The Co-operative Bank plc announces that the following documents have today been submitted to the National Storage Mechanism and will shortly be available for inspection at www.hemscott.com/nsm.do.

- Annual Report and Accounts 2013
- Pillar 3 Report 2013

A copy of the Annual Report and Accounts 2013, Pillar 3 Report 2013 and an investor presentation are available within the Investor Relations section of our website www.co-operativebank.co.uk/investorrelations

This announcement also contains additional information for the purposes of compliance with the Disclosure and Transparency Rules, including principal risks and uncertainties, details of related party transactions and a responsibility statement. This information is extracted, in full unedited text, from the Annual Report and Accounts 2013 (the "**Annual Report**"). Reference to pages and numbers refer to page numbers and notes to the annual accounts in the Annual Report.

11 April 2014

Co-operative Bank Annual Report and Accounts for the full year ended 31 December 2013

Summary:

- Year-end pre-Liability Management Exercise (LME) loss before tax of £1.3 billion reduced to £586 million after LME profit of £688 million. Signs of stabilisation in the Co-operative Bank's credit book but continuing reviews of processes, procedures and documentation have yielded further conduct and legal issues
- Additional Common Equity Tier 1 (CET1) capital raising of £400 million as announced on 24 March 2014
- 2013 year end CET1 ratio of 7.2% against previous guidance of towards the upper end of a range of between 7% and 9%
- Business plan in early stages of execution but as at the end of 2013 Non-core customer assets reduced by a total of £2.1 billion and the number of employees has reduced by around 1,000 (14%)
- Core Retail deposit balances broadly unchanged at £27.9 billion from £28.1 billion in 2012 (a decline of less than 1%)
- The Co-operative Bank's objectives remain unchanged, namely to restore the capital position of the Bank, focus on our retail and SME customers and run-down or exit from our Non-core activity
- A total of £4.97 million will not be paid out as a result of the application of malus, performance hurdles not being met, and/or individuals leaving the Bank. This demonstrates the Board's willingness to act in the interests of our customers and the Bank

- The date of listing the Bank on the London Stock Exchange is under review due to a number of factors, including the uncertainties arising from the ongoing regulatory investigations

Chief Executive Niall Booker said:

"The results today reflect the magnitude of the issues that have come to light since I joined The Co-operative Bank ten months ago. In addition, as we outlined on the 24th March 2014, further costs have materialised since the completion of the Liability Management Exercise (LME) in December 2013 as a result of a continuing review of The Co-operative Bank's legacy operations, assets and liabilities by the new executive team.

"During 2013 the task for the new management was to keep the Bank alive. The successful completion of the LME prevented the Bank from going into resolution, preserving the Bank for our customers and protecting jobs without cost to the taxpayer. However, there continue to be significant issues which need to be resolved. As already announced on the 24th March 2014, the management team's continuing review has unearthed a range of conduct and legal issues since December 2013 which has contributed to the need to further strengthen the Bank's capital position over and above The Co-operative Group's 2014 contribution.

"While these risks were identified in the LME prospectus, the financial impact of these additional items, together with the higher than expected cost of separation from The Co-operative Group, means that the starting capital position of the Bank for the 4-5 year recovery period is weaker than in the plan announced last year. The proposed capital raising will enable us to reset this starting point and continue with the execution of our original business plan which remains unchanged.

"It is early days but initial progress on our business plan is encouraging and we remain enthusiastic about the long term potential for the Bank. We have started to simplify the business; we are reducing costs and are currently ahead of schedule in de-risking our assets. We are also beginning to fix the fundamentals of the Bank as we drive the change needed to return to our roots as a bank focused on our retail and SME customers.

"Community banking is the heart of our business and despite our recent troubles the Core Business has seen significant stability. Year on year, our Core Retail deposit balances are broadly unchanged. In the future, wwe will be investing in IT to both deliver digital banking in a way that meets our customers' expectations and also improve the systems that lie behind our products. We will also be asking our customers' opinions as we renew the values and ethical principles that remain at the centre of why they choose to bank with us. There are still major hurdles ahead to overcome. The level of change required in improvement in processes, systems and culture is significant. We are determined to rebuild trust in the Bank after the events of last year and reward the loyalty our customers and shareholders have shown us.

"We appreciate that customers and other stakeholders continue to feel angry about how past failings placed the future of the business so seriously at risk. I would like to apologise to them, to thank them for their continued loyalty and to thank colleagues for their commitment during such difficult times."

Key highlights and outlook

The Bank ended a very difficult year with stable liquidity and an improved capital position; further capital is required:

- Liquidity built mid-year successfully saw the Bank through the volatility of the second half of 2013
- The LME generated £1.2bn of CET1 capital before costs
- Further provisions and charges for customer redress and legal issues of £412m, the write down of deferred tax assets of £158m and higher than expected costs of separation from The Co-operative Group of £39m have adversely impacted CET1capital
- As a result, the year-end CET1 ratio of 7.2% is below prior guidance
- As announced on 24 March 2014, additional CET1 capital is required in addition to the remaining 2014 contribution from The Co-operative Group

Pre LME statutory losses of £1.3bn reduced to £586m after LME profit of £688m

- Loss before tax includes operating costs of £686m, credit impairments, predominantly in Non-core of £516m, full year provisions for conduct and legal risks of £412m, IT write down of £148m, write down of deferred tax assets of £158m
- In addition, costs of separation are significant, including operational costs of £39m and tax costs of de-grouping of £56.9m
- Provisions for conduct and legal risks include potential customer redress related to mortgage products of £114m, breaches of the Consumer Credit Act of £110m, PPI of £103m, interest rate swap mis-selling of £33m and others of £52m
- Net interest margin remained broadly stable at 1.09% (2012: 1.11%) as Retail performance improved.
- Cost income ratio rose from 73.7% in 2012 to 93.6% in 2013 reflecting lower income from balance sheet contraction and significant one-off costs

Core Business franchise has seen significant stability but financial difficulties in the past year have impacted short term performance

- Core Retail net interest income up 7% to £428.1m; Core Retail deposit balances broadly unchanged at £27.9bn from £28.1bn in 2012 (a decline of less than 1%). Core Business net interest margin was stable at 1.7% (2012: 1.7%), reflecting improvements in Core Retail interest income offset by lower Treasury yields
- The number of primary current accounts rose slightly from 663,504 in 2012 to 664,775 at year end 2013 (+0.2%)

Run down and exit of Non-core underway with disposals programme ahead of schedule

- Reduction in Non-core assets from £14.6bn to £12.5bn; with £1.5bn reduction in second half of 2013
- Corresponding reduction in Non-core credit risk weighted assets from £10.9bn to £8.3bn
- Non-core firmly on track to meet previously stated target of less than £11.5bn of Non-core loans at the end of 2014; target now re-set to circa £11.0bn at the end of 2014

Simplification of the business underway as we reshape

- Exit from international operations underway with the previously announced closure of operations in Guernsey and the Isle of Man
- Bank in early discussions to potentially sell its stake in Unity Trust Bank; any sale subject to regulatory approval
- Size of branch network reduced by 15% in 2013 (51 branches) and on track to achieve a further 15% reduction in 2014.
- Year-end employee full time equivalent numbers reduced from 7,780 in 2012 to 6,704 in 2013

Focus for 2014 on implementation of our plan to reshape the Bank around our Retail and SME customers

- New current account switching offer launched in February 2014; initial response encouraging
- Introduced new mortgage offers and market leading savings rates
- Cost reduction programme and necessary investments have begun across the business
- Work to develop our SME proposition has begun
- We will be asking for our customers' opinions on our Ethical Policy in the Spring as we look to rebuild trust in the Bank
- Legacy issues will continue to have a negative impact and constrain our financial performance for some time
- Known conduct issues will continue to have some impact on 2014 income due to foregone income on products where income cannot be charged until operational remediation is completed
- The Bank remains subject to multiple external inquiries which are likely to lead to continued scrutiny

