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The CO-OPERATIVE BANK

sustainable growth

Financial Statements 2002

contents

highlights

Profit before Taxation	£122.5m	Better than 2001 by: 14.0%
Earnings attributable to Equity Shareholder (after Tax)	£78.2m	Better than 2001 by: 14.2%
Operating Income	£483.4m	Better than 2001 by: 6.1%
Operating Costs	£290.8m	Higher than 2001 by: 3.2%
Cost/Income Ratio	60.2%	Better than 2001 by: 1.7 percentage points
Charge for Bad and Doubtful Debts	£70.1m	
As a percentage of Loans and Advances to Customers	1.60%	
After Tax Return on Opening Equity Shareholder's Funds	19.8%	
Risk Asset Ratio:		
Overall	14.1%	
Tier 1	10.6%	
Increase in Average Retail Customer Deposits	12%	
Increase in Average Retail Customer Lending	11%	

“these impressive financial results are accompanied by an equally impressive performance in the areas of environmental and social responsibility”

chairman’s statement

As The Co-operative Bank looks forward to the opportunities and challenges presented by the creation of Co-operative Financial Services (the new grouping comprising the bank and the Co-operative Insurance Society – CIS), it is encouraging to report that it faces the future from a strong and confident position. This set of results represents the ninth consecutive year of record pre-tax profits for the bank. Profit before tax was £122.5 million, higher than 2001 by 14%. Earnings attributable to the Co-operative Group (CWS) Limited, after tax, were £78.2 million, an increase of 14.2%.

These impressive financial results are accompanied by an equally impressive performance in the areas of environmental and social responsibility. This was nowhere more clearly demonstrated than when the bank took the Special Judges’ Award in 2002 for Overall Corporate Social Responsibility Performance at the prestigious New York-based Global Corporate Conscience Awards. Never before has a UK company, or, indeed, a financial services organisation worldwide, received this special award.

The Global Corporate Conscience award honours companies that respect the rights and promote the well-being of all stakeholders, and is once again recognition of the importance the bank attaches to measuring its success in other than purely financial terms. The bank's annual Partnership Report is being published alongside these financial statements, and illustrates in detail not only how the bank delivers value to all its partners but also how it maintains its world-class social and environmental performance.

Our internet bank, **smile**, launched just three years ago, continues to prosper. It has established a distinctive character, and provides an exceptional combination of value, convenience and service. Independent research has shown high levels of satisfaction amongst **smile**'s customers; and more than 80% of **smile**'s customers are new to the The Co-operative Bank group.

The bank's record in innovation has consistently been one of its key strengths, and I am confident that by moving forward with the Co-operative Insurance Society, under the common leadership of Co-operative Financial Services (CFS), it will build further on its successes over the coming years. These exciting developments will allow each of these successful co-operative organisations to benefit from collaborative initiatives, whilst the co-operative family of businesses should also see new opportunities arising from the resulting synergies. At the heart of these developments, however, is the determination to provide – for the customers of both organisations – a wider range of financial products and convenient channels through which to access their products and services.

The scale of the changes required under the new grouping within CFS will demand a great deal from all the people who work in both organisations. However, the commitment and motivation already evident from the bank's own leaders and staff confirms my belief that 2003 should see continued progress.

There have already been a number of changes to the membership of the bank's Board and Executive Team. Mervyn Pedelty continues in his role as the bank's Chief Executive, and Sheila Macdonald has now been appointed to the role of Chief Operating Officer, and I would like to take this opportunity to congratulate her, and also to welcome Bryce Glover, Richard Goddard and Peter Sutcliffe as Executive Directors, and as Non-Executive Directors, Simon Butler and Graham Stow. Mick Firth and Ken Lewis have moved on to new roles within CFS and Bob Head has left **smile**, and I thank them all for their significant contribution to the bank over many years. I must also pay tribute to Willie Tucker and David Hollas, who both stood down from the Board during 2002 after five year's service as Non-Executive Directors. I am grateful to them both for their contribution to The Co-operative Bank's many achievements.

Graham Bennett, Chairman

"our commitment to running a responsive, and responsible, business has provided a firm foundation for success – making 2002 another record year for The Co-operative Bank"

chief executive's overview

Summary Once again, our commitment to running a responsive, and responsible, business has provided a firm foundation for success – making 2002 another record year for The Co-operative Bank. The year saw us building on our strong reputation for customer focus, ethical principles, innovative product development and quality service. These priorities have continued to be a powerful formula for sustainable growth.

Financial performance In 2002, the bank produced a pre-tax profit of £122.5 million. This is a 14% increase on 2001, giving us our ninth consecutive year of record profits. Against a backdrop of relentless competition and increasing economic uncertainty, our financial results continue to demonstrate that the emphasis we place on customer service and the broad view we take of our social responsibilities really does deliver. The return on opening equity, after tax, was 19.8%. Operating income increased by 6.1% and the Cost/Income Ratio was reduced again, despite our continued investment in business development. Average retail customer lending balances grew by 11% and average retail customer deposit balances by 12%. Provisions for bad and doubtful debts stood at 1.60% of year-end loans and advances to customers, a reduction in percentage terms of 0.11% compared with 2001.

Co-operative Financial Services In April 2002, Co-operative Financial Services (CFS) was created to bring The Co-operative Bank and Co-operative Insurance Society (CIS) under common leadership. Co-operative Financial Services Limited is an Industrial and Provident Society and is the new holding company for these two major businesses.

Following my appointment as CFS' first Chief Executive, one of my key objectives has been to focus on the range of products, services and distribution channels offered to the customers of both organisations and to explore how these can be developed to provide our joint customer base with a more comprehensive, convenient and co-operative financial services offering.

A significant amount of research and analysis was undertaken prior to the formation of CFS. One output from the research was that there is a large number of customers unaware that these two important co-operative businesses are part of the same family and, as a result, are buying many of their financial services products from outside the Co-operative Group. When customers are made aware that the bank and CIS are, in fact, sister organisations, many indicate a preference for considering buying these products from the sister organisation.

The formation of CFS has inevitably led to a reorganisation of the bank's Board and Executive Team. The new management structures are now virtually complete, including several key executive appointments, with my colleague Sheila Macdonald appointed to the role of Chief Operating Officer of the bank. I continue as the bank's Chief Executive.

People I have always firmly believed that our people, and their commitment to exceptional levels of customer service, are crucial to the success of the bank. Therefore, given the various changes currently taking place within our organisation, I am particularly pleased by the feedback we received from our 2002 annual staff survey. The staff survey provides our people with the opportunity to openly air their thoughts and opinions on working for the bank. This year, I was pleased to see a significant increase in the number of our staff taking the opportunity to respond to the survey and I welcome, once again, the improvement that was recorded in the overall scores. Staff understanding of the bank's mission and core values remains high, and I am delighted to report that 88% indicated their support for this positioning. The fact that staff opinions about working for the bank constitute a major reason for our inclusion in the list of the 'UK's Best Workplaces 2003', published by the Financial Times, also gives me considerable personal satisfaction.

In the previous year's staff survey, along with clear positive signals about pride, job satisfaction, teamwork and empathy with customers, there were concerns expressed by some staff about the opportunities for career progression and about the increasing pressures at work. In 2002, we continued to focus on these areas through a number of initiatives. Our new 'work/life balance' policies include provision for flexible working, maternity, paternity and adoption leave, and childcare vouchers. These policies recognise the wider commitments of our staff and, in partnership with our new 'well-being' policy, are a key part of our drive to tackle the impact of modern stress in the workplace. The impact of these new policies has yet to be seen in responses to the staff survey, but I hope to see improvements in this area next year as more employees make use of these provisions.

Customer service Just as we recognise the need to keep investing in our employees in a time of change, it is equally important that we maintain our sharp customer focus. Whilst I have always believed that looking after our staff is the starting point for excellent customer service, we also continue to implement a range of initiatives to help ensure we meet or exceed our customers' expectations.

Our recent TV advertising was built around the proposition that we are a bank that treats its customers with respect, and we aim to do this in all our dealings with them. It is extremely important to us to be honest and open with our customers, and to guarantee them good service. If we ever fail to live up to our service level guarantees, after rectifying the problem we apologise and give the customer £15.

A major independent survey, carried out by MORI in the six months ending December 2002, confirms the effectiveness of our approach. 97% of our current account customers described themselves as 'satisfied' or 'very satisfied' with the service they receive from us. This puts our net satisfaction rating 8 percentage points above the average rating and puts us at the top of the list of all the high street banks surveyed.

Personal banking 2002 was a particularly busy year for product development in personal banking as we worked hard to make sure our personal customers have not only the choice of products, but also the range of channels through which to access them to meet their evolving requirements. We expanded our residential mortgage product portfolio with the addition of several competitive fixed-rate offers, enabling our customers to benefit from current low interest rates. New variable-rate mortgages, including a 3-year discount product and a 5-year tracker product, were added to our mortgage range and we believe we now offer something for everyone.

In keeping with our wider values and principles, our mortgages combine value for money with a range of environmentally-friendly features. For example, for each year during the lifetime of a mortgage, the bank will make a payment to Climate Care – a scheme that seeks to offset, each year, around a fifth of an average home's carbon dioxide emissions through reforestation programmes and other schemes.

For each mortgage taken out with the bank, an annual payment is made to Climate Care to support carbon dioxide offsetting schemes, such as rainforest reforestation in Kibale National Park, Uganda.

We have also been particularly active in the credit card market, regularly featuring in the media's 'best buy' tables with products such as our Platinum Fixed Rate VISA card, which guarantees a fixed rate of interest for five years. Building on this success, in September 2002 we launched a Gold Fixed Rate card, which provides customers with a similar fixed rate offer until 2008. We also re-launched our Platinum Advantage card, with an initial interest-free period for purchases and balance transfers, and also introduced a Platinum Base Rate Tracker card, which we believe is unique in the credit card market – cardholders are guaranteed an interest rate that is fixed at 5% above the Bank of England base rate, with a six month introductory period where the rate is equivalent to the prevailing base rate.

We continued to build relationships with our affinity partners, notably through the introduction of a number of new platinum cards, which generate donations to the affinity group each time they are used by the cardholder. In total, the bank's affinity cards raised more than £1.38 million for partners during 2002, providing much needed funds for them, for a variety of important projects.

Since last year's launch of our new Privilege current account, we have seen many customers – both existing and new – choosing to take advantage of the benefits it offers. These include a guaranteed overdraft at preferential rates, free annual family travel insurance and discounts on a wide range of lifestyle products and services – all for a small monthly fee.

In addition to product development, we have also improved the way we communicate our offers to both existing and potential new personal customers. In 2002, we ran two TV advertising campaigns: one specifically promoting the advantages of our personal loans, and another, to which I referred earlier, reminding people of the bank's promises to customers about service, ethics and respect. All of our marketing activity continues to carry our overarching customer proposition: 'The Co-operative Bank. Customer led, ethically guided.'

Independent financial advice

Co-operative Bank Financial Advisers Ltd (CBFA), our IFA subsidiary, consolidated its position as a leading IFA when it was confirmed in the top 25 of the list of the UK's Top 100 IFAs, published by the industry trade journal, Financial Adviser.

In our annual survey of customers, they confirmed yet again that the three most important reasons for dealing with CBFA are: genuinely independent advice; our approach to ethical investments; and the reassurance that comes from being part of The Co-operative Bank. In 2002, CBFA became the first business in the UK to be awarded the joint Standard Life/Royal National Institute for the Blind (RNIB) 'See it Right' logo for its accessible website.

