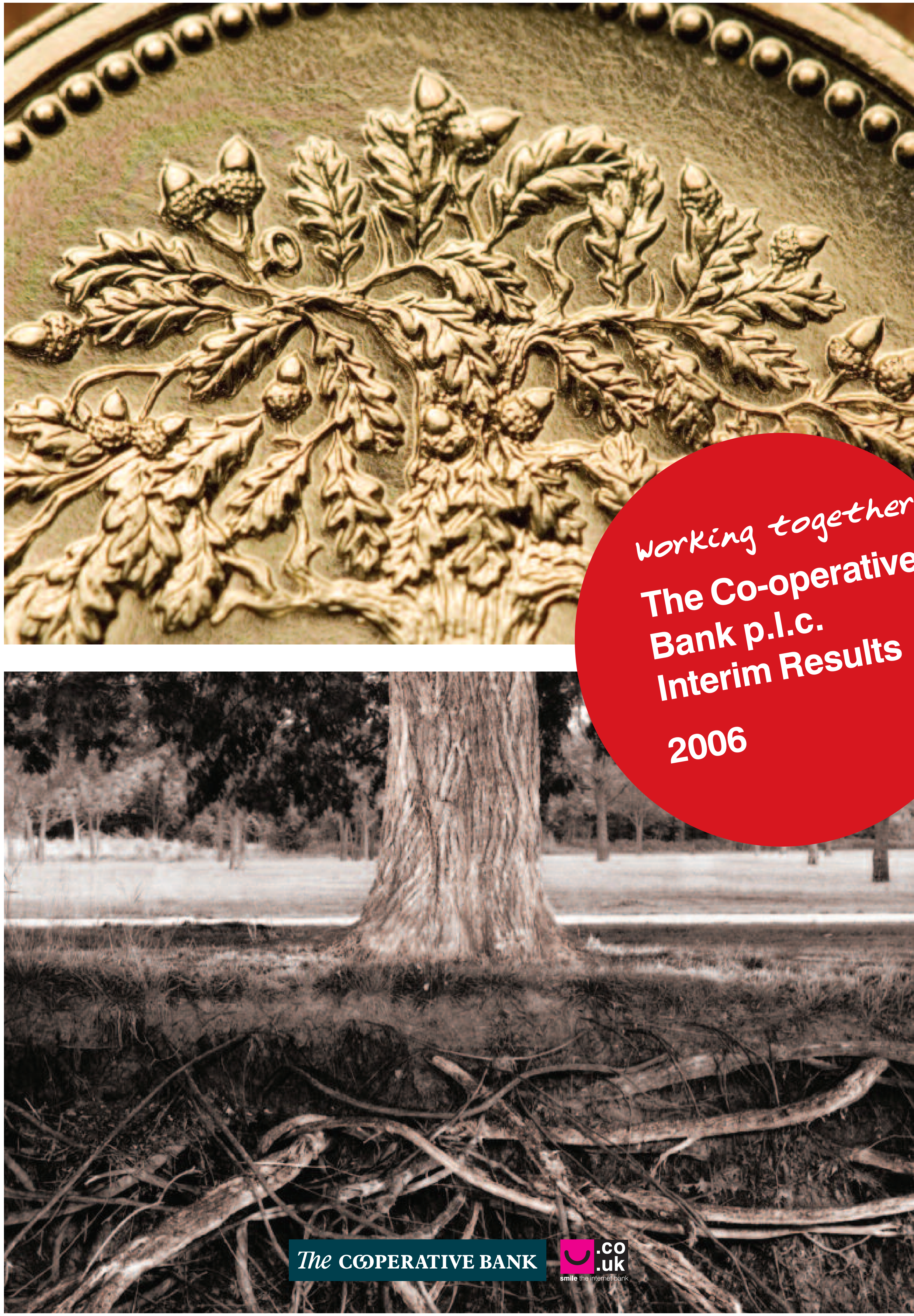

working together

The Co-operative Bank p.l.c. Interim Results

2006

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Highlights

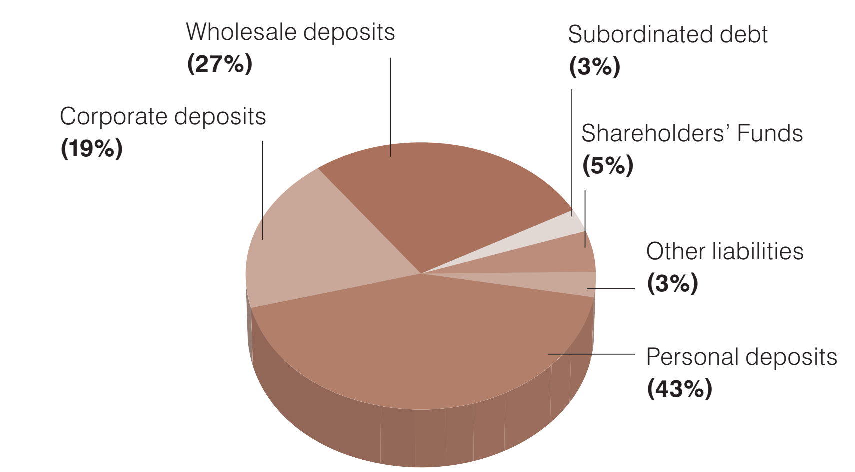
- Profit before taxation and significant items was £44.7m (2005: £60.2m). Including significant items, profit before taxation was £153.9m
- Average retail customer deposits grew by 9%
- Average retail customer lending grew by 2%
- Operating income increased by £3.9m to £283.9m
- Cost/Income ratio increased by 0.8% to 63.8%

