recover from a significant and prolonged data centre outage.

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 continues to closely supervise the Bank 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.

Background

The Bank faced an extremely difficult and unprecedented situation following its June 2013 announcement of a significant shortfall in CET1 of £1.5bn. Since then, elements of the uncertainty around the going concern status of the Bank have been removed with the successful completion of capital raising exercises - the LME in December 2013, the equity capital raising in May 2014, together with the receipt of The Co-operative Group's £333m capital contribution and the issuance of £250m subordinated Tier 2 notes in June 2015.

In December 2014, following the Bank's failure of the Bank of England Stress Tests, the PRA accepted a revised plan. The overarching strategy of the Bank remains the same, however the Bank has committed to an earlier deleverage of the Optimum portfolio than that contemplated by the original plan. This will have an impact on the Bank's income which will need to be offset by additional cost savings to enable the achievement of the cost income target by the end of the plan period. In May 2015, the Bank successfully closed its inaugural whole capital securitisation of approx. £1.5bn comprising part of the Optimum portfolio.

Overall, the turnaround is still in its early stages and there are significant challenges in its execution, although much progress has been made over the past 18 months. The Bank has a large number of remediation and redress programmes to implement along with substantial re-engineering of its operating model to reduce costs and improve efficiency and a very large and complex IT remediation programme. A failure to successfully implement or a delay in implementing the Bank's strategy and plans may adversely impact the Bank's business, operating results, financial condition and prospects, its regulatory capital position and its ability to comply with its regulatory requirements both in respect of capital and more generally (see above for more information).

The Bank's ability to implement its plan is also influenced by external factors which may mean underpinning assumptions relating to economic or market conditions may be incorrect and negatively impact the plan (for example interest rates may not rise in accordance with assumptions underpinning the plan). Many of these are similar to those faced by other financial institutions, for example, deterioration in general economic conditions, instability of global financial markets (including the effect of macro political conditions in Europe) and the management of credit risk, interest rate risk, currency risk and market risk and risks from regulatory change and an increasing regulatory enforcement and litigious environment.

The table below outlines how the Bank's Risk Management Framework (RMF) categorises the key financial and non-financial risks to which the Bank is exposed. The crystallisation of any of these risks could result in an adverse effect on the Bank's business, financial condition operating results, reputation and prospects. The RMF is the Board approved segmentation of the risks that the Bank faces ie. ten Principal Risks to allow the Bank to identify, assess, manage, monitor and report on its risks across the business. Details of how these risks are managed can be found in the risk management section.

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	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	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	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)	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, including the risk that costs may exceed those originally contemplated. The Bank's regulators are fully aware of the steps the Bank is taking to address these operational risks. **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.

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 management of financial and customer data. Poor systems and manual processes, many of which have not been integrated following the Bank's merger with the Britannia in 2009 exacerbate this risk. Until the risk framework is fully embedded there is increased risk that inadequate risk management could lead to exposures outside the Bank's risk appetite, unanticipated losses and regulatory censure.

The Bank is outsourcing key aspects of its operations; for example its mortgage processing to Capita, to enhance, modernise and ultimately make aspects of its operations more effective and cost efficient. Major outsourcing projects and contractual arrangements are complex to execute and manage. The Bank is exposed to the risk that any major outsourcing arrangements are not properly managed by the Bank or delivered upon as expected by the outsourced provider on an ongoing basis. In the case of the mortgage processing outsourcing this could expose the Bank to disruption in its mortgage business which would impact on a major aspect of its core banking business.

The Bank is in the process of separating from The Co-operative Group. Currently, and into the medium term, the Bank depends on The Co-operative Group to provide a number of services including critical functions such as IT (until the ES arrangement with IBM described above becomes operational), personnel, assets and to on-supply certain services, data and assets by third party suppliers. The Bank also has significant counterparty exposure to The Co-operative Group. The ongoing separation project is complex and may be more costly than currently contemplated.

The Bank faces legal, financial and reputational risk where legal proceedings are brought against it including as a result of the Bank's day to day business activity or encouraged by adverse findings of various investigations into events and activities at the Bank. Liability for damages may be incurred by the Bank where third parties are harmed by the conduct of the Bank's business.

The Bank does not have a documented right to

		occupy a number of its main places of business which if unresolved could lead to disputes, additional cost and operational disruption.
Reputational risk	The risk associated with an issue which could in some way be damaging to the reputation of the Bank. Underlying issues amongst others arising as a result of: (i) the Bank's strategic decisions or business performance; (ii) an operational failure; or (iii) external perception. This may result in a requirement to hold additional liquidity in anticipation of a stress scenario, which is likely to negatively impact retained earnings over time and therefore capital resources.	**The Bank considers that its reputation as an ethically led organisation is critical to the success of the plan.** Generically, there is a risk that this reputation may be undermined. As the various investigations into past events at the Bank reach a conclusion, there is a risk that findings may adversely affect the Bank's reputation. In addition, the Bank's change in ownership structure at the end of 2013 and the necessity to make significant cost savings which will include inter alia branch closures and staff reductions increase this risk. The Bank will continue to rely on the Co-operative brand and therefore carries the risk that its brand will be damaged as a result of matters relating to The Co-operative Group. The Co-operative Bank trade mark belongs to the Bank. Please see the Corporate Governance Report on page 40 of the 2014 Annual Report and Accounts, for a fuller explanation of the principles governing the Bank's right to use the trade mark and the circumstances in which this could be challenged or removed.
Strategic and business risk	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 carry out the Bank's business plan and desired strategy. This may result in the Bank having to hold additional capital and/or liquidity. This risk is covered by many areas of capital in Pillar II, specifically execution, concentration and liquidity risk.	**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 in successful execution of the large scale change necessary.** The plan involves concurrent transformational change, with a large component relating to IT, which may result in additional investment cost and delays to the plan. Any delay would require ongoing regulatory acceptance of these issues for a longer period of time which might not be forthcoming and could be withdrawn if the plan is not executed in line with regulatory expectations. In order to meet the plan accepted by the PRA, the Bank must deleverage its Non-core assets, in particular the Optimum portfolio, in accelerated time scales. The Bank has commenced this process and closed a whole capital securitisation of approx. £1.5bn, comprising part of the Optimum portfolio, in May 2015. Additional Tier 2 capital in a total amount of £400m is contemplated by the Bank's revised plan. The Bank completed the issuance of £250m Tier 2 capital in June 2015. Further additional equity and/or debt capital may be required, beyond that contemplated currently, because of increased capital requirements (applicable to the Bank or banks generally), actual costs and losses exceeding those estimated in the Bank's plan or if the Bank does

		not deliver on its plan as anticipated. The Bank may be unable to raise any Tier 2 or other forms of capital it may need on favourable terms, when needed, or at all.
People risk	People risk is the risk associated with the recruitment, employment and management of individuals within the Bank. A significant portion of the Bank's cost base is staff costs and so managing this resource within budget is key to cost reduction and therefore to retained earnings. This risk is captured within the operational risk framework.	**The Bank continues to be subject to increased risk in this area.** The Bank continues to suffer an elevated risk of being unable to retain and recruit suitably qualified personnel. This increases execution risk in the plan and reduces historical corporate knowledge.
Regulatory risk	The risk of fines, public censure, limitation on business, requirements for legal or operational restructuring, or restitution costs arising from the failure to understand, interpret, implement and comply with UK and EU regulatory requirements.	**Along with the wider banking industry, the Bank must comply with multiple regulatory changes** which may add complexity to an already difficult technology, operational and prudential change programme. There is also a risk that changes to regulatory requirements affect the Bank's ability to successfully implement its plan. **The regulatory position of the Bank is described above.** As at June 2015, the Bank met its ICG, however this may be a temporary position and the Bank may not sustainably meet its ICG until the later years of its Plan. The PRA has accepted this position. **The Bank is under intense regulatory scrutiny** and expects such scrutiny to continue. On 11 August 2015 the PRA and FCA published the outcome of their enforcement investigations into certain events which occurred and processes in place in the Bank within the period from July 2009 to the end of 2013. During this period, the PRA has found that The Co-operative Bank was in breach of Principle 3 (Management and Control) with respect to the Bank's control and risk management framework. The FCA found the Bank to have breached UK Listing Rule 1.3.3 in relation to two statements in the Bank's 2012 Annual Report and Accounts. In addition the FCA and PRA have both found that, from 25 April 2012 to 9 May 2013, that the Bank breached Principle 11 by failing to notify the FCA and PRA of intended changes to two senior positions (and the reason for those changes). No fine has been imposed by the PRA or FCA. However, the terms of the public censures by the PRA and FCA made clear the seriousness with which the failings were regarded and expressly stated that if any future enforcement investigation into the Bank found serious and wide ranging failures the censure would be a relevant factor in determining the outcome. However, while this concludes the PRA and FCA enforcement investigations relating to the Bank itself, there remain a number of further investigations covering some or all of the same time period and events affecting the Bank which

		are either underway or still to commence (being: investigations into certain former senior individuals at the Bank; the Financial Reporting Council investigation into the preparation, approval and audit of the Bank's financial statements up to and including the year ended 31 December 2012 which focuses on the role of the auditors and individual accountants; and the independent investigation ordered by HMT). Therefore although no fine has been imposed by the PRA and FCA as a result of their investigations, the Bank remains exposed to increased regulatory scrutiny, significant resource drain, damages, fines and costs, adverse publicity, reputational damage and litigation claims either as a result of the findings of the PRA and FCA investigations or the eventual outcome of any other investigations.
Conduct risk	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 or other conduct determined by the Bank or the regulators to be inappropriate, unfair or non-compliant with applicable law or regulations. Any failure to manage these risks adequately could lead to further significant provisions, costs and liabilities and/or reputational damage. The Bank's approach to provisions for historic mis-selling issues such as PPI, interest rate swaps and packaged accounts is based on the views and requirements of the regulator. Any change in the regulator's current approach, such as an extension of the period covered by the requirement for proactive contact with customers, or a revision of approach following the Supreme Court decision in Plevin, could have a material impact. A 2014 decision of the UK Supreme Court (Plevin) held that, judged on its own facts, non-disclosure of the amount of commissions payable in connection with the sale of single premium PPI to a customer could create an unfair relationship under provisions of the UK Consumer Credit Act. In line with other banking industry participants, The Co-operative Bank Plc is participating in an active financial services industry wide dialogue with the FCA and the FOS to determine any possible wider impact of such decision on its historical sales of single and repeat premium PPI. The decision has a potential impact on a number of the Bank's customers who may have a claim for PPI mis-selling and treatment of prior claims. Due to this uncertainty it is not currently practicable to provide an estimate of any financial impact the Plevin decision could have and there can be no assurance that the outcome of this matter will not be material. The Bank is continuing its programme of a structured risk-based assessment, of which the primary focus is the discovery and remediation

		of existing and new conduct and legal issues. While much work has been undertaken and progress has been made in identifying conduct issues, no assurance can be given that further issues will not be identified, or that the already identified issues may not require further provision. Projects to remediate these issues are underway however are costly, complicated and require significant data extracts and IT support to implement. Delays or failure to successfully implement redress to customers increases the costs to the Bank and may lead to regulatory sanction. The Bank has initiated a redress programme in respect of various breaches of mortgage conduct of business rules. It is also the subject of a skilled persons review into potential detriment to its mortgage customers arising from, amongst other matters, arrears handling. The outcome of the review is uncertain but could potentially lead to enforcement investigations by the FCA. The Bank continues to be exposed to the risks of non-compliance with the Consumer Credit Act (CCA). While the Bank has identified certain instances where its documentation or processes have not been fully compliant with the technical requirements, there may be other instances of non-compliance which have not yet been identified. Until remediation of the issues already identified is complete, the Bank remains in breach of the technical requirements of the Act and will be unable to enforce interest charges on the affected products. The consequences of non-compliance with the CCA can include interest and default charges paid by a customer in prior periods being required to be refunded and the customer agreement not being enforceable by the Bank without a court order until the breach is remedied.
Pension risk	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) and risks inherent in the valuation of scheme liabilities and 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:** • The Pace scheme, whose sponsoring employer is The Co-operative Group. The Bank is a participating employer in this scheme. • The Britannia scheme, now closed, whose sponsoring employer is CFSMS, guaranteed by the Bank. • The Bank has agreed to a share of the deficit funding up to July 2016 and this has been recognised on the balance sheet. Once the Bank's share of Pace liabilities has been agreed, the Bank will account for the scheme on a defined benefit basis.

		The Pace scheme is not currently sectionalised and operates on a 'last man standing' basis. The Bank's obligation to Pace would increase significantly if another large employer in the scheme were to become insolvent. There is uncertainty over how much the Bank will need to pay in the event of sectionalisation of the scheme. The Bank is in consultation in respect of closure of the defined benefit section of the scheme.

Responsibility Statement

We confirm that to the best of our knowledge:
• The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU; and

• The interim management report includes a fair review of the information required by:
– DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first half of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining half of the year; and
– DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first half of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By Order of the Board

Niall Booker

Chief Executive
19 August 2015

The Co-operative Bank plc Board of Directors:

Dennis Holt	Chairman
Niall Scott Kilgour Booker	Chief Executive Officer
Laura Martine Carstensen	Non-Executive Director
John Richard Coates	Interim Senior Independent Director
Richard Graeme Barclay Hardie	Non-Executive Director
Maureen Laurie	Non-Executive Director
William Gennydd Thomas	Non-Executive Director
Derek James Weir	Non-Executive Director
Charles Bralver	Non-Executive Director
Aidan Birkett	Non-Executive Director
John Baines	Finance Director

INDEPENDENT REVIEW REPORT TO THE CO-OPERATIVE BANK PLC

Introduction
We have been engaged by the Bank to review the condensed set of financial statements in the Interim Financial Report for the six months ended 30 June 2015 which comprises the Bank income statement, the Bank statement of comprehensive income, the Bank balance sheet, the Bank statement of cash flows, the Bank statement of changes in equity and the related explanatory notes 1 to 23. We have read the other information contained in the Interim Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Bank in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities
The Interim Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Financial Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Bank are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this Interim Financial Report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility
Our responsibility is to express to the Bank a conclusion on the condensed set of financial statements in the Interim Financial Report based on our review.