Internet banking

Within just three years of its launch, our internet bank, **smile,** has established a coveted and distinctive position in the market.

During 2002, we added a number of new services to the **smile** offer. For example, working in partnership with 'Self Trade', one of the UK's fastest growing online stockbrokers, we developed **smile**invest sharedealing, a quick and easy low-cost way for customers to buy and sell shares, 24 hours a day, and a new **smile** credit card was also launched in July 2002, offering customers many 'best buy' features.

In July 2002, we were pleased to receive no fewer than five awards for **smile.** The specialist magazine, Your Money, chose **smile** as the Best Internet Banking Provider and at the Guardian/Observer Consumer Finance Awards we won four prizes for best: website, credit card, online current account and savings account. A successful year for **smile** drew to a pleasing conclusion when a leading consumer magazine survey singled out **smile** for its exceptional levels of customer satisfaction – some 80% of customers having said that they were very satisfied with all aspects of their **smile** banking service.

For Co-operative Bank customers who want to use the internet, but wish to do so alongside more traditional banking service channels, the bank also provides a free online facility, the Co-operative Bank Internet Banking Service. Last year, this service was judged the Best Financial Services Internet Site among the 'traditional banks' at the Guardian/Observer Consumer Finance Awards, and we have since improved the website even further to make it even more user-friendly.

smile upheld its reputation for innovative advertising, with a number of campaigns appearing in the national press throughout 2002.

Our Business Direct account was enhanced, rebranded and relaunched in October 2002 as Business Directplus, offering new SME customers a range of attractive features, including 18 months free banking.

Corporate and business banking

During 2002, we redefined relationship banking for our corporate and business customers as 'Partnership Banking'. This move reflects the surveyed views of our customers, who see The Co-operative Bank as an integral part of their business and a critical component of their success. We understand that each business is unique and, by working in partnership, we invest time in gaining a true understanding of our customers' own businesses, allowing us to tailor our support and respond to them with imagination.

Another key element of our corporate and business banking activities in 2002 was our focus on small to medium-sized businesses (SMEs). In October 2002, we relaunched our Business Direct account as 'Business Directplus' – a 24-hour telephone, internet and postal banking service offering 18 months free banking to all new SME customers, as well as competitive in-credit interest rates on current account balances.

The year also saw the development of a new partnership with Bradford & Bingley plc, who chose us as their principal clearing bank. Our innovative approach, flair and underlying values were key amongst the factors that resulted in Bradford & Bingley selecting The Co-operative Bank ahead of other competitors.

An existing partnership that has strengthened and developed over the last year is that between the European Investment Bank (EIB) and ourselves. In November 2001, the EIB Loan Scheme was created to help finance the growth of businesses in EU-assisted areas of the UK. In September 2002, we mutually lowered the minimum loan value from £250,000 to £100,000, to enable more of our SME customers to benefit.

At the same time, our growing profile within the Local Authority sector placed us in a strong position to participate in the Affordable Warmth Programme in partnership with Transco and EIB. We developed a new loan scheme, which is being used to assist local authorities and social housing landlords finance the installation of energy efficient heating systems, thus reducing energy costs and improving comfort levels for residents.

The Co-operative movement

Our co-operative heritage continues to inform and guide everything we do – it is reflected in our strategies and our products and services, in our community involvement programmes and in our brand values.

The bank's Chief Executive, Mervyn Pedelty, and other leading figures from the Co-operative movement, met with the Prime Minister in February 2002 to discuss the role of co-operatives and social enterprises in the UK economy.

2002 saw a concerted effort to strengthen the relationship between the Co-operative movement and the growing UK social enterprise sector. The bank chaired a cross-movement group on these issues, which led to a major Co-operative and social enterprise event at the Department of Trade and Industry in February 2002, and a meeting between Tony Blair and key representatives from the Co-operative movement and the social enterprise sector at 10 Downing Street. Following the recommendations of the Co-operative Commission, which published its findings and recommendations in 2001, a new foundation organisation, 'Co-operative Action', was launched in April 2002. Co-operative Action has been established to assist communities to develop co-operative, mutual or social enterprises, through the provision of grants and loans. The foundation has been created from donations made by Co-operatives throughout the UK.

The bank has been proud to take a key role in this venture, contributing an initial £500,000 towards the establishment of the foundation and encouraging staff involvement in both the management team and the Board.

As part of the Co-operative family of businesses, we continued our programme to install cash machines in Co-operative retail stores throughout the UK. This initiative continues to bring banking facilities into areas that often had none and, as such, is an important part of our continuing efforts to promote financial inclusion. It is also an excellent example of the unique advantages of co-operation in action.

In May 2002, this partnership brought about the launch of the new Co-op Dividend VISA credit card. Having revived the famous 'Divi' through its Dividend card, the Co-operative Group's retail operations can now offer customers not only the chance to earn extra Dividend at its own stores, but also an additional Dividend at any outlet displaying the VISA symbol.

Our home in the Co-operative family of businesses allows us to explore different ways of delivering our services to our customers. For example, we have recently brought together the Co-operative Group's travel business, Travelcare, with CIS and our own banking services in our flagship central Manchester retail outlet at No.1 Balloon Street.

A responsible company

Possibly the best modern expression of our co-operative values is the priority we are able to give to ethical, social and ecological issues. Over the years, we have built a strong reputation in these areas and our commitment was recognised not only nationally but also globally in 2002. A Queen's Award for Enterprise, in the Sustainable Development category, was conferred on the bank in April 2002 in recognition of our Partnership Approach to management. Later in 2002, we were also honoured to receive the Special Judges' Award for Overall Corporate Social Responsibility Performance at the prestigious New York-based Global Corporate Conscience Awards, effectively making us the first UK company to be named as the world's most socially responsible business.

In May 2002, we marked the tenth anniversary of our ethical stance by launching our updated policy. The new policy is a clear statement of who we will, and will not, do business with. Its publication followed an extensive consultation with customers, which took place over an 18-month period. My colleagues and I were very pleased with the response – particularly as the results revealed growing interest in, and support for, our ethical policy amongst both business and personal customers.

In our annual Partnership Report, published alongside these financial statements, we provide much more detailed information about our partners' attitudes towards our ethical policy and about our performance against a number of other key ethical and ecological indicators. We began producing this separate 'warts and all' sustainability assessment in 1998, and we are still the only UK retail bank to produce such an independently verified report. In March 2003, our Partnership Report was declared to be the Best Sustainability Report in the UK at the Association of Chartered Certified Accountants UK Awards for Sustainability Reporting 2002. This followed international recognition in 2002, when the United Nations Environment Programme (UNEP) and SustainAbility

Our revised Ethical Policy was published in May 2002.

ranked the bank's report as first in the biennial Global Benchmark of Sustainability Reporting.

Our 2002 Partnership Report records the major progress the bank has made in recent years towards reducing its ecological impact. Almost two-thirds of the waste now leaving the bank is either reused or recycled, and the carbon dioxide emissions resulting from the electricity consumption of our buildings have reduced by 90% per customer account since 1997 – with 98% of the electricity we use now being sourced from renewable sources. I am also proud to report that, at a time when the world is losing species at an ever-increasing rate, the bank's own initiatives on biodiversity have resulted in the amount of land with significantly increased biodiversity being ninety times greater than the land occupied by the bank's operations.

We also upheld our strong campaigning tradition in 2002 with the latest 'Customers Who Care' initiative, which drew attention to the humanitarian impacts of cluster bombs. The campaign calls for a new international protocol on the post-conflict clearance of unexploded weapons, including cluster bombs. In June 2002, we welcomed the Rt Hon Clare Short MP, Secretary of State for International Development, to the Westminster launch of *Explosive Remnants of War*, a report we produced with our campaign partners Landmine Action (a coalition which includes many major charities, such as Amnesty International, Christian Aid and Oxfam). The first of its kind to document the social and humanitarian impacts of unexploded ordnance, the report has been commended by the UK Government as having made a useful and positive contribution to moving discussions forward. The report also continues to be a key tool for our partners as they lobby the UN to adopt a new international agreement on explosive remnants of war (ERW). These activities achieved a successful outcome when, in December 2002, the UN announced that negotiations to establish an international agreement on ERW would commence in 2003. The bank will continue to support Landmine Action in 2003 as the UN negotiations progress.

Richard Lloyd of Landmine Action and Mervyn Pedelty were joined by The Rt Hon Clare Short MP at the Westminster launch of the research report, *Explosive Remnants of War*

2003 and beyond

Looking ahead, I am confident that the bank's belief in its ethical, social and ecological responsibilities – combined with our investments in our people, customer focus and product innovation – will continue to serve us well.

The UK banking sector is now operating in an environment of significantly increased competition and greater regulation. With the economic prospects for the UK and many other countries being currently somewhat uncertain, I can only be cautiously optimistic that 2003 should be another rewarding year for The Co-operative Bank.

The recent establishment of Co-operative Financial Services (CFS) is an important event that will help us to bring the benefits of the Co-operative approach to an even wider audience. As the two businesses of The Co-operative Bank and CIS work increasingly more closely together, the benefits of a broader range of products, services and convenient access for our customers should be considerable.

Mervyn Pedelty

Mervyn Pedelty, Chief Executive

operating and financial review

Financial Highlights In 2002, The Co-operative Bank achieved a Profit Before Tax of £122.5 million, £15.0 million (14.0%) higher than 2001. Earnings attributable to the equity shareholder, after tax, were £78.2 million, an increase of 14.2%, and the Return on Opening Equity, after tax, was 19.8%.

The increase in profitability arose from higher operating profits, before bad debts, reflecting a 6.1% rise in Operating Income and a further improvement of 1.7 percentage points in the Cost/Income Ratio. Credit quality remained stable, and the charge for bad debts, which increased by £3.9 million, was better than last year at 1.60% of year-end loans and advances to customers.

Results Summary	2002 £m	2001 £m	Change £m
Operating Income	**483.4**	455.6	27.8
Operating Costs	**(290.8)**	(281.9)	(8.9)
Operating Profit (before Bad Debts)	**192.6**	173.7	18.9
Bad Debt Provisions	**(70.1)**	(66.2)	(3.9)
Profit before Tax	**122.5**	107.5	15.0
Retained Profit	**78.2**	68.5	9.7
Cost/Income Ratio	**60.2%**	61.9%	-1.7%

The Balance Sheet remained robust throughout the year with continued strong liquidity and capital ratios. The year-end Risk Asset Ratio was 14.1% with a Tier 1 Ratio of 10.6%, substantially higher than the regulatory standards. At the year end, Balance Sheet liquidity was underpinned by £2.5 billion of highly-rated debt securities.

Business Highlights

The outlook for the UK economy is currently uncertain, with the sectoral imbalances within the economy creating some risks to stability. Economic growth was supported during 2002 by generally strong levels of consumer spending alongside historically low interest rates and high house price inflation. In contrast, the manufacturing sector continued to have difficulties, with the result that business investment has fallen and insolvency levels are on the increase. With household borrowing now at record levels, any sharp correction could depress future economic growth. In this more uncertain business environment, however, the bank has continued to grow steadily whilst continuing to adopt a cautious lending policy.