- The Bank topped the Business in The Community Corporate Responsibility Index. This is recognised as the leading public benchmark of ethical and environmental performance
- **smile** won Your Money Direct awards for 'Best Online Banking Provider' and 'Best Student Account'
- At the 2006 Mortgage Magazine Awards, the Bank won 'Best Specialist Mortgage' for its green mortgages

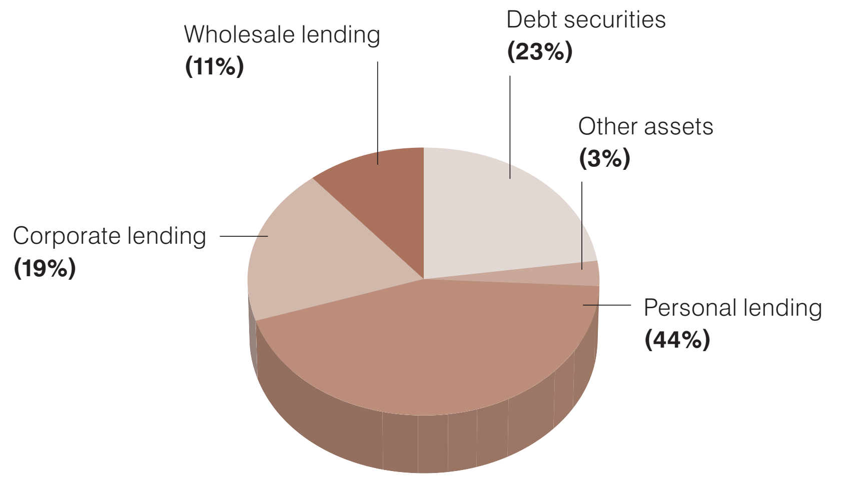
Average balance sheet highlights

Average Cleared Balances for the 28 weeks ended 29 July 2006

Liabilities



Assets



Balance Sheet Features

- A well proportioned balance sheet of retail and wholesale activities.

  Retail assets represented 63% of total assets

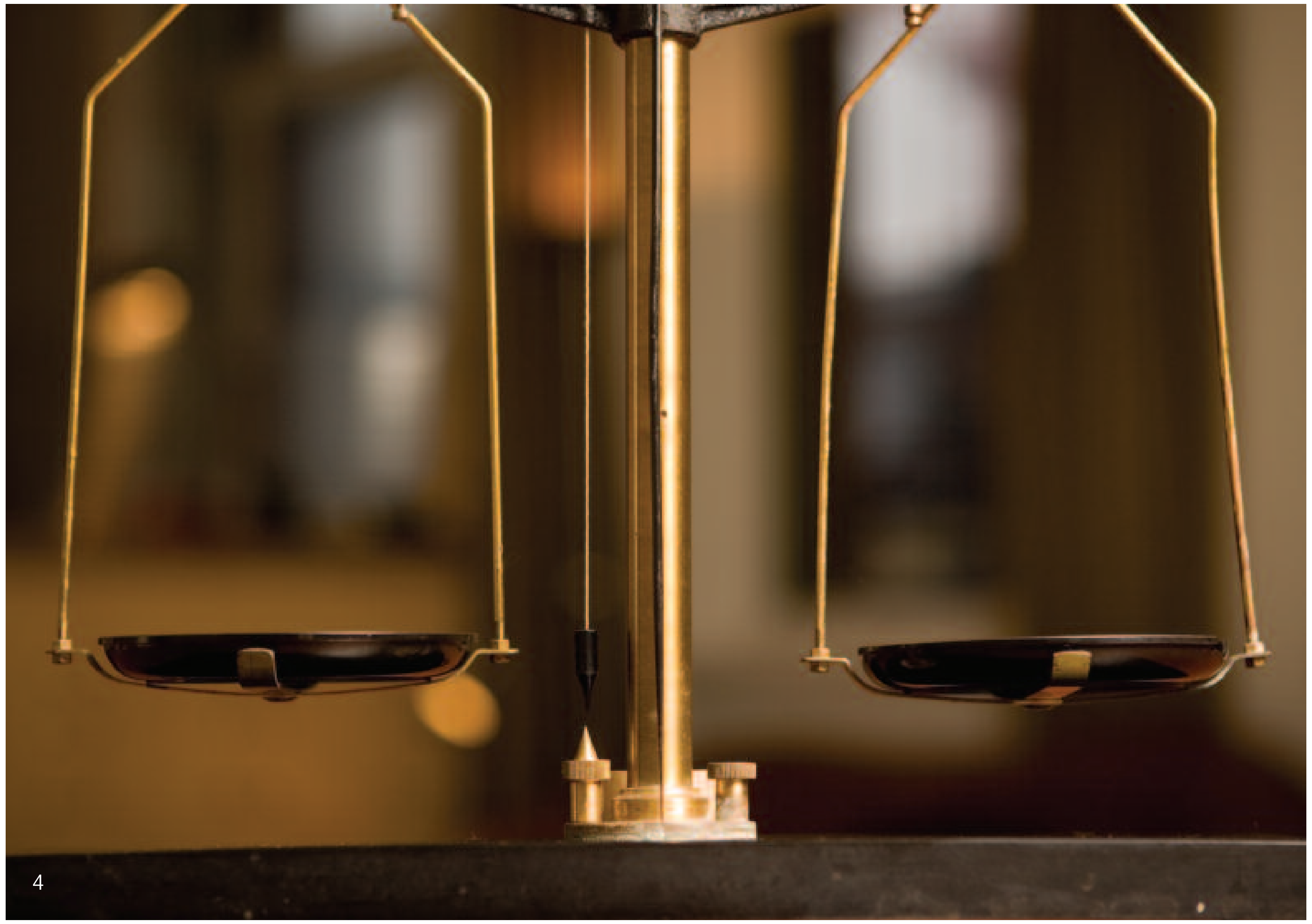
  Retail liabilities represented 62% of total liabilities

