# The Co-operative Group
## Interim report 2013

The co-operative
Here for you for life

# About The Co-operative Group

## Group

We are jointly owned by over **7.9m** individual members with over **4,800** retail outlets throughout the UK

## Food

We are the **5th** largest food retailer in the UK operating across the whole country in over **2,700** local, convenience and medium sized stores

## Banking Group

We operate through **325** high street branches and **22** corporate centres, telephony and online channels

## Specialist Businesses

Over **100,000** funerals conducted each year

**3rd largest** pharmacy chain in the UK

**Industry leading** levels of customer service in our Pharmacy and Electrical businesses

# Here for you for life

"Almost half of all UK consumers trust and value The Co-operative Group and believe that we share the values that are important to them. They also believe that the Co-operative has a great heritage and values and provides a model that can achieve the difficult and delicate balance between creating value for Members and creating a better society."

Euan Sutherland, Group AGM, May 2013

## Contents

# Group Chair's introduction

The Group Board is the highest level of our democratic governance, and as the true depth of the **Bank's challenges** became clear during the first half of 2013, it was our responsibility to act decisively to **protect the interests** of our members.

## New Group Chief Executive

When we appointed Euan Sutherland as our new Group Chief Executive at the end of 2012, we did not know the full scale of the challenges he would be facing as he began his first days in the role. Euan has more than proved that our view of his abilities was well-founded. He has stepped up to deal with a situation that very few Chief Executives have had to face in their careers, let alone when starting in a new business.

Since May, the Board has worked closely with Euan and the team he has appointed to ensure that the Board and management are working collaboratively, efficiently and co-operatively to address our challenges.

## Our History

The first six months of 2013 have been unprecedented in the history of The Co-operative Group. However, I believe we now have the right team in place and the strength and resilience to come through this period and rebuild a reputation that rests on 150 years of meeting the needs of our members and customers, as well as on acting with responsibility and integrity in the market place.

In the autumn, we will formally mark the 150th anniversary of the Co-operative Wholesale Society (CWS). Even though this anniversary comes at a difficult time, it is still right to mark our heritage and take pride in our achievements. It also makes it the ideal time to look forward. Our current adversity will help give considerable focus as we shape our thoughts about the future. Now is the time to ensure that the Group is clear about how co-operation fits within the British economy and the role we want to play in British life in the decades to come.

## Thank You

I would like to thank our members and customers and all our people, particularly our much valued Bank customers, for standing by us through these unsettling times.

Len Wardle

**Len Wardle**
Group Chair

# Group Chief Executive's overview

I recognise that I have joined The Co-operative Group at a difficult moment in its history. I believe that it is a moment that we will recover from and that we remain a business and a brand with a **unique place in the hearts of the British public.**

When I took up the post of Group CEO in May, I was not expecting my first few months to be dominated by the very serious issues that have emerged at the Bank. As the true scale of the problems we faced became clear I knew we had to act decisively. The first step was to begin to build a team with the right experience and skills and the drive and passion to deliver change. We have now significantly strengthened our financial, corporate and turnaround skills with a series of appointments and I am proud to lead a great team that will deliver our comprehensive plan to stabilise the Bank and to put together the wider Bank and Group turnaround plans.

## Strengthened Management Team

Let me talk you through the most senior new members of the team. The appointment of Rebecca Skitt as Chief HR Officer marked the start of changes to the senior team at the Group. Rebecca joined the Group in April, with more than 20 years of international experience in HR, specifically in consumer and financial sectors, latterly working directly for Anthony Jenkins, now Chief Executive at Barclays, in a number of senior roles across the bank, including HRD Global Retail and Business Banking. Niall Booker joined the Group as Banking Group Chief Executive and Deputy Group Chief Executive. Niall has over 30 years' experience in banking and joined the Group following a series of senior roles as a member of HSBC's Group Executive, including as Chief Executive Officer of HSBC North America.

Richard Pennycook, the Group's Chief Finance Officer, joined the Group in June. He had previously worked at Morrisons, JD Wetherspoons and the RAC, where he had led successful transformation programmes. In May, Nick Folland joined the Executive team in a new role as Group Director External Affairs. Nick came from successfully leading the Net Positive sustainability agenda at the Kingfisher Group and will also oversee the Group CEO office. Alistair Asher has joined the management executive in a new role as Group General Counsel. Alistair joins the Group from Allen & Overy, the law firm where he spent 34 years, 26 of them as a partner and latterly as Global Head of the firm's Financial Institutions Group. These changes follow the appointment in July last year of Steve Murrells to lead our Food business, and more recently a wider brief to head our Food, Pharmacy and Electrical business under one Retail Division.

At a non-executive level, Richard Pym has joined The Co-operative Group as Chairman of the Banking Group. Richard was formerly Group Chief Executive of Alliance & Leicester and is currently Chair of UK Asset Resolution, a position he will retain as a completely independent part of his portfolio.

All of these high-quality leaders have joined the Group in the past few months and, with other colleagues, are beginning to get to grips with the challenges and opportunities we have ahead.

Chair's introduction continued

## Our Performance

As we report our half year performance, the full scale of the problems within the Bank is laid bare and the difficulties that stem from this become clear, with implications for the Group as a whole. In keeping with the 2012 year-end figures, the Bank's issues have pushed the Group into a £559m loss before member payments. We clearly communicated in June that this would be the case. Impairment charges were taken into account when we put in place the Capital Action Plan to stabilise the Bank.

At the same time, the results also show the wider work that is needed to transform the Group. Revenues across the Group fell 1% to £5.8bn, with our family of Trading Group businesses delivering solid performances in difficult markets and cash flows improved. This contributed to a fall of £474m in net debt from the year end, which was also driven by the proceeds from the sale and leaseback of our new head office, 1 Angel Square. However, the challenges those businesses face are clear and we believe they can do better. The rest of the top team and I have started a wider strategic review of the Group that will look at how all of our businesses can be improved and what other changes need to be made to our strategy and focus. The detail of the turnaround plan for the Group will be outlined to members at the Annual General Meeting in May 2014, with an update on progress when we make our annual results announcement in March 2014.

## Capital Action Plan

In the plan that we announced on 17 June, we explained that the capital shortfall in the Bank was £1.5bn, as agreed with the Prudential Regulation Authority, the banking regulator. Today's results reaffirm that requirement, which also covered currently anticipated future losses.

Finding a solution to the difficulties we face required us to balance our responsibilities to our members, to investors in the Bank's bonds and preference shares and to the financial lenders to the Group. This was not easy. Our priorities were three-fold: to stabilise the Bank, to develop a plan to ensure the long term profitability and sustainability of the Bank and Group as a whole, and to avoid seeking taxpayers' help.

