The Co-operative Bank p.l.c.

Interim Results 2007

The Co-operative Bank

smile the internet bank

Contents

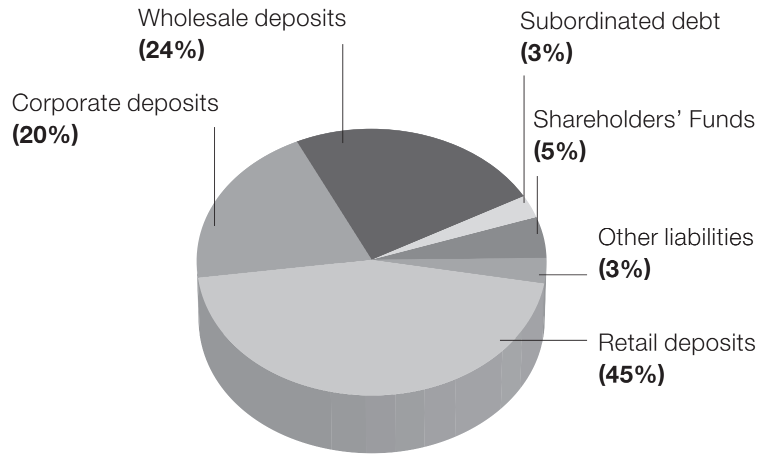
Highlights

- Profit before taxation and significant items was £45.5m (2006: £44.7m).
- Bad debt charges have fallen by £5.0m to £53.2m.
- Average customer deposits grew by 9%.
- Average customer lending grew by 3%.
- Operating costs decreased by £3.5m to £177.5m.
- The Bank topped the ‘Best 100% Mortgage Provider’ category at the Moneyfacts award.
- **smile** was awarded ‘Best of the Best’ by Which? for its current account products and also named in their UK top 100 ‘Cool Brands’ for 2006/2007.
- ‘Best Direct Mortgage Lender 2006/2007’ and ‘Best Online Banking Provider’ were awarded to the Bank and **smile** respectively by Your Money.

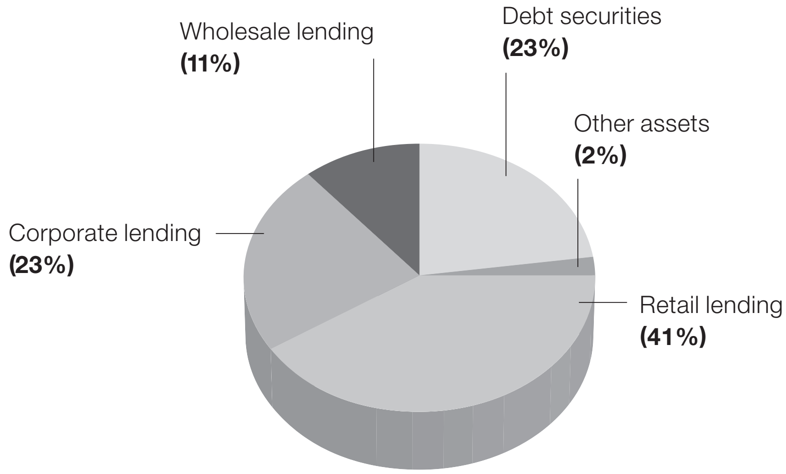
Average balance sheet highlights

Average Cleared Balances for the 28 weeks ended 28 July 2007

Liabilities



Assets



Balance Sheet Features

- A well proportioned balance sheet:

  Customer assets represented 64% of total assets

  Customer liabilities represented 65% of total liabilities

Within customer balances:

Corporate lending represented 36% and retail lending represented 64%

Corporate deposits represented 31% and retail deposits 69%

- Solid growth in customer balances:

  Deposits increased by 9%
  Lending increased by 3%

- Strong capital ratios to underpin future balance sheet growth.

Vision and values

Our business purpose

To be a growing, pioneering financial services business delivering benefits to customers, members and communities through commitment to value, fairness and social responsibility.

Our CFS vision

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

Our measures

- Profit generation to create a sustainable business
- Market leading colleague satisfaction
- Market leading customer satisfaction
- Market leading social responsibility approach
- Membership growth

Our values

As a Co-operative business, we believe in:

social responsibility

We are committed to leading the way on ethical, environmental and community issues.

openness and honesty

We work hard to earn credibility and trust from our customers and each other.

being successful

We work together to make sure that CFS is admired, profitable and sustainable.

being customer focused

We always aim to satisfy our customers and exceed their expectations where we can.

making work fun

We are proud of CFS and know we can contribute to making it a great place to work.

