

Co-operative Financial Services Interim Financial Report 2009

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Highlights

- CFS profit before tax, significant items, FSCS levy and investment fluctuations was £81.4m (2008: £73.4m).
- Profit before tax was £50.5m (2008: £38.0m).
- Bank profit before tax increased by £5.1m (25.8%).
- Bank results benefit from a conservative approach to lending, low reliance on wholesale funding and strong ratio of customer deposits to loans at 113% (2008: 105%).
- Average customer deposits grew by 21% and average customer lending by 12%.
- General Insurance operating result improved by £16.1m.
- General Insurance claims ratio improved by 0.7% to 73.3% (2008: 74.0%).
- CFS reaffirmed its leadership role in Corporate Social Responsibility at the prestigious Card Awards by winning awards for the Best Corporate Responsibility Programme for its Customers Who Care campaign and the Best Charity Credit Card Programme.
- Co-operative Insurance celebrated success at this year's British Insurance awards by winning the coveted 'Corporate & Social Responsibility Project of the Year' award.
- CFS was recognised as one of the seven leaders in Corporate Social Responsibility with the award of the Business in the Community Corporate Responsibility index of 'Platinum Plus'.

Vision and values

Our business purpose

To be a pioneering business delivering sustainable financial services for members and society.

Our CFS vision

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

Our givens

- We champion co-operative values and principles and ethics
- We are financially prudent and strong
- We share profits with members
- We only do business consistent with our values and principles

Our values

As a Co-operative business:-

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 are committed to excellent communication.

Business and financial review

Highlights

Total shareholder profit before tax, Financial Services Compensation Scheme (FSCS) levy, significant items and investment fluctuations was £81.4m compared to £73.4m in the previous year with improved results in the General Insurance business. Banking results have remained broadly stable despite the impact of the difficult economic environment.

The Bank has maintained a strong balance sheet position with continuing robust liquidity and capital ratios. As at the half year end, the capital ratio was 12.8% with a tier 1 ratio of 9.9% and a core tier 1 ratio of 9.2% reflecting the quality of our capital resources.

2009 has seen the dislocation in financial markets evolve into a wider economic slowdown. Funding markets remain volatile and with only government guaranteed or highly rated issuance possible, the competition remains intense for customer deposits. The Bank has continued to take a prudent and disciplined approach to liquidity and funding. The Bank has a very strong retail deposit base with customer deposits higher than customer lending such that its reliance on wholesale funding is lower than most other banks. Funding of lending through customer deposits has been maintained at a minimum of 100% through selective asset growth and development of customer deposit balances. As a result of this strength, the Bank has not been required to enter the markets at disadvantageous terms. As a consequence of managed growth of both sides of the balance sheet, lending to customers has nevertheless grown strongly with a 12% increase in customer lending.

Highlights	2009 £m	2008 £m	Change £m
Banking operating result	41.7	46.2	(4.5)
General Insurance operating result	14.6	(1.5)	16.1
Other shareholders activities (excluding STIF)	25.1	28.7	(3.6)
Result pre-investment fluctuations and FSCS levy	81.4	73.4	8.0
FSCS levy	(2.2)	–	(2.2)
STIF	(6.4)	7.8	(14.2)
Profit before significant items	72.8	81.2	(8.4)
Shareholder significant items	(22.3)	(43.2)	20.9
Profit before taxation	50.5	38.0	12.5

FSCS levy – Financial Services Compensation Scheme levy
STIF – Short Term Investment Fluctuations

The first half of 2009 has seen continued strong new business sales in the Retail Bank and sales volumes across General Insurance products have also increased. Life and Savings new business has increased, with sales of life protection policies showing a substantial uplift. This has been underpinned by a 15% productivity increase in the sale of Life and Savings products by the Field Sales force.

Despite very difficult economic conditions, the banking business achieved profits of £41.7m, only slightly reduced from £46.2m in 2008 due to increased income offset by marginally higher impairment losses and costs. Strong balance sheet growth was achieved in both lending and deposit balances in both our retail and corporate businesses which resulted in higher net interest income. Non-interest income reduced primarily due to lower insurance commissions. The Wholesale business has improved performance as continued strengthening of our balance sheet and liquidity and low reliance on wholesale funding has enabled us to generate higher interest in current markets from excess retail funding.

The General Insurance result has improved by £16.1m from the 2008 result primarily from improved investment performance and a slightly lower claims ratio, reflecting the move to a lower risk profile.

The long-term business, run in the interests of policyholders, has seen further savings in operating expenses. Sales of new policies have significantly improved, primarily sales of life protection products by the Field Sales channel.

In 2009, CFS has paid a 2008 final dividend of £49.1m to its parent, the Co-operative Group. This payment supports the overall Group membership scheme as well as our leading social goals and community involvement activities.

