

**THE CO-OPERATIVE FINANCIAL SERVICES STATEMENT TO THE COMPANY  
ANNOUNCEMENTS OFFICE (incorporating the results for The Co-operative Bank Plc)**

Today, 18<sup>th</sup> March, The Co-operative Group, the world's largest consumer co-operative, has reinforced the strength of its business model as set out through the release of its preliminary results for the 51 weeks ended 2<sup>nd</sup> January 2010.

Record results in an historic year which has included the acquisition of Somerfield and the merger of its financial services' business with Britannia, make it clear that The Co-operative Group has witnessed the greatest step-change in its entire history.

The key highlights show that the underlying Group operating profit before significant items has increased by 20% to £473m. Group sales have increased by 31% to £13.7bn, members' funds by 15% to £4.5bn and the dividend paid to customer members by 16% to £55m.

The core components of The Co-operative Group's success have been the performances of its food business, which is delivering record sales and profits, and its financial services business The Co-operative Financial Services (CFS) which over the last 12 months has strengthened its balance sheet, brand strength and strategic capability. This has been achieved against the backdrop of the banking crisis and worst economic recession in decades.

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**The Co-operative Financial Services (CFS)**

Highlights of CFS financial results issued today:

- CFS profitability remains strong with total operating profits of £177m compared with £147m in 2008 (an increase of 20.5%)
- CFS is strongly capitalised and enjoys very high levels of liquidity with a customer funding ratio of 104%
- Major sales increases across core product lines including current accounts, savings and motor insurance
- Current account sales have seen a major year on year increase of 38%, with a 31% increase in customers switching from the big four banks
- New current account market share has doubled in the year from 2% to 4%
- The merger with Britannia is already delivering clear benefits for customers and members through improved products
- Customer service remains market leading with CFS gaining a number of accolades in 2009 including the prestigious Which? Best Financial Service Provider award.

CFS has come through the credit crunch much stronger than many of its peers as a result of the actions taken to support, protect and enhance its core values, principles and givens. Throughout the crisis CFS has never lost sight of its absolute commitment to be financially prudent and strong for the benefit of our customers and members whilst maintaining our commitment to support social enterprise and the requirements placed upon us by our unique ethical policies.

A prime feature of our values is the requirement to put our members and customers interests first. With this in mind we have ensured that all necessary actions have been taken to maintain excellent financial strength and strong levels of capital, profitability and customer funding. The result has been that whilst many competitors have been forced to consider

retrenchment, both The Co-operative Bank and the broader CFS have been able to set out a strategy for growth, underpinned by significant capital reserves.

Our business model, which is measured against a balanced scorecard which includes sustainable profitability, customer advocacy, colleague engagement, process efficiency and social responsibility demonstrates that ambition and prudence are not mutually exclusive.

The merger of CFS with Britannia Building Society has created the UK's most diversified mutual financial services provider, of which the bank is a key constituent. Merging two complementary businesses driven by shared givens and values, offers the UK consumer a member-owned, customer-led and ethically-guided alternative to the shareholder-owned and state-owned banks. Moreover, the merger delivers increased reach, diversity and opportunity, whilst enhancing the financial capability of the business which is clearly in keeping with the long-term interests of our members and customers.

During 2009 CFS was widely recognised as a champion of co-operative principles, in being named Best Financial Service Provider by Which? and by receiving the UK Customer Experience Award as 'best large company'. The Co-operative Bank and **smile** took two of the top three spots at Which's inaugural People's Choice awards, while the Co-operative Insurance won a platinum award for Motor Claims customer satisfaction from Consumer Intelligence. Platform was named Best Intermediate Lender by Your Mortgage Magazine and our Corporate Banking operation was named small/mid-sized debt provider of the year.

Crucially as a business that seeks to take both personal and social responsibility, The Co-operative Financial Services also became one of only seven businesses to be awarded the new 'platinum plus' rating from Business in the Community.

CFS recognises the opportunity presented by the loss of consumer confidence in the market, and has the scale, ambition and expertise to increase its market presence in the years to come. To ensure its vision of being the UK's most admired financial services business is realised, CFS will be investing heavily in the next few years to ensure its customers and members receive an all-round service experience that is unrivalled within the UK market, a service that will be fair, easy, personal and responsible for co-operative customers and members.