Business and financial review

Banking results	28 weeks to 28 July 2007 £m	28 weeks to 29 July 2006 £m	Change £m	Change %
Net interest income	**177.6**	173.1	4.5	2.6%
Non-interest income	**98.6**	110.8	(12.2)	(11.0%)
Operating costs	**(177.5)**	(181.0)	3.5	1.9%
Impairment losses	**(53.2)**	(58.2)	5.0	8.6%
Profit before tax and significant items	**45.5**	**44.7**	**0.8**	**1.8%**
Significant items*	**(30.1)**	109.2	(139.3)	(127.6%)
Statutory profit before taxation*	**15.4**	**153.9**	**(138.5)**	**(90.0%)**
Profit before tax and significant items is analysed by segment:**				
• Retail	**23.4**	17.8	5.6	31.5%
• Corporate	**32.9**	28.0	4.9	17.5%
• Wholesale	**(2.6)**	4.7	(7.3)	(155.3%)
• Central costs	**(8.2)**	(5.8)	(2.4)	(41.4%)
	45.5	44.7	0.8	1.8%
Cost/Income ratio	**64.3%**	63.8%		0.5%

*An explanation of significant items is provided on page 6
**2006 Segmental analysis has been restated to ensure consistency with 2007 classification

The banking business recorded a stable profit before tax and significant items of £45.5m compared to £44.7m in 2006 and balance sheet growth was achieved in both lending and deposit balances. Bad debt levels have reduced in the first half of 2007 and costs have been controlled such that they have reduced by £3.5m.

The increase in profit before tax and significant items compared to the previous year reflects higher net interest income, lower costs and bad debts offset by lower non-interest income.

Net interest income growth of £4.5m arose principally from balance sheet growth as net interest margins declined slightly. Non-interest income declined by £12.2m primarily due to industry-wide pressures on Payment Protection Insurance (PPI) and £6.3m of Bank overdraft fee refunds as a result of publicity generated by the OFT market study.

The Bank has maintained tight cost control in the period which has resulted in business-as-usual operating costs reducing by £3.5m (2%).

The first half of 2007 has seen reductions in retail and corporate bad debts. Whilst bad debt levels are heavily influenced by external factors such as rising interest rates, inflation and insolvency, the Bank has implemented internal initiatives to help reverse the previous trend for retail debts. These initiatives include further tightening of credit and lending policies, such as reducing credit card limits on high risk accounts, increased litigation for those customers who have the means to pay but choose not to and early contact with customers who may be experiencing difficulties to prevent them going into arrears in the first place.

The increase in retail operating contribution reflects reduced bad debts and costs offset by lower non-interest income.

Increased corporate sector operating contribution reflects growth in operating income and lower arrears provisioning.

Wholesale sector performance reflects difficult trading conditions and increased funding costs.

On 20 July, Co-operative Financial Services (CFS), of which the Bank is a significant element, announced plans to improve its operational business performance for the benefit of its 6 million customers. This next stage of development will see investment across CFS of £250 million being made in the business to support planned growth in areas such as retail and corporate banking, general insurance and the life & savings area of the business. The investment plans include enhanced relationship products, a new web offering for general insurance, new technology for CFS financial advisers and a doubling in the number of corporate banking centres.

In order to maximise the return on this investment and to ensure it serves customers in the most cost effective way, CFS also plans to reduce its annualised operational costs by £100m by the end of June 2008. The benefits of the reduced cost base will be shared between CFS's operating entities. A number of measures will be taken in order to achieve these cost reductions but job losses are regrettably unavoidable and CFS proposes to reduce its workforce by approximately 1,000 during 2007. Other cost savings will be made through improvements in supplier procurement and by simplifying business processes throughout the organisation.

People in our customer-facing roles, specifically those who service or sell to our customers by telephone, financial advisers and customer-facing advisers within Bank branches, will be unaffected by these changes. CFS has also re-affirmed its commitment not to off-shore any of its customer-facing sales and service operations.

Total non-recurring costs of this programme in the first half of the year were £72.2m across CFS, of which the Bank incurred £30.1m as a significant item.

