The Co-operative Bank plc

Building a better society

Interim financial report 2011

Part of The Co-operative Financial Services

The **co-operative**
good with money

Contents

2 Highlights
3 Purpose, vision, givens and values
4 Business and financial review
8 Principal risks
20 Capital management
21 Independent review report
22 Condensed financial statements:
- 22 Consolidated income statement
- 23 Consolidated statement of comprehensive income
- 24 Consolidated balance sheet
- 25 Consolidated statement of cash flows
- 26 Consolidated statement of changes in equity
- 27 Basis of preparation and accounting policies
- 28 Notes to the interim financial report

38 Responsibility statement
39 Notice to shareholders

Highlights

As a key part of The Co-operative Financial Services, The Co-operative Bank measures its success against a range of key areas: financial, customer, people and process.

These are our performance highlights for the first half of 2011.

Financial

- Operating result of £108.6m for the half year
- 37% higher than equivalent period in 2010
- Bank capital position resilient, with core tier one ratio of 9.6%
- Bank customer funding ratio 113% compared to 107% at December 2010

People

- CFS-wide colleague engagement remains strong at 79%
- We believe we are the first business to introduce a 'values index' – 72.6 (on a scale of 100) represents how strongly colleagues across CFS believe we are living our values
- Responsibility index – in a regular, independent survey of bank customers, The Co-operative Bank is rated first for personal and social responsibility

Customer

- Customer advocacy ratings 7.1 percentage points ahead of our nearest competitors
- 13% rise in customers viewing The Co-operative Bank as their main account provider
- Nearly 40,000 CFS current accounts already opened in 245 Britannia branches since merger
- A further 9,000 home insurance policies sold in Britannia branches in the first half of 2011
- Current account servicing to be introduced in Britannia branches, H2 2011
- CFS is Europe's most sustainable bank for second year running

Process

- CFS integration programme on track to realise in year synergy savings substantially ahead of target
- £729m transformation programme will deliver range of new business functionality including new business-wide banking platform
- New online business banking solution already in place

Purpose, vision, givens and values

Our strategy is made up of our **purpose, vision, givens, values** and our business plans. Together they help define us as a business, set the direction and inform the decisions we make and how we behave.

Our **purpose**
Our purpose is to be a pioneering business delivering sustainable financial services for members and society.

Our **vision**
To be the UK's most admired financial services business.

Our **givens**

- we champion **co-operative values and principles and ethics**;
- we are **financially prudent and strong**;
- we **share profits** with members; and
- we only do business **consistent with our values and principles**.

Our **values**
Our values describe what is important to our organisation and guide our behaviours by determining how we interact with each other and our customers. By living our values, we will deliver a consistent and positive customer experience every time.

As a co-operative business:

- we put our **members and customers first** in all we do;
- we take **personal and social responsibility**;
- together we will create **a great place to work, grow and develop**;
- we strive relentlessly to be **faster, better, more successful**; and
- we are open and fair and are committed to **excellent communication**.

Business and financial review

Overview

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

We've made an excellent start to 2011 and we have a lot to be proud of. CFS continues to attract high levels of customer advocacy, where we remain 7.1 percentage points ahead of our competition; the operating result for the Bank of £108.6m for the first six months of the year is 36.8% higher than 2010 and our capital position remains resilient, with a core tier one ratio of 9.6%. Moreover, our liquidity position, already robust, has improved significantly, with a customer funding ratio of 113%[1], compared to 107% at December 2010.

To emphasise our position as a viable alternative model, CFS has been named as 'Europe's Most Sustainable Bank' for the second successive year.

There has been a 13% rise in customers that regard the Bank as their main current account provider over the past year. This demonstrates the success of CFS's relationship based approach and the progress being made in creating a genuine alternative to traditional high street rivals.

It is two years since CFS merged with Britannia, and we have now integrated the merged operations, and are making excellent progress in transforming the business and realising the benefits.

Within months of the merger, customers were able to open current accounts in the 245 Britannia branded branches; to date, nearly 40,000 current accounts have been opened via these branches (over 22,000 during 2011). By the end of 2011 our customers will also be able to service current accounts in Britannia branded branches, effectively extending our banking network from around 90 to over 340 sites and enabling us to rebrand our Britannia branches as part of The Co-operative Bank. We have also rolled out the sale of Co-operative home insurance products across the Britannia network, and have sold more than 9,000 policies in the first half of 2011 through this channel.

To bring colleagues together, we have completed our organisational design and introduced a single set of unified terms and conditions across the business, with the full support of our recognised trades unions. Despite the pace of change in the business, colleague engagement remains strong at 79%.

The integration programme has built on the strengths of both heritage businesses, and is on track to deliver synergy savings in 2011 substantially ahead of target.

Full transformation will be complete when our programme has replaced our legacy banking systems and infrastructure with modern, flexible solutions. This will happen in stages:

- Last year we launched new online business banking functionality
- Later this year it is anticipated the first element of the Payments Hub will go live. The Payments Hub will play a fundamental role in preparing the ground for the new banking platform, and will deliver a suite of systems to equip us to respond even more rapidly and securely to future innovations arising across the payments industry
- Subsequent steps will roll out the new banking platform across the whole of the merged organisation, completing our transformation and making us a customer-centric and flexible organisation, able to grow organically and exploit new markets.

This is just part of our CFS transformation plan, under which we are investing £729m over three years in our people, processes and systems in order to transform our business for our customers. Other examples of this transformation include:

- The launch of the innovative young driver insurance policy which incorporates 'smartbox' pay as you drive technology. This technology records how the car is being driven, reducing the risk of an accident and cutting the cost of car insurance because the safer the driving, the lower their premium. This has been very well received with the media and the road safety charity 'Brake'
- The in-store banking programme, which has created new in-store pilot facilities in our food stores this year and aims to increase this still further by year end. The programme illustrates the strength of the broader Co-operative Group and is having a very positive impact on the surrounding local communities (our Horbury branch was opened as a direct result of a petition from residents following the closure of the last plc bank in the village)
- The existing credit card platform, which will be migrated to the new FirstVision platform by the end of the year. FirstVision is a leading edge system which will enable the delivery of market leading products and services for our customers tailored to their needs.

As part of Project Unity, CFS is continuing to forge closer relationships across the broader Co-operative Group as we unify the Group's businesses and brands, and ensure the continuing renaissance of The Co-operative as a major UK retailer and financial services provider.

At the beginning of this year, a new Group executive structure was announced, reinforcing the common culture, purpose and strategic goals that unite our family of businesses. Project Unity will maximise the customer and commercial benefits of the scale, reach and reputation of the combined group. As a result, we anticipate significant synergies and opportunities for cross selling, which will considerably enhance both the financial strength of the business and the experience for the customer. As the project gathers momentum over the second half of the year, we look forward to delivering a truly unique proposition for our customers and members.

1 The amount of customer deposits held on the balance sheet compared to the amount of unsecuritised customer loans.

Highlights

The Co-operative Bank's operating result and profit before taxation and distributions	**6 months to June**			
	2011 £m	2010 £m	Change £m	Change %
Income	**434.6**	403.2	31.4	7.8
Operating costs – steady state	**(268.6)**	(265.6)	(3.0)	(1.1)
Operating costs – strategic initiatives	**(11.3)**	(15.2)	3.9	25.7
Impairment losses	**(46.1)**	(43.0)	(3.1)	(7.2)
Operating result	**108.6**	79.4	29.2	36.8
Significant items	**(27.7)**	(18.3)	(9.4)	(51.4)
Payment Protection Insurance (PPI) provision	**(90.0)**	–	(90.0)	–
Share of post tax profits from joint ventures	**0.3**	0.4	(0.1)	(25.0)
Financial Services Compensation Scheme (FSCS) levies	**(5.9)**	(3.3)	(2.6)	(78.8)
(Loss)/profit before taxation, distributions and fair value amortisation	**(14.7)**	58.2	(72.9)	(125.3)
Fair value amortisation	**16.7**	(22.6)	39.3	173.9
Profit before taxation and distributions	**2.0**	35.6	(33.6)	(94.4)

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

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

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

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

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

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

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

Business and financial review continued

Our businesses

The Co-operative Bank's operating result	**2011 £m**	2010 £m	Change £m	Change %
Retail	**59.3**	28.7	30.6	106.6
CABB and Optimum	**21.6**	25.7	(4.1)	(16.0)
Other	**27.7**	25.0	2.7	10.8
Operating result	**108.6**	79.4	29.2	36.8

The Bank consists of the following main segments – Retail, Corporate and Business Banking (CABB) and Optimum. The prior year comparatives have been restated for these segments, and for the impact of the industry wide enhancements to transfer pricing methods.

The Retail business offers a range of financial products and services to individuals and households throughout the UK. Retail includes Retail Banking (trading as The Co-operative Bank, Britannia and **smile**).

CABB includes Corporate Banking, Business Banking, Business Services and Platform (CFS's intermediary mortgage business). It effectively incorporates all the key business to business elements of CFS. Optimum is the closed book of pre-merger intermediary and acquired loan book assets.

Included in the Other segment are the results of the Treasury activities of the business. Also included are the results of Unity Trust Bank.

Retail

Retail operating result	**2011 £m**	2010 £m	Change £m	Change %
Net interest income	**198.4**	190.0	8.4	4.4
Non-interest income	**81.2**	75.8	5.4	7.1
Net income	**279.6**	265.8	13.8	5.2
Operating costs – steady state	**(193.5)**	(194.1)	0.6	0.3
Operating costs – strategic initiatives	**(8.7)**	(12.2)	3.5	28.7
Impairment losses	**(18.1)**	(30.8)	12.7	41.2
Operating result	**59.3**	28.7	30.6	106.6

The operating result of our Retail business was £59.3m for the first half of 2011, 106.6% higher than 2010, representing a considerable improvement in underlying profitability despite the challenges of the current economic environment and the continuing low base rate. The customer funding ratio has improved during the first half year mainly due to higher term deposit balances and current accounts offset by lower instant access balances reflecting the change in customer behaviour due to the low base rate environment.

The improvement in net interest income largely reflects the strong performance in our mortgage book with both balances and margins higher than the previous year, despite the competitive nature of the market. Our focus continues to be on delivering growth of high quality assets with the average loan to value remaining at below 50% across the retail business.

Mortgage income has improved largely as a result of the full year effect of higher new business margin completed in 2010 and for the first half of 2011. However, this has been partially offset by lower net interest income on both credit cards and liability balances.

The cost of maintaining high liability balances (including healthy levels of term deposits) reflects our commitment to maintaining a strong liquidity position. Lower credit card balances and yields reflect the change in customer behaviour to pay down unsecured debt due to the recession.

Non-interest income was better than last year largely due to higher package fee income, reflecting improved prime current account stock, and higher merchant interchange on debit cards.

Impairment losses were significantly lower than 2010 reflecting declining interest bearing credit card balances and improved arrears collection. Mortgage quality has been maintained with continued low rates of impairment.

The strength of the retail customer proposition has again been recognised by a range of awards. The Bank won Moneynet Personal Finance's 'Best Packaged Current Account' award, was named 'Best Longer Term Fixed Rate Mortgage Provider' by Moneyfacts and was successful in multiple categories at the Moneywise Customer Service awards.

