

Co-operative Financial Services

Interim Review 2007

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Highlights

- CFS profit before tax, significant items, investment fluctuations and exceptional weather events was £92.9m (2006: £80.2m). After exceptional weather events the 2007 equivalent was £38.0m.
- General insurance combined ratio decreased by 2.9% to 103.2% (excluding exceptional weather events).
- Bank deposits and lending showed solid growth during the period. New long term business was sluggish whilst sales performance in general insurance reflected its strategic realignment.
- CFS has committed to investing £250 million to support planned growth.
- Co-operative Insurance (CIS) celebrated success by winning the coveted Corporate & Social Responsibility Project of the Year Award at this year's British Insurance Awards.
- **smile** was awarded 'Best of the Best' by Which? for its current account products and also named in their UK top 100 'Cool Brands' for 2006/2007.
- 'Best Direct Mortgage Lender 2006/2007' and 'Best Online Banking Provider' were awarded to the Bank and **smile** respectively by Your Money.

Vision and values

Our business

purpose

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

Our CFS

vision

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

Our

measures

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

Our values

As a Co-operative business, we believe in:

social responsibility

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

openness and honesty

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

being successful

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

being customer focused

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

making work fun

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

Business and financial review

Profits derived from the CFS banking and general insurance businesses accrue for the benefit of the shareholder, the Co-operative Group and its members. In 2007, CFS has paid a 2006 final dividend of £18.1m to its parent, the Co-operative Group.

The long-term business of CIS, covering life insurance, pensions and unit trusts, is transacted on a mutual basis, which means that all profits are retained for the benefit of policyholders.

The information on pages 8 to 9 under the heading 'other shareholder' includes the investment returns on shareholder capital in excess of that required to support the general insurance business and other, more minor, sources of income and expenditure.

Exceptional weather related claims of around £55m in the general insurance business, as experienced across the industry, led to reduced profitability. Total shareholder profit before tax, significant items and investment fluctuations was £38.0m compared to £80.2m in the previous year.

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

The general insurance result has deteriorated from a profit of £18.9m in 2006 to a loss, before tax and significant items, of £32.3m, reflecting the severity of exceptional weather related claims of around £55m.

The long-term business, run in the interests of policyholders, has seen further savings in operating expenses, although sales of new policies have declined as a result of a reduction in the number of financial advisers.

Highlights	2007 £m	2006 £m	Change £m
Banking	45.5	44.7	0.8
General Insurance technical profit (before exceptional weather events)	22.6	18.9	3.7
Other shareholders activities (excluding STIF)	25.8	18.5	7.3
Profit based discounts and rebates to Co-operative members	(1.0)	(1.9)	0.9
Result pre investment fluctuations and exceptional weather events	92.9	80.2	12.7
Exceptional weather events	(54.9)	–	(54.9)
Result pre investment fluctuations STIF	38.0	80.2	(42.2)
	(15.3)	(2.9)	(12.4)
Profit before significant items	22.7	77.3	(54.6)

STIF: Short term investment fluctuations.

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

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

throughout the organisation. Full consultation is underway with Trade Unions and our full support is being and will continue to be offered to all colleagues impacted by this decision.

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

At the end of 2006 CFS announced its intention to, subject to a formal due diligence process, enter into a new partnership agreement for the administration of its life & savings business. This new partnership will ensure that the focus remains firmly on maintaining a highly efficient operation that will allow the life & savings business to prosper in a very competitive market, with the primary objectives of the new relationship being:

- To improve the service proposition offered to CFS' life & savings customers

- To continue to build and deliver a contemporary product range
- To further improve competitiveness by reducing the overall cost base of the business

In the first half of 2007 a major programme was mobilised to complete the necessary due diligence work, and to develop and implement a joint plan that, subject to final contract, will ultimately lead to the creation of a new life & savings administration operation in the city centre of Manchester, by early 2008.

Following an extended period of supplier selection, a new outsourcing relationship was agreed in March with Xansa to create a unified information system design and development service across CFS. The new fit for purpose contract represents a broadening of the partnership to encompass the insurance side of the business in addition to the previous banking relationship.

