

The Co-operative Financial Services

Building a better society

Interim financial report 2011



“Building the compelling
co-operative alternative.”

Contents

2	Highlights
3	Purpose, vision, givens and values
4	Business and financial review
9	Consolidated income statement
11	Consolidated statement of comprehensive income
12	Consolidated balance sheet
14	Consolidated statement of changes in equity
15	Segmental analysis

Highlights

The Co-operative Financial Services measures its success against a range of key areas: financial, customer, people and process.

These are our performance highlights for the first half of 2011.

Financial

- Shareholder operating result up 20.1% to £131.3m for the first six months of the year (2010: £109.3m)
 - General Insurance business growth 32.5% in gross written premiums (33.8% in net earned premiums)
 - Bank capital position resilient, with core tier one ratio of 9.6%
 - Bank customer funding ratio 113% compared to 107% at December 2010
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Customer

- Customer advocacy ratings 7.1 percentage points ahead of our nearest competitors
 - Innovative young driver insurance product wins acclaim from media and road safety charity 'Brake'
 - 13% rise in customers viewing The Co-operative Bank as their main account provider
 - Nearly 40,000 CFS current accounts already opened in 245 Britannia branches since merger
 - A further 9,000 home insurance policies sold in Britannia branches in the first half of 2011
 - Current account servicing to be introduced in Britannia branches, H2 2011
 - CFS is Europe's most sustainable bank for second year running
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People

- Colleague engagement remains strong at 79%
 - We believe we are the first business to introduce a 'values index' – 72.6 (on a scale of 100) represents how strongly colleagues believe we are living our values
 - Responsibility index – in a regular, independent survey of bank customers, The Co-operative Bank is rated first for personal and social responsibility
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Process

- Integration programme on track to realise in year synergy savings substantially ahead of target
 - £729m transformation programme will deliver range of new business functionality including new business-wide banking platform
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Purpose, vision, givens and values

Our strategy is made up of our **purpose, vision, givens, values** and our business plans. Together they help define us as a business, set the direction and inform the decisions we make and how we behave.

Our **purpose**

Our purpose is to be a pioneering business delivering sustainable financial services for members and society.

Our **vision**

To be the UK's most admired financial services business.

Our **givens**

-
- we champion **co-operative values and principles and ethics**;

 - we are **financially prudent and strong**;

 - we **share profits** with members; and

 - we only do business **consistent with our values and principles**.

Our **values**

Our values describe what is important to our organisation and guide our behaviours by determining how we interact with each other and our customers. By living our values, we will deliver a consistent and positive customer experience every time.

As a co-operative business:

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- we put our **members and customers first** in all we do;

 - we take **personal and social responsibility**;

 - together we will create **a great place to work, grow and develop**;

 - we strive relentlessly to be **faster, better, more successful**; and

 - we are open and fair and are committed to **excellent communication**.

Business and financial review

Overview

Member owned, customer led, and ethically guided – The Co-operative Financial Services ('CFS') is increasingly seen as the compelling co-operative alternative to the plc banks.

We've made an excellent start to 2011 and we have a lot to be proud of. We continue to attract high levels of customer advocacy, where we remain 7.1 percentage points ahead of our competition; our operating result of £131.3m for the first six months of the year was 20.1% higher than 2010 and the capital position for The Co-operative Bank ('the Bank') remains resilient, with a core tier one ratio of 9.6%. Moreover, our liquidity position, already robust, has improved significantly, with a customer funding ratio in the Bank of 113%¹, compared to 107% at December 2010.

To emphasise our position as a viable alternative model, CFS has been named as 'Europe's Most Sustainable Bank' for the second successive year.

There has been a 13% rise in customers that regard the Bank as their main current account provider over the past year. This demonstrates the success of CFS's relationship based approach and the progress being made in creating a genuine alternative to traditional high street rivals.

It is two years since CFS merged with Britannia, and we have now integrated the merged operations, and are making excellent progress in transforming the business and realising the benefits.

Within months of the merger, customers were able to open current accounts in the 245 Britannia branded branches; to date, nearly 40,000 current accounts have been opened via these branches (over 22,000 during 2011). By the end of 2011 our customers will also be able to service current accounts in Britannia branded branches, effectively extending our banking network from around 90 to over 340 sites and enabling us to rebrand our Britannia branches as part of The Co-operative Bank. We have also rolled out the sale of Co-operative home insurance products across the Britannia network, and have sold more than 9,000 policies in the first half of 2011 through this channel.

To bring colleagues together, we have completed our organisational design and introduced a single set of unified terms and conditions across the business, with the full support of our recognised trades unions. Despite the pace of change in the business, colleague engagement remains strong at 79%.

The integration programme has built on the strengths of both heritage businesses, and is on track to deliver synergy savings in 2011 substantially ahead of target.

