

The Co-operative Bank p.l.c.
Interim Financial Report 2009

The **co-operative** bank
good with money

Part of The **co-operative** financial services

Contents

2	Highlights
3	Average balance sheet highlights
4	Vision and values
5	Business and financial review
11	Principal risks
18	Independent review report
19	Condensed consolidated income statement
21	Condensed consolidated statement of comprehensive income
22	Condensed consolidated balance sheet
23	Condensed consolidated cash flow statement
24	Condensed consolidated statement of changes in equity
25	Basis of preparation and accounting policies
31	Notes to the interim financial report
40	Responsibility statement
41	Notice to shareholders

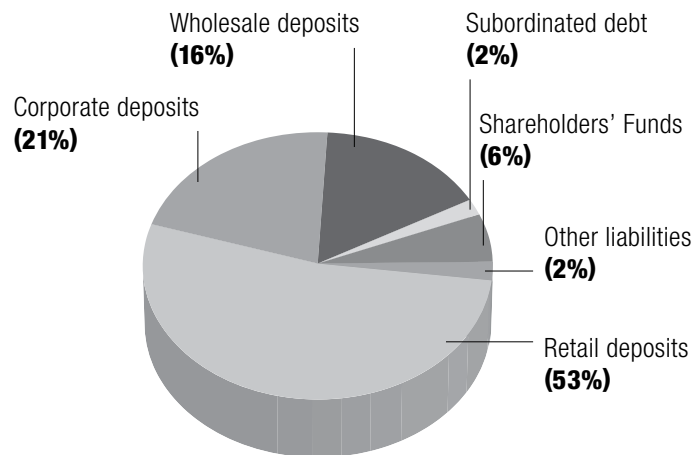
Highlights

- Operating profit before taxation, FSCS levy and significant items was £41.7m (2008: £46.2m).
- Profit before tax increased by £5.1m (2008: 25.8%).
- Bank results benefit from a conservative approach to lending, low reliance on wholesale funding and strong ratio of average customer deposits to loans at 113% (2008: 105%).
- Average customer deposits grew by 21% and average customer lending by 12%.
- Winner of Best Corporate Responsibility Programme for its Customers Who Care Campaign and the Best Charity Credit Card Programme at the prestigious Card Awards.
- New branding for our Bank, Insurance and Investment brands.
- We now operate out of 20 Corporate Banking centres after launching 3 new centres in the period.
- ‘Your Money’ campaign launched in 2009 recognising we are here for the sole benefit of our customers and members, and not shareholders.

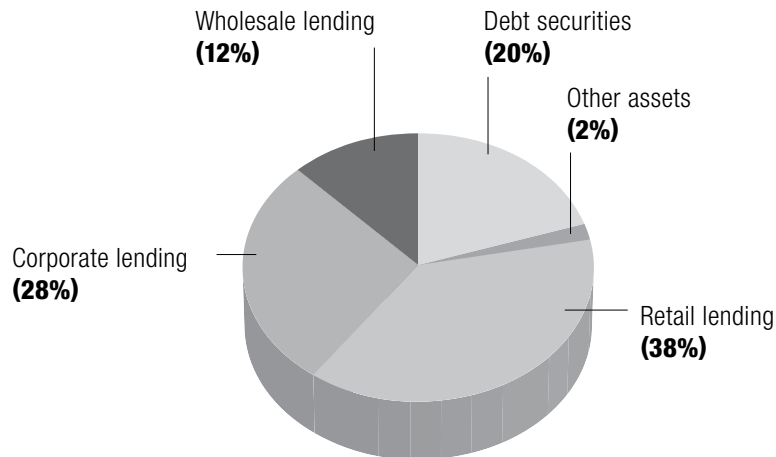
Average balance sheet highlights

Average Cleared Balances for the 28 weeks ended 25 July 2009

Liabilities



Assets



Balance Sheet Features

- A well proportioned balance sheet:

Customer assets represented 66% of total assets

Customer liabilities represented 74% of total liabilities

Customer lending wholly financed by customer deposits

- Within customer balances:

Corporate lending represented 42% and retail lending represented 58%

Corporate deposits represented 28% and retail deposits 72%

- Solid growth in customer balances:

Deposits increased by 21%
Lending increased by 12%

- Strong capital and liquidity ratios maintained.

Vision and values

Our business purpose

To be a pioneering business delivering sustainable financial services for members and society.

Our CFS* 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
- We only do business consistent with our values and principles

*The Bank forms part of the CFS group, which also comprises Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited.

Our values

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.

We are open and fair and are committed to excellent communication.

Business and financial review

Banking results	28 weeks to 25 July 2009 £m	28 weeks to 26 July 2008 £m	Change £m	Change %
Net interest income	202.2	190.9	11.3	5.9
Non-interest income	93.5	101.0	(7.5)	(7.4)
Operating costs	(181.0)	(175.4)	(5.6)	(3.2)
Impairment losses	(73.0)	(70.3)	(2.7)	(3.8)
Operating profit before tax and significant items	41.7	46.2	(4.5)	(9.7)
Financial Services Compensation Scheme levy	(2.2)	–	(2.2)	–
Britannia merger costs	(2.1)	–	(2.1)	–
Restructuring costs*	(12.5)	(26.4)	13.9	52.7
Profit before tax	24.9	19.8	5.1	25.8
<i>Operating profit before tax and significant items analysed by segment:</i>				
Retail	0.7	21.2	(20.5)	(96.7)
Corporate	27.6	44.1	(16.5)	(37.4)
Wholesale	13.4	(19.1)	32.5	170.2
Total	41.7	46.2	(4.5)	(9.7)
Cost/Income ratio before significant items	61.2%	60.1%		(1.1)

*An explanation of restructuring costs is provided on page 7.

Operating profit before tax, Financial Services Compensation Scheme (FSCS) levy and significant items was broadly maintained at 2008 levels, with profits of £41.7m (2008: £46.2m). Strong balance sheet growth was achieved in both lending and deposit balances, resulting in higher net interest income, although this was offset by slightly higher impairment losses and operating costs. The strong balance sheet position reflects the Bank's policy of funding lending from customer deposits as well as the impact of the economic conditions on a small number of counterparties in the Bank's Corporate portfolio.

Profit before tax, which increased by £5.1m to £24.9m, is stated after inclusion of levies payable to the FSCS of £2.2m resulting from defaults of other deposit-takers during the 'credit crunch'. Profit before tax also reflects restructuring costs of £12.5m (2008: £26.4m) and Britannia merger costs of £2.1m (2008: £nil).

The Bank has maintained a strong balance sheet position with continuing robust liquidity and capital ratios. As at the half year end, the capital ratio was 12.8% with a tier 1 ratio of 9.9% and a core tier 1 ratio of 9.2% reflecting the quality of our capital resources.

2009 has seen the dislocation in financial markets evolve into a wider economic slowdown. Funding markets remain volatile and with only government guaranteed or highly rated issuance possible, the competition remains intense for customer deposits.

The Bank has continued to take a prudent and disciplined approach to liquidity and funding and maintained its detailed management of its liquidity position. The Bank has a very strong retail deposit base with customer deposits higher than customer lending such that its reliance on wholesale funding is lower than most other banks. Funding of lending through customer deposits has been maintained at a minimum of 100% through selective asset growth and development of customer deposit balances. As a result of this strength, the Bank has not been required to enter the markets at disadvantageous terms. As a consequence of managed growth of both sides of the balance sheet, lending to customers has nevertheless grown strongly with a 12% increase in customer lending.

Retail Banking

	2009 £m	2008 £m	Change £m	Change %
Net interest income	120.1	121.6	(1.5)	(1.2%)
Non-interest income	70.4	80.4	(10.0)	(12.4%)
Operating costs	(140.7)	(138.9)	(1.8)	(1.3%)
Impairment losses	(49.1)	(41.9)	(7.2)	(17.2%)
Operating profit before tax and significant items	0.7	21.2	(20.5)	(96.7%)
Cost/Income ratio before significant items	73.9%	68.9%	–	(5.0%)

Corporate Banking

	2009 £m	2008 £m	Change £m	Change %
Net interest income	62.9	58.9	4.0	6.8%
Non-interest income	22.6	19.6	3.0	15.3%
Operating costs	(34.0)	(31.0)	(3.0)	(9.7%)
Impairment losses	(23.9)	(3.4)	(20.5)	(602.9%)
Operating profit before tax and significant items	27.6	44.1	(16.5)	(37.4%)
Cost/Income ratio before significant items	39.8%	39.5%	–	(0.3%)

Wholesale Banking

	2009 £m	2008 £m	Change £m	Change %
Net interest income	19.2	10.4	8.8	84.6%
Non-interest income	0.5	1.0	(0.5)	(50.0%)
Operating costs	(6.3)	(5.5)	(0.8)	(14.5%)
Impairment losses	–	(25.0)	25.0	100%
Operating profit before tax and significant items	13.4	(19.1)	32.5	170.2%
Cost/Income ratio before significant items	32.0%	48.2%	–	16.2%

Merger with Britannia Building Society

The merger of Co-operative Financial Services, including the Co-operative Bank, with Britannia Building Society presents us with a truly exciting opportunity to change the face of financial services in the UK at a time when customers have lost confidence in shareholder and government owned banks.

While others are scaling back, we are looking confidently to the future and exploring new opportunities, creating a unique member-owned, customer-led and ethically-guided business that can become a powerful and trusted force in financial services.

The legislation enabling building societies and co-operatives to merge came into force only in January 2009 and we have moved at pace to deliver a merger on 1 August. This is testament to the capability, enthusiasm, commitment and adaptability of people across both organisations, and bodes well for our future integration and evolution.

We have created a business of real scale, with £70 billion of assets, nine million customers, 12,000 employees, more than 300 branches and 20 corporate banking centres.

Our experience in bringing cultures together through mergers, acquisitions and reorganisations will help us succeed in integrating the businesses. More than this, our success will come from our well-established and complementary values, which mean we understand what's important to our members, our customers and our colleagues.

We have defined a new purpose for the new Co-operative Financial Services – to be a pioneering business delivering sustainable financial services for members and society.

So we'll champion co-operative values and principles and ethics, we'll be financially prudent and strong, we'll share profits with our members and we'll only do business consistent with our values and principles.

Our values describe how we behave, and will ensure we deliver a consistently good customer experience. As a co-operative business, we put our members and customers first in all we do. We take personal and social responsibility. Together, we'll 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.

By living these values, we will achieve our vision to be the UK's most admired financial services business.

Our merger takes place against a backdrop of a market and economic environment which is changing and remains full of uncertainty. Given this backdrop, it's important that we maintain capital strength and liquidity, maintain control on costs, and progress our integration and transformation plans, positioning ourselves for growth as we come out of recession.

The combined business will expect to deliver more than £60 million a year in efficiency and revenue benefits from year three and, as a customer-owned business, customers will share in these savings through more competitive rates, improved customer service or increased member dividends.

It is expected that there will be some reduction in roles during the three-year integration process, however significant synergy benefits are also expected from procurement and supplier savings. Any compulsory redundancies will be kept to a minimum through redeployment, re-training and normal staff turnover over the three-year timeframe.

The new business is committed to working with all recognised trade unions to effectively manage any changes.

