Company Announcement Office Statement

THE CO-OPERATIVE BANK STATEMENT TO THE COMPANY ANNOUNCEMENTS OFFICE

The Co-operative Group, the UK's largest mutual business, today Thursday 29 March, releases its preliminary results for the year to 31 December 2011. The Group results consolidate the results of The Co-operative Banking Group (CBG). The results of The Co-operative Bank plc are detailed below.

The Co-operative Bank

Highlights of The Co-operative Bank's ("the Bank's") financial results for the year to 31 December 2011:

- The Bank was granted preferred bidder status by Lloyds Banking Group for the sale of its 632 branches
- Steady financial performance in 2011, despite challenging economic conditions
    - Profit before tax of £54.2m (2010: £48.9m) stated after the deduction of significant items of £143.3m (2010: £59.8m)
    - Profit before tax and significant items of £197.5m, up from £108.7m in 2010
    - Operating profit of £212.9m, up from £118.8m in 2010
    - Underlying operating profit, before FSCS levy and fair value adjustments, was £141.1m, broadly in line with 2010 (£144.5m)
    - Significant items include provision for payment protection insurance mis-selling of £90m
    - Impairment levels up 19.9%
- Liquidity levels remain sound
    - Loans to deposit ratio of 93.9% (strengthened by 8%)
    - Continuing access to capital markets during 2011 despite difficult market conditions
- Stable capital: core tier 1 ratio remains robust at 9.6%
- Customers now have effective access to c. 250 new bank branches
- Europe's most sustainable bank for the second year running

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

"2011 has been another successful year for the Bank, despite the challenging market conditions. The Bank generated a steady operating profit of £141.1m for the year, broadly in line with 2010 (£144.5m).

In these times of trouble, the Bank has provided a safe haven for our customers, a true relationship bank. In recognition of our responsible approach, The Co-operative Banking Group was named 'Europe's most sustainable bank' for the second successive year.

One of our biggest successes in 2011 came in August when we introduced co-operative banking into Britannia branches, creating 245 more places to bank, a dramatic extension to our network. We have also replaced our credit card and telephony systems as we continue to invest in improved customer systems.

The year concluded with the news that the Bank had been granted preferred bidder status for the branches being sold by Lloyds Banking Group. This is part of our ambition to build towards providing our customers with a compelling co-operative alternative in banking."

Profit, balance sheet and business performance

The operating result was 2.4% lower than 2010, a resilient performance given the difficult market conditions. This incorporated the impact of a number of one off items, including gains from the sale of treasury assets of £37.2m (2010: £11.4m) as a result of reshaping our liquidity portfolio, and a reduction in total credit risk expected over the life of the Optimum mortgage book of £20m (2010: £15m). These offset the cost of funding significantly higher levels of liquidity than experienced in 2010, as we continued to strengthen our liquidity, a core element of our financial strength.

Profit before tax of £54.2m (2010: £48.9m) was adversely impacted by a provision for PPI mis-selling of £90.0m (2010: £4.3m). 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. Profit before tax was also after a credit of £86.3m (2010: charge of £14.2m) for the amortisation of fair values. These fair value adjustments principally relate to the amortisation through net interest income of interest rate related adjustments required to be made to the carrying value of assets and liabilities at the time of merger. The credit for the year was adversely impacted by £75m amortisation on various funding instruments caused by an acceleration in their expected redemption. This was offset by the release of contingent merger consideration through operating expenses of £37m no longer expected to be paid.

At £817.6m, 2011 income levels (excluding fair value adjustments) were marginally down on 2010 (£821.8m), and reflected the impact of additional funding raised within the past twelve months, lower asset yields and lower investment income, although this was partly mitigated by gains on treasury asset sales during the year. Income benefited from the reduction in total credit risk expected over the life of the Optimum mortgage book of £20m (2010: £15m).

Operating costs (excluding fair value adjustments and strategic investment costs) have improved by 1.3% from £555.5m in 2010 to £548.2m in 2011, despite inflationary pressures on the cost base. However, there is further work to do in this area and we remain committed to further improving the cost position over the medium term.

Impairment losses have reflected the difficult economic conditions in 2011, rising by 19.9% compared with 2010 levels, predominantly due to a higher corporate impairment charge. The charge benefited from the mitigating impact of prudent credit fair value adjustments taken at the time of merger. The residential mortgage book (both Retail and Optimum) continued to perform well and arrears reduced further during 2011, with late mortgage arrears (>2.5% of balance) down from 1.67% at December 2010 to 1.18% at December 2011.