## **DETAILED RESULTS ANALYSIS FOR CFS**

The total CFS operating result (i.e. operating results before tax and significant items) for 2009 was £177.2m compared with £147.0m in 2008 (an increase of 20.5%). Profit before tax of £212.8m was £148.7m higher than in 2008 and includes the profits of the merged Britannia business from 1 August 2009. On a like-for-like basis the operating result has increased from £168.5m in 2008 to £174.3m (an increase of 3.4%). These results reflect the business' success in maintaining profitability despite the continuing weakness of the financial services market, while underlying capital and liquidity positions continue to provide the foundations for stable growth.

Whilst income has been impacted by economic recession and in particular the low interest rate environment, the business has benefited by improving efficiency within important processing areas. This has reduced overall costs, which on a like-for-like basis, have shown a 1.3% reduction year on year. This reflects a policy of careful cost control and has been delivered despite the challenges of successfully merging CFS with Britannia Building Society.

Total like-for-like impairment losses have reduced by 17.7%. The excellent Retail mortgage book quality remains strong, with an average Loan to Value (LTV) of 42% and an arrears performance that remains significantly below CML average. This together with the fact that 2008 impairments included provisions against investment portfolios which have not

recurred, only partly offset by higher impairment against the corporate portfolio in 2009, means that impairments continue to perform strongly.

In addition to strong profit performance CFS has continued to hold robust levels of capital and excellent liquidity levels. The Co-operative Bank has a capital ratio of 13.5% after fair value merger adjustments. The tier 1 ratio is 9.0% with a core tier 1 ratio of 8.7%. These ratios have all increased since 2008 again demonstrating the strength of the merged business. Meanwhile the Bank has maintained its high level of customer deposits with a year end customer funding ratio of 104% (excluding securitised assets).

This balance of capital, liquidity and profit stability enabled the 'merger from strength' between two strong businesses to create a distinctive new, member-owned financial services provider. Both employees and customers have responded positively to the merger, which has been achieved without any significant impact on customer service levels, reflecting CFS's determination, even while laying the foundations for long-term business growth, to put the interests of the customer first. CFS's customer satisfaction and customer advocacy ratings continue to be industry leading with 88% of Britannia customers likely to recommend Britannia to friends and family and 73% of all CFS customers satisfied with the service they receive. In the most recent employee survey 94% of our people stated that they are proud to work for our new merged business.

The business has reacted positively to a pro-longed period where interest rates have remained at an historic low. This has placed floors on savings accounts and consequently narrowed margins, as the business deliberately looked to ensure that a fair balance was struck to support the interests of both savers and borrowers alike. These actions, perhaps best reflected by the very high levels of customer satisfaction, have been taken with a long-term view in mind, and reflect the underlying strength and purpose of the business, as well as our commitment to living our co-operative values and principles

Despite this the Retail business has remained profitable, albeit that profits (on a like-for-like basis), have reduced from £109.3m to £12.2m. The Retail business has however delivered reduced costs through tight controls over spending and improved staff retention resulting in lower recruitment and training costs. In addition, impairment losses have improved, despite the deteriorating economic climate, reflecting investment in improved operational processes, tightened lending criteria and lower unsecured balances. The quality of the mortgage book remains good with a combined average loan to value of 42%.

The unprecedented current account growth experienced in 2008 has continued through 2009: year-on-year sales volumes are up 38%, while The Co-operative Bank's market share for new current accounts has doubled to 4%. Current account balances ended the year 21% higher than 2008 with a marked increase in new customers switching their current accounts from other providers.

The Bank has continued to lend to house purchase customers, in contrast to many of our competitors. A focused relationship management strategy is being developed to drive wider product holdings through the mortgage book. The Bank has continued to help first time buyers get on the mortgage ladder including; participation in the Ownhome scheme, which, has helped over 3,000 families to get on to the housing ladder and by launching a limited tranche of 90% LTV loans to enable customers to benefit from the current 'window' of low property prices and interest rates.

Since the merger retail customers have had access to a wider range of savings products, including Britannia-branded savings fixed-rate ISAs available through both the Britannia and Co-operative Bank branch networks and Britannia-branded fixed rate bonds available across all Co-operative Bank and Britannia distribution channels. The Retail business has taken steps to align key products and processes and this process of alignment will continue into 2010.

The performance of fixed rate ISA, 3 year bonds and newly-launched Capital Bond products have exceeded expectations. In addition, despite fierce competition, retention targets for maturing fixed-term savings balances have been exceeded

Unsecured lending has also bucked the industry trend, with the bank continuing to offer loans to new customers, against a backdrop of restricted customer access to credit. 2009 lending targets for loans and sales targets for credit cards have both been exceeded.