CABB and Optimum

CABB and Optimum operating result	2011 £m	2010 £m	Change £m	Change %
Net interest income	**80.4**	64.4	16.0	24.8
Non-interest income	**34.0**	33.8	0.2	0.6
Net income	**114.4**	98.2	16.2	16.5
Operating costs – steady state	**(63.8)**	(59.1)	(4.7)	(8.0)
Operating costs – strategic initiatives	**(2.3)**	(2.6)	0.3	11.5
Impairment losses	**(26.7)**	(10.8)	(15.9)	(147.2)
Operating result	**21.6**	25.7	(4.1)	(16.0)

The operating result for CABB and Optimum has reduced by £4.1m with a strong net interest income performance offset by impairment losses in a difficult economic environment.

Corporate

The increase in net interest income reflects the excellent progress we have made in growing our liabilities balances from £4.2bn in June 2010 to £6.7bn in June 2011. This has also been supplemented by continued measured growth in our asset books through selected and high quality new business.

Although the Bank was not one of the five organisations participating in Project Merlin[2], it remains committed to maintaining its long term support for SMEs (small to medium enterprises) and Corporate Banking continues to lend to this sector. As part of The Co-operative Group's radical new Ethical Plan, Corporate Banking committed to lending £1bn for small scale renewable energy projects by 2013.

Corporate Banking impairment losses have increased compared to 2010 due to the challenging economic environment. We continue to manage problem exposures through relationship managers and our close care teams within Corporate Banking, together with our specialist intensive care and recoveries teams.

Since 2007 we have doubled the number of our regional corporate banking centres from 10 to 20 in order to serve our expanding customer base. As part of our continuing expansion programme, we plan to open two further corporate banking centres in 2011 – one in St Albans that will be fully operational by September and a further centre in Guildford before the end of the year.

Corporate Banking's charity team topped the 2011 Charity Finance magazine survey for having the greatest share of charity banking relationships.

Platform

Platform has continued to focus on quality mortgage lending, including the buy to let sector. £0.3bn has been lent in the first half of the year with strong margins being achieved. Platform impairment losses continue to be less than £0.1m.

Optimum

The Optimum portfolio has continued to perform strongly relative to merger related fair value provisions, with a gradual reduction in the book size. Improvements in the arrears management process have continued to deliver reductions in arrears levels, and the fair valuation of the portfolio at merger continues to provide a high degree of cover against any credit losses. The financial performance has remained broadly stable against 2010.

Other businesses

The most significant component of this segment, Treasury, has delivered effectively on its core responsibilities of ensuring a strong and stable liquidity base, providing diverse sources of wholesale funding to the Bank, managing market risk within risk appetite and delivering a strong financial performance on the investment portfolio. Treasury profits were favourably impacted by investment gains on the sale of assets as the Bank continued to strengthen the liquid asset position.

CFS has continued to fund competitively in the wholesale markets, completing a lower tier two exchange in April 2011 which generated £143m of new money and exchanged £132m of existing subordinated debt into the new issuance. This has been followed in July 2011 by the second prime mortgage securitisation since the merger, worth approximately £730m and provides further evidence of the confidence in the business from the financial markets.

Summary and outlook

On 22 July The Co-operative Financial Services announced that Neville Richardson has decided to step down as Chief Executive and will be leaving the Group later in the year. Barry Tootell, Chief Financial Officer at CFS, became Acting Chief Executive with immediate effect. James Mack has been appointed Acting Chief Financial Officer.

The challenges faced by the financial services industry in recent years remain considerable. We agree with the widespread recognition that the industry needs to change (as supported by the Independent Commission on Banking), and believe that we are excellently placed to address the genuine concerns of customers by providing an increasingly compelling co-operative alternative. We welcome any outcome of the Independent Commission on Banking that promotes easier account switching and greater competition.

The considerable investment in our new banking systems and the opportunities arising as part of Project Unity will help us further establish the compelling co-operative alternative. Furthermore, the transformation programme will enable us to meet the changing needs of our customers via increased online and mobile technology.

These results will ensure that the Bank continues to be well placed to deliver the customer promise and move us closer to achieving our vision of becoming the UK's most admired financial services business.

2 An agreement between the Government and the UK's four biggest banks, incorporating a commitment to lend more money in 2011, especially to small businesses, to pay less in bonuses than in last year and to be more transparent about their pay packages. The banks have also committed to make a greater contribution to regional economies and society.

Principal risks

All amounts are stated in £m unless otherwise indicated

The Disclosure and Transparency Rules (DTR 4.2.7) require that a description of the principal risks and uncertainties are given in the interim financial report in respect of the remaining six months of the financial year. These risks are consistent with those described in the Bank's risk management section of the 2010 financial statements on pages 45 to 77. The principal risks that the Bank faces for the second half of 2011 are:

Credit risk

Credit risk is the current or prospective risk to earnings and capital arising from a borrower's failure to meet the terms of any contract with the Bank or its failure to perform as agreed.

Credit risk is an integral part of many of our business activities and is inherent in traditional banking products (loans, commitments to lend and contingent liabilities, such as letters of credit) and in 'traded products' (derivative contracts such as forwards, swaps, options, repurchase agreements and securities borrowing and lending transactions).

All authority to take credit risk derives from the CFS Board. This is delegated through authorities to individuals or committees via the Chief Executive. The level of credit risk authority delegated depends on seniority and experience, varying according to the quality of the counterparty or any associated security or collateral held.

The Bank's credit risk policies are approved by the CFS Risk Committee (RC) (delegated authority from the Board) annually and are the responsibility of the Banking Risk Officer. The policies determine the criteria for the management of retail, corporate and wholesale risk, including securitisation, market exposures and credit management standards, country, sector and counterparty limits, along with risk appetites and delegated authorities.

The Bank's retail secured and unsecured credit policy is to establish credit criteria which determine the optimum balance between volume growth (generating higher income) and higher bad debts, so as to maximise overall profitability within the Bank's risk appetite. The majority of retail credit risk related decisions are based on well founded and robust decision mechanisms designed to segregate customers into risk categories. There is a suite of bespoke, externally and internally developed scorecards derived from sound historic data. It is the responsibility of the Credit Risk Control Unit to design, select, implement, maintain and monitor these systems. The CFS Portfolio Credit Committee (PCC) (delegated authority from the Board) and RC receive regular reports on the performance of the portfolios.

The Bank's corporate sector policy is to maintain a broad sectoral spread of exposures which reflect the Bank's areas of expertise. Credit exposures to corporate and business banking customers are assessed individually. The quality of the overall portfolio is monitored using a credit grading system calibrated to expected loss. All aspects of credit management are controlled centrally. The PCC and RC receive regular reports on the performance of the portfolio. The Board's Exposures Committee (EC) (delegated authority from the Board) receives regular reports on new facilities, bad debt provisions and the management of problem loans.

The Bank's credit risk framework for wholesale markets takes a holistic approach to risk management with, at its centre, a credit risk policy which governs the types of exposure the business can take and sets concentration parameters. To complement this, individual authority is delegated in terms of Internal Rating Grade (IRG) and associated Probability of Default (PD) to approve individual counterparty limits within the parameters established by the credit risk policy. The PCC and RC receive regular reports on the performance of the portfolio. The EC receives regular reports on changes in exposure limits, watchlist and problem counterparty information.

The Bank maintains well rated and balanced portfolios, with non-trading exposures in run off in respect of certain sectors and countries. It should be noted that unrated counterparties are acceptable for secured repo transactions. To achieve this, the Bank considers growth and return objectives within the predetermined threshold of acceptable risk across a range of indicators including counterparty, product, sector, geographic region, tenor/maturing, currency and capital management. Risk concentrations are closely monitored.

Cash and balances at central banks have been excluded from the following analysis of credit exposure.

Credit exposure

		30 June 2011			31 December 2010		
	Notes	**Gross balance**	**Credit commitments**	**Credit risk exposure**	Gross balance	Credit commitments	Credit risk exposure
Loans and receivables							
Loans and advances to banks		**2,296.2**	**120.6**	**2,416.8**	2,394.1	176.0	2,570.1
Loans and advances to customers	5	**34,595.1**	**4,768.6**	**39,363.7**	35,199.9	4,717.7	39,917.6
Investment securities	6	**928.4**	**–**	**928.4**	1,930.3	–	1,930.3
Available for sale financial assets							
Investment securities	6	**3,900.1**	**–**	**3,900.1**	3,058.1	–	3,058.1
Derivative financial instruments		**837.1**	**–**	**837.1**	931.9	–	931.9
		42,556.9	**4,889.2**	**47,446.1**	43,514.3	4,893.7	48,408.0
Allowance for impairment losses on loans and advances	5			**(236.0)**			(222.6)
Impairment losses on investments	6			**(81.8)**			(85.3)
Total carrying amount				**47,128.3**			48,100.1

Notes 5 and 6 provide further analysis on concentrations of credit risk.

Credit risk continued

The following table analyses the above exposures by impairment classification and either arrears or risk banding as appropriate:

30 June 2011	Loans and advances to banks	Loans and advances to customers	Investment securities loans and receivables	Investment securities available for sale	Derivative financial instruments	Total
Individually impaired						
90 days past due or evidence of impairment	–	1,726.8	6.0	72.3	–	1,805.1
Impairment recognised	–	(65.5)	(5.0)	(72.3)	–	(142.8)
Carrying amount	–	1,661.3	1.0	–	–	1,662.3
Collectively impaired						
Less than 90 days past due	–	224.9	146.2	–	–	371.1
90–179 days past due	–	14.1	–	–	–	14.1
180 days plus past due	–	149.5	–	–	–	149.5
Impairment recognised	–	(170.5)	(4.5)	–	–	(175.0)
Carrying amount	–	218.0	141.7	–	–	359.7
Past due but not impaired						
0–29 days past due	–	317.4	–	–	–	317.4
30–59 days past due	–	88.9	–	–	–	88.9
60–89 days past due	–	121.2	–	–	–	121.2
Carrying amount	–	527.5	–	–	–	527.5
Neither past due nor impaired						
Low to medium risk	2,416.8	31,857.6	776.2	3,697.4	837.1	39,585.1
Medium to high risk	–	4,863.3	–	130.4	–	4,993.7
Carrying amount	2,416.8	36,720.9	776.2	3,827.8	837.1	44,578.8
Total carrying amount	2,416.8	39,127.7	918.9	3,827.8	837.1	47,128.3

31 December 2010	Loans and advances to banks	Loans and advances to customers	Investment securities loans and receivables	Investment securities available for sale	Derivative financial instruments	Total
Individually impaired						
90 days past due or evidence of impairment	–	1,715.4	25.0	72.3	–	1,812.7
Impairment recognised	–	(64.4)	(8.5)	(72.3)	–	(145.2)
Carrying amount	–	1,651.0	16.5	–	–	1,667.5
Collectively impaired						
Less than 90 days past due	–	243.7	119.2	–	–	362.9
90–179 days past due	–	18.4	–	–	–	18.4
180 days plus past due	4.6	143.4	–	–	–	148.0
Impairment recognised	–	(158.2)	(4.5)	–	–	(162.7)
Carrying amount	4.6	247.3	114.7	–	–	366.6
Past due but not impaired						
0–29 days past due	–	253.7	–	–	–	253.7
30–59 days past due	–	125.3	–	–	–	125.3
60–89 days past due	–	123.6	–	–	–	123.6
Carrying amount	–	502.6	–	–	–	502.6
Neither past due nor impaired						
Low to medium risk	2,565.5	32,134.9	1,786.1	2,974.9	931.9	40,393.3
Medium to high risk	–	5,159.2	–	10.9	–	5,170.1
Carrying amount	2,565.5	37,294.1	1,786.1	2,985.8	931.9	45,563.4
Total carrying amount	2,570.1	39,695.0	1,917.3	2,985.8	931.9	48,100.1

Principal risks continued

All amounts are stated in £m unless otherwise indicated

Credit risk continued

Analysis of impaired assets and associated collateral

Impaired assets

Loans and securities are considered impaired where it is determined that the Bank will be unable to collect all principal and interest outstanding, according to the contractual terms of the agreements.