Investment in the future

In 2006, Co-operative Financial Services (CFS), of which the Bank is a significant element, started the journey to better serve its 6 million customers through transforming its business and technology capabilities. Last year CFS commenced a substantial investment in enterprise-wide new technology and processes, to replace our retail and corporate banking IT infrastructure. This investment will allow CFS to transform its customer facing and internal processes. Further integration will join the Banking IT infrastructure with that of the Insurance businesses to ensure we remain truly customer centric in the way we address our customer's needs. This investment will support our retail core customer relationship strategy across Banking, Insurance and Investments to deliver attractive, fair, accessible products on a scaleable multi-channel basis. The programme will be a critical enabler of the operational integration of Britannia and CFS customers and products. The first deployment of the new capability – updated internet banking for corporates and small businesses – is targeting delivery commencement by the end of 2009.

Significant progress also has been made in improving Customer Service, product reach and sales across our distribution channels and propositions. Advancement has also been made in reducing production and processing costs whilst improving operational controls. This is alongside a considerable focus on the merger. The portfolio of change is regularly refined to ensure close alignment to strategy, business case impact and potential changing priorities.

Total costs of this programme in the first half of 2009 were £31.0m across CFS, of which the Bank incurred £12.5m as a significant item (2008: £26.4m).

External market turbulence

The extreme market conditions experienced during 2008 continued into 2009. In January and February investors grew increasingly concerned about the rapid deterioration in global activity and the poor state of the banking systems in the UK, US and Europe. The price of riskier assets, such as equities and corporate bonds, declined sharply. The price of gilts also fell reflecting a pull back from the extreme levels that had been reached at the end of 2008.

As the financial crisis developed, interest rates were reduced to their lowest level of 0.5% and unconventional methods of stimulating the economy were implemented. In early March, under its new policy of Quantitative Easing (QE), the government announced a series of buybacks of gilts and corporate bonds with an initial value of up to £150bn. Having completed purchases of £125bn, the Bank of England paused and, in August, extended the quantitative easing programme to £175bn.

Looking ahead, current forecasts suggest that we are passing through the trough of the recession and that the UK economy will recover modestly in 2010. Base rates are expected to remain low throughout the period. Financial conditions are improving but this is likely to be a slow process. Although we believe that we have seen the worst of the downturn and expect the economy to return to growth in 2010, business conditions will remain difficult during the year as unemployment rises and bad debts increase.

Balance sheet

Average customer deposits and average customer lending from the Bank's retail and corporate businesses areas have risen by 21% and 12% respectively compared to the previous half year position.

Average customer deposits of £11,209m grew by £1,930m (21%) across our retail and corporate customer base. Average customer lending balances in the same businesses grew by £1,084m (12%) to £9,908m reflecting growth in corporate and mortgage balances.

The Bank has maintained a strong balance sheet with consistently robust liquidity and capital ratios. The capital ratio on a Basel II basis after regulatory deductions was 12.8% with a tier 1 ratio of 9.9% and a core tier 1 ratio of 9.2% reflecting the quality of our capital resources. The ratio of average customer deposits to average customer loans remains strong at 113% (2008: 105%).

Lending

Retail sector average customer lending balances increased by £338m (6%) compared to the previous year driven by mortgage growth. Excluding mortgages, retail sector average customer lending balances fell by £174m (10%) as the Bank continued its strategy to reduce its exposure to new-to-Bank unsecured loan and credit card customers. There remains a focus on developing lasting relationships with customers, through products such as current accounts and mortgages, who are more likely to acquire other products across the CFS range including insurance. The Bank's customer and marketing strategies are driven by a focus on customers who share our belief in the Co-operative difference, developing strong loyal relationships based on the total CFS product range, recruiting and retaining relationship customers and a customer promise that sets our commitment.

Growth in mortgages, which are integral to the Bank's relationship strategy, has been achieved without compromising the quality of the portfolio with the Bank continuing to operate in the prime mortgage lending market. As such average loan-to-value for the portfolio over the last 12 months has remained constant at 53%.

Average corporate lending balances within the Bank increased by £746m (21%). During 2009 the Bank has further demonstrated its commitment to the environment and has approved loans for renewable energy and energy efficiency schemes totalling in excess of £60m. These loans range from a community based wind farm on the Hebridean Island of Tiree, to a Hydro scheme on the Scottish mainland, to combined heat and power plants for three hospitals in England. Our success was also highlighted as the Property Finance Unit was recognised at 'The North West Property Awards Dinner' as 'Finance Partner of the Year'.

The Corporate market has seen the full year effects of a sustained downturn which had begun to impact in late 2007. A number of borrowers have experienced trading performances which have left them close to their lending covenants whilst others have needed to re-negotiate these key indicators of corporate health. The Bank has always adopted a robust stress test of such forecasts so as to provide a substantial safety margin on transactions whether in terms of trading performance or loan to value ratios. This means should customers encounter difficulty our likelihood of loss and the extent of that loss is somewhat lower than that experienced by other lenders. Furthermore the senior debt focussed relationship based business in our corporate book means we are far less likely to be faced with loan losses as a result of corporate restructurings – and where losses do occur they are at lower levels than seen elsewhere. Where problems have occurred our approach to these situations has developed during 2009 whilst on a positive note we have seen many opportunities for profitable lending growth into low risk areas. However, such development has continued to proceed cautiously in line with past policy.

Our strategy within the Retail market has similarly been to maintain tight lending criteria. We have experienced minimal defaults in our mortgage book and lending policies have been adjusted to maintain this approach whilst the unsecured portfolio has continued to be tightly controlled. Clearly the inevitable rise in unemployment caused by general economic difficulties will continue to guide our approach in this area and ensure we maintain the strong focus on arrears and collections whilst continuing to extend this into identifying potential difficulties for satisfactory customers through pre-arrears strategies.

Deposits

Average customer deposits grew by £1,930m (21%) reflecting growth across both the retail and corporate sectors. Average retail sector balances of £7,947m were £936m (13%) higher than last year. Deposit growth has been achieved through the attractiveness of the Bank's current accounts, the Privilege packaged account and term deposit products. New current account sales are 68% higher than 2008 and customers choosing to upgrade their account have also seen a 68% uplift. This is complemented by a 51% increase in the sale of packaged bank accounts, which offer our customers a range of additional benefits. Additionally, the volume of switcher bank accounts, i.e. new customers transferring their primary bank account from other banks, has increased by 64% over the same period last year.

Average corporate sector deposits increased by £994m (44%) as growth on term deposits was targeted in the period to support the Bank's funding base. We have launched 3 new Corporate Banking Centres (Edinburgh, Cambridge and Chelmsford). We now operate out of 20 Corporate Banking Centres, compared to 10 at the end of 2006.

Market leading customer satisfaction is one of our key business measures. In July 2009, the customer satisfaction score for retail banking at 75.5% (December 2008: 76.5%) remains significantly higher than those for the rest of the market, where a decline was shown from 63.6% in December 2008 to 61.8% in July 09. The quality of our products and service was further recognised as the Bank was named 'Best Financial Services Provider' at the Which? Awards.

Average balances and interest margins

	28 weeks to 25 July 2009 £m	28 weeks to 26 July 2008 £m	24 weeks to 10 January 2009 £m
Net interest income	202.2	190.9	183.4
Average balances			
Interest-earning assets	14,728	13,096	13,795
Interest-bearing liabilities	12,551	11,130	11,748
Interest-free liabilities	2,177	1,966	2,047
Average rates	%	%	%
Gross yield on interest-earning assets	3.7	6.2	6.0
Cost of interest-bearing liabilities	1.4	4.2	3.8
Interest spread	2.3	2.0	2.2
Contribution from interest-free liabilities	0.3	0.7	0.7
Net interest margin	2.6	2.7	2.9

Non-interest income

	28 weeks to 25 July 2009 £m	28 weeks to 26 July 2008 £m	24 weeks to 10 January 2009 £m
Fees and commission receivable	105.0	103.1	89.9
Insurance commission income	6.7	14.1	9.4
Fees and commission payable	(22.2)	(18.4)	(17.2)
Visa share gains	0.5	–	9.3
Dealing profits	3.5	2.2	2.7
Total	93.5	101.0	94.1

Operating costs analysis – before significant items

	28 weeks to 25 July 2009 £m	28 weeks to 26 July 2008 £m	24 weeks to 10 January 2009 £m
Staff costs			
Wages and salaries	58.5	56.3	51.9
Pensions and social security costs	11.0	10.5	10.4
Other staff costs	10.8	12.0	10.0
	80.3	78.8	72.3
Other administrative expenses	91.1	85.9	79.2
Depreciation and amortisation	9.6	10.7	9.4
Total operating costs	181.0	175.4	160.9
Cost/Income ratio before significant items	61.2%	60.1%	58.0%
Average staff numbers	4,063	3,948	4,039

Working with the wider Co-operative Group

The Bank's links with the wider Co-operative Group have continued as the Bank manages and operates ATMs located in retail stores. The total number in the Bank's network is over 2,100.

The CFS in store banking pilot commenced in May 2008. The pilot was originally in four locations testing different service models. From these initial sites the Bank has identified a specific model which is complementary to the wider Group customer proposition within stores and this model has already been implemented in Peacehaven. A further two sites, in Matlock and Hove, are due to come online later this year.

As part of a wider plan involving all the family of businesses within the Co-operative Group, we have been involved in a significant re-branding exercise. This has been used to explain what makes The Co-operative different. The campaign included television, cinema, press and branch advertisements as well as transforming the iconic CIS tower into the tallest canvas in the UK through projection of the brand image onto the 25-storey building.

Our new campaign 'Your Money' recognised that we are here for the sole benefit of our customers and members, and not shareholders, and our customers' money is our responsibility.

The Bank has built on the Group wide investment in awareness building to promote a very specific 'stability' and 're-assurance' message reflecting the needs of the financial services consumer in the current economic climate.

We were also selected as a 'Business Superbrand' for 2009 as this year's annual publication of Business Superbrands explained how we have been pioneering in the area of ethical finance and remain the only UK high street bank with an Ethical Policy that is voted on by customers.

Impairment losses	28 weeks to 25 July 2009 £m	28 weeks to 26 July 2008 £m	24 weeks to 10 January 2009 £m
Profit and loss charge			
Retail sector	49.1	41.9	42.9
Corporate sector	23.9	3.4	8.6
Loan impairments	73.0	45.3	51.5
Wholesale impairments	–	25.0	–
Total	73.0	70.3	51.5
Loan charge as a percentage of loans and advances to customers (annualised)	1.3%	0.8%	1.1%

Operating income

Operating income at £295.7m was £3.8m higher than the same period last year reflecting an £11.3m increase in net interest income and a reduction of £7.5m in non-interest income.

Higher interest income from balance sheet growth across product and business segments and improved wholesale margins arising from investment of the Bank's deposit base has been partly offset by lower retail margins. The Bank reduced its exposure to unsecured lending and offered market leading deposit and term products to further strengthen the balance sheet. This was alongside strong growth achieved in secured mortgage and corporate lending focused towards customers who share the Co-operative values, seeking to build profitable relationships across the CFS banking and insurance products.

Non-interest income

Non-interest income at £93.5m was £7.5m lower than the same period last year. This was largely driven by growth in corporate commission more than offset by lower insurance commissions.

Operating costs

The Bank's business-as-usual operating costs have risen by 3% to £181.0m reflecting system developments required for regulatory compliance, security measures supporting the ATM network and increases in customer support areas.