Across the retail credit card area, value management has been a key focus, with a series of successful initiatives to drive increased customer value and streamline customer process. The business has successfully rationalised its credit card product portfolio, to reduce cost and enable more focused delivery to customers and members.

The Retail business also benefited from a strong general insurance performance which delivered £424.3m in gross written premiums, an increase of £29.9m (7.6%) on 2008. There was a number increase in new business from third party channels and improved claims processes led to a further reduction in the underlying claims ratio to 68% (69.5%) in 2009.

The Retail long-term business, run solely for the benefit of policyholders, saw sales figures increase by 13% on 2008 levels, with the profitability of new business reaching £10.3m compared to £1.6m in 2008. The Present Value of New Business Premiums for 2009 rose to £606m, an increase of 30% compared to 2008.

Corporate and Markets (CAM) profits increased on a like-for-like basis from a loss of £4.4m to a profit of £113.2m in 2009. CAM income rose year on year reflecting growth in the corporate book and a strong performance in the other operating segments. Impairment in the CAM business fell as there was a lower impact in 2009 of charges against investment assets compared to 2008, only partly offset by an increase in Corporate impairments. The business remained vigilant in controlling its operating costs allowing a small increase in cost base of only £5.9m year on year.

Customer loan balances have increased significantly to £34.1bn (2008: £10.3bn) as a result of the merger. On a like for like basis customer loan balances have remained stable in difficult markets with new lending of £4.6bn made across both retail and corporate businesses demonstrating our support for UK consumers and business while retaining our strong liquidity and capital position. Liquidity has been supported by strong growth in customer deposits as consumers continue to be attracted by CFS's mutual and ethical position and competitive pricing. Customer deposits have consequently increased significantly to £32.5bn (2008: £11.7bn), which on a like-for-like basis represents a growth of 2.6%.

As we move into 2010 CFS has agreed to support the Government and industry efforts to take forward the Dormant Accounts Scheme, by preparing a plan for the establishment of a Central Reclaim Fund. The business intends to apply for authorisation to establish and administer the Central Reclaim Fund, subject to the initiative going ahead as planned.

In tandem with this programme of investment, the business as a whole continues to deliver underlying cost reductions; simplified business processes, enhanced cross-selling and service capabilities and rationalisation of service functions will help drive down operating costs while delivering first-class service.

Throughout the credit crisis both CFS and Britannia continued to operate their businesses in a prudent manner when others faltered. Now together, and as part of The Co-operative Group, the stronger and enlarged CFS will play an important role in restoring confidence in a sector severely damaged by the events of the past 18 months.

Over the next three years, there will be significant inward investment that will ensure a single set of high quality financial services products is available to customers and members across our entire range of service channels.

CFS will move forwards with clear distinction as a business best characterised as being member-owned, customer-led and ethically guided. In tandem with its parent, it has an important contribution to make in furthering the renaissance of the co-operative and mutual sector.

## CFS Consolidated income statement

For the period ended 31 December 2009 (unaudited)  
All amounts are stated in £m unless otherwise indicated

2009	Total shareholder return before significant items	Significant items	Total shareholder	Long-term businesses (1)
Interest and investment income	1,078.7	-	1,078.7	644.1
Interest paid	(481.7)	-	(481.7)	-
Gross earned insurance premiums	396.9	-	396.9	490.8
Premiums ceded to reinsurers	(21.5)	-	(21.5)	(16.2)
Commissions and fees receivable	221.8	-	221.8	46.6
Gains less losses from traded investments	(21.3)	-	(21.3)	483.4
Commission and fees payable	(61.2)	-	(61.2)	(31.0)
Other	16.5	-	16.5	0.9
<b>Net revenue</b>	<b>1,128.2</b>	<b>-</b>	<b>1,128.2</b>	<b>1,618.6</b>
Net claims incurred	(280.8)	-	(280.8)	(1,015.9)
Technical charges	-	-	-	70.6
Impairment gains on investments	8.5	-	8.5	-
Impairment losses on loans and advances	(116.1)	-	(116.1)	-
<b>Net revenue after claims and impairment</b>	<b>739.8</b>	<b>-</b>	<b>739.8</b>	<b>673.3</b>
Change in unallocated divisible surplus	-	-	-	(430.6)
Tax attributable to policyholders	-	-	-	(6.3)
Operating expenses	(562.6)	(53.8)	(616.4)	(236.4)
<b>Operating result</b>	<b>177.2</b>	<b>(53.8)</b>	<b>123.4</b>	<b>-</b>
Fair value amortisation	99.1	-	99.1	-
Short term investment fluctuations	4.9	-	4.9	-
Share of post-tax losses from joint ventures	(0.1)	-	(0.1)	-
Financial Services Compensation Scheme levy	(3.7)	-	(3.7)	-
<b>Operating profit</b>	<b>277.4</b>	<b>(53.8)</b>	<b>223.6</b>	<b>-</b>
Membership dividend	(10.8)	-	(10.8)	-
<b>Profit before taxation</b>	<b>266.6</b>	<b>(53.8)</b>	<b>212.8</b>	<b>-</b>
Taxation	(73.9)	15.0	(58.9)	-
Minority interests	(2.9)	-	(2.9)	-
<b>Net profit for the year</b>	<b>189.8</b>	<b>(38.8)</b>	<b>151.0</b>	<b>-</b>

