The co-operative banking group

THE CO-OPERATIVE BANK STATEMENT TO THE COMPANY ANNOUNCEMENTS OFFICE

The Co-operative Group, the UK's largest mutual business, today 21 March 2013, releases its preliminary results for the 53 weeks ended 5 January 2013. To view the press release please click the attached link http://www.co-operative.coop/2012-annual-results. These consolidate the results of The Co-operative Banking Group (CBG), which includes the Co-operative Bank and the Co-operative General Insurance business.

CBG reported an operating loss of £257.5m for the period (2011: profit of £175.8m), and a loss before tax and discontinued operations of £661.8m (2011: £138.0m). As previously highlighted, a strategic review designed to build on the strength of the Bank's core retail and business operations, has seen the Bank segment some activities as non-core business and focus on de-risking these in order to strengthen the balance sheet. The results reflect substantial increases to provisions in the second half of 2012 for corporate impairment risks, primarily in the Bank's non-core assets, in light of persistent weakness in the economy. In addition, further PPI provision, in line with the industry, and revisiting the value ascribed to investments in the transformation programme have significantly impacted short term profits across the business.

The results of The Co-operative Bank plc, the main subsidiary of CBG, are detailed below. The Bank is managed through two distinct classifications: 'core' and 'non core'.

The 'Core' business represents activity consistent with the strategy and risk appetite for the Bank and includes the Retail, Corporate core and Treasury businesses.

'Non core' includes activities not congruent with the current strategy of the Bank, which are managed for value and targeted for run down or exit. These non-core lines contain the majority of the impairment risk for the Bank, and include the Corporate non-core business, Optimum (the closed book of intermediary and acquired loan book assets) and Illius, the residential property company, the majority of which was originated in the Britannia non-member business acquired in 2009.

The Co-operative Bank

Highlights of The Co-operative Bank's ("the Bank's") performance for the twelve months to 31 December 2012:

- Core business operating profit of £96.8m (2011: £137.3m).
- Operating loss of £280.5m, predominantly reflecting the operating loss for the non core business of £377.3m (2011: profit of £3.8m).
- Statutory loss of £673.7m (2011: profit of £54.2m) reflecting a number of exceptional factors in the year, including intangible asset impairment of £150.0m and a further PPI provision of £149.7m.
- Core tier 1 ratio at 8.8% (December 2011: 9.6%), reflecting the impact of these exceptional factors.
- Pro forma year end core tier 1 ratio of 9.2%, reflecting a recent transaction to reduce risk weighted exposures.
- Strong liquidity position with a healthy loan to deposit ratio of 92%.
- Continued high levels of customer advocacy for the Co-operative Banking Group, 9.7% above the average of our top five competitors.

- Primary current accounts, key to the continued overall growth of the business, continue to grow, by 8.2% during 2012.
- Recognised as Europe's Most Sustainable Bank for the third year running.
- Regularly voted the best high street bank for customer service.

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

"Our overall financial performance, whilst undoubtedly disappointing, reflects the challenges that we face as we strive to become the compelling co-operative alternative on the high street against the backdrop of one of the most turbulent 12 months in British banking.

"As we indicated at the half year, the outcome of an ongoing strategic review designed to build on the strength of the Bank's core retail and business operations, whilst at the same time de-risking the non-core assets in order to further strengthen the balance sheet, has seen us, in line with the banking sector in general, segment some activities as non-core business and concentrate on managing them for value and targeted for run-down or exit.

"These non-core activities, particularly the commercial real estate assets originating predominantly from the non-member Britannia business acquired in 2009, contain the majority of the impairment risk for the Bank and substantial increases in provision have been made in the second half of 2012 in light of the continued and persistent weakness in the economy. In addition, further to previous statements and in common with the rest of the industry, we have increased our provision for the costs of PPI redress. Together with re-visiting the value ascribed to investments made to date in our transformation plan, these factors will inevitably impact on the overall short-term profitability of the business.

"However, below these overall results sits a more positive financial picture for the core business. Our core business delivered a solid result characterised by industry leading levels of customer service, a high degree of customer account switching from other banks, low levels of impairment, and The Co-operative's unique customer led ethical policy. Our core business remains profitable, while our balance sheet is robust. Moving forward we will continue our strategy for growth in areas where we can evidence a compelling co-operative solution, supporting retail and business customers and offering them products and services that are right for them.