Significant items, excluding PPI, of £53.3m (2010: £55.5m) were incurred during the year, primarily associated with the investment in our transformation and integration programme.

The 2011 charge for profit distributions to individual members of The Co-operative Group, which are based on their account holdings with the Bank, totalled £15.6m.

Given the economic backdrop and regulatory requirements to hold higher levels of capital and liquidity, as well as consumer behaviour in respect of unsecured lending, the size of the Retail loan book reduced from £17.3bn to £16.2bn over the year, partially compensated for by growth in the Corporate and Platform loan books.

The loans to deposit ratio of 93.9% improved by 8.6% from the equivalent position at the end of December 2010 (102.5%). This ratio is now our primary measure of liquidity and replaces the Bank customer funding ratio, which was 117.6% at the end of 2011 (2010: 106.7%). The Bank has remained active in the capital markets, completing its second prime mortgage securitisation since the merger and issuing a covered bond. We also undertook a Lower Tier 2 exchange into new securities at an on-market rate.

Capital has been proactively managed to maintain the Bank core tier 1 capital ratio at 2010 levels (9.6%), despite the impact of the PPI provision. The total capital ratio was 14.7% (2010: 14.0%), with a tier 1 ratio of 9.9% (2010: 9.9%). During the year, a capital injection was made to the Bank of £87m, from the Co-operative Banking Group.

Operating segment performance

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

The Retail 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.

CABB includes corporate banking, business banking, business services, Platform (the intermediary mortgage business) and Optimum (the closed book of pre-merger intermediary and acquired loan book assets). CABB effectively incorporates all the key business-to-business elements of the Bank.

During 2011 the Bank's internal reporting structure was revised, to include Optimum within CABB; this was previously reported separately. The 2010 results reported above have been revised to reflect this change.

Retail

The Retail operating result for 2011 of £94.6m was nearly double that of 2010 (£47.4m).

Mortgage income has improved largely as a result of new business and retention of maturing balances at higher margins. However, this has been offset by lower net interest income both on deposit balances and credit cards. The cost of maintaining high liability balances reflects our commitment to maintaining a sound liquidity position. Lower credit card balances and yields reflect the change in customer behaviour to pay down unsecured debt due to the difficult economic conditions.

Non-interest income was better than last year due to higher current account balances, and the rollout of 280 additional ATM installations in Co-operative food stores.

Impairment losses were significantly lower in 2011 than in 2010, by 45.4%. Key drivers include declining credit card balances and improvements in the collection of arrears. Mortgage quality has been maintained with continued low rates of impairment.

Our focus continues to be on delivering high quality assets with the average loan to value remaining at below 50% across the retail business, in line with 2010.

The strength of the Retail customer proposition continues to be recognised by a range of awards. In 2011 the Bank won Moneysupermarket's "Best Current Account Provider 2011", received the "Best Longer Term Fixed Rate Mortgage Product" award from Moneyfacts, and was successful in several categories at the Moneywise Customer Service Awards. The Bank's credibility amongst customers and commentators alike was underscored by a second year of being shortlisted for "Best Financial Services Provider" at the 2011 Which? Awards.

CABB

The CABB operating result for 2011 was £14.5m (2010: £54.7m).

Corporate banking has delivered an operating loss of £36.4m during 2011 (2010: profit of £2.5m). This reflects another difficult year for the industry, with impairment losses rising from £31.4m to £87.4m, including a collective provision against potential losses of £10.4m. There has been measured growth of corporate banking assets through selected high quality new business, combined with continued significant liability growth through term deposits (c 43% growth in corporate deposits during 2011, evidencing the appeal of our proposition to the market), leading to higher net interest income.

Corporate banking rolled out a further two corporate banking centres during 2011, taking the total number to 22. Alongside our specialist sector and customer deposits teams, these will be used to drive measured balance sheet growth.

The **Platform** intermediary mortgage business, focusing on the prime mortgage and buy-to-let markets, has continued to grow in the marketplace throughout 2011. The focus for Platform remains on good quality prudent lending, and advances of £0.6bn have been extended during 2011 with strong margins achieved and late arrears (>2.5% of balance) on only 0.30% of accounts (2010: 0.71%).

In 2011 the **Optimum** portfolio, a closed book of intermediary and acquired mortgage book assets, reduced in size, as planned, by 5.5% to £7.7bn, and delivered a profit of £52.7m (2010: £61.2m).