Within retail:

  Corporate lending represented 30% and Personal lending represented 70%

  Corporate deposits represented 31% and Personal deposits 69%

- Solid growth in customer balances.
  Retail deposits increased by 9%
  Retail lending increased by 2%
- Strong capital ratios to underpin future balance sheet growth.



Business and Financial Review

Results Summary	**28 weeks to 29 July 2006 £m**	**28 weeks to 23 July 2005 £m**	**Change £m**	**Change %**
Net interest income	**173.1**	167.9	5.2	3.1%
Non-interest income	**110.8**	112.1	(1.3)	(1.2%)
Operating costs	**(181.0)**	(176.5)	(4.5)	2.5%
Profit before impairment losses and significant items	**102.9**	103.5	(0.6)	(0.6%)
Impairment losses	**(58.2)**	(43.3)	(14.9)	34.4%
Profit before tax and significant items	**44.7**	60.2	(15.5)	(25.7%)
Profit before tax and significant items is analysed by segment				
• Personal	**14.9**	24.0	(9.1)	(37.9%)
• Corporate	**32.4**	39.2	(6.8)	(17.3%)
• Wholesale	**6.0**	6.6	(0.6)	(9.1%)
• Central costs	**(8.6)**	(9.6)	1.0	10.4%
	44.7	60.2	(15.5)	(25.7%)
Cost/Income ratio	**63.8%**	63.0%		(0.8%)

The Co-operative Bank reported a Profit Before Tax and significant items of £44.7m for the 28 weeks ended 29 July 2006 and a return on opening Equity (after tax) of 9.0%. The Bank has achieved growth in both liability and lending balances, particularly Corporate lending and Personal savings accounts.

Profit generation to create a sustainable model is a key element of our vision, alongside market leading staff satisfaction, market leading customer satisfaction, a market leading social responsibility approach and membership growth.

We focus on customers and members, converting customers to members through a proposition based on value, fairness and social responsibility. We aim to create sufficient profit to reward members, colleagues and communities and generate sustained growth.

The decrease in Profit Before Tax and significant items compared to the previous year reflects a higher Bad Debt charge primarily due to the deteriorating consumer credit environment. Profit before impairment losses and significant items of £102.9m was £0.6m (0.6%) lower than the previous year reflecting a £3.9m (1.4%) increase in Income offset by a 0.8 percentage point increase in the Cost/ Income ratio arising from significant investment costs. The increase in income has been achieved despite the difficult market conditions in the Retail Banking sector with consumer lending reducing and continued pressure on margins. Net Interest Growth of 3.1% arose principally from Corporate lending and wholesale activities as tighter margins have offset balance sheet growth. Non-Interest Income declined primarily due to industry-wide pressures on Payment Protection Insurance (PPI) and Credit card default charges. The Bank has reviewed its credit card default charges in line with the methodology suggested by the Office of Fair Trading (OFT) and introduced a revised charge of £11 in June.

The first half of 2006 has seen further increases in personal bad debts, particularly for credit cards. This continues to reflect high levels of consumer indebtedness and a significant rise in personal insolvency when compared to the first half of 2005. However the key indicators of these impairment losses now seem to be stabilising such that the rate of increase in losses has fallen. Although the Bank has suffered an increase in impairment losses, the Bank has continued to adopt a responsible lending policy and has continued to review its ability to identify and manage over indebtedness through the use of advanced scoring techniques.