Across our customer contact and customer support centres we are constantly seeking ways to improve the customer experience. Customer services are investing in new technology to improve our outbound correspondence quality, and also in image and scanning capability to transform the way in which we will action inbound customer correspondence. Within the claims operation a key focus for 2007 has been on improving the quality of service provided to our customers. New features have been introduced into our claims centres including enhanced telephone performance and we are investing in new technology to improve the customer experience. The improved service levels were maintained despite the significant

increase in call volumes caused by the recent floods and storms. We are continuing to support our customers to ensure their claims are resolved as quickly and efficiently as possible.

Banking

The banking business reported a profit before tax and significant items of £45.5m for the 28 weeks ended 28 July 2007. Growth has been achieved in both deposit and lending balances. Average customer deposits of £8,163m grew by £679m (9%). Average customer lending balances grew by £240m (3%) to £7,885m reflecting growth in corporate balances.

Net revenue decreased by £7.7m (3%) due to difficult market conditions in the retail banking sector. Net interest growth of £4.5m arose principally from balance sheet growth as net interest margins declined slightly. Non-interest income declined by £12.2m primarily due to industry-wide pressures on Payment Protection Insurance (PPI) and £6.3m of Bank overdraft fee refunds as a result of publicity generated by the OFT market study.

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

leaders in provision of finance for NHS Local Investment Trusts.

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

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

The Bank and **smile** have seen continued recognition for the quality of service provided to our customers, including the 'Best Direct Mortgage Lender 2006/2007' and 'Best Online Banking Provider' awarded by Your Money. **smile** has also been awarded 'Best of the Best' by Which? for its current account products and also continues to be recognised as a desirable brand as it was named one of the UK's Top 100 'Cool Brands' for 2006/07.

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

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

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

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

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

General insurance

The performance of the general insurance business in 2007, excluding the considerable costs arising from weather events during the first half of the year, was better than in the previous year.

General insurance is operating in a competitive marketplace, with aggregator sites such as Confused.com taking a growing share of the market demonstrating consumer's increasing propensity to purchase insurance products over the web. During the year we have focused on developing a distribution strategy which

enhances our ability to meet and react to these changes in customer buying habits and we have delivered an increase in sales through our direct channels.

Gross Written Premium has decreased by £51.9m to £226.8m. This reduction in new business volumes is reflective of our changing distribution strategy, with a major shift towards our new direct channels, coupled with a planned exit from higher risk and loss making segments of the portfolio, such as 'any driver' policies. The CFS-wide investment programme mentioned earlier includes far-reaching development of our general insurance capabilities in areas such as web technology and pricing flexibility.

We have also focused on improved product propositions including a new home insurance product, which gives customers greater flexibility when choosing the sum insured to suit their needs.

Through 2006 a programme was introduced to modernise our claims handling process. The improvements made to this area have led to the motor claims ratio continuing to improve through 2007, however they have also been severely tested in the first half of 2007 with storms in January, and exceptional flooding in June and July. These have had a detrimental effect on profitability, but we have demonstrated a commitment to assist our customers at these difficult times.

Our commitment to providing excellent customer service and improving service levels has been demonstrated by our reaction to the recent floods and storms. We are committed to providing support to our customers and this includes providing cash advances for urgent requirements and assisting those customers displaced by the floods in finding alternative accommodation until they can return to their own homes. In the meantime, to expedite the settlement of claims as quickly as possible, we have established a dedicated team of professional claims handlers to deal with all flood claims until they are settled. We are also utilising our extensive supply chain network to proactively manage claims and ensure they are settled as efficiently as possible.

The general insurance claims ratio, excluding the severe weather events, was 69.4%, a significant improvement of 7.2% compared to 2006 as the claims transformation initiatives continue to improve efficiency and customer service.

Further modernisation initiatives have targeted savings in operating costs, including commission charges. Although these initiatives have reduced the level of operating costs, the expense ratio of 33.8% has increased compared with 29.5% in 2006 reflecting the decline in earned premiums.

General insurance customer satisfaction for July 2007 stands at 73.0%, an increase of 1.8% compared to December 2006 (71.2%).

Long-term business

Present value of New Business Premium for the period to 28 July 2007 was £262.7m, a reduction of 10% on the equivalent period in 2006. This reflects a decline in the numbers of financial advisers authorised to advise on life & savings products.