After detailed consideration of all the options, we developed and announced our plan in June. As the owners of the Bank, given its financial position, our equity stake is effectively wiped out. Now, via our planned contribution to the Capital Action Plan of up to £1bn, we are shouldering the majority of the burden in stabilising the Bank. We are also asking affected bondholders and preference shareholders to contribute to a plan that we believe is in the best long term interests of our and the Bank's respective stakeholders and one that will prevent more severe adverse consequences for all stakeholders which might occur in the absence of such support. Our new equity stake in the Bank, following the Exchange Offer, will come only as a direct result of our planned substantial contribution and, as such, we will be the only party injecting fresh money into the business.

I believe we have devised a plan for the Bank that is fair and that balances the needs and long term interests of the Bank's and the Group's stakeholders. Our planned contribution of up to £1bn demonstrates our long term commitment to The Co-operative Group's provision of banking services.

This contribution comes through our issue of a new Group senior, unsecured fixed income instrument as part of the Exchange Offer, which will be used to finance the Group's acquisition of new ordinary shares in the Bank. The £500m to be contributed in 2014 is expected to be primarily funded through the sale of our profitable general insurance business and from the proceeds of the already completed sale of the life insurance business to Royal London. Our majority holding of the new ordinary shares in Bank, coming only as a direct result of our planned substantial contributions, will ensure that our members continue to have a say in the ethical leadership that we wish the Bank to continue to pursue.

A great deal of intensive work is now underway to prepare the prospectuses to implement the Exchange Offer and the listing of the Bank's ordinary shares on the London Stock Exchange. For the plan to work, it will require a significant proportion of the Bank's subordinated capital securities holders to agree to exchange their current investments for new securities, including new ordinary shares in the Bank.

## Looking Forward

We are acutely mindful that we cannot move on from all of this without learning some very salutary lessons. To that end, we have set up an independent review to be chaired by Sir Christopher Kelly. Sir Christopher will report his findings and recommendations next spring.

In spite of all our issues, what remains clear to me is that we have considerable potential and our task is to ensure that we achieve that potential and become the great revival story of the next decade.

I look forward to sharing further progress in the months and years ahead. Finally, let me thank my senior leadership team for their enthusiasm and ambition for The Co-operative Group and our people across all our businesses for their continued dedication, loyalty and hard work.

**Euan Sutherland**
Group Chief Executive

# Group business review

## Food

| Key headlines |
|---|
| Sales down 0.4% at £3.6bn (2012: £3.6bn) |
| Like-for-like sales down 1.1%, with a Q2 improving trend |
| Operating profit of £117.4m (2012: £119.0m) in a challenging market |
| Continued investment in business and prices, including £22m in the logistics network through our Castlewood Distribution Centre |

The first half of the year saw the Food business deliver a solid performance against the backdrop of a difficult economy and continued fierce competition. Sales of £3.6bn, excluding VAT, were down 0.4% year-on-year. Like-for-like sales fell 1.1% for the full six month period.

Sales trends across both the first and second quarters reflected the unseasonal weather patterns. In the first quarter, like-for-like sales were down 2%, driven by the cold weather in March. However, in the second quarter sales improved, falling just 0.3%, buoyed by the June heatwave. Operating profit fell 1.3% to £117.4m after continued investment in the business and as we brought prices down for our customers.

In early 2013 the new management team launched a new strategy for the business – "True North". This will see us strengthen our focus on the areas our customers value most: availability, value for money, convenience, customer service, product quality and community.

In the first half, we have delivered a number of achievements across the business:

- We have reduced prices on nearly 1,000 products to give our customers better value
- All our meat and poultry is now 100% British
- We have launched five farming groups, aimed at cementing relationships with supplier producers, delivering a continued investment in quality and providing shoppers with a more consistent and transparent supply chain

Further to those achievements, we also successfully completed our long term logistics investment plans, modernising our entire UK-wide logistics infrastructure to improve the service to our stores.

Alongside that programme, we also opened 10 new food stores in England and Scotland and launched a new stock replenishment system to improve on-shelf availability of products for customers.

Finally, we opened a state-of-the-art Taste Centre. Focused on food product development and quality monitoring, the Centre will see over 1,000 products reviewed by our new colleague panel every year.

## Banking Group

### Bank

| | **June 2013* £m** | June 2012 £m | Change £m |
|---|---|---|---|
| Retail and Treasury | **18.8** | 45.7 | (26.9) |
| Corporate and Business Banking – core | **(101.5)** | 29.0 | (130.5) |
| Core operating result | **(82.7)** | 74.7 | (157.4) |
| Non-core | **(374.9)** | (73.5) | (301.4) |
| Operating result | **(457.6)** | 1.2 | (458.8) |
| Loss before taxation | **(709.4)** | (58.6) | (650.8) |
| Loss after taxation | **(781.5)** | (45.3) | (736.2) |

* The Banking Group subsidiaries of the Group have interim period ends of 30 June. This differs from the parent of the Group and other Trading Group subsidiaries which have accounting periods ending on the first Saturday of July (unless 30 June). For more detail, see page 17.

The financial results for the first half of 2013 reflect the underlying issues outlined at year end 2012 and the stage of the journey that The Co-operative Bank ('the Bank') is at to address these. The main factors that have continued to significantly impact the profitability of the business are credit impairment, intangible asset impairment and high operating costs. These are reflected in a statutory loss before taxation of £709.4m (2012: loss of £58.6m), and after taxation of £781.5m (2012: £45.3m).

The presentation of these results reflects how the business was managed in terms of the split of core and non-core as set out in the 2012 year-end financial statements. Throughout the first half of 2013, in line with 2012, the core business included the Retail Banking business (trading as the Co-operative Bank, Britannia and **smile**), Platform (the intermediary mortgage business), Treasury and Unity Trust Bank. Some elements of Corporate Banking were also classified as core which, going forward, will be classified as non-core.

Non-core business lines predominantly include the Corporate Banking lending business, Optimum (the closed book of intermediary and acquired loan book assets) and Illius (the residential property company) businesses which originated from the non-member Britannia business prior to merger. Non-core will be managed for value and to minimise risk. This strategy will balance our requirements to preserve capital with the need to run down the portfolio.

| | **June 2013 £m** | June 2012 £m | Change £m |
|---|---|---|---|
| Net income | **355.8** | 385.1 | (29.3) |
| Operating costs – steady state | **(303.1)** | (282.8) | (20.3) |
| Operating costs – strategic initiatives | **(14.3)** | (9.2) | (5.1) |
| | **38.4** | 93.1 | (54.7) |
| Impairment losses | **(496.0)** | (91.9) | (404.1) |
| **Operating result** | **(457.6)** | 1.2 | (458.8) |
| Significant items | **(34.6)** | (39.3) | 4.7 |
| Intangible asset impairment | **(148.4)** | – | (148.4) |
| Customer redress (including PPI) | **(61.0)** | (40.0) | (21.0) |
| Share of post tax profits from joint ventures | **0.3** | 0.6 | (0.3) |
| Financial Services Compensation Scheme levies | **0.1** | (0.8) | 0.9 |
| Fair value amortisation | **(8.2)** | 19.7 | (27.9) |
| **Loss before taxation** | **(709.4)** | (58.6) | (650.8) |
| Taxation | **(72.1)** | 13.3 | (85.4) |
| Loss after taxation | **(781.5)** | (45.3) | (736.2) |
| **Note** | | | |
| Operating result before strategic initiatives | **(443.3)** | 10.4 | (453.7) |