Update on capital raising:

- The Bank does not expect to make a profit in 2014 or 2015
- The Bank expects the year end 2014 CET1 ratio, including the impact of the 2014 contribution from The Co-operative Group but excluding the capital raising, to be broadly similar to the 2013 year end ratio (though with some volatility during the year)
- Post 2014, the CET1 ratio is expected to decline before subsequently recovering
- The Co-operative Group 2014 Contribution has so far amounted to £20m paid in December 2013 which was included in December 2013 CET1 capital and £50m paid in January 2014 which was not included in December 2013 CET1 capital. The Bank also remains dependent on receiving the £263m balance of the aggregate £333m due from The Co-operative Group of which £100m is due by 30 June 2014 and £163 million is due by 31 December 2014
- As announced on 24 March 2014, the Bank intends to raise additional CET1 capital. In December 2013 the LME was completed, without which the Bank would have gone into resolution. While the Bank's underlying performance in the second half of 2013 was in line with management's expectations, the Bank has incurred significant charges, and other negative impacts on its CET1 ratio
- In the absence of additional CET1 capital, the Bank may fall below the current regulatory expectation of 7% CET1 ratio in the near term. Accordingly, the Board is proposing to raise £400m of additional CET1 capital
- As announced on 24 March 2014, the Bank is in the process of raising £400m additional Common Equity Tier 1(CET1). Having appointed advisors to assist in the proposed CET1 raising, the Bank is now engaged in constructive discussions with holders of a majority of the Bank's share capital (including The Co-operative Group). These shareholders are supportive

of the planned £400m capital raise, subject to the final structure and timing of the capital raising being agreed.

The Co-operative Bank's strategic priorities:

- Back to community banking - Our focus is on our millions of individual customers. We intend to simplify our product range for both Retail and SME customers so they are easy to understand and transparently priced
- Supporting small business - We will make use of our position in the community to rebuild our SME business as these businesses are important to the well-being of the communities we serve and the UK economy as a whole.
- Doing fewer things better - We will stop doing things that distract from our focus on individuals and small businesses. We are actively managing the exit from our Non-core Business
- Fixing the fundamentals - This means investing in IT systems that deliver branch based and digital banking in a way that meets our customers' expectations. Behind the scenes we are improving and consolidating the systems that support our products and operations making them more resilient, faster and more efficient
- Commitment to values and ethical principles which remain at the heart of the Bank

Statement of Directors' responsibilities in respect of the Annual Report and Accounts and the financial statements

The Directors are responsible for preparing the Annual Report and Accounts and the consolidated financial statements of The Co-operative Bank plc and its subsidiaries (the Bank) and parent company financial statements for The Co-operative Bank (the parent company) in accordance with applicable law and regulations. Company law requires the Directors to prepare Bank and parent company financial statements for each financial year. Under that law they have elected to prepare the Bank and the parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and parent company and of their income statement for that year. In preparing each of the Bank and parent company financial statements, the Directors are required to:

• select suitable accounting policies and then apply them consistently;

• make judgements and estimates that are reasonable and prudent;

• state whether they have been prepared in accordance with IFRSs as adopted by the EU; and

• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The Directors are also responsible for preparing, in accordance with applicable laws and regulations, a Strategic Report, Directors' report and Corporate Governance Statement that complies with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider the Annual Report and Accounts and financial statements, taken as a whole, to be fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Disclosure of information to the Auditor

So far as the Directors are aware, there is no relevant Audit information of which the Bank's Auditors are unaware, and the Directors have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant Audit information and to establish that the Bank's Auditors are aware of that information.

We confirm that to the best of our knowledge:

• the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and income statement of the Company and the undertakings included in the consolidation taken as a whole; and

• the Directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By Order of the Board

Richard Pym

Chairman

10 April 2014

The Bank income statement

For the year ended 31 December 2013

All amounts are stated in £m unless otherwise indicated

	2013	2012
Interest receivable and similar income	**1,388.4**	1,488.3
Provision for potential customer redress claims	**(194.5)**	-
	1,193.9	1,488.3
Interest expense and similar charges	**(930.7)**	(922.5)
Net interest income	**263.2**	565.8
Fee and commission income	**219.9**	241.4
Provision for potential customer redress claims	**(185.1)**	(149.7)
	34.8	91.7
Fee and commission expense	**(72.1)**	(64.2)
Net fee and commission (expense)/income	**(37.3)**	27.5
Net trading income	**3.8**	14.1
Other operating income	**40.4**	33.9
Operating income	**270.1**	641.3
Operating expenses		
Operating expenses	**(880.7)**	(697.5)
Intangible asset impairment	**(148.4)**	(150.0)
Total operating expenses	**(1,029.1)**	(847.5)
Operating loss before impairment losses	**(759.0)**	(206.2)
Impairment losses on loans and advances	**(516.2)**	(474.1)
Impairment gains on investments	**-**	5.4
Operating loss pre Liability Management Exercise	**(1,275.2)**	(674.9)
Profit from Liability Management Exercise	**688.3**	-
Operating loss post Liability Management Exercise	**(586.9)**	(674.9)
Share of post tax profits from joint ventures	**0.7**	1.2
Loss before taxation	**(586.2)**	(673.7)
Income tax	**(161.8)**	165.6
Loss for the financial year	**(748.0)**	(508.1)
Attributable to:		
Equity shareholders	**(748.9)**	(509.1)
Minority interests	**0.9**	1.0
	(748.0)	(508.1)
Earnings per share (basic and fully diluted)	**(9.43)p**	(6.21)p

In total £411.5m (2012: £149.7m) of conduct and legal provisions have been incurred during the year. This includes £194.5m (2012: £nil) reported within interest receivable and similar income, £185.1m (2012: £149.7m) reported within fee and commission income and £31.9m (2012: £nil) reported within operating expenses.

The Bank statement of comprehensive income
For the year ended 31 December 2013
All amounts are stated in £m unless otherwise indicated

	Equity shareholders 2013	**Minority interests 2013**	**Total 2013**	Equity shareholders 2012	Minority interests 2012	Total 2012
Loss for the financial year	**(748.9)**	**0.9**	**(748.0)**	(509.1)	1.0	(508.1)
Other comprehensive (expense)/income that may be recycled to profit and loss:						
Changes in cashflow hedges						
Net changes in fair value recognised directly in equity	**(53.2)**	**(0.7)**	**(53.9)**	23.5	(0.8)	22.7
Income tax	**14.9**	**0.2**	**15.1**	(9.9)	0.2	(9.7)
Transfers from equity to income or expense	**(13.7)**	**-**	**(13.7)**	(30.9)	(0.1)	(31.0)
Income tax	**3.2**	**-**	**3.2**	13.4	-	13.4
Changes in available for sale assets						
Net changes in fair value recognised directly in equity	**(32.7)**	**-**	**(32.7)**	108.7	-	108.7
Income tax	**7.6**	**-**	**7.6**	(26.2)	-	(26.2)
Transfers from equity to income or expense	**(24.8)**	**-**	**(24.8)**	(95.5)	-	(95.5)
Income tax	**5.6**	**-**	**5.6**	23.5	-	23.5
Revaluation of equity shares	**0.1**	**-**	**0.1**	-	-	-
Income tax	**0.1**	**-**	**0.1**	-	-	-
Defined benefit plan actuarial losses	**-**	**-**	**-**	-	-	-
Income tax	**-**	**-**	**-**	(0.1)	-	(0.1)
Other comprehensive (expense)/income for the financial year, net of income tax	**(92.9)**	**(0.5)**	**(93.4)**	6.5	(0.7)	5.8
Total comprehensive (expense)/income for the financial year	**(841.8)**	**0.4**	**(841.4)**	(502.6)	0.3	(502.3)

