The **co-operative** bank
good with money

The Co-operative Bank plc
Support and security in the community.

Financial statements 2009

Part of The **co-operative** financial services

The Co-operative Financial Services (CFS) was formed in 2002 from the bringing together of The Co-operative Bank and The Co-operative Insurance Society. This year, upon the merger with Britannia Building Society, the business has further developed its profile as the UK's most diversified mutual financial services provider. But behind this process of evolution lies the strength that comes from being a key part of The Co-operative Group, the UK's largest consumer co-operative.

Our position in The Co-operative Group opens up to our customers, and particularly our growing body of members, the opportunity to benefit from a unique range of services including food stores, pharmacy, funeral directors, travel and of course financial services. We benefit too from a long and distinguished history, a firm grounding in our community and a great reputation amongst people who do business with us. But more importantly, in recent years we have begun to capitalise on that history and reputation to increase our profile and attract a whole new generation of consumers to the 'co-operative difference'.

Nowhere has there been such a fertile ground for establishing our credentials, as the financial services arena. Difficult as the business climate has been, it has offered major opportunities for The Co-operative Bank to demonstrate to consumers the real, practical benefits of dealing with, and indeed becoming a member of, the co-operative movement.

The 'credit crunch' has made consumers increasingly appreciative of responsible stewardship and an ethically-led business strategy. By lending within the level of customer deposits we have largely escaped the pitfalls of financial over-exposure, while the absence of publicly listed shares has allowed us to focus wholly on the interests of our customers. As a result, switching of customer accounts from the so-called 'big five' banks to The Co-operative Bank increased significantly in 2009. Meanwhile our ethical policy has seen us reject over £1bn in lending which failed to meet our ethical guidelines; however our ethical approach has attracted significantly more than this in other areas.

Market commentators too, have recognised the value of the 'co-operative difference'. As the year started, Which? Magazine voted The Co-operative Bank as the 'Financial Services Provider of the Year', while the Bank and **smile** took two of the top three places in the inaugural Which? Money People's Choice awards, topping the customer satisfaction charts for current accounts.

But while we have avoided the high-risk growth strategies of our competitors, The Co-operative Bank has been firmly focused on future growth.

The most significant development of 2009, for our business and for the Bank in particular, was the merger of The Co-operative Financial Services with the Britannia Building Society. The first merger between a mutual and a co-operative, this brought together two successful, member-run businesses with complementary, customer-centred values. The Co-operative Bank's customer proposition was strengthened by the integration of Britannia's mortgage and savings experience; furthermore the Britannia branch network increased our branch presence by 200%, significantly raising both our footfall and high-street profile. In addition, The Co-operative Group membership was boosted by some 1.4m Britannia members – expanding the Group membership population by nearly 50%.

A merger of two businesses is clearly a major undertaking. However the Board and the new leadership team have wasted no time in creating a shared corporate vision and values, and putting an integrated senior management structure in place. Colleagues across both businesses have worked together magnificently to create the systems and processes to allow us to meet our regulatory and legal requirements from day one.

For our customers, however, deliberately there has been little change. We were determined to deliver 'business as usual' even as the new organisation took shape, and a key priority throughout the second half of the year has continued to be that the customer comes first.

Over the next three years we will be making significant investment in the infrastructure we need to make the customer experience fair, responsible, easy and personal for all our customers – whether face-to-face, by telephone or online. The opportunities, both for our customers and our business, are outstanding; but our growth strategy will always be driven by the desire to put the customer first in all things. We intend to grow at a pace and in a way that guarantees our customers an uninterrupted, seamless service.

This has been a year of impressive progress. Thanks to the Britannia merger, The Co-operative Bank has strengthened its presence and its customer proposition. A common leadership team, management structure and a refreshed vision, values and strategy are in place; while in the opinion of consumers and commentators alike, we continue to stand out from our competitors as a responsible, ethical business that treats its customers' money and interests as its own.

As a result The Co-operative Bank finds itself – almost uniquely in our market – on the verge of an unprecedented opportunity to create a distinctive, competitive force in financial services. We have a clear vision for who we want to be and the financial stability, customer proposition and consumer profile to deliver that vision. The opportunity is ours to grasp; and we are ready to do so.

It would be remiss of me not to mention the Board of directors, which has also seen significant change during the year. In particular, I would like to express my appreciation to David Anderson, who stepped down earlier in the year as chief executive having contributed greatly to CFS during his period in office, and who worked tirelessly towards the agreement of the merger. Additionally, I would like to express my thanks to the non-executive directors who have helped steer us through a momentous period in our history: Graham Bennett, Simon Butler, Terry Morton, Kathryn Smith and Graham Stow. I would also like to thank Dick Parkhouse (managing director, retail division, CFS) who also stepped down from the Board in 2009.

I was, however, delighted to welcome new directors, in particular Neville Richardson, our new chief executive. Neville is joined by new executive members Rod Bulmer (managing director retail), Tim Franklin (chief operating officer), and Phil Lee (integration and change director). They were joined by a number of new non- executive directors, drawn both from The Co-operative Group and from the Britannia board. I would like to welcome Rodney Baker-Bates, Duncan Bowdler, Paul Flowers, Peter Harvey, Chris Jones, Stephen Kingsley, Peter Marks and Ben Reid, and wish them well as we move forward in the coming years.

Finally, this will be my first and last chair's statement in the annual financial statements, as I will be stepping down from the Board later this year, having served since 2004. I also sat on the Board between 1993 and 2001. Arrangements are in hand for the appointment of my successor. There have been many and profound changes during my time with the Board.

I wish to thank current and former colleagues for all their support and contributions. I wish the incoming chair and all others engaged in CFS every success in these exciting times for our truly successful co-operative business, of which we can be so proud.

Bob Burlton
Chair

As a key constituent of The Co-operative Financial Services (CFS), The Co-operative Bank plays a full part in CFS's vision to become the UK's most admired financial services business. Despite a year of continued economic turmoil, during which the credit crunch became a global recession, The Co-operative Bank has taken a significant step towards that vision. In doing so the Bank has continued to offer a member-owned, customer-led and ethically-guided alternative to the shareholder-owned or government-owned financial services model.

The historic merger of The Co-operative Financial Services and Britannia Building Society – two values-driven, customer-owned businesses that avoided the worst effects of the global financial crisis – has created the most diversified mutual in UK financial services, uniquely positioned to offer a fair, easy, responsible and personal customer service.

Our purpose, givens, vision and values

The Co-operative Bank is committed to a CFS-wide strategy driven by a clear purpose, givens, vision and values that sit behind every business decision we undertake.

The **purpose** of CFS and of each of its constituent businesses is to be a pioneering business delivering sustainable financial services both for our members and for society as a whole.

Our **givens** are the non-negotiable principles on which we do business:
- we **champion co-operative values and principles and ethics**
- we are **financially prudent and strong**
- we **share profits with members**
- we **only do business consistent with our values and principles.**

Our **vision** is to **become the UK's most admired financial services business**. The term 'admired' has been chosen carefully; we measure our success not purely in terms of profit but in terms of our service to and relationship with our customers, our people and our community.

Underpinning these relationships are our **values** – which describe the way we do business as a co-operative:
- 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**
- we are **open and fair** and **committed to excellent communication.**

Our **performance against our vision and values** is a balance between our **customers, people, processes and financial strength.**

Customers

The Co-operative Bank offers a clear, simple customer promise – one that is fair, easy, responsible and personal. This proposition is proving particularly attractive, both to existing customers and those seeking a different relationship with their financial services provider.

Among existing customers, satisfaction with front line delivery remains consistently high, with branch service achieving 'satisfied or very satisfied' scores as high as 97%, telephone service scores up to 89%, financial adviser ratings of 84%, and online scores of 93%. These scores demonstrate our singular focus on putting our customers first.

These satisfaction levels have been reflected in a range of awards. We were named 'Financial Provider of the Year' by Which? magazine, while The Co-operative Bank and **smile** took two of the top three spots at Which's inaugural People's Choice awards, and **smile** and The Co-operative Bank current accounts topped their respective charts with 91% and 84% satisfaction ratings respectively.

These awards have helped bring us to the attention of the wider consumer population and helped to drive current account sales up by 38% at a time when many of our competitors are struggling to keep their existing customers.

Meanwhile among our corporate customers, 90% are satisfied with their relationship manager, while 84% would recommend us to an associate – and indeed 44% of them have done so in the last twelve months.

People

In order to deliver our customer promise, it is vital that we create a great place for our people to work, grow and develop. The business has moved fast in the period following the Britannia merger, to establish a new strategy and leadership structure, minimising the inevitable uncertainty that comes with any major change, while seeking to deliver 'business as usual' to our customers.

A commitment to excellent communication has been essential; The Co-operative Financial Services executive spent much of November on the road, taking the business's purpose, givens, vision and values to every colleague, helping them to understand our strategy and above all listening to their feedback on what it means to them. It is gratifying to note that colleague engagement levels remain extremely high across the business, with some 94% of The Co-operative Bank colleagues stating that they are proud to work for The Co-operative Financial Services and over 91% of colleagues stating that they are satisfied or very satisfied with CFS as an employer.

Processes

To support our people in delivering our customer promise, and to lay the foundations for sustainable long-term growth, we are investing significantly in the transformation of our systems and process infrastructure. 2010 will see the first phase implementation of a major programme to transform our banking systems infrastructure with the launch of a new, more effective business banking service.

Financial strength

Our strategy is to generate underlying growth whilst maintaining both core financial strength and award-winning levels of customer service. Our liquidity position remains excellent, with a customer-funding ratio of 104% (excluding securitised assets), while our capital ratio stands at a healthy 13.5%. We have also maintained our focus on control of expenditure continuing the excellent cost control of both pre-merged businesses, with pro-forma 12-month operational costs maintained at prior-year levels. Our business is determined to achieve commercial success within a framework of financial prudence and strength.

During a year in which much of our focus was on delivering a ground-breaking merger while maintaining 'business as usual' it is to the credit of colleagues across the business that profits have not only been maintained but improved. Underlying profitability (pre-significant items and distributions) has increased by £5.2m to £112.3m. These results will support continued investment whilst, as a member-owned business, we will continue to share the profits with a membership that has itself increased by 1.4m members as a result of our merger.

Building a co-operative vision for the future

We are in the process of creating something special within UK financial services. We are transforming our business through an unprecedented programme of investment in our systems and processes, on behalf of our customers and our people.

Over the next three years, as part of wider evolution of The Co-operative Financial Services, The Co-operative Bank will transform itself into a single business delivering a full range of services across all channels to suit our customers' needs.

We will continue to focus on stability and core strength rather than opportunism, building on strong performance in 2009 to deliver further benefits for members, customers and society. Above all we will continue to offer consumers a viable alternative to traditional financial services – a model that is fair, easy, responsible and personal.

We are under no illusions as to the continuing challenge of a difficult market environment, but I believe that our key qualities of customer focus, colleague engagement and financial stability put us in a strong position to weather these storms while taking further, significant steps towards the achievement of our vision.

Neville Richardson
Chief executive

The Co-operative Bank and its parent, The Co-operative Financial Services (CFS), emerged relatively unscathed from the global crisis prompted by the credit crunch and the ensuing worldwide recession. This was no accident – our business is underpinned by a set of principles we call givens, amongst which is an absolute commitment to be financially prudent and strong.

Indeed, we could not deliver on our pledge to put our members and customers first in all that we do if we did not maintain that financial strength, reflected in our continued strong levels of liquidity, capital, profitability and retail funding. As many competitors are forced to consider retrenchment, both The Co-operative Bank and the broader Co-operative Financial Services have been able to set out a strategy for growth, underpinned by significant capital reserves – our business model 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 alternative to the shareholder-owned or increasingly state-owned model so publicly called into question by the credit crunch. Moreover, the merger delivers increased reach, diversity and opportunity without impairing the financial stability of the business or the interests of our customers.

Highlights

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.

Total operating result for 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. These results reflect the business's 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.

In addition to consistent profit performance, The Co-operative Bank has continued to hold robust levels of capital and excellent liquidity/funding levels. The 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. Colleagues and customers alike have responded positively to the merger, which has been achieved without any significant impact on customer service levels, reflecting The Co-operative Bank's determination, even while laying the foundations for long-term business growth, to put the interests of the customer first.

In 2009 a distribution of profit of £7.8m has been made to individual members of The Co-operative Group based on their account holdings with the Bank, and the Britannia Building Society cessation accounts for the period to 31 August 2009 included £18.9m in respect of the Britannia Membership Reward scheme which is due to be distributed to ex-Britannia members as part of a £20m payment early in 2010.

The Co-operative Bank operating result and profit before taxation

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

Income and operating results show growth of 14.7% and 34.6% respectively. These figures benefit from the inclusion of five months of post-merger Britannia results. Costs show an increase of 26.6% reflecting the additional costs from 1 August of the Britannia business and in part the initial costs of merging the two businesses. As can be seen below however, on a like-for-like basis costs have actually fallen by 2.2%. Impairment losses on loans and advances were lower than 2008 because, while provisions against the corporate portfolio have marginally increased, the impairment recorded against the investment portfolio in 2008 has not recurred.

Britannia net assets have been restated to fair value on merger. This includes adjustments to reflect the interest rates charged and received on both assets and liabilities where a different rate may be prevalent in today's market. These initial adjustments unwind over future periods and in 2009 represent a credit to the income statement of £99.1m. The initial fair-value adjustments also recognise any latent default risk inherent within the Britannia asset base and provide cover against impairment losses in future periods and, in 2009, results in a credit of £87.7m within the 2009 operating result.

Significant costs of £38.1m (2008: £47.1m) have been incurred on a major programme of investment and integration. In addition Britannia incurred merger costs of £26.9m in 2009 prior to the merger.

Like-for-like comparison

To provide a more meaningful comparison of business performance, like-for-like results have been presented which include results of the Britannia business on an annual basis for both 2009 and 2008. The table below shows a reconciliation between the adjusted operating profit shown above and the operating profit on a like-for-like basis:

	2009 £m	2008 £m
Adjusted operating profit	**115.2**	85.6
Britannia operating profit prior to merger	**68.9**	43.0
Accounting policy differences	**15.9**	(21.5)
Impairment fair-value adjustment	**(87.7)**	–
Like-for-like operating profit	**112.3**	107.1

The accounting policies have been aligned resulting in a restatement of the Britannia result prior to merger of £15.9m in 2009 and £(21.5m) in 2008. The impairment provisioning has also been aligned following the merger resulting in the restatement of opening balance-sheet provisions by an additional £86.1m which is not included in the like-for-like operating results.

Like-for-like performance results

	2009 £m	2008 £m	Change £m	Change %
Net income	**910.3**	938.2	(27.9)	(3.0%)
Operating cost	**(555.9)**	(568.4)	12.5	2.2%
Impairment losses	**(242.1)**	(262.7)	20.6	7.8%
Operating result	**112.3**	107.1	5.2	4.9%
Financial services compensation scheme levies	**(1.9)**	(30.3)	28.4	
Share of post-tax results from joint ventures	**(0.2)**	0.6	(0.8)	
Significant items	**(38.1)**	(47.1)	9.0	
Merger costs	**(26.9)**	–	(26.9)	
Membership dividend	**(26.7)**	(23.1)	(3.6)	
Profit before taxation	**18.5**	7.2	11.3	156.9%

The income position in 2009 reflects the low interest-rate environment and the consequent impacts from narrowing margins and floors on savings balances, partially offset by improved mortgage margins and higher net secured lending. In addition, the impact of the economic recession and resulting changes in customer behaviour has driven lower credit-card spending and balances. 2008's figures included one-off proceeds of £9.5m from the flotation of Visa Inc.

Costs on a like-for-like basis have shown a 2.2% reduction year on year. This reflects a policy of careful cost control and has been delivered despite the challenges of successfully merging The Co-operative Financial Services with Britannia Building Society.

Total like-for-like impairment losses have reduced by 7.8%. The 2008 impairment charge included provisions against investment portfolios which have not recurred; this has been partly offset by higher impairment against the corporate portfolio in 2009.

Customer loans have increased significantly to £34.0bn (2008: £10.2bn) as a result of the merger. On a like-for-like basis customer assets have remained stable in difficult markets maintaining our support for UK consumers and business while retaining our strong liquidity and capital position. Our liquidity has been supported by strong growth in customer deposits as consumers continue to be attracted by the CFS 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%.

Our businesses

The Co-operative Bank consists of two main business segments – retail, and corporate and markets (CAM).

The retail business offers a range of financial products and services to individuals, households and small businesses throughout the UK, trading as The Co-operative Bank, Britannia and **smile**.

CAM is the business-to-business part of The Co-operative Bank and includes the following commercial areas: corporate banking, Platform, Optimum, treasury and business services.

The other area of The Co-operative Bank is Unity Trust Bank.

Retail

Retail like-for-like operating result

	2009 £m	2008 £m	Change £m	Change %
Net interest income	**349.8**	438.8	(89.0)	(20.3%)
Non-interest income	**155.3**	191.7	(36.4)	(19.0%)
Net income	**505.1**	630.5	(125.4)	(19.9%)
Operating costs	**(428.5)**	(440.5)	12.0	2.7%
Impairment losses	**(84.0)**	(85.9)	1.9	2.2%
Operating result	**(7.4)**	104.1	(111.5)	(107.1%)

The income position in 2009 reflects the low interest rate environment and the consequent impacts from narrowing margins and floors on savings balances, partially offset by improved mortgage margins and higher net secured lending. In addition, the impact of the economic recession and resulting changes in customer behaviour driving lower credit card spending and balances. 2008's figures included one-off proceeds of £9.5m from the flotation of Visa Inc.

Operating costs have reduced due to tight controls over spending and improved staff retention resulting in lower recruitment and training costs.

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%.

Current accounts

The strong current account growth experienced in 2008 has continued through 2009 with year-on-year sales volumes up 38% (including a significant upturn in customers switching accounts from other providers). 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.

Accolades achieved during the year included the 'Which? Best Buy' status for Current Account Plus and Money Mail's 'Best Packaged Account provider'.

Unsecured lending

CFS continues to offer loans to new customers, against a backdrop of restricted customer access to credit. 2009 new lending is 3.4% higher than 2008 and credit-card sales are also up 11.1%.

The credit-card business has acquired six new partners including NHS Direct and the AA. Partner satisfaction remains in excess of 90%.

Mortgages

Mortgage customer satisfaction remains high with 91% of newly-acquired Britannia mortgage customers likely to recommend Britannia, while Bank customer satisfaction scores have increased to 74.7% compared with 69.6% in 2008. These satisfaction levels were reflected in the successful retention of over 80% of new borrowers following the end of their introductory period.

Mortgage customer satisfaction was also reflected in a range of industry awards including 'Best Direct Mortgage Lender 2009' (Your Mortgage); 'Best Discount Rate Mortgage Product' (What Mortgage); and 'Best Lender for Discount Rates' (Moneywise Mortgage Awards).

Savings

The business continues to benefit from a strong balance sheet position, underpinned by continuing robust customer funding ratios. Customers have already been given cross-channel access to a number of savings products post merger, while 2009 has been a record year for investment and protection business written by AXA financial planning managers based in the Britannia branch network.

Customer satisfaction has improved during 2009 with overall satisfaction among Britannia savers at 80.4% and 87.6% of customers likely to recommend Britannia to other consumers. Bank savings customer satisfaction levels (as reported by the Which? customer satisfaction survey) were at 61.1% as of December 2009, 5.1% ahead of the market.

As we move into 2010 The Co-operative Financial Services has agreed to support the government and industry efforts to take forward the Dormant Accounts Scheme, by preparing a plan for the establishment of the Central Reclaim Fund on behalf of the UK financial services industry. The business intends to apply for authorisation to establish and administer the Central Reclaim Fund, subject to the initiative going ahead as planned.

Corporate and markets (CAM)

Following the merger, the CAM business within The Co-operative Bank comprises the combined corporate banking and treasury activities of Britannia and CFS, the intermediary mortgage activities of Britannia and a number of fee-for-service businesses such as customer foreign exchange.

CAM like-for-like operating result

	2009 £m	2008 £m	Change £m	Change %
Net interest income	**245.0**	217.2	27.8	12.8%
Non-interest income	**146.3**	74.8	71.5	95.6%
Net income	**391.3**	292.0	99.3	34.0%
Operating costs	**(119.9)**	(120.5)	0.6	0.5%
Impairment losses	**(157.0)**	(175.9)	18.9	10.7%
Operating result	**114.4**	(4.4)	118.8	2,700.0%

2009 saw a significant increase in CAM profitability compared with 2008 with profits increasing on a like-for-like basis to £114.4m from a loss of £4.4m in 2008.

CAM net 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 with 2008, only partly offset by an increase in corporate impairments. The business remained vigilant in controlling its operating costs experiencing a small decrease in cost base of £0.6m year on year.

During 2009, CAM has focused on a balanced approach to lending and deposit growth across the division. Customer lending has increased by £0.5bn to £17.8bn and customer deposits have risen by £0.7bn to £3.2bn. This growth has principally been achieved within the corporate business.

Corporate banking

Corporate banking has achieved a strong performance in a challenging economic environment and has continued with a policy of controlled growth in assets, supporting existing customers and taking selective new business opportunities. The business has achieved significant growth in term deposits with further growth and retention being the key focus for 2010. Asset margins have remained strong and increased in the year, particularly for new lending, offset by increased funding costs.

The corporate banking operation is now operating from 20 corporate banking centres. The increased access to local support has helped to keep customer satisfaction strong.

The corporate banking assets comprise a diversified low-risk portfolio with further protection provided by fair-value merger adjustments which cover the credit risk of certain former Britannia commercial lending loans.

Platform

Platform retains its positioning in the market as an all-status lender although the bulk of new lending is prime. Following the merger a new operating unit, Optimum, was established to focus on the management of pre-2009 intermediary lending and purchased mortgage books. This allows Platform to focus on new originations and management of those assets. Strong margins have been achieved on prime and specialist lending alongside controlled asset growth with a prudent approach to credit.

The business is focusing on both profitability and credit quality with low capital utilisation where new business levels have been held at a prudent level reflecting wider market and economic conditions. Average loan to value on both prime and specialist lending reduced over the course of 2009 as the housing market fell. As the market starts to become more competitive, Platform is conscious of the need to maintain the balance between risk and return. Maintaining a specialist lending capability provides options around portfolio management and income protection.

Optimum

Optimum, which has an asset portfolio of £9.1bn, has delivered a strong arrears performance with total arrears stock peaking in April 2009 and falling by 10% by the year end. The specialist book is performing well, and remains the focus of strong management actions. During the year significant improvements have been made to arrears collections capability through our arrears improvement programme. Optimum has also increased its use of receivers under the Law of Property Act, pre-arrears counselling and the government mortgage rescue scheme where appropriate.

In 2010 the arrears improvement programme will deliver further improvements in the arrears management process and the accounting fair-value adjustments made on merger of CFS and Britannia have created provisions that provide a high degree of insulation against future credit losses.

Treasury

Treasury has successfully maintained high levels of liquidity and ensured that the business benefits from diversified funding sources and an excellent customer savings franchise. Treasury performance reflects significant improvements in investment provisions and strong interest income performance arising from the low interest rate environment.

The Co-operative Bank operates a centralised governance and control model covering all liquidity risk-management activities. Treasury maintains a liquidity pool which protects against unforeseen events in the financial markets. The liquidity pool consists of central bank balances and UK government-backed investments. Principal sources of wholesale funding are repurchase agreements (repos), subordinated debt and money-market borrowing. Treasury investment assets were used to secure funding via repo activity and the Bank continued to benefit from securitisation and covered-bond capabilities.

Of particular significance is the fact that in February 2010, despite an on-going difficult market, The Co-operative Bank completed a £2.5bn prime-mortgage securitisation transaction, which was well received by the market. This is an important demonstration of the flexible range of funding sources that treasury can access and the strength of our name in the wholesale market.

Summary and outlook

Despite the continuing pressures on the UK market, and the significant investment of time and resources required to merge two businesses into a single organisation, The Co-operative Bank has continued to 'buck the trend'. Profits have been maintained at encouraging levels across all business areas, underpinned by market-leading customer satisfaction and widespread recognition as a prudent, financially stable service provider. Like-for-like operating results are up 4.9% to £112.3m and bottom-line like-for-like profit before tax is up £11.3m to £18.5m.

Our reputation for prudence and financial stability is strongly underpinned by a capital position that sets the platform for future growth without compromising customer interests. Like-for-like costs have been reduced by 2.2% even as the merger of our two heritage businesses has progressed at pace. Strong liquidity and capital reserves mean that The Co-operative Bank and the broader Co-operative Financial Services are in a position to pursue a strategy of growth and investment over the coming years, without compromising the interests of our customers.

Over the next three years the business will carry out a major programme of investment. As the UK's most diversified mutual financial services provider the challenge is to integrate the range of customer access points in order to offer a single, seamless customer proposition. As UK consumers increasingly question the financial services 'status quo', our member-owned, customer-led and ethically-guided business model is well placed to establish itself as the way of the future.

At The Co-operative Financial Services (CFS), we have a proud history of corporate social responsibility, and an on-going commitment to managing and developing the business in a sustainable manner, as set out in our sustainable development policy.

The merger of CFS with Britannia has created one of the world's most diversified mutual financial institutions, which offers members and customers a trusted alternative to shareholder-owned banks, at a time when the finance sector has continued to face widespread challenges and public distrust. A 'flight to trust' was a key driver for a 38% increase in Co-operative Bank current account sales in 2009. Our trusted ethical approach saw The Co-operative Bank emerge, in the 2009 Concerned Consumer Index, as the bank that customers are most likely to buy products and services from and recommend to family and friends.

CFS is led by the views of members, customers and other stakeholders, and is committed to delivering value to them in a socially responsible and ecologically sustainable manner. Pursuing social responsibility is not simply a 'nice to do', it is one of the five values which provide direction to CFS, and progress towards it is deemed critical to the success of the enlarged business.

Our sustainability performance is measured against a wide range of economic, social and environmental indicators, and is reported in The Co-operative Group Sustainability Report, an annual, independently-audited publication, which is signed off by The Co-operative Group Board. In 2009, our sustainability report was named the most open and honest at the international Corporate Register Reporting Awards, and was heralded as demonstrating best practice and international leadership by the report's independent auditors.

CFS was one of only seven businesses to achieve a 'Platinum Plus' ranking in the Business in the Community (BITC) Corporate Responsibility Index. This new ranking was introduced to differentiate the clear leaders in corporate responsibility from others in their sectors and attests to the quality of CFS's corporate responsibility strategy, management, reporting and performance.

For the sixth consecutive year, The Co-operative Bank was ranked top in a survey of the UK general public's awareness of social, environmental and ethical financial services providers. At the British Insurance Awards, The Co-operative Insurance won the 'Corporate Social Responsibility Project of the Year' award, in recognition of the business's wide-ranging ethical and environmental initiatives. The Co-operative also won BITC's Environmental Leadership Award for the way in which environmental strategy has been embedded into core business processes, and became the first organisation to win the Renewable Energy Association's Pioneer Award twice.

Community

Following extensive member consultation, a new Co-operative Group community plan was launched in February 2009, setting our community involvement priorities as tackling global poverty, combating climate change and inspiring young people.

It is estimated that at least 100,000 young people in the UK are benefiting from The Co-operative Group's community projects. A new grants scheme, the Truth about Youth, was launched by The Co-operative Foundation in 2009, to support young people in making a positive contribution in their communities. During 2009, grants were made in three of the Group's seven democratic regions, and will be made in each remaining region during 2010.

As part of the 'inspiring young people' priority, during 2009, CFS colleagues spent 2,200 hours coaching a total of 3,000 students as part of our Fit4Finance scheme to improve the financial skills and awareness of secondary school students. Since 2004, colleague volunteers have donated over 8,200 hours of their time, helping approximately 850 primary school children each year, through the Number Partners programme, a national scheme that aims to improve numeracy skills, develop student confidence and motivation, and provide an insight into business. In addition, during 2009, 456 colleagues volunteered for our Enterprise for Education Project, enabling almost 3,000 students aged 7-19 from schools across the North West to benefit from their expertise in business and finance, and improve their aspirations and future employability. CFS has also shown a significant commitment to The Co-operative Academy of Manchester which is a project to rescue an underachieving school in the north west region. CFS's managing director of retail has given his own time and engaged many colleagues to support the project and is playing an active part in the set-up and on-going success of this Academy.

The Co-operative Bank's pioneering work with prisoners continued through 2009. The initiative provides soon-to-be-released prisoners from 30 prisons across the UK with basic bank accounts, which can often greatly enhance their chances of holding down a job or securing accommodation. A report produced for the project in December 2009, found that for ex-offenders, who opened a bank account before release, re-offending rates are reduced by around a third.

Through the projects detailed above, as well as through a range of other initiatives, CFS committed a sizeable proportion of its pre-tax profits to the community in 2009. Across the Group, our colleagues and members make a huge contribution to the success of our sustainability and community investment programmes, and raised an additional £3.7m across The Co-operative family of businesses for 2009's Charity of the Year, the Royal National Institute for the Deaf.

Ethical finance

CFS has long been ethically guided when it comes to finance, with unique, customer-mandated ethical policies, implemented by The Co-operative Bank and The Co-operative Asset Management, launching in 1992 and 2005 respectively. Following an extensive customer consultation, in which a record 80,000 customers participated, The Co-operative Bank's ethical policy was re-launched in February 2009, with an agenda-shaping commitment to international development, animal welfare and the environment. Existing and potential corporate and business banking customers are screened to identify any business practices that pose conflicts with the policy, which, from August 2009, has extended across the enlarged business.

The Bank's ethical policy, contains a commitment to support renewable energy and microfinance, in line with an overwhelming mandate from customers. During 2009, funding was provided for four wind farms, a hydroelectric scheme and two combined heat and power projects. The Co-operative Bank has also created a US$50m microfinance fund, which provides loans to small business in poor countries around the world, providing opportunities for recipients to trade their way out of poverty.

The Co-operative Asset Management launched two new sustainable trusts in 2009, the Sustainable Diversified and Sustainable World Trusts. Their launch reflects growing investor interest in lower-risk investments in sustainable business, and together with our established Sustainable Leaders Trust, greatly expands our offering to the responsible investor. CFS was a lead sponsor of the second annual National Ethical Investment Week, during November 2009. Organised by the UK Sustainable Investment and Finance Association, the week aims to raise awareness and grow the markets for green and ethical investment.

Environment

Combating climate change is our top environmental priority, and we take a holistic approach to addressing it – tackling our direct impacts as a business, investing in renewable energy and energy-efficient technologies, funding carbon-offset projects and campaigning for change.

The Co-operative's Toxic Fuels campaign, in partnership with WWF-UK, aims to combat an emerging global trend to extract oil from unconventional sources, such as tar sands. In line with our ethical engagement policy, The Co-operative Asset Management has engaged directly with oil companies and other investors to highlight the commercial risks involved in exploiting toxic fuels.

In December 2009, 2,500 Co-operative members and their families joined The Wave, a march in London calling for a safe and fair deal ahead of the UN climate change summit in Copenhagen. This was the biggest mobilisation of our membership base in recent times and helped make The Wave the largest climate change protest ever held in the UK.

CFS was the first financial services organisation in the world to secure ISO14001 certification for its environmental management systems across all its business activities. This certification will be extended across the whole of the new business in 2010.

The coming together of CFS and Britannia has created a stronger, more diverse, co-operative offering. With values at the heart of the enlarged business, the merger paves the way for our leadership on sustainability and ethics to have an even greater positive impact.

The Co-operative Bank Board

Non-executive directors:

Bob Burlton (BSc (Hons), Cert Dip). Age 61. Joined the Board in 2004 and appointed chair in 2009, having previously served on the Board between 1993 and 2001. President of Consumer Co-operatives Worldwide since 2005. Chair of Co-operative Financial Services Limited. Non-executive director of Co-operative Insurance Society Limited and CIS General Insurance Limited.

Rodney Baker-Bates (MA, FCA, AIMC, FCIB). Age 65. Joined the Board in 2009*. Directorships also held at Assura Group plc, Bedlam Asset Management plc, Dolphin Square Trust Limited, EG Solutions plc, G's Group Holding Limited, Stobart Group plc. Non-executive director of Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited.

Duncan Bowdler (BSc (Hons)). Age 51. Joined the Board in 2009. Trade liaison manager. Member of The Co-operative Group North West and North Midlands Regional Board. Non-executive director of Co-operative Group Limited, Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited.

David Davies (BSc (Econ), FIA). Age 62. Joined the Board in 2003 and is the senior independent director. Chair of Sun Life Assurance Company of Canada (UK) and Nortel Networks Pension Scheme in the UK, and non-executive director of Interglobal Insurance Company Limited. Non-executive director of Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited.

Paul Flowers (BA (Hons)). Age 59. Superintendent Methodist minister/Bradford city councillor. Joined the Board in 2009. Member of The Co-operative Group North Regional Board. Non-executive director of Co-operative Group Limited, Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited.

Peter Harvey (ACIB, Dip FS). Age 54. Joined the Board in 2009*. Consultant to Berwin Leighton Paisner LLP. Also non-executive director at Marshalls Holdings Limited and a member of the supervisory board and audit committee of Surrey Cricket Club Limited. Non-executive director of Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited.

Paul Hewitt (MA, ACA, Dip German (Open)). Age 54. Joined the Board in 2003. Non-executive director of Kiln Group, Collins Stewart plc, and the Personal Accounts Delivery Authority. Chairman of Portrait Software plc and the Good Care Group Limited. Industrial partner with Lyceum Capital, a mid-market private equity firm. Non-executive director of Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited.

Chris Jones (LLB). Age 57. Joined the Board in 2009*. Member of the Institute of Credit Management, the Law Society and a Fellow of the Royal Society of Arts and of the Association of Business Recovery Professionals. Runs Tourmalet Consulting, specialising in business turnaround. Non-executive director of Agenda Management Services Limited, Trango Limited, The Business Desk and Armitage Jones LLP. Non-executive director of Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited. Chair of Illius Properties Limited.

Stephen Kingsley (BSc (Hons), FCA). Age 57. Joined the Board in 2009*. Over 35 years' experience in financial services primarily auditing and consulting. Has held senior positions at Arthur Andersen and Aon Corporation. Currently a senior managing director at FTI Consulting, the global expert services firm. Non-executive director of Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited.

Peter Marks Age 60. Joined the Board in 2009. Chief executive of Co-operative Group Limited. Named Orange Leader of the Year 2009 in the National Business Awards. Entire working life spent within the co-operative movement. Instrumental in bringing about a number of major co-operative mergers over the past decade. Non-executive director of Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited.

Bob Newton (BSc, FIA, CDir). Age 60. Joined the Board in 2007. Retired from the insurance industry in 2006, since when he has built a portfolio of business and pro bono interests. Holds non-executive directorships with UIA (Insurance) Limited and AI Claims Solutions plc. Non-executive director of Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited.

Ben Reid (FCCA). Age 55. Joined the Board in 2009. Chief executive of The Midcounties Co-operative. Regional chair of the Learning and Skills Council and also chair of Walsall Hospitals NHS Trust. Non-executive director of Co-operative Group Limited, Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited

Len Wardle (BA). Age 65. Joined the Board in 2006. Chair of Co-operative Group Limited and member of the South East Regional Board. Held management positions in local government and latterly was a Fellow at the University of Surrey in the School of Management. Director of Communicate Mutuality Limited. Non-executive director of Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited.

Martyn Wates (ACA, ATII, BA (Hons)). Age 43. Joined the Board in 2007. Chief financial officer, Co-operative Group Limited. Has held various senior finance positions within the co-operative movement. Director of various internal subsidiaries and non-executive director of Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited.

Steve Watts (MA (Cantab), MA (Econ), BA (Hons)). Age 58. Joined the Board in 2006. Member of the Central and Eastern Regional Board. Pricing, research, and information officer within the Directorate of Employment and Skills at Cambridge Regional College. Deputy chair of Co-operative Group Limited and Co-operative Financial Services Limited, chair of Co-operative Insurance Society Limited and CIS General Insurance Limited.

Piers Williamson (BA (Hons), ACIB, MCT). Age 48. Joined the Board in 2005. Over 25 years' experience of the UK, US and European financial markets. Holds non-executive directorships with various industrial and provident societies and funding vehicles associated with the Housing Finance Corporation, where he is chief executive. Non-executive director of Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited.

Executive directors:

Neville Richardson (BA (Hons), FCA). Age 52. Joined the Board in 2009*. Chief executive. Prior to joining the Group was chief executive of Britannia Building Society. Director of Mutuo (Communicate Mutuality Limited). Member of the Court of the University of Lancaster and of the Building Societies Association Council. Also chief executive of Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited.

Rod Bulmer (BA (Hons), MSc). Age 40. Joined the Board in 2009. Managing director, retail. Joined Co-operative Financial Services in October 2007 and became sales director in July 2008. Executive director of Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited. Also chair of The Co-operative Academy of Manchester.

Tim Franklin (ACIB). Age 48. Joined the Board in 2009*. Chief operating officer. Formerly managing director of Member Business at Britannia Building Society. Executive director of Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited.

Phil Lee (BSc, CA). Age 54. Joined the Board in 2009*. Integration and change director. Formerly managing director of Britannia Capital Investment Group. Executive director of Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited.

John Reizenstein (MA). Age 53. Joined the Board in 2003. Managing director, corporate and markets. Member of the Financial Reporting Review Panel. Executive director of Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited. Chair of The Co-operative Asset Management Limited.

Barry Tootell (BA, FCA). Age 48. Joined the Board in 2008. Chief financial officer. Qualified accountant with over 20 years of finance and control experience. Chair of CFS Management Services Limited. Executive director of Co-operative Financial Services Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited.

*Formerly on the Board of Britannia Building Society.

The directors submit their report, together with the audited financial statements, for the period to 31 December 2009. As set out more fully in the Basis of preparation and accounting policies, these financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. All financial information given in this report is taken solely from the statutory results prepared on this basis. Unaudited, like-for-like results which allow comparison between 2009 and 2008 are given in the business and financial review on pages 6 to 11.

Principal activities

The Co-operative Bank plc (the Bank) and its subsidiary undertakings provide an extensive range of banking and financial services in the United Kingdom.

Business review

A review of the development and performance of the Bank and its operating subsidiaries during the financial year and any significant events since the year end are set out in the business and financial review on pages 6 to 11. The principal risks and uncertainties facing the Bank are set out in the risk management section on pages 53 to 88. Note 36 of the financial statements provides details of the Bank's principal subsidiaries and the nature of each organisation's business.

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 to 31 December 2009. The 2008 comparatives are stated as at 10 January 2009.

On 26 January 2009, the Bank issued and allotted £120m of share capital to its parent company, Co-operative Financial Services Limited (CFS) to reinforce its capital strength and give the Bank eligibility for the government's credit guarantee scheme. On 1 August 2009, a further £55m of share capital was issued and allotted to CFS. Given the Bank's strong retail funding position any guaranteed issuance is currently unlikely.

Key performance indicators

The Bank manages its performance through key performance indicators which are linked to a balanced scorecard. The scorecard reflects a balance of our customers, people, processes and financial strength.

The scorecard's quadrants and key performance indicators are:

Quadrant	Key performance measure
Customer	Current-account customers
	Products held per customer
People	Responsibility index
	Values index
Process	Cost: income ratio
	Compliance with risk appetite
Financial strength	Profit before taxation
	Regulatory capital
	Liquidity

The financial measures are discussed further in the chief executive's overview and the business and financial review on pages 4 to 11. The balanced scorecard and measures are under on-going development.

Results and dividends

The profit before taxation and significant items was £202.7m, an increase of £132.3m on 2008. The profit attributable to the ordinary shareholders amounted to £110.3m (2008: £13.5m). No dividends were paid during 2009. The directors recommend that no final dividend is paid in respect of 2009.

Changes to the Board

The names of the present members of the Board and their biographies and details of length of service are set out on pages 14 and 15.

The directors of the Bank during the financial year are listed below. They were appointed for the full period unless otherwise indicated:

Non-executive directors	Date of appointment	Date of resignation
Bob Burlton (chair)		
Rodney Baker-Bates	1 August 2009	
Graham Bennett		6 June 2009
Duncan Bowdler	8 July 2009	
Simon Butler		6 June 2009
David Davies		
Paul Flowers	8 June 2009	
Peter Harvey	1 August 2009	
Paul Hewitt		
Chris Jones	1 August 2009	
Stephen Kingsley	1 August 2009	
Peter Marks	9 June 2009	
Terry Morton		6 June 2009
Bob Newton		
Ben Reid	8 June 2009	
Kathryn Smith		6 June 2009
Graham Stow		31 May 2009
Len Wardle		
Martyn Wates		
Steve Watts		
Piers Williamson		
Executive directors		
David Anderson		31 July 2009
Neville Richardson (chief executive)	1 August 2009	
Rod Bulmer	1 August 2009	
Tim Franklin	1 August 2009	
Phil Lee	1 August 2009	
Dick Parkhouse		31 July 2009
John Reizenstein		
Barry Tootell		

Re-appointment of directors

Under the articles of association, one third of the Board are required to retire by rotation at the conclusion of the Annual General Meeting (AGM). The articles of association for the Bank were amended in July 2009, to make provisions for the merger with Britannia including the appointment arrangements for the former Britannia non-executive directors (Rodney Baker-Bates, Peter Harvey, Chris Jones, Stephen Kingsley). None of the former Britannia directors are required to be re-elected during the three years following the merger date (1 August 2009). In accordance with the articles of association, therefore, David Davies, Paul Hewitt, Bob Newton and Piers Williamson retire by rotation and all offer themselves for re-election at the 2010 AGM.

The articles of association were also amended to provide that if any former Britannia director ceases, for whatever reason, to be a director during the period of three years following the merger date, no person will be appointed to fill that vacancy without the prior approval of a majority of the former Britannia directors who are still directors at that time.

Any director appointed since the conclusion of the last AGM on 6 June 2009 is also eligible for re-appointment at the 2010 AGM. All directors eligible for re-appointment continue to demonstrate commitment to their roles (see schedule of attendance on page 24).

On 6 June 2009, Graham Bennett, chair, stood down from the Bank board, and Bob Burlton was appointed chair in his place. Recruitment is underway for a new chair and Bob will step down later in the year, having served on the Board since 2004. He had also previously served on the Board between 1993 and 2001.

The notice of the Annual General Meeting can be found on page 136.

Directors' and officers' liability insurance and indemnity
The Bank maintains appropriate directors' and officers' liability insurance cover, through the ultimate parent organisation, in respect of legal action against its directors and officers. The arrangements for this are currently under review. The directors, the secretary and any of the Bank's approved persons under the Financial Services and Markets Act 2000 from time to time have entered into a contract of indemnity with the Bank which constitutes a 'qualifying third party indemnity provision' for the purposes of the Companies Act 2006. This contract was in force from 25 August 2009 and remains in force.

Directors and their interests
No director had a material interest at any time during the year in any contract of significance, other than a service contract, with the Bank or any of its subsidiary undertakings.

No director had a beneficial interest in any shares in the Bank group or in Co-operative Group Limited, which is the ultimate holding organisation, or in any other entity controlled by Co-operative Group Limited.

Going concern
The financial statements are prepared on a going concern basis as the directors are satisfied the Group and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the directors have considered a wide range of information relating to present and future conditions including future projections of profitability, cash flows and capital resources. Further information relevant to the assessment is provided within the basis of preparation of the financial statement on page 44.

Corporate governance
The Co-operative Bank is committed to high standards of corporate governance. The Co-operative Bank believes it has fully complied throughout the year with the principles and provisions of the Combined Code on Corporate Governance appropriate to the structure of the Bank and its parent organisation, Co-operative Financial Services Limited (CFS) and Co-operative Group Limited (The Co-operative Group). Further information is provided within the corporate governance report on pages 21 to 26.

Employees
The Bank and its subsidiary undertakings employed 8,705 people at 31 December 2009 (2008: 4,108). The weekly average number of people was 5,993 (2008: 3,990) and their aggregate remuneration, before significant items, for the year was £151.0m (2008: £108.2m). 4,724 people transferred on 1 August on the transfer of engagements of Britannia Building Society. The Bank, as part of CFS operates learning and development initiatives across the organisation as part of a continuous improvement programme, supporting its approach to performance management, personal development, talent and succession planning.