(1) Long-term business operating expenses include £20.9m of significant items. This relates to non-recurring restructuring costs.

## CFS Consolidated income statement

For the period ended 31 December 2009 (unaudited)  
All amounts are stated in £m unless otherwise indicated

2008	Total shareholder return before significant items	Significant items	Total shareholder	Long-term businesses (1)
Interest and investment income	867.5	-	867.5	683.6
Interest paid	(452.8)	-	(452.8)	-
Gross earned insurance premiums	401.3	-	401.3	497.9
Premiums ceded to reinsurers	(18.5)	-	(18.5)	(19.1)
Commissions and fees receivable	217.2	-	217.2	46.4
Gains less losses from traded investments	76.2	-	76.2	(1,826.9)
Commission and fees payable	(45.8)	-	(45.8)	(28.3)
Other	10.5	-	10.5	20.3
<b>Net revenue</b>	<b>1,055.6</b>	<b>-</b>	<b>1,055.6</b>	<b>(626.1)</b>
Net claims incurred	(265.0)	-	(265.0)	(1,315.9)
Technical charges	-	-	-	1,617.2
Impairment gains on investments	(76.7)	-	(76.7)	-
Impairment losses on loans and advances	(96.8)	-	(96.8)	-
<b>Net revenue after claims and impairment</b>	<b>617.1</b>	<b>-</b>	<b>617.1</b>	<b>(324.8)</b>
Change in unallocated divisible surplus	-	-	-	433.4
Tax attributable to policyholders	-	-	-	52.1
Operating expenses	(470.1)	(78.0)	(548.1)	(160.7)
<b>Operating result</b>	<b>147.0</b>	<b>(78.0)</b>	<b>69.0</b>	<b>-</b>
Fair value amortisation	-	-	-	-
Short term investment fluctuations	12.2	-	12.2	-
Share of post-tax losses from joint ventures	-	-	-	-
Financial Services Compensation Scheme levy	(10.5)	-	(10.5)	-
<b>Operating profit</b>	<b>148.7</b>	<b>(78.0)</b>	<b>70.7</b>	<b>-</b>
Membership dividend	(6.6)	-	(6.6)	-
<b>Profit before taxation</b>	<b>142.1</b>	<b>(78.0)</b>	<b>64.1</b>	<b>-</b>
Taxation	(33.9)	22.2	(11.7)	-
Minority interests	(3.8)	-	(3.8)	-
<b>Net profit for the year</b>	<b>104.4</b>	<b>(55.8)</b>	<b>48.6</b>	<b>-</b>

(1) Long-term business operating expenses include £46.3m of significant items. This relates to non-recurring restructuring costs.

## DETAILED RESULTS ANALYSIS THE CO-OPERATIVE BANK PLC

To fulfil reporting requirements specific details on the performance of The Co-operative Bank are detailed below:-

The Co-operative Bank profit before tax of £164.6m was £141.3m higher than in 2008. The 2009 result includes the profits of the merged Britannia business from 1 August 2009 only.

### The Co-operative Bank operating result and profit before taxation

	2009	2008	Change	Change
	£m	£m	£m	%
Operating income	<b>652.9</b>	569.4	83.5	14.7%
Operating expenses	<b>(425.6)</b>	(336.3)	(89.3)	(26.6%)
Impairment	<b>(112.1)</b>	(147.5)	35.4	24.0%
<b>Adjusted operating profit</b>	<b>115.2</b>	85.6	29.6	34.6%
Financial services compensation scheme levies	<b>(3.7)</b>	(10.5)	6.8	
Fair-value amortisation	<b>99.1</b>	-	99.1	
Significant items	<b>(38.1)</b>	(47.1)	9.0	
Share of post-tax results from joint ventures	<b>(0.1)</b>	-	(0.1)	
Membership dividend	<b>(7.8)</b>	(4.7)	(3.1)	
<b>Profit before tax</b>	<b>164.6</b>	23.3	141.3	

The total operating result for The Bank in 2009 was £115.2m compared with £85.6m in 2008 (an increase of 34.6%). On a like for like basis the operating profits increased from £107.1m in 2008, to £112.3m.

