

Company Announcement Office Statement

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

The Co-operative Group, today, Thursday 26th August 2010, announced continued progress and growth across its family of businesses for the 26 weeks ended 3rd July 2010. In spite of the tough economic conditions, and a half year which had two weeks less trading than the comparable period last year, Group revenue was up 8% to £6.9bn, while underlying Group operating profit was up 14% to £307m. Underlying profit before payments to and on behalf of members (equivalent to pre-tax profits) was up 17% to £260m. Once again Co-operative Financial Services (CFS) has made a significant contribution to its parent's strong trading performance.

The Co-operative Financial Services (CFS)

CFS has today announced results that confirm the strength of its balance sheet and strong sales performance across its business.

Highlights of CFS interim financial results for the six months to 30 June 2010

- **Strong Profit & Balance Sheet Performance**
 - Operating results up 34% to £109.3m*
 - Total impairments down 41.1%*
 - Customer funding ratio strengthened further to 110%

- **Strong Sales & Business Retention**
 - Like-for-like mortgage applications up by 31%*
 - Combined corporate and retail deposits increased by £1.4 billion**
 - New general insurance policies up 32%*
 - Life and savings sales up 5%*

- **Excellent progress made in creating one business**
 - Co-operative current accounts available in all Britannia branches
 - Core products aligned across Co-operative and Britannia channels
 - Excellent customer advocacy and colleague engagement scores maintained
 - Single organisational structure in place
 - CFS named the World's Most Sustainable Bank

* Compared against first half of 2009

** Compared against year end position (31.12.2009)

Strong Profit Balance Sheet and Business Performance

Diverse businesses and strong brands, together with stable customer relationships and a comprehensive product range, supported by a flexible distribution model, have made CFS well placed to capitalise on current market conditions by offering a sustainable alternative to traditional High Street banks.

Strong underlying profit, capital and liquidity underpin this sustainable business model, which continues to support growth and business development despite the difficult trading environment, growing unemployment and continuing low interest rates.

Over the last twelve months, following the merger with Britannia Building Society, CFS has successfully integrated two complementary businesses. The early establishment of a single executive, strategy and senior management structure allowed the business to move quickly beyond stabilisation into transformation.

Total operating result was £109.3m compared with £81.4m in the first half of 2009, and represents an increase of 34.3%. Profit before taxation, membership distributions and fair value amortisation to the half year of £75.9m was 50.3% higher than the first half of 2009.

Impairment costs have been reduced significantly, down 41.1% to £43.0m (2009: £73m), reflecting improvements in arrears collection and credit risk profiling and the good overall asset quality. CFS' residential book is predominantly prime in nature, geographically spread with low and reducing loan to value. This is complemented with a diversified corporate portfolio benefiting from centralised underwriting that provides strong control and governance across the range of assets.

CFS remains strongly capitalised with very high levels of liquidity. At June 2010 the Bank has a capital ratio of 13.2% and a tier 1 ratio of 9.0%. Large inflows of retail and corporate deposits strengthened the customer funding ratio still further to 110% from 104% at December 2009.

CFS has continued to attract large numbers of new customers who want to be part of a financially strong business untainted by the credit crisis because it is member-owned, customer-led and ethically guided.

The continuing strength of CFS's customer proposition and advocacy scores helped total income rise by 21.0% to £673.5m from £556.4m, reflecting both the increased scale of the combined business and notable organic growth in developing business areas.

Total customer deposits increased substantially by £1.4bn (4.2%), helping to further improve CFS's already strong liquidity position and providing the basis for further lending into the corporate and retail markets at a time when many competitors have re-trenched.

Customer lending balances have increased, reflecting CFS' continued support to families and small businesses during these difficult times, advancing £1.1bn to mortgage customers and £0.4bn to businesses.

Strong Performance within Retail and Corporate & Markets sectors

CFS is split into two main segments:

- Retail – which provides financial products and services to individuals, households, small businesses and includes retail banking, general insurance and life and savings.
- Corporate and Markets (CAM) – which offers a range of business-to-business products and services and includes corporate banking, asset management, mortgage intermediary business and treasury

Underlying operating result in the retail business was up 41%. Retail result remains impacted by the low interest rate environment which kept margins at historically low levels. Retail net income

increased £60.2m (14.2%) to £485.1m following the inclusion of Britannia and a strong performance from the general insurance business.

