The Co-operative Bank p.l.c.
Interim Financial Report 2008

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

Contents

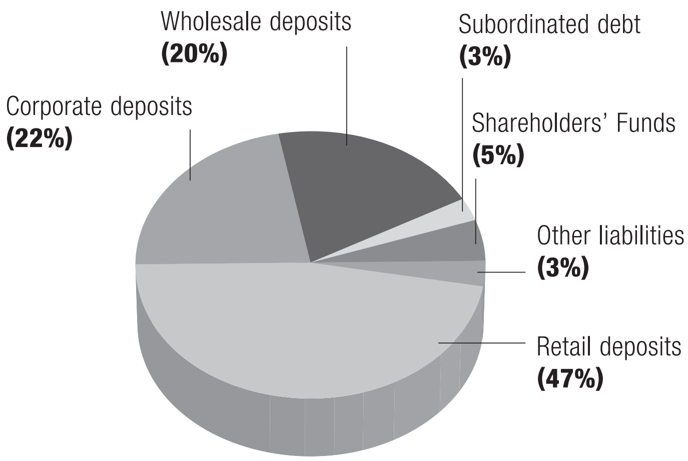
Highlights

- Operating profit before taxation and significant items was £46.2m (2007: £45.5m).
- Profit before taxation was £19.8m (2007: £15.4m).
- Average customer deposits grew by 14%.
- Average customer lending grew by 12%.
- Bad debt charges decreased by £7.9m to £45.3m.
- Bank results demonstrate low reliance on wholesale funding and strong ratio of customer deposits to loans at 105% (2007: 104%).
- Business in the Community awarded CFS its ‘Company of the year’.
- New brand for our Bank, Insurance and Investment brands.
- We now operate out of 16 Corporate Banking centres after opening 2 new centres in the period. Corporate sector profits increased by £12.2m to £44.1m.
- Winner of Best Remortgage and Best First-Time Buyer by Moneywise at the 2008 mortgage awards.

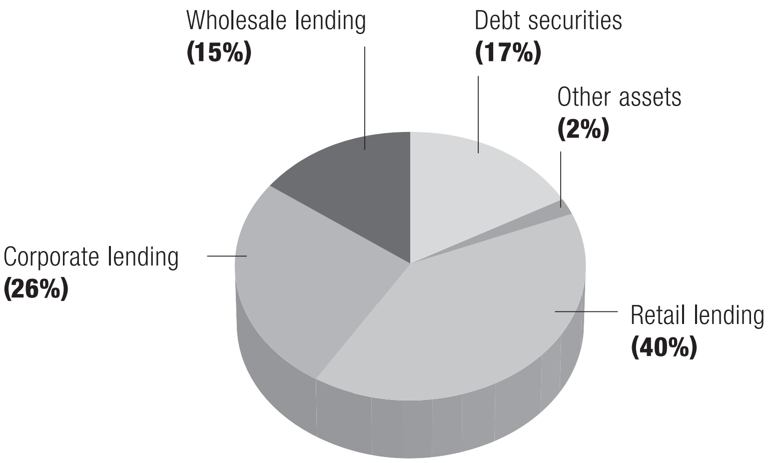
Average balance sheet highlights

Average Cleared Balances for the 28 weeks ended 26 July 2008

Liabilities



Assets



Balance Sheet Features

- A well proportioned balance sheet:

  Customer assets represented 66% of total assets

  Customer liabilities represented 69% of total liabilities

  Customer lending wholey financed by customer deposits

Within customer balances:

Corporate lending represented 39% and retail lending represented 61%

Corporate deposits represented 32% and retail deposits 68%

- Solid growth in customer balances:

  Deposits increased by 14%
  Lending increased by 12%

- Strong capital and liquidity ratios maintained.

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

*The Bank forms part of the CFS group, which also comprises Co-operative Financial Services Limited Co-operative Insurance Society Limited and CIS General Insurance Limited.

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 26 July 2008 £m	28 weeks to 28 July 2007 £m	Change £m	Change %
Net interest income	**190.9**	177.6	13.3	7.5
Non-interest income	**101.0**	98.6	2.4	2.4
Operating costs	**(175.4)**	(177.5)	2.1	(1.2)
Impairment losses	**(45.3)**	(53.2)	7.9	(14.8)
Operating profit before tax, significant items and investment write downs	**71.2**	**45.5**	**25.7**	**56.5**
Structured investment write downs	**(25.0)**	–	(25.0)	
Operating profit before tax and significant items	**46.2**	**45.5**	**0.7**	**1.5**
Significant items*	**(26.4)**	(30.1)	3.7	(12.3)
Profit before tax	**19.8**	**15.4**	**4.4**	**28.6**
*Operating profit before tax, significant items and investment write downs is analysed by segment***				
Retail	**21.2**	11.4	9.8	86.0
Corporate	**44.1**	31.9	12.2	38.2
Wholesale	**5.9**	2.2	3.7	168.2
Total	**71.2**	**45.5**	**25.7**	**56.5**
Cost/Income ratio before significant items	**60.1%**	64.3%		(4.2)

*An explanation of significant items is provided on page 6 .
**2007 Segmental analysis has been restated to ensure consistency with 2008 classification

Profit before investment write downs and significant items increased by £25.7m (56.5%) as strong balance sheet growth was achieved in both lending and deposit balances resulting in higher non and net interest income. Bad debt and operating costs have also improved on 2007. These results reflect the Bank's reduced exposure to higher wholesale funding costs and credit losses as the Bank's cautious approach to lending is primarily funded by retail deposits.

The banking business recorded an increased profit before tax and significant items of £46.2m compared to £45.5m in 2007 despite the impact of the 'credit crunch', including £25m of structured investment write downs.

Net interest income growth of £13.3m arose from strong balance sheet growth and stable net interest margins. Non-interest income increased by £2.4m largely due to growth in LINK transaction fees from the Bank's ATM network and growth in corporate commission offset by lower insurance commission from Payment Protection Insurance.

The Bank has also maintained tight cost control in the period which has resulted in business-as-usual operating costs reducing by £2.1m (1.2%).

The first half of 2008 has seen further reductions in bad debts as a result of action taken to tighten credit control and implemented initiatives to improve collection. The bad debt charge is also benefiting from historically tight credit criteria.

Retail Banking
Retail operating contribution reflects higher non interest income, reduced bad debts and lower costs, offset by lower net interest income. Growth in attractively priced savings and deposit products and continued progress in increasing secured lending balances has maintained our strong balance sheet and liquidity positions with a consequential reduction in margins.

Corporate Banking
Increased corporate sector operating contribution reflects strong growth in operating income driven by higher lending and deposit balances and lower costs.

Wholesale Banking
Improved wholesale sector performance reflects the Bank's balance sheet strength and improved wholesale margins arising from investment of the Bank's deposit base.