As with the broader CFS business, these results reflect the business' success in maintaining profitability despite the continuing weakness of the financial services market, while underlying capital and liquidity positions continue to provide the foundations for stable growth.

Income and operating results show growth of 14.7% and 34.6% respectively. These figures benefit from the inclusion of 5 months' of post-merger Britannia results. Costs show an increase of 27% reflecting the additional costs from the 1 August of the Britannia business and in part the initial costs of merging the two businesses, although on a like for like basis costs have fallen by 2.2%. Impairment losses on loans and advances were 24% lower than 2008.

**The Co-operative Bank p.l.c.**  
**Consolidated statutory income statement for the year ended 31 December 2009**

£m	Before significant items 2009	Significant items 2009	After significant items 2009	Before significant items 2008	Significant items 2008	After signifi items 2008
Interest receivable and similar income	1,061.6	-	1,061.6	830.2	-	830.2
Interest expense and similar charges	(481.9)	-	(481.9)	(455.9)	-	(455.9)
<b>Net interest income</b>	<b>579.7</b>	<b>-</b>	<b>579.7</b>	<b>374.3</b>	<b>-</b>	<b>374.3</b>
Fee and commission income	210.8	-	210.8	216.5	-	216.5
Fee and commission expense	(47.2)	-	(47.2)	(35.6)	-	(35.6)
<b>Net fee and commission income</b>	<b>163.6</b>	<b>-</b>	<b>163.6</b>	<b>180.9</b>	<b>-</b>	<b>180.9</b>
Net trading income	5.2	-	5.2	4.9	-	4.9
Other operating income	6.9	-	6.9	9.3	-	9.3
<b>Operating income</b>	<b>755.4</b>	<b>-</b>	<b>755.4</b>	<b>569.4</b>	<b>-</b>	<b>569.4</b>
Operating expenses	(429.0)	(38.1)	(467.1)	(336.3)	(47.1)	(383.4)
Financial Services Compensation Scheme levy	(3.7)	-	(3.7)	(10.5)	-	(10.5)
<b>Operating profit before impairment losses</b>	<b>322.7</b>	<b>(38.1)</b>	<b>284.6</b>	<b>222.6</b>	<b>(47.1)</b>	<b>175.5</b>
Impairment losses on loans and advances	(116.1)	-	(116.1)	(96.8)	-	(96.8)
Impairment gains /(losses) on investments	4.0	-	4.0	(50.7)	-	(50.7)
<b>Operating profit</b>	<b>210.6</b>	<b>(38.1)</b>	<b>172.5</b>	<b>75.1</b>	<b>(47.1)</b>	<b>28.0</b>
Share of post tax losses from joint ventures	(0.1)	-	(0.1)	-	-	-
<b>Profit before taxation and profit based payments</b>	<b>210.5</b>	<b>(38.1)</b>	<b>172.4</b>	<b>75.1</b>	<b>(47.1)</b>	<b>28.0</b>
Profit based payments to members of the Co-operative Group	(7.8)	-	(7.8)	(4.7)	-	(4.7)
<b>Profit before taxation</b>	<b>202.7</b>	<b>(38.1)</b>	<b>164.6</b>	<b>70.4</b>	<b>(47.1)</b>	<b>23.3</b>
Income tax	(62.1)	10.7	(51.4)	(19.4)	13.4	(6.0)
<b>Profit for the financial year</b>	<b>140.6</b>	<b>(27.4)</b>	<b>113.2</b>	<b>51.0</b>	<b>(33.7)</b>	<b>17.3</b>
Attributable to:						
Equity shareholders	137.7	(27.4)	110.3	47.2	(33.7)	13.5
Minority interests	2.9	-	2.9	3.8	-	3.8
<b>Earnings per share</b>	<b>3.60p</b>	<b>(0.72p)</b>	<b>2.88p</b>	<b>4.29p</b>	<b>(3.06p)</b>	<b>1.23p</b>

Results relating to the transfer of engagements of Britannia Building Society are included with effect from the date of completion on 31 July 2009.

The significant items in 2009 relate to a programme of investment and integration. The significant items in 2008 relate to non-recurring restructuring costs.