CFS, in Bank-orientated activities, continues to consult and communicate with staff on customer, organisation and business performance issues, using staff publications, surveys, conferences, videos and both informal and formal consultations with Unite, which continues to be fully involved where organisational change and other issues affect staff.

Diversity
The Bank, as part of CFS, welcomes diversity and actively promotes a policy and practice of equality of opportunity in employment for all colleagues, regardless of age, disability, ethnicity, gender, religion or belief, or sexual orientation.

Employees with disabilities
The Bank is a member of the Employers' Forum on Disability, which provides advice and guidance on the employment of people with disabilities. Co-operative Financial Services Limited is a holder of the 'Positive about Disabled People' symbol, a recognition given by Jobcentre Plus to employers who have agreed to meet five commitments regarding the recruitment, employment, retention and career development of disabled people. The Bank has a diversity policy which includes provisions to consider employment applications from people with disabilities and to match vacancies with an individual's particular aptitudes and abilities.

Further guidance and information for colleagues on disability issues is available through human resources and on the colleagues' intranet. The Bank recognises its responsibility for making reasonable adjustments for new employees with disabilities and for those individuals who develop disabilities whilst in employment.

Employees' wellbeing
The Co-operative Financial Services recognises that health, safety and welfare at work play a vital part in delivering its core values. Wellbeing services at the Manchester office complex include an on-site gym and access to a range of therapists, while a network of wellbeing champions is supporting the development of similar programmes at other locations.

All Co-operative Financial Services colleagues and their immediate families have access to an external employee assistance programme, providing free expert advice on a wide range of medical, legal and family issues. Occupational health provision is in development to support colleague health and promote initiatives which will mirror current government activity on health in the workplace and beyond.

Corporate responsibility and the environment

The Bank's corporate responsibility activities are outlined on pages 12 and 13. In addition, The Co-operative Group Sustainability Report, which was published towards the latter half of the 2009 financial year, describes how Co-operative Group Limited, CFS, Co-operative Insurance Society Limited, CIS General Insurance Limited and the Bank manage their social, ethical and environmental impacts.

Political and charitable donations

During the year, a CFS group company, CFS Management Services Limited, made donations (which exclude affinity card payments) of £0.4m to charitable organisations on behalf of the Bank (2008: £0.3m). A further £0.2m of donations were made directly by the Bank with £152,000 allocated through the Britannia Foundation. In addition, payments of £0.1m (2008: £0.2m) were made by Co-operative Group Limited but funded by CFS on behalf of Bank customers, as part of the Bank's Customers Who Care campaigns. Additional costs associated with the Bank's community involvement are provided within The Co-operative Group Sustainability Report. It is the Bank's policy that no donations are made for political purposes.

Outlets

At 31 December 2009 the Bank had 368 (2008: 128) outlets including 245 acquired on the transfer of engagements of Britannia Building Society.

Market value of land and buildings

Freehold and leasehold land and buildings held by the Bank are held on the balance sheet at historic cost and have not been revalued. Based on valuations carried out by The Co-operative Group's internal property valuers, their market value at the balance sheet date is £84.5m which is £10.8m higher than carrying value.

This includes £70.4m of property acquired on the transfer of engagements of Britannia Building Society.

Supplier payment policy and practice

The heritage Bank does not pay suppliers directly as all supplies and services are sourced through CFS Management Services Limited, a fellow subsidiary of the CFS Group. A management charge is payable to cover the cost of these services. Consequently at 31 December 2009, the Bank had no purchases outstanding (2008: none). Suppliers are paid directly by the former Britannia business where the policy is to agree the terms of payment at the start of trading with the supplier, ensure that suppliers are aware of the terms of payment and pay in accordance with its contractual and other obligations. Creditor days at 31 December were 11.

Post balance-sheet events

The directors consider that there has been no event since the year end that has had a significant effect on the Bank's position or that of any of its connected undertakings.

Significant contracts

The Bank maintains a number of significant contracts with IT providers, cash-handling entities and mailing-service companies as well as with a CFS group company, CFS Management Services Limited, which provides facilities and services for all CFS group companies.

Financial statements

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

Statement of directors' responsibilities in respect of the report of the Board of directors and the financial statements

The directors are responsible for preparing the financial statements and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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

Under applicable law and regulations, the directors are also responsible for preparing a directors' report and corporate governance report that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Bank and a resolution to authorise the directors to set its remuneration are to be proposed at the next AGM.

By order of the Board
Moira Lees
Secretary
17 March 2010

UK Combined Code on Corporate Governance

For the period ended 31 December 2009, The Co-operative Bank (the Bank) believes it has, with the exception of the level of independent Board representation, fully complied with the principles and provisions of the Combined Code on Corporate Governance (the Code) appropriate to the structure of the Bank and its parent organisation, Co-operative Financial Services Limited (CFS) and Co-operative Group Limited (The Co-operative Group).

Board composition and independence

Following the merger with Britannia on 1 August 2009, the Board currently comprises 16 non-executive directors and six executive directors.

The Code requires at least half of the Board, excluding the chair, to be independent non-executive directors. In accordance with the Code, it is for the Board to consider whether a director is independent in character and judgment and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the director's judgment. The Board has concluded that, looking across the wider Co-operative Group, the individual members elected by and from the Co-operative Group's seven regions to stand as directors (unless employees within the last five years) should be defined as independent, while those appointed directors representing independent society members of The Co-operative Group could not be so categorised in the Co-operative context. This is because the latter represent significant shareholders with material business relationships.

Included within the Board members are seven independent professional non-executive directors, Rodney Baker-Bates, David Davies, Peter Harvey, Chris Jones, Bob Newton, Stephen Kingsley and Piers Williamson. David Davies is the senior independent director. In addition, there are three independent non-executive directors elected by and from the members of The Co-operative Group that the Board have determined to be independent as described above. These are Len Wardle, Paul Flowers and Steve Watts.

Bob Burlton and Ben Reid represent independent society members of The Co-operative Group. Peter Marks and Martyn Wates hold executive appointments in The Co-operative Group (Peter Marks is the group chief executive). Duncan Bowdler is an employee of The Co-operative Group. Paul Hewitt was, until 28 July 2007, deputy chief executive of The Co-operative Group. These directors cannot therefore be considered to be independent.

The Board believes it has sufficient independent representation having ten independent non-executive directors (excluding the chair). The Board believes that all the non-executives have considerable experience and make valuable contributions to the operation of the Bank.

The non-executive directors constructively challenge and help develop proposals on strategy and bring strong, independent judgment, knowledge and experience to the Board's deliberations. The non-executive directors are of sufficient calibre and number that their views carry significant weight in the Board's decision making.

The directors that serve on the CFS Board (the Bank's parent) also sit on the Bank Board to provide a common understanding of objectives. Appointments to the CFS Board are made by The Co-operative Group Board. The articles of association for the Bank were amended in July 2009, to make provisions for the transfer of engagements of Britannia including the appointment arrangements for the former Britannia directors. Under the CFS articles, each non-executive director is appointed for a term of three years commencing on the day following the Annual General Meeting for the year in which the director is appointed.

All non-executive directors are eligible for re-appointment at the end of each term of office. None of the former Britannia directors are required to be re-elected during the three years following the merger date (1 August 2009). The Co-operative Group Board, being party to agreements with the independent professional non-executive directors for services to CFS and its subsidiaries, including the Bank, may resolve to re-appoint at or before the date their contracts expire for a further three-year term. It is the normal policy of the Board not to allow an independent professional non-executive director to serve for more than nine years in aggregate.

For the recruitment of non-executive directors, external recruitment consultants are retained.

Roles and responsibilities of the Bank Board

The directors are committed to leading and controlling the Bank effectively. The Board is responsible for the success of the Bank within a framework of controls, which enables risk to be assessed and managed. It is responsible for setting strategy, maintaining the policy and decision-making framework in which this strategy is implemented, ensuring that the necessary financial and human resources are in place to meet strategic aims, monitoring performance against key financial and non-financial indicators, overseeing the system of risk management and for setting values and standards in governance matters.

The responsibility of the Board is to direct the business of the Bank and in particular to:

- ensure that the Bank's affairs are conducted and managed in accordance with its memorandum and articles of association and the best interests of its stakeholders and in accordance with co-operative values and principles;
- agree objectives, policies and strategies, and monitor the performance of executive management;
- approve the annual budget and business plan;
- approve the reported financial statements and dividends;
- monitor, through various committees, the key significant risks facing the Bank;
- establish Board committees and agree their terms of reference; and
- approve the delegated financial authorities.

The Board manages these matters at its regular Board and strategy meetings and details of attendance at Board meetings are noted on page 24. The Board meets on a monthly basis and it met 11 times in 2009. There were also two strategy meetings, attended by senior executives, devoted to consideration of performance and longer term planning. The Board is scheduled to meet for 11 Board meetings and to hold two strategy meetings in 2010.

Board procedures

Board and committee papers are distributed at least one week in advance of meetings. This provides the opportunity for directors to prepare fully for meetings. The minutes of all meetings are circulated to all directors. As well as circulating papers as hard copies, the Board has access to its own secure website where papers are available together with additional supporting material (and which acts as a library of papers for directors).

There is regular communication among the directors, the chair and the secretary between meetings.

When a director is unable to attend Board or committee meetings, issues can be raised with the chair. Written questions for management on papers are encouraged from directors between meetings. A rolling schedule of matters arising from Board and committee meetings is followed through.

The roles of the chair and chief executive

The division of responsibilities between the chair of the Board and the chief executive is clearly defined and has been approved by the Board:

The Bank chair is a non-executive director. He leads the Board in the determination of its strategy and in the achievement of its objectives. The chair is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. He has no involvement in the running of the day-to-day business of the Bank. The chair facilitates the effective contribution of directors and constructive relations between the executive and non-executive directors, and ensures directors receive accurate, timely and clear information and ensures that there is effective communication with members.

Details of the chair's professional commitments are included in the chair's biography on page 14. The Board is satisfied that these responsibilities do not interfere with the performance of the chair's duties for the Bank.

The chief executive, appointed by the Co-operative Group Board, has direct charge of the Bank on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Bank.

Board committees

With the agreement of the Financial Services Authority (FSA), the Board has delegated certain responsibilities to the following committees, all of which have written terms of reference covering the authority delegated to it by the Board. Each of these committees has a role in ensuring the effectiveness of the Bank and its subsidiaries. A provision of the Code is that the terms of reference for the remuneration committee and the audit committee are available on the Bank's website, and the Bank complies with this.

Remuneration and appointments committee

The CFS remuneration and appointments committee meets as a joint committee for CFS, Co-operative Insurance Society Limited (CIS), CIS General Insurance Limited (CISGIL) and the Bank. Information on the remuneration and appointments committee is found on pages 27 and 28.

CFS exposures committee

The committee comprises six members and is chaired by Peter Harvey, appointed with effect from 1 August 2009. Graham Bennett, the former chair of the committee, resigned from the committee on 6 June 2009. During the year the committee also comprised:

David Anderson	(resigned 31 July 2009)
Bob Burlton	(appointed 10 June 2009)
Kathryn Smith	(resigned 6 June 2009)
Neville Richardson	(appointed 1 August 2009)
Steve Watts	
Piers Williamson	

Kevin Blake, business leader, banking risk (who is not a Board director)

The committee met 11 times during the financial year. The main responsibilities of the committee are to:

- approve all Bank advances in excess of the delegated lending authority of the chief executive;
- review all decisions taken within the delegated authority of the chief executive or any individual executive by way of noting returns;
- review and approve management actions on excess positions on lending exposures which exceed the chief executive's discretion;
- review and approve management actions on excess positions on investment exposures which exceed the chief executive's discretion;
- review and approve management actions on individual counterparty positions on the corporate banking credit risk watchlist, the Bank markets credit risk watchlist, and The Co-operative Asset Management credit risk watchlist;

- review and approve management actions on any other positions which the credit committee or the actuarial risk business leader determine should be brought to its attention; and
- review minutes of the risk management committee and note any actions to be taken relevant to the remit of the committee.

CFS audit and regulatory compliance committee

The CFS audit and regulatory compliance committee meets as a joint committee for CFS, CIS, CISGIL and the Bank. The committee comprises six members and is chaired by Paul Hewitt. Appointed to the committee in 2006, he was appointed chair with effect from 1 January 2009. Graham Stow, the former chair of the committee, resigned from the committee on 31 May 2009. During the year the committee also comprised:

Paul Flowers	(appointed 10 June 2009)
Chris Jones	(appointed 1 August 2009)
Terry Morton	(resigned 6 June 2009)
Bob Newton	
Ben Reid	(appointed 10 June 2009)
Kathryn Smith	(resigned 6 June 2009)
Martyn Wates	(appointed 6 June 2009)

Paul Hewitt, Ben Reid and Martyn Wates bring recent and relevant financial experience.

The committee met five times during the financial year. New terms of reference were approved in July 2009. The main responsibilities of the committee are to:

- review and discuss with management and auditors the preliminary results, interim information and annual financial statements of the Bank before submission to the respective Boards';
- review, prior to its consideration by the Board, the external auditors' reports to the directors and management's response;
- receive reports on activities and note the minutes of the CFS risk management committee;
- consider any necessary disclosure implications from the process that has been applied by the Board to deal with material internal control aspects of any significant problems disclosed in the financial statements;
- obtain assurance that the Bank is compliant with relevant regulation;
- review and discuss issues identified as a result of compliance work and how management is addressing these issues;
- monitor regulatory relationships, in particular with the FSA;
- assess the qualification, expertise, resources, effectiveness and independence of the external auditors and approve the terms of engagement and remuneration paid to the external auditors in respect of the audit services provided;
- review co-ordination between the internal and external auditors and, where relevant, the risk-management functions;
- review and discuss with the relevant business leaders any issues identified as a result of internal audit work and how management is addressing these issues, as well as reviewing reports on management response to audit recommendations;
- monitor and assess the role and effectiveness of the internal audit function; and
- approve policies and review the adequacy of risk-management activities in relation to operational risk.

During the year, the committee has reviewed its own effectiveness.

CFS risk management committee

The CFS risk management committee meets as a joint committee for CFS, CIS, CISGIL and the Bank. The committee comprises seven members and is chaired by Piers Williamson. Appointed to the committee in 2006, he was appointed chair on 11 March 2009. Simon Butler, the former chair of the committee, resigned from the committee on 6 June 2009. During the year the committee also comprised:

David Davies
Mike Fairbairn, director of risk (who is not a Board director)
Paul Hewitt
Barry Tootell

Dick Parkhouse	(resigned 31 May 2009)
Stephen Kingsley	(appointed 1 August 2009)
Paul Flowers	(appointed 7 October 2009)

The committee met eight times during the financial year. New terms of reference were approved in July 2009. The main responsibilities of the committee are to:

- review and challenge the impact assessment of the strategic plan on the risk and capital profile of the Bank;
- review and challenge the risk-appetite process with a focus on the overall organisational view of risk appetite;
- monitor compliance with Board approved risk appetite;
- approve mandates and portfolio limits in line with risk appetite, and monitor and review any breaches thereof;

- assess the robustness of Individual Capital Adequancy Assessment Process (ICAAP);
- review and challenge the executive's recommendations on level of capital held in relation to how adequately it reflects the Bank's risk profile;
- review and challenge the adequacy of risk-management activities across the Bank managed by the executive, including risk mitigation;
- review and challenge the adequacy of the risk-management process and systems in operation;
- set standards for risk-management processes and techniques, and benchmark against industry best practice on a regular basis; and
- monitor the credit-risk performance of new and existing portfolios against limits, and ensure any appropriate risk-mitigation action or review of risk policies or limits is taken.

Attendance

The following table sets out the frequency of, and attendance at, the Board and Board committee meetings for the period under review by directors:

Directors	Bank Board	CFS remuneration and appointments committee	CFS exposures committee	CFS audit and regulatory compliance committee	CFS risk management committee
Number of meetings held	11	7	11	5	8
Bob Burlton	11 (11)	7 (7)	6 (6)		
David Anderson	7 (7)		7 (7)		
Rodney Baker-Bates	3 (4)	3 (3)			
Graham Bennett	5 (5)	3 (3)	5 (5)		
Duncan Bowdler	4 (4)				
Rod Bulmer	3 (4)				
Simon Butler	5 (5)	3 (3)			3 (3)
David Davies	10 (11)	1 (1)			7(8)
Paul Flowers	6 (6)	4 (4)		3 (3)	1 (1)
Tim Franklin	4 (4)				
Peter Harvey	4 (4)		4 (4)		
Paul Hewitt	11 (11)			5 (5)	7 (8)
Chris Jones	4 (4)			3 (3)	
Stephen Kingsley	4 (4)				2 (2)
Phil Lee	4 (4)				
Peter Marks	6 (6)	4 (4)			
Terry Morton	5 (5)	2 (3)		1 (1)	
Bob Newton	11 (11)			5 (5)	
Dick Parkhouse	7 (7)				1 (6)
Ben Reid	5 (5)			3 (3)	
John Reizenstein	10 (11)				
Neville Richardson	4 (4)		4 (4)		
Kathryn Smith	5 (5)	2 (3)	5 (5)	1 (1)	
Graham Stow	4 (5)	2 (3)		1 (1)	
Barry Tootell	11 (11)				8 (8)
Len Wardle	10 (11)	7 (7)			
Martyn Wates	10 (11)			3 (3)	
Steve Watts	8 (11)		8 (11)		
Piers Williamson	11 (11)		10 (11)		8 (8)

The number in brackets indicates the total number of meetings the director was eligible to attend during the year. In the case of a director being unable to attend a meeting, the chair has received a satisfactory reason for their absence.

Provision of advice to directors

A number of external consultants provide professional advice to the Boards of the constituent parts of the wider Co-operative Group. There is an agreed procedure by which directors may take independent professional advice at the Bank's expense in furtherance of their duties.

Training and professional development

A new role of member and director learning manager has been created to develop a new training framework and to support directors' learning and development.

In 2009, three new non-executive directors undertook four half-day orientation training sessions and two computer-based modules prior to taking up office, in addition to a comprehensive induction programme. The induction programme was designed to include corporate governance and regulatory requirements in addition to technical financial content.

A number of other directors, including those joining the new Board from Britannia Building Society following the transfer of engagements, also participated in a training day about the wider Co-operative Group including the development of the Co-operative brand, values and principles.

In addition, new directors received information on Board sub-committees and key management committees. This included the powers delegated to those committees, corporate governance practices and procedures, the powers reserved to the executive, together with the latest financial information. Briefing sessions on the strategy and performance of the Bank's core business areas were also held with key members of the executive.

Induction and other training has also been organised for Board sub-committees including the CFS remuneration and appointments committee, the CFS audit and regulatory compliance committee and the CFS risk management committee. In addition, one-to-one support has been provided to a number of directors.

Thematic sessions for the whole Board have taken place on a regular basis and have included the banking transformation programme, Britannia's heritage and ICAAP.

At the end of 2009, meetings with non-executive directors to review individual training and development commenced with a view to constructing the framework for individual and collective learning and development plans in 2010.

Performance evaluation

The Code requires the Board to undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. The most recent process of annual evaluation started in December 2008 and the analysis was reported to the Board in March 2009. Because of the merger with Britannia and the establishment of the new Board with effect from 1 August 2009, a Board evaluation in 2009 was not considered appropriate. A rolling programme of individual, Board and committee external evaluations is under development to complement the annual internal Board and committee evaluations going forward and will be rolled out in 2010.

The secretary to the Board

The secretary is professionally qualified and is responsible for advising the Board through the chair on all governance matters. The directors have access to the advice and services of the secretary. The articles of association and the schedule of matters reserved to the Board for decision provide that the appointment and removal of the secretary is a matter for the full Board.

The executive

It is the responsibility of the executive to implement the strategic objectives as agreed by the Board. The executive, under the leadership of the chief executive, is responsible for the day-to-day management of the Bank.

The executive of the financial services Boards of CFS, including the Bank, are organised under a single executive management framework.

Relations with members

The Bank has two equity shareholders. The majority of the shares are held by CFS, which is a wholly-owned subsidiary of The Co-operative Group. The remainder of the shares are held directly by The Co-operative Group.

The Bank has approximately 2,500 preference shareholders. The preference shares are fixed-interest shares and are non-cumulative and irredeemable. The preference shareholders are entitled to attend general meetings, but the shares only hold speaking or voting rights if and when the dividend has been in arrears for six months or more, or if a resolution is to be proposed at general meeting abrogating or varying any of their respective rights or privileges, or for the winding up of the Bank or other return of capital, and then only on such resolution.

Risk management

The Board and executive management have the primary responsibility for identifying the key business risks facing the organisation. The CFS risk management framework, which is approved and reviewed by the Bank Board, outlines the approach taken to ensure a robust risk management process is in place throughout the organisation and is regularly reviewed. The framework includes an ongoing process for identifying, evaluating and managing significant risks and has been in place for the year under review and up to the date of the approval of the annual report and accounts.

The Board accepts that there are risks which could impact the achievement of the Bank's business objectives but endeavours, through positive risk management strategies as outlined in the risk management framework, to manage these in a manner that optimises returns within the confines of the business's risk appetite, whilst protecting members' interests and reserves.

For further information on the Bank's approach to risk management see pages 53 to 88.

Internal control

The Board has overall responsibility for the Bank's system of internal controls which aim to ensure effective and efficient operations, quality of internal and external reporting, safeguarding of the Bank's assets and compliance with laws and regulations. Whilst recognising that the system is designed to manage rather than eliminate risk of failure to achieve business objectives, it can only provide reasonable and not absolute assurance against material misstatement or loss.

The Bank's control environment is designed to create an attitude of taking acceptable business risk within clearly defined limits. The control environment includes:

- an organisational governance structure with clear lines of responsibility, delegation of authority and reporting requirements;
- checks and balances to ensure that business processes operate efficiently, reducing the risk posed to the organisation whilst adhering to organisational values;
- comprehensive systems of financial reporting. The annual budget and long-term plan of the Bank and of each division are reviewed and approved by the Board;
- a code of business conduct covering relations with customers, shareholders, colleagues, suppliers, community and competitors;
- a whistleblowing policy and procedure which provides for any employee to report, in confidence, suspected serious malpractice;
- internal audit, risk and compliance functions that review the system of internal control; and
- a controlled self-assessment process designed to fully support the annual review of the effectiveness of the system of internal control and enable continual improvement.

External audit

One of the duties of the CFS audit and regulatory compliance committee is to make recommendations to The Co-operative Group audit and risk committee in relation to the appointment of the external auditors. In 2003 the Co-operative Group Board approved the re-appointment of KPMG Audit Plc as the external auditors following a competitive-tender exercise.

The committee has put in place safeguards to ensure that the independence of the audit is not compromised including a policy on the conduct of non-audit services from the external auditors. The external auditors are permitted to provide some non-audit services that are not, and are not perceived to be, in conflict with their independence. The Co-operative Group audit and risk committee receives at each meeting a report providing details of assignments (and related financial fees) carried out by the external auditors of the Bank in addition to their statutory audit work. The pre-approval of the committee is required for services above certain financial thresholds determined by the committee.

In addition, the following assignments are prohibited from being performed by the external auditors:

- bookkeeping or other services related to the accounting records or financial statements;
- financial information-systems design and implementation;
- actuarial services;
- internal audit outsourcing services;
- management functions or human resources; and
- any other services that the audit and regulatory compliance committee may determine.

The performance of the external auditors is regularly monitored to ensure it meets the needs of the Bank and the results are reported to the committee.

Internal audit

The internal audit function is an independent function, which derives its authority from the Board through the CFS audit and regulatory compliance committee. Its primary role is to provide assurance over the adequacy and effectiveness of the internal control framework including risk management practices.

Internal audit seeks to discharge the responsibilities set down in its charter by completing a risk-based internal audit plan, reviewing the processes which ensure that the key business risks are effectively managed.

Internal audit also acts as a source of constructive advice and best practice, assisting senior management with its responsibility to improve the processes by which business risks are identified and managed.

Internal audit reports are submitted to, and significant issues discussed at, the CFS audit and regulatory compliance committee. Full details of the operation of this committee can be found on page 23.

Information and communication

Communication takes place with all key stakeholders through a variety of media including the sustainability report produced by The Co-operative Group. Employees receive and provide information on strategy and objectives through their reporting lines and a formal performance measurement process. Newsletters, bulletins and electronic media communicate other information.

By order of the Board
Moira Lees
Secretary
17 March 2010

Remuneration report

The Co-operative Bank (the Bank) uses, as a guideline for its disclosure in relation to remuneration, the requirements applicable to Listed Companies, as set out in schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (S.I.2008/410) (the Regulations) and will be subject to an advisory vote of shareholders of the company at its Annual General Meeting to be held on 12 May 2010.

This report provides details of the remuneration of both the executive directors and non-executive directors. The details, also shown in the report of Co-operative Financial Services (CFS), do not represent additional payments.

The key issues this year are:

- the merger with Britannia Building Society effective from 1 August 2009;
- the resultant change in the membership of the CFS and Bank Boards and the setting of new salaries;
- closure of the 2009 annual incentive plan as of 31 July 2009. Payments due in respect of the 7 months of that plan were made in November 2009;
- closure of the medium and long-term incentive plans as of 31 July 2009. Payments due in respect of those plans were made in November 2009;
- introduction of an interim annual incentive plan in respect of the period from 1 August to 31 December 2009;
- the introduction of a new annual incentive plan to take effect from 1 January 2010;
- the introduction of a new long-term incentive plan to take effect from 1 January 2010; and
- submission to the Financial Services Authority (FSA) in connection with our current and future remuneration practices. The incentive arrangements put in place are compliant with the FSA code of practice.

These issues are covered in detail in the body of the report.

Introduction

The remuneration report is presented by the Board and contains the following information:

- a description of the role of the CFS remuneration and appointments committee (the committee), in respect of the Bank;
- a summary of the Bank's remuneration policy, including a statement of policy on executive directors and non-executive directors; and
- details of the terms of the service contracts and the remuneration of the executive directors and non-executive directors for the 2009 financial year.

The CFS remuneration and appointments committee meets as a combined committee for CFS and the Bank. Its role is described below.

Role of the remuneration and appointments committee

The committee's principal terms of reference are to:

- determine policy on remuneration and other main terms and conditions of employment;
- oversee contractual arrangements for the executives and approve the principal terms and conditions of employment of such executives;
- review remuneration using comparisons against the agreed market policy for the executive;
- make recommendations on executive appointments and the terms and conditions relating to these;
- approve any relevant incentive schemes, and ensure that they are in line with current market practice, FSA code of practice, and authorise payments under any incentive schemes in line with their rules; and
- receive, review and decide on issues raised in relation to the Co-operative Group Pension (Average Career Earnings) Scheme and any other retirement benefit scheme within the Group and advise the Board of them as appropriate.

The Co-operative Group remuneration and appointments committee oversees these arrangements in respect of the chief executive.

At the beginning of the financial year, the members of the committee were Bob Burlton as chair, together with Graham Bennett, Simon Butler, Terry Morton, Kathryn Smith, Graham Stow, and Len Wardle. Graham Stow stepped down on 31 May 2009, Graham Bennett, Simon Butler, Kathryn Smith and Terry Morton all stepped down on 6 June 2009. Peter Marks and Paul Flowers joined the committee on 10 June 2009, Rodney Baker-Bates joined on 1 August 2009 and David Davies joined on 7 October 2009.

The CFS chief executive and the director of operational development also attended the meetings of the committee during the year except when their own remuneration was being discussed. Other individuals were invited to attend for specific agenda items when necessary. The committee worked with The Co-operative Group remuneration and appointments committee in ensuring consistency, where appropriate, across the wider Co-operative Group.

The six committee members are all non-executive directors, two of whom are independent professional non-executive directors. They have no personal financial interests in the committee's decisions, and they have no involvement in the day-to-day management of the Bank.

The committee met seven times to 31 December 2009.

To ensure that it receives independent advice on remuneration matters, the committee retained Hewitt New Bridge Street as its advisers during 2009 to provide advice solely on remuneration matters. Hewitt New Bridge Street has supplied advice on remuneration survey data, market trends and pension matters, including incentive schemes. Other than specialist advice in relation to remuneration matters, Hewitt New Bridge Street does not provide other services to CFS. Solicitors Addleshaw Goddard were also retained to provide legal advice to the committee with respect to executives' service contracts.

The terms of reference for the committee are available on the CFS website.

Policy on directors' remuneration

Executive directors

In determining the remuneration policy for executive directors, the committee has considered a number of factors including:

- the importance of attracting, retaining and motivating senior management of the appropriate calibre to further the success of the Bank;
- the linking of reward to business and individual performance and the strengthening of co-operative values which include a strong belief in stewardship of all the Bank's resources and, therefore, ensures that management are not rewarded for the assumption of undue risk;
- ensuring that the interests and pay practices of the executive directors are aligned across the Bank, taking into account also the pay levels and employment conditions of colleagues within the business; and
- ensuring appropriate compliance with the FSA code of practice.

The current policy is to pay executive directors, who also sit on the CFS Board, basic salaries around the market median, when compared with other organisations of comparable size and complexity, and also organisations in the same business sector. The committee supports the principle of performance-related pay and operates an annual incentive plan and a long-term incentive plan which, together, mean that over 50% of the remuneration package is performance related. The committee does not consider it appropriate to follow the quantum available in publicly-traded companies. Accordingly, the amounts payable under these plans are lower than in comparable publicly-traded companies.

The committee considers that a successful remuneration policy needs to be sufficiently flexible to take account of future changes in the Bank's business environment, and in comparative remuneration practice. Accordingly, the committee keeps the Bank's remuneration policy under review.

The last year has continued to see the fall-out from the seismic shocks in the financial services industry around the globe which has had a profound impact on many of our competitors. However, the Bank has remained resilient through the period, and the combination with Britannia to form a 'super-mutual' together with a robust model based on sound co-operative principles (which avoid undue risk taking or reliance on a single business stream) has proved to be successful. In particular, the absence of highly leveraged incentive plans (when compared with practice in the quoted sector) has ensured that the executive has not been encouraged to accept undue risk as a means of securing personal reward.

The committee notes that many of the practices already adopted at the Bank have been endorsed by the FSA in its code of practice on remuneration policies. However, the committee continues to strive for further improvements in its executive remuneration arrangements as best practice evolves.

The main components of executive directors' remuneration are:

1) Basic salary

It is the committee's policy to ensure that the basic salary for each executive director is appropriate and competitive for the responsibilities involved. Basic salaries for executive directors are reviewed by the committee, normally annually, having regard to competitive market practice (in particular, salary levels for similar positions in comparable companies), and business and individual performance during the financial year. As a result of the merger, salaries for the new executive team were reviewed at the September remuneration and appointments committee, taking into account the changed organisational structure and roles and the increase in size of the organisation. The normal salary review date for executive directors is at the start of each financial year in January. Basic salary is the only element of remuneration that is pensionable. Salaries received by executive directors during the financial year are set out in Table 1 on page 32.

2) Annual incentive plan

Each executive director is eligible to participate in an annual performance-related incentive plan. For the year ended 31 December 2009 there have been two annual incentive plans in place. The first covered the period to 31 July 2009 and the second, the post merger period of 1 August 2009 to 31 December 2009.

The target level under the plan for the period to 31 July 2009 was 35% of basic salary for executive directors, including the chief executive. Under the incentive plan the maximum potential for executive directors (including the chief executive) is 60% of basic salary for substantially exceeding targets.

Targets under this plan were constructed so that 75% of any payout related to financial measures, these being total shareholder results, life and savings new business profit (NBP) and life and savings maintenance expenses, with the remaining 25% being based on colleague and customer satisfaction.

For the CFS chief executive, the ratio was 90% against CFS performance, and 10% based on wider Co-operative Group initiatives.

Due to the merger with Britannia, bonuses for the period to 31 July were calculated and paid to executives in November 2009.

The committee put in place an interim arrangement covering the period 1 August 2009 to 31 December 2009 the design and terms of which are as follows:

- target levels remain at 35% of base salary and with a maximum opportunity of 60%; and
- the measures are aligned to the new business and are based upon a balanced scorecard which consists of financial, process, customer and colleague measures together with personal objectives that reflect the key priorities for each executive.

The payments in respect of the five months of the interim plan together with those made under the preceding plan are included in the performance related pay annual column in Table 1 on page 32. Payments will be made in accordance with the FSA code of practice.

A new annual incentive plan has been put in place for 2010. The design and terms for the plan are as follows. Target levels for all of the executive team are 35% of base salary with a maximum opportunity of 60%. The measures used in the plan are taken from the business strategy as encapsulated in the corporate balanced scorecard. Such an approach, in addition to being right for the business, complies with best practice as set out in the FSA code of practice. The measures and weightings are as set out below:

- financial and process (60%) profit before tax and combined cost income ratio;
- customer (20%) customer advocacy; and
- people (20%) colleague engagement score.

No payment will be made under the plan if the profit before tax threshold (100%) is not achieved and/or the risk parameters as agreed by the Board and encompassed in the target liquidity range and capital sufficiency level are not adhered to. Additionally in accordance with the FSA code of practice, deferral provisions and a clawback facility are built into the plan.

3) Long-term incentive plan

In the period to 31 July 2009 there was in existence a medium-term incentive plan covering the financial years 2007 to 2009 and a long-term incentive plan covering the periods 2008 to 2010 and 2009 to 2011. The terms, targets and measures for these plans were as set out below.

The medium-term incentive plan was initially introduced in 2003 for executive directors of the Bank in order to align their objectives with the longer-term interests of the business. The plan sets targets across a three-year period. Performance against these targets is reviewed by the committee on an annual basis. Annual profit performance must be at or above threshold level for payment to be made. The fifth three-year period of operation of the plan was 2007 to 2009 with potential payment in 2010.

The target annualised payment level under the plan for executive directors, including the chief executive, for that three-year period (and subsequent years) was 28% of basic salary with a stretch level of 42% of basic salary for substantially out-performing targets.

A long-term incentive plan was introduced for the financial years 2008 and beyond. The plan measured the achievement of financial performance targets together with a balanced scorecard, i.e. customer satisfaction, growing colleague engagement and corporate reputation, over a fixed three-year period starting 2008 to 2010 with potential payment in 2011. The 2009 to 2011 plan with potential payment in 2012 had similar arrangements. For executive directors, the threshold payment level, subject to performance conditions being met, was 16.7% of basic salary, with a maximum payment of up to 50% of salary for substantially exceeding targets.

As a result of the merger with Britannia the plans for 2007 to 2009, 2008 to 2010 and 2009 to 2011 were vested early, calculated on performance achieved against targets set for each plan pro-rata up to the date of merger, and paid to executives. Payments were made in November 2009 and are shown in Table 1 on page 32. In addition, a compensation payment for the lost value of the remaining five months of the 2007 to 2009 plan will be made and is included in Table 1.

A new long-term incentive plan is currently under development and will be compliant with the FSA code of practice.

4) Service agreements

It is the Bank's policy for the notice period in executive directors' service contracts not to exceed one year. Executive directors have consistent contracts that are terminable by up to one year's notice by the organisation and six months' notice by the individual. In the event of termination, any payments due to an executive director would be based on this. The remuneration and appointments committee may make a discretionary award of outstanding bonus payments earned up to the date of termination of employment.

All the Bank executive directors had similar contracts during 2009. The dates of existing contracts or dates of appointment are shown in Table 1 on page 32.

In normal circumstances, it is the committee's policy to apply service contracts for any newly recruited executive directors in a similar form to the model that has been developed for existing executive directors.

5) Share options
Senior executives of most companies get a payout under an executive share option scheme. Because of the co-operative nature of the business it is not appropriate to operate a share option scheme.

6) Non-executive directorships
The committee has determined that executive directors may accept one non-executive directorship, or similar, with an external organisation believing that this represents an important opportunity for professional development. Any fees received from such a role will normally be paid to the Bank, CFS or the Co-operative Group.

At this time, none of the executives hold any non-executive directorships with companies outside of The Co-operative Group.

7) Pensions
The Co-operative Financial Services businesses participate in the Co-operative Group Pension (Average Career Earnings) Scheme (the PACE Scheme). However, following the merger with Britannia Building Society on 1 August 2009, colleagues who at that date were members of the Britannia Pension Scheme (the Britannia Scheme) continue in membership of the Britannia Scheme. From 1 August 2009, for the interim, only the defined contribution section of the Britannia Scheme is available to new colleagues of the Co-operative Financial Services businesses.

The PACE Scheme, which is a registered occupational pension scheme, provides defined benefit (DB) pensions based on 1/60th of average pensionable earnings, re-valued for inflation for each year of pensionable service from 6 April 2006 (the date the PACE Scheme was implemented). Benefits accrued as at 5 April 2006, in respect of membership of the scheme preceding the PACE Scheme, continue to be linked to final pensionable salary at a member's date of leaving or retirement, whichever is earlier. Pensions are also payable to dependents on death and a lump sum is payable if death occurs in service.

The Britannia Scheme, which is also a registered occupational pension scheme, provides benefits under two sections:-

– A defined benefit (DB) section (closed to new colleagues), which provides pensions based on an accrual of 1/80th, 1/60th or up to 1/30th for executives, of final pensionable salary for each year of pensionable service.
– A defined contribution (DC) section (open to new colleagues) with an employer contribution rate of 4%, 6% or 8% depending on the level of member contribution.
– Under both sections pensions are also payable to dependants on death and a lump sum is payable if death occurs in service.

Members of the PACE Scheme currently contribute 6% of their pensionable salary whilst members of the Britannia Scheme contribute either 6% or 8% of their pensionable salary if they are in the DB section. The employer pays the balance of cost of providing DB benefits. Members of the Britannia Scheme DC Section pay 2%, 3% or 4% of their pensionable salary. All members have the choice of making pension contributions by salary sacrifice.

Prior to the merger on 1 August 2009, Neville Richardson, Tim Franklin, and Phil Lee had contractual arrangements under which the accrued pension benefits in an unfunded employer-financed retirement benefits scheme (EFRBS). These contractual arrangements were revised from 1 August 2009 and the rate of benefit aligned more closely to Group executive pension policy. These executives are currently accruing benefits in the EFRBS put in place to provide pension benefits that exceed the lifetime allowance. Benefits up to the lifetime allowance will be provided from the Britannia Scheme. The revised pension arrangements are subject to further review in 2011.

Executives have the facility of opting out of future pension accrual under the relevant registered scheme when the value of their accrued pension benefits reaches the Lifetime Allowance under the tax rules in favour of a non-pensionable salary supplement of 16% of basic salary in lieu of pension provision. John Reizenstein had previously opted out of the PACE Scheme on this basis and is entitled to a deferred pension. He receives a salary supplement of 16% of basic salary.

David Anderson has previously elected not to join the PACE Scheme and was paid a salary supplement of 16% of basic salary. All other executives were members of the PACE Scheme or Britannia Scheme during the year.

Supplementary life cover is provided to executives in order to provide total life cover of four times salary when aggregated with benefits from the PACE Scheme or Britannia Scheme, as appropriate.

Additional details are available in Table 2 on page 33.

Non-executive directors
As a result of the merger with Britannia the Bank Board was re-constituted from 1 August 2009 and, in addition to six executive directors, consists of 16 non-executive directors, seven of whom are independent professional non-executive directors and one is a professional non-executive director.

All the non-executive directors are appointed, and their directors' fees are determined and paid, by the Co-operative Group.

Details of the directors' year of appointment and fees are shown in Table 3 on page 34.

The directors' remuneration and expenses policy was the subject of an independent review and was approved by members of the Co-operative Group in a general meeting in October 2008. This policy is applicable to the non-executive directors appointed to serve on the Bank Board from 7 June 2009 (excluding the independent professional non-executive directors, the professional non-executive director and the non-executive directors who are colleagues of The Co-operative Group).

Under this policy, with effect from 7 June 2009, the basic remuneration for a non-executive director appointed to serve on the CFS Boards, including the Bank is £15,000 per annum, and non-executive directors serving on the various CFS sub-committees (which also have responsibility for the Bank business) also receive additional payments.

The deputy chair also receives additional fees to reflect the additional responsibilities of the role.

All fees are increased by RPI every year. There was no increase in fees in 2009.

The independent professional non-executive directors and the professional non-executive director are party to agreements with Co-operative Group governing the terms on which their services are made available to the Bank.

Independent professional non-executive directors	**Current agreement expiry date**
David Davies (Senior IPNED)	31 May 2010
Piers Williamson	31 July 2010
Bob Newton	31 July 2010
Peter Harvey	31 July 2012
Stephen Kingsley	31 July 2012
Rodney Baker-Bates	31 July 2012
Chris Jones	31 July 2012
Professional non-executive director	
Paul Hewitt	28 July 2010

The Co-operative Group Board may resolve to reappoint any of the independent professional non-executive directors at or before the date their contracts expire for a further three-year term. It is the normal policy of the Board not to allow an independent professional non-executive director to serve for more than nine years in aggregate.

The seven independent professional non-executive directors and the professional non-executive director receive a payment of £54,236 per annum. The senior independent non-executive director (David Davies) receives an additional payment of £5,000 per annum. An additional payment of £10,000 per annum is made to the chair of the CFS audit and regulatory compliance committee (Paul Hewitt).

The agreements contain no specific provision for liquidated damages on early termination of an agreement.

None of the independent professional non-executive directors are directors of The Co-operative Group or members of any Co-operative Group pension scheme or incentive plan.

By order of the Board
Bob Burlton
Chair, CFS remuneration and appointments committee
17 March 2010

Table 1 – Executive directors' emoluments

	Date of service contract or appointment	Basic salary £'000	Other supplements (1) £'000	Performance related pay annual (2) £'000	Benefits in kind £'000	Total relating to 2009 £'000	Performance related pay medium/ long term (3) £'000	2009 Total emoluments £'000	2008 Total emoluments £'000
David Anderson (4) (6) (7) (8)	1 June 2005	**337**	**65**	**132**	**–**	**534**	**162**	**696**	1,021
Neville Richardson (5) (9) (10)	1 August 2009	**271**	**2**	**131**	**5**	**409**	**34**	**443**	–
Rod Bulmer (5)	1 June 2008	**132**	**7**	**64**	**–**	**203**	**–**	**203**	–
Tim Franklin (5) (9)	1 August 2009	**156**	**6**	**76**	**3**	**241**	**21**	**262**	–
Phil Lee (5) (9)	1 August 2009	**156**	**3**	**76**	**4**	**239**	**23**	**262**	–
Dick Parkhouse (7) (8)	2 October 2006	**171**	**9**	**67**	**–**	**247**	**71**	**318**	177
John Reizenstein (2) (4) (10)	6 January 2005	**357**	**75**	**179**	**–**	**611**	**117**	**728**	603
Barry Tootell (2)	4 April 2008	**349**	**24**	**176**	**–**	**549**	**17**	**566**	532
		1,929	**191**	**901**	**12**	**3,033**	**445**	**3,478**	2,333
Former directors who served the Bank in 2008									333
Compensation for loss of office (8)		**–**	**–**	**–**	**–**	**–**	**–**	**1,750**	580
		1,929	**191**	**901**	**12**	**3,033**	**445**	**5,228**	3,246

The table above represents total emoluments for executive directors in relation to their services for the CFS Group

Notes

(1) Other supplements includes a car allowance, which is paid with basic salary, but is not pensionable.

(2) Performance-related pay (annual) refers to amounts paid in November 2009 in respect of the period 11 January to 31 July together with amounts earned in respect of the period 1 August to 31 December. It also includes payments of £25,000 to each of John Reizenstein and Barry Tootell in recognition of their contribution during the merger process.

(3) Performance Related Pay (medium/long term) refers to amounts paid in respect of the 2007 to 2009 medium-term plan, 2008 to 2010 and 2009 to 2011 long-term incentive plan, all of which vested as at 31 July as a result of the merger with Britannia. In addition, a compensation payment for the lost value of the remaining five months of the 2007 to 2009 plan will be made.

(4) The other supplements figures for David Anderson and John Reizenstein include a salary supplement in lieu of pension provision.