The decline in Personal sector operating contribution reflects increasing impairment charges. An improved income performance was delivered in difficult trading conditions whilst cost growth was strictly controlled. Corporate sector operating contribution reflects arrears provisioning on a specific problem account. Wholesale sector performance was relatively consistent year on year.

Additionally, the Bank has reported in the Income Statement 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.

Business Highlights

In recent years the UK economy has benefited from strong consumer spending alongside low unemployment, inflation and interest rates. Eighteen months ago, unfavourable ratios of house prices to income and record levels of household indebtedness led to a slowdown in consumer spending and, with it, a slowdown in overall GDP growth. This led to the Bank of England cutting interest rates by 25bp to 4.50% in August 2005.

Since then, the economy has experienced a modest recovery led by business investment and to a lesser extent net exports. Annualised GDP growth was 3.0% in the first quarter of 2006, compared to average GDP growth of 1.9% during 2005. The housing market has also picked up with modest house price inflation of 5% in the year to June. Growth in private consumption has lagged the rest of the economy, hindered by pressures on disposable incomes, rising unemployment and the high levels of bad debts. With the economy now growing at above its trend growth rate of 2.5%, the Bank of England increased interest rates in August and further increases may occur in the second half of 2006.

In the light of these unfavourable conditions and the increasing level of competition, the Bank has maintained a prudent lending policy. The Bank has chosen not to increase its share of the unsecured market, preferring to maintain asset quality. Growth has been delivered in the Corporate sector assisted by a number of significant syndicated lending and property finance deals. The Bank's funding strategy is led by retail deposits but supported by additional wholesale balances to enable lending growth and maintain capital ratios.

Balance Sheet

Average customer retail lending balances grew by £177m (2%) to £7,645m reflecting growth in Corporate balances. Average retail deposits of £7,484m grew by £612m (9%).

Personal sector average retail lending balances fell by £91m (2%) compared to the previous year, due to a fall in mortgage balances. Although significant tranches of mortgage offerings from earlier years matured, retention levels have exceeded expectations through proactive customer contact and the development of profitable retention mortgage products.

In 2006 the Bank has maintained 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. The Bank has continued to focus on recruitment of customers who will generate longer term value, such as through the Privilege packaged current account.

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.

During 2006 there has been ongoing support for First Time Buyers who have continued to face increasing difficulties in buying their first property through mounting house prices. A range of new products combined with a new telephone service was established to ensure applicants received both peace of mind and a consistent hassle-free process.

Additionally, the Bank's mortgages were commended for the contribution being made to combat climate change impact and the Bank was awarded 'Best Specialist Mortgage' for its green mortgages at the 2006 Mortgage Magazine Awards.

Average Corporate lending balances increased by £268m (13%). The promising growth in Corporate lending balances included involvement in the syndicated lending sector and participation in PFI transactions.

Average Retail customer deposits grew by £612m (9%) reflecting growth across both the Personal and Corporate sectors. Average Personal sector balances of £5,165m were £502m (11%) 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.

The Bank also launched a new tranche of its Guaranteed Stock Market Bonds, which provides customers with a capital guarantee and a return linked to the stock market.

Average Balances and Interest Margins

	28 weeks to 29 July 2006 £m	28 weeks to 23 July 2005 £m	25 weeks to 14 January 2006 £m
Net Interest	**173.1**	167.9	152.6
Average Balances			
Interest Bearing Assets	**11,660**	10,557	11,001
Interest Bearing Liabilities	**9,937**	8,921	9,339
Interest Free Liabilities	**1,723**	1,636	1,662
Average Rates	**%**	%	%
Gross yield on interest earning assets	**5.9%**	6.2%	6.2%
Cost of interest earning liabilities	**3.7%**	3.8%	3.8%
Interest spread	**2.2%**	2.4%	2.4%
Contribution from interest free liabilities	**0.6%**	0.6%	0.6%
Net Interest Margin	**2.8%**	3.0%	3.0%
Average Base Rate	**4.5%**	4.7%	4.5%

Non-Interest Income

	28 weeks to 29 July 2006 £m	28 weeks to 23 July 2005 £m	25 weeks to 14 January 2006 £m
Fees and commission receivable	**103.9**	100.7	93.2
Insurance commission	**23.0**	26.5	19.1
Fees and commission payable	**(18.9)**	(18.2)	(20.9)
Other income including trading profits/(losses)	**2.8**	3.1	2.4
Total	**110.8**	**112.1**	**93.8**

The Bank's internet operation, **smile**, continues to win awards, the latest being the Your Money award for "Best Online Banking Provider" which it won for the sixth year running and "Best Student Account".