Full transformation will be complete when our programme has replaced our legacy banking systems and infrastructure with modern, flexible solutions. This will happen in stages:

- Last year we launched new online business banking functionality
- Later this year it is anticipated the first element of the Payments Hub will go live. The Payments Hub will play a fundamental role in preparing the ground for the new banking platform, and will deliver a suite of systems to equip us to respond even more rapidly and securely to future innovations arising across the payments industry
- Subsequent steps will roll out the new banking platform across the whole of the merged organisation, completing our transformation and making us a customer-centric and flexible organisation, able to grow organically and exploit new markets.

This is just part of our transformation plan, under which we are investing £729m over three years in our people, processes and systems in order to transform our business for our customers.

Other examples of this transformation include:

- The launch of the innovative young driver insurance policy which incorporates 'smartbox' pay as you drive technology. This technology records how the car is being driven, reducing the risk of an accident and cutting the cost of car insurance because the safer the driving, the lower their premium. This has been very well received with the media and the road safety charity 'Brake'

- The in-store banking programme, which has created new in-store pilot facilities in our food stores this year and aims to increase this still further by year end. The programme illustrates the strength of the broader Co-operative Group and is having a very positive impact on the surrounding local communities (our Horbury branch was opened as a direct result of a petition from residents following the closure of the last plc bank in the village)
- The existing credit card platform, which will be migrated to the new FirstVision platform by the end of the year. FirstVision is a leading edge system which will enable the delivery of market leading products and services for our customers tailored to their needs.

As part of Project Unity, CFS is continuing to forge closer relationships across the broader Co-operative Group as we unify the Group's businesses and brands, and ensure the continuing renaissance of The Co-operative as a major UK retailer and financial services provider.

At the beginning of this year, a new Group executive structure was announced, reinforcing the common culture, purpose and strategic goals that unite our family of businesses. Project Unity will maximise the customer and commercial benefits of the scale, reach and reputation of the combined group. As a result, we anticipate significant synergies and opportunities for cross selling, which will considerably enhance both the financial strength of the business and the experience for the customer. As the project gathers momentum over the second half of the year, we look forward to delivering a truly unique proposition for our customers and members.

¹ The amount of customer deposits held on the balance sheet compared to the amount of unsecured customer loans.

Highlights

CFS's operating result and profit before taxation and distributions	6 months to June			
	2011 £m	2010 £m	Change £m	Change %
Income	785.8	673.5	112.3	16.7
Operating costs – steady state	(336.2)	(338.0)	1.8	0.5
Operating costs – strategic initiatives	(16.7)	(20.9)	4.2	20.1
Claims	(255.5)	(162.3)	(93.2)	(57.4)
Impairment losses	(46.1)	(43.0)	(3.1)	(7.2)
Operating result	131.3	109.3	22.0	20.1
Significant items	(34.7)	(22.1)	(12.6)	(57.0)
Payment Protection Insurance (PPI) provision	(90.0)	–	(90.0)	–
Short term investment fluctuations	3.1	(8.4)	11.5	136.9
Share of post tax profits from joint ventures	0.3	0.4	(0.1)	(25.0)
Financial Services Compensation Scheme (FSCS) levies	(7.6)	(3.3)	(4.3)	(130.3)
Profit before taxation, distributions and fair value amortisation	2.4	75.9	(73.5)	(96.8)
Fair value amortisation	16.7	(22.6)	39.3	173.9
Profit before taxation and distributions	19.1	53.3	(34.2)	(64.2)

The operating result of £131.3m was 20.1% higher than 2010, a robust performance given the challenging economic conditions and low interest rate environment, representing the notable strength of the underlying business.

Profit before taxation and distributions included a provision for Payment Protection Insurance (PPI) mis-selling of £90.0m. Although this is an industry wide issue, as a member owned organisation, we are committed to doing the right thing for our customers, especially if we get things wrong. We will deal with their complaints in a fair, personal, easy and responsible manner. Excluding PPI, profit before taxation, distributions and fair value amortisation was significantly higher than 2010, by 21.7%.

Income was 16.7% higher in the first half of 2011, compared to 2010, reflecting strong growth in insurance premiums in particular, but also income growth across most areas of the business.

Steady state costs continue to improve, with a reduction from the first half of 2010. This has been achieved despite the impact of strong inflationary pressures on the cost base (from the VAT increase, increased pension contributions and other factors). Excluding this inflationary impact, like for like costs have fallen by 4%, reflecting the continued policy of tight cost control, close headcount management, ongoing procurement initiatives, and the impact of synergy savings and management actions.

Claims in the general insurance business were 57.4% higher than 2010, reflecting increased volumes of insurance business, and also the worsening experience in bodily injury and legal claims and the cost of the bad weather at the end of 2010.

Impairment charges, £3m higher than 2010, have been substantially contained. Late mortgage arrears (>2.5% of balance) fell from 1.67% at the end of December 2010 to 1.41% at the end of June 2011.