(5) Neville Richardson, Tim Franklin, Phil Lee and Rod Bulmer were appointed as executive directors of CFS on 1 August 2009.

(6) David Anderson's bonus figure relates to CFS performance which accounts for 90% of his bonus eligibility. The remaining 10% relates to Co-operative Group initiatives. This bonus amount will be approved and paid for by The Co-operative Group.

(7) David Anderson and Dick Parkhouse resigned as executive directors on 31 July 2009.

(8) Compensation for loss of office was in respect of David Anderson £1,022,000 and Dick Parkhouse £728,000. In addition, David Anderson received payment of £304,000 for continued employment to 31 December 2009. Compensation for loss of office in 2008 was in respect of Stephan Pater.

(9) Benefits in kind for Neville Richardson, Tim Franklin and Phil Lee are in respect of company car, private fuel and medical insurance all of which were provided under the terms of their contract with Britannia.

(10) In accordance with the FSA code of practice, payment of 60% of variable pay has been deferred for two directors for up to three years.

Table 2 – Pension details of the executive directors

	Years of service (1)	Total accrued pension at 31 December 2009 (1) £000	Increase in accrued pension during the year £000	Increase in accrued pension during the year (net of inflation) £000	Transfer value of previous column at 31 December 2009 net of members' contributions (3) £000	Transfer value of total accrued pension at 10 January 2009 (3) £000	Transfer value of total accrued pension at 31 December 2009 (3) £000	Increase in transfer values net of members' contributions (3) £000
Neville Richardson (4)	11	122	20	20	334	1,905	2,423	479
David Anderson (5)	4	–	–	–	–	–	–	–
Rod Bulmer (2) (6)	2	7	4	4	17	19	53	17
Tim Franklin (6)	9	77	16	15	233	954	1,310	332
Phil Lee (6)	7	67	13	13	248	1,037	1,409	348
Dick Parkhouse (2) (8)	2	11	3	3	32	126	164	28
John Reizenstein (7)	6	5	–	–	–	86	89	3
Barry Tootell (2)	1	10	6	6	35	42	97	35

Notes

(1) Years of service include, where appropriate, pre-merger service with Britannia. The total accrued pension is that which would be paid annually on retirement at normal retirement age based on service to 31 December 2009 and includes any transferred-in benefits as appropriate.

(2) Members have the option of paying additional voluntary contributions to their respective pension scheme. Neither these contributions nor the benefits arising from them are shown in the above table.

(3) All transfer values have been calculated in accordance with the current transfer value method and basis in force for the scheme applicable to the executive. This is set by the trustee(s), after taking actuarial advice, to be consistent with the requirements of legislation and the rules of the scheme.

(4) Neville Richardson was appointed chief executive on 1 August 2009. The figures shown at the start of the year and at the year end are after application of a Pension Sharing Order.

(5) David Anderson retired as chief executive on 31 July 2009. He was paid a non-pensionable salary supplement of 16% of basic salary in lieu of pension provision.

(6) Rod Bulmer, Tim Franklin, and Phil Lee were appointed executive directors on 1 August 2009.

(7) John Reizenstein opted out of joining the PACE scheme on 6th April 2006 and became entitled to a deferred pension. He was paid a non-pensionable salary supplement of 16% of basic salary in lieu of pension provision. Deferred pensions are revalued under the PACE scheme rules but no account has been taken of this in the above table.

(8) Dick Parkhouse resigned as an executive director on 31 July 2009. He became entitled to a deferred pension under the PACE scheme rules when he left the scheme at the same date. The age, service, deferred pension and transfer value figures are calculated at that date.

Table 3 – Non-executive directors' remuneration

Non-executive directors	Date appointed	2009 fees £'000 [1]	2008 fees £'000
Graham Bennett [3]	**1989**	**7**	16
Duncan Bowdler [6] [10] [14]	**2009**	**8**	–
Simon Butler [3]	**2003**	**7**	16
Paul Flowers [6] [10] [13] [14]	**2009**	**11**	–
Peter Marks [6] [15]	**2009**	**–**	–
Terry Morton [3]	**2006**	**4**	10
Ben Reid [6] [10] [13]	**2009**	**10**	–
Kathryn Smith [3]	**2001**	**4**	10
Len Wardle [10] [14]	**2006**	**13**	10
Martyn Wates [15]	**2007**	**–**	–
Stephen Watts [8] [10] [14]	**2006**	**15**	10
Bob Burlton [7]	**2004**	**102**	104
Independent professional non-executive directors (IPNEDS) [9]			
Rodney Baker-Bates [5] [9]	**2009**	**20**	–
Graham Stow [4]	**2003**	**32**	62
David Davies [9] [11]	**2003**	**58**	58
Peter Harvey [5] [9]	**2009**	**24**	–
Chris Jones [5] [9]	**2009**	**23**	–
Stephen Kingsley [5] [9]	**2009**	**24**	–
Bob Newton [9]	**2007**	**53**	53
Piers Williamson [9]	**2005**	**53**	53
Professional non-executive director (PNED) [11]			
Paul Hewitt [9] [12]	**2003**	**62**	53

Notes

(1) Fees for the year are based on 51 weeks compared to 52 weeks in 2008.
(2) The Co-operative Group agreed a new fee structure for its non-executive directors and those non-executive directors who serve on the main subsidiary boards with effect from 7 June 2009.
(3) Graham Bennett, Simon Butler, Terry Morton and Kathryn Smith resigned with effect from 6 June 2009.
(4) Graham Stow resigned with effect from 31 May 2009.
(5) Rodney Baker-Bates, Peter Harvey, Chris Jones and Stephen Kingsley were appointed with effect from 1 August 2009.
(6) Paul Flowers and Ben Reid were appointed with effect from 8 June 2009, Peter Marks with effect from 9 June 2009 and Duncan Bowdler with effect from 8 July 2009.
(7) The Bank chair, Bob Burlton receives a single fee of £104,000 per annum.
(8) Steve Watts was appointed deputy chair on 9 September 2009, and receives a fee of £8,135 per annum in addition to the basic remuneration of £15,000 per annum for the additional responsibilities.
(9) Under their service contracts, the IPNEDS receive a fee of £54,236 per annum.
(10) The non-executive directors that also serve on the Group Board receive a fee of £15,000 per annum for serving on the CFS Board.
(11) David Davies, for his services as the Senior IPNED receives an additional fee of £5,000 per annum.
(12) Paul Hewitt became chair of the CFS audit and regulatory compliance committee with effect from 1 January 2009 and receives an additional £10,000 per annum
(13) Members of the CFS audit and regulatory compliance committee and the CFS risk management committee, other than the IPNEDS, receive an additional £3,000 per committee per annum,
(14) Members of the CFS remuneration and appointments committee and the CFS exposures committee, other than the IPNEDS, receive an additional £2,000 per committee per annum.
(15) Peter Marks, chief executive of Co-operative Group and Martyn Wates, chief financial officer of the Co-operative Group are both colleagues and remunerated by the Co-operative Group and do not receive fees for serving on the Bank board.

Independent auditors' report to the members of The Co-operative Bank plc

We have audited the financial statements of The Co-operative Bank plc for the period ended 31 December 2009 set out on pages 36 to 134. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's profit for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance statement set out on pages 21 to 26 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the company.

Under the Listing Rules we are required to review the directors' statement, set out on page 18, in relation to going concern.

In addition to our audit of the financial statements, the directors have engaged us to review their corporate governance statement as if the company were required to comply with the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Services Authority in relation to those matters. Under the terms of our engagement we are required to review the part of the corporate governance statement on pages 21 to 26 relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Andrew Walker (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
St James Square
Manchester
M2 6DS
17 March 2010

Consolidated income statement

For the year ended 31 December 2009
All amounts are stated in £m unless otherwise indicated

	Notes	**Before significant items 2009**	**Significant items 2009**	**After significant items 2009**	Before significant items 2008	Significant items 2008	After significant 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)
Net interest income	4	**579.7**	**–**	**579.7**	374.3	–	374.3
Fee and commission income		**210.8**	**–**	**210.8**	216.5	–	216.5
Fee and commission expense		**(47.2)**	**–**	**(47.2)**	(35.6)	–	(35.6)
Net fee and commission income	5	**163.6**	**–**	**163.6**	180.9	–	180.9
Net trading income	6	**5.2**	**–**	**5.2**	4.9	–	4.9
Other operating income	7	**6.9**	**–**	**6.9**	9.3	–	9.3
Operating income		**755.4**	**–**	**755.4**	569.4	–	569.4
Operating expenses	8	**(429.0)**	**(38.1)**	**(467.1)**	(336.3)	(47.1)	(383.4)
Financial services compensation scheme levies	32	**(3.7)**	**–**	**(3.7)**	(10.5)	–	(10.5)
Operating profit before impairment losses		**322.7**	**(38.1)**	**284.6**	222.6	(47.1)	175.5
Impairment losses on loans and advances	15	**(116.1)**	**–**	**(116.1)**	(96.8)	–	(96.8)
Impairment losses on investments	16	**4.0**	**–**	**4.0**	(50.7)	–	(50.7)
Operating profit		**210.6**	**(38.1)**	**172.5**	75.1	(47.1)	28.0
Share of post-tax losses from joint ventures	36	**(0.1)**	**–**	**(0.1)**	–	–	–
Profit before taxation and profit based payments		**210.5**	**(38.1)**	**172.4**	75.1	(47.1)	28.0
Profit based payments to members of The Co-operative Group		**(7.8)**	**–**	**(7.8)**	(4.7)	–	(4.7)
Profit before taxation		**202.7**	**(38.1)**	**164.6**	70.4	(47.1)	23.3
Income tax	10	**(62.1)**	**10.7**	**(51.4)**	(19.4)	13.4	(6.0)
Profit for the financial year		**140.6**	**(27.4)**	**113.2**	51.0	(33.7)	17.3
Attributable to:							
Equity shareholders	12	**137.7**	**(27.4)**	**110.3**	47.2	(33.7)	13.5
Minority interests		**2.9**	**–**	**2.9**	3.8	–	3.8
		140.6	**(27.4)**	**113.2**	51.0	(33.7)	17.3
Earnings per share (basic and diluted)	12	**3.60p**	**(0.72)p**	**2.88p**	4.29p	(3.06)p	1.23p

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 accounting policies and notes on pages 43 to 134 form part of these financial statements.

All amounts are stated in £m unless otherwise indicated

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

Consolidated balance sheet

At 31 December 2009
All amounts are stated in £m unless otherwise indicated

	Notes	2009	2008
Assets			
Cash and balances at central banks	13	**1,706.8**	535.8
Loans and advances to banks	14	**1,781.5**	1,524.2
Loans and advances to customers	15	**34,046.7**	10,173.7
Fair-value adjustments for hedged risk	15	**66.1**	–
Investment securities – loans and receivables	16	**2,486.2**	123.4
Investment securities – available-for-sale	16	**4,457.3**	2,121.7
Derivative financial instruments	17	**1,023.0**	228.7
Equity shares	18	**7.2**	13.0
Investments in joint ventures	36	**1.8**	–
Goodwill	19	**0.6**	–
Intangible fixed assets	20	**46.1**	2.3
Investment properties	21	**137.7**	–
Property, plant and equipment	22	**121.5**	59.6
Amounts owed by other Co-operative Group undertakings	37	**91.0**	137.9
Other assets	23	**22.1**	31.2
Prepayments and accrued income	24	**30.1**	13.0
Deferred tax assets	33	**93.7**	–
Total assets		**46,119.4**	14,964.5
Liabilities			
Deposits by banks	25	**6,082.4**	1,073.3
Customer accounts	26	**30,828.2**	11,690.0
Customer accounts – capital bonds	27	**1,647.1**	–
Debt securities in issue	28	**3,334.3**	571.5
Derivative financial instruments	17	**591.3**	119.7
Other borrowed funds	29	**946.5**	366.5
Amounts owed to other Co-operative Group undertakings	37	**329.2**	225.5
Other liabilities	30	**221.9**	91.7
Accruals and deferred income	31	**158.0**	1.6
Provisions for liabilities and charges	32	**33.4**	15.8
Current tax liabilities		**71.0**	1.2
Deferred tax liabilities	33	**–**	27.0
Total liabilities		**44,243.3**	14,183.8
Capital and reserves attributable to the Bank's equity holders			
Ordinary share capital	38	**230.0**	55.0
Share premium account	38	**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
Total equity		**1,876.1**	780.7
Total liabilities and equity		**46,119.4**	14,964.5

Approved by the Board on 17 March 2010 and signed on its behalf by:

Bob Burlton, chair
Neville Richardson, chief executive
Moira Lees, secretary

The accounting policies and notes on pages 43 to 134 form part of these financial statements.

At 31 December 2009
All amounts are stated in £m unless otherwise indicated

	Notes	2009	2008
Assets			
Cash and balances at central banks	13	**1,706.8**	535.8
Loans and advances to banks	14	**1,220.1**	1,524.0
Loans and advances to customers	15	**23,050.8**	10,016.6
Fair-value adjustments for hedged risk	15	**60.6**	–
Investment securities – loans and receivables	16	**2,555.6**	123.4
Investment securities – available-for-sale	16	**4,060.6**	1,700.2
Derivative financial instruments	17	**660.8**	259.1
Equity shares	18	**7.2**	13.0
Investments in Group undertakings	36	**1,553.0**	969.3
Goodwill	19	**0.6**	–
Intangible fixed assets	20	**44.9**	1.5
Property, plant and equipment	22	**101.6**	53.9
Amounts owed by other Co-operative Group undertakings		**11,861.6**	1,179.6
Other assets	23	**45.8**	31.0
Prepayments and accrued income	24	**27.4**	4.2
Current tax assets		**–**	2.5
Deferred tax assets	33	**210.3**	–
Total assets		**47,167.7**	16,414.1
Liabilities			
Deposits by banks	25	**5,613.0**	1,073.3
Customer accounts	26	**28,660.0**	11,180.1
Customer accounts – capital bonds	27	**1,581.7**	–
Debt securities in issue	28	**1,739.3**	571.5
Derivative financial instruments	17	**567.2**	125.0
Other borrowed funds	29	**946.5**	366.5
Amounts owed to other Co-operative Group undertakings		**5,765.0**	2,225.4
Other liabilities	30	**210.8**	109.6
Accruals and deferred income	31	**134.3**	9.6
Provisions for liabilities and charges	32	**25.6**	14.7
Current tax liabilities		**56.8**	–
Deferred tax liabilities	33	**–**	22.5
Total liabilities		**45,300.2**	15,698.2
Capital and reserves attributable to the Bank's equity holders			
Ordinary share capital	38	**230.0**	55.0
Share premium account	38	**8.8**	8.8
Retained earnings		**1,588.5**	610.7
Available-for-sale reserve		**2.5**	(16.8)
Cashflow hedging reserve		**37.7**	58.2
Total equity		**1,867.5**	715.9
Total liabilities and equity		**47,167.7**	16,414.1

Approved by the Board on 17 March 2010 and signed on its behalf by:

Bob Burlton, chair
Neville Richardson, chief executive
Moira Lees, secretary

The accounting policies and notes on pages 43 to 134 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2009
All amounts are stated in £m unless otherwise indicated

	2009	2008
Cash flows from operating activities		
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
Movements on investment impairments	**(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 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
	152.8	185.1
(Decrease)/increase in deposits by banks	**(1,108.5)**	348.3
Increase in customer accounts	**872.0**	1,349.3
(Decrease)/increase in debt securities in issue	**(1,035.5)**	32.2
Increase 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 other assets and other liabilities	**82.1**	(23.3)
Income tax paid	**(23.4)**	(8.4)
Net cash flows from operating activities	**(2,943.6)**	205.7
Cash flows from investing activities		
Cash and cash equivalents acquired on transfer of engagements	**1,535.6**	–
Purchase of property, plant, equipment and software	**(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
Net cash flows from investing activities	**2,868.1**	83.2
Cash flows from financing activities		
Interest paid in respect of subordinated loanstock	**(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)
Net cash flows from financing activities	**138.8**	(23.8)
Increase in cash and cash equivalents	**63.3**	265.1
Cash and cash equivalents at the beginning of the financial year	**2,324.0**	2,058.9
Cash and cash equivalents at the end of the financial year	**2,387.3**	2,324.0
Cash and balances with central banks (note 13)	**1,672.8**	525.9
Loans and advances to banks (note 14)	**462.5**	1,218.6
Short-term investments (note 16)	**252.0**	579.5
	2,387.3	2,324.0

The accounting policies and notes on pages 43 to 134 form part of these financial statements.

For the year ended 31 December 2009
All amounts are stated in £m unless otherwise indicated

	2009	2008
Cash flows from operating activities		
Profit before taxation	**201.8**	16.0
Adjustments for:		
Decrease/(increase) in prepayments and accrued income	**119.4**	(11.8)
(Decrease)/Increase in accruals and deferred income	**(131.3)**	0.2
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	**114.9**	95.9
Movements on investment impairments	**(4.0)**	50.7
Depreciation and amortisation	**21.4**	19.6
Interest amortisation	**(12.6)**	(12.1)
Amortisation of investments	**(4.4)**	(0.2)
Profit on sale of investments	**–**	(3.1)
Loss on disposal of fixed assets	**1.5**	2.4
Unwind of fair-value adjustments arising on transfer of engagements	**(99.1)**	–
Preference dividend	**5.6**	5.6
	134.5	169.9
(Decrease)/increase in deposits by banks	**(1,089.6)**	348.3
Increase in customer accounts	**486.7**	3,320.6
(Decrease)/increase in debt securities in issue	**(798.4)**	32.2
Increase in loans and advances to banks	**(499.8)**	(306.6)
Increase in loans and advances to customers	**(1,059.4)**	(2,339.2)
Decrease in amounts owed by other Co-operative Group undertakings	**11.4**	–
Increase in amounts owed to other Co-operative Group undertakings	**38.2**	–
Net movement of other assets and other liabilities	**160.5**	(33.0)
Income tax paid	**(3.1)**	(4.0)
Net cash flows from operating activities	**(2,619.0)**	1,188.2
Cash flows from investing activities		
Cash and cash equivalents acquired on transfer of engagements	**889.6**	–
Purchase of property, plant, equipment and software	**(3.7)**	–
Proceeds from sale of property, plant and equipment	**–**	0.9
Movements in investments in Group undertakings	**310.4**	(966.7)
Purchase of investment securities	**(624.9)**	(12,248.7)
Proceeds from sale and maturity of investment securities	**1,947.5**	12,306.6
Net cash flows from investing activities	**2,518.9**	(907.9)
Cash flows from financing activities		
Interest paid on subordinated loanstock	**(29.7)**	(17.3)
Proceeds of issued shares	**175.0**	–
Preference share dividends paid	**(5.6)**	(5.6)
Dividends from subsidiary undertakings	**0.2**	0.3
Net cash flows from financing activities	**139.9**	(22.6)
Increase in cash and cash equivalents	**39.8**	257.7
Cash and cash equivalents at the beginning of the financial year	**2,323.8**	2,066.1
Cash and cash equivalents at the end of the financial year	**2,363.6**	2,323.8
Cash and balances with central banks (note 13)	**1,672.8**	525.9
Loans and advances to banks (note 14)	**438.8**	1,218.4
Short-term investments (note 16)	**252.0**	579.5
	2,363.6	2,323 .8

The accounting policies and notes on pages 43 to 134 form part of these financial statements.

Consolidated and Bank statements of changes in equity

For the year ended 31 December 2009
All amounts are stated in £m unless otherwise indicated

	Attributable to equity holders of the company							
	Share capital	**Share premium**	**Available-for-sale reserve**	**Cashflow hedging reserve**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Group								
2009								
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**
Transactions with owners recorded directly in equity:								
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**
Group								
2008								
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
Transactions with owners recorded directly in equity:								
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

	Attributable to equity holders of the company					
	Share capital	**Share premium**	**Available-for-sale reserve**	**Cashflow hedging reserve**	**Retained earnings**	**Total equity**
Bank						
2009						
Balance at the beginning of the year	**55.0**	**8.8**	**(16.8)**	**58.2**	**610.7**	**715.9**
Amounts arising on transfer of engagements	**–**	**–**	**–**	**–**	**811.2**	**811.2**
Total comprehensive income for the financial year	**–**	**–**	**19.3**	**(20.5)**	**166.6**	**165.4**
Transactions with owners recorded directly in equity:						
Increase in share capital	**175.0**	**–**	**–**	**–**	**–**	**175.0**
Balance at the end of the year	**230.0**	**8.8**	**2.5**	**37.7**	**1,588.5**	**1,867.5**
Bank						
2008						
Balance at the beginning of the year	55.0	8.8	(0.2)	(1.2)	597.9	660.3
Total comprehensive income for the financial year	–	–	(16.6)	59.4	12.8	55.6
Balance at the end of the year	55.0	8.8	(16.8)	58.2	610.7	715.9

The accounting policies and notes on pages 43 to 134 form part of these financial statements.

The Co-operative Bank plc is registered in England and Wales under the Companies Act 2006.

Basis of preparation
Both the parent company financial statements and the Group financial statements 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. On including the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in S408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements. Information in respect of the Company alone is labelled throughout as 'Bank'.

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 these 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);
- 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 75 to 78).
  - Reconciliation of movements in fair value of instruments with significant unobservable inputs (refer to page 85).
  - Liquidity risk disclosures on a behavioural basis for both derivative and non-derivative financial instruments (refer to pages 64 to 72).

Standards and interpretations issued but not yet effective
The Group 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 income or expense.
  - 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 income or expense.
  - 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.

The 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. Refer to the accounting policy on business combinations on page 44.

- 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 income or expense.

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 Bank's 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).

Going concern
The Group's business activities together with its financial position, and the factors likely to affect its future development and performance are set out in the business and financial review on pages 6 to 11. In addition, the risk management section on pages 53 to 88 includes the Group's objectives, policies and processes for managing its liquidity risk, details of financial instruments and hedging activities, and its exposure to credit risk and liquidity risk. The capital management section on page 89 provides information on the Bank's capital policies and capital resources.

In common with many financial institutions, the Group 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 Group's forecasts and objectives, taking into account a number of potential changes in trading performance and funding retention, show that the Group should be able to operate at adequate levels of both liquidity and capital, for the foreseeable future. The Group 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.

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, the analysis of cash and balances at central banks (note 13) and the analysis of loans and advances to banks (note 14).

Inter-group balances for Group and Bank at the 2008 year end included within loans and advances to banks (note 14), loans and advances to customers (note 15) and customer accounts (note 26) 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 (note 24) and accruals and deferred income (note 31) 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.

Use of estimates and judgments
The preparation of financial statements 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 underlying 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.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements, are described within the risk management section on pages 53 to 88 and the critical judgments section on pages 90 to 92.

Change in accounting reference 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 2009. The 2008 comparatives are stated as at 10 January 2009.

Significant accounting policies
The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Business combinations
On 1 August 2009 The Co-operative Bank plc merged with Britannia Building Society, with Britannia transferring their engagements to the Company.

This business combination has been accounted for applying the requirements of IFRS 3 (Business Combinations (2004)).

The consideration transferred is valued by reference to the members' interests acquired. Financial assets and liabilities which, following the Group's accounting policies, would be carried at amortised cost, are brought on to the balance sheet at their fair value at acquisition and are subsequently carried at amortised cost using the effective-interest-rate (EIR) method. The income statement includes the results of the engagements transferred from Britannia since the date of acquisition. Details of the combination are given in note 39.

(b) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies and are based on the same accounting period as the Bank.

Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated statements.

Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective, for the Bank this includes:

- Various securitisation transactions in which mortgages were sold to SPEs. The equity of these SPEs is not owned by the Bank.
- Covered Bond Limited Liability Partnerships created in order to act as a guarantor for the issue of covered bonds. (refer to note 36 for further information).

An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Bank and the SPE's risks and rewards, the Bank concludes that it controls the SPE.

The following circumstances may indicate a relationship in which, in substance, the Bank controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Bank according to its specific business needs so that the Bank obtains benefits from the SPE's operation.
- The Bank has the decision making powers to obtain the majority of the benefits of the activities of the SPE.
- The Bank has the rights to obtain the majority of the benefits of the SPE and therefore may be exposed to the risks incidental to the activities of the SPE.
- The Bank retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Bank has control over an SPE is carried out at inception. No further assessment of control is carried out unless changes in the structure or terms of the SPE or additional transactions between the Bank and the SPE occur.

Interests in joint ventures

The Bank's interests in joint ventures are accounted for using the equity method. The consolidated financial statements include the Bank's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Bank.

(c) Revenue recognition

Interest income and expense

Interest income and expense is recognised on an EIR basis, inclusive of directly attributable incremental transaction costs and fees including arrangement and broker fees, valuation and solicitor costs and discounts and premiums where appropriate.

The EIR basis spreads the interest income and expense over the expected life of each instrument. The EIR is the rate that, at the inception of the instrument, exactly discounts expected future cash payments and receipts through the expected life of the instrument back to the initial carrying amount. When calculating the EIR, the Group estimates cash flows considering all contractual terms of the instrument (for example, prepayment options) but does not consider assets' future credit losses except for assets acquired at a deep discount.

For assets acquired at a value significantly below the carrying value in the acquiree's financial statements because: they have incurred losses; expectations of future losses are higher than at origination; and interest spreads have widened because of deteriorating market conditions, the calculation of EIR is the same as shown above with the exception that the estimates of future cash flows include anticipated credit losses.

Fees and commissions (including early redemption charges and late notification fees)

Fee and commission income is predominantly made up of arrangement and other fees relating to loans and advances to customers that are included in the EIR calculation. Commitment fees received are accrued and included in the EIR calculation upon completion or taken in full at the date the commitment period expires and completion does not occur.

All other fee and commission income that is not included in the EIR calculation is recognised on an accruals basis as the service is provided.

Fees and commissions payable to introducers in respect of obtaining lending business, where these are direct and incremental costs related to the issue of a financial instrument, are included in interest income as part of the EIR.

(d) Significant items

Items which are material by both size and nature (i.e. outside of the normal operating activities of the Bank) are treated as significant items and disclosed separately on the face of the income statement.

The separate reporting of significant items helps provide an indication of the Bank's underlying business performance. Events which may give rise to the classification of items as significant include individually significant restructuring costs.

(e) Financial instruments (excluding derivatives)

Recognition

The Group initially recognises loans and advances, deposits, debt securities issued and other borrowed funds on the date at which they are originated.

Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Bank classifies its financial assets (excluding derivatives) as either:

- loans and receivables;
- available-for-sale; or
- financial assets at fair value through income or expense.

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group does not intend to sell immediately or in the near term. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently, these are measured at amortised cost using the EIR method. The amortised cost is the amount advanced less principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the amount advanced and the maturity amount less impairment provisions for incurred losses.

Loans and receivables mainly comprise loans and advances to banks and customers (except where the Group has elected to carry the loans and advances to customers at fair value through income or expense as described in accounting policy (e) iii) below) and assets reclassified from available-for-sale (see below).

ii) Available-for-sale

Available-for-sale financial assets are non-traded investment securities, intended to be held for an indefinite period of time. These are measured at fair value based on current bid prices where quoted in an active market. Where the securities are unlisted, the fair values are based on valuation techniques including discounted cash flow analysis, with reference to relevant market rates, and other commonly used valuation techniques. Movements in fair value are recorded in equity as they occur. On disposal, gains and losses recognised previously in equity are transferred to the income statement. Where the market in the securities has become inactive, the Group has reclassified such assets as loans and receivables.

iii) Financial assets at fair value through income or expense

These are either:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking; and
- upon initial recognition designated at fair value through income or expense to eliminate or significantly reduce a measurement or recognition inconsistency.

They include pledged assets and derivative financial instruments that are not designated as effective hedges.

These are measured at fair value based on current bid prices where quoted in an active market. Where there is no active market or the securities are unlisted, the fair values are based on valuation techniques including discounted cash flow analysis, with reference to relevant market rates, and other commonly used valuation techniques. Gains and losses arising from changes in the fair value are brought into the income statement within trading income as they arise.

Impairment provision
At the balance sheet date, the Bank assesses its financial assets not at fair value through income or expense for objective evidence that an impairment loss has incurred.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or the disappearance of an active market for a security.

The Group considers evidence for impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed specifically for impairment. Loans and advances not individually significant are collectively assessed for impairment by grouping together loans and advances by similar risk characteristics.

In assessing collective impairment the Group uses statistical modelling of historical trends of probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

The amount of the loss is the difference between:

- the asset's carrying amount; and
- the present value of estimated future cash flows (discounted at the asset's original or variable EIR for amortised cost assets and at the current market rate for available-for-sale assets).

Impairment of financial assets carried at amortised cost
The amount of the impairment loss on assets carried at amortised cost is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

A write-off is made when all or part of a claim is deemed uncollectable or forgiven after all the possible collection procedures have been completed and the amount of loss has been determined. Write-offs are charged against previously established provisions for impairment or directly to the income statement. Any additional recoveries from borrowers, counterparties or other third parties made in future periods are offset against the write-off charge in the income statement once they are virtually certain to be received.

Provisions are released at the point when it is deemed that the risk of loss has reduced to the extent that a provision is no longer required.

Impairment of financial assets classified as available-for-sale
Available-for-sale assets are assessed at each balance sheet date to see whether there is objective evidence of impairment. In such cases, any impairment losses are recognised directly in equity to income or expense.

When a subsequent event causes the amount of impaired loss on available-for-sale investment securities to decrease and this can be related objectively to an event occurring after the impairment was recognised, the previous impairment loss is reversed through the income statement. However, any subsequent recovery in fair value of an impaired available-for-sale equity security is recognised directly in equity.

Derecognition of financial assets
Financial assets are derecognised when:

- the rights to receive cash flows from the asset have ceased; or
- the Bank has transferred substantially all the risks and rewards of ownership of the assets.

When available-for-sale financial assets are derecognised the cumulative gain or loss, including that previously recognised in reserves, is recognised in the income statement.

Financial Liabilities
Financial liabilities are contractual obligations to deliver cash or another financial asset. Financial liabilities are recognised initially at fair value, net of directly attributable transaction costs.

Financial liabilities, other than derivatives and capital bonds, are subsequently measured at amortised cost.

Certain non-derivative financial liabilities included within customer accounts (capital bonds) have been designated at fair value upon initial recognition in the balance sheet. Changes in fair value are recognised through the income statement. The capital bonds are economically matched using equity-linked derivatives, which do not meet the requirements for hedge accounting. Recording changes in fair value of both the derivatives and the related liabilities through the income statement most closely reflects the economic reality of the transactions. In doing so this accounting treatment eliminates a measurement inconsistency that would otherwise arise from valuing the capital bonds at amortised cost and the derivatives at fair value.

A financial liability is derecognised when the obligation is discharged, cancelled or expires. Any difference between the carrying amount of a financial liability derecognised and the consideration paid is recognised through the income statement.

Borrowed funds
Borrowings are recognised initially at issue proceeds net of transaction costs incurred, equating to their fair value. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the EIR method.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Bank's preference shares are classified as financial liabilities as they carry the right to a fixed non-cumulative preferential dividend (further information is provided in note 29) and are subsequently presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the EIR method.

Financial guarantee contracts
The bank is the holder of a credit-default swap with another Group company which is treated as a financial guarantee contract. In the absence of any available market price for an identical or similar contract the Bank uses a probability-adjusted discounted cash flow analysis to value the contract.

Other financial guarantees, in respect of intra-group funding and the pension deficit in respect of the former Britannia pension scheme, between the Bank and its subsidiaries are treated as insurance contracts in accordance with IFRS 4. The recognised insurance liability is assessed based on the current estimate of forecast future cash flows. If this highlights that the liability is inadequate the liability is increased and the corresponding charge taken through the income statement.

(f) Offsetting
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(g) Sale and repurchase agreements
Securities sold subject to repurchase agreements (repos) are reclassified on the balance sheet as pledged assets when the transferee has the right by contract or custom to sell or repledge the assets. The liability to the transferee is also included on the balance sheet, in deposits from banks, other deposits or shares, as appropriate. The difference between sale and repurchase price is accrued over the life of the agreements using the EIR method.

Securities purchased under agreements to re-sell (reverse repos) are classified as loans and advances to banks on the balance sheet, as appropriate.

Securities lent to counterparties are retained on the balance sheet.

Securities borrowed are not recognised on the balance sheet, unless they are sold to third parties, in which case the purchase and sale are recorded. The obligation to return them is recorded at fair value as a trading liability.

h) Derivative financial instruments and hedge accounting
Derivatives used for asset and liability management purposes
Derivatives are used to hedge interest- and exchange-rate exposures related to non-trading positions. Instruments used for hedging purposes include swaps, forward-rate-agreements, futures, options and combinations of these instruments. The Bank also uses equity derivatives to hedge the equity risks within its capital bonds.

Derivative financial instruments are stated at fair value based on quoted market prices in active markets, and where these are not available, using valuation techniques such as discounted cashflow models. Further information is provided on page 86. All derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative. The gain or loss on re-measurement to fair value is recognised immediately in the income statement except where derivatives qualify for cashflow hedge accounting.

On initial designation of derivatives and qualifying hedging instrument as a hedge, the Bank formally documents the relationship between the hedging instrument(s) and hedged item(s) including the risk management objective and strategy in undertaking the hedge transaction together with the method used to assess effectiveness of hedging relationship.

The Bank makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be 'highly effective' on offsetting the changes in fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80 – 125%.

Cashflow hedges
Where derivatives are designated as hedges of the exposure to variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the portion of the fair value gain or loss on the derivative that is determined to be an effective hedge is recognised directly in equity. The ineffective part of any gain or loss is recognised in the income statement immediately.

Cumulative amounts recognised through equity are recycled to the income statement in the period in which the underlying hedged item matures and its associated gain or loss affects the income statement. When a hedging relationship is dedesignated or the hedge becomes ineffective hedge accounting is discontinued. The cumulative unrealised gain or loss remaining in equity continues to be held in equity, and is transferred to the income statement when the forecast transaction is recognised.

Where the forecast transaction is no longer expected to occur, the cumulative gain or loss remaining in equity is recognised in the income statement.

Fair-value hedges
Where a derivative is designated as the hedging instrument to hedge the change in fair value of a recognised asset or liability or a firm commitment that could affect income or expense, changes in the value of the derivative are recognised immediately in the income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk.

Fair values are based on quoted market prices in active markets, and where these are not available, using valuation techniques such as discounted cash flow models.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for fair-value-hedge accounting, or the designation is revoked, then hedge accounting is prospectively discontinued. Any adjustment up to that point, to a hedged item for which the EIR method is used, is amortised to income or expense as part of the recalculated EIR of the item over its remaining life.

Fair-value-hedge accounting for a portfolio hedge of interest-rate risk
As part of its risk management process the Bank identifies portfolios whose interest-rate risk it wishes to hedge. The portfolios may comprise only assets, only liabilities or both assets and liabilities. The Bank analyses each portfolio into re-pricing time periods based on expected re-pricing dates, by scheduling cash flows into the periods in which they are expected to occur. Using this analysis, the Bank decides the amount it wishes to hedge and designates as the hedged item an amount of assets or liabilities from each portfolio equal to this.

The Bank measures monthly the change in fair value of the portfolio relating to the risk that is being hedged. Provided that the hedge has been highly effective the Bank recognises the change in fair value of each hedged item in the income statement with the cumulative movement in its value being shown on the balance sheet as a separate item, fair-value adjustment for hedged risk, either within assets or liabilities as appropriate. If the hedge no longer meets the criteria for hedge accounting, this amount is amortised to the income statement over the remaining average useful life of the hedge relationship.

The Bank measures the fair value of each hedging instrument monthly. The value is included in derivative financial instruments in either assets or liabilities as appropriate, with the change in value recorded in the income statement.

Any hedge ineffectiveness is recognised in the income statement as the difference between the change in fair value of the hedged item and the change in fair value of the hedging instrument.

Embedded derivatives
A derivative may be embedded in another instrument, known as the host contract. Where the economic characteristics and risks of an embedded derivative are not closely related to those of the host contract (and the host contract is not carried at fair value through income or expense), the embedded derivative is separated from the host and held on balance sheet at fair value.

Movements in fair value are posted to the income statement, whilst the host contract is accounted for according to the relevant accounting policy for that particular asset or liability.

Derivatives used for trading purposes
Derivatives entered into for trading purposes include swaps, forward rate agreements, futures, options and combinations of these instruments. Derivatives used for trading purposes are measured at fair value and any gains or losses are included in the income statement. The use of derivatives and their sale to customers as risk management products is an integral part of the Bank's trading activities.

Mortgage commitments
The Bank enters into derivative contracts to reduce the exposure to risk on mortgage commitments made (for example, where the Bank has made an irrevocable offer of a loan to a customer). Mortgage commitments are designated at fair value through income or expense, the corresponding derivative contracts are recorded at fair value and movements are recognised in the income statement.

(i) Property, plant and equipment
Items of property, plant and equipment are stated at cost less any accumulated depreciation and impairment losses. Depreciation is provided on a straight line basis at the following rates, which are estimated to write down the assets to realisable values at the end of their useful lives.

Freehold and long leasehold buildings	2 to 2.5% per annum
Short leasehold buildings	life of lease
Equipment	10 to 33.3% per annum
Vehicles	25% per annum

All items of property, plant and equipment are reviewed for indications of impairment on a regular basis and at each balance sheet date. Any impairment identified would be charged to the income statement.

(j) Intangible assets
Computer software
Computer software is stated at cost less cumulative amortisation and impairment. All costs directly attributable in the development of computer software for internal use are capitalised and classified as intangible assets where they are not an integral part of the related hardware and amortised over their useful life up to a maximum of 7 years.

Goodwill
All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures and represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

If a business combination is achieved without transfer of consideration, the amount of goodwill is calculated by reference to the fair value of the Group's interest in the aquiree using a valuation technique. The technique involves assessing the future net profit of the acquiree and then discounting using a rate that reflects current market assessment of the time value of money and risks specific to the acquiree.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment on an annual basis. Where impairment is required the amount is recognised in the income statement, and can not be written back.

(k) Assets leased to customers
Finance leases
Income from assets leased to customers is credited to the income statement based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

(l) Assets leased from third parties
The Bank enters into leases for land and buildings and operating leases for vehicles.

Leases for land and buildings are split between leases for the land and leases for the buildings for accounting purposes only. The leases are separately assessed as to whether they are finance or operating leases.

Finance-lease assets are initially recorded at the lower of fair value and the present value of the minimum lease payments, and subsequently in accordance with the relevant policy for the underlying asset. An equal liability is recorded in other liabilities. Interest is allocated to the lease payments so as to record a constant periodic rate of charge on the outstanding liability.

Operating lease payments are charged to the income statement on a straight line basis over the term of the lease and the asset is not recognised on the balance sheet.

The Bank policy is to provide for the minimum future lease payments on buildings that it does not currently use.

(m) Investment property

Property held for long-term rental yields that is not occupied by the Bank or property held for capital appreciation is classified as investment property.

Investment property comprises freehold land and buildings. It is carried at fair value. Fair value is based on discounted expected future cash flows and is representative of current prices in an active market for similar properties in the same location and condition. No depreciation is provided on these properties. Any gain or loss arising from a change in fair value is recognised in the income statement.

If the Bank takes occupancy of an investment property it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes. Similarly, transfers to the investment property portfolio are made when occupancy by the bank ceases and the property meets the criteria of an investment property under IAS 40. Prior to such a transfer the property is measured at fair value with any gain or loss recognised in the income statement.

(n) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and balances with a maturity of three months or less from the acquisition date, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(o) Income tax

Tax on the income or expense for the year comprises current and deferred tax, which is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Pension costs

Defined contribution basis

With effect from 6 April 2006, the Bank, along with other businesses within the Co-operative Group, has participated in the Co-operative Group Pension (Average Career Earnings) Scheme (the PACE scheme). This scheme is a defined benefit scheme, the assets of which are held in a separate fund administered by trustees. As a group-wide pension scheme, the PACE scheme exposes the participating businesses to actuarial risks associated with the current and former colleagues of other group companies, with the result that there is no consistent and reliable basis for allocating liabilities, assets and costs to individual companies participating in the scheme. Therefore pension costs in respect of the scheme are accounted for on a defined contribution basis and recognised as an expense in the income statement as incurred.

Former Britannia Building Society pension scheme

Following the transfer of engagements of Britannia Building Society (note 39), the Britannia defined-benefit pension scheme transferred to Co-operative Financial Services Management Services Limited (CFSMS), a fellow subsidiary undertaking of Co-operative Financial Services Limited. As this pension scheme is not maintained by the Bank, pension costs in respect of the scheme are accounted for on a defined contribution basis and recognised as an expense in the income statement as incurred.

(q) Foreign currency

The functional and presentational currency for the Bank is sterling. Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Foreign currency differences arising on retranslation are recognised in the income statement, except for foreign currency differences arising on retranslation of available-for-sale equity instruments or a qualifying cash flow hedge, which are recognised directly in equity. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair values are translated to sterling at the exchange rates ruling at the dates the values were determined.

(r) Investments in group undertakings

Investments in subsidiaries are initially measured at fair value which equates to cost and subsequently valued at cost less impairment.

(s) Subscribed capital

Subscribed capital is carried at the nominal value plus any share premium and a fair-value adjustment for hedged risk.

Interest payable on perpetual secured debt (PSD) is recognised in the income statement using the EIR method.

(t) Provisions

A provision is recognised in the balance sheet if the Bank has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(u) Profit based payments to members of The Co-operative Group

Members of The Co-operative Group receive a dividend based on their transactions with the Group and its subsidiaries including the Bank. The profit based payments to members of The Co-operative Group represent a recharge of the proportion of the dividend payable to the ultimate parent company, The Co-operative Group Limited, where the underlying transaction is a Bank product. The recharge is recognised when the profit based payments are approved by The Co-operative Group Limited.

The CFS group of companies including Co-operative Financial Services Limited, Co-operative Insurance Society Limited (Life and Savings business), CIS General Insurance Limited and The Co-operative Bank plc have a common Board composition.

CFS has developed and implemented a common governance and organisation structure, with the same committee structure supporting each Board within the CFS Group.

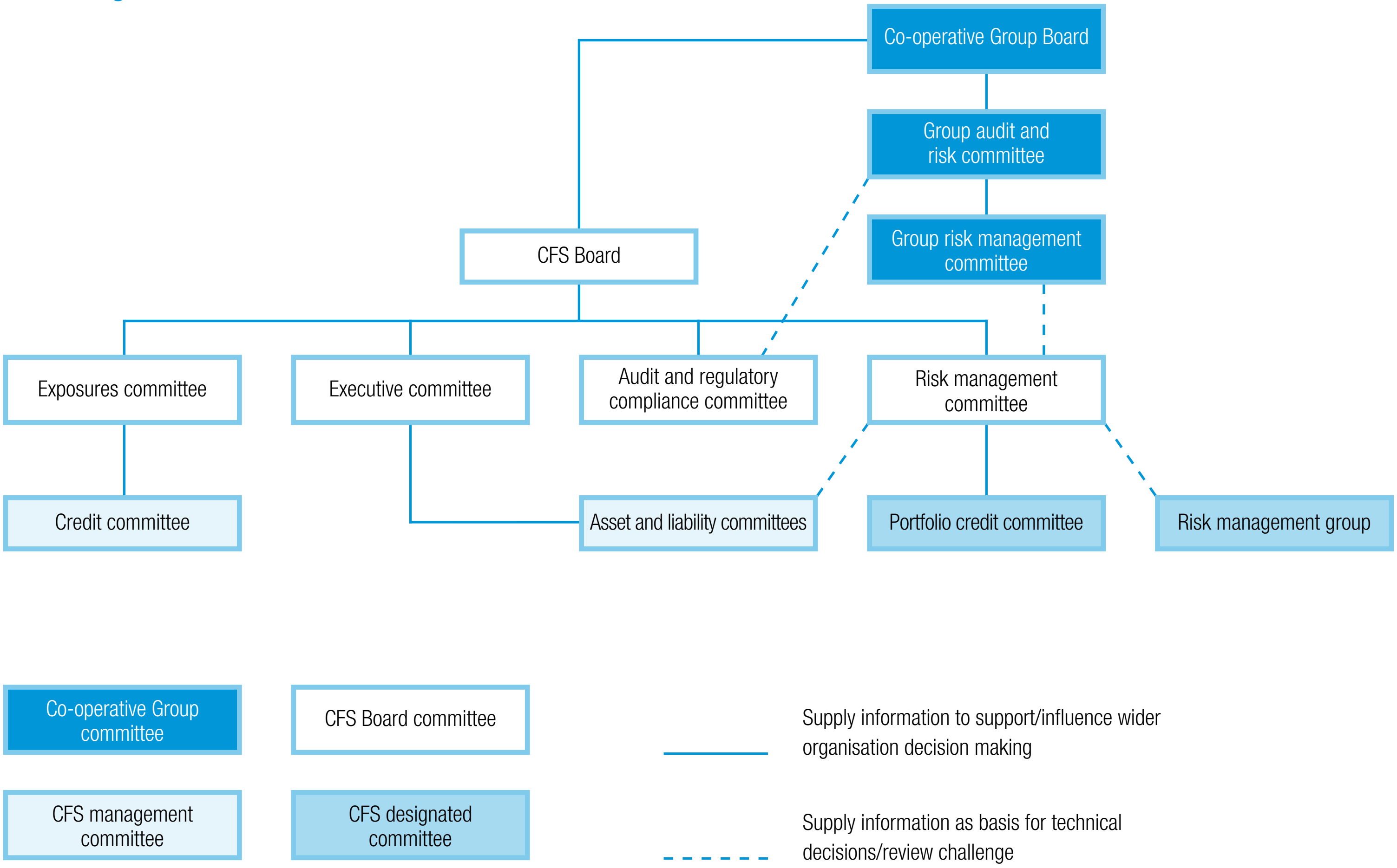
The CFS Board has ultimate responsibility for the management of all risks across CFS.

