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contents

chairman's statement

In 1997, The Co-operative Bank reported yet another successful year with record profits and an excellent Return On Capital. *Profit Before Tax was £55 million, an increase of 21%. Earnings attributable to the equity shareholder were £30.7 million, 35% ahead of last year.* The profit increase was fuelled by good growth in loans and even greater increases in deposits. *The Balance Sheet remained robust, with healthy capital and liquidity ratios.* The capital base was further strengthened by an additional investment of £5 million, by the Bank's sole equity shareholder, CWS. In late 1997, the Board of CWS decided to maximise the Bank's retained profits by declining to take its equity dividend. *These decisions, and the issue of £30 million Subordinated Perpetual Notes in January 1998, will underpin further solid growth in customer balances over the coming year.*

chief executive's overview

[Whilst reflecting on another very good year, we outline our plans and priorities, to strengthen still further our unique positioning in the marketplace.]

Having become Chief Executive of the Bank as recently as last October, I am privileged to be able to comment on yet another successful year for the Bank financially – and also on the progress achieved by my new colleagues in developing still further the unique customer and service franchise which is the essence of The Co-operative Bank.

1997 was undoubtedly another year of considerable achievement. The excellent results are naturally very satisfying, but 1997 was also particularly important because it was the Bank's 125th anniversary. The year was also marked by the hostile take-over manoeuvres for our parent company, Co-operative Wholesale Society (CWS). At The Co-operative Bank, we are delighted that CWS repelled so effectively such an audacious and opportunistic assault on our principles and on the value entrusted to us by generations of co-operators and members.

I would also like to take this opportunity to pay tribute to my predecessor, Terry Thomas, who guided the Bank's renaissance over many years. 1997's very good results are a fitting tribute to his leadership. I am delighted that Terry's considerable achievements in so many areas, including his substantial contribution to the North West as well as to the Bank, have been recognised by the award to him, firstly, of the CBE and then through his subsequent elevation to the Peerage as Lord Thomas of Macclesfield.

[*Financial Performance*] For the fourth consecutive year, the Bank has achieved record profits. In 1997, these profits were £55 million before tax, which is an increase of 21% (£9.5 million) on 1996. Equally importantly, the profits after tax attributable to our equity shareholder represented an after-tax Return on Shareholders' Funds of 23%. This is an excellent performance by any standard.

The factors behind the Bank's 1997 profits growth included strong growth in both deposit

The Bank has also continued to develop its distinctive market position based on its Ethical and Ecological Policies, innovative products and superior customer service.

The Bank now offers its personal customers as extensive and convenient customer service facilities as any in England and Wales. In addition to the Bank's branch network, cash and deposit services are now available at 15,500 Post Offices. We are currently in discussions with Post Office Counters to roll the service out nationwide. Customers are making increasing use of Telephone Banking services and nine million incoming telephone calls were received during the year. The Bank's reputation for innovation will be reinforced in 1998 with the availability of the new Internet Banking service.

In October 1997, Terry Thomas retired after 25 years service with the Bank, the final nine years as Managing Director. Under Terry's leadership, the Bank has been transformed into a highly focused and very profitable business, occupying a unique position in the market place. The Bank's progress in recent years is the most eloquent testimony to his leadership, and his elevation to the Peerage richly deserved.

Following Terry's retirement, Mervyn Pedelty was appointed Chief Executive of the Bank. He also joined the CWS Executive, with responsibility for Financial Services, and the Board of the Co-operative Insurance Society as a Non-Executive Director. Mervyn has extensive experience of the banking and insurance industries and, immediately prior to his appointment, was a Partner specialising in financial services in an international strategy consultancy.

Despite the highly competitive market and the possibility of some economic slowdown in 1998, the Bank is well placed to continue to prosper in the year ahead.

ALAN PRESCOTT, Chairman Alan Prescott.

direct banking package for smaller businesses that don't need to borrow, which showed a remarkable year on year growth of over 200% in 1997.

Our Visa Advantage credit card remains the best buy in the marketplace, offering the lowest long term interest rate of all the credit card providers. And, among our expanding range of affinity cards, we are particularly proud of our new Greenpeace card, launched in May 1997. Made from an innovative new biodegradable plastic called Biopol, the card was the product of a challenging three year development period in which numerous technical difficulties had to be overcome. The tremendous customer response to the card has fully justified the hard work that went into its development.

I am also pleased to report that our personal current account was also singled out as a "Best Buy" by a leading consumer magazine, the latest in a long line of accolades.

Turning to the Bank's commitment to playing a positive role in the community and society at large, we more than matched the high standards we have set in recent years.

Our staff and customers raised over £1 million for the Macmillan Cancer Relief Fund. This money was used to recruit, train and fund more Macmillan nurses, who provide specialist care for cancer sufferers and their families. And our innovative Customers Who Care scheme continued to go from strength to strength. Focusing on a different key issue each quarter – most recently, disability, biodiversity and human rights – we worked with charities and expert organisations in each sector to raise awareness, while enabling all our personal Visa cardholders to vote on how the funds raised through our initiatives should be allocated.

To mark our 125th anniversary in an appropriately enduring manner, the Bank announced plans to establish four community woodlands around our local neighbourhood of Greater Manchester.

We were also very pleased to receive the Corporate Conscience Award for Global Ethics from the Council on Economic Priorities, a highly respected American body dedicated to evaluating and encouraging good corporate citizenship worldwide.

Perhaps most gratifying of all in 1997 was the response of our customers to the announcement of our new Partnership Approach. Asked for their views, almost 100,000 took part in our Partnership Ballot, the overwhelming majority expressing strong support for this crucial development in the way we run our business. (For a detailed account of our first Partnership Report, please refer to and lending balances. Interest margins were maintained, and bad debts rates overall remained stable.

Costs also increased, but much of this was accounted for by the one-off costs incurred to ensure that the Bank's IT systems and other equipment will be "Year 2000" compliant as well as dealing with the brand new challenges of EMU and the Euro in both our retail and wholesale operations.

[*Key Successes*] With so many successes to choose from over the last year, I would like to focus briefly on a few achievements which I hope will illustrate particularly well how the Bank continues to set itself apart as a special business in what is an ever more competitive environment.

Our commitment to providing the most convenient service channels for our customers was demonstrated by our link-up with Post Office Counters, which enables our personal current account customers to make deposits and cash cheques free of charge at 15,500 Post Offices in England and Wales. This new service extends still further the Bank's "anytime, anywhere" banking concept which already included, in addition to the branch network, a 24-hour telephone banking service, innovations such as the Sky TV teletext service and Vodafone messaging service for customers to view their accounts, access to the largest ATM network in the UK, and on-line PC access for business customers via our Financial Director service.

We also maintained our leadership in the field of electronic banking when, in March 1998, we became the first major bank to offer a full on-line Internet service to our personal customers, at no extra cost. This enables our personal current account and credit card customers to carry out all their routine banking – from viewing balances and statements and transferring funds between accounts to changing standing orders and paying bills – direct from their PC. This is a further major extension to our strategy of "anytime, anywhere" banking and customer choice. Among those taking advantage of these new facilities will be nearly 100,000 new current account customers whom we were delighted to welcome into the Bank from the Britannia Building Society when it took the decision to withdraw from providing a personal current account.

Many products performed well, an outstanding example being Business Direct, our low cost our publication "the Partnership report – Seven Partners, a balanced view").

Naturally, since we regard our staff as Partners, investing in our people is a high priority for us. We place considerable emphasis on providing first class training, and real management development and progression opportunities, for all staff. We were therefore delighted to be the first clearing bank to achieve the "Investor in People" award across all operations. We were also honoured to win no less than two National Training Awards in 1997 for our training programmes.

Of equal importance is our willingness to listen to the views of our staff, and to take these views into account in the way we run the business. We conducted a detailed Staff Survey in the Autumn of 1997, the results of which are being incorporated into our plans and processes. We also have a new internal communications programme, which equips all our line managers to regularly communicate the Bank's performance, as well as the issues and opportunities facing the Bank, to all staff, and encourages regular and constructive feedback from our staff to me and my Executive Team.

[*Looking Ahead*] As the few highlights above demonstrate, 1997 was a marvellous year for the Bank.

But there is no danger whatsoever of success making us complacent. On the contrary, we are keenly aware of the need to continue to strengthen our position against increased competition, as falling market entry costs make it easier for new players to cherry-pick some of our more important areas of business. Both retailers and insurance companies, as well as several European and American banks, are all beginning to make their presence felt in the UK retail financial services market.

In order to withstand these challenges, we will continue to build on our competitive strengths, the greatest of these being our distinctive ethical Brand positioning and our customer service. Over the past few years, the Bank has worked hard to establish a positioning quite distinct from that of any competitor. Our Partnership Approach provides us with the basis to add still greater value to this enormous asset. Our first comprehensive Partnership Report demonstrates to any observer that there is real substance behind our claim to being the bank which is genuinely different.

Another factor in our continued success will be our commitment to developing innovative new products and making the best possible use of new service delivery channels to ensure maximum

Mervyn Pedelty, Chief Executive (seated centre); from left to right –

Mick Firth, Michael Woodward, John Marper and Ken Lewis, Executive Directors

Operating and financial review

[Profit Before Tax of £55 million was £9.5 million (21%) higher than last year and the after tax return on opening equity was 23.5%.]

In 1997, The Co-operative Bank achieved record profits for the fourth consecutive year. Profit Before Tax of £55 million was £9.5 million (21%) higher than last year. Earnings attributable to the equity shareholder, after tax, were £30.7 million, an increase of 35%. The after tax return on opening equity was 23.5%.

The increase in earnings arose from higher Operating Profits (before Bad Debts) which grew by £11.4 million (17%), fuelled by a solid rise in Operating Income. Credit quality remained stable and the charge for Bad Debts increased in line with the growth in Loan balances.

Results Summary	**1997 £m**	1996 £m
Net Interest Income	**208.8**	180.3
Non-Interest Income	**107.2**	106.2
Operating Income	**316.0**	286.5
Expenses	**(236.5)**	(218.4)
Provisions for Bad Debts	**(26.3)**	(23.7)
Operating Profit	**53.2**	44.4
Associated Undertakings and Exceptional Items	**1.8**	1.1
Profit before Taxation	**55.0**	45.5
Equity Earnings	**30.7**	22.7
Retentions	**30.7**	17.7

The Bank's Balance Sheet remained robust throughout the year with strong Liquidity and Capital Ratios. The Risk Asset Ratio was 11.6% at the half year and increased to 12.8% at the year-end, substantially in excess of the regulatory standards. During the year the Bank's sole equity shareholder increased its investment by £5 million and, in January 1998, the Bank issued £30 million of Subordinated Perpetual Notes which further increased the regulatory capital base. This will ensure the Bank maintains a strong Risk Asset Ratio whilst expanding the business during 1998.

customer choice. To this end, we are conducting a major review of the Bank's IT infrastructure to ensure that we are able to respond quickly to new opportunities in the future, and to the changing needs of both existing and potential customers.

As already mentioned, we are investing heavily to ensure that all our computer systems, and those of all our key suppliers, are "Year 2000" compliant – safeguarding our service to customers against the threat posed by the so-called "millennium bug". Similarly, we are working to prepare the Bank to deal efficiently with the opportunities and consequences of European Monetary Union. Whatever date is set for the UK's entry, many of our customers will want to start transacting business in Euros in 1999.

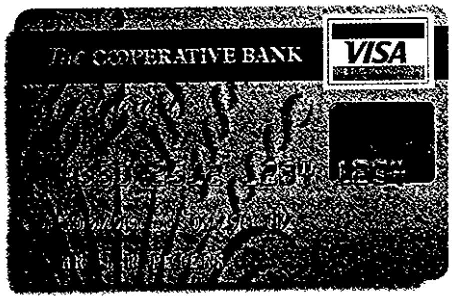
We are also building an even more mutually beneficial relationship with our shareholder, Co-operative Wholesale Society, and with the wider Co-operative Movement. We are currently reviewing business opportunities within CWS, and across the Movement, with a particular interest in developing "retailer financial services".

What else does the future hold for the Bank? We are optimistic about the future. A highly successful Managers' Conference which I hosted in early 1998 outlined our plans and key priorities for 1998 and beyond to ensure the Bank's continued success, underlining the importance of continuing to build on the solid foundations we have now established – and, above all, our commitment to strengthening still further our unique position in the market.

I am impressed with the achievements of the last few years, but we have more to do and no shortage of either opportunities or competitors. As I enter my first full year as Chief Executive, I look forward to being part of an even more exciting and successful chapter in The Co-operative Bank's long history.

MERVYN PEDELTY, Chief Executive

Personal Lending balances increased by a robust 12%, year-on-year. In contrast, average Corporate and Commercial Sector Loan balances of £1,118 million grew by only 2% as the business focused on continuing to improve credit quality and maintain a balanced sector spread.



The popular Visa Gold Card

Overall, total Average Retail Deposits exceeded lending by £578 million, an increase of £230 million. Wholesale Placements and Deposits also increased in 1997 as a result of placing surplus deposits in the financial markets and hedging Interest Rate Risk in addition to proprietary trading. On average, Wholesale Placements exceeded borrowing by £981 million in 1997, higher than last year by £262 million. A majority of market placements were in the form of high-grade liquid securities.

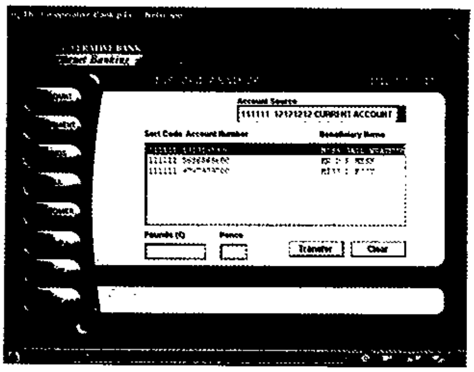
Operating Income of £316 million was £29.5 million (10%) higher than last year. Most of the increase arose from Net Interest Income of £209 million which increased by £28.5 million (16%), driven by the growth in Loan and Deposit balances. The Bank's overall Net Interest Margin remained stable at 4.5%, increasing slightly by 0.1% due to the contribution from Current Accounts. The interest spread (being the difference between the interest rate paid on Deposits and the interest earned on Loans) was in line with the previous year. In 1997, Corporation Tax rates were reduced, resulting in a £1.2 million write-down of finance lease receivables on contracts where the benefits of tax changes are to be passed to the customer. The consequent reduction in Operating Income has been offset by a lower tax charge.