**The Co-operative Bank p.l.c.**  
**Consolidated statement of comprehensive income**  
**For the year ended 31 December 2009**

	<b>Group</b>	
	<b>2009</b>	<b>2008</b>
	<b>£m</b>	<b>£m</b>
Profit for the year – equity shareholders	<b>110.3</b>	13.5
Profit for the year – minority interests	<b>2.9</b>	3.8
<b>Profit for the financial year</b>	<b>113.2</b>	<b>17.3</b>
<b>Other comprehensive income:</b>		
Changes in cashflow hedges		
Net changes in fair value recognised directly in equity	<b>(29.5)</b>	86.2
Deferred taxes	<b>8.2</b>	(24.2)
Net losses transferred from equity to profit or loss	-	0.8
Changes in available-for-sale assets		
Net changes in fair value recognised directly in equity	<b>28.6</b>	(56.8)
Losses recycled to profit or loss on impairment	-	31.7
Income tax	<b>(7.4)</b>	7.1
Net losses transferred from equity to profit or loss	-	3.1
Deferred taxes	-	(0.9)
Revaluation of equity shares	<b>(3.2)</b>	-
Income tax	<b>0.9</b>	-
Transferred to other operating income on disposal of equity shares	<b>(0.7)</b>	-
Income tax	<b>0.2</b>	-
Defined benefit plan actuarial (losses) / gains	<b>(0.3)</b>	0.5
Income tax	<b>0.1</b>	(0.1)
Other comprehensive income for the financial year, net of income tax	<b>(3.1)</b>	47.4
<b>Total comprehensive income for the financial year</b>	<b>110.1</b>	<b>64.7</b>
Attributable to:		
Equity shareholders	<b>108.5</b>	57.8
Minority interests	<b>1.6</b>	6.9
<b>Total comprehensive income for the year</b>	<b>110.1</b>	<b>64.7</b>

**The Co-operative Bank p.l.c.**  
**Consolidated balance sheet**  
**At 31 December 2009**

	2009 £m	2008 £m
<b>Assets</b>		
Cash and balances at central banks	1,706.8	535.8
Loans and advances to banks	1,781.5	1,524.2
Loans and advances to customers	34,046.7	10,173.7
Fair value adjustments for hedged risk	66.1	-
Investment securities – loans and receivables	2,486.2	123.4
Investment securities – available-for-sale	4,457.3	2,121.7
Derivative financial instruments	1,023.0	228.7
Equity shares	7.2	13.0
Investments in joint ventures	1.8	-
Goodwill	0.6	-
Intangible fixed assets	46.1	2.3
Investment properties	137.7	-
Property, plant and equipment	121.5	59.6
Amounts owed by other Co-operative Group undertakings	91.0	137.9
Other assets	22.1	31.2
Prepayments and accrued income	30.1	13.0
Deferred tax assets	93.7	-
<b>Total assets</b>	<b>46,119.4</b>	<b>14,964.5</b>
<b>Liabilities</b>		
Deposits by banks	6,082.4	1,073.3
Customer accounts	30,828.2	11,690.0
Customer accounts – capital bonds	1,647.1	-
Debt securities in issue	3,334.3	571.5
Derivative financial instruments	591.3	119.7
Other borrowed funds	946.5	366.5
Amounts owed to other Co-operative Group undertakings	329.2	225.5
Other liabilities	221.9	91.7
Accruals and deferred income	158.0	1.6
Provisions for liabilities and charges	33.4	15.8
Current tax liabilities	71.0	1.2
Deferred tax liabilities	-	27.0
<b>Total liabilities</b>	<b>44,243.3</b>	<b>14,183.8</b>
<b>Capital and reserves attributable to the Bank's equity holders</b>		
Ordinary share capital	230.0	55.0
Share premium account	8.8	8.8
Retained earnings	1,562.8	641.5
Available-for-sale reserve	2.5	(16.6)
Cashflow hedging reserve	38.4	59.1
	1,842.5	747.8
Minority interests	33.6	32.9
<b>Total equity</b>	<b>1,876.1</b>	<b>780.7</b>

**Total liabilities and equity****46,119.4**      14,964.5**The Co-operative Bank p.l.c.****Consolidated statement of cash flows - for the year ended 31 December 2009**