"We are not complacent about our financial strength and our strategic focus for the medium term is directed at implementing measures to enhance our core relationship banking franchise and the strength of our capital ratios. In addition to a risk mitigation transaction executed since the year end, these include strengthening the management team and engaging a major investment bank to support on a range of balance sheet deleverage options. Further to the signing of the Sale and Purchase Agreement for the sale of the Co-operative Banking Group's life insurance business which, subject to regulatory approval, is expected to generate a significant release of capital, the strategic review will encompass a review of the scope and composition of the financial services Group. As part of this, we are today announcing our intention to sell our General Insurance business. Such measures recognise the ongoing uncertain economic environment and the steps required to bolster the balance sheet for the benefit of our customers and members.

"There is no doubt that the economy in this country remains fragile but we are confident that the decisions we are taking to strengthen the balance sheet will ensure we maintain a firm footing to face this economic outlook. Against this, we remain a resilient, member-owned, and customer centred organisation which continues to enjoy excellent levels of customer advocacy, employee engagement and a growing primary current account base. As such we believe that we have a solid platform to broaden our reach and appeal in the UK banking sector, either through the acquisition of the Lloyds's Verde assets or through continued organic growth."

Performance highlights

The overall operating result fell to a loss of £280.5m in 2012 from a profit of £141.1m in 2011. The core business delivered an operating profit of £96.8m (2011: £137.3m), which, while lower than 2011, provides a solid platform for future growth. The non-core business generated an operating loss of £377.3m (2011: profit of £3.8m). The loss before taxation was £673.7m (2011: profit of £54.2m).

2012 income (excluding fair value amortisation) fell by £46.4m, reflecting the cost of retained and incremental funding raised during the year in the continuing challenging market conditions. The reduction in income arose principally in the non-core business, with income levels in the core business £11.9m higher than 2011. Total income included gains on a number of Treasury transactions of £43.0m (2011: £37.2m). 2011 income also included a non-recurring benefit of £20.0m, relating to a reduction in the total credit risk expected over the life of the Optimum book.

Operating costs (excluding fair value amortisation and strategic investment costs) of £568.2m were £20.0m higher than 2011. Excluding the impact of inflation this is an increase of less than 1%. In part due to depressed income levels, we recognise that our cost to income ratio remains above industry benchmarks. Cost management is a key area of focus, and a number of initiatives continue. We have already announced plans to merge branches where we have multiple sites within close proximity. However, as a mutual, with a strong customer service ethic, we may not pursue the lowest costs at the expense of poor customer service.

As reported at the half year, impairment losses continue to reflect the strains on our customers' ability to service their loans and these challenges have intensified in the second half of the year, particularly in the corporate sector. In light of the current strategic review, with meaningful economic recovery now not expected until 2018, the directors have reconsidered the carrying value of the Bank's loans, which has led to a substantial impairment charge of £468.7m in the year, principally relating to the non-core Corporate business.

The loss before taxation of £673.7m (2011: profit of £54.2m) was after a recharge for intangible asset impairment of £150.0m (2011: £nil). As reported at the half year, while the Bank has been pursuing Project Verde, progress on the transformation plan has been restrained and spend reduced in those areas where Project Verde could impact the plans of the Bank, to minimise the risk of redundant investment. The Bank has revisited the value ascribed to the investments made in developing the new banking systems, and has written down the carrying value of the asset by £150.0m. In the event of concluding the sale and purchase agreement with Lloyds, the Bank will revisit the value ascribed to the investments made in the transformation plan to date. Should the deal with Lloyds not conclude successfully, the intention is to reinvigorate the project, with further investment made to complete the development of the systems that will then be used to drive the business forwards.

Significant items of £47.0m (2011: £53.3m) were incurred during the year, primarily associated with the investment in the Bank's transformation and integration programmes. In addition, a further £38.1m of transaction costs were incurred in relation to Project Verde.

A provision for PPI claims of £149.7m was made during the year (2011: £90.0m). During 2012 there has been an increase in the volume of complaints received, and as a result the provision held has been increased to cover the anticipated customer redress and associated costs. This increases the total estimated cost to £244.0m.