# Group business review continued

The results for the half year were affected by the following factors:

1. Credit impairment (£496.0m, 2012: £91.9m)
2. Intangible asset impairment, being the impairment of the replacement of the core banking platform (£148.4m, 2012: £nil)
3. Customer redress provisions (including PPI) of £61.0m (2012: £40.0m)
4. Operating costs and significant items

### 1. Credit impairment

The directors have reconsidered the carrying value of the Bank's loans which has led to a substantial impairment charge of £496.0m (2012: £91.9m). The total charge is made up of £165.5m in the core business (principally Retail £24.8m, Corporate £140.0m) and £330.5m in the non-core business (Corporate £294.3m and Optimum £36.2m). There are a number of reasons for the increase in the overall charge. Firstly, as indicated in the 2012 year-end financial statements, the Bank intended to target non-core loans for run-down or exit. In the first half of 2013, the amount of assets designated as non-core has increased, the Bank has continued to review its loan book on a case-by-case basis to assess credit risk impairment requirements and there has been a change in the work out approach on a significant number of assets. This accounts for approximately half of the overall charge. Secondly, there have been further improvements to our credit risk management approach, improving the data on which impairment assessments are made and resulting in increased impairments. Impairments which occur in the ordinary course of the business due to changes in customer circumstances have also been incurred in both the core and non-core business.

### 2. Intangible asset impairment

The directors have concluded that the IT assets previously under creation to replace the core banking platform will no longer be implemented as they are inconsistent with the Bank's strategy going forward, resulting in a write down of £148.4m.

### 3. Customer redress provisions

A further provision of £25.0m (2012: £40.0m) for redress relating to payment protection insurance (PPI) has been made, primarily covering increased operating and ombudsman costs. £26.0m (2012: £nil) has also been provided for alleged failings relating to the introduction of third-party sales of card and identity protection products. A provision of £10.0m (2012: £nil) has been made relating to interest rate swap mis-selling.

### 4. Operating costs and significant items

Operating costs (excluding fair value amortisation and strategic investment costs) for the first six months of the year are £303.1m (2012: £282.8m). The increase is due to inflation and a provision of £13.9m for additional one-off costs of a change in ATM rateable values. The significant items reflect one-off costs of £34.6m relating to Project Verde, the transformation of the business and certain asset impairments.

The overall operating result fell to a loss of £457.6m in the first half of 2013 from a profit of £1.2m in H1 2012. The core business delivered an operating loss of £82.7m (2012: profit of £74.7m) – £82.8m profit before impairments (2012: £108.2m). The non-core business generated an operating loss of £374.9m (2012: £73.5m).

The loss before taxation of £709.4m (2012: loss of £58.6m) includes a charge of £8.2m (2012: credit £19.7m) arising on fair value amortisation. After tax, minority interests and the change in value in other reserves, equity reduced by £845.0m (2012: increase of £15.0m).

Net income in 2013 (excluding fair value amortisation) has fallen by £29.3m, reflecting the decision to stop new lending to larger corporates and a £19m downward revaluation in the carrying value of the Bank's residential investment properties (in Illius) following changes in the Bank's workout approach for this portfolio.

### Balance sheet

The Bank has maintained its focus on supporting its customers: £1.6bn has been lent to retail mortgage customers (2012: £1.5bn) while loans to businesses totalled £0.5bn (2012: £0.7bn). The fall in new business lending reflects the decision to stop new lending to larger corporates in light of the recapitalisation plan and the decision to designate other assets as non-core.

Retail asset balances remained broadly stable, at £17.8bn (December 2012: £17.7bn), while Corporate core assets were £5.3bn, down from £5.4bn at the end of 2012. The Corporate non-core balance, net of provisions, has decreased from £2.8bn at the end of 2012 to £2.3bn, and the closed Optimum portfolio has remained flat at £7.6bn.

The loan to deposit ratio was 94% (December 2012: 92%), and liquidity continues to exceed regulatory guidance.

The Core Tier 1 capital position has been impacted by on-going statutory losses and currently stands at 4.9% (2012: 8.8%) and at 3.2% on a fully phased Common Equity Tier 1 capital basis. The recapitalisation plan announced on 17 June 2013, which on completion should improve this position, is discussed later in this Business and Financial Review.

### Retail

| | **June 2013 £m** | June 2012 £m | Change £m |
|---|---|---|---|
| Net interest income | **203.5** | 196.6 | 6.9 |
| Non-interest income | **65.0** | 68.4 | (3.4) |
| **Net income** | **268.5** | 265.0 | 3.5 |
| Operating costs – steady state | **(235.0)** | (216.3) | (18.7) |
| Operating costs – strategic initiatives | **(7.8)** | (6.7) | (1.1) |
| Impairment losses | **(24.8)** | (18.2) | (6.6) |
| **Operating result** | **0.9** | 23.8 | (22.9) |
| **Note** | | | |
| Operating result before strategic initiatives | **8.7** | 30.5 | (21.8) |

The Retail operating result for the first half of 2013 is a profit of £0.9m (2012: profit of £23.8m). Net income was stable, however operating costs have increased, mainly relating to the running of the distribution platform. A significant part of this cost is one off in nature being a provision for additional rates payable on ATMs situated outside stores (£13.9m), an issue common across the retail industry.

There have been further improvements to the credit risk management approach, improving the data on which impairment assessments are made. This is the primary driver behind the increase in retail impairments. Asset quality for the secured portfolio has remained stable in H1 2013 with the number of accounts greater than 2.5% in arrears at 0.29% ( December 2012: 0.30%). The Bank remains focused on delivering good quality mortgage assets, with 65.0% loan to value ratio on new lending (December 2012: 61.0%) and 44.3% (December 2012: 44.3%) across the portfolio.

### Treasury/other businesses

| | June 2013 £m | June 2012 £m | Change £m |
|---|---|---|---|
| Net interest income | **6.6** | 7.1 | (0.5) |
| Non-interest income | **28.3** | 26.0 | 2.3 |
| **Net income** | **34.9** | 33.1 | 1.8 |
| Operating costs – steady state | **(14.8)** | (12.7) | (2.1) |
| Operating costs – strategic initiatives | **(1.5)** | (0.7) | (0.8) |
| Impairment losses | **(0.7)** | 2.2 | (2.9) |
| **Operating result** | **17.9** | 21.9 | (4.0) |
| **Note** | | | |
| Operating result before strategic initiatives | **19.4** | 22.6 | (3.2) |

The Treasury operation has continued to deliver on its core responsibilities of managing the liquidity base, providing diverse sources of wholesale funding to the Bank and managing market risk.