Scope of Review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Financial Report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Emphasis of matter – Going Concern
In forming our conclusion on the Interim Financial Report, which is unmodified, we have considered the adequacy of the disclosures made in note 1.3 to the Interim Financial Report concerning the Bank’s ability to continue as a Going Concern. In that section, the Directors set out the risks associated with the successful execution of the Bank’s 2015-2019 Strategic Plan. The matters explained in note 1.3 to the Interim Financial Report represent a material uncertainty which may cast significant doubt upon the Bank’s ability to continue as a going concern. The condensed set of financial statements does not include the adjustments that would result if the Bank was unable to continue as a going concern.

Ernst & Young LLP
London, United Kingdom
Date: 19 August 2015

The Bank Interim Financial Report

The Bank income statement
For the period ended 30 June 2015 (unaudited)
All amounts are stated in £m unless otherwise indicated

	Period to 30 June 2015	Restated Period to 30 June 2014
Interest receivable and similar income	**415.7**	538.6

Interest expense and similar charges	**(253.8)**	(363.4)
Net interest income	**161.9**	175.2
Fee and commission income	**64.3**	104.9
Fee and commission expense	**(16.6)**	(36.9)
Net fee and commission income	**47.7**	68.0
Net trading income	**-**	0.2
Other operating income/ (expense)	**(44.8)**	(4.1)
Operating income	**164.8**	239.3
Operating expenses		
Operating expenses	**(385.1)**	(393.3)
Provision for customer redress	**(28.5)**	(9.6)
Total operating expenses	**(413.6)**	(402.9)
Operating losses before impairment losses	**(248.8)**	(163.6)
Impairment gains / losses on loans and advances	**44.6**	86.7
Operating loss	**(204.2)**	(76.9)
Share of post tax losses from joint ventures	**-**	(0.1)
Loss before taxation	**(204.2)**	(77.0)
Income tax	**(28.9)**	12.3
Loss for the financial period	**(233.1)**	(64.7)
Attributable to:		
Equity shareholders	**(233.3)**	(65.6)
Non-controlling interests	**0.2**	0.9
	(233.1)	(64.7)
Loss per share (basic and fully diluted)	**(51.67)p**	(23.18)p

As discussed in the 2014 Annual Report and Accounts, as the Bank is not legally entitled to interest income and similar income in respect of customers affected by certain breaches of the technical requirements of the Consumer Credit Act (CCA), this line item has been represented. In the period to 30 June 2014, £4.0m, £5.0m and £8.6m included within interest income, fee and commission expense and operating expenses respectively have been aggregated and disclosed separately on the face of the Income Statement.

In total £49.0m (30 June 2014: £38.6m) of conduct and legal provisions have been incurred during the period. This includes £20.0m (2014 restated: £29.0m) reported within interest receivable and similar income, £nil (2014 restated: £nil) reported within fee and commission income, £0.5m (2014 restated: £nil) reported within operating expenses and £28.5m (2014 restated: £9.6m) within the provision for customer redress line.

The Bank statement of comprehensive income
For the period ended 30 June 2015 (unaudited)
All amounts are stated in £m unless otherwise indicated

				Restated		
	Period from 1 Jan 2015 to 30 June 2015			Period from 1 Jan 2014 to 30 June 2014		
	Equity shareholders	**Non-controlling interests**	**Total**	Equity shareholders	Non-controlling interests	Total

(Loss)/Profit for the period	**(233.3)**	**0.2**	**(233.1)**	(65.6)	0.9	(64.7)
Other comprehensive (expense)/income that may be recycled to profit and loss:						
Changes in cash flow hedges						
Net changes in fair value recognised directly in equity	**(17.0)**	**-**	**(17.0)**	(4.1)	(0.3)	(4.4)
Income tax	**1.8**	**-**	**1.8**	2.6	-	2.6
Transfers from equity to income or expense	**(6.4)**	**-**	**(6.4)**	(5.3)	-	(5.3)
Income tax	**0.6**	**-**	**0.6**	(0.3)	-	(0.3)
Changes in available for sale assets						
Net changes in fair value recognised directly in equity	**(12.3)**	**-**	**(12.3)**	18.0	-	18.0
Income tax	**4.9**	**-**	**4.9**	(3.9)	-	(3.9)
Transfers from equity to income or expense	**-**	**-**	**-**	(12.4)	-	(12.4)
Income tax	**-**	**-**	**-**	2.7	-	2.7
Other comprehensive (expense)/income for the financial period, net of income tax	**(28.4)**	**-**	**(28.4)**	**(2.7)**	**(0.3)**	**(3.0)**
Total comprehensive (expense)/income for the financial period	**(261.7)**	**0.2**	**(261.5)**	**(68.3)**	**0.6**	**(67.7)**

The Bank balance sheet

At 30 June 2015 (unaudited)

All amounts are stated in £m unless otherwise indicated

	As at 30 June 2015	As at 31 December 2014
Assets		
Cash and balances at central banks	**4,577.7**	4,765.3
Loans and advances to banks	**934.3**	1,608.4
Loans and advances to customers	**22,388.5**	25,377.4
Fair value adjustments for hedged risk	**89.5**	148.5
Investment securities - loans and receivables	**18.0**	18.1
Investment securities - available for sale	**3,698.9**	3,167.5
Investment securities - fair value through income or expense	**1,065.0**	1,236.9
Derivative financial instruments	**347.0**	470.7
Non-current assets classified as held for sale	**261.0**	387.3
Equity shares	**2.6**	2.8
Investments in joint ventures	**5.2**	5.3
Investment properties	**2.1**	2.1
Property, plant and equipment	**53.6**	67.5
Intangible assets	**113.7**	103.7
Other assets	**422.3**	187.6
Prepayments and accrued income	**16.7**	12.2
Current tax assets	**0.1**	0.6
Deferred tax assets	**16.9**	21.0
Total assets	**34,013.1**	37,582.9
Liabilities		
Deposits by banks	**714.7**	615.4

Customer accounts	**26,801.0**	29,614.0
Customer accounts - capital bonds	**142.4**	263.8
Debt securities in issue	**2,905.3**	3,443.6
Derivative financial instruments	**425.5**	551.7
Other borrowed funds	**446.4**	196.4
Other liabilities	**165.5**	157.8
Accruals and deferred income	**33.5**	16.0
Liabilities directly associated with non-current assets classified as held for sale	**1.0**	7.9
Provisions for liabilities and charges	**552.0**	617.5
Current tax liabilities	**0.3**	0.3
Deferred tax liabilities	**72.5**	84.0
Total liabilities	**32,260.1**	35,568.4
Capital and reserves attributable to the Bank's equity holders		
Ordinary share capital	**22.6**	22.6
Share premium account	**1,736.9**	1,736.9
Retained earnings	**(513.3)**	(273.1)
Amounts recognised in OCI and accumulated equity relating to non-current assets held for sale	**6.9**	-
Available for sale reserve	**17.2**	24.6
Capital redemption reserve	**410.0**	410.0
Cashflow hedging reserve	**38.0**	59.0
	1,718.3	1,980.0
Non-controlling interests	**34.7**	34.5
Total equity	**1,753.0**	2,014.5
Total liabilities and equity	**34,013.1**	37,582.9

Approved by the Board on 19 August 2015:
Dennis Holt, Chairman
Niall Booker, Chief Executive

The Bank statement of cash flows

For the period ended 30 June 2015 (unaudited)
All amounts are stated in £m unless otherwise indicated

	Period to 30 June 2015	Period to 30 June 2014 (restated)
Cash flows used in operating activities		
Loss before taxation	**(204.2)**	(77.0)
Adjustments for:		
(Increase)/ decrease in prepayments and accrued income	**(4.5)**	0.5
Increase/ (decrease) in accruals and deferred income	**17.5**	(36.7)
Interest payable in respect of other borrowed funds	**1.9**	11.3
Effect of exchange rate movements	**-**	(0.4)
Fair value movement on investment properties	**-**	5.9
Impairment gains on loans and advances	**(44.6)**	(86.7)
Movements on investment impairments	**-**	(1.1)
Depreciation and amortisation	**20.5**	19.9
Impairment of intangible assets	**-**	0.4
Interest amortisation	**(0.3)**	(3.3)
Fair value movements and amortisation of investment securities	**21.7**	(43.3)
Impairment of property, plant and equipment	**-**	7.0
(Profit)/ loss on disposal of property, plant, equipment and software	**(0.2)**	0.2
Unwind of fair value adjustments arising on transfer of engagements	**12.0**	47.1

	(180.2)	(156.2)
Increase/ (decrease) in deposits by banks	**99.2**	(617.6)
Decrease in customer accounts and capital bonds	**(2,934.4)**	(1,566.6)
Decrease in debt securities in issue	**(538.3)**	(361.6)
Decrease in loans and advances to banks	**495.2**	20.0
Decrease in loans and advances to customers	**3,033.8**	2,644.0
Net movement of other assets and other liabilities	**72.2**	(90.0)
Income tax received	**-**	5.3
Net cash flows from/ (used in) in operating activities	**47.5**	(122.7)
Cash flows (used in)/from investing activities		
Purchase of tangible and intangible fixed assets	**(23.2)**	(11.4)
Proceeds from sale of property, plant and equipment	**22.1**	2.4
Purchase of investment securities	**(943.4)**	(1,112.2)
Proceeds from sale and maturity of investment securities	**421.3**	1,526.9
Net cash flows (used in)/from investing activities	**(523.2)**	405.7
Cash flows (used in)/ from financing activities		
Interest paid on other borrowed funds	**(1.9)**	(11.4)
Capital Commitment received from The Co-operative Group	**-**	150.0
Costs incurred relating to the May 2014 Capital Raising	**-**	(12.8)
Cash proceeds relating to the May 2014 Capital Raising	**-**	400.0
Net cash flows (used in)/ from financing activities	**(1.9)**	525.8
(Decrease)/ increase in cash and cash equivalents	**(477.6)**	808.8
Cash and cash equivalents at the beginning of the period	**5,577.1**	6,092.2
Cash and cash equivalents at the end of the period	**5,099.5**	6,901.0
Cash and balances with central banks	**4,525.6**	6,041.2
Held for sale	**12.8**	-
Loans and advances to banks	**561.1**	704.8
Short term investments	**-**	155.0
	5,099.5	6,901.0

The cash flows differ from the Bank balance sheet movements as these movements include the non-cash unwinds of the fair value adjustments arising on the Britannia Building Society merger.

Following the change in the ownership of the Bank, amounts owed to and by The Co-operative Group undertakings are classified as third party balances.

Cash and balances with central banks as outlined in the cashflow above excludes the mandatory cash reserve balance of £52.1m.

The Bank statement of changes in equity

For the period ended 30 June 2015 (unaudited)

All amounts are stated in £m unless otherwise indicated

	Attributable to equity holders of the Bank									
	Share capital	Share premium	Available for sale reserve	Cashflow hedging reserve	Capital redemption reserve	Retained earnings	HFS	Total	Non-controlling interest	Total equity
Period from 1 January 2015 to 30 June 2015										
Balance at the beginning of the period (as restated)	**22.6**	**1,736.9**	**24.6**	**59.0**	**410.0**	**(273.1)**	**-**	**1,980.0**	**34.5**	**2,014.5**
Total comprehensive (expense)/income for the period	**-**	**-**	**(7.4)**	**(21.0)**	**-**	**(233.3)**	**-**	**(261.7)**	**0.2**	**(261.5)**
Transaction with owners recorded directly in equity:										
Transfer to held for sale	**-**	**-**	**-**	**-**	**-**	**(6.9)**	**6.9**	**-**	**-**	**-**
Dividend	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Balance at the end of the period	**22.6**	**1,736.9**	**17.2**	**38.0**	**410.0**	**(513.3)**	**6.9**	**1,718.3**	**34.7**	**1,753.0**
Period from 1 July 2014 to 31 December 2014 (restated)										
Balance at the beginning of the period (as restated)	22.6	1,736.9	(9.7)	6.0	410.0	(112.1)	-	2,053.7	34.2	2,087.9
Total comprehensive (expense)/income for the period	-	-	34.3	53.0	-	(161.0)	-	(73.7)	0.5	(73.2)
Transactions with owners recorded directly in equity:										
Dividend	-	-	-	-	-	-	-	-	(0.2)	(0.2)
Balance at the end of the period	22.6	1,736.9	24.6	59.0	410.0	(273.1)	-	1,980.0	34.5	2,014.5
Period from 1 January 2014 to 30 June 2014 (restated)										
Balance at the beginning of the period (as restated)	12.5	1,359.8	(14.1)	13.1	410.0	(46.4)	-	1,734.9	33.6	1,768.5
Total comprehensive (expense)/income for the period (as restated)	-	-	4.4	(7.1)	-	(65.6)	-	(68.3)	0.6	(67.7)
Transactions with owners recorded directly in equity:										
Issuance of new share capital	10.1	389.9	-	-	-	-	-	400.0	-	400.0
Transaction costs	-	(12.8)	-	-	-	-	-	(12.8)	-	(12.8)
Dividend	-	-	-	-	-	(0.1)	-	(0.1)	-	(0.1)
Balance at the end of the period (as restated)	22.6	1,736.9	(9.7)	6.0	410.0	(112.1)	-	2,053.7	34.2	2,087.9

Notes to the Bank Interim financial report

For the period ended 30 June 2015 (unaudited)
All amounts are stated in £m unless otherwise indicated

1. Basis of preparation and significant accounting policies

1.1 Basis of preparation

This condensed consolidated Interim Financial Report for the half year ended 30 June 2015 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct 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 Bank's 2014 financial statements, which have been prepared in accordance with IFRS as adopted by the European Union.

The information contained within this report for the half year 30 June 2015 does not constitute statutory accounts as defined by Section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, did not contain a statement under section 498(2) or (3) of the Companies Act 2006, but did make reference to an emphasis of matter in relation to going concern.

The Interim Financial Report 2015 was approved by the Board of Directors on 19 August 2015.

1.2 Significant accounting policies

The same accounting policies and presentation are followed in the Interim Financial Report 2015 as applied in the 2014 Annual Report and Accounts. Significant additions and changes to underlying methodologies are discussed within the critical judgements and estimates section.

During July 2015 the IASB confirmed the deferral of the effective date of IFRS 15 Revenue from Contracts with Customers, by one year to 1 January 2018. Further information on pronouncements that will be relevant to the Bank in future periods is provided in the 2014 Annual Report and Accounts.

