23rd August 2012

The Co-operative Bank plc.

THE CO-OPERATIVE BANK Interim Financial Report 2012

The Co-operative Group, the UK's largest mutual business, today 23rd August 2012, releases its interim results for the 26 weeks ended 2 July 2012, which consolidate the results of The Co-operative Banking Group (CBG). CBG reported an operating result of £36.9m for the period (2011: £115.0m including group recharges) and a loss before tax (including discontinued operations) of £23.2m (2011: profit of £5.8m), reflecting a favourable result for the General Insurance business, which delivered an increase in operating profits of £23.5m during the period. The results of The Co-operative Bank plc, the main subsidiary of CBG, are detailed below.

The Co-operative Bank

Highlights of The Co-operative Bank's ("the Bank's") performance for the six months to 30 June 2012:

- Reached agreement to proceed on the basis of non-binding heads of terms in relation to acquisition of 632 LBG branches (the 'Verde' business).
- Recognised as Europe's Most Sustainable Bank for the third year running.
- Reduced levels of profits reflect the strains in the corporate sector, the difficult market conditions and the cost of holding higher levels of liquidity
    - Operating profit of £11.3m (2011: £108.6m)
    - Loss before taxation of £58.6m (2011: £9.8m)
- Stable core tier 1 ratio at 9.6% (unchanged from June 2011 and December 2011).
- Carefully managed liquidity position.
- Asset quality remains well controlled.
- Continued high levels of customer advocacy, 9.3% above the average of our top five competitors.
- Primary current accounts continue to grow, by 3.3% during the first half of 2012.

Barry Tootell, Acting Chief Executive at The Co-operative Banking Group, said:

"Last year we were granted preferred bidder status by Lloyds Banking Group for the sale of its 632 branches. The Bank has now reached agreement on the commercial terms of the transaction (subject to regulatory approval), which will represent a step change in our strategy of growth, and offer the public a new and real, compelling co-operative alternative in Banking.

Despite the disappointing profit performance, which is a reflection of the challenging economic conditions, the Bank has maintained its focus on ensuring underlying strength. Our capital and liquidity position remains solid, and we continue to ensure asset quality is proactively managed during these difficult times.

The true resilience of our business is reflected in our recognition as Europe's Most Sustainable Bank for the third year running. Customer advocacy and employee engagement levels continue to be excellent, while our success in attracting new primary current account customers will provide a spring board for future growth. While the prospect for economic recovery remains muted, the exciting opportunities from the potential acquisition of the Lloyds branches should enable us to offer a transformed quality of service and product range to our customers."

Profit, balance sheet and business performance

The operating result for the six months to June 2012 was £11.3m (2011: £108.6m). While the underlying performance was satisfactory, the disappointing overall result and the reduction of £97.3m against 2011 was predominantly a reflection of the current adverse economic conditions.

Income levels for the Bank were down £49.5m against 2011. This reflects the pressures from the higher cost of funding across all areas of the business, as well as the impact of additional funding raised over the past year. The reduced level of income was the main driver in the reduction in the operating result for the core business. The income statement also benefited from gains on the sale of Treasury assets of £10.7m (2011: £24.2m). In addition to these sales, we have also sold our remaining claim against Lehman resulting in an additional £9.7m profit.

Operating costs (excluding strategic investment costs) have increased by 1.5% from £268.6m in 2011 to £272.7m in 2012. Removing the impact of inflation (including higher pension costs), underlying costs improved by £6.4m or 2.4%, reflecting a policy of tight cost control, ongoing procurement initiatives and the impact of Project Unity, the Co-operative Group programme seeking to maximise the customer and commercial benefits of belonging to the world's largest consumer co-operative. Operating costs were also higher compared to 2011 due to the additional depreciation charge arising from the investment programme undertaken in recent years. However, work is ongoing in cost management and we remain committed to further improving the cost position over the medium term.

As seen particularly in the second half of 2011, impairment losses continue to reflect the strains in the Corporate sector. The impairment charge rose to £91.9m from £46.1m, due principally to charges on the non-core Corporate loan portfolio. The residential mortgage book (both Retail and Optimum) continued to perform well and arrears reduced further during 2012, with late mortgage arrears (>2.5% of balance) down from 1.18% at December 2011 to 1.03% at June 2012.