During the first half of 2013, significant focus was placed on increasing liquidity whilst at the same time reducing the non-liquidity buffer investment portfolio where strategically appropriate. This resulted in £40.4m profit from asset sales in the period (2012: £10.7m).

In the first half of 2013, the Bank accessed the Bank of England 'Funding for Lending' scheme, drawing £900m.

### Corporate and Business Banking (CABB) – core

| | June 2013 £m | June 2012 £m | Change £m |
|---|---|---|---|
| Net interest income | **58.4** | 54.0 | 4.4 |
| Non-interest income | **23.8** | 32.2 | (8.4) |
| **Net income** | **82.2** | 86.2 | (4.0) |
| Operating costs – steady state | **(39.6)** | (38.3) | (1.3) |
| Operating costs – strategic initiatives | **(4.1)** | (1.4) | (2.7) |
| Impairment losses | **(140.0)** | (17.5) | (122.5) |
| **Operating result** | **(101.5)** | 29.0 | (130.5) |
| **Note** | | | |
| Operating result before strategic initiatives | **(97.4)** | 30.4 | (127.8) |

The core Corporate and Business Banking operation delivered an operating loss of £101.5m during the first half of 2013 (2012: profit of £29.0m), reflecting significant impairment charges, the reasons for which are discussed above. Impairment charges increased to £140.0m in the first half of 2013 (2012 : £17.5m).

Net interest income, at £58.4m, increased by £4.4m mainly as a result of improved asset margins partially offset by increased costs of fixed-term deposits. The reduction in non-interest income is due to the decision to stop new lending to larger corporates.

### Non-core business

| | June 2013 £m | June 2012 £m | Change £m |
|---|---|---|---|
| Net interest income | **(19.5)** | (8.5) | (11.0) |
| Non-interest income | **(10.3)** | 9.3 | (19.6) |
| **Net income** | **(29.8)** | 0.8 | (30.6) |
| Operating costs – steady state | **(13.7)** | (15.5) | 1.8 |
| Operating costs – strategic initiatives | **(0.9)** | (0.4) | (0.5) |
| Impairment losses | **(330.5)** | (58.4) | (272.1) |
| **Operating result** | **(374.9)** | (73.5) | (301.4) |
| **Note** | | | |
| Operating result before strategic initiatives | **(374.0)** | (73.1) | (300.9) |

A priority for the Bank is to actively reduce the level of non-core assets.

The non-core operating result for 2013 was a loss of £374.9m (2012: loss of £73.5m). This included a loss of £304.8m (2012: loss of £70.1m) for the non-core Corporate portfolio, driven principally by the impairment losses, the reasons for which are discussed above.

The Optimum portfolio, a closed book of intermediary and acquired mortgage book assets, delivered a loss of £50.5m (2012: loss of £2.6m). This reflected increased provisions for loans both in default and forborne. The loss attributed to the Illius business, a closed residential property portfolio, is £19.6m (2012: £0.8m).

### Outlook

The Bank has developed a recapitalisation plan ('the Plan'), as announced on 17 June 2013, which has been discussed with the relevant regulatory bodies. The key objective of the Plan is to significantly strengthen the Bank's Common Equity Tier 1 (CET1) capital base and to refocus its strategy around its strength in core relationship banking providing current accounts, residential mortgages and savings products to individuals and small business banking customers. The main deliverables of this Plan include:

- An increase in CET1 capital of £1.5bn from a combination of capital injection from The Co-operative Group and Exchange Offer met in three broadly equal proportions from:

  1. The CET1 capital generated from new shares in the Bank as part of an Exchange Offer to be made to holders of the Bank's subordinated debt securities (bondholders) scheduled to take place later this year.
  2. A contribution from The Co-operative Group (which is conditional on the consent of its syndicated lenders) financed indirectly by a fixed income bond in exchange for new shares.
  3. A further contribution to the Bank expected in 2014, underwritten by the Co-operative Group, expected to be sourced primarily from the sale proceeds of the insurance businesses. This is contingent on a successful Exchange Offer.

  For the avoidance of doubt, the capital generated for the Bank through the Exchange Offer will be derived not only from items 1 and 2 above, but also as a result of redeeming the subordinated debt securities in the Exchange Offer below the Bank's current book value.

- Reduction in the non-core asset portfolio
- A simplification and restructuring programme supporting the core relationship bank specifically focusing on the existing cost base

Group business review continued

Work is continuing to finalise the exact details of the shape and structure of the core Bank, the systems underpinning it, the product range and target customer base as well as the changes to the cost base needed to return the business to profitability. This evolution of the Bank's plans, including the rate of reduction in the non-core business and its impact on the amount and timing of impairment provisions, now and going forwards, will have an effect on our Common Equity Tier 1 capital and leverage ratio. In the announcement of 17 June we said, assuming completion of the Exchange Offer, we expect this to be above 9% at the year end. We now, however, believe that this will be below 9% but above the regulatory minimum requirement, and the leverage ratio may not reach 3% by the year end

In terms of the existing cost base, the Bank recognises that its cost to income ratio remains high and reducing the cost base is a priority for the business following a successful completion of the Exchange Offer.

The short term outlook continues to be challenging for the Bank but, on the basis that the Bank effectively navigates its way through the short term issues it is facing, the Board and management team believe that this recapitalisation plan, combined with the work currently underway to develop a strategy and business plan to return the Bank to profitability over time, will allow all stakeholders to share in the potential benefits from the transformation of the Bank in the longer term.

At year end 2012, the Bank outlined the need to de-risk non-core corporate assets as part of further strengthening the balance sheet. Selling these assets, which carry the majority of the impairment risk for the Bank, remains an immediate priority for the Bank. Over the last six months £0.7bn of non-core assets have been sold or repaid.

## Discontinued operations

The results of the Banking Group's General Insurance business and the Life and Savings' Insurance and Asset Management businesses are included in discontinued operations in the Group income statement and the assets and liabilities of those businesses are included within assets and liabilities held for sale in the Group balance sheet.

This treatment reflects the transaction for Royal London to acquire the Life Insurance and Asset Management businesses, which completed shortly after the half year on 1 August and the announcement of 21 March that the Banking Group was seeking a buyer for its General Insurance business.

The General Insurance business recorded a solid result in the first half of the year, in line with 2012 half year result. After charging costs associated with the separation of the Life and Savings business, the net result on discontinued operations was a loss of £24m (2012: £26m profit).

# Specialist Businesses

## Pharmacy

| Key headlines |
|---|
| Sales up 0.3% at £379.3m (2012: £378.1m) |
| Operating profit of £14.3m (2012: £16.1m) impacted by government funding changes |
| 29 branches remodelled under the branch transformation programme |

The first half of the year saw Pharmacy perform well against the continued impact of government funding cuts on medicine pricing. Sales were up 0.3% to £379.3m (2012: £378.1m), with operating profit down on the prior year at £14.3m (2012: £16.1m). Underlying prescription growth was market leading at 2.2% and over-the-counter sales showed real signs of improvement.