In 2006 the Bank recognised a pre-tax gain of £109.2m as a significant item. On 5 April 2006, the Bank's pension scheme deficit was transferred to its ultimate parent undertaking, the Co-operative Group, for no consideration. This resulted in a settlement gain presented as a significant item.

Balance Sheet

Average customer deposits of £8,163m grew by £679m (9%). Average customer lending balances grew by £240m (3%) to £7,885m reflecting growth in corporate balances.

Retail sector average customer lending balances fell by £297m (6%) compared to the previous year as the Bank has continued its strategy to reduce its exposure to new-to-Bank unsecured loan and credit card customers, where aggressive acquisition pricing and bad debts continue to constrain value. There remains a focus on relationship customers such as those with Privilege packaged accounts with efforts also placed on cross sales to strengthen the relationship.

The Bank's customer and marketing strategies are driven by a focus on customers who share our belief in the Co-operative difference, developing strong loyal relationships based on the total CFS product range, recruiting and retaining relationship customers and a customer promise that sets our commitment.

The Bank and **smile** have seen continued recognition for the quality of service provided to our customers, including the 'Best Direct Mortgage Lender 2006/2007' and 'Best Online Banking Provider' awarded by Your Money.

The Bank has continued its improvement in customer satisfaction with a July 2007 score of 77.6% – the sixth monthly improvement since January 2007.

The Bank came out on top in the 'Best 100% Mortgage Provider' category at the Moneyfacts awards. Moneyfacts also highly commended the Bank in the category for 'Best Credit Card Provider – Standard Rate' for its Clear credit card.

Average corporate lending balances increased by £537m (24%). The promising growth in corporate lending balances included increased support for our expanding customer base as well as selected involvement in the syndicated lending sector and participation in PFI transactions. We are also planning to increase significantly our lending commitment to the renewable energy sector where we will be focusing both on large scale project finance transactions and also smaller community based schemes. The Bank also remains recognised as one of the UK market leaders in provision of finance for NHS Local Investment Trusts.

Average customer deposits grew by £679m (9%) reflecting growth across both the retail and corporate sectors. Average retail sector balances of £5,629m were £464m (9%) higher than last year. The Smartsaver product remains a market leading instant access savings account and the Privilege Premier product has a highly competitive rate structure.

smile has also been awarded 'Best of the Best' by Which? for its current account products and also continues to be recognised as a desirable brand as it was named one of the UK's Top 100 'Cool Brands' for 2006/07.

Corporate sector deposits increased by £215m (9%). We have opened 3 new corporate banking centres (Bristol, Oxford and Derby) as part of our programme to double our representation to 22 centres by mid 2009.

The Bank has maintained a strong balance sheet with consistent robust liquidity and capital ratios. The risk asset ratio was 15.0% with a Tier 1 ratio of 9.7%, substantially higher than the regulatory requirements currently laid down by the Financial Services Authority (FSA).

Partnerships

The Bank's links with the wider Co-operative Group have continued as the Bank manages and operates ATMs located in retail stores. The total number in the Bank's network is over 2,400.

A number of new partnerships have been launched allowing us to sell products to the customers of third party companies. These include the sales of loans to Norwich Union/RAC customers as well as mortgages through Places for People.

Average balances and interest margins

	28 weeks to 28 July 2007 £m	28 weeks to 29 July 2006 £m	24 weeks to 13 January 2007 £m
Net interest	**177.6**	173.1	147.2
Average balances			
Interest-bearing assets	**12,144**	11,660	12,021
Interest-bearing liabilities	**10,322**	9,937	10,230
Interest-free liabilities	**1,822**	1,723	1,791
Average rates	**%**	**%**	**%**
Gross yield on interest earning assets	**6.3%**	5.9%	6.0%
Cost of interest earning liabilities	**4.3%**	3.7%	3.9%
Interest spread	**2.0%**	2.2%	2.1%
Contribution from interest free liabilities	**0.7%**	0.6%	0.6%
Net interest margin	**2.7%**	2.8%	2.7%
Average base rate	**5.4%**	4.5%	4.8%

Operating Income
Operating income at £276.2m was £7.7m lower than the same period last year reflecting a £4.5m increase in net interest income and a decrease of £12.2m in non-interest income. Higher interest income from balance sheet growth was offset by lower wholesale income.