The loss before tax was after a charge of £40.0m for PPI mis-selling (2011: £90.0m). In line with many of our competitors, we have seen an acceleration in the rate of claims during 2012, driven largely by the activity of claims management companies, and the additional charge in 2012 reflects this. We remain committed to doing the right thing for our customers, especially if we get things wrong and will deal with their complaints in a fair, personal, easy and responsible manner.

Significant items of £19.3m (2011: £27.7m) were incurred during the year, primarily associated with the investment in our transformation and integration programme. In addition a further £20.0m of transaction costs were incurred in relation to Project Verde.

As part of Unity, we have consolidated a number of enterprise services and these, and the value of central group functions, are paid as a group recharge.

No membership dividend is to be paid for the first half of 2012.

Comprehensive income, which includes movements directly through reserves as well as the income statement, was £15.3m (2011: £6.1m) principally reflecting increases in value of investment securities available for sale.

During these difficult times, we have maintained our focus on supporting our customers. £1.0bn has been lent to Retail Bank mortgage customers in the first half of 2012 (2011: £0.5bn) and a further £0.5bn (2011: £0.3bn) via Platform, our intermediary mortgage business. The balance sheet has been actively managed so as to ensure a balance between margin, capital and liquidity. Despite the resulting reduction in levels of liquidity, the position remains robust with the loan-deposit ratio broadly in balance at 101% (December 2011: 94%). Early in the third quarter of 2012, £650m was raised via our third 'Silk Road' prime mortgage securitisation since the merger.

Capital continues to be carefully managed, with the Bank core tier one capital ratio at 9.6% (December 2011: 9.6%). The total capital ratio was 14.8% (2011: 14.7%), with a tier one ratio of 9.9% (2011: 9.9%).

Operating segment performance

The Bank consists of two primary operating segments – Retail Banking, and Corporate and Business Banking (CABB).

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

Corporate banking is now being managed through two business units. The 'Core' business unit represents lines of business that are consistent with our strategy and risk appetite. 'Non-Core' lines of business, which include sectors not congruent with our strategy, are managed for value and are targeted for run down or exit, and contain the majority of the impairment risk. 'CABB – non core' also includes Optimum (the closed book of intermediary and acquired loan book assets).

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

Retail Banking

The Retail Banking operating result for the six months to June 2012 was £32.0m (2011: £57.8m). This comprised £27.6m (£59.1m) for Retail Bank and £4.4m (loss of £1.3m) for Platform.

Retail bank

Interest income was down £13.8m at the half year mainly reflecting the higher cost of attracting and retaining retail deposits against a backdrop of the general economic contraction and low interest rates. The costs of acquisition associated with our current account customer campaign have also resulted in lower year on year interest income. This has however been partly offset by the continuing improvement in the profitability of the mortgage book as a result of higher margins on both new and existing business.

Non-interest income was lower than last year due to a combination of factors, including lower investment income from the sale of third party products, reflecting the contraction of the wider investment advice market.

Impairment losses were broadly flat year on year reflecting the high quality of new lending, and continuing improvements in the collection of arrears, against the backdrop of the deteriorating economic environment. Mortgage quality has been maintained with continued low rates of impairment, and late arrears (>2.5% of balance) on only 0.29% of accounts (December 2011: 0.30%).

In line with our strategic plan, both lending and deposit balances have contracted slightly in order to optimise income opportunities and to protect our strong customer funding position.

The strength of the Retail Bank customer proposition continues to be recognised by a range of awards. In 2012 the Co-operative Bank was successful in multiple categories at the Moneywise Customer Service Awards and The Card & Payments Awards, recognising consumer banking propositions across both the Bank and the wider Co-operative Group. The Co-operative Bank's credibility amongst customers and commentators alike was underscored by a third successive year of being shortlisted for "Best Financial Services Provider" at the 2012 Which? Awards.

Platform

The Platform intermediary mortgage business, focusing on the prime mortgage and buy to let markets, has continued to grow modestly in the marketplace in the first half of 2012. The focus for Platform continues to be on good quality prudent lending and advances of £0.5bn have been extended during the first six months to June 2012 (2011: £0.3bn) with strong margins achieved and late arrears (>2.5% of balance) on only 0.29% of accounts (December 2011: 0.30%).

Corporate and Business Banking - core

Core corporate and business banking has delivered an operating result of £30.1m during the first half of 2012 (2011: profit of £20.3m) through improved margins and lower costs. There has been limited measured growth of Corporate Banking assets through selected high quality new business, leading to improved margins.