Additionally, the Bank has recognised a further £2.2m of FSCS levy arising from defaults of other deposit-takers during the 'credit crunch'. These charges are not included in the above analysis but are disclosed separately.

Credit quality and impairment losses

Increases in retail bad debts reflect the increased difficulties faced by our retail customers in meeting unsecured debt repayments. However this worsening appears to have stabilised and additional collections focus has helped to improve the overall position.

Corporate sector impairment losses of £23.9m reflect recognition of a series of problem cases during the first half in line with industry experience. These have been monitored on an ongoing basis and been the subject of extensive restructuring discussions which are now reflected in the underlying charge.

Social responsibility

In February, we re-affirmed our leadership role in Corporate Social Responsibility at the prestigious Card Awards by winning awards for the Best Corporate Responsibility Programme, for our Customers Who Care campaign, and the Best Charity Credit Card Programme.

We have also increased our support for community art projects through the launch of the CFS school art fund, which enables schools to apply for £2,000 a year to run art, music or drama projects.

We have launched a \$50m international development fund for co-operatives, aimed at helping to alleviate poverty in some of the world's poorest communities. This is the first specialised, international development fund to specifically target credit unions and agricultural co-operatives that serve some of the world's poorest communities.

CFS was recognised as one of seven leaders in Corporate Social Responsibility with the award of the Business in the Community (BitC) Corporate Responsibility Index of 'Platinum Plus'.

Outlook

The first half of 2009 was a solid period for CFS, including the Bank, and we made further progress towards our vision to become the 'UK's most admired financial services business'.

We have continued to deliver a strong financial performance and our business performance highlights the underlying strength and sustainability of our business, which is seeing increasing numbers of customers recognising our brand commitment to value, fairness and social responsibility.

The completion on 1 August of our merger with Britannia Building Society will provide our customers with access to an expanded network of more than 300 branches and creates a strongly capitalised business with £70 billion of assets and nine million customers.

Looking forward, the rest of the year will bring further challenges and opportunities, including the integration of our businesses, and the economic outlook is uncertain. It remains important that we maintain capital strength and liquidity, maintain control on costs, and progress our integration and transformation plans, positioning ourselves for growth as we come out of recession.

Principal risks

The Disclosure and Transparency Rules (DTR 4.2.7) require that a description of the principal risks and uncertainties are given in the half yearly Financial Report for the remaining 24 weeks of the financial year, these risks are consistent with those described in the Bank's Risk Management section of the 2008 Annual Report on pages 57 – 83. The principal risks the Bank faces for the second half of 2009 are;

Credit risk

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

The Credit Risk Management Policies are approved by the Co-operative Financial Services' Board Risk Management Committee at least annually and are the responsibility of the Director of Banking Risk and Capital Management. The policies determine the criteria for the management of retail, corporate and wholesale market exposures and credit management standards, including country, sector and counterparty limits, along with risk appetites and delegated authorities.

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 and any associated security or collateral held.

The Bank's Personal Lending 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. The quality of the portfolio and individual customers is monitored using risk rating systems and scorecards calibrated to risk of default and expected loss, and the Board receives an update on bad debt biannually. The Risk Management Committee receives regular reports on the performance of the portfolio.

In the Retail market, our maximum Mortgage Loan to Value for new business was reduced from 90% to 85% in October 2008 and to 75% for Interest Only lending. There has also been a tightening of the revaluation policy for further lending on higher LTV properties valued in the last 2 years. We substantially withdrew from new Buy-to-Let mortgages in early 2006 and had completely withdrawn from this market in early 2008. There has been a slight change in the overall mortgage average LTV in last 12 months up to 53%; however the LTV of new business has remained relatively flat in 2009. Affordability criteria have been further tightened as a result of existing market conditions. The deliberately cautious lending policy adopted by the Bank has limited exposure to higher risk segments and impairment levels reflect this. However it is recognised that pressure will continue throughout the year due to the current challenging economic environment. Collections initiatives which have been progressing since end of 2006 include: forecasting bad debt under different economic conditions and increased monitoring analysis of pre-arrears potentially 'at risk' customers.

The economy continues to suffer from weak GDP performance and increased level of corporate insolvencies. However, the level of impairments the Bank has experienced in its Corporate portfolio remains low compared to peers and the Bank intends to continue pursuing a strategy of supporting good quality corporate customers and pricing at a level commensurate with risk.

For Wholesale, market volatility and the 'credit crunch' continues to have a negative effect on credit quality globally. However, the Bank's Wholesale portfolio credit quality remains acceptable given that the majority of counterparties belong to well rated bank groups, and additional stricter limit controls have been implemented. The Bank's remaining net exposure to structured investments is £nil (10 January 2009: £2.7m). The Bank also has £12.5m (10 January 2009: £12.5m) of Credit Trading Fund investments within debt securities.

Following the agreement to merge with Britannia Building Society, both risk functions have begun working closely together to ensure that credit risk continues to be prudently managed post merger via the alignment of risk appetite.

Credit exposure

25 July 2009	Notes	Gross balance	Credit commitments	Credit risk exposure
Loans and advances to banks		1,382.6	100.8	1,483.4
Loans and advances to customers	5	10,854.0	5,135.8	15,989.8
Debt securities	6	3,057.7	–	3,057.7
Derivative financial instruments		138.7	–	138.7
		15,433.0	5,236.6	20,669.6
Allowance for impairment losses on loans and advances				(192.0)
Impairment losses on investments				(89.3)
Total carrying amount				20,388.3

Principal risks

26 July 2008	Notes	Gross balance	Credit commitments	Credit risk exposure
Loans and advances to banks		1,741.1	103.0	1,844.1
Loans and advances to customers	5	10,129.3	6,031.0	16,160.3
Debt securities	6	2,402.1	–	2,402.1
Derivative financial instruments		63.1	–	63.1
		14,335.6	6,134.0	20,469.6
Allowance for impairment losses on loans and advances				(168.7)
Impairment losses on investments				(56.9)
Total carrying amount				20,244.0

10 January 2009	Notes	Gross balance	Credit commitments	Credit risk exposure
Loans and advances to banks		1,886.7	201.3	2,088.0
Loans and advances to customers	5	10,494.2	5,397.4	15,891.6
Debt securities	6	2,324.0	–	2,324.0
Derivative financial instruments		203.0	–	203.0
		14,907.9	5,598.7	20,506.6
Allowance for impairment losses on loans and advances				(187.9)
Impairment losses on investments				(92.3)
Total carrying amount				20,226.4

Credit risk analysis

	Loans and advances to banks	Loans and advances to customers	Debt securities	Derivative financial instruments	Total
25 July 2009					
Individually impaired					
90 days past due or evidence of impairment	–	168.0	95.8	–	263.8
Impairment recognised	–	(50.4)	(83.3)	–	(133.7)
Carrying amount	–	117.6	12.5	–	130.1
Collectively impaired					
Less than 90 days past due	–	64.9	110.4	–	175.3
90 – 179 days past due	–	25.4	–	–	25.4
180 days plus past due	–	121.0	–	–	121.0
Impairment recognised	–	(141.6)	(6.0)	–	(147.6)
Carrying amount	–	69.7	104.4	–	174.1
Past due but not impaired					
0 – 29 days past due	–	5.8	–	–	5.8
30 – 59 days past due	–	7.4	–	–	7.4
60 – 89 days past due	–	4.2	–	–	4.2
Carrying amount	–	17.4	–	–	17.4
Neither past due or impaired					
Low to medium risk	1,483.4	13,459.5	2,851.5	138.7	17,933.1
Medium to high risk	–	2,133.6	–	–	2,133.6
Carrying amount	1,483.4	15,593.1	2,851.5	138.7	20,066.7
Total carrying amount	1,483.4	15,797.8	2,968.4	138.7	20,388.3

	Loans and advances to banks	Loans and advances to customers	Debt securities	Derivative financial instruments	Total
26 July 2008					
Individually impaired					
90 days past due or evidence of impairment	–	133.5	98.8	–	232.3
Impairment recognised	–	(38.2)	(56.9)	–	(95.1)
Carrying amount	–	95.3	41.9	–	137.2
Collectively impaired					
Less than 90 days past due	–	68.9	–	–	68.9
90 – 179 days past due	–	25.1	–	–	25.1
180 days plus past due	–	117.6	–	–	117.6
Impairment recognised	–	(130.5)	–	–	(130.5)
Carrying amount	–	81.1	–	–	81.1
Past due but not impaired					
0 – 29 days past due	–	11.5	–	–	11.5
30 – 59 days past due	–	2.0	–	–	2.0
60 – 89 days past due	–	0.9	–	–	0.9
Carrying amount	–	14.4	–	–	14.4
Neither past due or impaired					
Low to medium risk	1,844.1	13,988.2	2,303.3	63.1	18,198.7
Medium to high risk	–	1,812.6	–	–	1,812.6
Carrying amount	1,844.1	15,800.8	2,303.3	63.1	20,011.3
Total carrying amount	1,844.1	15,991.6	2,345.2	63.1	20,244.0

	Loans and advances to banks	Loans and advances to customers	Debt securities	Derivative financial instruments	Total
10 January 2009					
Individually impaired					
90 days past due or evidence of impairment	–	140.6	97.5	–	238.1
Impairment recognised	–	(47.1)	(82.3)	–	(129.4)
Carrying amount	–	93.5	15.2	–	108.7
Collectively impaired					
Less than 90 days past due	–	66.4	97.2	–	163.6
90 – 179 days past due	–	27.6	–	–	27.6
180 days plus past due	–	127.1	–	–	127.1
Impairment recognised	–	(140.8)	(10.0)	–	(150.8)
Carrying amount	–	80.3	87.2	–	167.5
Past due but not impaired					
0 – 29 days past due	–	11.5	–	–	11.5
30 – 59 days past due	–	2.2	–	–	2.2
60 – 89 days past due	–	1.3	–	–	1.3
Carrying amount	–	15.0	–	–	15.0
Neither past due or impaired					
Low to medium risk	2,088.0	13,138.5	2,129.3	203.0	17,558.8
Medium to high risk	–	2,376.4	–	–	2,376.4
Carrying amount	2,088.0	15,514.9	2,129.3	203.0	19,935.2
Total carrying amount	2,088.0	15,703.7	2,231.7	203.0	20,226.4

Within the credit risk analysis tables above, low to medium risk has been defined as exposures where probability of default (PD) is 1% or below over a 1 year time horizon for exposures on 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 probability of default of greater than 1% over a year time horizon for exposure on IRB approach under Basel II and slotting category weak for specialised lending exposures under the slotting approach.

The exposures above reflect the maximum amount the Bank considers itself to be exposed to from credit risk. Further analysis of concentration of credit risk is provided in notes 5 and 6.

Principal risks

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 inter-bank business and propriety trading. The majority of the risk arises from changes in interest rates as the Bank does not trade in equities or commodities and has limited foreign currency activities.

The Board receives quarterly reports on the management of balance sheet risk, and the Asset and Liability Committee (ALCO) reviews the balance sheet risk position and the utilisation of wholesale market risk limits.

Market risk is controlled within strict risk limits which are approved by Board. The level 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.

Liquidity risk

Liquidity risk arises from the timing of cash flows generated from the Bank's assets, liabilities and off-balance sheet instruments. The Bank's liquidity management policies are reviewed and approved annually by the Risk Management Committee and compliance reviewed monthly by ALCO.