1.3 Going Concern

Introduction

These financial statements are prepared on a going concern basis. The Directors have a reasonable expectation that the Bank will have the resources to continue in business for the foreseeable future, taking into account the matters referred to below.

The assessment of the appropriateness of using the going concern basis of accounting has been subject to a thorough process involving analysis and discussion by management, Executive and Board Committees, in line with our governance processes. Discussions have also been held with the PRA regarding the Bank's ability to deliver against its previously communicated strategy. Whilst considering the Bank's Plan and forecasts, the Directors gave attention to the 12 month period following the date of approval of these financial statements.

The 2015–2019 plan has been reviewed and accepted by the PRA. This plan has not changed since submission in December 2014 and was designed to enable the Bank to withstand a severe stress by the end of the plan period and involves reshaping and restructuring the business around our individual and small business customers.

There does however continue to be material uncertainties around the Bank's ability to continue as a going concern which relate to the implementation of the plan as discussed in (e) below. In particular, the Bank needs ongoing regulatory acceptance of the Bank's position until the IT platform has been remediated and the Bank has rebuilt its capital strength to be able to withstand a significant stress.

The plan

The Co-operative Bank is a recognised brand and continues to maintain a loyal customer base. Our strategy is to reshape the business as a core relationship bank providing straightforward business banking and retail banking services to individuals and SMEs. Restructuring the business, including a reduction in head office costs, to drive a significant reduction of the cost base is an important part of the overall strategy.

A key element of the reshaping of the business is the reduction in Non-core assets, which currently carry the majority of the Risk Weighted Assets of the Bank. Reducing the Risk Weighted Assets will improve the Bank's CET1 and leverage ratios, and stressed capital resilience.

The revised plan, accepted by the PRA, accelerates the reduction in RWAs by expediting the deleveraging of the Optimum portfolio.

The Bank has started to deliver against its plan and improve its capital resilience. In the period to 30 June 2015 the Bank successfully completed two significant transactions; the securitisation of £1.5bn of Non-core residential mortgage assets within the Optimum portfolio, the largest deal of this type in the UK market since 2007, and the issuance of £250.0m of Tier 2 capital.

Capital

Total CRD IV capital resources as at 30 June 2015 are £1.7bn (31 December 2014 £1.9bn) with Core Tier 1 capital after regulatory deductions of £1.5bn (31 December 2014 £1.6bn). The Bank's CET1 ratio stands at 14.9% (31 December 2014 13.0%) on a CRD IV end point basis.

As at 30 June 2015, the Bank met the Individual Capital Guidance (ICG) for total capital set by the PRA, however it is not forecast to sustainably remain compliant against the currently in force ICG requirements for most of the duration of the 2015–2018 planning period.

Liquidity

The Bank's liquid asset ratio was stable from 31 December 2014 to 30 June 2015 at 17.9%. The reduction in total assets was met with a proportionate reduction in primary liquidity holdings. The Bank complied with regulatory minima and the more prudent internal liquidity risk appetite throughout the period.

During the period to 30 June 2015, Customer Assets have continued to reduce primarily as a result of the Non-core asset disposals, reducing by a total of £2.5bn. The Bank has experienced a reduction of £3.2bn in Customer Liabilities following repricing activity on certain Savings products and intentionally low retention of maturing term deposits; the deposit reductions are necessary to offset deleverage activity and deliver the stable liquid asset ratio quoted above.

The Bank has redeemed the Silk Road Finance Number One securitisation in March 2015 of £1.1bn. The Warwick transaction completed in May 2015 and provided £0.8bn of net funding proceeds.

The Bank expects to stay above the current ILG regulatory minima across the planning period.

Risks and uncertainties

Key risks associated with successful execution of the plan include:

1. The Bank is in the process of separating its operations from its former parent, the Co-operative Banking Group Limited, and its ultimate former parent, The Co-operative Group, with both of which it shares premises, systems and services. The work is complex and time consuming and despite forecasting that separation costs will be higher than originally envisaged, there remains a risk that the costs of executing these separation plans may increase further. The potential misalignment of Group and Bank's objectives may also make separation slower and more costly than anticipated;

2. The Bank participates in The Co-operative Group's defined benefit pension scheme (Pace). As long as the Bank remains a participating employer in Pace, the Bank could be 'last man standing' in the event of the failure of one or more of the other participating employers meaning that some or all of Pace's liabilities would need to be borne by the Bank. In addition, a material difference to current estimates of the funding of the pension scheme, or the Bank being forced to pay for a greater proportion than currently envisaged, could cause the Bank to increase the Bank's Pillar 2a Capital requirements or cause additional expense through increased contributions;

3. The Bank's IT systems have been underinvested in 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 current IT disaster recovery plan has not been tested 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 at risk of an IT failure causing material disruption to the Bank's products and services. The required improvement and re-engineering of the Bank's IT platform and operational process is necessary and significant in scale, complexity and cost; in common with any programme of this scale it carries a significant level of execution risk. Any delays in, or failure by, the Bank to deliver the re-engineering of the Bank's IT platform may result in ongoing risk of technology failure, significant additional investment costs, subject the Bank to further regulatory scrutiny or sanction and impact the Bank's ability to deliver its strategy. The Bank's regulators are fully aware of the steps the Bank is taking to address these operational risks;

4. The Bank has entered into an outsourcing contract with Capita for the provision of mortgage processing. This creates execution risk as the processes and data migrate to Capita at the same time, as the Bank begins to manage data and information flows from the third party relationship. The Bank has not entered into such an arrangement in recent times and this generates significant risk in the short term should this not be delivered on an ongoing basis by the outsource provider and not be properly managed by the bank. In the medium to longer term this arrangement helps reduce risk and provide resiliency;

5. The ability of the Bank to raise additional non-CET1 capital assumed in the plan beyond the Tier 2 issuance it has already successfully completed in first half 2015;

6. To move forwards with its plan, the Bank requires the regulators' ongoing acceptance of its inability to meet regulatory requirements and expectations. To the extent this is not forthcoming or to the extent that the Bank does not perform in line with its Business plan or regulatory capital requirements are increased for any reason, additional CET1 capital may be required over and above that included in that plan in order for the Bank to remain a going concern, and the PRA or FCA could exercise their powers under the Banking Act of 2009; and

7. More generally, the ability of the Bank to achieve the results set out in the 2015-2019 plan. In this respect particular challenges include (but are not limited to): ability to achieve the targeted cost savings; ability to retain customers and deposits; the timing and quantum of impacts to capital from the asset reduction exercise; meeting its planned improvements in net interest margin; the ability of the Bank to generate sufficient Core Bank asset growth; a possible further deterioration in the quality of the Bank's asset portfolio; unplanned costs from (for example) conduct risk matters, regulatory investigations, IT investment and the ability to maintain the Bank's access at, an appropriate cost, to liquidity and funding.

Conclusion

The Directors have concluded that, despite lower than expected losses and higher CET1 for the period ended 30 June 2015, the risks set out above, and their consequential effects, represent a material uncertainty which may cast significant doubt upon the Bank's ability to continue as a going concern. The Bank may be unable to continue realising its assets and discharging its liabilities in the normal course of business. Nevertheless, after making enquiries of management and considering the current forecasts, in particular those for the 12 month period following the date of approval of these financial statements, the Directors have a reasonable expectation that the Bank will have adequate resources to continue in business over this period. For these reasons, they continue to adopt the going concern basis in preparing these financial statements. Therefore this set of financial statements does not include the adjustments that would result if the Bank was unable to continue as a going concern.

2. Critical judgements and estimates

The preparation of financial information requires management to make judgements, 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.

The judgements and assumptions that are considered to be the most important to the portrayal of the Bank's financial condition are those relating to loan impairment provisions, conduct risk and legal provisions, deferred tax, pensions, hedge accounting, separation, effective interest rates (EIR) and fair value adjustments, and interest recognition relating to breaches of technical requirements of the Consumer Credit Act.

a. Loan impairment provisions

i. Overview

The loan portfolios are reviewed on a regular basis to assess for impairment. In determining whether an impairment provision should be recorded, judgements are made as to whether there is objective evidence that a financial asset or portfolio of financial assets is impaired as a result of loss events that occurred after recognition of the asset and by the balance sheet date.

The calculation of impairment loss includes expectations of levels of future cash flow and is based on both the likelihood of a loan or advance being written off and the estimated loss on such a write off.

The changes in impairment provisions for all books of business result from management review of assumptions with respect to the determination and operational alignment of: the probability of the possession of collateral given default (PPD); treatment of forbearance; length of loss emergence periods; timing of impairment recognition, and the formalising of charge off policy.

Further explanation of the treatment of forborne balances is included in the Bank's risk management disclosures.

The section below explains the methodology for loan impairment for both the Core (unsecured and secured residential) and Non-core (Corporate and Optimum) segments. Only the critical elements of judgement are discussed in detail.

ii. Collective provisions

Loans which have not been assessed individually for impairment impaired are assessed for collective impairment. Collective provisions cover losses which have been incurred but not yet identified on loans subject to individual assessment and for homogeneous groups of loans that are not considered individually significant. Typically, retail lending portfolios are assessed for impairment on a collective basis as the portfolios generally consist of large pools of homogenous loans.

a) Core

i) Unsecured and secured residential

The Bank's collective provision for unsecured and secured retail personal advances is £109.2m (31 December 2014: £110.0m). Loans are identified as impaired by taking account of the stage of the debt's delinquency, the product type and the regularity of payments made whilst in arrears. The provision is calculated using assumed probabilities of default (PD) and a loss given default (LGD) for unidentified impairment.

The provision rates reflect the likelihood that the debt will be written off or charged off at some point in the future. The PD and LGD parameters are based on historical experience and are subject to regular review.

A key estimate within the unsecured models is the probability that impaired accounts move to a default status during the outcome period. The model uses historical actual data over a defined period of time to arrive at an average probability of accounts moving to default. If the maximum PD had been used for each category of arrears and for each product, this would increase the collective provision by £5.2m for all of the unsecured portfolios.

A key estimate of the secured impairment model provisioning is forced sales discount. The forced sales discount is an average and is calculated using historical actual data over a defined outcome period. If the maximum forced sales discount for the outcome period was used to calculate the provision across the secured portfolios excluding Optimum it would increase by £7.3m.

There were no significant changes made to the collective provision methodology in 2015.

b) Non-core

i) Corporate

The Bank's collective provision against corporate loans in the Non-core division has decreased to £15.8m (31 December 2014: £16.7m).

The collective provision is calculated using factors such as observed default rates and LGD. An assessment is made of the likelihood of the loan becoming recognised as impaired in the loss emergence period and for loans that are impaired the likelihood of them moving to default over the outcome period. The calculation of the collective provision relies heavily on assumed probabilities of default.

There were no significant changes to the collective provision methodology in 2015.

The impact of increasing the default rates by 10% is an increase in the collective of £2.1m. The impact of decreasing by 10% the probability of resolution for defaulted customers is an increase in the collective of £1.8m. The impact of increasing other parameters that affect the loss rate by 10% is not significant.

ii) Optimum collective

In addition to the above, collective provisions of £9.5m (31 December 2014: £12.4m) are held in the Optimum segment of the Non-core business.

A key estimate is the collateral value. A 10% decrease to the indexed collateral used in the model would increase the provision by £17.7m.

There were no significant changes made to the collective provision methodology in 2015.

Further explanation of collection loan impairment methodology is included in the Bank's risk management disclosures.

iii. Individual provisions

Individual provisions are recorded for loans which are assessed for impairment on an individual basis. Loans considered as individually significant are typically Corporate loans.

a) Core

i) Unsecured and secured residential

Individual provisions for unsecured and secured residential lending total £5.3m (31 December 2014: £4.5m). There were no significant changes made to the provision methodology in 2015. Sensitivities to the key estimates within the secured residential individual impairment model are disclosed in the risk management section.

b) Non-core

i) Corporate

The Bank's individual impairment provision on Corporate loans totals £327.1m (31 December 2014: £386.8m). The provision has decreased reflecting improving macroeconomic factors and the Bank's strategic deleveraging of Non-core assets.

The determination of individual impairment provisions requires the exercise of considerable management judgement involving matters such as economic conditions and the resulting trading performance of the customer and the value of security held, for which there may not be a readily accessible market. In particular, significant judgement is required by management in assessing the borrower's cash flows and debt servicing capability together with the realisable value of collateral. The actual amount of the future cash flows and their timing may differ from the assumptions made for the purposes of determining the impairment provision and consequently these provisions can be subject to change over time. A key estimate within the provision is collateral valuation. A 10% decrease in collateral values would increase the provision by £25.6m.

For further information on credit risk and impairment, see the Bank's risk management disclosures.

ii) Optimum individual

The Bank's individual impairment provision on Optimum mortgages is £nil (31 December 2014: £9.5m). Mortgage accounts are identified as impaired and provided for on an individual basis by taking account of the stage of the debt's delinquency.

There were no significant changes made to the provision methodology in 2015. The decrease in the provision reflects the deleverage of a portion of the portfolio in 2015, improving quality of the loan book and improved House Price Index (HPI) values.

b. Conduct risk and legal provisions

i. Overview

The Bank has identified a number of conduct risk and legal issues against which it has raised provisions, based on management's best estimate of the total potential costs to the Bank.

The calculation of these conduct and legal provisions requires significant judgement by management in determining appropriate assumptions. Key assumptions include basis of redress, operating costs of resolving redress, legal analysis, the level of complaints, Bank uphold rates, proactive contact and response rates, and the Financial Ombudsman Service referral and uphold rates. This is discussed in more detail in the 2014 Annual Report and Accounts.

ii. Payment Protection Insurance (PPI)

A provision of £44.6m (31 December 2014: £73.6m) has been recorded in respect of potential customer redress relating to past sales of PPI. The provision is in respect of the total expected cost of carrying out this work and paying compensation, making total provisions raised to date of £352m (31 December 2014: £352m).

There are a number of key assumptions within the calculation of the current provision. The key assumptions within the calculation of the current provision are complaint volumes, uphold rates, administration costs, proactive response rate and retrospective redress.