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, and the business has been able to release £20m (2010: £15m) of its total provision for credit risk expected over the life of the Optimum mortgage book. The remaining merger related fair value provisions against the portfolio continue to provide a high degree of cover against credit losses.

Other businesses

The main component of the **other** business segment, our **Treasury** operation, has continued to deliver on its core responsibilities of ensuring a stable liquidity base, providing diverse sources of wholesale funding to the Bank, managing market risk and delivering a favourable financial performance on the investment portfolio. The Treasury result benefited from gains on the sale of Treasury assets of £37.2m (2010: £11.4m) as part of reshaping the investment portfolio. However, it was impacted by a challenging funding environment driven by uncertainty in the financial markets, especially in the eurozone, with margins continuing to be under pressure during the year. Net interest income was negatively impacted by increased investment in highly liquid, low risk assets as well as the reduction in higher risk and higher earning investment assets together with increased structured funding transactions.

The Bank has no sovereign exposure to 'peripheral' eurozone countries (namely Portugal, Ireland, Italy, Greece and Spain), and no exposure to

Greek financial institutions or any other Greek counterparties. Other peripheral eurozone country and counterparty limits have continued to be cautiously managed downwards, and is primarily restricted to short dated money market lending. Investment assets in peripheral eurozone counterparts are in run-off, with associated counterparty and country limits reducing upon maturity or sale. The Treasury investment assets maturing over the coming year amount to £539m (16% of the investment portfolio).

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.

As a member owned bank, our customers trust us to put them at the heart of our business and, by really understanding their needs, we offer products and services tailored to them. As a result, our levels of customer advocacy continue to be strong - for 2011, advocacy for the Co-operative Banking Group was 10.3 percentage points above the average of our top five competitors.

Similarly, colleague engagement has increased during 2011, rising to 81% in November 2011 for The Co-operative Banking Group, compared with 78% in November 2010.

Integration and transformation

Over two years have now passed since the merger with Britannia Building Society. During this time we have integrated the merged operations and are making good progress in transforming the business and realising the benefits of the merger.

Within months of the merger, customers were able to open current accounts in the 245 Britannia branded branches - to date, over 62,000 current accounts have been opened via these branches (nearly 45,000 during 2011). August 2011 saw the introduction of the capability for customers to service current accounts in Britannia branded branches. This effectively extended our banking network from around 90 to over 340 sites and enabled us to rebrand our Britannia branches as part of The Co-operative Bank. We have also continued to attract customers switching their main current account, with a 10.8% year on year increase in 2011 of customers making us their main bank.

To bring colleagues together, we have completed our organisational design and introduced a single set of terms and conditions of employment across the Co-operative Banking Group, with the full support of our recognised trades unions. Despite the pace of change in the business, colleague engagement has risen across the year.

Full transformation will be complete when we have enabled our customer relationship model and provided a platform for growth, through the replacement of our legacy banking systems and infrastructure with modern, flexible solutions. 2011 has seen investment in some very large elements of this programme:

- a new Financial Crime Management system
- an upgrade to our banking mainframe
- a new flexible and functionally rich telephony system.
- a new platform for our credit card system
- the first phase of our new payments hub
- the first stage in the re-platforming of our core banking systems

This is just part of our transformation plan, under which we are making a significant investment in our people, processes and systems in order to transform our business for our customers. Other examples of this transformation include the in-store banking programme, which has created new in-store pilot facilities in our food stores in 2011 and aims to increase this still further during 2012.

Project Unity is a Co-operative Group programme seeking to maximise the customer and commercial benefits of belonging to the World's largest consumer co-operative, and the Co-operative Banking Group is a key participant in the project. At the beginning of this year, a new group senior management structure was announced, reinforcing the common culture, purpose and strategic goals that unite our family of businesses and the project began to roll out in depth in 2011. The Co-operative Banking Group now benefits from the economies of scale arising from a single procurement function, with further efficiency gains to be delivered as more enterprise functions are managed on a group basis.

Given the considerable scale, reach and reputation of the wider Co-operative Group, this will open up many potential synergies and product development opportunities, which will considerably enhance both the financial strength of the business and the experience for our customers.

Bid for the Lloyds Banking Group branches

The Bank has been granted preferred bidder status by Lloyds Banking Group in the process currently being run for the sale of its 632 branches. This is part of our ambition to build upon our strong foundations in banking, to ensure customers have a genuine alternative on the high street. The combination of the Lloyds Banking Group branches and our own branch network is consistent with our strategy to strengthen our position as a real challenger in relationship banking in the UK. Our current bid is non-binding and we would only proceed if we could reach an agreement that was in the interests of our members and other stakeholders. Any transaction would be subject to regulatory approval.