Merger with Britannia Building Society

The merger of Co-operative Financial Services with Britannia presents us with a truly exciting opportunity to change the face of financial services in the UK at a time when customers have lost confidence in shareholder and government owned banks.

While others are scaling back, we are looking confidently to the future and exploring new opportunities, creating a unique member-owned, customer-led and ethically-guided business that can become a powerful and trusted force in financial services.

The legislation enabling building societies and co-operatives to merge came into force only in January 2009 and we have moved at pace to deliver a merger on 1 August. This is testament to the capability, enthusiasm, commitment and adaptability of people across both organisations, and bodes well for our future integration and evolution.

We have created a business of real scale, with £70 billion of assets, nine million customers, 12,000 employees, more than 300 branches and 20 corporate banking centres.

Our experience in bringing cultures together through mergers, acquisitions and reorganisations will help us succeed in integrating the businesses. More than this, our success will come from our well-established and complementary values, which mean we understand what's important to our members, our customers and our colleagues.

We have defined a new purpose for the new Co-operative Financial Services – to be a pioneering business delivering sustainable financial services for members and society.

So we'll champion co-operative values and principles and ethics, we'll be financially prudent and strong, we'll share profits with our members and we'll only do business consistent with our values and principles.

Our values describe how we behave, and will ensure we deliver a consistently good customer experience. As a co-operative business, we put our members and customers first in all we do. We take personal and social responsibility. Together, we'll create a great place to work, grow and develop. We strive relentlessly to be faster, better, more successful. And we are open and fair and are committed to excellent communication.

By living these values, we will achieve our vision to be the UK's most admired financial services business.

Our merger takes place against a backdrop of a market and economic environment which is changing and remains full of uncertainty. Given this backdrop, it's important that we maintain capital strength and liquidity, maintain control on costs, and progress our integration and transformation plans, positioning ourselves for growth as we come out of recession.

The combined business will expect to deliver more than £60 million a year in efficiency and revenue benefits from year three and, as a customer-owned business, customers will share in these savings through more competitive rates, improved customer service or increased member dividends.

It is expected that there will be some reduction in roles during the three-year integration process, however significant synergy benefits are also expected from procurement and supplier savings. Any compulsory redundancies will be kept to a minimum through redeployment, re-training and normal staff turnover over the three-year timeframe.

The new business is committed to working with all recognised trade unions to effectively manage any changes.

Investment in the future

In 2006, CFS started the journey to better serve its 6 million customers through transforming its business and technology capabilities. Last year CFS commenced a substantial investment in enterprise-wide new technology and processes, to replace our retail and corporate banking IT infrastructure. This investment will allow CFS to transform its customer facing and internal processes. Further integration will join the Banking IT infrastructure with that of the Insurance businesses to ensure we remain truly customer centric in the way we address our customers' needs. This investment will support our retail core customer relationship strategy across Banking, Insurance and Investments to deliver attractive, fair, accessible products on a scaleable multi-channel basis. The programme will be a critical enabler of the operational integration of Britannia and CFS customers and products. The first deployment of the new capability – updated internet banking for corporates and small businesses – is targeting delivery commencement by the end of 2009.

Significant progress also has been made in improving Customer Service, product reach and sales across our distribution channels and propositions. Advancement has also been made in reducing production and processing costs whilst improving operational controls. This is alongside a considerable focus on the merger. The portfolio of change is regularly refined to ensure close alignment to strategy, business case impact and potential changing priorities.

As explained above, the extensive restructuring and modernisation of the business has continued to necessitate substantial investment resulting in total significant items of £31.0m in 2009 following the £71.4m charged in 2008. In addition, £3.0m has been incurred from the merger with Britannia Building Society.

Customer and membership focus

As part of a wider plan involving all the family of businesses within the Co-operative Group, we have been involved in a significant re-branding exercise. This has been used to explain what makes The Co-operative different. The campaign included television, cinema, press and branch advertisements as well as transforming the iconic CIS tower into the tallest canvas in the UK through projection of the brand image onto the 25-storey building.

Our new campaign 'Your Money' recognised that we are here for the sole benefit of our customers and members, and not shareholders, and our customers' money is our responsibility.

CFS has built on the Group wide investment in awareness building to promote a very specific 'stability' and 're-assurance' message, reflecting the needs of the financial services consumer in the current economic climate.

We were also selected as a 'Business Superbrand' for 2009 as this year's annual publication of Business Superbrands explained how we have been pioneering in the area of ethical finance and remain the only UK high street bank with an Ethical Policy that is voted on by customers.

Market leading customer satisfaction is one of our key business measures. As at July 2009, 72.8% of our customers claimed to be either 'Extremely' or 'Very Satisfied' with the products and service that we provide, compared to 74.3% as at December 2008. The quality of our products and service was further recognised as the Bank was named 'Best Financial Services Provider' at the Which? Awards. Additionally, Co-operative Insurance was named the Best Direct Motor Insurer for 2009 by 'Your Money'.