Retail deposits increased by £0.4bn, thanks largely to a best ever ISA campaign in which 97% of customers chose to stay with CFS when their fixed-rate ISAs matured.

Sales of current accounts have continued to increase along with the number of people regarding The Co-operative as their primary current account provider, with total balances increasing by 5.8%.

A new suite of competitive mortgage products was launched across both the Co-operative and Britannia sales channels, available to both new and existing borrowers and topping newspaper best buy tables throughout the period. As a result like-for-like mortgage applications increased 31%.

The general insurance business achieved healthy growth in both gross written and earned premiums, with new policies up 32% and new business premiums up 64%. Retention rates remained stable, reflecting the loyalty of the customer base, the strength of the Co-operative brand and success of a number of retention initiatives.

General insurance claims were 9.7% higher at £162.3m, due both to the large increase in business and the exceptionally cold weather conditions in early 2010.

The Co-operative Insurance is now firmly established in the growing broker panel and aggregator channels and its price competitiveness and strong service offering is serving the business well within a highly competitive market.

The life and savings business, run solely for the benefit of policyholders, also had a strong first half with new business profitability more than doubled to £8.5m. Maintenance expenses within the life and savings business were reduced by 35% to £23.3m.

Life and savings' sales increased by 5% through a smaller number of financial advisers. The present value of new-business premiums for 2010 rose to £384m, up 25%, as savings customers were drawn in increasing numbers to CFS's range of sustainable unit trusts.

The Corporate & Markets (CAM) operating result more than doubled to £80.7m. New customer deposits grew by an unprecedented £0.8bn (24%), as increasing numbers of corporate customers were drawn to the financial strength, service proposition and unique brand positioning of the corporate banking business. Net income for CAM increased significantly by £64.6m (66.3%) to £162.1m.

Relationship banking for small to medium sized corporate organisations and renewable energy finance also grew. The relationship banking proposition in particular is attracting new customers dissatisfied with the usual market players.

A commitment to lend £200m in 2010 to small and medium sized renewable energy projects, including community groups, underlined the bank's leadership in this specialist area. As the Government seeks to boost renewable energy through initiatives such as the Green Investment Bank, the market offers considerable opportunities for further growth.

CFS & Britannia integration – transforming into one business

Significant progress has been made in the three year integration and transformation programme, which is ahead of plan and bringing CFS closer to achieving its vision of being the UK's most admired financial services business. At merger the business anticipated achieving £60m of synergy benefits by the end of 2012 and had expected to have delivered approximately 50% of these benefits by the end of 2010. Progress is such that CFS expects to beat this year's target by approximately £8m.

CFS's 9 million customers are also seeing a number of merger benefits including:

- Aligning the standard variable mortgage rates (SVR) of the two organisations and introducing a common range of mortgage and savings products.
- Co-operative current accounts available through all Britannia branches.
- A new online banking system for corporate and business customers, the first release of a major investment programme that will transform CFS's banking capability.

Reflecting its balanced scorecard approach, CFS continues to achieve market leading levels of customer advocacy, colleague engagement and social responsibility, alongside sustainable profit growth.

CFS has maintained high levels of colleague engagement, with 89% of employees feeling proud to work for the business despite the inevitable changes arising from the merger. Colleague engagement enables CFS's market-leading customer satisfaction and advocacy scores, where it continues to beat its peers in each of its core business areas.

Strong customer endorsement is mirrored by a large number of consumer and industry awards. In June CFS received global recognition when it was named the World's Most Sustainable Bank of the Year by the Financial Times and International Finance Corporation (IFC), part of the World Bank. Other awards included: The Co-operative Insurance voted Best Online Motor Insurance Provider 2010 by Your Money; **smile** voted most trusted current account provider by Your Money; and CFS named a 'recommended provider' across a range of product categories by Which? Magazine.

Reflecting the Co-operative Group's primacy in the field of corporate social responsibility, CFS has continued to pioneer in the financial services sector, with its asset management arm leading the challenge to BP and Shell over the commercial and environmental impacts of their tar sands developments in Canada.

As part of the Co-operative Group's Inspiring Young People agenda, CFS is rolling out a schools programme to improve numeracy, financial literacy and employability. CFS is also sponsoring the new Manchester Academy that will transform the educational environment for thousands of children in one of Manchester's most deprived areas.

Looking forwards with confidence

CFS has come through the credit crisis with its brand, financial strength and customer satisfaction advocacy enhanced. The merger with Britannia has created a vibrant member-owned business, which as part of the UK's largest community retailer, The Co-operative Group, can look forward to the future with confidence and optimism.