The loan portfolios are reviewed on a periodic basis, usually once a month, to assess impairment. A loan will be deemed to be impaired where there is objective evidence that a loss event has occurred after recognition of an asset and prior to the balance sheet date.

Objective evidence of impairment on the loan portfolios includes:

Portfolio	**Impairment definition**
Corporate	• an instalment on a loan account is overdue, or has been in excess of its limit (or is overdrawn without an agreed limit) for 90 days or more;
	• if, as a result of lending being (either now or previously) at risk or in distress, the Bank has agreed to a material postponement or forgiveness of interest and/or 'soft' rates or to a waiver and/or reduction of normal fees and charges, the accounts must be considered impaired while such favourable terms are being applied;
	• there has been a full or partial write off of debt, following which the account must remain impaired for at least six months;
	• there has been an event likely to result in insolvency which may involve bankruptcy, or the appointment of an administrative receiver, liquidator or administrator; or
	• if the Bank considers that at some point (normally taken as within the next 12 months) actions such as an issue of formal demand will be required in order to achieve full repayment.
Mortgages	• arrears outstanding are equivalent to three or more monthly instalments; or
	• we have commenced litigation against the borrower for repossession of the property against which the loan is secured.
Unsecured	• loans with any amount of arrears are treated as impaired.

For all portfolios the actual provision will depend on the expected roll rate to charge off or anticipated cash flow, or the expected roll rate to charge off (unsecured) or possession (secured), along with the estimated value of any supporting collateral.

Once a loan is defined as impaired the provision will be calculated as the difference between the current carrying value of the asset and the expected future recovery (or expected sales proceeds for the secured book), discounted at the loan's effective or current interest rate, taking into account the expected charge off rate and any supporting collateral.

Credit risk continued

Fair value adjustments are the remaining adjustments for lifetime expected credit loss on Britannia mortgage assets acquired on the merger of the Bank and Britannia Building Society on 1 August 2009. Gross customer balances are the amounts owed by the customer prior to any fair value adjustments, loss provisions, effective interest rate and other accounting adjustments.

	Retail	Retail	CABB		Optimum	Total
30 June 2011	**secured**	**unsecured**	**Corporate**	**Platform**		
Gross loans and advances to customers	**15,170.2**	**1,546.8**	**8,803.2**	**1,109.6**	**7,965.3**	**34,595.1**
Fair value adjustments	**7.2**	**–**	**254.1**	**–**	**176.8**	**438.1**
Other accounting adjustments	**34.8**	**(153.2)**	**(247.0)**	**3.1**	**60.3**	**(302.0)**
Gross customer balances	**15,212.2**	**1,393.6**	**8,810.3**	**1,112.7**	**8,202.4**	**34,731.2**
Impaired customer balance	**67.5**	**161.1**	**677.5**	**13.6**	**1,447.2**	**2,366.9**
Impaired as a % of gross customer balance	**0.4%**	**11.6%**	**7.7%**	**1.2%**	**17.6%**	**6.8%**
Impairment						
Impairment provisions	**1.7**	**161.1**	**66.5**	**0.1**	**6.6**	**236.0**
Fair value adjustments	**7.2**	**–**	**254.1**	**–**	**176.8**	**438.1**
	8.9	**161.1**	**320.6**	**0.1**	**183.4**	**674.1**
Impairment as a % of impaired customer balance	**13.2%**	**100.0%**	**47.3%**	**0.7%**	**12.7%**	**28.5%**

	Retail	Retail	CABB		Optimum	Total
31 December 2010	secured	unsecured	Corporate	Platform		
Gross loans and advances to customers	15,830.2	1,613.1	8,720.4	897.7	8,138.5	35,199.9
Fair value adjustments	7.8	–	265.4	–	205.0	478.2
Other accounting adjustments	36.5	(145.1)	(201.3)	6.0	100.3	(203.6)
Gross customer balances	15,874.5	1,468.0	8,784.5	903.7	8,443.8	35,474.5
Impaired customer balance	64.6	158.2	658.6	10.1	1,764.1	2,655.6
Impaired as a % of gross customer balance	0.4%	10.8%	7.5%	1.1%	20.9%	7.5%
Impairment						
Impairment provisions	3.0	158.2	55.8	–	5.6	222.6
Fair value adjustments	7.8	–	265.4	–	205.0	478.2
	10.8	158.2	321.2	–	210.6	700.8
Impairment as a % of impaired customer balance	16.7%	100.0%	48.8%	0.0%	11.9%	26.4%

Principal risks continued

All amounts are stated in £m unless otherwise indicated

Credit risk continued

At the balance sheet date, the Bank assesses its investment securities for objective evidence that an impairment loss has occurred. For an investment security this may be the disappearance of an active market. For available for sale investment securities particular consideration is given to evidence of any significant difficulty of the issuer or measurable decrease in the estimated cash flows from the investments.

Renegotiation of retail lending

The Bank is committed to supporting borrowers who are in financial difficulties and will consider a range of treatments to help a borrower meet their loan commitments and clear any outstanding arrears. On secured lending, repossession of the property is always considered a last resort.

Alternative treatments for borrowers include arrangements to repay arrears over an extended period, or temporary concessions where arrears are allowed to increase for a temporary period. Such arrangements may be negotiated directly with the borrower or via a third party. Where such arrangement is made the loan will continue to be treated as impaired until such time as the arrears have been cleared in full.

In certain circumstances, as defined in the Bank's policy, we may agree to renegotiate a loan to repay outstanding arrears over the remaining term of the loan.

- On mortgages where such a renegotiation takes place, known as capitalisation, the loan will be classified as neither past due nor impaired, for so long as the mortgagors comply with the terms of their renegotiated contracts. During 2011, 67 secured loans (year to 31 December 2010: 541) were renegotiated. The balance of these loans as at 30 June 2011 was £7.8m (31 December 2010: £63.2m).
- On unsecured loans where such a renegotiation takes place, known as re-aging, the loan will continue to be classified as impaired for a period of 12 months. The expected charge off rate will be based on the performance of other re-aged loans. At 30 June 2011 there were £23.8m of re-aged loans (31 December 2010: £23.9m).

The Bank has taken early proactive steps to review policies on both interest only and forbearance activities. In doing so, this is in line with a number of the good practices outlined in the recent consultation paper issued by the FSA. Work is ongoing in alignment with FSA's timeline including development of reporting and changing process requirements.

Past due but not impaired

Loans and securities are considered past due where the contractual interest or principal payment are in arrears; however there are certain mitigating circumstances that may deem it necessary not to raise a provision for past due accounts (eg amount/days past due are immaterial). Provisions can be raised where accounts are not past due; this could be the stage of collection of amounts owed to the Bank or a specific event such as bankruptcy.

In the table past due but not impaired represents the outstanding balances on mortgages and unsecured retail lending where borrowers have failed to make payments when contractually due and the Bank expects that all contractual payments will be collected. This includes credit card exposures less than 30 days, and 45 days for other retail unsecured lending. For mortgages, accounts up to 90 days in arrears but with no provision are classed as past due but not impaired.

Within the credit risk analysis table on page 9, low to medium risk has been defined as exposures where the PD is 1% or below over a one year time horizon for exposures on an internal ratings based (IRB) approach under Basel II and slotting category strong/good/satisfactory for specialised lending exposures under the slotting approach. Medium to high risk has been defined as a PD of greater than 1% over a one year time horizon for exposure on the IRB approach under Basel II and slotting category weak for specialised lending exposures under the slotting approach.

The Bank is also progressing with the implementation of any amendments to risk and capital requirements under the new Basel III regulations.

Within the treasury debt security portfolio 84% (31 December 2010: 82%) of exposures have an external credit rating equivalent to Fitch A or above.

Fair value adjustments and provisions held against impaired exposures

When Britannia merged with The Co-operative Bank, the Britannia lending portfolios were carried into the newly merged entity at their fair value, taking account of future lifetime expected loss on the lending portfolios at 31 July 2009. The lifetime expected loss adjustment is offset against the Britannia gross lending balances in the combined entity's financial statements.

Description of collateral

The Bank uses collateral and guarantees to mitigate credit risk. Collateral is regularly revalued and guarantees are reviewed to ensure continuing effectiveness. The majority of collateral held is not eligible financial collateral, it is residential real estate collateral for retail mortgages or either residential or commercial real estate collateral held against corporate lending.

When calculating the value of collateral for regulatory capital risk mitigation purposes, the appropriate valuation criteria contained within BIPRU are applied. When assessing the collateral valuations for corporate lending policy purposes, a more conservative written down value is used, stepped according to the risk level of the asset.

Credit risk continued

Collateral held against secured loans

Collateral is measured as the current indexed valuation of the property. The table below shows the fair value of the collateral held against mortgage portfolios:

30 June 2011	Retail secured	CABB Corporate	CABB Platform	Optimum	Total
Fair value of collateral					
Neither past due nor impaired	**34,879.3**	**4,890.3**	**1,845.7**	**8,088.8**	**49,704.1**
Past due but not impaired	**247.3**	**116.4**	**24.8**	**489.6**	**878.1**
Impaired	**108.2**	**710.5**	**18.9**	**1,508.9**	**2,346.5**
	35,234.8	**5,717.2**	**1,889.4**	**10,087.3**	**52,928.7**

31 December 2010	Retail secured	CABB Corporate	CABB Platform	Optimum	Total
Fair value of collateral					
Neither past due nor impaired	37,271.6	4,973.9	1,518.5	8,532.5	52,296.5
Past due but not impaired	271.7	142.4	17.8	480.2	912.1
Impaired	111.3	953.5	14.5	1,679.7	2,759.0
	37,654.6	6,069.8	1,550.8	10,692.4	55,967.6

The tables below show LTVs across the mortgage portfolios of the Bank, excluding accounts which carry an impairment provision or lifetime expected credit losses:

30 June 2011	Retail secured %	Platform %	Optimum %	Total %
Less than 50%	**31.3**	**12.3**	**15.3**	**28.5**
50% to 60%	**13.7**	**13.9**	**10.2**	**13.6**
60% to 70%	**14.3**	**27.0**	**19.7**	**16.0**
70% to 80%	**17.9**	**33.8**	**28.9**	**20.2**
80% to 90%	**15.2**	**12.0**	**15.1**	**14.8**
90% to 100%	**5.0**	**0.9**	**6.7**	**4.6**
Greater than 100%	**2.6**	**0.1**	**4.1**	**2.3**
	100.0	**100.0**	**100.0**	**100.0**
Average LTV of stock (indexed)	**43.2**	**64.2**	**53.6**	**45.3**
Average LTV of new business	**62.5**	**64.5**	**n/a**	**63.2**

31 December 2010	Retail secured %	Platform %	Optimum %	Total %
Less than 50%	33.0	13.1	14.6	30.0
50% to 60%	14.0	14.7	10.5	13.9
60% to 70%	14.7	28.1	20.3	16.3
70% to 80%	17.3	33.8	27.3	19.5
80% to 90%	14.8	9.9	15.1	14.3
90% to 100%	3.8	0.4	7.2	3.7
Greater than 100%	2.4	–	5.0	2.3
	100.0	100.0	100.0	100.0
Average LTV of stock (indexed)	41.4	63.3	55.4	43.5
Average LTV of new business	62.1	65.3	n/a	62.7

Principal risks continued

All amounts are stated in £m unless otherwise indicated

Credit risk continued

Eurozone risk

The Bank remains a low risk UK based operation with strong mutual principles. It has no sovereign exposure to 'peripheral' eurozone countries (Portugal, Ireland, Italy, Greece and Spain). The Bank had a £2.6m exposure to the Kingdom of Sweden at 30 June 2011 (31 December 2010: £2.5m) settled on 5 July 2011, a £90m exposure to the Government of Finland at 30 June 2011 (31 December 2010: £nil) repayable in over one year and held no other european sovereign debt.