Business and financial review continued

In the first half of 2011, CFS paid dividends of £34.0m. These payments support the overall Group membership scheme as well as our leading social goals and community involvement activities. In addition, distributions of profit have been made to individual members of The Co-operative Group, based on their account holdings with CFS businesses, of £13.3m. The total return in respect of dividends and member payments was therefore £47.3m. In addition, a dividend of £20.3m was proposed but not paid.

The capital and liquidity profile of the business continues to be robust. Despite the fierce competition for customer funds, the Bank has maintained an enviable customer funding ratio at 113% (December 2010: 107%), demonstrating high levels of customer confidence and trust. This strong liquidity position leaves the business well placed to weather the continued disruption in the European debt markets, and any future impact from the review by Moody's Rating Agency of systemic support within the UK banking sector. Total customer deposits have grown significantly from the end of 2010, while gross total advances of £1.4bn were extended to our customers during the first half of 2011. The capital position has remained secure, with a stable core tier one ratio of 9.6% and total capital ratio of 14.8% for the Bank. We remain in a position of strength to meet the increasing regulatory challenges faced by the industry.

The Reclaim Fund Ltd (RFL) is a wholly owned subsidiary of CFS, established with the approval of the Government to collect dormant customer account funds from UK financial institutions, retaining sufficient funds for future reclaims by customers and distributing surplus funds to good causes via the Big Lottery Fund. RFL is not included in CFS's shareholder results in the tables throughout the business and financial review, since the business is run on a not for profit basis.

In line with the Government's directive, during 2011, RFL received £280m of dormant savings account balances from UK financial institutions. RFL has made prudent provisions of £112m for the return of these deposits to customers, and has made a £113m provision for the payment of excess funds to the Big Lottery Fund. In line with regulatory requirements, RFL has retained £50m of surplus funds after costs to establish the necessary capital base to ensure the long term viability of the organisation.

Our businesses

	2011 £m	2010 £m	Change £m	Change %
CFS's operating result				
Retail	67.9	40.1	27.8	69.3
CABB and Optimum	21.6	25.7	(4.1)	(16.0)
Other	41.8	43.5	(1.7)	(3.9)
Operating result	131.3	109.3	22.0	20.1

CFS consists of the following main segments – Retail, Corporate and Business Banking (CABB) and Optimum. The prior year comparatives have been restated for these segments, and for the impact of the industry wide enhancements to transfer pricing methods.

The Retail business offers a range of financial products and services to individuals and households throughout the UK. Retail includes Retail Banking (trading as The Co-operative Bank, Britannia and **smile**), CIS General Insurance Ltd (CISGIL) and the Co-operative Asset Management (tCAM). The Long Term Business Fund, while not included in shareholder results within CFS or the tables throughout the business and financial review (since the business is run in the interests of the policyholders), is included in the Retail narrative for the purposes of this report.

CABB includes Corporate Banking, Business Banking, Business Services and Platform (CFS's intermediary mortgage business). It effectively incorporates all the key business-to-business elements of CFS. Optimum is the closed book of pre-merger intermediary and acquired loan book assets.

Included in the Other segment are the results of the Treasury activities of the business, and the earnings on free shareholder capital. This capital is held centrally to ensure the efficient use of capital within the business. Also included are the results of Unity Trust Bank.

Retail

Retail operating result	2011 £m	2010 £m	Change £m	Change %
Net interest income	199.0	191.0	8.0	4.2
Net earned premium	289.1	216.0	73.1	33.8
General insurance investment returns and other	34.9	23.6	11.3	47.9
Non-interest income	92.6	84.7	7.9	9.3
Net income	615.6	515.3	100.3	19.5
Operating costs – steady state	(260.0)	(264.2)	4.2	1.6
Operating costs – strategic initiatives	(14.1)	(17.9)	3.8	21.2
Claims	(255.5)	(162.3)	(93.2)	(57.4)
Impairment losses	(18.1)	(30.8)	12.7	41.2
Operating result	67.9	40.1	27.8	69.3

The operating result of our Retail business was £67.9m for the first half of 2011, 69.3% higher than 2010.

Retail Bank

The Retail Bank operating result was £59.3m compared with £28.7m in the first half of 2010, representing a considerable improvement in underlying profitability despite the challenges of the current economic environment and the continuing low base rate. The customer funding ratio has improved during the first half year mainly due to higher term deposit balances and current accounts offset by lower instant access balances reflecting the change in customer behaviour due to the low base rate environment.

The improvement in net interest income largely reflects the strong performance in our mortgage book with both balances and margins higher than the previous year, despite the competitive nature of the market. Our focus continues to be on delivering growth of high quality assets with the average loan to value remaining at below 50% across the retail business.