The Bank's liquidity management framework is designed in line with industry guidelines, including Institute of International Finance (IIF) and Bank for International Settlements (BIS) recommendations, and is being developed in response to emerging FSA requirements. The Bank continues to take a prudent and disciplined approach to liquidity and funding by applying:

- A rigorous control process embedded in the Bank's operations
- Robust 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; and
 - Target funding ratio and funding ratios translated into Retail and Corporate targets.

The Bank currently funds in excess of 100% of customer assets by customer deposits ensuring there is no over reliance on wholesale funding, in line and within the Board approved target funding ratio. The Bank's structural liquidity risk management is therefore customer based and is dependent on behavioural analysis of both customer demand deposit and loan drawdown profiles by product category based on experience over the last 10 years. The behaviour of customer products is reviewed by ALCO on a quarterly basis. In addition the Bank has maturity mismatch limits to control the exposure to longer term mismatches.

As a result of this strength, the Bank has not been required to enter the markets at disadvantageous terms in the half year.

A Covered Bond Programme has been developed to provide access to the Bank of England Special Liquidity Scheme or Discount Window Facility and the Bank has issued a £1bn Covered Bond from its £3bn Programme, which was repurchased by the Bank to enable it to be used as collateral for funding if required in a stress event.

On 26 January 2009, the Bank issued £120 million of share capital to its parent company, Co-operative Financial Services Limited to reinforce its capital strength and give the Bank eligibility to the Government's Credit Guarantee Scheme.

Future asset growth will be undertaken within the liquidity risk appetite set by the Board.

Liquidity gap

25 July 2009	Repayable on demand	3 months or less not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non-cash items	Total
Assets							
Loans and advances to banks	3.6	1,368.7	–	–	10.3	–	1,382.6
Loans and advances to customers	851.4	2,679.3	853.7	1,896.0	4,573.6	(192.0)	10,662.0
Debt securities	–	1,733.2	399.9	825.6	9.7	–	2,968.4
Other assets	305.3	–	–	–	–	116.7	422.0
	1,160.3	5,781.2	1,253.6	2,721.6	4,593.6	(75.3)	15,435.0
Liabilities							
Deposits by banks	312.5	797.7	4.0	–	–	–	1,114.2
Customer accounts	8,967.2	1,552.1	798.1	1,019.1	43.1	–	12,379.6
Debt securities in issue	–	363.4	86.2	–	–	–	449.6
Other borrowed funds	–	–	–	–	360.0	(1.5)	358.5
Other liabilities	77.6	–	–	–	–	150.2	227.8
	9,357.3	2,713.2	888.3	1,019.1	403.1	148.7	14,529.7
Net Liquidity gap – contractual basis	(8,197.0)	3,068.0	365.3	1,702.5	4,190.5	(224.0)	905.3
Behavioural adjustments:							
Loans and advances to customers	–	(44.1)	(69.7)	(504.1)	617.9	–	–
Customer accounts	7,958.3	(480.3)	(1,097.2)	(6,380.8)	–	–	–
Net Liquidity gap – behavioural basis	(238.7)	2,543.6	(801.6)	(5,182.4)	4,808.4	(224.0)	905.3

26 July 2008	Repayable on demand	3 months or less not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non-cash items	Total
Assets							
Loans and advances to banks	2.9	1,507.4	222.0	–	8.8	–	1,741.1
Loans and advances to customers	786.8	2,286.1	765.6	1,753.1	4,537.7	(168.7)	9,960.6
Debt securities	–	1,133.2	403.1	746.3	62.6	–	2,345.2
Other assets	241.5	–	–	–	–	141.1	382.6
	1,031.2	4,926.7	1,390.7	2,499.4	4,609.1	(27.6)	14,429.5
Liabilities							
Deposits by banks	65.3	797.0	10.5	–	–	–	872.8
Customer accounts	8,663.7	1,618.8	312.9	716.8	62.2	–	11,374.4
Debt securities in issue	–	838.1	54.1	–	–	–	892.2
Other borrowed funds	–	–	–	–	360.0	(1.7)	358.3
Other liabilities	93.2	–	–	–	–	140.5	233.7
	8,822.2	3,253.9	377.5	716.8	422.2	138.8	13,731.4
Net Liquidity gap – contractual basis	(7,791.0)	1,672.8	1,013.2	1,782.6	4,186.9	(166.4)	698.1
Behavioural adjustments:							
Loans and advances to customers	–	(49.1)	(80.4)	(562.5)	692.0	–	–
Customer accounts	7,809.7	(473.5)	(1,089.0)	(6,247.2)	–	–	–
Net Liquidity gap – behavioural basis	18.7	1,150.2	(156.2)	(5,027.1)	4,878.9	(166.4)	698.1

Principal risks

10 January 2009	Repayable on demand	3 months or less not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non-cash items	Total
Assets							
Loans and advances to banks	–	1,704.8	172.0	–	9.9	–	1,886.7
Loans and advances to customers	781.6	2,577.8	712.7	1,801.1	4,621.0	(187.9)	10,306.3
Debt securities	–	1,210.1	352.0	656.5	13.2	–	2,231.8
Other assets	367.6	–	–	–	–	171.7	539.3
	1,149.2	5,492.7	1,236.7	2,457.6	4,644.1	(16.2)	14,964.1
Liabilities							
Deposits by banks	162.1	907.7	2.5	–	–	–	1,072.3
Customer accounts	8,933.8	1,770.7	907.4	296.9	–	–	11,908.8
Debt securities in issue	–	472.0	96.0	–	–	–	568.0
Other borrowed funds	–	–	–	–	360.0	(1.6)	358.4
Other liabilities	117.9	–	–	–	–	158.0	275.9
	9,213.8	3,150.4	1,005.9	296.9	360.0	156.4	14,183.4
Net Liquidity gap – contractual basis	(8,064.6)	2,342.3	230.8	2,160.7	4,284.1	(172.6)	780.7
Behavioural adjustments:							
Loans and advances to customers	–	(44.5)	(74.4)	(539.5)	658.4	–	–
Customer accounts	7,849.0	(678.9)	(1,061.9)	(6,108.2)	–	–	–
Net Liquidity gap – behavioural basis	(215.6)	1,618.9	(905.5)	(4,487.0)	4,942.5	(172.6)	780.7

Regulation risk

The Bank is subject to laws and regulations which are subject to change, with its main regulator being the FSA. Regulatory intervention is an ongoing feature of UK banking and changes could affect the profitability of our business. A key risk has arisen from the ongoing investigation into bank charges resulting in a test case to resolve legal uncertainties concerning the fairness and lawfulness of unarranged overdraft charges. Full details of the test case process are set out in the Legal and regulatory matters note 9 on page 38.

A further court hearing took place in July 2008 to assess whether historic terms and conditions are capable of being penalties. No judgment has been given to date.

A range of outcomes is possible from the test case and any appeals, some of which could have a significant impact on the Bank. Therefore it is not considered appropriate at this stage, to reliably estimate the financial impact on the Bank.

An additional significant issue facing our business arises from the regulatory attention currently being given to Payment Protection Insurance (PPI). As increasing numbers of complaints are made by customers who have bought such insurance, and the quality of sales is scrutinised in the light of developing regulatory standards, there is a risk that significant redress will be payable to customers. In relation to future sales, it is widely acknowledged that the regulatory changes proposed by the Competition Commission following its investigation of the PPI market will impact on the profitability of future PPI business across the industry.

Following a request made by the FSA to all institutions to voluntarily withdraw from the single premium PPI market by 31 January 2009, the Bank stopped selling its single premium PPI on the 4 January 2009.

Change and integration risk

On 29 January 2009 the Bank announced it was proposing to merge with Britannia Building Society. The announcement followed the change in the law permitting co-operatives and mutuals to merge. The Co-operative Group Limited and Co-operative Financial Services Limited Boards approved the merger on 20 January 2009, with Britannia members confirming their agreement at the AGM on 29 April 2009.

The merger with Britannia Building Society on 1st August 2009 will expose CFS to some additional risks within the second half of the financial year. This is being closely managed through a company-wide Integration Programme, including a dedicated change programme and the existing operational risk frameworks.

The respective assurance functions, including operational risk, have been working closely together to ensure the business continues to manage risks and controls during and post merger.

The Bank, as part of the wider CFS group, continues to invest in major change programmes including substantial investment in enterprise-wide new technology and processes, to replace our retail and corporate banking IT infrastructure.

To manage delivery of these change programmes, manage risks, prioritise resources and realise benefits, CFS has developed and implemented a Change Management Framework. This is regularly reviewed to maintain its effectiveness.

Independent review report

For the period ended 25 July 2009

Independent review report by KPMG Audit Plc to The Co-operative Bank p.l.c.

Introduction

We have been engaged by The Co-operative Bank p.l.c. ('the Bank') to review the condensed set of financial statements in the Interim Financial Report 2009 for the period ended 25 July 2009 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and related notes. We have read the other information contained in the Interim Financial Report 2009 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Bank in accordance with the terms of our engagement to assist the Bank 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 Bank 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 Bank for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The Interim Financial Report 2009 is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Financial Report 2009 in accordance with the DTR of the UK FSA.

As disclosed in the basis of preparation, the annual financial statements of the Bank are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in the Interim Financial Report 2009 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 Bank a conclusion on the condensed set of financial statements in the Interim Financial Report 2009 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 to 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 2009 for the period ended 25 July 2009 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,
Manchester,
10 September 2009

Condensed consolidated income statement

For the period ended 25 July 2009 (unaudited)

All amounts are stated in £m unless otherwise indicated

28 weeks to 25 July 2009

	Notes	Before significant items	Significant items	After significant items
Interest and similar income		298.3	–	298.3
Interest expense and similar charges		(96.1)	–	(96.1)
Net interest income	2	202.2	–	202.2
Fee and commission income		111.7	–	111.7
Fee and commission expense		(22.2)	–	(22.2)
Net fee and commission income	3	89.5	–	89.5
Net trading income		3.5	–	3.5
Other operating income		0.5	–	0.5
Operating income		295.7	–	295.7
Operating expenses	4	(181.0)	(14.6)	(195.6)
Financial Services Compensation Scheme levy		(2.2)	–	(2.2)
Profit before impairment losses		112.5	(14.6)	97.9
Impairment losses on loans and advances	5	(73.0)	–	(73.0)
Impairment losses on investments	6	–	–	–
Operating profit		39.5	(14.6)	24.9
Profit based payments to members of the Co-operative Group		–	–	–
Profit before taxation		39.5	(14.6)	24.9
Income tax expense		(12.3)	4.1	(8.2)
Profit for the period		27.2	(10.5)	16.7
Attributable to:				
Equity shareholders		25.2	(10.5)	14.7
Minority interests		2.0	–	2.0
		27.2	(10.5)	16.7
Earnings per share		0.76p	(0.32)p	0.44p

2009 significant items relate to non-recurring restructuring costs (£12.5m) and merger costs (£2.1m).