Additionally, £25m investment write downs reflect further deterioration in a small portfolio of structured investments arising from volatility in the credit markets. The Bank's remaining exposure to this type of higher risk investments has now been reduced to only £6.4m. The Bank also has £35m of Credit Trading Fund investments. These represent a small part of the Bank's wholesale portfolio, the rest of which is prime quality.

Investment in the future
Co-operative Financial Services (CFS), of which the Bank is a significant element, started the journey to better serve its 6 million customers through transforming its business and technology capabilities just over two years ago.

Total costs of this programme in the first half of 2008 were £71.4m across CFS, of which the Bank incurred £26.4m as a significant item (2007: £30.1m).

The investments so far have delivered a number of notable successes. CFS is on target for a projected annualised underlying cost reduction of over £100m by the end of 2008. This has been realised through a range of activities including headcount reduction, improved procurement contracts, simplified business processes, enhanced capabilities, and an element of premises rationalisation.

People in our customer-facing roles, specifically those who deal with our customers by telephone, financial advisers and customer-facing advisers within Bank branches, were unaffected by these headcount reductions and CFS has continued to re-affirm its commitment not to off-shore any of its customer-facing sales and service operations.

The Bank has commenced a substantial investment in new technology, via an Enterprise Platform Programme, to replace our retail and corporate banking IT infrastructure. This investment will allow the Bank to re-engineer its customer facing and internal processes and further integration will join the Banking IT infrastructure with that of the Insurance businesses so that we can be truly customer centric in the way we sell to and serve our retail customer base. This investment will support our retail customer relationship strategy across Banking, Insurance and Investments to deliver attractive, fair, accessible products on a scaleable multi-channel basis.

Balance Sheet
Average customer deposits of £9,279m grew by £1,116m (14%) across our customer base. Average customer lending balances grew by £939m (12%) to £8,824m reflecting growth in corporate and mortgage balances. The ratio of customer deposits to customer loans remains strong at 105% (2007: 104%).

The Bank has maintained a strong balance sheet with consistent robust liquidity and capital ratios. The capital ratio on a Basel II basis after regulatory deductions was 11.5% with a tier 1 ratio of 8.5% reflecting the quality of our capital resources.

The first half of 2008 has seen the dislocation in financial markets evolve into a wider economic slowdown. Funding markets remain volatile, with securitisation and covered bond markets effectively closed, and increased competition for customer deposits. The Bank has continued to take a prudent and disciplined approach to liquidity and funding and has maintained its detailed management of its liquidity position. The Bank has a very strong retail deposit base with customer deposits higher than customer lending such that its reliance on wholesale funding is lower than many other banks. Funding of lending by retail deposits has been maintained at a minimum of 100% through selective asset growth and development of retail deposit balances. As a result of this strength, the Bank has not been required to enter the markets at disadvantageous terms in the half year.

In addition, the Bank of England launched its Special Liquidity Scheme (SLS) which allows banks to swap their high quality mortgage-backed and other securities for UK Treasury Bills for a defined period. The Bank is developing a Covered Bond programme to enable its access to this source of high quality liquid assets.

The Bank intends to use this facility in the future to support liquidity stress tests by way of an agreed management action.

Lending
Retail sector average customer lending balances increased by £250m (5%) compared to the previous year driven by mortgage growth. Excluding mortgages, retail sector average customer lending balances fell by £199m (10%) as the Bank continued its strategy to reduce its exposure to new-to-Bank unsecured loan and credit card customers. There remains a focus on developing lasting relationships with customers, through products such as current accounts and mortgages, who are more likely to acquire other products across the CFS range including insurance. 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.

Growth in mortgages, which are integral to the Bank's relationship strategy, has been delivered through award-winning and market leading products, which have resulted in consistent presence in best buy tables with mortgage applications at record levels. The Bank was the winner of 'Best Remortgage' and 'Best First-Time Buyer' by Moneywise at the 2008 mortgage awards. It was also highly commended for 'Best Flexible Mortgage'. This growth has been achieved without compromising the quality of the portfolio as average loan-to-value over the last 12 months has remained constant at 52%. Additionally, in light of increased uncertainty in the property market, the maximum loan-to-value for new business was reduced from 95% to 90% in March 2008 and we substantially withdrew from new Buy-to-Let mortgages in early 2006, with complete withdrawal from early 2008. Our remaining exposure to Buy-to-Let mortgages is only around 1.1% of our customer loans.

Average corporate lending balances increased by £689m (24%). The promising growth in corporate lending balances includes selected involvement in the syndicated lending sector and participation in PFI transactions. The Renewable Energy and Asset Finance team have been involved in funding a variety of renewable energy investments from hydro schemes, to wind farms and combined heat and power plants. These schemes help establish the Bank as a serious player within this market and demonstrate our commitment to the environment, generating significant carbon savings as well as income.

In the Corporate market, credit conditions are tightening as the effects of the 'Credit Crunch' begin to take hold. Lack of liquidity amongst lenders, coupled with falling property values and rising insolvencies will make credit harder to secure. The price of credit therefore looks set to rise. We will continue to adopt a cautious and prudent approach to corporate lending but will remain alive to the opportunities generated by changing market conditions to build on our well established reputation for high quality customer service and gain new business from other market participants.

Deposits
Average customer deposits grew by £1,116m (14%) reflecting growth across both the retail and corporate sectors. Average retail sector balances of £6,320m were £691m (12%) higher than last year. This growth has been achieved through the attractiveness of the smartsaver and term deposit products, introduced to maintain the Bank's strong balance sheet position. The Bank has also delivered a new customer proposition with the new Current Account Plus, combining a current account with a linked savings product. The product provides customers with a fee-free overdraft and a savings account paying a competitive rate of interest that tracks 0.5% below the Bank of England Base Rate. It is a multi-channel product being available across the Branch network, Telephone and Internet services.

Corporate sector deposits increased by £425m (17%). Growth on term deposits was targeted in the period to support the Banks funding base. We have opened 2 new Corporate Banking Centres (South Manchester and Southampton). We now operate out of 16 Corporate Banking Centres, compared to 10 at the end of 2006.

Market leading customer satisfaction is one of our key business measures. As at July 2008, 77.7% of our customers claimed to be either 'Extremely' or 'Very Satisfied' with the products and service that we provide, compared to 62.5% as at December 2007. The Bank and **smile** have seen continued recognition for the quality of service provided to our customers. This has included the Bank and **smile** receiving further recognition from a Watchdog customer survey and a Which? Survey. Watchdog awarded **smile** 2nd and Co-operative Bank 3rd for customer satisfaction ahead of all other high street Banks, whilst **smile** was awarded 'Best Buy Current Account Provider' by Which?

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 2,200.