The Financial Services Compensation Scheme levy increased from £14.5m in 2011 to £24.8m in 2012. This was principally because the scheme has now started to charge the banking industry for the capital losses incurred in supporting failed institutions. Previously the scheme only charged the sector for the interest on its support.

The loss before taxation of £673.7m was after a benefit of £15.2m (2011: £86.3m) arising on fair value amortisation. Since the merger with Britannia Building Society, the profile of these net releases to the profit and loss account has gradually fallen, in line with expectations, and the reduction during the year reflects this trend.

Balance sheet

Despite the year's profit performance and difficult external conditions, the underlying core business remains strong. The balance sheet has been actively managed to ensure a balance between margin, capital and liquidity. Total assets increased slightly compared with December 2011. The Bank has maintained its focus on supporting its customers: £2.6bn has been lent to Retail mortgage customers (2011: £1.4bn) while loans to businesses totalled £1.3bn (2011: £1.2bn).

Retail asset balances remained stable, at £17.7bn (2011: £17.7bn), while Corporate core assets increased marginally from £5.2bn at the end of 2011 to £5.4bn at the end of 2012, reflecting the new lending undertaken in the year. The non-core asset portfolios reduced as planned during the year, with net non-core Corporate balances falling from £3.3bn to £2.8bn, and the Optimum portfolio reducing from £8.0bn to £7.6bn. Retail and Corporate deposits remained relatively stable when compared to the prior year.

The year end loan to deposit ratio was strong, at 92% (2011: 94%).

The Bank has continued to access the capital markets, as part of its diversified funding sources. Early in the third quarter of 2012, £650m was raised via its third 'Silk Road' prime mortgage securitisation since the merger with Britannia Building Society in 2009, and the Bank raised an additional €500m of senior unsecured debt in the final quarter. The exposure of the Bank to peripheral eurozone debt is low and has had little direct impact on its business.

The capital position has been impacted by the statutory loss for the year, with a core tier 1 ratio of 8.8% (2011: 9.6%). The total capital ratio was 14.4% (2011: 14.7%), with a tier one ratio of 9.4% (2011: 10.1%). Since the year end, the Bank has completed a securitisation transaction to reduce risk on the balance sheet, which would improve the year end core tier 1 ratio to 9.2% on a pro forma basis.

Operating segment performance

The Bank is managed through two distinct divisions.

The 'Core' business represents activity consistent with the strategy and risk appetite for the Bank. This includes the Retail, core Corporate and Business Banking, and Treasury/other segments.

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

Core Corporate and Business Banking comprises corporate banking, business banking, and business services, and effectively consists of all the key business to business elements of the Bank.

Included in the Treasury/other segment are the results of the treasury activities of the business, and include the results of Unity Trust Bank.

'Non-Core' business lines include activities not congruent with the current strategy of the Bank, which are managed for value and targeted for run down or exit. These non-core lines contain the majority of the impairment risk for the Bank, and predominantly include the Corporate non-core, Optimum (the closed book of intermediary and acquired loan book assets) and Illius (the residential property company) businesses which originated from the non-member Britannia business prior to merger.

Retail Banking

The Retail operating result for 2012 of £50.1m was £42.0m lower than 2011.

Interest income decreased by £0.6m compared to 2011, as improving asset margins were offset by increased costs of retail deposits in a highly competitive market.

Non-interest income fell by £13.7m year on year as a result of reduced revenue from legacy insurance products, merchant interchange fees and cash advances on credit cards. We no longer sell third party general insurance products through our branches, only co-operative products. All new business insurance income is now included within the Bank's fellow subsidiary general insurance business.

Underlying credit performance on secured retail lending continued to improve, reflecting a conservative approach to risk. Despite the ongoing difficulties within the UK economy, asset quality has been maintained with levels of late residential mortgage arrears (>2.5% of balance) unchanged at 0.3%. The Bank remains focused on delivering high quality mortgage assets, with 61.0% loan to value ratio on new lending and 44.3% across the portfolio. However, in the context of the prolonged economic environment further impairment provisions have been required, principally against unsecured balances.

Asset balances remained stable, with the Bank's increased share of new lending offsetting limited demand for credit in the market. 55% of the £2bn of direct new lending in 2012 related to house purchases, of which just under a third was provided to first time buyers. Liquidity remains very strong, with a loan to deposit ratio in line with the previous year.