Condensed consolidated income statement

For the period ended 25 July 2009 (unaudited)

All amounts are stated in £m unless otherwise indicated

	Notes	28 weeks to 26 July 2008			24 weeks to 10 January 2009		
		Before significant items	Significant items	After significant items	Before significant items	Significant items	After significant items
Interest and similar income		445.5	–	445.5	384.7	–	384.7
Interest expense and similar charges		(254.6)	–	(254.6)	(201.3)	–	(201.3)
Net interest income	2	190.9	–	190.9	183.4	–	183.4
Fee and commission income		117.2	–	117.2	99.3	–	99.3
Fee and commission expense		(18.4)	–	(18.4)	(17.2)	–	(17.2)
Net fee and commission income	3	98.8	–	98.8	82.1	–	82.1
Net trading income		2.2	–	2.2	2.7	–	2.7
Other operating income		–	–	–	9.3	–	9.3
Operating income		291.9	–	291.9	277.5	–	277.5
Operating expenses	4	(175.4)	(26.4)	(201.8)	(160.9)	(20.7)	(181.6)
Financial Services Compensation Scheme levy		–	–	–	(10.5)	–	(10.5)
Profit before impairment losses		116.5	(26.4)	90.1	106.1	(20.7)	85.4
Impairment losses on loans and advances	5	(45.3)	–	(45.3)	(51.5)	–	(51.5)
Impairment losses on investments	6	(25.0)	–	(25.0)	(25.7)	–	(25.7)
Operating profit		46.2	(26.4)	19.8	28.9	(20.7)	8.2
Profit based payments to members of the Co-operative Group		–	–	–	(4.7)	–	(4.7)
Profit before taxation		46.2	(26.4)	19.8	24.2	(20.7)	3.5
Income tax expense		(14.1)	7.5	(6.6)	(5.3)	5.9	0.6
Profit for the period		32.1	(18.9)	13.2	18.9	(14.8)	4.1
Attributable to:							
Equity shareholders		30.3	(18.9)	11.4	16.9	(14.8)	2.1
Minority interests		1.8	–	1.8	2.0	–	2.0
		32.1	(18.9)	13.2	18.9	(14.8)	4.1
Earnings per share		2.75p	(1.71p)	1.04p	1.54p	(1.35p)	0.19p

2008 significant items relate solely to non-recurring restructuring costs.

Condensed consolidated statement of comprehensive income

For the period ended 25 July 2009 (unaudited)

All amounts are stated in £m unless otherwise indicated

	28 weeks to 25 July 2009	28 weeks to 26 July 2008	24 weeks to 10 January 2009
Profit for the period – Equity shareholders	14.7	11.4	2.1
Profit for the period – Minority interests	2.0	1.8	2.0
	16.7	13.2	4.1
Other comprehensive income:			
Changes in cash flow hedges	(21.8)	(31.3)	118.3
Changes in available for sale assets	6.1	(12.1)	(9.7)
Defined benefit plan actuarial gains	–	–	0.5
Income tax on other comprehensive income	4.4	12.2	(30.5)
Other comprehensive income for period, net of income tax	(11.3)	(31.2)	78.6
Total comprehensive income for the period	5.4	(18.0)	82.7
Attributable to:			
Equity shareholders	4.3	(18.9)	76.7
Minority interests	1.1	0.9	6.0
Total comprehensive income for the period	5.4	(18.0)	82.7

Condensed consolidated balance sheet

at 25 July 2009 (unaudited)

All amounts are stated in £m unless otherwise indicated

	Notes	25 July 2009	26 July 2008	10 January 2009
Assets				
Cash and balances at central banks		166.6	174.6	164.7
Loans and advances to banks		1,382.6	1,741.1	1,886.7
Loans and advances to customers	5	10,662.0	9,960.6	10,306.3
Debt securities	6	2,968.4	2,345.2	2,231.7
Derivative financial instruments		138.7	63.1	203.0
Equity shares		8.8	8.8	13.0
Intangible assets		1.5	3.5	2.3
Property, plant and equipment		50.3	70.0	59.6
Deferred tax assets		–	3.9	–
Other assets		20.3	16.7	31.2
Prepayments and accrued income		35.8	42.0	65.6
Total assets		15,435.0	14,429.5	14,964.1
Liabilities				
Deposits by banks		1,114.2	872.8	1,072.3
Customer accounts	7	12,379.6	11,374.4	11,908.8
Debt securities in issue		449.6	892.2	568.0
Derivative financial instruments		77.6	93.2	117.9
Other borrowed funds		358.5	358.3	358.4
Other liabilities		89.1	110.1	91.7
Accruals and deferred income		9.2	23.7	22.3
Provisions		17.5	6.0	15.8
Current tax liabilities		15.2	0.7	1.2
Deferred tax liabilities		19.2	–	27.0
Total liabilities		14,529.7	13,731.4	14,183.4
Capital and reserves attributable to the Bank's equity holders				
Ordinary share capital		175.0	55.0	55.0
Share premium account		8.8	8.8	8.8
Retained earnings		656.2	639.0	641.5
Other reserves		32.1	(31.7)	42.5
		872.1	671.1	747.8
Minority interests		33.2	27.0	32.9
Total equity		905.3	698.1	780.7
Total liabilities and equity		15,435.0	14,429.5	14,964.1

Condensed consolidated cash flow statement

For the period ended 25 July 2009 (unaudited)
All amounts are stated in £m unless otherwise indicated

	28 weeks to 25 July 2009	28 weeks to 26 July 2008	24 weeks to 10 January 2009
Cash flows from operating activities			
Profit before taxation	24.9	19.8	3.5
Net movement in accruals and prepayments	29.2	25.8	(30.8)
Interest payable in respect of subordinated liabilities	9.4	9.4	8.1
Non-cash income statement items	72.8	72.4	72.2
Amortisation and profit on sale of investments	0.3	(0.9)	(2.4)
Loss on disposal of fixed assets	0.5	0.8	1.6
Preference dividend	3.0	3.0	2.6
	140.1	130.3	54.8
Increase in customer and bank deposits	528.8	1,023.1	674.5
(Increase)/decrease in debt securities in issue	(118.4)	356.4	(324.2)
Increase in loans and advances to customers and banks	(125.3)	(992.2)	(686.7)
Net movement of other assets and other liabilities	4.1	(2.3)	(21.0)
Income tax recovered/(paid)	2.3	(9.8)	1.4
Net cash flows from operating activities	431.6	505.5	(301.2)
Cash flows from investing activities			
Purchase of property, equipment and software	–	–	(0.3)
Proceeds from sale of property and equipment	–	–	0.9
Purchase of debt securities	(9,973.3)	(5,990.7)	(8,083.5)
Proceeds from sale and maturity of debt securities	9,542.3	6,118.4	8,038.4
Proceeds from sale of equity investments	4.0	–	–
Net cash flows from investing activities	(427.0)	127.7	(44.5)
Cash flows from financing activities			
Interest paid in respect of subordinated loanstock	(13.0)	(13.0)	(4.3)
Proceeds of issued shares	120.0	–	–
Preference dividends paid	(2.8)	(2.8)	(2.8)
Dividends paid to minority shareholders in subsidiary undertaking	(0.8)	(0.8)	(0.1)
Net cash flows from financing activities	103.4	(16.6)	(7.2)
Increase/(decrease) in cash and cash equivalents	108.0	616.6	(352.9)
Cash and cash equivalents at the beginning of the period	2,333.9	2,070.2	2,686.8
Cash and cash equivalents at the end of the period	2,441.9	2,686.8	2,333.9

Analysis of cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with less than 3 months maturity from the date of acquisition:

	25 July 2009	26 July 2008	10 January 2009
Cash and balances at central banks	166.6	174.6	164.7
Loans and advances to banks	1,382.6	1,741.1	1,589.7
Short term investments	892.7	771.1	579.5
	2,441.9	2,686.8	2,333.9

Condensed consolidated statement of changes in equity

For the period ended 25 July 2009 (unaudited)

All amounts are stated in £m unless otherwise indicated

	Share capital and share premium	Other reserves	Retained profits	Minority interests	Total
Balance at 12 January 2008	63.8	(1.4)	627.6	26.9	716.9
Total comprehensive income	–	(30.3)	11.4	0.9	(18.0)
Dividend	–	–	–	(0.8)	(0.8)
Balance at 26 July 2008	63.8	(31.7)	639.0	27.0	698.1
Total comprehensive income	–	74.2	2.5	6.0	82.7
Dividend	–	–	–	(0.1)	(0.1)
Balance at 10 January 2009	63.8	42.5	641.5	32.9	780.7
Total comprehensive income	–	(10.4)	14.7	1.1	5.4
Dividend	–	–	–	(0.8)	(0.8)
Issue of ordinary shares	120.0	–	–	–	120.0
Balance at 25 July 2009	183.8	32.1	656.2	33.2	905.3

Basis of preparation

EU law (IAS Regulation EC 1606/2002) requires that the annual consolidated financial statements for the year ended 31 December 2009 are prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) guidance as adopted by the European Union.

The information in this Interim Financial Report 2009 is unaudited and does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The statutory accounts for the year ended 10 January 2009 have been delivered to the Registrar of Companies in England and Wales in accordance with section 240 of the Companies Act 1985. The auditor has reported on those accounts. Its report was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The Interim Financial Report 2009 was approved by the Board of Directors on 10 September 2009.

This condensed consolidated half-yearly financial report for the half-year ended 25 July 2009 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 half-yearly financial report should be read in conjunction with the annual financial statements for the year ended 10 January 2009, which have been prepared in accordance with IFRS as adopted by the European Union.

Going concern

The Group's business activities together with its financial position, and the factors likely to affect its future development and performance and capital resources are set out in the Business Review on pages 5 to 10. Further risk information is provided on pages 11 to 17.

In addition, the risk management section on pages 57 to 83 of the financial statements 2008 includes the Group's objectives, policies and processes for managing its liquidity risk and details of financial instruments and hedging activities. The capital management section on page 84 of the financial statements 2008 provides information of 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, including the Britannia merger which was completed on 1 August 2009, and these provide assurance that the Bank is sufficiently capitalised and is comfortably in excess of liquidity stress tests.

Following the Britannia merger, the merged business is strongly capitalised, taking into account the injection of the additional £120m share capital on 26 January 2009 and a further £55m which Co-operative Financial Services Limited injected following the merger on 1 August 2009.

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 financial statements.

The accounting policies adopted by the Bank in the preparation of its 2009 half-yearly financial report and those which the Bank currently expects to adopt in its annual accounts for the year ended 31 December 2009 are consistent with those disclosed in the annual accounts for the year ended 10 January 2009, except for those adopted below.

In 2009 the Bank has elected to change its accounting year end date from 9 January 2010 to 31 December 2009 to align with Britannia Building Society following the successful merger on 1 August 2009 (refer to note 11 on page 39).

Use of estimates and judgements

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

Estimates and underlying 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.

Management believes that the Bank's critical accounting policies where judgement is necessarily applied are consistent with those outlined on pages 85 and 86 of the financial statements 2008.

Fair values

Fair values are determined in accordance with the methodology set out in the accounting policies on pages 26 to 30 and on pages 79 and 80 in the financial statements 2008.

Basis of preparation and accounting policies

For the period ended 25 July 2009

Accounting policies adopted during the year

During the period ended 25 July 2009, the Bank adopted the following significant standards and amendments to standards:

- On 11 January 2009, the Bank adopted IFRS 8 '*Operating Segments*', which replaced IAS 14 '*Segment Reporting*'. IFRS 8 introduces the 'management approach' to segment reporting. The standard requires segment information to be reported using the same measure reported to the chief operating decision maker in order to assess each segment's performance and to allocate resources to them.