The current position, expected movement in position and baseline sensitivities of the key estimates are outlined below:

Description of estimate	Current position	Future expected	Sensitivity on current position
Number of inbound valid[1] complaints	88,000	15,000	1,000 = £1.3m
Number of proactive mailings	43,000	4,000	1,000 = £1.6m
Response rate to proactive mailings	60%	60%	1% = £1.5m
Average uphold rate per valid[1] complaint	64%	58%	1% = £0.3m
Average redress per upheld complaint	£3,230	£1,746	£100 = £1.0m

[1] valid complaints excludes those complaints for which no PPI policy exists.

These assumptions remain subjective, in particular due to the uncertainty associated with future claims levels. The resulting provision represents the best estimate of all future expected costs of PPI redress. However, it is possible the eventual outcome may differ from the current estimate and if this were to be material an adjustment to the provision will be made. The provision also includes an estimate of the Bank's claims handling costs and those costs associated with claims that are subsequently referred to the Financial Ombudsman Service.

A 2014 decision of the UK Supreme Court (Plevin) held that, judged on its own facts, non-disclosure of the amount of commissions payable in connection with the sale of single premium PPI to a customer could create an unfair relationship under provisions of the UK Consumer Credit Act. In line with other banking industry participants, The Co-operative Bank Plc is participating in an active financial services industry wide dialogue with the FCA and the FOS to determine any possible wider impact of such decision on its historical sales of single and repeat premium PPI. The decision has a potential impact on a number of the Bank's customers who may have a claim for PPI mis-selling and treatment of prior claims. Due to this uncertainty it is not currently practicable to provide an estimate of any financial impact the Plevin decision could have and there can be no assurance that the outcome of this matter will not be material.

iii. Interest rate hedging past business review

The Bank previously voluntarily agreed to participate in the FCA's Interest Rate Hedging (IRH) Past Business Review (PBR).

A provision of £8.6m (31 December 2014: £14.8m) for potential interest rate swap mis-selling has been recorded. The decrease in the provision reflects the utilisation of the opening provision in the period.

Calculations on redress have been performed based upon the latest guidance from both the FCA and a Skilled Person (as defined by the FCA). The final redress method has not, however, been confirmed in all cases.

There are a number of key assumptions within the calculation of the current provision. The key assumptions within the calculation of the current provision are the population of in scope swaps and the methodology to calculate redress provision.

iv. Breaches of the technical requirements of the Consumer Credit Act (legal provision)

An amount of £167.5m (31 December 2014: £169.4m) has been provided regarding interest refunds following identification of breaches of the technical requirements of the CCA. The decrease in the provision reflects the utilisation of the opening provision in the period. This has offset an increase in the provision for further interest chargeable on affected loans in accordance with relevant loan agreements which requires redressing and an updated estimate of the costs which will be incurred in delivering redress. The provision will continue to increase in line with interest charged until the issue is fully remediated.

Assumptions for provisioning purposes are that the payment profile of loans was as per those agreed at drawdown. The provision covers all interest accrued during non-compliance to the end of June 2015.

Within the provision, operating costs of £13.1m (31 December 2014: £17.6m) are based upon the latest view of delivery timeframes.

v. Packaged accounts

An amount of £33.1m (31 December 2014: £17.4m) has been provided in respect of potential customer redress relating to past sales of packaged accounts. There are a number of key assumptions within the calculation of the current provision. The key assumptions within the calculation of the current provision are complaint volumes, uphold rates, administration costs, proactive response rate and retrospective redress. The provision has increased in 2015 following the identification of additional populations of customers to be redressed within the programme and inbound complaints.

These assumptions remain subjective, in particular due to the uncertainty associated with future claims levels. The resulting provision represents the best estimate of all future expected costs of packaged accounts redress. However, it is possible the eventual outcome may differ from the current estimate and if this were to be material an adjustment to the provision will be made. The provision also includes an estimate of the Bank's claims handling costs and those costs associated with claims that are subsequently referred to the Financial Ombudsman Service.

The key sensitivity in the calculation of the provision is the uphold rate on complaints received. If the uphold rate increased by 5%, then the provision would increase by £2.5m.

Within the provision, operating costs of £7.3m (31 December 2014: £4.4m) are based upon the latest view of delivery timeframes.

vi. Other conduct/compliance related provisions

Other conduct/compliance related provisions include the following:

- £12.6m (31 December 2014: £17.8m) for potential customer redress relating to the processing of first payments on certain mortgages;
- £24.0m (31 December 2014: £24.0m) relating to potential customer redress in relation to mortgage early redemption charges;
- £14.1m (31 December 2014: £14.9m) for alleged failings in the introduction of third party sales of card and identification protection products (as part of an industry wide review announced by the FCA on 27 January 2015);
- £10.2m (31 December 2014: £20.0m) relating to potential customer redress due to mortgage customer detriment;
- £33.6m (31 December 2014: £34.8m) for potential customer redress in relation to arrears fees and charges;
- £11.4m (31 December 2014: £15.0m) relating to provision for potential conduct issues incurred but not identified;
- £5.7m (31 December 2014: £7.0m) relating to potential customer redress and other costs in relation to mortgage documentation;
- £16.6m (31 December 2014: £15.2m) relating to cost of mortgage redress; and
- £12.6m (31 December 2014: £12.2m) of other conduct provisions.

Key assumptions include basis of redress, legal analysis, operating costs of resolving redress, level of complaints, uphold rates, proactive contact and response rates and Financial Ombudsman Service referral and uphold rates. The above provisions have a significant range of highly judgmental outcomes, the most significant of which reside within the provision for mortgage customer detriment. Given the Bank is still in the process of identifying the population of affected customers it carries the inherent risk of forecasting for subjective final outcomes. A reasonably possible change of increasing by 10% the number of customers with closed accounts who have experienced detriment, could increase the provision for customer redress by £3.5m.

c. Deferred tax

The Bank has recognised a deferred tax asset of £16.9m (31 December 2014: £21.0m) which includes £0.5m (31 December 2014: £0.9m) within a disposal group classified as held for sale. The Bank has recognised a deferred tax liability of £72.5m (31 December 2014: £84.0m). Deferred tax has been calculated using a tax rate of 20%.

The deferred tax asset relates to temporary differences arising on consolidation adjustments where the recoverability is not dependent on the future performance of the Bank and temporary differences in subsidiaries that are forecast to make taxable profits. The Bank has not recognised a deferred tax asset in respect of any other trading losses, capital losses or temporary differences as doubt exists over the availability of sufficient future taxable profits.

d. Pensions

i. Defined contribution accounting for the Pace scheme

The Bank participates in Pace. Pace is a hybrid scheme, consisting of a defined benefit section and a defined contribution section. There is currently insufficient information available to consistently and reliably identify the Bank's share of its liabilities in respect of this multi-employer scheme. For this reason defined benefit accounting is not possible and pension costs in respect of Pace are accounted for on a defined contribution basis in accordance with IAS 19 Employee Benefits (revised 2011). Pension costs are recognised as an expense in the Bank's income statement.

A provision of £5.4m (31 December 2014: £2.9m) has been recognised in relation to the annual deficit funding which the Bank has agreed to pay. This covers the period to July 2016. A further agreement on deficit funding may be reached at that point if the overall liability position has not been resolved at that time.

ii. Defined benefit accounting for the Britannia scheme

The Britannia scheme is a hybrid scheme, consisting of a defined benefit section and a defined contribution section. In 2009, following the transfer of engagements of Britannia Building Society, CFSMS, a Co-operative Banking Group subsidiary, became principal employer of the scheme. The Bank and three wholly owned subsidiaries (Platform Funding Limited, WMS and Britannia International) are participating employers in this multi-employer scheme. This scheme is now closed.

Following further operational separation of the Bank from the wider Co-operative Group, the Britannia scheme was recognised on the Bank's balance sheet during 2014 and is now accounted for on a defined benefit basis.

The next full (triennial) actuarial funding valuation of the Britannia Pension Scheme, with an effective date of 5 April 2014, is currently ongoing, and is expected to be completed in October 2015.

e. Hedge accounting

The Bank reviewed its hedge accounting methodology in the prior year and concluded that the method for calculating hedge ineffectiveness should be revised to better align with industry practices under IAS 39 (Financial Instruments: Recognition and Measurement). This has resulted in the recognition of an accounting loss in the year and a restatement of prior years.

These changes will result in additional accounting volatility in future financial periods, although this merely represents changes in the timing of recognition of profit or loss and not in the overall economic value of the hedge itself.

f. Interest recognition (CCA)

During 2013, breaches of the technical provisions of the CCA were identified resulting in the Bank not being legally entitled to the interest on the loans subject to a breach. The Bank anticipates redressing customers and rectifying loan documentation throughout 2015, at which point the Bank becomes compliant with the CCA and the Bank can start recognising interest on the loans again.

The interest recognised on unsecured lending subject to a CCA breach was previously recognised within the interest income line, with an equal deduction for the amount recognised directly below interest income presented on the income statement. The presentation has been amended for the period and this income has not been recognised.

g. Separation provision

During November 2013, the Bank publically announced its intention to separate from The Co-operative Group. The Bank carries a provision of £75.7m (31 December 2014: £112.3m) in relation to separation costs which are eligible to be provided for under IAS 37 (Provisions, Contingent Liabilities and Contingent Assets).

The separation provision represents the costs directly relating to the Bank's obligation to separate from The Co-operative Group. The calculation of the separation provision requires significant judgement by management in determining appropriate assumptions. Key assumptions include the day rate which will be paid to contract staff as part of the separation of Enterprise Services Programme and the overall time it will take to achieve separation.

h. Effective Interest Rate and Fair Value adjustments

When calculating the EIR to apply to an asset or liability held at amortised cost, the Bank estimates future cash flows considering all contractual terms of an instrument. In most cases, the future cash flows arising from an asset or liability will be dependent on a number of variables, such as the proportion of mortgage customers who do not switch product after a discount period ends, or future interest rates set by the market. Therefore, it follows that management is required to apply significant judgement in creating assumptions about the value of these variables in the future.

In calculating the EIR adjustment to apply to mortgage balances, the most significant assumption in terms of impact and volatility is the assumed standard variable rate which will be in effect at the end of a fixed rate product term. This is determined with reference to expected Bank of England base rate rises, with a proportion of future increases assumed to pass through to the Bank's standard variable rate. As a measure of the sensitivity of this input, a 0.5% increase in the assumed standard variable rate in place at the end of all fixed rate products would result in a £6.5m (35%) increase in the EIR adjustment required to the loans and advances to customers balance as at 30 June 2015.

On the merger of the Bank and Britannia Building Society in August 2009, an exercise was undertaken to fair value the respective assets and liabilities of Britannia Building Society. These fair value adjustments are unwound on an EIR basis over the effective lives of the assets and liabilities. Management is required to apply significant judgement in determining the EIR assumptions which underpin the unwind profile of the fair value adjustments. The most significant assumption in terms of impact and volatility in determining the unwind profile for fair value adjustments is the remaining average lives of the related instruments.

The most significant fair value adjustment is that made to the Leek debt securities, which were valued below par upon merger. This adjustment has been unwinding towards the call date of the underlying Leek debt securities. As a measure of the sensitivity of the remaining lives on these instruments, if the Leek notes were to be redeemed one month earlier than the call date, the Leek notes fair value adjustment would decrease by £2.7m (0.9%) as at 30 June 2015, resulting in additional expense of £2.7m in the period to 30 June 2015.

i. Derecognition of financial assets

The Bank closed its inaugural whole structure securitisation as part of its Non-core optimum residential mortgage portfolio through the issuance of notes and residual certificates by Warwick Finance 1. Those assets were assessed for derecognition on a stand alone and consolidated basis in accordance with IAS 39.

Stand alone basis

Pass through test

Under the pass through test, the obligation to pay the cashflows from the mortgages to Warwick Finance 1 was met since payments from the mortgage borrower are made into the collection accounts required to be transferred to Warwick Finance 1 on the next business day.

Risk and rewards test

The Bank has assessed whether substantially all the risks and rewards of ownership of the mortgages to Warwick Finance 1 have been transferred. Whilst the Bank retains an interest in Class A notes, the holders of residual certificates are independent to third parties, fees and terms and conditions are on an arms length basis, and the Bank is not consulted over decision to make further advances with regard to mortgages which have been securitised as part of this transaction. The Bank has therefore concluded that the risks and rewards test is met.

Requirement to consolidate the results of Warwick Finance 1

Variable rights of return

The Bank has assessed whether it has exposure or rights to variable returns from involvement with Warwick Finance 1, and if it has the ability to affect those returns. At 30 June the Bank owned WMSL, which provided services to Warwick Finance 1, however the Bank only acts as agent for junior and residual note holders and not as a principal acting in its own interest. Hence the Bank has no power over Warwick Finance 1 and is only exposed to a de-minimus variable return from Warwick Finance 1. Since the Bank sold WMSL on 1 August 2015 the Bank now has no further de-minimus powers over this entity. The Bank therefore concluded that Warwick Finance 1 should not be consolidated into its results.

3. Restatements

The following restatements are in line with those disclosed in the 2014 Annual Report and Accounts, and have been reassessed to determine the impact on the prior period Income Statement.

Hedge accounting

In accordance with its Accounting Volatility Management Strategy, the Bank elects to make use of different hedge accounting techniques in order to eliminate (as far as possible) any profit or loss generated purely through the implementation of accounting standards (as opposed to actual economic losses).

The Bank applies two types of hedge accounting - cash flow hedge accounting and fair value hedge accounting. These hedging methodologies are used on both a micro basis (one underlying asset or liability hedged by one derivative) and a macro basis (a portfolio of assets or liabilities hedged by a combination of derivatives).

In prior periods the Bank incorrectly included the interest rate element of a small number of swaption contracts as part of the cash flow hedging model. This was amended in the second half of 2014 resulting in a restatement of prior periods. The effect of the change was to reduce retained earnings in the period to 30 June 2014 by £2.5m.

Corporate interest fair value

An interest fair value asset was recorded at the time of the merger of the Bank with the Britannia Building Society in 2009. This asset has been unwound in line with the expected behavioural lives of the assets. The Bank has reviewed the methodology and modelling of the unwind of this asset and has concluded that an acceleration in the unwind would be required to the half year ended 30 June 2014. This resulted in a £1.3m credit in retained earnings in the period to 30 June 2014.