The Bank has launched four new banking outlets in the convenience stores of its sister Food business. These new concepts offer automated self-service banking for customers, such as cash withdrawals and cash and cheque deposits. In addition, there are touch screen kiosks providing product information and capturing customer details for subsequent sales and service discussions, with sales assistants in the larger stores to offer more information and support. This concept, launched in Nottingham and Sussex, moves away from the traditional high street branch to a lower cost current account banking model, with more convenience for the customer in location and hours. We will be reviewing the performance of these outlets and enhancing the offer over the coming months, with a view to a national rollout in due course.

As part of a wider Co-operative programme, 2008 has also marked the launch of a new brand for our Bank, Insurance and Investments brands which is an exciting step that brings our different businesses closer together, making it easier for our customers to recognise the comprehensive range of benefits and services available to them and strengthening our approach to being good with money.

The importance of growing a strong and committed membership base is an integral part of our brand. The Brand programme has delivered a number of successes including the launch of a new TV advert, attendance of 4000 CFS colleagues at Good With Money Events which reinforce our Brand values, and the launch of a single website for Bank, Investments and Insurance offerings. The majority of branches have been re-branded, whilst ATM re-branding is in progress.

The Bank has also introduced a referral service to Freedom Finance for loan requests that are borderline against our internal lending criteria.

The Bank launched an Ownhome shared equity scheme in collaboration with Places for People to allow a widening of home ownership and increase housing affordability for eligible key workers, first-time buyers and social housing tenants.

Average balances and interest margins

	28 weeks to 26 July 2008 £m	28 weeks to 28 July 2007 £m	24 weeks to 12 January 2008 £m
Net interest income	**190.9**	177.6	157.2
Average balances			
Interest-earning assets	**13,096**	12,144	12,251
Interest-bearing liabilities	**11,130**	10,322	10,317
Interest-free liabilities	**1,966**	1,822	1,934
Average rates	**%**	**%**	**%**
Gross yield on interest-earning assets	**6.2**	6.3	6.7
Cost of interest-bearing liabilities	**4.2**	4.3	4.7
Interest spread	**2.0**	2.0	2.0
Contribution from interest-free liabilities	**0.7**	0.7	0.8
Net interest margin	**2.7**	2.7	2.8
Average base rate	**5.2**	5.4	5.7

Operating Income
Operating income at £291.9m was £15.7m higher than the same period last year reflecting a £13.3m increase in net interest income and an increase of £2.4m in non-interest income.

Higher interest income from balance sheet growth across product and business segments and improved wholesale margins arising from investment of the Bank's deposit base has been offset by lower retail margins as the Bank reduced its exposure to unsecured lending and offered market leading deposit and term products to maintain balance sheet strength. This was alongside strong growth achieved in secured mortgage and corporate lending. Mortgages and Corporate syndicated and property lending represents a lower credit risk compared to unsecured retail lending and so attracts a lower margin. Reduced Mortgage margins also reflect highly competitive products to generate balance growth on a key relationship product. This reflects our continuing marketing strategy, which is now focused towards customers who share the Co-operative values, seeking to build profitable relationships across the CFS banking and insurance products.

Credit card balance reductions, managed to control risk exposure, also have significant impact on net interest margins. Despite Retail net interest income reductions the strategies adopted by the Bank ensure a strong platform for future business durability and growth and this is reflected in the strong balance sheet performance.

Corporate growth has been achieved whilst maintaining margin levels.

Net interest income from wholesale activities was higher than last year mainly driven by higher returns on the Bank's investment of excess liquid funds.

Non-interest income at £101.0m was £2.4m higher than the same period last year. This was largely driven by growth in LINK transaction fees from the Bank's ATM network and growth in corporate commission offset by lower insurance commission from Payment Protection Insurance.

Non-interest income

	28 weeks to 26 July 2008 £m	28 weeks to 28 July 2007 £m	24 weeks to 12 January 2008 £m
Fees and commission receivable	**102.3**	96.2	91.4
Insurance commission income	**14.1**	16.2	13.0
Fees and commission payable	**(18.4)**	(17.4)	(15.9)
Other income including dealing profits/(losses)	**3.0**	3.6	1.6
Total	**101.0**	**98.6**	**90.1**

Operating costs

Operating costs analysis – before significant items

	28 weeks to 26 July 2008 £m	28 weeks to 28 July 2007 £m	24 weeks to 12 January 2008 £m
Staff costs			
Wages and salaries	**56.3**	59.4	51.7
Pensions and social security costs	**10.5**	11.8	9.6
Other staff costs	**12.0**	6.8	6.0
	78.8	**78.0**	**67.3**
Other administrative expenses	**85.9**	87.3	84.0
Depreciation and amortisation	**10.7**	12.2	10.5
Total operating costs	**175.4**	**177.5**	**161.8**
Cost/Income ratio before significant items	**60.1%**	64.3%	65.4%
Average staff numbers	**3,948**	4,372	4,355

Operating costs
The Bank has maintained tight cost control in the period which has resulted in business-as-usual operating costs reducing by £2.1m (1.2%). This has been achieved through the cost reduction programme as referred to on page 6.

Wages and salaries, and related pension and social security costs, reduced by £4.4m (6.2%) reflecting reduced staff numbers as explained on page 6.

Increases in other staff costs reflect temporary resources on payments related projects such as the Faster Payments service. The new innovative Faster Payments service between UK Banks has been launched and the Bank as a founder member has started it's participation in the scheme.

Credit Quality and Impairment Losses
The impairment charge of £45.3m was £7.9m lower than the same period last year reflecting significantly lower charges for the retail sector.

Reductions in retail bad debt charges have been achieved in the first half of 2008, particularly in the unsecured retail portfolio, in spite of a weaker economic environment. The secured mortgage book continues to incur extremely low levels of default and subsequent impairment which reflects the relatively low average loan-to-value ratio. Retail sector impairment losses were £9.7m lower than last year representing 1.5% (2007: 1.9%) expressed as percentage of average retail lending.

In May, the Bank also launched the Verified by Visa service to customers as part of the industry wide focus on reducing losses through fraudulent online shopping.

Corporate sector impairment losses were £1.8m higher than last year, but remain relatively low at 0.2% of average customer balances. The credit quality of the corporate portfolio has been maintained.

Impairment losses

	28 weeks to 26 July 2008 £m	28 weeks to 28 July 2007 £m	24 weeks to 12 January 2008 £m
Profit and loss charge			
Retail sector	**41.9**	51.6	36.3
Corporate sector	**3.4**	1.6	12.5
Total	**45.3**	**53.2**	**48.8**
Charge as a percentage of loans and advances to customers (annualised)	**0.85%**	1.17%	1.13%

Social Responsibility

Business in the Community, one of the leading UK organisations connected with corporate social responsibility, crowned CFS its 'Company of the Year', the blue riband award for our impact on society.