Peripheral eurozone counterparty and country limits have continued to be managed downwards. Higher risk eurozone exposures to financial institutions continue to be closely monitored, namely those to Portugal, Ireland, Italy, Spain and Belgium. Additional management actions have been taken where necessary in light of any downgradings. The Bank has no exposure to Greek financial institutions or any other counterparties.

The Bank has exposures to financial institutions in the following countries at 30 June 2011:

Country	**Repayable within 30 days**	**Repayable within 1 year but more than 30 days**	**Repayable in over 1 year**	**Credit risk mitigation**	**Total exposure 30 June 2011**	Repayable within 30 days	Repayable within 1 year but more than 30 days	Repayable in over 1 year	Credit risk mitigation	Total exposure 31 December 2010
Austria	**–**	**40.1**	**–**	**–**	**40.1**	–	–	40.1	–	40.1
Belgium	**120.1**	**65.1**	**26.3**	**–**	**211.5**	98.1	43.0	45.8	–	186.9
Denmark	**–**	**–**	**0.4**	**–**	**0.4**	–	5.2	0.4	–	5.6
Finland	**–**	**25.0**	**–**	**–**	**25.0**	–	25.0	–	–	25.0
France	**263.5**	**106.6**	**232.6**	**(26.9)**	**575.8**	365.8	491.7	227.8	(273.5)	811.8
Germany	**131.5**	**78.5**	**74.7**	**(5.7)**	**279.0**	238.5	–	157.9	–	396.4
Ireland	**64.8**	**41.0**	**–**	**–**	**105.8**	–	98.8	32.9	–	131.7
Italy	**155.0**	**81.9**	**–**	**–**	**236.9**	260.8	150.8	–	–	411.6
Netherlands	**3.1**	**3.8**	**62.1**	**–**	**69.0**	10.1	–	–	–	10.1
Portugal	**–**	**36.2**	**–**	**–**	**36.2**	–	–	34.4	–	34.4
Spain	**427.7**	**173.4**	**59.6**	**(105.5)**	**555.2**	226.7	91.2	198.7	(32.7)	483.9
Switzerland	**99.7**	**10.5**	**61.6**	**(26.0)**	**145.8**	0.5	17.0	140.3	(73.6)	84.2
	1,265.4	**662.1**	**517.3**	**(164.1)**	**2,280.7**	1,200.5	922.7	878.3	(379.8)	2,621.7

Of the £2.4bn exposure before credit risk mitigation, £1.3bn of exposure had a maturity within 30 days and a total of £1.9bn within a year.

Credit risk mitigation takes the form of UK gilt collateral held in relation to reverse repo transactions and cash collateral held in relation to sold repo and derivative transactions.

Underlying term assets are deemed to be in run-off, with associated counterparty and country limits reducing upon maturity or sale. All residual term assets are due to mature by mid 2012. Ongoing activity with peripheral eurozone counterparties is primarily restricted to short dated money market lending.

Country	**Bank and money market balances**	**Bonds**	**Derivatives**	**Other**	**Total exposure 30 June 2011**	Bank and money market balances	Bonds	Derivatives	Other	Total exposure 31 December 2010
Austria	**–**	**40.1**	**–**	**–**	**40.1**	–	40.1	–	–	40.1
Belgium	**120.1**	**91.4**	**–**	**–**	**211.5**	124.3	62.6	–	–	186.9
Denmark	**–**	**–**	**0.4**	**–**	**0.4**	–	5.1	0.4	0.1	5.6
Finland	**–**	**25.0**	**–**	**–**	**25.0**	–	25.0	–	–	25.0
France	**384.5**	**147.4**	**42.4**	**1.5**	**575.8**	526.1	228.8	36.5	20.4	811.8
Germany	**150.5**	**103.2**	**25.1**	**0.2**	**279.0**	262.6	103.1	30.5	0.2	396.4
Ireland	**–**	**105.8**	**–**	**–**	**105.8**	10.5	118.4	2.8	–	131.7
Italy	**155.0**	**81.9**	**–**	**–**	**236.9**	290.8	120.8	–	–	411.6
Netherlands	**3.0**	**66.0**	**–**	**–**	**69.0**	10.0	–	–	0.1	10.1
Portugal	**–**	**36.2**	**–**	**–**	**36.2**	–	34.4	–	–	34.4
Spain	**377.7**	**142.1**	**35.4**	**–**	**555.2**	256.7	190.1	37.1	–	483.9
Switzerland	**87.0**	**–**	**58.3**	**0.5**	**145.8**	–	17.0	66.7	0.5	84.2
	1,277.8	**839.1**	**161.6**	**2.2**	**2,280.7**	1,481.0	945.4	174.0	21.3	2,621.7

In addition to the above exposures to financial institutions, in the overseas European Economic Area (EEA as defined by the European Banking Authority) and Switzerland, corporate customer exposures at 30 June 2011 totalled £202.9m (31 December 2010: £194.6m). There are no exposures to retail customers based outside of the UK and Channel Islands.

Market risk
Market risk arises from the effect of changes in market prices of financial instruments, on income derived from the structure of the balance sheet, execution of customer and interbank business and proprietary trading. The majority of the risk arises from changes in interest rates.

The Board receives reports on the management of balance sheet risk and, each month, the CFS Shareholder Asset & Liability Committee (ALCO) (delegated authority from the RC) reviews the balance sheet risk position and the utilisation of wholesale market risk limits.

Market risk is controlled within strict limits which are approved by the Board. The levels of these risk limits have been reviewed and remain appropriate. The risk limits reflect the low risk nature of the market risk activity which is undertaken by the Bank.

The table below illustrates the sensitivity analysis relating to the 'core' Bank, a primary measure in the approach to managing interest rate risk. The table illustrates the Present Value (PV) change based on a 1% shock in interest rates at the end of the year across the yield curve on the Bank's balances excluding wholesale treasury and customer currency balances (subject to a 0% floor), which are managed within the treasury risk framework. The shock results are driven by product pricing and product mix. The extent of rate movements and the low rate environment have impacted the repricing of liability products resulting in larger exposure to rate shocks.

30 June 2011	**100bp increase**	**100bp decrease**
At the period end	**9.7**	**(9.7)**
Average for the period	**4.4**	**(3.1)**
Maximum sensitivity for the period	**17.2**	**(16.1)**
Minimum sensitivity for the period	**(2.1)**	**4.5**

31 December 2010		
At the year end	(9.0)	10.7
Average for the period	(12.8)	13.5
Maximum sensitivity for the period	(35.3)	37.3
Minimum sensitivity for the period	(0.2)	0.4

Principal risks continued

All amounts are stated in £m unless otherwise indicated

Currency risk

The Bank's treasury foreign exchange activities are primarily:

- providing a service in meeting the foreign exchange requirements of customers;
- maintaining liquidity in euros and US dollars by raising funds and investing these to generate a return; and
- performing limited intraday trading and overnight positioning in major currencies to generate incremental income.

The table below provides an analysis of the Bank's assets and liabilities by currency:

	30 June 2011					31 December 2010				
	£	**$**	**€**	**Other**	**Total**	£	$	€	Other	Total
Assets										
Cash and balances at central banks	**3,489.9**	**–**	**–**	**–**	**3,489.9**	1,735.6	–	–	–	1,735.6
Loans and advances to banks	**1,771.9**	**275.0**	**218.1**	**31.2**	**2,296.2**	1,879.9	35.4	475.3	3.5	2,394.1
Loans and advances to customers	**34,188.2**	**45.1**	**107.3**	**18.5**	**34,359.1**	34,683.2	61.6	217.4	15.1	34,977.3
Fair value adjustments for hedged risk	**169.5**	**–**	**–**	**–**	**169.5**	166.8	–	–	–	166.8
Investment securities – loans and receivables	**635.4**	**33.4**	**244.8**	**5.3**	**918.9**	1,500.0	68.1	294.0	55.2	1,917.3
Investment securities – available for sale	**3,293.2**	**224.7**	**218.7**	**91.2**	**3,827.8**	1,900.4	379.8	444.9	260.7	2,985.8
Derivative financial instruments	**837.1**	**–**	**–**	**–**	**837.1**	931.5	0.1	0.3	–	931.9
Equity shares	**7.2**	**–**	**–**	**–**	**7.2**	7.2	–	–	–	7.2
Investments in joint ventures	**2.8**	**–**	**–**	**–**	**2.8**	2.5	–	–	–	2.5
Goodwill	**0.6**	**–**	**–**	**–**	**0.6**	0.6	–	–	–	0.6
Intangible fixed assets	**43.3**	**–**	**–**	**–**	**43.3**	45.1	–	–	–	45.1
Investment properties	**170.8**	**–**	**–**	**–**	**170.8**	162.3	–	–	–	162.3
Property, plant and equipment	**88.9**	**–**	**–**	**–**	**88.9**	98.5	–	–	–	98.5
Amounts owed by other Co-operative Group undertakings	**78.0**	**–**	**–**	**–**	**78.0**	0.6	–	–	–	0.6
Other assets	**41.9**	**0.8**	**3.1**	**0.7**	**46.5**	47.2	0.7	2.9	1.7	52.5
Prepayments and accrued income	**26.5**	**–**	**–**	**–**	**26.5**	16.2	–	–	–	16.2
Deferred tax assets	**68.1**	**–**	**–**	**–**	**68.1**	87.0	–	–	–	87.0
Total assets	**44,913.3**	**579.0**	**792.0**	**146.9**	**46,431.2**	43,264.6	545.7	1,434.8	336.2	45,581.3
Liabilities										
Deposits by banks	**1,596.1**	**550.4**	**538.0**	**26.9**	**2,711.4**	1,480.8	473.0	840.4	144.4	2,938.6
Customer accounts	**33,970.4**	**25.8**	**176.8**	**2.5**	**34,175.5**	32,205.8	23.6	88.9	1.7	32,320.0
Customer accounts – capital bonds	**1,573.3**	**–**	**–**	**–**	**1,573.3**	1,794.7	–	–	–	1,794.7
Debt securities in issue	**3,235.0**	**37.4**	**112.9**	**–**	**3,385.3**	4,007.4	–	204.8	–	4,212.2
Derivative financial instruments	**592.0**	**4.6**	**5.2**	**0.1**	**601.9**	689.2	5.2	6.8	1.2	702.4
Other borrowed funds	**1,146.0**	**–**	**31.6**	**–**	**1,177.6**	975.4	–	–	–	975.4
Amounts owed to other Co-operative Group undertakings	**255.9**	**–**	**–**	**–**	**255.9**	188.5	–	–	–	188.5
Other liabilities	**117.5**	**1.3**	**3.0**	**–**	**121.8**	141.3	1.5	2.8	1.2	146.8
Accruals and deferred income	**109.5**	**–**	**–**	**–**	**109.5**	131.3	–	–	–	131.3
Provisions for liabilities and charges	**141.3**	**–**	**–**	**–**	**141.3**	55.8	–	–	–	55.8
Current tax liabilities	**11.5**	**–**	**–**	**–**	**11.5**	42.5	–	–	–	42.5
Total liabilities	**42,748.5**	**619.5**	**867.5**	**29.5**	**44,265.0**	41,712.7	503.3	1,143.7	148.5	43,508.2
Net on balance sheet position	**2,164.8**	**(40.5)**	**(75.5)**	**117.4**	**2,166.2**	1,551.9	42.4	291.1	187.7	2,073.1

Liquidity risk

Liquidity risk arises from the timing of cash flows generated from the Bank's assets and liabilities (including derivatives). The Bank's liquidity management policies are reviewed and approved annually by the RC and compliance reviewed monthly by ALCO.