In 2002, retail customer deposit and lending balance growth was relatively strong and balanced. Average customer retail deposits of £5,478 million grew by £591 million (12%) and were £1,533 million higher than retail lending balances. Average customer retail lending balances were £3,945 million, higher than last year by £402 million (11%).

The growth in retail customer deposits was particularly strong within the personal sector. Average personal sector balances of £3,673 million were £507 million (16%) higher than last year, including continued growth in deposits at **smile**, the bank's internet banking operation. **smile**'s customer base has grown impressively since its launch with over 80% of its customers being new to The Co-operative Bank group. Over the past year, **smile**'s product range has been extended, and now offers many new products including **smile**invest sharedealing, a quick and easy low-cost way for customers to buy and sell shares 24 hours a day, and a new **smile** credit card offering customers many 'best buy' features.

The bank's savings product range has been extended to include fixed-rate, fixed-term deposit accounts, including a FTSE4Good Guaranteed Stock Market Deposit Bond and an updated range of fixed-term deposit offers. Our added-value current account, Privilege, launched in 2001, has proved attractive to both new and existing customers and has also contributed to the growth in deposits. As well as offering full current account facilities, Privilege provides a wide range of attractive benefits, all for a small monthly fee.

Average corporate and business deposit balances increased by 5% to £1,805 million, reflecting steady growth in both larger company relationship banking and in banking for small and medium-sized enterprises (SMEs). Business Direct, the bank's successful telephone and internet banking service for SMEs, was re-launched in October 2002 as Business Directplus, and the initial response from customers has been very encouraging. Business Directplus enhancements included a no-fee arranged overdraft, increased credit interest rates and an eighteen months free banking introductory offer. Over the last year, the banking business of a further five Local Authorities was gained, thus consolidating the bank's position as a major provider of financial services to this important sector. The bank has also expanded its profile and business base within the community and charity sectors, and was delighted to be appointed banker for the newly-formed Charity Bank.

Although the overall credit climate has been relatively benign so far, the current uncertainties within the UK economy could increase medium-term business and credit risk. During the last year, the bank's lending growth has been carefully targeted to both maintain credit quality and to maintain a balanced portfolio across personal and corporate business. Lending increased in both the corporate and personal sectors, with growth being stronger in the personal sector where average lending increased by £315 million (17%) to £2,205 million. This reflected increased demand for the bank's range of residential mortgages along with a steady rise in VISA credit card balances. Average corporate and business lending balances increased by £87 million (5%).

The bank re-entered the UK residential mortgage market in late 2000, and during 2001 and 2002 the product range and delivery channels have been developed and extended. Base Rate Tracker mortgages and a broader range of fixed-rate, capped-rate and discount-rate products were developed and introduced. Specialist mortgage advisers are now in place within our branch network and professional intermediaries are also now in place as a key service channel as an extension to the bank's existing branch, direct mail, telephone, and internet offerings.

Against a background of intense competition, VISA credit card balances of £843 million increased by £69 million (9%) reflecting a mixture of promotional activities and the successful launch of new products. The Platinum VISA card, launched last year, was expanded with the introduction of a Platinum Base Rate Tracker card. A new Gold Fixed Rate card was also launched during 2002. The bank's successful collaboration with other organisations continued and, in 2002, new affinity card partnerships were formed with WaterAid and Stroud & Swindon Building Society. New VISA credit cards, with special Dividend features, have also been introduced specifically for both food and non-food customers of the Co-operative Group's extensive retail operations.

In addition to credit cards, the bank also has an attractive range of Co-op branded savings accounts and other services specially developed for retail customers of the Co-operative Group and the wider Co-operative movement. During 2002, an additional 355 cash machines (ATMs) were installed at Co-operative retail stores to bring the total number of cash machines in the bank's estate at the year end to over 1,100. Several hundred additional cash machine installations are also planned for 2003.

In April 2002, Co-operative Financial Services (CFS) was created to bring The Co-operative Bank and Co-operative Insurance Society (CIS) under common leadership. Co-operative Financial Services Limited is an Industrial and Provident Society and is the new holding company for these two major businesses. One of the key objectives of this important development has been to focus on the range of products, services and

Average Balances and Interest Margins

	2002 £m	2001 £m	Change £m
Net Interest Income	**329.6**	313.5	16.1
Average Balances			
Interest-earning Assets	**7,755**	7,175	580
Interest-bearing Liabilities	**6,454**	6,001	453
Interest-free Liabilities	**1,301**	1,174	127
Average Rates			
Gross Yield on Interest-earning Assets	**6.8%**	7.9%	(1.1%)
Cost of Interest-earning Liabilities	**3.1%**	4.2%	1.1%
Interest Spread	**3.7%**	3.7%	–
Contribution of Interest-free Liabilities	**0.5%**	0.7%	(0.2%)
Net Interest Margin	**4.2%**	4.4%	(0.2%)

Non-Interest Income	**2002 £m**	2001 £m	Change £m
Net Commission and Fee Income	**109.6**	97.2	12.4
Insurance Commission Income	**43.6**	43.2	0.4
Other Income, including Dealing Profits/Losses	**0.6**	1.7	(1.1)
Total	**153.8**	142.1	11.7

distribution channels available to the customers of both the bank and CIS, and to explore how these can be brought closer together to provide the combined customer base with a more comprehensive, convenient and co-operative financial services offering. Whilst CFS has had little impact on the bank's results for 2002, it has the potential to create significant opportunities for the future.

Operating Income

Operating Income of £483.4 million was £27.8 million (6.1%) higher than last year, reflecting growth in both Net Interest Income and Non-Interest Income.

Net Interest Income was £329.6 million, an increase of £16.1 million (5.1%), mainly reflecting the growth in customer balances, partly offset by a reduction of 0.2% in the bank's overall net interest margin. Product margins have remained relatively stable overall and the bank's interest spread (the difference between interest rates paid on deposits and that earned from loans) at 3.7% was unchanged from 2001. The contribution of interest-free liabilities declined by 0.2% to 0.5% as a result of the lower interest rate environment. The bank's overall net interest margin was 4.2% compared with 4.4% last year.

Average interest-earning assets of £7,755 million increased by £580 million (8.1%), reflecting growth in retail customer lending of £402 million and an increase in wholesale market placements of £178 million. Average interest-bearing liabilities rose by £453 million (7.5%) to £6,454 million, driven by growth in average interest-bearing retail customer deposits of £496 million, partially offset by lower wholesale deposits. The increase in average interest-free balances mainly arose from higher Current Account balances and the bank's growing retained earnings.

Non-Interest Income of £153.8 million was £11.7 million higher than last year, an increase of 8.2%. Net commission and fee income increased by £12.4 million, mainly reflecting higher inter-bank commission from the bank's expanded ATM (cash

Operating Cost Analysis	**2002 £m**	2001 £m	Change £m
Staff Costs			
Wages and Salaries	**93.3**	88.9	4.4
Pensions and Social Security Costs	**21.4**	19.5	1.9
Other Staff Costs	**7.3**	7.9	(0.6)
	122.0	116.3	5.7
Other Administrative Expenses	**148.7**	143.5	5.2
Depreciation	**20.1**	22.1	(2.0)
Total Operating Costs	**290.8**	281.9	8.9
Cost/Income Ratio	**60.2%**	61.9%	-1.7%

executive committee

Mervyn Pedelty
Chief Executive

Sheila Macdonald
Chief Operating Officer

Bryce Glover
Executive Director,
Corporate and
Business Banking

Richard Goddard
Executive Director,
Finance and Risk

Peter Sutcliffe
Executive Director,
Retail Banking and
Business Management

Shelagh Everett
Director of Strategic
and Business Projects

Phil Garlick
Director of Operations,
smile

Caroline Hendra
Director of Credit Risk
Management

Patrick Walsh
Director of
Retail Network
and Operations

machine) network together with higher VISA commission, mortgage arrangement fees and customer service fees.

Insurance commission income was higher than last year by £0.4 million. Other income was £1.1 million lower than in 2001 due to lower dealing income and wholesale commission. Most of the bank's income from Treasury activities is included in Net Interest Income.

Operating Costs

Operating Costs of £290.8 million were £8.9 million higher than last year, a rise of 3.2%. The increase in costs arose mainly from additional business development expenditure and higher staff costs. The bank's Cost/Income Ratio improved to 60.2%, better than last year by 1.7 percentage points.

Staff costs were £5.7 million (4.9%) higher than last year, mainly reflecting the annual pay award, higher pension contributions and business growth. Staff numbers increased due to planned expansion in the **smile** and mortgage customer service centres.

Other Administrative Expenses and Depreciation costs increased by £3.2 million (1.9%), reflecting incremental expenditure on strategic business developments such as the expanded ATM (cash machine) network and investment in new technology. Major IT projects in 2002 included initial work on re-designing the underlying technical infrastructure of our banking systems, development of the bank's payment systems in response to industry initiatives, and the development of sophisticated risk management systems. Excluding this additional investment spending, other Administrative Expenses were lower than last year.

Bad and Doubtful Debts

The Profit and Loss Account Charge for bad debts of £70.1 million was £3.9 million higher than last year, mainly due to higher corporate and business sector provisions. The bad debt charge represented 1.60% of year-end Loans and Advances to Customers, an improvement of 0.11% over 2001.

The credit quality of the personal portfolio remained stable and personal sector bad debt charges increased by only £0.5 million (0.8%). The bank's credit acceptance criteria have been progressively tightened over the last three years and the bad debt charge increased at a slower rate than the growth in customer balances.

The bank's corporate and business lending is largely to small and medium-sized business enterprises (SMEs) and credit quality has remained stable with relatively low bad debt charges in recent years. This partly reflects the write-back of prior year provisions following the realisation of previous problem loans. In response to a more uncertain economic outlook, the bank's credit approval standards have become more conservative, with more stringent standards applied related to the quality of security and a customer's ability to generate positive cash flow during an economic downturn. In addition, the management of potentially higher-risk lending sectors has been

Bad and Doubtful Debt Charge

	2002 £m	2001 £m	Change £m
Profit and Loss Charge			
Personal Sector	**61.6**	61.1	0.5
Corporate Sector	**8.5**	5.1	3.4
Total	**70.1**	66.2	3.9
Charge as a percentage of year end Loans and Advances to Customers	**1.60%**	1.71%	-0.11%

strengthened. Increased provisions have been raised against a small number of accounts within these sectors to reflect this higher risk exposure. As a result, corporate sector bad debt charges were £8.5 million, higher than in 2001 by £3.4 million. The bad debt charge in the year, as a percentage of average balances, was 0.5%, compared to 0.3% last year.

Summary In 2002, the bank continued to grow both its balance sheet and profits despite increased competition. Cost efficiency has improved and an excellent return on capital has been generated. The creation of Co-operative Financial Services (CFS) in 2002, bringing together the bank and the Co-operative Insurance Society under common leadership, is clearly an important and positive development. Whilst CFS has had little impact on the bank's results for 2002, it has the potential to create significant opportunities for the future. In an intensely competitive and changing UK retail financial services market, the bank continues to be well placed to compete, and should be even stronger under the auspices of CFS.

risk management

Risk Management The Board is responsible for approving the bank group's strategy, its principal markets and the level of acceptable risks. The significant risks arise in four broad categories: credit risk, market risk, liquidity risk and operational risk. The Board has established Board Committees and Executive Management Committees to administer a risk management process which identifies the key risks facing the business and reviews reports submitted to those Committees on how those risks are being managed. Specific authority has been delegated to Board Committees and the Chief Executive who may, in turn, delegate elements of his discretions to appropriate Executive Directors and their senior line managers.