The reported segments contained within these Interim Financial Statements are consistent with prior year.

- On 11 January 2009, the Bank adopted revised IAS 1 '*Presentation of Financial Statements*'. The revised standard aims to improve users' ability to analyse and compare information given in financial statements. The adoption of the revised standard has no effect on the results reported in the Bank's consolidated financial statements. It does, however, result in certain presentational changes in the Bank's financial statements, including:
 - the presentation of all items of income and expenditure in two financial statements, the 'Income statement' and 'Statement of comprehensive income'; and
 - the presentation of the 'Statement of changes in equity' as a financial statement, which replaces the 'Statement of changes in equity' note in the financial statements.

During the period ended 25 July 2009, the Bank has adopted a number of amendments to standards and interpretations which has an insignificant effect on the consolidated financial statements. These are described on page 51 of the financial statements 2008.

Accounting date

The interim financial report relates to the 28 weeks to 25 July 2009.

Accounting policies

(a) Revenue recognition

Interest income

Interest income is recognised on an effective interest rate (EIR) basis, inclusive of directly attributable incremental transaction costs and fees including arrangements and broker fees, valuations and solicitor costs and discounts and premiums where appropriate.

The EIR basis spreads the interest income over the expected life of the instrument. The EIR is the rate that, at the inception of the instrument, exactly discounts expected future cash payments and receipts through the expected life of the instrument back to the initial carrying amount. When calculating the EIR, the Bank estimates cash flows considering all contractual terms of the instrument (for example prepayment options) but does not consider future credit losses.

Fees and commissions

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis as the service is provided.

Fees and commissions payable to introducers in respect of obtaining lending business, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the effective interest rate.

(b) Significant items

Items which are material by both size and nature (i.e. outside of the normal operating activities of the Bank) are treated as significant items and disclosed separately on the face of the income statement.

The separate reporting of significant items helps provide an indication of the Bank's underlying business performance. Events which may give rise to the classification of items as significant include individually significant restructuring costs.

(c) Financial instruments (excluding derivatives)

Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and other borrowed funds on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

The Bank classifies its financial assets (excluding derivatives) as either:

- Loans and receivables;
- Available for sale; or
- Financial assets at fair value through profit or loss.

The Bank measures all of its financial liabilities at amortised cost, other than those within the wholesale trading portfolio, which are measured at fair value through profit or loss.

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank does not intend to sell immediately or in the near term. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently these are measured at amortised cost using the effective interest method. The amortised cost is the amount advanced less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the amount advanced and the maturity amount less impairment provisions for incurred losses.

Loans and receivables mainly comprise loans and advances to banks and customers (except where the Bank had elected to carry the loans and advances to customers at fair value through profit or loss described in accounting policy (c) iii) below).

ii) Available for sale

Available for sale financial assets are non-traded investment securities, intended to be held for an indefinite period of time. These are measured at fair value with movements in carrying value, which for equity securities is the difference between cost and fair value and for debt securities is the difference between amortised cost and fair value, recorded in equity as it occurs. Changes in value from foreign exchange gains and losses on non-monetary items including equity securities are also recorded in equity. Changes in value from impairment and foreign exchange gains and losses on monetary items are recognised in the income statement. On disposal, gains and losses recognised previously in equity are transferred to the income statement. Interest income is recognised with the income statement on an EIR basis.

iii) Financial assets at fair value through profit or loss

These are either:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or
- upon initial recognition designated at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency.

These are measured at fair value with movements in the carrying value brought into the income statement within interest income as they arise.

Impairment provision

At the balance sheet date, the Bank assesses its financial assets (including loans and advances to customers) for objective evidence that an impairment loss has incurred.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, and/or the disappearance of an active market for a security.

The Bank considers evidence for impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed specifically for impairment. Loans and advances not individually significant are collectively assessed for impairment by grouping together loans and advances by similar risk characteristics.

In assessing collective impairment the Bank uses statistical modelling of historical trends of probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

The amount of the loss is the difference between:

- the asset's carrying amount; and
- the present value of estimated future cash flows (discounted at the asset's original or variable effective interest rate for amortised cost assets and at the current market rate for available for sale assets).

Impairment of financial assets carried at amortised cost

The amount of the impairment loss on assets carried at amortised cost is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

The written down value of the impaired financial asset is compounded back to the net realisable balance over time using the original effective interest rate.

This is reported through interest and similar income within the income statement and represents the unwind of the discount.

A write-off is made when all or part of a claim is deemed uncollectable or forgiven. Write-offs are charged against previously established provisions for impairment or directly to the income statement.

Provisions are released at the point when it is deemed that the risk of loss has reduced to the extent that a provision is no longer required.

Impairment of financial assets classified as available for sale

Impairment losses on available for sale assets are recognised by transferring the difference between the acquisition cost (net of any principal repayments and amortisation) and current fair value out of equity to profit or loss.

When a subsequent event causes the amount of impairment loss on an available for sale debt security to decrease and the decrease can be related objectively to an event occurring after the impairment, the previously recognised impairment loss is reversed through profit or loss. However any subsequent recovery in fair value of an impaired available for sale equity security is recognised directly in equity.

(d) Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Basis of preparation and accounting policies

For the period ended 25 July 2009

(e) Derivative financial instruments and hedge accounting

Derivatives used for asset and liability management purposes

Derivatives are used to hedge interest and exchange rate exposures related to non-trading positions. Instruments used for hedging purposes include swaps, forward rate agreements, futures, options and combinations of these instruments.

Derivative financial instruments are stated at fair value based on quoted market prices in active markets, and where these are not available, using valuation techniques such as discounted cash flow models. The gain or loss on remeasurement to fair value is recognised immediately in the income statement except where derivatives qualify for cash flow hedge accounting.

On initial designation of derivatives and qualifying hedging instrument as a hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objective and strategy in undertaking the hedge transaction together with the method used to address effectiveness of hedging relationship.

The Bank makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be 'highly effective' on offsetting the changes in fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80 – 125 per cent.

Embedded derivatives

A derivative may be embedded in another financial instrument, known as the host contract. Where the economic characteristics and risks of an embedded derivative are not closely related to those of the host contract, the embedded derivative is separated from the host and held on the balance sheet at fair value.

Movements in fair value are posted to the income statement, whilst the host contract is accounted for according to the relevant accounting policy for that particular asset or liability.

Cash flow hedges

Where derivatives are designated as hedges of the exposure to variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the portion of the fair value gain or loss on the derivative that is determined to be an effective hedge is recognised directly in equity. The ineffective part of any gain or loss is recognised in the income statement immediately.

Cumulative amounts recognised through equity are recycled to the income statement in the period in which the underlying hedged item matures and its associated gain or loss affects the income statement. When a hedging relationship fails or is designated or the hedge becomes ineffective, the cumulative unrealised gain or loss remaining in equity continues to be held in equity, and is transferred to the income statement only when the forecast transaction is recognised.

Where the forecast transaction is no longer expected to occur, the cumulative gain or loss remaining in equity is recognised in the income statement.

Fair value hedges

Where a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

Fair values of hedged items are based on quoted market prices in active markets, and where these are not available, using valuation techniques such as discounted cash flow models.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for fair value hedge accounting, or the designation is revoked, then hedge accounting is prospectively discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Derivatives used for trading purposes

Derivatives entered into for trading purposes include swaps, forward rate agreements, futures, options and combinations of these instruments. Derivatives used for trading purposes are measured at fair value and any gains or losses are included in the income statement. The use of derivatives and their sale to customers as risk management products is an integral part of the Bank's trading activities.

(f) Property, plant and equipment

Items of property, plant and equipment are stated at cost less any accumulated depreciation and impairment losses. Depreciation is provided on a straight line basis at the following rates, which are estimated to write down the assets to realisable values at the end of their useful lives.

Freehold and long leasehold buildings	2.5 per cent per annum
Short leasehold buildings	life of lease
Equipment	10 to 33.3 per cent per annum
Vehicles	25 per cent per annum

All items of property, plant and equipment are regularly reviewed for indications of impairment. Any impairment identified would be charged to the income statement.

(g) Intangible assets – Computer software

All cost directly attributable in the development of computer software for internal use are capitalised and classified as intangible assets where they are not an integral part of the related hardware and amortised over their useful life, which is generally 3 years.

(h) Assets leased to customers – Finance leases

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases and are included within 'loans and advances to customers'. Finance leases are valued at an amount equal to the net investment in the lease, less any provision for impairments.

Income from assets leased to customers is credited to the income statement based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

(i) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and balances with an original maturity of three months or less from the acquisition date, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Income tax

Tax on the profit or loss for the year comprises current and deferred tax, which is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(k) Pension costs*Defined contribution basis*

With effect from 6 April 2006, the Bank Group, along with other businesses within the Co-operative Group, has participated in the Co-operative Group Pension (Average Career Earnings) Scheme (the PACE scheme). This scheme is a defined benefit scheme, the assets of which are held in a separate fund administered by trustees. As a group-wide pension scheme, the PACE scheme exposes the participating businesses to actuarial risks associated with the current and former employees of other group companies, with the result that there is no consistent and reliable basis for allocating liabilities, assets and costs to individual companies participating in the scheme. Therefore pension costs in respect of the scheme are accounted for on a defined contribution basis and recognised as an expense in the income statement as incurred.

(l) Foreign currencies

The functional and presentational currency for the Bank is sterling. Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date except for foreign currency differences arising on retranslation of available for sale equity instruments or a qualifying cash flow hedge, which are recognised directly in equity. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair values are translated to sterling at the exchange rates ruling at the dates the values were determined.

(m) Borrowed funds

Borrowings are recognised initially at issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Bank's preference shares are classified as financial liabilities as they carry the right to a fixed non-cumulative preferential dividend and are subsequently presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

(n) Financial guarantees

All financial guarantees in respect of intra-group funding between the Bank and its subsidiaries are treated as insurance contracts in accordance with IFRS 4.

Basis of preparation and accounting policies

For the period ended 25 July 2009

(o) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies and are based on the same accounting period as the Bank except for Unity Trust Bank PLC and The Covered Bond LLP which are drawn up to the entity accounting reference date of 30 June. Significant transactions recognised between the subsidiaries accounting reference date and the consolidated accounting date are adjusted in the consolidated financial statements.

Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated statements.

Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective, for the Bank this includes the creation of The Covered Bond LLP in order to act as a guarantor for the issue of covered bonds during 2008. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Bank and the SPE's risks and rewards, the Bank concludes that it controls the SPE. The following circumstances may indicate a relationship in which, in substance, the Bank controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Bank according to its specific business needs so that the Bank obtains benefits from the SPE's operation.
- The Bank has the decision making powers to obtain the majority of the benefits of the activities of the SPE.
- The Bank has the rights to obtain the majority of the benefits of the SPE and therefore may be exposed to the risks incidental to the activities of the SPE.
- The Bank retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Bank has control over an SPE is carried out at inception and normally no further assessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Bank and the SPE.

(p) Provisions

A provision is recognised in the balance sheet if the Bank has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(q) Profit based payments to members of the Co-operative Group

Members of the Co-operative Group receive a dividend based on their transactions with the Group and its subsidiaries including the Bank. The payments represent a recharge of the proportion of the dividend payable where the underlying transaction is a Bank product.