Non-Interest Income of £107 million was £1 million higher than last year. In 1996, Non-Recurring Income of £1.6 million arose from a subsidiary that was sold later in the year and from the re-purchase of the Bank's Subordinated Notes. Visa and Insurance Commission increased steadily. Other Fees and Commissions to personal customers also increased but Transmission Income was lower than that last year and incremental hedging Income was reduced as positions matured.

Credit quality remained stable in 1997. The charge for Bad Debts of £26.3 million was £2.6 million higher than last year, a rise of 11%, equivalent to the growth in Retail Lending. The Bad Debt charge represented 1.1% of Average Customer Lending which was in line with last year. Personal Sector charges were £25 million, an increase of £3.9 million (18%) due to the higher Loan balances.

Balance Sheet stability has been underpinned by £1.9 billion of highly-rated Debt Securities. These include a closed-end Investment Portfolio of £650 million designed to provide a source of stable, long-term income. At the year-end, the market value of this Portfolio exceeded Book Value by £22 million.

The Bank has also continued to develop its distinctive market position based on its Ethical and Ecological Policies, innovative products and superior customer service. It now offers its personal customers probably the most extensive and convenient customer service facilities in the UK. Cash and Deposit services for personal customers are now available at 15,500 Post Offices in addition to the Bank's 24-hour automated outlets, full service branches and in-store facilities. The Bank is also a founder member of the LINK ATM network, with over 14,000 cash machines in the UK.



A screen from the new Internet Banking Service

Telephone Banking facilities have continued to attract ever more customers and, during the year, nine million incoming telephone calls were received from both personal and corporate customers. The Bank's reputation for innovation will be reinforced in 1998 with its new Internet Banking service.

Despite increased competition, retail Savings and Loan balances continued to rise substantially and the Bank's Net Interest Margin improved slightly. Deposit balances continued to grow faster than Loans.

Average retail Customer Deposit balances of £2,883 million grew by 19%. Personal Sector Deposits of £1,785 million increased by £314 million (21%), mainly due to growth in Pathfinder and the new Save Direct Deposit Account in the first half of the year. In addition, 100,000 Current Account customers with £60 million Deposit balances were acquired from the Britannia Building Society. Retail Corporate and Commercial Sector Deposits were £1,098 million, higher than last year by £151 million (16%), reflecting the promotion of Business Deposit Services, including the Business Direct telephone banking service for smaller enterprises.

Average Retail Lending balances of £2,305 million increased by £235 million (11%) in 1997. Most of the increase arose in the Personal Sector where Average Loan balances of £1,187 million were £215 million (22%) higher than last year. Visa balances increased by £142 million (39%), driven by the success of the new Advantage product and the continuing appeal of the Gold Card. Other

The Bad Debt charge represented 2.1% of the Average Balances, 0.1% better than last year. Provision rates remained much lower than industry norms, particularly in the case of Visa.

Corporate Sector provisions were also at a low level. The charge for Bad Debts of £1.3 million was half of last year's charge and represented only 0.1% of the Loan Portfolio which mainly consists of small and medium size enterprises. The Bank operates a prudent provisioning policy and, in recent years, has benefited from write-backs of prior provisions as problem loans have been eventually resolved.

The low level of Bad Debt charges in recent years reflects several factors; the state of the UK economy, the improvements in credit cycle management and the improving quality of the customer base. Some increase in the provisioning rates are expected as the pace of economic growth declines and there are fewer large write-backs of prior years' provisions.

Expenses of £237 million were £18.1 million (8%) higher than last year but this increase was £11.4 million less than the rise in Operating Income. The Bank has continued to develop its customer service facilities and its core technology systems whilst realising some early benefit from reorganising its Branch and Regional Network.

Details of all the foregoing are set out in a separate results summary which has been produced as a complementary document to the financial statements.

The Bank is a participant in the wholesale financial markets in respect of the placement of surplus deposits and the use of market instruments to manage interest rate risk

A comprehensive programme is well-advanced to test, enhance and replace systems ensuring they will not be impaired when the date changes on 1st January 2000. This extensive programme is being controlled by a dedicated Project Team. They will ensure computer hardware, software, peripherals and other equipment with embedded time systems, will be fully-operational in the new millennium. Key customers and suppliers are being advised and monitored to minimise the risk of third party failure. The incremental cost of the Year 2000 programme was £6 million in 1997, in addition to the Bank's re-deployment of internal resources. In 1998, the core programming work will be substantially completed and facilities for the new Single European Currency will also be developed. Technology underpins most of the Bank's development programmes and, including Year 2000, systems developments and data centre costs increased by £10 million year-on-year.

Developments in customer service facilities have resulted in lower costs of operating the Branch and Regional Network and higher expenditure within the Telephone Banking Centres. As a result of the rationalisation programme, Branch and Regional Network costs of £73 million have been reduced by £3 million. Bullion handling has been outsourced to another clearing bank and this will generate further savings in 1998. In 1997, the costs of the Telephone Banking Centres were

One of our 24-hour automated outlets

£53 million, an increase of £7.4 million. Telephone calls have been increasing by approximately 20% a year.

The Bank also incurred reorganisation expenses of £4 million, including severance costs of £2.1 million which were higher than last year by £0.9 million, but these were largely offset by lower premises rationalisation expenses in 1998.

The principal operating, credit and market risks facing the Bank are assessed by the Board or designated sub-committees of the Board. High Level Controls and the detailed policies, key procedures and limits, are approved by the Board and discretions are allocated to the appropriate line management. Specialist departments within business divisions and Head Office are responsible for the monitoring and control of sector risks. Head Office departments monitor aggregate exposures and administer the process whereby the Board approves all large exposures, regularly reviews the key consolidated exposures and areas of risk.

As a Settlement Bank, operating at the core of the UK money markets, The Co-operative Bank is well placed to use Wholesale market instruments to manage Interest Rate Risk. In recent years, Retail Deposit balances have consistently exceeded Loan balances and, hence, the Bank is consistently placing surplus funds into the wholesale financial markets whilst using the full range of market instruments, including derivatives, to manage interest rate exposures within approved limits. Transactions for proprietary trading positions, investment management and hedging activities to manage structural and product interest risk, are segregated and managed within distinct controls and limits for each activity. Accounting Policies are consistent with the Statements of Recommended Accounting Practice issued by the British Bankers' Association and the Accounting Standards Board as disclosed in the Notes to the Accounts.

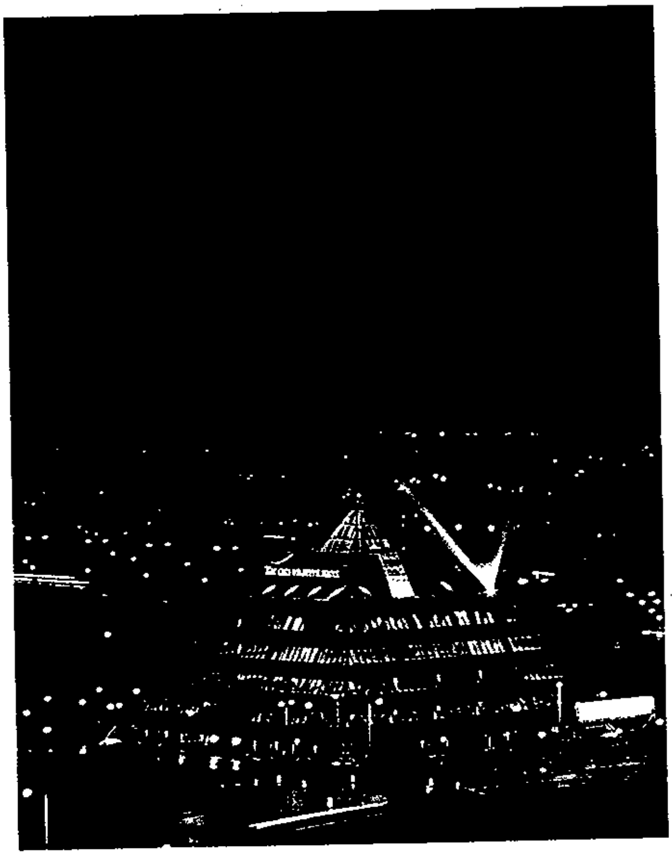
The Asset and Liability Committee of Executive Directors is responsible for the Bank's structural Interest Rate Risk exposure and Balance Sheet hedging policies. The objective is to manage Interest Rate Risk to ensure that the effect of adverse rate movements can be offset by normal business management actions such as product pricing, volume and cost control. Hedging transactions provide rate protection and ensure that mis-matches between the interest rate maturities of Assets and Liabilities are controlled.

Derivatives are mainly used for hedging purposes and to meet the needs of customers.

Straightforward, frequently-traded contracts with standard documentation are used and counterparties are of the highest credit quality. The Bank is not a market-maker.

Derivatives are subject to the same credit approval and control procedures as are used for other credit transactions and all are aggregated to monitor total counterparty exposure within an approved limit for each counterparty. In addition to normal credit criteria, there are limits on the proportion of derivative exposure within each individual counterparty limit and on the aggregate of all derivative exposures.

The Bank has established a defensible position in its chosen markets within the highly competitive UK market place. It has established a track record of solid business growth along with investment in new methods of banking practice and customer service delivery which will be its platform for the future.



Our Telephone Banking Centre at the Pyramid, Stockport

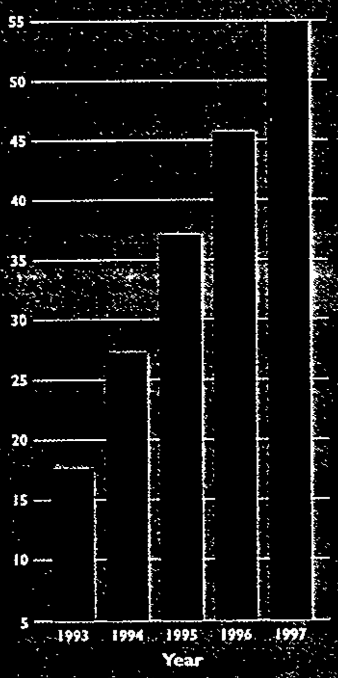
highlights

Profit before Taxation	£55m
Better than 1996 by:	21%
Earnings attributable to Equity Shareholder	£30.7m
Better than 1996 by:	35%
Operating Income	£316m
Better than 1996 by:	10%
Charge for Bad and Doubtful Debts	£26.3m
Higher than 1996 by:	11%
As a Percentage of Average Retail Lending	1.1%
After Tax Return on Opening Equity Shareholders' Funds	23.5%
Risk Asset Ratio	12.8%
Increase in Average Retail Customer Deposits	19%
Increase in Average Retail Customer Lending	11%

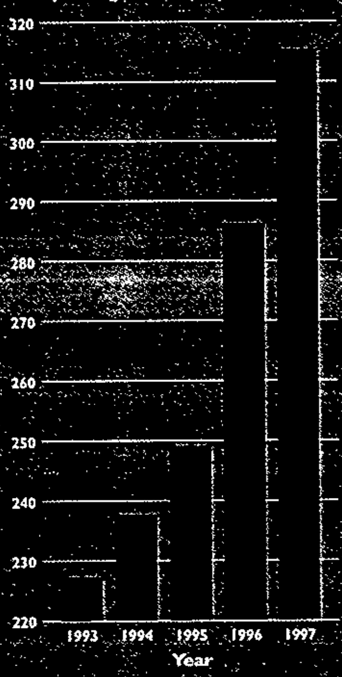
performance indicators

Profit Before Tax of £55 million was £9.5 million (21%) higher than last year and the after tax return on opening equity was 23.5%.