The Bank balance sheet

At 31 December 2013

All amounts are stated in £m unless otherwise indicated

	2013	Restated 2012
Assets		
Cash and balances at central banks	**5,418.8**	5,433.0
Loans and advances to banks	**1,594.4**	1,904.1
Loans and advances to customers	**30,322.2**	33,339.5
Fair value adjustments for hedged risk	**107.6**	354.2
Investment securities - loans and receivables	**23.6**	295.0
Investment securities - available for sale	**2,732.4**	3,789.4
Investment securities - fair value through income or expense	**1,743.4**	1,845.2
Investment securities - held for trading	**-**	960.2
Derivative financial instruments	**555.8**	818.8
Equity shares	**5.8**	5.7
Investments in joint ventures	**4.7**	3.9
Goodwill	**-**	-
Investment properties	**164.1**	173.0
Property, plant and equipment	**115.2**	113.4
Intangible fixed assets	**110.7**	263.2
Amounts owed by other Co-operative Group undertakings	**-**	56.8
Other assets	**480.9**	70.3
Prepayments and accrued income	**16.5**	14.9
Current tax assets	**-**	172.6
Deferred tax assets	**-**	159.6
Total assets	**43,396.1**	49,772.8
Liabilities		
Deposits by banks	**2,757.5**	3,612.0
Customer accounts	**32,463.3**	35,884.4
Customer accounts - capital bonds	**538.1**	888.1
Debt securities in issue	**4,195.3**	4,713.7
Derivative financial instruments	**538.6**	967.6
Other borrowed funds	**196.3**	1,258.6
Amounts owed to other Co-operative Group undertakings	**-**	190.0
Other liabilities	**202.9**	104.0
Accruals and deferred income	**54.1**	20.1
Provisions for liabilities and charges	**576.0**	162.7
Current tax liabilities	**4.2**	-
Deferred tax liabilities	**92.5**	121.4
Total liabilities	**41,618.8**	47,922.6
Capital and reserves attributable to the Bank's equity holders		
Ordinary share capital	**12.5**	410.0
Share premium account	**1,359.8**	8.8
Retained earnings	**(39.4)**	1,304.3
Available for sale reserve	**(14.1)**	30.0
Capital redemption reserve	**410.0**	-
Cashflow hedging reserve	**14.9**	63.7
	1,743.7	1,816.8
Minority interests	**33.6**	33.4
Total equity	**1,777.3**	1,850.2
Total liabilities and equity	**43,396.1**	49,772.8

1. The 2012 balance sheet comparatives have been restated for intangible fixed assets, property, plant and equipment and amounts owed by other Co-operative Group undertakings as described in note 3.

2. The 2012 balance sheet comparatives have been re-presented to reflect that certain deferred tax liabilities cannot be offset against the deferred tax assets.

The Bank statement of cash flows

For the year ended 31 December 2013

All amounts are stated in £m unless otherwise indicated

	2013	Restated 2012
Cash flows from operating activities		
Loss before taxation	**(586.2)**	(673.7)
Adjustments for:		
Decrease/(increase) in prepayments and accrued income	**4.7**	(8.2)
Increase/(decrease) in accruals and deferred income	**13.4**	(19.8)
Interest payable in respect of other borrowed funds	**96.0**	81.4
Effect of exchange rate movements	**(0.6)**	10.4
Effect of non-cash pension costs	-	0.1
Fair value movement on investment properties	**8.0**	(0.2)
Impairment losses on loans and advances	**517.3**	480.2
Movements on investment impairments	**(18.5)**	(5.4)
Depreciation and amortisation	**33.9**	41.1
Impairment of intangible fixed assets	**142.0**	150.0
Impairment charge to write off goodwill	**-**	0.6
Interest amortisation	**(4.2)**	(6.3)
Fair value movements and amortisation of investment securities	**142.1**	(71.8)
Impairment of property, plant and equipment	**21.2**	-
Loss on disposal of property, plant, equipment and software	**0.5**	0.9
Non-cash effect of LME transaction	**(688.3)**	-
Unwind of fair value adjustments arising on transfer of engagements		(15.2)
Preference dividend	**5.4**	5.6
	(261.2)	(30.3)
(Decrease)/increase in deposits by banks	**(854.5)**	309.3
(Decrease)/increase in customer accounts and capital bonds	**(3,863.2)**	352.6
(Decrease)/increase in debt securities in issue	**(612.8)**	480.3
Decrease/(increase) in loans and advances to banks	**66.9**	(68.2)
Decrease in loans and advances to customers	**2,905.7**	53.2
Increase in amounts owed by other Co-operative Group undertakings	**(47.6)**	(241.6)
Increase in amounts owed to other Co-operative Group undertakings	**58.8**	57.7
Net movement of other assets and other liabilities	**82.7**	(15.3)
Income tax received/(paid)	**45.0**	(4.2)
Net cash flows from operating activities	**(2,480.2)**	893.5
Cash flows from investing activities		
Purchase of tangible and intangible fixed assets	**(55.7)**	(90.4)
Proceeds from sale of fixed assets	**1.7**	1.0
Proceeds from sale of investment property	**1.3**	0.9
Purchase of investment securities	**(4,425.3)**	(4,960.9)
Proceeds from sale and maturity of investment securities	**6,681.2**	2,616.4
Net cash flows from investing activities	**2,203.2**	(2,433.0)
Cash flows from financing activities		
Interest paid on other borrowed funds	**(83.9)**	(87.4)
Repayment of other borrowed funds	**-**	(256.5)
Issuance of other borrowed funds	**-**	235.4
Dividends paid to securitisation holding companies	**-**	(0.3)
Dividends paid to minority interests	**(0.2)**	(0.3)
Preference share dividends paid	**(5.9)**	(5.6)
Capital contribution from parent	**-**	80.0
Cash proceeds relating to the LME	**145.0**	-
Net cash flows from financing activities	**55.0**	(34.7)

The Bank statement of cash flows continued

For the year ended 31 December 2013

All amounts are stated in £m unless otherwise indicated

	2013	Restated 2012
Decrease in cash and cash equivalents	**(222.0)**	(1,574.2)
Cash and cash equivalents at the beginning of the financial year	**6,314.2**	7,888.4
Cash and cash equivalents at the end of the financial year	**6,092.2**	6,314.2
Cash and balances with central banks (note 16)	**5,352.6**	5,393.6
Loans and advances to banks (note 17)	**634.6**	850.6
Short term investments (note 19)	**105.0**	70.0
	6,092.2	6,314.2

The cash flows differ from the Bank balance sheet movements as these movements include:

- the non-cash unwinds of the fair value adjustments arising on the transfer of engagements of Britannia Building Society.
- the restatement of amounts owed by and to other Co-operative Group undertakings.