Good with people

We launched a new Diversity Policy that sets out the way we promote diversity in our dealings with colleagues and customers.

We were re-accredited as a holder of the 'Two Ticks' Disability Symbol. The Symbol is a recognition given by JobCentre Plus to employers who have agreed to take action to meet five commitments regarding the employment, retention, training and career development of disabled employees.

We completed our internal annual Equal Pay audit with no significant issues being identified. In addition, we were invited to participate in the Equality and Human Rights Commission Statutory Inquiry on the gender pay gap and the extent and nature of sex discrimination in the financial services sector.

External market turbulence

The extreme market conditions experienced during 2008 continued into 2009. In January and February investors grew increasingly concerned about the rapid deterioration in global activity and the poor state of the banking systems in the UK, US and Europe. The price of riskier assets, such as equities and corporate bonds, declined sharply. The price of gilts also fell reflecting a pull back from the extreme levels that had been reached at the end of 2008.

As the financial crisis developed, interest rates were reduced to their lowest level of 0.5% and unconventional methods of stimulating the economy were implemented. In early March, under its new policy of Quantitative Easing (QE), the government announced a series of buybacks of gilts and corporate bonds with an initial value of up to £150bn. Having completed purchases of £125bn, the Bank of England paused and, in August, extended the quantitative easing programme to £175bn.

Looking ahead, current forecasts suggest that we are passing through the trough of the recession and that the UK economy will recover modestly in 2010. Base rates are expected to remain low throughout the period. Financial conditions are improving but this is likely to be a slow process. Although we believe that we have seen the worst of the downturn and expect the economy to return to growth in 2010, business conditions will remain difficult during the year as unemployment rises and bad debts increase.

Banking

	2009 £m	2008 £m	Change £m	Change %
Net interest income	202.2	190.9	11.3	5.9
Non-interest income	93.5	101.0	(7.5)	(7.4)
Operating costs	(181.0)	(175.4)	(5.6)	(3.2)
Impairment losses	(73.0)	(70.3)	(2.7)	(3.8)
Operating profit before tax and significant items	41.7	46.2	(4.5)	(9.7)
FSCS levy	(2.2)	–	(2.2)	–
Britannia merger costs	(2.1)	–	(2.1)	–
Restructuring costs	(12.5)	(26.4)	13.9	52.7
Profit before tax	24.9	19.8	5.1	25.8
<i>Operating profit before tax and significant items analysed by segment:</i>				
Retail	0.7	21.2	(20.5)	(96.7)
Corporate	27.6	44.1	(16.5)	(37.4)
Wholesale	13.4	(19.1)	32.5	170.2
Total	41.7	46.2	(4.5)	(9.7)
Cost/Income ratio before significant items	61.2%	60.1%		(1.1)

Operating profit before tax, FSCS levy and significant items was broadly maintained at 2008 levels, with profits of £41.7m (2008: £46.2m). Strong balance sheet growth was achieved in both lending and deposit balances, resulting in higher net interest income, although this was offset by slightly higher impairment losses and operating costs. The strong balance sheet position reflects the Bank's policy of funding lending from customer deposits as well as the impact of the economic conditions on a small number of counterparties in the Bank's Corporate portfolio.

Profit before tax, which increased by £5.1m to £24.9m, is stated after the inclusion of levies payable to the FSCS of £2.2m resulting from defaults of other deposit-takers during the 'credit crunch'. Profit before tax also reflects restructuring costs of £12.5m (2008: £26.4m) and Britannia merger costs of £2.1m (2008: £nil).

The Bank has maintained a strong balance sheet position with continuing robust liquidity and capital ratios. As at the half year end, the capital ratio was 12.8% with a tier 1 ratio of 9.9% and a core tier 1 ratio of 9.2% reflecting the quality of our capital resources.

Net revenue increased by £3.8m (1%) reflecting an £11.3m increase in net interest income offset by a reduction of £7.5m in non-interest income. Net interest income growth arose from both increase in customer lending and customer deposits. Average customer deposits and average customer lending from the Bank's retail and corporate business areas have risen by 21% and 12% respectively during the first half

of 2009. Non-interest income reduced as growth in corporate commission was more than offset by lower insurance commissions.

Higher interest income from balance sheet growth across product and business segments and improved wholesale margins arising from investment of the Bank's deposit base has been partly offset by lower retail margins. The Bank reduced its exposure to unsecured lending and offered market leading deposit and term products to further strengthen the balance sheet. This was alongside strong growth achieved in secured mortgage and corporate lending focused towards customers who share the Co-operative values, seeking to build profitable relationships across the CFS banking and insurance products.