Outlook

The outlook for the financial services industry remains difficult, and latest indications point to a continuation of these challenging circumstances, particularly in the Corporate sector. Together with increasing regulatory requirements, these will continue to weigh heavily on earnings. Our focus remains on ensuring our continued financial resilience, and means that we can look forward with optimism and confidence to the future.

The Co-operative Bank plc
Consolidated statutory income statement
For the year ended 31 December 2011

£m	Year to 31 December 2011			Year to 31 December 2010		
	Before significant items	**Significant items**	**After significant items**	Before significant items	Significant items	After significant items
Interest receivable and similar income	**1,583.7**	**-**	**1,583.7**	1,713.3	-	1,713.3
Interest expense and similar charges	**(948.7)**	**-**	**(948.7)**	(1,104.9)	-	(1,104.9)
Net interest income	**635.0**	**-**	**635.0**	608.4	-	608.4
Fee and commission income	**239.6**	**(90.0)**	**149.6**	237.2	(13.1)	224.1
Fee and commission expense	**(54.4)**	**-**	**(54.4)**	(60.3)	-	(60.3)
Net fee and commission income	**185.2**	**(90.0)**	**95.2**	176.9	(13.1)	163.8
Net trading income	**4.5**	**-**	**4.5**	4.6	-	4.6
Other operating income	**46.3**	**-**	**46.3**	8.1	-	8.1
Operating income	**871.0**	**(90.0)**	**781.0**	798.0	(13.1)	784.9
Operating expenses	**(528.7)**	**(53.3)**	**(582.0)**	(571.9)	(46.7)	(618.6)
Financial Services Compensation Scheme levies	**(14.5)**	**-**	**(14.5)**	(11.5)	-	(11.5)
Operating profit before impairment losses	**327.8**	**(143.3)**	**184.5**	214.6	(59.8)	154.8
Impairment losses on loans and advances	**(120.5)**	**-**	**(120.5)**	(97.3)	-	(97.3)
Impairment gains on investments	**5.6**	**-**	**5.6**	1.5	-	1.5
Operating profit	**212.9**	**(143.3)**	**69.6**	118.8	(59.8)	59.0
Share of post tax profits from joint ventures	**0.2**	**-**	**0.2**	0.7	-	0.7
Profit before taxation and profit based payments	**213.1**	**(143.3)**	**69.8**	119.5	(59.8)	59.7
Profit based payments to members of The Co-operative Group	**(15.6)**	**-**	**(15.6)**	(10.8)	-	(10.8)
Profit before taxation	**197.5**	**(143.3)**	**54.2**	108.7	(59.8)	48.9
Income tax	**(42.4)**	**38.0**	**(4.4)**	(29.8)	16.7	(13.1)
Profit for the financial year	**155.1**	**(105.3)**	**49.8**	78.9	(43.1)	35.8
Attributable to:						
Equity shareholders	**153.3**	**(105.3)**	**48.0**	79.5	(43.1)	36.4
Minority interests	**1.8**	**-**	**1.8**	(0.6)	-	(0.6)
	155.1	**(105.3)**	**49.8**	78.9	(43.1)	35.8
Earnings per share	**1.87p**	**(1.28)p**	**0.59p**	1.67p	(0.90)p	0.77p

The significant items in 2011 and 2010 relate to a programme of investment and integration and to provisions made for customer compensation relating to past sales of payment protection insurance (PPI) and customer redress.

The Co-operative Bank plc
Consolidated statement of comprehensive income
For the year ended 31 December 2011