Mortgage income has improved largely as a result of the full year effect of higher new business margin completed in 2010 and for the first half of 2011. However, this has been partially offset by lower net interest income on both credit cards and liability balances. The cost of maintaining high liability balances (including healthy levels of term deposits) reflects our commitment to maintaining a strong liquidity position. Lower credit card balances and yields reflect the change in customer behaviour to pay down unsecured debt due to the recession.

Non-interest income was better than last year largely due to higher package fee income, reflecting improved prime current account stock, and higher merchant interchange on debit cards.

Impairment losses were significantly lower than 2010 reflecting declining interest bearing credit card balances and improved arrears collection. Mortgage quality has been maintained with continued low rates of impairment.

The strength of the retail customer proposition has again been recognised by a range of awards. CFS won Moneynet Personal Finance's 'Best Packaged Current Account' award, was named 'Best Longer Term Fixed Rate Mortgage Provider' by Moneyfacts and was successful in multiple categories at the Moneywise Customer Service awards.

General Insurance

The General Insurance business has achieved a healthy growth in both gross written and net earned premiums (32.5% and 33.8% respectively). This has had a positive impact on the underwriting result given the relatively fixed nature of the cost base.

The increase in claims reflects increased volumes of insurance business, and also a worsening experience in bodily injury and legal claims and the cost of the bad weather at the end of 2010.

Retention rates have remained broadly stable reflecting the loyalty of our customer base, the potential of the Co-operative brand and the success of retention initiatives.

Customer satisfaction with general insurance products and service is at 68% for Motor and 69% for Household, compared to market averages of 62% for Motor and 58% for Household, according to GFK NOP Financial Research Survey, July 2010 to June 2011.

We have won the 'Best Online Motor Insurance Provider 2011' by Your Money. In addition, the business was also successful in winning Intelligent Choice awards for Car Insurance Cover and Customer Satisfaction. For Home we were recognised as 'Best Home Insurance Provider' at the Consumer Moneyfacts awards 2011.

Long Term Business

The Long Term Business, run solely for the benefit of policyholders, saw sales figures in 2011 in line with 2010 levels, with a shift to a less profitable product mix. New business profitability was £7.2m compared with £8.5m in 2010. The present value of new business premiums for 2011 was also in line with 2010, achieved against a backdrop of a continued reduction in the number of financial advisers. The Long Term Business Fund's net revenues have reduced from 2010 to 2011 as a result of movements in the underlying value of the investment portfolio, which predominantly relate to a combination of market movements and changes in the composition of the portfolio. This movement is largely offset by a reduction in technical charges.

Maintenance expenses are broadly unchanged, increasing from £23.3m in 2010 to £24.2m in 2011.

The Long Term Business was well ahead of the industry average for customer advocacy in the 2010/11 ABI customer impact survey, where 79% of customers were 'likely' or 'very likely' to recommend the CFS Life and Savings business to others compared with an industry average of 69%.

We have now concluded our review of the Long Term Business. This strategic review, begun over two years ago, considered the context of our customer requirements, strategic plans and evolving market context, to determine the optimum model to meet the needs of customers and members. The proposals announced include the closure of our Field Sales Force, an enhanced Bancassurance relationship with AXA, and exclusive talks with Royal London, a North West based mutual, with a view to the sale of our life company, CIS Ltd and tCAM, our asset management company. Whilst some competitors have stepped away from the financial advice market entirely, these proposals ensure that Co-operative customers have continuing access to expert financial advice across our extensive branch network.

Business and financial review continued

CABB and Optimum

CABB and Optimum operating result	2011 £m	2010 £m	Change £m	Change %
Net interest income	80.4	64.4	16.0	24.8
Non-interest income	34.0	33.8	0.2	0.6
Net income	114.4	98.2	16.2	16.5
Operating costs – steady state	(63.8)	(59.1)	(4.7)	(8.0)
Operating costs – strategic initiatives	(2.3)	(2.6)	0.3	11.5
Impairment losses	(26.7)	(10.8)	(15.9)	(147.2)
Operating result	21.6	25.7	(4.1)	(16.0)

The operating result for CABB and Optimum has reduced by £4.1m, with a strong net interest income performance offset by impairment losses in a difficult economic environment.

Corporate

The increase in net interest income reflects the excellent progress we have made in growing our liabilities balances from £4.2bn in June 2010 to £6.7bn in June 2011. This has also been supplemented by continued measured growth in our asset books through selected and high quality new business.

Although the Bank was not one of the five organisations participating in Project Merlin², it remains committed to maintaining its long term support for SMEs (small to medium enterprises) and Corporate Banking continues to lend to this sector. As part of The Co-operative Group's radical new Ethical Plan, Corporate Banking committed to lending £1bn for small scale renewable energy projects by 2013.

Corporate Banking impairment losses have increased compared with 2010 due to the challenging economic environment. We continue to manage problem exposures through relationship managers and our close care teams within Corporate Banking, together with our specialist intensive care and recoveries teams.