The potential mis-selling of derivatives to corporate and business banking customers has been much publicised in recent weeks. The Bank has agreed to join the FSA review of these sales. The Bank has sold only small numbers of simple products to our customers to help them manage interest rate risk. We have examined these sales and do not believe there to be customer detriment or inappropriate sales.

Treasury / other businesses

The main component for the ‘Treasury/other’ business segment is our Treasury operation, which focuses on ensuring that the bank has a stable liquidity base, access to a diverse range of funding sources and that market risk is managed within a defined risk appetite. Treasury profit reduced by £5.0m from 2011 to

2012, mainly due to the impact of the higher funding costs and additional levels of funding raised in the past twelve months. During the first six months of 2012 Treasury profits benefited from some asset sales and reinvestment in current market yielding assets. This generated a profit of £10.7m. In addition to these sales, we have also sold our remaining claim against Lehman resulting in an additional £9.7m profit. The business introduced credit valuation adjustments to non-collateralised swaps, resulting in a fair value reduction to the swap assets and a £4m adverse impact on profit.

The Bank remains a UK focused operation. It has no sovereign exposure to 'peripheral' eurozone countries (Portugal, Ireland, Italy, Greece and Spain), and has materially reduced its exposure to financial institutions in these jurisdictions, from £208.8m to £50.2m. As at 30 June 2012 the Bank had a £304.9m (31 December 2011: £90m) exposure to the Government of Finland, repayable in over one year. It held no other non-UK European sovereign debt. The Bank has no direct exposure to financial institutions in Greece, Portugal or Italy.

Corporate and Business Banking – non core

The non-core operating result for the six months to June 2012 was a loss of £73.0m (2011: profit of £2.5m). This comprised a loss of £70.0m (£19.9m) for the non-core Corporate portfolio, a £2.2m loss (profit of £23.9m) for Optimum and a £0.8m loss (£1.5m) for Illius.

The **non-core Corporate** business delivered an operating loss of £70.0m (2011: £19.9m) in the first half of 2012. The fall in net interest income was due to an increase in the cost of funding, partly associated with the tenor of much of this lending. Impairment losses rose from £8.3m to £56.9m, reflecting the current difficult times for the industry and continuing the trend seen in the second half of 2011. Strategic options are being reviewed to improve the profitability and capital consumption of this book. However, any viable solutions are likely to be medium term in nature and, in the short term, very active and close management of the impairment and profitability position is being undertaken.

In 2012 the **Optimum** portfolio, a closed book of intermediary and acquired mortgage book assets, reduced in size, as planned, by 2% to £7.5bn. The loss of £2.2m for Optimum (2011: profit of £23.9m) partly reflected the impact of lower income derived from a declining book and the additional cost of funding borne by the business, mitigated by margin widening in the period. Throughout the year, the business has continued to deliver improvements in its management of arrears, with a focus both on existing and pre-arrears cases. As a result, arrears in Optimum have continued to improve steadily, with late arrears (>2.5% of balance) on 3.12% of accounts (December 2011: 3.59%).

Balanced scorecard

Our balanced scorecard approach takes a holistic view of performance, taking into account not just profit generation but effective risk and process management, and our impact on colleagues and customers.

We remain committed to building long term relationships with our customers and our ambition to offer a compelling co-operative alternative within the financial services industry is as strong as ever. Our aim is to continue to deliver service improvements to our customers, for example through mobile banking (launched in June 2012) and contactless payments technology which we launched in July 2012. Our customer advocacy levels testify to the high degree of trust placed in us by our customers, and our great customer service. As at June 2012, advocacy for The Co-operative Banking Group was 9.3% above the average of our top five competitors.

Similarly, the number of customers who consider us their main bank, key to our continued overall growth, has increased further, with the number of primary current accounts increasing by 3.3% during the first half of 2012. In the first six months of the year, 5.0% more customers have switched to us from their previous bank compared with the same point last year.

In April 2012, a sample of Banking Group colleagues took part in our Group wide colleague survey. The results suggest that despite the current levels of change and uncertainty in the business, engagement levels are stable and slightly ahead of last year.