Growth in mortgages, which are integral to the Bank's relationship strategy, has been achieved without compromising the quality of the portfolio with the Bank continuing to operate in the prime mortgage lending market. As such average loan-to-value for the portfolio over the last 12 months has remained constant at 53%.

Average corporate lending balances within the Bank increased by £746m (21%). During 2009 the Bank has further demonstrated its commitment to the environment and has approved loans for renewable energy and energy efficiency schemes totalling in excess of £60m. These loans range from a community based wind farm on the Hebridean Island of Tiree, to a Hydro scheme on the Scottish mainland, to combined heat and power plants for three hospitals in England. Our success was also highlighted as

the Property Finance Unit was recognised at 'The North West Property Awards Dinner' as 'Finance Partner of the Year'.

Deposit growth has been achieved through the attractiveness of the Bank's current accounts, the Privilege packaged account and term deposit products. New current account sales are 68% higher than 2008 and customers choosing to upgrade their account have also seen a 68% uplift. This is complemented by a 51% increase in the sale of packaged bank accounts, which offer our customers a range of additional benefits. Additionally, the volume of switcher bank accounts, i.e. new customers transferring their primary bank account from other banks, has increased by 64% over the same period last year.

The CFS in store banking pilot commenced in May 2008. The pilot was originally in four locations testing different service models. From these initial sites the Bank has identified a specific model which is complementary to the wider Group customer proposition within stores and this model has already been implemented in Peacehaven. A further two sites, in Matlock and Hove, are due to come online later this year.

Corporate sector deposits increased by £994m (44%) as growth on term deposits was targeted in the period to support the Bank's funding base. We have launched 3 new Corporate Banking Centres (Edinburgh, Cambridge and Chelmsford). We now operate out of 20 Corporate Banking Centres, compared to 10 at the end of 2006.

Non-interest income at £93.5m was £7.5m lower than the same period last year. This was largely driven by growth in corporate commission more than offset by lower insurance commissions.

The Bank's business-as-usual operating costs have risen by 3% to £181.0m reflecting system developments required for regulatory compliance, security measures supporting the ATM estate and increases in customer support areas.

Additionally, the Bank has recognised a further £2.2m of FSCS levy arising from defaults of other deposit-takers during the 'credit crunch'. These charges are not included in the above analysis but are disclosed separately.

Increases in retail bad debts reflect the increased difficulties faced by our retail customers in meeting unsecured debt repayments. However this worsening appears to have stabilised and additional collections focus has helped to improve the overall position.

Corporate sector impairment losses of £23.9m reflect recognition of a series of problem cases during the first half in line with industry experience. These have been monitored on an ongoing basis and been the subject of extensive restructuring discussions which are now reflected in the underlying charge.

These increased bad debt losses were offset by £25m lower investment losses, such that overall impairment increased by only £2.7m.

In July 2009, the customer satisfaction score for retail banking at 75.5% (December 2008: 76.5%) remains significantly higher than those for the rest of the market, where a decline was shown from 63.6% in December 2008 to 61.8% in July 2009.

General Insurance

Results summary	2009 £m	2008 £m	Change £m	Change %
Earned premiums	201.7	206.3	(4.6)	(2.2)
Claims	(147.9)	(152.7)	4.8	3.1
Investment return	38.4	22.3	16.1	72.2
Commission & expenses	(76.4)	(74.3)	(2.1)	(2.8)
Other operating income	1.1	0.8	0.3	37.5
Interest payable	(2.3)	(3.9)	1.6	41.0
Operating profit before tax and significant items	14.6	(1.5)	16.1	1,073.3
Britannia merger costs	(0.6)	–	(0.6)	–
Restructuring costs	(7.1)	(16.8)	9.7	57.7
Profit before tax	6.9	(18.3)	25.2	137.7
Gross written premiums	228.4	220.9	7.5	3.4
Claims ratio	73.3%	74.0%	–	0.7%
Commission and expense ratio	37.9%	36.0%	–	(1.9%)
Combined ratio	111.2%	110.0%	–	(1.2%)

The General Insurance business has delivered profits of £14.6m in H1 2009 (2008: loss of £1.5m).

Gross Written Premium has improved by £7.5m (3%) to £228.4m. This is predominantly driven by increasing sales volumes through our direct broker and aggregator channels, continuing the growth seen in 2007 and 2008. Retention rates have remained broadly stable, despite economic conditions, reflecting the loyalty of our customer base and success of retention initiatives. New business sales have increased by 28% over 2008 and 87% over 2007.

The General Insurance claims ratio was 73.3% (2008: 74.0%) despite claims for the cold weather experienced earlier in the year and an increasing trend for claims that settle on a periodical payment basis as opposed to lump sum. Costs remained broadly unchanged despite the increase in overall income, new business volumes and associated commissions.