	<b>2009</b>	2008
	<b>£m</b>	£m
<b>Cash flows from operating activities</b>		
Profit before taxation	164.6	23.3
Adjustments for:		
Decrease in prepayments and accrued income	105.1	6.0
Decrease in accruals and deferred income	(67.2)	(11.0)
Interest payable in respect of subordinated liabilities	17.1	17.5
Effect of exchange rate movements	(96.0)	(10.9)
Effect of non-cash pension costs	0.2	0.1
Impairment losses on loans and advances	116.1	96.8
Impairment losses on investments	(4.0)	50.7
Depreciation and amortisation	22.4	20.1
Interest amortisation	(12.6)	(12.2)
Amortisation of investments	(0.8)	(0.2)
(Profit) / Loss on sale of investments	-	(3.1)
Loss on disposal of fixed assets	1.4	2.4
Unwind of fair value adjustments arising on transfer of engagements	(99.1)	-
Preference dividend	5.6	5.6
	<b>152.8</b>	185.1
Increase /(decrease) in deposits by banks	(1,108.5)	348.3
Increase in customer accounts	872.0	1,349.3
Increase/(decrease) in debt securities in issue	(1,035.5)	32.2
Increase/(decrease) in loans and advances to banks	(1,037.5)	(295.6)
Increase in loans and advances to customers	(996.2)	(1,381.9)
Decrease in amounts owed by other Co-operative Group undertakings	46.9	-
Increase in amounts owed to other Co-operative Group undertakings	103.7	-
Net movement of assets and other liabilities	82.1	(23.3)
Income tax paid	(23.4)	(8.4)
<b>Net cash flows from operating activities</b>	<b>(2,943.6)</b>	205.7
<b>Cash flows from investing activities</b>		
Cash and cash equivalents acquired on transfer of engagements	1,535.6	-
Purchase of property, plant and equipment	(15.1)	(0.3)
Proceeds from sale of property, plant and equipment	-	0.9
Purchase of investment securities	(1,814.8)	(14,074.2)
Proceeds from sale and maturity of investment securities	3,162.4	14,156.8
<b>Net cash flows from investing activities</b>	<b>2,868.1</b>	83.2
<b>Cash flows from financing activities</b>		
Interest paid on subordinated loan stock	(29.7)	(17.3)
Proceeds of issued shares	175.0	-
Preference share dividends paid	(5.6)	(5.6)
Dividends paid to minority shareholders in subsidiary undertaking	(0.9)	(0.9)
<b>Net cash flows from financing activities</b>	<b>138.8</b>	(23.8)
<b>Increase in cash and cash equivalents</b>	<b>63.3</b>	265.1
<b>Cash and cash equivalents at beginning of the financial year</b>	<b>2,324.0</b>	2,058.9
<b>Cash and cash equivalents at end of the financial year</b>	<b>2,387.3</b>	2,324.0
Cash and balances with central banks	1,672.8	525.9
Loans and advances to banks	462.5	1,218.6
Short term investments	252.0	579.5
	<b>2,387.3</b>	2,324.0

**The Co-operative Bank p.l.c.**  
**Consolidated statement of changes in equity**  
**For the year ended 31 December 2009**

<b>Group</b>	<b>Attributable to equity holders of the company</b>							<b>Total equity</b>
	<b>Share capital</b>	<b>Share premium</b>	<b>Available-for-sale reserve</b>	<b>Cashflow hedging reserve</b>	<b>Retained earnings</b>	<b>Total</b>	<b>Minority interest</b>	
<b>2009</b>								
Balance at the beginning of the year	55.0	8.8	(16.6)	59.1	641.5	747.8	32.9	780.7
Amounts arising on transfer of engagements	-	-	-	-	811.2	811.2	-	811.2
Total comprehensive income for the financial year	-	-	19.1	(20.7)	110.1	108.5	1.6	110.1
Increase in share capital	175.0	-	-	-	-	175.0	-	175.0
Dividend	-	-	-	-	-	-	(0.9)	(0.9)
Balance at the end of the year	230.0	8.8	2.5	38.4	1,562.8	1,842.5	33.6	1,876.1
<b>Group 2008</b>								
Balance at the beginning of the year	55.0	8.8	(0.2)	(1.2)	627.6	690.0	26.9	716.9
Total comprehensive income for the financial year	-	-	(16.4)	60.3	13.9	57.8	6.9	64.7
Dividend	-	-	-	-	-	-	(0.9)	(0.9)
Balance at the end of the year	55.0	8.8	(16.6)	59.1	641.5	747.8	32.9	780.7

## **BASIS OF PREPARATION**

The financial statements of The Co-operative Bank Group plc (the Bank) have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and International Financial Reporting Interpretations Committee (IFRIC) guidance as adopted by the European Union. There have been no significant changes to the accounting policies applied in 2009 to those applied by the Bank in its 2008 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 2009.