Business in the Community also awarded CFS 4 'Big Ticks' in recognition of the positive impact of corporate and social responsibility activities. These included an award for an education and training programme run by the Bank's Customer Service Centre in Skelmersdale. This has enabled over 1,600 pupils from 17 local schools to learn about the world of work, gain skills and qualifications and improve their links with industry.

CFS was also 3rd, and the top financial services company, at the Sunday Times 'Best Green Companies Awards'.

Over 50 MPs signed a House of Commons Early Day Motion supporting the Bank's position against sovereign wealth funds linked to oppressive regimes as the Bank turned away loan applications worth more than £20m from sovereign wealth funds because they were sponsored by regimes that fail to uphold basic rights. The annual ethical audit report showed that income foregone by the Bank due to ethical and ecological reasons was £14m at the end of 2007.

The Bank took first place in the 'Cause Related Marketing' category at the Marketing Society's Awards for Excellence for its two year 'Combating Climate Change' campaign, in partnership with Friends of the Earth.

Outlook

The Bank has increased its profit before investment write downs and significant items by over 56% despite industry wide pressures on the Bank's income and further investment write downs. This has been achieved by selective balance sheet growth resulting in higher income, significantly reduced credit losses and improved cost control.

The Bank, as a significant element of CFS, is continuing the journey on its significant investment programme to transform our processes, organisational structure and culture. After two years of successful implementation of the journey to date CFS is already seeing early benefits enabling us to start the reinvigoration of revenue growth, see significant improvement of our costs, and build towards our vision to be the UK's most admired financial services business.

Principal Risks

The Disclosure and Transparency Rules (DTR 4.2.7) require that a description of the principal risks and uncertainties are given in the half yearly Financial Report for the remaining 24 weeks of the financial year, these risks are consistent with those described in the Bank's Risk Management section of the 2007 Annual Report on pages 50 – 68. The principal risks the Bank faces for the second half of 2008 are;

Credit Risk

Credit risk arises from the possibility of customers and counterparties failing to meet their obligations to the Bank.

The Credit Risk Management Policies are approved by the Co-operative Financial Services's Board Risk Management Committee annually and determine the criteria for the management of personal, corporate and wholesale credit exposures. They specify credit risk management standards, including country, sector and counterparty limits, along with delegated authorities.

All authority to take credit risk derives from the CFS Board. This is delegated through authorities to individuals or committees via the Chief Executive Officer.

The Bank's Personal Lending Policy is to establish credit criteria which determine the optimum balance between volume growth (generating higher income) and higher bad debts so as to maximise overall profitability.

In the Retail market, our maximum Mortgage Loan to Value for new business was reduced from 95% to 90% in March 2008, and there has been a tightening of the revaluation policy for further lending on higher LTV properties valued in the last 2 years. We substantially withdrew from new Buy-to-Let mortgages in early 2006 and had completely withdrawn from this market in early 2008. There has been no change in the overall mortgage average LTV in last 12 months remaining constant at 52%, and although the percentage of new business written with LTVs above 80% has risen slightly, this has not adversely increased the overall portfolio risk as our lending policy is driven by affordability criteria in the first instance. For Personal Loans the repayment holiday term has been reduced from 4 to 3 months. The deliberately cautious lending policy adopted by the Bank has limited exposure and impairment levels reflect this. However it is recognised that pressure will continue throughout the year due to customer indebtedness. Collections initiatives which have been progressing since end of 2006 include: forecasting bad debt under different economic conditions, increased monitoring analysis of pre-arrears potentially 'at risk' customers, and sale of specific non-performing assets.

In the Corporate market, the effect of the 'credit crunch' continues to take hold. The falling property values and rising insolvencies will continue to make credit harder to secure during the second half of the year. Therefore the price of credit looks set to rise. We will continue to adopt our cautious approach to corporate lending and have maintained the credit quality of the corporate portfolio, and whilst there are clear signs of increasing pressure on businesses, this has not yet been translated into higher impairments.

For Wholesale, market volatility and the 'credit crunch' continues to have a negative effect on credit quality globally. However, the Bank's Wholesale portfolio credit quality remains strong given that the majority of counterparties belong to highly rated bank groups, and additional stricter limit controls have been implemented. The Bank's remaining net exposure to structured investments is £6.4m. The Bank also has £35.5m of Credit Trading Fund investments within debt securities.

Market Risk

Market risk arises from the effect of changes in market prices of financial instruments, on income derived from the structure of the balance sheet, execution of customer and inter-bank business and propriety trading. The majority of the risk arises from changes in interest rates as the Bank does not trade in equities or commodities and has limited foreign currency activities.

Market risk is controlled within strict risk limits which are approved by Board. The level of these risk limits have been reviewed and remain appropriate for the remainder of 2008. The risk limits reflect the low risk nature of the Market Risk activity which is undertaken by the Bank.

Liquidity Risk

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

The Bank continues to take a prudent and disciplined approach to liquidity and funding and has maintained its detailed management of its liquidity position.

Customer deposits are higher than customer lending therefore its reliance on wholesale funding is lower than most other banks. Funding of lending by retail deposits has been maintained at a minimum of 100% through selective asset growth and development of retail deposit balances. As a result of this strength, the Bank has not been required to enter the markets at disadvantageous terms in the half year.

The Bank of England launched its Special Liquidity Scheme (SLS) which allows banks to swap their high quality mortgage-backed and other securities for UK Treasury Bills for a defined period. The Bank does not intend to use this facility to fund asset growth, but to use the facility to support liquidity stress tests by way of an agreed management action. The Bank is developing a Covered Bond programme to enable it access this source of high quality liquid assets.

During the second half of 2008, the Bank will maintain its funding strength by keeping a high proportion of customer deposits. It will also develop additional liquidity management actions, as noted above, which will enable further asset growth to be undertaken in a controlled manner. Future asset growth will be undertaken within the liquidity risk appetite set by the Board.

Regulation Risk
The Bank is subject to laws and regulations which are subject to change, with its main regulator being the FSA. Regulatory intervention is an ongoing feature of UK banking and changes could affect the profitability of our business. A key risk has arisen from the ongoing investigation into bank charges resulting in a test case to resolve legal uncertainties concerning the fairness and lawfulness of unarranged overdraft charges. Full details of the test case process are set out in the Contingent Liabilities Note 9 on page 27. A definitive outcome of the test case process is unlikely to be known for the foreseeable future.

The most immediate and significant regulatory issue facing our business at present is the Competition Commission investigation of payment protection insurance which may, ultimately, impact profitability across the industry.