Deferred Tax Asset recognition (DTA) in subsidiaries

The Bank has reviewed its methodology for deferred tax recognition across all of the companies and has concluded that additional deferred tax assets and liabilities should be recognised as at 31 December 2013 in respect of two of the Bank's subsidiaries, Platform Funding Limited (PFL) and Mortgage Agency Services Number Five Limited (MAS5). This restatement together with the restatement of other deferred tax positions previously unrecognised as at 31 December 2013 has resulted in a deferred tax debit of £6.8m to the income statement for the period to 30 June 2014 and a deferred tax credit to other comprehensive income for the period of £2.2m. No deferred tax was subsequently recognised in MAS5 at 31 December 2014 due to the likelihood of an Optimum deleverage. All of the business of MAS5 relates to Optimum.

Provisions for conduct redress

Provisions for conduct redress in the period to 30 June 2014 of £4.0m, £5.0m and £8.6m included within interest income, fee and commission expense and operating expenses respectively, have been aggregated and disclosed separately on the face of the income statement.

The effect of the prior period restatements on the Bank are:

Income Statement

	30 June 2014 (as reported)	Restated	Represented	30 June 2014 (restated)
Interest income	541.3	1.3	(4.0)	538.6
Fee and commission income	99.9	-	5.0	104.9
Other operating expenses	(1.6)	(2.5)	-	(4.1)
Operating expenses	(401.9)	-	8.6	(393.3)
Provision for customer redress	-	-	(9.6)	(9.6)
Loss for the period before taxation	(75.8)	(1.2)	-	(77.0)
Income tax	19.1	(6.8)	-	12.3

4. Segmental information

The Bank is managed as two divisions - Core and Non-core. Core represents activity consistent with the strategy and risk appetite of the Bank. This includes Retail, Business and Commercial Banking (BaCB), Treasury and Other segments. Non-core business lines include activities not aligned with the current strategy of the Bank which are targeted for run down or exit.

Revenues are attributed to the segment in which they are generated. Transactions between the reportable segments are on normal commercial terms and internal charges and transfer pricing adjustments have been reflected in each segment.

	Core	Non-core

	Retail	BaCB	Treasury	Other [1]	Total Core	Corporate CoAM	Optimum	Total Non-core	Total
Period to 30 June 2015									
Net interest income/ (expense)	**204.9**	**20.3**	**(0.3)**	**6.4**	**231.3**	**(6.3)**	**8.6**	**2.3**	**233.6**
Losses on asset sales	**-**	**-**	**(0.1)**	**-**	**(0.1)**	**(35.3)**	**(2.8)**	**(38.1)**	**(38.2)**
Non-interest income/ (expense)	**28.1**	**5.6**	**0.6**	**(3.7)**	**30.6**	**8.2**	**2.3**	**10.5**	**41.1**
Operating income	**233.0**	**25.9**	**0.2**	**2.7**	**261.8**	**(33.4)**	**8.1**	**(25.3)**	**236.5**
Direct costs	**(76.4)**	**(5.2)**	**(4.1)**	**(4.8)**	**(90.5)**	**(5.6)**	**(0.5)**	**(6.1)**	**(96.6)**
Impairment gains/(losses) on loans and advances	**(4.6)**	**1.0**	**-**	**0.9**	**(2.7)**	**44.8**	**2.5**	**47.3**	**44.6**
Contribution result	**152.0**	**21.7**	**(3.9)**	**(1.2)**	**168.6**	**5.8**	**10.1**	**15.9**	**184.5**
Operations and central costs									**(163.0)**
Project costs									**(101.9)**
Operating result									**(80.4)**
PPI, conduct and legal risk provisions									**(49.0)**
Share of post-tax profit/losses from joint ventures									**-**
Financial Services Compensation Scheme Levies									**(20.5)**
Fair value amortisation									**(54.3)**
Loss before taxation									**(204.2)**
Income tax									**(28.9)**
Loss for the period									**(233.1)**

[1] Unity Trust Bank operates in the social economy and commercial banking sectors and is consolidated into the Bank's results on the basis of control. On 14 January 2014, it was announced that the Bank is in discussions with the Board of Unity Trust Bank about a potential sale of its 26.7% shareholding. Discussions continue but remain at an early stage and any decision on a changed ownership structure would be subject to regulatory approval.

Unity Trust Bank is registered in England and Wales and operates in the UK.

	Core					Non-core				
	Retail	BaCB	Treasury	Other [1]	Total Core	Corporate CoAM	Optimum	Illius	Total Non-core	Total
Restated Period to 30 June 2014										
Net interest income/ (expense)	201.5	23.0	(9.3)	5.7	220.9	13.1	17.3	(2.1)	28.3	249.2
Gains/ losses on asset sales	-	-	(2.1)	-	(2.1)	4.0	-	-	4.0	1.9
Non-interest income/ (expense)	55.9	7.9	(21.6)	3.1	45.3	10.5	2.4	(2.0)	10.9	56.2
Operating income	257.4	30.9	(33.0)	8.8	264.1	(27.6)	19.7	(4.1)	43.2	307.3
Direct costs	(78.4)	(8.7)	(7.2)	(4.2)	(98.5)	(9.3)	(2.6)	(2.3)	(14.2)	(112.7)
Impairment gains/(losses) on loans and advances	(1.3)	(1.4)	-	1.2	(1.5)	79.3	9.0	(0.1)	88.2	86.7
Contribution result	177.7	20.8	(40.2)	5.8	164.1	97.6	26.1	(6.5)	117.2	281.3
Operations and central costs										(184.3)
Project costs										(68.8)
Operating result										28.2
PPI, conduct and legal risk provisions										(38.6)
Share of post-tax losses from joint ventures										(0.1)

Financial Services Compensation Scheme Levies	(25.3)
Fair value amortisation	(41.2)
Loss before taxation	(77.0)
Income tax	12.3
Loss for the period	(64.7)

	Period to 30 June 2015	Restated Period to 30 June 2014
Net interest income		
Total interest margin for reportable segments	**233.6**	249.2
Gains/losses on asset sales	**-**	-
Interest fair value unwind	**(51.6)**	(45.0)
Provision for customer redress claims	**(20.0)**	(29.0)
Other	**(0.1)**	-
Net interest income	**161.9**	175.2
Non-interest income		
Total non-interest income for reportable segments	**41.1**	56.2
Losses/ gains on asset sales	**(38.2)**	1.9
Interest fair value unwind	**-**	6.0
Provision for customer redress claims	**-**	-
Non-interest income	**2.9**	64.1
Comprising:		
Net fee and commission income	**47.7**	68.0
Income from investments	**0.1**	-
Net trading income	**-**	0.2
Other operating expense	**(44.9)**	(4.1)
	2.9	64.1
Operating expenses		
Total direct costs for reportable segments	**(96.6)**	(112.7)
Interest fair value unwind	**(2.7)**	(2.2)
Operations and central costs	**(163.0)**	(184.3)
Project costs	**(101.9)**	(68.8)
Provision for customer redress claims	**(29.0)**	(9.6)
Impairment reclassification	**-**	-
Re-presentation of fraud costs	**-**	-
Financial Services Compensation Scheme Levies	**(20.5)**	(25.3)
Provision for conduct risk	**-**	-
Other	**(0.1)**	-
Operating expenses	**(413.6)**	(402.9)
Interest fair value unwind		
Comprising:		
Total interest unwind for reportable segments	**(54.3)**	(41.2)
Interest margin unwind	**51.6**	45.0
Non-interest income unwind	**-**	(6.0)
Operating expenses unwind	**2.7**	2.2
Interest fair value unwind	**-**	-

Total Impairment gains/(losses) on loans and advances

Impairment gains on loans and advances for reportable segments	**44.6**	86.7
Other	**-**	-
Impairment gains on loans and advances	**44.6**	86.7

As at 30 June 2015

	Core					Non-core			
	Retail	BaCB	Treasury	Other	**Total Core**	Corporate CoAM	Optimum	**Total Non-core**	**Total**
Segment assets	14,187.5	554.0	9,761.3	862.7	**25,365.5**	3,006.9	5,021.0	**8,027.9**	**33,393.4**
Unallocated assets									**710.5**
Total assets for reportable segments									**34,103.9**
Statutory adjustments									**(90.8)**
Bank total assets									**34,013.1**

As at 30 June 2015

	Core					Non-core			
	Retail	BaCB	Treasury	Other	**Total Core**	Corporate CoAM	Optimum	**Total Non-core**	**Total**
Segment liabilities	22,729.5	2,775.0	4,024.1	815.4	**30,344.0**	356.9	-	**356.9**	**30,700.9**
Unallocated liabilities									**1,219.6**
Total liabilities for reportable segments									**31,920.5**
Statutory adjustments									**339.6**
Bank total liabilities									**32,260.1**

As at 31 December 2014

	Core					Non-core			
	Retail	BaCB	Treasury	Other	**Total Core**	Corporate CoAM	Optimum	**Total Non-core**	**Total**
Segment assets	14,611.4	620.0	9,729.4	515.4	**25,476.2**	3,930.1	6,822.9	**10,753.0**	**36,229.2**
Unallocated assets									**1,069.8**
Total assets for reportable segments									**37,299.0**
Statutory adjustments									**283.9**
Bank total assets									**37,582.9**

As at 31 December 2014

	Core					Non-core			
	Retail	BaCB	Treasury	Other	**Total Core**	Corporate CoAM	Optimum	**Total Non-core**	**Total**
Segment liabilities	25,562.3	2,837.0	4,523.3	468.4	**33,391.0**	557.4	-	**557.4**	**33,948.4**
Unallocated liabilities									**1,109.8**
Total liabilities for reportable segments									**35,058.2**
Statutory adjustments									**510.2**
Bank total liabilities									**35,568.4**

Unallocated assets are non-customer assets and liabilities that are not allocated to a particular segment.

Statutory adjustments mainly relate to the reallocation of provisions, accruals and prepayments and the gross up of mark to market values.

5. Fair values of financial assets and liabilities

The fair values in this note are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments.

The tables below analyse the balance sheet carrying values of financial assets and liabilities by classification.

Balance sheet categories	Held for trading	Designated at fair value	Loans and receivables	Available for sale	Liabilities at amortised cost	Derivatives in a hedging relationship	Total
As at 30 June 2015							
Assets							
Cash and balances at central banks	-	-	4,577.7	-	-	-	**4,577.7**
Loans and advances to banks	-	-	934.3	-	-	-	**934.3**
Loans and advances to customers	3.9	174.1	22,210.5	-	-	-	**22,388.5**
Fair value adjustments for hedged risk	-	-	89.5	-	-	-	**89.5**
Investment securities	-	1,065.0	18.0	3,698.9	-	-	**4,781.9**
Derivative financial instruments	171.8	-	-	-	-	175.2	**347.0**
Equity shares	-	-	-	2.6	-	-	**2.6**
Other assets	-	-	422.3	-	-	-	**422.3**
Total financial assets	**175.7**	**1,239.1**	**28,252.3**	**3,701.5**	**-**	**175.2**	**33,543.8**
Non-financial assets							**469.3**
Total assets							**34,013.1**
Liabilities							
Deposits by banks	-	-	-	-	714.7	-	**714.7**
Customer accounts	-	-	-	-	26,801.0	-	**26,801.0**
Customer accounts - capital bonds	-	142.4	-	-	-	-	**142.4**
Debt securities in issue	-	-	-	-	2,905.3	-	**2,905.3**
Derivative financial instruments	135.5	-	-	-	-	290.0	**425.5**
Other borrowed funds	-	-	-	-	446.4	-	**446.4**
Other liabilities	-	-	-	-	165.5	-	**165.5**
Total financial liabilities	**135.5**	**142.4**	**-**	**-**	**31,032.9**	**290.0**	**31,600.8**
Non-financial liabilities							**659.3**
Total liabilities							**32,260.1**
Capital and reserves							**1,753.0**
Total liabilities and equity							**34,013.1**

Balance sheet categories	Held for trading	Designated at fair value	Loans and receivables	Available for sale	Liabilities at amortised cost	Derivatives in a hedging relationship	Total
As at 31 December 2014							
Assets							
Cash and balances at central banks	-	-	4,765.3	-	-	-	**4,765.3**
Loans and advances to banks	-	-	1,608.4	-	-	-	**1,608.4**
Loans and advances to customers	3.9	182.7	25,190.8	-	-	-	**25,377.4**
Fair value adjustments for hedged risk	-	-	148.5	-	-	-	**148.5**
Investment securities	-	1,236.9	18.1	3,167.5	-	-	**4,422.5**
Derivative financial instruments	250.6	-	-	-	-	220.1	**470.7**
Equity shares	-	-	-	2.8	-	-	**2.8**
Other assets	-	-	187.6	-	-	-	**187.6**

Total financial assets	**254.5**	**1,419.6**	**31,918.7**	**3,170.3**	**-**	**220.1**	**36,983.2**
Non-financial assets							**599.7**
Total assets							**37,582.9**
Liabilities							
Deposits by banks	-	-	-	-	615.4	-	**615.4**
Customer accounts	-	-	-	-	29,614.0	-	**29,614.0**
Customer accounts - capital bonds	-	263.8	-	-	-	-	**263.8**
Debt securities in issue	-	-	-	-	3,443.6	-	**3,443.6**
Derivative financial instruments	176.0	-	-	-	-	375.7	**551.7**
Other borrowed funds	-	-	-	-	196.4	-	**196.4**
Other liabilities	-	-	-	-	157.8	-	**157.8**
Total financial liabilities	**176.0**	**263.8**	**-**	**-**	**34,027.2**	**375.7**	**34,842.7**
Non-financial liabilities							**725.7**
Total liabilities							**35,568.4**
Capital and reserves							**2,014.5**
Total liabilities and equity							**37,582.9**

IAS 39 requires derivative financial instruments that are not in a hedging relationship to be classified as 'held for trading'; this definition differs from the definition of 'derivatives held for trading purposes' as shown in the Bank's 2014 Annual Report and Accounts.

The above fair values have been calculated in accordance with IFRS 13, which values assets individually rather than as a portfolio. During 2015, there was a £1.5bn securitisation transaction with Warwick Finance 1. For further details see detailed financial review.

a) Use of financial instruments

The use of financial instruments is essential to the Bank's business activities, and financial instruments constitute a significant proportion of the Bank's assets and liabilities. The main financial instruments used by the Bank, and the purposes for which they are held, are outlined below:

Loans and advances to customers and customer accounts

The provision of banking facilities to customers is the primary activity of the Bank, and loans and advances to customers and customer accounts are major constituents of the balance sheet. Loans and advances to customers include retail mortgages, corporate loans, credit cards, unsecured retail lending and overdrafts. Customer accounts include retail and corporate current and savings accounts.