Liquidity risk arising from the structure of the balance sheet (structural liquidity) is managed to policies developed by ALCO. Liquidity risk is defined as the Board approved survival period under stress scenarios. The Bank undertakes various stress tests on a weekly basis.

The Bank has enhanced its liquidity management by introducing a liquidity risk framework which has a number of strategic and tactical measures that feed into an overall liquidity status score. The Bank's liquidity management framework is designed in line with FSA BIPRU regulations and industry guidelines, including Institute of International Finance and Bank for International Settlements recommendations.

The Bank has undertaken and completed its Individual Liquidity Adequacy Assessment (ILAA) and received its Individual Liquidity Guidance (ILG) from the FSA. The Bank has also reviewed and considered liquidity levels under the most severe stresses and in the event of potential downgrade, and resulting evidence approved by the Bank's Board shows that we are building up our liquidity and that our liquidity levels can be maintained even under the most severe stress scenarios.

The Bank manages liquidity risk by applying:

- a systematic control process embedded in the Bank's operations; and
- controlled end to end liquidity management with:
  - net outflows monitored to ensure they are within FSA limits;
  - maintenance of a well diversified deposit base;
  - management of stocks: high quality primary liquidity including cash, and secondary liquidity including certificates of deposit;
  - target strategic ratios; and
  - stress testing.

The strategic measures set by ALCO and monitored monthly are:

- wholesale borrowing ratio – the amount of wholesale borrowing compared to total liabilities;
- liquid asset ratio – amount of total assets that are liquid assets; and
- customer loan/deposit ratio – amount of customer loans funded by customer deposits.

Day to day cash flow (tactical liquidity) is managed by treasury within guidelines laid down by ALCO and in accordance with the standards established for all banks by the FSA.

The Bank has a high proportion of retail assets funded by retail deposits, ensuring there is no over reliance on wholesale funding. There are customer funding and wholesale funding ratios as described above which are set in line with the Board approved strategic plan. The Bank's structural liquidity risk management is therefore retail based and is dependent on behavioural analysis of both customer demand and deposit and loan drawdown profiles by product category based on experience over the last ten years. The behaviour of retail products is reviewed by ALCO and in addition the Bank has maturity mismatch limits to control the exposure to longer term mismatches.

The Bank's liquidity position is monitored on a daily basis and reported to ALCO each month. Treasury holds a pool of liquid assets on behalf of the Bank, and management actions are in place to provide additional liquidity when required. These sources of liquidity are held in order to be available to meet unexpected liquidity requirements.

Marketable assets are maintained as a liquidity pool against potential retail outflows; the liquidity pool is the highest quality debt and consists of high quality government issued debt and cash at the Bank of England.

The Bank has access to a variety of medium term wholesale funding sources: securitisation, covered bond and euro medium term notes. The Bank will issue from the programmes as funding requirements and market conditions permit.

ALCO meets monthly and discusses the actual liquidity position and projected position incorporating business plans. As required a more frequent meeting is held, this is typically when the markets have a heightened period of stress or liquidity shortage. The meetings ensure that the business plans are accurate and can be flexed as required.

Liquidity gap

The following table analyses assets and liabilities into relevant maturity groupings based on the remaining period of the balance sheet date to the contractual maturity date.

The Bank manages liquidity on a behavioural rather than contractual basis, reflecting where actual behaviour differs from contractual maturity:

- retail and corporate deposit bases are very stable, with deposits being attracted to the Bank by good customer service and its ethical policy. As a result, the deposit base remains stable whereas the contractual maturity is immediate for instant access deposits; and
- personal loan and visa balances are repaid earlier than their contractual maturity date.

These behavioural adjustments are based on historical experience of customer behaviour over a period of up to ten years.

Principal risks continued

All amounts are stated in £m unless otherwise indicated

Liquidity risk continued

30 June 2011 Contractual cash flows	**Carrying value**	**Gross nominal outflow**	**Less than 1 month**	**1–3 months**	**3–12 months**	**1–5 years**	**Over 5 years**
Non-derivative liabilities							
Deposits by banks	**2,711.4**	**2,779.9**	**1,304.6**	**141.1**	**495.4**	**807.5**	**31.3**
Customer accounts	**34,175.5**	**34,387.0**	**22,292.7**	**3,020.9**	**6,163.3**	**2,910.1**	**–**
Customer accounts – capital bonds	**1,573.3**	**1,580.6**	**6.8**	**38.0**	**395.6**	**1,119.5**	**20.7**
Debt securities in issue	**3,385.3**	**4,371.6**	**177.4**	**294.5**	**322.6**	**2,622.7**	**954.4**
Other borrowed funds	**1,177.6**	**2,129.8**	**3.9**	**4.4**	**85.7**	**762.7**	**1,273.1**
Amounts owed to other Co-operative Group undertakings	**255.9**	**255.9**	**255.9**	**–**	**–**	**–**	**–**
	43,279.0	**45,504.8**	**24,041.3**	**3,498.9**	**7,462.6**	**8,222.5**	**2,279.5**
Derivative liabilities							
Net outflow	**601.9**	**1,095.3**	**162.3**	**85.1**	**106.3**	**399.5**	**342.1**
	43,880.9	**46,600.1**	**24,203.6**	**3,584.0**	**7,568.9**	**8,622.0**	**2,621.6**
Other liabilities	**384.1**	**–**	**–**	**–**	**–**	**–**	**–**
Total recognised liabilities	**44,265.0**	**46,600.1**	**24,203.6**	**3,584.0**	**7,568.9**	**8,622.0**	**2,621.6**
Unrecognised loan commitments	**4,740.4**	**4,740.4**	**4,493.3**	**115.8**	**131.3**	**–**	**–**
Total liabilities – contractual	**49,005.4**	**51,340.5**	**28,696.9**	**3,699.8**	**7,700.2**	**8,622.0**	**2,621.6**
Behavioural adjustments							
Customer accounts	**–**	**–**	**(19,918.9)**	**(581.6)**	**(373.4)**	**20,873.9**	**–**
Debt securities in issue	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total liabilities – behavioural	**49,005.4**	**51,340.5**	**8,778.0**	**3,118.2**	**7,326.8**	**29,495.9**	**2,621.6**

31 December 2010 Contractual cash flows	Carrying value	Gross nominal outflow	Less than 1 month	1–3 months	3–12 months	1–5 years	Over 5 years
Non-derivative liabilities							
Deposits by banks	2,938.6	2,931.0	776.3	415.8	774.4	964.5	–
Customer accounts	32,320.0	32,588.8	20,347.0	1,856.8	6,811.5	3,573.5	–
Customer accounts – capital bonds	1,794.7	1,749.4	11.4	64.1	254.8	1,362.6	56.5
Debt securities in issue	4,212.2	5,006.4	303.9	695.6	397.4	1,172.4	2,437.1
Other borrowed funds	975.4	1,799.6	45.8	4.7	58.0	420.8	1,270.3
Amounts owed to other Co-operative Group undertakings	188.5	188.5	188.5	–	–	–	–
	42,429.4	44,263.7	21,672.9	3,037.0	8,296.1	7,493.8	3,763.9
Derivative liabilities							
Net outflow	702.4	794.2	139.5	37.5	121.6	295.5	200.1
	43,131.8	45,057.9	21,812.4	3,074.5	8,417.7	7,789.3	3,964.0
Other liabilities	376.4	–	–	–	–	–	–
Total recognised liabilities	43,508.2	45,057.9	21,812.4	3,074.5	8,417.7	7,789.3	3,964.0
Unrecognised loan commitments	4,759.5	4,759.5	4,499.3	62.5	188.2	9.5	–
Total liabilities – contractual	48,267.7	49,817.4	26,311.7	3,137.0	8,605.9	7,798.8	3,964.0
Behavioural adjustments							
Customer accounts	–	–	(18,159.2)	234.3	(2,597.7)	20,522.6	–
Debt securities in issue	–	(25.7)	–	(25.7)	–	–	–
Total liabilities – behavioural	48,267.7	49,791.7	8,152.5	3,345.6	6,008.2	28,321.4	3,964.0

Fair values of financial assets and liabilities

The table below sets out a summary of the carrying and fair values of those financial assets and liabilities not presented on the Bank balance sheet at fair value unless there is no significant difference between carrying and fair values.

Category (as defined by IAS 39)	Class (as determined by the Group)	30 June 2011 Carrying value	30 June 2011 Fair value	31 December 2010 Carrying value	31 December 2010 Fair value
Financial assets					
Loans and receivables					
	Loans and advances to banks	**2,296.2**	**2,292.7**	2,394.1	2,391.8
	Loans and advances to customers	**34,528.6**	**34,900.0**	35,144.1	35,771.0
	Investment securities	**918.9**	**1,099.4**	1,917.3	2,036.4
Financial liabilities					
Financial liabilities at amortised cost					
	Deposits by banks	**2,711.4**	**2,736.9**	2,938.6	2,971.1
	Customer accounts	**34,175.5**	**34,268.7**	32,320.0	32,400.8
	Debt securities in issue	**3,385.3**	**3,245.9**	4,212.2	4,831.7
	Other borrowed funds	**1,177.6**	**1,024.1**	975.4	1,107.4

Key considerations in the calculation of fair values are as follows:

(a) Loans and advances to banks/deposits by banks

Loans and advances to banks include interbank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. 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. A credit loss adjustment has been applied based on expected loss amounts derived from the Bank's regulatory capital calculations.

(b) Loans and advances to customers

Fixed rate loans and advances to customers are revalued to fair value based on future interest cash flows (at funding rates) and principal cash flows discounted using the zero coupon rate. Forecast principal repayments are based on redemption at the earlier of maturity or repricing date with some overlay for historic 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 there is no fair value adjustment required in respect of interest rate movement on variable rate assets. A credit loss adjustment has been applied based on expected loss amounts derived from the Bank's regulatory capital calculations.

(c) 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 price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(d) 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.

(e) Debt securities in issue and other borrowed funds

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

(f) Investment securities

Fair value is based on 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.

(g) Derivatives

Futures and options are marked to market using listed market prices. For interest rate swaps, the estimated fair value is based on discounted cash flows using prevailing money market interest rates for instruments with similar remaining maturity.

There is no significant change in the Level 1, 2 and 3 profile of instruments since the year end.

Operational and other risks

The Bank set out details of the other risks and uncertainties that could impact its performance in its 2010 financial statements. These remain unchanged at the reporting date.

Capital management

All amounts are stated in £m unless otherwise indicated

Capital resources

The Bank's policy is to maintain a strong base so as to maintain investor, creditor and market confidence and to sustain future development of the business. However, the Bank still recognises the need to maintain a balance between the potential higher returns that might be achieved with greater gearing, and the advantages and security afforded by a sound capital position.

Our submissions to the FSA in the period have shown that the Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

The Bank's capital position remains resilient with a half year core tier one position of 9.6% (31 December 2010: 9.6%).

Adequate capitalisation can be maintained at all times even under the most severe stress scenarios including the revised FSA 'anchor' stress scenario.