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

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the period ended 26 July 2008 which compromises condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated cash flow statement, condensed consolidated statement of recognised income and expense and the related explanatory notes. We have read the other information contained in the half-yearly financial 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 company in accordance with the terms of our engagement to assist the company in meeting the requirements of the Disclosure and Transparency Rules ('the DTR') of the UK's Financial Services Authority ('the UK FSA'). 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 half-yearly financial report is the responsibility of, and had been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

As disclosed in the basis of preparation, the annual financial statements of the company are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in the this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial 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 Practises Board for use in the UK. A review of interim financial information consists of making enquiries, primarily to 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 financial report for the period ended 26 July 2008 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

KPMG Audit Plc
Chartered Accountants,
Manchester, 11 September 2008.

Condensed consolidated income statement

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

	Notes	28 weeks to 26 July 2008 Before significant items	Significant items	After significant items
Interest and similar income		**445.5**	**–**	**445.5**
Interest expense and similar charges		**(254.6)**	**–**	**(254.6)**
Net interest income	2	**190.9**	**–**	**190.9**
Fee and commission income		**117.2**	**–**	**117.2**
Fee and commission expense		**(18.4)**	**–**	**(18.4)**
Net fee and commission Income	3	**98.8**	**–**	**98.8**
Net trading income		**2.2**	**–**	**2.2**
Operating income		**291.9**	**–**	**291.9**
Operating expenses	4	**(175.4)**	**(26.4)**	**(201.8)**
Profit before impairment losses		**116.5**	**(26.4)**	**90.1**
Impairment losses on loans and advances	5	**(45.3)**	**–**	**(45.3)**
Impairment losses on structured investments	6	**(25.0)**	**–**	**(25.0)**
Operating profit		**46.2**	**(26.4)**	**19.8**
Profit based payments to members of the Co-operative Group		**–**	**–**	**–**
Profit before taxation		**46.2**	**(26.4)**	**19.8**
Income tax expense		**(14.1)**	**7.5**	**(6.6)**
Profit for the period		**32.1**	**(18.9)**	**13.2**
Attributable to:				
Equity shareholders of parent		**30.3**	**(18.9)**	**11.4**
Minority interests		**1.8**	**–**	**1.8**
		32.1	**(18.9)**	**13.2**
Earnings per share (ordinary and diluted)		**2.75p**	**(1.71p)**	**1.04p**

2008 significant items relate solely to non-recurring restructuring costs.

All amounts are stated in £m unless otherwise indicated

	Notes	28 weeks to 28 July 2007 Before significant items	Significant items	After significant items	24 weeks to 12 January 2008 Before significant items	Significant items	After significant items
Interest and similar income		416.2	–	**416.2**	383.8	–	**383.8**
Interest expense and similar charges		(238.6)	–	**(238.6)**	(226.6)	–	**(226.6)**
Net interest income	2	**177.6**	**–**	**177.6**	**157.2**	**–**	**157.2**
Fee and commission income		113.3	–	**113.3**	103.2	–	**103.2**
Fee and commission expense		(17.4)	–	**(17.4)**	(15.9)	–	**(15.9)**
Net fee and commission Income	3	**95.9**	**–**	**95.9**	**87.3**	**–**	**87.3**
Net trading income		2.7	–	**2.7**	2.8	–	**2.8**
Operating income		**276.2**	–	**276.2**	**247.3**	**–**	**247.3**
Operating expenses	4	(177.5)	(30.1)	**(207.6)**	(161.8)	(7.9)	**(169.7)**
Profit before impairment losses		**98.7**	**(30.1)**	**68.6**	**85.5**	**(7.9)**	**77.6**
Impairment losses on loans and advances	5	(53.2)	–	**(53.2)**	(48.8)	–	**(48.8)**
Impairment losses on structured investments	6	–	–	**–**	(31.8)	–	**(31.8)**
Operating profit		**45.5**	**(30.1)**	**15.4**	**4.9**	**(7.9)**	**(3.0)**
Profit based payments to members of the Co-operative Group		–	–	**–**	(1.3)	–	**(1.3)**
Profit before taxation		**45.5**	**(30.1)**	**15.4**	**3.6**	**(7.9)**	**(4.3)**
Income tax expense		(14.5)	9.0	**(5.5)**	(2.1)	2.4	**0.3**
Profit for the period		**31.0**	**(21.1)**	**9.9**	**1.5**	**(5.5)**	**(4.0)**
Attributable to:							
Equity shareholders of parent		29.8	(21.1)	**8.7**	–	(5.5)	**(5.5)**
Minority interests		1.2	–	**1.2**	1.5	–	**1.5**
		31.0	(21.1)	**9.9**	1.5	(5.5)	**(4.0)**
Earnings per share (ordinary and diluted)		**2.71p**	**(1.92p)**	**0.79p**	**–**	**(0.50p)**	**(0.50p)**

2007 significant items relate solely to non-recurring restructuring costs.

Condensed consolidated balance sheet

at 26 July 2008 (unaudited)
All amounts are stated in £m unless otherwise indicated

	Notes	26 July 2008	28 July 2007	12 January 2008
Assets				
Cash and balances at central banks		174.6	203.2	172.9
Loans and advances to banks		1,741.1	1,283.2	1,204.0
Loans and advances to customers	5	9,960.6	8,424.9	9,009.0
Debt securities – Available for sale	6	2,345.2	2,427.6	2,430.9
Derivative financial instruments		63.1	90.5	88.2
Equity shares		8.8	1.7	8.8
Intangible assets		3.5	6.2	5.2
Property, plant and equipment		70.0	90.3	79.8
Deferred tax assets		3.9	8.6	–
Other assets		16.7	21.2	16.5
Prepayments and accrued income		42.0	70.3	71.6
Total assets		**14,429.5**	**12,627.7**	**13,086.9**
Liabilities				
Deposits by banks		872.8	608.2	661.3
Customer accounts	7	11,374.4	9,982.6	10,559.5
Debt securities in issue		892.2	623.7	535.8
Derivative financial instruments		93.2	143.6	92.3
Other borrowed funds		358.3	388.0	358.1
Other liabilities		110.1	121.7	103.8
Accruals and deferred income		23.7	46.1	37.5
Provisions		6.0	23.9	9.4
Current tax liabilities		0.7	10.3	6.1
Deferred tax liabilities		–	–	6.2
Total liabilities		**13,731.4**	**11,948.1**	**12,370.0**
Capital and reserves attributable to the Bank's equity holders				
Ordinary share capital		55.0	55.0	55.0
Share premium account		8.8	8.8	8.8
Retained earnings		639.0	633.4	627.6
Other reserves		(31.7)	(41.7)	(1.4)
		671.1	**655.5**	**690.0**
Minority interests		27.0	24.1	26.9
Total equity		**698.1**	**679.6**	**716.9**
Total liabilities and equity		**14,429.5**	**12,627.7**	**13,086.9**