Our commitment to sustainability has again been recognised, as The Co-operative Banking Group was awarded the accolade of Europe’s most sustainable bank for the third year running by the Financial Times. Our success recognises that we are trusted to deliver on our commitment to leadership and innovation in social and environmental banking better than any other financial institution in Europe and demonstrates the resilience of the co-operative model during difficult financial times. Amongst other factors, the award acknowledged our Ethical Policy (launched over two decades ago), our £1bn commitment to investment in green energy (as seen in the financing of the UK’s largest community wind farm) and our support for the financially excluded (for example our commitment to scrapping interest charges on agreed overdrafts.

Integration and transformation

The successful merger with Britannia Building Society increased our customer base and extended our geographical reach. The rebranding of the 245 Britannia branches dramatically augmented the branch network from the 90 original Co-operative branches, which now stands at over 340 sites. As we reported last year, since the merger we have introduced the capability for customers to service current accounts in Britannia branded branches.

The IT transformation programme was initiated to deliver a platform for growth through the replacement of legacy banking systems. From the start of 2012, we have delivered the requirements of the new EU payment services regulations, via our project to ensure ‘Faster Payments’ can be delivered to customers. The regulations require all payments to reach their destination no later than the following business day. During 2012 we have further advanced efficiency and cost savings by streamlining our project delivery function to create a single operating model that is geared towards delivering major change.

Our mobile banking application was launched in June 2012. Initially aimed at the iPhone, this will allow customers easy access to balance and transaction information, and is being rolled out to other mobile phone platforms.

The decision to agree Heads of Terms with regards to Project Verde demonstrates significant progress towards concluding the deal with Lloyds. However the transaction remains subject to final regulatory approval before signing the sale and purchase agreement (SPA), and therefore the business is continuing to progress its transformation plan. While we have been pursuing Project Verde, progress has been managed down and spend reduced in those areas where Project Verde could impact our plans, to minimise the risk of redundant investment. This carefully managed slowdown will continue as we await conclusion of the SPA process. In the event of proceeding to SPA we will revisit the value ascribed to the investments made in the transformation plan to date. Should the deal with Lloyds fail to conclude successfully, then the existing Transformation Project will be reinvigorated, and the work undertaken to date will be completed and used to drive the business forwards.

The Co-operative Banking Group continues to play a pivotal role in the Co-operative Group's Project Unity. Although cost reduction is a vital part of Unity, the potential for revenue generation is the primary purpose behind this programme. As part of this, we have launched a pilot that will see legal services and funeral planning products available within our Bank branch network.

In March 2012 the Co-operative Bank was awarded the 'Best Card Cross Selling Programme of the Year' at the UK Cards and Payment awards. This resulted from proposals developed within Project Unity on Customer Propositions, which incentivised Bank customers to shop in Food outlets using vouchers.

The Co-operative Group have also been enhancing our customer insight to better understand our customers and how they relate to the Co-operative as a whole. A 'Single Customer View', based on two years of trading data, will allow the Group to target services and prioritise key demographics more effectively than ever before.

The Business to Business Workstream is a further example of where the Co-operative family of businesses are really benefiting from each other. By leveraging established individual business relationships, significant increased revenue will be generated across the Co-operative Group.

In addition to this the Co-operative Group are developing a new membership proposition which will be more compelling and rewarding for our customers, while differentiating The Co-operative Group through our unique heritage.

Going forward there will be increasing momentum across Project Unity focusing on colleagues and on putting the customer at the heart of everything we do.

Outlook

The outlook for our industry looks unlikely to improve in the short to medium term and the risks remain considerable. Any economic recovery is likely to be slow at best, offering little prospect of near term recovery in funding margins, while the impact of increased financial regulation will continue to add cost pressures. Impairment pressures are unlikely to significantly abate in the short term. However, the exciting prospects from the acquisition of the 632 Lloyds branches should be of considerable benefit for both the financial strength of the Bank and the quality of service and product range offered to our customers. The focus of the business is to continue our transformation journey and become the compelling co-operative alternative, while delivering an acceptable level of financial performance in this very challenging economic environment.