Net interest income from the Bank's retail and corporate sectors increased, reflecting higher customer balances partly offset by a slight reduction in the Bank's overall net interest margin. This was partly a consequence of the strong growth achieved in corporate lending compared to the level of the unsecured lending portfolio. Corporate syndicated and property lending represents a lower credit risk compared to unsecured retail lending and so attracts a lower margin. As commodity personal loan margins continue to decline reflecting competitive pressures, recruitment activity is no longer targeting these products. Marketing strategy is now focussed towards customers who share the Co-operative values, seeking to build profitable relationships across the CFS banking and insurance products. In addition, the launch of new high rate instant access savings products have increased net interest albeit at lower margins. As a result of the combination of lower deposit margins and improvement in the credit profile, the Bank's overall net interest margin reduced from 2.8% in the first half of 2006 to 2.7% for the same period in 2007. The decline in net interest from lower margins was more than offset by increased net interest from corporate lending and deposits and retail liabilities.

Net interest income from wholesale activities was lower than last year mainly driven by higher funding costs.

Non-interest income at £98.6m was £12.2m lower than the same period last year. This was principally driven by reduced insurance commission generated from Payment Protection Insurance and Bank overdraft fee refunds of £6.3m as a result of publicity generated by the OFT market study.

Commission and fees receivable decreased by £7.7m (7%) as growth in fee and commission generating current accounts, (including Privilege, Premier Privilege and the **smile** fee bearing account, **smile**more), from LINK transaction fees from the Bank's ATM network and growth in corporate commission and fees was offset by Bank overdraft fee refunds.

Non-interest income

	28 weeks to 28 July 2007 £m	28 weeks to 29 July 2006 £m	24 weeks to 13 January 2007 £m
Fees and commission receivable	**96.2**	103.9	89.7
Insurance commission	**16.2**	23.0	15.8
Fees and commission payable	**(17.4)**	(18.9)	(14.9)
Other income including trading profits/(losses)	**3.6**	2.8	(0.2)
Total	**98.6**	**110.8**	**90.4**

Operating costs

	28 weeks to 28 July 2007 £m	28 weeks to 29 July 2006 £m	24 weeks to 13 January 2007 £m
Staff costs			
Wages and salaries	**59.4**	59.8	49.8
Pensions and social security costs	**11.8**	13.4	10.0
Other staff costs	**6.8**	4.1	5.2
	78.0	77.3	65.0
Other administrative expenses	**87.3**	90.5	82.7
Depreciation	**12.2**	13.2	11.2
Total operating costs	**177.5**	**181.0**	**158.9**
Cost/Income ratio	**64.3%**	63.8%	66.9%

The Bank has maintained tight cost control in the period which has resulted in business-as-usual operating costs reducing by £3.5m (2%). This has been achieved by an increased focus on relationship banking and a move away from direct marketing sales channels.

Staff costs were £0.7m (1%) higher than the same period last year mainly due to the inflationary impact from the annual pay award offset by close management over recruitment of non-customer facing staff and a reduction in pension costs following increased employee contributions from January 2007 and the complete half year impact from introduction of the lower cost career average PACE scheme from April 2006.

Credit Quality and Impairment Losses

The impairment charge of £53.2m was £5.0m lower than the same period last year reflecting lower charges for the retail sector and reduced corporate charges.

The first half of 2007 has seen reductions in retail and corporate bad debts. Whilst bad debt levels are heavily influenced by external factors such as rising interest rates, inflation and insolvency, CFS has implemented internal initiatives to help reverse the previous trend for retail debts. These initiatives include further tightening of credit and lending policies, such as reducing credit card limits on high risk accounts, increased litigation for those customers who have the means to pay but choose not to and early contact with customers who may be experiencing difficulties to prevent them going into arrears in the first place.

Retail sector impairment losses were £2.3m lower than last year representing 1.9% expressed as percentage of average retail lending, in line with last year.

Corporate sector impairment losses were £2.7m lower than last year principally as 2006 included additional charges incurred on the final resolution of a specific problem account. The credit quality of the corporate portfolio has been maintained.

Social Responsibility

In March 2007, CFS went beyond carbon neutral and offsets 110% of its remaining emissions. Going forward, all CFS' remaining operational and business travel emissions will be offset, together with an extra ten per cent to cover legacy issues.

In May, Business in the Community placed CFS in the Platinum (leading) Group of the 110 publicly participating companies, attaining a score of 98%.

The Bank celebrated its 15th anniversary since launching its well known Ethical Policy, with figures revealing it has declined loans totalling more than £700m for ethical and ecological reasons. The policy clearly states who the Bank will and will not do business with.