Since 2007 we have doubled the number of our regional corporate banking centres from 10 to 20 in order to serve our expanding customer base. As part of our continuing expansion programme, we plan to open two further corporate banking centres in 2011 – one in St Albans that will be fully operational by September and a further centre in Guildford before the end of the year.

Corporate Banking's charity team topped the 2011 Charity Finance magazine survey for having the greatest share of charity banking relationships.

Platform

Platform has continued to focus on quality mortgage lending, including the buy to let sector. £0.3bn has been lent in the first half of the year with strong margins being achieved. Platform impairment losses continue to be less than £0.1m.

Optimum

The Optimum portfolio has continued to perform strongly relative to merger related fair value provisions, with a gradual reduction in the book size. Improvements in the arrears management process have continued to deliver reductions in arrears levels, and the fair valuation of the portfolio at merger continues to provide a high degree of cover against any credit losses. The financial performance has remained broadly stable against 2010.

Other businesses

The most significant component of this segment, Treasury, has delivered effectively on its core responsibilities of ensuring a strong and stable liquidity base, providing diverse sources of wholesale funding to the Bank, managing market risk within risk appetite and delivering a strong financial performance on the investment portfolio. Treasury profits were favourably impacted by investment gains on the sale of assets as the Bank continued to strengthen the liquid asset position.

CFS has continued to fund competitively in the wholesale markets, completing a lower tier two exchange in April 2011 which generated £143m of new money and exchanged £132m of existing subordinated debt into the new issuance. This has been followed in July 2011 by the second prime mortgage securitisation since the merger, worth approximately £730m, and provides further evidence of the confidence in the business from the financial markets.

Summary and outlook

On 22 July The Co-operative Financial Services announced that Neville Richardson has decided to step down as Chief Executive and will be leaving the Group later in the year. Barry Tootell, Chief Financial Officer at CFS, became Acting Chief Executive with immediate effect. James Mack has been appointed Acting Chief Financial Officer.

The challenges faced by the financial services industry in recent years remain considerable. We agree with the widespread recognition that the industry needs to change (as supported by the Independent Commission on Banking), and believe that we are excellently placed to address the genuine concerns of customers by providing an increasingly compelling co-operative alternative. We welcome any outcome of the Independent Commission on Banking that promotes easier account switching and greater competition.

The considerable investment in our new banking systems and the opportunities arising as part of Project Unity will help us further establish the compelling co-operative alternative. Furthermore, the transformation programme will enable us to meet the changing needs of our customers via increased online and mobile technology.

These results will ensure that CFS continues to be well placed to deliver the customer promise and move us closer to achieving our vision of becoming the UK's most admired financial services business.

² An agreement between the Government and the UK's four biggest banks, incorporating a commitment to lend more money in 2011, especially to small businesses, to pay less in bonuses than in last year and to be more transparent about their pay packages. The banks have also committed to make a greater contribution to regional economies and society.

Consolidated income statement

For the period ended 30 June 2011 (unaudited)

All amounts are stated in £m unless otherwise indicated

	Total shareholder return before significant items	Significant items	Total shareholder ⁽¹⁾	Long term business ⁽²⁾	Reclaim fund ⁽³⁾
Period ended 30 June 2011					
Interest and investment income	718.7	–	718.7	326.1	–
Interest paid	(365.5)	–	(365.5)	–	(0.1)
Amounts received in respect of dormant accounts	–	–	–	–	279.8
Gross earned insurance premiums	304.7	–	304.7	229.5	–
Premiums ceded to reinsurers	(15.6)	–	(15.6)	(9.1)	–
Commissions and fees receivable	139.3	(90.0)	49.3	25.5	–
Gains less losses from traded investments	12.8	–	12.8	(101.3)	–
Commissions and fees payable	(39.2)	–	(39.2)	(15.9)	–
Other	30.6	–	30.6	–	–
Net revenue	785.8	(90.0)	695.8	454.8	279.7
Net claims incurred	(255.5)	–	(255.5)	(487.2)	–
Technical charges	–	–	–	55.7	–
Impairment losses on investments	(1.3)	–	(1.3)	–	–
Impairment losses on loans and advances	(44.8)	–	(44.8)	–	–
Net revenue after claims and impairment	484.2	(90.0)	394.2	23.3	279.7
Change in unallocated divisible surplus	–	–	–	70.8	–
Dormant accounts reclaim provision	–	–	–	–	(111.9)
Provision for distribution to Big Lottery Fund	–	–	–	–	(113.4)
Tax attributable to policyholders	–	–	–	10.9	–
Operating expenses	(352.9)	(34.7)	(387.6)	(105.0)	(4.4)
Operating result	131.3	(124.7)	6.6	–	50.0
Fair value amortisation	16.7	–	16.7	–	–
Short term investment fluctuations	3.1	–	3.1	–	–
Share of post tax profits from joint ventures	0.3	–	0.3	–	–
Financial Services Compensation Scheme levies	(7.6)	–	(7.6)	–	–
Profit before taxation and distributions	143.8	(124.7)	19.1	–	50.0
Profit based payments to members of The Co-operative Group	(13.3)	–	(13.3)	–	–
Profit before taxation	130.5	(124.7)	5.8	–	50.0
Taxation	(34.7)	33.0	(1.7)	–	–
Minority interests	(1.5)	–	(1.5)	–	–
Profit for the period	94.3	(91.7)	2.6	–	50.0