The Co-operative Bank plc
Consolidated statutory income statement
For the period ended 30 June 2012

£m	Period to 30 June 2012			Period to 30 June 2011		
	Before significant items	**Significant items**	**After significant items**	Before significant items	Significant items	After significant items
Interest receivable and similar income	**724.3**	**-**	**724.3**	803.5	-	803.5
Interest expense and similar charges	**(453.1)**	**-**	**(453.1)**	(473.9)	-	(473.9)
Net interest income	**271.2**	**-**	**271.2**	329.6	-	329.6
Fee and commission income	**128.0**	**(40.0)**	**88.0**	123.5	(90.0)	33.5
Fee and commission expense	**(41.2)**	**-**	**(41.2)**	(25.1)	-	(25.1)
Net fee and commission income	**86.8**	**(40.0)**	**46.8**	98.4	(90.0)	8.4
Net trading income/(expense)	**9.3**	**-**	**9.3**	(3.0)	-	(3.0)
Other operating income	**39.8**	**-**	**39.8**	28.6	-	28.6
Operating income	**407.1**	**(40.0)**	**367.1**	453.6	(90.0)	363.6
Operating expenses	**(294.3)**	**(39.3)**	**(333.6)**	(282.2)	(27.7)	(309.9)
Financial Services Compensation Scheme levies	**(0.8)**	**-**	**(0.8)**	(5.9)	-	(5.9)
Operating profit before impairment losses	**112.0**	**(79.3)**	**32.7**	165.5	(117.7)	47.8
Impairment losses on loans and advances	**(94.6)**	**-**	**(94.6)**	(44.8)	-	(44.8)
Impairment gains/(losses) on investments	**2.7**	**-**	**2.7**	(1.3)	-	(1.3)
Operating profit/(loss)	**20.1**	**(79.3)**	**(59.2)**	119.4	(117.7)	1.7
Share of post tax profits from joint ventures	**0.6**	**-**	**0.6**	0.3	-	0.3
Profit/(loss) before taxation and profit based payments	**20.7**	**(79.3)**	**(58.6)**	119.7	(117.7)	2.0
Profit based payments to members of The Co-operative Group	**-**	**-**	**-**	(11.8)	-	(11.8)
Profit/(loss) before taxation	**20.7**	**(79.3)**	**(58.6)**	107.9	(117.7)	(9.8)
Income tax	**(6.1)**	**19.4**	**13.3**	(31.0)	31.2	0.2
Profit/(loss) for the period	**14.6**	**(59.9)**	**(45.3)**	76.9	(86.5)	(9.6)
Attributable to:						
Equity shareholders	**13.8**	**(59.9)**	**(46.1)**	75.4	(86.5)	(11.1)
Minority interests	**0.8**	**-**	**0.8**	1.5	-	1.5
	14.6	**(59.9)**	**(45.3)**	76.9	(86.5)	(9.6)
Earnings per share	**0.17p**	**(0.73)p**	**(0.56)p**	0.92p	(1.06)p	(0.14)p

The significant items in 2012 relate to:

- £40.0m (2011: £90.0m) of provisions made for potential customer compensation claims relating to past sales of payment protection insurance;
- £20.0m (2011: nil) of costs incurred as a result of the bid for the Lloyds Bank branches; and
- £19.3m (2011: £27.7m) of costs incurred on a programme of investment and integration.

The Co-operative Bank plc
Consolidated statement of comprehensive income
For the period ended 30 June 2012

£m	Period to 30 June 2012			Period to 30 June 2011		
	Equity shareholders	**Minority interests**	**Total**	Equity shareholders	Minority interests	Total
(Loss)/profit for the period	**(46.1)**	**0.8**	**(45.3)**	(11.1)	1.5	(9.6)
Other comprehensive income/(expense):						
Changes in cashflow hedges						
Net changes in fair value recognised directly in equity	**32.4**	**(0.3)**	**32.1**	15.7	(0.1)	15.6
Income tax	**(3.9)**	**0.1**	**(3.8)**	(3.6)	-	(3.6)
Net gains/(losses) transferred from equity to income or expense	**(23.1)**	**(0.1)**	**(23.2)**	0.1	-	0.1
Income tax	**2.5**	**-**	**2.5**	-	-	-
Changes in available for sale assets						
Net changes in fair value recognised directly in equity	**159.3**	**-**	**159.3**	7.4	(0.1)	7.3
Income tax	**(40.7)**	**-**	**(40.7)**	(2.5)	-	(2.5)
Transfers from equity to income or expense	**(89.3)**	**-**	**(89.3)**	(1.6)	-	(1.6)
Income tax	**23.7**	**-**	**23.7**	0.4	-	0.4
Other comprehensive income/(expense) for the period, net of income tax	**60.9**	**(0.3)**	**60.6**	15.9	(0.2)	15.7
Total comprehensive income for the period	**14.8**	**0.5**	**15.3**	4.8	1.3	6.1