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

Cash flows from operating activities	28 weeks to 26 July 2008	28 weeks to 28 July 2007	24 weeks to 12 January 2008
Group Profit before taxation	**19.8**	**15.4**	**(4.3)**
Net movement in accruals and prepayments	25.8	(15.6)	(1.9)
Interest payable in respect of subordinated liabilities	9.4	10.5	9.0
Non cash income statement items	72.4	60.8	86.0
Amortisation and profit on sale of investments	(0.9)	(0.1)	(0.6)
Loss on disposal of fixed assets	0.8	0.2	7.2
Preference dividend	3.0	3.0	2.6
	130.3	**74.2**	**98.0**
Increase in customer and bank deposits	1,023.1	357.7	603.8
Increase/(decrease) in debt securities in issue	356.4	(489.6)	(87.9)
Increase/(decrease) in loans and advances to customers and banks	(992.2)	(278.8)	(535.1)
Net movement of other assets and other liabilities	(2.3)	48.3	(22.1)
Income tax paid	(9.8)	(13.5)	(5.6)
Net cash flows from operating activities	**505.5**	**(301.7)**	**51.1**
Cash flows from investing activities			
Purchase of property, equipment and software	–	(3.8)	(15.2)
Proceeds from sale of property and equipment	–	0.1	0.5
Purchase of debt securities	(5,990.7)	(4,535.2)	(5,769.3)
Proceeds from sale and maturity of debt securities	6,118.4	4,658.7	6,449.9
Net cash flows from investing activities	**127.7**	**119.8**	**665.9**
Cash flows from financing activities			
Interest paid in respect of subordinated loanstock	(13.0)	(14.0)	(5.3)
Repayment of subordinated loanstock	–	–	(30.0)
Ordinary share dividends paid	–	(9.0)	–
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 flows from financing activities	**(16.6)**	**(26.6)**	**(38.2)**
Increase/(Decrease) in cash and cash equivalents	**616.6**	**(208.5)**	**678.8**
Cash and cash equivalents at the beginning of the period	**2,070.2**	**1,599.9**	**1,391.4**
Cash and cash equivalents at the end of the period	**2,686.8**	**1,391.4**	**2,070.2**

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.

	26 July 2008	28 July 2007	12 January 2008
Cash and balances at central banks	174.6	203.2	172.9
Loans and advances to banks	1,741.1	1,188.2	1,204.0
Short term investments	771.1	–	693.3
	2,686.8	**1,391.4**	**2,070.2**

Condensed consolidated statement of recognised income and expense

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

	28 weeks to 26 July 2008	28 weeks to 28 July 2007	24 weeks to 12 January 2008
Consolidated statement of recognised income and expense			
Net change in available for sale investments, net of tax	(8.7)	(1.5)	3.7
Net movement in pension fund deficit due to actuarial gains and losses, net of tax	–	–	(0.3)
Net change in cash flow hedges, net of tax	(22.5)	(18.2)	38.0
Net income recognised directly in equity	**(31.2)**	**(19.7)**	**41.4**
Net profit/(loss) – equity shareholders of parent	11.4	8.7	(5.5)
Net profit – minority interests	1.8	1.2	1.5
Total recognised income and expense for the period	**(18.0)**	**(9.8)**	**37.4**

Basis of preparation

EU law (IAS Regulation EC 1606/2002) requires that the annual consolidated financial statements for the year ended 10 January 2009 are prepared in accordance with IFRS adopted by the EU (adopted IFRS).

The comparative figures for the financial year ended 12 January 2008 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditors draw attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

This report was approved by the Directors on 11 September 2008.

This condensed consolidated half-yearly financial report for the half-year ended 26 July 2008 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS34, 'Interim financial reporting' as adopted by the European Union. The half-yearly financial report should be read in conjunction with the annual financial statements for the year ended 12 January 2008, which have been prepared in accordance with IFRS as adopted by the European Union.

The accounting policies adopted by the Group in the preparation of its 2008 half-yearly financial report and those which the Group currently expects to adopt in its annual accounts for the year ended 10 January 2009 are consistent with those disclosed in the annual accounts for the year ended 12 January 2008.

The interim financial report relate to the 28 weeks to 26 July 2008. Figures in respect of prior year are headed 2007 and relate to the comparative 28 weeks to 28 July 2007 unless otherwise stated.

Accounting policies

(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 as the service is provided.

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

(b) Financial instruments (excluding derivatives)

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

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

The bank has not changed the presentation after adopting IFRS7.

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.

i) Loans and receivables

Loans and advances 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.

ii) Available for sale
Available for sale financial assets are non-traded investment securities, intended to be held for an indefinite period of time. These are measured at fair value with movements in the carrying value brought into equity as they arise, except for interest income and 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.

iii) 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;
- 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
At the balance sheet date, the Bank assesses 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:
- the asset's carrying amount; and
- the present value of estimated future cash flows (discounted at the asset's original or variable effective interest rate for amortised cost assets and at the current market rate for available for sale assets).

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 financial asset 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.

Impairment losses on available for sale assets are recognised by transferring the difference between the amortised cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available for sale debt security to decrease, the impairment loss is reversed through profit or loss.

(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.

Fair value hedges: Where derivatives are designated as hedges to the exposure in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified position of such an asset liability or firm commitment, the gain or loss from remeasuring the hedging instrument is recognised in the income statement. The gain or loss on the hedged item attributable to the hedge risk adjusting the carrying amount of the hedged item and is recognised in the income statement.

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 which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(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.

Tax is calculated on an annualised average tax rate for interim purposes and differs from rate used in the annual accounts.

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

(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.

All amounts are stated in £m unless otherwise indicated

1. Segmental analysis
The Group's primary basis of segmentation is by business activity. Activities have been segmented between Retail banking, Corporate and Business banking and Wholesale. Segment information is presented in the financial statements in respect of the Bank's business segments, reflecting the Bank's management and internal reporting structure. Income and costs are allocated using transfer pricing and Activity Based Management methodologies.

The Group is comprised of the following main business segments:

- **Retail** – customer focused products and services for individuals, sole traders and small partnerships. It includes mortgages, credit cards, consumer loans, small business loans, current accounts and savings products
- **Corporate** – customer focused products and services for business accounts. This includes large corporate and commercial entities and SMEs (Small to Medium entities). It includes loans, asset finance, current accounts and savings products
- **Wholesale** – asset and liability management across the Bank's overall balance sheet, including trading activities.