Following a successful pilot last year, we started to roll out our branch transformation programme, which provides customers with an improved shopping experience, along with training to support our focus on excellent customer service. By the half year, 29 branches had been remodelled. We have also opened branches in five health centres, to maximise market share potential.

We have maintained our strong scores in the customer satisfaction index (93.3%), reflecting our focus and investment in training and colleague engagement. This is a slight improvement on the 2012 year-end figure of 93.2%.

Our diversification into new areas continued and in May we won our first three-year dispensing contract to supply HM Prisons in Nottingham and Doncaster with patient medicines. The five hospital outpatient dispensing contracts we won in 2012 continue to perform well, with strong sales and excellent customer service.

## Funeralcare

| Key headlines |
|---|
| Sales up 7.9% to £201.2m (2012: £186.4m) |
| Operating profit up 15.5% at £41.8m (2012: £36.2m) |
| Over £4m investment in new crematorium |

Funeralcare delivered strong results in the first half of the year, with sales up 7.9% to £201.2m compared to the first half of 2012 (£186.4m). Profit also improved, up 15.5% to £41.8m (£36.2m).

Funeralcare continued to focus on delivering the very best personal service to clients. So far this year the business has maintained its highest-ever client satisfaction results and launched "Our Promise", a commitment made to clients which sits at the heart of the business which everyone across Funeralcare has a responsibility to deliver.

Investing in our colleagues is important, and in March this year Funeralcare launched the first ever Funeral Operations and Services Apprenticeship, with all new starters now offered the opportunity to work towards an apprenticeship.

In May, the business also opened a new-build crematorium, Lichfield and District. This represented an investment of more than £4m.

## Legal Services

| Key headlines |
|---|
| Revenue up 5.8% at £18.1m (2012: £17.1m) |
| Investment in this start-up business continue in line with plan |
| 1,500 new clients supported since April 2013 on back of brand launch to support customer awareness |

Our Legal Services business continues to grow across its key strategic consumer law practices. Revenue during the period rose to £18.1m (2012: £17.1m), with losses of £3.4m (2012: £0.7m profit) reflecting the start-up nature of the business. Our recent success has been driven by probate revenue outperforming expectations and the award of Legal Aid contracts in Family Law, which has provided the business with the opportunity to contact more than 1,500 Legal Aid clients since April 2013.

During June, a regionalised brand launch was arranged and initial results show increases in awareness.

## Other

**Electrical**
Sales rose 3.3% to £40.3m (2012: £39.0m), with profit down at £0.3m (2012: £0.5m), reflecting in part an increase in distribution costs caused by the move to our 60-minute delivery timeslots.

**Sunwin Services Group**
Sales rose by 9.1% to £19.1m (2012: £17.5m) during the first half of 2013, while profit increased by 12.0% to £2.8m (2012: £2.5m). The business is performing well in a challenging market, and continues to expand its customer base in retail, cash collections, and services to ATM providers.

**Motors**
During the half year we completed our sale of the motors business, generating £29m of cash for the Group.

## Estates

| Key headlines |
|---|
| 3,000 staff successfully moved to new head office |
| £143m sale and leaseback of 1 Angel Square |

The Estates function generated an income for the Group of £15.4m at half year (2012: £18.3m) with an operating profit of £6.7m (2012: £9.7m), both figures reflecting lower rental income following the sale of elements of our property portfolio in the second half of 2012.

At the start of 2013, the Estates team successfully finalised the legal completion of the sale and leaseback of the Group's new head office, 1 Angel Square, which exchanged in 2012.

1 Angel Square opened its doors in Manchester earlier in the year. This flagship building accommodates over 3,000 members of staff. Reaction has been very positive with high satisfaction levels recorded from colleagues following their moves from some of the Group's other locations in Manchester. The building has already won numerous prestigious awards for its design, project management and its industry-leading environmental credentials.

In June we announced we were no longer in discussions with property developers Delancey and Landid regarding the proposed joint venture to develop NOMA, our 20 acre mixed use redevelopment of part of Manchester city centre. As part of our continued commitment to Manchester, we see the NOMA development progressing in a manner which reflects the values and principles of The Co-operative Group.

# Looking ahead

Our business structure will change in the second half of 2013, with the creation of a new retail division incorporating Food, Pharmacy and Electrical. Steve Murrells, currently Chief Executive of the Food business, will oversee this new division. Our Banking Group, Funeralcare and Legal Services will be run as stand-alone businesses under the wider Co-operative Group.

**Len Wardle**
Group Chair

**Euan Sutherland**
Group Chief Executive

# Interim financial information
for the 26 weeks ended 6 July 2013

## 1. Income statement

| | Note | **26 weeks ended 6 July 2013 (unaudited) £m** | 26 weeks ended 30 June 2012 (unaudited and restated) £m | 53 weeks ended 5 January 2013 (audited and restated) £m |
|---|---|---|---|---|
| **Revenue** | 8 | **5,772** | 5,832 | 11,869 |
| | | | | |
| **Underlying operating (loss)/profit (see below)** | 9 | **(356)** | 140 | 36 |
| Change in value of investment properties | | **(14)** | (1) | (25) |
| Gains/(losses) on disposal of property, plant and equipment | | **16** | (10) | 5 |
| Financial Services Compensation Scheme levy | | **–** | (1) | (25) |
| Fair value amortisation | | **(8)** | 20 | 15 |
| **Operating (loss)/profit before significant items** | | **(362)** | 148 | 6 |
| Significant items (net) | 10 | **(257)** | (101) | (553) |
| **Operating (loss)/profit after significant items** | | **(619)** | 47 | (547) |
| Net financial income/(expense) | 11 | **69** | (19) | (106) |
| Share of (losses)/profits of associates and joint ventures | | **(9)** | (10) | 5 |
| **(Loss)/profit before tax and member payments** | | **(559)** | 18 | (648) |
| | | | | |
| **Analysis of underlying operating (loss)/profit** | | | | |
| Trading Group | | **101** | 135 | 306 |
| Banking Group – core | | **(82)** | 78 | 107 |
| Banking Group – non-core | | **(375)** | (73) | (377) |
| | | **(356)** | 140 | 36 |
| | | | | |
| **Memorandum** | | | | |
| (Loss)/profit on discontinued operations, net of tax | | **(24)** | 26 | 16 |