Corporate and Business Banking - core

Our core Corporate and Business Banking operation delivered an operating profit of £3.7m during 2012, £8.8m lower than 2011 (2011: £12.5m) reflecting higher impairment charges, which have been partly offset by a £10.4m growth in income.

Net interest income, at £108.4m, increased by £6.7m mainly as a result of improved asset margins partially offset by increased costs of fixed term deposits. Other income increased by £3.7m driven by higher core business activity levels.

As a result of continued weak growth and an uncertain economic environment, the impairment charges rose from £61.5m in 2011 to £79.9m in 2012, mainly due to a strengthening of collective provisions.

The business has continued to lend, supporting existing customers and winning selective, high quality new business. We also saw a marked increase in new business banking account applications as testament to the strength of our relationship banking proposition.

Treasury/other businesses

The main component of the Treasury/other business segment, the Treasury operation, has continued to deliver on its core responsibilities of ensuring a strong liquidity base, providing diverse sources of wholesale funding to the Bank, managing market risk and delivering an appropriate return on the investment portfolio.

Net interest income was negatively impacted by increased investment in highly liquid, low risk assets in line with our cautious risk appetite. In addition, net interest income reflects the impact of additional term funding, which included a covered bond issuance towards the end of 2011, the 'Silk Road' prime mortgage securitisation and a senior unsecured debt issuance in the second half of 2012.

Non-interest income was favourably impacted by a restructuring of certain lower tier 2 securities in December 2012, generating a benefit of £18.0m. The Treasury result further benefited from gains on the sale of Treasury assets of £25.0m (2011: £37.2m) as part of reshaping the investment portfolio.

Non-core business

The non-core operating result for 2012 was a loss of £377.3m (2011: profit of £3.8m). This comprised a loss of £372.2m (2011: loss of £50.0m) for the non-core Corporate portfolio, a £3.2m loss (2011: profit of £56.9m) for Optimum and a £1.9m loss (2011: loss of £3.1m) for Illius. As previously noted, in light of any real economic recovery now not expected till 2018, the impact of difficult trading conditions for some of our customers and to reflect the risks associated with higher loan to value assets, the directors have reconsidered the carrying value of the Bank's loans, which has led to the significant additional impairment charges principally relating to the non-core Corporate business.

The **non-core Corporate** business delivered an operating loss of £372.2m (2011: loss of £50.0m) in 2012. The significant increase in operating loss predominantly reflected the additional impairment charges noted above, which are concentrated in commercial real estate exposures. Approximately £200m of the increase in impairments arose in a relatively small number of major loans in the second half of the year. The remainder of the increase was mainly due to the impact of the prolonged poor economic outlook on our provisioning estimates. Income has reduced reflecting the higher funding costs borne by this portfolio with little opportunity to increase asset margins to offset this.

We are developing the strategy for the management of this portfolio to optimise its capital consumption and profitability through a variety of deleverage, risk transfer and asset sale options.

In 2012, the **Optimum** portfolio, a closed book of intermediary and acquired mortgage book assets, reduced in size, as planned, from £8.0bn to £7.6bn, and delivered a loss of £3.2m (2011: profit of £56.9m). The fall in profitability this year was due to the increase in the cost of funding of this book of assets, partly associated with the relatively long expected lives of much of this book, and also to a lesser extent reflected the additional impairment charges noted above. The 2011 result also included a non-recurring benefit of £20.0m.

Despite the ongoing difficulties within the UK economy, asset quality has improved modestly with levels of late residential mortgage arrears (>2.5% of balance) reducing from 3.59% in 2011 to 2.72% at the end of 2012

Support for our customers

Recent media attention on a number of issues for the industry has led to a further increase in customers turning to the Bank. The number of customers who consider the Co-operative Bank their main bank, key to the continued overall growth of the business, has increased further, with the number of primary current accounts increasing by 8.2% during 2012.

During these difficult times, the Bank has maintained its focus on supporting its customers. £2.8bn was lent to Retail mortgage customers during the year (2011: £1.6bn), while £1.3bn (2011: £1.2bn) was lent to businesses. The Bank has provided additional support for first time buyers at the end of the stamp duty holiday by removing upfront fees on a range of mortgage products and offering a 90% LTV mortgage. The Co-operative Bank was also the bank to focus its targets for the branch network staff on customer service, rather than sales.