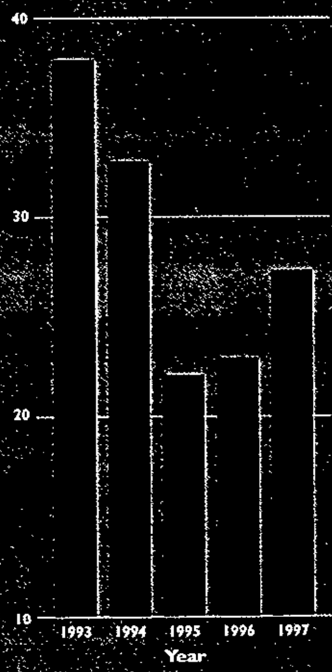
Profit Before Taxation (£m)



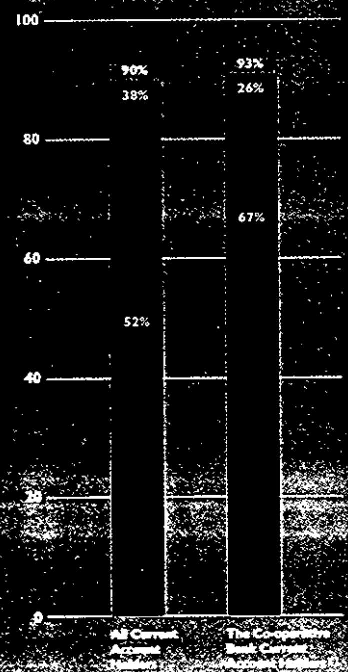
Operating Income (£m)



Bad Debts Charge (£m)

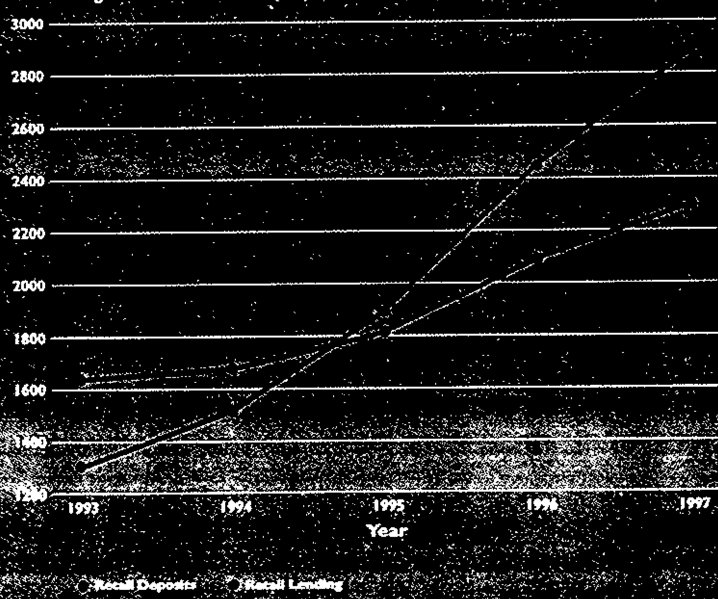


Customer Satisfaction



SOURCE: MORI Financial Services Survey, 6 months ending December 1997

Average Customer Balances (£m)



the Board

Chairman

W. A. Prescott, FCMA, FCCA, ACIS

Deputy Chairman

G. L. Fyfe

Chief Executive

M. K. Pedelty, FCA, FCIB

Executive Directors

M. A. Firth, BA(Hons)

W. J. Marper, FCA

K. J. Lewis, BScEcon(Hons), FIPM

M. J. Woodward, ACIB

Non-Executive Directors

M. D. Beaumont, MA, FCA

C. B. Blanchett

D.S. Hollas, MSc, FIA

G. J. Melmoth, FCIS, FIGD, CIMgt

G. R. Bennett, FIMgt

R. H. Burlton, BSc(Hons)

D. J. Jackson, FCA

W. Tucker, DL

Secretary

M. A. Lees, FCIS

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Registered in England No. 990937

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Telephone: 0161-832 3456. Telex: 667274. Fax: 0161-829 4475.
Web site address: http://www.co-operativebank.co.uk

City Office
9 Prescot Street, London E1 8SF.
Telephone: 0171-480 5171. Telex: 884533. Fax: 0171-522 9312.

The directors submit their report, together with the audited financial statements for the year ended 10th January 1998.

Results and Dividends

The profit on ordinary activities before taxation was **£55,024,000** (1996–£45,542,000), an increase of £9,482,000 on 1996. After preference dividends of **£5,535,000** the profit attributable to the ordinary shareholders amounted to **£30,707,000**. The directors do not recommend the payment of a dividend on the ordinary shares.

Activities and Business Review

The Bank and its subsidiary undertakings forming The Co-operative Bank Group provide an extensive range of banking and financial services in the United Kingdom.

The operating and financial review sets out the business of the Group for the year ended 10th January 1998 and future developments.

Outlets

At 10th January 1998 the Bank had **140** outlets and **248** Handybanks.

Directors and their Interests

The names of the present members of the Board are set out on page 19.

During the year the following director retired from the Board:

T. J. Thomas	25th October 1997

and the following directors were appointed to the Board:

M. K. Pedelty	8th September 1997
D. S. Hollas	10th December 1997
W. Tucker	10th December 1997.

Messrs. Hollas, Pedelty and Tucker, having been appointed since the date of the last Annual General Meeting, retire in accordance with the Articles of Association, and being eligible, offer themselves for re-election.

Mr. M. K. Pedelty was appointed as Chief Executive on 25th October 1997 in succession to Mr. T. J. Thomas who retired as Managing Director on the same date.

In accordance with the Articles of Association, Messrs. Bennett, Firth, Fyfe and Prescott retire by rotation and, being eligible, offer themselves for re-election.

No director offering himself for re-election has a service contract with the Bank or any of its subsidiary undertakings which has a duration of more than one year with the exception of Mr. M. K. Pedelty who has a service contract which provides for a period of notice of 24 months.

As nominee of the parent organisation, Mr. T. J. Thomas held 40 ordinary shares of 5p each until 24th July 1997. As nominee of the parent organisation, Mr. W. A. Prescott has held 40 ordinary shares of 5p each since 24th July 1997.

The directors' interests in the Bank's 9.25% £1 preference shares were as follows:

	No. of Shares	
	1997	1996
W. J. Marper	**11,042**	11,042

No other director had a beneficial interest in any shares in the Group or in Co-operative Wholesale Society Limited which is the ultimate holding organisation, or in any other companies controlled by Co-operative Wholesale Society Limited, apart from the following interests in Unity Trust Bank p.l.c.:

	1997 'C' Shares of £1 each	1996 'C' Shares of £1 each
G. J. Melmoth	**226**	226

There have been no changes in the directors' shareholdings between the end of the financial year and 15th April, 1998.

Non-Executive Directors

The non-executive directors are appointed from the Board and Executive of Co-operative Wholesale Society Limited, which is the holder of all the ordinary share capital, as follows:

Alan Prescott, 55, Deputy Chief Executive, Co-operative Wholesale Society Limited.
Martin Beaumont, 48, Chief Executive, United Norwest Co-operatives Limited.
Graham Bennett, 47, Chief Executive, Portsea Island Mutual Co-operative Society Limited.
Christopher Blanchett, 51, Chief Executive, Colchester and East Essex Co-operative Society Limited.
Robert Burlton, 49, Chief Executive, Oxford, Swindon and Gloucester Co-operative Society Limited.
Lennox Fyfe, 56, Chief Executive, Midlands Co-operative Society Limited.
David Hollas, 57, Chief General Manager, Co-operative Insurance Society Limited.
David Jackson, 50, Financial Controller, Co-operative Wholesale Society Limited.
Graham Melmoth, 60, Chief Executive, Co-operative Wholesale Society Limited.
William Tucker, 52, Chief General Manager, Midlands Co-operative Society Limited.

Prompt Payment Policy and Practice

The Bank's suppliers are one of seven groups recognised by the Bank as partners in the business. Each partner has clear responsibilities and the Bank in turn acknowledges its responsibilities to its partners. The Bank considers that the prompt payment of invoices is one of its responsibilities to its suppliers and is a subscriber to the Confederation of British Industry (CBI) Prompt Payment Code (copies of which are available from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU).

The CBI Prompt Payment Code is a Code of Practice for Buyers which states that a responsible company should:

- Have a clear and consistent policy that it pays bills in accordance with contract.
- Ensure that the finance and purchasing departments are both aware of this policy and adhere to it.
- Agree payment terms at the outset of a deal and stick to them.
- Not extend or alter payment terms without prior agreement.
- Provide suppliers with clear guidance on payment procedures.
- Ensure that there is a system for dealing quickly with complaints and disputes and advise suppliers without delay when invoices, or part of invoices, are contested.

This payment policy applies to all suppliers. The Bank had 12 days purchases outstanding at 10th January 1998 based on the average daily amount invoiced by suppliers during the year ended 10th January 1998.

Staff

The Bank and its subsidiary undertakings employed **3,871** persons at 10th January 1998 (1996–3,928). The weekly average number of persons was **3,930** (1996–3,904) and their aggregate remuneration for the year was **£69,121,000** (1996–£66,488,000).

The Bank Group received accreditation to Investors in People. This is a just reward for the work of the Bank's staff and the processes which have been introduced to relate training, development and performance management to the achievement of business objectives. The accreditation is valid for three years.

The Bank has also received two National Training Awards for its Personal Customer Service Induction Programme and its Training for Retail Network Staff in CPI Sales Techniques. Both of these programmes have resulted in measurable improvements in business performance in Personal Banking

The Bank has continued its programme of communication to staff through various channels including The Staff Council and conferences. In order to measure the staff's view of the Bank's effectiveness as an organisation all staff and their partners were surveyed. There was an encouraging response to the survey and in 1998 the Bank will be putting in place certain initiatives arising from the results of the survey.

Employees with Special Needs

The Group's policy is to give careful consideration to applications for employment from persons with special needs, having regard to their particular aptitudes and abilities when related to opportunities available. The Group recognises its responsibility to the training and career development of persons with special needs and persons who develop special needs whilst in the Group's employment. The Group's work in this field was recognised by certification by the Employment Services of the Group's commitment to helping and employing people with special needs.

Donations

During the year, the Group made donations (which excludes affinity card payments) of **£1,054,080** (1996–£638,312) to United Kingdom charitable organisations. The Bank is a member of The Per Cent Club, the members of which commit a minimum of 0.5% of pre tax profits or 1% of dividends payable to the community each year.

No donation for political purposes was made. The Group's Mission Statement declares that the Bank and its subsidiaries are non partisan in all social, political, racial and religious matters.

Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank and of the Group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for maintaining proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Bank and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditor

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditor of the Bank and to authorise the directors to fix their remuneration is to be proposed at the next Annual General Meeting.

MALees

By Order of the Board
M. A. Lees, Secretary
15th April 1998

The Committee on the Financial Aspects of Corporate Governance, Code of Best Practice

The Board considers that the Bank has complied throughout the year with the recommendations of the Code, except in the following aspects of detail:

A majority of the Board are non-executive directors, who represent the equity shareholder of the Bank and who are also senior executives of customers of the Bank. In this respect they are not strictly independent, as defined by the Cadbury report. However, they do not partake in Board decisions relating to any organisation with which they have an executive relationship.

Internal Financial Controls

The directors' responsibilities in respect of the accounting records, the safeguarding of assets and the prevention and detection of fraud and other irregularities are set out elsewhere in this report. As a result of these responsibilities, the directors have established the Bank's system of internal financial control which is designed to provide reasonable, but not absolute, assurance regarding:-

- the safeguarding of assets against unauthorised use or disposition and;
- the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

The key procedures that have been established and are designed to provide effective internal financial control are:-

Control environment – The directors have put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. Human resource policies and procedures are documented and controlled from a central department to set standards for the competence and integrity of staff at all levels. A mission statement and ethical policy are published and communicated throughout the organisation. Responsibilities are assigned to appropriately qualified and knowledgeable management and staff.

Risk management – Board Committees review and approve the major types of risk. Policies, procedures, discretions and limits are established throughout the Bank. Reporting routines and regular internal audit reinforces the risk management process.

Information systems – The Bank has a comprehensive system of financial reporting. The five year corporate plan and annual budget are approved by the Board and divisional operating plans are approved by the executive directors. Actual results for the Group and individual business units are prepared four weekly and compared against budget. Significant variances are examined by the Board at group level, by the executive directors at divisional level, and by the executive directors and senior management at business unit level and remedial action taken. Certain key risk areas such as Treasury operations and lending excesses are reported and examined daily by senior management and reported to Board or executive director committees monthly.

Control procedures – Policies, procedures and process documentation are maintained by all business units. In particular, the major risk areas identified are subject to rigorous controls including authorisation limits, reconciliation, segregation of duties, regular review and reporting, and data processing controls. Large capital projects, large lending or provisioning and risk limits require board review and approval.

Monitoring systems – There are reviews by management, which can include advice from external consultants where necessary, and the Board receives reports on key risk areas. In addition, the control framework is monitored by Internal Audit whose work is focused on the areas of greatest risk to the group and who report regularly to the executive directors and the Audit Committee. The external regulators monitor controls and call for reports as required.

The Audit Committee has reviewed the effectiveness of the Bank's internal financial control system for the period from 11th January 1997 in relation to the 'Criteria for assessing effectiveness' described in 'Internal control and financial reporting' issued by the Cadbury Internal Control Working Group. This involved regular reviews of the reports of work carried out by Internal Audit.

As might be expected in a group of this size and complexity, a small number of internal financial control irregularities occurred during the period under review. These were identified on a timely basis and appropriate actions taken. None of these irregularities in internal financial control have resulted in any material losses which would require disclosure as recommended by the guidance issued by the Cadbury Internal Control Working Group.

Going Concern

The financial statements have been prepared on the going concern basis as the directors are satisfied that the group has the resources to continue in business for the foreseeable future.

Directors' Committees

Audit Committee

G. R. Bennett
M. D. Beaumont
R. H. Burlton
D. J. Jackson

Advances Committee

W. A. Prescott
G. R. Bennett
R. H. Burlton
D. J. Jackson
W. J. Marper
M. K. Pedelty
M. J. Woodward

Remuneration Committee

W. A. Prescott
G. R. Bennett
G. L. Fyfe
G. J. Melmoth

Review Report by KPMG Audit Plc on Corporate Governance Matters

In addition to our audit of the financial statements, we have reviewed the directors' statement above on the Bank's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with the disclosure requirements of the Listing Rules 12.43 (j) and 12.43 (v).

Basis of Opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal financial control or the Bank's corporate governance procedures, or on the ability of the Group to continue in operational existence.

Opinion

With respect to the directors' statement on internal financial control and going concern above, in our opinion the directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Bank, and examination of relevant documents, in our opinion the directors' statement above appropriately reflects the Bank's compliance with the other paragraphs of the Code specified for our review.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Manchester
15th April 1998

Non-Executive Directors

The Chairman and the other non-executive Directors receive no remuneration, have no pension arrangements, incentive schemes or share option arrangements, but an amount of £100,000 was paid to Co-operative Wholesale Society Limited in respect of the provision of the services of non-executive Directors.

Executive Directors

Basic salaries and benefits

The basic salaries and benefits entitlements are determined by the remuneration committee which consists of the Chairman and three other non-executive Directors. The basic salaries are set after the job has been assessed under the Hay job evaluation process and compared to similar-sized posts in comparable organisations in the finance sector.

Service contracts

All existing Executive Directors, except the Chief Executive, who has a service contract which provides for a period of notice of 24 months, are employed under service contracts which provide for periods of notice or termination of twelve months or less.

Pension scheme

All Executive Directors are members of The Co-operative Bank Pension Scheme. This is a pension scheme of the defined benefit type. This provides benefits based on final pensionable pay related to length of service. Normal retirement age is 60 and the scheme provides a pension of two-thirds of pensionable pay at normal retiring age after completion of 40 years of pensionable service.