28 weeks to 26 July 2008	**Retail**	**Corporate**	**Wholesale**	**Total**
External gross revenue	**294.6**	**173.9**	**96.4**	**564.9**
External net revenue	**157.9**	**122.5**	**11.5**	**291.9**
Internal net revenue	**44.1**	**(44.0)**	**(0.1)**	**–**
Operating income	**202.0**	**78.5**	**11.4**	**291.9**
Operating profit before investment write downs	**21.2**	**44.1**	**5.9**	**71.2**
Operating profit after investment write downs	**21.2**	**44.1**	**(19.1)**	**46.2**
Profit based payments to members of the Co-operative Group				**–**
Significant Items				**(26.4)**
Profit before taxation				**19.8**
Income tax expense				**(6.6)**
Profit for the period				**13.2**

28 weeks to 28 July 2007	**Retail**	**Corporate**	**Wholesale**	**Total**
External gross revenue	287.9	139.7	104.6	532.2
External net revenue	170.2	97.1	8.9	276.2
Internal net revenue	34.9	(31.8)	(3.1)	–
Operating income	205.1	65.3	5.8	276.2
Operating profit before investment write downs	11.4	31.9	2.2	45.5
Operating profit after investment write downs	11.4	31.9	2.2	45.5
Profit based payments to members of the Co-operative Group				–
Significant Items				(30.1)
Profit before taxation				**15.4**
Income tax expense				(5.5)
Profit for the period				**9.9**

All amounts are stated in £m unless otherwise indicated

24 weeks to 12 January 2008	Retail	Corporate	Wholesale	Total
External gross revenue	260.4	143.2	86.2	489.8
External net revenue	143.0	100.1	4.2	247.3
Internal net revenue	50.9	(37.7)	(13.2)	–
Operating income	193.9	62.4	(9.0)	247.3
Operating profit before investment write downs	16.8	23.3	(3.4)	36.7
Operating profit after investment write downs	16.8	23.3	(35.2)	4.9
Profit based payments to members of the Co-operative Group				(1.3)
Significant Items				(7.9)
Profit before taxation				**(4.3)**
Income tax expense				0.3
Profit for the period				**(4.0)**

2. Net interest income

	28 weeks to 26 July 2008	28 weeks to 28 July 2007	24 weeks to 12 January 2008
Interest and similar income on items not at fair value through profit or loss	**446.0**	412.3	389.9
Interest and similar income on items at fair value through profit or loss	**1.0**	1.8	0.4
Fair value movements	**(1.5)**	2.1	(6.5)
	445.5	**416.2**	**383.8**
Interest expense and similar charges on items not at fair value through profit or loss	**(254.6)**	(238.6)	(226.6)
	190.9	**177.6**	**157.2**

Fair value movements include hedging derivatives and losses on derivatives embedded in credit trading structures.

3. Net fee and commission income and expense

	28 weeks to 26 July 2008	28 weeks to 28 July 2007	24 weeks to 12 January 2008
Fee and commission income on items not at fair value through profit or loss	**116.6**	113.2	102.8
Fee and commission income on items at fair value through profit or loss	**–**	–	0.1
Fee and commission income on trust or fiduciary activities that result from holding or investing in assets on behalf of others	**0.6**	0.1	0.3
Total fee and commission income	**117.2**	**113.3**	**103.2**
Fee and commission expenses on items not at fair value through profit or loss	**(18.3)**	(17.3)	(15.8)
Fee and commission expenses on items at fair value through profit or loss	**(0.1)**	(0.1)	(0.1)
Total fee and commission expense	**(18.4)**	**(17.4)**	**(15.9)**
	98.8	**95.9**	**87.3**

All amounts are stated in £m unless otherwise indicated

4. Operating expenses

28 weeks to 26 July 2008	Before significant items	Significant Items	After significant items
Wages and salaries	**56.3**	**2.5**	**58.8**
Social security costs	**4.5**	**0.2**	**4.7**
Pension costs			
– defined benefit plans	**0.1**	**–**	**0.1**
– defined contribution plans	**5.9**	**0.3**	**6.2**
Other staff costs	**12.0**	**4.8**	**16.8**
Administrative expenses	**77.0**	**18.6**	**95.6**
Depreciation	**9.1**	**–**	**9.1**
Loss on sale of property, plant and equipment	**0.8**	**–**	**0.8**
Software costs	**1.6**	**–**	**1.6**
Operating lease rentals	**8.1**	**–**	**8.1**
	175.4	**26.4**	**201.8**

28 weeks to 28 July 2007	Before significant items	Significant Items	After significant items
Wages and salaries	59.4	–	59.4
Social security costs	4.7	–	4.7
Pension cost			
– defined benefit plans	0.2	–	0.2
– defined contribution plans	6.9	–	6.9
Other staff costs	6.8	21.5	28.3
Administrative expenses	80.3	8.6	88.9
Depreciation	10.3	–	10.3
Loss on sale of property, plant and equipment	0.2	–	0.2
Software costs	1.9	–	1.9
Operating lease rentals	6.8	–	6.8
	177.5	**30.1**	**207.6**

24 weeks to 12 January 2008	Before significant items	Significant Items	After significant items
Wages and salaries	51.7	2.5	54.2
Social security costs	4.5	0.2	4.7
Pension costs			
– defined benefit plans	0.1	–	0.1
– defined contribution plans	5.0	0.3	5.3
Other staff costs	6.0	(6.3)	(0.3)
Administrative expenses	73.3	11.2	84.5
Depreciation	8.8	–	8.8
Loss on sale of property, plant and equipment	7.2	–	7.2
Software costs	1.7	–	1.7
Operating lease rentals	3.5	–	3.5
	161.8	**7.9**	**169.7**

Significant items for 2008 and 2007 relate to a programme of restructuring. This programme includes investment in new banking IT infrastructure and a cost reduction programme. Further information is available on page 6.

All amounts are stated in £m unless otherwise indicated

5. Loans and advances to customers

	26 July 2008	28 July 2007	12 January 2008
Gross loans and advances	**10,129.3**	8,570.9	9,169.7
Less: allowance for losses on loans and advances	**(168.7)**	(146.0)	(160.7)
Of which:	**9,960.6**	**8,424.9**	**9,009.0**
Variable rate	**5,002.3**	3,986.9	4,475.9
Fixed rate	**4,958.3**	4,438.0	4,533.1

Concentration of exposure

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

	26 July 2008	28 July 2007	12 January 2008
Property and construction	**1,542.3**	1,190.2	1,309.5
Retail distribution and services	**803.4**	603.9	695.5
Business and other services	**2,030.9**	1,668.0	1,963.0
Personal – unsecured	**1,791.1**	1,968.3	1,890.9
Personal – secured	**3,961.6**	3,140.5	3,310.8
	10,129.3	**8,570.9**	**9,169.7**

Allowance for losses on loans and advances

28 weeks to 26 July 2008	Individual	Collective	Total
At the beginning of the period	**35.6**	**125.1**	**160.7**
Charge against profits	**3.4**	**41.9**	**45.3**
Amounts written off	**(0.5)**	**(35.0)**	**(35.5)**
Recoveries	**–**	**–**	**–**
Unwind of discount allowance	**(0.5)**	**(1.5)**	**(2.0)**
Interest charged on impaired loans	**0.2**	**–**	**0.2**
At the end of the period	**38.2**	**130.5**	**168.7**