The Bank statement of changes in equity

For the year ended 31 December 2013

All amounts are stated in £m unless otherwise indicated

	Attributable to equity holders of the Company								
	Share Capital	**Share premium**	**Available for sale reserve**	**Cashflow hedging reserve**	**Capital redemption reserve**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
2013									
Balance at the beginning of the year	**410.0**	**8.8**	**30.0**	**63.7**	**-**	**1,304.3**	**1,816.8**	**33.4**	**1,850.2**
Total comprehensive (expense)/income for the year excluding LME	***-***	***-***	***(33.0)***	***(48.8)***	***-***	***(1,437.2)***	***(1,519.0)***	***0.4***	***(1,518.6)***
Total comprehensive (expense)/income for the year - LME	***-***	***-***	***(11.1)***	***-***	***-***	***688.3***	***677.2***	***-***	***677.2***
Total comprehensive (expense)/income for the year	**-**	**-**	**(44.1)**	**(48.8)**	**-**	**(748.9)**	**(841.8)**	**0.4**	**(841.4)**
Transactions with owners recorded directly in equity: Liability Management Exercise [1]									
Cancellation of share capital	**(410.0)**	**-**	**-**	**-**	**410.0**	**-**	**-**	**-**	**-**
Issuance of new share capital	**12.5**	**777.5**	**-**	**-**	**-**	**-**	**790.0**	**-**	**790.0**
Transfer of retained earnings to share premium	**-**	**594.8**	**-**	**-**	**-**	**(594.8)**	**-**	**-**	**-**
Transaction costs	**-**	**(21.3)**	**-**	**-**	**-**	**-**	**(21.3)**	**-**	**(21.3)**
Dividend	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(0.2)**	**(0.2)**
Balance at the end of the year	**12.5**	**1,359.8**	**(14.1)**	**14.9**	**410.0**	**(39.4)**	**1,743.7**	**33.6**	**1,777.3**
2012									
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 income/(expense) for the 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

Principal risks and uncertainties

Although these risks and uncertainties are managed within the Bank's Risk Management Framework, there remains a risk that these risks and uncertainties could negatively impact the Bank's results, operations and financial condition, including requiring greater capital and liquidity than currently held.

Background to the significant risks and uncertainties faced by the Bank

The Bank faces an extremely difficult and unprecedented situation following its June 2013 announcement of a significant shortfall in CET1 of £1.5bn.

The cornerstone of the Recapitalisation Plan was the LME. The Bank believes that the failure of the LME would have resulted in the Bank becoming subject to a resolution procedure under the Banking Act of 2009.

To complete the Recapitalisation Plan, The Co-operative Banking Group must contribute the remaining £263m of £333m CET1 it committed to contribute by the end of 2014 (of which it has already paid £70m). If The Banking Group is unable to meet its commitment to contribute £263m and is unable to draw on its support from The Co-operative Group, the Bank may have insufficient CET1 to meet the PRA's requirements.

On 24 March 2014, the Bank announced a requirement to raise additional CET1 in addition to the above. Without this additional capital the Bank may have insufficient CET1 to meet the PRA's requirements.

Having removed an element of the uncertainty around the going concern status of the Bank with the successful completion of the LME in December 2013, the Bank now faces significant challenges in executing its Turnaround Plan not least the requirement for additional CET1 as discussed on page 22 of the Annual Report and Accounts. In addition, the Bank will need to simultaneously execute a number of complex and concurrent changes in an environment where adverse publicity regarding events and the Bank's difficulties (and the circumstances that led to those difficulties) may have damaged the Bank's brand and reputation.

These significant challenges arise from:

External factors

Many of these are similar to those other financial institutions may face, for example, deterioration in general economic conditions, instability of global financial markets and the management of credit risk, interest rate risk, currency risk and market risk and risks from regulatory change and an increasing regulatory enforcement and litigious environment.

Internal factors

Risks and uncertainties that are specific to the Bank, some of which create doubt around the Bank's ability to continue as a going concern. A summary of these risks and uncertainties are discussed in note 1 to the Bank's financial statements in the Annual Report and Accounts.

We outline below the most significant of those risks and uncertainties specific to the Bank that could have a significant impact on the Bank's results of operations, financial conditions and prospects.

Key strategic risks and uncertainties

The most significant risks and uncertainties facing the execution of the Bank's strategy and Turnaround Plan include:

• the Bank's Turnaround Plan is in the early stages of implementation and has yet to be proven;

• the Bank does not have a track record in successfully executing large scale changes like those contemplated by its plan;

• the required improvement and re-engineering of the Bank's IT platform and operational process is significant in scale, complexity and cost. Any delays in, or failure by, the Bank to deliver the re-engineering of the Bank's IT platform may result in significant additional investment costs, subject the Bank to further regulatory scrutiny and impact the Bank's ability to deliver its turnaround strategy;

• a number of senior appointments are needed to strengthen the Board and senior management team and need to be embedded;

• implementation of significant cost reductions, branch closures, redundancies and reorientation of the Bank's distribution channels may not achieve the targeted cost savings. These cost savings may have a negative impact on the Bank's brand, customer service and levels of customer satisfaction and therefore income;

• a failure by the Bank to reduce and deleverage the Non-core Business in a controlled manner may negatively impact the Bank's operating results and financial position (in particular, its net interest margin) and may result in greater than expected losses;

• the Non-core Business has significant impairment risk, especially given the concentration of the Non-core corporate asset book;

• given the relative size of the Bank's Retail deposit base as compared with other sources of funding, the Bank is particularly exposed to liquidity risks caused by any serious loss of confidence by its depositors resulting in unusually high levels of withdrawals;

• the Bank may be required to hold more regulatory capital, or to take other steps to mitigate the risks identified, as part of the stress tests of capital adequacy, profitability and capital ratios that the Bank and seven other UK banks will submit by June 2014 to the FCA and PRA for consideration by the fourth quarter of 2014;

• the Bank's non-compliance with its ICG relies on the PRA exercising forbearance in this regard. The PRA has the discretion to revisit, change or withdraw that forbearance. If the Bank fails to meet its ICG, there is a risk that the PRA may exercise any of its wide-ranging powers over the Bank including imposing a resolution procedure on the Bank at any time;

• the Bank needs to raise additional CET1. This is additional to the non-CET1 capital already contemplated by the Bank's four to five year Turnaround Plan. Further additional equity and/or debt capital may be required, beyond that contemplated currently, because of increased capital requirements (applicable to the Bank or banks generally), actual costs and losses exceeding those estimated in the Bank's plan or if the Bank does not deliver on its plan as anticipated; and

• the Bank may be unable to raise any additional CET1 or other capital it may need on favourable terms, when needed, or at all.

Key operational risks and uncertainties

In this section, by operational risks and uncertainties, we mean risks and uncertainties relating to the Bank's internal activities, systems and controls. The most significant operational risks and uncertainties faced by the Bank include:

• the Bank's underlying business and financial systems are dated and suffer from a lack of integration and investment since the Britannia merger; consequently many processes rely on significant manual intervention to cope with a poor systems infrastructure;

• the Bank's systems of control have been weak and there have been failings by the Bank's business units in a number of areas in the past as discussed in the Corporate Governance Report;

• although the foundation of the Bank's more robust controls including the Bank's revised and updated Risk Management Framework (adopted in September 2013) have been laid, it will take time and significant work to embed across the Bank;

• the Bank currently depends on The Co-operative Group to provide a number of services including certain critical functions: IT, personnel, assets and to on-supply certain services, data and assets by third party suppliers; and

• a complex project to separate the Bank from The Co-operative Group is underway. While a large proportion of the Bank's staff have now been transferred from CFSMS to the Bank, negotiations continue with The Co-operative Group in relation to the transfer of key assets used by the Bank, and arrangements for the provision of key functions and services to the Bank, including IT. Discussions are focusing on the contractual basis on which those assets, functions and services will be provided, because it is anticipated that the Bank's dependency on such assets, functions and services will continue in the short to medium term. The separation project is much more complex and costly than initially contemplated.

• In the event that the current process of consultation on changes to governance arrangements at the Co-operative Group or any adverse findings of any of the various enquiries and investigations underway which impact on the Co-operative Group, result in organisational disruption in operations or decision making at the Co-operative Group, the execution risks to the process of logistical separation could increase with an associated risk of increased costs and disruption for the Bank.