## 2. Statement of comprehensive income

| | **26 weeks ended 6 July 2013 (unaudited) £m** | 26 weeks ended 30 June 2012 (unaudited and restated) £m | 53 weeks ended 5 January 2013 (audited and restated) £m |
|---|---|---|---|
| (Loss)/profit before tax and member payments | **(559)** | 18 | (648) |
| Member payments | **(55)** | (96) | (104) |
| Taxation | **(104)** | 28 | 185 |
| (Loss)/profit on discontinued operations, net of tax | **(24)** | 26 | 16 |
| **Loss for the period** | **(742)** | (24) | (551) |
| | | | |
| ***Other comprehensive (expense)/income:*** | | | |
| Changes in available for sale assets | **(51)** | 83 | 50 |
| Foreign exchange surplus transferred to the income statement | **–** | – | (2) |
| Actuarial (losses)/gains on employee pension schemes | **(197)** | 7 | 12 |
| Restriction of pension surplus under IFRIC 14 | **–** | – | (16) |
| Changes in cash flow hedges | **(51)** | 5 | (15) |
| Tax on items taken directly to statement of comprehensive income | **63** | (23) | (7) |
| **Other comprehensive (expense)/income for the period, net of tax** | **(236)** | 72 | 22 |
| | | | |
| **Total comprehensive (expense)/income for the period** | **(978)** | 48 | (529) |
| | | | |
| **Total comprehensive (expense)/income attributable to:** | | | |
| Equity holders of the parent | **(978)** | 47 | (530) |
| Non-controlling interest | **–** | 1 | 1 |
| **Comprehensive (expense)/income for the period** | **(978)** | 48 | (529) |

# Interim financial information continued for the 26 weeks ended 6 July 2013

## 3. Condensed balance sheet

| | **As at 6 July 2013 (unaudited) £m** | As at 30 June 2012 (unaudited) £m | As at 5 January 2013 (audited and restated) £m |
|---|---|---|---|
| **Assets** | | | |
| Trading Group | | | |
| – Non-current assets | **4,657** | 5,135 | 4,967 |
| – Cash and cash equivalents | **436** | 201 | 180 |
| – Other current assets | **980** | 1,020 | 1,194 |
| Banking Group | | | |
| – Loans and advances | **34,685** | 36,752 | 35,664 |
| – Investments | **5,350** | 6,298 | 8,188 |
| – Assets held for sale | **25,090** | 24,499 | 24,013 |
| – Other assets | **7,088** | 6,749 | 7,793 |
| Total assets | **78,286** | 80,654 | 81,999 |
| | | | |
| **Liabilities** | | | |
| Trading Group | | | |
| – Non-current liabilities and provisions | **1,368** | 1,496 | 1,460 |
| – Non-current interest-bearing loans and borrowings | **1,355** | 1,504 | 1,501 |
| – Current liabilities | **1,753** | 1,566 | 1,566 |
| – Current interest-bearing loans and borrowings | **245** | 159 | 313 |
| Banking Group | | | |
| – Amounts owed to credit institutions | **3,518** | 4,431 | 3,625 |
| – Customer accounts | **35,009** | 34,282 | 35,960 |
| – Insurance and participation contracts | **–** | 1,016 | 1,051 |
| – Liabilities held for sale | **24,020** | 23,885 | 23,353 |
| – Other liabilities and provisions | **7,471** | 7,211 | 8,645 |
| Total liabilities | **74,739** | 75,550 | 77,474 |
| Consolidated net assets | **3,547** | 5,104 | 4,525 |

**Memorandum**

The Banking Group's assets and liabilities comprise:

| | **As at 6 July 2013 (unaudited) £m** | As at 30 June 2012 (unaudited) £m | As at 5 January 2013 (audited and restated) £m |
|---|---|---|---|
| **Assets** | | | |
| Bank* | **46,525** | 47,571 | 49,573 |
| Other | **25,688** | 26,727 | 26,085 |
| | **72,213** | 74,298 | 75,658 |
| **Liabilities** | | | |
| Bank* | **45,520** | 45,283 | 47,723 |
| Other | **24,498** | 25,542 | 24,911 |
| | **70,018** | 70,825 | 72,634 |

*Represents figures per the published interim accounts of Co-operative Bank plc ("Bank") and therefore excludes the impact of intercompany adjustments and the adjustment to reflect the non-coterminous periods.

## 4. Statement of changes in equity

| | Share capital £m | Retained earnings £m | Other reserves* £m | Total shareholder interest £m | Non-controlling interest £m | Total equity £m |
|---|---|---|---|---|---|---|
| Balance at 31 December 2011 | 70 | 4,703 | 248 | 5,021 | 35 | 5,056 |
| (Loss)/profit (restated) | – | (25) | – | (25) | 1 | (24) |
| Items taken directly to other comprehensive income (net of tax and restated) | – | 5 | 67 | 72 | – | 72 |
| Total comprehensive (expense)/income | – | (20) | 67 | 47 | 1 | 48 |
| Balance at 30 June 2012 | 70 | 4,683 | 315 | 5,068 | 36 | 5,104 |
| (Loss)/profit (restated) | – | (528) | – | (528) | 1 | (527) |
| Items taken directly to other comprehensive expense (net of tax and restated) | – | (9) | (40) | (49) | (1) | (50) |
| Total comprehensive expense | – | (537) | (40) | (577) | – | (577) |
| Contributions by and distributions to members and changes in ownership interests in subsidiaries | – | (1) | – | (1) | (1) | (2) |
| **Balance at 5 January 2013** | **70** | **4,145** | **275** | **4,490** | **35** | **4,525** |
| **Loss** | **–** | **(742)** | **–** | **(742)** | **–** | **(742)** |
| **Items taken directly to other comprehensive expense (net of tax)** | **–** | **(157)** | **(79)** | **(236)** | **–** | **(236)** |
| **Total comprehensive expense** | **–** | **(899)** | **(79)** | **(978)** | **–** | **(978)** |
| **Balance at 6 July 2013** | **70** | **3,246** | **196** | **3,512** | **35** | **3,547** |

*Other reserves include translation reserve, cashflow hedging reserve, revaluation reserve for property, plant and equipment, Reclaim fund capital reserve and available for sale investments reserve.