We have launched a new suite of market leading Business Insurance products which offer customers the ability to have a policy tailored to suit their individual business requirements as customers can choose from packaged or bespoke policies. We have implemented the final phase of our commercial insurance strategy with web sales capability now live. We have delivered full 'quote and close' capabilities for our home product in bank branches.

We have continued to widen the gap over our main competitors on customer satisfaction. Customer satisfaction with GI products and services at 75.3% (December 2008: 78.5%) is 8 percentage points higher than the Top 5 market share score (currently at 67.4%). We won the 'Corporate and Social Responsibility Project of the Year' award at the British Insurance awards, and have been awarded a Claims platinum award.

Long-term business

The first half of 2009 has seen further turbulence with markets reaching a six year low in early March. Equity and credit markets recovered in the 2nd quarter to end the reporting period higher than end-2008 levels. The rate of deterioration in economic data has slowed with business expectations starting to improve, and investors becoming more confident that government policy measures would prevent a slump in economic activity.

Sales figures remain solid for the year to date and profitability of new business exceeded target levels with the Present Value of New Business Premiums for the first half of 2009 rising by 21% compared to the first half of 2008 to £307.5m. We have seen customers continue to take a more cautious attitude to risk during 2009 and sales of our single premium With-Profits Bond and Investment Bond have increased significantly from 2008 volumes.

We are continuing our initiative to expand the distribution of our Unit Trusts to IFAs and other intermediaries in the wider investment market, and believe this represents an exciting opportunity for The Co-operative Asset Management over the medium to long term.

Gross earned insurance premiums for life and pensions business in the first half of 2009 was £269.8m compared to £274.4m for the corresponding period last year. The fall in gross premium income is due to a reduction in regular premium from in-force with-profits business as policies reach maturity or retirement, partly offset by new business.

The first half of 2009 has seen mixed returns across the major asset classes. The FTSE All-share return produced a positive return of 7.2%, whilst the FTSE World index produced 6.6% growth. Corporate bonds also performed well as spreads began to fall as confidence returned. Property returns were poor with the IPD Property index generating total returns of minus 9.0% over the period. Government bonds performed poorly with returns of around minus 7.6%.

Co-operative Insurance has nearly 3 million with-profits policies in force. Co-operative Insurance continues to add value for its with-profits policyholders and to ensure that a competitive return is achieved on their savings. In determining bonuses that are payable on with-profits policies, directors follow the Principles and Practices of Financial Management (PPFM). The latest version of the PPFM can be found on our website. Returns for with-profits policyholders were 0.6% for the first half of the year, reflecting the mixed economic conditions. However, traditional with-profits policyholders continue to benefit from the smoothing of investment returns as well as in some cases having guaranteed benefits or cost-effective life cover.

Despite showing a mixed performance over the short term, the UK Growth and UK Income with Growth trusts continue to show above median performance over a rolling three year period.

The CIS Sustainable Leaders Trust, Co-operative Insurance's flagship Socially Responsible Investment (SRI) fund, recorded upper second quartile performance for the last 12 months and continues to be in the first quartile for the three years ending 30 June 2009, despite the absence of exposure, for environmental reasons, to the strongly performing mining and oil sectors.

We are launching two new funds this year – Sustainable Diversified and Sustainable World to broaden out our range of unit trusts for our customers. The new funds will follow the same SRI policy as Sustainable Leaders Trust but are targeted at investors with a more cautious attitude to risk and will invest in a wider range of asset classes to provide investors with greater diversification and reduced exposure to stock market volatility.

All surpluses arising on the business are applied for the sole benefit of policyholders by transfer from the income statement to the unallocated divisible surplus (UDS). During the period, the amount of free surplus represented by the UDS increased significantly, and the UDS rose by £229m to return to mid-2008 surpluses. The main reasons for the increase in UDS were positive returns on equities and corporate bonds in the first half of 2009, a reduction in the assumed volatility of future investment returns and a reduction in the long-term equity backing ratio for traditional with-profits policies.

At 25 July 2009 the realistic working capital within the Co-operative Insurance long-term business fund, being the excess of the realistic value of assets over the realistic value of liabilities stood at £809m compared to £573m at the start of the financial year. Excluding the effect of gilt repos, this represents a working capital ratio of 5.8% which is well within the 4% to 8% range quoted in our PPFM and compares with 3.7% at 10 January 2009.

Strong progress has been made on embedding the arrangement with Capita to provide administration services with the relocation of colleagues to new Capita premises in Manchester, and the migration of all print and post handling services to Capita's central UK hub. As we move forward this deal will deliver improved service propositions, a more contemporary product range and a reduced overall cost base.

Life & savings customer satisfaction for July 2009 was at 68.4% (December 2008: 69.7%).