CFS will continue to measure its success across a range of indicators which includes delivering sustainable levels of profit for its members, achieving market-leading levels of customer advocacy and colleague engagement.

CFS is continuing to invest heavily in customer service and a new banking platform, which will significantly increase its capability to bring products to market more quickly and efficiently and provide the potential for significant growth.

Allied to these improved systems CFS will integrate its channels to provide a single, seamless customer proposition, reflecting its aim to be a pioneering business that delivers sustainable financial services for members and society. It will make the business more flexible and scalable while delivering services and products to CFS customers that they see as being fair, easy, personal and responsible.

CFS will also continue to lead by example in areas such as social banking where it is already a recognised leader in the charity, social housing and renewable energy sectors.

As UK consumers increasingly question the financial services 'status quo', its member-owned, customer-led and ethically-guided business model offers a real alternative.

Ends

CFS consolidated income statement

For the period ended 30 June 2010 (unaudited)

All amounts are stated in £m unless otherwise indicated

	Total shareholder return before significant items	Significant items	Total shareholder	Long-term business (1)
2010				
Interest and investment income	926.6	-	926.6	324.0
Interest paid	(570.3)	-	(570.3)	-
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 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 payments 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) Long-term business operating expenses include £1.6m of significant items. This relates to non-recurring restructuring costs.

CFS Consolidated income statement

For the period ended 25 July 2009 (unaudited)

All amounts are stated in £m unless otherwise indicated

	Total shareholder return before significant items	Significant items	Total shareholder	Long-term business (1)
2009				
Interest and investment income	353.8	-	353.8	361.5
Interest paid	(94.6)	-	(94.6)	-
Gross earned insurance premiums	211.2	-	211.2	269.8
Premiums ceded to reinsurers	(9.5)	-	(9.5)	(9.0)
Commissions and fees receivable	112.7	-	112.7	21.9
Gains less losses from traded investments	8.8	-	8.8	(839.8)
Commissions and fees payable	(29.1)	-	(29.1)	(16.7)
Other	3.1	-	3.1	11.2
Net revenue	556.4	-	556.4	(201.1)
Net claims incurred	(147.9)	-	(147.9)	(581.0)
Technical charges	-	-	-	1053.2
Impairment losses on loans and advances	(73.0)	-	(73.0)	-
Net revenue after claims and impairment	335.5	-	335.5	271.1
Change in unallocated divisible surplus	-	-	-	(228.8)
Tax attributable to policyholders	-	-	-	69.4
Operating expenses	(254.1)	(22.3)	(276.4)	(111.7)
Operating result	81.4	(22.3)	59.1	-
Fair-value amortisation	-	-	-	-
Short-term investment fluctuations	(6.4)	-	(6.4)	-
Share of post-tax profits from joint ventures	-	-	-	-
Financial services compensation scheme levies	(2.2)	-	(2.2)	-
Profit before taxation and distributions	72.8	(22.3)	50.5	-
Profit-based payments to members of The Co-operative Group	-	-	-	-
Profit before taxation	72.8	(22.3)	50.5	-
Taxation	(18.6)	6.3	(12.3)	-
Minority interests	(2.0)	-	(2.0)	-
Profit for the period	52.2	(16.0)	36.2	-

(1) Long-term business operating expenses include £11.7m 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, a subsidiary of Co-operative Financial Services, are detailed below:-

The Co-operative Bank profit before tax of £28.9m was £4.0m higher than in 2009. The 2010 result includes the profits of the merged Britannia business.

The Co-operative Bank operating result and profit before taxation

	2010 £m	2009 £m	Change £m	Change %
Operating income	403.2	295.7	107.5	36.4%
Operating expenses	(280.8)	(181.0)	(99.8)	-55.1%
Impairment losses	(43.0)	(73.0)	30.0	41.1%
Operating result	79.4	41.7	37.7	90.4%
Significant items	(18.3)	(14.6)	(3.7)	
Share of post tax profits from joint ventures	0.4	-	0.4	
Financial services compensation scheme levies	(3.3)	(2.2)	(1.1)	
Profit before tax, distributions and fair-value amortisation	58.2	24.9	33.3	
Fair-value amortisation	(22.6)	-	(22.6)	
Membership dividend	(6.7)	-	(6.7)	
Profit before tax	28.9	24.9	4.0	

Profit before tax, distributions and fair-value amortisation to the half year of £58.2m is £33.3m higher than the first half of 2009. Additionally, the 2010 profits reflect a charge of £22.6m for the amortisation of fair values which were created at the time of the merger with Britannia Building Society. Total operating result was £79.4m compared with £41.7m in the first half of 2009 (an increase of 90.4%)

These results reflect the merger with Britannia, business success in strengthening underlying profitability despite the challenges of the current economic environment and the ongoing weakness in the financial services sector in particular. In addition, underlying capital and liquidity positions remain strong, laying the foundations for stable growth.