Gross earned insurance premiums for life and pensions business in the first half of 2007 was £290.8m compared to £298.9m for the corresponding period last year. The fall in gross premium income is due to a reduction in regular premium from endowments as they reach maturity, partly offset by an increase in single premium accumulating with-profits business.

Investment performance remained strong over the last 12 months, particularly within the FTSE 250, with CIS Sustainable Leaders Trust and CIS UK Income with

General insurance results	2007 £m	2006 £m	Change £m
Technical profit before weather events	22.6	18.9	3.7
Weather events	(54.9)	–	(54.9)
	(32.3)	18.9	(51.2)
Profit based discounts and rebates to Co-operative members	(1.0)	(1.9)	0.9
Operating result	(33.3)	17.0	(50.3)

	2007 £m	2006 £m	Change £m
Gross written premiums	226.8	278.7	(51.9)
Earned premiums	227.8	276.8	(49.0)
Claims ratio	93.5%	76.6%	16.9%
Claims ratio (excluding exceptional weather events)	69.4%	76.6%	(7.2%)
Expense ratio (excluding non-recurring expenses)	33.8%	29.5%	4.3%
Combined ratio (excluding exceptional weather events and non-recurring expenses)	103.2%	106.1%	(2.9%)
Combined ratio	127.3%	106.1%	21.2%

Growth Trust benefiting from this due to their significant investments in this area.

CIS Sustainable Leaders Trust, Co-operative Insurance's flagship Socially Responsible Investment (SRI) fund has delivered first class performance over 12 month and 3 year periods with total returns of 25.3% and 82.4% respectively. In addition, CIS UK Income with Growth Trust, has firmly upheld its 3 year position with returns of 60.3%.

Following intermediary demand for our Unit Trusts and unique responsible investment expertise, Co-operative Financial Services launched its three most popular UK funds (CIS Sustainable Leaders Trust, CIS UK Income with Growth, CIS UK Growth) on the Co-funds IFA fund platform, enabling improved access for intermediaries in the wider investment market for the first time. As a reflection of the organisation's commitment to the broader intermediary market it has introduced a new brand name, Co-operative Investments, to serve the professional investment market.

Co-operative Insurance's Unit-Linked Bond, which is provided by Norwich Union, has proved to be a highly successful new product offering, taking more than £100m in the first 12 months.

All surpluses arising on the business are applied for the sole benefit of policyholders by transfer from the income statement to the unallocated divisible surplus (UDS). During the period, realistic liabilities decreased by approximately £318m and £294.2m was transferred from UDS. This compares with a transfer of £79.7m to UDS in the first half of 2006. The amount of money managed on behalf of long-term business customers has increased to almost £20 billion.

At 28 July 2007 the realistic working capital within the Co-operative Insurance long-

term business fund, being the excess of the realistic value of assets over the realistic value of liabilities stood at £829.2m compared to £1,130.4m at the start of the financial year. Excluding the effect of gilt repos, this represents a working capital ratio of 4.9%. The decrease has arisen primarily from an increase in provisions for with-profit policies, as a result of increased volatility in the equity markets and an increase in the expected life of pension policyholders.

In addition to the realistic working capital within the fund, a further £200m of CIS shareholder capital is allocated to support the solvency of the long-term business.

Significant items

As explained on pages 4 and 5, the extensive restructuring and modernisation of the business has continued to necessitate substantial investment resulting in total significant items of £72.2m in 2007 following the £27.1m charged in 2006. The 2007 costs include £35.7m in relation to future costs for job losses.

The 2006 significant items also include gains from April 2006, on implementation of the new Co-operative Group Pension (Average Career Earnings) scheme, as the CFS Group has adopted defined contribution accounting for pensions. The pension assets and liabilities have been transferred from the CFS balance sheets, with P&L charges based solely on contributions made. As at 5 April 2006, the CFS Group had total scheme deficits of £116.8m which were transferred to the Co-operative Group for no consideration and the resultant gain has been recognised in the income statement in accordance with IAS19.

Social responsibility

In March 2007, CFS went beyond carbon neutral and offsets 110% of its remaining emissions. Going forward, all remaining

CFS operational and business travel emissions will be offset, together with an extra ten per cent to cover legacy issues.