Corporate sector deposits increased by £110m (5%) reflecting growth across the customer base. Plans to open a total of 12 new Corporate Banking Centres across the next 3 years are progressing well with the first new centre opened in Liverpool on July 31.

Operating Income

Operating income at £283.9m was £3.9m higher than the same period last year reflecting a £5.2m increase in Net Interest Income and a decrease of £1.3m in Non-Interest Income. Higher wholesale interest income and balance sheet growth was offset by lower margins in the retail sector.

Net Interest Income from wholesale activities was higher than last year arising from lower levels of issued subordinated debt due to £50m debt maturing in late December 2005 without requiring replacement. This was offset by reduced Treasury net interest income as a difficult market environment resulted in fewer profitable opportunities.

Net Interest Income from the Bank's Retail sector increased, reflecting higher customer balances partly offset by a 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 stable level of the unsecured lending portfolio and competitive rate offers for liability products. Corporate syndicated and property lending represents a lower credit risk compared to unsecured personal lending and so attracts a lower margin. As 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 3.0% in the first half of 2005 to 2.8% for the same period in 2006. The decline in net interest from lower margins was more than offset by increased net interest from corporate lending, retail liabilities and wholesale activities.

Non-Interest Income at £110.8m was £1.3m lower than the same period last year. This was principally driven by reduced Insurance commission generated from Payment Protection Insurance. This has been reduced by the Bank's move away from new-to-Bank loans.

Commission and fees receivable increased by £3.2m (3%) mainly through growth in fee and commission generating current accounts, (including Privilege, Premier Privilege and the **smile** fee bearing account, **smile**more), and from LINK transaction fees from the Bank's ATM network.

Operating Costs

Operating costs increased by £4.5m (2.5%) predominantly due to business investment. Despite inflationary pressures and the investment in systems required to meet today's competitive and highly regulated market, the Cost/Income ratio increased by only 0.8 percentage points compared to the previous year reflecting tight control over the cost base. The Bank has been developing a series of initiatives designed to develop long term customer relationships and to ensure the Bank has a profitable and successful future. This includes investment in 5 new branches where new store design and promotions will be tested

Operating Cost Analysis*

	28 weeks to 29 July 2006 £m	28 weeks to 23 July 2005 £m	25 weeks to 14 January 2006 £m
Staff costs*			
Wages and salaries	**59.8**	55.4	46.5
Pensions and social security costs	**13.4**	16.0	13.2
Other staff costs	**4.1**	3.5	5.2
	77.3	74.9	64.9
Other administrative expenses	**90.5**	88.9	75.4
Depreciation	**13.2**	12.7	12.0
Total operating costs*	**181.0**	**176.5**	**152.3**
Cost/Income ratio	**63.8%**	63.0%	61.8%
Average staff numbers	**4,278**	4,260	4,212

*Before significant items

Impairment losses	28 weeks to 29 July 2006 £m	28 weeks to 23 July 2005 £m	25 weeks to 14 January 2006 £m
Income statement charge			
Personal Sector	**53.9**	44.6	43.7
Corporate Sector	**4.3**	(1.3)	12.8
Total	**58.2**	43.3	56.5
As a percentage of loans and advances to customers (annualised)	**1.32%**	1.02%	1.54%

and the development of new products and increased marketing activity.

We continue to invest heavily in our staff. Staff costs were £2.4m (3.2%) higher than the same period last year mainly due to the inflationary impact from the annual pay award and the effects of harmonised terms and conditions of employment which were agreed with the staff trade unions and rolled out across CFS. These were offset by a reduction in pension costs following increased employee contributions from January 2006 and the introduction of the new Co-operative Group Pension (Average Career Earnings) scheme (PACE) from April 2006. The new conditions of employment modernise existing working practices and together with our new "Good with People" brand are moving CFS towards our aim to become the 'employer of choice' in our areas of activity.

In addition other regulatory compliance costs increased with expenditure aiming towards implementing the Basel II capital regime in 2007.

The Capital Requirements Directive ('CRD') will introduce a supervisory framework in the EU reflecting the rules on capital measurement and capital standards set out in the 'Revised Basel Framework' (Basel II). This supervisory framework will seek to ensure that levels of capital held are commensurate with the risks associated with the business profile and control environment within financial institutions.

The CRD will come into force on 1 January 2007, with the Prudential Handbook for Banks setting out the FSA rules for implementing the CRD in the UK. A Basel II Programme is well established within the banking business to implement the CRD requirements as set out in the FSA Prudential Handbook. Development of the infrastructure and governance framework to comply with the CRD has created much stronger links between risk, capital and business management, providing confidence that the capital held accurately reflects the risk profile of the business and allowing management of the risk reward equation efficiently and profitably.

Credit Quality and Impairment Losses

The impairment charge of £58.2m was £14.9m higher than the same period last year reflecting higher charges for the Personal unsecured sector and increased Corporate charges.