Loans and advances to banks and investment securities

Loans and advances to banks and investment securities underpin the Bank's liquidity requirements and generate incremental net interest income. Held for trading investments are held for economic hedging purposes only as the Bank does not have an active trading book.

Deposits by banks and debt securities in issue

The Bank issues medium term notes within an established euro medium term note programme and also issues certificates of deposit and commercial paper as part of its normal treasury activities.

Other borrowed funds

The Bank utilises a broad spread of long term wholesale funding in the form of fixed rate subordinated debt in addition to funding from ordinary share capital and retained earnings.

Derivatives

A derivative is a financial instrument that derives its value from an underlying rate or price such as interest rates, exchange rates and other market prices. Derivatives are an efficient means of managing market risk and limiting counterparty exposure. The Bank uses them mainly for hedging purposes and to meet the needs of customers.

The most frequently used derivative contracts are interest rate swaps, exchange traded futures and options, caps and floors, currency swaps and forward currency transactions. Terms and conditions are determined by using standard industry documentation. Derivatives are subject to the same market and credit risk control procedures as are applied to other wholesale market instruments and are aggregated with other exposures to monitor total counterparty exposure, which is managed within approved limits for each counterparty.

Foreign exchange

The Bank undertakes foreign exchange dealing to facilitate customer requirements and to generate incremental income from short term trading in the major currencies. Structured risk and trading related risk are managed formally within position limits which are set by ALCO, to which authority is delegated by the Board.

b) Valuation of financial assets and liabilities at fair value

The following tables analyse financial assets and liabilities carried at fair value by the three level fair value hierarchy defined as follows:
• Level 1 - Quoted market prices in active markets
• Level 2 - Valuation techniques using observable inputs
• Level 3 - Valuation techniques using unobservable inputs

As at 30 June 2015		**Fair value at end of the reporting period using:**		
	Level 1	**Level 2**	**Level 3**	**Total**
Non-derivative financial assets				
Held for trading:				
Loans and advances to customers	-	3.9	-	**3.9**
Designated at fair value:				
Loans and advances to customers	-	168.0	6.1	**174.1**
Investment securities	1,065.0	-	-	**1,065.0**
Available for sale financial assets:				
Investment securities	3,605.6	93.3	-	**3,698.9**
Equity shares	0.1	2.5	-	**2.6**
Derivative financial instruments	-	347.0	-	**347.0**
Non-financial assets				
Investment properties	-	-	2.1	**2.1**
Total assets carried at fair value	**4,670.7**	**614.7**	**8.2**	**5,293.6**
Non-derivative financial liabilities				
Designated at fair value:				
Customer accounts - capital bonds	**-**	142.4	-	**142.4**
Derivative financial instruments	**-**	425.5	-	**425.5**
Total liabilities carried at fair value	**-**	**567.9**	**-**	**567.9**

As at 31 December 2014		Fair value at end of the reporting period using:		
	Level 1	Level 2	Level 3	Total
Non-derivative financial assets				
Held for trading:				
Loans and advances to customers	-	3.9	-	**3.9**

Designated at fair value:				
Loans and advances to customers	-	176.0	6.7	**182.7**
Investment securities	1,236.9	-	-	**1,236.9**
Available for sale financial assets:				
Investment securities	3,022.5	145.0	-	**3,167.5**
Equity shares	0.1	2.7	-	**2.8**
Derivative financial instruments	-	470.7	-	**470.7**
Non-financial assets				
Investment properties	-	-	2.1	**2.1**
Total assets carried at fair value	**4,259.5**	**798.3**	**8.8**	**5,066.6**
Non-derivative financial liabilities				
Designated at fair value:				
Customer accounts - capital bonds	-	263.8	-	**263.8**
Derivative financial instruments	-	551.7	-	**551.7**
Total liabilities carried at fair value	**-**	**815.5**	**-**	**815.5**

The carrying values of financial instruments measured at fair value are determined in compliance with the accounting policies in note 1 and according to the following hierarchy:

Level 1 - Quoted market prices in active markets

Financial instruments with quoted prices for identical instruments in active markets. The best evidence of fair value is a quoted market price in an actively traded market.

Level 2 - Valuation techniques using observable inputs

Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
The valuation techniques used to value these instruments employ only observable market data and relate to the following assets and liabilities.

Loans and advances to customers

Loans and advances to customers include corporate loans of £158.7m (31 December 2014: £164.7m) which are fair valued through income or expense using observable inputs. Loans held at fair value are valued at the sum of all future expected cash flows, discounted using a yield curve based on observable market inputs.

Investment securities - available for sale

Fair value is based on available market prices. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Derivative financial instruments

Over-the-counter (i.e. non-exchange traded) derivatives are valued using valuation models which are based on observable market data. Valuation models calculate the present value of expected future cash flows, based upon ‘no arbitrage’ principles. The Bank enters into vanilla foreign exchange and interest rate swap derivatives, for which modelling techniques are standard across the industry. Examples of inputs that are generally observable include foreign exchange spot and forward rates, and benchmark interest rate curves.

Investment properties

Investment properties are carried at fair value. For those within Level 2 fair value is calculated by using recent valuations of individual assets within the portfolio, indexed linked to the balance sheet date using the relevant regional house price index where appropriate.

Customer accounts - capital bonds

The estimated fair value of customer accounts - capital bonds is based on independent third party valuations using forecast future movements in the appropriate indices.

Equity shares

Equity shares primarily relate to investments held in VocaLink Holdings Limited which are unquoted shares. The valuation of these shares is based on the Bank's percentage shareholding and the net asset value of the consolidated group according to its most recently published financial statements.

Level 3 - Valuation techniques using unobservable inputs

This is used for financial instruments valued using models where one or more significant inputs are not observable.

The small proportion of financial assets valued based on significant unobservable inputs are analysed as follows:

Loans and advances to customers

Loans and advances to customers include 25 year fixed rate mortgages of £6.1m (31 December 2014: £6.7m) which are fair valued through profit or loss using unobservable inputs. 25 year fixed rate mortgages are valued using future interest cash flows at the fixed customer rate and estimated schedule of customer repayments. Cash flows are discounted at a credit adjusted discount rate; the credit adjustment is based on the average margin of new long dated (five years or greater) fixed rate business written in the last six months, and subject to quarterly review. The eventual timing of future cash flows may be different from that forecast due to unpredictable customer behaviour, particularly on a 25 year product. The valuation methodology takes account of credit risk and has remained the same in 2015 (31 December 2014: £0.5m decrease). A reasonable change in the assumptions would not result in any material change in the valuation.

Derivative financial instruments

Derivative financial instruments in the form of interest rate swaps have been entered into between the Bank and its subsidiaries, and external counterparties.

The purpose of the swaps is to convert the fixed and base rate linked revenue receipts of the pool of mortgage assets to the same LIBOR linked basis as the intercompany loan. Under this swap arrangement the Bank's subsidiaries pay to the swap counterparty, the monthly mortgage revenue receipts of the pool of assets and receives from the swap counterparty LIBOR plus a contractual spread on the same notional balance, the spread being sufficient to cover the intercompany loan and any expenses. The Bank has a 'back to back' swap that is the mirror image of the subsidiaries' swaps.

The swaps are valued based on an assumed amortisation profile of the pool of assets to the bond maturity date (assuming some annual prepayment), an assumed profile of customer receipts over this period, and LIBOR prediction using forward rates. Swap cash flows are discounted to present value using mid-yield curve zero coupon rates, ie no adjustment is made for credit losses, nor for transaction or any other costs.

Movements in fair values of instruments with significant unobservable inputs (level 3) were:

	Fair value at the beginning of the period	Purchases and transfers in	Sales and transfers out	Income or expense including impairment	Fair value at the end of the period
Period to 30 June 2015					
Loans and advances to customers	6.7	-	(0.6)	-	6.1
Derivative assets	-	-	-	-	-
Derivative liabilities	-	-	-	-	-
Investment properties	2.1	-	-	-	2.1
	8.8	**-**	**(0.6)**	**-**	**8.2**
Period to 31 December 2014					
Loans and advances to customers	8.7	-	(1.5)	(0.5)	6.7
Derivative assets	30.5	-	(30.5)	-	-
Derivative liabilities	(61.2)	-	61.2	-	-

Investment properties	6.2	-	(4.3)	0.2	2.1
	(15.8)	**-**	**24.9**	**(0.3)**	**8.8**

c) Fair values of financial assets and liabilities not carried at fair value

The carrying values of financial instruments measured at amortised cost are determined in compliance with the accounting policies in note 1.

The table below sets out a summary of the carrying and fair values of:

• financial assets classified as loans and receivables; and
• financial liabilities classified as held at amortised cost,

unless there is no significant difference between carrying and fair values.

	Core				Non-Core					
Carrying Value	Retail	BaCB	Treasury	Total Core	Corporate CoAM	Optimum	Total Non - Core	Unity Trust Bank	Unallocated & Statutory Adjustments	Total
As at 30 June 2015										
Financial Assets										
Loans and advances to banks		-	891.9	891.9	-	-	-	42.4	-	934.3
Loans and advances to customers	13,900.1	549.6	-	14,449.7	2,899.5	4,680.1	7,579.6	181.2	-	22,210.5
Fair value adjustments to hedged risk	116.0	-	-	116.0	(26.5)	-	(26.5)	-	-	89.5
Investment Securities	-	-	18.0	18.0	-	-	-	-	-	18.0
Other assets	-	-	-	-	-	-	-	-	422.3	422.3
Financial Liabilities										
Deposit by Banks		-	714.7	714.7	-	-	-	-	-	714.7
Customer accounts	22,802.4	2,828.9	-	25,631.3	356.9	-	356.9	812.8	-	26,801.0
Debt securities in issue	-	-	2,905.3	2,905.3	-	-	-	-	-	2,905.3
Other borrowed funds	-	-	446.4	446.4	-	-	-	-	-	446.4
Other Liabilities	-	-	-	-	-	-	-	-	165.5	165.5

	Core				Non-Core					
Fair Value	Retail	BaCB	Treasury	Total Core	Corporate CoAM	Optimum	Total Non - Core	Unity Trust Bank	Unallocated & Statutory Adjustments	Total
As at 30 June 2015										
Financial Assets										
Loans and advances to banks		-	891.9	891.9	-	-	-	42.4	-	934.3
Loans and advances to customers	14,080.5	532.3	-	14,612.8	2,716.3	3,946.6	6,662.9	181.2	-	21,456.9
Fair value adjustments to hedged risk	116.0	-	-	116.0	(26.5)	-	(26.5)	-	-	89.5
Investment Securities	-	-	17.1	17.1	-	-	-	-	-	17.1
Other assets	-	-	-	-	-	-	-	-	422.3	422.3
Financial Liabilities										
Deposit by Banks		-	714.7	714.7	-	-	-	-	-	714.7
Customer accounts	22,808.7	2,830.5	-	25,639.2	356.9	-	356.9	812.8	-	26,808.9
Debt securities in issue	-	-	2,957.2	2,957.2	-	-	-	-	-	2,957.2
Other borrowed funds	-	-	480.0	480.0	-	-	-	-	-	480.0
Other Liabilities	-	-	-	-	-	-	-	-	165.5	165.5

		Core				Non-Core				
Carrying Value	Retail	BaCB	Treasury	Total Core	Corporate CoAM	Optimum	Total Non - Core	Unity Trust Bank	Unallocated & Statutory Adjustments	Total
As at 31 December 2014										
Financial Assets										
Loans and advances to banks		-	1,292.3	1,292.3	-	-	-	316.1	-	1,608.4
Loans and advances to customers	14,611.3	618.3	-	15,299.6	3,432.5	6,356.2	9,788.7	172.5	-	25,190.8
Fair value adjustments for hedged risk	196.8	-	-	196.8	(48.3)	-	(48.3)	-	-	148.5
Investment Securities	-	-	18.1	18.1	-	-	-	-	-	18.1
Other assets	-	-	-	-	-	-	-	-	187.6	187.6
Financial Liabilities										
Deposits by Banks		-	615.4	615.4	-	-	-	-	-	615.4
Customer accounts	25,466.7	2,842.2	-	28,308.9	557.4	-	557.4	747.7	-	29,614.0
Debt securities in issue	-	-	3,443.6	3,443.6	-	-	-	-	-	3,443.6
Other borrowed funds	-	-	196.4	196.4	-	-	-	-	-	196.4
Other Liabilities	-	-	-	-	-	-	-	-	157.8	157.8

		Core				Non-Core				
Fair Value	Retail	BaCB	Treasury	Total Core	Corporate CoAM	Optimum	Total Non-Core	Unity Trust Bank	Unallocated & Statutory Adjustments	Total
As at 31 December 2014										
Financial Assets										
Loans and advances to banks	-	-	1,292.3	1,292.3	-	-	-	316.1	-	1,608.4
Loans and advances to customers	14,600.3	601.5	-	15,201.8	3,167.5	5,113.1	8,280.6	175.2	-	23,657.6
Fair value adjustments to hedged risk	196.8	-	-	196.8	(48.3)	-	(48.3)	-	-	148.5
Investment securities	-	-	14.3	14.3	-	-	-	-	-	14.3
Other assets	-	-	-	-	-	-	-	-	187.6	187.6
Financial Liabilities										
Deposits by banks	-	-	615.4	615.4	-	-	-	-	-	615.4
Customer accounts	25,478.0	2,842.6	-	28,320.6	557.4	-	557.4	747.7	-	29,625.7
Debt securities in issue	-	-	3,478.9	3,478.9	-	-	-	-	-	3,478.9
Other borrowed funds	-	-	223.2	223.2	-	-	-	-	-	223.2
Other liabilities	-	-	-	-	-	-	-	-	157.8	157.8

Key considerations in the calculation of fair values for loans and receivables and financial liabilities at amortised cost are as follows:

Loans and advances to banks/deposits by banks

Loans and advances to banks include interbank placements and items in the course of collection.

The amortised cost value of all loans and advances to banks are deemed to be a close approximation of their fair value due to their short maturity. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers

The fair value of loans and advances to customers is calculated by segmenting the overall balance into Retail, Optimum and Corporate.