The scheme is non-contributory and the Bank currently contributes 15% of pensionable pay into the pension scheme.

In addition, special contributions of 10% of salary were paid for Messrs. Thomas, Marper and Lewis as a move towards equalising the Bank's approach to pension benefits for Executive Directors. Action was taken in previous years to enhance benefits for M. J. Woodward and M. A. Firth.

Incentive scheme

The Bank operates an Executive Directors Incentive Scheme which commenced in 1994 and was reviewed by the Remuneration Committee at the end of 1996 when it was extended for a further three years. The scheme is based on the Group's return on shareholders' funds in the financial year in question. The return on shareholders' funds is defined as the pre-tax profit less the preference dividend, expressed as a percentage of the ordinary share capital and reserves at the commencement of the financial year.

No payment is made if the return on shareholders' funds is below 17.5%. Should this threshold be exceeded the payment will be made as a percentage of basic salary. The percentage will be determined by multiplying the percentage return on shareholders' funds by 1.8 and deducting 24 from the product.

A 30% return on shareholders' funds produces a payment of 30% of basic salary. Any payments due under the incentive scheme are capped at 30% of basic salary.

Payment is made annually immediately following publication of the audited financial statements for the year.

The Remuneration Committee introduced a Medium Term Incentive Scheme for Executive Directors based on a compound growth in shareholders' funds of 19% p.a. over a three year period. 1997 was the first year of operation of the scheme. The result will be measured in January 2000 and if the target has been achieved there will be a payment to Executive Directors of 30% of basic salary.

Share options

The Bank does not operate a share option scheme.

Appointments outside the Bank

Executive Directors can accept appointments from sources outside the Bank, with the consent of the Board, which will be forthcoming if it considers the appointment beneficial to the interests of the Bank. Payments received from such appointments are passed on to the Bank.

Report of the Auditor to the members of The Co-operative Bank p.l.c.

We have audited the financial statements on pages 27 to 55.

Respective responsibilities of directors and auditors

As described on page 22 the Bank's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Bank and the Group as at 10th January 1998 and the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Manchester
15th April 1998

for the year ended 10th January 1998
all amounts are stated in £'000 unless otherwise indicated

	Notes	1997	1996
Interest receivable			
Interest receivable and other income arising from debt securities		**129,618**	83,488
Other interest receivable and similar income		**298,838**	274,558
		428,456	358,046
Interest payable		**(218,375)**	(177,686)
Write down of finance lease receivables	2	**(1,250)**	–
Net Interest Income		**208,831**	180,360
Dividend income		**39**	95
Fees and commissions receivable		**118,780**	115,773
Fees and commissions payable		**(13,398)**	(12,721)
Dealing profits		**1,514**	1,882
Other operating income		**296**	456
Operating income from continuing operations		**316,062**	285,845
Fees from discontinued operations	7	**–**	744
Operating Income		**316,062**	286,589
Administrative expenses			
Staff costs	3	**(89,924)**	(85,285)
Other		**(130,687)**	(119,271)
Depreciation and amortisation	21	**(15,913)**	(13,892)
		(236,524)	(218,448)
		79,538	68,141
Provisions for bad and doubtful debts	16	**(26,259)**	(23,655)
Operating profit from continuing operations		**53,279**	44,282
Operating profit from discontinued operations	7	**–**	204
Group Operating Profit		**53,279**	44,486
Profits/(losses) from associated undertakings		**177**	(40)
Profit on sale of discontinued operations	7	**1,568**	2,466
Loss on disposal of fixed assets – continuing operations	8	**–**	(1,370)
Profit on Ordinary Activities before Taxation	4	**55,024**	45,542
Taxation on profit on ordinary activities	9	**(17,986)**	(16,880)
Profit on Ordinary Activities after Taxation		**37,038**	28,662
Minority interests		**(796)**	(459)
Profit for the Financial Year	10	**36,242**	28,203
Preference dividend to non equity shareholders	11	**(5,535)**	(5,535)
Dividend to ordinary shareholders	11	**–**	(5,000)
Retained Profit for the Year	30	**30,707**	17,668
Earnings per share	12	**4.64p**	3.78p

Movements in profit and loss account reserves are shown in note 30 on page 48.
There are no recognised gains or losses other than the profit for the year and the previous period.

The notes on pages 32 to 55 form part of these financial statements

at 10th January 1998
all amounts are stated in £'000 unless otherwise indicated

	Notes	1997	1996
Assets			
Cash and balances at central banks		**33,989**	35,310
Treasury bills and other eligible bills	13	**13,107**	660
Loans and advances to banks	14	**507,666**	614,175
Items in the course of collection from other banks		**124,792**	121,228
Loans and advances to customers	15	**2,502,586**	2,196,901
Debt securities	17	**1,925,599**	1,379,551
Equity shares	18	**1,177**	1,124
Interests in associated undertakings	19	**400**	277
Tangible fixed assets	21	**64,093**	63,169
Other assets	22	**22,925**	26,845
Prepayments and accrued income		**75,653**	57,896
Total assets	31	**5,271,987**	4,497,136
Liabilities			
Deposits by banks	23	**575,571**	563,928
Items in the course of transmission to other banks		**7,886**	5,801
Customer accounts	24	**3,912,605**	3,333,088
Debt securities in issue	25	**167,007**	84,297
Other liabilities	26	**65,065**	61,692
Accruals and deferred income		**99,660**	68,833
Provisions for liabilities and charges			
Deferred taxation	27	**11,503**	13,094
Subordinated liabilities (including convertible debt)	28	**197,944**	168,020
Minority interests		**8,235**	7,579
Called up share capital	29		
Ordinary shares		**35,000**	30,000
Preference shares (non-equity)		**60,000**	60,000
		95,000	90,000
Share premium account	30	**8,814**	8,814
Profit and loss account	30	**122,697**	91,990
Shareholders' funds		**226,511**	190,804
Total liabilities	31	**5,271,987**	4,497,136
Memorandum items	32		
Contingent liabilities			
Acceptances and endorsements		**29,900**	31,166
Guarantees and assets pledged as collateral security		**74,996**	63,532
		104,896	94,698
Commitments			
Other commitments		**2,725,159**	2,287,162
		2,725,159	2,287,162

Approved by the Board on 15th April 1998 and signed on its behalf by

W. A. Prescott, *Chairman*
M. K. Pedelty, *Chief Executive*

The notes on pages 32 to 55 form part of these financial statements

at 10th January 1998
all amounts are stated in £'000 unless otherwise indicated

	Notes	1997	1996
Assets			
Cash and balances at central banks		**33,748**	35,097
Treasury bills and other eligible bills	13	**13,107**	660
Loans and advances to banks	14	**507,666**	615,695
Items in the course of collection from other banks		**124,165**	120,638
Loans and advances to customers	15	**2,453,525**	2,151,991
Debt securities	17	**1,803,040**	1,244,838
Equity shares	18	**1,169**	1,116
Interests in associated undertakings	19	**17**	17
Shares in group undertakings	20	**1,147**	1,147
Tangible fixed assets	21	**55,104**	54,067
Other assets	22	**24,738**	24,096
Prepayments and accrued income		**72,302**	53,755
Total assets	31	**5,089,728**	4,303,117
Liabilities			
Deposits by banks	23	**578,114**	565,477
Items in the course of transmission to other banks		**7,886**	5,778
Customer accounts	24	**3,766,083**	3,180,728
Debt securities in issue	25	**167,007**	84,297
Other liabilities	26	**61,200**	52,285
Accruals and deferred income		**94,728**	65,218
Provisions for liabilities and charges			
Deferred taxation	27	**–**	–
Subordinated liabilities	28	**191,911**	161,987
Called up share capital	29		
Ordinary shares		**35,000**	30,000
Preference shares (non-equity)		**60,000**	60,000
		95,000	90,000
Share premium account	30	**8,814**	8,814
Profit and loss account	30	**118,985**	88,533
Shareholders' funds		**222,799**	187,347
Total liabilities	31	**5,089,728**	4,303,117
Memorandum items	32		
Contingent liabilities			
Acceptances and endorsements		**29,900**	31,166
Guarantees and assets pledged as collateral security		**74,845**	63,382
		104,745	94,548
Commitments			
Other commitments		**2,714,212**	2,278,801
		2,714,212	2,278,801

Approved by the Board on 15th April 1998 and signed on its behalf by

W. A. Prescott, *Chairman*
M. K. Pedelty, *Chief Executive*

The notes on pages 32 to 55 form part of these financial statements

all amounts are stated in £'000 unless otherwise indicated

	1997	1996
Profit for the financial year	**36,242**	28,203
Dividends	**(5,535)**	(10,535)
Issue of 100,000,000 ordinary shares of 5p each (fully paid)	**5,000**	–
Net increase in shareholders' funds	**35,707**	17,668
Shareholders' funds at beginning of year	**190,804**	173,136
Shareholders' funds at end of year	**226,511**	190,804

The notes on pages 32 to 55 form part of these financial statements

for the year ended 10th January 1998
all amounts are stated in £'000 unless otherwise indicated

	Notes	1997	1996
Net cash inflow from operating activities	34	**132,441**	353,301
Returns on investments and servicing of finance			
Preference dividends paid		**(5,550)**	(5,550)
Loan stock interest paid		**(11,947)**	(10,753)
Net cash outflow from returns on investments and servicing of finance		**(17,497)**	(16,303)
Taxation			
United Kingdom corporation tax paid		**(17,093)**	(11,328)
Capital expenditure and financial investment			
Purchase of investments		**(1,932,814)**	(1,652,534)
Sale of investments		**1,820,014**	1,392,332
Purchase of tangible fixed assets		**(18,771)**	(26,122)
Sale of tangible fixed assets		**1,553**	1,204
Net cash outflow from capital expenditure and financial investment		**(130,018)**	(285,120)
Acquisitions and disposals			
Sale of subsidiary undertaking		**1,501**	1,590
Net cash inflow from acquisitions and disposals		**1,501**	1,590
Equity dividends paid		**(5,000)**	(4,000)
Financing			
Issue of perpetual subordinated notes		**30,000**	–
Issue of ordinary share capital		**5,000**	–
Redemption of loan stock		**–**	(36,260)
Net cash inflow/(outflow) from financing		**35,000**	(36,260)
(Decrease)/increase in cash	34	**(666)**	1,880

The notes on pages 32 to 55 form part of these financial statements

1. Accounting policies

(a) Basis of consolidation and accounting date

(i) The financial statements of the group relate to the 52 weeks to 10th January 1998. Since the group accounting date is virtually co-terminous with the calendar year 1997 the financial year's figures are headed 1997 and the corresponding figures for the previous year are headed 1996. The financial statements are prepared on a historical cost basis in accordance with the special provisions of Part VII of the Companies Act 1985 relating to Banking Groups, applicable accounting standards and Statements of Recommended Accounting Practice issued by the British Bankers' Association and the Irish Bankers' Federation.

The financial statements contain information prepared on a basis consistent with the requirements of Schedule 9 to the Companies Act 1985 which sets out specific requirements regarding the format of the balance sheet and profit and loss account.

(ii) Associated undertakings

In the consolidated balance sheet associated undertakings are shown at cost and the group's share of reserves from the date of acquisition, less amounts written off.

(iii) Goodwill

The premium paid on the acquisition of shares in subsidiary undertakings, being the excess of the amount paid over the fair value of net assets at the date of acquisition, has been written off against reserves.

(b) Debt securities

Held as investment securities

Dated securities are valued at cost, adjusted for the amortisation of premiums and discounts in the purchase price.

Undated securities are valued at the lower of cost or market value.

The amortisation of premiums and discounts of dated securities is included in interest income and is calculated to maintain a level yield from the date of acquisition to maturity.

Realised profits and losses on the sale of debt securities held in designated closed investment portfolios are taken to profit and loss account based on the maturity profile of the portfolio. This treatment has been adopted in order that the financial statements give a true and fair view of the operation of these closed investment portfolios. As a consequence in this respect, the financial statements depart from the Companies Act 1985. The normal treatment is to recognise profits and losses as they arise. The treatment of amortising profits and losses has been adopted to reflect the fact that the closed portfolio operates as a single financial fixed asset (see note 17).

Realised profits and losses on the sale of other investment debt securities are taken to profit and loss account in the period in which they arise.

Held as dealing securities

Securities held for dealing purposes are stated at market value.

(c) Loans and advances

The amount charged against operating profit for losses on advances comprises specific provisions against identifiable losses and a general provision to cover latent but unidentifiable losses due to doubtful debts. Both provisions are based on a year end appraisal of loans and advances. Loans and advances are shown in the balance sheet after deducting those provisions.

Debts are written off when there is no realistic prospect of further recovery of the amounts owing.

Fees charged at the inception of the advance which represent a payment for services provided in setting up the advance are credited to profit and loss account when they are receivable.

Fees charged at the inception of the advance which represent either a payment for continuing services or an additional interest charge are credited to profit and loss account on a straight line basis or pro rata to the amount outstanding as appropriate.

Interest earned on loans and advances is credited to the profit and loss account as it accrues. When the collection of interest becomes doubtful this is credited to a suspended interest account and therefore excluded from the profit and loss account.

(d) Sale and repurchase transactions

Securities which have been sold with an agreement to repurchase continue to be shown on the balance sheet and the sale proceeds recorded as a deposit. Securities acquired in reverse sale and repurchase transactions are not recognised in the balance sheet and the purchase price is treated as a loan. The difference between the sale price and the repurchase price is accrued evenly over the life of the transaction and charged or credited to the profit and loss account as interest payable or receivable.

(e) 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) Assets leased to customers

Assets leased to customers are valued at original cost less depreciation, which is calculated to write off that cost over the primary period of the lease. Depreciation for the period represents the full amount of lease payments due in the period, less the amounts credited to the profit and loss account.

Income from assets leased to customers is credited to the profit and loss account in proportion to the funds invested.

In the case of back to back leases, obligations of the Group under finance leases are included in other liabilities and rentals receivable from leases are included in assets leased to customers, both net of future finance charges.