Social responsibility

In February, we re-affirmed our leadership role in Corporate Social Responsibility at the prestigious Card Awards by winning awards for the Best Corporate Responsibility Programme, for our Customers Who Care campaign, and the Best Charity Credit Card Programme.

We have also increased our support for community art projects through the launch of the CFS school art fund, which enables schools to apply for £2,000 a year to run art, music or drama projects.

We have launched a \$50m international development fund for co-operatives, aimed at helping to alleviate poverty in some of the world's poorest communities. This is the first specialised, international development fund to specifically target credit unions and agricultural co-operatives that serve some of the world's poorest communities.

Co-operative Insurance celebrated success at this year's British Insurance awards by winning the coveted 'Corporate and Social Responsibility Project of the Year award' for the work that has taken place to re-engineer our business model and operations.

CFS was recognised as one of seven leaders in Corporate Social Responsibility with the award of the Business in the Community (BitC) Corporate Responsibility Index of 'Platinum Plus'.

Outlook

The first half of 2009 was a solid period for CFS and we made further progress towards our vision to become the 'UK's most admired financial services business'.

We have continued to deliver a strong financial performance and our business performance highlights the underlying strength and sustainability of our business, which is seeing increasing numbers of customers recognising our brand commitment to value, fairness and social responsibility.

The completion on 1 August of our merger with Britannia Building Society will provide our customers with access to an expanded network of more than 300 branches and creates a strongly capitalised business with £70 billion of assets and nine million customers.

Looking forward, the rest of the year will bring further challenges and opportunities, including the integration of our businesses, and the economic outlook is uncertain. It remains important that we maintain capital strength and liquidity, maintain control on costs, and progress our integration and transformation plans, positioning ourselves for growth as we come out of recession.

Consolidated income statement

For the period ended 25 July 2009 (unaudited)

All amounts are stated in £m unless otherwise indicated

	General insurance	Banking	Other shareholder	Total shareholder return before significant items	Significant items	Total shareholder return	Long-term business (1)
2009							
Gross earned insurance premiums	211.2	–	–	211.2	–	211.2	269.8
Premiums ceded to reinsurers	(9.5)	–	–	(9.5)	–	(9.5)	(9.0)
Interest and investment income	35.0	298.3	27.1	360.4	–	360.4	361.5
Commissions and fees receivable	1.1	111.7	(0.1)	112.7	–	112.7	21.9
Gains less losses from traded investments	3.4	3.5	(11.1)	(4.2)	–	(4.2)	(839.8)
Other	–	0.5	2.6	3.1	–	3.1	11.2
Interest paid	(2.3)	(96.1)	3.8	(94.6)	–	(94.6)	–
Commission and fees	(6.9)	(22.2)	–	(29.1)	–	(29.1)	(16.7)
Net revenue	232.0	295.7	22.3	550.0		550.0	(201.1)
Net claims incurred	(147.9)	–	–	(147.9)	–	(147.9)	(581.0)
Changes in insurance contracts	–	–	–	–	–	–	1,053.2
Impairment losses on loans and advances	–	(73.0)	–	(73.0)	–	(73.0)	–
Impairment losses on structured investments	–	–	–	–	–	–	–
	84.1	222.7	22.3	329.1	–	329.1	271.1
Change in unallocated divisible surplus	–	–	–	–	–	–	(228.8)
Tax attributable to policyholders	–	–	–	–	–	–	69.4
Operating expenses	(69.5)	(181.0)	(3.6)	(254.1)	(22.3)	(276.4)	(111.7)
Financial Services Compensation Scheme levy	–	(2.2)	–	(2.2)	–	(2.2)	–
Profit/(loss) before taxation	14.6	39.5	18.7	72.8	(22.3)	50.5	–
Income tax expense	(3.2)	(12.3)	(3.1)	(18.6)	6.3	(12.3)	–
Minority interests	–	(2.0)	–	(2.0)	–	(2.0)	–
Net profit/(loss) for the period	11.4	25.2	15.6	52.2	(16.0)	36.2	–

(1) Long-term business operating expenses include £11.7m of significant items relating to non-recurring restructuring costs (£11.4m) and merger costs (£0.3m).