Key regulatory and conduct risks and uncertainties

The Bank is under intense regulatory scrutiny and expects that environment to continue. The Bank is also the subject of multiple regulatory and other investigations and enquiries into events at the Bank and circumstances surrounding them. These include:

• the Treasury Select Committee has been conducting an ongoing review which began in the second quarter of 2013 and has focused on numerous concerns surrounding the Bank. The Committee will publish a report of its findings, the timing of which is not known;

• the Kelly review was announced on 12 July 2013. Sir Christopher Kelly was jointly appointed by The Co-operative Group and the Bank to review the events that led to the requirement for the Bank's plan to address its £1.5bn capital shortfall. It is looking at the decision to merge the Bank with the Britannia Building Society in 2009 and the proposed acquisition of the Verde assets of Lloyds Banking Group. It will include an analysis of strategic decision-making, management structures, culture, governance and accounting practices and aspects of the role of the Bank's auditors. The intention is for the findings to be reported at The Co-operative Group's Annual General Meeting in May 2014;

• the Treasury announced on 22 November 2013 that it would conduct an independent investigation into events at the Bank and the circumstances surrounding them from 2008 including the Verde transaction and Britannia acquisition. The investigation will include a review of the conduct of regulators and Government but is not anticipated to commence until it is clear that it will not prejudice the outcome of the Financial Conduct Authority and Prudential Regulation Authority enforcement investigations;

• the Financial Conduct Authority announced on 6 January 2014 that it will be undertaking enforcement investigations into events at the Bank. The investigation will look at the decisions and events up to June 2013; and

• the Prudential Regulation Authority announced on 6 January 2014 that it is undertaking an enforcement investigation in relation to the Bank and as part of that investigation will consider the role of former senior managers.

The outcome of each of these investigations is difficult to predict. These investigations and inquiries are likely to result in:

• significant expense which may include damages, fines and other penalties;

• greater scrutiny and/or intervention from regulators, further regulatory action and/or litigation;

• taking a significant amount of management time and resources away from management of the Bank's business including execution of the Bank's plan; and

• further adverse publicity and reputational damage to the Bank, its brand and its ability to recruit and retain personnel and customers.

In addition, the Bank is exposed to the inherent risks relating to the mis-selling of financial products, interest rate hedging products, acting in breach of regulatory principles or requirements and giving negligent advice or other conduct determined by the Bank or the regulators to be inappropriate, unfair or non-compliant with applicable law or regulations. Any failure to manage these risks adequately could lead to further significant provisions, costs and liabilities and/or reputational damage.

The Bank also faces both financial and reputational risk where legal or regulatory proceedings are brought against it or other financial institutions. Liability for damages may be incurred by third parties harmed by the conduct of the Bank's business.

The Bank continues to be exposed to the risks of non-compliance with the Consumer Credit Act which has highly technical requirements impacting on customer facing documentation, operational implementation and systems design. While the Bank has identified certain instances where its documentation or processes have not been fully compliant with the technical requirements, there may be other instances of non-compliance which have not yet been identified. The consequences of non-compliance with the Consumer Credit Act can include interest and default charges paid by a customer in prior periods being required to be refunded and the customer agreement not being enforceable by the Bank without a court order until the breach is remedied.

Regulatory responsibility for the Consumer Credit Act passed to the FCA on 1 April 2014 and may lead to additional sanctions on banks in the event they are not fully compliant, or a requirement to pay additional redress to customers.

Pension risks and uncertainties

The Bank participates in the following pensions schemes:

• the Pace Scheme, whose sponsoring employer is The Co-operative Group. The Bank is a participating employer in this scheme;

• the Britannia Scheme, whose sponsoring employer is CFSMS; and

• three of the Bank subsidiaries are participating employers in this scheme.

The Bank is a guarantor in respect of this scheme. Currently, the Pace scheme is accounted for as a defined contribution plan. In the future, the Bank may be required to account for the Pace scheme as a defined benefit scheme. This is referred to in more detail in note 36 in the Bank financial statements in the Annual Report and Accounts.

To the best of the Directors' knowledge and belief, having made reasonable enquiries, there is no contractual agreement determining how the deficit recovery contributions are funded by the participants. The Bank therefore has not recognised a liability in respect of any part of the existing deficit funding. Whilst the Bank continues to define contribution account for the Pace scheme, an obligation would be required, if the Bank enters into an agreement with regards to funding any deficit obligation. A formal triennial valuation of Pace as at 5 April 2013 is underway but has not yet been completed. When completed it may reveal a significant funding deficit and there is therefore a risk that in future periods the Bank will recognise significant liabilities in respect of the scheme in its accounts.

There is uncertainty over the amount that the Bank will have to pay while it continues to participate in Pace. The Bank's obligations to contribute to Pace would increase significantly if another large employer in Pace becomes insolvent while the Bank continues to participate. If the Bank seeks to address these risks by terminating its participation, the default position is that material liabilities in respect of the deficit in Pace will arise. The Co-operative Group and the Bank have agreed that at either parties request it may enter into good faith discussions to manage this by reaching agreement so that the liabilities properly attributable to the Bank (and an equivalent proportion of assets) would be transferred to a separate scheme, or a segregated section of Pace, on the Bank's exit but, as no arrangements have yet been agreed (and there is a risk that none can be agreed), there is uncertainty over the amount that the Bank will have to pay in the event that it exits Pace. The Pace scheme is not sectionalised and operates on a 'last man standing' basis. In the event that other participating employers become insolvent and the full statutory debt is not recovered on insolvency, the Bank would become liable for the remaining liabilities.

In respect of the Britannia Scheme, the Bank will need to manage the liabilities that could arise on separation from The Co-operative Group; this will require the co-operation of the trustees of the Britannia Scheme, which may not be forthcoming.

Other pensions risks and uncertainties include the risk to the Bank's capital and funds from the Bank's exposure to scheme liabilities (to the extent liabilities are not met by scheme assets), risks inherent in the valuation of scheme liabilities and assets, risks regarding the split of liabilities between the Bank and other participating employers while the Bank continues to participate in

Pace and on exit from Pace and, in respect of the Britannia Scheme, risks on separation from The Co-operative Group.

Related party transactions

Parent, subsidiary and ultimate controlling party

Up until 20 December 2013, The Co-operative Banking Group Limited owned approximately 100% of the issued ordinary share capital of the Bank. At 31 December 2012, of the 8.2 billion ordinary shares outstanding in the Bank, 8,199,999,960 were held by The Co-operative Banking Group and 40 were held directly by the Co-operative Group Limited. The ultimate holding organisation was the Co-operative Group Limited.

The ownership structure of the Bank changed on 20 December 2013 as a result of the LME. As a result, The Co-operative Banking Group now owns approximately 30% of the Bank. The remaining, approximately 70%, is owned by a number of investors, none of which individually own more than 10%.

At 31 December 2013, the Bank is an associate of, and therefore a related party of, The Co-operative Group as The Co-operative Group owns 30% of the Bank's ordinary shares, has Bank Board representation and there are material transactions between the two companies.

Transactions with The Co-operative Group

The Bank has a significant relationship with The Co-operative Group. As part of the Recapitalisation Plan and in contemplation of the Bank ceasing to be a wholly owned subsidiary of The Co-operative Group, the Bank entered into the following agreements and several other arrangements.

Balances owed by The Co-operative Group to the Bank are shown on page 203 of the Annual Report and Accounts. In total these exceed amounts owed by any other single counterparty and would exceed the Bank's risk appetite in the normal course of business. These obligations are currently performing in line with expectations and based on our investigations and the information provided, the Board considers that impairment is not required.