It is our intention to participate in the funding for lending scheme in 2013 in line with our core relationship banking strategy.

Since the launch of the Bank's mobile banking service this summer, take up has exceeded expectations and this now has over 100,000 users, with each customer accessing the application four times a week on average.

The potential mis-selling of derivatives to corporate and business banking customers has been much publicised during 2012. The Bank voluntarily joined the FSA review of these sales and will be carrying out further work in the next stage of the FSA review. The Bank sold only small numbers of simple products to its customers to help them manage interest rate risk. While the review is still in course, the directors believe that should any sales be found to be inappropriate, redress payments would not be material.

The Bank continues to focus on building a relationship banking business where the customer is at the heart of everything. Customer advocacy levels remain strong, testifying to the high degree of trust placed in the Bank by its customers. As at December 2012, advocacy levels for the Co-operative Banking Group were 9.7% higher than the average of the top five competitors for the business. Which? members have rated the customer service provided by the Bank better than any of the major high street banks and building societies, and the Bank won a number of awards at the Moneywise Customer Service Awards in 2012.

The Bank's commitment to sustainability has again been recognised. For the third year running the Bank has been named 'Europe's most sustainable Bank' by the Financial Times. The Bank was also recognised as the leader in Management Today's Most Admired Companies survey 2012 for Community and Environmental Responsibility.

Outlook

Prospects for the sector are unlikely to improve in the near future, and the Bank faces formidable challenges. Recent indications are that any meaningful economic recovery will be delayed for a number of years, offering little scope to improve margins and requiring a reduction in costs as well as control of impairment risk. The Bank remains committed to a strategy for growth as well as de-risking the non-core assets. We are working to strengthen our profitable core business, enhance our retail offer and simplify our high street presence under one Co-operative brand. In the short term, while market conditions remain difficult, we will re-double our focus on cost management, improving our capital strength, de-leveraging the balance sheet and controlling impairment risk by actively managing our non-core business for value.

In the meantime, as part of broadening our reach and appear in the UK banking sector, the Bank continues to pursue the opportunity to acquire the Verde business from Lloyds Banking Group. The Bank remains confident in its long term strategy to deliver a compelling co-operative alternative on the high street founded on strong relationships with its customers, the unified brand and the transformation of the branch network, which provide a solid platform for future growth in its core relationship banking operations.

The Co-operative Bank plc
Consolidated statutory income statement
For the year ended 31 December 2012

	Year to 31 December 2012			Year to 31 December 2011		
	Before significant items £m	**Significant items £m**	**After significant items £m**	Before significant items £m	Significant Items £m	After significant items £m
Interest receivable and similar income	**1,488.3**	**-**	**1,488.3**	1,583.7	-	1,583.7
Interest expense and similar charges	**(922.5)**	**-**	**(922.5)**	(948.7)	-	(948.7)
Net interest income	**565.8**	**-**	**565.8**	635.0	-	635.0
Fee and commission income	**251.2**	**(149.7)**	**101.5**	251.2	(90.0)	161.2
Fee and commission expense	**(74.0)**	**-**	**(74.0)**	(66.0)	-	(66.0)
Net fee and commission income	**177.2**	**(149.7)**	**27.5**	185.2	(90.0)	95.2
Net trading income	**14.1**	**-**	**14.1**	4.5	-	4.5
Other operating income	**33.9**	**-**	**33.9**	46.3	-	46.3
Operating income	**791.0**	**(149.7)**	**641.3**	871.0	(90.0)	781.0
Operating expenses	**(587.6)**	**(235.1)**	**(822.7)**	(528.7)	(53.3)	(582.0)
Financial Services Compensation Scheme levies	**(24.8)**	**-**	**(24.8)**	(14.5)	-	(14.5)
Operating profit/(loss) before impairment losses	**178.6**	**(384.8)**	**(206.2)**	327.8	(143.3)	184.5
Impairment losses on loans and advances	**(474.1)**	**-**	**(474.1)**	(120.5)	-	(120.5)
Impairment gains on investments	**5.4**	**-**	**5.4**	5.6	-	5.6
Operating (loss)/profit	**(290.1))**	**(384.8)**	**(674.9)**	212.9	(143.3)	69.6
Share of post tax profits from joint ventures	**1.2**	**-**	**1.2**	0.2	-	0.2
(Loss)/profit before taxation and profit based payments	**(288.9)**	**(384.8)**	**(673.7)**	213.1	(143.3)	69.8
Profit based payments to members of The Co-operative Group	**-**	**-**	**-**	(15.6)	-	(15.6)
(Loss)/profit before taxation	**(288.9)**	**(384.8)**	**(673.7)**	197.5	(143.3)	54.2
Income tax	**88.6**	**77.0**	**165.6**	(42.4)	38.0	(4.4)
(Loss)/profit for the financial year	**(200.3)**	**(307.8)**	**(508.1)**	155.1	(105.3)	49.8
Attributable to:						
Equity shareholders	**(201.3)**	**(307.8)**	**(509.1)**	153.3	(105.3)	48.0
Minority interests	**1.0**	**-**	**1.0**	1.8	-	1.8
	(200.3)	**(307.8)**	**(508.1)**	155.1	(105.3)	49.8
Earnings per share	**(2.46)p**	**(3.75)p**	**(6.21)p**	1.87p	(1.28)p	0.59p