The bank's Executive Risk Review Committee, comprising all Executive Directors, the Chief Executive and Chief Operating Officer has continued to meet in 2002. The Terms of Reference include the maintenance of the Risk Management Policy, the identification and evaluation of risks and the provision of assurance to Board and Audit and Risk Committees. Regular risk and control assessments are provided by line management to the Risk Committee in respect of the bank's significant risks.

Credit Risk arises from the possibility of customers and counterparties failing to meet their obligations to the bank and represents the most significant category of risk.

The Advances Policy Statement is approved by the Board annually and determines the criteria for the management of personal, corporate and wholesale market exposures. It specifies credit management standards, including country, sector and counterparty limits, along with delegated authorities. Larger corporate facilities are sanctioned by the Board's Advances Committee who also review, each month, facilities granted within the Chief Executive's discretion. He exercises his discretion within the forum of the Credit Committee which comprises another Executive Director and senior credit managers.

The Group's personal lending policy is to establish credit criteria which determine the optimum balance between volume growth (generating higher income) and higher bad debts, so as to maximise overall profitability. Personal lending is tightly controlled through advanced credit and behavioural scoring techniques administered by a specialist department. The Board receive regular reports on the performance of the portfolio.

The Group's corporate sector policy is to maintain a broad sectoral spread of exposures which reflect the Group's areas of expertise. Credit exposures to corporate and business banking customers are assessed individually. The quality of the overall portfolio is monitored, using a credit grading system calibrated to the probability of incurring losses. All aspects of credit management are controlled centrally. The Board receives regular reports on new facilities and changes in facilities, sector exposures, bad debt provisions and the realisation of problem loans.

Credit policy for wholesale market counterparties involves establishing limits for each of these counterparties based on their financial strength and credit rating. Counterparty limits are largely uncommitted. All counterparties are reviewed at least annually by the Treasury Credit Department and the counterparty list is also reviewed by the Board's Advances Committee.

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

Interest Rate Risk Policy Statements, approved by the Audit and Risk Committee on behalf of the Board, specify the scope of the bank's wholesale market activity, market risk limits and delegated authorities. The policy is executed by the bank's Asset and Liability Committee (ALCO) which is chaired by the Chief Executive and meets monthly. Its prime task is to assess the interest rate risk inherent in the maturity and re-pricing characteristics of the Group's assets and liabilities. It sets limits within which Treasury and the bank's Asset and Liability Management department manage the effect of interest rate changes on the bank's overall net interest income. The principal analytical techniques involve assessing the impact of different interest rate scenarios and changes in balances over various time periods.

Treasury executes funding and hedging transactions with the wholesale markets on behalf of the bank and its customers. It also generates incremental income from proprietary trading within strict risk limits. There are two prime measures of risk supplemented by additional controls such as maturity and stop loss limits. Risk units express the various re-pricing and maturity mismatches as a common unit of measurement. Value at Risk (VaR) measures the daily maximum potential gain or loss due to recent market volatility to a statistical confidence level of 95% and uses 250 days of historical data and a one day holding period. During 2002, the daily VaR in the trading portfolios was less than £1.3 million. The VaR methodology has inherent limitations in that market volatility in the past may not be a reliable predictor of the future, and may not reflect the time required to hedge or dispose of the position, hence VaR is not used by the bank as the sole measure of risk.

The Board receive quarterly reports on the management of Balance Sheet risk and, each month, ALCO reviews the Balance Sheet risk position and the utilisation of wholesale market risk limits.

Liquidity Risk arises from the timing of cashflows arising from the Group's assets, liabilities and off-balance sheet instruments. Treasury manages the Group's liquidity within guidelines laid down by ALCO and in accordance with standards established for all banks by banking regulators. Short-term liquidity standards ensure the Group can always meet its obligations without recourse to the wholesale markets for at least the next five working days.

The Group's liquidity management policies are reviewed and approved annually by the Audit and Risk Committee and reviewed monthly by ALCO.

Operational Risk arises from the potential for key system failures, breaches in internal controls or from external events resulting in financial loss or reputational damage. Key operational risks include outsourced contracts, payment systems and information systems.

Operational risk is controlled and mitigated through comprehensive, ongoing risk management practices which include formal internal control procedures, training, segregation of duties, delegated authorities and contingency planning. Internal Audit Department conduct a programme of operational reviews and report regularly to Executive Directors and to the Audit and Risk Committee.

The Executive Directors are responsible for controlling the operating risks within their direct areas of accountability and for compliance with Group policies, which are extensively documented in Procedures Manuals.

Financial Instruments

The use of Financial Instruments is essential to the Group's business activities and financial instruments constitute a significant proportion of the Group's assets and liabilities. Risk management procedures are described earlier in this report, and analysis of the financial instruments is provided in the Notes to the Financial Statements. The main financial instruments used by the Group, and the purposes for which they are held, is outlined below:

Customer Loans and Deposits The provision of banking facilities to customers is the prime activity of the Group and customer loans and deposits are major constituents of the balance sheet. The Group has detailed policies and procedures to manage risks. Much of the lending to corporate and business banking customers is secured.

Debt Securities, Wholesale Market Loans and Deposits Wholesale market loans and deposits are used to fund customer balances and manage interest rate risk. The Group issues medium-term notes within an established Euro Medium Term Note programme and also issues Certificates of Deposit as part of its normal Treasury activities. Overall, customer deposits exceed loan balances and these excess funds, along with the Group's capital, are substantially invested in marketable, investment grade, debt securities and short-term wholesale market placements. Debt securities also underpin the Group's liquidity requirements and generate incremental net interest and trading income.

Capital Funds – Subordinated Note Issues and Preference Shares The Group has a policy of maintaining prudent capital ratios and utilises a broad spread of capital funds. In addition to ordinary share capital and retained earnings, the Group has issued £60 million Preference shares and, when appropriate, also issues perpetual and fixed term Subordinated Notes.

Foreign Exchange The Group undertakes foreign exchange dealing to facilitate customer requirements and to generate incremental income from short-term trading in the major currencies. Structured risk and trading related risk are managed formally within position limits approved by the Board.

Derivatives A derivative is an off-balance sheet financial instrument that derives its value from an underlying rate or price such as interest rates, exchange rates and other market prices. Derivatives are an efficient means of managing market risk and limiting counterparty exposure. The bank uses them mainly for hedging purposes and to meet the needs of customers.

The most frequently used derivative contracts are interest rate swaps, exchange traded futures and options, caps and floors, forward rate agreements, currency swaps and forward currency transactions. Terms and conditions are determined by using standard industry documentation. Derivatives are subject to the same market and credit risk control procedures as are applied to other wholesale market instruments and are aggregated with other exposures to monitor total counterparty exposure which is managed within approved limits for each counterparty.

the board

Non-Executive Chairman

G. R. Bennett, FIMgt

Non-Executive Deputy Chairman

M. D. Beaumont, MA, FCA

Chief Executive

M. K. Pedelty, FCA, FCIB

Chief Operating Officer

S. P. B. Macdonald

Executive Directors

B. P. Glover, ACIB, LLB(Hons)

R. T. Goddard, MA, FCA

W. J. Marper, FCA

P. J. Sutcliffe, ACIB

Non-Executive Directors

C. B. Blanchett

S. J. Butler

K. W. Darwin, OBE, BA(Hons)

D. J. Jackson, FCA

Sir Graham Melmoth, FCIS, FIGD, CIMgt

K. A. Smith

G. H. Stow, FCIB, FCIPD

Secretary

M. A. Lees, FCIS

The Co-operative Bank p.l.c.
Registered in England No. 990937

Head Office and Registered Office
1 Balloon Street, Manchester M60 4EP.

Telephone: 0161-832 3456. Fax: 0161-829 4475.

Web site address: www.co-operativebank.co.uk

The Directors submit their report, together with the audited financial statements for the year ended 11th January 2003.

Results and Dividends

The profit on ordinary activities before taxation was **£122.5 million** (2001-£107.5 million), an increase of £15.0 million on 2001. After preference dividends of **£5.5 million**, the profit attributable to the ordinary shareholders amounted to **£78.2 million**. 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 11th January 2003 and future developments.

Outlets

At 11th January 2003 the bank had **133** outlets and **119** Handybanks (instore facilities).

Directors and their Interests

The names of the present members of the Board are set out on page 24.

Mr. M. J. Woodward also served as an Executive Director until his resignation on 1st February 2002.

Mr. D. S. Hollas also served as a Non-executive Director until his resignation on 8th November 2002.

Mr. K. J. Lewis and Mr. M. A. Firth also served as Executive Directors until their resignations on 12th November 2002.

Mr. W. Tucker also served as a Non-executive Director until his resignation on 4th December 2002.

Mr. R. T. Goddard was appointed Executive Director on 8th November 2002.

Mr. P. J. Sutcliffe and Mr. B. P. Glover were appointed Executive Directors on 10th January 2003.

Mr. S. J. Butler was appointed as a Non-executive Director on 28th January 2003.

Mr. G. H. Stow was appointed as a Non-executive Director on 4th March 2003.

In accordance with the Articles of Association, Messrs. Butler, Goddard, Sutcliffe, Glover and Stow, having been appointed since the date of the last Annual General Meeting, retire and being eligible, offer themselves for re-election.

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

No Director offering themself 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.

No director had a material interest at any time during the year in any contract of significance, other than a service contract, with the bank or any of its subsidiary undertakings.

As nominee of the ultimate parent organisation, Mr. G.R. Bennett held 40 ordinary shares of 5p each throughout the year. These were transferred to the ultimate parent organisation on 21st March 2003.

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

	No. of Shares	
	2002	2001
W. J. Marper	**11,042**	11,042

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

	2002 'C' Shares of £1 each	2001 'C' Shares of £1 each
Sir Graham Melmoth	**226**	226

There have been no changes in the Directors' shareholdings between the end of the financial year and 10th April 2003, except as stated above.

Non-executive Directors

The Non-executive Directors are appointed from the Board and Executive of Co-operative Financial Services Limited, which is the holder of all the ordinary share capital except for the 40 ordinary shares held by the ultimate holding organisation as described above, as follows:

Martin Beaumont, 53, Chief Executive, Co-operative Group (CWS) Limited.

Graham Bennett, 52, Chief Executive, Southern Co-operatives Limited.

Christopher Blanchett, 56, Chief Executive, Colchester and East Essex Co-operative Society Limited.

Simon Butler, 48, Chairman, Co-operative Insurance Society Limited.

Keith Darwin, 58, Chairman, Co-operative Financial Services Limited.

David Jackson, 55, Chief Financial Officer, Co-operative Group (CWS) Limited.

Sir Graham Melmoth, 65, Non-executive Director, Co-operative Financial Services Limited.

Kathryn Smith, 43, Research and Communications Consultant.

Graham Harold Stow, 58, Chairman of Building Societies Association.

Supplier Payment Policy and Practice

The bank's suppliers are one of seven groups recognised by the bank as partners in its business. Each partner has clear responsibilities to the bank and the bank in turn acknowledges its responsibilities to them. The bank considers that the prompt payment of invoices is one of its responsibilities to its suppliers and is a signatory to the Better Payment Practice Code. Signatories to the code promise to agree payment terms at the outset of a relationship, explain their payment procedures to suppliers, pay bills in accordance with any contract agreed with the supplier or as required by law, tell suppliers without delay when an invoice is contested and settle disputes quickly. Bank policy on supplier payment is compliant with the provisions of the Late Payment Act which became effective in August 2002. The bank had 29 days (2001–19 days) purchases outstanding at 11th January 2003, based on the average daily amount invoiced by suppliers during the financial year.