The Board is responsible for approving the CFS strategy, its principal markets and the level of acceptable risks articulated through its statement of risk appetite. It is also responsible for overall corporate governance, which includes ensuring that there is an adequate system of risk management and that the level of capital held is consistent with the risk profile of the business.

The Board has established Board committees and senior management committees to administer, oversee and challenge the risk management process, identifying the key risks facing the business and assessing the effectiveness of planned management actions.

Specific Board authority has been delegated to Board committees and the chief executive who may, in turn, delegate elements of his discretions to appropriate executive directors and their senior line managers.

Risk management structure



The CFS Board delegates authority to the CFS risk management committee (RMC) (senior board committee) for monitoring compliance with the Board-approved risk appetite statements. This includes:

- setting limits for individual types of risk; and
- approving (at least annually) and monitoring compliance with risk policies and delegated levels of authority.

Risk management structure (continued)

CFS risk management committee (RMC): this committee is responsible for review and challenge of the adequacy of capital for all risks (including operational risk), and for technical risk management activities and portfolio exposures across CFS including:

- operation of mandates and limits and any breaches thereof;
- technical risk management policy approval;
- risk management information reporting and integrity of relevant data;
- risks adequately identified and measured;
- risk and portfolio exposure management strategy;
- adequacy of the risk mitigation process;
- review and discussion of technical risk issues identified as a result of internal audit work; and
- review and challenge the impact assessment of the strategic plan on the risk and capital profile of CFS.

CFS audit and regulatory compliance committee (ARCC): this committee provides independent oversight in relation to financial reporting; internal control; regulatory compliance; external and internal audit. It is responsible for approval of policies and review of adequacy of risk management activities in relation to operational risk.

CFS exposures committee: this committee ensures that non-executive directors are actively involved in major credit decisions (including sanctioning large counterparty transactions), monitor large exposures and problem loans and review the adequacy of individual credit provisions.

CFS executive committee: this committee manages the business in line with the Board risk appetite statement. It also maintains oversight of risk management processes and management information.

CFS portfolio credit committee (PCC): this committee is a designated committee reporting to RMC and chaired by the business leader banking risk. It is responsible for defining Bank Group credit risk appetite; providing oversight and timely action in relation to credit risk management; monitoring, challenging and approving changes to Basel rating systems; and reviewing lending and arrears policies.

CFS asset and liability committees (ALCO): these committees are management committees of the Board which are chaired by the chief financial officer. They are primarily responsible for overseeing the management of interest rate, market, liquidity and funding risks and to advise on capital utilisation, in addition to, the composition and sourcing of adequate capital.

CFS risk management group (RMG): this committee is a designated committee reporting to RMC and chaired by the chief financial officer. Its purpose is to provide a mechanism to ensure that CFS-wide technical risk management requirements, developments and processes are reviewed, challenged and approved (with escalation to RMC where required) and embedded within and across CFS. The committee also monitors all significant and emerging technical risks, and oversees the development and implementation of stress testing and risk appetite across CFS.

CFS credit committee: this committee is chaired by the business leader banking risk. The chair has delegated authority for approving credit facilities within approved strategies and delegated authorities.

CFS operational risk committee: this committee interfaces with both the executive committee and ARCC and is chaired by the business leader regulatory compliance and operational risk. It monitors significant operational risks and controls as well as the management actions taken to mitigate them to an acceptable level and/or transfer them. This includes business continuity arrangements and insurance cover to protect the CFS business. Each division within CFS is represented on the committee. The committee is not shown on the diagram on page 53 as it is an information-sharing committee, designed to increase understanding and transparency of significant operational risks and reporting is via the operational risk department.

There is also a framework of sector specific management committees supporting risk and capital management, implementing changes in business strategy, optimising performance, adherence to and setting of policy, and development of management information and training.

Bank significant risks

The Bank's significant risks arise in four broad categories:

- credit risk;
- market risk;
- liquidity risk; and
- operational risk.

Credit risk

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the bank or its failure to perform as agreed.

Credit risk is an integral part of many of our business activities and is inherent in traditional banking products (loans, commitments to lend and contingent liabilities, such as letters of credit) and in 'traded products' (derivative contracts such as forwards, swaps, options, repurchase agreements, and securities borrowing and lending transactions).

The credit risk management policies are approved by RMC (delegated authority from the Board) annually and are the responsibility of the business leader banking risk. The policies determine the criteria for the management of retail, corporate and wholesale risk, including securitisation, market exposures and credit management standards, including country, sector and counterparty limits, along with risk appetites and delegated authorities.

All authority to take credit risk derives from the CFS Board. This is delegated through authorities to individuals via the chief executive. The level of credit risk authority delegated depends on seniority and experience, varying according to the quality of the counterparty or any associated security or collateral held.

The Bank's personal lending policy is to establish credit criteria which determine the optimum balance between volume growth (generating higher income) and higher bad debts, so as to maximise overall profitability. The quality of the portfolio and individual customers is monitored using risk rating systems and scorecards calibrated to risk of default and expected loss, and the Board receives an update on bad debt biannually. The RMC receives regular reports on the performance of the portfolio.

The Bank's corporate sector policy is to maintain a broad sectoral spread of exposures which reflect the Bank's areas of expertise. Credit exposures to corporate and business banking customers are assessed individually. The quality of the overall portfolio is monitored using a credit grading system calibrated to expected loss. All aspects of credit management are controlled centrally. The RMC receives regular reports on the performance of the portfolio. The exposures committee receives regular reports on new facilities, bad debt provisions and the management of problem loans.

The Bank's wholesale market credit risk framework takes an holistic approach to risk management with, at its centre, a credit risk policy which governs the types of exposure the business can take and sets concentration parameters. To complement this, individual authority is delegated in terms of Internal Rating Grade (IRG) and associated Probability of Default (PD) to approve limits to individual counterparties within the parameters established by the credit risk policy. The RMC receives regular reports on the performance of the portfolio. The exposures committee receives regular reports on changes in exposure limits, watchlist and problem counterparty information.

Cash and balances at central banks are considered to be risk free and have been excluded from the following analysis of credit exposure.

All amounts are stated in £m unless otherwise indicated

Credit risk (continued)

Credit exposure

Group	Notes	Gross balance 2009	Credit commitments 2009	Credit risk exposure 2009	Gross balance 2008	Credit commitments 2008	Credit risk exposure 2008
Loans and receivables							
Loans and advances to banks	14	**1,781.5**	**113.8**	**1,895.3**	1,524.2	201.3	1,725.5
Loans and advances to customers	15	**34,240.7**	**5,021.3**	**39,262.0**	10,361.6	5,397.4	15,759.0
Investment securities	16	**2,500.7**	**–**	**2,500.7**	145.9	–	145.9
Available-for-sale financial assets							
Investment securities	16	**4,529.2**	**–**	**4,529.2**	2,191.5	–	2,191.5
Derivative financial instruments	17	**1,023.0**	**–**	**1,023.0**	228.7	–	228.7
		44,075.1	**5,135.1**	**49,210.2**	14,451.9	5,598.7	20,050.6
Allowance for impairment losses on loans and advances	15			**(194.0)**			(187.9)
Impairment losses on investments	16			**(86.4)**			(92.3)
Total carrying amount				**48,929.8**			19,770.4

Bank	Notes	Gross balance 2009	Credit commitments 2009	Credit risk exposure 2009	Gross balance 2008	Credit commitments 2008	Credit risk exposure 2008
Loans and receivables							
Loans and advances to banks	14	**1,220.1**	**113.8**	**1,333.9**	1,524.0	201.3	1,725.3
Loans and advances to customers	15	**23,242.8**	**4,763.6**	**28,006.4**	10,203.6	5,386.9	15,590.5
Investment securities	16	**2,570.1**	**–**	**2,570.1**	145.9	–	145.9
Available-for-sale financial assets							
Investment securities	16	**4,132.5**	**–**	**4,132.5**	1,770.0	–	1,770.0
Derivative financial instruments	17	**660.8**	**–**	**660.8**	259.1	–	259.1
		31,826.3	**4,877.4**	**36,703.7**	13,902.6	5,588.2	19,490.8
Allowance for impairment losses on loans and advances	15			**(192.0)**			(187.0)
Impairment losses on investments	16			**(86.4)**			(92.3)
Total carrying amount				**36,425.3**			19,211.5

Credit commitments include revocable commitments which are unused credit card limits of £2,621.9m (2008: £3,034.1m).

Notes 15 and 16 provide further analysis on concentration of credit risk.

All amounts are stated in £m unless otherwise indicated

Credit risk (continued)

Credit risk analysis

Group	Loans and advances to banks	Loans and advances to customers	Investment securities loans and receivables	Investment securities available-for-sale	Derivative financial instruments	Total
2009						
Individually impaired						
90 days past due or evidence of impairment	–	2,100.3	25.0	71.9	–	2,197.2
Impairment recognised	–	(53.6)	(8.5)	(71.9)	–	(134.0)
Carrying amount	–	2,046.7	16.5	–	–	2,063.2
Collectively impaired						
Less than 90 days past due	–	212.1	124.3	–	–	336.4
90-179 days past due	–	22.6	–	–	–	22.6
180 days plus past due	4.6	143.0	–	–	–	147.6
Impairment recognised	–	(140.4)	(6.0)	–	–	(146.4)
Carrying amount	4.6	237.3	118.3	–	–	360.2
Past due but not impaired						
0-29 days past due	–	287.0	–	–	–	287.0
30-59 days past due	–	125.0	–	–	–	125.0
60-89 days past due	–	52.1	–	–	–	52.1
Carrying amount	–	464.1	–	–	–	464.1
Neither past due nor impaired						
Low to medium risk	1,890.7	28,669.4	2,351.4	4,457.3	1,023.0	38,391.8
Medium to high risk	–	7,650.5	–	–	–	7,650.5
Carrying amount	1,890.7	36,319.9	2,351.4	4,457.3	1,023.0	46,042.3
Total carrying amount	1,895.3	39,068.0	2,486.2	4,457.3	1,023.0	48,929.8

Group	Loans and advances to banks	Loans and advances to customers	Investment securities loans and receivables	Investment securities available-for-sale	Derivative financial instruments	Total
2008						
Individually impaired						
90 days past due or evidence of impairment	–	140.6	25.0	72.5	–	238.1
Impairment recognised	–	(47.1)	(12.5)	(69.8)	–	(129.4)
Carrying amount	–	93.5	12.5	2.7	–	108.7
Collectively impaired						
Less than 90 days past due	–	66.4	97.2	–	–	163.6
90-179 days past due	–	27.6	–	–	–	27.6
180 days plus past due	–	127.1	–	–	–	127.1
Impairment recognised	–	(140.8)	(10.0)	–	–	(150.8)
Carrying amount	–	80.3	87.2	–	–	167.5
Past due but not impaired						
0-29 days past due	–	11.5	–	–	–	11.5
30-59 days past due	–	2.2	–	–	–	2.2
60-89 days past due	–	1.3	–	–	–	1.3
Carrying amount	–	15.0	–	–	–	15.0
Neither past due nor impaired						
Low to medium risk	1,725.5	13,005.9	23.7	2,119.0	228.7	17,102.8
Medium to high risk	–	2,376.4	–	–	–	2,376.4
Carrying amount	1,725.5	15,382.3	23.7	2,119.0	228.7	19,479.2
Total carrying amount	1,725.5	15,571.1	123.4	2,121.7	228.7	19,770.4

All amounts are stated in £m unless otherwise indicated

Credit risk (continued)

Bank	**Loans and advances to banks**	**Loans and advances to customers**	**Investment securities loans and receivables**	**Investment securities available-for-sale**	**Derivative financial instruments**	**Total**
2009						
Individually impaired						
90 days past due or evidence of impairment	**–**	**258.0**	**25.0**	**71.9**	**–**	**354.9**
Impairment recognised	**–**	**(51.6)**	**(8.5)**	**(71.9)**	**–**	**(132.0)**
Carrying amount	**–**	**206.4**	**16.5**	**–**	**–**	**222.9**
Collectively impaired						
Less than 90 days past due	**–**	**67.9**	**124.3**	**–**	**–**	**192.2**
90-179 days past due	**–**	**22.6**	**–**	**–**	**–**	**22.6**
180 days plus past due	**4.6**	**136.7**	**–**	**–**	**–**	**141.3**
Impairment recognised	**–**	**(140.4)**	**(6.0)**	**–**	**–**	**(146.4)**
Carrying amount	**4.6**	**86.8**	**118.3**	**–**	**–**	**209.7**
Past due but not impaired						
0-29 days past due	**–**	**52.2**	**–**	**–**	**–**	**52.2**
30-59 days past due	**–**	**29.6**	**–**	**–**	**–**	**29.6**
60-89 days past due	**–**	**15.0**	**–**	**–**	**–**	**15.0**
Carrying amount	**–**	**96.8**	**–**	**–**	**–**	**96.8**
Neither past due nor impaired						
Low to medium risk	**1,329.3**	**25,013.2**	**2,420.8**	**4,060.6**	**660.8**	**33,484.7**
Medium to high risk	**–**	**2,411.2**	**–**	**–**	**–**	**2,411.2**
Carrying amount	**1,329.3**	**27,424.4**	**2,420.8**	**4,060.6**	**660.8**	**35,895.9**
Total carrying amount	**1,333.9**	**27,814.4**	**2,555.6**	**4,060.6**	**660.8**	**36,425.3**

Bank	Loans and advances to banks	Loans and advances to customers	Investment securities loans and receivables	Investment securities available-for-sale	Derivative financial instruments	Total
2008						
Individually impaired						
90 days past due or evidence of impairment	–	133.8	25.0	72.5	–	231.3
Impairment recognised	–	(46.2)	(12.5)	(69.8)	–	(128.5)
Carrying amount	–	87.6	12.5	2.7	–	102.8
Collectively impaired						
Less than 90 days past due	–	66.4	97.2	–	–	163.6
90-179 days past due	–	27.6	–	–	–	27.6
180 days plus past due	–	127.2	–	–	–	127.2
Impairment recognised	–	(140.8)	(10.0)	–	–	(150.8)
Carrying amount	–	80.4	87.2	–	–	167.6
Past due but not impaired						
0-29 days past due	–	11.5	–	–	–	11.5
30-59 days past due	–	2.2	–	–	–	2.2
60-89 days past due	–	1.3	–	–	–	1.3
Carrying amount	–	15.0	–	–	–	15.0
Neither past due nor impaired						
Low to medium risk	1,725.3	12,844.1	23.7	1,697.5	259.1	16,549.7
Medium to high risk	–	2,376.4	–	–	–	2,376.4
Carrying amount	1,725.3	15,220.5	23.7	1,697.5	259.1	18,926.1
Total carrying amount	1,725.3	15,403.5	123.4	1,700.2	259.1	19,211.5

Credit risk (continued)

Analysis of impaired assets and associated collateral

Impaired assets

Loans and securities are considered impaired where it is determined that the Bank will be unable to collect all principal and interest outstanding, according to the contractual terms of the agreements.

The loan portfolios are reviewed on a continuous basis to assess impairment. In determining whether a bad debt provision should be recorded, judgments are made as to whether there is objective evidence that a financial asset or portfolio of financial assets is impaired as a result of loss events that occurred after recognition of the asset and prior to the balance sheet date.

Corporate loans and retail mortgage lending with evidence of impairment including 90 days past due are individually assessed for impairment. Collectively impaired assets include unsecured retail lending balances. Provisions are applied to credit card balances at 30 days past due and at 45 days past due on all other unsecured retail lending balances.

At the balance sheet date, the Bank assesses its debt securities for objective evidence that an impairment loss has occurred. For a debt security this may be the disappearance of an active market. For available-for-sale debt securities particular consideration is given to evidence of any significant financial difficulty of the issuer or measurable decrease in the estimated cash flows from the investments.

During 2009, 534 loans (2008: two) in the Group were renegotiated, including eight (2008: two) in the Bank. The balance of these loans as at 31 December 2009 in the Group was £95.2m (2008: £42.0m), including £28.1m (2008: £42.0m) in the Bank. These loans are classified as loans neither past due nor impaired, for so long as the mortgagors comply with the terms of their renegotiated contracts.

Past due but not impaired

Loans and securities are considered past due where the contractual interest or principal payment are in arrears, but the Bank believes that impairment is not appropriate as a trigger point for impairment has not been reached, this could be the stage of collection of amounts owed to the Bank or a specific event such as bankruptcy.

In the table past due but not impaired represents mortgage and unsecured retail lending balances past due but not yet impaired. This includes credit card exposures less than 30 days and 45 days for other retail unsecured lending. For mortgages, accounts up to 90 days in arrears but with no provision are classed as past due but not impaired.

Retail loans with renegotiated terms are loans that have been renegotiated due to the deterioration in the borrower's financial position but where the Group have agreed concessions that it would not otherwise consider. These renegotiated loans are considered as continuing to be impaired, and as such these are disclosed as impaired.

Within the credit risk analysis table, low to medium risk has been defined as exposures where the PD is 1% or below over a 1 year time horizon for exposures on IRB approach under Basel II and slotting category strong/good/satisfactory for specialised lending exposures under the slotting approach. Medium to high risk has been defined as a PD of greater than 1% over a 1 year time horizon for exposure on IRB approach under Basel II and slotting category weak for specialised lending exposures under the slotting approach.

Within the treasury debt security portfolio 82% (2008: 77%) of exposures have an external credit rating equivalent to Fitch A or above.

The factors considered in determining if financial assets are individually impaired are stated above and within critical judgments on pages 90 to 92.

Fair-value adjustments and provisions held against impaired exposures

When Britannia Building Society merged with The Co-operative Bank, the heritage Britannia lending portfolios were carried into the newly merged entity at their fair value, taking account of future lifetime expected loss on the lending portfolios at 31 July 2009. The lifetime expected loss adjustment is offset against the heritage Britannia gross lending balances in the combined entity's accounts. For 2009 the balance sheet impairment provision and income statement charge in the Bank's financial statements relates solely to heritage Bank lending portfolios. In future years this will also incorporate any loss provisions on new business generated by the merged entity and any additional loss provisions not covered by the lifetime expected loss calculation on the heritage Britannia lending portfolios.

Credit risk (continued)

Description of collateral

The Bank uses collateral and guarantees to mitigate credit risk. Collateral is regularly revalued and guarantees reviewed to ensure continuing effectiveness. The majority of collateral held is not eligible financial collateral, it is residential real estate collateral for retail mortgages or either residential or commercial real estate collateral held against corporate lending.

When calculating the value of collateral for regulatory capital risk mitigation purposes, the appropriate valuation criteria contained within BIPRU is applied. Robust policies are in place to manage collateral and valuation.

Where exposures are agreed on a secured basis, security cover is taken into account only where:

- the security is legally enforceable and is of a tangible nature and type;
- an appropriate, recent and reliable valuation is held; and
- a prudent margin is applied to the valuation, for the type of security involved.

Eligible financial collateral includes gilts held as part of reverse repo agreements, and cash as part of collateralised swaps or against corporate lending. The guarantees include parental guarantees held against subsidiary exposures.

At the reporting date the value of collateral held as security against financial assets was as follows:

	2009	2008
Fair value of collateral on financial assets which are past due but not impaired	**966.9**	20.4
Fair value of collateral on individually impaired financial assets	**2,037.3**	61.3
Carrying value of assets obtained by taking possession of collateral or calling on guarantees	**229.0**	1.4

Market risk

Market risk arises from the effect of changes in market prices of financial instruments, on income derived from the structure of the balance sheet, execution of customer and inter-bank business and proprietary trading. The majority of the risk arises from changes in interest rates.

Interest-rate-risk policy statements, approved by the CFS RMC on behalf of the Board, specify the scope of the Bank's wholesale market activity, market risk limits and delegated authorities. The policy is managed by the Bank's ALCO which meets monthly and its prime task is to assess the interest rate risk inherent in the maturity and repricing characteristics of the Bank's assets and liabilities. It sets limits within which treasury and balance sheet management manage the effect of interest rate changes on the Bank's overall net interest income. Treasury is responsible for interest rate risk management for the Bank. The principal analytical techniques involve assessing the impact of different interest rate scenarios and changes in balances over various time periods.

The Board receives reports on the management of balance sheet risk and, each month, ALCO reviews the balance sheet risk position and the utilisation of wholesale market risk limits.

Non-treasury interest rate risk

The Bank (excluding wholesale) uses a gap report and earnings approach to managing interest rate risk, focusing in detail on the sensitivity of assumed changes in interest rates on net interest income for one year. Higher level analysis is performed for subsequent years.

ALCO monitors the non-trading interest rate risk which is split between certain wholesale portfolios, banking and investment books, and the rest of the Bank's balance sheet. The following describes the Bank non-trading portfolios excluding these certain wholesale portfolios. These positions are managed by treasury. All interest rate risk is centralised into treasury using appropriate transfer pricing rates.

Gap reports are based on defined time periods. ALCO set guidance limits around the gap, principally that the sum of positions maturing in greater than 12 months and non-sensitive balances (includes non-maturity deposits) is no more than a set limit.

Risk limits are formally calculated at each month end. Interest rate risk and effectiveness of hedging is monitored daily using gap positions, incorporating new business requirements. Draw down risk, in particular for fixed rate mortgages, is managed through weekly balance sheet meetings. Treasury undertake hedges for interest rate risk using derivative instruments and investment securities which are executed via treasury to wholesale markets, and loans and deposits which are executed internally with treasury.

Market risk (continued)

The table below illustrates the sensitivity analysis relating to the 'core' Bank, a primary measure in the approach to managing interest rate risk. The table illustrates the estimated change in net income over the 12 month periods shown based on a 1% shock in interest rates at the beginning of the year across the yield curve on the Bank's balances excluding wholesale treasury and customer currency balances (subject to a 0% floor), which are managed within the treasury risk framework. The shock results are driven by product pricing and product mix. The extent of rate movements and low rate environment have impacted the repricing of liability products resulting in larger exposure to rate shocks.

Change in net interest income for 2009 based on 100bp shock in interest rates at the beginning of the year (£m)

2009	**100bp increase**	**100bp decrease**
At the year end	**(0.2)**	**1.9**
Average for the period	**(4.4)**	**5.7**
Maximum for the period	**3.4**	**25.6**
Minimum for the period	**(23.3)**	**(3.7)**
2008		
At the year end	(5.6)	6.4
Average for the period	(5.8)	6.4
Maximum for the period	(2.8)	9.5
Minimum for the period	(8.8)	3.5

Treasury interest rate risk

Treasury executes short term funding and hedging transactions with the wholesale markets on behalf of the Bank and its customers. It also generates incremental income from proprietary trading within strict risk limits. There are two prime measures of risk supplemented by additional controls such as maturity and stop loss limits. Risk units express the various re-pricing and maturity mismatches as a common unit of measurement. PV100 shows the change in valuation on a fixed income portfolio experienced given a 1% increase and decrease in interest rates. Value at Risk (VaR) measures the daily maximum potential gain or loss due to recent market volatility within a statistical confidence level of 95% and a one day holding period. Simulation is being developed to provide VaR calculations to cover the combined core banking book positions. The VaR methodology has inherent limitations in that market volatility in the past may not be a reliable predictor of the future, and may not reflect the time required to hedge or dispose of the position, hence VaR is not used by the Bank as the sole measure of risk.

PV100

This illustrates the change in valuation on a fixed income portfolio experienced given a 1% increase and decrease in interest rates for treasury, representing treasury banking book and trading book combined. PV100 is the effect on the net present value (NPV) of the treasury portfolio to a parallel shift of 100 basis points upon the base yield curve. The effects of a 1% increase in interest rates are £0.4m (2008: (£3.1m)) and a 1% decrease (£0.2m) (2008: £3.1m).

All amounts are stated in £m unless otherwise indicated

Currency risk

The Bank's treasury foreign exchange activities are primarily:

- providing a service in meeting the foreign exchange requirements of customers;
- maintaining liquidity in euros and US dollars by raising funds and investing these to generate a return; and
- performing limited intra-day trading and overnight positioning in major currencies to generate incremental income.

The table below provides an analysis of the Group's and Bank's assets and liabilities by currency.

Group	£ 2009	$ 2009	€ 2009	Other 2009	Total 2009	£ 2008	$ 2008	€ 2008	Other 2008	Total 2008
Assets										
Cash and balances at central banks	**1,706.8**	**–**	**–**	**–**	**1,706.8**	535.8	–	–	–	535.8
Loans and advances to banks	**1,377.9**	**101.5**	**293.8**	**8.3**	**1,781.5**	1,303.7	19.3	198.5	2.7	1,524.2
Loans and advances to customers	**33,697.9**	**72.2**	**261.0**	**15.6**	**34,046.7**	9,932.0	72.8	154.0	14.9	10,173.7
Fair value adjustments for hedged risks	**66.1**	**–**	**–**	**–**	**66.1**	–	–	–	–	–
Investment securities – loans and receivables	**1,862.7**	**137.3**	**426.6**	**59.6**	**2,486.2**	49.1	–	74.3	–	123.4
Investment securities – available-for-sale	**2,441.0**	**613.3**	**1,042.4**	**360.6**	**4,457.3**	1,876.4	96.0	149.3	–	2,121.7
Derivative financial instruments	**1,022.7**	**–**	**0.3**	**–**	**1,023.0**	228.7	–	–	–	228.7
Equity shares	**7.2**	**–**	**–**	**–**	**7.2**	13.0	–	–	–	13.0
Investments in joint ventures	**1.8**	**–**	**–**	**–**	**1.8**	–	–	–	–	–
Goodwill	**0.6**	**–**	**–**	**–**	**0.6**	–	–	–	–	–
Intangible fixed assets	**46.1**	**–**	**–**	**–**	**46.1**	2.3	–	–	–	2.3
Investment properties	**137.7**	**–**	**–**	**–**	**137.7**	–	–	–	–	–
Property, plant and equipment	**121.5**	**–**	**–**	**–**	**121.5**	59.6	–	–	–	59.6
Amounts owed by other Co-operative Group undertakings	**91.0**	**–**	**–**	**–**	**91.0**	137.9	–	–	–	137.9
Other assets	**20.9**	**0.3**	**0.8**	**0.1**	**22.1**	27.4	0.7	2.8	0.3	31.2
Prepayments and accrued income	**30.1**	**–**	**–**	**–**	**30.1**	13.0	–	–	–	13.0
Deferred tax assets	**93.7**	**–**	**–**	**–**	**93.7**	–	–	–	–	–
Total assets	**42,725.7**	**924.6**	**2,024.9**	**444.2**	**46,119.4**	14,178.9	188.8	578.9	17.9	14,964.5

Group	£ 2009	$ 2009	€ 2009	Other 2009	Total 2009	£ 2008	$ 2008	€ 2008	Other 2008	Total 2008
Liabilities										
Deposits by banks	**4,056.5**	**488.0**	**1,397.5**	**140.4**	**6,082.4**	558.4	93.9	419.3	1.7	1,073.3
Customer accounts	**30,755.6**	**22.4**	**46.3**	**3.9**	**30,828.2**	11,625.3	18.5	40.3	5.9	11,690.0
Customer accounts – capital bonds	**1,647.1**	**–**	**–**	**–**	**1,647.1**	–	–	–	–	–
Debt securities in issue	**3,201.0**	**123.8**	**9.5**	**–**	**3,334.3**	533.5	7.2	30.8	–	571.5
Derivative financial instruments	**580.3**	**4.2**	**6.8**	**–**	**591.3**	99.0	7.8	12.9	–	119.7
Other borrowed funds	**946.5**	**–**	**–**	**–**	**946.5**	366.5	–	–	–	366.5
Amounts owed by other Co-operative Group undertakings	**329.2**	**–**	**–**	**–**	**329.2**	225.5	–	–	–	225.5
Other liabilities	**220.2**	**0.9**	**0.8**	**–**	**221.9**	91.4	0.1	0.2	–	91.7
Accruals and deferred income	**158.0**	**–**	**–**	**–**	**158.0**	1.6	–	–	–	1.6
Provisions for liabilities and charges	**33.4**	**–**	**–**	**–**	**33.4**	15.8	–	–	–	15.8
Current tax liabilities	**71.0**	**–**	**–**	**–**	**71.0**	1.2	–	–	–	1.2
Deferred tax liabilities	**–**	**–**	**–**	**–**	**–**	27.0	–	–	–	27.0
Total liabilities	**41,998.8**	**639.3**	**1,460.9**	**144.3**	**44,243.3**	13,545.2	127.5	503.5	7.6	14,183.8
Net on-balance-sheet position	**726.9**	**285.3**	**564.0**	**299.9**	**1,876.1**	633.7	61.3	75.4	10.3	780.7

All amounts are stated in £m unless otherwise indicated

Currency risk (continued)

Bank	£ 2009	$ 2009	€ 2009	Other 2009	Total 2009	£ 2008	$ 2008	€ 2008	Other 2008	Total 2008
Assets										
Cash and balances at central banks	**1,706.8**	**–**	**–**	**–**	**1,706.8**	535.8	–	–	–	535.8
Loans and advances to banks	**816.5**	**101.5**	**293.8**	**8.3**	**1,220.1**	1,303.5	19.3	198.5	2.7	1,524.0
Loans and advances to customers	**22,816.3**	**60.9**	**158.0**	**15.6**	**23,050.8**	9,774.9	72.8	154.0	14.9	10,016.6
Fair value adjustments for hedged risk	**60.6**	**–**	**–**	**–**	**60.6**	–	–	–	–	–
Investment securities – loans and receivables	**1,932.1**	**137.3**	**426.6**	**59.6**	**2,555.6**	49.1	–	74.3	–	123.4
Investment securities – available-for-sale	**2,044.3**	**613.3**	**1,042.4**	**360.6**	**4,060.6**	1,454.9	96.0	149.3	–	1,700.2
Derivative financial instruments	**660.5**	**–**	**0.3**	**–**	**660.8**	259.1	–	–	–	259.1
Equity shares	**7.2**	**–**	**–**	**–**	**7.2**	13.0	–	–	–	13.0
Investments in Group undertakings	**1,553.0**	**–**	**–**	**–**	**1,553.0**	969.3	–	–	–	969.3
Goodwill	**0.6**	**–**	**–**	**–**	**0.6**	–	–	–	–	–
Intangible fixed assets	**44.9**	**–**	**–**	**–**	**44.9**	1.5	–	–	–	1.5
Property, plant and equipment	**101.6**	**–**	**–**	**–**	**101.6**	53.9	–	–	–	53.9
Amounts owed by other Co-operative Group undertakings	**11,751.7**	**10.7**	**99.2**	**–**	**11,861.6**	1,179.6	–	–	–	1,179.6
Other assets	**44.6**	**0.3**	**0.8**	**0.1**	**45.8**	27.2	0.7	2.8	0.3	31.0
Prepayments and accrued income	**27.4**	**–**	**–**	**–**	**27.4**	4.2	–	–	–	4.2
Current tax assets	**–**	**–**	**–**	**–**	**–**	2.5	–	–	–	2.5
Deferred tax assets	**210.3**	**–**	**–**	**–**	**210.3**	–	–	–	–	–
Total assets	**43,778.4**	**924.0**	**2,021.1**	**444.2**	**47,167.7**	15,628.5	188.8	578.9	17.9	16,414.1

Bank	£ 2009	$ 2009	€ 2009	Other 2009	Total 2009	£ 2008	$ 2008	€ 2008	Other 2008	Total 2008
Liabilities										
Deposits by banks	**3,587.1**	**488.0**	**1,397.5**	**140.4**	**5,613.0**	558.4	93.9	419.3	1.7	1,073.3
Customer accounts	**28,587.4**	**22.4**	**46.3**	**3.9**	**28,660.0**	11,115.4	18.5	40.3	5.9	11,180.1
Customer accounts – capital bonds	**1,581.7**	**–**	**–**	**–**	**1,581.7**	–	–	–	–	–
Debt securities in issue	**1,606.0**	**123.8**	**9.5**	**–**	**1,739.3**	533.5	7.2	30.8	–	571.5
Derivative financial instruments	**556.2**	**4.2**	**6.8**	**–**	**567.2**	104.3	7.8	12.9	–	125.0
Other borrowed funds	**946.5**	**–**	**–**	**–**	**946.5**	366.5	–	–	–	366.5
Amounts owed to other Co-operative Group undertakings	**5,765.0**	**–**	**–**	**–**	**5,765.0**	2,225.4	–	–	–	2,225.4
Other liabilities	**209.1**	**0.9**	**0.8**	**–**	**210.8**	109.3	0.1	0.2	–	109.6
Accruals and deferred income	**134.3**	**–**	**–**	**–**	**134.3**	9.6	–	–	–	9.6
Provisions for liabilities and charges	**25.6**	**–**	**–**	**–**	**25.6**	14.7	–	–	–	14.7
Current tax liabilities	**56.8**	**–**	**–**	**–**	**56.8**	–	–	–	–	–
Deferred tax liabilities	**–**	**–**	**–**	**–**	**–**	22.5	–	–	–	22.5
Total liabilities	**43,055.7**	**639.3**	**1,460.9**	**144.3**	**45,300.2**	15,059.6	127.5	503.5	7.6	15,698.2
Net on-balance-sheet position	**722.7**	**284.7**	**560.2**	**299.9**	**1,867.5**	568.9	61.3	75.4	10.3	715.9

At 31 December 2009 the Group's open position was £0.7m (2008: £0.7m) representing a potential loss of £nil given a 3% depreciation in sterling (2008: £nil). The Group's open position is monitored against limits in addition to limits in place on individual currencies. All figures are in £ sterling equivalent.

Liquidity risk

Liquidity risk arises from the timing of cash flows generated from the Group's assets, liabilities and off-balance-sheet instruments. The Group's liquidity management policies are reviewed and approved annually by the RMC and compliance reviewed monthly by ALCO.

Liquidity risk arising from the structure of the balance sheet (structural liquidity) is managed to policies developed by ALCO. Liquidity risk is defined as the Board approved survival period under stress scenarios. The Bank undertakes the following stress tests on a weekly basis:

- A moderate firm specific stress which assumes a credit rating notch downgrade and consequential outflow.
- A severe firm specific stress which assumes a two notch credit rating downgrade and consequential outflows.
- An idiosyncratic stress scenario which assumes a two notch credit rating downgrade and a 'run' on the Bank defined as twice the worst gross outflows experienced over the last ten years.
- A moderate market wide stress which assumes a restriction in the operation of wholesale markets.
- A severe market wide stress which assumes a total restriction in the operation of wholesale markets.

The Bank's liquidity management framework is designed in line with industry guidelines, including IIF (Institute of International Finance) and BIS (Bank for International Settlements) recommendations, and is being developed in response to emerging FSA requirements.

The Bank manages liquidity risk by applying:

- a rigorous control process embedded in the Bank's operations; and
- robust liquidity management with:
  - net outflows monitored to ensure they are within FSA limits;
  - maintenance of a well diversified deposit base;
  - management of stocks: high quality primary liquidity including cash, and secondary liquidity including certificates of deposit; and
  - target funding ratio and funding ratios translated into retail and corporate targets.

Day-to-day cash flow (tactical liquidity) is managed by treasury within guidelines laid down by ALCO and in accordance with the standards established for all banks by banking regulators.

The Bank has a high proportion of retail assets funded by retail deposits, ensuring there is no over reliance on wholesale funding. There is a target funding ratio set in line with the Board approved strategic plan, which is being met. The Group's structural liquidity risk management is therefore retail based and is dependent on behavioural analysis of both customer demand and deposit and loan drawdown profiles by product category based on experience over the last ten years. The behaviour of retail products is reviewed by ALCO on a quarterly basis. In addition the Group has maturity mismatch limits to control the exposure to longer term mismatches.

The Bank's liquidity position is monitored on a daily basis and reported to ALCO each month. Treasury holds a pool of liquid assets of £2.5bn on behalf of the Bank, and management actions are in place to provide an additional £1.5bn of liquidity. These sources of liquidity totalling £4.0bn are held in order to be available to meet unexpected liquidity requirements.

Marketable assets are maintained as a liquidity pool against potential retail outflows, the asset quality of these is controlled via credit limits. Concentration limits are set by issuer name and holding per bond to ensure diversity of assets.

The Bank has access to a variety of medium term wholesale funding sources: securitisation, covered bond and euro medium term notes. The Bank will issue from the programmes as funding requirements and market conditions permit.

Liquidity gap

The following table analyses assets and liabilities into relevant maturity groupings based on the remaining period of the balance sheet date to the contractual maturity date.

The Bank manages liquidity on a behavioural rather than contractual basis, reflecting where actual behaviour differs from contractual maturity:

- Retail and corporate deposit bases are very stable, with deposits being attracted to the Bank by good customer service and its ethical policy. As a result, the deposit base remains stable whereas the contractual maturity is immediate for instant access deposits; and
- Personal loan and visa balances are repaid earlier than their contractual maturity date.

These behavioural adjustments are based on historical experience of customer behaviour over a period of up to ten years.

As the Bank manages liquidity on a behavioural basis, both the liquidity gap analysis and cash flow maturity analysis have been disclosed on a contractual and behavioural basis.

All amounts are stated in £m unless otherwise indicated

Liquidity risk (continued)

Non-cash items include fair value adjustments on the transfer of engagements of Britannia Building Society.