Consolidated income statement

For the period ended 26 July 2008 (unaudited)
All amounts are stated in £m unless otherwise indicated

	General insurance	Banking	Other shareholder	Total shareholder return before significant items	Significant items	Total shareholder return	Long-term business (1)
2008							
Gross earned insurance premiums	216.1	–	–	216.1	–	216.1	274.4
Premiums ceded to reinsurers	(9.8)	–	–	(9.8)	–	(9.8)	(12.3)
Interest and investment income	31.4	445.5	21.4	498.3	–	498.3	368.9
Commissions and fees receivable	0.8	117.2	(0.2)	117.8	–	117.8	22.7
Gains less losses from traded investments	(9.1)	2.2	9.7	2.8	–	2.8	(1,037.5)
Other	–	–	1.4	1.4	–	1.4	2.7
Interest paid	(3.9)	(254.6)	8.5	(250.0)	–	(250.0)	–
Commission and fees	(5.1)	(18.4)	–	(23.5)	–	(23.5)	(12.1)
Net revenue	220.4	291.9	40.8	553.1	–	553.1	(393.2)
Net claims incurred	(152.7)	–	–	(152.7)	–	(152.7)	(723.6)
Changes in insurance contracts	–	–	–	–	–	–	1,107.2
Impairment losses on loans and advances	–	(45.3)	–	(45.3)	–	(45.3)	–
Impairment losses on structured investments	–	(25.0)	–	(25.0)	–	(25.0)	–
	67.7	221.6	40.8	330.1	–	330.1	(9.6)
Change in unallocated divisible surplus	–	–	–	–	–	–	46.2
Tax attributable to policyholders	–	–	–	–	–	–	58.5
Operating expenses	(69.2)	(175.4)	(4.3)	(248.9)	(43.2)	(292.1)	(95.1)
Profit/(loss) before taxation	(1.5)	46.2	36.5	81.2	(43.2)	38.0	–
Income tax expense	0.4	(14.1)	(7.1)	(20.8)	12.3	(8.5)	–
Minority interests	–	(1.8)	–	(1.8)	–	(1.8)	–
Net profit/(loss) for the period	(1.1)	30.3	29.4	58.6	(30.9)	27.7	–

(1) Long-term business operating expenses include £28.2m of significant items relating to non-recurring restructuring costs.

Consolidated balance sheet

At 25 July 2009 (unaudited)

All amounts are stated in £m unless otherwise indicated

	General insurance	Banking	Other shareholder	Total shareholder return before significant items	Long-term business	Eliminations	Total
2009							
Assets							
Cash	–	166.6	–	166.6	24.4	(24.4)	166.6
Derivative financial instruments	–	138.7	47.6	186.3	455.0	–	641.3
Loans and advances to banks	–	1,382.6	–	1,382.6	–	–	1,382.6
Loans and advances to customers	–	10,662.0	15.6	10,677.6	8.7	–	10,686.3
Investments	971.1	2,977.2	568.8	4,517.1	14,999.6	(20.4)	19,496.3
Investment property	–	–	–	–	1,300.0	–	1,300.0
Reinsurers' share of technical provisions	45.1	–	–	45.1	2,794.7	–	2,839.8
Intangible assets	32.7	1.5	96.4	130.6	11.8	–	142.4
Property, plant & equipment	–	50.3	23.1	73.4	–	–	73.4
Prepayments and other receivables	210.4	56.1	108.1	374.6	272.3	(17.2)	629.7
Assets held for sale	–	–	50.0	50.0	–	–	50.0
Total assets	1,259.3	15,435.0	909.6	17,603.9	19,866.5	(62.0)	37,408.4
Liabilities and equity							
Amounts due to credit institutions	8.0	1,114.2	5.3	1,127.5	1,646.0	–	2,773.5
Amounts owed to customers	–	12,379.6	(42.0)	12,337.6	–	(44.8)	12,292.8
Debt securities in issue	–	449.6	–	449.6	–	–	449.6
Derivative financial instruments	–	77.6	25.5	103.1	403.3	–	506.4
Insurance contracts	856.2	–	–	856.2	14,700.2	–	15,556.4
Investment contracts liabilities	–	–	–	–	212.8	–	212.8
Unallocated divisible surplus	–	–	–	–	851.0	–	851.0
Other borrowed funds	105.0	358.5	(105.0)	358.5	–	–	358.5
Other liabilities and accruals	41.1	113.5	136.7	291.3	2,062.3	(17.2)	2,336.4
Deferred tax	3.8	19.2	67.1	90.1	(17.0)	–	73.1
Provisions	–	17.5	8.5	26.0	7.9	–	33.9
Minority interests	–	33.2	–	33.2	–	–	33.2
Equity	245.2	872.1	813.5	1,930.8	–	–	1,930.8
Total liabilities and equity	1,259.3	15,435.0	909.6	17,603.9	19,866.5	(62.0)	37,408.4

Consolidated balance sheet

At 26 July 2008 (unaudited)