Staff

The bank and its subsidiary undertakings employed **4,247** persons at 11th January 2003 (2001–4,057). The weekly average number of persons was **4,161** (2001–4,067) and their aggregate remuneration for the year was **£93.3 million** (2001–£88.9 million).

The bank is currently introducing new training and development initiatives across the organisation as part of a continuous improvement programme supporting the new approach to performance management.

The bank continues to consult and communicate with staff on business performance issues, using staff publications, surveys, conferences, videos, the Staff Council and forums with UNIFI who continue to be fully involved where organisational change affects staff.

The bank was once again named by The Sunday Times as one of the "Best Companies to Work For" in an independent survey of employment policies and working conditions of leading British organisations which was supported by the Department of Trade and Industry and Learndirect. Most importantly this survey took the views of staff as the key element in judging performance. This approach reinforces our values and Brand and is key to the operation of our Corporate Responsibility policies and practices.

Employees with Disabilities

The bank is a member of the Employers' Forum on Disability, which provides advice and guidance on the employment of people with disabilities. The bank is a holder of the 'Positive about Disabled People' symbol, a recognition given by Jobcentre Plus to employers who have agreed to meet five commitments regarding the recruitment, employment, retention and career development of disabled people. The bank's policy is to consider carefully employment applications from people with disabilities, matching vacancies with an individual's particular aptitudes and abilities. The bank recognises its responsibility for making 'reasonable adjustments' for new staff with disabilities and for those individuals who develop disabilities whilst in employment. Our approach to disability policy is defined by a committee of Senior Managers across the bank, led by a Director.

Donations

During the year, the bank and its subsidiaries made donations (which excludes affinity card payments) of **£1.1 million** (2001–£0.7 million) to United Kingdom charitable organisations.

It is the bank's policy that no donations are made for political purposes. The Mission Statement declares that the bank and its subsidiaries are non-partisan in all social, political, racial and religious matters.

Directors' Responsibilities in respect of the financial statements

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 a resolution to authorise the Directors to fix their remuneration are to be proposed at the next Annual General Meeting.

By Order of the Board
M. A. Lees, Secretary
10th April 2003

The Combined Code

The Combined Code of Corporate Governance, which is incorporated into the Listing Rules of the Financial Services Authority, incorporates the recommendations of the Hampel Committee. The Turnbull Committee provided guidance in September 1999 on Directors' responsibilities for internal control. The Directors believe the bank group has procedures necessary to comply with the Turnbull Guidance. With the exception of the areas of Non-compliance noted below, the bank has complied with the Combined Code.

Directors

The business of the bank is controlled by the Board of Directors. The Board has met eleven times in 2002. The Board includes a Non-executive Chairman, eight Non-executive Directors, one of whom is designated Deputy Chairman, four Executive Directors, the Chief Executive and Chief Operating Officer.

A Board agenda and relevant supporting papers are distributed to Board members in advance of the Board meeting.

A number of external consultants provide professional advice to the Boards of the constituent parts of the wider Co-operative Group. This will be co-ordinated through a Group Secretariat.

The Company Secretary is professionally qualified and is available for advice to all members of the Board. The appointment and removal of the Company Secretary requires the approval of the Board.

A three level programme of external training has been developed for existing and potential Non-executive Directors. Level one was delivered in the first quarter of 2003. This was in addition to a skills assessment in 2002 by external consultants in respect of all directors serving on the Board of Co-operative Group (CWS) Limited.

In accordance with the Articles of Association, one third of the Directors (excluding the Chief Executive) retire from office at the Annual General Meeting. The Directors selected to retire are those longest in office since their last appointment. A retiring Director is eligible for re-appointment. Vacancies are filled by resolution at the Annual General Meeting. Directors appointed since the date of the last Annual General Meeting also retire in accordance with the Articles of Association.

Areas of Non-compliance

Whilst the absence of strict independence of the majority of Non-executive Directors means that the bank has not fully complied with the requirements of the code, the Audit and Risk Committee and Remuneration and Appointments Committee are composed of Non-executive Directors. Graham Stow was appointed on 4th March 2003 as an independent Non-executive Director. The bank has not appointed a senior Non-executive Director.

Directors' Remuneration

The Remuneration Report sets out the policies, procedures and details relating to Directors' remuneration. The names of the members of the Remuneration and Appointments Committee are shown at the end of this report.

Relations with Shareholders

The bank has two equity shareholders. The majority of shares are held by Co-operative Financial Services Limited, which is a wholly-owned subsidiary of the Co-operative Group (CWS) Limited. The remainder of shares are held by Co-operative Group (CWS) Limited. Co-operative Financial Services Limited provides the Chairman, Deputy Chairman and seven other Non-executive Directors. The bank has approximately 2,500 preference shareholders. The preference shares are fixed interest shares and are non-cumulative and irredeemable. The preference shareholders are entitled to attend the Annual General Meeting, but the shares only carry speaking or voting rights if and when the dividend has been in arrears for six months or more, or if a resolution is to be proposed at the Annual General Meeting abrogating or varying any of their respective rights or privileges, or for the winding-up of the bank or other return of capital and then only on such resolution.

Accountability and Audit

The Directors' responsibilities for the preparation of the financial statements are set out in the Directors' Report.

The Audit and Risk Committee consists of four Non-executive Directors. The Committee meets at least three times a year with the Head of Internal Audit and the external auditors. Executive Directors and Senior Managers may attend to brief the Committee on specific issues. Other meetings will be arranged if circumstances suggest that a meeting is required. Close contact is maintained between the internal and external auditors.

Internal Control

The Board is ultimately responsible for the bank's systems of internal control and for reviewing their effectiveness. Responsibility for individual areas of control has been allocated to nominated managers under the Financial Services Authority's (FSA) senior management responsibilities regime. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable but not absolute assurance against material mis-statement or loss.

The Board confirms there is a process for identifying, evaluating and managing the significant risks faced by the bank. The process has been in place throughout the whole of 2002 and up to the date of approval of the Annual Report and Accounts, is regularly reviewed by the Board and accords with the Turnbull Guidance.

The process used by the Board to review the effectiveness of the systems of internal control includes the following:

- Reviewing the external and internal audit work plans.
- Considering reports from management, internal and external audit, on the systems of internal control and any material control weaknesses.
- Discussing with management the actions taken on problem areas.

- The Audit and Risk Committee reviews the effectiveness of the risk management process and significant risk issues are referred to the Board for consideration.
- The Chairman of the Audit and Risk Committee reports the outcome of Audit and Risk Committee meetings to the Board and the Board receives minutes of all Audit and Risk Committee meetings.

The main features of the risk and control framework are outlined below:

Risk Management – The Board is responsible for approving the bank's strategy, its principal markets and the level of acceptable risk. It has established Board Committees and Executive Management Committees to administer a risk management process which identifies the key risks facing the business and ensures they are managed effectively. Details of the bank's Risk Management policy and procedures are provided on pages 21 to 23.

Control Environment – The Board has established an organisational structure with clearly-defined lines of responsibility and delegation of authority to appropriately qualified management. Policies and procedures are well documented and communicated throughout the organisation.

Human resource policies, including those related to recruitment and training, maintain standards of competency and integrity.

Information and Communication – The bank has comprehensive systems of strategic planning and financial reporting. Three year strategic plans and annual budgets are approved annually by the Board. Strategic business initiatives and investment spending plans are also individually approved by the Board. Actual results compared to budget and prior periods are viewed by the Board at each of their meetings. A consistent and detailed financial reporting system underpins effective management by Executive Directors and their line managers.

Control Activities – Comprehensive policy statements and internal control procedures have been tailored to the requirements of individual business activities. Rigorous controls in areas of significant risks include clear parameters for delegation of authority, segregation of duties, regular reporting and review.

Monitoring Systems – The operation of the system of internal control is the responsibility of line management. It is subject to independent review by Internal Audit and, where appropriate, by the bank's external auditors and external regulators. The reports of all of these bodies on internal control are reviewed by the Audit and Risk Committee on behalf of the Board. The Audit and Risk Committee ensures that, where necessary, appropriate corrective action is taken.

The Head of Internal Audit reports directly to the Audit and Risk Committee and along with the external auditors provides additional advice and information to the Committee.

During the year, regular assessments of the bank's significant risks and related controls have been submitted by line management to the Executive Directors' Risk Review Committee and to the Audit and Risk Committee.

The Audit and Risk Committee, on behalf of the Board, has reviewed the effectiveness of the bank's systems of internal control for the year and up to the date of approval of the annual report and accounts. As might be expected in a group of this size and complexity, a small number of internal 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 control resulted in any material losses which require disclosure.

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 and Risk Committee

M. D. Beaumont (resigned 3rd September 2002)
C. B. Blanchett (resigned 4th March 2003)
D. J. Jackson *
Sir Graham Melmoth (appointed 3rd September 2002)
K. A. Smith
G. H. Stow (appointed 4th March 2003)

Advances Committee

M. D. Beaumont (resigned 3rd September 2002)
G. R. Bennett *
C. B. Blanchett (resigned 4th March 2003)
D.J. Jackson
W. J. Marper
Sir Graham Melmoth (appointed 3rd September 2002)
M. K. Pedelty
G. H. Stow (appointed 4th March 2003)

Remuneration and Appointments Committee

M. D. Beaumont
G. R. Bennett *
C. B. Blanchett
(appointed 3rd September 2002, resigned 4th March 2003)
S. J. Butler (appointed 4th March 2003)
K. W. Darwin
Sir Graham Melmoth (resigned 3rd September 2002)

Executive Directors' Risk Review Committee

M. A. Firth (resigned 12th November 2002)
B. P. Glover (appointed 10th January 2003)
R. T. Goddard (appointed 8th November 2002)
K. J. Lewis (resigned 12th November 2002)
S. P. B. Macdonald
W. J. Marper
M. K. Pedelty *
P. J. Sutcliffe (appointed 10th January 2003)

* Chairman

Non-Executive Directors

The Chairman, Deputy Chairman and the other Non-executive Directors received no remuneration and have no pension arrangements, incentive schemes or share option arrangements. An amount of £10,693 was paid to Co-operative Group (CWS) Limited in respect of the provision of the services of a Non-executive Director.

The only Non-executive Director who has a contract is the independent professional Non-executive Director Graham Stow who has a three year contract with the Co-operative Group (CWS) Limited for services to its Financial Services subsidiaries for £30,000 per annum with effect from 4th March 2003.

Executive Directors

Basic salaries and benefits

Remuneration and benefit entitlements of Executive Directors are determined on behalf of the Board by the Remuneration and Appointments Committee which consists of the Chairman and three other Non-executive Directors. They take advice from independent external consultants as appropriate and consider the remuneration of comparable positions in the financial services sector.

Service contracts

All existing Executive Directors 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 which is a defined benefit arrangement providing 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 15.6% of pensionable pay into the pension scheme.

Special contributions of 10% of salary were paid for K.J. Lewis, W.J. Marper and S.P.B. Macdonald.

Action has been taken to enhance benefits for M.K. Pedelty and M.A. Firth.