(g) Leased assets

Assets acquired under finance leases are capitalised, based on the purchase price of the assets. Depreciation is provided on the same basis as for owned assets. The interest element of the lease payment is charged to profit and loss account on the basis of the actuarial method over the primary period of the lease. The capital value of the lease is included in the balance sheet as a liability reduced by the capital element of the lease payments.

Operating lease rentals are charged to profit and loss account as they accrue.

(h) Deferred taxation

Provision is made under the liability method for taxation on timing differences between profits stated in the financial statements and profits computed for taxation purposes where there is a reasonable probability that such taxation will become payable in the foreseeable future.

(i) Pension costs

In accordance with actuarial advice pension costs are charged to the profit and loss account to ensure that the regular cost is substantially a level percentage of the current and anticipated pensionable earnings. Variations from the regular cost are allocated over the average remaining working lives of current employees.

(j) 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 profit and loss account.

(k) Off balance sheet instruments

Forward foreign exchange contracts and other off balance sheet instruments used in trading activities are valued at market prices. Profits and losses on instruments which are being used in specifically designated hedging transactions are taken to profit and loss account in a manner that reflects the accounting treatment of the items being hedged.

(l) Dealing

Dealing profits comprise the net gain or loss arising from trading transactions in securities and financial instruments but exclude any gains or losses arising from financial fixed assets. Financial fixed assets are those assets intended for use on a continuing basis in the Bank's activities.

all amounts are stated in £'000 unless otherwise indicated

2. Write down of finance lease receivables	1997	1996
Provision in respect of tax variation claims in finance lease agreements as a result of the change in corporation tax rate	**1,250**	–

3. Staff costs	1997	1996
Wages and salaries	**69,121**	66,488
Social security costs	**5,196**	4,821
Other pension costs	**9,037**	8,789
Severance and reorganisation	**2,135**	1,260
Other staff costs	**4,435**	3,927
	89,924	85,285

4. Profit on ordinary activities before taxation	1997	1996
Is stated after:		
(i) Income:		
Aggregate amounts receivable, including capital repayments, under finance leases, hire purchase and conditional sale contracts	**50,616**	46,762
Income from listed investments	**68,967**	50,196
(Losses)/profits on securities dealing	**(27)**	43
Profits on disposal of investment securities	**5,058**	3,183
(ii) Charges:		
Interest payable in respect of subordinated liabilities	**13,014**	12,653
Rentals payable in respect of operating leases		
hire of computers, equipment and vehicles	**1,657**	1,344
other operating leases	**10,543**	11,168
Auditor's remuneration – parent company **£138,000** (1996–£132,500)	**232**	231

Other fees paid to the auditor and its associates for non-audit work from The Co-operative Bank p.l.c. and its subsidiary undertakings was **£821,000** (1996–£219,782).

all amounts are stated in £'000 unless otherwise indicated

5. Directors' emoluments

	1997 Basic Pay £	1997 Benefits in Kind £	1997 Performance Related Pay £	1997 Total Emoluments £	1997 Accrued Pension £	1997 Increase in Accrued Pension £	1997 Transfer Value £	1996 Total Emoluments £
M. K. Pedelty	73,683	-	20,770	94,453	1,111	1,111	12,271	–
T. J. Thomas §	179,041	9,226	63,503	251,770	89,268	8,509	132,017	259,048
M. A. Firth	114,714	8,899	34,500	158,113	18,433	2,584	30,743	142,771
K. J. Lewis	106,775	11,493	32,118	150,386	24,024	3,183	36,897	141,975
W. J. Marper	149,175	13,693	44,838	207,706	23,718	4,010	46,886	192,667
M. J. Woodward	109,954	12,992	33,072	156,018	56,804	3,082	36,926	146,616
	733,342	56,303	228,801	1,018,446	213,358	22,479	295,740	883,077
*Sums paid to third parties				100,000				–
	733,342	56,303	228,801	1,118,446	213,358	22,479	295,740	883,077

* This amount is paid to Co-operative Wholesale Society Limited in respect of the provision of the services of non-executive Directors.

§ Highest paid director. The figures are presented as though Mr. T. J. Thomas served throughout the year although he retired on 25th October 1997.

Benefits are accruing under defined benefit schemes for five directors.

Transfer value represents the transfer value of the increase in accrued pension.

6. Pensions

The Bank operates a funded pension scheme of the defined benefit type. This provides benefits based on final pensionable pay. The assets of the scheme are held in a separate trustee administered fund.

The total pension charge was **£9,037,000** (1996–£8,789,000). The pension charge is assessed in accordance with the advice of a qualified actuary using the projected unit method. The latest actuarial assessment of the scheme was at 5th April 1997. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries, pensions and equity dividends. It was assumed that the investment return would be 8.5% per annum, that salary increases would average 6.5% per annum, that present and future pensions would increase at the rate of 4.5% per annum and that equity dividends would increase at an average rate of 4.5% per annum.

At the date of the latest actuarial valuation the market value of the assets of the scheme was **£207,622,000** and the actuarial value of the assets was sufficient to cover 110% of the benefits that had accrued to members, after allowing for future increases in earnings.

The amount paid into the fund exceeds the amount charged in the profit and loss account by **£52,000** (1996–£54,000 prepayment) resulting in a prepayment of **£117,000** (1996–£65,000 prepayment).

The actuaries to the scheme are employed by Co-operative Insurance Society Limited, a fellow subsidiary undertaking of Co-operative Wholesale Society Limited.

all amounts are stated in £'000 unless otherwise indicated

7. Discontinued operations

	1997 Continuing	1997 Discontinued	1997 Total	1996 Continuing	1996 Discontinued	1996 Total
Administrative Expenses						
Staff costs	**89,924**	**–**	**89,924**	85,014	271	85,285
Other	**130,687**	**–**	**130,687**	119,002	269	119,271
Depreciation and amortisation	**15,913**	**–**	**15,913**	13,892	–	13,892
Total	**236,524**	**–**	**236,524**	217,908	540	218,448

	1997	1996
Profit on sale of discontinued operations		
Cash proceeds on sale of subsidiary	**–**	325
Revenue proceeds	**1,568**	2,921
Total proceeds	**1,568**	3,246
Less:		
Net book value of subsidiary assets	**–**	325
Expenses and reorganisation costs	**–**	455
Profit on sale of discontinued operations	**1,568**	2,466

On 31st May 1996 the Bank sold its subsidiary company CIM Fund Managers Limited. The purchase consideration was based on net assets, the gross revenues for 1995 and deferred consideration based on the gross revenues for the years 1996 to 1998. The profit on sale of discontinued operations for 1996 has been calculated by taking account of the purchase consideration for net assets and revenues earned for 1995 and 1996. The profit on sale of discontinued operations for 1997 consists of the gross revenue for that year. Further profit is expected from this disposal which is contingent upon the gross revenues earned in the financial year 1998 and has therefore not been brought into profit at this stage.

8. Disposal of fixed assets

The disposal of fixed assets in 1996 relates to the disposal of assets as a result of restructuring processing centres.

9. Taxation

	1997	1996
United Kingdom corporation tax at 31.4% (1996–33%)	**19,119**	21,546
Tax credit on franked investment income	**8**	19
Deferred taxation	**(1,591)**	(4,186)
Under/(over) provision in previous years	**396**	(493)
	17,932	16,886
Share of associated undertakings' taxation	**54**	(6)
	17,986	16,880

Full recovery of group relief has been assumed as there are sufficient taxable profits available within the group to cover any tax losses.

10. Group profit dealt with in the accounts of The Co-operative Bank p.l.c.

£30,452,000 (1996–£26,308,000) of the Group profit attributable to ordinary shareholders has been dealt with in the accounts of The Co-operative Bank p.l.c. As permitted by Section 230 of the Companies Act 1985, the profit and loss account of The Co-operative Bank p.l.c. has not been presented separately.

all amounts are stated in £'000 unless otherwise indicated

11. Dividends

	1997 pence per share	1996 pence per share	1997	1996
Dividend on 60,000,000 9.25% non-cumulative irredeemable preference shares of £1 each (paid and proposed)	**9.25p**	9.25p	**5,535**	5,535
Proposed dividend on 700,000,000 ordinary shares of 5p each (1996–600,000,000 ordinary shares of 5p each)	**–**	0.83p	**–**	5,000
			5,535	10,535

12. Earnings per share

Earnings per share are calculated by dividing the profit for the financial year **£36,242,000** (1996–£28,203,000) less dividends on preference shares **£5,535,000** (1996–£5,535,000) by the weighted average number of ordinary shares **661,538,462** (1996–600,000,000) in issue during the year.

13. Treasury bills and other eligible bills

	Group and Bank			
	1997		1996	
	Balance sheet	Market value	Balance sheet	Market value
Investment securities	**–**	**–**	–	–
			–	–
Other securities other eligible bills	**13,107**		660	
	13,107		660	

14. Loans and advances to banks

	The Group		The Bank	
	1997	1996	1997	1996
Remaining maturity:				
over 5 years	**12,501**	9,142	**12,501**	9,142
5 years or less but over 1 year	**–**	–	**–**	–
1 year or less but over 3 months	**25,750**	29,697	**25,750**	29,697
3 months or less but not repayable on demand	**459,329**	565,905	**459,329**	567,425
Repayable on demand	**10,086**	9,431	**10,086**	9,431
	507,666	614,175	**507,666**	615,695
Amounts include:				
Due from subsidiary undertakings unsubordinated			**–**	1,520

all amounts are stated in £'000 unless otherwise indicated

15. Loans and advances to customers

	The Group 1997	The Group 1996	The Bank 1997	The Bank 1996
Remaining maturity:				
over 5 years	**447,459**	405,034	**352,777**	353,315
5 years or less but over 1 year	**934,946**	733,520	**1,023,377**	780,035
1 year or less but over 3 months	**381,937**	333,312	**368,146**	309,701
3 months or less but not repayable on demand	**480,519**	429,289	**447,491**	416,911
Repayable on demand	**337,400**	371,695	**336,890**	363,184
General and specific bad and doubtful debt provisions (note 16)	**(79,675)**	(75,949)	**(75,156)**	(71,155)
	2,502,586	2,196,901	**2,453,525**	2,151,991
Amounts include:				
Due from subsidiary undertakings unsubordinated			**149,179**	113,737
Due from parent organisation	**16,236**	21,000	**16,236**	21,000

16. Provisions for bad and doubtful debts

	1997 Specific	1997 Suspended interest	1997 General	1997 Total	1996 Specific	1996 Suspended interest	1996 General	1996 Total
Group:								
At 11th January 1997	**65,128**	**5,380**	**5,441**	**75,949**	94,968	8,913	5,441	109,322
Suspended interest	**-**	**1,352**	**-**	**1,352**	–	1,803	–	1,803
Charge against profits	**28,821**	**(2,562)**	**-**	**26,259**	25,963	(2,308)	–	23,655
Amounts written off	**(22,921)**	**(1,303)**	**-**	**(24,224)**	(56,120)	(3,028)	–	(59,148)
Recoveries	**339**	**-**	**-**	**339**	317	–	–	317
At 10th January 1998	**71,367**	**2,867**	**5,441**	**79,675**	65,128	5,380	5,441	75,949
Bank:								
At 11th January 1997	**61,826**	**4,097**	**5,232**	**71,155**	93,157	7,725	5,232	106,114
Suspended interest	**-**	**1,293**	**-**	**1,293**	–	1,708	–	1,708
Charge against profits	**27,864**	**(2,562)**	**-**	**25,302**	24,452	(2,308)	–	22,144
Amounts written off	**(22,157)**	**(776)**	**-**	**(22,933)**	(56,100)	(3,028)	–	(59,128)
Recoveries	**339**	**-**	**-**	**339**	317	–	–	317
At 10th January 1998	**67,872**	**2,052**	**5,232**	**75,156**	61,826	4,097	5,232	71,155

All provisions are held against loans and advances to customers.

Non-performing debt:	1997	1996
Group advances	**76,368**	80,885
Provisions for bad and doubtful debts	**(47,943)**	(46,124)
	28,425	34,761
Bank advances	**69,353**	72,459
Provisions for bad and doubtful debts	**(44,400)**	(42,824)
	24,953	29,635

all amounts are stated in £'000 unless otherwise indicated

17. Debt securities

	The Group				The Bank			
	1997		1996		**1997**		1996	
	Balance sheet	**Market value**	Balance sheet	Market value	**Balance sheet**	**Market value**	Balance sheet	Market value
(i) Issue								
Issued by public bodies								
Investment securities								
government securities	**521,103**	**537,423**	529,518	528,029	**495,544**	**510,917**	503,805	502,444
other public sector securities	**22,255**	**24,104**	2,887	3,353	**22,255**	**24,104**	2,887	3,353
	543,358	**561,527**	532,405	531,382	**517,799**	**535,021**	506,692	505,797
Other securities								
government securities	**333**		4,992		**333**		4,992	
	543,691		537,397		**518,132**		511,684	
Issued by other issuers								
Investment securities								
bank and building society certificates of deposit	**97,000**	**98,005**	109,000	111,286	**–**	**–**	–	–
other debt securities	**446,882**	**452,789**	315,249	315,903	**446,882**	**452,789**	315,249	315,903
	543,882	**550,794**	424,249	427,189	**446,882**	**452,789**	315,249	315,903
Other securities								
bank and building society certificates of deposit	**448,254**		333,834		**448,254**		333,834	
other debt securities	**420,840**		98,906		**420,840**		98,906	
	1,412,976		856,989		**1,315,976**		747,989	
	1,956,667		1,394,386		**1,834,108**		1,259,673	
Unamortised profit on sales of investment securities	**(31,068)**		(14,835)		**(31,068)**		(14,835)	
	1,925,599		1,379,551		**1,803,040**		1,244,838	
(ii) Maturity								
Due within one year	**760,536**		454,351		**663,536**		345,351	
Due one year and over	**1,196,131**		940,035		**1,170,572**		914,322	
	1,956,667		1,394,386		**1,834,108**		1,259,673	
Unamortised profit on sales of investment securities	**(31,068)**		(14,835)		**(31,068)**		(14,835)	
	1,925,599		1,379,551		**1,803,040**		1,244,838	
Unamortised discounts and (premiums) on investment securities	**(30,911)**		(13,041)		**(30,251)**		(12,282)	

all amounts are stated in £'000 unless otherwise indicated

17. Debt Securities (continued)

	The Group				The Bank			
	1997		1996		**1997**		1996	
	Balance sheet	**Market value**	Balance sheet	Market value	**Balance sheet**	**Market value**	Balance sheet	Market value
(iii) Listing								
Investment securities								
listed on a recognised UK exchange	**853,275**	**876,010**	797,978	797,631	**827,716**	**849,504**	772,265	772,046
listed elsewhere	**136,965**	**138,306**	49,676	49,654	**136,965**	**138,306**	49,676	49,654
unlisted	**97,000**	**98,005**	109,000	111,286	**–**	**–**	–	–
	1,087,240	**1,112,321**	956,654	958,571	**964,681**	**987,810**	821,941	821,700
Unamortised profit on sales of investment securities	**(31,068)**		(14,835)		**(31,068)**		(14,835)	
	1,056,172		941,819		**933,613**		807,106	
Other securities								
listed on a recognised UK exchange	**289,118**		61,974		**289,118**		61,974	
listed elsewhere	**118,768**		41,924		**118,768**		41,924	
unlisted	**461,541**		333,834		**461,541**		333,834	
	869,427		437,732		**869,427**		437,732	
	1,925,599		1,379,551		**1,803,040**		1,244,838	