(1) Total shareholder excludes Reclaim fund as ultimately all surplus funds are distributable to the Big Lottery Fund.

(2) Long term business operating expenses include £7.2m of significant items relating to non-recurring restructuring costs and financial services compensation scheme levies of £3.3m.

(3) Reclaim fund operating expenses include £4.1m of one off start up costs.

Consolidated income statement

For the period ended 30 June 2011 (unaudited)

All amounts are stated in £m unless otherwise indicated

	Total shareholder return before significant items	Significant items	Total shareholder ⁽¹⁾⁽³⁾	Long term business ⁽²⁾	Reclaim fund
Period ended 30 June 2010					
Interest and investment income	694.3	–	694.3	324.0	–
Interest paid	(338.0)	–	(338.0)	–	–
Gross earned insurance premiums	229.4	–	229.4	256.7	–
Premiums ceded to reinsurers	(13.4)	–	(13.4)	(8.2)	–
Commissions and fees receivable	133.4	–	133.4	22.4	–
Gains less losses from traded investments	3.6	–	3.6	98.6	–
Commissions and fees payable	(38.1)	–	(38.1)	(16.5)	–
Other	2.3	–	2.3	(4.0)	–
Net revenue	673.5	–	673.5	673.0	–
Net claims incurred	(162.3)	–	(162.3)	(473.5)	–
Technical charges	–	–	–	(161.9)	–
Impairment losses on investments	–	–	–	–	–
Impairment losses on loans and advances	(43.0)	–	(43.0)	–	–
Net revenue after claims and impairment	468.2	–	468.2	37.6	–
Change in unallocated divisible surplus	–	–	–	56.2	–
Tax attributable to policyholders	–	–	–	(8.6)	–
Operating expenses	(358.9)	(22.1)	(381.0)	(85.2)	–
Operating result	109.3	(22.1)	87.2	–	–
Fair value amortisation	(22.6)	–	(22.6)	–	–
Short term investment fluctuations	(8.4)	–	(8.4)	–	–
Share of post tax profits from joint ventures	0.4	–	0.4	–	–
Financial Services Compensation Scheme levies	(3.3)	–	(3.3)	–	–
Profit before taxation and distributions	75.4	(22.1)	53.3	–	–
Profit based distributions to members of The Co-operative Group	(8.7)	–	(8.7)	–	–
Profit before taxation	66.7	(22.1)	44.6	–	–
Taxation	(22.6)	6.2	(16.4)	–	–
Minority interests	–	–	–	–	–
Profit for the period	44.1	(15.9)	28.2	–	–

(1) Total shareholder excludes Reclaim fund as ultimately all surplus funds are distributable to the Big Lottery Fund.

(2) Long term business operating expenses include £1.6m of significant items relating to non-recurring restructuring costs and financial services compensation scheme levies of £0.2m.

(3) The interest income and interest paid reporting lines for the 2010 half year comparatives have been re-presented in line with presentation changes made within the 2010 year end CFS financial statements.

Consolidated statement of comprehensive income

For the period ended 30 June 2011 (unaudited)

All amounts are stated in £m unless otherwise indicated

	Total shareholder return before significant items	Significant items	Total shareholder ⁽¹⁾	Long term business	Reclaim fund
Period ended 30 June 2011					
Profit for the period – equity shareholders	94.3	(91.7)	2.6	–	50.0
Profit for the period – minority interests	1.5	–	1.5	–	–
Other comprehensive income:					
Changes in cashflow hedges	6.2	–	6.2	–	–
Changes in available for sale investments	(0.5)	–	(0.5)	–	–
Income tax on other comprehensive income	(2.1)	–	(2.1)	–	–
Other comprehensive income for the period net of income tax	3.6	–	3.6	–	–
Total comprehensive income for the period	99.4	(91.7)	7.7	–	50.0
Attributable to:					
Equity shareholders	98.1	(91.7)	6.4	–	50.0
Minority interests	1.3	–	1.3	–	–
Total comprehensive income for the period	99.4	(91.7)	7.7	–	50.0
Period ended 30 June 2010					
Profit for the period – equity shareholders	44.1	(15.9)	28.2	–	–
Profit for the period – minority interests	–	–	–	–	–
Other comprehensive income:					
Changes in cashflow hedges	27.1	–	27.1	–	–
Changes in available for sale investments	2.0	–	2.0	–	–
Income tax on other comprehensive income	(8.2)	–	(8.2)	–	–
Other comprehensive income for the period net of income tax	20.9	–	20.9	–	–
Total comprehensive income for the period	65.0	(15.9)	49.1	–	–
Attributable to:					
Equity shareholders	65.0	(15.9)	49.1	–	–
Minority interests	–	–	–	–	–
Total comprehensive income for the period	65.0	(15.9)	49.1	–	–