The significant items in 2012 relate to:

- £149.7m (2011: £90.0m) of provisions made for potential customer compensation claims relating to past sales of payment protection insurance;
- £38.1m (2011: £nil) of costs incurred as a result of the bid for the Lloyds Bank branches;
- £47.0m (2011: £53.3m) of costs incurred on a programme of investment and integration; and
- £150.0m (2011: £nil) of recharged costs relating to intangible asset impairment regarding the development of new banking systems.

The Co-operative Bank plc
Consolidated statement of comprehensive income
For the year ended 31 December 2012

	Year to 31 December 2012			Year to 31 December 2011		
	Equity shareholders £m	**Minority interests £m**	**Total £m**	Equity shareholders £m	Minority interests £m	Total £m
(Loss)/profit for the financial year	**(509.1)**	**1.0**	**(508.1)**	48.0	1.8	49.8
Other comprehensive (expense)/income:						
Changes in cashflow hedges						
Net changes in fair value recognised directly in equity	**23.5**	**(0.8)**	**22.7**	88.9	0.3	89.2
Income tax	**(9.9)**	**0.2**	**(9.7)**	(19.8)	(0.1)	(19.9)
Transfers from equity to income or expense	**(30.9)**	**(0.1)**	**(31.0)**	(49.3)	(0.3)	(49.6)
Income tax	**13.4**	**-**	**13.4**	10.9	0.1	11.0
Changes in available for sale assets						
Net changes in fair value recognised directly in equity	**108.7**	**-**	**108.7**	101.6	-	101.6
Income tax	**(26.2)**	**-**	**(26.2)**	(26.9)	-	(26.9)
Transfers from equity to income or expense	**(95.5)**	**-**	**(95.5)**	(55.8)	-	(55.8)
Income tax	**23.5**	**-**	**23.5**	14.8	-	14.8
Revaluation of equity shares	**-**	**-**	**-**	(1.5)	-	(1.5)
Income tax	**-**	**-**	**-**	0.4	-	0.4
Defined benefit plan actuarial losses	**-**	**-**	**-**	-	-	-
Income tax	**(0.1)**	**-**	**(0.1)**	(0.1)	-	(0.1)
Other comprehensive (expense)/income for the financial year, net of income tax	**6.5**	**(0.7)**	**5.8**	63.2	-	63.2
Total comprehensive (expense)/ income for the financial year	**(502.6)**	**0.3**	**(502.3)**	111.2	1.8	113.0