Sufficient capital buffer above Individual Capital Guidance (ICG) is being maintained demonstrating that there is currently more than sufficient surplus capital within the Banking Group to cover risks including PPI risk. The Bank has provided £90.0m for PPI in the first half of 2011.

During the first half of the year a number of management actions have been successfully implemented. These include an £87.0m capital contribution from its parent, The Co-operative Financial Services Limited, the decision not to repurchase mortgage loans held by Leek 17, 18 and 19 and the exchange and issuance of subordinated debt.

	30 June 2011	31 December 2010
Core tier one capital		
Permanent share capital	**410.0**	410.0
Retained earnings	**1,685.9**	1,562.8
Minority interest	**30.2**	31.6
Interim (losses)/profit	**(9.6)**	16.1
Share premium account	**8.8**	8.8
Total core tier one capital	**2,125.3**	2,029.3
Perpetual non-cumulative preference shares	**60.0**	60.0
Total tier one capital before regulatory deductions	**2,185.3**	2,089.3
Tier two capital		
Revaluation reserves	**2.9**	2.9
Long term subordinated debt/PSBs	**1,093.4**	884.6
Total tier two capital before deductions	**1,096.3**	887.5

The Bank's regulatory capital is analysed into two tiers:

Tier one capital

Tier one capital includes share capital, retained earnings and perpetual non-cumulative preference shares. The preference shares carry the right to fixed non-cumulative preferential dividend at a rate of 9.25%, payable 31 May and 30 November. Retained earnings exclude gains or losses on cashflow hedges and available for sale assets.

Tier two capital

Revaluation reserves relating to net gains on equity held in the available for sale financial assets category are included in tier two capital.

The tier two capital includes six subordinated debt issues and two tranches of perpetual subordinated bonds (PSBs). The rights of payment to the holders of this debt are subordinated to the claims of depositors and other creditors of the Bank. More information on these can be found in note 9 and in the 2010 financial statements.

The capital ratios reported in the business and financial review are based on the Pillar I capital requirement.

Capital allocation

The allocation of capital between specific operations and activities is driven by optimisation of the return achieved on the capital allocated, and is based upon the regulatory capital. Capital allocation is undertaken independently of those responsible for capital management, and is reviewed by ALCO. Each new product must earn at least the Bank's minimum target return on equity.

Independent review report to The Co-operative Bank plc

Introduction
We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2011 which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and the related explanatory notes. 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 Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

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 DTR of the UK FSA.

As disclosed in the basis of preparation, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

Our responsibility
Our responsibility is to express to the Company 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 UK. 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 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

Andrew Walker
For and on behalf of KPMG Audit Plc
Chartered Accountants
St James' Square
Manchester
M2 6DS

24 August 2011

Consolidated income statement

For the period ended 30 June 2011 (unaudited)

All amounts are stated in £m unless otherwise indicated

		Period to 30 June 2011			Period to 30 June 2010		
	Notes	**Before significant items**	**Significant items**	**After significant items**	Before significant items restated	Significant items	After significant items restated
Interest receivable and similar income		**803.5**	**–**	**803.5**	857.2	–	857.2
Interest expense and similar charges		**(473.9)**	**–**	**(473.9)**	(570.9)	–	(570.9)
Net interest income	2	**329.6**	**–**	**329.6**	286.3	–	286.3
Fee and commission income		**123.5**	**(90.0)**	**33.5**	121.7	–	121.7
Fee and commission expense		**(25.1)**	**–**	**(25.1)**	(28.6)	–	(28.6)
Net fee and commission income	3	**98.4**	**(90.0)**	**8.4**	93.1	–	93.1
Net trading (expense)/income		**(3.0)**	**–**	**(3.0)**	2.1	–	2.1
Other operating income		**28.6**	**–**	**28.6**	6.2	–	6.2
Operating income		**453.6**	**(90.0)**	**363.6**	387.7	–	387.7
Operating expenses	4	**(282.2)**	**(27.7)**	**(309.9)**	(287.9)	(18.3)	(306.2)
Financial Services Compensation Scheme levies	10	**(5.9)**	**–**	**(5.9)**	(3.3)	–	(3.3)
Impairment losses on loans and advances	5	**(44.8)**	**–**	**(44.8)**	(43.0)	–	(43.0)
Impairment losses on investments	6	**(1.3)**	**–**	**(1.3)**	–	–	–
Operating profit		**119.4**	**(117.7)**	**1.7**	53.5	(18.3)	35.2
Share of post tax profits from joint ventures		**0.3**	**–**	**0.3**	0.4	–	0.4
Profit before taxation and profit based payments		**119.7**	**(117.7)**	**2.0**	53.9	(18.3)	35.6
Profit based payments to members of The Co-operative Group		**(11.8)**	**–**	**(11.8)**	(6.7)	–	(6.7)
(Loss)/profit before taxation		**107.9**	**(117.7)**	**(9.8)**	47.2	(18.3)	28.9
Income tax		**(31.0)**	**31.2**	**0.2**	(17.1)	5.0	(12.1)
(Loss)/profit for the period		**76.9**	**(86.5)**	**(9.6)**	30.1	(13.3)	16.8
Attributable to:							
Equity shareholders		**75.4**	**(86.5)**	**(11.1)**	30.1	(13.3)	16.8
Minority interests		**1.5**	**–**	**1.5**	–	–	–
		76.9	**(86.5)**	**(9.6)**	30.1	(13.3)	16.8
Earnings per share		**0.92p**	**(1.06)p**	**(0.14)p**	0.66p	(0.29)p	0.37p

The significant items in 2011 relate to:

- a £27.7m (2010: £18.3m) programme of investment and integration (note 4); and
- £90.0m (2010: £nil) provisions made for potential customer compensation claims (notes 3 and 10).

Consolidated statement of comprehensive income

For the period ended 30 June 2011 (unaudited)

All amounts are stated in £m unless otherwise indicated

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

Consolidated balance sheet

At 30 June 2011 (unaudited)

All amounts are stated in £m unless otherwise indicated

	Notes	**30 June 2011**	31 December 2010
Assets			
Cash and balances at central banks		**3,489.9**	1,735.6
Loans and advances to banks		**2,296.2**	2,394.1
Loans and advances to customers	5	**34,359.1**	34,977.3
Fair value adjustments for hedged risk		**169.5**	166.8
Investment securities – loans and receivables	6	**918.9**	1,917.3
Investment securities – available for sale	6	**3,827.8**	2,985.8
Derivative financial instruments		**837.1**	931.9
Equity shares		**7.2**	7.2
Investments in joint ventures		**2.8**	2.5
Goodwill		**0.6**	0.6
Intangible fixed assets		**43.3**	45.1
Investment properties		**170.8**	162.3
Property, plant and equipment		**88.9**	98.5
Amounts owed by other Co-operative Group undertakings		**78.0**	0.6
Other assets		**46.5**	52.5
Prepayments and accrued income		**26.5**	16.2
Deferred tax assets		**68.1**	87.0
Total assets		**46,431.2**	45,581.3
Liabilities			
Deposits by banks		**2,711.4**	2,938.6
Customer accounts	7	**34,175.5**	32,320.0
Customer accounts – capital bonds	8	**1,573.3**	1,794.7
Debt securities in issue		**3,385.3**	4,212.2
Derivative financial instruments		**601.9**	702.4
Other borrowed funds	9	**1,177.6**	975.4
Amounts owed to other Co-operative Group undertakings		**255.9**	188.5
Other liabilities		**121.8**	146.8
Accruals and deferred income		**109.5**	131.3
Provisions for liabilities and charges	10	**141.3**	55.8
Current tax liabilities		**11.5**	42.5
Total liabilities		**44,265.0**	43,508.2
Capital and reserves attributable to the Bank's equity holders			
Ordinary share capital		**410.0**	410.0
Share premium account		**8.8**	8.8
Retained earnings		**1,674.8**	1,598.9
Available for sale reserve		**(9.4)**	(13.1)
Cashflow hedging reserve		**49.1**	36.9
		2,133.3	2,041.5
Minority interests		**32.9**	31.6
Total equity		**2,166.2**	2,073.1
Total liabilities and equity		**46,431.2**	45,581.3

Consolidated statement of cash flows

For the period ended 30 June 2011 (unaudited)

All amounts are stated in £m unless otherwise indicated

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

Consolidated statement of changes in equity

For the period ended 30 June 2011 (unaudited)

All amounts are stated in £m unless otherwise indicated

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

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

Basis of preparation and accounting policies

For the period ended 30 June 2011 (unaudited)

Basis of preparation

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

The information in this interim financial report 2011 is unaudited and does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The comparative figures for the financial year ended 31 December 2010 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the registrar of companies.

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

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

Accounting policies

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

Going concern

The Bank's business activities together with its financial position, and the factors likely to affect its future development and performance are set out in the business and financial review. Further risk information is provided in the principal risks section. In addition, the risk management section of the 2011 interim financial report includes the Bank's objectives, policies and processes for managing its liquidity risk and details of financial instruments and hedging activities. The capital management section provides information on the Bank's capital policies.

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

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

Use of estimates and judgments

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

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

Payment protection insurance (PPI) provision

The Bank has recognised a provision of £90.0m in respect of PPI policies as a result of discussions with the FSA and a judgment handed down by the UK High Court (note 10). The provision represents management's best estimate of the anticipated costs of related customer contact and redress, including administration expenses. However, there are still a number of uncertainties as to the eventual costs from any such contact and redress given the inherent difficulties of assessing the impact of detailed implementation of the FSA policy, uncertainties around the ultimate emergence period for complaints and the activities of claims management companies, all of which will significantly affect complaints volumes, uphold rates and redress costs.

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

Investment securities

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

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

Notes to the interim financial report

For the period ended 30 June 2011 (unaudited)

All amounts are stated in £m unless otherwise indicated

1. Segmental information

During 2010, the Bank reported its operating segments as Retail, Corporate and Markets (CAM) and Other, with CAM being further split into Corporate, Wholesale, Optimum and Platform, and Business Services. This split was in line with the information presented to The Co-operative Financial Services Board, the chief operating decision making body of the Bank. At the highest level, the Bank's internal reporting structure has been revised and is now split between Retail, Corporate and Business Banking (CABB), Optimum and Other, based on differences in products and services. This level of information is regularly presented to the Board. Revenues are attributed to the segment in which they are generated. Transactions between the reportable segments are on normal commercial terms. Internal charges and transfer pricing adjustments have been reflected in each segment. The comparative information as at 30 June 2010 has been restated as appropriate to reflect the new segments.

The Bank is comprised of the following main reportable segments:

- Retail – customer focused products and services for individuals, sole traders and small businesses. This includes mortgages, credit cards, consumer loans, current accounts and savings products;
- CABB – customer focused products and services for businesses and mortgage lending via intermediaries. This includes large corporate and commercial entities. It includes loans, asset finance, current accounts and savings products;
- Optimum – this is the closed book of acquired mortgage portfolios and mortgages originated via intermediaries by Britannia prior to its merger with the Bank; and
- Other – includes Treasury, other central costs and Unity Trust. Treasury comprises asset and liability management across the Bank's balance sheet, including trading activities. Unity Trust is a subsidiary bank operating in the corporate banking and social economy sectors on behalf of trade unions.