The Co-operative Bank plc
Consolidated balance sheet
At 30 June 2012

	30 June 2012	31 December 2011
	£m	£m
Assets		
Cash and balances at central banks	**4,316.6**	6,696.6
Loans and advances to banks	**2,359.7**	2,006.5
Loans and advances to customers	**34,008.4**	33,766.0
Fair value adjustments for hedged risk	**368.2**	366.3
Investment securities - loans and receivables	**483.0**	804.9
Investment securities - available for sale	**3,217.6**	3,423.0
Investment securities - fair value through income or expense	**817.4**	343.1
Investment securities - held for trading	**439.0**	-
Derivative financial instruments	**910.8**	975.8
Equity shares	**5.7**	5.7
Investments in joint ventures	**3.4**	2.7
Goodwill	**0.6**	0.6
Intangible fixed assets	**37.9**	40.7
Investment properties	**172.2**	172.7
Property, plant and equipment	**72.2**	80.1
Amounts owed by other Co-operative Group undertakings	**288.9**	179.2
Other assets	**51.7**	33.0
Prepayments and accrued income	**17.6**	18.7
Current tax assets	**37.3**	13.6
Deferred tax assets	**-**	26.4
Total assets	**47,608.2**	48,955.6
Liabilities		
Deposits by banks	**4,416.0**	3,302.7
Customer accounts	**33,054.7**	34,990.6
Customer accounts - capital bonds	**1,141.7**	1,429.8
Debt securities in issue	**4,146.8**	4,164.8
Derivative financial instruments	**983.1**	1,087.9
Other borrowed funds	**1,257.1**	1,258.8
Amounts owed to other Co-operative Group undertakings	**97.7**	132.3
Other liabilities	**90.6**	173.7
Accruals and deferred income	**26.4**	39.9
Provisions for liabilities and charges	**104.4**	102.0
Deferred tax liabilities	**1.6**	-
Total liabilities	**45,320.1**	46,682.5
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	**1,687.7**	1,733.8
Available for sale reserve	**72.5**	19.5
Cashflow hedging reserve	**75.5**	67.6
	2,254.5	2,239.7
Minority interests	**33.6**	33.4
Total equity	**2,288.1**	2,273.1
Total liabilities and equity	**47,608.2**	48,955.6

The Co-operative Bank plc
Consolidated statement of cash flows
For the period ended 30 June 2012

	Period to 30 June 2012 £m	Period to 30 June 2011 £m
Cash flows from operating activities		
Loss before taxation	**(58.6)**	(9.8)
Adjustments for:		
Increase in prepayments and accrued income	**(0.2)**	(50.4)
Decrease in accruals and deferred income	**(19.0)**	(128.1)
Interest payable in respect of other borrowed funds	**36.3**	13.1
Effect of exchange rate movements	**8.6**	(58.1)
Impairment losses on loans and advances	**95.8**	47.5
Movements on investment impairments	**(2.7)**	1.3
Depreciation and amortisation	**8.4**	11.8
Interest amortisation	**(4.7)**	(7.6)
Amortisation of investments	**(55.6)**	19.7
Profit on disposal of fixed assets	**(0.4)**	(0.5)
Unwind of fair value adjustments arising on transfer of engagements	**(19.7)**	(16.7)
Preference dividend	**2.8**	2.8
	(9.0)	(175.0)
Increase/(decrease) in deposits by banks	**1,113.3**	(227.2)
(Decrease)/increase in customer accounts	**(2,223.7)**	1,634.7
Decrease in debt securities in issue	**(59.7)**	(890.0)
Decrease in loans and advances to banks	**29.7**	909.3
(Increase)/decrease in loans and advances to customers	**(278.5)**	654.5
Increase in amounts owed by other Co-operative Group undertakings	**(109.7)**	(77.4)
(Decrease)/increase in amounts owed to other Co-operative Group undertakings	**(34.6)**	67.4
Net movement of other assets and other liabilities	**(128.8)**	78.9
Income tax paid	**(0.7)**	(16.0)
Net cash flows from operating activities	**(1,701.7)**	1,959.2
Cash flows from investing activities		
Purchase of property, plant, equipment and software	**(0.5)**	(11.2)
Proceeds from sale of property, plant, equipment and software	**0.8**	-
Proceeds from sale of investment property	**0.7**	0.5
Purchase of investment securities	**(2,176.7)**	(2,240.1)
Proceeds from sale and maturity of investment securities	**1,981.5**	2,696.8
Net cash flows from investing activities	**(194.2)**	446.0
Cash flows from financing activities		
Interest paid on other borrowed funds	**(48.1)**	(21.5)
Repayment of other borrowed funds	**-**	(82.2)
Issuance of other borrowed funds	**-**	275.0
Preference share dividends paid	**(2.8)**	(2.8)
Capital contribution from parent	**-**	87.0
Dividends paid to minority shareholders in subsidiary undertaking	**(0.3)**	-
Net cash flows from financing activities	**(51.2)**	255.5
(Decrease)/increase in cash and cash equivalents	**(1,947.1)**	2,660.7
Cash and cash equivalents at beginning of the period	**7,888.4**	3,403.2
Cash and cash equivalents at end of the period	**5,941.3**	6,063.9
Cash and balances with central banks	**4,278.3**	3,453.7
Loans and advances to banks	**1,403.0**	2,290.2
Short term investments	**260.0**	320.0
	5,941.3	6,063.9