Income and operating results show growth of 36.4% and 90.4% respectively. The 2010 figures include the Britannia business for the half year, with 2009 figures reflecting the heritage-CFS business (pre-merger) only. In addition, the 2010 half year covers a period of 26 weeks, while 2009 figures reflect a 28 week period.

The growth in both income and costs reflects the increase in scale of the business post merger, although it is noteworthy that impairment has fallen by 41.1% in 2010. This reflects a combination of improved arrears-collection processes and tightening of credit-risk scorecards in the unsecured lending business, together with continued focus on credit quality within corporate banking. These figures represent a favourable result in the current economic climate.

The Co-operative Bank plc
Consolidated statutory income statement for the period ended 30 June 2010

£m	Period to 30 June 2010			Period to 25 July 2009		
	Before significant items	Significant items	After significant items	Before significant items	Significant items	After significant items
Interest receivable and similar income	863.2	-	863.2	298.3	-	298.3
Interest expense and similar charges	(570.9)	-	(570.9)	(96.1)	-	(96.1)
Net interest income	292.3	-	292.3	202.2	-	202.2
Fee and commission income	121.7	-	121.7	111.7	-	111.7
Fee and commission expense	(28.6)	-	(28.6)	(22.2)	-	(22.2)
Net fee and commission income	93.1	-	93.1	89.5	-	89.5
Net trading income	2.1	-	2.1	3.5	-	3.5
Other operating income	0.2	-	0.2	0.5	-	0.5
Operating income	387.7	-	387.7	295.7	-	295.7
Operating expenses	(287.9)	(18.3)	(306.2)	(181.0)	(14.6)	(195.6)
Financial services compensation scheme levies	(3.3)	-	(3.3)	(2.2)	-	(2.2)
Impairment losses on loans and advances	(43.0)	-	(43.0)	(73.0)	-	(73.0)
Operating profit	53.5	(18.3)	35.2	39.5	(14.6)	24.9
Share of post-tax profits from joint ventures	0.4	-	0.4	-	-	-
Profit before taxation and profit-based payments	53.9	(18.3)	35.6	39.5	(14.6)	24.9
Profit-based payments to members of The Co-operative Group	(6.7)	-	(6.7)	-	-	-
Profit before taxation	47.2	(18.3)	28.9	39.5	(14.6)	24.9
Income tax	(17.1)	5.0	(12.1)	(12.3)	4.1	(8.2)
Profit for the period	30.1	(13.3)	16.8	27.2	(10.5)	16.7
Attributable to:						
Equity shareholders	30.1	(13.3)	16.8	25.2	(10.5)	14.7
Minority interests	-	-	-	2.0	-	2.0
Earnings per share	0.66p	(0.29)p	0.37p	0.76p	(0.32)p	0.44p

The significant items relate to non-recurring restructuring costs.

The Co-operative Bank plc
Consolidated statement of comprehensive income
For the period ended 30 June 2010

	Period to 30 June 2010 £m	Period to 25 July 2009 £m
Profit for the period – equity shareholders	16.8	14.7
Profit for the period – minority interests	-	2.0
Profit for the period	16.8	16.7
Other comprehensive income:		
Changes in cashflow hedges		
Net changes in fair value recognised directly in equity	35.6	(21.8)
Income tax	(9.9)	6.1
Changes in available-for-sale assets		
Net changes in fair value recognised directly in equity	(19.8)	6.8
Income tax	5.5	(1.9)
Transfer to other operating income on disposal of equity shares	-	(0.7)
Income tax	-	0.2
Other comprehensive income for the period, net of income tax	11.4	(11.3)
Total comprehensive income for the period	28.2	5.4
Attributable to:		
Equity shareholders	28.2	4.3
Minority interests	-	1.1
Total comprehensive income for the period	28.2	5.4