Group 2009	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non-cash items	Total
Assets							
Loans and advances to banks	272.9	1,492.6	–	32.4	–	(16.4)	1,781.5
Loans and advances to customers	1,024.6	2,667.2	1,584.6	7,048.6	22,553.0	(765.2)	34,112.8
Investment securities – loans and receivables	–	105.7	391.3	1,808.5	524.7	(344.0)	2,486.2
Investment securities – available-for-sale	–	1,076.4	874.7	1,705.0	801.6	(0.4)	4,457.3
Amounts owed by other Co-operative Group undertakings	1.5	89.5	–	–	–	–	91.0
Other assets	1,881.0	135.1	149.3	490.3	74.2	460.7	3,190.6
	3,180.0	5,566.5	2,999.9	11,084.8	23,953.5	(665.3)	46,119.4
Liabilities							
Deposits by banks	420.8	4,421.1	701.3	537.9	1.3	–	6,082.4
Customer accounts	19,137.6	3,216.5	6,246.8	2,213.7	–	13.6	30,828.2
Customer accounts – capital bonds	–	57.5	356.7	1,173.6	59.3	–	1,647.1
Debt securities in issue	–	944.4	436.5	2,590.6	551.6	(1,188.8)	3,334.3
Other borrowed funds	–	7.6	–	–	1,232.0	(293.1)	946.5
Amounts owed to other Co-operative Group undertakings	58.2	271.0	–	–	–	–	329.2
Other liabilities	95.8	17.8	62.7	326.5	99.0	473.8	1,075.6
	19,712.4	8,935.9	7,804.0	6,842.3	1,943.2	(994.5)	44,243.3
Net liquidity gap – contractual basis	(16,532.4)	(3,369.4)	(4,804.1)	4,242.5	22,010.3	329.2	1,876.1
Behavioural adjustments:							
Loans and advances to customers	–	(235.3)	(598.9)	(2,137.8)	2,972.0	–	–
Customer accounts	17,556.9	(44.3)	2,328.8	(19,841.4)	–	–	–
Net liquidity gap – behavioural basis	1,024.5	(3,649.0)	(3,074.2)	(17,736.7)	24,982.3	329.2	1,876.1

All amounts are stated in £m unless otherwise indicated

Liquidity risk (continued)

Group 2008	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non-cash items	Total
Assets							
Loans and advances to banks	–	1,352.2	172.0	–	–	–	1,524.2
Loans and advances to customers	643.7	2,583.1	712.7	1,801.1	4,621.0	(187.9)	10,173.7
Investment securities – loans and receivables	–	–	–	123.4	–	–	123.4
Investment securities – available-for-sale	–	1,223.4	352.0	533.1	13.2	–	2,121.7
Amounts owed by other Co-operative Group undertakings	30.1	107.8	–	–	–	–	137.9
Other assets	340.8	361.2	–	–	9.9	171.7	883.6
	1,014.6	5,627.7	1,236.7	2,457.6	4,644.1	(16.2)	14,964.5
Liabilities							
Deposits by banks	162.1	908.7	2.5	–	–	–	1,073.3
Customer accounts	8,715.0	1,770.7	907.4	296.9	–	–	11,690.0
Customer accounts – capital bonds	–	–	–	–	–	–	–
Debt securities in issue	–	475.5	96.0	–	–	–	571.5
Other borrowed funds	–	–	–	–	360.0	6.5	366.5
Amounts owed to other Co-operative Group undertakings	186.9	38.6	–	–	–	–	225.5
Other liabilities	107.1	–	–	–	–	149.9	257.0
	9,171.1	3,193.5	1,005.9	296.9	360.0	156.4	14,183.8
Net liquidity gap – contractual basis	(8,156.5)	2,434.2	230.8	2,160.7	4,284.1	(172.6)	780.7
Behavioural adjustments:							
Loans and advances to customers	–	(44.5)	(74.4)	(539.5)	658.4	–	–
Customer accounts	7,849.0	(678.9)	(1,061.9)	(6,108.2)	–	–	–
Net liquidity gap – behavioural basis	(307.5)	1,710.8	(905.5)	(4,487.0)	4,942.5	(172.6)	780.7

All amounts are stated in £m unless otherwise indicated

Liquidity risk (continued)

Bank 2009	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non-cash items	Total
Assets							
Loans and advances to banks	248.9	955.2	–	32.4	–	(16.4)	1,220.1
Loans and advances to customers	920.9	2,577.9	1,355.8	5,212.5	13,037.5	6.8	23,111.4
Investment securities – loans and receivables	–	105.7	391.2	1,878.0	524.7	(344.0)	2,555.6
Investment securities – available-for-sale	–	769.9	784.5	1,705.0	801.6	(0.4)	4,060.6
Amounts owed by other Co-operative Group undertakings	9,336.9	2,524.7	–	–	–	–	11,861.6
Other assets	1,920.0	135.8	52.8	182.1	78.3	1,989.4	4,358.4
	12,426.7	7,069.2	2,584.3	9,010.0	14,442.1	1,635.4	47,167.7
Liabilities							
Deposits by banks	420.0	4,027.7	700.7	464.6	–	–	5,613.0
Customer accounts	18,724.1	2,041.6	5,714.4	2,169.4	–	10.5	28,660.0
Customer accounts – capital bonds	–	52.1	342.2	1,128.2	59.2	–	1,581.7
Debt securities in issue	–	809.9	106.9	809.6	40.2	(27.3)	1,739.3
Other borrowed funds	–	7.6	–	–	1,232.0	(293.1)	946.5
Amounts owed to other Co-operative Group undertakings	2,077.5	3,687.5	–	–	–	–	5,765.0
Other liabilities	100.5	15.1	43.1	320.2	98.9	416.9	994.7
	21,322.1	10,641.5	6,907.3	4,892.0	1,430.3	107.0	45,300.2
Net liquidity gap – contractual basis	(8,895.4)	(3,572.3)	(4,323.0)	4,118.0	13,011.8	1,528.4	1,867.5
Behavioural adjustments:							
Loans and advances to customers	–	(178.4)	(450.7)	(1,557.5)	2,186.6	–	–
Customer accounts	17,350.2	162.4	2,328.8	(19,841.4)	–	–	–
Net liquidity gap – behavioural basis	8,454.8	(3,588.3)	(2,444.9)	(17,280.9)	15,198.4	1,528.4	1,867.5

All amounts are stated in £m unless otherwise indicated

Liquidity risk (continued)

Bank 2008	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Non-cash items	Total
Assets							
Loans and advances to banks	–	1,352.0	172.0	–	–	–	1,524.0
Loans and advances to customers	626.6	2,579.4	698.6	1,767.6	4,531.4	(187.0)	10,016.6
Investment securities – loans and receivables	–	–	–	123.4	–	–	123.4
Investment securities – available-for-sale	–	907.9	246.1	533.0	13.2	–	1,700.2
Amounts owed by other Co-operative Group undertakings	30.1	1,149.5	–	–	–	–	1,179.6
Other assets	371.1	361.2	–	–	9.9	1,128.1	1,870.3
	1,027.8	6,350.0	1,116.7	2,424.0	4,554.5	941.1	16,414.1
Liabilities							
Deposits by banks	162.1	908.7	2.5	–	–	–	1,073.3
Customer accounts	8,285.4	1,693.7	904.2	296.8	–	–	11,180.1
Customer accounts – capital bonds	–	–	–	–	–	–	–
Debt securities in issue	–	475.5	96.0	–	–	–	571.5
Other borrowed funds	–	–	–	–	360.0	6.5	366.5
Amounts owed to other Co-operative Group undertakings	186.9	2,038.5	–	–	–	–	2,225.4
Other liabilities	112.4	–	–	–	–	169.0	281.4
	8,746.8	5,116.4	1,002.7	296.8	360.0	175.5	15,698.2
Net liquidity gap – contractual basis	(7,719.0)	1,233.6	114.0	2,127.2	4,194.5	756.6	715.9
Behavioural adjustments:							
Loans and advances to customers	–	(44.5)	(74.4)	(539.5)	658.4	–	–
Customer accounts	7,634.2	(464.1)	(1,061.9)	(6,108.2)	–	–	–
Net liquidity gap – behavioural basis	(84.8)	725.0	(1,022.3)	(4,520.5)	4,852.9	765.6	715.9

All amounts are stated in £m unless otherwise indicated

Liquidity risk (continued)

Gross contractual cash flow maturity analysis

Gross contractual cash flows include interest and other revenue cash flows. The following is an analysis of gross contractual cash flows of financial liabilities held at the balance sheet date:

Group 2009	**Carrying value**	**Gross nominal (inflow)/ outflow**	**less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
Non-derivative liabilities							
Deposits by banks	**6,082.4**	**6,812.9**	**531.4**	**4,309.4**	**710.3**	**540.5**	**1.2**
Customer accounts	**30,828.2**	**30,894.6**	**21,020.5**	**1,173.6**	**6,330.9**	**2,369.6**	**–**
Customer accounts – capital bonds	**1,647.1**	**1,594.3**	**11.6**	**42.8**	**343.8**	**1,139.9**	**56.2**
Debt securities in issue	**3,334.3**	**4,256.5**	**570.0**	**232.6**	**898.0**	**2,515.7**	**40.2**
Other borrowed funds	**946.5**	**2,119.8**	**115.4**	**64.2**	**82.0**	**438.1**	**1,420.1**
Amounts owed to other Co-operative Group undertakings	**329.2**	**329.2**	**92.6**	**236.6**	**–**	**–**	**–**
	43,167.7	**46,007.3**	**22,341.5**	**6,059.2**	**8,365.0**	**7,003.8**	**1,517.7**
Derivative liabilities							
Net outflow	**591.3**	**773.1**	**89.1**	**34.8**	**217.7**	**377.6**	**53.9**
	43,759.0	**46,780.4**	**22,430.6**	**6,094.0**	**8,582.7**	**7,381.4**	**1,571.6**
Other liabilities	**484.3**	**–**	**–**	**–**	**–**	**–**	**–**
Total recognised liabilities	**44,243.3**	**46,780.4**	**22,430.6**	**6,094.0**	**8,582.7**	**7,381.4**	**1,571.6**
Unrecognised loan commitments	**4,642.3**	**4,642.3**	**4,517.8**	**60.7**	**–**	**63.8**	**–**
Total liabilities	**48,885.6**	**51,422.7**	**26,948.4**	**6,154.7**	**8,582.7**	**7,445.2**	**1,571.6**

Group 2008	Carrying value	Gross nominal (inflow)/ outflow	less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Non-derivative liabilities							
Deposits by banks	1,073.3	1,074.5	980.6	91.4	2.5	–	–
Customer accounts	11,690.0	11,741.7	9,549.3	925.3	942.2	324.9	–
Customer accounts – capital bonds	–	–	–	–	–	–	–
Debt securities in issue	571.5	575.3	205.1	274.0	96.2	–	–
Other borrowed funds	366.5	516.2	–	8.8	14.0	91.2	402.2
Amounts owed by other Co-operative Group undertakings	225.5	225.5	225.5	–	–	–	–
	13,926.8	14,133.2	10,960.5	1,299.5	1,054.9	416.1	402.2
Derivative liabilities							
Net outflow	119.7	119.7	119.7	–	–	–	–
	14,046.5	14,252.9	11,080.2	1,299.5	1,054.9	416.1	402.2
Other liabilities	137.3	–	–	–	–	–	–
Total recognised liabilities	14,183.8	14,252.9	11,080.2	1,299.5	1,054.9	416.1	402.2
Unrecognised loan commitments	5,503.8	5,503.8	5,480.8	7.0	15.6	0.4	–
Total liabilities	19,687.6	19,756.7	16,561.0	1,306.5	1,070.5	416.5	402.2

All amounts are stated in £m unless otherwise indicated

Liquidity risk (continued)

Bank 2009	**Carrying value**	**Gross nominal (inflow)/ outflow**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
Non-derivative liabilities							
Deposits by banks	**5,613.0**	**6,343.4**	**530.5**	**3,915.9**	**709.7**	**467.2**	**–**
Customer accounts	**28,660.0**	**28,736.8**	**19,694.8**	**910.6**	**5,798.4**	**2,324.0**	**9.0**
Customer accounts – capital bonds	**1,581.7**	**1,531.8**	**7.5**	**41.5**	**329.4**	**1,097.4**	**56.0**
Debt securities in issue	**1,739.3**	**1,592.0**	**568.4**	**189.9**	**93.6**	**700.0**	**40.1**
Other borrowed funds	**946.5**	**1,828.1**	**113.7**	**60.9**	**65.6**	**318.5**	**1,269.4**
Amounts owed to other Co-operative Group undertakings	**5,765.0**	**5,765.0**	**5,528.4**	**236.6**	**–**	**–**	**–**
	44,305.5	**45,797.1**	**26,443.3**	**5,355.4**	**6,996.7**	**4,907.1**	**1,374.5**
Derivative liabilities							
Net outflow	**567.2**	**567.2**	**92.8**	**12.3**	**43.1**	**320.2**	**98.8**
	44,872.7	**46,364.3**	**26,536.1**	**5,367.7**	**7,039.8**	**5,227.3**	**1,473.3**
Other liabilities	**427.5**	**–**	**–**	**–**	**–**	**–**	**–**
Total recognised liabilities	**45,300.2**	**46,364.3**	**26,536.1**	**5,367.7**	**7,039.8**	**5,227.3**	**1,473.3**
Unrecognised loan commitments	**4,604.3**	**4,604.3**	**4,479.8**	**60.7**	**–**	**63.8**	**–**
Total liabilities	**49,904.5**	**50,968.6**	**31,015.9**	**5,428.4**	**7,039.8**	**5,291.1**	**1,473.3**

Bank 2008	Carrying value	Gross nominal (inflow)/ outflow	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Non-derivative liabilities							
Deposits by banks	1,073.3	1,074.5	980.6	91.4	2.5	–	–
Customer accounts	11,180.1	11,246.5	9,189.2	795.4	937.0	324.9	–
Customer accounts – capital bonds	–	–	–	–	–	–	–
Debt securities in issue	571.5	575.3	201.6	277.5	96.2	–	–
Other borrowed funds	366.5	516.2	–	8.8	14.0	91.2	402.2
Amounts owed to other Co-operative Group undertakings	2,225.4	2,225.4	2,225.4	–	–	–	–
	15,416.8	15,637.9	12,596.8	1,173.1	1,049.7	416.1	402.2
Derivative liabilities							
Net outflow	125.0	125.0	125.0	–	–	–	–
	15,541.8	15,762.9	12,721.8	1,173.1	1,049.7	416.1	402.2
Other liabilities	156.4	–	–	–	–	–	–
Total recognised liabilities	15,698.2	15,762.9	12,721.8	1,173.1	1,049.7	416.1	402.2
Unrecognised loan commitments	5,495.9	5,495.9	5,472.9	7.0	15.6	0.4	–
Total liabilities	21,194.1	21,258.8	18,194.7	1,180.1	1,065.3	416.5	402.2

All amounts are stated in £m unless otherwise indicated

Liquidity risk (continued)

Gross expected cash flow maturity analysis – behavioural

The following is an analysis of gross expected cash flow maturity. Liquidity cash flows are managed on a behavioural basis reflecting the actual behaviour of customers using the same assumptions defined on page 64 for liquidity gap analysis based on historic cash flow profiles over a period of ten years.

Group 2009	**Carrying value**	**Gross nominal (inflow)/ outflow**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
Non-derivative liabilities							
Deposits by banks	**6,082.4**	**6,092.7**	**531.4**	**4,309.3**	**710.3**	**540.5**	**1.2**
Customer accounts	**30,828.2**	**30,880.9**	**1,954.3**	**2,339.6**	**4,638.9**	**21,948.1**	**–**
Customer accounts – capital bonds	**1,647.1**	**1,594.3**	**11.6**	**42.8**	**343.8**	**1,139.9**	**56.2**
Debt securities in issue	**3,334.3**	**4,256.4**	**570.0**	**232.6**	**898.0**	**2,515.6**	**40.2**
Other borrowed funds	**946.5**	**2,119.9**	**115.4**	**64.2**	**82.0**	**438.1**	**1,420.2**
Amounts owed to other Co-operative Group undertakings	**329.2**	**329.2**	**92.6**	**236.6**	**–**	**–**	**–**
	43,167.7	**45,273.4**	**3,275.3**	**7,225.1**	**6,673.0**	**26,582.2**	**1,517.8**
Derivative liabilities							
Net outflow	**591.3**	**773.1**	**89.1**	**34.8**	**217.7**	**377.6**	**53.9**
	43,759.0	**46,046.5**	**3,364.4**	**7,259.9**	**6,890.7**	**26,959.8**	**1,571.7**
Other liabilities	**484.3**	**–**	**–**	**–**	**–**	**–**	**–**
Total recognised liabilities	**44,243.3**	**46,046.5**	**3,364.4**	**7,259.9**	**6,890.7**	**26,959.8**	**1,571.7**
Unrecognised loan commitments	**5,016.2**	**5,016.2**	**4,891.7**	**60.7**	**–**	**63.8**	**–**
Total liabilities	**49,259.5**	**51,062.7**	**8,256.1**	**7,320.6**	**6,890.7**	**27,023.6**	**1,571.7**

Group 2008	Carrying value	Gross nominal (inflow)/ outflow	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Non-derivative assets							
Deposits by banks	1,073.3	1,074.5	980.6	91.4	2.5	–	–
Customer accounts	11,690.0	11,741.7	1,705.8	1,163.6	2,054.6	6,817.7	–
Customer accounts – capital bonds	–	–	–	–	–	–	–
Debt securities in issue	571.5	575.3	201.6	277.5	96.2	–	–
Other borrowed funds	366.5	516.2	–	8.8	14.0	91.2	402.2
Amounts owed to other Co-operative Group undertakings	225.5	225.5	225.5	–	–	–	–
	13,926.8	14,133.2	3,113.5	1,541.3	2,167.3	6,908.9	402.2
Derivative liabilities							
Net outflow	119.7	119.7	119.7	–	–	–	–
	14,046.5	14,252.9	3,233.2	1,541.3	2,167.3	6,908.9	402.2
Other liabilities	137.3	–	–	–	–	–	–
Total recognised liabilities	14,183.8	14,252.9	3,233.2	1,541.3	2,167.3	6,908.9	402.2
Unrecognised loan commitments	5,503.8	5,503.8	5,480.8	7.0	15.6	0.4	–
Total liabilities	19,687.6	19,756.7	8,714.0	1,548.3	2,182.9	6,909.3	402.2

All amounts are stated in £m unless otherwise indicated

Liquidity risk (continued)

Bank 2009	**Carrying value**	**Gross nominal (inflow)/ outflow**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
Non-derivative liabilities							
Deposits by banks	**5,613.0**	**5,623.3**	**530.5**	**3,915.9**	**709.7**	**467.2**	**–**
Customer accounts	**28,660.0**	**28,715.9**	**1,498.4**	**1,207.2**	**4,106.5**	**21,903.8**	**–**
Customer accounts – capital bonds	**1,581.7**	**1,531.8**	**7.5**	**41.5**	**329.4**	**1,097.4**	**56.0**
Debt securities in issue	**1,739.3**	**1,592.0**	**568.4**	**189.9**	**93.6**	**700.0**	**40.1**
Other borrowed funds	**946.5**	**1,828.1**	**113.7**	**60.9**	**65.6**	**318.5**	**1,269.4**
Amounts owed to other Co-operative Group undertakings	**5,765.0**	**5,765.0**	**5,528.4**	**236.6**	**–**	**–**	**–**
	44,305.5	**45,056.1**	**8,246.9**	**5,652.0**	**5,304.8**	**24,486.9**	**1,365.5**
Derivative liabilities							
Net outflow	**567.2**	**567.2**	**92.8**	**12.3**	**43.1**	**320.2**	**98.8**
	44,872.7	**45,623.3**	**8,339.7**	**5,664.3**	**5,347.9**	**24,807.1**	**1,464.3**
Other liabilities	**427.5**	**–**	**–**	**–**	**–**	**–**	**–**
Total recognised liabilities	**45,300.2**	**45,623.3**	**8,339.7**	**5,664.3**	**5,347.9**	**24,807.1**	**1,464.3**
Unrecognised loan commitments	**4,760.6**	**4,760.6**	**4,636.1**	**60.7**	**–**	**63.8**	**–**
Total liabilities	**50,060.8**	**50,383.9**	**12,975.8**	**5,725.0**	**5,347.9**	**24,870.9**	**1,464.3**

Bank 2008	Carrying value	Gross nominal (inflow)/ outflow	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Non-derivative liabilities							
Deposits by banks	1,073.3	1,074.5	980.6	91.4	2.5	–	–
Customer accounts	11,180.1	11,246.5	1,345.6	1,033.8	2,049.4	6,817.7	–
Customer accounts – capital bonds	–	–	–	–	–	–	–
Debt securities in issue	571.5	575.3	201.6	277.5	96.2	–	–
Other borrowed funds	366.5	516.2	–	8.8	14.0	91.2	402.2
Amounts owed to other Co-operative Group undertakings	2,225.4	2,225.4	2,225.4	–	–	–	–
	15,416.8	15,637.9	4,753.2	1,411.5	2,162.1	6,908.9	402.2
Derivative liabilities							
Net outflow	125.0	125.0	125.0	–	–	–	–
	15,541.8	15,762.9	4,878.2	1,411.5	2,162.1	6,908.9	402.2
Other liabilities	156.4	–	–	–	–	–	–
Total recognised liabilities	15,698.2	15,762.9	4,878.2	1,411.5	2,162.1	6,908.9	402.2
Unrecognised loan commitments	5,495.7	5,495.9	5,472.9	7.0	15.6	0.4	–
Total liabilities	21,193.9	21,258.8	10,351.1	1,418.5	2,177.7	6,909.3	402.2

Demand deposits are shown as less than one month in the analysis above.

All amounts are stated in £m unless otherwise indicated

Fair values of financial assets and liabilities

The table below sets out a summary of the carrying and fair values of those financial assets and liabilities not presented on the Group and Bank balance sheets at fair value, unless there is no significant difference between carrying and fair values.

Category (as defined by IAS 39)	Class (as determined by the Group)	Group Carrying value	Group Fair value	Bank Carrying value	Bank Fair value
2009					
Financial assets					
Loans and receivables					
	Loans and advances to banks	**1,781.5**	**1,780.5**	**1,220.1**	**1,219.1**
	Loans and advances to customers	**34,112.8**	**34,731.0**	**23,111.4**	**23,463.8**
	Investment securities	**2,486.2**	**2,489.4**	**2,555.6**	**2,558.8**
Financial liabilities					
Financial liabilities at amortised cost					
	Deposits by banks	**6,082.4**	**6,084.7**	**5,613.0**	**5,615.3**
	Customers accounts	**30,828.2**	**30,919.6**	**28,660.0**	**28,747.0**
	Debt securities in issue	**3,334.3**	**2,475.2**	**1,739.3**	**1,739.8**
	Other borrowed funds	**946.5**	**787.0**	**946.5**	**787.0**

		Group Carrying value	Group Fair value	Bank Carrying value	Bank Fair value
2008					
Financial assets					
Loans and receivables					
	Loans and advances to banks	1,524.2	1,522.8	1,524.0	1,522.6
	Loans and advances to customers	10,173.7	10,173.4	10,016.6	11,035.6
	Investment securities	123.4	112.3	123.4	112.3
Financial liabilities					
Financial liabilities at amortised cost					
	Deposits by banks	1,073.3	1,073.3	1,073.3	1,073.3
	Customer accounts	11,690.0	11,951.9	11,180.1	13,431.8
	Debt securities in issue	571.5	572.6	571.5	572.5
	Other borrowed funds	366.5	332.7	366.5	332.7

Key considerations in the calculation of fair values are as follows:

(a) Loans and advances to banks/deposits by banks

Loans and advances to banks include inter-bank placements and items in the course of collection.

The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. A credit loss adjustment has been applied based on expected loss amounts derived from the Bank's regulatory capital calculations.

Fair values of financial assets and liabilities (continued)

(b) Loans and advances to customers

Fixed rate loans and advances to customers are revalued to fair value based on future interest cash flows (at funding rates) and principal cash flows discounted using the zero coupon rate. Forecast principal repayments are based on redemption at the earlier of maturity or repricing date with some overlay for historic behavioural experience where relevant. The eventual timing of future cash flows may be different from the forecast due to unpredictable customer behaviour. It is assumed there is no fair value adjustment required in respect of interest rate movement on variable rate assets. A credit loss adjustment has been applied based on expected loss amounts derived from the Bank's regulatory capital calculations.

(c) Customer accounts

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(d) Customer accounts – capital bonds

The estimated fair value of customer accounts – capital bonds is based on independent third party valuations using forecast future movements in the appropriate indices.

(e) Debt securities in issue and other borrowed funds

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

(f) Investment securities

Fair value is based on market prices. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(g) Derivatives

Futures and options are marked to market using listed market prices. For interest rate swaps, the estimated fair value is based on discounted cash flows using prevailing money-market interest rates for instruments with similar remaining maturity.

All amounts are stated in £m unless otherwise indicated

Fair values of financial assets and liabilities (continued)

Use of financial instruments

The use of financial instruments is essential to the Bank's business activities and financial instruments constitute a significant proportion of the Bank's assets and liabilities. Risk management procedures are described earlier in this report, and analysis of the financial instruments is provided in the notes to the financial statements.

The table below analyses financial instruments by measurement basis as detailed by IAS 39.

Balance sheet categories	Trading	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Cash flow hedges	Total
Group							
2009							
Assets							
Cash and balances at central banks	–	–	1,706.8	–	–	–	1,706.8
Loans and advances to banks	–	–	1,781.5	–	–	–	1,781.5
Loans and advances to customers	–	48.2	34,064.6	–	–	–	34,112.8
Investment securities	–	–	2,486.2	4,457.3	–	–	6,943.5
Derivative financial instruments	48.9	855.5	–	–	–	118.6	1,023.0
Equity shares	–	–	–	7.2	–	–	7.2
Amounts owed to other Co-operative Group undertakings	–	–	91.0	–	–	–	91.0
Total financial assets	48.9	903.7	40,130.1	4,464.5	–	118.6	45,665.8
Non-financial assets							453.6
Total assets							46,119.4
Liabilities							
Deposits by banks	–	103.8	–	–	5,978.6	–	6,082.4
Customer accounts	–	–	–	–	30,828.2	–	30,828.2
Customer accounts – capital bonds	–	1,647.1	–	–	–	–	1,647.1
Debt securities in issue	–	–	–	–	3,334.3	–	3,334.3
Derivative financial instruments	40.2	480.6	–	–	–	70.5	591.3
Other borrowed funds	–	–	–	–	946.5	–	946.5
Amounts owed to other Co-operative Group undertakings	–	–	–	–	329.2	–	329.2
Total financial liabilities	40.2	2,231.5	–	–	41,416.8	70.5	43,759.0
Non-financial liabilities							484.3
Total liabilities							44,243.3
Capital and reserves							1,876.1
Total liabilities and equity							46,119.4

All amounts are stated in £m unless otherwise indicated

Fair values of financial assets and liabilities (continued)

Use of financial instruments

Balance sheet categories	Trading	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Cash flow hedges	Total
Group							
2008							
Assets							
Cash and balances at central banks	–	–	535.8	–	–	–	535.8
Loans and advances to banks	–	–	1,524.2	–	–	–	1,524.2
Loans and advances to customers	–	35.8	10,137.9	–	–	–	10,173.7
Investment securities	–	–	123.4	2,121.7	–	–	2,245.1
Derivative financial instruments	71.3	19.7	–	–	–	137.7	228.7
Equity shares	–	–	–	13.0	–	–	13.0
Amounts owed by other Co-operative Group undertakings	–	–	137.9	–	–	–	137.9
Total financial assets	71.3	55.5	12,459.2	2,134.7	–	137.7	14,858.4
Non-financial assets							106.1
Total assets							14,964.5
Liabilities							
Deposits by banks	–	–	–	–	1,073.3	–	1,073.3
Customer accounts	–	–	–	–	11,690.0	–	11,690.0
Customer accounts – capital bonds	–	–	–	–	–	–	–
Debt securities in issue	–	–	–	–	571.5	–	571.5
Derivative financial instruments	62.5	24.4	–	–	–	32.8	119.7
Other borrowed funds	–	–	–	–	366.5	–	366.5
Amounts owed by other Co-operative Group undertakings	–	–	–	–	225.5	–	225.5
Total financial liabilities	62.5	24.4	–	–	13,926.8	32.8	14,046.5
Non-financial liabilities							137.3
Total liabilities							14,183.8
Capital and reserves							780.7
Total liabilities and equity							14,964.5

All amounts are stated in £m unless otherwise indicated

Fair values of financial assets and liabilities (continued)

Use of financial instruments

Balance sheet categories	Trading	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Cash flow hedges	Total
Bank							
2009							
Assets							
Cash and balances at central banks	–	–	1,706.8	–	–	–	1,706.8
Loans and advances to banks	–	–	1,220.1	–	–	–	1,220.1
Loans and advances to customers	–	48.2	23,063.2	–	–	–	23,111.4
Investment securities	–	–	2,555.6	4,060.6	–	–	6,616.2
Derivative financial instruments	52.7	489.5	–	–	–	118.6	660.8
Equity shares	–	–	–	7.2	–	–	7.2
Amounts owed by other Co-operative Group undertakings	–	–	11,861.6	–	–	–	11,861.6
Total financial assets	52.7	537.7	40,407.3	4,067.8	–	118.6	45,184.1
Non-financial assets							1,983.6
Total assets							47,167.7
Liabilities							
Deposits by banks	–	103.8	–	–	5,509.2	–	5,613.0
Customer accounts	–	–	–	–	28,660.0	–	28,660.0
Customer accounts – capital bonds	–	1,581.7	–	–	–	–	1,581.7
Debt securities in issue	–	–	–	–	1,739.3	–	1,739.3
Derivative financial instruments	43.8	452.9	–	–	–	70.5	567.2
Other borrowed funds	–	–	–	–	946.5	–	946.5
Amounts owed to other Co-operative Group undertakings	–	3,397.6	–	–	2,367.4	–	5,765.0
Total financial liabilities	43.8	5,536.0	–	–	39,222.4	70.5	44,872.7
Non-financial liabilities							427.5
Total liabilities							45,300.2
Capital and reserves							1,867.5
Total liabilities and equity							47,167.7

All amounts are stated in £m unless otherwise indicated

Fair values of financial assets and liabilities (continued)

Use of financial instruments

Balance sheet categories	Trading	Designated at fair value	Loans and receivables	Available for sale	Other amortised cost	Cash flow hedges	Total
Bank							
2008							
Assets							
Cash and balances at central banks	–	–	535.8	–	–	–	535.8
Loans and advances to banks	–	–	1,524.0	–	–	–	1,524.0
Loans and advances to customers	–	35.8	9,980.8	–	–	–	10,016.6
Investment securities	–	–	123.4	1,700.2	–	–	1,823.6
Derivative financial instruments	76.7	50.1	–	–	–	132.3	259.1
Equity shares	–	–	–	13.0	–	–	13.0
Amounts owed by other Co-operative Group undertakings	–	–	1,1 79.6	–	–	–	1,179.6
Total financial assets	76.7	85.9	13,343.6	1,713.2	–	132.3	15,351.7
Non-financial assets							1,062.4
Total assets							16,414.1
Liabilities							
Deposits by banks	–	–	–	–	1,073.3	–	1,073.3
Customer accounts	–	–	–	–	11,180.1	–	11,180.1
Customer accounts – capital bonds	–	–	–	–	–	–	–
Debt securities in issue	–	–	–	–	571.5	–	571.5
Derivative financial instruments	67.8	24.4	–	–	–	32.8	125.0
Other borrowed funds	–	–	–	–	366.5	–	366.5
Amounts owed by other Co-operative Group undertakings	–	1,996.3	–	–	229.1	–	2,225.4
Total financial liabilities	67.8	2,020.7	–	–	13,420.5	32.8	15,541.8
Non-financial liabilities							156.4
Total liabilities							15,698.2
Capital and reserves							715.9
Total liabilities and equity							16,414.1

All amounts are stated in £m unless otherwise indicated

Fair values of financial assets and liabilities (continued)

Valuation of financial instruments

The following tables analyse financial assets and liabilities at fair value by the three tier valuation classification as defined within IAS 39.

Group
2009

Category (as defined by IAS 39)	Class (as determined by the Group)	Fair value measurement at end of the reporting period using: Quoted market prices in active markets Level 1	Valuation techniques using observable inputs Level 2	Valuation techniques using unobservable inputs Level 3	Total
Financial assets					
Loans and receivables designated at fair value					
	Loans and advances to customers	**–**	**36.4**	**11.8**	**48.2**
	Total loans and receivables designated at fair value	**–**	**36.4**	**11.8**	**48.2**
Available-for-sale financial assets					
	Investment securities – available-for-sale	**3,608.1**	**849.2**	**–**	**4,457.3**
	Equity shares	**–**	**–**	**7.2**	**7.2**
	Total available-for-sale financial assets	**3,608.1**	**849.2**	**7.2**	**4,464.5**
Derivative financial instruments					
	Interest rate swaps				
	– designated as fair value hedges	**–**	**0.5**	**–**	**0.5**
	– designated as cash flow hedges	**–**	**118.1**	**–**	**118.1**
	– at fair value through income and expense	**–**	**170.1**	**–**	**170.1**
	Cross currency interest rate swaps				
	– designated as fair value hedges	**–**	**635.5**	**–**	**635.5**
	Other	**–**	**98.8**	**–**	**98.8**
	Total derivative financial instruments	**–**	**1,023.0**	**–**	**1,023.0**
Total assets carried at fair value		**3,608.1**	**1,908.6**	**19.0**	**5,535.7**

All amounts are stated in £m unless otherwise indicated

Fair values of financial assets and liabilities (continued)

Valuation of financial instruments

Group
2009

Category (as defined by IAS 39)	Class (as determined by the Group)	Fair value measurement at end of the reporting period using:			
Financial liabilities		**Quoted market prices in active markets Level 1**	**Valuation techniques using observable inputs Level 2**	**Valuation techniques using unobservable inputs Level 3**	**Total**
Financial liabilities designated at fair value					
	Deposits from banks	**–**	**103.8**	**–**	**103.8**
	Capital bonds	**–**	**1,647.1**	**–**	**1,647.1**
	Total financial liabilities designated at fair value	**–**	**1,750.9**	**–**	**1,750.9**
Derivative financial instruments					
	Interest rate swaps				
	– designated as cash flow hedges	**–**	**70.5**	**–**	**70.5**
	– at fair value through income and expense	**–**	**479.1**	**–**	**479.1**
	Other	**–**	**41.7**	**–**	**41.7**
	Total derivative financial instruments	**–**	**591.3**	**–**	**591.3**
Total liabilities carried at fair value		**–**	**2,342.2**	**–**	**2,342.2**

All amounts are stated in £m unless otherwise indicated

Fair values of financial assets and liabilities (continued)

Valuation of financial instruments

Group
2008

Category (as defined by IAS 39)	**Class (as determined by the Group)**	Quoted market prices in active markets Level 1	Valuation techniques using observable inputs Level 2	Valuation techniques using unobservable inputs Level 3	Total
		Fair value measurement at end of the reporting period using:			
Financial assets					
Loans and receivables designated at fair value					
	Loans and advances to customers	–	2 2.0	13.8	35.8
	Total loans and receivables designated at fair value	–	22.0	13.8	35.8
Available-for-sale financial assets					
	Investment securities – available-for-sale	2,119.0	2.7	–	2,121.7
	Equity shares	4.2	–	8.8	13.0
	Total available-for-sale financial assets	2,123.2	2.7	8.8	2,134.7
Derivative financial instruments					
	Interest rate swaps				
	– designated as cash flow hedges	–	137.7	–	137.7
	– at fair value through income and expense	–	69.7	–	69.7
	Other	–	21.3	–	21.3
	Total derivative financial instruments	–	228.7	–	228.7
Total assets carried at fair value		2,123.2	253.4	22.6	2,399.2
Financial liabilities					
Derivative financial instruments					
	Interest rate swaps				
	– designated as fair value hedges	–	1.5	–	1.5
	– designated as cash flow hedges	–	29.5	–	29.5
	– at fair value through income and expense	–	73.6	–	73.6
	Other	–	15.1	–	15.1
	Total derivative financial instruments	–	119.7	–	119.7
Total liabilities carried at fair value		–	119.7	–	119.7

All amounts are stated in £m unless otherwise indicated

Fair values of financial assets and liabilities (continued)

Valuation of financial instruments

Bank
2009

Category (as defined by IAS 39)	Class (as determined by the Group)	Quoted market prices in active markets Level 1	Valuation techniques using observable inputs Level 2	Valuation techniques using unobservable inputs Level 3	Total
		Fair value measurement at end of the reporting period using:			
Financial assets					
Loans and receivables designated at fair value					
	Loans and advances to customers	–	36.4	11.8	48.2
	Total loans and receivables designated at fair value	–	36.4	11.8	48.2
Available-for-sale financial assets					
	Investment securities – available-for-sale	3,608.1	452.5	–	4,060.6
	Equity shares	–	–	7.2	7.2
	Total available-for-sale financial assets	3,608.1	452.5	7.2	4,067.8
Derivative financial instruments					
	Interest rate swaps				
	– designated as fair value hedges	–	0.5	–	0.5
	– designated as cash flow hedges	–	118.1	–	118.1
	– at fair value through income and expense	–	170.1	39.2	209.3
	Cross currency interest rate swaps				
	– designated as fair value hedges	–	233.1	–	233.1
	Other	–	99.8	–	99.8
	Total derivative financial instruments	–	621.6	39.2	660.8
Total assets carried at fair value		3,608.1	1,110.5	58.2	4,776.8

All amounts are stated in £m unless otherwise indicated

Fair values of financial assets and liabilities (continued)

Valuation of financial instruments

Bank
2009

Category (as defined by IAS 39)	Class (as determined by the Group)	Quoted market prices in active markets Level 1	Valuation techniques using observable inputs Level 2	Valuation techniques using unobservable inputs Level 3	Total
		Fair value measurement at end of the reporting period using:			
Financial liabilities					
Financial liabilities designated at fair value					
	Deposits from banks	–	103.8	–	103.8
	Capital bonds	–	1,581.7	–	1,581.7
	Amounts owed to other Co-operative Group undertakings	–	–	3,397.6	3,397.6
	Total financial liabilities designated at fair value	–	1,685.5	3,397.6	5,083.1
Derivative financial instruments					
	Interest rate swaps				
	– designated as cash flow hedges	–	70.5	–	70.5
	– at fair value through income and expense	–	444.7	–	444.7
	Cross currency interest rate swaps				
	– designated as fair value hedges	–	11.9	–	11.9
	Other	–	40.1	–	40.1
	Total derivative financial instruments	–	567.2	–	567.2
Total liabilities carried at fair value		–	2,252.7	3,397.6	5,650.3

All amounts are stated in £m unless otherwise indicated

Fair values of financial assets and liabilities (continued)

Valuation of financial instruments

Bank
2008

Category (as defined by IAS 39)	Class (as determined by the Group)	Quoted market prices in active markets Level 1	Valuation techniques using observable inputs Level 2	Valuation techniques using unobservable inputs Level 3	Total
		Fair value measurement at end of the reporting period using:			
Financial assets					
Loans and receivables designated at fair value					
	Loans and advances to customers	–	22.0	13.8	35.8
	Total loans and receivables designated at fair value	–	22.0	13.8	35.8
Available-for-sale financial assets					
	Investment securities – available-for-sale	1,697.5	2.7	–	1,700.2
	Equity shares	4.2	–	8.8	13.0
	Total available-for-sale financial assets	1,701.7	2.7	8.8	1,713.2
Derivative financial instruments					
	Interest rate swaps				
	– designated as cash flow hedges	–	76.7	29.9	106.6
	– at fair value through income and expense	–	131.2	–	131.2
	Other	–	21.3	–	21.3
	Total derivative financial instruments	–	229.2	29.9	259.1
Total assets carried at fair value		1,701.7	253.9	52.5	2,008.1
Financial liabilities					
Financial liabilities designated at fair value					
	Amounts owed by other Co-operative Group undertakings	–	–	1,996.3	1,996.3
	Total financial liabilities designated at fair value	–	–	1,996.3	1,996.3
Derivative financial instruments					
	Interest rate swaps				
	– designated as fair value hedges	–	1.5	–	1.5
	– designated as cash flow hedges	–	29.5	–	29.5
	– at fair value through income and expense	–	78.9	–	78.9
	Other	–	15.1	–	15.1
	Total derivative financial instruments	–	125.0	–	125.0
Total liabilities carried at fair value		–	125.0	1,996.3	2,121.3

There have been no transfers in or out of each level during either the current or the previous year.

All amounts are stated in £m unless otherwise indicated

Fair values of financial assets and liabilities (continued)

Movements in fair values of instruments with significant unobservable inputs were:

	Fair value at the beginning of the year	Purchases	Sales	Transfer of engagement	Profit or loss including impairment	Other comprehensive income net of impairment	Fair value at the end of the year
Group							
2009							
Loans and advances to customers	**13.8**	**(0.5)**	**–**	**–**	**(1.5)**	**–**	**11.8**
Equity shares	**8.8**	**–**	**–**	**1.5**	**(3.1)**	**–**	**7.2**
	22.6	**(0.5)**	**–**	**1.5**	**(4.6)**	**–**	**19.0**
Bank							
Loans and advances to customers	**13.8**	**(0.5)**	**–**	**–**	**(1.5)**	**–**	**11.8**
Derivatives	**29.9**	**–**	**–**	**–**	**(9.3)**	**–**	**39.2**
Equity shares	**8.8**	**–**	**–**	**1.5**	**(3.1)**	**–**	**7.2**
Amounts owed to other Co-operative Group undertakings	**(1,996.3)**	**(250.7)**	**648.9**	**(1,799.5)**	**–**	**–**	**(3,397.6)**
	(1,943.8)	**(251.2)**	**648.9**	**(1,798.0)**	**4.7**	**–**	**(3,339.4)**

	Fair value at the beginning of the year	Purchases	Sales	Transfer of engagement	Profit or loss including impairment	Other comprehensive income net of impairment	Fair value at the end of the year
Group							
2008							
Loans and advances to customers	3.5	8.8	–	–	–	1.5	13.8
Equity shares	8.8	–	–	–	–	–	8.8
	12.3	8.8	–	–	–	1.5	22.6
Bank							
Loans and advances to customers	3.5	8.8	–	–	–	1.5	13.8
Derivatives	–	–	–	–	–	29.9	29.9
Equity shares	8.8	–	–	–	–	–	8.8
Amounts owed to other Co-operative Group undertakings	–	(2,289.4)	263.4	–	–	29.7	(1,996.3)
	12.3	(2,280.6)	263.4	–	–	61.1	(1,943.8)

Valuation techniques

Fair values are determined according to the following hierarchy:

(a) Quoted market price

This is used for financial instruments with quoted prices for identical instruments in active markets. The best evidence of fair value is a quoted market price in an actively traded market, and a significant portion of the Bank's financial assets fall into this category.

(b) Valuation technique using observable inputs

This is used for financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

The valuation techniques used to value these instruments employ only observable market data and relate to the following assets:

Loans and advances to customers

Loans and advances to customers include corporate loans of £36.4m (2008: £22.0m) which are fair valued through income and expense using observable inputs. Loans held at fair value are valued at the sum of all future expected cash flows, discounted using a yield curve based on observable market inputs.

Debt securities

Debt securities classified under valuation techniques using observable inputs are described in the critical judgments section on pages 90 to 92.

Fair values of financial assets and liabilities (continued)

Derivative financial instruments

OTC (i.e. non-exchange traded) derivatives are valued using valuation models which are based on observable market data. Valuation models calculate the present value of expected future cash flows, based upon 'no-arbitrage' principles. The Bank enters into vanilla foreign exchange and interest rate swap derivatives, for which modelling techniques are standard across the industry. Examples of inputs that are generally observable include foreign exchange spot and forward rates, and benchmark interest rate curves.

(c) Valuation technique with significant unobservable inputs

This is used for financial instruments valued using models where one or more significant inputs are not observable.

The small proportion of financial assets valued based on significant unobservable inputs are analysed as follows:

Loans and advances to customers

Loans and advances to customers include 25 year fixed-rate mortgages of £11.8m (2008: £13.8m) which are fair valued through income and expense using unobservable inputs. Twenty-five year fixed-rate mortgages are valued using future interest cash flows at the fixed customer rate and estimated schedule of customer repayments. Cash flows are discounted at a credit-adjusted discount rate; the credit adjustment is based on the average margin of new long dated (five years or greater) fixed rate business written in the last six months, and subject to quarterly review. The eventual timing of future cash flows may be different from that forecast due to unpredictable customer behaviour, particularly on a 25 year product. The valuation methodology takes account of credit risk and has increased the valuation by £0.2m in 2009 (2008: reduction of £0.4m).

Derivative financial instruments

Derivative financial instruments including internal interest rate swaps have been entered into during the year between the Bank and The Covered Bond LLP (LLP).

The purpose of the covered bond swap is to convert the fixed and base rate linked revenue receipts of the covered bond pool of assets to the same LIBOR linked basis as the intercompany loan. Under this swap arrangement the LLP pays to the swap counterparty, in this case The Co-operative Bank plc, the monthly mortgage revenue receipts of the covered band pool and receives from the swap counterparty LIBOR plus a contractual spread on the same notional balance; the spread being sufficient to cover the intercompany loan and any expenses.

The swap is valued based on an assumed amortisation profile of the covered bond pool to the bond maturity date (assuming some annual prepayment), an assumed profile of customer receipts over this period, and LIBOR prediction using forward rates. Swap cash flows are discounted to present value using mid-yield curve zero coupon rates, i.e. no adjustment is made for credit losses, nor for transaction or any other costs.

The fair value of the swap is based on a valuation model that reflects the mortgage cash flows over a three year period using a discount rate based on LIBOR spreads. This derivative eliminates on consolidation.

Equity shares

Primarily, equity shares relate to investments held in Vocalink Limited which are unquoted shares. The valuation of such shares is based on our percentage shareholding of the most recent public information valuation issued by the company.

Amounts owed to other Co-operative Group undertakings

Amounts owed to other Co-operative Group undertakings from customers includes a deposit by the LLP subsidiary relating to the legal transfer of loans and advances on issue of the Bank's covered bond. The deposit is fair valued to eliminate an accounting mismatch of the swap derivative as discussed above.

Revaluation of the £3.4bn (2008: £2.0bn) mortgage covered bond pool from book to fair value is based on assumed timing of future mortgage capital and revenue receipts, discounted to present value using a credit adjusted discount rate.

The amortisation profile is as per the swaps valuation methodology, assuming some annual prepayment, but is extended beyond any bond maturity, until all the mortgages themselves mature, which is circa 25 years. Similarly, the revenue receipts are calculated as per the swap valuation methodology, but extended until all the mortgages mature. For fixed rate mortgages revenue receipts are based on fixed customer rates within the assumed amortisation profile. For tracker, SVR and discount products revenue receipts are assumed to be based on forward LIBOR rates plus the product margins. Fixed and tracker mortgages are assumed to revert to SVR at end of any offer period. All mortgages in the covered bond pool were originated pre 31 December 2007.

The fair value of the swap is based on a valuation model that reflects the mortgage cash flows over a three year period using a discount rate based on LIBOR spreads. This derivative eliminates on consolidation.

Primary financial instruments used by the Bank

The main financial instruments used by the Bank, and the purposes for which they are held, are outlined below:

Customer loans and deposits

The provision of banking facilities to customers is the prime activity of the Bank and customer loans and deposits are major constituents of the balance sheet. Customer loans include retail mortgages, corporate loans, credit cards, unsecured retail lending and overdrafts. Customer deposits include retail and corporate current and saving accounts. The Bank has detailed policies and procedures to manage risks. In addition to mortgage lending, much of the lending to corporate and business banking customers is secured.

Debt securities, wholesale market loans and deposits

Debt securities include structured investments and credit trading funds. Further details are provided in critical judgments on pages 90 to 92. Debt securities also underpin the Bank's liquidity requirements and generate incremental net interest and trading income.

The Bank issues medium term notes within an established euro medium term note programme and also issues certificates of deposit and commercial paper as part of its normal treasury activities. These sources of funds alongside wholesale market loans are invested in marketable, investment grade debt securities, short term wholesale market placements and used to fund customer loans.

Capital funds – subordinated note issues and preference shares

The Bank has a policy of maintaining prudent capital ratios and utilises a broad spread of capital funds. In addition to ordinary share capital and retained earnings, the Bank has issued £60m preference shares and, when appropriate, also issues perpetual and fixed term subordinated notes.

Foreign exchange

The Bank undertakes foreign exchange dealing to facilitate customer requirements and to generate incremental income from short term trading in the major currencies. Structured risk and trading related risk are managed formally within position limits approved by the Board.

Derivatives

A derivative is a financial instrument that derives its value from an underlying rate or price such as interest rates, exchange rates and other market prices. Derivatives are an efficient means of managing market risk and limiting counterparty exposure. The Bank uses them mainly for hedging purposes and to meet the needs of customers.