Personal bad debt levels have risen in the first half of 2006 although the sharp increase seen in the second half of 2005 has not continued and the key indicators of impairment charges now seem to be stabilising, albeit at a higher level. This is against a background of continued growth in personal insolvency and high consumer indebtedness and is consistent with the experience of others in the industry.

Personal sector impairment losses were £9.3m higher than last year representing 1.9% expressed as percentage of average retail lending, 0.4% higher than last year. The most significant increase has been incurred on credit card debt in common with the rest of the industry. Although the Bank has suffered an increase in impairment losses, the Bank has continued to adopt a responsible lending policy and has continued to review its ability to identify and manage over indebtedness through the use of advanced scoring techniques. This allows customers with an otherwise acceptable credit profile but with potential over indebtedness risk to be identified and managed accordingly.

Corporate sector impairment losses are £5.6m higher than last year principally due to additional charges incurred on the final resolution of a specific problem account and 2005 write backs of previously raised provisions. The credit quality of the Corporate portfolio has been maintained through various sector caps that have been in place for several years and are subject to regular review with strategic reductions being applied to higher risk sectors and continued development of more attractive areas of the portfolio including PFIs.

Co-operative Financial Services (CFS)

The integration of the Bank and Co-operative Insurance, a sister organisation, has continued, including aligning the organisations under one management structure. We have further developed our understanding of customers across CFS and plans have been developed for the delivery of efficiency savings.

A key area of focus is the continuing development of one integrated financial services provider with a customer centric outlook.

The bank and insurance channels and customer service activities have been integrated under one leadership team. This will facilitate the true integration of bank and insurance sales and service activity.

Across our customer contact and customer support centres we are constantly seeking ways to improve the customer experience. Reorganisations are well underway allowing staff to focus on sales or service activity. We are increasing our capability to complete customer instructions on a 'one-and-done' basis and are looking to extend our range of services wherever practicable.

Partnerships

The Bank's links with the wider Co-operative Group have continued to be strengthened by the creation of group wide departments for Corporate Affairs, Facilities and Procurement including the integration of the CFS teams. Additionally, the Bank manages and operates ATMs located in retail stores. The total number in the Bank's network is over 2,400.

The Bank is carrying out the administration for accounts run and promoted by the Association of British Credit Unions (ABCUL). This will enable over 70,000 credit union members to use ATM machines and direct debits. This is seen as a major step change in the development of credit unions in the UK.

The Bank and www.charitychoice.co.uk, the leading online directory that puts charities directly in front of potential donors, have joined forces to launch an online donation service that is available free of charge, to all UK registered charities.

The Bank has implemented new partner arrangements for Bradford & Bingley Group, Derbyshire Building Society and Places for People. As an outcome we now have a well developed and robust profit share proposition that can be used to attract further new partners of scale.

Social responsibility

According to Business in the Community (BiTC), the Bank is the most corporate responsible company in the UK. The Bank topped the BiTC Corporate Responsibility index, which is recognised as the leading public benchmark of ethical and environmental performance.

In May the Bank announced a pioneering scheme that will enable prisoners to open a bank account with the bank whilst they are still in prison. Prior to release, prisoners at the Category B Forest Bank Prison at Pendlebury, Greater Manchester, will be offered the opportunity to open an account that could prove essential to them when looking for work. Normally under money-laundering regulations anyone opening a bank account must provide proof of identity and address.

At the end of May the Bank published the results of its annual profitability analysis confirming that it had turned away some £10m worth of business for ethical reasons during 2005. This approach continues to have at its core, the implementation of customer-mandated ethical policies. The value of the business lost to the Bank due to ethical and ecological reasons was worth £9.9m at the end of 2005, compared with £8.7m the previous year. Whilst the Bank's stance leads to business being turned away, the analysis showed that a third (34%) of the Bank's £96.5m pre-tax profit in 2005 can still be attributed to its ethical and sustainability policies.

CFS has won the EDF Energy Environmental Impact Award at Business in the Community's Awards for Excellence 2006 for taking initiative to tackle climate change. Independently judged by top UK business leaders, CFS won the Award because of its leadership in tackling climate change. CFS' innovations include:

- The largest ever installation of both micro-wind turbines and solar power panels in the UK – its Manchester buildings host over 7,000 solar panels and 19 wind turbines.
- An eight-year power purchase agreement with Ecotricity, avoiding nearly 4,000 tonnes of CO2 emissions each year.
- The sourcing of 96% of its electricity from renewable sources.
- Becoming the first and only investor to transfer all contracts held in its investment property portfolio to 'green electricity'.

Outlook

The Bank, as a significant element of CFS, aspires to be the UK's most admired financial services business and the ongoing programme to restructure and modernise the organisation is an important step towards that goal. Further initiatives are planned for 2006 and a major Change programme, expected to be announced in the next few months, will ensure that the impetus to date is maintained. A key area of focus for 2006 has been and will continue to be continued development of one integrated financial service provider with a customer centric outlook. The process is already underway with the implementation of a new organisational structure which is helping us to be much more responsive to the needs of our customers and ensure we are better placed to achieve our vision.