The Co-operative Bank plc
Consolidated balance sheet
At 30 June 2010

	30	31
	June	December
	2010	2009
		Restated
	£m	£m
Assets		
Cash and balances at central banks	1,591.7	1,706.8
Loans and advances to banks	2,318.8	1781.5
Loans and advances to customers	34,069.9	34,073.7
Fair value adjustments for hedged risk	212.4	66.1
Investment securities – loans and receivables	2,183.3	2,486.2
Investment securities – available-for-sale	3,880.5	4,457.3
Derivative financial instruments	953.9	1,023.0
Equity shares	7.2	7.2
Investments in joint ventures	2.2	1.8
Goodwill	0.6	0.6
Intangible fixed assets	39.9	46.1
Investment properties	154.9	137.7
Property, plant and equipment	106.5	121.5
Amounts owed by other Co-operative Group undertakings	18.6	91.0
Other assets	50.0	22.1
Prepayments and accrued income	23.0	30.1
Deferred tax assets	83.7	86.1
Total assets	45,697.0	46,138.8
Liabilities		
Deposits by banks	3,139.7	6,082.4
Customer accounts	32,067.5	30,828.2
Customer accounts – capital bonds	1,789.6	1,647.1
Debt securities in issue	4,394.0	3,334.3
Derivative financial instruments	736.9	591.3
Other borrowed funds	976.1	946.5
Amounts owed to other Co-operative Group undertakings	330.9	329.2
Other liabilities	120.6	221.9
Accruals and deferred income	128.6	158.0
Provisions for liabilities and charges	58.4	52.8
Current tax liabilities	51.2	71.0
Total liabilities	43,793.5	44,262.7
Capital and reserves attributable to the Bank's equity holders		
Ordinary share capital	230.0	230.0
Share premium account	8.8	8.8
Retained earnings	1,579.6	1,562.8
Available-for-sale reserve	(11.8)	2.5
Cashflow hedging reserve	64.1	38.4
	1,870.7	1,842.5
Minority interests	32.8	33.6
Total equity	1,903.5	1,876.1
Total liabilities and equity	45,697.0	46,138.8

The Co-operative Bank plc
Consolidated statement of cash flows - for the period ended 30 June 2010

	Period to 30 June 2010 £m	Period to 25 July 2009 £m
Cash flows from operating activities		
Profit before taxation	28.9	24.9
Adjustments for:		
Decrease in prepayments and accrued income	7.1	7.1
(Decrease)/increase in accruals and deferred income	(99.5)	17.3
Interest payable in respect of subordinated liabilities	22.3	9.4
Effect of exchange rate movements	46.0	(3.7)
Effect of non-cash pension costs	0.1	0.1
Impairment losses on loans and advances	43.0	73.0
Depreciation and amortisation	13.1	9.6
Interest amortisation	-	(6.2)
Amortisation of investments	(36.5)	0.3
Loss on disposal of fixed assets	0.6	0.5
Unwind of fair value adjustments arising on transfer of engagements	22.6	-
Preference dividend	2.8	3.0
	50.5	135.3
(Decrease)/increase in deposits by banks	(2,942.7)	57.3
Increase in customer accounts	1,381.3	595.3
Increase/(decrease) in debt securities in issue	836.1	(120.2)
Decrease in loans and advances to banks	185.0	304.9
Increase in loans and advances to customers	(44.4)	(378.9)
Decrease/(increase) in amounts owed by other Co-operative Group undertakings	72.4	(43.2)
Increase/(decrease) in amounts owed to other Co-operative Group undertakings	1.7	(127.3)
Net movement of other assets and other liabilities	129.1	9.7
Income tax (paid)/recovered	(33.9)	2.3
Net cash flows from operating activities	(364.9)	435.2
Cash flows from investing activities		
Purchase of property, plant, equipment and software	(16.2)	-
Proceeds from sale of property, plant and equipment	2.1	-
Purchase of investment securities	(750.1)	(9,973.3)
Proceeds from sale and maturity of investment securities	2,043.8	9542.3
Net cash flows from investing activities	1,279.6	(431.0)
Cash flows from financing activities		
Interest paid on subordinated loan stock	(20.8)	(13.0)
Proceeds of issued shares	-	120.0
Preference share dividends paid	(2.8)	(2.8)
Dividends paid to minority shareholders in subsidiary undertaking	(0.8)	(0.8)
Net cash flows from financing activities	(24.4)	103.4
Increase in cash and cash equivalents	890.3	107.6
Cash and cash equivalents at beginning of the period	2,387.3	2,324.0
Cash and cash equivalents at end of the period	3,277.6	2,431.6
Cash and balances with central banks	1,556.1	407.6
Loans and advances to banks	1,186.4	1,131.3
Short term investments	535.1	892.7
	3,277.6	2,431.6