The Co-operative Group, including CFS, received the prestigious Queen's Award for Enterprise in the Sustainable Development category.

Summary

The Bank has increased its profit before significant items by 2% despite industry wide pressures on the Bank's income, historically high retail sector bad debts and continuing high levels of competition. This has been achieved by selective balance sheet growth, further tightening of credit policies and improved cost control.

The Bank, as a significant element of CFS, has commenced a £250m investment programme aimed at transforming our processes, organisational structure and culture. Successful implementation of this programme will enable us to reinvigorate revenue growth, significantly improve our costs, and achieve our vision to be the UK's most admired financial services business.

Impairment losses

	28 weeks to 28 July 2007 £m	28 weeks to 29 July 2006 £m	24 weeks to 13 January 2007 £m
Profit and loss charge			
Retail sector	**51.6**	53.9	45.5
Corporate sector	**1.6**	4.3	1.6
Total	**53.2**	58.2	47.1
As a percentage of loans and advances to customers (annualised)	**1.17%**	1.32%	1.25%

Independent review report by KPMG Audit Plc to The Co-operative Bank plc.

Introduction
We have been instructed by the company to review the financial information for the 28 weeks ended 28 July 2007 as set out on pages 10 to 17. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the company 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 company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities
The interim report, including the financial information contained therein, is the responsibility of and has been approved by the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

Review work performed
We conducted our review in accordance with guidance contained in Bulletin 1999/4: Review of interim financial information issued by the Auditing Practices Board for use in the UK. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Statements on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion
On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the 28 weeks ended 28 July 2007.

KPMG Audit Plc
Chartered Accountants,
Manchester, 13 September 2007.

Basis of preparation

EU law (IAS Regulation EC 1606/2002) requires that the annual consolidated financial statements for the year ended 12 January 2008 are prepared in accordance with IFRS adopted by the EU (adopted IFRS).

The interim financial information has been prepared applying the accounting policies and presentation that were applied in the preparation of the company's published consolidated financial statements for the year ended 13 January 2007.

The information in this report is unaudited and does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. 2006 statutory accounts, for the Bank, which were prepared under IFRS, have been reported on by the Group's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

This report was approved by the Directors on 13 September 2007.

(a) Revenue recognition

Interest income

Interest income is recognised on an effective interest rate (EIR) basis, inclusive of directly attributable incremental transaction costs and fees, and discounts and premiums where appropriate.

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

Fees and commissions

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis when the service has been provided.

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

(b) Financial instruments (excluding derivatives)

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

1. Loans and receivables;
2. Available for sale; or
3. Financial assets at fair value through profit or loss.

No assets are classified as held-to-maturity.

The Group measures all of its financial liabilities at amortised cost, other than those within the wholesale trading portfolio, which are measured at fair value through profit or loss.

1. Loans and receivables

   Loans and receivables to customers and Banks (except for specific assets designated at fair value through profit or loss – see below), are measured at amortised cost, being the amount advanced plus any unpaid interest, commissions and fees charged to the customer less amounts repaid or written off; less impairment provisions for incurred losses and adjusted for the cumulative amortisation arising from effective interest rate adjustments. Effective interest rate adjustments arise when future cash flows are discounted through the expected life of the financial instrument.

2. Available for sale

   Available for sale financial assets are non-traded investment securities, intended to be held for an indefinite period of time. These are measured at fair value with movements in the carrying value brought into equity as they arise, except for changes in value arising from impairment and foreign exchange gains and losses on monetary items which are recognised in the income statement. On disposal, gains and losses recognised previously in equity are transferred to the income statement.

3. Financial assets at fair value through profit or loss
   These are either:
- Acquired or incurred principally for the purpose of selling or repurchasing in the near term; or
- Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or
- Upon initial recognition designated at fair value through profit or loss to eliminate or significantly reduce a measurement or recognition inconsistency.

These are measured at fair value with movements in the carrying value brought into the income statement within interest income as they arise.

Impairment provision
The Bank assesses at the balance sheet date its financial assets (including loans and advances to customers) for objective evidence that an impairment loss has been incurred.

The amount of the loss is the difference between:
- Asset's carrying amount; and
- Present value of estimated future cash flows (discounted at the asset's original or variable effective interest rate).