The most frequently used derivative contracts are interest rate swaps, exchange traded futures and options, caps and floors, forward rate agreements, currency swaps and forward currency transactions. Terms and conditions are determined by using standard industry documentation. Derivatives are subject to the same market and credit risk control procedures as are applied to other wholesale market instruments and are aggregated with other exposures to monitor total counterparty exposure which is managed within approved limits for each counterparty.

Unaudited risk management disclosures

The following risk management disclosures from operational risk to securitisation risk inclusive do not form part of the audited accounts and are not audited.

Operational risk

Operational risk is defined within CFS as the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. This encompasses the effectiveness of risk management techniques and controls to minimise these losses.

Examples of such include internal and external fraud, loss or theft of confidential customer information, loss of key personnel, system capacity issues or program failure, process failures affecting payment settlement and external events over which CFS has limited controls such as terrorist attack, floods and contagious disease.

Operational risks are identified, managed and mitigated through ongoing risk management practices including risk assessments, formal control procedures, training, segregation of duties, delegated authorities and business continuity planning. Operational risks are formally reviewed on a regular basis. Significant operational risks are regularly reported to executive directors, a management operational risk committee, and the ARCC (a formal Board sub-committee). These meet regularly to monitor the suitability of the risk management framework and management of significant risks within CFS. Capital requirements in relation to operational risk are monitored by the RMC.

Business continuity is managed from within the operational risk team and sets out to take appropriate steps to minimise the risk of disruption in the event of a sudden, unplanned occurrence that could seriously disrupt customer service, or pose a risk to colleagues, business operations and/or reputation. This includes developing and exercising crisis and incident management teams to maintain appropriate preparedness in the event of a major operational disruption. In 2009, with the emergence of swine flu (H1N1), postal strikes and continued focus on liquidity planning, specific focus has been placed on maintaining and developing our capability to respond to these threats.

CFS also has a corporate insurance programme to transfer specific risks to insurers as part of its risk management approach.

Operational risk (continued)

2009 has seen the transfer of engagements of Britannia Building Society to The Co-operative Bank plc. Work is underway to ensure that CFS's operational risk framework is consistently applied across the merged organisation, in compliance with the Basel II standardised approach to operational risk.

Additional risks

In addition to the significant risks covered above, the following risks are also reported and managed in the CFS risk management framework:

- group-wide risks, to include pensions, reputational and contagion risk;
- business risk; and
- regulation risk.

Group-wide risks

Pensions risk: the risk of the Group being unable to meet pension scheme commitments. Risks are identified at The Co-operative Group level, with the impact of any potential changes to contribution assessed under the bank risk management framework.

The combined entity is exposed to two distinct areas of pension risk:

- PACE – CFSMS and Bank are participating members of The Co-operative Group pension (average career earnings) – defined benefit scheme; and
- Britannia Pension Scheme – Bank is a participating member of the Britannia Pension Scheme – defined benefit and contribution sections, (defined benefit section closed to new members since 2001).

The Co-operative Group, alongside the scheme trustees, are responsible for the risk management arrangements for PACE, agreeing suitable contribution rates, investment strategies, etc, taking professional advice as appropriate.

CFSMS, alongside the scheme trustee, are responsible for the risk management arrangements for the Britannia Pension Scheme, agreeing suitable contribution rates, investment strategies, etc, taking professional advice as appropriate.

The Bank is therefore exposed to potential future increases in required contributions.

Reputational risk: failure to proactively develop, protect and optimise the value of the brands of the CFS group of companies through inappropriate strategic decisions, poor business performance, or operational failure. Reputational risks are identified at the Bank entity level. As part of the assessment of this risk, we consider the impact of other CFS entities and Co-operative Group entities to the Bank.

Contagion risk: risks originating from elsewhere in the Group impacting upon the Bank.

Business risk

Business risk arises from changes to the Bank's business, specifically the risk of not being able to carry out the Bank's business plan and desired strategy.

Regulatory risk

Regulatory intervention and change is a permanent feature of any financial services business and can have a significant impact on profitability.

Securitisation risk

Securitisation risk is the residual credit risk arising from retaining an interest in the Bank's securitisation companies through the provision of subordinated debt and/or start up expense loans where applicable. The Bank has historically entered into securitisation transactions in which it sells mortgages to special purpose entities (SPEs). These SPEs are included as subsidiaries in the consolidated financial statements. The Bank continues to recognise these securitised assets as loans and advances to customers on the balance sheet and income from the securitised assets continues to be recognised as income. Securitisations provide a committed and linked source of funding for higher-risk mortgage lending.

The Co-operative Bank has 13 years experience issuing securitisations under the 'Leek' programme, and has built up a depth of knowledge, processes and management information to deal effectively with these funding vehicles. Securitisation has historically been used as part of a balanced portfolio management approach whilst helping to increase the diversification of funding sources available whilst managing maturity mismatch risk and also assisting overall credit risk management.

The appetite for securitisation risk is low, and the Bank has only acted as mortgage originator and servicing agent. The Bank does not provide liquidity facilities, bridging loans or repackaging, nor does it act as underwriter or dealer in the securitisations. All transactions have relevant accounting and legal advice to ensure compliance with applicable regulatory/statutory rules and are also approved at Board level.

All amounts are stated in £m unless otherwise indicated

Capital resources

The Group's policy is to maintain a strong base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group's policy is to be more prudent than industry norms by having a higher proportion of core tier one as the Group is not able to raise equity externally. However, the Group still recognises the need to maintain a balance between the potential higher returns that might be achieved with greater gearing, and the advantages and security afforded by a sound capital position.

On 26 January 2009, the Bank issued £120m of share capital to its parent company, Co-operative Financial Services Limited to reinforce its capital strength and give the bank eligibility to the government's credit guarantee scheme. On 1 August the Bank issued a further £55m of share capital to its parent.

Our submissions to the FSA in the year have shown that the Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Group's management of capital during the year.

	2009	2008
Core tier one capital		
Permanent share capital	**230.0**	55.0
Retained earnings	**1,454.2**	627.6
Minority interest	**29.5**	26.8
Interim profits	**15.9**	12.4
Share premium account	**8.8**	8.8
Total core tier one capital	**1,738.4**	730.6
Perpetual non-cumulative preference shares	**60.0**	60.0
Total tier one capital before regulatory deductions	**1,798.4**	790.6
Tier two capital		
Revaluation reserves	**2.9**	5.6
Long-term subordinated debt	**870.5**	298.4
Total tier two capital before deductions	**873.4**	304.0

The Group's regulatory capital is analysed with two tiers:

Tier one capital
Tier one capital includes share capital, retained earnings, and perpetual non-cumulative preference shares. The preference shares carry the right to fixed non-cumulative preferential dividend at a rate of 9.25%, payable 31 May and 30 November. Retained earnings exclude gains or losses on cash flow hedges and available-for-sale assets.

Tier two capital
Revaluation reserves relating to net gains on equity held in the available-for-sale financial assets category are included in tier two capital.

The tier two capital includes five subordinated debt issues. The rights of payment to the holders of subordinated debt are subordinated to the claims of depositors and other creditors of the Bank. More information on these can be found in note 29.

Upon transfer of engagements, the Britannia permanent interest bearing shares were converted into perpetual subordinated debt of CFS (perpetual subordinated bonds). This debt also ranks as tier two capital.

The capital ratios reported in the business and financial review are based on the Pillar I capital requirement.

Capital allocation

The allocation of capital between specific operations and activities is driven by optimisation of the return achieved on the capital allocated, and is based upon the regulatory capital. Capital allocation is undertaken independently of those responsible for capital management, and is reviewed by ALCO. Each new product must earn at least the Group's minimum target return on equity.

Critical judgments and estimates

The Bank makes critical judgments and estimates that affect the reported assets and liabilities. Estimates are calculated using various assumptions. Critical judgments and the assumptions used in calculating estimates are continually assessed and reviewed, and are based on historical experience and reasonable expectations of future events.

Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances as outlined on pages 43 to 52 and defined as follows:

- in classifying financial assets and liabilities as 'trading', the Bank has determined that it meets the description of trading assets for those assets and liabilities it acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short term profit or position taking as set out in accounting policy (e) iii).
- in designating financial assets or liabilities at fair value through income and expense, the Bank has determined that it has met one of the criteria for this designation as set out in accounting policy (e) iii).
- in classifying assets as loans and receivables at amortised cost, the Bank has determined it meets the description as set out in accounting policy (e) i).

Investment valuation and impairment

Background

The Bank's investment portfolio primarily comprises bank and building society certificates of deposit (CDs), floating-rate-notes (FRNs) and government issued securities. Additionally, the Bank has a small portfolio of three Structured Investment Vehicles (SIVs) and one Credit Trading vehicle (CTV) investment. Further analysis is provided below and in note 16.

Valuation approach

The accounting treatment for these assets is primarily available for sale which means that they are fair valued in the balance sheet with movements passing through reserves, unless the assets are deemed to be impaired which results in movements being recognised in the income statement.

The reduction in liquidity in wholesale markets or 'credit crunch' has led to a loss of active markets and availability of traded prices for particular assets. As explained in note 16, these assets have been reclassified as loans and receivables and are held in the balance sheet at amortised cost less any associated impairment.

Except for those assets reclassified to loans and receivables the Bank's CDs, FRNs and government issued securities are valued daily based upon an observable market price feed data, with all non-moving valuations validated against an alternative price source. No significant assumptions are required.

The Bank has fully provided against all of its three SIVs.

The CTV was reclassified to loans and receivables on 27 July 2008 as a result of amendments to IAS 39 and is accounted for on an amortised cost basis.

Impairment approach

Impairment has been assessed by:

- whether there is evidence that a loss event has occurred; and
- whether the loss event has a negative impact on future cash flows.

Each of the Bank's SIVs and its CTV meet these criteria and therefore an impairment provision has been made. These assessments have particularly given consideration to evidence of any significant financial difficulty of the issuer or measurable decrease in the estimated cash flows from the investments. The impairment of the CTV in particular has given consideration to future cash flows and expected levels of defaults.

Further information on the Bank's accounting policy for impairment is given on page 47.

All amounts are stated in £m unless otherwise indicated

Investment valuation and impairment (continued)

At 31 December 2009, the Bank holds three SIVS and one CTV as shown below:

	Investment (currency)	Investment (sterling)	Impairment provision held (sterling)	Balance sheet value
Structured investment 1	£20.0m	20.0	20.0	–
Structured investment 2	US$20.0m	12.4	12.4	–
	€20.0m	17.8	17.8	–
Structured investment 3	US$35.0m	21.7	21.7	–
Credit trading vehicle	£25.0m	25.0	8.5	16.5
Total		**96.9**	**80.4**	**16.5**

The Bank owns less than 2.5% of the capital held of each of these investments and therefore they are not consolidated.

Impairment on loans and advances

The loan portfolios are reviewed on a continuous basis to assess impairment. In determining whether an impairment provision should be recorded, judgments are made as to whether there is objective evidence that a financial asset or portfolio of financial assets is impaired as a result of loss events that occurred after recognition of the asset and prior to the balance sheet date.

Collective provisions

Personal advances are identified as impaired by taking account of the age of the debt's delinquency, by product type.

The provision is calculated by applying a percentage rate to different categories and ages of impairment debt.

The provision rates reflect the likelihood that the debt in that category/age will be written off or charged off at some point in the future. The rates are based on historical experience and current trends, incorporate the effects of discounting at the customer interest rate and are subject to regular review. The provision is the product of the rate and the spot balance for the relevant arrears bucket.

Individual provisions

Mortgage accounts are identified as impaired by taking account of the age of the debt's delinquency on a case-by-case basis based on arrears data held within the mortgages system.

Individual provisions are raised on a case-by-case basis for each mortgage account in arrears.

Each corporate account is assessed and allocated a 'risk grade' to enable the Bank to monitor the overall quality of its lending assets. Those of lesser quality, where the lending is potentially at risk and provisions for future loss may be required, are centrally monitored with specific management actions taken at each stage within laid down procedures and specific provisioning criteria. Provisions represent the likely net loss after realisation of any security.

Effective interest rate

IAS 39 requires interest income to be recognised on an effective interest rate (EIR) basis, inclusive of directly attributable incremental transaction costs and fees, and discounts and premiums where appropriate.

The EIR basis spreads the interest income over the expected life of the instrument. On applying this approach to the mortgage portfolio, judgments are made in relation to estimating the average life of that portfolio. These judgments are made based on specific factors including product terms and historical repayment data. The estimates are updated in each reporting period to reflect actual performance. A key judgment area is the average life of the mortgage portfolio. A change in the average life by one year would have an increase of 0.2% in gross interest income. See also 'transfer of engagements of Britannia Building Society' section below for further explanation of significant judgments on the calculation of EIR on certain acquired assets.

Corporation taxes

The Bank is subject to corporation taxes in three jurisdictions. Significant estimates are required in determining the provision for corporate taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain at the balance sheet date. In the opinion of the directors, the judgments made are appropriate and the level of provision is adequate to cover the likely liability.

Financial Services Compensation Scheme levy

The Financial Services Compensation Scheme (FSCS) provides compensation to customers of financial institutions in the event that an institution is unlikely, or is likely to be unable, to pay claims against it. As a result of a number of institutions' failures during 2008, the FSCS has borrowed £19.7bn on an interest only basis until September 2011 from HM Treasury in order to meet its obligations to the depositors. These borrowings are anticipated to be repaid wholly or substantially from the realisation of the assets of the failed institutions. The FSCS raises annual levies from the banking industry in order to meet its management expenses and compensation costs. The annual levies are based upon the individual institutions proportion of protected deposits of the total market protected deposits at 31 December of each year. The Group has provided £20.6m for its share of levies that will be raised by the FSCS including the interest on the loan from HM Treasury in respect of the levy years to 31 March 2011. The provision includes estimates for the interest that the FSCS will pay on the loan and of the Group's market participation in the relevant periods.

At the date of these financial statements, it is not possible to estimate whether there will ultimately be additional levies on the industry, the level of the Group's market participation or other factors that may affect amounts or the timing of amounts that may ultimately become payable, nor the effect that such levies may have upon operating results in any particular periods.

Transfer of engagements of Britannia Building Society

The transfer of engagements of Britannia Building Society did not involve any cash consideration, other than the maintenance of Britannia membership reward (BMR) payments and the payment of joining fees for Britannia members to become members of The Co-operative Financial Services.

The Bank therefore calculated imputed consideration. This is based on a discounted cash flow of further BMR payments which would have been paid to Britannia members in perpetuity. The judgments and estimates in the calculation are set out in note 19. The principle judgments and estimates are forecasted profit, the discount rate and the proportion of profit after tax that would have been paid out in the form of BMR.

In the event that consideration was 5% higher or lower, goodwill on acquisition would be higher or lower by £43m.

Fair values

The approach to the calculation of fair values of the assets and liabilities of Britannia Building Society is set out in note 39.
The most significant fair value adjustment, not based on quoted market prices or other fair value models which use market based inputs, was the adjustment to fair value of the loans and advances to customers.

The fair value adjustment to loans and advances to customers comprises:

- an interest rate adjustment on a discounted cash flow basis to reflect the value inherent in fixed rate, base and tracker products compared to current market pricing;
- the inclusion of a credit risk adjustment to reflect future lifetime expected credit losses; and
- the write-off of existing EIR balances and fair value adjustment for hedged risk.

The interest rate adjustment is dependent upon the discount rate used, which represents the rates available in the market on similar product types at the time of the transaction. To the extent that the discount rate differs from that estimated by 10bps the interest rate adjustment would change by an estimated £20m.

The key estimates and judgments used to calculate the credit risk adjustment are the expectation of future house price movements, probabilities of default and the discount required in the event of a forced sale.

To the extent that the above assumptions differ from that estimated by 10%, the credit risk adjustment against residential portfolios would change by an estimated £35m.

In the event that the fair value of loans and advances to customers were to be higher/lower by 5%, the goodwill on acquisition would be higher or lower by £1.1m.

All amounts are stated in £m unless otherwise indicated

1. Segmental information

In its interim financial statements for the period ended 25 July 2009, the Group reported its operating segments as retail, corporate and wholesale, which was in line with the information presented to the Co-operative Financial Services Board, the chief operating decision-making body of the Group. At the highest level, the Group's internal reporting structure has been revised following the transfer of engagements of Britannia Building Society and is split between retail and corporate and markets (CAM), based on differences in products and services. CAM has been split further into corporate, wholesale, Optimum and Platform and other. This level of information is regularly presented to the Board. Revenues are attributed to the segment in which they are generated. Transactions between the reportable segments are on normal commercial terms. Internal charges and transfer pricing adjustments have been reflected in each segment.

The Group is comprised of the following main reportable segments:

- **Retail** – customer focused products and services for individuals, sole traders and small partnerships. This includes mortgages, credit cards, consumer loans, current accounts and savings products.
- **Corporate** – customer focused products and services for businesses. This includes large corporate and commercial entities and Small to Medium entities. It includes loans, asset finance, current accounts and savings products.
- **Wholesale** – this is the asset and liability management across the Bank's balance sheet, including trading activities.
- **Optimum and Platform** – this is the specialist mortgage team dealing with intermediary lending.
- **Other CAM** – the business services part of the CAM segment.
- **Unity Trust** – a subsidiary bank operating in the corporate banking and social economy sectors on behalf of trade unions.

2009	**Retail**	**Corporate**	**Wholesale**	**Optimum and Platform**	**Other CAM**	**Total CAM**	**Unity Trust**	**Total**
Interest margin	**262.2**	**108.8**	**33.5**	**56.8**	**0.3**	**199.4**	**12.4**	**474.0**
Non-interest income	**134.5**	**37.4**	**(8.6)**	**6.0**	**8.1**	**42.9**	**1.5**	**178.9**
Segment operating income	**396.7**	**146.2**	**24.9**	**62.8**	**8.4**	**242.3**	**13.9**	**652.9**
Operating expenses	**(327.8)**	**(58.5)**	**(11.4)**	**(16.1)**	**(4.3)**	**(90.3)**	**(7.5)**	**(425.6)**
Impairment losses on loans and advances	**(82.7)**	**(32.3)**	**–**	**–**	**–**	**(32.3)**	**(1.1)**	**(116.1)**
Impairment losses on investments	**–**	**–**	**4.0**	**–**	**–**	**4.0**	**–**	**4.0**
Segment operating profit	**(13.8)**	**55.4**	**17.5**	**46.7**	**4.1**	**123.7**	**5.3**	**115.2**
Interest fair value unwind								**99.1**
Financial services compensation scheme levies								**(3.7)**
Share of post-tax losses from joint ventures								**(0.1)**
Profit based payments to members of The Co-operative Group								**(7.8)**
Significant items								**(38.1)**
Profit before taxation								**164.6**
Income tax								**(51.4)**
Profit for the financial year								**113.2**

The Board relies primarily on net interest revenue to assess the performance of each segment. As a result interest margin is reported on a net basis to the Board.

All amounts are stated in £m unless otherwise indicated

1. Segmental information (continued)

Other segment information	Retail	Corporate	Wholesale	Optimum and Platform	Other CAM	Total CAM	Unity Trust	Total
Segment assets	16,722.6	7,900.5	9,531.1	9,249.4	–	26,681.0	–	43,403.6
Unallocated assets								1,710.6
Total assets	16,722.6	7,900.5	9,531.1	9,249.4	–	26,681.0	–	45,114.2
Segment liabilities	28,324.0	3,148.0	10,863.8	–	–	14,011.8	–	42,335.8
Unallocated liabilities								840.9
Total liabilities	28,324.0	3,148.0	10,863.8	–	–	14,011.8	–	43,176.7
Amount of investment in associate/joint ventures	1.8	–	–	–	–	–	–	1.8
Depreciation	17.7	1.6	0.5	0.5	–	2.6	0.3	20.6
Amortisation	6.5	0.6	–	0.1	–	0.7	0.1	7.3

The Group's activities are in the UK.

Reconciliation to statutory income statement	2009
Interest margin	
Total interest margin for reportable segments	474.0
Reclassification of gains less losses on derivatives	(3.6)
Interest fair value unwind	109.3
Net interest income	579.7
Non-interest income	
Total non-interest income for reportable segments	178.9
Reclassification of gains less losses on derivatives	3.6
Interest fair value unwind	(6.8)
Non-interest income	175.7
Operating expenses	
Total operating expenses for reportable segments	(425.6)
Interest fair value unwind	(3.4)
Operating expenses	(429.0)
Interest fair value unwind	
Total interest fair value unwind for reportable segments	99.1
Interest margin unwind	(109.3)
Non-interest income unwind	6.8
Operating expenses unwind	3.4
Interest fair value unwind	–

Reconciliation of other segment information

Assets	
Total assets for reportable segments	45,114.2
Statutory reclassifications	1,005.2
Consolidated total assets	46,119.4
Liabilities	
Total liabilities for reportable segments	43,176.7
Statutory reclassifications	1,066.6
Consolidated total liabilities	44,243.3

All amounts are stated in £m unless otherwise indicated

1. Segmental information (continued)

2008	Retail	Corporate	Wholesale	Optimum and Platform	Other CAM	Total CAM	Unity Trust	Total
Interest margin	234.1	102.5	23.4	–	–	125.9	14.3	374.3
Non-interest income	157.2	33.8	2.7	–	–	36.5	1.4	195.1
Segment operating income	391.3	136.3	26.1	–	–	162.4	15.7	569.4
Operating expenses	(265.5)	(53.0)	(10.4)	–	–	(63.4)	(7.4)	(336.3)
Impairment losses on loans and advances	(84.8)	(11.1)	–	–	–	(11.1)	(0.9)	(96.8)
Impairment losses on investments	–	–	(50.7)	–	–	(50.7)	–	(50.7)
Segment operating profit	41.0	72.2	(35.0)	–	–	37.2	7.4	85.6
Interest fair value unwind								–
Financial services compensation scheme levies								(10.5)
Share of post-tax profits from joint ventures								–
Profit based payments to members of The Co-operative Group								(4.7)
Significant items								(47.1)
Profit before taxation								23.3
Income tax								(6.0)
Profit for the financial year								17.3

Other segment information

	Retail	Corporate	Wholesale	Optimum and Platform	Other CAM	Total CAM	Unity Trust	Total
Segment assets	5,700.2	4,244.0	4,139.7	–	–	8,383.7	–	14,083.9
Unallocated assets								317.5
Total assets	5,700.2	4,244.0	4,139.7	–	–	8,383.7	–	14,401.4
Segment liabilities	7,936.0	2,696.6	2,524.6	–	–	5,221.2	–	13,157.2
Unallocated liabilities								508.4
Total liabilities	7,936.0	2,696.6	2,524.6	–	–	5,221.2	–	13,665.6
Amount of investment in associate/joint venture	–	–	–	–	–	–	–	–
Depreciation	15.0	1.7	0.2	–	–	1.9	0.3	17.2
Amortisation	1.5	1.3	–	–	–	1.3	0.1	2.9

Reconciliation of other segment information

	2008
Assets	
Total assets for reportable segments	14,401.4
Statutory reclassifications	563.1
Consolidated total assets	14,964.5
Liabilities	
Total liabilities for reportable segments	13,665.6
Statutory reclassifications	518.2
Consolidated total liabilities	14,183.8

2. Profit before taxation

Profit before taxation is stated after:	2009 £'000	2008 £'000
Audit of these financial statements	**604**	207
Other services		
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**389**	109
Other services pursuant to such legislation	**16**	15
Other services relating to taxation	**21**	9
Services relating to litigation	**2**	4
Services relating to information technology	**56**	137
Services relating to recruitment and remuneration	**–**	3
Services relating to corporate finance transactions	**77**	–
All other services	**377**	49
Total	**1,542**	533

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

3. Directors' emoluments

	2009 £'000	2008 £'000
Non-executive directors	**–**	–
Executive directors	**1,945**	1,487
Compensation for loss of office	**805**	249
	2,750	1,736

Retirement benefits are accruing to five directors (2008: two) under defined benefit schemes.

All non-executive directors are appointed and their directors' fees are determined and paid by The Co-operative Group and therefore no amounts are shown above (2008: £nil). Further details of directors' emoluments are included in the remuneration report on pages 27 to 34.

4. Net interest income

	2009	2008
Interest receivable and similar income		
On financial assets not at fair value through income or expense:		
On loans and advances to customers	**1,047.1**	647.9
On loans and advances to banks	**17.8**	76.9
On investment securities	**163.8**	127.3
	1,228.7	852.1
On financial assets at fair value through income or expense:		
Net expense on financial instruments hedging assets	**(167.5)**	(24.2)
Net interest income on financial instruments not in a hedging relationship	**0.4**	2.3
	1,061.6	830.2

Interest income accrued on impaired financial assets during the year was £62.7m (2008: £15.6m). Interest due to unwinding of discount on impairment provisions relating to impaired financial assets amounted to £3.8m (2008: £3.8m).

All amounts are stated in £m unless otherwise indicated

4. Net interest income (continued)

	2009	2008
Interest expense and similar charges		
On financial liabilities not at fair value through income or expense:		
On customer accounts	**262.4**	343.4
On bank and other deposits	**197.2**	89.8
On subordinated liabilities	**31.1**	22.7
On perpetual secured debt	**11.7**	–
	502.4	455.9
On financial liabilities at fair value through income or expense:		
Net expense on financial instruments hedging liabilities	**(20.5)**	–
	481.9	455.9

5. Net fee and commission income

	2009	2008
Fee and commission income		
On items not at fair value through income or expense	**209.3**	215.8
On trust or fiduciary activities that result from holding or investing in assets on behalf of others	**1.5**	0.7
	210.8	216.5
Fee and commission expense		
On items not at fair value through income or expense	**47.1**	35.6
On items at fair value through income or expense	**0.1**	–
	47.2	35.6

6. Net trading income

	2009	2008
Foreign exchange	**5.5**	5.3
Other interest-rate instruments	**(0.3)**	(0.4)
	5.2	4.9

Foreign exchange net trading income includes gains less losses from spot forward and forward contracts, options, futures and translated foreign-currency assets and liabilities.

Other interest-rate instruments include the result of transacting in government securities, moneymarket instruments, interest-rate and currency swaps, options and other derivatives.

7. Other operating income

	2009	2008
Rent receivable from investment properties (note 21)	**2.1**	–
Other rent receivable	**0.8**	–
Proceeds from equity shares	**0.5**	9.3
Change in fair value of investment properties (note 21)	**3.5**	–
	6.9	9.3

All amounts are stated in £m unless otherwise indicated

8. Operating expenses

	Before significant items 2009	**Significant items 2009**	**After significant items 2009**	Before significant items 2008	Significant items 2008	After significant items 2008
Staff costs (note 9)	**200.5**	**26.4**	**226.9**	151.1	14.0	165.1
Administrative expenses	**179.1**	**11.7**	**190.8**	148.5	33.1	181.6
Depreciation of property, plant and equipment (note 22)	**21.0**	**–**	**21.0**	17.2	–	17.2
Amortisation of intangible fixed assets (note 20)	**5.1**	**–**	**5.1**	2.9	–	2.9
Loss on sale of property, plant and equipment	**1.4**	**–**	**1.4**	2.4	–	2.4
Operating lease rentals	**20.7**	**–**	**20.7**	14.2	–	14.2
Direct expenses from investment properties that generated rental income in the year	**1.1**	**–**	**1.1**	–	–	–
Direct expenses from investment properties that did not generate rental income in the year	**0.1**	**–**	**0.1**	–	–	–
	429.0	**38.1**	**467.1**	336.3	47.1	383.4

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

9. Staff costs

	Before significant items 2009	**Significant items 2009**	**After significant items 2009**	Before significant items 2008	Significant items 2008	After significant items 2008
Wages and salaries	**151.0**	**9.4**	**160.4**	108.2	4.2	112.4
Social security costs	**13.0**	**0.7**	**13.7**	8.9	0.3	9.2
Bank payroll tax	**0.3**	**–**	**0.3**	–	–	–
Pension costs:						
Defined-benefit plans (note 34)	**0.2**	**–**	**0.2**	0.2	–	0.2
Defined-contribution plans (note 34)	**17.9**	**0.7**	**18.6**	11.8	0.4	12.2
Other staff costs	**18.1**	**15.6**	**33.7**	22.0	9.1	31.1
	200.5	**26.4**	**226.9**	151.1	14.0	165.1

The Bank staff costs included above are £186.7m pre-significant items and £213.1m post-significant items (2008: £147.2m pre-significant items, £161.2m post-significant items).

In December 2009, the UK government announced that the Finance Bill 2010 will introduce a bank payroll tax of 50% applicable to discretionary bonuses over £25,000 awarded to UK bank employees between 9 December 2009 and 5 April 2010. Draft legislation and further guidance on its application has been published. Based on this, and in accordance with IAS 19, £0.3m has been accrued for the estimated tax payable in respect of employee services provided during the period.

Average number of employees

The average number of persons working for the Group during the year was made up as follows:

	Group		**Bank**	
	No. of employees 2009	No. of employees 2008	**No. of employees 2009**	No. of employees 2008
Full time	**4,479**	3,035	**4,146**	2,957
Part time	**1,514**	955	**1,453**	943
	5,993	3,990	**5,599**	3,900

Employee activities are undertaken across the Co-operative Financial Services Group and the figures above reflect the Bank's share of these services. Employee numbers include 4,724 staff who transferred on the transfer of engagements of Britannia Building Society on 1 August 2009.

10. Income tax

	Before significant items 2009	**Significant items 2009**	**After significant items 2009**	Before significant items 2008	Significant items 2008	After significant items 2008
Current tax – current year	**42.2**	**(10.7)**	**31.5**	21.9	(13.4)	8.5
Current tax – prior year	**(0.7)**	**–**	**(0.7)**	–	–	–
Deferred tax – current year (note 33)	**20.9**	**–**	**20.9**	(2.6)	–	(2.6)
Deferred tax – prior year (note 33)	**(0.3)**	**–**	**(0.3)**	0.1	–	0.1
	62.1	**(10.7)**	**51.4**	19.4	(13.4)	6.0

Further information about deferred income tax is presented in note 33. The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the corporation tax rate in the UK as follows:

	2009	2008
Profit before taxation	**164.6**	23.3
Tax calculated at a rate of 28% (2008: 28.44%)	**46.1**	6.6
Effects of:		
Preference share interest not deductible for tax purposes	**1.6**	1.6
Expenses not deductible for tax purposes	**2.4**	0.1
Depreciation of expenditure not qualifying for capital allowances	**0.4**	0.3
Losses relieved at lower rates	**2.0**	–
Non-taxable income	**(0.1)**	(2.7)
Adjustments to tax charge in respect of prior periods	**(1.0)**	0.1
	51.4	6.0

11. Group profit attributable to equity shareholders dealt with in the accounts of The Co-operative Bank plc

	Before significant items 2009	**Significant items 2009**	**After significant items 2009**	Before significant items 2008	Significant items 2008	After significant items 2008
Net profit attributable to equity shareholders of the Bank	**194.0**	**(27.4)**	**166.6**	46.1	(33.7)	12.4

As permitted by Section 408 of the Companies Act 2006, the income statement of The Co-operative Bank plc has not been presented separately.

12. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	Before significant items 2009	**Significant items 2009**	**After significant items 2009**	Before significant items 2008	Significant items 2008	After significant items 2008
Profit attributable to equity shareholders of the Bank	**137.7**	**(27.4)**	**110.3**	47.2	(33.7)	13.5
Ordinary shares in issue (millions)						
At beginning of year	**1,100.0**	**1,100.0**	**1,100.0**	1,100.0	1,100.0	1,100.0
Issued in the year (note 38)	**3,500.0**	**3,500.0**	**3,500.0**	–	–	–
At end of year	**4,600.0**	**4,600.0**	**4,600.0**	1,100.0	1,100.0	1,100.0
Weighted average number of ordinary shares in issue (millions)	**3,827.7**	**3,827.7**	**3,827.7**	1,100.0	1,100.0	1,100.0
Basic earnings per share (expressed in pence per share)	**3.60**	**(0.72)**	**2.88**	4.29	(3.06)	1.23

All amounts are stated in £m unless otherwise indicated

13. Cash and balances at central banks

	Group		Bank	
	2009	2008	**2009**	2008
Cash in hand	**259.6**	164.7	**259.6**	164.7
Balances with the Bank of England other than mandatory reserve deposits	**1,413.2**	361.2	**1,413.2**	361.2
Included in cash and cash equivalents	**1,672.8**	525.9	**1,672.8**	525.9
Mandatory reserve deposits with the Bank of England (note 35)	**34.0**	9.9	**34.0**	9.9
	1,706.8	535.8	**1,706.8**	535.8

Mandatory reserve deposits are not available for use in the Group and Bank's day-to-day operations, are non-interest bearing and are not included in cash and cash equivalents. The Group and Bank, for 2008, have reclassified certain loans and advances to banks as balances with the Bank of England (£361.2m) and mandatory reserve deposits (£9.9m).

14. Loans and advances to banks

	Group		Bank	
	2009	2008	**2009**	2008
Items in course of collection from other banks	**149.0**	148.5	**148.8**	148.4
Placements with other banks	**313.5**	1,070.1	**290.0**	1,070.0
Included in cash and cash equivalents	**462.5**	1,218.6	**438.8**	1,218.4
Other loans and advances to banks	**1,319.0**	305.6	**781.3**	305.6
	1,781.5	1,524.2	**1,220.1**	1,524.0

As detailed in note 13 the Group and Bank, for 2008, have reclassified certain placements with other banks as balances with the Bank of England (£361.2m) and mandatory reserve deposits (£9.9m). In addition, placements with other banks includes a reclassification of inter-group balances which are now shown separately on the balance sheet as amounts owed by other Co-operative Group undertakings.

15. Loans and advances to customers

	Group		Bank	
	2009	2008	**2009**	2008
Gross loans and advances	**34,240.7**	10,361.6	**23,242.8**	10,203.6
Less: allowance for losses on loans and advances to customers	**(194.0)**	(187.9)	**(192.0)**	(187.0)
	34,046.7	10,173.7	**23,050.8**	10,016.6

Group and Bank loans and advances to customers include £48.2m (2008: £29.4m) of financial assets at fair value through profit or loss designated at initial recognition to eliminate or significantly reduce a measurement or recognition inconsistency. Of these, £21.0m (2008: £24.8m) is secured by real estate collateral.

The 2008 comparatives for the Group and Bank have been updated to reflect a reclassification of inter-group balances which are now shown separately on the balance sheet as amounts owed by other Co-operative Group undertakings.

Concentration of exposure

The Group's exposure is virtually all within the UK. The following industry concentrations of gross advances before provisions are considered significant:

	Group		Bank	
	2009	2008	**2009**	2008
Property and construction	**4,498.1**	1,687.8	**2,481.6**	1,658.9
Retail distribution and services	**446.9**	864.5	**313.9**	776.3
Business and other services	**3,658.2**	1,985.6	**3,525.0**	1,944.7
Personal – unsecured	**1,625.6**	1,727.7	**1,625.6**	1,727.7
Personal – secured	**24,011.9**	4,096.0	**15,296.7**	4,096.0
	34,240.7	10,361.6	**23,242.8**	10,203.6

All amounts are stated in £m unless otherwise indicated

15. Loans and advances to customers (continued)

Loans and advances to customers includes £9,492.7m securitised under the Group's securitisation and covered bond programmes. The Group remains exposed to substantially all of the risks and rewards of ownership of these assets. Included within Group deposits by banks (note 25) are £466.7m of loans from external third parties and within Group debt securities in issue (note 28) are £2,683.7m of floating-rate notes, all secured on these mortgage assets. Included within the Bank amounts owed by other Co-operative Group undertakings are £5,369.4m of floating-rate notes and covered bonds issued to the Bank, secured on these mortgage assets. In February 2010, the Group issued a new £2.5bn securitisation programme.

Allowance for losses on loans and advances
2009

	Individual mortgage	Individual corporate	Collective	Total
Group				
At the beginning of the year	**1.5**	**45.6**	**140.8**	**187.9**
Charge against profits	**1.5**	**33.4**	**81.2**	**116.1**
Amounts written off	**(0.7)**	**(26.5)**	**(79.2)**	**(106.4)**
Recoveries	**–**	**(0.1)**	**–**	**(0.1)**
Unwind of discount allowance	**–**	**(1.4)**	**(2.4)**	**(3.8)**
Interest charged on impaired loans	**–**	**0.3**	**–**	**0.3**
At the end of the year	**2.3**	**51.3**	**140.4**	**194.0**
Bank				
At the beginning of the year	**1.5**	**44.7**	**140.8**	**187.0**
Charge against profits	**1.5**	**32.3**	**81.2**	**115.0**
Amounts written off	**(0.7)**	**(26.5)**	**(79.2)**	**(106.4)**
Recoveries	**–**	**(0.1)**	**–**	**(0.1)**
Unwind of discount allowance	**–**	**(1.4)**	**(2.4)**	**(3.8)**
Interest charged on impaired loans	**–**	**0.3**	**–**	**0.3**
At the end of the year	**2.3**	**49.3**	**140.4**	**192.0**

Allowance for losses on loans and advances
2008

	Individual mortgage	Individual corporate	Collective	Total
Group				
At the beginning of the year	0.3	35.3	125.1	160.7
Charge against profits	1.5	11.2	84.1	96.8
Amounts written off	(0.3)	(1.6)	(65.5)	(67.4)
Recoveries	–	0.2	–	0.2
Unwind of discount allowance	–	(0.9)	(2.9)	(3.8)
Interest charged on impaired loans	–	1.4	–	1.4
At the end of the year	1.5	45.6	140.8	187.9
Bank				
At the beginning of the year	0.3	35.3	125.1	160.7
Charge against profits	1.5	10.3	84.1	95.9
Amounts written off	(0.3)	(1.6)	(65.5)	(67.4)
Recoveries	–	0.2	–	0.2
Unwind of discount allowance	–	(0.9)	(2.9)	(3.8)
Interest charged on impaired loans	–	1.4	–	1.4
At the end of the year	1.5	44.7	140.8	187.0

All amounts are stated in £m unless otherwise indicated

15. Loans and advances to customers (continued)

Loans and advances to customers include finance lease receivables:

	Group		Bank	
	2009	2008	**2009**	2008
Gross investment in finance leases, receivable:				
No later than one year	**32.8**	36.8	**28.9**	33.7
Later than one year and no later than five years	**75.9**	96.0	**53.9**	73.4
Later than five years	**73.3**	69.1	**45.6**	34.1
	182.0	201.9	**128.4**	141.2
Unearned future finance income on finance leases	**(40.6)**	(40.5)	**(22.6)**	(19.3)
Net investment in finance leases	**141.4**	161.4	**105.8**	121.9
The net investment in finance leases may be analysed as follows:				
No later than one year	**25.4**	27.9	**24.4**	27.9
Later than one year and no later than five years	**54.5**	74.8	**42.0**	62.6
Later than five years	**61.5**	58.7	**39.4**	31.4
	141.4	161.4	**105.8**	121.9

There are no unguaranteed residual values for any of the finance leases.

The Group enters into finance lease and hire purchase arrangements with customers in a wide range of sectors including transport, retail and utilities. The accumulated allowance for uncollectable minimum lease payments receivable is £1.7m (2008: £5.9m).

Fair-value adjustments for hedged risk

The Group has entered into interest-rate swaps that protect it from changes in interest rates on the floating-rate liabilities that fund its portfolio of fixed-rate mortgages. Changes in the fair values of these swaps are offset by changes in the fair values of the fixed-rate mortgages. The changes in fair value of fixed-rate mortgages are disclosed on the balance sheet as fair-value adjustments for hedged risk immediately below the loans and advances to customers.

Fair-value adjustments to loans and advances to customers attributable to portfolio-hedged risk in the Group are £66.1m (2008: £nil) and in the Bank are £60.6m (2008: £nil).

16. Investment securities

	Group		Bank	
	2009	2008	**2009**	2008
Loans and receivables				
Listed	**124.3**	120.9	**124.3**	120.9
Unlisted	**2,376.4**	25.0	**2,445.8**	25.0
	2,500.7	145.9	**2,570.1**	145.9
Less: allowance for losses	**(14.5)**	(22.5)	**(14.5)**	(22.5)
	2,486.2	123.4	**2,555.6**	123.4
Included in cash and cash equivalents	**–**	–	**–**	–

The movement in investment securities – loans and receivables excluding interest amounts may be summarised as follows:

	Group 2009	Group 2008	Bank 2009	Bank 2008
At the beginning of the year	**123.4**	–	**123.4**	–
Arising on transfer of engagements	**2,440.4**	–	**2,506.1**	–
Reclassified from investment securities – available-for-sale	**–**	131.9	**–**	131.9
Disposals and maturities	**(201.3)**	–	**(201.3)**	–
Exchange adjustments	**0.1**	8.3	**0.1**	8.3
Fair value movements through equity	**86.1**	3.5	**86.1**	3.5
Amortisation	**26.8**	2.2	**30.4**	2.2
Impairment losses	**8.0**	(22.5)	**8.0**	(22.5)
At the end of the year	**2,483.5**	123.4	**2,552.8**	123.4

All amounts are stated in £m unless otherwise indicated

16. Investment securities (continued)

Impairment analysis of loans and receivables

	Group 2009	Group 2008	Bank 2009	Bank 2008
At the beginning of the year	**22.5**	–	**22.5**	–
Allowance for impairment losses	**(8.0)**	19.0	**(8.0)**	19.0
Impairment losses recycled through equity reserves	**–**	3.5	**–**	3.5
(Release)/charge for the year	**(8.0)**	22.5	**(8.0)**	22.5
At the end of the year	**14.5**	22.5	**14.5**	22.5

	Group 2009	Group 2008	Bank 2009	Bank 2008
Available-for-sale				
Listed	**1,470.4**	630.2	**1,470.4**	630.2
Unlisted	**3,058.8**	1,561.3	**2,662.1**	1,139.8
	4,529.2	2,191.5	**4,132.5**	1,770.0
Less: allowance for losses	**(71.9)**	(69.8)	**(71.9)**	(69.8)
	4,457.3	2,121.7	**4,060.6**	1,700.2
Included in cash and cash equivalents	**252.0**	579.5	**252.0**	579.5

The movement in investment securities – available-for-sale excluding interest amounts may be summarised as follows:

	Group 2009	Group 2008	Bank 2009	Bank 2008
At the beginning of the year	**2,108.3**	2,430.9	**1,686.8**	1,985.7
Arising on transfer of engagements	**3,680.8**	–	**3,680.8**	–
Acquisitions	**15,820.7**	13,961.5	**14,630.8**	12,134.9
Disposals and maturities	**(17,293.6)**	(14,155.2)	**(16,078.6)**	(12,303.5)
Reclassified into investment securities – loans and receivables	**–**	(131.9)	**–**	(131.9)
Exchange adjustments	**92.4**	65.3	**92.4**	65.3
Fair value movements through equity	**64.6**	(27.2)	**65.9**	(28.6)
Fair value movements through profit and loss	**(1.9)**	(4.9)	**(1.9)**	(4.9)
Amortisation	**(23.2)**	(2.0)	**(23.2)**	(2.0)
Impairment losses	**(4.0)**	(28.2)	**(4.0)**	(28.2)
At the end of the year	**4,444.1**	2,108.3	**4,049.0**	1,686.8

Impairment analysis of investment securities – available-for-sale

	Group 2009	Group 2008	Bank 2009	Bank 2008
At the beginning of the year	**69.8**	31.8	**69.8**	31.8
Impairment losses recycled through equity reserves	**4.0**	28.2	**4.0**	28.2
Charge for the year	**4.0**	28.2	**4.0**	28.2
Exchange adjustments	**(1.9)**	9.8	**(1.9)**	9.8
At the end of the year	**71.9**	69.8	**71.9**	69.8

All amounts are stated in £m unless otherwise indicated

16. Investment securities (continued)

Reclassification of available-for-sale assets

Pursuant to the amendments to IAS 39 and IFRS 7, during 2008 the Bank reclassified specific available-for-sale investment securities to loans and receivables at amortised cost. The Bank identified particular assets that would have met the definition of loans and receivables (if they had not been designated as available-for-sale) for which at 27 July 2008 it considered it had the intention and ability to hold them for the foreseeable future or until maturity, due to the market in such an instrument being considered to be inactive.