	Cost	**Discounts and premiums**	**Unamortised profit on sales**	**Carrying value**
(iv) Movement				
Investment securities				
Group:				
At 11th January 1997	**961,763**	**(5,109)**	**(14,835)**	**941,819**
Acquisitions	**1,932,761**	**–**	**–**	**1,932,761**
Disposals	**(1,803,650)**	**4,915**	**(21,279)**	**(1,820,014)**
Amortisation	**–**	**(3,440)**	**5,046**	**1,606**
At 10th January 1998	**1,090,874**	**(3,634)**	**(31,068)**	**1,056,172**
Bank:				
At 11th January 1997	**825,905**	**(3,964)**	**(14,835)**	**807,106**
Acquisitions	**1,432,761**	**–**	**–**	**1,432,761**
Disposals	**(1,291,603)**	**4,915**	**(21,279)**	**(1,307,967)**
Amortisation	**–**	**(3,333)**	**5,046**	**1,713**
At 10th January 1998	**967,063**	**(2,382)**	**(31,068)**	**933,613**

Profits on disposals in the year were **£21,279,000** (1996–£5,726,000). However due to the application of accounting policy (b) relating to securities held in designated investment portfolios, **£5,046,000** (1996–£3,080,000) has been credited to the Profit and Loss Account. The application of this accounting policy therefore reduced profits for the year by **£16,233,000** (1996–£2,646,000 reduction).

all amounts are stated in £'000 unless otherwise indicated

18. Equity shares

	The Group		The Bank	
	1997	1996	**1997**	1996
Investment securities unlisted	**1,177**	1,124	**1,169**	1,116

	Group and Bank	
	1997	1996
Included above is the following trade investment: BACS Ltd **81,315** (1996–81,315) ordinary shares of £1 each	**569**	569

All unlisted securities are valued by the directors at cost, net of provisions raised.

	Cost	Provision	Carrying value
Group:			
At 11th January 1997	**1,274**	**(150)**	**1,124**
Acquisitions	**53**	**–**	**53**
At 10th January 1998	**1,327**	**(150)**	**1,177**
Bank:			
At 11th January 1997	**1,266**	**(150)**	**1,116**
Acquisitions	**53**	**–**	**53**
At 10th January 1998	**1,319**	**(150)**	**1,169**

19. Interests in associated undertakings

The interests in associated undertakings, all of which are incorporated in Great Britain and operate in England and none of which is quoted, are:

Associated undertakings	Nature of business	Total issued share capital at 10th January 1998	Group interest 1997	Group interest 1996
* Co-operative Pension Funds Unit Trust Managers Limited	Investment managers	165,000 Ordinary shares of £1 each	**33%**	33%
† Unity Financial Holdings Limited	Holding company	2 Ordinary shares of £1 each	**18%**	18%
§ Unity Pension Services Limited	Marketing of pension plans	400,000 Ordinary shares of £1 each	**18%**	18%
§ Unity Financial Services Limited	Marketing of financial services	1,000,000 Ordinary shares of £1 each	**18%**	18%
§ Jacques Martin Unity Limited	Administration of pension schemes	1,000,000 Ordinary shares of £1 each	**18%**	18%

* The ultimate holding organisation of this undertaking is Co-operative Wholesale Society Limited
† Held by Unity Trust Bank p.l.c.
§ Held by Unity Financial Holdings Limited
†§ Significant influence is exercised through Unity Trust Bank p.l.c. (see note 20)

The interest in associated undertakings is made up as follows:

	The Group Share of net assets	The Bank Cost
At 11th January 1997	**277**	**17**
Retained profit	**123**	**–**
At 10th January 1998	**400**	**17**

all amounts are stated in £'000 unless otherwise indicated

20. Ultimate holding organisation and subsidiary undertakings

Co-operative Wholesale Society Limited owns the whole of the issued ordinary share capital of the Bank and is also the ultimate holding organisation. Co-operative Wholesale Society Limited is incorporated in England and is registered under the Industrial and Provident Societies Acts 1965 to 1978. The principal operating subsidiaries of The Co-operative Bank p.l.c., all of which are incorporated in Great Britain and operate in England, and none of which is quoted are:

Operating subsidiaries	Nature of business	Total issued share capital at 10th January 1998	Group interest 1997	Group interest 1996
* Unity Trust Bank p.l.c.	Banking	10,890,713 Ordinary shares of £1 each	**36%**	36%
Co-operative Commercial Limited	Investment company	1,000,000 Ordinary shares of £1 each	**100%**	100%
Roodhill Leasing Limited	Leasing	2 Ordinary shares of £1 each	**100%**	100%
First Roodhill Leasing Limited	Leasing	100 Ordinary shares of £1 each	**100%**	100%
Second Roodhill Leasing Limited	Leasing	100 Ordinary shares of £1 each	**100%**	100%
Third Roodhill Leasing Limited	Leasing	100 Ordinary shares of £1 each	**100%**	100%
Fourth Roodhill Leasing Limited	Leasing	100 Ordinary shares of £1 each	**100%**	100%
First Pioneers Leasing Limited	Leasing	100 Ordinary shares of £1 each	**100%**	100%
Second Pioneers Leasing Limited	Leasing	100 Ordinary shares of £1 each	**100%**	100%
Third Pioneers Leasing Limited	Leasing	100 Ordinary shares of £1 each	**100%**	100%
Co-operative Bank Financial Advisers Limited	Financial advisers	100,000 Ordinary shares of £1 each	**100%**	100%
Larchvale Limited	Building contractors	2 Ordinary shares of £1 each	**100%**	100%
* Unity Investment Management Limited	Investment managers	10,000 Ordinary shares of £1 each	**36%**	36%
* Unity Security Balloting Services Limited	Balloting services	224,000 Ordinary shares of £1 each 71,000 8% Preference shares of £1 each	**27%** **36%**	27% 36%
* Unity Corporate Advisors Limited	Corporate finance	60,000 Ordinary shares of £1 each	**36%**	36%

all amounts are stated in £'000 unless otherwise indicated

20. Ultimate holding organisation and subsidiary undertakings (continued)

Shares in Group undertakings:	Cost	Provision	Carrying value
At 10th January 1998 and at 11th January 1997	**1,542**	**(395)**	**1,147**

There were no acquisitions or disposals in the year.

The above provision is held against dormant subsidiaries.

* Held through subsidiary undertakings.

Details of all Group companies will be annexed to the Bank's next annual return.

Unity Trust Bank p.lc. and its subsidiaries, Unity Investment Management Limited, Unity Security Balloting Services Limited and Unity Corporate Advisors Limited, are considered to be subsidiary undertakings of The Co-operative Bank p.l.c. as The Co-operative Bank p.l.c. elects a majority of the Directors and appoints the Chairman and Managing Director of Unity Trust Bank p.l.c.

The financial statements of the above undertakings are consolidated into the group financial statements.

The following undertakings have year ends which are not co-terminous with that of The Co-operative Bank p.l.c. to enable competitive leasing quotations to be offered throughout the year:

31st March	First Roodhill Leasing Limited
	First Pioneers Leasing Limited
30th June	Second Roodhill Leasing Limited
	Second Pioneers Leasing Limited
30th September	Third Roodhill Leasing Limited
	Third Pioneers Leasing Limited

The financial statements of these undertakings are consolidated into the group financial statements on the basis of management accounts made up to the parent undertaking's balance sheet date.

The financial statements of the ultimate holding organisation are available from Co-operative Wholesale Society Limited, New Century House, Manchester M60 4ES.

all amounts are stated in £'000 unless otherwise indicated

21. Tangible fixed assets

	Freehold and leasehold buildings	Computer and other equipment	Finance leased assets	Total
Group:				
Cost				
At 11th January 1997	10,875	109,930	10,687	131,492
Additions	470	18,378	600	19,448
Disposals	(862)	(34,282)	(950)	(36,094)
At 10th January 1998	10,483	94,026	10,337	114,846
Accumulated depreciation				
At 11th January 1997	1,154	61,176	5,993	68,323
Disposals	(329)	(32,204)	(950)	(33,483)
Charge for the year	286	13,795	1,832	15,913
At 10th January 1998	1,111	42,767	6,875	50,753
Net book value at 10th January 1998	9,372	51,259	3,462	64,093
Net book value at 11th January 1997	9,721	48,754	4,694	63,169
Bank:				
Cost				
At 11th January 1997	3,375	106,849	10,687	120,911
Additions	470	17,940	600	19,010
Disposals	(862)	(34,146)	(950)	(35,958)
At 10th January 1998	2,983	90,643	10,337	103,963
Accumulated depreciation				
At 11th January 1997	1,008	59,843	5,993	66,844
Disposals	(329)	(32,101)	(950)	(33,380)
Charge for the year	98	13,465	1,832	15,395
At 10th January 1998	777	41,207	6,875	48,859
Net book value at 10th January 1998	2,206	49,436	3,462	55,104
Net book value at 11th January 1997	2,367	47,006	4,694	54,067

	The Group		The Bank	
	1997	1996	1997	1996
The net book value of land and buildings comprises:				
Freehold	9,230	9,651	2,064	2,297
Long leasehold	23	27	23	27
Short leasehold	119	43	119	43
	9,372	9,721	2,206	2,367

	The Group		The Bank	
	1997	1996	1997	1996
Future capital expenditure: Contracted but not provided in the financial statements	–	355	–	355

All land and buildings are occupied by the group for its own activities

all amounts are stated in £'000 unless otherwise indicated

22. Other assets

	The Group		The Bank	
	1997	1996	**1997**	1996
Foreign exchange and interest rate contracts	**16,975**	15,224	**16,975**	15,224
Trade debtors	**5,194**	10,897	**1,681**	7,423
Amounts due from subsidiary undertakings	**–**	–	**757**	725
Amounts due from parent organisation	**756**	724	**756**	724
Deferred taxation (see note 27)	**–**	–	**4,569**	–
	22,925	26,845	**24,738**	24,096

23. Deposits by banks

	The Group		The Bank	
	1997	1996	**1997**	1996
With agreed maturity dates or periods of notice, by remaining maturity:				
5 years or less but over 1 year	**1,500**	–	**1,500**	–
1 year or less but over 3 months	**3,478**	3,812	**3,478**	3,812
3 months or less but not repayable on demand	**537,324**	513,296	**539,867**	514,845
Repayable on demand	**33,269**	46,820	**33,269**	46,820
	575,571	563,928	**578,114**	565,477
Amounts include:				
Due to subsidiary undertakings			**2,543**	1,549

24. Customer accounts

	The Group		The Bank	
	1997	1996	**1997**	1996
With agreed maturity dates or periods of notice, by remaining maturity:				
5 years or less but over 1 year	**47,192**	173,121	**47,192**	171,153
1 year or less but over 3 months	**49,293**	37,036	**48,185**	31,668
3 months or less but not repayable, on demand	**1,531,498**	971,214	**1,481,859**	909,956
Repayable on demand	**2,284,622**	2,151,717	**2,188,847**	2,067,951
	3,912,605	3,333,088	**3,766,083**	3,180,728
Amounts include:				
Due to subsidiary undertakings			**6,237**	2,140
Due to parent organisation	**4,184**	6,725	**4,184**	6,725
Due to fellow subsidiary undertakings	**24,832**	19,685	**24,832**	19,685

25. Debt securities in issue

	The Group		The Bank	
	1997	1996	**1997**	1996
Medium term notes due:				
5 years or less but over 2 years	**5,000**	15,000	**5,000**	15,000
2 years or less but over one year	**20,000**	10,000	**20,000**	10,000
One year or less or on demand	**5,000**	10,000	**5,000**	10,000
Other debt securities in issue, by remaining maturity:				
1 year or less but over 3 months	**5,000**	6,297	**5,000**	6,297
3 months or less	**132,007**	43,000	**132,007**	43,000
	167,007	84,297	**167,007**	84,297

all amounts are stated in £'000 unless otherwise indicated

26. Other liabilities

	The Group		The Bank	
	1997	1996	**1997**	1996
Foreign exchange and interest rate contracts	**12,709**	7,638	**12,709**	7,638
Trade creditors	**23,414**	20,672	**17,704**	16,518
Taxation	**24,718**	21,992	**26,703**	16,812
Finance lease future obligations	**3,461**	5,669	**3,461**	5,669
Dividends	**763**	5,721	**623**	5,648
	65,065	61,692	**61,200**	52,285
External obligations under finance leases				
Gross obligations payable within				
one year	**2,775**	3,484	**2,775**	3,484
between one and five years	**1,228**	3,243	**1,228**	3,243
	4,003	6,727	**4,003**	6,727
Less future finance charges	**542**	1,058	**542**	1,058
	3,461	5,669	**3,461**	5,669

27. Deferred taxation

	The Group		The Bank	
	1997	1996	**1997**	1996
Taxation deferred by timing differences in accordance with the basis of accounting set out in Accounting Policy (h)				
Short term differences	**(830)**	(1,151)	**(830)**	(1,151)
Other timing differences	**(9,560)**	(5,077)	**(9,507)**	(4,716)
Capital allowances on fixed assets	**2,629**	3,122	**2,500**	3,027
Capital allowances on assets leased to customers	**19,264**	16,200	**3,268**	2,840
	11,503	13,094	***(4,569)**	–
The movement in the deferred taxation balance has all taken place through the Profit and Loss Account	**(1,591)**	(4,186)	**(4,569)**	(2,838)
The potential amount of deferred taxation not provided in the financial statements (all in respect of accelerated capital allowances) is	**–**	1,800	**–**	316

The potential liability on rolled over gains and other gains not provided for, amounts to **£844,146** (1996–£403,150).