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

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

Co-operative Insurance (CIS) celebrated success at this year's British Insurance Awards by winning the coveted Corporate & Social Responsibility Project of the Year Award.

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

Summary

Total shareholder profit before tax, significant items and investment fluctuations was £38.0m compared to £80.2m in the previous year. The decline in profit was principally due to exceptional weather related claims of around £55m in the general insurance business. However, the profit before exceptional weather related events, significant items and investment fluctuations increased by £12.7m (16%).

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

Significant items	2007	2006	2006	2006
	Non-recurring restructuring cost £m	Non-recurring restructuring cost £m	Pension* scheme £m	Total £m
General insurance	(19.7)	(12.5)	4.0	(8.5)
Banking	(30.1)	–	109.2	109.2
Other shareholders	(0.4)	(0.4)	–	(0.4)
Total shareholder	(50.2)	(12.9)	113.2	100.3
Long-term business	(22.0)	(14.2)	3.6	(10.6)
Total	(72.2)	(27.1)	116.8	89.7

*Gain on implementation of PACE pension scheme

Consolidated income statement

Co-operative Financial Services

For the period 28 July 2007 (unaudited)

All amounts are stated in £m unless otherwise indicated

	General insurance	Banking	Other shareholder	Total shareholder return before significant items	Significant items	Total shareholder return	Long-term business (1)
2007							
Gross earned insurance premiums	238.7	–	–	238.7	–	238.7	290.8
Premiums ceded to reinsurers	(10.9)	–	–	(10.9)	–	(10.9)	(10.0)
Interest and investment income	34.3	416.2	22.8	473.3	–	473.3	418.0
Commissions and fees receivable	0.5	113.3	–	113.8	–	113.8	30.6
Gains less losses from traded investments	(1.8)	2.7	(10.3)	(9.4)	–	(9.4)	(420.7)
Other	–	–	–	–	–	–	1.5
Interest paid	(2.6)	(238.6)	5.0	(236.2)	–	(236.2)	–
Commission and fees payable	–	(17.4)	–	(17.4)	–	(17.4)	–
Net revenue	258.2	276.2	17.5	551.9	–	551.9	310.2
Net claims incurred	(213.0)	–	–	(213.0)	–	(213.0)	(812.7)
Technical charges	–	–	–	–	–	–	318.2
Impairment losses	–	(53.2)	–	(53.2)	–	(53.2)	–
	45.2	223.0	17.5	285.7	–	285.7	(184.3)
Change in unallocated divisible surplus	–	–	–	–	–	–	294.6
Tax attributable to policyholders	–	–	–	–	–	–	17.6
Operating expenses	(78.5)	(177.5)	(7.0)	(263.0)	(50.2)	(313.2)	(127.9)
Profit before taxation	(33.3)	45.5	10.5	22.7	(50.2)	(27.5)	–
Income tax expense	9.5	(14.5)	17.4	12.4	15.1	27.5	–
Minority interests	–	(1.2)	–	(1.2)	–	(1.2)	–
Net profit/(losses) for the period	(23.8)	29.8	27.9	33.9	(35.1)	(1.2)	–

(1) Long-term business operating expenses include £22.0m of significant items relating to non-recurring restructuring costs.