As per the amendment to IAS 39, the reclassifications were made with effect from 27 July 2008 at fair value at that date. The table below sets out the carrying value and fair values for both the Group and Bank at the balance sheet date:

		2009		2008	
	Amounts reclassified in 2008	**Carrying value**	**Fair value**	Carrying value	Fair value
Available-for-sale financial assets transferred to loans and receivables	131.9	**134.8**	**138.0**	123.4	112.3

At the date of transfer fair value equated to carrying value. As at 31 December 2009 and 2008 fair value is based on quoted market prices being the only indicator of fair value that is available.

The table below sets out the amounts actually recognised during the year in respect of the financial assets reclassified out of available-for-sale securities for both the Group and Bank:

	Income or expense 2009	**Other comprehensive income 2009**	Income or expense 2008	Other comprehensive income 2008
Period before reclassification				
Available-for-sale investments reclassified to loans and receivables:				
Interest income	**–**	**–**	3.7	–
Net change in fair value	**–**	**–**	–	(8.1)
	–	**–**	3.7	(8.1)
Period after reclassification				
Available-for-sale investments reclassified to loans and receivables:				
Interest income	**3.1**	**–**	3.4	–
Net impairment release/(charge)	**8.0**	**(1.4)**	(22.5)	3.5
Net change in fair value	**–**	**4.7**	–	1.5
	11.1	**3.3**	(19.1)	5.0

The table below sets out the amounts that would have been recognised for both the Group and Bank in 2009, and in the period following reclassification in 2008, if the reclassification in 2008 had not been made:

	Income or expense 2009	**Other comprehensive income 2009**	Income or expense 2008	Other comprehensive income 2008
Available-for-sale investments reclassified to loans and receivables:				
Interest income	**3.1**	**–**	3.4	–
Net impairment release/(charge)	**8.0**	**(4.0)**	(22.5)	12.5
Net change in fair value	**–**	**25.6**	–	(28.6)
	11.1	**21.6**	(19.1)	(16.1)

At 27 July 2008, the effective interest rates on available-for-sale assets reclassified to loans and receivables at amortised cost ranged from 8% to 12% with expected recoverable cash flows as at 31 December 2009 of £144.2m (2008: £142.5m).

All amounts are stated in £m unless otherwise indicated

16. Investment securities (continued)

Gains and losses from investment securities, included within interest income, comprise:

	2009	2008
Derecognition of available-for-sale assets	**7.1**	3.1

Analysis of investment securities by issuer

	Group		Bank	
	2009	2008	**2009**	2008
Investment securities issued by public bodies:				
Government securities	**942.7**	12.6	**942.7**	12.6
Other public sector securities	**9.1**	10.5	**9.1**	10.5
	951.8	23.1	**951.8**	23.1
Investment securities issued by other issuers:				
Bank and building society certificates of deposits	**849.2**	1,480.3	**452.5**	1,058.8
Other debt securities:				
Credit trading funds	**16.5**	12.5	**16.5**	12.5
Structured investment vehicles	**–**	2.7	**–**	2.7
Other floating-rate notes	**2,774.6**	726.5	**2,774.6**	726.5
Mortgage-backed securities	**2,351.4**	–	**2,420.8**	–
	5,142.5	741.7	**5,211.9**	741.7
	6,943.5	2,245.1	**6,616.2**	1,823.6

Other floating-rate notes (FRNs) relate to sterling, euro and US dollar denominated FRNs with maturities ranging from one month to six years from the balance sheet date.

17. Derivative financial instruments

The Group has entered, as principal, into various derivatives either as a trading activity, which includes proprietary transactions and customer facilitation, or as a hedging activity for the management of interest-rate risk, equity risk and foreign-exchange-rate risk. Positive and negative fair values have not been netted as the Group does not have a legal right of offset.

Derivatives held for trading purposes

The trading transactions are wholly interest-rate-related contracts including swaps, caps and floors, forward-rate agreements and exchange traded futures. Trading transactions include derivatives where the Bank enters into a transaction to accommodate a customer together with the corresponding hedge transaction.

Non-trading derivatives

Non-trading transactions comprise derivatives held for hedging purposes to manage the asset and liability positions of the Group. Derivatives used to manage interest-rate-related positions include swaps, caps and floors, forward-rate agreements and exchange traded futures. The foreign exchange rate positions are managed using forward currency transactions and swaps. Equity risk is managed using equity swaps.

All amounts are stated in £m unless otherwise indicated

17. Derivative financial instruments (continued)

2009	**Group**			**Bank**		
	Contractual/ notional amount	**Fair value Assets**	**Fair value Liabilities**	**Contractual/ notional amount**	**Fair value Assets**	**Fair value Liabilities**
Derivatives held for trading purposes						
Interest-rate derivatives:						
Interest-rate swaps	**2,938.1**	**45.0**	**(34.8)**	**3,108.2**	**48.8**	**(38.4)**
Over-the-Counter (OTC) interest-rate options	**323.3**	**3.7**	**(3.7)**	**323.3**	**3.7**	**(3.7)**
Exchange traded interest-rate futures	**1,000.0**	**–**	**–**	**1,000.0**	**–**	**–**
Total derivative assets/(liabilities) held for trading purposes	**4,261.4**	**48.7**	**(38.5)**	**4,431.5**	**52.5**	**(42.1)**
Derivatives held for non-trading purposes						
Derivatives designated as cashflow hedges:						
Interest-rate swaps	**5,986.1**	**117.1**	**(69.6)**	**5,986.1**	**117.1**	**(69.6)**
Derivatives designated as fair-value hedges:						
Interest-rate swaps	**14,853.2**	**114.5**	**(433.0)**	**11,472.7**	**114.5**	**(405.9)**
Cross-currency interest-rate swaps	**192.4**	**6.5**	**(1.3)**	**192.4**	**6.5**	**(1.3)**
Derivatives held for non-trading purposes for which hedge accounting has not been applied:						
Interest-rate swaps	**4,307.9**	**11.8**	**(14.4)**	**5,766.2**	**47.2**	**(13.8)**
Embedded derivatives – options	**268.3**	**5.4**	**(4.0)**	**268.3**	**5.4**	**(4.0)**
Forward currency transactions	**5,033.0**	**657.7**	**(23.4)**	**2,929.1**	**255.3**	**(23.4)**
OTC interest-rate options	**25.0**	**–**	**(0.3)**	**25.0**	**–**	**(0.3)**
Equity swaps	**1,638.6**	**61.3**	**(6.8)**	**1,575.0**	**58.2**	**(6.8)**
Credit default swaps	**–**	**–**	**–**	**79.4**	**4.1**	**–**
Total derivative assets/(liabilities) held for non-trading purposes	**32,304.5**	**974.3**	**(552.8)**	**28,294.2**	**608.3**	**(525.1)**
Total recognised derivative assets/(liabilities)	**36,565.9**	**1,023.0**	**(591.3)**	**32,725.7**	**660.8**	**(567.2)**

2008	Group			Bank		
	Contractual/ notional amount	Fair value Assets	Fair value Liabilities	Contractual/ notional amount	Fair value Assets	Fair value Liabilities
Derivatives held for trading purposes						
Interest-rate derivatives:						
Interest-rate swaps	2,399.0	68.0	(59.2)	2,619.0	73.4	(64.5)
Over-the-Counter (OTC) interest-rate options	303.2	3.3	(3.3)	303.2	3.3	(3.3)
Total derivative assets/(liabilities) held for trading purposes	2,702.2	71.3	(62.5)	2,922.2	76.7	(67.8)
Derivatives held for non-trading purposes						
Derivatives designated as cashflow hedges:						
Interest-rate swaps	3,591.0	137.7	(31.3)	3,481.0	132.3	(31.3)
Derivatives designated as fair-value hedges:						
Interest-rate swaps	152.0	–	(1.5)	152.0	–	(1.5)
Cross-currency interest-rate swaps	–	–	–	–	–	–
Derivatives held for non-trading purposes for which hedge accounting has not been applied:						
Interest-rate swaps	1,271.4	1.7	(12.6)	3,267.6	32.1	(12.6)
Embedded derivatives – options	394.0	9.5	(8.0)	394.0	9.5	(8.0)
Forward currency transactions	533.8	8.5	(3.8)	533.8	8.5	(3.8)
OTC interest-rate options	–	–	–	–	–	–
Equity swaps	–	–	–	–	–	–
Credit default swaps	–	–	–	–	–	–
Total derivative assets/(liabilities) held for non-trading purposes	5,942.2	157.4	(57.2)	7,828.4	182.4	(57.2)
Total recognised derivative assets/(liabilities)	8,644.4	228.7	(119.7)	10,750.6	259.1	(125.0)

All amounts are stated in £m unless otherwise indicated

17. Derivative financial instruments (continued)

The derivatives designated as cash flow hedges are interest-rate swaps used to hedge interest-rate risk in the Bank's retail lending operations. Cash flows are hedged by quarterly time periods for durations up to ten years. During the year there were no forecast transactions for which hedge accounting had previously been used but are no longer expected to occur.

During the year the Bank has entered into fair-value hedges to mitigate price movements due to interest rate sensitivities.

The number of non-margin exchange-traded contracts held by the Bank as at 31 December 2009 was nil (2008: nil).

The 2008 comparatives for the Group and Bank have been updated to reflect reclassifications of accrued interest of £25.7m relating to assets and £1.8m relating to liabilities.

18. Equity shares

	Group and Bank	
	2009	2008
Investment securities – unlisted	**7.2**	13.0
Included above are the following trade investments:		
Vocalink Limited – 4,416,165 ordinary shares of £1 each (2008: 3,499,900)	**7.1**	8.7
Visa Inc – nil ordinary shares of $0.0001 each (2008: 112,901)	**–**	4.2
	7.1	12.9

Equity shares are classified as available-for-sale.

During 2008, Visa International restructured forming two new entities, Visa Inc and Visa Europe Limited. As members of Visa International, the Bank received shares in the Visa Inc entity with a fair value of £3.5m and also £5.8m cash proceeds that were recognised in other operating income. Subsequently £0.7m revaluation gains on these shares were recognised in equity.

In 2009 the shares in Visa Inc were sold, the revaluation gains were written back from equity and a profit on disposal of £0.5m has been recognised in other operating income.

During 2009, Vocalink Limited undertook a capital raising exercise and share reorganisation. As a result a reduction in valuation of £3.1m was taken to equity to reflect the updated position. In addition, on the transfer of engagements of Britannia Building Society, the Bank acquired 916,265 ordinary shares of £1 each.

19. Goodwill

	Group		Bank	
	2009	2008	**2009**	2008
Net book amount				
At the beginning of the year	**–**	–	**–**	–
Amounts arising on transfer of engagements	**0.6**	–	**0.6**	–
At the end of the year	**0.6**	–	**0.6**	–

The Bank's goodwill recognised in the year relates to the transfer of engagements of Britannia Building Society. Further detail is provided in note 39.

In accordance with IAS 38 the goodwill has been assessed as having an indefinite useful life. In assessing the recoverable amount of the goodwill the Group allocates the goodwill to the lowest cash-generating unit (CGU) within the Group that is expected to benefit from the synergies of the business combination. A CGU is the smallest identifiable group of assets that generates cash inflows which are largely independent of the cash inflows from other assets of the Group.

The CGUs, to which the goodwill has been allocated are the Retail, Corporate, Wholesale and Optimum and Platform reportable segments of the Bank. The recoverable amounts have been calculated by considering their value in use to the Bank. The key assumptions used in the calculation are shown below. These have been determined using past experience, understanding of the business and its industry, the expected lives of the assets and liabilities and recognition of current market events with respect to retail deposit-taking business:

- modest growth in assets of 2.5% per annum;
- net interest margin of 1.37% by 2013 thereafter growing by 1.5bps per annum until 2024;
- other income of 0.14% of average total assets by 2013, thereafter growing by 0.1bps per annum until 2024;
- management expenses of 0.72% of average total assets in 2013 reducing gradually to 0.57% by 2024;

All amounts are stated in £m unless otherwise indicated

19. Goodwill (continued)

- loss provisions of 0.10% of total average assets each year;
- additional payments that would have been made to the members of Britannia Building Society had the transfer of engagements not occurred of 30% of profit before taxation in 2012, growing by 2.5% per annum to 40% in 2016, and remaining at 40% thereafter; and
- a discount rate of 11% has been applied to the additional payments that would have been made to the members of Britannia Building Society.

The calculations have been flexed to assess the sensitivities to reasonable changes in the already conservative assumptions. This sensitivity analysis did not indicate any likely impairment of the goodwill.

20. Intangible fixed assets

	Group 2009			Group 2008		
Cost	**Internally generated intangible assets**	**Other intangible assets**	**Total**	Internally generated intangible assets	Other intangible assets	Total
At the beginning of the year	**19.5**	**–**	**19.5**	22.8	–	22.8
Amounts arising on transfer of engagements	**–**	**46.0**	**46.0**	–	–	–
Additions	**2.9**	**–**	**2.9**	–	–	–
Disposals	**(3.5)**	**–**	**(3.5)**	(3.3)	–	(3.3)
At the end of the year	**18.9**	**46.0**	**64.9**	19.5	–	19.5
Accumulated amortisation						
At the beginning of the year	**17.2**	**–**	**17.2**	17.6	–	17.6
Charge for the year	**1.4**	**3.7**	**5.1**	2.9	–	2.9
Disposals	**(3.5)**	**–**	**(3.5)**	(3.3)	–	(3.3)
At the end of the year	**15.1**	**3.7**	**18.8**	17.2	–	17.2
Net book value						
At the end of the year	**3.8**	**42.3**	**46.1**	2.3	–	2.3
At the beginning of the year	2.3	–	2.3	5.2	–	5.2

	Bank 2009			Bank 2008		
Cost	**Internally generated intangible assets**	**Other intangible assets**	**Total**	Internally generated intangible assets	Other intangible assets	Total
At the beginning of the year	**18.4**	**–**	**18.4**	21.7	–	21.7
Amounts arising on transfer of engagements	**–**	**46.0**	**46.0**	–	–	–
Additions	**2.4**	**–**	**2.4**	–	–	–
Disposals	**(3.5)**	**–**	**(3.5)**	(3.3)	–	(3.3)
At the end of the year	**17.3**	**46.0**	**63.3**	18.4	–	18.4
Accumulated amortisation						
At the beginning of the year	**16.9**	**–**	**16.9**	17.4	–	17.4
Charge for the year	**1.3**	**3.7**	**5.0**	2.8	–	2.8
Disposals	**(3.5)**	**–**	**(3.5)**	(3.3)	–	(3.3)
At the end of the year	**14.7**	**3.7**	**18.4**	16.9	–	16.9
Net book value						
At the end of the year	**2.6**	**42.3**	**44.9**	1.5	–	1.5
At the beginning of the year	**1.5**	**–**	**1.5**	4.3	–	4.3

Internally generated intangible assets consist of software development costs.

Other intangible assets arising on the transfer of engagements are detailed in note 39.

All amounts are stated in £m unless otherwise indicated

21. Investment properties

	Group 2009	Group 2008
Fair value		
At the beginning of the year	**–**	–
Amounts arising on transfer of engagements	**123.7**	–
Additions – acquisitions	**8.9**	–
Additions – subsequent expenditure	**1.6**	–
Changes in fair value (note 7)	**3.5**	–
At the end of the year	**137.7**	–

Properties with a carrying value of £123.7m (2008: £nil) were obtained through the transfer of engagements of Britannia Building Society. All investment properties are held to generate rental income until such time that the Group considers it appropriate to realise its investment. Investment properties are carried at fair value.

The range of yields applied to the net annual rental income to determine the fair value of property is 4% to 8%.

The Group lets investment properties on Assured Shorthold Tenancy agreements most of which are for contract periods of no more than 12 months. The future minimum lease receipts under non-cancellable operating leases are £1.8m (2008: £nil). The Group has not recognised any contingent rent in the year (2008: £nil). None of the lease agreements are individually significant.

Included in Group other operating income for the year is £2.1m (2008: £nil) of rental income relating to investment properties (note 7).

22. Property, plant and equipment

Group 2009	**Land and buildings**	**Leasehold improvements**	**Computers and other equipment**	**Total**
Cost				
At the beginning of the year	**10.1**	**–**	**144.2**	**154.3**
Amounts arising on transfer of engagements	**45.6**	**24.8**	**12.2**	**82.6**
Additions	**–**	**0.1**	**1.6**	**1.7**
Disposals	**–**	**–**	**(23.4)**	**(23.4)**
At the end of the year	**55.7**	**24.9**	**134.6**	**215.2**
Accumulated depreciation				
At the beginning of the year	**3.5**	**–**	**91.2**	**94.7**
Charge for the year	**0.6**	**2.8**	**17.6**	**21.0**
Disposals	**–**	**–**	**(22.0)**	**(22.0)**
At the end of the year	**4.1**	**2.8**	**86.8**	**93.7**
Net book value				
At the end of the year	**51.6**	**22.1**	**47.8**	**121.5**
At the beginning of the year	6.6	–	53.0	59.6

All amounts are stated in £m unless otherwise indicated

22. Property, plant and equipment (continued)

Bank 2009	Land and buildings	Leasehold improvements	Computers and other equipment	Total
Cost				
At the beginning of the year	**2.6**	**–**	**141.9**	**144.5**
Amounts arising on transfer of engagements	**32.2**	**24.7**	**11.1**	**68.0**
Additions	**–**	**0.1**	**1.2**	**1.3**
Disposals	**–**	**–**	**(23.3)**	**(23.3)**
At the end of the year	**34.8**	**24.8**	**130.9**	**190.5**
Accumulated depreciation				
At the beginning of the year	**1.0**	**–**	**89.6**	**90.6**
Charge for the year	**0.4**	**2.8**	**16.9**	**20.1**
Disposals	**–**	**–**	**(21.8)**	**(21.8)**
At the end of the year	**1.4**	**2.8**	**84.7**	**88.9**
Net book value				
At the end of the year	**33.4**	**22.0**	**46.2**	**101.6**
At the beginning of the year	1.6	–	52.3	53.9

Group 2008	Land and buildings	Leasehold improvements	Computers and other equipment	Total
Cost				
At the beginning of the year	10.3	–	175.9	186.2
Additions	–	–	0.3	0.3
Disposals	(0.2)	–	(32.0)	(32.2)
At the end of the year	10.1	–	144.2	154.3
Accumulated depreciation				
At the beginning of the year	3.3	–	103.1	106.4
Charge for the year	0.3	–	16.9	17.2
Disposals	(0.1)	–	(28.8)	(28.9)
At the end of the year	3.5	–	91.2	94.7
Net book value				
At the end of the year	6.6	–	53.0	59.6
At the beginning of the year	7.0	–	72.8	79.8

Bank 2008	Land and buildings	Leasehold improvements	Computers and other equipment	Total
Cost				
At the beginning of the year	2.8	–	173.9	176.7
Additions	–	–	–	–
Disposals	(0.2)	–	(32.0)	(32.2)
At the end of the year	2.6	–	141.9	144.5
Accumulated depreciation				
At the beginning of the year	1.0	–	101.7	102.7
Charge for the year	0.1	–	16.7	16.8
Disposals	(0.1)	–	(28.8)	(28.9)
At the end of the year	1.0	–	89.6	90.6
Net book value				
At the end of the year	1.6	–	52.3	53.9
At the beginning of the year	1.8	–	72.2	74.0

All amounts are stated in £m unless otherwise indicated

22. Property, plant and equipment (continued)

	Group		Bank	
	2009	2008	**2009**	2008
The net book value of land and buildings comprises:				
Freehold	**51.0**	6.6	**32.8**	1.6
Leasehold	**0.6**	–	**0.6**	–
	51.6	6.6	**33.4**	1.6

23. Other assets

	Group		Bank	
	2009	2008	**2009**	2008
Amounts recoverable within one year:				
Trade debtors	**1.7**	2.8	**1.7**	2.8
Current tax assets	**–**	–	**21.2**	–
Other assets	**20.4**	28.4	**22.9**	28.2
	22.1	31.2	**45.8**	31.0

24. Prepayments and accrued income

	Group		Bank	
	2009	2008	**2009**	2008
Other	**30.1**	13.0	**27.4**	4.2

The 2008 comparatives for the Group and Bank have been updated to reflect a reclassification of accrued interest of £52.6m.

25. Deposits by banks

	Group		Bank	
	2009	2008	**2009**	2008
Items in course of collection	**53.9**	5.3	**53.9**	5.3
Deposits from other banks	**6,028.5**	1,068.0	**5,559.1**	1,068.0
	6,082.4	1,073.3	**5,613.0**	1,073.3

Included within deposits from other banks are liabilities of £2,998.8m (2008: £nil) secured on investment securities with a carrying value of £3,697.0m (2008: £nil) which have been sold under sale and repurchase agreements (note 35).

26. Customer accounts

	Group		Bank	
	2009	2008	**2009**	2008
Retail	**24,922.1**	7,089.5	**24,113.7**	7,089.3
Corporate	**5,110.2**	3,346.2	**3,750.2**	2,836.5
Other	**795.9**	1,254.3	**796.1**	1,254.3
	30,828.2	11,690.0	**28,660.0**	11,180.1

The Group has entered into interest-rate swaps that protect it from changes in interest rates on the floating-rate assets that are funded by its fixed-rate customer accounts. Changes in the fair values of these swaps are offset by changes in the fair values of the fixed-rate customer accounts. Included within customer accounts are 'fair-value-hedged' fixed-rate accounts with a total nominal value of £3,359.3m (2008: £nil) against which there are fair-value adjustments for hedged risk of £9.7m (2008: £nil), giving a total carrying value of £3,369.0m (2008: £nil).

The 2008 comparatives for the Group and Bank have been updated to reflect a reclassification of inter-group balances which are now shown separately on the balance sheet as amounts owed to other Co-operative Group undertakings.

All amounts are stated in £m unless otherwise indicated

27. Customer accounts – capital bonds

	Group		Bank	
	2009	2008	**2009**	2008
Retail	**1,647.1**	–	**1,581.7**	–

The capital bonds are fixed-term customer accounts with returns based on the movement in an index (e.g. FTSE100) over the term of the bond.

The capital bonds have been designated on initial recognition at fair value through income or expense and are carried at their fair value.

The fair values for the capital bonds are obtained on a monthly basis from the third parties that issue these products. These external valuations are reviewed independently using valuation software to ensure the fair values are priced on a consistent basis.

None of the change in the fair value of the capital bonds is attributable to changes in the liability's credit risk.

The maximum amount the Group would contractually be required to pay at maturity for all the capital bonds is £1,653.2m (2008: £nil).

The Group uses swaps to create economic hedges against all of its capital bonds. The gain on capital bonds in the income statement for the year is £41.8m (2008: £nil). However, taking into account changes in fair value of the associated swaps, the net impact to the income statement for the year is a loss of £0.2m (2008: £nil).

28. Debt securities in issue

	Group		Bank	
	2009	2008	**2009**	2008
Certificates of deposit	**294.9**	529.7	**294.9**	529.7
Commercial paper	**71.5**	41.8	**71.5**	41.8
Fixed- and floating-rate notes	**2,967.9**	–	**1,372.9**	–
	3,334.3	571.5	**1,739.3**	571.5

The Group has entered into cross-currency interest-rate swaps that protect it from changes in exchange rates and interest rates on its debt securities in issue. Changes in the fair values of these swaps are largely offset by changes in the sterling equivalent carrying value of the debt securities in issue.

29. Other borrowed funds

	Group		Bank	
	2009	2008	**2009**	2008
£150,000,000 step-up callable subordinated notes 2019	**150.0**	150.0	**150.0**	150.0
60,000,000 9.25% non-cumulative irredeemable preference shares of £1 each	**60.0**	60.0	**60.0**	60.0
Floating-rate subordinated notes 2016	**102.9**	–	**102.9**	–
Subordinated notes 2021	**150.0**	150.0	**150.0**	150.0
Fixed-rate subordinated notes 2024	**131.6**	–	**131.6**	–
Fixed-rate subordinated notes 2033	**94.2**	–	**94.2**	–
Perpetual subordinated bonds	**253.1**	–	**253.1**	–
Issue costs, discounts and accrued interest	**4.7**	6.5	**4.7**	6.5
	946.5	366.5	**946.5**	366.5

Step-up callable subordinated notes 2019
The notes were issued on 1 April 2004 at a discount of 0.946%.

The notes are an unsecured obligation of the Bank and in the event of the winding-up of the Bank, the claims of noteholders will be subordinated in right of payment to the claims of depositors and other creditors of the Bank.

The notes carry an interest rate of 5.875% per annum to (but excluding) 2 April 2014, and thereafter the interest rate will be determined by reference to the gross redemption yield on the five-year benchmark gilt, and a margin of 2.25%. Interest is payable annually in arrears on 2 April.

The Bank may redeem all, but not less than all, of the notes at their principal amount on 2 April 2014.

29. Other borrowed funds (continued)

60,000,000 9.25% non-cumulative irredeemable preference shares of £1 each
The preference shares carry the right to a fixed non-cumulative preferential dividend on the capital for the time being paid up, at the rate of 9.25% per annum exclusive of any associated tax credit. The dividends are payable on 31 May and 30 November each year and take priority over dividends to any other class of share in the capital of the Bank.

On a return of capital on winding-up, the assets of the Bank shall be applied in repaying the preference share capital in priority to any payments to the holders of any other class of shares in the capital of the Bank. The amount receivable by the holders of the preference shares shall be the greater of the capital paid up or the average quoted price during the three months immediately preceding the date of the notice convening the meeting to consider the resolution to wind-up.

The holders of the preference shares shall have the right to vote at a general meeting of the Bank only if and when, at the date of the notice convening the meeting, the dividend due to them has been in arrears for six months or more or if a resolution is to be proposed at the meeting abrogating or varying their rights or privileges or for the winding-up of the Bank or other return of capital and then only on that resolution.

Floating-rate subordinated notes 2016
The notes, acquired on the transfer of engagements of Britannia Building Society, were issued on 18 May 2006 at a discount of 0.14%.

The notes are an unsecured obligation of the Bank and in the event of the winding-up of the Bank, the claims of noteholders will be subordinated in right of payment to the claims of depositors and other creditors of the Bank.

The notes are denominated in euros and interest is calculated at three months euribor plus a margin of 0.28%. The first interest coupon was paid in August 2006.

The notes are hedged with a cross-currency swap converting the exposure into sterling at a floating rate at three months Libor with a margin on interest coupon of 0.34125%. The cross-currency swap matures on 18 May 2011.

The Bank may redeem all, but not less than all, of the notes at the principal amount on 18 May 2011, and on any quarterly interest payment date thereafter.

Subordinated notes 2021
The notes were issued on 16 November 2006 at a discount of 0.189%.

The notes are an unsecured obligation of the Bank and in the event of the winding-up of the Bank, the claims of noteholders will be subordinated in right of payment to the claims of depositors and other creditors of the Bank.

The notes carry an annual interest rate of 5.625% up to and including the interest payment date on 16 November 2016, when the interest basis changes to floating rate. During the fixed-rate period, interest is payable semi-annually in arrears on 16 May and 16 November.

From 17 November 2016, the notes carry a floating interest rate of three months Libor plus a margin of 1.75%. Interest is payable quarterly in arrears on 16 February, 16 May, 16 August and 16 November, commencing on the interest payment date falling in February 2017 up to and including the maturity date.

The Bank may redeem all, but not less than all, of the notes at the principal amount on 16 November 2016, and on any quarterly interest payment date thereafter.

Fixed-rate subordinated notes 2024
The notes, acquired on the transfer of engagements of Britannia Building Society, were issued on 17 March 2004 at a discount rate of 1.148%.

The notes are an unsecured obligation of the Bank and in the event of the winding-up of the Bank, the claims of noteholders will be subordinated in right of payment to the claims of depositors and other creditors of the Bank.

The notes carry an annual interest rate of 5.75% to maturity. The notes are hedged with interest-rate swaps that convert the interest rate payable into floating rates at six months Libor plus a margin of 0.72%. The fixed receipt leg of the swap is received annually to match the payment to the noteholders. The floating payment leg of the swap is payable semi-annually in June and December. The interest-rate swaps mature on 2 December 2019.

The Bank may redeem all, but not less than all, of the notes at the principal amount on 2 December 2019, and on any quarterly interest payment date thereafter.

Fixed-rate subordinated notes 2033
The notes, acquired on the transfer of engagements of Britannia Building Society, were issued on 28 March 2002 at a discount rate of 0.93%.

All amounts are stated in £m unless otherwise indicated

29. Other borrowed funds (continued)

The notes are an unsecured obligation of the Bank and in the event of the winding-up of the Bank, the claims of noteholders will be subordinated in right of payment to the claims of depositors and other creditors of the Bank.

The notes carry an annual interest rate of 5.875% to maturity. Interest is payable semi-annually in March and September.

Of the notes, £100m are hedged with interest-rate swaps that have a floating payment leg at six months Libor payable in March and September. The fixed interest rate receivable leg on the swaps, are £25m at 5.405% and £75m at 5.225%. The annual interest receivable leg on the swap is matched to the dates on the notes.

Perpetual subordinated bonds

Following the transfer of engagements of Britannia Building Society, the Britannia permanent interest bearing shares (PIBS) were converted into perpetual subordinated debt of The Co-operative Bank plc (perpetual subordinated bonds). The Co-operative Group are currently discussing with HM Treasury and the Financial Services Authority (FSA) whether future legislation will allow for conversion into instruments which are similar to the PIBS but are not subordinated loans.

From 1 August 2009, the Bank assumed a liability to each PIBS holder for a subordinated deposit equal to the principal amount of their PIBS. These deposits have automatically been applied in subscription to either perpetual subordinated bonds having an annual interest rate of 13% in respect of the ‘first perpetual subordinated bonds’ or perpetual subordinated bonds having an annual interest rate of 5.5555% in respect of the ‘second perpetual subordinated bonds’ for an amount corresponding to the principal amount of that holders PIBS.

The trustee for the holders of the perpetual subordinated bonds is The Law Debenture Trust Corporation plc whose registered office is Fifth Floor, 100 Wood Street, London, EC2V 7EX.

The FSA must give prior written consent to the early repayment, including the purchase of the notes or stock by the Group, for cancellation of any subordinated bond.

30. Other liabilities

	Group		Bank	
	2009	2008	**2009**	2008
Amounts falling due within one year:				
Other creditors	**217.7**	88.5	**206.7**	106.4
Amounts falling due after one year:				
Other creditors	**4.2**	3.2	**4.1**	3.2
	221.9	91.7	**210.8**	109.6

Other creditors for the Group and Bank include finance lease obligations as follows:

	Present value of lease payments		Future minimum lease payments	
	2009	2008	**2009**	2008
Due within one year	**–**	–	**–**	–
Due between one year and five years	**0.1**	–	**0.1**	–
Due after five years	**1.2**	–	**1.8**	–
	1.3	–	**1.9**	–

The future minimum lease payments have been discounted at Libor over the term of the lease to give the present value of these payments.

31. Accruals and deferred income

	Group		Bank	
	2009	2008	**2009**	2008
Amounts falling due within one year:				
Other	**148.1**	1.6	**124.5**	9.6
Amounts falling due after one year:				
Other	**9.9**	–	**9.8**	–
	158.0	1.6	**134.3**	9.6

The 2008 comparatives for the Group and Bank have been updated to reflect a reclassification of accrued interest of £20.7m.

All amounts are stated in £m unless otherwise indicated

32. Provisions for liabilities and charges

	Property	Restructuring	FSCS levies	Regulatory	Total
Group					
2009					
At the beginning of the year	**5.1**	**–**	**10.5**	**0.2**	**15.8**
Arising on transfer of engagements	**4.0**	**–**	**10.1**	**0.1**	**14.2**
Income statement movements:					
Provided in the year	**0.9**	**–**	**10.1**	**5.5**	**16.5**
Released during the year	**(2.2)**	**–**	**(6.4)**	**(0.1)**	**(8.7)**
Utilised during the year	**(0.7)**	**–**	**(3.7)**	**–**	**(4.4)**
At the end of the year	**7.1**	**–**	**20.6**	**5.7**	**33.4**
Provisions were analysed as follows:					
Amounts falling due within one year	**1.6**	**–**	**11.6**	**2.0**	**15.2**
Amounts falling due after one year	**5.5**	**–**	**9.0**	**3.7**	**18.2**
	7.1	**–**	**20.6**	**5.7**	**33.4**
Bank					
2009					
At the beginning of the year	**4.5**	**–**	**10.2**	**–**	**14.7**
Arising on transfer of engagements	**2.7**	**–**	**10.1**	**0.1**	**12.9**
Income statement movements:					
Provided in the year	**0.9**	**–**	**9.7**	**–**	**10.6**
Released during the year	**(2.0)**	**–**	**(6.3)**	**–**	**(8.3)**
Utilised during the year	**(0.7)**	**–**	**(3.6)**	**–**	**(4.3)**
At the end of the year	**5.4**	**–**	**20.1**	**0.1**	**25.6**
Provisions were analysed as follows:					
Amounts falling due within one year	**0.9**	**–**	**11.2**	**0.1**	**12.2**
Amounts falling due after one year	**4.5**	**–**	**8.9**	**–**	**13.4**
	5.4	**–**	**20.1**	**0.1**	**25.6**

	Property	Restructuring	FSCS levies	Regulatory	Total
Group					
2008					
At the beginning of the year	5.7	2.8	–	0.9	9.4
Income statement movements:					
Provided in the year	0.8	–	10.5	–	11.3
Released during the year	(0.6)	–	–	(0.7)	(1.3)
Utilised during the year	(0.8)	(2.8)	–	–	(3.6)
At the end of the year	5.1	–	10.5	0.2	15.8
Provisions were analysed as follows:					
Amounts falling due within one year	1.6	–	3.8	0.2	5.6
Amounts falling due after one year	3.5	–	6.7	–	10.2
	5.1	–	10.5	0.2	15.8

All amounts are stated in £m unless otherwise indicated

32. Provisions for liabilities and charges (continued)

	Property	Restructuring	FSCS levies	Regulatory	Total
Bank					
2008					
At the beginning of the year	5.3	2.8	–	0.7	8.8
Income statement movements:					
Provided in the year	0.6	–	10.2	–	10.8
Released during the year	(0.6)	–	–	(0.7)	(1.3)
Utilised during the year	(0.8)	(2.8)	–	–	(3.6)
At the end of the year	4.5	–	10.2	–	14.7
Provisions were analysed as follows:					
Amounts falling due within one year	1.4	–	3.7	–	5.1
Amounts falling due after one year	3.1	–	6.5	–	9.6
	4.5	–	10.2	–	14.7

Property

The Group has a number of leasehold properties available for rent. Provisions are made when either the sub-lease income does not cover the rental expense or the property is vacant. The provision is based on the expected outflows during the remaining periods of the leases using the discount rate applied in the goodwill calculations of 11%.

FSCS levies

In common with other financial institutions authorised by the FSA, the Group contributes to the Financial Services Compensation Scheme (FSCS). The FSCS covers financial institutions authorised to do business in the UK. When an institution is unlikely, or likely to be unable, to pay claims against it, its customers may be able to claim compensation from the FSCS. The FSCS raises funds to meet the known compensation claims through levies on other FSA authorised institutions.

As a result of a number of institutions failing during 2008, the FSCS received funds from HM Treasury in order to meet its obligations to depositors. These borrowings are anticipated to be repaid wholly or substantially from the realisation of the assets of the failed institutions.

The FSCS raises annual levies from the banking industry in order to meet its management expenses and compensation costs. The annual levies are based upon the individual institutions proportion of protected deposits of the total market protected deposits at 31 December each year.

The Group has provided £20.3m (2008: £10.5m) for its share of the levies that will be raised by the FSCS including the interest on the loan from the HM Treasury in respect of the levy years 31 March 2009 to 31 March 2011 respectively. The provision includes estimates for the interest the FSCS will pay on the loan and of the Group's market participation in the relevant years.

At the date of these financial statements, it is not possible to estimate whether there will ultimately be additional levies on the industry, the level of the Group's market participation or other factors that may affect amounts or the timing of amounts that may ultimately become payable, nor the effect that such levies may have upon operating results in any particular year.

The Financial Services Commission in the Isle of Man operates a similar scheme. Britannia International Limited has provided £0.3m (2008: £nil) for the year ended 31 December 2009 in respect of this scheme.

Regulatory

Provisions have been made in respect of various potential customer-compensation claims. Claims are investigated on an individual basis and, where appropriate, compensation payments are made.

All amounts are stated in £m unless otherwise indicated

33. Deferred tax

Deferred taxes are calculated on all temporary differences under the liability method using an effective tax rate of 28% (2008: 28%).

The movement on the deferred tax accounts are as follows:

	Group		Bank	
	2009	2008	**2009**	2008
Net deferred tax at the beginning of the year	**(27.0)**	(6.2)	**(22.5)**	(0.7)
Amounts arising on transfer of engagements	**132.2**	–	**233.0**	–
Income statement (charge)/credit	**(20.6)**	2.5	**(9.3)**	1.6
Charged to equity:				
Unrealised appreciation on investments	**1.1**	(0.1)	**1.1**	(0.2)
Pension fund deficit	**0.1**	(0.1)	**0.1**	(0.1)
Cashflow hedges	**7.9**	(23.1)	**7.9**	(23.1)
Net deferred tax at the end of the year	**93.7**	(27.0)	**210.3**	(22.5)

	Group		Bank	
	2009	2008	**2009**	2008
Net deferred tax comprises:				
Deferred tax asset	**285.2**	4.6	**230.9**	4.3
Deferred tax liability	**(191.5)**	(31.6)	**(20.6)**	(26.8)
	93.7	(27.0)	**210.3**	(22.5)

	Group		Bank	
	2009	2008	**2009**	2008
Deferred tax				
Cashflow hedges	**(11.1)**	(22.6)	**(11.1)**	(22.6)
Unrealised appreciation on investments	**(2.9)**	(2.2)	**(2.8)**	(2.2)
Capital allowances on fixed assets	**(3.1)**	(1.5)	**(2.0)**	(1.1)
Capital allowances on assets leased to customers	**(4.0)**	(4.4)	**–**	(0.2)
Pensions and other post-retirement benefits	**1.0**	0.9	**1.0**	0.9
Fair-value adjustments	**33.9**	–	**198.4**	–
Other temporary differences	**74.9**	2.8	**21.8**	2.7
Tax losses carried forward	**5.0**	–	**5.0**	–
	93.7	(27.0)	**210.3**	(22.5)

Other temporary differences for the Group of £74.9m include deferred tax assets/liabilities as a result of interest deductible when paid, loss provisions on mortgage assets held by SPEs, taxation of SPEs under the securitisation regime and spreading of the tax effect of IFRS transitional adjustments.

The deferred tax charge/(credit) in the income statement comprises the following temporary differences:

	Group		Bank	
	2009	2008	**2009**	2008
Cashflow hedges	**0.2**	–	**0.2**	–
Capital allowances on fixed assets	**(1.4)**	(1.9)	**(1.6)**	(1.9)
Capital allowances on assets leased to customers	**(0.3)**	(1.7)	**(0.2)**	(0.8)
Fair-value adjustments	**46.8**	–	**13.1**	–
Other temporary differences	**(37.6)**	1.1	**(14.0)**	1.1
Tax losses carried forward	**12.9**	–	**11.8**	–
	20.6	(2.5)	**9.3**	(1.6)

All amounts are stated in £m unless otherwise indicated

34. Pensions

Defined contribution basis

With effect from 6 April 2006 the Bank, along with other businesses within The Co-operative Group has participated in the Co-operative Group Pension (Average Career Earnings) Scheme (the PACE scheme). This scheme is a defined-benefit scheme, the assets of which are held in a separate fund administered by trustees. As a group-wide pension scheme, the PACE scheme exposes the participating businesses to actuarial risks associated with the current and former colleagues of other Group companies, with the result that there is no consistent and reliable basis for allocating liabilities, assets and costs to individual companies participating in the scheme. Therefore the pension cost shown in these accounts in respect of the PACE scheme for the period after 6 April 2006 is the actual contributions paid by the Bank.

Key assumptions of the Group pension scheme

The key aspects of The Co-operative Group's PACE scheme are as follows:

	2009	2008
The principal assumptions used to determine the liabilities of the PACE scheme were:		
Discount rate	**5.60%**	5.70%
Rate of increase in salaries	**5.30%**	4.75%
Future pension increases where capped at 5.0% pa	**3.80%**	3.25%
Future pension increases where capped at 2.5% pa	**2.50%**	2.50%
Assumptions used to determine net pension cost for the PACE scheme are:		
Discount rate	**5.70%**	5.65%
Expected long-term return on scheme assets	**6.40%**	6.40%
Rate of increase in salaries	**4.75%**	5.15%

The average life expectancy (in years) for mortality tables used to determine scheme liabilities for the PACE scheme at the 2009 year end is:

Life expectancy:	**Male**	**Female**
Member currently aged 65 (current life expectancy)	**20.4 years**	**23.2 years**
Member currently aged 45 (life expectancy at age 65)	**21.3 years**	**24.1 years**

The amounts recognised in the balance sheet of The Co-operative Group are as follows:

	2009	2008
Present value of funded obligations	**(5,509.0)**	(4,799.9)
Present value of unfunded obligations	**(3.8)**	(3.5)
Fair value of plan assets	**5,514.4**	5,204.6
	1.6	401.2

	2009	2008
The weighted-average asset allocations at the year end were as follows:		
Equities	**35%**	42%
Liability-driven investments	**54%**	54%
Alternative growth	**6%**	0%
Property	**4%**	4%
Cash	**1%**	0%

All amounts are stated in £m unless otherwise indicated

34. Pensions (continued)

To develop the expected long-term rate of return on assets assumption, the Group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 6.4% assumption for the year ended 31 December 2009.

Former Britannia Building Society pension scheme

Following the transfer of engagements of Britannia Building Society, the Britannia pension scheme transferred to the Co-operative Financial Services Management Services Limited (CFSMS). The pension cost shown in these accounts in respect of the defined-benefit section of the Britannia scheme for the period after 31 July 2009 is the actual contribution paid by the Bank. The comparative figures for 2008 are nil.

The key aspects of the Britannia defined-benefit scheme are as follows:

	2009
The principal assumptions used to determine the liabilities of the Britannia defined-benefit scheme were:	
Discount rate	**5.60%**
Rate of increase in salaries	**5.30%**
Future pension increases where capped at 5.0% pa	**3.80%**
Future pension increases where capped at 2.5% pa	**2.50%**
Assumptions used to determined net pension cost for the Britannia defined-benefit scheme are:	
Discount rate	**6.30%**
Expected long-term return on scheme assets	**6.40%**
Rate of increase in salaries	**5.30%**

The average life expectancy (in years) for mortality tables used to determine defined-benefit scheme liabilities for the former Britannia Building Society scheme at 31 December 2009 is:

Life expectancy:	Male	Female
Member currently aged 65 (current life expectancy)	**21.7 years**	**24.0 years**
Member currently aged 40 (life expectancy at age 60)	**22.8 years**	**24.9 years**

The amounts recognised in the balance sheet of CFSMS are as follows:

	2009
Present value of funded obligations	**(478.1)**
Present value of unfunded obligations	**(4.7)**
Fair value of plan assets	**449.6**
	(33.2)

	2009
The weighted-average asset allocations at the year end were as follows:	
Equities	**26%**
Diversified growth	**20%**
Liability-driven investments	**54%**

All amounts are stated in £m unless otherwise indicated

34. Pensions (continued)

Bank (unfunded) pension scheme

The Bank also operates a small unfunded pension scheme.

	2009	2008	2007	2006
Expected return on scheme assets	**N/A**	N/A	N/A	N/A
Rate of increase of pensions in payment	**3.8%**	3.3%	3.4%	2.9%
Rate of increase in salaries	**5.3%**	4.8%	4.9%	4.4%
Discount rate	**5.6%**	5.7%	5.7%	4.9%

The assumptions used by the actuary were the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice.