The Co-operative Bank plc
Consolidated statement of changes in equity
For the period ended 30 June 2010

Attributable to equity holders of the company

	Share capital	Share premium	Available -for-sale reserve	Cashflow hedging reserve	Retained earnings	Total	Minority interest	Total equity
Period from 1 January 2010 to 30 June 2010								
At the beginning of the period	230.0	8.8	2.5	38.4	1,562.8	1,842.5	33.6	1,876.1
Total comprehensive income for the period	-	-	(14.3)	25.7	16.8	28.2	-	28.2
Transactions with owners recorded directly in equity:								
Dividend	-	-	-	-	-	-	(0.8)	(0.8)
Total equity	230.0	8.8	(11.8)	64.1	1,579.6	1,870.7	32.8	1,903.5
Period from 26 July 2009 to 31 December 2009								
At the beginning of the period	175.0	8.8	(11.8)	43.9	656.2	872.1	33.2	905.3
Amounts arising on transfer of engagements	-	-	-	-	811.2	811.2	-	811.2
Total comprehensive income for the period	-	-	14.3	(5.5)	95.4	104.2	0.5	104.7
Transactions with owners recorded directly in equity:								
Increase in share capital	55.0	-	-	-	-	55.0	-	55.0
Dividend	-	-	-	-	-	-	(0.1)	(0.8)
Total equity	230.0	8.8	2.5	38.4	1,562.8	1,842.5	33.6	1,876.1
Period from 11 January 2009 to 25 July 2009								
At the beginning of the period	55.0	8.8	(16.6)	59.1	641.5	747.8	32.9	780.7
Total comprehensive income for the period	-	-	4.8	(15.2)	14.7	4.3	1.1	5.4
Transactions with owners recorded directly in equity:								
Increase in share capital	120.0	-	-	-	-	120.0	-	120.0
Dividend	-	-	-	-	-	-	(0.8)	(0.8)
Total equity	175.0	8.8	(11.8)	43.9	656.2	872.1	33.2	905.3

BASIS OF PREPARATION

EU law (IAS Regulation EC1606/2002) required that the annual consolidated financial statements for the year ended 31 December 2010 are prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) guidance as issued by the European Union.

This financial information is unaudited and does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The comparative figures for the financial year ended 31 December 2009 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The condensed consolidated interim financial report for the half-year ended 30 June 2010 has been prepared in accordance with the Disclosure and Transparency Rules of the financial Services Authority and with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. The interim financial report should be read in conjunction with the financial statements 2009, which have been prepared in accordance with IFRS as adopted by the European Union.

The accounting policies, methods of computation and presentation adopted by the Bank in the preparation of its 2010 interim financial report are those which the Bank currently expects to adopt in its 2010 financial statements and are consistent with those disclosed in the financial statements 2009.

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 Bank has sufficient resources to continue in business for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

PRIOR YEAR RESTATEMENTS

In accordance with IFRS 3, the Bank has twelve months from the date of the merger with Britannia in which to complete the initial accounting based on facts and circumstances that existed at merger date. The Bank has reassessed the carrying values of the Britannia assets and liabilities acquired and made the following adjustments.

The carrying value of loans and advances to customers has been increased following a review of the probabilities of default of assets that were neither past due nor impaired at the merger date. Based on further information that has become available, the Bank has reassessed the fair value of provisions for liabilities and charges.

The impact of these adjustments is not material to the overall level of adjustments to the carrying values of Britannia assets and liabilities that were made on merger and there is no change to the amount of goodwill arising.

USE OF ESTIMATES AND JUDGEMENTS

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

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

Management believes that the Bank's critical accounting policies where judgment is necessarily applied are consistent with those outlined in the 2009 financial statements.

ACCOUNTING DATE

In 2009 the Bank elected to change its accounting-year-end date to 31 December to align with Britannia Building Society following the merger on 1 August 2009. Therefore this interim financial report relates to the six month period to 30th June 2010. The comparative period given is that disclosed in the interim financial report 2009 which covers the 28-week period to 25 July 2009.