(i) Retail

Fixed rate loans and advances to customers are revalued to fair value based on future interest cash flows and principal cash flows discounted using an appropriate market rate. The market rate applied in the calculation is the average market rate for new originations of mortgages with similar characteristics to the book of mortgages being valued. This rate is assumed to encompass the time value of money, plus a risk premium to account for the inherent uncertainty in the timing and amount of future cash flows arising from a book of mortgage assets.

Forecast principal repayments are based on redemption at the earlier of maturity or re-pricing date with some overlay for historical behavioural experience where relevant. The eventual timing of future cash flows may be different from the forecast due to unpredictable customer behaviour. It is assumed that there would be no other factors which market participants would take into account when assessing the fair value of the Retail mortgage assets. It is assumed there is no fair value adjustment required in respect of interest rate movement on standard variable rate mortgage assets, as the interest rate being charged is assumed to be equal to the market rate for those mortgage assets.

(ii) Optimum

Fair values have been calculated using the future lifetime income approach. Under this approach, fair value is measured by determining discounted expected cash flows, derived using expected redemption profiles of the portfolio and discounting these cash flows at current market rates for products with similar characteristics and risk profiles. The current market rate used is assumed to encompass the time value of money, plus a risk premium to account for the inherent uncertainty in the timing and amount of future cash flows arising from a book of mortgage assets.

(iii) Corporate

As part of the implementation of the Bank's strategy for Non-core assets, certain assets have either already been sold after the period end or plans to sell are well advanced. For these assets, the fair value can therefore be determined from the actual sale price achieved or expected to be received.

For other corporate assets an expected cashflow income approach has been used. Under this approach, value is measured by determining expected cashflows, derived using redemption profiles from the portfolio and then considering credit costs, funding costs and tax to derive cash flows which are discounted at an appropriate blended cost of capital. The blended cost of capital is taken as the average of quoted cost of capital of the six largest listed banks in the UK, as this is assumed to represent the rate at which market participants would discount the future cash flows of a portfolio of corporate loans when assessing the fair value of such a portfolio.

The fair value of loans and advances to customers in total is 96% of the carrying value as at 30 June 2015. The overall fair values are less than par primarily due to two main factors for Non-core loans in particular:

1. Customer interest rates are below the market rate at the balance sheet date until expected maturity or the repricing date, if earlier; and

2. Credit risk adjustments due to incurred and expected future credit losses.

Investment securities

Fair value is based on available market prices. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Customer accounts

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on future interest cash flows (at funding rates) and principal cash flows, discounted using an appropriate market rate.

Debt securities in issue and other borrowed funds

The aggregate fair values are calculated based on quoted market prices where available. For those notes where quoted market prices are not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. Quoted prices may be from inactive markets.

The fair value of debt securities in issue is significantly above the carrying value as a result of the carrying value being net of merger fair value adjustments. The carrying values of debt securities in issue are expected to increase as the merger fair value adjustments continue to unwind, as shown in the following section.

Unwind of merger fair value adjustments

On the merger of the Bank and Britannia Building Society in August 2009 an exercise was undertaken to fair value the respective assets and liabilities of Britannia Building Society. These fair value adjustments are unwound on an EIR basis over the effective lives of the assets and liabilities. As at 30 June 2015, the remaining merger fair value unwinds and the forecast unwind profiles can be summarised as follows:

				Forecast Unwind			
	Carrying amount at the period end	Remaining merger fair value to be unwound at period end	Actual unwind for the 6 month period to 30 June 2015	6 month period to 31 Dec 2015	2016	2017	2018+
As at 30 June 2015							
Assets							
Loans and advances to customers	22,388.5	(34.3)	(10.6)	(1.7)	(3.4)	(3.1)	(26.1)
Fair value adjustment to hedged risk	89.5	(15.0)	(5.9)	(1.1)	(2.2)	(2.1)	(9.6)
Other	11,535.1	23.4	3.0	2.2	4.4	4.4	12.4
Total assets	**34,013.1**	**(25.9)**	**(13.5)**	**(0.6)**	**(1.2)**	**(0.8)**	**(23.3)**
Liabilities							
Debt securities in issue	2,905.3	(312.2)	(66.4)	(78.2)	(176.0)	(58.0)	-
Deferred tax liabilities	72.5	64.3	12.1	16.3	36.6	12.0	(0.6)
Other	29,282.3	-	-	-	-	-	-
Total liabilities	**32,260.1**	**(247.9)**	**(54.3)**	**(61.9)**	**(139.4)**	**(46.0)**	**(0.6)**

A breakdown of the unwind on debt securities in issue held at merger is as follows:

							Forecast Unwind		
Issue Name	Issue Date	Contractual Maturity Date	Carrying amount at period end	Fair value at period end	Remaining merger fair value to be unwound at period end	Actual unwind for the 6 month period to 30 June 2015	6 month period to 31 Dec 2015	2016	2017
As at 30 June 2015									
Leek Finance Number Seventeen plc	Apr-06	Jun-16	543.4	552.7	54.9	22.1	25.4	29.5	-
Leek Finance Number Eighteen plc	Oct-06	Dec-16	688.4	695.9	99.6	23.8	27.6	72.0	-
Leek Finance Number Nineteen plc	Apr-07	Jun-17	676.8	680.4	164.2	22.5	27.2	78.1	58.9
Total Leek Notes			**1,908.6**	**1,929.0**	**318.7**	**68.4**	**80.2**	**179.6**	**58.9**

Of which liabilities held internally within the Bank are as follows:

Forecast Unwind

Issue Name	Carrying amount at period end	Fair value at period end	Remaining merger fair value to be unwound at period-end	Actual unwind for the 6 month period to 30 June 2015	2015	2016	2017
As at 30 June 2015							
Internally Held Leek Notes	543.4	534.5	6.5	2.1	2.0	3.6	0.9

Fair values of financial assets and liabilities which are not carried at fair value and bases of valuation.

Fair values are determined according to the hierarchy set out above.

As at 30 June 2015	Carrying value	Level 1	Level 2	Level 3
Financial assets				
Loans and receivables				
Loans and advances to banks	**934.3**	**-**	**934.3**	**-**
Loans and advances to customers	**22,210.5**	**-**	**-**	**21,456.9**
Fair value adjustment for hedged risk	**89.5**	**-**	**-**	**89.5**
Investment securities	**18.0**	**17.1**	**-**	**-**
Financial liabilities				
Financial Liabilities at amortised cost				
Deposits by banks	**714.7**	**-**	**714.7**	**-**
Customer accounts	**26,801.0**	**-**	**26,808.9**	**-**
Debt securities in issue	**2,905.3**	**760.0**	**2,197.2**	**-**
Other borrowed funds	**446.4**	**-**	**480.0**	**-**

As at 31 December 2014	Carrying value	Level 1	Level 2	Level 3
Financial assets				
Loans and receivables				
Loans and advances to banks	**1,608.4**	**-**	**1,608.4**	**-**
Loans and advances to customers	**25,190.8**	**-**	**-**	**23,657.6**
Fair value adjustment for hedged risk	**148.5**	**-**	**-**	**148.5**
Investment securities	**18.1**	**14.3**	**-**	**-**
Financial liabilities				
Financial liabilities at amortised cost				
Deposits by banks	**615.4**	**-**	**615.4**	**-**
Customer accounts	**29,614.0**	**-**	**29,625.6**	**-**
Debt securities in issue	**3,443.6**	**789.1**	**2,689.8**	**-**
Other borrowed funds	**196.4**	**-**	**223.2**	**-**

The carrying amount is a reasonable approximation of fair value for the following assets and liabilities; loans and advances to banks, fair value adjustments for hedged risk, other assets, deposits by banks and other liabilities.

d) Fair value of transferred assets and associated liabilities

Securitisation vehicles

The beneficial ownership of the loans and advances to customers sold to securitisation vehicles by the subsidiaries of the Bank fail the derecognition criteria, and consequently, these loans remain on the balance sheets of the sellers. Each seller therefore recognises a deemed loan financial liability on its balance sheet and an equivalent deemed loan asset is held on each securitisation company's balance sheet. The deemed loans are repaid as and when principal repayments are made by customers against these transferred loans and advances.

The securitisation vehicles have issued fixed and floating rate notes which are secured on the loans and advances to customers. The notes are redeemable in part from time to time, such redemptions being limited to the net capital received from mortgagors in respect of the underlying assets.

The Bank retains substantially all of the risks and rewards of ownership. The Bank benefits to the extent to which surplus income generated by the transferred mortgage portfolios exceeds the administration costs of those mortgages. The Bank continues to bear the credit risk of these mortgage assets.

The table below shows the carrying values and fair values of the assets transferred to securitisation vehicles and their associated liabilities. The carrying values presented below are the carrying amounts as recorded in the books of the subsidiary companies, some of these issued notes are held internally by the Bank and as such are not shown in the consolidated balance sheet of the Group.

	Carrying amount of transferred assets not derecognised	Carrying amount of associated liabilities	Fair value of transferred assets not derecognised	Fair value of associated liabilities	Net fair value position
As at 30 June 2015					
Leek Finance Number Seventeen plc	**538.6**	**543.4**	**404.7**	**552.7**	**(148.0)**
Leek Finance Number Eighteen plc	**645.0**	**688.4**	**486.8**	**695.9**	**(209.1)**
Leek Finance Number Nineteen plc	**626.4**	**676.8**	**477.3**	**680.4**	**(203.1)**
Leek Finance Number Twenty plc	**-**	**-**	**-**	**-**	**-**
Leek Finance Number Twenty One plc	**-**	**-**	**-**	**-**	**-**
Leek Finance Number Twenty Two plc	**-**	**-**	**-**	**-**	**-**
Silk Road Finance Number One plc	**-**	**-**	**-**	**-**	**-**
Silk Road Finance Number Three plc	**402.9**	**409.5**	**375.9**	**412.3**	**(36.4)**
Cambric Finance Number One plc	**-**	**-**	**-**	**-**	**-**
Meerbrook Finance Number Eight plc	**502.1**	**499.1**	**495.3**	**497.1**	**(1.8)**
	2,715.0	**2,817.2**	**2,240.0**	**2,838.4**	**(598.4)**

The above carrying amount of associated liabilities can be reconciled to debt securities in issue as follows:

	Carrying value
Carrying amount of associated liabilities as given above	**2,817.2**
Internally held fixed and floating rate notes	(651.4)
Loan facilities and sub-debt not included in debt securities in issue	(452.7)
Non securitised debt securities	1,497.0
Merger fair value adjustment	(318.8)
Other adjustments	14.0
Debt securities in issue per financial liabilities	**2,905.3**

Of the notes listed above, those held by the Bank are as follows:

	Carrying amount of transferred assets not derecognised	Carrying amount of associated liabilities	Fair value of transferred assets not derecognised	Fair value of associated liabilities	Net fair value position
As at 30 June 2015					

Leek Finance Number Seventeen plc	**153.1**	**154.5**	**157.1**	**152.5**	**4.6**
Leek Finance Number Eighteen plc	**180.6**	**192.8**	**194.9**	**186.5**	**8.4**
Leek Finance Number Nineteen plc	**181.5**	**196.1**	**197.1**	**195.5**	**1.6**
Silk Road Finance Number Three plc	**106.3**	**108.0**	**108.8**	**107.2**	**1.6**
	621.5	**651.4**	**657.9**	**641.7**	**16.2**

The above carrying value and fair value of assets held for each entity have been determined by applying the proportion of internally held liabilities.

Transferred assets include securitised gilts and loans and advances to customers that have not been derecognised by the seller. The associated liabilities include the fixed and floating rate notes, bank loans and intercompany loans that specifically relate to the funding for the assets securitised.

The difference between the fair value and carrying value of the mortgages that have been securitised within Leek 17, 18 and 19 is significantly higher than the fair value to carrying value difference for the associated liabilities. This is because it is expected that the notes will be repaid at par at the call date of the Leek liabilities whereas most of the mortgages will continue to be held on the Bank's balance sheet for a significant period after the notes have been repaid and these mortgages have an interest rate which is below the equivalent market rate at the balance sheet date for loans of a similar nature.

The securitisation vehicles receive cash daily in relation to the transferred loans and advances and semi-annually for the transferred gilts. These amounts are held within loans and advances to banks until the associated liabilities' payments are due. Payments are made quarterly for all associated liabilities except for the variable funding notes associated with the transferred gilts, which are paid semi-annually. The amounts held within loans and advances to banks are not included in the table above but will be used in part to cover the repayments made on the associated liabilities.

The following table provides the fair value of the transferred assets and associated liabilities for 2014.

	Carrying amount of transferred assets not derecognised	Carrying amount of associated liabilities	Fair value of transferred assets not derecognised	Fair value of associated liabilities	Net fair value position
As at 31 December 2014					
Leek Finance Number Seventeen plc	**554.0**	**581.5**	**403.1**	**585.9**	**(182.8)**
Leek Finance Number Eighteen plc	**662.9**	**724.2**	**485.0**	**722.9**	**(237.9)**
Leek Finance Number Nineteen plc	**642.9**	**712.8**	**473.6**	**710.9**	**(237.3)**
Leek Finance Number Twenty plc	**1,340.1**	**1,319.7**	**1,338.9**	**1,269.9**	**69.3**
Leek Finance Number Twenty One plc	**763.6**	**775.4**	**788.6**	**719.3**	**69.3**
Leek Finance Number Twenty Two plc	**351.1**	**366.4**	**365.3**	**341.7**	**23.6**
Silk Road Finance Number One plc	**1,126.0**	**1,135.6**	**1,126.0**	**1,130.4**	**(4.4)**
Silk Road Finance Number Three plc	**451.3**	**459.8**	**457.7**	**463.1**	**(5.4)**
Cambric Finance Number One plc	**883.4**	**902.0**	**986.2**	**878.3**	**107.9**
Meerbrook Finance Number Eight Ltd	**564.5**	**564.5**	**570.3**	**458.2**	**112.1**
	7,339.8	**7,541.9**	**6,994.7**	**7,280.3**	**(285.6)**

Covered Bond Limited Liability Partnerships

Moorland Covered Bonds LLP was established as a result of a £1.4bn covered bond retained issuance. Loans and advances to customers of £1.9bn were transferred to Moorland Covered Bonds LLP. The transfer was funded by a loan of £1.4bn and capital contribution of £0.5bn. During October 2011 the £1.4bn loan was repaid. Following additional capital contribution repayment and on achieving Regulated Covered Bond status there was a public issuance of notes in November 2011 totaling £0.6bn. As a result of these changes, at the period end the Bank held a loan of £0.6bn (31 December 2014: £0.6bn) and a capital contribution of £0.7bn (31 December 2014: £0.7bn) with Moorland Covered Bonds LLP.