* The net deferred taxation position for The Co-operative Bank p.l.c. gives rise to a deferred tax asset. This has been recognised in the balance sheet of The Co-operative Bank p.l.c. and appears within the category other assets (see note 22).

The reduction in the rate of corporation tax from 33% to a rate of 31% has resulted in a reduction in the deferred tax charge of £742,000.

all amounts are stated in £'000 unless otherwise indicated

28. Subordinated liabilities

	The Group		The Bank	
	1997	1996	**1997**	1996
£38,000,000 Subordinated Floating Rate (minimum 5½%) Notes redeemable not later than July 2000	**38,000**	38,000	**38,000**	38,000
£6,033,000 Convertible Subordinated Unsecured Floating Rate Loan Stock 2003	**6,033**	6,033	**–**	–
£75,000,000 Subordinated Floating Rate Notes redeemable not later than December 2005	**75,000**	75,000	**75,000**	75,000
£50,000,000 Fixed Rate Perpetual Subordinated Notes	**50,000**	50,000	**50,000**	50,000
£30,000,000 Subordinated Perpetual Floating Rate Notes	**30,000**	–	**30,000**	–
Issue costs and discount	**(1,089)**	(1,013)	**(1,089)**	(1,013)
	197,944	168,020	**191,911**	161,987

Subordinated Floating Rate Notes 2000

The notes were issued on 18th July 1985 at par.

The notes are an unsecured obligation of the Bank and in the event of the winding up of the Bank, the claims of noteholders will be subordinated in right of payment to the claims of depositors and other creditors of the Bank.

The notes carry an annual interest rate of 0.125% above three months LIBOR subject to a minimum rate of 5.5%. Interest is payable quarterly in arrears in January, April, July and October each year.

The Bank may redeem all or part of the notes on any interest payment date at their principal amount.

Unless previously redeemed, the Bank will redeem the notes at the principal amount on the interest payment date falling in July 2000.

Subordinated Floating Rate Loan Stock 2003

The loan stock was issued on 22nd April 1988 at par.

The loan stock is an unsecured obligation of Unity Trust Bank p.l.c. and, in the event of the winding up of Unity Trust Bank p.l.c. the claims of the holders will be subordinated in right of payment to the claims of depositors and other creditors of Unity Trust Bank p.l.c.

The loan stock carries an annual interest rate of 1% below six months LIBOR. Interest is payable half yearly in arrears on 30th June and 31st December each year.

Each £100 nominal of loan stock is convertible at the holder's option during May in any of the years 1993 to 2003 into 85 'C' ordinary shares of £1 each.

Loan stock with a nominal value of £490 was converted into 416 'C' ordinary shares of £1 each during the year.

All loan stock not previously purchased, converted or repaid, will be repaid on 30th June 2003.

Subordinated Floating Rate Notes 2005

The notes were issued on 20th December 1995 at par.

The notes are an unsecured obligation of the Bank and in the event of the winding up of the Bank, the claims of noteholders will be subordinated in right of payment to the claims of depositors and other creditors of the Bank.

The notes carry an annual interest rate of 0.75% above three months LIBOR up to and including 20th December 2000. Thereafter the notes carry an annual interest rate of 1.25% above three months LIBOR. Interest is payable quarterly in arrears in March, June, September and December each year.

The Bank may redeem all or part of the notes at their principal amount on any December interest payment date falling on or after December 2000. Unless previously redeemed, the Bank will redeem the notes at the principal amount on their interest payment date falling in December 2005.

Fixed Rate Perpetual Subordinated Notes

The notes were issued on 20th December 1995 at a discount of 0.723%.

The notes are an unsecured obligation of the Bank and in the event of the winding up of the Bank, the claims of noteholders will be subordinated in right of payment to the claims of depositors and other creditors of the Bank.

The notes carry an interest rate of 9.375% per annum to (but excluding) 21st December 2005. From this date and on 20th December in every fifth year thereafter the interest rate will be determined by reference to the gross redemption yield on the five year benchmark gilt, and a margin of 2.70%. Interest is payable annually in arrears on 20th December each year.

The Bank may redeem all or part of the notes at their principal amount on 21st December 2005, and thereafter on every fifth Fixed Interest Date (20th December).

all amounts are stated in £'000 unless otherwise indicated

28. Subordinated liabilities (continued)

Subordinated Perpetual Floating Rate Notes

The notes were issued on 9th January 1998.

The notes are an unsecured obligation of the Bank and in the event of the winding up of the Bank, the claims of noteholders will be subordinated in right of payment to the claims of depositors and other creditors of the Bank.

The notes carry an annual interest rate of 1.18% above six months LIBOR up to but not including 9th January 2008. Thereafter the notes carry an annual interest rate of 2.18% above six months LIBOR. Interest is payable half yearly in arrears on 9th January and 9th July each year.

The Bank may redeem all but not less than all of the notes at their principal amount on 9th January 2008 and thereafter on any following 9th January or 9th July.

29. Called up share capital	**1997**	1996
Authorised		
1,100,000,000 ordinary shares of 5p each (1996–600,000,000)	**55,000**	30,000
75,000,000 9.25% non-cumulative irredeemable preference shares of £1 each	**75,000**	75,000
	130,000	105,000
Issued		
700,000,000 ordinary shares of 5p each (1996–600,000,000)	**35,000**	30,000
60,000,000 9.25% non-cumulative irredeemable preference shares of £1 each	**60,000**	60,000
	95,000	90,000

The authorised share capital was increased on 29th April 1997 from £105,000,000 to £130,000,000 by the creation of 500,000,000 ordinary shares of 5p each, ranking in all respects pari passu with the existing ordinary shares.

The issued share capital was increased on 31st May 1997 by the issue of 100,000,000 ordinary shares of 5p each, fully paid.

All the issued share capital has been allotted, called up and fully paid.

The preference shares carry the right to a fixed non-cumulative preferential dividend on the capital for the time being paid up, at the rate of 9.25% per annum exclusive of any associated tax credit. The dividends are payable on 31st May and 30th November each year and take priority over dividends to any other class of share in the capital of the Bank.

On a return of capital on a winding up, the assets of the Bank shall be applied in repaying the preference share capital in priority to any payments to the holders of any other class of shares in the capital of the Bank. The amount receivable by the holders of the preference shares shall be the greater of the capital paid up or the average quoted price during the three months immediately preceding the date of the notice convening the meeting to consider the resolution to wind up.

The holders of the preference shares shall have the right to vote at a general meeting of the Bank only if and when, at the date of the notice convening the meeting, the dividend due to them has been in arrears for six months or more or if a resolution is to be proposed at the meeting abrogating or varying their rights or privileges or for the winding up of the Bank or other return of capital and then only on that resolution.

30. Reserves	**The Bank and subsidiary undertakings**	**Associated undertakings**	**The Group**	**The Bank**
Share premium account at 10th January 1998 and at 11th January 1997	**8,814**	–	**8,814**	**8,814**
Profit and loss account at 11th January 1997	**93,253**	**(1,263)**	**91,990**	**88,533**
Retentions for the year	**30,584**	**123**	**30,707**	**30,452**
At 10th January 1998	**123,837**	**(1,140)**	**122,697**	**118,985**

The cumulative amount of goodwill arising on the acquisition of subsidiary undertakings, net of goodwill attributed to subsidiary undertakings disposed of, is **£247,000** (1996–£247,000).

all amounts are stated in £'000 unless otherwise indicated

31. Miscellaneous

	The Group 1997	The Group 1996	The Bank 1997	The Bank 1996
(i) Assets and liabilities				
Denominated in sterling	**4,854,668**	4,171,501	**4,672,409**	3,977,482
Denominated in currencies other than sterling	**417,319**	325,635	**417,319**	325,635
Total assets	**5,271,987**	4,497,136	**5,089,728**	4,303,117
Denominated in sterling	**4,857,754**	4,262,018	**4,675,495**	4,067,999
Denominated in currencies other than sterling	**414,233**	235,118	**414,233**	235,118
Total liabilities	**5,271,987**	4,497,136	**5,089,728**	4,303,117
(ii) Assets subject to sale and repurchase transactions				
Debt securities	**133,535**	254,292	**133,535**	254,292
(iii) Assets leased to customers				
Loans and advances to customers – finance leases and hire purchase contracts	**192,196**	147,794	**54,955**	40,661
Assets acquired during the year	**94,374**	88,289	**31,358**	20,756

32. Contingent liabilities and commitments

The tables below give, for the Group and the Bank, the nominal principal amounts, credit equivalent amounts and risk weighted amounts of contingent liabilities and commitments. The nominal principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The credit equivalent and risk weighted amounts have been calculated in accordance with the Bank of England's guidelines implementing the Solvency Ratio Directive on capital adequacy.

	1997 Contract amount	1997 Credit equivalent amount	1997 Average risk weight	1997 Risk weighted amount	1996 Contract amount	1996 Risk weighted amount
Group:						
Contingent Liabilities						
Acceptances and endorsements	**29,900**	**29,900**	**97.6%**	**29,182**	31,166	30,761
Guarantees and irrevocable letters of credit	**74,996**	**64,569**	**97.1%**	**62,696**	63,532	54,210
	104,896			**91,878**	94,698	84,971
Bank:						
Contingent Liabilities						
Acceptances and endorsements	**29,900**	**29,900**	**97.6%**	**29,182**	31,166	30,761
Guarantees and irrevocable letters of credit	**74,845**	**64,493**	**97.1%**	**62,623**	63,382	54,137
	104,745			**91,805**	94,548	84,898

all amounts are stated in £'000 unless otherwise indicated

32. Contingent liabilities and commitments (continued)

	1997				1996	
	Contract amount	Credit equivalent amount	Average risk weight	Risk weighted amount	Contract amount	Risk weighted amount
Group:						
Other commitments						
Documentary credits and short-term trade-related transactions	**736**	**147**	**86.3%**	**127**	322	64
Forward asset purchases and forward deposits placed	**500**	**500**	**20.0%**	**100**	5,000	1,000
Undrawn note issuance and revolving underwriting facilities	**29,584**	**14,792**	**84.9%**	**12,558**	21,434	6,473
Undrawn formal standby facilities, credit lines and other commitments to lend:						
1 year and over	**95,112**	**47,556**	**83.2%**	**39,567**	5,093	548
less than 1 year (ii)	**2,599,227**	**-**	**-**	**-**	2,255,313	-
	2,725,159			**52,352**	2,287,162	8,085
Bank:						
Other commitments						
Documentary credits and short-term trade-related transactions	**736**	**147**	**86.3%**	**127**	322	64
Forward asset purchases and forward deposits placed	**500**	**500**	**20.0%**	**100**	5,000	1,000
Undrawn note issuance and revolving underwriting facilities	**29,584**	**14,792**	**84.9%**	**12,558**	21,434	6,473
Undrawn formal standby facilities, credit lines and other commitments to lend:						
1 year and over	**95,112**	**47,556**	**83.2%**	**39,567**	5,093	548
less than 1 year (ii)	**2,588,280**	**-**	**-**	**-**	2,246,952	-
	2,714,212			**52,352**	2,278,801	8,085

Notes:

i. Under the Solvency Ratio Directive, credit equivalent amounts, obtained by applying credit conversion factors, are risk weighted according to counterparty.

ii. Undrawn loan commitments which are unconditionally cancellable at any time or which have a maturity of less than one year have a risk weighting of zero.

all amounts are stated in £'000 unless otherwise indicated

33. Derivatives

The Bank has entered into various off balance sheet financial instruments (derivatives) as principal either as a trading activity, which includes proprietary transactions and customer facilitation, or as a hedging activity for the management of interest rate risk and foreign exchange rate risk.

Positive and negative fair values have not been netted as the Bank does not have legal right of offset.

All derivatives were held by the Bank.

Derivatives held for trading purposes

The trading transactions are wholly interest rate related contracts including swaps, caps and floors, forward rate agreements and futures. Trading transactions include derivatives where the Bank enters into a transaction to accommodate a customer together with the corresponding hedge transaction. The Bank does not trade in exchange rate related contracts as a result of its policy against speculating against sterling.

At the year end, the notional principal amounts and fair value of the Bank's trading derivatives were as follows:

Interest rate related transactions

	1997			1996		
	Notional principal amount	**Fair value asset**	**Fair value liability**	Notional principal amount	Fair value asset	Fair value liability
Interest rate swaps	**463,495**	**3,573**	**1,864**	267,750	776	582
Interest rate caps and floors	**152,908**	**594**	**590**	113,808	353	353
Forward rate agreements	**159,000**	**80**	**66**	70,522	122	114
Futures	**109,534**	**32**	**48**	58,738	8	33
	884,937	**4,279**	**2,568**	510,818	1,259	1,082

Gains and losses on exchange-traded contracts subject to daily margining requirements are settled daily. The fair value of such contracts included above reflects the last day's variation margin.