£m	**Year to 31 December 2011**			Year to 31 December 2010		
	Equity shareholders	**Minority interests**	**Total**	Equity shareholders	Minority interests	Total
Profit for the financial year	**48.0**	**1.8**	**49.8**	36.4	(0.6)	35.8
Other comprehensive income/(expense):						
Changes in cashflow hedges						
Net changes in fair value recognised directly in equity	**88.9**	**0.3**	**89.2**	(2.8)	(0.7)	(3.5)
Income tax	**(19.8)**	**(0.1)**	**(19.9)**	1.3	0.2	1.5
Net gains transferred from equity to income or expense	**(49.3)**	**(0.3)**	**(49.6)**	-	(0.1)	(0.1)
Income tax	**10.9**	**0.1**	**11.0**	-	-	-
Changes in available for sale assets						
Net changes in fair value recognised directly in equity	**101.6**	**-**	**101.6**	(25.3)	-	(25.3)
Income tax	**(26.9)**	**-**	**(26.9)**	6.2	-	6.2
Transfers from equity to income or expense	**(55.8)**	**-**	**(55.8)**	4.8	-	4.8
Income tax	**14.8**	**-**	**14.8**	(1.3)	-	(1.3)
Revaluation of equity shares	**(1.5)**	**-**	**(1.5)**	-	-	-
Income tax	**0.4**	**-**	**0.4**	-	-	-
Defined benefit plan actuarial losses	**-**	**-**	**-**	(0.4)	-	(0.4)
Income tax	**(0.1)**	**-**	**(0.1)**	0.1	-	0.1
Other comprehensive income/(expense) for the financial year, net of income tax	**63.2**	**-**	**63.2**	(17.4)	(0.6)	(18.0)
Total comprehensive income for the financial year	**111.2**	**1.8**	**113.0**	19.0	(1.2)	17.8

The Co-operative Bank plc
Consolidated balance sheet
At 31 December 2011

	31 December 2011 £m	31 December 2010 £m
Assets		
Cash and balances at central banks	**6,696.6**	1,735.6
Loans and advances to banks	**2,006.5**	2,394.1
Loans and advances to customers	**33,766.0**	34,977.3
Fair value adjustments for hedged risk	**366.3**	166.8
Investment securities - loans and receivables	**804.9**	1,917.3
Investment securities - available for sale	**3,423.0**	2,957.1
Investment securities - fair value through income or expense	**343.1**	28.7
Derivative financial instruments	**975.8**	975.6
Equity shares	**5.7**	7.2
Investments in joint ventures	**2.7**	2.5
Goodwill	**0.6**	0.6
Intangible fixed assets	**40.7**	45.1
Investment properties	**172.7**	162.3
Property, plant and equipment	**80.1**	98.5
Amounts owed by other Co-operative Group undertakings	**179.2**	0.6
Other assets	**46.6**	8.8
Prepayments and accrued income	**18.7**	16.2
Deferred tax assets	**26.4**	87.0
Total assets	**48,955.6**	45,581.3
Liabilities		
Deposits by banks	**3,302.7**	2,938.6
Customer accounts	**34,990.6**	32,320.0
Customer accounts - capital bonds	**1,429.8**	1,794.7
Debt securities in issue	**4,164.8**	4,212.2
Derivative financial instruments	**1,087.9**	702.4
Other borrowed funds	**1,258.8**	975.4
Amounts owed to other Co-operative Group undertakings	**132.3**	188.5
Other liabilities	**173.7**	146.8
Accruals and deferred income	**39.9**	131.3
Provisions for liabilities and charges	**102.0**	55.8
Current tax liabilities	**-**	42.5
Total liabilities	**46,682.5**	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	**1,733.8**	1,598.9
Available for sale reserve	**19.5**	(13.1)
Cashflow hedging reserve	**67.6**	36.9
	2,239.7	2,041.5
Minority interests	**33.4**	31.6
Total equity	**2,273.1**	2,073.1
Total liabilities and equity	**48,955.6**	45,581.3

The Co-operative Bank plc
Consolidated statement of cash flows
For the year ended 31 December 2011