Moorland Covered Bonds LLP does not have ordinary share capital. The Bank's interest in Moorland Covered Bonds LLP is in substance no different from a wholly owned subsidiary and consequently it is fully consolidated in the Consolidated Bank accounts. The table below shows the carrying values and fair values of the assets transferred to the covered bond and their associated liabilities:

	Carrying amount of transferred loans and advances to customers	Carrying amount of fixed and floating rate notes	Fair value of transferred loans and advances to customers	Fair value of fixed and floating rate notes	Net fair value position
As at 30 June 2015					
Moorland Covered Bonds LLP	1,155.1	596.7	1,246.1	671.5	574.6
As at 31 December 2014					
Moorland Covered Bonds LLP	1,092.1	596.5	1,084.9	671.5	413.4

Assets pledged

Assets are pledged as collateral under repurchase agreements with other banks. These deposits are not available to finance the consolidated Bank's day-to-day operations.

	Carrying amount of assets not derecognised	Carrying amount of associated liabilities	Fair value of assets not derecognised	Fair value of associated liabilities	Net fair value position
As at 30 June 2015					
Investment securities sold under repurchase agreements	**660.3**	**610.0**	**657.6**	**610.0**	**47.6**
As at 31 December 2014					
Investment securities sold under repurchase agreements	-	-	-	-	-

6. Related party transactions

Parent, subsidiary and ultimate controlling party

The ownership structure of the Bank changed on 20 December 2013 as a result of the LME, and further changed as a result of a further share issue of £400m for existing shareholders at April 2014, after which The Co-operative Banking Group owned 20.16%.

At 30 June 2015, the Bank is an associate of, and therefore a related party of, The Co-operative Group since it ultimately owns 20.16% of the Bank's ordinary shares, has the right to Bank Board representation and there are material transactions between the two entities.

The Bank has a significant relationship with The Co-operative Group. As part of the Recapitalisation plan and the Bank ceasing to be a wholly owned subsidiary of The Co-operative Group, the Bank entered into the following agreements and several other arrangements.

Principles

The Co-existence Principles govern the use of trademarks containing 'Co-operative' or 'Co-op' and other associated trademarks owned by both parties. For more information about the Co-existence Principles see the Corporate Governance Report within the 2014 Annual Report and Accounts - Co-existence Principles and the use of the ‘Co-op’ brand.

Intra-group Loan

On 4 November 2013, the Bank, The Co-operative Banking Group and The Co-operative Group Limited entered into an Intra-group Loan facility (the Intra-group Loan) whereby Co-operative Group Limited made available to The Co-operative Banking Group Limited during 2014 a term loan facility of up to £313m to be utilised by way of advances. The maturity date of the loan facility is 27 July 2019.

The purpose of the Intra-group Loan was to support The Co-operative Banking Group’s Undertaking to Pay the Bank the agreed 2014 capital commitment as a result of the LME, which was paid in full by December 2014.

Pensions Undertaking

On 4 November 2013, The Co-operative Group and the Bank entered into an undertaking whereby The Co-operative Group agreed with the Bank not to require the Bank to cease to participate in Pace in connection with the LME. The parties also agreed at the request of one of the parties to enter into good faith discussions to reach agreement on the separation of Pace and agree the Bank's proportion of employer contributions in Pace (and if not agreed, the matter will be referred to an independent third party). The Co-operative Group and the Bank have differing views as to the Pace liabilities properly attributable to the Bank. As such, good faith discussions have not concluded and no Pace separation terms have been agreed. The Bank has expressed an intention to conclude negotiations over its exposure, the scale of contributions and its role in the longer-term scheme. The aim is to conclude these discussions during 2016.

IT and other services

The Bank and The Co-operative Group entered into an IT Costs Separation Agreement on 22 January 2015. In consequence of the Bank's IT outsourcing agreement with IBM for enterprise computing services, the Bank is not progressing the proposed revised IT Service Agreement (ITSA) and Professional Services Master Service Agreement (PSMSA) which were described in the 2013 Annual report and accounts. A number of service contracts under the PSMSA have now been terminated and services repatriated to the Bank, with the intention that all will be terminated by the end of Q1 2016 except pensions and membership.

Under the IT costs separation agreement, both CGL and CFSMS undertake to support activities for the separation of the Bank's IT infrastructure from the wider Co-operative Group's IT infrastructure, to enable the smooth transition to IBM. Further, CGL and CFSMS undertake that any notice to terminate the existing IT services agreement (in the case of CGL) and the CFSMS-Bank Framework Agreement (in the case of CFSMS) would not take effect prior to 31 December 2017 to give the Bank sufficient time to separate the Bank's IT infrastructure. The IT separation costs agreement also allocated the contributions to be made towards The Co-operative Group's own costs of keeping the wider Co-operative Group's existing IT infrastructure stable and operable during and following the Bank's separation of its IT infrastructure; to this end CBGL (as the parent of CFSMS) undertook to contribute a maximum of £95m towards such Co-operative Group costs, with the Bank to make a contribution of up to £25m, based on a formula in the event that the total cost of this Co-operative Group project falls between £76m and £120m.

CFSMS transactions

CFSMS is a subsidiary of The Co-operative Banking Group and continues to undertake the provision of supplies and services on behalf of the Bank. Further details of the CFSMS - Bank Framework agreement are disclosed below.

CFSMS-Bank Framework

On 16 February 2006, the Bank and CFSMS entered into the CFSMS-Bank Services Agreement pursuant to which CFSMS provides assets such as office equipment, materials and office space, other facilities and services, and consultants who act as secondees to the Bank. The Bank provides CFSMS with an indemnity for all liabilities, losses, damages, costs and expenses of any nature as a result of CFSMS entering into and performing the agreement in respect of the assets, services and personnel provided to the Bank.

The Bank and CFSMS commenced unwinding this arrangement during 2014 with the transfer of the employment of most staff to the Bank (see 'Transfer of Staff from CFSMS to Bank' below), the transfer of assets to the Bank (see 'Tangible and Intangible Assets' below) and the Bank entering in to numerous contracts with third party suppliers to replace those previously provided through CFSMS or the wider The Co-operative Group. These activities continue into 2015, in particular in respect of the Bank's transition of enterprise services to IBM. The Bank will continue to make use of CFSMS assets used by both the Bank and CISGIL until full IT separation takes place, which the IT Separation Costs Agreement envisages will be completed before the end of 2017. In the IT Separation Costs Agreement CFSMS undertakes that any notice given by CFSMS to terminate the CFSMS-Bank Framework Agreement would not take effect prior to 31 December 2017, to give the Bank sufficient time to separate the Bank's IT infrastructure.

Tax loss share

As part of the negotiations relating to the separation of the Bank from The Co-operative Group, the Bank and The Co-operative Group also agreed terms relating to the surrender of group relief between the entities in the Bank's tax group and entities in The Co-operative Group tax group. A deed sets out the basis of the agreement by The Co-operative Group to take proactive steps to allow it to maximise its claim for tax losses from the Bank for the accounting periods to 31 December 2012 and 2013. The deed also addresses the terms of the payment by The Co-operative Group to the Bank for those tax losses. The June 2015 Interim Financial Report, which includes a group relief debtor of £77.1m (31 December 2014: £126.8m), have been prepared on a basis consistent with the deed. The Bank receives payment from The Co-operative Group when The Co-operative Group realises the benefit of the losses surrendered and at the corporation tax rate at which the benefit is realised.

Transfer of staff from CFSMS to Bank

As explained in relation to the CFSMS-Bank Framework above, from 16 February 2006 CFSMS provided consultants acting as secondees to the Bank. The employment of substantially all Bank dedicated staff provided under that arrangement was transferred to the Bank under the Transfer of Undertakings (Protection of Employment) Regulations, on 23 January 2014. The employment of a further tranche of IT security personnel took place in November 2014.

IT Security Services Letter Agreement

Following the TUPE transfer of IT security personnel from CFSMS to the Bank in November 2014, the Bank entered into a letter agreement with CFSMS that regulated the terms on which certain IT security personnel would have transferred from CFSMS to the Bank, and the terms on which the Bank would provide an IT security service that the transferred IT security personnel used to provide, in relation to the IT infrastructure which the Bank and CFSMS share. This service is provided by a small number of people who are provided to CFSMS by way of secondment.

Master Services Agreement (MSA) and Shared Finance Services Service Package

In March 2015, recognising that there may be additional services (other than IT security) that the Bank may have to provide to CFSMS on account of the TUPE transfers from CFSMS to the Bank, the Bank entered into a Master Services Agreement with CFSMS, which set out the framework terms and conditions under which the Bank would provide services back to CFSMS.

At the time of signature of the MSA, a Service Package for Shared Finance Services was also signed.

The MSA applies to 3 categories of services: (i) services identified from time to time in Service Packages, (ii) a list of "undocumented" services (these did not have to be defined to the same level of detail required by a Service Package), and (iii) new services that may from time to time be identified as being provided by the Bank to CFSMS.

Tangible and intangible assets

A number of assets were originally purchased by CFSMS using funds advanced by the Bank and then provided to the Bank by CFSMS under the 2006 CFSMS-Bank Services Agreement referred to above. In 2013, the Directors of the Bank concluded these assets met the accounting criteria to be shown as assets for the Bank, and therefore reported them on the balance sheet. This is referred to in more detail in the 2013 Annual Report and Accounts. Legal title of these assets transferred to the Bank in 2014.

As part of the separation activity, in November 2014 the Bank purchased the legal title of all Bank specific assets held by CFSMS (shared assets remained with CFSMS) through an SPV called CBG Asset Management Limited. The carrying value of these assets on the balance sheet at 30 June 2015 is £112.7m (31 December 2014: £126.0m).

Balances with The Co-operative Group

The tables below provide an analysis of balances with The Co-operative Group and its undertakings at 30 June 2015 and 31 December 2014 and their location within the Bank's balance sheet.

	As at 30 June 2015			
	Loans & advances to customers	Other assets	Customer accounts	Other liabilities
The Co-operative Group Limited	1.0	77.1	(164.5)	-
The Co-operative Banking Group Ltd	-	-	(31.4)	-
Subsidiaries of The Co-operative Banking Group Ltd	-	26.1	(12.2)	(112.7)
	1.0	103.2	(208.1)	(112.7)

	As at 31 December 2014			
	Loans & advances to customers	Other assets	Customer accounts	Other liabilities
The Co-operative Group	51.0	127.1	(163.7)	-
The Co-operative Banking Group Ltd	-	-	(55.5)	-
Subsidiaries of The Co-operative Banking Group Ltd	-	35.7	(27.3)	(126.0)
	51.0	162.8	(246.5)	(126.0)

Shareholder rights agreement

At the time of the capital raising in May 2014, the Bank entered into a Shareholder Rights Agreement with The Co-operative Group and a number of other investors. As at 30 June 2015, SP Coop Investments Ltd owns more than 10% of the Bank’s ordinary shares and is therefore a related party of the Bank.

The Shareholder Rights Agreement grants certain rights to the shareholders including the right for each of Silverpoint and Perry Capital (which holds less than 10%) to nominate a Director for appointment to the Board for so long as it continues to own 5% or more of the Bank. In addition, the Shareholder Rights Agreement grants the right for one Director nominated under its terms to be appointed to a sub-committee of the Board to assess the feasibility of the Bank listing its ordinary shares on the London Stock Exchange (IPO Committee).

7. Post balance sheet events

It is a requirement of IAS 10 (Events after the balance sheet date) that this Financial Report reflects events arising after 30 June 2015. The following events have occurred between 30 June 2015 and 19 August 2015 (the date of approval of this Financial Report) and represent 'non adjusting' post balance sheet events:

Outsourcing of mortgage processing services

On 11 November 2014, the Bank entered into a non-binding letter of intent agreement with Capita plc in relation to the outsourcing of its mortgage processing services for all of its residential mortgage portfolios. Since 11 November 2014, the Bank has commenced investing in the outsourcing arrangement which has resulted in the Bank recognising intangible assets and prepayments as at 30 June 2015 and incurring expenses in the half year ending 30 June 2015.

On 1 August 2015, the Bank finalised this arrangement and entered into a binding agreement with Capita plc. The signing of this agreement on 1 August 2015 represents a “non adjusting” post balance sheet event. As part of the transaction:

• 100% of the shares in Western Mortgage Services Limited (WMS), a wholly owned subsidiary of the Bank, were transferred to Capita plc. A profit of £27.5m was generated on disposal, £5.8m of which recognised on the date of sale, with the remaining £21.7m being deferred and recognised over the term of the outsourcing arrangement with Capita plc. The profit on sale incorporates a deferred contingent consideration which is due to be received in 2016.
• Capita plc acquired the Bank's other mortgage processing and administration operations;
• Certain Bank staff servicing the mortgage portfolios were transferred to Capita plc; and
• Britannia House, a commercial property wholly owned by the Bank was sold to Capita plc. The terms of the sale included the leaseback of a part of the property to the Bank. The transaction has been recorded as a sale and operating leaseback arrangement which has resulted in derecognition of the property from the balance sheet of the Bank. A profit of £2.8m was recognised on disposal which was recognised in its entirety on the date of sale.

Disposal of the Bank’s renewable energy portfolio

On 10 December 2014 the Bank exchanged a Sale and Purchase contract with L1 Renewables Limited for the sale of a portfolio of renewable energy assets with a carrying value of £323.0m. The transaction was conditional upon gaining consent to the transfer from the underlying borrowers.

On 14 July 2015 the Bank successfully completed the sale of the first tranche of 5 loans to L1 Renewables Limited with an aggregate carrying value of £47.6m. On 30 July 2015 a further 12 loans with an aggregate carrying value of £71.7m (as at 30 July 2015) met the conditions for transfer and completion of the sale of such loans to L1 Renewables Limited is scheduled to take place on 26 August 2015.

On 19 August 2015, a further 4 loans with an aggregate carrying value of £52.4m (as at 19 August 2015) met the conditions for transfer and completion of the sale of such loans to L1 Renewables Limited is scheduled to take place on 26 August 2015.