The amount of the impairment loss is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

The written down value of the impaired loan is compounded back to the net realisable balance over time using the original effective interest rate. This is reported through interest and similar income within the income statement and represents the unwind of the discount.

A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously established provisions for impairment or directly to the income statement.

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

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

(d) Derivative financial instruments and hedge accounting
Derivatives used for asset and liability management purposes
Derivatives are used to hedge interest and exchange rate exposures related to non-trading positions. Instruments used for hedging purposes include swaps, forward rate agreements, futures, options and combinations of these instruments.

Derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement except where derivatives qualify for cash flow hedge accounting.

Embedded derivatives: A derivative may be embedded in another financial instrument, known as the host contract. Where the economic characteristics and risks of an embedded derivative are not closely related to those of the host contract, the embedded derivative is separated from the host and held on balance sheet at fair value. Movements in fair value are posted to the income statement, whilst the host contract is accounted for according to the policy for that class of financial instrument.

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

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

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

Derivatives used for trading purposes
Derivatives entered into for trading purposes include swaps, forward rate agreements, futures, options and combinations of these instruments. Derivatives used for trading purposes are measured at fair value and any gains or losses are included in the income statement. The use of derivatives and their sale to customers as risk management products is an integral part of the Bank's trading activities. Fair values are based on quoted market prices in active markets, and where these are not available, using valuation techniques such as discounted cash flow models.

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

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

All items of property, plant and equipment are regularly reviewed for indications of impairment. Any impairment identified would be charged to the income statement.

(f) Intangible assets – *Computer software*
Costs incurred in the development of computer software for internal use are capitalised and classified as intangible assets where they are not an integral part of the related hardware and amortised over their useful life, which is generally 3 years.

(g) Assets leased to customers – *Finance leases*
Assets leased to customers are included within 'loans and advances to customers' and valued at an amount equal to the net investment in the lease, less any provisions for impairment.

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

(h) Cash and cash equivalents
Cash and cash equivalents comprises cash balances and balances with an original maturity of three months or less.

(i) Income tax expense
Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) Pension costs

Defined benefit basis

Prior to 5 April 2006, the Bank operated a defined benefit pension scheme.

The Bank's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate used is the market yield on high quality corporate bonds at the balance sheet date that have maturity dates approximating to the terms of the Bank's obligation. The calculation is performed by a qualified actuary using the projected unit credit method.

The Bank recognises actuarial gains and losses through equity.

The charge to the income statement includes current service costs, past service cost, the interest cost of the scheme liabilities and the expected return on scheme assets.

Defined contribution basis

Subsequent to 5 April 2006, the Bank has accounted for pension costs on a defined contribution basis. Obligations for contributions are recognised as an expense in the income statement as incurred.

(k) Exchange rates

Balances in foreign currencies are expressed in £ sterling at the rate ruling at the balance sheet date. All exchange differences are dealt with in the income statement.

(l) Borrowed funds

Borrowings are recognised initially at issue proceeds net of transaction costs incurred.

Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The Bank's Preference shares are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

(m) Insurance contracts

All financial guarantees in respect of intra-group funding between the Bank and its subsidiaries are treated as insurance contracts in accordance with IFRS 4.

Consolidated statutory income statement

for the period ended 28 July 2007 (unaudited)