	31 December 2011 £m	31 December 2010 £m
Cash flows from operating activities		
Profit before taxation	**54.2**	48.9
Adjustments for:		
(Increase)/decrease in prepayments and accrued income	**(38.3)**	16.0
Decrease in accruals and deferred income	**(90.6)**	(81.9)
Interest payable in respect of other borrowed funds	**86.7**	45.5
Effect of exchange rate movements	**16.0**	(2.8)
Impairment losses on loans and advances	**130.5**	97.3
Movements on investment impairments	**(39.9)**	(1.5)
Depreciation and amortisation	**21.4**	26.3
Interest amortisation	**(15.7)**	(6.3)
Amortisation of investments	**(340.8)**	(40.6)
Loss on disposal of fixed assets	**0.3**	0.8
Unwind of fair value adjustments arising on transfer of engagements	**(86.3)**	14.2
Preference dividend	**5.6**	5.6
	(296.9)	121.5
Increase/(decrease) in deposits by banks	**364.1**	(3,143.8)
Increase in customer accounts and capital bonds	**2,306.7**	1,639.1
(Decrease)/increase in debt securities in issue	**(141.0)**	471.6
(Increase)/decrease in loans and advances to banks	**(73.2)**	401.5
Decrease/(increase) in loans and advances to customers	**1,034.2**	(850.6)
(Increase)/decrease in amounts owed by other Co-operative Group undertakings	**(178.6)**	90.4
Decrease in amounts owed to other Co-operative Group undertakings	**(56.2)**	(140.7)
Net movement of other assets and other liabilities	**532.3**	112.4
Income tax paid	**(21.2)**	(34.9)
Net cash flows from operating activities	**3,470.2**	(1,333.5)
Cash flows from investing activities		
Purchase of tangible and intangible fixed assets	**(14.8)**	(30.9)
Proceeds from sale of investment properties	**0.8**	0.5
Purchase of investment securities	**(3,667.6)**	(1,506.2)
Proceeds from sale and maturity of investment securities	**4,513.5**	3,757.2
Net cash flows from investing activities	**831.9**	2,220.6
Cash flows from financing activities		
Interest paid on other borrowed funds	**(69.6)**	(44.8)
Proceeds of issued shares	**-**	180.0
Repayment of other borrowed funds	**(102.3)**	-
Issuance of other borrowed funds	**273.6**	-
Preference share dividends paid	**(5.6)**	(5.6)
Capital contribution from parent	**87.0**	-
Dividends paid to minority shareholders in subsidiary undertaking	**-**	(0.8)
Net cash flows from financing activities	**183.1**	128.8
Increase in cash and cash equivalents	**4,485.2**	1,015.9
Cash and cash equivalents at beginning of the financial year	**3,403.2**	2,387.3
Cash and cash equivalents at end of the financial year	**7,888.4**	3,403.2
Cash and balances with central banks	**6,658.6**	1,699.5
Loans and advances to banks	**1,019.8**	1,478.7
Short term investments	**210.0**	225.0
	7,888.4	3,403.2

The Co-operative Bank plc
Consolidated statement of changes in equity
For the year ended 31 December 2011

	Attributable to equity holders of the company							
2011	**Share capital**	**Share premium**	**Available for sale reserve**	**Cashflow hedging reserve**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
£m								
Balance at the beginning of the year	**410.0**	**8.8**	**(13.1)**	**36.9**	**1,598.9**	**2,041.5**	**31.6**	**2,073.1**
Total comprehensive income for the financial year	**-**	**-**	**32.6**	**30.7**	**47.9**	**111.2**	**1.8**	**113.0**
Transactions with owners recorded directly in equity:								
Capital contribution	**-**	**-**	**-**	**-**	**87.0**	**87.0**	**-**	**87.0**
Balance at the end of the year	**410.0**	**8.8**	**19.5**	**67.6**	**1,733.8**	**2,239.7**	**33.4**	**2,273.1**
2010								
£m								
Balance at the beginning of the year	230.0	8.8	2.5	38.4	1,562.8	1,842.5	33.6	1,876.1
Total comprehensive income for the financial year	-	-	(15.6)	(1.5)	36.1	19.0	(1.2)	17.8
Transactions with owners recorded directly in equity:								
Increase in share capital	180.0	-	-	-	-	180.0	-	180.0
Dividend	-	-	-	-	-	-	(0.8)	(0.8)
Balance at the end of the year	410.0	8.8	(13.1)	36.9	1,598.9	2,041.5	31.6	2,073.1

BASIS OF PREPARATION

The consolidated financial statements of The Co-operative Bank plc (the Bank) have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and International Financial Reporting Interpretations Committee (IFRIC) guidance as adopted by the European Union. There have been no significant changes to the accounting policies applied in 2011 to those applied by the Bank in its 2010 financial statements. The financial information has been prepared on the basis of recognition and measurement requirements of IFRS in issue that are endorsed by the EU and effective at 31 December 2011.

OTHER INFORMATION

This financial information does not constitute the company's statutory accounts within the meaning of section 434 of the Companies Act 2006 (the Act). The statutory accounts for the period ended 31 December 2011 will be delivered to the Registrar of Companies in England and Wales in accordance with section 441 of the Act. The auditor has reported on those accounts. Its report was unqualified and did not contain a statement under section 498(2) or (3) of the Act.

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.

DIVIDEND

The Bank did not pay an interim dividend on its Ordinary Shares during 2011. The Directors declared today that on 31 May 2012, a dividend of 4.625p per £1 Preference Share be paid to preference shareholders on the register at 3 May 2012 providing a dividend rate of 9.25 per cent per annum and making a total distribution of £5,550,000.

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.