	General insurance	Banking	Other shareholder	Total shareholder return before significant items	Significant items	Total shareholder return	Long-term business (1)
2006							
Gross earned insurance premiums	290.6	–	–	290.6	–	290.6	298.9
Premiums ceded to reinsurers	(13.8)	–	–	(13.8)	–	(13.8)	(328.5)
Interest and investment income	38.4	373.7	24.9	437.0	–	437.0	457.1
Commissions and fees receivable	0.6	127.7	–	128.3	–	128.3	9.1
Gains less losses from traded investments	–	1.9	(4.9)	(3.0)	–	(3.0)	(407.3)
Other	–	0.1	–	0.1	–	0.1	1.3
Interest paid	–	(200.6)	1.7	(198.9)	–	(198.9)	–
Commission and fees payable	–	(18.9)	–	(18.9)	–	(18.9)	–
Net revenue	315.8	283.9	21.7	621.4	–	621.4	30.6
Net claims incurred	(215.4)	–	–	(215.4)	–	(215.4)	(798.0)
Technical charges	–	–	–	–	–	–	975.0
Impairment losses	–	(58.2)	–	(58.2)	–	(58.2)	–
	100.4	225.7	21.7	347.8	–	347.8	207.6
Change in unallocated divisible surplus	–	–	–	–	–	–	(117.5)
Tax attributable to policyholders	–	–	–	–	–	–	26.3
Operating expenses	(83.4)	(181.0)	(6.1)	(270.5)	100.3	(170.2)	(116.4)
Profit before taxation	17.0	44.7	15.6	77.3	100.3	177.6	–
Income tax expense	(5.5)	(14.2)	8.6	(11.1)	(30.1)	(41.2)	–
Minority interests	–	(1.2)	–	(1.2)	(1.3)	(2.5)	–
Net profit for the period	11.5	29.3	24.2	65.0	68.9	133.9	–

(1) Long-term business operating expenses include £10.6m of significant items. This includes £14.2m of non-recurring restructuring costs and £3.6m gain on implementation of the PACE pension scheme.

Consolidated balance sheet

Co-operative Financial Services

At 28 July 2007 (unaudited)

All amounts are stated in £m unless otherwise indicated

	General insurance	Banking	Other shareholder	Total shareholder	Long-term business	Eliminations	Total
2007							
Assets							
Cash	–	203.2	1.8	205.0	43.2	(43.2)	205.0
Derivative financial instruments	–	90.5	–	90.5	503.3	–	593.8
Loans and advances to banks	–	1,283.2	–	1,283.2	–	–	1,283.2
Loans and advances to customers	–	8,424.9	79.9	8,504.8	13.8	–	8,518.6
Investments	1,188.8	2,429.3	934.4	4,552.5	19,236.1	(9.1)	23,779.5
Investment property	–	–	–	–	2,331.9	–	2,331.9
Reinsurers' share of technical provisions	–	–	–	–	1,078.0	–	1,078.0
Intangible assets	26.7	6.2	27.3	60.2	21.2	–	81.4
Property, plant & equipment	–	90.3	20.2	110.5	45.8	–	156.3
Prepayments and other receivables	282.2	91.5	16.4	390.1	371.3	(24.8)	736.6
Total assets	1,497.7	12,619.1	1,080.0	15,196.8	23,644.6	(77.1)	38,764.3
Liabilities and equity							
Amounts due to credit institutions	28.9	608.2	15.3	652.4	4,449.9	–	5,102.3
Amounts owed to customers	–	9,982.6	(36.8)	9,945.8	–	(43.5)	9,902.3
Debt securities in issue	–	623.7	–	623.7	–	–	623.7
Derivative financial instruments	–	143.6	18.9	162.5	1.5	–	164.0
Insurance contracts	1,125.7	–	–	1,125.7	17,786.8	–	18,912.5
Investment contracts liabilities	–	–	–	–	206.0	–	206.0
Unallocated divisible surplus	–	–	–	–	861.2	–	861.2
Other borrowed funds	75.0	388.0	(75.0)	388.0	–	(8.8)	379.2
Other liabilities and accruals	42.1	178.1	143.7	363.9	171.8	(24.8)	510.9
Deferred tax	1.0	(8.6)	140.2	132.6	154.2	–	286.8
Provisions	1.7	23.9	21.9	47.5	13.2	–	60.7
Minority interests	–	24.1	–	24.1	–	–	24.1
Equity	223.3	655.5	851.8	1,730.6	–	–	1,730.6
Total liabilities and equity	1,497.7	12,619.1	1,080.0	15,196.8	23,644.6	(77.1)	38,764.3