Maturity of over the counter trading contracts

	Notional principal amount	**Replacement cost**	Notional principal amount	Replacement cost
One year or less	**280,285**	**1,780**	99,922	148
One to five years	**414,598**	**1,399**	345,158	1,037
Over five years	**80,520**	**1,068**	7,000	66
	775,403	**4,247**	452,080	1,251

Counterparty for over the counter trading contracts

	Notional principal amount	**Replacement cost**	Notional principal amount	Replacement cost
Financial institutions	**647,804**	**2,849**	360,236	711
Non financial institutions	**127,599**	**1,398**	91,844	540
	775,403	**4,247**	452,080	1,251

The Bank had no non margin exchange traded contracts at the year end (1996–£Nil).

all amounts are stated in £'000 unless otherwise indicated

33. Derivatives (continued)

Non trading derivatives

Non trading transactions comprise derivatives held for hedging purposes to manage the asset and liability positions in the retail bank. Derivatives used to manage interest rate related positions include swaps, caps and floors and forward rate agreements. The foreign exchange rate positions are managed using forward currency transactions and swaps.

At the year end, the notional principal amounts of the Bank's non trading derivatives were as follows:

Interest rate related transactions	1997 Notional principal amount	1997 Replacement cost	1996 Notional principal amount	1996 Replacement cost
Interest rate swaps	**1,288,137**	**17,440**	990,351	9,645
Interest rate caps and floors	**210,000**	**3,340**	250,000	4,274
Forward rate agreements	**146,000**	**66**	691,000	242
Futures	**260,296**	**26**	–	–
	1,904,433	**20,872**	1,931,351	14,161

Maturity of over the counter interest rate related transactions.

	Notional principal amount	Replacement cost	Notional principal amount	Replacement cost
One year or less	**894,450**	**9,541**	819,300	1,948
One to five years	**624,001**	**6,044**	1,068,657	12,087
Over five years	**125,686**	**5,261**	43,394	126
	1,644,137	**20,846**	1,931,351	14,161

All interest rate related transaction counterparties were financial institutions.

Exchange rate related transactions

	Total	Financial institutions	Non financial institutions	Total	Financial institutions	Non financial institutions
Forward currency transactions	**168,215**	**126,555**	**41,660**	574,291	569,823	4,468
Currency swaps	**4,718**	**4,718**	**–**	5,146	5,146	–
	172,933	**131,273**	**41,660**	579,437	574,969	4,468

Maturity of over the counter exchange rate related transactions

	Notional principal amount	Replacement cost	Notional principal amount	Replacement cost
One year or less	**168,215**	**1,608**	574,291	1,240
One to five years	**4,718**	**–**	5,146	–
	172,933	**1,608**	579,437	1,240

all amounts are stated in £'000 unless otherwise indicated

34. Consolidated cash flow statement

	1997	1996
Reconciliation of Group operating profit to net cash inflow from operating activities		
Group operating profit	53,279	44,486
Increase in prepayments and accrued income	(17,757)	(6,020)
Increase/(decrease) in accruals and deferred income	29,007	(1,126)
Interest payable in respect of subordinated liabilities	13,014	12,653
Effect of exchange rate movements	(1,755)	(1,560)
Provisions for bad and doubtful debts	26,259	23,655
Depreciation	15,913	13,892
Profit on redemption of loan stock	-	(740)
Amortisation of investments	3,440	888
Profit on sale of investments	(5,046)	(3,183)
Loss on sale of fixed assets	1,058	198
Net cash flow from trading activities	117,412	83,143
Increase in deposits by banks	13,398	161,145
Increase in customer accounts	579,517	441,828
Increase/(decrease) in debt securities in issue	82,710	(23,008)
Decrease in loans and advances to banks	107,164	291,399
Increase in loans and advances to customers	(331,944)	(246,324)
Increase in trading debt securities	(431,695)	(362,311)
(Increase)/decrease in trading treasury and eligible bills	(12,447)	12,389
Net movement of other assets and other liabilities	9,805	(1,727)
Net increase in cheques in course of collection	(1,479)	(3,233)
Net cash inflow from operating activities	132,441	353,301

Analysis of the balances of cash

	Coin and Bank Notes	Loans and Advances to Banks Repayable on Demand	Total
At 13th January 1996	33,255	9,606	42,861
Change in year	2,055	(175)	1,880
At 11th January 1997	35,310	9,431	44,741
Change in year	(1,321)	655	(666)
At 10th January 1998	33,989	10,086	44,075

The Group is required to maintain balances with the Bank of England which at 10th January 1998 amounted to **£10,898,000** (1996–£9,355,000).

all amounts are stated in £'000 unless otherwise indicated

35. Segmental analysis

The Group's activities have been segmented between retail banking, other financial services (mainly leasing, advisory services, correspondent banking and fund management) and Unity Trust group.

	1997	1996
Profit before taxation:		
Retail banking	**137,801**	116,756
Other financial services	**18,044**	15,419
	155,845	132,175
Shared costs:		
Centralised services and processing	**(75,137)**	(57,656)
Management services and marketing	**(26,945)**	(27,593)
Profit before restructuring and exceptional items	**53,763**	46,926
Unity Trust group and associates	**1,829**	1,393
Restructuring and exceptional items	**(568)**	(2,777)
Profit before taxation	**55,024**	45,542
Gross assets:		
Retail banking	**4,673,553**	3,936,809
Other financial services	**201,447**	158,361
Unity Trust group	**173,304**	176,291
Group central assets	**223,683**	225,675
Total	**5,271,987**	4,497,136
Net assets:		
Retail banking	**261,204**	197,458
Other financial services	**6,223**	5,645
Unity Trust group	**12,800**	11,783
Group central net assets	**(45,481)**	(16,503)
Total	**234,746**	198,383

Net assets are share capital, reserves and minority interest.

36. Directors' and officers' loans

The aggregate amounts outstanding at 10th January 1998 under transactions, arrangements and agreements made by authorised institutions within the Group with those who were directors (including connected persons) or officers of The Co-operative Bank p.l.c. during the year, and the number of persons concerned, were as follows:

	Aggregate amount outstanding	Number of persons
Directors		
loans	**£579**	**1**
quasi-loans	**£14,963**	**12**
Officers		
loans	**£79,455**	**14**
quasi-loans	**£38,451**	**27**

The above information concerning officers is presented only in respect of those officers within the meaning of the Banking Act 1987.

all amounts are stated in £'000 unless otherwise indicated

37. General

(i) Operating lease commitments
At the year end, annual commitments under non-cancellable operating leases were:

	1997 Land and buildings	1996 Land and buildings
Group:		
Expiring		
within one year	**733**	739
between one and five years	**648**	749
in five years or more	**9,431**	9,259
	10,812	10,747
Bank:		
Expiring		
within one year	**733**	739
between one and five years	**648**	749
in five years or more	**9,129**	8,957
	10,510	10,445

(ii) Management and agency services
The Group has investment management business.

(iii) Average number of employees
The average number of persons employed by the Group during the year was made up as follows:

	1997	1996
Managers	**564**	534
Clerical staff	**3,366**	3,370
	3,930	3,904

(iv) Concentration of exposure
The group's exposure is virtually within the United Kingdom. The following industry concentrations of gross advances before provisions and suspended interest are considered significant.

	1997	1996
Distribution, hotels and catering	**356,723**	346,815
Business and other services	**737,134**	659,608
Personal	**1,358,480**	1,046,628

(v) Related parties
As the Bank is a wholly owned subsidiary of Co-operative Wholesale Society Limited the Bank has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of that Group (or investees of the Group qualifying as related parties).
Transactions with other related parties as defined by FRS 8 have not been disclosed because they are considered to have taken place in the normal course of banking business and as such are covered by Banking confidentiality rules.
The consolidated financial statements of Co-operative Wholesale Society Limited within which the Bank is included can be obtained from the address given in note 20.

Consolidated Profit & Loss Account History (£m)

	1993	1994	1995	1996	**1997**	Change	Change %
Net interest income	130.0	139.2	146.1	180.3	**208.8**	28.5	15.8
Non interest income	97.7	99.1	103.8	106.2	**107.2**	1.0	0.9
	227.7	238.3	249.9	286.5	**316.0**	29.5	10.3
Expenses	(172.4)	(178.8)	(189.7)	(218.4)	**(236.5)**	(18.1)	(8.3)
Profits before bad debts	55.3	59.5	60.2	68.1	**79.5**	11.4	16.7
Provisions for bad debts	(38.5)	(32.0)	(22.7)	(23.7)	**(26.3)**	(2.6)	(11.0)
Operating profit	16.8	27.5	37.5	44.4	**53.2**	8.8	19.8
Associated undertakings and exceptional items	1.0	–	(0.8)	1.1	**1.8**	0.7	63.6
Profit before taxation	17.8	27.5	36.7	45.5	**55.0**	9.5	20.9
Taxation	(6.7)	(9.5)	(13.2)	(16.9)	**(18.0)**	(1.1)	(6.5)
Profit after taxation	11.1	18.0	23.5	28.6	**37.0**	8.4	29.4
Minority interests	(0.1)	(0.2)	(0.4)	(0.4)	**(0.8)**	(0.4)	(100.0)
Dividends	(8.0)	(8.6)	(9.5)	(10.5)	**(5.5)**	5.0	47.6
Retentions	3.0	9.2	13.6	17.7	**30.7**	13.0	73.4

	1993	1994	1995	1996	**1997**
Average numbers of staff	3,871	3,804	3,790	3,904	**3,930**
Net interest margin %	4.7	4.6	4.3	4.4	**4.5**
Non interest income % expenses	57	55	55	49	**45**
Bad debt charge % average retail lending	2.4	1.9	1.3	1.1	**1.1**
Return on opening equity shareholders' funds %	6.2	13.5	17.7	20.0	**23.5**
Earnings per share	0.91p	2.03p	2.93p	3.78p	**4.64p**
Risk asset ratio %	11.5	11.7	13.3	12.5	**12.8**

Balance Sheet Extracts (£m)

	1993	1994	1995	1996	**1997**
Share capital	90.0	90.0	90.0	90.0	**95.0**
Reserves	60.3	69.5	83.1	100.8	**131.5**
Shareholders' funds	150.3	159.5	173.1	190.8	**226.5**
Minority interest	6.6	6.8	7.2	7.6	**8.2**
Subordinated liabilities	81.0	81.0	204.9	168.0	**197.9**
Deposits by banks	572.4	602.3	404.3	563.9	**575.6**
Deposits by customers	2,410.5	2,273.4	2,891.1	3,333.1	**3,912.6**
Tangible fixed assets	40.3	44.5	52.4	63.2	**64.1**
Loans and advances to banks	1,018.9	698.5	905.7	614.2	**507.7**
Loans and advances to customers	1,720.9	1,789.7	1,974.2	2,196.9	**2,502.6**
Debt securities, treasury and other eligible bills	382.9	564.2	767.9	1,380.2	**1,938.7**

NOTICE IS HEREBY GIVEN that the Annual General Meeting of The Co-operative Bank p.l.c. will be held at the registered office, 1 Balloon Street, Manchester M60 4EP at 1.30 pm on Friday, 15th May 1998 for the following purposes.

1. To receive the Notice convening the meeting.
2. To receive the Chairman's Statement, the Chief Executive's Overview, the Operating and Financial Review, the Report of the Directors, the Corporate Governance Report, the Report of the Remuneration Committee and to adopt the Financial Statements for the year ended 10th January, 1998 together with the Auditor's Report thereon.
3. To accept the following recommendations of the Board:
   (a) **Non-cumulative Irredeemable Preference Shares**
      (i) That the payment of a dividend of 4.625p per £1 share on 30th November, 1997 be confirmed; and
      (ii) that a dividend of 4.625p per £1 share be declared and paid on 31st May, 1998 to the registered holders as at 1st May 1998 providing a dividend rate of 9.25 per cent per annum and making a total distribution of £5,550,000.
   (b) **Ordinary Shares**
      That no dividend on ordinary shares be paid.
4. (a) To re-elect the following Directors who retire by rotation, in accordance with the provisions of Article 105:
      (i) G. R. Bennett
      (ii) M. A. Firth
      (iii) G. L. Fyfe
      (iv) W. A. Prescott
   (b) To re-elect the following Directors who were appointed since the date of the last Annual General Meeting:
      (i) D. S. Hollas
      (ii) M. K. Pedelty
      (iii) W. Tucker
5. That KPMG Audit Plc be and are hereby appointed auditor of the Company, to hold office from the conclusion of this meeting until the conclusion of the next General Meeting at which accounts are laid before the Company, at a remuneration to be fixed by the Directors.

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

By Order of the Board
M. A. Lees,
Secretary
15th April 1998

Registrar:
Computershare Services PLC
P.O. Box 82
Caxton House
Redcliffe Way
Bristol BS99 7NH
Tel: 0117 930 6666

A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote on his/her behalf. A proxy need not also be a member. Further information on Preference Shareholders' voting rights is given below.

Members should note that to attend the meeting their shareholding must be registered on the register of the Company not later than 5.00 p.m. on Wednesday, 13th May 1998. This applies to shares held in uncertificated forms in CREST and to shares held in certificated form.

Preference Shareholders – Extract from Articles of Association 4(B)(c)
Voting and General Meetings

(i) The holders of the Preference Shares shall be entitled to receive notice of and to attend (either in person or by proxy) all General Meetings of the Company. The holders of the Preference Shares shall have the right to speak and vote at a General Meeting of the Company only if and when, at the date of the notice convening such meeting, the fixed preferential dividend payable to them respectively has been made in arrears for six months or more after any date fixed for payment thereof, or if a resolution is to be proposed at such meeting abrogating or varying any of the respective rights or privileges attaching to their shareholding or for the winding-up of the Company or other return of capital and then on such resolution only.

(ii) Whenever the holders of the Preference Shares are entitled to vote at a General Meeting of the Company upon any resolution proposed at such meeting, on a show of hands every holder who (being an individual) is present in person or (being a corporation) is present by a representative or by proxy shall have one vote and, on a poll, shall have one vote in respect of each Preference Share registered in the name of such holder.