M. J. Woodward retired from the bank on 1st February 2002 and enhanced pension arrangements were revised in the light of his early retirement.

Incentive schemes

Executive Directors participate in two incentive schemes. One is related to the bank's annual return on shareholder's funds, and the other to actual growth in shareholder's funds during a fixed three year period from January 2000 to January 2003. There are various incentive schemes for senior managers and other specialist staff. All other eligible staff receive a pro-rata share of 5% of pre-tax profits.

The Executive Directors' annual incentive scheme is related to the bank's return on shareholder's funds in excess of a threshold return, in each year. The maximum potential bonus in any year is 50% of each Director's salary. The medium term incentive scheme enables Executive Directors to receive a bonus, calibrated to the compound annual growth in shareholder's funds during a fixed three year period. The maximum bonus payment under this scheme is 100% of each Director's salary, payable at the end of the three year period. Earnings arising from this scheme have been determined at the end of the 2002 financial year. The Chief Executive participates in both incentive schemes and receives 1.2 times the payment to individual Executive Directors.

The payments for the annual incentive scheme in respect of the year 2002 and for the Medium Term Incentive Scheme 2000 to 2002 are reflected in the table overleaf within 'Performance Related Pay'.

Executive Directors appointed during the year participated in the incentive scheme for senior managers. They will participate in the Executive Directors' incentive schemes from 12th January 2003.

Directors' Emoluments

	Basic Pay	Benefits in Kind	Performance Related Pay	Total Emoluments	Accrued Pension	Increase in Accrued Pension	Transfer Value (vii)	2001 Total Emoluments
	£	£	£	£	£	£	£	£
M. K. Pedelty (i)	193,803	8,437	412,973	615,213	81,467	30,042	342,560	525,227
S. P. B. Macdonald	192,000	17,439	209,717	419,156	80,392	18,207	230,623	224,030
M. A. Firth (ii)	172,904	5,090	230,419	408,413	81,706	17,013	218,168	277,099
B. P. Glover (iii)	516	–	88	604	22,330	–	–	–
R. T. Goddard (iv)	19,160	–	3,058	22,218	12,477	1,535	10,856	–
K. J. Lewis (ii)	131,923	14,244	176,199	322,366	63,768	10,826	131,354	231,477
W. J. Marper	168,115	12,714	216,423	397,252	62,057	10,311	131,894	276,523
P. J. Sutcliffe (iii)	512	–	91	603	56,145	–	–	–
M. J. Woodward (v)	31,154	1,231	99,974	132,359	104,757	189	3,455	260,991
	910,087	59,155	1,348,942	2,318,184	565,099	88,123	1,068,910	1,795,347
Compensation for loss of office (v)	30,138	–	–	30,138	–	–	–	–
Sums paid to third parties (vi)	10,693	–	–	10,693	–	–	–	10,693
Former directors who served during 2001	–	–	–	–	–	–	–	182,635
	950,918	59,155	1,348,942	2,359,015	565,099	88,123	1,068,910	1,988,675

(i) Highest Paid Director

(ii) Resigned from the Board on 12th November 2002. The emoluments in 2002 relate to the period prior to their resignation.

(iii) Appointed to the Board on 10th January 2003. The emoluments in 2002 relate to the period subsequent to their appointment.

(iv) Appointed to the Board on 8th November 2002. The emoluments in 2002 relate to the period subsequent to his appointment.

(v) Mr M. J. Woodward retired on 1st February 2002. He has waived £82,784 of his entitlement to performance related pay due to him under the Executive Directors' Medium term incentive scheme. He received £30,138 as compensation payment being the market value of his company car which he received on resignation.

(vi) Paid to Co-operative Group (CWS) Limited for the provision of the services of a Non-executive Director.

(vii) Transfer value represents the transfer value of the increase in accrued pension.

Total emoluments represents apportioned basic pay, benefits in kind and performance related pay, in respect of services as a director of The Co-operative Bank p.l.c. They exclude emoluments paid by the bank and recharged to a fellow subsidiary in respect of services as a director or senior manager of Co-operative Financial Services Limited and Co-operative Insurance Society Limited.

Share options

The bank does not operate a share option scheme.

Appointments outside the bank

Executive Directors can accept appointments from sources outside the Co-operative Financial Services Group, 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.

Independent Auditor's report to the members of The Co-operative Bank p.l.c.

We have audited the financial statements on pages 32 to 65.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 and, in respect of corporate governance information, in accordance with the terms of our engagement letter dated 24th March 2003. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in this audit report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 26 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

In addition to our audit of the financial statements, the directors have instructed us to review their corporate governance statement as if the company were required to comply with the Listing Rules of the Financial Services Authority in relation to these matters. We review whether the statement on pages 27 and 28 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by those rules, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its internal risk and control procedures.

Basis of audit 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 company and the Group as at 11th January 2003 and of 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
10th April 2003

consolidated profit and loss account

for the year ended 11th January 2003
all amounts are stated in £m unless otherwise indicated

	Notes	2002	2001
Interest receivable			
Interest receivable and similar income arising from debt securities		**131.3**	166.8
Other interest receivable and similar income		**397.4**	396.4
		528.7	563.2
Interest payable		**(199.1)**	(249.7)
Net Interest Income		**329.6**	313.5
Dividend income		**0.2**	–
Fees and commissions receivable		**179.0**	163.7
Fees and commissions payable		**(23.8)**	(20.1)
Dealing losses	29	**(1.6)**	(1.5)
Operating Income		**483.4**	455.6
Administrative expenses			
Staff costs	1	**(122.0)**	(116.3)
Other		**(148.7)**	(143.5)
Depreciation and amortisation	17	**(20.1)**	(22.1)
		(290.8)	(281.9)
		192.6	173.7
Provisions for bad and doubtful debts	12	**(70.1)**	(66.2)
Group Operating Profit		**122.5**	107.5
Income from interests in associated undertakings		–	–
Profit on Ordinary Activities before Taxation	2	**122.5**	107.5
Taxation on profit on ordinary activities	5	**(36.6)**	(31.7)
Profit on Ordinary Activities after Taxation		**85.9**	75.8
Minority interests		**(2.2)**	(1.8)
Profit for the Financial Year	6	**83.7**	74.0
Preference dividend to non-equity shareholders	7	**(5.5)**	(5.5)
Retained Profit for the Year	26	**78.2**	68.5
Earnings per share (basic and diluted)	8	**11.17p**	9.79p

Movements in profit and loss account reserves are shown in note 26 on page 56.
All profits have been derived from continuing operations.

Statement of Total Recognised gains and losses

For the year ended 11th January 2003
all amounts are stated in £'m unless otherwise stated

	2002	2001
Profit for the financial year	**78.2**	68.5
Prior year adjustment (as explained on page 37)	**1.6**	–
Total gains and losses recognised since last annual report	**79.8**	68.5

The notes on pages 37 to 65 form part of these financial statements

consolidated balance sheet

at 11th January 2003
all amounts are stated in £m unless otherwise indicated

	Notes	2002	2001
Assets			
Cash and balances at central banks		**97.5**	113.7
Items in the course of collection from other banks		**165.2**	145.6
Treasury bills and other eligible bills	9	**18.0**	1.6
Loans and advances to banks	10	**1,291.0**	733.2
Loans and advances to customers	11	**4,384.6**	3,869.2
Debt securities	13	**2,478.1**	2,749.4
Equity shares	14	**0.9**	1.3
Interests in associated undertakings	15	**0.2**	0.6
Tangible fixed assets	17	**78.4**	67.3
Other assets	18	**68.5**	36.4
Prepayments and accrued income		**105.2**	107.9
Total assets	27	**8,687.6**	7,826.2
Liabilities			
Items in the course of transmission to other banks		**7.2**	10.2
Deposits by banks	19	**748.5**	727.3
Customer accounts	20	**6,902.0**	6,115.8
Debt securities in issue	21	**5.0**	87.5
Other liabilities	22	**132.4**	90.8
Accruals and deferred income		**141.2**	128.5
Provisions for liabilities and charges	23		
Deferred taxation		**8.7**	8.9*
Other provisions		**11.5**	6.0
Subordinated liabilities (including convertible debt)	24	**179.6**	179.4
Minority interests (equity)	16	**18.9**	17.4
Called up share capital	25		
Ordinary shares		**35.0**	35.0
Preference shares (non-equity)		**60.0**	60.0
		95.0	95.0
Share premium account	26	**8.8**	8.8
Profit and loss account	26	**428.8**	350.6*
Shareholders' funds (£60 million of which relates to non-equity)		**532.6**	454.4*
Total liabilities	27	**8,687.6**	7,826.2
Memorandum items	28		
Contingent liabilities			
Acceptances and endorsements		**28.0**	37.9
Guarantees and assets pledged as collateral security		**98.3**	71.8
		126.3	109.7
Commitments			
Other commitments		**5,356.4**	4,991.1

* Restated (see page 37)

Approved by the Board on 10th April 2003 and signed on its behalf by

G. R. Bennett, *Chairman*
M. K. Pedelty, *Chief Executive*

The notes on pages 37 to 65 form part of these financial statements

balance sheet

at 11th January 2003
all amounts are stated in £m unless otherwise indicated

	Notes	2002	2001
Assets			
Cash and balances at central banks		**97.5**	113.7
Items in the course of collection from other banks		**164.9**	145.3
Treasury bills and other eligible bills	9	**18.0**	1.6
Loans and advances to banks	10	**1,291.0**	733.2
Loans and advances to customers	11	**4,329.2**	3,817.4
Debt securities	13	**2,266.0**	2,560.6
Equity shares	14	**0.9**	1.3
Shares in Group undertakings	16	**1.2**	1.2
Tangible fixed assets	17	**70.6**	59.1
Other assets	18	**69.9**	38.8*
Prepayments and accrued income		**96.2**	100.3
Total assets	27	**8,405.4**	7,572.5*
Liabilities			
Items in the course of transmission to other banks		**6.7**	9.9
Deposits by banks	19	**756.4**	733.6
Customer accounts	20	**6,679.5**	5,906.8
Debt securities in issue	21	**5.0**	87.5
Other liabilities	22	**128.4**	86.3
Accruals and deferred income		**122.2**	126.1
Provisions for liabilities and charges	23	**9.9**	3.6
Subordinated liabilities	24	**178.9**	178.7
Called up share capital	25		
Ordinary shares		**35.0**	35.0
Preference shares (non-equity)		**60.0**	60.0
		95.0	95.0
Share premium account	26	**8.8**	8.8
Profit and loss account	26	**414.6**	336.2*
Shareholders' funds (£60 million of which relates to non-equity)		**518.4**	440.0*
Total liabilities	27	**8,405.4**	7,572.5*

	Notes	2002	2001
Memorandum items	28		
Contingent liabilities			
Acceptances and endorsements		**28.0**	37.9
Guarantees and assets pledged as collateral security		**98.1**	71.6
		126.1	109.5
Commitments			
Other commitments		**5,353.0**	4,978.0

* Restated (see page 37)