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 29 July 2006. 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 29 July 2006.

KPMG Audit Plc
Chartered Accountants,
Manchester, 14 September 2006

Basis of preparation

EU law (IAS Regulation EC 1606/2002) requires that the annual consolidated financial statements for the year ended 13 January 2007 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 14 January 2006.

The information in this report is unaudited and does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. 2005 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 14th September 2006.

(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.

(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 and 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

(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) Deferred taxation
Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax 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.
Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements 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 taxes are determined using the rates enacted or substantively enacted at the balance sheet date.

(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 Group's obligation. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses at 11 January 2004, the date of transition to IFRS, were recognised. The Bank recognises actuarial gains and losses that arise subsequent to 11 January 2004 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.

Consolidated statutory income statement

for the period ended 29 July 2006 (unaudited)

	28 weeks to 29 July 2006 Before significant items £m	28 weeks to 29 July 2006 Significant items £m	28 weeks to 29 July 2006 After significant items £m	28 weeks to 23 July 2005 £m	25 weeks to 14 January 2006 £m
Interest and similar income	373.7	–	**373.7**	350.7	318.7
Interest expense and similar charges	(200.6)	–	**(200.6)**	(182.8)	(166.1)
Net Interest Income	**173.1**	**–**	**173.1**	**167.9**	**152.6**
Fee and commission income	127.7	–	**127.7**	127.6	112.2
Fee and commission expense	(18.9)	–	**(18.9)**	(18.2)	(20.9)
Net fee and commission income	**108.8**	**–**	**108.8**	**109.4**	**91.3**
Dividend income	0.1	–	**0.1**	0.2	0.1
Net trading income	1.9	–	**1.9**	2.5	2.4
Operating income	**283.9**	**–**	**283.9**	**280.0**	**246.4**
Operating expenses	(181.0)	109.2	**(71.8)**	(176.5)	(152.3)
Profit before impairment losses	**102.9**	**109.2**	**212.1**	**103.5**	**94.1**
Impairment losses on loans and advances	(58.2)	–	**(58.2)**	(43.3)	(56.5)
Operating profit	**44.7**	**109.2**	**153.9**	**60.2**	**37.6**
Profit based payments to members of the Co-operative group	–	–	**–**	–	(1.3)
Profit before taxation	**44.7**	**109.2**	**153.9**	**60.2**	**36.3**
Income tax expense	(14.2)	(32.8)	**(47.0)**	(19.0)	(11.9)
Profit for the period	**30.5**	**76.4**	**106.9**	**41.2**	**24.4**
Attributable to:					
Equity shareholders	29.3	75.1	**104.4**	40.0	23.2
Minority interests	1.2	1.3	**2.5**	1.2	1.2
	30.5	**76.4**	**106.9**	**41.2**	**24.4**
Earnings per share (basic and fully diluted)	**2.66p**	**6.83p**	**9.49p**	**3.64p**	**2.11p**

Significant items relates solely to gain on transfer of the Bank's IAS19 pension liabilities to the Bank's ultimate parent undertaking.

Consolidated statutory balance sheet

at 29 July 2006 (unaudited)

	29 July 2006 £m	23 July 2005 £m	14 January 2006 £m
Assets			
Cash and balances at central banks	**202.9**	180.0	200.2
Loans and advances to banks	**1,075.0**	1,129.8	1,170.7
Loans and advances to customers	**8,172.3**	7,917.9	7,923.8
Debt securities – Available for sale	**3,219.3**	2,061.3	2,269.1
Derivative financial instruments	**63.5**	45.3	68.2
Equity shares	**1.7**	1.2	1.2
Intangible fixed assets	**6.6**	7.0	6.6
Property, plant and equipment	**80.5**	86.2	86.1
Deferred tax assets	**–**	28.2	27.6
Other assets	**20.1**	40.9	23.9
Prepayments & accrued income	**88.5**	60.7	75.6
Total assets	**12,930.4**	**11,558.5**	**11,853.0**
Liabilities			
Deposits by banks	**834.3**	578.3	634.7
Customer accounts	**9,367.3**	8,539.7	8,818.8
Debt securities in issue	**1,389.3**	1,067.7	1,050.2
Derivative financial instruments	**73.5**	38.8	63.7
Other borrowed funds	**338.3**	387.9	338.1
Other liabilities	**117.4**	119.3	110.0
Accruals and deferred income	**80.5**	61.7	81.8
Provisions	**6.0**	6.5	6.1
Current tax liabilities	**13.7**	33.5	18.1
Deferred tax liabilities	**6.1**	10.9	12.8
Retirement benefit obligations	**–**	94.1	92.1
Total liabilities	**12,226.4**	**10,938.4**	**11,226.4**
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	**619.0**	518.6	527.9
Other reserves	**(2.6)**	15.4	12.0
Total equity	**680.2**	**597.8**	**603.7**
Minority interests	**23.8**	22.3	22.9
Total equity	**704.0**	**620.1**	**626.6**
Total liabilities and equity	**12,930.4**	**11,558.5**	**11,853.0**