	28 weeks to 28 July 2007			28 weeks to 29 July 2006			24 weeks to 13 January 2007
	Before significant items £m	**Significant items £m**	**After significant items £m**	**Before significant items £m**	**Significant items £m**	**After significant items £m**	**£m**
Interest and similar income	416.2	–	**416.2**	373.7	–	**373.7**	335.1
Interest expense and similar charges	(238.6)	–	**(238.6)**	(200.6)	–	**(200.6)**	(187.9)
Net interest income	**177.6**	–	**177.6**	**173.1**	–	**173.1**	**147.2**
Fee and commission income	113.3	–	**113.3**	127.7	–	**127.7**	104.4
Fee and commission expense	(17.4)	–	**(17.4)**	(18.9)	–	**(18.9)**	(14.9)
Net fee and commission Income	**95.9**	–	**95.9**	**108.8**	–	**108.8**	**89.5**
Dividend income	–	–	–	0.1	–	**0.1**	–
Net trading income	2.7	–	**2.7**	1.9	–	**1.9**	0.9
Operating income	**276.2**	–	**276.2**	**283.9**	–	**283.9**	**237.6**
Operating expenses	(177.5)	(30.1)	**(207.6)**	(181.0)	109.2	**(71.8)**	(158.9)
Profit before impairment losses	**98.7**	**(30.1)**	**68.6**	**102.9**	**109.2**	**212.1**	**78.7**
Impairment losses on loans and advances	(53.2)	–	**(53.2)**	(58.2)	–	**(58.2)**	(47.1)
Operating profit	**45.5**	**(30.1)**	**15.4**	**44.7**	**109.2**	**153.9**	**31.6**
Profit based payments to members of the Co-operative Group	–	–	–	–	–	–	(1.2)
Profit before taxation	**45.5**	**(30.1)**	**15.4**	**44.7**	**109.2**	**153.9**	**30.4**
Income tax expense	(14.5)	9.0	**(5.5)**	(14.2)	(32.8)	**(47.0)**	(10.4)
Profit for the period	**31.0**	**(21.1)**	**9.9**	**30.5**	**76.4**	**106.9**	**20.0**
Attributable to:							
Equity shareholders	29.8	(21.1)	**8.7**	29.3	75.1	**104.4**	19.0
Minority interests	1.2	–	**1.2**	1.2	1.3	**2.5**	1.0
	31.0	**(21.1)**	**9.9**	**30.5**	**76.4**	**106.9**	**20.0**
Earnings per share (basic and fully diluted)	**2.71p**	**(1.92p)**	**0.79p**	**2.66p**	**6.83p**	**9.49p**	**1.73p**

2007 significant items relate solely to non-recurring restructuring costs.
2006 significant items relate solely to gain on transfer of the Bank's IAS19 pension liabilities to the Bank's ultimate parent undertaking.

Consolidated statutory balance sheet

at 28 July 2007 (unaudited)

	28 July 2007 £m	29 July 2006 £m	13 January 2007 £m
Assets			
Cash and balances at central banks	**203.2**	202.9	186.9
Loans and advances to banks	**1,283.2**	1,075.0	1,367.0
Loans and advances to customers	**8,424.9**	8,172.3	8,147.6
Debt securities – Available for sale	**2,427.6**	3,219.3	2,753.1
Derivative financial instruments	**90.5**	63.5	84.4
Equity shares	**1.7**	1.7	1.7
Intangible fixed assets	**6.2**	6.6	7.2
Property, plant and equipment	**90.3**	80.5	93.8
Deferred tax assets	**8.6**	–	1.9
Other assets	**21.2**	20.1	44.1
Prepayments and accrued income	**70.3**	88.5	91.5
Total assets	**12,627.7**	**12,930.4**	**12,779.2**
Liabilities			
Deposits by banks	**608.2**	834.3	700.6
Customer accounts	**9,982.6**	9,367.3	9,544.3
Debt securities in issue	**623.7**	1,389.3	1,113.3
Derivative financial instruments	**143.6**	73.5	117.7
Other borrowed funds	**388.0**	338.3	387.8
Other liabilities	**121.7**	117.4	108.1
Accruals and deferred income	**46.1**	80.5	82.8
Provisions	**23.9**	6.0	6.8
Current tax liabilities	**10.3**	13.7	18.6
Deferred tax liabilities	**–**	6.1	–
Total liabilities	**11,948.1**	**12,226.4**	**12,080.0**
Capital and reserves attributable to the Company's equity holders			
Ordinary share capital	**55.0**	55.0	55.0
Share premium account	**8.8**	8.8	8.8
Retained earnings	**633.4**	619.0	633.7
Other reserves	**(41.7)**	(2.6)	(22.7)
	655.5	**680.2**	**674.8**
Minority interests	**24.1**	23.8	24.4
Total equity	**679.6**	**704.0**	**699.2**
Total liabilities and equity	**12,627.7**	**12,930.4**	**12,779.2**

Consolidated cash flow statement

for the period ended 28 July 2007 (unaudited)