Approved by the Board on 10th April 2003 and signed on its behalf by

G. R. Bennett, *Chairman*
M. K. Pedelty, *Chief Executive*

The notes on pages 37 to 65 form part of these financial statements

reconciliation of movements in shareholders' funds

all amounts are stated in £m unless otherwise indicated

	2002	2001
Group		
Profit for the financial year	**83.7**	74.0
Dividends	**(5.5)**	(5.5)
Net increase in shareholders' funds	**78.2**	68.5
Shareholders' funds at beginning of year	**454.4**	385.9*
Shareholders' funds at end of year	**532.6**	454.4*
Bank		
Profit for the financial year	**83.9**	72.7
Dividends	**(5.5)**	(5.5)
Net increase in shareholders' funds	**78.4**	67.2
Shareholders' funds at beginning of year	**440.0**	372.8*
Shareholders' funds at end of year	**518.4**	440.0*

* Restated (see page 37)

consolidated cash flow statement

for the year ended 11th January 2003
all amounts are stated in £m unless otherwise indicated

	Notes	2002	2001
Net cash (outflow)/inflow from operating activities	31	**(25.2)**	144.6
Dividends from associated undertakings		**0.4**	–
Returns on investments and servicing of finance			
Preference dividends paid		**(5.6)**	(5.6)
Interest paid on subordinated liabilities		**(13.9)**	(14.2)
Dividend paid to minority shareholders in subsidiary undertaking		**(0.6)**	(0.5)
Net cash outflow from returns on investments and servicing of finance		**(20.1)**	(20.3)
Taxation			
United Kingdom corporation tax paid		**(36.3)**	(32.0)
Capital expenditure and financial investment			
Purchase of investments		**(428.1)**	(701.6)
Sale and maturity of investments		**520.1**	681.2
Purchase of tangible fixed assets		**(27.2)**	(21.2)
Sale of tangible fixed assets		**0.2**	0.4
Net cash inflow/(outflow) from capital expenditure and financial investment		**65.0**	(41.2)
(Decrease)/increase in cash	31	**(16.2)**	51.1

The notes on pages 37 to 65 form part of these financial statements

Accounting policies

(a) Basis of preparation and accounting date

(i) The financial statements of the Group relate to the 52 weeks to 11th January 2003. Since the Group accounting date is virtually co-terminous with the calendar year 2002 the financial year's figures are headed 2002 and the corresponding figures for the previous year are headed 2001. 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, the Irish Bankers' Federation and the Finance and Leasing Association. The bank has adopted the requirements of FRS 19 and the transitional provisions of FRS 17. The implementation of FRS 19 'Deferred Tax' has resulted in the recognition of a deferred tax asset on the general bad debt provision. There has been no impact on the 2002 and 2001 profit and loss accounts and cash flow statements. Under FRS 19, full provision is made for tax timing differences and in particular, deferred tax assets can be recognised where it is more likely than not that there will be sufficient taxable profits against which to recover them. Previously, they were recognised only where it was probable that they would be recovered without replacement in the foreseeable future. Had the previous accounting policy been continued for the financial year ended 11th January 2003 deferred tax assets of £0.9 million for the bank and deferred tax liability of £10.3 million for the Group would have been reported. The consolidated balance sheet and company comparative figures have been restated to reflect a prior year adjustment of £1.6 million to reduce deferred tax liability (bank: increase deferred tax asset) and increase the profit and loss account reserves. No other accounting policies have changed during the year.

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

Purchased goodwill (both positive and negative) arising on consolidation in respect of acquisitions before 10th January 1998, when FRS 10 – Goodwill and intangible assets was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit and loss on disposal.

(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 on 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 the 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 which would result in unrepresentative volatility from a closed portfolio which is operated as a single long-term financial fixed asset. The treatment of amortising profits and losses has been adopted to reflect this (see note 13).

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

Held as dealing securities

Securities held for dealing purposes are stated at market value. Realised and unrealised changes in market value are included in the profit and loss account within dealing profits/losses.

(c) Loans and advances and doubtful debts

Loan loss provisions, which are charged against operating profit, comprise specific and general provisions. Specific and general provisions are deducted from loans and advances to customers in the balance sheet.

Specific provisions

Specific provisions are raised when an account is deemed to be impaired and represent the quantification of actual and expected losses from identified accounts. Other than where provisions on smaller balance homogenous loans are assessed on a portfolio basis, the amount of specific provision raised is assessed on a case by case basis. The amount of specific provision raised is a conservative estimate of the amount needed to reduce the carrying value of the asset to the expected ultimate net realisable value. Loans assessed on a portfolio basis are allocated into various bands according to delinquency and provision is made on all debts with delinquency greater than a pre-determined trigger point. The level of provisioning takes into account management's assessment of the portfolio's structure, past and expected credit losses, and any other relevant factors.

In reaching a decision on a case by case basis, consideration is given, among other things, to the following factors:

- the financial standing of the customer, including a realistic assessment of the likelihood of repayment of the loan within an acceptable period;
- the realisable value of any security for the loan; and
- the costs associated with obtaining repayment and realisation of the security.

General provisions

A general provision is maintained based on management's expectations of losses that will be made on assets which are impaired but which have not been specifically identified as such. Consideration is given to the circumstances and level of prudence used in determining the specific provisions.

Loans on which interest is being suspended

If the collection of interest is doubtful, it is credited to a suspended interest account and excluded from interest income in the profit and loss account. Although it continues to be charged to the customers' account, the suspense account in the balance sheet is netted against the relevant loan. If the collection of interest is considered to be remote, interest is no longer applied and suspended interest is written off.

On receipt of cash (other than from the realisation of security), suspended interest is recovered and taken to the profit and loss account as interest receivable. Amounts received from the realisation of security are applied to the repayment of outstanding indebtedness, with any surplus used to recover any specific provisions and then suspended interest.

Write off occurs at the point when accounts are no longer actively being collected and it is expected that no more cash will be received.

Revenue and cost recognition

Fees charged at the inception of the advance which represent a payment for services provided in setting up the advance are credited to the 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 the 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.

Costs incurred with mortgage incentive schemes are charged in the period in which the expense is incurred, but where the bank has the right to recover the incentive in the event of early redemption, then the costs are amortised over the life of the redemption period. However, these costs are charged to the profit and loss account should the related loan be redeemed, sold or become impaired.

(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 included within 'loans and advances to customers' and valued at original cost less depreciation, which is calculated to write off that cost over the primary period of the lease. Depreciation for the year represents the full amount of lease payments due in the year, less the amounts credited to the profit and loss account.

Income from assets leased to customers is credited to the profit and loss account within 'other interest receivable and similar income' under the Investment Period Method which gives a constant return on the net investment in the lease.

For certain contracts, changes in the rate of Corporation Tax give rise to taxation benefits which are passed on to the lessees as a reduction in rental payable. A provision for the reduction in lease receivables is charged to profit before tax and the tax benefit reflected as a reduced tax charge. The provision is released to profit over the period of the contract.

(g) Leased assets

Assets acquired under finance leases are capitalised, based on the purchase price of the assets. Depreciation is provided over the shorter of the lease term and the useful economic life. The interest element of the lease payment is charged to the 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 the profit and loss account on a straight line basis.

(h) Deferred taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

(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) Derivatives

Derivatives used for asset and liability management purposes

Derivatives are used to hedge interest and exchange rate exposures related to non-trading positions. Instruments used for hedging purposes include swaps, forward rate agreements, futures, options and combinations of these instruments.

Derivatives used for hedging purposes are measured on an accruals basis consistent with the assets, liabilities, positions or future cash flows being hedged. The gains and losses on these instruments (arising from changes in fair value) are not recognised in the profit and loss account or balance sheet as they arise.

To qualify as a hedge, a derivative must effectively reduce the price or interest rate risk of the asset, liability or anticipated position to which it is linked and be designated as a hedge at inception of the derivative contract.

Positions are matched by time and amount to ensure that the derivatives are effective hedges.

Profits and losses on interest rate swaps and options entered into for hedging purposes are measured on an accrual accounting basis, included in the related category of income and expense and reported as part of the yield on the hedged transaction.

Hedging transactions that are superseded or cease to be effective are measured at fair value. Any profit or loss on these transactions, together with any profit or loss arising on hedging transactions that are terminated prior to the end of the life of the asset, are deferred and amortised into interest income or expense over the remaining life of the derivative.

When the underlying asset, liability, position or cash flow is terminated prior to the hedging transaction, or an anticipated transaction is no longer likely to occur, the hedging transaction is measured on the fair value accounting basis, prior to being transferred to the trading portfolio. The profit or loss arising from the fair value measurement prior to the transfer to the trading portfolio is immediately included in the category of income or expense relating to the previously hedged transaction.

Derivatives used for trading purposes

Derivatives entered into for trading purposes include swaps, forward rate agreements, futures, options and combinations of these instruments.

Derivatives used for trading purposes, which include proprietary transactions and customer facilitation, are measured at fair value and any gains or losses are shown in the profit and loss account as dealing profits/losses. The use of derivatives and their sale to customers as risk management products is an integral part of the Group's trading activities.

(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 £m unless otherwise indicated

1. Staff costs	**2002**	2001
Wages and salaries	**93.3**	88.9
Social security costs	**7.1**	6.9
Other pension costs	**14.3**	12.6
Other staff costs	**7.3**	7.9
	122.0	116.3

2. Profit on ordinary activities before taxation	**2002**	2001
Is stated after:		
(i) Income:		
Aggregate amounts receivable, including capital repayments, under finance leases, hire purchase and conditional sale contracts	**76.9**	72.3
Income from listed investments	**23.7**	34.2
Profits on disposal of investment securities	**7.0**	6.8
(ii) Charges:		
Interest payable in respect of subordinated liabilities	**13.9**	14.4
Rentals payable in respect of operating leases		
hire of computers, equipment and vehicles	**1.2**	1.6
other operating leases	**11.2**	11.8
	£'000	£'000
Statutory audit services – parent company **£180,500** (2001–£165,500)	**310**	279
Further assurance services	**371**	492
Other non-audit services	**274**	117
Fees paid to the auditor	**955**	888

3. Directors' emoluments	**2002 £'000**	2001 £'000
Non-executive Directors	**–**	–
Executive Directors	**2,318**	1,874
Compensation for loss of office	**30**	104
Payments to third parties for services of Non-executive Directors	**11**	11
	2,359	1,989

Retirement benefits are accruing to six Directors (2001–six) under defined benefit schemes.

The emoluments of the highest paid Director were:

	2002 £'000	2001 £'000
Aggregate emoluments	**615**	525
Defined benefit scheme, accrued pension at the end of the year	**81**	51

Further details of Directors' emoluments are included in the remuneration report on page 30.

all amounts are stated in £m unless otherwise indicated

4. Pensions

In November 2000 the Accounting Standards Board issued FRS 17, 'Retirement benefits', which will replace SSAP 24, 'Accounting for pension costs'. FRS 17 is fully effective for the bank's year ending 14th January 2006, however, certain disclosures are required in the transitional period. The charge included within the profit and loss account has been calculated in accordance with SSAP 24 and disclosure requirements relating to this charge are set out in part (a) below. The additional disclosure requirements of FRS 17 are set out in part (b).

a) SSAP 24 disclosures

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 bank also operates a small unfunded pension scheme. The pension charge is assessed in the same manner and using the same assumptions as the funded scheme. As at 11th January 2003, the actuarial value of the unfunded pension liability for obligations in respect of former directors was £0.7 million.

The total pension charge was **£14.3 million** (2001–£12.6 million). The pension charge is assessed in accordance with the advice of a qualified actuary using the projected unit method. The latest full actuarial valuation of the funded scheme was at 5th April 2000. 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 rate of increase in salaries, pensions and equity dividends. It was assumed that the investment return would be 6.5% per annum, that salary increases would average 4.5% per annum, that present and future pensions would increase at the rate of 2.5% per annum and that equity dividends would increase at an average rate of 3.5% per annum.