The Co-operative Bank plc
Consolidated balance sheet
At 31 December 2012

	31 December 2012 £m	31 December 2011 £m
Assets		
Cash and balances at central banks	**5,433.0**	6,696.6
Loans and advances to banks	**1,904.1**	2,006.5
Loans and advances to customers	**33,339.5**	33,766.0
Fair value adjustments for hedged risk	**354.2**	366.3
Investment securities - loans and receivables	**295.0**	804.9
Investment securities - available for sale	**3,789.4**	3,423.0
Investment securities - fair value through income or expense	**1,845.2**	343.1
Investment securities – held for trading	**960.2**	-
Derivative financial instruments	**818.8**	975.8
Equity shares	**5.7**	5.7
Investments in joint ventures	**3.9**	2.7
Goodwill	**-**	0.6
Intangible fixed assets	**34.9**	40.7
Investment properties	**173.0**	172.7
Property, plant and equipment	**64.1**	80.1
Amounts owed by other Co-operative Group undertakings	**256.4**	179.2
Other assets	**70.3**	33.0
Prepayments and accrued income	**14.9**	18.7
Current tax assets	**172.6**	13.6
Deferred tax assets	**38.2**	26.4
Total assets	**49,573.4**	48,955.6
Liabilities		
Deposits by banks	**3,612.0**	3,302.7
Customer accounts	**35,884.4**	34,990.6
Customer accounts - capital bonds	**888.1**	1,429.8
Debt securities in issue	**4,713.7**	4,164.8
Derivative financial instruments	**967.6**	1,087.9
Other borrowed funds	**1,258.6**	1,258.8
Amounts owed to other Co-operative Group undertakings	**112.0**	132.3
Other liabilities	**104.0**	173.7
Accruals and deferred income	**20.1**	39.9
Provisions for liabilities and charges	**162.7**	102.0
Total liabilities	**47,723.2**	46,682.5
Capital and reserves attributable to the Bank's equity holders		
Ordinary share capital	**410.0**	410.0
Share premium account	**8.8**	8.8
Retained earnings	**1,304.3**	1,733.8
Available for sale reserve	**30.0**	19.5
Cashflow hedging reserve	**63.7**	67.6
	1,816.8	2,239.7
Minority interests	**33.4**	33.4
Total equity	**1,850.2**	2,273.1
Total liabilities and equity	**49,573.4**	48,955.6

The Co-operative Bank plc
Consolidated statement of cash flows
For the year ended 31 December 2012

	31 December 2012 £m	31 December 2011 £m
Cash flows from operating activities		
(Loss)/profit before taxation	**(673.7)**	54.2
Adjustments for:		
Increase in prepayments and accrued income	**(8.2)**	(38.3)
Decrease in accruals and deferred income	**(20.0)**	(90.6)
Interest payable in respect of other borrowed funds	**81.4**	86.7
Effect of exchange rate movements	**10.4**	16.0
Effect of non-cash pension costs	**0.1**	-
Impairment losses on loans and advances	**480.2**	130.5
Movements on investment impairments	**(5.4)**	(39.9)
Depreciation and amortisation	**16.4**	21.4
Interest amortisation	**(6.3)**	(15.7)
Amortisation of investment securities	**(71.8)**	(340.8)
Impairment charge to write off goodwill	**0.6**	-
Loss on disposal of fixed assets	**0.9**	0.3
Unwind of fair value adjustments arising on transfer of engagements	**(15.2)**	(86.3)
Preference dividend	**5.6**	5.6
	(205.0)	(296.9)
Increase in deposits by banks	**309.3**	364.1
Increase in customer accounts and capital bonds	**352.6**	2,306.7
Increase/(decrease) in debt securities in issue	**480.3**	(141.0)
Increase in loans and advances to banks	**(68.2)**	(73.2)
Decrease in loans and advances to customers	**53.2**	1,034.2
Increase in amounts owed by other Co-operative Group undertakings	**(77.2)**	(178.6)
Decrease in amounts owed to other Co-operative Group undertakings	**(20.3)**	(56.2)
Net movement of other assets and other liabilities	**(15.3)**	532.3
Income tax paid	**(4.2)**	(21.2)
Net cash flows from operating activities	**805.2**	3,470.2
Cash flows from investing activities		
Purchase of tangible and intangible fixed assets	**(1.9)**	(14.8)
Proceeds from sale of fixed assets	**0.8**	-
Proceeds from sale of investment property	**0.9**	0.8
Purchase of investment securities	**(4,960.9)**	(3,667.6)
Proceeds from sale and maturity of investment securities	**2,616.4**	4,513.5
Net cash flows from investing activities	**(2,344.7)**	831.9
Cash flows from financing activities		
Interest paid on other borrowed funds	**(87.4)**	(69.6)
Repayment of other borrowed funds	**(256.5)**	(102.3)
Issuance of other borrowed funds	**235.4**	273.6
Dividends paid to securitisation holding companies	**(0.3)**	-
Dividends paid to minority interests	**(0.3)**	-
Preference share dividends paid	**(5.6)**	(5.6)
Capital contribution from parent	**80.0**	87.0
Net cash flows from financing activities	**(34.7)**	183.1
(Decrease)/increase in cash and cash equivalents	**(1,574.2)**	4,485.2
Cash and cash equivalents at beginning of the financial year	**7,888.4**	3,403.2
Cash and cash equivalents at end of the financial year	**6,314.2**	7,888.4
Cash and balances with central banks	**5,393.6**	6,658.6
Loans and advances to banks	**850.6**	1,019.8
Short term investments	**70.0**	210.0
	6,314.2	7,888.4