1. Segmental analysis

The Bank's primary basis of segmentation is by business activity. Activities have been segmented between Retail banking, Corporate banking and Wholesale. Segment information is presented consistent with IFRS 8 in the financial statements in respect of the Bank's business segments, reflecting the way the chief operating decision maker reviews financial information in order to make allocating decisions about resources and assessing performance. Income and costs are allocated using transfer pricing and Activity Based Management methodologies.

The Bank is comprised of the following main business segments:

- **Retail** – customer focused products and services for individuals, sole traders and small partnerships. It includes mortgages, credit cards, consumer loans, small business loans, current accounts and savings products
- **Corporate** – customer focused products and services for business accounts. This includes large corporate and commercial entities and SMEs (Small to Medium entities). It includes loans, asset finance, current accounts and savings products
- **Wholesale** – asset and liability management across the Bank's overall balance sheet, including trading activities.

28 weeks to 25 July 2009	Retail	Corporate	Wholesale	Total
External gross revenue	238.9	114.3	60.8	414.0
External net revenue	175.5	91.3	28.9	295.7
Internal net revenue	15.0	(5.8)	(9.2)	–
Operating income	190.5	85.5	19.7	295.7
Operating costs	(140.7)	(34.0)	(6.3)	(181.0)
Impairment losses on loans and advances	(49.1)	(23.9)	–	(73.0)
Impairment losses on investments	–	–	–	–
Operating profit	0.7	27.6	13.4	41.7
Profit based payments to members of the Co-operative Group				–
FSCS levy				(2.2)
Significant items				(14.6)
Profit before taxation				24.9
Income tax expense				(8.2)
Profit for the period				16.7

28 weeks to 26 July 2008	Retail	Corporate	Wholesale	Total
External gross revenue	294.6	173.9	96.4	564.9
External net revenue	157.9	122.5	11.5	291.9
Internal net revenue	44.1	(44.0)	(0.1)	–
Operating income	202.0	78.5	11.4	291.9
Operating costs	(138.9)	(31.0)	(5.5)	(175.4)
Impairment losses on loans and advances	(41.9)	(3.4)	–	(45.3)
Impairment losses on investments	–	–	(25.0)	(25.0)
Operating profit	21.2	44.1	(19.1)	46.2
Profit based payments to members of the Co-operative Group				–
Significant items				(26.4)
Profit before taxation				19.8
Income tax expense				(6.6)
Profit for the period				13.2

Notes to the interim financial report

All amounts are stated in £m unless otherwise indicated

24 weeks to 10 January 2009	Retail	Corporate	Wholesale	Total
External gross revenue	264.1	150.9	81.0	496.0
External net revenue	155.8	103.6	18.1	277.5
Internal net revenue	33.5	(30.1)	(3.4)	–
Operating income	189.3	73.5	14.7	277.5
Operating costs	(126.6)	(29.4)	(4.9)	(160.9)
Impairment losses on loans and advances	(42.9)	(8.6)	–	(51.5)
Impairment losses on investments	–	–	(25.7)	(25.7)
Operating profit	19.8	35.5	(15.9)	39.4
Profit based payments to members of the Co-operative Group				(4.7)
Financial Services Compensation Scheme levy				(10.5)
Significant items				(20.7)
Profit before taxation				3.5
Income tax expense				0.6
Profit for the period				4.1

2. Net interest income

	28 weeks to 25 July 2009	28 weeks to 26 July 2008	24 weeks to 10 January 2009
Interest and similar income on items not at fair value through profit or loss	278.9	446.0	386.2
Interest and similar income on items at fair value through profit or loss	16.4	1.0	1.3
Fair value movements	3.0	(1.5)	(2.8)
	298.3	445.5	384.7
Interest expense and similar charges on items not at fair value through profit or loss	(96.1)	(254.6)	(201.3)
	202.2	190.9	183.4

Fair value movements include hedging derivatives and losses on derivatives embedded in credit trading structures.

3. Net fee and commission income

	28 weeks to 25 July 2009	28 weeks to 26 July 2008	24 weeks to 10 January 2009
Fee and commission income on items not at fair value through profit or loss	110.3	116.6	99.2
Fee and commission income on trust or fiduciary activities that result from holding or investing in assets on behalf of others	1.4	0.6	0.1
Total fee and commission income	111.7	117.2	99.3
Fee and commission expenses on items not at fair value through profit or loss	(20.7)	(18.3)	(17.3)
Fee and commission expenses on items at fair value through profit or loss	(1.5)	(0.1)	0.1
Total fee and commission expense	(22.2)	(18.4)	(17.2)
	89.5	98.8	82.1

4. Operating expenses

	Before significant items	Significant items	After significant items
28 weeks to 25 July 2009			
Wages and salaries	58.5	3.3	61.8
Social security costs	4.9	0.3	5.2
Pension costs			
– defined benefit plans	0.1	–	0.1
– defined contribution plans	6.0	0.5	6.5
Other staff costs	10.8	3.3	14.1
Administrative expenses	82.3	7.2	89.5
Depreciation	8.8	–	8.8
Loss on sale of property, plant and equipment	0.5	–	0.5
Software costs	0.8	–	0.8
Operating lease rentals	8.3	–	8.3
	181.0	14.6	195.6

	Before significant items	Significant items	After significant items
28 weeks to 26 July 2008			
Wages and salaries	56.3	2.5	58.8
Social security costs	4.5	0.2	4.7
Pension costs			
– defined benefit plans	0.1	–	0.1
– defined contribution plans	5.9	0.3	6.2
Other staff costs	12.0	4.8	16.8
Administrative expenses	77.0	18.6	95.6
Depreciation	9.1	–	9.1
Loss on sale of property, plant and equipment	0.8	–	0.8
Software costs	1.6	–	1.6
Operating lease rentals	8.1	–	8.1
	175.4	26.4	201.8

	Before significant items	Significant items	After significant items
24 weeks to 10 January 2009			
Wages and salaries	51.9	1.7	53.6
Social security costs	4.4	0.1	4.5
Pension costs			
– defined benefit plans	0.1	–	0.1
– defined contribution plans	5.9	0.1	6.0
Other staff costs	10.0	4.3	14.3
Administrative expenses	71.5	14.5	86.0
Depreciation	8.1	–	8.1
Loss on sale of property, plant and equipment	1.6	–	1.6
Software costs	1.3	–	1.3
Operating lease rentals	6.1	–	6.1
	160.9	20.7	181.6

2009 significant items relate to non-recurring restructuring costs and costs relating to the Britannia merger. Further information is provided on page 7.
2008 significant items relate to non-recurring restructuring costs.

Notes to the interim financial report

All amounts are stated in £m unless otherwise indicated

5. Loans and advances to customers

	25 July 2009	26 July 2008	10 January 2009
Gross loans and advances	10,854.0	10,129.3	10,494.2
Less: allowance for losses on loans and advances	(192.0)	(168.7)	(187.9)
	10,662.0	9,960.6	10,306.3
Of which:			
Variable rate	5,029.9	5,002.3	5,210.2
Fixed rate	5,632.1	4,958.3	5,096.1

Loans and advances to customers include £1.7bn (26 July 2008: £nil, 10 January 2009: £2.0bn) which have been legally transferred from the Bank to The Covered Bond LLP, a limited liability partnership which is consolidated by the Bank Group. The loans are retained on the Bank's balance sheet as the Bank substantially retains the risks and rewards relating to the loans. A liability is recognised within customer accounts on the Bank balance sheet to reflect the accounting transaction. The loans secure £1.0bn (26 July 2008: £nil, 10 January 2009: £1.0bn) of covered bonds issued by the Bank in the 2nd half of 2008. The covered bonds were immediately repurchased by the Bank and therefore no liability is recognised on the balance sheet.

As at 25 July 2009, mortgages transferred, provide security against £250m of UK Treasury Bills drawn down from the Bank of England Special Liquidity Scheme.

Concentration of exposure

The Bank's exposure is virtually all within the United Kingdom. The following industry concentrations of gross advances before provisions are considered significant.

	25 July 2009	26 July 2008	10 January 2009
Property and construction	1,721.3	1,542.3	1,687.8
Retail distribution and services	959.8	803.4	972.5
Business and other services	2,387.6	2,030.9	2,015.5
Personal – unsecured	1,648.6	1,791.1	1,727.7
Personal – secured	4,136.7	3,961.6	4,090.7
	10,854.0	10,129.3	10,494.2

Allowance for losses on loans and advances

	Individual mortgage	Individual corporate	Collective	Total
28 weeks to 25 July 2009				
At the beginning of the period	1.5	45.6	140.8	187.9
Charge against profits	0.6	18.9	53.5	73.0
Amounts written off	(0.4)	(15.3)	(51.3)	(67.0)
Recoveries	–	–	–	–
Unwind of discount allowance	–	(0.5)	(1.4)	(1.9)
Interest charged on impaired loans	–	–	–	–
At the end of the period	1.7	48.7	141.6	192.0

	Individual mortgage	Individual corporate	Collective	Total
28 weeks to 26 July 2008				
At the beginning of the period	0.3	35.3	125.1	160.7
Charge against profits	0.4	3.0	41.9	45.3
Amounts written off	(0.1)	(0.4)	(35.0)	(35.5)
Recoveries	–	–	–	–
Unwind of discount allowance	–	(0.5)	(1.5)	(2.0)
Interest charged on impaired loans	–	0.2	–	0.2
At the end of the period	0.6	37.6	130.5	168.7

	Individual mortgage	Individual corporate	Collective	Total
24 weeks to 10 January 2009				
At the beginning of the period	0.6	37.6	130.5	168.7
Charge against profits	1.1	8.2	42.2	51.5
Amounts written off	(0.2)	(1.2)	(30.5)	(31.9)
Recoveries	–	0.2	–	0.2
Unwind of discount allowance	–	(0.4)	(1.4)	(1.8)
Interest charged on impaired loans	–	1.2	–	1.2
At the end of the period	1.5	45.6	140.8	187.9

Group and Bank loans and advances to customers include £32.6m (26 July 2008: £47.9m, 10 January 2009: £35.8m) of financial assets at fair value through profit or loss designated at initial recognition to eliminate or significantly reduce a measurement or recognition inconsistency.

6. Debt Securities

	25 July 2009	26 July 2008	10 January 2009
Debt Securities			
– Listed	963.7	871.4	751.1
– Unlisted	2,094.0	1,530.7	1,572.9
	3,057.7	2,402.1	2,324.0
Less: impairment for losses on debt securities	(89.3)	(56.9)	(92.3)
	2,968.4	2,345.2	2,231.7
Included in cash equivalents	892.7	771.1	579.5

Listed debt securities at a fair value of £nil (26 July 2008: £nil, 10 January 2009: £nil) had been pledged to third parties in sale and repurchase agreements.