(1) Total shareholder excludes Reclaim fund as ultimately all surplus funds are distributable to the Big Lottery Fund.

Consolidated balance sheet

At 30 June 2011 (unaudited)

All amounts are stated in £m unless otherwise indicated

	Total shareholder ⁽¹⁾	Long term business	Reclaim fund	Eliminations	Total
At 30 June 2011					
Assets					
Cash	3,489.9	–	285.8	(3.0)	3,772.7
Derivative financial instruments	852.2	616.5	–	–	1,468.7
Loans and advances to banks	2,296.2	–	–	–	2,296.2
Loans and advances to customers	34,545.0	5.0	–	–	34,550.0
Investments	6,045.2	16,851.2	–	(47.6)	22,848.8
Investment property	177.7	1,514.1	–	–	1,691.8
Reinsurers' share of technical provisions	65.2	3,013.6	–	–	3,078.8
Intangible assets	353.2	21.3	–	–	374.5
Property, plant and equipment	173.3	–	–	–	173.3
Prepayments and other receivables	395.7	235.3	–	(24.8)	606.2
Total assets	48,393.6	22,257.0	285.8	(75.4)	70,861.0
Liabilities					
Amounts owed to credit institutions	2,722.2	1,264.6	–	–	3,986.8
Amounts owed to customers	35,938.3	–	–	(44.6)	35,893.7
Debt securities in issue	3,385.2	–	–	–	3,385.2
Derivative financial instruments	608.0	654.7	–	–	1,262.7
Insurance contracts	1,067.0	16,699.5	–	–	17,766.5
Investment contracts liabilities	–	330.4	–	–	330.4
Unallocated divisible surplus	–	966.3	–	–	966.3
Other borrowed funds	1,177.6	–	6.0	(6.0)	1,177.6
Other liabilities and accruals	459.9	2,296.2	4.5	(24.8)	2,735.8
Deferred tax	(34.0)	35.9	–	–	1.9
Retirement benefit obligations	44.7	–	–	–	44.7
Provisions	150.0	9.4	225.3	–	384.7
Minority interests	32.9	–	–	–	32.9
Equity	2,841.8	–	50.0	–	2,891.8
Total liabilities and equity	48,393.6	22,257.0	285.8	(75.4)	70,861.0

(1) Total shareholder excludes Reclaim fund as ultimately all surplus funds are distributable to the Big Lottery Fund.

Consolidated balance sheet

At 30 June 2011 (unaudited)

All amounts are stated in £m unless otherwise indicated

	Total shareholder	Long term business	Reclaim fund	Eliminations	Total
At 31 December 2010					
Assets					
Cash	1,735.6	19.7	–	(19.7)	1,735.6
Derivative financial instruments	956.4	772.4	–	–	1,728.8
Loans and advances to banks	2,394.1	–	–	–	2,394.1
Loans and advances to customers	35,160.3	5.6	–	–	35,165.9
Investments	6,236.7	16,343.5	–	(38.4)	22,541.8
Investment property	169.2	1,481.3	–	–	1,650.5
Reinsurers' share of technical provisions	54.1	3,047.9	–	–	3,102.0
Intangible assets	298.2	19.1	–	–	317.3
Property, plant and equipment	169.2	–	–	–	169.2
Prepayments and other receivables	384.9	217.5	–	(36.8)	565.6
Total assets	47,558.7	21,907.0	–	(94.9)	69,370.8
Liabilities					
Amounts owed to credit institutions	2,944.9	870.5	–	–	3,815.4
Amounts owed to customers	34,232.3	–	–	(58.1)	34,174.2
Debt securities in issue	4,212.2	–	–	–	4,212.2
Derivative financial instruments	711.3	525.8	–	–	1,237.1
Insurance contracts	963.4	16,789.5	–	–	17,752.9
Investment contracts liabilities	–	316.0	–	–	316.0
Unallocated divisible surplus	–	1,037.1	–	–	1,037.1
Other borrowed funds	975.4	–	–	–	975.4
Other liabilities and accruals	557.2	2,268.8	–	(36.8)	2,789.2
Deferred tax	(39.4)	59.2	–	–	19.8
Retirement benefit obligations	45.8	–	–	–	45.8
Provisions	63.6	9.8	–	–	73.4
Minority interests	31.6	30.3	–	–	61.9
Equity	2,860.4	–	–	–	2,860.4
Total liabilities and equity	47,558.7	21,907.0	–	(94.9)	69,370.8