The Co-operative Bank plc
Consolidated statement of changes in equity
For the year ended 31 December 2012

	Attributable to equity holders of the company							
2012	**Share capital £m**	**Share premium £m**	**Available for sale reserve £m**	**Cashflow hedging reserve £m**	**Retained earnings £m**	**Total £m**	**Minority interest £m**	**Total equity £m**
Balance at the beginning of the year	**410.0**	**8.8**	**19.5**	**67.6**	**1,733.8**	**2,239.7**	**33.4**	**2,273.1**
Total comprehensive (expense)/income for the financial year	**-**	**-**	**10.5**	**(3.9)**	**(509.2)**	**(502.6)**	**0.3**	**(502.3)**
Transactions with owners recorded directly in equity:								
Capital contribution	**-**	**-**	**-**	**-**	**80.0**	**80.0**	**-**	**80.0**
Dividend	**-**	**-**	**-**	**-**	**(0.3)**	**(0.3)**	**(0.3)**	**(0.6)**
Balance at the end of the year	**410.0**	**8.8**	**30.0**	**63.7**	**1,304.3**	**1,816.8**	**33.4**	**1,850.2**

2011	£m	£m	£m	£m	£m	£m	£m	£m
Balance at the beginning of the year	410.0	8.8	(13.1)	36.9	1,598.9	2,041.5	31.6	2,073.1
Total comprehensive income for the financial year	-	-	32.6	30.7	47.9	111.2	1.8	113.0
Transactions with owners recorded directly in equity:								
Capital contribution	-	-	-	-	87.0	87.0	-	87.0
Balance at the end of the year	410.0	8.8	19.5	67.6	1,733.8	2,239.7	33.4	2,273.1

During the year, a number of securitisation vehicles were closed and a dividend payment of £0.3m (2011: £nil) was made to their respective holding companies. This amount was subsequently paid out to charitable organisations.

BASIS OF PREPARATION

The consolidated financial statements of The Co-operative Bank plc (the Bank) have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and International Financial Reporting Interpretations Committee (IFRIC) guidance as adopted by the European Union (EU). There have been no significant changes to the accounting policies applied in 2012 to those applied by the Bank in its 2011 financial statements. The financial information has been prepared on the basis of recognition and measurement requirements of IFRS in issue that are endorsed by the EU and effective at 31 December 2012.

OTHER INFORMATION

This financial information does not constitute the company's statutory accounts within the meaning of section 434 of the Companies Act 2006 (the Act). The statutory accounts for the year ended 31 December 2012 will be delivered to the Registrar of Companies in England and Wales in accordance with section 441 of the Act. The auditor has reported on those accounts. Its report was unqualified and did not contain a statement under section 498(2) or (3) of the Act.

GOING CONCERN

The directors are satisfied that the Bank is a going concern, has sufficient profit, capital and liquidity in place and forecast, and has plans in place to strengthen that position going forward.

DIVIDEND

The Bank did not pay an interim dividend on its Ordinary Shares during 2012. The Directors declared today that on 31 May 2013, a dividend of 4.625p per £1 Preference Share be paid to preference shareholders on the register at 3 May 2013 providing a dividend rate of 9.25 per cent per annum and making a total distribution of £5,550,000.

USE OF ESTIMATES AND JUDGMENTS

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

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