Relationship Agreement

In anticipation of the completion of the LME and the Bank ceasing to be a wholly-owned subsidiary of The Co-operative Group, the Bank entered into a relationship agreement with The Co-operative Group and The Co-operative Banking Group on 4 November 2013 (the Relationship Agreement) to regulate the basis of their ongoing relationship. For more information about the Relationship Agreement see the Corporate Governance Report – Relations with Shareholders.

Co-existence Principles

The Co-existence Principles govern the use of trademarks containing 'Co-operative' or 'Co-op' and other associated trademarks owned by both parties. For more information about the Co-existence Principles see the Corporate Governance Report – Relations with Shareholders.

2014 Commitment Agreement

On 4 November 2013, The Co-operative Banking Group entered into the 2014 commitment agreement with the Bank (the 2014 Commitment Agreement), conditional on the successful implementation of the LME, to subscribe for new ordinary shares in consideration for an irrevocable undertaking to pay £333m (the Undertaking to Pay). The Undertaking to Pay will be satisfied in several tranches, with (i) £20m paid in December 2013, (ii) £50m paid in January 2014, (iii) £100m due by 30 June 2014 and (iv) £163m payable by 31 December 2014.

The Undertaking to Pay provides that should The Co-operative Banking Group fail to meet its obligations under the Undertaking to Pay:

a) The Co-operative Banking Group must pay default interest at 9% p.a. accruing on a daily basis;

b) The Co-operative Banking Group waives all rights in respect of its new ordinary shares;

c) The Co-operative Banking Group and The Co-operative Group waive all rights under the Relationship Agreement;

d) The Co-operative Banking Group must procure the resignation of any nominee directors appointed by it or by The Co-operative Group;

e) The Bank may direct the security trustee to exercise any of its rights under the Intra-group Loan and the associated security; and

f) at the request of the Bank, The Co-operative Banking Group must transfer all or some of its new ordinary shares to a third party or the Bank for nil consideration in accordance with procedures set out in the Commitment Agreement.

Intra-group Loan

On 4 November 2013, the Bank, The Co-operative Banking Group and The Co-operative Group entered into an intra-group loan facility (the Intra-group Loan) whereby The Co-operative Group will make available to The Co-operative Banking Group during 2014 a term loan facility of up to £313m to be utilised by way of advances. The maturity date of the loan facility is 27 July 2019.

The purpose of the Intra-group Loan is to support The Co-operative Banking Group's Undertaking to Pay the Bank the agreed 2014 capital commitment as a result of the LME.

The Co-operative Banking Group has assigned to the Bank its rights against The Co-operative Group in the event that The Co-operative Group fails to provide The Co-operative Banking Group with a loan. A security assignment in respect of the Insurance Proceeds has been entered into between The Co-operative Banking Group and The Co-operative Group as security trustee for itself and the Bank to secure The Co-operative Banking Group's Undertaking to Pay and The Co-operative Banking Group's obligations as borrower under the Intra-group Loan.

Pensions Undertaking

On 4 November 2013, The Co-operative Group and the Bank entered into an undertaking whereby The Co-operative Group agreed with the Bank not to require the Bank to cease to participate in Pace in connection with the LME. The parties also agreed at the request of one of the parties to enter into good faith discussions to reach agreement on the separation of Pace and agree the Bank's proportion of employer contributions in Pace (and if not agreed, the matter will be referred to an independent third party). Further information is provided in note 36 of the Annual Report and Accounts.

Transactions with CFSMS

The Bank has a significant relationship with CFS Management Services Limited (CFSMS). CFSMS is a subsidiary of The Co-operative Banking Group and undertakes the provision of supplies and services on behalf of the Bank. This relationship was in place for the whole of the year but will change over 2014 and beyond as the Bank separates from The Co-operative Group. Further details are provided below:

CFSMS-Bank Framework Agreement

On 16 February 2006, the Bank and CFSMS entered into the CFSMS-Bank Services Agreement pursuant to which CFSMS provides assets such as office equipment, materials and office space, and other facilities and services, and consultants who act as secondees to the Bank. The Bank provides CFSMS with an indemnity for all liabilities, losses, damages, costs and expenses of any nature as a result of CFSMS entering into and performing the agreement in respect of the assets, services and personnel provided to the Bank.

As a result of the LME, the Bank and CFSMS intend to replace the CFSMS-Bank Services Agreement with appropriate revised arrangements under a CFSMS-Bank Framework Agreement. Once agreed by the Bank and The Co-operative Group as part of the separation process, the CFSMS-Bank Framework Agreement will establish a flexible contractual framework that will enable the Bank to obtain from CFSMS the existing services and secondees, and procure the supply of third party procured services and assets that CFSMS provides to the Bank under the CFSMS-Bank Service Agreement and will also cover any new services for a transitional period.

Employees

CFSMS has previously employed a significant number of employees which perform tasks on behalf of the Bank (either on a full time or part of their time basis). Staff costs were then recharged to the Bank.

As described in note 13 of the Annual Report and Accounts, the employment contracts of most of the employees that perform all of their tasks on behalf of the Bank have been transferred from CFSMS to the Bank with effect from 23 January 2014. Where CFSMS employees continue to provide services to the Bank, this is covered by service agreements between the companies.

The transfer was required to support the legal separation of the Bank from The Co-operative Group. Further transfers will occur in 2014 as the Bank completes its separation.

Tangible and intangible assets

Since its inception in 2006, CFSMS has held legal title to the majority of the tangible and intangible assets of The Co-operative Banking Group. This included the work in progress assets, in particular, the Core IT Banking system replacement. The Bank has previously provided funding for assets via an intercompany mechanism. Once assets were fully constructed and in use, the Bank received a recharge for its proportionate use of the asset.

The Bank has not historically recorded any of these assets on its balance sheet. The Directors have concluded that these assets meet the accounting criteria of an asset for the Bank and have therefore restated the 2012 balance sheet to report these assets (see note 3). Likewise the 2013 balance sheet also includes assets for which CFSMS holds legal title, but which satisfy the accounting criteria of an asset for the Bank.

As part of the separation activity, in 2014, the Bank intends to purchase the legal title of all Bank specific assets currently held by CFSMS.

Other services

During the year, CFSMS also incurred a significant volume of costs on behalf of The Co-operative Banking Group. Costs were then recharged to Banking Group companies, including the Bank, at cost.

Operating costs of £884.3m (2012: £779.7m) were charged to the Bank in this manner. £148.4m (2012: £150.0m) of these recharges related to the impairment of intangible assets relating to the development of new banking systems.

At 31 December 2013, the Bank owed £28.7m to CFSMS (2012: the Bank was owed £199.6m by CFSMS) as a result of the above arrangements.

This balance has moved from being an asset to a liability during the period as a result of assets for which CFSMS hold legal title being recorded on the Bank balance sheet as explained below.

The amounts due to CFSMS of £156.5m (2012: £78.0m) (shown as amounts due to Co-operative Banking Group Undertakings on the following pages) reflect amounts due in the normal course of business of £28.7m (2012: £199.6m) and £127.8m (2012: £277.6m) arising from the accounting treatment for assets for which CFSMS hold legal title, but which meet the accounting criteria of an asset for the Bank. These assets are recorded on the Bank balance sheet. The 2012 balance sheet has also been restated to reflect these assets as described in note 3 of the Annual Report and Accounts.

A full review of the significant relationship with CFSMS is in progress as part of the legal separation of the Bank from the wider Co-operative Group. The above indemnification agreement will remain in place until a new agreement is signed as part of legal separation.