# Interim financial information continued
for the 26 weeks ended 6 July 2013

## 5. Cash flow – Trading Group

| | **26 weeks ended 6 July 2013 (unaudited) £m** | 26 weeks ended 30 June 2012 (unaudited) £m | 53 weeks ended 5 January 2013 (audited) £m |
|---|---|---|---|
| Operating profit after significant items | **90** | 105 | 128 |
| Losses on discontinued operations before interest and tax | **–** | – | (1) |
| Depreciation and amortisation charges | **139** | 145 | 285 |
| Non-current asset impairments | **11** | – | 24 |
| (Profit)/loss on disposal of non-current assets | **(16)** | 10 | (5) |
| Change in value of investment properties | **14** | 1 | 25 |
| Effect of non-cash pension costs | **4** | 2 | – |
| Movements in net working capital | **115** | (60) | (67) |
| Tax received | **–** | 42 | 53 |
| Net cash from operating activities | **357** | 245 | 442 |
| | | | |
| Acquisition of property, plant and equipment | **(109)** | (163) | (378) |
| Proceeds from sale of property, plant and equipment | **193** | 21 | 41 |
| Purchase of intangible assets | **–** | – | (7) |
| Acquisitions of investments and businesses | **–** | (25) | (14) |
| Disposal of businesses | **29** | – | 5 |
| Net cash from investing activities | **113** | (167) | (353) |
| | | | |
| Interest paid on borrowings | **(52)** | (49) | (112) |
| (Decrease)/increase in corporate investor shares | **(9)** | 10 | (5) |
| Member payments | **(33)** | (55) | (104) |
| Additional payments to pension schemes | **(29)** | (27) | (57) |
| (Repayment)/issue of borrowings | **(87)** | (19) | 109 |
| Other cash flows from financing activities | **(4)** | (4) | (7) |
| Net cash from financing activities | **(214)** | (144) | (176) |
| Net increase/(decrease) in cash and cash equivalents | **256** | (66) | (87) |

## 6. Cash flow – Banking Group (excluding long term business and Reclaim Fund)

| | **26 weeks ended 6 July 2013 (unaudited) £m** | 26 weeks ended 30 June 2012 (unaudited) £m | 53 weeks ended 5 January 2013 (audited) £m |
|---|---|---|---|
| Net cash flow from operating activities | **(1,959)** | (1,594) | 974 |
| Capital expenditure | **(17)** | (75) | (118) |
| Repayment of borrowings | **–** | – | (21) |
| Proceeds from sale and maturity of debt securities | **3,875** | 1,982 | 2,617 |
| Proceeds from sale of property, plant and equipment | **1** | 2 | 2 |
| Purchase of investment securities | **(2,034)** | (2,177) | (4,961) |
| Interest paid on borrowings/subordinated liabilities | **(44)** | (48) | (87) |
| Preference dividends paid | **(3)** | (3) | (6) |
| Dividends paid to minority shareholders in subsidiary undertaking | **–** | – | (1) |
| **Net decrease in cash and cash equivalents** | **(181)** | (1,913) | (1,601) |

## 7. Going concern

The interim report has been prepared on a going concern basis as the Society's directors have a reasonable expectation that the Group and Society will have the resources to continue in business for the foreseeable future.

In making their assessment of going concern, the Society's directors have considered the financial position of the Cooperative Bank plc ("the Bank"), which is a subsidiary of the Society, and the impact of this on the going concern position of the wider Group and Society. In this respect note 3 sets out the amount of the Bank's assets and liabilities included in this interim report. The Society's and the Bank's joint statement of 17 June 2013 ("the statement") explained that the Bank had developed a comprehensive recapitalisation plan ("the plan"). As explained in that statement, the Society sees the Bank as core to its operations and intends to provide extra capital to the Bank as part of that plan.

The directors of the Bank have explained, in their Interim Financial Report for the six months ended 30 June 2013 which was published on 29 August 2013, the basis of their assessment of going concern at this date. This assessment has identified a material uncertainty concerning the Bank's ability to continue as a going concern around the implementation of the plan (the main cornerstone of which is the exchange offer announced in the statement) which is explained in the Bank's Interim Financial Report.

The execution of the recapitalisation plan is designed to significantly strengthen the capital base through the addition of £1.5bn of capital by the end of 2014, and to provide the foundation on which the reshaping of the business as a core relationship bank can be undertaken. The Bank's directors have identified a number of risks associated with successful execution of the plan, including the need for consent of the syndicate currently providing funds to the Society and its subsidiaries (excluding the Bank).

The directors of the Society believe that it is likely that the recapitalisation plan will proceed, but have prepared sensitised forecasts for a period in excess of 12 months from the date of approval of this interim report which indicate that, should the recapitalisation plan not succeed, the Society and the Group (excluding the Bank) could still continue to operate within the terms of existing bank facilities. The Society's directors do not believe, therefore, that the risks identified by the Bank's Directors in relation to the ability of the Bank to continue as a going concern represent a material uncertainty to the ability of the Group (excluding the Bank) and Society to continue as a going concern.

As a consequence of the above, the directors of the Society consider that it is appropriate to prepare the interim report on a going concern basis.

## 8. Revenue

| | **26 weeks ended 6 July 2013 (unaudited) £m** | 26 weeks ended 30 June 2012 (unaudited and restated) £m | 53 weeks ended 5 January 2013 (audited and restated) £m |
|---|---|---|---|
| Food | **3,612** | 3,627 | 7,442 |
| Specialist Businesses* | **722** | 777 | 1,506 |
| Estates | **15** | 18 | 36 |
| Federal | **713** | 680 | 1,421 |
| Intercompany eliminations | **(9)** | (10) | (18) |
| Trading Group | **5,053** | 5,092 | 10,387 |
| Banking Group | **719** | 740 | 1,482 |
| **Revenue** | **5,772** | 5,832 | 11,869 |
| Value Added Tax | **415** | 429 | 877 |
| **Gross sales** | **6,187** | 6,261 | 12,746 |

*A breakdown of the Group's Specialist Businesses is as follows:

| | **26 weeks ended 6 July 2013 (unaudited) £m** | 26 weeks ended 30 June 2012 (unaudited and restated) £m | 53 weeks ended 5 January 2013 (audited and restated) £m |
|---|---|---|---|
| Funeralcare | **201** | 186 | 358 |
| Pharmacy | **379** | 378 | 764 |
| Other Specialist Businesses | **142** | 213 | 384 |
| | **722** | 777 | 1,506 |

# Interim financial information continued for the 26 weeks ended 6 July 2013

## 9. Underlying operating (loss)/profit

| | **26 weeks ended 6 July 2013 (unaudited) £m** | 26 weeks ended 30 June 2012 (unaudited and restated) £m | 53 weeks ended 5 January 2013 (audited and restated) £m |
|---|---|---|---|
| Food | **117** | 119 | 288 |
| Specialist Businesses* | **62** | 62 | 107 |
| Estates | **7** | 10 | 19 |
| Corporate** | **(85)** | (56) | (108) |
| Trading Group | **101** | 135 | 306 |
| Banking Group – core | **(82)** | 78 | 107 |
| Banking Group – non-core | **(375)** | (73) | (377) |
| | **(356)** | 140 | 36 |

*A breakdown of the Group's Specialist Businesses is as follows:

| | **26 weeks ended 6 July 2013 (unaudited) £m** | 26 weeks ended 30 June 2012 (unaudited and restated) £m | 53 weeks ended 5 January 2013 (audited and restated) £m |
|---|---|---|---|
| Funeralcare | **42** | 36 | 60 |
| Pharmacy | **14** | 16 | 28 |
| Other Specialist Businesses | **6** | 10 | 19 |
| | **62** | 62 | 107 |

**Corporate costs are not comparable with the prior period comparatives due to lower recharges to and transfer of costs from the business units to the corporate centre.