The values of the assets and liabilities of the unfunded pension scheme were:

	Group		**Bank**	
	2009	2008	**2009**	2008
Present value of unfunded obligations	**(3.5)**	(3.2)	**(3.5)**	(3.2)
Deficit in scheme	**(3.5)**	(3.2)	**(3.5)**	(3.2)
Related deferred tax asset	**1.0**	0.9	**1.0**	0.9
Net pension liability	**(2.5)**	(2.3)	**(2.5)**	(2.3)
Analysis of amount charged to income statement:				
Current service cost	**–**	–	**–**	–
Interest on pension scheme liabilities	**0.2**	0.2	**0.2**	0.2
	0.2	0.2	**0.2**	0.2

Changes in the present value of the scheme liabilities are as follows:

	Group		**Bank**	
	2009	2008	**2009**	2008
Opening defined-benefit liabilities	**3.2**	3.5	**3.2**	3.5
Current service cost	**–**	–	**–**	–
Interest on liabilities	**0.1**	0.2	**0.1**	0.2
Actuarial losses/(gains)	**0.3**	(0.4)	**0.3**	(0.4)
Benefits paid	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Closing defined-benefit liabilities	**3.5**	3.2	**3.5**	3.2

Amounts recognised in the statement of comprehensive income:

	Group		**Bank**	
	2009	2008	**2009**	2008
Actuarial (losses)/gains on scheme liabilities during the year	**(0.3)**	0.4	**(0.3)**	0.4
Actuarial gains on scheme assets during the year	**–**	–	**–**	–
Total scheme (losses)/gains during the year	**(0.3)**	0.4	**(0.3)**	0.4

The amounts for the current year are as follows:

	Group		**Bank**	
	2009	2008	**2009**	2008
Defined-benefit obligation	**(3.5)**	(3.2)	**(3.5)**	(3.2)
Scheme assets	**–**	–	**–**	–
Deficit in scheme	**(3.5)**	(3.2)	**(3.5)**	(3.2)
Experience adjustment on scheme liabilities	**–**	–	**–**	–
Experience adjustment on scheme assets	**–**	–	**–**	–

All amounts are stated in £m unless otherwise indicated

35. Contingent liabilities and commitments

The tables below give, for the Group and Bank, the nominal principal amounts, credit equivalent amounts and risk weighted amounts of contingent liabilities and commitments. The nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The credit equivalent and risk-weighted amounts have been calculated in accordance with the FSA guidelines implementing the Capital Requirements Directive (CRD).

The contingent liabilities of the Group and the Bank as detailed below arise in the normal course of banking business and it is not practical to quantify their future financial effect.

	Contract amount 2009	**Credit equivalent amount (i) 2009**	**Average risk weight 2009**	**Risk-weighted amount 2009**	Contract amount 2008	Risk-weighted amount 2008
Group						
Contingent liabilities:						
Guarantees and irrevocable letters of credit	**118.9**	**98.2**	**91.1%**	**89.5**	94.9	74.5
Bank						
Contingent liabilities:						
Guarantees and irrevocable letters of credit	**116.8**	**97.1**	**91.1%**	**88.5**	92.3	72.9
Group						
Other commitments:						
Documentary credits and short-term trade-related transactions	**2.1**	**1.0**	**40.0%**	**0.4**	3.4	0.6
Forward asset purchases and forward deposits placed	**164.5**	**164.5**	**47.5%**	**78.2**	200.0	29.2
Undrawn formal standby facilities, credit lines and other commitments to lend (includes revocable and irrevocable commitments) (ii)	**4,822.9**	**2,829.0**	**36.5%**	**1,032.9**	5,300.4	1,098.7
	4,989.5	**2,994.5**	**37.1%**	**1,111.5**	5,503.8	1,128.5
Bank						
Other commitments:						
Documentary credits and short-term trade-related transactions	**2.1**	**1.0**	**40.0%**	**0.4**	3.4	0.6
Forward asset purchases and forward deposits placed	**164.5**	**164.5**	**47.5%**	**78.2**	200.0	29.2
Undrawn formal standby facilities, credit lines and other commitments to lend (includes revocable and irrevocable commitments) (ii)	**4,656.4**	**2,734.7**	**36.4%**	**995.8**	5,292.5	1,098.7
	4,823.0	**2,900.2**	**37.0%**	**1,074.4**	5,495.9	1,128.5

Notes

(i) Under the CRD credit conversion factors are applied to exposures subject to the Standard and Foundation IRB approach, primarily corporate and wholesale exposures as defined by BIPRU. Under the retail IRB approach the Credit Equivalent amount is defined as Exposure at Default.

(ii) Undrawn loan commitments include revocable commitments which are unused credit card limits of £2,261.9m (2008: £3,034.1m).

Assets pledged

Assets are pledged as collateral under repurchase agreements with other banks. These deposits are not available to finance the Group's day-to-day operations. Mandatory reserve deposits are also held with the Bank of England in accordance with statutory requirements.

At 31 December 2009, the mandatory reserve deposits held with the Bank of England were £34.0m (2008: £9.9m) (see note 13).

Investment securities with a carrying value of £3,697.0m (2008: £nil) have been sold under sale and repurchase agreements. These assets have not been derecognised as the Group and Bank has retained substantially all the risks and rewards of ownership. Included within deposits by banks are the related liabilities of £2,998.8m (2008: £nil).

The Group and Bank have loans and advances to banks of £nil (2008: £497.0m) under reverse sale and repurchase agreements and against which it holds gilts with a fair value of £nil (2008: £530.9m). These transactions are conducted under terms that are usual and customary to standard stock lending, securities borrowing and reverse purchase agreements. The Group is permitted to sell or repledge the assets received as collateral in the absence of their default. The Group is obliged to return equivalent securities. At 31 December 2009 the fair value of collateral repledged amounted to £nil (2008: £nil). The Group and Bank do not adjust for the fair value of securities received under reverse sale and repurchase agreements.

All amounts are stated in £m unless otherwise indicated

35. Contingent liabilities and commitments (continued)

Commitments under operating leases

The Group leases various properties and equipment under non-cancellable operating lease arrangements. The leases have various terms, ranging from six months to 999 years. None of these leases are individually material and none have any material clauses. The table below discloses the minimum operating lease payments the Group and the Bank will be required to make over the remaining lives of the leases.

	Land and buildings 2009	**Equipment 2009**	Land and buildings 2008	Equipment 2008
Group				
Expiring:				
Within one year	**2.6**	**0.3**	1.2	–
Between one and five years	**17.5**	**1.1**	7.4	–
In five years or more	**187.4**	**0.2**	94.3	–
	207.5	**1.6**	102.9	–
Bank				
Expiring:				
Within one year	**2.6**	**0.3**	1.2	–
Between one and five years	**12.8**	**1.1**	6.9	–
In five years or more	**171.1**	**0.2**	99.6	–
	186.5	**1.6**	107.7	–

The Group leases a number of branch and office premises under operating leases. The leases typically run for a period of up to 25 years, with an option to renew the lease after that period. Lease payments are generally reviewed every three to five years to reflect market rentals.

The total value of future minimum sub-lease payments expected to be received under non-cancellable sub-leases for the Group was £13.3m (2008: £8.6m) and for the Bank was £12.2m (2008: £8.6m).

Informal (unauthorised) overdraft charges

In July 2007 the Office of Fair Trading (OFT) agreed with eight financial institutions to commence proceedings in the High Court of England and Wales in a test case regarding informal overdraft charges. The Co-operative Bank is not part of the proceedings but is bound by the outcome.

In April 2008, the High Court issued its judgment in respect of the first stages of the test case process.

The Court's judgment was that informal overdrafts are an essential, real and identifiable service provided by banks for their personal current account customers, that the institutions' current overdraft charges are not unenforceable penalties, but are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999 and most of the litigant banks' current terms and conditions (including charges) are in plain and intelligible language. The financial institutions appealed this ruling.

In February 2009 the Court of Appeal decided that the OFT can assess whether the litigants banks' terms and conditions, allowing them to impose informal overdraft bank charges, are fair. However, the litigant banks appealed against this judgment to the House of Lords.

On 26 November 2009 the Supreme Court (formerly the House of Lords) announced its decision in the test case regarding these informal overdraft charges. It found in favour of the banks and ruled against the original judgment that would have allowed the OFT to assess whether bank charges were fair. Subsequent to this decision, the OFT has decided not to take the matter further.

Therefore the Bank has made no provision and no contingent liability exists. However, the Group has proactively implemented changes to current account tariffs to provide greater clarity for customers.

All amounts are stated in £m unless otherwise indicated

35. Contingent liabilities and commitments (continued)

Payment protection insurance

The Bank operates in regulated markets and is subject to significant legislative and regulatory requirements, with the main regulator of the Bank being the FSA. Regulatory intervention is an ongoing feature of UK financial services and changes could affect the profitability of our business. Within the Bank the most significant regulatory issue that has uncertain consequences relates to past sales of payment protection insurance (PPI). This is an industry-wide issue on which the FSA is currently considering its requirements following a consultation process undertaken at the end of last year. Relevant PPI sales have been made by the Bank, although it may be noted that such sales ceased with effect from 4 January 2009. It may also be noted that the total complaints received from customers remains very low as a proportion of total PPI sales.

Former Britannia Building Society pension scheme guarantee

Following the transfer of engagements of Britannia Building Society, the Britannia pension scheme transferred to CFSMS. Under the terms of this transfer the Bank entered into a deed of guarantee to provide assurance to the trustees of the pension scheme to support CFSMS in meeting its funding obligations to the scheme should CFSMS be unable to pay its obligations as they fall due.

36. Investments in Group undertakings

Investments in equity shares and loans of subsidiary undertakings are financial assets.

	2009			2008		
	Ordinary shares	**Capital contributions**	**Total**	Ordinary shares	Capital contributions	Total
At the beginning of the year	**2.7**	**966.6**	**969.3**	2.7	–	2.7
Arising on transfer of engagements	**522.9**	**424.2**	**947.1**	–	–	–
Additions	**31.4**	**59.2**	**90.6**	–	1,320.6	1,320.6
Repayments	**–**	**(454.0)**	**(454.0)**	–	(354.0)	(354.0)
At the end of the year	**557.0**	**996.0**	**1,553.0**	2.7	966.6	969.3

Subsidiary undertakings

The Bank has, except in the case of Unity Trust Bank plc, a direct interest in the ordinary share capital of the following principal subsidiary undertakings trading in the businesses indicated. All subsidiary undertakings are included in the consolidated Group results.

Principal subsidiary undertakings which are registered in England and operating in the UK:

		Group interest 2009	Group interest 2008
Unity Trust Bank plc (held through subsidiary undertaking)	Banking	**27%**	27%
Co-operative Commercial Limited	Investment company	**100%**	100%
Roodhill Leasing Limited	Leasing	**100%**	100%
First Roodhill Leasing Limited	Leasing	**100%**	100%
Second Roodhill Leasing Limited	Leasing	**100%**	100%
Third Roodhill Leasing Limited	Leasing	**100%**	100%
Fourth Roodhill Leasing Limited	Leasing	**100%**	100%
Co-operative Bank Financial Advisers Limited	Financial advisers	**100%**	100%
The Covered Bond LLP	Mortgage acquisition and guarantor of covered bonds	**100%**	100%
Britannia Treasury Services Limited*	Holding company	**100%**	–
Britannia Development and Management Company Limited*	Property investment	**100%**	–
Britannia Asset Management Limited*	Holding company	**100%**	–
Illius Properties Limited*	Property investment	**100%**	–
Britannia Covered Bonds LLP*	Mortgage acquisition and guarantor of covered bonds	**100%**	–

All amounts are stated in £m unless otherwise indicated

36. Investments in Group undertakings (continued)

During 2008, The Covered Bond LLP was established as a result of a £1.0bn covered bond issued by the Bank. Loans and advances to customers of £2.3bn were transferred to the LLP. The transfer was funded by a loan of £1.0bn and capital contribution of £1.3bn.

On the transfer of engagements of Britannia Building Society, the Bank obtained an interest in Britannia Covered Bonds LLP, which was established as a result of a £1.4bn covered bond issuance. Loans and advances to customers of £1.9bn were transferred to Britannia Covered Bonds LLP. The transfer was funded by a loan of £1.4bn and capital contribution of £0.5bn.

The loans issued by the Bank to fund the transfer of the loans and advances to customers are included within amounts owed by other Co-operative Group undertakings. The associated capital contribution invested by the Bank in both covered bond issuances is included within investments in Group undertakings. The covered bonds were immediately repurchased by the Bank and therefore no liability is recognised on the balance sheet.

The Covered Bond LLP and Britannia Covered Bonds LLP do not have ordinary share capital. The Bank's interest in The Covered Bond LLP and Britannia Covered Bonds LLP is in substance no different than a wholly owned subsidiary and consequently they are fully consolidated in the Group accounts.

The accounting policy for Special Purpose Entities (SPEs) is disclosed on page 45.

Unity Trust Bank plc is considered to be a subsidiary undertaking of The Co-operative Bank plc as The Co-operative Bank plc elects a majority of the directors and appoints the chair and managing director. This provides the power to control.

Investments in equity shares and loans with subsidiary undertakings are shown net of impairments.

Britannia Treasury Services Limited has the following wholly owned subsidiary undertakings, registered in England, operating in the UK and trading in the businesses indicated:

Mortgage Agency Services Number One Limited*	Mortgage and syndicated lending
Mortgage Agency Services Number Two Limited*	Mortgage lending
Mortgage Agency Services Number Three Limited*	Bank account custodian
Mortgage Agency Services Number Four Limited*	Mortgage lending
Mortgage Agency Services Number Five Limited*	Mortgage lending
Mortgage Agency Services Number Six Limited*	Mortgage lending
Mortgage Agency Services Number Seven Limited*	Mortgage lending
Western Mortgage Services Limited*	Mortgage book administration
Platform Group Holdings Limited*	Holding company

Platform Group Holdings Limited has the following wholly owned subsidiary undertakings, registered in England, operating in the UK and trading in the businesses indicated:

Platform Consumer Services Limited*	Mortgage lending
Platform Funding Limited*	Mortgage origination
Platform Funding No. 2 Limited*	Finance company
Platform Funding No. 3 Limited*	Finance company
Platform Funding No. 6 Limited*	Finance company
Platform Home Loans Limited*	Mortgage origination and servicing

Platform Consumer Services Limited is the only direct subsidiary of Platform Group Holdings Limited.

Registered in the Isle of Man and operating overseas:

Britannia International Limited*	Deposit taking

Registered in Scotland and operating in the UK:

Britannia Life Direct Limited*	Direct sales of financial services

Subsidiary undertaking, registered in Scotland and operating in the UK, where the Bank owns half the share capital represented by its holding of all the 'A' class ordinary shares and the majority of voting rights:

Britannia New Homes (Scotland) Limited*	Property development

36. Investments in Group undertakings (continued)

Securitisation vehicles*

The results of the following securitisation vehicles are consolidated into the results of the Group under IAS 27:

Leek Finance Holdings Limited	Holding company
Leek Finance Number One plc	Securitisation company
Leek Finance Holdings Number Two Limited	Holding company
Leek Finance Number Two plc	Securitisation company
Leek Finance Holdings Number Three Limited	Holding company
Leek Finance Number Three plc	Securitisation company
Leek Finance Holdings Number Four Limited	Holding company
Leek Finance Number Four Limited	Securitisation company
Leek Finance Holdings Number Five Limited	Holding company
Leek Finance Number Five Limited	Securitisation company
Leek Finance Holdings Number Six Limited	Holding company
Leek Finance Number Six Limited	Securitisation company
Leek Finance Holdings Number Seven Limited	Holding company
Leek Finance Number Seven plc	Securitisation company
Leek Finance Holdings Number Eight Limited	Holding company
Leek Finance Number Eight Limited	Securitisation company
Leek Finance Holdings Number Nine Limited	Holding company
Leek Finance Number Nine Limited	Securitisation company
Leek Finance Holdings Number Ten Limited	Holding company
Leek Finance Number Ten plc	Securitisation company
Leek Finance Holdings Number Eleven Limited	Holding company
Leek Finance Number Eleven plc	Securitisation company
Leek Finance Holdings Number Twelve Limited	Holding company
Leek Finance Number Twelve plc	Securitisation company
Leek Finance Holdings Number Fourteen Limited	Holding company
Leek Finance Number Fourteen plc	Securitisation company
Leek Finance Holdings Number Fifteen Limited	Holding company
Leek Finance Number Fifteen plc	Securitisation company
Leek Finance Holdings Number Sixteen Limited	Holding company
Leek Finance Number Sixteen plc	Securitisation company
Leek Finance Holdings Number Seventeen Limited	Holding company
Leek Finance Number Seventeen plc	Securitisation company
Leek Finance Holdings Number Eighteen Limited	Holding company
Leek Finance Number Eighteen plc	Securitisation company
Leek Finance Holdings Number Nineteen Limited	Holding company
Leek Finance Number Nineteen plc	Securitisation company
Leek Finance Holdings Number Twenty Limited	Holding company
Leek Finance Number Twenty plc	Securitisation company
Leek Finance Holdings Number Twenty One Limited	Holding company
Leek Finance Number Twenty One plc	Securitisation company
Leek Finance Holdings Number Twenty Two Limited	Holding company
Leek Finance Number Twenty Two plc	Securitisation company
Meerbrook Finance Holdings Number One Limited	Holding company
Meerbrook Finance Number One Limited	Securitisation company
Meerbrook Finance Holdings Number Two Limited	Holding company
Meerbrook Finance Number Two Limited	Securitisation company
Meerbrook Finance Holdings Number Three Limited	Holding company
Meerbrook Finance Number Three Limited	Securitisation company
Meerbrook Finance Holdings Number Four Limited	Holding company
Meerbrook Finance Number Four Limited	Securitisation company

All amounts are stated in £m unless otherwise indicated

36. Investments in Group undertakings (continued)

Securitisation vehicles* (continued)

Meerbrook Finance Holdings Number Five Limited	Holding company
Meerbrook Finance Number Five Limited	Securitisation company
Meerbrook Finance Holdings Number Six Limited	Holding company
Meerbrook Finance Number Six Limited	Securitisation company
Rudyard Finance Holdings Number One Limited	Holding company
Rudyard Finance Number One plc	Securitisation company
Dovedale Finance Number One plc	Securitisation company

The Bank holds one non-voting share in Leek Finance Holdings Limited, representing 12.5% of the issued share capital.

All securitisation vehicles are registered in England and operate in the UK, with the exception of Dovedale Finance Number One plc, which is registered and operates in the Republic of Ireland.

All of the above companies are related parties to the Group. See note 37 for the related party disclosures.

Joint ventures*

The Group's investment in joint ventures is £1.8m (2008: £nil).

The Bank owns 49% of the ordinary shares in Britannia Personal Lending Limited and 50% of the ordinary shares in MutualPlus Limited, which are registered in England and operate in the UK. The companies trade in the businesses indicated:

Britannia Personal Lending Limited	Unsecured personal lending
MutualPlus Limited	Provision of branch-sharing services

The Group's interest in Britannia Personal Lending Limited is as follows:

	2009	2008
Current assets	**24.0**	–
Long-term assets	**38.8**	–
	62.8	–
Current liabilities	**34.4**	–
Long-term liabilities	**28.4**	–
	62.8	–
Income	**1.5**	–
Expenses	**(1.7)**	–
Loss before tax	**(0.2)**	–
Taxation	**0.1**	–
Loss after tax	**(0.1)**	–

The directors do not consider the results of MutualPlus Limited to be significant to the Group.

Joint ventures are accounted for using the equity method.

*These subsidiary undertakings, securitisation vehicles and joint ventures were acquired following the transfer of engagements of Britannia Building Society (note 39).

All amounts are stated in £m unless otherwise indicated

37. Related party transactions

Parent, subsidiary and ultimate controlling party

Co-operative Financial Services Limited owns 100% of the issued ordinary share capital of the Bank and is the Bank's immediate holding company. Co-operative Financial Services Limited is incorporated in England and is registered under the Industrial and Provident Societies Acts. The ultimate holding organisation is The Co-operative Group Limited (formally known as Co-operative Group (CWS) Limited), which is incorporated in England and registered under the Industrial and Provident Societies Acts. The financial statements of the immediate and ultimate holding organisations are available from New Century House, Manchester, M60 4ES.

Further details of subsidiary undertakings and joint ventures are disclosed in note 36.

A number of banking transactions are entered into with related parties in the normal course of business on normal commercial terms. These include loans and deposits. Key management (as defined by IAS 24) are considered to be Board and executive members of the Group, and Board and executive members of the Group's immediate and ultimate holding organisations. The volume of related-party transactions, outstanding balances at the year end, and related income and expense for the year are as follows:

Directors, key management personnel and close family members

	Group and Bank	
	2009	2008
Loans outstanding at the beginning of the year	**1.3**	1.3
Arising on transfer of engagements	**0.8**	–
Interest and fee income earned	**–**	–
Net movement	**1.0**	–
Loans outstanding at the end of the year	**3.1**	1.3
Deposits and investments at the beginning of the year	**2.0**	2.4
Arising on transfer of engagements	**0.6**	–
Interest and fee expense	**–**	0.1
Net movement	**(0.6)**	(0.5)
Deposits and investments at the end of the year	**2.0**	2.0

Directors' loans

	2009	
	Mortgages	**Credit cards**
Number of directors with loan type	**6**	**7**
Total value of directors loans	**2.6**	**–**

	2008	
	Mortgages	Credit cards
Number of directors with loan type	3	5
Total value of directors loans	0.8	–

All amounts are stated in £m unless otherwise indicated

37. Related party transactions (continued)

The Bank undertook the following transactions with Group companies during the year:

	Interest paid to Bank	Interest received from Bank	Staff recharges paid to Bank	Rent received from Bank	Administration recharge paid to Bank
2009					
Co-operative Commercial Limited	**0.1**	**–**	**–**	**–**	**–**
First Roodhill Leasing Limited	**–**	**0.1**	**–**	**–**	**–**
Second Roodhill Leasing Limited	**0.2**	**–**	**–**	**–**	**–**
Third Roodhill Leasing Limited	**0.4**	**–**	**–**	**–**	**–**
Fourth Roodhill Leasing Limited	**0.1**	**–**	**–**	**–**	**–**
Co-operative Bank Financial Advisors Limited	**–**	**0.2**	**–**	**–**	**12.2**
The Covered Bond LLP	**20.9**	**21.2**	**–**	**–**	**–**
Britannia Treasury Services Limited	**0.2**	**–**	**–**	**–**	**–**
Britannia Development and Management Company Limited	**–**	**–**	**–**	**0.3**	**–**
Britannia Asset Management Limited	**–**	**0.1**	**–**	**–**	**–**
Mortgage Agency Services Number One Limited	**6.7**	**–**	**–**	**–**	**–**
Mortgage Agency Services Number Two Limited	**0.2**	**–**	**–**	**–**	**–**
Mortgage Agency Services Number Four Limited	**0.6**	**–**	**0.1**	**–**	**–**
Mortgage Agency Services Number Five Limited	**1.4**	**–**	**0.5**	**–**	**–**
Platform Group Holdings Limited	**23.3**	**–**	**–**	**–**	**–**
Britannia International Limited	**–**	**12.1**	**–**	**–**	**–**
Britannia Life Direct Limited	**–**	**0.3**	**–**	**–**	**–**
Illius Properties Limited	**0.4**	**–**	**0.4**	**–**	**–**
Britannia Covered Bonds LLP	**8.4**	**17.8**	**–**	**–**	**–**
2008					
Co-operative Commercial Limited	0.1	–	–	–	–
Second Roodhill Leasing Limited	0.2	–	–	–	–
Third Roodhill Leasing Limited	0.4	–	–	–	–
Fourth Roodhill Leasing Limited	0.2	–	–	–	–
Co-operative Bank Financial Advisors Limited	–	0.1	–	–	14.0
The Covered Bond LLP	17.1	17.8	–	–	–

Interest accrues on outstanding balances at a transfer-price rate agreed between the Bank and its subsidiaries.

	Interest and fees received from other Co-operative Group undertakings 2009	**Interest and fees paid to other Co-operative Group undertakings 2009**	Interest and fees received from other Co-operative Group undertakings 2008	Interest and fees paid to other Co-operative Group undertakings 2008
Parent undertakings	**3.0**	**0.6**	2.1	4.3
Fellow subsidiary undertakings	**3.3**	**–**	–	–
	6.3	**0.6**	2.1	4.3

All amounts are stated in £m unless otherwise indicated

37. Related party transactions (continued)

At the year end the following unsecured balances were outstanding:

	Loans owed to Bank 2009	**Loans owed by Bank 2009**	Loans owed to Bank 2008	Loans owed by Bank 2008
Co-operative Commercial Limited	**1.4**	**–**	1.6	–
Roodhill Leasing Limited	**–**	**0.8**	–	0.7
First Roodhill Leasing Limited	**–**	**2.1**	–	2.0
Second Roodhill Leasing Limited	**4.2**	**–**	4.6	–
Third Roodhill Leasing Limited	**7.2**	**–**	8.2	–
Fourth Roodhill Leasing Limited	**2.1**	**–**	3.3	–
Co-operative Bank Financial Advisors Limited	**–**	**7.5**	–	0.8
The Covered Bond LLP	**1,000.0**	**1,537.5**	1,000.0	1,996.3
Unity Trust Bank plc	**–**	**0.5**	21.1	–
Britannia Treasury Services Limited	**48.6**	**–**	–	–
Britannia Development and Management Company Limited	**–**	**1.9**	–	–
Britannia Asset Management Limited	**–**	**40.2**	–	–
Mortgage Agency Services Number One Limited	**2,345.1**	**–**	–	–
Mortgage Agency Services Number Two Limited	**65.1**	**–**	–	–
Mortgage Agency Services Number Four Limited	**184.4**	**–**	–	–
Mortgage Agency Services Number Five Limited	**431.1**	**–**	–	–
Mortgage Agency Services Number Six Limited	**18.1**	**–**	–	–
Mortgage Agency Services Number Seven Limited	**–**	**0.3**	–	–
Platform Group Holdings Limited	**1,899.3**	**–**	–	–
Britannia International Limited	**–**	**1,733.4**	–	–
Britannia Life Direct Limited	**–**	**89.2**	–	–
Britannia New Homes Limited	**–**	**0.1**	–	–
Britannia Independent Limited	**–**	**0.9**	–	–
The Mortgage Agency plc	**–**	**0.1**	–	–
Verso Limited	**–**	**0.2**	–	–
Britannia Shield Property Services Limited	**0.2**	**–**	–	–
Britannia Estate Agents Limited	**0.2**	**–**	–	–
Western Mortgage Services Limited	**0.2**	**–**	–	–
Illius Properties Limited	**120.5**	**–**	–	–
Britannia Covered Bonds LLP	**1,417.4**	**1,843.5**	–	–
First Co-operative Finance Limited	**0.9**	**–**	0.9	–
Cleveland Guaranty Limited	**1.0**	**–**	1.0	–
Cleveland Finance Limited	**0.6**	**–**	0.6	–
Second Pioneers Leasing Limited	**0.4**	**–**	0.4	–
Phoenix Credit Services Limited	**–**	**0.1**	–	0.1

	Loans owed by other Co-operative Group undertakings 2009	**Loans owed to other Co-operative Group undertakings 2009**	Loans owed by other Co-operative Group undertakings 2008	Loans owed to other Co-operative Group undertakings 2008
Parent undertakings	**89.5**	**27.2**	108.0	107.4
Fellow subsidiary undertakings	**1.5**	**302.0**	29.9	118.1
	91.0	**329.2**	137.9	225.5

There are no formal repayment terms with subsidiary companies.

All amounts are stated in £m unless otherwise indicated

37. Related party transactions (continued)

Transactions with SPEs

The Bank undertook the following transactions with SPEs during the year:

	Interest paid to Bank 2009	**Interest received from Bank 2009**	Interest paid to Bank 2008	Interest received from Bank 2008
Leek Finance Number Fourteen plc	**0.3**	**–**	–	–
Leek Finance Number Fifteen plc	**0.4**	**–**	–	–
Leek Finance Number Sixteen plc	**0.3**	**–**	–	–
Leek Finance Number Seventeen plc	**0.6**	**–**	–	–
Leek Finance Number Eighteen plc	**0.5**	**–**	–	–
Leek Finance Number Nineteen plc	**0.7**	**–**	–	–
Leek Finance Number Twenty plc	**12.4**	**–**	–	–
Leek Finance Number Twenty One plc	**8.4**	**–**	–	–
Leek Finance Number Twenty Two plc	**3.5**	**–**	–	–
Meerbrook Finance Number One Limited	**0.3**	**–**	–	–
Meerbrook Finance Number Three Limited	**0.1**	**–**	–	–
Meerbrook Finance Number Four Limited	**2.1**	**0.3**	–	–
Meerbrook Finance Number Six Limited	**0.1**	**–**	–	–

At the year end the following balances were outstanding with SPEs:

	Loans owed to Bank 2009	**Loans owed by Bank 2009**	Loans owed to Bank 2008	Loans owed by Bank 2008
Leek Finance Number One plc	**–**	**0.1**	–	–
Leek Finance Number Four plc	**–**	**0.1**	–	–
Leek Finance Number Five Limited	**–**	**0.1**	–	–
Leek Finance Number Six Limited	**–**	**0.1**	–	–
Leek Finance Number Seven plc	**–**	**0.1**	–	–
Leek Finance Number Ten plc	**–**	**0.1**	–	–
Leek Finance Number Twelve plc	**–**	**0.1**	–	–
Leek Finance Number Fourteen plc	**–**	**0.4**	–	–
Leek Finance Number Fifteen plc	**19.0**	**1.4**	–	–
Leek Finance Number Sixteen plc	**14.9**	**2.3**	–	–
Leek Finance Number Seventeen plc	**41.2**	**1.8**	–	–
Leek Finance Number Eighteen plc	**38.2**	**2.3**	–	–
Leek Finance Number Nineteen plc	**73.2**	**2.2**	–	–
Leek Finance Number Twenty plc	**1,863.2**	**2.8**	–	–
Leek Finance Number Twenty One plc	**1,271.8**	**2.9**	–	–
Leek Finance Number Twenty Two plc	**514.5**	**1.8**	–	–
Meerbrook Finance Number One Limited	**41.5**	**29.4**	–	–
Meerbrook Finance Number Two Limited	**1.3**	**0.4**	–	–
Meerbrook Finance Number Three Limited	**10.3**	**3.3**	–	–
Meerbrook Finance Number Four Limited	**391.7**	**120.7**	–	–
Meerbrook Finance Number Five Limited	**1.7**	**–**	–	–
Meerbrook Finance Number Six Limited	**15.9**	**4.8**	–	–
Dovedale Finance Number One plc	**–**	**0.2**	–	–

The loans owed to the SPEs include cash balances deposited with the Bank.

All amounts are stated in £m unless otherwise indicated

37. Related party transactions (continued)

Key management compensation

	Group and Bank	
	2009	2008
Salaries and short-term benefits	**4.5**	3.9
Termination benefits	**1.8**	0.7
	6.3	4.6

Directors' remuneration

A listing of the members of the Board of directors is shown on pages 14 and 15. The total remuneration of directors was £5.2m (2008: £3.2m).

Further details of directors' remuneration are provided on pages 27 to 34.

38. Share capital

	Group and Bank	
	2009	2008
Authorised capital		
At the beginning of the year 1,100,000,000 ordinary shares of 5p each	**55.0**	55.0
Authorised in the year 3,500,000,000 ordinary shares of 5p each	**175.0**	–
At the end of the year 4,600,000,000 ordinary shares of 5p each	**230.0**	55.0
Allotted called up and fully paid		
At the beginning of the year 1,100,000,000 ordinary shares of 5p each	**55.0**	55.0
Issued in the year 3,500,000,000 ordinary shares of 5p each	**175.0**	–
At the end of the year 4,600,000,000 ordinary shares of 5p each	**230.0**	55.0
Share premium account at the beginning and end of the year	**8.8**	8.8

On 14 January 2009 the authorised share capital was increased to 4,600,000,000 ordinary shares of 5p each.

On 26 January 2009, the Bank issued 2,400,000,000 ordinary shares of 5p each at a cost of £120.0m. On 1 August 2009, the Bank issued a further 1,100,000,000 ordinary shares of 5p each at a cost of £55.0m. These were issued to its immediate parent company, Co-operative Financial Services Limited.

On 1 August 2009 following FSA approval, Britannia Building Society transferred its engagements to The Co-operative Bank plc.

The shareholders have one vote for every share held.

39. Transfer of engagements of Britannia Building Society

On 1 August 2009, Britannia Building Society merged with The Co-operative Bank plc by a transfer of engagements between the building society and the bank under the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007.

The business combination was approved by Britannia members at the Annual General Meeting on 29 April 2009.

Britannia was the UK's second largest building society, with nearly three million members countrywide, offering a range of mortgage, savings, investments and insurance products. The business combination was undertaken to create the first ever 'super-mutual' and combines the strengths of both organisations.

The cessation accounts of Britannia Building Society for the period 1 January 2009 to 31 July 2009, audited by PricewaterhouseCoopers, reported total operating income of £250.0m, operating profit of £43.8m and profit before taxation of £24.8m.

All amounts are stated in £m unless otherwise indicated

39. Transfer of engagements of Britannia Building Society (continued)

In the five months to 31 December 2009, including the impact of fair-value adjustments, the former Britannia Group contributed total operating income of £225.2m, operating profit of £124.1m and profit before taxation of £124.0m. To calculate an estimate of the results of the business combination from the beginning of the year, the Group estimates that operating income of £257.3m, operating profit of £59.7m and profit before taxation of £40.7m relating to Britannia Building Society would be added to the figures as reported in the consolidated income statement.

The Britannia assets and liabilities were included in the Group accounts on the transfer of engagements at the following amounts:

		Cessation accounts	Fair-value adjustments	Recognised values on transfer of engagements
Cash and balances at central banks		**591.8**	**–**	**591.8**
Loans and advances to banks		**972.5**	**(16.4)**	**956.1**
Loans and advances to customers	a	**23,752.9**	**(867.4)**	**22,885.5**
Fair-value adjustments for hedged risk	a	**370.2**	**(370.2)**	**–**
Investment securities	b	**6,588.1**	**(443.9)**	**6,144.2**
Derivative financial instruments		**1,086.6**	**–**	**1,086.6**
Investments in joint ventures		**2.1**	**–**	**2.1**
Goodwill	c	**194.8**	**(194.8)**	**–**
Intangible fixed assets	d	**36.4**	**9.6**	**46.0**
Investment properties	e	**131.1**	**(7.4)**	**123.7**
Property, plant and equipment	f	**72.6**	**10.0**	**82.6**
Other assets	a	**18.0**	**(8.6)**	**9.4**
Prepayments and accrued income		**122.2**	**–**	**122.2**
Deferred tax assets	g	**52.5**	**79.7**	**132.2**
Total assets		**33,991.8**	**(1,809.4)**	**32,182.4**
Deposits by banks		**(6,117.6)**	**–**	**(6,117.6)**
Customer accounts	h	**(18,309.5)**	**4.8**	**(18,304.7)**
Capital bonds		**(1,593.2)**	**–**	**(1,593.2)**
Debt securities in issue	i	**(4,962.3)**	**1,295.0**	**(3,667.3)**
Derivative financial instruments		**(721.1)**	**–**	**(721.1)**
Other liabilities		**(54.0)**	**–**	**(54.0)**
Accruals and deferred income	j	**(207.8)**	**(34.6)**	**(242.4)**
Provisions for liabilities and charges		**(14.2)**	**–**	**(14.2)**
Current tax liabilities		**(44.3)**	**(1.6)**	**(45.9)**
Subordinated liabilities	k	**(530.9)**	**221.4**	**(309.5)**
Subscribed capital	k	**(318.7)**	**78.7**	**(240.0)**
Available-for-sale reserve	l	**88.8**	**(88.8)**	**–**
Cashflow hedging reserve	l	**12.7**	**(12.7)**	**–**
Total liabilities and reserves		**(32,772.1)**	**1,462.2**	**(31,309.9)**
Net identifiable assets		**1,219.7**	**(347.2)**	**872.5**
Deferred consideration	m			**49.6**
Imputed consideration	n			**811.2**
Business combination costs				**12.3**
Goodwill recognised on business combination				**0.6**

39. Transfer of engagements of Britannia Building Society (continued)

The value of assets, liabilities and contingent liabilities recognised are their estimated fair values based on applicable IFRS.

a) The fair-value adjustment to loans and advances to customers comprises:
   (i) an interest-rate adjustment on a discounted cash flow basis to reflect the value inherent in fixed rate, base and tracker products compared to current market pricing;
   (ii) the inclusion of a credit risk adjustment to reflect future lifetime expected credit losses; and
   (iii) the write-off of existing EIR balances, fair-value adjustment for hedged risk and other hedging-related balances.

b) Floating-rate notes have been valued at their quoted market price at the date of transfer. The fair value of asset – and mortgage-backed securities have been calculated with reference to latest available third party prices.

c) Under IFRS, the goodwill on the balance sheet of the transferring entity is derecognised. The book value of goodwill in the balance sheet at the date of transfer of £194.8m has therefore been written off.

d) (i) The Britannia software development costs and other intangible assets totalling £34.2m have been written off, as these were considered to have no market value at the date of transfer.
   (ii) Intangible assets following the business combination are identified and valued. The Britannia brand has been deemed to have a fair value of £2.0m and in respect of core deposits, the intrinsic value of the retail savings book has been valued at £44.0m. The brand intangible asset will be subject to an annual impairment review. The core deposit intangible asset will be amortised over the estimated useful life of three years.

e) The investment properties in the former Britannia subsidiary company, Illius Properties Limited, have been revalued to their market value at the date of transfer.

f) The fair-value adjustment to property, plant and equipment principally relates to the independent valuation of properties used by the business at the date of transfer.

g) Deferred tax has been provided where subsequent tax benefits or charges will arise from the fair-value adjustments.

h) The fair-value adjustment to customer balances relates to an interest-rate adjustment on a discounted cash flow basis. This reflects the inherent value of the primarily fixed-rate business compared to current market pricing for retail deposits.

i) The debt securities in issue relating to the former Britannia Building Society have been valued using a discounted cash flow calculation, due to limited market data. The debt securities in issue relating to the securitised companies in the former Britannia Group have been valued at their market rate at the date of transfer. These liabilities were previously carried at amortised cost.

j) The fair-value adjustment to accruals and deferred income relates to aligning the accounting policy treatment of capital bonds and maintenance of payments to the Britannia Foundation for three years.

k) The subordinated liabilities and subscribed capital have been restated using their quoted market price.

l) The available-for-sale and cash flow hedging reserves have been written off on the date of the transfer of engagements.

m) The deferred consideration consists of £1.8m relating to the payment of £1 joining fees for Britannia members to become members of The Co-operative Group and £47.8m relating to the maintenance of Britannia membership reward (BMR) payments to former Britannia members for the next four years.

n) The business combination with Britannia Building Society did not involve the transfer of any cash consideration. The value of the imputed consideration has been calculated based on a discounted cash flow of further BMR payments which would have been paid to Britannia members in perpetuity.

All amounts are stated in £m unless otherwise indicated

39. Transfer of engagements of Britannia Building Society (continued)

Goodwill recognised

Goodwill of £0.6m has been recognised on the transfer of engagements of Britannia Building Society. This has been calculated as the difference between the fair value of the net assets transferred and the total consideration and business combination costs. The imputed consideration is based on a discounted cash flow calculation of the future income stream that Britannia members could have expected to receive. For further details of the goodwill calculation and the assumptions behind the recoverable amount refer to note 19.

Accumulated impairment losses relating to the goodwill at 31 December 2009 are £nil.

The total amount of goodwill that is expected to be deductible for tax purposes is £nil.

Acquired receivables

The Group expects to receive all gross contractual amounts receivable relating to the above financial assets with the exception of the following:

Class of receivable	Fair value	Gross contractual amounts receivable	Cash flows not expected to be collected
Loans and advances to banks	**956.1**	**977.1**	**16.4**
Loans and advances to customers	**22,885.5**	**23,829.3**	**659.0**
Investment securities	**6,144.2**	**6,637.9**	**88.8**
	29,985.8	**31,444.3**	**764.2**

The gross contractual amounts receivable relates to the cessation account balance before provisions and other fair-value adjustments. Cash flows not expected to be collected are the undiscounted credit losses associated with the balance.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By Order of the Board
Neville Richardson
Chief executive
17 March 2010

NOTICE IS HEREBY GIVEN that the Annual General Meeting of The Co-operative Bank plc will be held on the 24th Floor, CIS Building, Miller Street, Manchester, M60 0AL at 10am on Wednesday, 12 May 2010 for the following purposes:

Ordinary business

1. To receive the notice convening the meeting.
2. To receive the annual reports and adopt the financial statements for the year ended 31 December 2009, together with the auditor's report.
3. To approve the remuneration report for the year ended 31 December 2009.
4. To accept the following recommendations of the Board in respect of the non-cumulative irredeemable preference shares:
   (i) That the payment of the dividend of 4.625p per £1 share on 30 November 2009 be confirmed.
   (ii) That a dividend of 4.625p per £1 share be declared and paid on 28 May 2010 to the registered holders as at 30 April 2010 providing a dividend rate of 9.25% per annum and making a total distribution of £5,550,000.
5. To re-elect the following directors who retire by rotation, in accordance with the provisions of Article 105 and 105A:
   (i) David Davies, senior independent non-executive director
   (ii) Paul Hewitt, professional non-executive director
   (iii) Bob Newton, independent professional non-executive director
   (iv) Piers Williamson, independent professional non-executive director
6. To re-appoint the following directors who were appointed to the Board since the last Annual General Meeting of the Company:
   (i) Rodney Baker-Bates who was appointed to the Board on 1 August 2009
   (ii) Rod Bulmer who was appointed to the Board on 1 August 2009
   (iii) Tim Franklin who was appointed to the Board on 1 August 2009
   (iv) Peter Harvey who was appointed to the Board on 1 August 2009
   (v) Chris Jones who was appointed to the Board on 1 August 2009
   (vi) Stephen Kingsley who was appointed to the Board on 1 August 2009
   (vii) Phil Lee who was appointed to the Board on 1 August 2009
   (viii) Peter Marks who was appointed to the Board on 9 June 2009
   (ix) Ben Reid who was appointed to the Board on 8 June 2009
   (x) Neville Richardson who was appointed to the Board on 1 August 2009
   (xi) Duncan Bowdler who was appointed to the Board on 8 July 2009
   (xii) Paul Flowers who was appointed to the Board on 8 June 2009
7. To re-appoint KPMG Audit Plc as auditor of the Company, to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company, at a remuneration to be fixed by the directors.

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Reg. No. 990937 (England)
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Fax : 0161 829 4475

Registrar:
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P.O. Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
Tel : 0870 702 0003

By Order of the Board
Moira Lees
Secretary
17 March 2010

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his/her behalf. A proxy need not also be a member. Further information on Preference Shareholders' voting rights is given below.

Members should note that to attend the meeting their shareholding must be registered on the register of the Company not later than 9am on 10 May 2010. This applies to shares held in uncertified forms in CREST and to shares held in certified form.

Notes:

1. Director Information

The biographies of the directors up for re-election and re-appointment at the Annual General Meeting can be found on pages 14 and 15 of the financial statements.

2. Preference Shareholders – Extract from Articles of Association 4 (B)(c)
Voting and General Meetings

(i) The holders of the Preference Shares shall be entitled to receive notice of and attend (either in person or by proxy) all General Meetings of the Company. The holders of the Preference Shares shall have a right to speak and vote at a General Meeting of the Company only if and when, at the date of the notice convening such meeting, the fixed preferential dividend payable to them respectively has been in arrears for six months or more after any date fixed for payment thereof, or if a resolution is to be proposed at such meeting abrogating or varying any of the respective rights or privileges attaching to their shareholding or for the winding-up of the Company or other return of capital and then on such resolution only.

(ii) Whenever the holders of the Preference Shares are entitled to vote at a General Meeting of the Company upon any resolution proposed at such meeting, on a show of hands every holder who (being an individual) is present in person or (being a corporation) is present by a representative or by proxy shall have one vote and, on a poll, shall have one vote in respect of each Preference Share registered in the name of such holder.

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