Separation

Prior to the LME, certain functions of the Bank were centralised and carried out by The Co-operative Group. There are two key arrangements in place under which the Bank receives the supply of services, assets and/or personnel:

1. Between 2011 and 2013, the Bank transferred a number of functions and a substantial number of personnel to The Co-operative Group and entered into arrangements whereby The Co-operative Group would provide certain services to the Bank. This project is known as Project Unity. Two key agreements in connection with Project Unity are:

—the existing IT Services Agreement in relation to the provision of IT services to the Bank and other members of The Co-operative Banking Group; and

—a Professional Master Services Agreement where the same parties entered into a number of individual service contracts in relation to the provision of other services.

2. CFSMS was established as a direct subsidiary of The Co-operative Banking Group in 2005 to enable economies of scale through the sharing of employees and sourcing of third party services across The Co-operative Banking Group, including the Bank. CFSMS provides services to the Bank under the CFSMS-Bank Services Agreement referred to above, under which the Bank gives a broad indemnity to CFSMS in respect of activities carried out by CFSMS for the Bank.

Following the announcement of the Bank's Recapitalisation Plan in June 2013 (the June Plan), the Bank and The Co-operative Group worked to amend certain provisions of the Project Unity and CFSMS Arrangements. Those amendments were close to finalisation when The Co-operative Group announced on 21 October 2013 that it was in discussion with bondholders, and that many elements of the June Plan would need to change in material respects to reflect the fact that the Bank would no longer be a subsidiary of The Co-operative Group. The change to the June Plan meant that there would be significant cost impacts if the Project Unity and CFSMS Arrangements were to continue in the form originally envisaged. In addition, the Bank did not consider it appropriate for the provision of personnel or supply of certain third party services and assets to the Bank to be housed in an entity that has ceased to be part of the same group as the Bank.

Separation Principles

Accordingly the Bank and The Co-operative Group have been working towards renegotiation of the arrangements under which the Bank receives staff and services from The Co-operative Group. These negotiations are complex and ongoing. Pending finalisation of the revised arrangements, the Bank and The Co-operative Group agreed high level principles (the Separation Principles) to govern their separation discussions.

The Separation Principles include an overarching agreement to act in good faith and, amongst other things:

—until alternative arrangements for Project Unity and the CFSMS Arrangements are agreed, The Co-operative Group will continue to provide services to the Bank under the same terms that such services are currently provided;

—for those costs allocated by The Co-operative Group in its sole discretion, the Bank and The Co-operative Group will take reasonable steps to avoid the Bank incurring costs incremental to those it currently incurs;

—The Co-operative Group and the Bank will mitigate costs arising for The Co-operative Group or the Bank from (i) The Co-operative Group being a less than 50% shareholder of the Bank or (ii) agreed steps taken in connection with the separation process;

—an additional mark-up (of no more than 20%) may be charged by The Co-operative Group for services provided under Project Unity after the LME but not in respect of the first 12 months in respect of all services;

—costs will be allocated between the Bank and The Co-operative Group on an equitable basis; and

—a working group consisting of representatives from the Bank and The Co-operative Group will be established to address and oversee the separation work-stream.

The Co-operative Group and the Bank have also agreed the basis on which Project Unity and the CFSMS Arrangements will be unwound.

Project Unity

As part of separation, the Bank will enter into a new IT Services Agreement (the New IT Service Agreement) and a new Master Services Agreement (the New MSA).

It is intended that the day to day operational management of the services supplied under the New IT Service Agreement is monitored by a Co-operative Group contract manager (as the supplier of services), a Bank contract manager (as a customer), function leads for The Co-operative Group and the Bank and risk, audit and compliance for the Bank. Under the New IT Service Agreement, The Co-operative Group will provide the Bank with the following services: colleague technology services, network services, core services, service management services and change management services.

The New MSA will be a framework agreement intended to establish a flexible contractual arrangement to enable the Bank and CFSMS to obtain certain professional services from The Co-operative Group as agreed from time to time in service contracts. Service contracts will be entered into in relation to secretariat, legal, corporate affairs, marketing, finance, corporate HR, people services, estates, Illius (property management), risk and internal audit.

CFSMS Arrangements

The existing CFSMS–Bank Services Agreement will be terminated once the terms of CFSMS Bank Framework Agreement have been finally agreed.

Balances with other Co-operative Group undertakings

In 2012, the Bank had an asset of amounts owed by other Co-operative Group undertakings of £0.3bn and had a liability of amounts owed to other Co-operative Group undertakings of £0.1bn.

These amounts reflected a mixture of intercompany trading accounts and balances arising out of banking services provided to Co-operative undertakings.

As a result of legal separation, The Co-operative Group and its undertakings are no longer treated as intercompany balances. Therefore, the 2013 Bank balance sheet reports £nil balances for amounts owed to/by other Co-operative Group undertakings.

The following tables present an analysis of the relevant balances as at 31 December 2013 and 31 December 2012 to aid comparability year on year:

Amounts owed by Co-operative Group undertakings	**2013**	Restated 2012
The Co-operative Group	**-**	56.4
The Co-operative Banking Group Ltd	**-**	-
Subsidiaries of The Co-operative Banking Group Ltd	**-**	0.4
	-	56.8

Amounts owed to Co-operative Group undertakings	**2013**	Restated 2012
The Co-operative Group	**-**	29.4
The Co-operative Banking Group Ltd	**-**	-
Subsidiaries of The Co-operative Banking Group Ltd	**-**	160.6
	-	190.0

The 2012 comparatives have been restated as described in note 3.

The table below provides an analysis of balances with The Co-operative Group and its undertakings at 31 December 2013 and their location within the Bank's balance sheet to aid comparability year on year.

	2013 Loans & advances to customers	**Other assets**	**Customer accounts**	**Other liabilities**
The Co-operative Group	**110.1**	**126.6**	**(26.7)**	**-**
The Co-operative Banking Group Ltd	**-**	**303.2**	**(49.6)**	**-**
Subsidiaries of The Co-operative Banking Group Ltd	**-**	**-**	**(16.0)**	**(156.5)**
	110.1	**429.8**	**(92.3)**	**(156.5)**

The following table shows the value of banking transactions with The Co-operative Group and its undertakings during the year.

	Interest and fees received 2013	**Interest and fees paid 2013**	Interest and fees received 2012	Interest and fees paid 2012
The Co-operative Group	**5.0**	**0.6**	4.3	0.2
The Co-operative Banking Group Ltd	**-**	**-**	-	-
Subsidiaries of The Co-operative Banking Group Ltd	**0.7**	**-**	1.0	-
	5.7	**0.6**	5.3	0.2

A number of banking transactions are entered into with related parties in the normal course of business on normal commercial terms. These include loans and deposits. Outstanding balances at the year end and related income and expense is presented in the tables above.

Transactions with other related parties

Key management, as defined by IAS 24 (Related Party Disclosures), are considered to be Board and Executive members of the Bank, and Board and Executive members of the Bank's immediate and ultimate holding organisations. The volume of related party transactions with key management is provided below:

Directors, key management personnel and close family members

	2013	2012
Loans outstanding at the beginning of the year	**2.6**	2.2
Net movement	**(2.3)**	0.4
Loans outstanding at the end of the year	**0.3**	2.6
Deposits and investments at the beginning of the year	**2.4**	1.9
Net movement	**(2.2)**	0.5
Deposits and investments at the end of the year	**0.2**	2.4

Directors' loans

	Mortgages 2013	**Personal loans 2013**	**Credit cards 2013**	Mortgages 2012	Personal loans 2012	Credit cards 2012
Number of directors with loan type	**1**	**1**	**1**	5	2	4
Total value of directors' loans	**0.2**	**-**	**-**	1.0	-	-

Key management compensation

	2013	2012
Salaries and short term benefits	**3.4**	3.0
Termination benefits	**0.5**	1.4
	3.9	4.4

Executive Directors' remuneration

A list of the members of the Board of Directors is shown on page 38 of the Annual Report and Accounts. The total remuneration of Executive Directors shown on page 62 of the Annual Report and Accounts was £2.3m (2012: £0.6m).