## 10. Significant items (net)

| | **26 weeks ended 6 July 2013 (unaudited) £m** | 26 weeks ended 30 June 2012 (unaudited and restated) £m | 53 weeks ended 5 January 2013 (audited and restated) £m |
|---|---|---|---|
| Restructuring costs | **(8)** | (41) | (76) |
| Integration costs | **(15)** | – | (52) |
| Acquisition costs | **(11)** | (23) | (53) |
| Provision for customer compensation relating to Payment Protection Insurance | **(25)** | (40) | (150) |
| Impairment of assets | **(158)** | – | (163) |
| Net loss on disposal of property, plant and equipment and other businesses | **–** | – | (56) |
| Provision for interest rate swap/credit card insurance mis-selling | **(36)** | – | – |
| Other | **(4)** | 3 | (3) |
| | **(257)** | (101) | (553) |

Significant items of £257m (2012: £101m) comprise £244m (2012: £82m) in the Banking Group and £13m (2012: £19m) in the Trading Group.

## 11. Net financial income/(expense)

| | **26 weeks ended 6 July 2013 (unaudited) £m** | 26 weeks ended 30 June 2012 (unaudited and restated) £m | 53 weeks ended 5 January 2013 (audited and restated) £m |
|---|---|---|---|
| Underlying interest payable | **(49)** | (50) | (106) |
| Non-cash finance income/(expense) | **112** | 29 | (10) |
| Net pension finance income | **6** | 2 | 10 |
| Net financial income/(expense) | **69** | (19) | (106) |

## Additional notes

a. This interim financial information is for the 26 week period ended 6 July 2013. The information included within this document has been prepared on the basis of the recognition and measurement requirements of IFRS and IFRIC interpretations in issue that are endorsed by the European Commission and effective at 6 July 2013.

   This financial information should be read in conjunction with the Group's Annual Report and Accounts for 2012 and has been prepared using the accounting policies set out in that report, apart from the revisions to IAS 19. The Group has not adopted IAS 34 'Interim Financial Reporting', having elected to apply the exemption within the transitional provisions of the Disclosure and Transparency Rules Exemption 4.2 issued by the FSA. The presentation of financial information is therefore not consistent with that applied in the Group's Annual Report and Accounts.

b. The income statement excludes taxation.

c. The liabilities at 6 July 2013 and 30 June 2012 shown in the condensed balance sheet are after making estimated provisions for taxation and share interest.

d. The results for the 26 weeks ended 30 June 2012 and 53 weeks ended 5 January 2013 have been restated to include the revisions to IAS 19, 'Employee Benefits' which became effective for periods starting after 1 January 2013, but requires comparatives to be restated. Funeralcare's prior period figures have been adjusted to include Life Planning following the merge of management reporting lines between these two entities.

e. The General Insurance business is shown as discontinued and held for sale in the current year. As required by IFRS 5, the prior year income statement comparatives have been restated to show the business as discontinued. The Life and Savings business' results are shown as discontinued and held for sale for all periods of this report. This business was transferred to Royal London Group on 1 August 2013.

f. The Banking Group subsidiaries of the Group have interim period ends of 30 June. This differs from the parent of the Group and other Trading Group subsidiaries which have accounting periods ending on the first Saturday of July (unless 30 June). For the period between 30 June 2013 and 6 July 2013, the enacted tax rate fell from 23% to 20%. Therefore, deferred tax assets and liabilities in the Banking Group had to be reduced by £10m and £16m respectively. There are no other significant transactions or events which need to be adjusted for to reflect the difference in reporting dates.

# Independent review report by KPMG Audit Plc to Co-operative Group Limited

## Introduction

We have been engaged by the Society to review the condensed set of financial statements in the half yearly report for the 26 weeks ended 6 July 2013 which comprises the interim income statement, the interim condensed balance sheet, interim statement of comprehensive income, interim statement of changes in equity, interim cash flow and explanatory notes. We have read the other information contained in the half yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Society in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Society those matters we are required to state to it in this 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 Society for our review work, for this report, or for the conclusions we have reached.

## Directors' responsibilities

The half yearly report is the responsibility of, and has been approved by, the directors.

The annual financial statements of the Society are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half yearly report has been prepared in accordance IFRSs as adopted by the EU.

## Our responsibility

Our responsibility is to express to the Society a conclusion on the condensed set of financial statements in the half yearly report based on our review.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly report for the 26 weeks ended 6 July 2013 is not prepared, in all material respects, in accordance with recognition and measurement requirements of IFRSs as adopted by the EU.

## Emphasis of matter – financial position of the Bank and its impact on the Group and the Society

Without modifying our review conclusion on the interim report, we draw attention to the disclosures in note 7 concerning the financial position of the Co-operative Bank plc and the impact of that position on the wider Group, specifically the risks in relation to the Banks' recapitalisation plan which have been identified by the Bank's directors in the preparation of the Bank's Interim Financial Report. We believe that these disclosures are fundamental to users' understanding of the interim report. Note 3 sets out the amounts of the Bank's assets and liabilities included in this interim report.

**Jonathan Hurst**
For and on behalf of KPMG Audit Plc
Chartered Accountants
St James Square
Manchester
M2 6DS

28 August 2013

# Board members as at 6 July 2013

**Len Wardle** [a b c e g h]
Group Chair

**Ursula Lidbetter** [a d e]
Deputy Chair and Chair of Food Board

**Jenny Barnes** [a g f h i j]

**Steven Bayes** [b h e i]

**Duncan Bowdler** [c d g]

**John Brodie** [a]

**Eric Calderwood** [a e i]

**Martyn Cheatle** [a d]

**Herbert Daybell** [a f h]

**Patrick Grange** [a d]

**Michael Harriott** [b]

**Ray Henderson** [a]

**Munir Malik** [b]

**Liz Moyle** [b f h]

**David Pownall** [b j]

**Stuart Ramsay** [b f]

**Ben Reid** [c f]

**Mark Smith** [b d]

**Jenny de Villiers** [b i]

[a] Co-operative Food Board
[b] Co-operative Specialist Businesses Board
[c] Co-operative Banking Group Board
[d] Group Audit and Risk Committee
[e] Group Remuneration & Appointments Committee
[f] Group Values & Principles Committee
[g] Governance Committee
[h] Board Diversity Strategy Committee
[i] Co-operatives UK
[j] Co-operative Press

# Notes

**Co-operative Group Limited**
Registered under the Industrial and Provident Societies Act
Registered office: 1 Angel Square, Manchester, M60 0AG
Registered number: 525R
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www.fsc.org
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FSC® C003270

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and FSC certified company.

We like our communications to have an impact on you – but not on the environment, which is why this is printed using vegetable oil-based inks on 80% recycled paper, with the remaining 20% produced from Forest Stewardship Council certified sources. The paper is made in a totally chlorine-free process.