All amounts are stated in £m unless otherwise indicated

	General insurance	Banking	Other shareholder	Total shareholder return before significant items	Long-term business	Eliminations	Total
2008							
Assets							
Cash	–	174.6	–	174.6	0.5	(0.5)	174.6
Derivative financial instruments	–	63.1	57.0	120.1	671.5	–	791.6
Loans and advances to banks	–	1,741.1	–	1,741.1	–	–	1,741.1
Loans and advances to customers	–	9,960.6	(2.2)	9,958.4	10.8	–	9,969.2
Investments	1,030.1	2,354.0	773.4	4,157.5	16,080.8	(38.9)	20,199.4
Investment property	–	–	–	–	1,839.4	–	1,839.4
Reinsurers' share of technical provisions	40.1	–	–	40.1	2,962.9	–	3,003.0
Intangible assets	30.3	3.5	30.6	64.4	16.3	–	80.7
Property, plant & equipment	–	70.0	19.6	89.6	38.9	–	128.5
Prepayments and other receivables	226.3	58.7	54.3	339.3	280.7	(9.2)	610.8
Total assets	1,326.8	14,425.6	932.7	16,685.1	21,901.8	(48.6)	38,538.3
Liabilities and equity							
Amounts due to credit institutions	10.7	872.8	9.3	892.8	2,199.3	–	3,092.1
Amounts owed to customers	–	11,374.4	(164.9)	11,209.5	–	(39.4)	11,170.1
Debt securities in issue	–	892.2	–	892.2	–	–	892.2
Derivative financial instruments	–	93.2	10.1	103.3	3.6	–	106.9
Insurance contracts	931.9	–	–	931.9	16,448.4	–	17,380.3
Investment contracts liabilities	–	–	–	–	209.0	–	209.0
Unallocated divisible surplus	–	–	–	–	997.1	–	997.1
Other borrowed funds	105.0	358.3	(105.0)	358.3	–	–	358.3
Other liabilities and accruals	40.4	134.5	166.1	341.0	1,975.4	(9.2)	2,307.2
Deferred tax	2.8	(3.9)	105.7	104.6	62.3	–	166.9
Provisions	0.1	6.0	7.3	13.4	6.7	–	20.1
Minority interests	–	27.0	–	27.0	–	–	27.0
Equity	235.9	671.1	904.1	1,811.1	–	–	1,811.1
Total liabilities and equity	1,326.8	14,425.6	932.7	16,685.1	21,901.8	(48.6)	38,538.3

Statement of comprehensive income

For the period ended 25 July 2009 (unaudited)

All amounts are stated in £m unless otherwise indicated

	General insurance	Banking	Other shareholder	Total shareholder return before significant items	Significant items	Total shareholder return	Long-term business
2009							
Profit for the period – Equity shareholders	11.4	25.2	15.6	52.2	(16.0)	36.2	–
Profit for the period – Minority interests	–	2.0	–	2.0	–	2.0	–
Other comprehensive income:							
Changes in cash flow hedges	–	(21.8)	(13.3)	(35.1)	–	(35.1)	–
Changes in available for sale assets	(4.9)	6.1	–	1.2	–	1.2	–
Revaluation of self occupied properties	–	–	–	–	–	–	–
Amounts transferred from/(to) unallocated divisible surplus	–	–	–	–	–	–	–
Income tax on other comprehensive income	1.4	4.4	3.7	9.5	–	9.5	–
Other comprehensive income for period, net of income tax	(3.5)	(11.3)	(9.6)	(24.4)	–	(24.4)	–
Total comprehensive income for the period	7.9	15.9	6.0	29.8	(16.0)	13.8	–
Attributable to:							
Equity shareholders	7.9	14.8	6.0	28.7	(16.0)	12.7	–
Minority interests	–	1.1	–	1.1	–	1.1	–
Total comprehensive income for the period	7.9	15.9	6.0	29.8	(16.0)	13.8	–
2008							
Profit for the period – Equity shareholders	(1.1)	30.3	29.4	58.6	(30.9)	27.7	–
Profit for the period – Minority interests	–	1.8	–	1.8	–	1.8	–
Other comprehensive income:							
Changes in cash flow hedges	–	(31.3)	(17.8)	(49.1)	–	(49.1)	–
Changes in available for sale assets	(29.9)	(12.1)	–	(42.0)	–	(42.0)	–
Revaluation of self occupied properties	–	–	–	–	–	–	2.3
Amounts transferred from/(to) unallocated divisible surplus	–	–	–	–	–	–	(2.3)
Income tax on other comprehensive income	8.5	12.2	5.1	25.8	–	25.8	–
Other comprehensive income for period, net of income tax	(21.4)	(31.2)	(12.7)	(65.3)	–	(65.3)	–
Total comprehensive income for the period	(22.5)	0.9	16.7	(4.9)	(30.9)	(35.8)	–
Attributable to:							
Equity shareholders	(22.5)	(0.1)	16.7	(5.9)	(30.9)	(36.8)	–
Minority interests	–	1.0	–	1.0	–	1.0	–
Total comprehensive income for the period	(22.5)	0.9	16.7	(4.9)	(30.9)	(35.8)	–

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