The Co-operative Bank plc
Consolidated statement of changes in equity
For the period ended 30 June 2012

£m	Attributable to equity holders of the company							
Period from 1 January 2012 to 30 June 2012	**Share capital**	**Share premium**	**Available for sale reserve**	**Cashflow hedging reserve**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance at the beginning of the period	**410.0**	**8.8**	**19.5**	**67.6**	**1,733.8**	**2,239.7**	**33.4**	**2,273.1**
Total comprehensive income for the period	**-**	**-**	**53.0**	**7.9**	**(46.1)**	**14.8**	**0.5**	**15.3**
Transactions with owners recorded directly in equity:								
Dividend	**-**	**-**	**-**	**-**	**-**	**-**	**(0.3)**	**(0.3)**
At the end of the period	**410.0**	**8.8**	**72.5**	**75.5**	**1,687.7**	**2,254.5**	**33.6**	**2,288.1**
Period from 1 July 2011 to 31 December 2011								
Balance at the beginning of the period	410.0	8.8	(9.4)	49.1	1,674.8	2,133.3	32.9	2,166.2
Total comprehensive income for the period	-	-	28.9	18.5	59.0	106.4	0.5	106.9
At the end of the period	410.0	8.8	19.5	67.6	1,733.8	2,239.7	33.4	2,273.1
Period from 1 January 2011 to 30 June 2011								
Balance 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
Transactions with owners recorded directly in equity:								
Capital contribution	-	-	-	-	87.0	87.0	-	87.0
At the end of the period	410.0	8.8	(9.4)	49.1	1,674.8	2,133.3	32.9	2,166.2

BASIS OF PREPARATION

The information in this announcement does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2011 have been delivered to the Registrar of Companies in England and Wales in accordance with Section 447 of the Companies Act 2006. The auditor has reported on those accounts. Its report was unqualified; did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

The information in this announcement does not constitute the unaudited interim consolidated financial statements of The Co-operative Bank plc which are contained in the interim financial report 2012. The interim financial report 2012 was approved by the Board of Directors on 22 August 2012. The unaudited interim consolidated financial statements have been reviewed by the Company's auditor, KPMG Audit Plc, in accordance with the guidance contained in the 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. The full report of its review, which was unmodified, is included in the interim financial report 2012.

The basis of preparation applicable to the interim consolidated financial statements can be found in the interim financial report 2012. The interim consolidated financial statements have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Services Authority and IAS 34 'Interim Financial Reporting' ('IAS 34') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU').

GOING CONCERN

In common with many financial institutions, the Group 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 Group's forecasts and objectives, taking into account a number of potential changes in trading performance and funding retention, show that the Group should be able to operate at adequate levels of both liquidity and capital, for the foreseeable future. The Group has also considered a number of stress tests on capital and liquidity and these provide assurance that the Group is sufficiently capitalised and is comfortably in excess of liquidity stress tests

Consequently, after making enquiries, the directors are satisfied that the Group has sufficient resources to continue in business for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements. When making this assessment, the directors act within the principals of 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.

Copies of the Interim Financial Report 2012 will be available on the Company's website on 31st August 2012:

www.co-operativebankinggroup.co.uk.

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