Consolidated statement of changes in equity

For the period ended 30 June 2011 (unaudited)

All amounts are stated in £m unless otherwise indicated

	Share capital	General reserve ⁽²⁾	Retained earnings	Available for sale reserve	Cashflow hedging reserve	Total shareholder ⁽¹⁾	Reclaim fund reserve
Period from 1 January 2011 to 30 June 2011							
Equity balance at the beginning of the period	64.9	317.0	2,415.1	10.1	53.3	2,860.4	–
Total comprehensive income for the period	–	–	2.1	(0.9)	5.2	6.4	50.0
Dividend	–	(117.0)	92.0	–	–	(25.0)	–
Equity balance at the end of the period	64.9	200.0	2,509.2	9.2	58.5	2,841.8	50.0
Period from 1 July 2010 to 31 December 2010							
Equity balance at the beginning of the period	64.9	317.0	2,391.2	14.7	89.4	2,877.2	–
Total comprehensive income for the period	–	–	41.2	(4.6)	(36.1)	0.5	–
Dividend	–	–	(17.3)	–	–	(17.3)	–
Equity balance at the end of the period	64.9	317.0	2,415.1	10.1	53.3	2,860.4	–
Period from 1 January 2010 to 30 June 2010							
Equity balance at the beginning of the period	64.9	317.0	2,387.4	13.2	70.0	2,852.5	–
Total comprehensive income for the period	–	–	28.2	1.5	19.4	49.1	–
Dividend	–	–	(24.4)	–	–	(24.4)	–
Equity balance at the end of the period	64.9	317.0	2,391.2	14.7	89.4	2,877.2	–

(1) Total shareholder excludes Reclaim fund as ultimately all surplus funds are distributable to the Big Lottery Fund.

(2) During the period, £117.0m was distributed from the general reserve of Co-operative Insurance Society Limited to Co-operative Financial Services Limited, the parent company of the CFS Group. The parent subsequently made a capital contribution of £87.0m to The Co-operative Bank plc.

Segmental analysis

For the period ended 30 June 2011 (unaudited)

All amounts are stated in £m unless otherwise indicated

The CFS Group's primary basis of segmentation is by business activity. In its interim financial report for the period ended 30 June 2010, the CFS Group reported its operating segments as Retail, Corporate and Markets and Other. At the highest level, the CFS Group's internal reporting structure has been revised and is now split into Retail, Corporate and Business Banking (CABB), Optimum and Other based on differences in products and services. The comparative information as at 30 June 2010 has been restated as appropriate to reflect the new segments. Income and costs are allocated using transfer pricing and activity based management methodologies.

				Total shareholder return before significant items
Period ended 30 June 2011	Retail	CABB and Optimum	Other	
Net interest income	199.0	80.4	71.8	351.2
Net earned premium	289.1	–	–	289.1
Net investment income	34.9	–	–	34.9
Net non-interest income	92.6	34.0	(16.0)	110.6
Net revenue	615.6	114.4	55.8	785.8
Operating costs	(274.1)	(66.1)	(12.7)	(352.9)
Claims	(255.5)	–	–	(255.5)
Impairment losses	(18.1)	(26.7)	(1.3)	(46.1)
Operating result	67.9	21.6	41.8	131.3
Fair value amortisation				16.7
Short term investment fluctuations				3.1
Share of post tax profits from joint ventures				0.3
Financial Services Compensation Scheme levies				(7.6)
Profit based payments to members of The Co-operative Group				(13.3)
Profit before taxation and significant items				130.5
Period ended 30 June 2010	Retail	CABB and Optimum	Other	Total shareholder return before significant items
Net interest income	191.0	64.4	72.5	327.9
Net earned premium	216.0	–	–	216.0
Net investment income	23.6	–	–	23.6
Net non-interest income	84.7	33.8	(12.5)	106.0
Net revenue	515.3	98.2	60.0	673.5
Operating costs	(282.1)	(61.7)	(15.1)	(358.9)
Claims	(162.3)	–	–	(162.3)
Impairment losses	(30.8)	(10.8)	(1.4)	(43.0)
Operating result	40.1	25.7	43.5	109.3
Fair value amortisation				(22.6)
Short term investment fluctuations				(8.4)
Share of post tax profits from joint ventures				0.4
Financial Services Compensation Scheme levies				(3.3)
Profit based payments to members of The Co-operative Group				(8.7)
Profit before taxation and significant items				66.7

Notes



Design by Radley Yeldar

Printed at APS Group, an ISO 14001 and FSC certified company.

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Registered office: New Century House, Manchester M60 4ES

Registered number: 29379R

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