Reconciliation of Group profit before taxation to net cash flow from operating activities	**28 weeks to 28 July 2007 £m**	**28 weeks to 29 July 2006 £m**	**24 weeks to 13 January 2007 £m**
Group profit before taxation	**15.4**	**153.9**	**30.4**
Net movement in accruals and prepayments	**(15.6)**	(11.6)	(6.1)
Interest payable in respect of subordinated liabilities	**10.5**	9.9	8.5
Non cash income statement items	**60.8**	(41.2)	57.3
Amortisation and profit on sale of investments	**(0.1)**	0.3	0.6
Loss on disposal of fixed assets	**0.2**	–	1.8
Preference dividend	**3.0**	3.0	2.6
Net cash flow from trading activities	**74.2**	**114.3**	**95.1**
Increase in customer and bank deposits	**357.7**	787.9	83.7
Increase/(decrease) in debt securities in issue	**(489.6)**	339.0	(275.9)
Increase/(decrease) in loans and advances to customers and banks	**(278.8)**	(255.3)	6.4
Net movement of other assets and other liabilities	**48.3**	9.3	(36.6)
United Kingdom corporation tax paid	**(13.5)**	(18.3)	(4.6)
Net cash flow from operating activities	**(301.7)**	**976.9**	**(131.9)**
Cash flows from investing activities			
Purchase of property, equipment and software	**(3.8)**	(9.9)	(31.4)
Proceeds from sale of property and equipment	**0.1**	0.1	8.0
Purchase of debt securities	**(4,535.2)**	(3,516.9)	(3,748.6)
Proceeds from sale and maturity of debt securities	**4,658.7**	2,863.8	3,927.5
Net cash used in investing activities	**119.8**	**(662.9)**	**155.5**
Cash flows from financing activities			
Interest paid in respect of subordinated liabilities	**(14.0)**	(13.4)	(4.5)
Repayment of subordinated liabilities	**–**	–	(100.0)
Issue of subordinated liabilities	**–**	–	150.0
Ordinary share dividends paid	**(9.0)**	–	(4.2)
Preference dividends paid	**(2.8)**	(2.8)	(2.8)
Dividends paid to minority shareholders in subsidiary undertaking	**(0.8)**	(0.8)	(0.1)
Net cash flow from financing	**(26.6)**	**(17.0)**	**38.4**
Increase/(Decrease) in cash and cash equivalents	**(208.5)**	**297.0**	**62.0**
Cash and cash equivalents at the beginning of the period	1,599.9	1,240.9	1,537.9
Cash and cash equivalents at end of period	**1,391.4**	**1,537.9**	**1,599.9**

Analysis of cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with less than 3 months maturity from the date of acquisition.

	28 July 2007	**29 July 2006**	**13 January 2007**
Cash and balances at central banks	**203.2**	202.9	186.9
Loans and advances to banks	**1,188.2**	900.0	1,222.0
Short term investments	**–**	435.0	191.0
	1,391.4	**1,537.9**	**1,599.9**

Consolidated statement of recognised income and expense and statement of changes in equity

for the period ended 28 July 2007 (unaudited)

	Period ended 28 July 2007 £m	Period ended 29 July 2006 £m	Year ended 13 January 2007 £m
Consolidated statement of recognised income and expense			
Net change in available for sale investments, net of tax	**(1.5)**	(3.8)	(6.4)
Net movement in pension fund deficit due to actuarial gains and losses, net of tax	**–**	(13.5)	(13.6)
Net change in cash flow hedges, net of tax	**(18.2)**	(11.4)	(29.2)
Net income recognised directly in equity	**(19.7)**	**(28.7)**	**(49.2)**
Net profit – equity shareholders	**8.7**	104.4	123.4
Net profit – minority interests	**1.2**	2.5	3.5
Total recognised income and expense for the period	**(9.8)**	**78.2**	**77.7**

Statement of changes in equity

Equity at beginning of period	**699.2**	**626.6**	**626.6**
Total recognised income and expense for the period	**(9.8)**	78.2	77.7
Dividend – equity shareholders	**(9.0)**	–	(4.2)
Dividend – minority interests	**(0.8)**	(0.8)	(0.9)
Equity at end of period	**679.6**	**704.0**	**699.2**

The half yearly dividend to Preference shareholders of 4.625p per £1 Preference share amounting to £2,775,000 will be paid on 30 November 2007 to holders on the register at 2 November 2007.

Registered Office:
1 Balloon Street
Manchester M60 4EP
Reg. No. 990937 (England)
Bridgwater Road

13 September 2007

Registrar:
Computershare Investor Services plc.
P.O. Box 82
The Pavilions
Bristol BS99 7NH

Tel. 0870 702 0000

The Co-operative Bank p.l.c., Head Office,
P.O. Box 101, 1 Balloon Street, Manchester, M60 4EP.
Registered No.990937 www.co-operativebank.co.uk