Further details of Directors' remuneration are provided in the Remuneration report.

Going concern

These financial statements are prepared on a going concern basis. The Directors have a reasonable expectation that the Bank will have the resources to continue in business for the foreseeable future, taking into account the matters referred to below.

As discussed earlier in these accounts, in order to address the capital shortfall identified in 2013, the Directors defined:

- A Recapitalisation Plan principally comprising the Liability Management Exercise (LME) and the 2014 capital contribution from The Co-operative Group.

- A Turnaround Plan which involves reshaping and restructuring the business as a core relationship bank.

Both the remaining components of the Recapitalisation Plan and the Turnaround Plan are reflected in the 2014–2018 Plan.

The assessment of the appropriateness of using the going concern basis of accounting has been subject to a thorough process involving analysis and discussion by management, Executive and Board Committees and the Board, in line with our governance processes, and discussion with the PRA. This analysis included a particular focus on the 12 month period ending 30 April 2015. The forecasts included in the 2014–2018 Plan have been subjected to stressed scenarios which the Board considered to be reasonable and appropriate.

Despite the LME, without which the Directors believe the Bank would have been subject to a resolution procedure under the Banking Act of 2009, the Bank is currently below the Individual Capital Guidance (ICG) set by the PRA and it is forecast to remain so for most of the duration of the 2014–2018 planning period.

Total Basel II capital resources as at 31 December 2013 are £1.4bn (31 December 2012: £2.3bn) with core tier 1 capital after regulatory deductions of £1.3bn (31 December 2012 £1.3bn). Following the LME, at 31 December 2013, the Bank's CET1 ratio stands at 7.2% on a Basel III end point basis. However, this is only a relatively small margin above the threshold directed by the PRA that, based on Basel III end point rules, major UK banks should hold CET1 resources of at least 7% of their risk-weighted assets by December 2013, and provides limited protection against unexpected losses.

The annual results for 2013 reflect significant charges which exceed the levels originally anticipated when the Recapitalisation Plan was announced on 4 November 2013. The Directors identified a number of risks as part of that plan but did not anticipate the extent to which those risks would materialise.

In November, the Bank stated that it 'expects to report for the end of 2013 a CET1 ratio towards the upper end of previously announced guidance, on 29 August 2013, of below 9% but above the regulatory minimum requirement'. The CET1 ratio of 7.2% at 31 December 2013 is above the requirement but lower than expected and, without additional CET1, would be projected to fall below 7% during the period of the 2014–2018 Plan.

Consequently, as announced on 24 March 2014, additional CET1 needs to be raised in order to deliver the Turnaround Plan. The Directors have put steps in place to raise this additional requirement. Please see page 22 of the Annual Report and Accounts for the latest update in this regard. The PRA has reviewed and accepted the 2014–2018 Plan, including the further capital raising discussed above.

The completion of the LME removed an element of the uncertainty around the going concern status of the Bank. However, whilst an important step, it is not in itself sufficient to recapitalise the Bank. There continues to be material uncertainty around the implementation of both the remaining components of the Recapitalisation Plan and the Turnaround Plan.

The Bank's annual report and accounts is available to download from www.co-operative.co.uk/investorrelations

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This announcement and any related materials may contain or incorporate by reference certain "forward-looking statements" regarding the belief or current expectations of the Bank or the Bank Board (as applicable) about the Bank's financial condition, results of operations and business described in this announcement. Generally, but not always, words such as "target", "will", "expect", "estimate", "anticipate" or their negative variations or similar expressions identify forward-looking statements. Examples of forward-looking statements include, among others, statements regarding the Bank's future financial position, income growth. assets impairment charges and provisions, business strategy, capital, leverage and other regulatory ratios, payment or dividends, projected levels of growth in the banking and financial markets, projected costs, original and revised commitments and targets in connection with the turn-around plan, deleveraging actions, estimates of capital expenditures and plans and objectives for future operations and other statements that are not historical fact. Such forward-looking statements are not guarantees of future performance. Rather, they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance, achievements or developments of the Bank or the industry in which it operates to differ materially from any future results, performance, achievements or developments expressed or implied from the forward-looking statements. The ability of the Bank to implement its strategic plan and to achieve the results set out in the plan entails particular challenges including (but are not limited to): ability to achieve the targeted cost savings; ability to retain customers and deposits; the timing and quantum of impacts to capital from its asset reduction exercise; meeting its planned improvements in net interest margin; a possible further deterioration in the quality of the Bank’s asset portfolio; unplanned costs from (for example) conduct risk matters; ability to maintain the Bank’s access at an appropriate cost to liquidity and funding and the ability of the Bank to raise further capital assumed in its forecasts. Many of the risks and uncertainties also relate to factors that are beyond the Bank's ability to control or estimate precisely which include (without limitation) factors such as: UK domestic and global economic and business conditions; the Bank's ability to implement successfully its four to five year business plan to improve its financial, operational performance and capital position; market related risks, including but not limited to, changes in interest rates and exchange rates; changes to law, regulation, accounting standards or taxation, including changes to regulatory capital or liquidity requirements and the Bank's ability to meet those requirements; the ability to access sufficient funding to meet the Bank's liquidity needs including through retail deposits; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or sovereign financial issues; changes to the Bank's credit rating; the effect of competition and the actions of competitors; the impact of potential disruption to the Bank's IT and communications systems; the ability to attract and retain skilled personnel; uncertainties regarding the extent of the Bank's exposure to pensions related liabilities; exposure to increased and ongoing regulatory scrutiny, legal proceedings, regulatory investigations or complaints, including with respect to conduct issues and other factors.

A number of material factors could cause actual results to differ materially from those contemplated by the forward-looking statements. The forward-looking statements contained in this announcement speak only as of the date of this announcement. Except as required by law, the Bank undertakes no obligation to revise the forward-looking statements to reflect any change in the Bank's expectations with regard thereto or any subsequent events or circumstances. Recipients of this announcement should not place any reliance on the forward-looking statements and are advised to make their own independent analysis and determination with respect to the forecast periods.

Basel III has been implemented in the EU through the new Capital Requirements Regulation and a further iteration of the Capital Requirements Directive. Together the new rules are known as CRD IV and came into effect from 1 January 2014. The European Banking Authority is providing technical standards relating to CRD IV, some of which are not yet finalised. CRD IV disclosures in this announcement are based on the Bank's interpretation of published rules. There is a risk that the final content of the technical standards may differ materially from current expectations and that the Bank may become subject to regulatory capital requirements not currently anticipated or provided for.

In the December 2013 PS7/13 Policy Statement PRA announced that, with the exception of available-for-sale unrealised gains, CRD IV deductions and filters would be implemented in full from 1 January and there would be no transition to full implementation. All CRD IV disclosures in this announcement are shown on a fully loaded basis.

Furthermore, you should consult with your own legal, regulatory, tax, business, investment, financial and accounting advisors to the extent that you deem it necessary, and make your own investments, hedging and trading decisions based upon your own judgement and advice from such advisers as you deem necessary and not upon any view expressed in this material.

Certain data in this announcement has been rounded. As a result of such rounding, the totals of data presented in this announcement may vary slightly from the arithmetic totals of such data.

Neither the Bank nor any of its respective affiliates or representatives undertakes any obligation to update or revise forward looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. Recipients of this announcement should not place any reliance on the forward looking statements and are advised to make their own independent analysis and determination with respect to the forecast periods.