28 weeks to 28 July 2007	Individual	Collective	Total
At the beginning of the period	27.5	127.8	155.3
Charge against profits	1.6	51.6	53.2
Amounts written off	(3.9)	(56.7)	(60.6)
Recoveries	–	–	–
Unwind of discount allowance	(0.6)	(1.5)	(2.1)
Interest charged on impaired loans	0.2	–	0.2
At the end of the period	**24.8**	**121.2**	**146.0**

24 weeks to 12 January 2008	Individual	Collective	Total
At the beginning of the period	24.8	121.2	146.0
Charge against profits	12.3	36.5	48.8
Amounts written off	(1.1)	(31.2)	(32.3)
Recoveries	0.1	–	0.1
Unwind of discount allowance	(0.8)	(1.4)	(2.2)
Interest charged on impaired loans	0.3	–	0.3
At the end of the period	**35.6**	**125.1**	**160.7**

All amounts are stated in £m unless otherwise indicated

All provisions are held against loans and advances to customers. Within individual allowance for losses £0.6m (28 July 2007: £0.6m, 12 January 2008: £0.3m) of the closing balance relates to mortgages, reflecting a charge of £0.4m (28 weeks to 28 July 2007: £0.1m, 24 weeks to 12 January 2008: £0.2m) and write offs of £0.1m (28 weeks to 28 July 2007: £nil, 24 weeks to 12 January 2008: £0.6m) made in the period. The remainder of individual allowance for losses relate to corporate lending. The collective allowance relates to retail unsecured lending.

Loans and advances to customers include £47.9m (28 July 2007: £46.4m, 12 January 2008: £29.1m) of financial assets at fair value through profit or loss designated at initial recognition to eliminate or significantly reduce a measurement or recognition inconsistency.

6. Debt Securities

	26 July 2008	28 July 2007	12 January 2008
Debt Securities			
– Listed	**871.4**	1,036.3	843.3
– Unlisted	**1,473.8**	1,391.3	1,587.6
	2,345.2	**2,427.6**	**2,430.9**
Included in cash equivalents	**771.1**	–	693.3

Listed debt securities at a fair value of £nil (28 July 2007: £nil, 12 January 2008: £nil) had been pledged to third parties in sale and repurchase agreements.

Gains and losses from debt securities, included within interest income, comprise:

	28 weeks to 26 July 2008	28 weeks to 28 July 2007	24 weeks to 12 January 2008
Derecognition of available for sale assets	**1.1**	–	(0.3)

The movement in debt securities is summarised as follows:

	28 weeks to 26 July 2008	28 weeks to 28 July 2007	24 weeks to 12 January 2008
At the beginning of the year	**2,430.9**	2,753.1	2,427.6
Acqusitions	**6,068.5**	4,535.2	6,271.5
Disposals and maturities	**(6,117.4)**	(4,849.7)	(6,259.2)
Exchange adjustments	**5.7**	(8.8)	28.4
Amortisation	**(0.2)**	0.1	0.9
Fair value movements – through equity	**(12.1)**	0.8	(4.0)
Fair value movements – through profit or loss	**(5.2)**	(3.1)	(2.5)
Impairment losses	**(25.0)**	–	(31.8)
At the end of the year	**2,345.2**	**2,427.6**	**2,430.9**

All debt securities are classified as available for sale, except embedded derivatives within an investment, which are measured at fair value with movement recognised in the income statement. Available for sale investments are measured at fair value with movement in carrying value brought into equity as they arise as stated within the accounting policies on page 19.

Included within debt securities above are structured investments with a net exposure of £6.4m (28 July 2007: £63.2m, 12 January 2008: £31.4m) and credit trading fund investments of £35.5m (28 July 2007: £47.0m, 12 January: £39.5m). The remainder of the portfolio is of prime quality with 99% of investments rated at A or above.

All amounts are stated in £m unless otherwise indicated

7. Customer accounts

	26 July 2008	28 July 2007	12 January 2008
Variable rate	**9,452.0**	8,427.5	9,187.2
Fixed rate	**1,922.4**	1,555.1	1,372.3
	11,374.4	9,982.6	10,559.5

8. Statement of changes in equity

	28 weeks to 26 July 2008	28 weeks to 28 July 2007	24 weeks to 12 January 2008
Equity at beginning of period	**716.9**	**699.2**	**679.6**
Total recognised income and expense for the period	**(18.0)**	(9.8)	37.4
Dividend – equity shareholders of parent	**–**	(9.0)	–
Dividend – minority interests	**(0.8)**	(0.8)	(0.1)
Equity at end of period	**698.1**	**679.6**	**716.9**

The Bank paid the following dividends during the period:

	28 weeks to 26 July 2008	28 weeks to 28 July 2007	24 weeks to 12 January 2008
Dividends on ordinary shares	**–**	9.0	–

9. Contingent liabilities

Unauthorised overdraft charges

In July 2007 the Office of Fair Trading ('OFT') had agreed with eight financial institutions to start proceedings in the High Court of England and Wales in a test case regarding informal overdrafts. The Co-operative Bank is not part of the proceedings but will be bound by the outcome.

Pending resolution of the test case, court claims are stayed and the Financial Services Authority ('FSA') has granted banks, subject to conditions, a waiver from processing complaints received from customers in respect of current account overdraft charges. This waiver has recently been extended to 26 January 2009.

In April 2008, the High Court issued its Judgement in respect of the first stages of the test case process.

The Court's Judgment was that informal overdrafts are an essential, real and identifiable service provided by banks for their personal current account customers, that the institutions' current overdraft charges are not unenforceable penalties, but are assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999 and most of the litigant Banks' current terms and conditions (including charges) are in plain and intelligible language. The financial institutions are appealing the fairness ruling, and this will be heard in October 2008.

A further Court hearing took place in July 2008 to assess whether historic terms and conditions are capable of being penalties. No Judgment has been given on this to date.

A range of outcomes is possible from the test case and any appeals, some of which could have a significant impact on the Group. Therefore it is not considered appropriate at this stage, to reliably estimate the financial impact on the Group.

10. Related party transactions

Related party transactions and transactions with key management personnel in the half year to 26 July 2008 are similar in nature to those for the year ended 12 January 2008. Details of the Bank's related party transactions and transactions with key management personnel for the year ended 12 January 2008 can be found in the Bank's 2007 financial statements.

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU; and

- the interim management report includes a fair review of the information required by:

  – DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first 28 weeks of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining 24 weeks of the year; and

  – DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first 28 weeks of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board, 11 September 2008

David Anderson
Chief Executive

Notice to shareholders

The half yearly dividend to Preference shareholders of 4.625p per £1 Preference share amounting to £2,775,000 will be paid on 28 November 2008 to holders on the register at 31 October 2008.

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11 September 2008

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