	General insurance	Banking	Other shareholder	Total shareholder	Long-term business	Eliminations	Total
2006							
Assets							
Cash	0.4	202.9	6.1	209.4	33.2	–	242.6
Derivative financial instruments	–	63.5	1.6	65.1	616.8	–	681.9
Loans and advances to banks	–	1,075.0	–	1,075.0	–	–	1,075.0
Loans and advances to customers	–	8,172.3	(0.2)	8,172.1	18.1	–	8,190.2
Investments	1,266.3	3,221.0	1,027.9	5,515.2	19,742.6	(51.3)	25,206.5
Investment property	–	–	–	–	2,112.5	–	2,112.5
Reinsurers' share of technical provisions	–	–	–	–	1,415.3	–	1,415.3
Intangible assets	34.7	6.6	24.6	65.9	–	–	65.9
Property, plant & equipment	–	80.5	27.7	108.2	44.9	–	153.1
Prepayments and other receivables	290.5	108.6	48.5	447.6	342.8	(28.2)	762.2
Total assets	1,591.9	12,930.4	1,136.2	15,658.5	24,326.2	(79.5)	39,905.2
Liabilities and equity							
Amounts due to credit institutions	–	834.3	75.7	910.0	4,911.2	–	5,821.2
Amounts owed to customers	–	9,367.3	2.8	9,370.1	–	(35.8)	9,334.3
Debt securities in issue	–	1,389.3	–	1,389.3	–	–	1,389.3
Derivative financial instruments	–	73.5	33.7	107.2	1.6	–	108.8
Insurance contracts	1,200.7	–	–	1,200.7	17,967.9	–	19,168.6
Investment contracts liabilities	–	–	–	–	160.8	–	160.8
Unallocated divisible surplus	–	–	–	–	930.1	–	930.1
Other borrowed funds	75.0	338.3	(75.0)	338.3	–	(15.5)	322.8
Other liabilities and accruals	50.3	211.6	99.4	361.3	133.6	(28.2)	466.7
Deferred tax	(1.8)	6.1	147.8	152.1	207.3	–	359.4
Provisions	0.3	6.0	20.9	27.2	13.7	–	40.9
Minority interests	–	23.8	–	23.8	–	–	23.8
Equity	267.4	680.2	830.9	1,778.5	–	–	1,778.5
Total liabilities and equity	1,591.9	12,930.4	1,136.2	15,658.5	24,326.2	(79.5)	39,905.2

Statement of recognised income and expense

Co-operative Financial Services

For the period ended 28 July 2007 (unaudited)

All amounts are stated in £m unless otherwise indicated

	General insurance	Banking	Other shareholder	Total shareholder return before significant items	Significant items	Total shareholder return	Long-term business
2007							
Changes in available for sale investments	(7.2)	(2.1)	–	(9.3)	–	(9.3)	–
Changes in cash flow hedges	–	(26.0)	(7.7)	(33.7)	–	(33.7)	–
Revaluation of self occupied properties	–	–	–	–	–	–	0.4
Tax on items taken directly to equity	2.2	8.4	2.3	12.9	–	12.9	–
	(5.0)	(19.7)	(5.4)	(30.1)	–	(30.1)	0.4
Attributable to policy holders	–	–	–	–	–	–	(0.4)
Attributable to minority interests	–	0.7	–	0.7	–	0.7	–
Net income recognised directly in equity	(5.0)	(19.0)	(5.4)	(29.4)	–	(29.4)	–
Profit for the period	(23.8)	29.8	27.9	33.9	(35.1)	(1.2)	–
Total recognised income and expense	(28.8)	10.8	22.5	4.5	(35.1)	(30.6)	–
2006							
Retirement benefit obligations – actuarial gains and losses	(46.4)	(19.3)	–	(65.7)	–	(65.7)	(45.8)
Changes in available for sale investments	(21.0)	(5.4)	–	(26.4)	–	(26.4)	–
Changes in cash flow hedges	–	(16.3)	–	(16.3)	–	(16.3)	–
Tax on items taken directly to equity	20.2	12.3	–	32.5	–	32.5	8.0
	(47.2)	(28.7)	–	(75.9)	–	(75.9)	(37.8)
Attributable to policy holders	–	–	–	–	–	–	37.8
Attributable to minority interests	–	0.8	–	0.8	–	0.8	–
Net income recognised directly in equity	(47.2)	(27.9)	–	(75.1)	–	(75.1)	–
Profit for the period	11.5	29.3	24.2	65.0	68.9	133.9	–
Total recognised income and expense	(35.7)	1.4	24.2	(10.1)	68.9	58.8	–



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