Period to 30 June 2011	**Retail**	CABB	Optimum	**CABB and Optimum**	Treasury	Other	**Total other**	**Total**
Interest margin	**198.4**	49.2	31.2	**80.4**	46.9	9.1	**56.0**	**334.8**
Non-interest income	**81.2**	28.2	5.8	**34.0**	(12.0)	(3.4)	**(15.4)**	**99.8**
Segment operating income	**279.6**	77.4	37.0	**114.4**	34.9	5.7	**40.6**	**434.6**
Operating expenses	**(202.2)**	(51.0)	(15.1)	**(66.1)**	(7.9)	(3.7)	**(11.6)**	**(279.9)**
Impairment losses on loans and advances	**(18.1)**	(26.5)	(0.2)	**(26.7)**	–	–	**–**	**(44.8)**
Impairment losses on investments	**–**	–	–	**–**	(1.3)	–	**(1.3)**	**(1.3)**
Segment operating profit	**59.3**	(0.1)	21.7	**21.6**	25.7	2.0	**27.7**	**108.6**
Fair value amortisation								**16.7**
Financial Services Compensation Scheme levies								**(5.9)**
Share of post tax profits from joint ventures								**0.3**
Profit based payments to members of The Co-operative Group								**(11.8)**
Significant items								**(117.7)**
Loss before taxation								**(9.8)**
Income tax								**0.2**
Loss for the period								**(9.6)**

The Board relies primarily on net interest revenue to assess the performance of each segment. As a result interest margin is reported on a net basis to the Board. The Group's activities are primarily in the UK.

1. Segmental information continued

Reconciliation to statutory income statement	Period to 30 June 2011
Interest margin	
Total interest margin for reportable segments	**334.8**
Profits made on sale of investment securities	**(24.2)**
Fair value amortisation	**19.0**
Net interest income	**329.6**
Operating expenses	
Total operating expenses for reportable segments	**(279.9)**
Fair value amortisation	**(2.3)**
Operating expenses	**(282.2)**
Fair value amortisation	
Total interest unwind for reportable segments	**16.7**
Interest margin unwind	**(19.0)**
Operating expenses unwind	**2.3**
Fair value amortisation	**–**

Period to 30 June 2010	Retail	CABB	Optimum	CABB and Optimum	Treasury	Other	Total other	Total
Interest margin	190.0	34.3	30.1	64.4	44.0	9.4	53.4	307.8
Non-interest income	75.8	28.1	5.7	33.8	(10.3)	(3.9)	(14.2)	95.4
Segment operating income	265.8	62.4	35.8	98.2	33.7	5.5	39.2	403.2
Operating expenses	(206.3)	(48.6)	(13.1)	(61.7)	(7.7)	(5.1)	(12.8)	(280.8)
Impairment losses on loans and advances	(30.8)	(10.8)	–	(10.8)	–	(1.4)	(1.4)	(43.0)
Segment operating profit	28.7	3.0	22.7	25.7	26.0	(1.0)	25.0	79.4
Fair value amortisation								(22.6)
Financial Services Compensation Scheme levies								(3.3)
Share of post tax profits from joint ventures								0.4
Profit based payments to members of The Co-operative Group								(6.7)
Significant items								(18.3)
Profit before taxation								28.9
Income tax								(12.1)
Profit for the period								16.8

Reconciliation to statutory income statement	Period to 30 June 2010
Interest margin	
Total interest margin for reportable segments	307.8
Profits made on sale of investment securities	(6.0)
Fair value amortisation	(15.5)
Net interest income	286.3
Operating expenses	
Total operating expenses for reportable segments	(280.8)
Fair value amortisation	(7.1)
Operating expenses	(287.9)
Fair value amortisation	
Total interest unwind for reportable segments	(22.6)
Interest margin unwind	15.5
Operating expenses unwind	7.1
Fair value amortisation	–

Notes to the interim financial report continued
For the period ended 30 June 2011 (unaudited)
All amounts are stated in £m unless otherwise indicated

1. **Segmental information** continued

30 June 2011	**Retail**	**CABB**	**Optimum**	**Treasury**	**Total**
Segment assets	**16,856.5**	**9,316.6**	**8,813.9**	**9,105.8**	**44,092.8**
Unallocated assets					**1,406.9**
Total assets for reportable segments					**45,499.7**
Statutory reclassifications					**931.5**
Consolidated total assets					**46,431.2**
31 December 2010					
Segment assets	17,314.6	9,095.7	8,111.3	8,556.0	43,077.6
Unallocated assets					1,679.3
Total assets for reportable segments					44,756.9
Statutory reclassifications					824.4
Consolidated total assets					45,581.3

2. **Net interest income**

	Period to 30 June 2011	Period to 30 June 2010 restated
Interest receivable and similar income		
On financial assets not at fair value through income or expense:		
On loans and advances to customers	**755.8**	816.8
On loans and advances to banks	**13.3**	0.9
On investment securities	**103.7**	187.3
	872.8	1,005.0
On financial assets at fair value through income or expense:		
Net expense on financial instruments hedging assets	**(69.5)**	(142.8)
Net interest income/(expense) on financial instruments not in a hedging relationship	**0.2**	(5.0)
	803.5	857.2

Profit on the sale of investment securities – loans and receivables of £6.0m in the period to 30 June 2010 has been reclassified as other operating income (note 6).

	Period to 30 June 2011	Period to 30 June 2010 restated
Interest expense and similar charges		
On financial liabilities not at fair value through income or expense:		
On customer accounts	**248.4**	241.2
On bank and other deposits	**130.3**	275.0
On subordinated liabilities	**66.2**	21.8
On perpetual secured debt	**10.2**	13.9
	455.1	551.9
On financial liabilities at fair value through income or expense:		
Net expense on financial instruments hedging liabilities	**18.8**	19.0
	473.9	570.9

3. Net fee and commission income

	Period to 30 June 2011			Period to 30 June 2010
	Before significant items	**Significant items**	**After significant items**	After significant items
Fee and commission income				
On items not at fair value through income or expense	**122.9**	**(90.0)**	**32.9**	121.0
On trust or fiduciary activities that result from holding or investing in assets on behalf of others	**0.6**	**–**	**0.6**	0.7
	123.5	**(90.0)**	**33.5**	121.7
Fee and commission expense				
On items not at fair value through income or expense	**22.6**	**–**	**22.6**	24.7
On items at fair value through income or expense	**2.5**	**–**	**2.5**	3.9
	25.1	**–**	**25.1**	28.6

The provision made in the period comprises an amount for customer compensation relating to past sales of payment protection insurance (PPI) in response to the FSA's policy statement published on 10 August 2010. The Bank stopped selling PPI at the beginning of 2009.

4. Operating expenses

Period to 30 June 2011	**Before significant items**	**Significant items**	**After significant items**
Staff costs:			
Wages and salaries	**110.9**	**7.4**	**118.3**
Social security costs	**10.6**	**0.4**	**11.0**
Pension costs – defined benefit plans	**0.1**	**–**	**0.1**
Pension costs – defined contribution plans	**15.1**	**0.4**	**15.5**
Other staff costs	**13.5**	**11.3**	**24.8**
	150.2	**19.5**	**169.7**
Administrative expenses	**102.8**	**8.2**	**111.0**
Depreciation of property, plant and equipment	**11.1**	**–**	**11.1**
Amortisation of intangible fixed assets	**3.0**	**–**	**3.0**
Profit on sale of property, plant and equipment	**(0.5)**	**–**	**(0.5)**
Operating lease rentals	**14.0**	**–**	**14.0**
Direct expenses from investment properties that generated rental income in the period	**1.5**	**–**	**1.5**
Direct expenses from investment properties that did not generate rental income in the period	**0.1**	**–**	**0.1**
	282.2	**27.7**	**309.9**
Period to 30 June 2010			
Staff costs:			
Wages and salaries	111.5	5.2	116.7
Social security costs	9.9	0.4	10.3
Pension costs – defined benefit plans	0.2	–	0.2
Pension costs – defined contribution plans	14.3	0.5	14.8
Other staff costs	11.2	1.2	12.4
	147.1	7.3	154.4
Administrative expenses	101.9	11.0	112.9
Depreciation of property, plant and equipment	12.4	–	12.4
Amortisation of intangible fixed assets	7.9	–	7.9
Loss on sale of property, plant and equipment	0.6	–	0.6
Operating lease rentals	16.8	–	16.8
Direct expenses from investment properties that generated rental income in the period	1.1	–	1.1
Direct expenses from investment properties that did not generate rental income in the period	0.1	–	0.1
	287.9	18.3	306.2

The significant items relate to a programme of investment and integration.

Notes to the interim financial report continued
For the period ended 30 June 2011 (unaudited)
All amounts are stated in £m unless otherwise indicated

5. Loans and advances to customers

	30 June 2011	31 December 2010
Gross loans and advances	**34,595.1**	35,199.9
Less: allowance for losses on loans and advances to customers	**(236.0)**	(222.6)
	34,359.1	34,977.3

Loans and advances to customers include £87.7m (31 December 2010: £74.1m) of financial assets at fair value through income or expense designated at initial recognition to eliminate or significantly reduce a measurement or recognition inconsistency. Of these £19.8m (31 December 2010: £20.0m) are secured by real estate collateral.

Loans and advances to customers include £10,180.8m (31 December 2010: £11,215.9m) securitised under the Bank's securitisation and covered bond programmes. The Bank remains exposed to substantially all of the risks and rewards of ownership of these assets.

Concentration of exposure
The Bank's exposure is virtually all within the UK. The following industry concentrations of gross advances are considered significant:

	30 June 2011	31 December 2010
Property and construction	**4,456.3**	4,544.6
Retail distribution	**470.5**	500.1
Business and other services	**3,883.5**	3,808.1
Personal – unsecured	**1,546.8**	1,613.1
Personal – secured	**24,238.0**	24,734.0
	34,595.1	35,199.9

Allowance for losses on loans and advances

Period to 30 June 2011	**Individual mortgage**	**Individual corporate**	**Collective**	**Total**
At the beginning of the period	**8.6**	**55.8**	**158.2**	**222.6**
Charge against profits	**1.5**	**17.2**	**28.8**	**47.5**
Amounts written off	**(1.7)**	**(15.8)**	**(15.5)**	**(33.0)**
Unwind of discount allowance	**–**	**(0.2)**	**(1.0)**	**(1.2)**
Interest charged on impaired loans	**–**	**0.1**	**–**	**0.1**
At the end of the period	**8.4**	**57.1**	**170.5**	**236.0**
Period to 31 December 2010				
At the beginning of the year	2.3	51.3	140.4	194.0
Charge against profits for the period to 30 June 2010	0.7	12.0	30.3	43.0
Charge against profits for the period to 31 December 2010	6.5	23.5	33.6	63.6
Amounts written off	(0.9)	(30.5)	(44.9)	(76.3)
Unwind of discount allowance	–	(1.0)	(1.2)	(2.2)
Interest charged on impaired loans	–	0.5	–	0.5
At the end of the year	8.6	55.8	158.2	222.6

The net impairment charge in the Group income statement is £44.8m (30 June 2010: £43.0m). This includes amounts recovered by the Group of £2.7m (30 June 2010: £nil) against amounts previously written off. The recoveries have been made from the mortgagors and from other parties involved in the origination or acquisition of the mortgages.

Fair value adjustments for hedged risk
The Bank has entered into interest rate swaps that protect it from changes in interest rates on the floating rate liabilities that fund its portfolio of fixed rate mortgages. Changes in the fair values of these swaps are offset by changes in the fair values of the fixed rate mortgages. The changes in fair value of fixed rate mortgages are disclosed on the balance sheet as fair value adjustments for hedged risk immediately below the loans and advances to customers.

Fair value adjustments to loans and advances to customers attributable to portfolio hedged risk are £169.5m (31 December 2010: £166.8m).