Debt securities by classification:

	Gross	Impairment loss	Net
25 July 2009			
Fair value through profit or loss	–	–	–
Available for sale	2,911.9	(70.8)	2,841.1
Loans and receivables at amortised cost	145.8	(18.5)	127.3
	3,057.7	(89.3)	2,968.4
26 July 2008			
Fair value through profit or loss	–	–	–
Available for sale	2,270.2	(56.9)	2,213.3
Loans and receivables at amortised cost	131.9	–	131.9
	2,402.1	(56.9)	2,345.2
10 January 2009			
Fair value through profit or loss	–	–	–
Available for sale	2,178.1	(69.8)	2,108.3
Loans and receivables at amortised cost	145.9	(22.5)	123.4
	2,324.0	(92.3)	2,231.7

Reclassification of available for sale assets

During 2008 and pursuant to the amendments to IAS 39 and IFRS 7, the bank reclassified specific available for sale investment securities to loans and receivables at amortised cost. The Bank identified particular assets that would have met the definition of loans and receivables (if they had not been designated as available for sale) for which at 27 July 2008 it considered it had the intention and ability to hold them for the foreseeable future or until maturity due to the market in such an instrument considered to be inactive.

Notes to the interim financial report

All amounts are stated in £m unless otherwise indicated

As per the amendment to IAS 39, the reclassifications were made with effect from 27 July 2008 at fair value at that date. The table below sets out the carrying value and fair values at the date of reclassification and the balance sheet date:

	25 July 2009		27 July 2008		10 January 2009	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Available for sale financial assets transferred to loans and receivables	127.3	116.1	131.9	131.9	123.4	112.3

Fair value equated to carrying value at the date transfer. The fair value was based on quoted market prices.

The table below sets out the amounts actually recognised during the period in respect of the reclassified instruments.

	Profit or loss Period after reclassification 28 weeks to 25 July 2009	Profit or loss Period before reclassification 28 weeks to 27 July 2008	Profit or loss Period after reclassification 24 weeks to 10 January 2009	Profit or loss 52 weeks to 10 January 2009
Interest income	2.4	3.7	3.4	7.1
Net impairment loss	4.0	–	(22.5)	(22.5)
Net change in fair value	–	–	–	–
	6.4	3.7	(19.1)	(15.4)

	Equity Period after reclassification 28 weeks to 25 July 2009	Equity Period before reclassification 28 weeks to 27 July 2008	Equity Period after reclassification 24 weeks to 10 January 2009	Equity 52 weeks to 10 January 2009
Interest income	–	–	–	–
Net impairment loss	–	–	3.5	3.5
Net change in fair value	1.9	(8.1)	1.5	(6.6)
	1.9	(8.1)	5.0	(3.1)

The table below sets out the amounts that would have been recognised in the period following the reclassification during 2009 if the reclassification had not been made:

	Profit or loss 28 weeks to 25 July 2009	Equity 28 weeks to 25 July 2009	Profit or loss 24 weeks to 10 January 2009	Equity 24 weeks to 10 January 2009
Interest income	2.4	–	3.4	–
Net impairment loss	4.0	–	(22.5)	12.5
Net change in fair value	–	5.8	–	(28.6)
	6.4	5.8	(19.1)	(16.1)

Gains and losses from debt securities, included within interest income, comprise:

	28 weeks to 25 July 2009	28 weeks to 26 July 2008	24 weeks to 10 January 2009
Derecognition of available for sale assets	1.4	1.1	2.0

The movement in debt securities is summarised as follows:

	28 weeks to 25 July 2009	28 weeks to 26 July 2008	24 weeks to 10 January 2009
At the beginning of the period	2,231.7	2,430.9	2,345.2
Acquisitions	10,286.5	6,068.5	7,893.0
Disposals and maturities	(9,541.1)	(6,117.4)	(8,037.8)
Exchange adjustments	(12.5)	5.7	67.9
Amortisation	(1.1)	(0.2)	0.4
Fair value movements – through equity	6.8	(12.1)	(11.6)
Fair value movements – through profit or loss	(1.9)	(5.2)	0.3
Impairment losses	–	(25.0)	(25.7)
At the end of the period	2,968.4	2,345.2	2,231.7

Impairment analysis of debt securities

	28 weeks to 25 July 2009	28 weeks to 26 July 2008	24 weeks to 10 January 2009
At the beginning of the period	92.3	31.8	56.9
Allowance for impairment losses on debt securities	(4.0)	–	19.0
Impairment losses recycled through equity reserves	4.0	25.0	6.7
Charge for the period	–	25.0	25.7
Foreign exchange adjustments	(3.0)	0.1	9.7
	89.3	56.9	92.3

Foreign exchange adjustments are reflected within net trading income consistent with exchange adjustments on currency instruments.

Analysis of debt securities by issuer

	28 weeks to 25 July 2009	28 weeks to 26 July 2008	24 weeks to 10 January 2009
Investment securities issued by public bodies:			
Government securities	154.5	–	12.6
Other public sector securities	7.5	–	10.5
	162.0	–	23.1
Investment securities issued by other issuers:			
Bank and building society certificates of deposit	1,964.7	1,448.3	1,466.9
Other debt securities:			
Credit trading funds	12.5	35.5	12.5
Structured investment vehicles	–	6.4	2.7
Other floating rate notes	829.2	855.0	726.5
	2,806.4	2,345.2	2,208.6
	2,968.4	2,345.2	2,231.7

Notes to the interim financial report

All amounts are stated in £m unless otherwise indicated

7. Customer accounts

	25 July 2009	26 July 2008	10 January 2009
Variable rate	9,916.1	9,452.0	9,513.1
Fixed rate	2,463.5	1,922.4	2,395.7
	12,379.6	11,374.4	11,908.8

8. Contingent liabilities

Financial Services Compensation Scheme levy

The Financial Services Compensation Scheme has provided compensation to customers of financial institutions following the collapse of a number 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 for £12.7m as at 25 July 2009 for its share of levies that will be raised by the FSCS including the interest on the loan from the HM Treasury in respect of the 2008/09, 2009/10 and 2010/11 levy years. The provision includes estimates for the interest FSCS will pay on the loan and of the Bank's market participation in the relevant periods.

However the ultimate FSCS levy to the industry as a result of the 2008 collapses cannot currently be estimated reliably as it is dependant on other factors that may affect amounts or the timing of amounts that may ultimately become payable including potential recoveries of assets by the FSCS, the level of protected deposits and changes in interest rates.

9. Legal and regulatory matters

Unauthorised overdraft charges

In July 2007 the Office of Fair Trading ("OFT") agreed with eight financial institutions to commence proceedings in the High Court of England and Wales in a test case regarding informal overdraft charges. The Co-operative Bank is not part of the proceedings but will be bound by the outcome.

Pending resolution of the test case, court claims are stayed and the Financial Services Authority ("FSA") has granted banks, subject to conditions, a waiver from processing complaints received from customers in respect of current account overdraft charges. This waiver has recently been extended until January 2010.

In April 2008, the High Court issued its Judgement in respect of the first stages of the test case process.

The Court's Judgment was that informal overdrafts are an essential, real and identifiable service provided by banks for their personal current account customers, that the institutions' current overdraft charges are not unenforceable penalties, but are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999 and most of the litigant banks' current terms and conditions (including charges) are in plain and intelligible language. The financial institutions are appealing the fairness ruling.

In February 2009 the Court of Appeal decided that the OFT can assess whether the litigant banks' terms and conditions, allowing them to impose informal overdraft bank charges, are fair. However, the litigant banks appealed against this Judgment to the House of Lords. The appeal was heard in June 2009 and the judgment is awaited.

Pending resolution of the test case, the FSA has granted banks, subject to conditions, a waiver from processing complaints received from customers in respect of current account overdraft charges. In July 2009 the FSA renewed the waiver for up to a further six month period until January 2010 to facilitate the test case process. All outstanding court proceedings issued against the Bank are currently stayed. However, individual claimants are able to apply for the stay to be lifted on hardship grounds where appropriate.

A range of outcomes is possible from the test case, some of which would have a significant impact on the Bank. Therefore it is not possible to reliably estimate at this stage the financial impact on the Bank and no provision has been made.

Payment Protection Insurance

An additional significant issue facing our business arises from the regulatory attention currently being given to Payment Protection Insurance (PPI).

Following a request made by the FSA to all institutions to voluntarily withdraw from the single premium PPI market by 31 January, the Bank stopped selling its single premium PPI on 4 January 2009. As increasing numbers of complaints are made by customers who have bought such insurance, and the quality of sales is scrutinised in the light of developing regulatory standards, there is a risk that significant redress will be payable to customers. In relation to future sales, it is widely acknowledged that the regulatory changes proposed by the Competition Commission following its investigation of the PPI market will impact on the profitability of future PPI business across the industry.

10. Related party transactions

Related party transactions and transactions with key management personnel in the half year to 25 July 2009 are similar in nature to those for the year ended 10 January 2009. Details of the Bank's related party transactions and transactions with key management personnel for the year ended 10 January 2009 can be found in the Bank's 2008 financial statements.

On the 26 January 2009, the Bank issued 2,400,000,000 ordinary shares of 5p each at a cost of £120m to its immediate parent company Co-operative Financial Services Limited.

11. Subsequent events

On the 1 August 2009 following FSA approval, the Co-operative Financial Services, including The Co-operative Bank p.l.c. ('the Bank') merged with Britannia Building Society. Following the merger the Bank issued 1,100,000,000 ordinary shares of 5p each at a cost of £55m to its immediate parent company Co-operative Financial Services Limited.

As a result of the merger, the Board composition was changed as is referred to on page 40.

12. Risk analysis

The Bank's principal risks are considered to be consistent with those reported in the financial statements 2008. Further analysis is provided on pages 11 to 17.

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 28 weeks 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 24 weeks 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 28 weeks 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, 10 September 2009

Neville Richardson
Chief Executive

The Co-operative Bank p.l.c. board of directors:

Executive Directors:

Neville Richardson	Chief Executive	(Appointed 1 August 2009)
David Anderson	Chief Executive	(Resigned 31 July 2009)
Barry Tootell		
John Reizenstein		
Dick Parkhouse		(Resigned 31 July 2009)
Rod Bulmer		(Appointed 1 August 2009)
Tim Franklin		(Appointed 1 August 2009)
Phil Lee		(Appointed 1 August 2009)

Non-Executive Directors:

Graham Bennett	Chair	(Resigned 6 June 2009)
Rodney Baker-Bates		(Appointed 1 August 2009)
Duncan Bowdler		(Appointed 8 July 2009)
Bob Burlton	Chair	(Appointed Chair 7 June 2009)
Simon Butler		(Resigned 6 June 2009)
David Davies		
Paul Flowers		(Appointed 8 June 2009)
Peter Harvey		(Appointed 1 August 2009)
Paul Hewitt		
Chris Jones		(Appointed 1 August 2009)
Stephen Kingsley		(Appointed 1 August 2009)
Terry Morton		(Resigned 6 June 2009)
Bob Newton		
Ben Reid		(Appointed 8 June 2009)
Kathryn Smith		(Resigned 6 June 2009)
Graham Stow		(Resigned 6 June 2009)
Len Wardle		
Martyn Wates		
Stephen Watts		
Piers Williamson		

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 2009 to holders on the register at 30 October 2009.

Registered Office:
1 Balloon Street
Manchester M60 4EP
Reg. No. 990937 (England)

Registrar:
Computershare Investor Services plc.
P.O. Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

10 September 2009

Tel. 0870 702 0000

The **co-operative** bank
good with money

The Co-operative Bank p.l.c., Head Office,
P.O. Box 101, 1 Balloon Street, Manchester, M60 4EP.
Registered No.990937 www.co-operativebank.co.uk