Consolidated cash flow statement

for the period ended 29 July 2006 (unaudited)

Reconciliation of Group profit before taxation and significant items to net cash flow from operating activities	28 weeks to 29 July 2006 £m	28 weeks to 23 July 2005 £m	25 weeks to 14 January 2006 £m
Group Profit before taxation and significant items	**44.7**	**60.2**	**36.3**
Net movement in accruals and prepayments	**(11.6)**	(67.9)	2.8
Interest payable in respect of subordinated liabilities	**9.9**	12.4	10.8
Non cash income statement items	**68.0**	37.1	79.5
Amortisation and profit on sale of investments	**0.3**	(0.6)	(0.5)
Loss on disposal of fixed assets	**–**	0.1	0.7
Preference dividend	**3.0**	3.0	2.6
Net cash flow from trading activities	**114.3**	44.3	132.2
Increase in customer and bank deposits	**787.9**	361.1	325.2
Increase/(decrease) in debt securities in issue	**339.0**	295.9	(17.4)
Increase in loans and advances to customers and banks	**(255.3)**	(426.1)	(110.8)
Net movement of other assets and other liabilities	**9.3**	16.2	7.0
United Kingdom corporation tax paid	**(18.3)**	(11.3)	(23.2)
Net cash flow from operating activities	**976.9**	**280.1**	**313.0**
Cash flows from investing activities			
Purchase of property, equipment and software	**(9.9)**	(15.7)	(10.8)
Proceeds from sale of property and equipment	**0.1**	0.1	0.3
Purchase of debt securities	**(3,516.9)**	(3,580.2)	(3,951.0)
Proceeds from sale and maturity of debt securities	**2,863.8**	3,069.5	3,520.8
Net cash used in investing activities	**(662.9)**	**(526.3)**	**(440.7)**
Cash flows from financing activities			
Interest paid in respect of subordinated liabilities	**(13.4)**	(14.2)	(9.4)
Repayment of subordinated liabilities	**–**	–	(50.0)
Ordinary share dividends paid	**–**	(5.0)	(13.8)
Preference dividends paid	**(2.8)**	(2.8)	(2.8)
Dividends from associated undertakings	**–**	0.2	–
Dividends paid to minority shareholders in subsidiary undertaking	**(0.8)**	(0.8)	(0.1)
Net cash flow from financing	**(17.0)**	**(22.6)**	**(76.1)**
Increase/(Decrease) in cash and cash equivalents	**297.0**	**(268.8)**	**(203.8)**
Cash and cash equivalents at the beginning of the period	1,240.9	1,713.5	1,444.7
Cash and cash equivalents at end of period	**1,537.9**	**1,444.7**	**1,240.9**

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.

	29 July 2006	23 July 2005	14 January 2006
Cash and balances at central banks	**202.9**	180.0	200.2
Loans and advances to banks	**900.0**	954.7	945.7
Short term investments	**435.0**	310.0	95.0
	1,537.9	**1,444.7**	**1,240.9**

The Co-operative Bank p.l.c.

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

for the period ended 29 July 2006 (unaudited)

	Period ended 29 July 2006 £m	Period ended 23 July 2005 £m	Year ended 14 January 2006 £m
Consolidated statement of recognised income and expense			
Net change in available for sale investments, net of tax	**(3.8)**	1.3	(0.9)
Net movement in pension fund deficit due to actuarial gains and losses, net of tax	**(13.5)**	13.3	13.4
Net change in cash flow hedges, net of tax	**(11.4)**	6.2	4.5
Net income recognised directly in equity	**(28.7)**	**20.8**	**17.0**
Net profit – equity shareholders	**104.4**	40.0	63.2
Net profit – minority interests	**2.5**	1.2	2.4
Total recognised income and expense for the period	**78.2**	**62.0**	**82.6**

Statement of changes in equity

	Period ended 29 July 2006 £m	Period ended 23 July 2005 £m	Year ended 14 January 2006 £m
Equity at beginning of period	**626.6**	**624.8**	**624.8**
Application of IAS32 and IAS39			
Reclassification of preference shares	**–**	(60.0)	(60.0)
Income recognition	**–**	2.6	2.6
Debt impairment	**–**	(9.3)	(9.3)
Mark to market changes	**–**	7.3	7.3
Other	**–**	(2.3)	(2.3)
Beginning of period (restated)	**626.6**	**563.1**	**563.1**
Total recognised income and expense for the period	**78.2**	62.0	82.6
Dividend – equity shareholders	**–**	(5.0)	(18.8)
Dividend – minority interests	**(0.8)**	–	(0.3)
Equity at end of period	**704.0**	**620.1**	**626.6**

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 30 November 2006 to holders on the register at 3 November 2006.

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14 September 2006

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