6. Investment securities

	30 June 2011	31 December 2010
Loans and receivables		
Listed	**146.2**	164.6
Unlisted	**782.2**	1,765.7
	928.4	1,930.3
Less: allowance for losses on loans and receivables	**(9.5)**	(13.0)
	918.9	1,917.3
Included in cash and cash equivalents	**–**	–

Other operating income includes £24.2m (2010: £6.0m) profit from the sale of investment securities – loans and receivables during the period.

Impairment analysis of investment securities – loans and receivables

	30 June 2011	31 December 2010
At the beginning of the period	**13.0**	14.5
Allowance for impairment losses to 30 June 2011 (30 June 2010)	**1.3**	–
Allowance for impairment losses to 31 December 2010	**–**	(1.5)
Charge/(release) for the period	**1.3**	(1.5)
Utilised during the period	**(4.8)**	–
At the end of the period	**9.5**	13.0

	30 June 2011	31 December 2010
Available for sale		
Listed	**3,209.1**	2,417.7
Unlisted	**691.0**	640.4
	3,900.1	3,058.1
Less: allowance for losses on available for sale investments	**(72.3)**	(72.3)
	3,827.8	2,985.8
Included in cash and cash equivalents	**320.0**	225.0

Listed available for sale investments include £62.8m (31 December 2010: £28.7m) of financial assets at fair value through income or expense designated at initial recognition to eliminate or significantly reduce a measurement or recognition inconsistency.

There has been no movement in the allowance for losses on available for sale investments during the period.

Notes to the interim financial report continued
For the period ended 30 June 2011 (unaudited)
All amounts are stated in £m unless otherwise indicated

6. Investment securities continued
Analysis of investment securities by issuer

	30 June 2011	31 December 2010
Investment securities issued by public bodies:		
Government securities	**1,700.1**	903.0
Other public sector securities	**302.2**	57.3
	2,002.3	960.3
Investment securities issued by other issuers:		
Bank and building society certificates of deposits	**516.0**	560.8
Other debt securities:		
Credit trading funds	**–**	16.5
Other floating rate notes	**1,451.2**	1,624.9
Mortgage backed securities	**777.2**	1,740.6
	2,228.4	3,382.0
	4,746.7	4,903.1

Other floating rate notes (FRNs) relate to sterling, euro, US dollar, Canadian dollar and Australian dollar denominated FRNs with maturities ranging from one month to five years from the balance sheet date.

7. Customer accounts

	30 June 2011	31 December 2010
Retail	**25,662.4**	25,993.6
CABB and Optimum	**7,414.1**	5,146.6
Other	**1,099.0**	1,179.8
	34,175.5	32,320.0

The Group has entered into interest rate swaps that protect it from changes in interest rates on the floating rate assets that are funded by its fixed rate customer accounts. Changes in the fair values of these swaps are offset by changes in the fair values of the fixed rate customer accounts. Included within customer accounts are 'fair value hedged' fixed rate accounts with a total nominal value of £22.7m (31 December 2010: £84.7m) against which there are fair value adjustments for hedged risk of £0.3m (31 December 2010: £0.2m), giving a total carrying value of £23.0m (31 December 2010: £84.9m).

8. Customer accounts – capital bonds

	30 June 2011	31 December 2010
Retail	**1,573.3**	1,794.7

The capital bonds are fixed term customer accounts with returns based on the movement in an index (eg FTSE100) over the term of the bond.

The capital bonds have been designated on initial recognition at fair value through income or expense and are carried at their fair value.

The fair values for the capital bonds are obtained on a monthly basis from the third parties that issue these products. These external valuations are reviewed independently using valuation software to ensure the fair values are priced on a consistent basis.

None of the change in the fair value of the capital bonds is attributable to changes in the liability's credit risk.

The maximum amount the Bank would contractually be required to pay at maturity for all the capital bonds is £1,519.9m (31 December 2010: £1,756.0m).

The Bank uses swaps to create economic hedges against all of its capital bonds. The loss on capital bonds in the income statement for the period is £6.8m (30 June 2010: loss of £11.7m). However, taking into account changes in fair value of the associated swaps, the net impact to the income statement for the period is a gain of £0.1m (30 June 2010: loss of £0.2m).

9. Other borrowed funds

	30 June 2011	31 December 2010
£150,000,000 step up callable subordinated notes 2019	**150.0**	150.0
60,000,000 9.25% non-cumulative irredeemable preference shares of £1 each	**60.0**	60.0
Floating rate subordinated notes 2016	**21.9**	104.1
5.625% fixed rate subordinated notes 2021	**150.0**	150.0
9.25% fixed rate subordinated notes 2021	**275.0**	–
Fixed rate subordinated notes 2024	**147.3**	144.0
Fixed rate subordinated notes 2033	**98.6**	99.1
Perpetual subordinated bonds	**255.5**	253.2
Issue costs, discounts and accrued interest	**19.3**	15.0
	1,177.6	975.4

Floating rate subordinated notes 2016
On 28 April 2011 the Bank redeemed €149.2m floating rate subordinated notes due 2016 (representing 81% of the amount outstanding).

9.25% fixed rate subordinated notes 2021
On 28 April 2011 the Bank issued £275.0m new fixed rate subordinated lower tier two capital securities due 2021, issued at a discount of 0%.

The notes are an unsecured obligation of the Bank and in the event of the winding up of the Bank, the claims of noteholders will be subordinated in right of payment to the claims of depositors and other creditors of the Bank.

The notes carry an interest rate of 9.25% per annum to (but excluding) 28 April 2021. Interest is payable annually in April.

Notes to the interim financial report continued
For the period ended 30 June 2011 (unaudited)
All amounts are stated in £m unless otherwise indicated

10. Provisions for liabilities and charges

Period to 30 June 2011	**Property**	**FSCS levies**	**Regulatory/other**	**Total**
At the beginning of the period	**8.8**	**20.9**	**26.1**	**55.8**
Income statement movements:				
Provided in the period – operating expense	**–**	**5.9**	**0.3**	**6.2**
Provided in the period – fee and commission income	**–**	**–**	**90.0**	**90.0**
Utilised during the period	**(1.1)**	**–**	**(9.6)**	**(10.7)**
At the end of the period	**7.7**	**26.8**	**106.8**	**141.3**
Provisions were analysed as follows:				
Amounts falling due within one year	**1.5**	**10.1**	**106.6**	**118.2**
Amounts falling due after one year	**6.2**	**16.7**	**0.2**	**23.1**
	7.7	**26.8**	**106.8**	**141.3**

Period to 31 December 2010	Property	FSCS levies	Regulatory/other	Total
At the beginning of the year	7.1	20.6	25.1	52.8
Income statement movements:				
Provided in the year – operating expense	3.4	11.5	3.5	18.4
Provided in the year – fee and commission income	–	–	13.1	13.1
Released during the year	(0.3)	–	(12.3)	(12.6)
Utilised during the year	(1.4)	(11.2)	(3.3)	(15.9)
At the end of the year	8.8	20.9	26.1	55.8
Provisions were analysed as follows:				
Amounts falling due within one year	1.2	10.6	24.1	35.9
Amounts falling due after one year	7.6	10.3	2.0	19.9
	8.8	20.9	26.1	55.8

Property
The Group has a number of leasehold properties available for rent. Provisions are made when either the sub-lease income does not cover the rental expense or the property is vacant. The provision is based on the expected outflows during the remaining periods of the leases using the discount rate applied in the goodwill calculations of 11%.

10. Provisions for liabilities and charges continued

FSCS levies

The FSCS has provided compensation to customers of financial institutions following the collapse of deposit takers in 2008. The compensation paid out to consumers is currently funded through loans from HM Treasury. The Bank could be liable to pay a proportion of the outstanding borrowings that the FSCS has borrowed from HM Treasury. Additionally the Bank is obliged to pay its share of management expenses and compensation based upon the Bank's proportion of the total market protected deposits at 31 December of each year.

The Bank has provided £26.8m as at 30 June 2011 (31 December 2010: £20.9m) for its share of the levies that will be raised by the FSCS including the interest on the loan from HM Treasury in respect of the 2010/11, 2011/12 and 2012/13 levy years. The Bank's provision calculation includes estimates of the total FSCS levy in each levy year and estimates of the Bank's market participation in each levy year.

The ultimate FSCS levy to the industry as a result of the 2008 collapses cannot currently be estimated reliably as it is dependent on other factors that may affect amounts payable and the timing of amounts payable, including changes in interest rates, potential recoveries of assets by the FSCS and the level of protected deposits. The current arrangements end in March 2012 and the FSCS has not yet issued any details of arrangements beyond this date. The Bank has made provision for fees for the 2012/13 levy year assuming that the current arrangements continue.

Regulatory/other

Provisions have been made in respect of various potential customer compensation claims. Claims are investigated on an individual basis and, where appropriate, compensation payments are made. For a number of years until January 2009, the Bank, along with many other financial services providers, sold payment protection insurance (PPI) alongside credit products.

The FSA issued a policy statement in August 2010 which amended the 'Disputes Resolution: Complaints' section of the FSA Handbook, setting out new rules for handling complaints, including complaints of PPI mis-selling. The new rules were challenged by the BBA which launched a judicial review heard in January 2011. The results of the review were announced on 20 April 2011 and the High Court dismissed the BBA arguments. Consequently the Bank must comply with the policy statement which requires complainants to receive adequate redress and the Bank to complete a proactive review of all past business to identify mis-sold policies where no complaint has been made. An additional provision of £90.0m has been recognised in the period, in respect of the expected cost to the Bank of carrying out this work and paying compensation.

11. Related party transactions

Related party transactions and transactions with key management personnel in the half year to 30 June 2011 are similar in nature to those for the year ended 31 December 2010. Details of the Bank's related party transactions and transactions with key management personnel for the year ended 31 December 2010 can be found in the 2010 financial statements.

A number of banking transactions are entered into with related parties in the normal course of business on normal commercial terms.

12. Risk analysis

The Bank's principal risks relating to financial instruments are considered to be consistent with those reported in the 2010 financial statements. Further analysis is provided in the principal risks section of this report.

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:

Barry Tootell
Acting Chief Executive

24 August 2011

The Co-operative Bank plc Board of Directors:

Executive directors:
Barry Tootell, Acting Chief Executive
Neville Richardson (resigned 22 July 2011)
Rod Bulmer (resigned 16 June 2011)
Tim Franklin (resigned 16 June 2011)
Phil Lee (resigned 16 June 2011)

Non-executive directors:
Paul Flowers, Chair
Rodney Baker-Bates
Duncan Bowdler
David Davies
Peter Harvey
Paul Hewitt
Chris Jones
Stephen Kingsley (resigned 16 June 2011)
Peter Marks
Bob Newton
Ben Reid
Len Wardle
Martyn Wates
Steve Watts (resigned 8 July 2011)
Piers Williamson

Notice to shareholders

The half yearly dividend to Preference Shareholders of 4.625p per £1 preference share, amounting to £2,775,000 will be paid on 30 November 2011 to holders on the register at 28 October 2011.

Registered Office:
1 Balloon Street
Manchester
M60 4EP

Reg. No. 990937 (England)

24 August 2011

Registrar:
Computershare Investor Services PLC
P.O. Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH
Tel: 0870 702 0003

Notes

Design by Radley Yeldar

Printed at APS Group, an ISO 14001 and
FSC certified company.

We like our communications to have an impact on you –
but not on the environment, which is why this is printed using
vegetable oil-based inks on 80% recycled paper, with the
remaining 20% produced from Forest Stewardship Council
certified sources. The paper is made in a totally
chlorine-free process.

The Co-operative Bank plc
Registered office: 1 Balloon Street, Manchester M60 4EP
Registered number: 990937
www.co-operativebank.co.uk