In preparing the consolidated financial statements, the Bank has adopted the following pronouncements during the year that are new or revised:

- IFRS 8 Operating Segments, which requires that information on operating segments is reported based on how it is reported and evaluated internally (refer to Note 1 of the Financial Statements);
- IAS 1 Presentation of Financial Statements (revised) which fundamentally revises the format of the Financial Statements;
- IAS 23 Borrowing Costs (revised) which requires that borrowing costs on assets that take a substantial time to prepare for intended use or sale must be capitalised; and
- Amendments to IFRS 7 Financial Instruments, Improving Disclosures about Financial Instruments which requires the Bank to make additional disclosures as follows:
  - Fair value disclosures for each class of financial instrument by valuation method (refer to pages 73 and 76 of the Financial Statements).
  - Reconciliation of movements in fair value of instruments with significant unobservable inputs (refer to page 83 of the Financial Statements).
  - Liquidity risk disclosures on a behavioural basis for both derivative and non-derivative financial instruments (refer to pages 62 to 70 of the Financial Statements).

### *Standards and interpretations issued but not yet effective*

The Bank has not adopted the following standards:

- Revised IFRS 3 Business Combinations (2008)

This standard incorporates the following changes:

- The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.

– Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

Revised IFRS 3 is effective prospectively for annual accounting periods beginning on or after 1 July 2009. IFRS 3 *Business Combinations (2004)* contains no guidance on the merger of mutuals hence specific parts of IFRS 3 *Business Combinations (2008)* have been used to give guidance on the most appropriate treatment for the transfer of engagements of Britannia.

- Amended IAS 27 *Consolidated and Separate Financial Statements (2008)*

This standard requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss.

The amendment is effective for accounting periods beginning on or after 1 July 2009.

- Amended IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items (2008)*

The standard was amended to clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

The amendment is effective for accounting periods beginning on or after 1 July 2009.

The following standards and interpretations which have been issued but not yet effective are not considered relevant to the Banks operations:

- Revised IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- Amended IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- IFRIC 17 *Distributions of Non-cash Assets to Owners*

## **ACCOUNTING DATE**

Following the transfer of engagements of Britannia Building Society the Bank has changed its accounting reference date to 31 December. Where these financial statements refer to “year ended 31 December 2009” this represents the 51 week period from 11 January 2009 to 31 December. The 2008 comparatives are stated as at 10 January 2009.

## **PRIOR YEAR RECLASSIFICATIONS**

Balances with the Bank of England of £371.1m at 2008 year end have been reclassified from loans and advances to banks to be included in cash and balances with the Bank of England. This change does not affect total assets. The consequential change is to the cash and cash equivalents analysis in the cash flow statement.

Inter-group balances for Group and Bank at the 2008 year end included within loans and advances to banks, loans and advances to customers and customer accounts have been reclassified and are now shown separately on the balance sheet as amounts owed by other Co-operative Group undertakings and amounts owed to other Co-operative Group undertakings. This change does not affect total Group assets and increases total Bank assets by £10.1m.

Accrued interest balances for the Group and Bank at the 2008 year end included within prepayments and accrued income and accruals and deferred income have been reclassified

to the balance sheet categories to which the accrued interest relates. This change affects total Group and Bank assets by £0.4m.

These changes have been made as a result of an accounting policies harmonisation review following the transfer of engagements of Britannia Building Society.

### **GOING CONCERN**

In common with many financial institutions, the Bank meets its day-to-day liquidity requirements through managing both its retail and wholesale funding sources, and is required to maintain a sufficient buffer over regulatory capital requirements in order to continue to be authorised to carry on its business. The Bank's forecasts and objectives, taking into account a number of potential changes in trading performance and funding retention, show that the Bank should be able to operate at adequate levels of both liquidity and capital, for the foreseeable future. The Bank has also considered a number of stress tests on capital and liquidity and these provide assurance that the Bank is sufficiently capitalised and is comfortably in excess of liquidity stress tests.

Consequently, after making enquiries, the Directors are satisfied that the Group has sufficient resources to continue in business for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

### **DIVIDEND**

The Bank did not pay an interim dividend on its Ordinary Shares during 2009. The Directors declared today that on 28 May 2010, a dividend of 4.625p per £1 Preference share be paid to Preference shareholders on the register at 30 April 2010 providing a dividend rate of 9.25 per cent per annum and making a total distribution of £5,550,000.

### **OTHER INFORMATION**

This financial information does not constitute the company's statutory accounts within the meaning of section 434 of the Companies Act 2006 (the Act). The statutory accounts for the period ended 31 December 2009 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.