At the date of the latest actuarial valuation, the market value of the assets of the funded scheme was **£329.8 million** and the actuarial value of the assets was sufficient to cover 111% of the benefits that had accrued to members, after allowing for future increases in earnings.

The amount charged in the profit and loss account (**£14.3 million**) exceeds the amount paid into the funded Pension Scheme (£12.3 million) by **£2.0 million** (2001–£1.4 million) resulting in an accrual of **£4.4 million** (2001–£2.4 million), which includes the unfunded pension liability of £0.7 million (2001–nil).

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

b) FRS 17 disclosures

The actuarial valuation noted in part (a) above has been updated to 11th January 2003. The principal assumptions used to calculate the schemes liabilities were:

	2002	2001
Inflation rate	**2.3%**	2.6%
Rate of increase of pensions in payment	**2.3%**	2.6%
Rate of increase in salaries	**3.8%**	4.1%
Discount rate	**5.4%**	5.9%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. The fair value of the scheme's assets, which are not intended to be realised in the future, may be subject to significant change before they are realised. The present value of the scheme liabilities is derived from cash flow projections over long periods and is sensitive to the principal assumptions shown above. As an indication of the sensitivity, a 0.3 percentage point movement in the discount rate would have an effect on the surplus or deficit of approximately £25 million and a 0.3 percentage point movement in the rate of increase in salaries would have an effect on the surplus or deficit of approximately £8 million.

The basis of valuation and assumptions used for the FRS 17 valuation are different from those used for the formal actuarial valuation of the scheme to assess the future pension charge. The actuarial valuation is calculated using projected future earnings and as such does not produce significant short term changes in value. The actuaries to the scheme have carried out an approximate valuation of the scheme as at 11th January 2003 using the same assumptions as were used for the formal valuation carried out as at 5th April 2000. On this basis the actuary has estimated that as at 11th January 2003 the actuarial valuation of the assets was approximately £10 million lower (approximately 3%) than the present value of the benefits that had accrued to members, after allowing for future increases in earnings. This figure is an estimate and a full formal valuation of the scheme will be carried out as at 5th April 2003.

all amounts are stated in £m unless otherwise indicated

4. Pensions (continued)

The values of the assets and liabilities of the scheme and the expected rate of return on those assets were:

	2002		2001	
	£m	**%**	£m	%
Equities	**211.7**	**7.0**	265.1	7.5
Bonds	**21.6**	**4.5**	25.4	5.0
	233.3		290.5	
Present value of Scheme liabilities	**(340.9)**		(295.0)	
Surplus/(deficit) in the scheme	**(107.6)**		(4.5)	
Related deferred tax asset	**32.3**		1.4	
Net pension asset/(liability)	**(75.3)**		(3.1)	

The amount of this net pension liability would have a consequential effect on reserves.

Had the bank fully adopted FRS 17 at the year end, the profit and loss account disclosures would have been stated as follows:

Analysis of amount charged to operating profit	£m
Current service cost	15.6
Past service cost	–
	15.6

Analysis of amount credited to other financial income	£m
Expected return on pension scheme assets	21.4
Interest on pension scheme liabilities	(17.7)
Net return	3.7

The movement in deficit during the year was as follows:	£m
Deficit at beginning of the year	(4.5)
Movement in the year:	
Current service cost	(15.6)
Contributions	12.3
Past service costs	–
Other finance income	3.7
Actuarial gain/(loss)	(103.5)
Deficit in scheme at the end of the year	(107.6)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)	£m
Actual return less expected return on pension scheme assets	(84.2)
Experience gains and losses arising on the scheme liabilities	(1.1)
Changes in assumptions underlying the present value of the scheme liabilities	(18.2)
Actuarial gain/(loss) recognised in STRGL	(103.5)

History of experience gains and losses	£m	%
Difference between the expected and actual return on scheme assets: (% of scheme assets)	(84.2)	36.1
Experience gains and losses on scheme liabilities: (% of the present value of the scheme liabilities)	(1.1)	0.3
Total amount recognised in STRGL: (% of the present value of the scheme liabilities)	(103.5)	30.4

The bank makes contributions to the scheme at a rate designed to meet the cost of all benefits provided by the scheme (other than those provided by members through the payment of voluntary contributions). Prior to 12th January 2003 the bank paid contributions at the rate of 15% of pensionable salaries. From 12th January 2003 the bank will pay contributions at the rate of 15.6% of pensionable salaries. In addition a one-off contribution representing 0.6% of pensionable salaries for the period from 6th March 2001 to 11th January 2003 will be paid into the scheme. Total contributions paid by the bank amounted to approximately £12.3 million. The contribution rate will be reviewed in conjunction with the formal valuation of the scheme due to be carried out as at 5th April 2003.

5. Taxation on profit on ordinary activities	**2002 £m**	2001 £m
a) Analysis of charge in period		
Current tax		
UK Corporation tax on profits of the period	**37.5**	33.9
Adjustments in respect of previous periods	**(0.7)**	(1.1)
Total current tax	**36.8**	32.8
Deferred tax		
Origination and reversal of timing differences	**(0.2)**	(1.1)
Total deferred tax	**(0.2)**	(1.1)
Tax on profit on ordinary activities	**36.6**	31.7

b) Factors affecting tax charge for the period

The actual tax charge for the year differs from that calculated using the standard rate of corporate tax in the UK. The differences are explained below:

	2002 £m	2001 £m
Profit on ordinary activities before tax	**122.5**	107.5
Profit on ordinary activities before tax at the standard rate of UK Corporation tax (30%)	**36.8**	32.3
Effects of:		
Expenses not deductible for tax purposes	**0.2**	0.3
Depreciation in excess of capital allowances for period and other timing differences	**0.3**	1.2
Depreciation of expenditure not qualifying for capital allowances	**0.2**	0.2
Utilisation of capital losses	**-**	(0.1)
Adjustments to tax charge in respect of previous periods	**(0.7)**	(1.1)
Current tax charge for the year	**36.8**	32.8

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

6. Group profit for the financial year dealt with in the accounts of The Co-operative Bank p.l.c.

£83.9 million (2001–£72.7 million) of the Group profit for the financial year attributable to 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.

7. Dividends	**2002 pence per share**	2001 pence per share	**2002 £m**	2001 £m
Dividend on 60,000,000 9.25% non-cumulative irredeemable preference shares of £1 each (paid and proposed)	**9.25p**	9.25p	**5.5**	5.5

8. Earnings per share

Earnings per share are calculated by dividing the profit for the financial year **£83.7 million** (2001–£74.0 million) less dividends on preference shares **£5.5 million** (2001–£5.5 million) by the weighted average number of ordinary shares **700,000,000** (2001–700,000,000) in issue during the year.

9. Treasury bills and other eligible bills

	Group and Bank	
	2002	2001
	£m	£m
Other securities		
other eligible bills – private sector	**18.0**	1.6

10. Loans and advances to banks

	The Group		The Bank	
	2002	2001	**2002**	2001
Remaining maturity:				
over 5 years	**5.8**	5.4	**5.8**	5.4
1 year or less but over 3 months	**1.5**	0.6	**1.5**	0.6
3 months or less but not repayable on demand	**1,283.4**	726.9	**1,283.4**	726.9
Repayable on demand	**0.3**	0.3	**0.3**	0.3
	1,291.0	733.2	**1,291.0**	733.2

11. Loans and advances to customers

	The Group		The Bank	
	2002	2001	**2002**	2001
Remaining maturity:				
over 5 years	**1,157.3**	788.8	**1,084.0**	713.5
5 years or less but over 1 year	**1,449.5**	1,407.9	**1,400.0**	1,357.9
1 year or less but over 3 months	**548.2**	543.8	**538.9**	527.0
3 months or less but not repayable on demand	**821.6**	768.2	**912.0**	865.4
Repayable on demand	**596.7**	524.3	**575.9**	512.3
General and specific bad and doubtful debt provisions (note 12)	**(185.7)**	(161.0)	**(180.7)**	(157.7)
Suspended interest provisions	**(3.0)**	(2.8)	**(0.9)**	(1.0)
	4,384.6	3,869.2	**4,329.2**	3,817.4
Amounts include:				
Due from subsidiary undertakings unsubordinated			**92.8**	97.5
Due from parent undertakings	**33.3**	47.0	**33.3**	47.0
Due from associated undertakings	**5.0**	1.9	**5.0**	–

Analysis of concentration of exposure is provided in note 34(iii) on page 65.

all amounts are stated in £m unless otherwise indicated

12. Provisions for bad and doubtful debts

	2002			2001		
	Specific	**General**	**Total**	Specific	General	Total
Group:						
At 12th January 2002	**155.6**	**5.4**	**161.0**	140.2	5.4	145.6
Charge against profits (i)	**70.2**	**–**	**70.2**	66.2	–	66.2
Amounts written off	**(45.6)**	**–**	**(45.6)**	(51.0)	–	(51.0)
Recoveries	**0.1**	**–**	**0.1**	0.2	–	0.2
At 11th January 2003	**180.3**	**5.4**	**185.7**	155.6	5.4	161.0
Bank:						
At 12th January 2002	**152.5**	**5.2**	**157.7**	139.3	5.2	144.5
Charge against profits	**68.2**	**–**	**68.2**	64.0	–	64.0
Amounts written off	**(45.3)**	**–**	**(45.3)**	(51.0)	–	(51.0)
Recoveries	**0.1**	**–**	**0.1**	0.2	–	0.2
At 11th January 2003	**175.5**	**5.2**	**180.7**	152.5	5.2	157.7

All provisions are held against loans and advances to customers.

Non-performing debt:	2002	2001
Group advances	**114.0**	106.2
Provisions for bad and doubtful debts	**(92.8)**	(85.2)
	21.2	21.0
Bank advances	**105.2**	100.6
Provisions for bad and doubtful debts	**(88.0)**	(82.1)
	17.2	18.5

(i) The charge for provisions for bad and doubtful debts of £70.1 million on page 32, includes a release of £0.1 million (2001–nil) relating to equity shares (see note 14, page 48).

all amounts are stated in £m unless otherwise indicated

13. Debt securities	**The Group**				**The Bank**			
	2002		2001		**2002**		2001	
	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	**24.8**	**28.4**	29.9	34.6	**24.7**	**28.3**	29.8	34.5
other public sector securities	**15.2**	**18.1**	15.3	16.6	**15.2**	**18.1**	15.3	16.6
	40.0	**46.5**	45.2	51.2	**39.9**	**46.4**	45.1	51.1
Other securities								
government securities	**25.4**		308.7		**25.4**		308.7	
	65.4		353.9		**65.3**		353.8	
Issued by other issuers								
Investment securities								
bank and building society certificates of deposit	**212.5**	**218.6**	189.5	194.9	**–**	**–**	–	–
other debt securities	**476.5**	**479.1**	596.0	599.7	**476.5**	**479.1**	596.0	599.7
	689.0	**697.7**	785.5	794.6	**476.5**	**479.1**	596.0	599.7
Other securities								
bank and building society certificates of deposit	**1,735.4**		1,628.7		**1,735.4**		1,628.7	
other debt securities	**–**		–		**–**		–	
	2,424.4		2,414.2		**2,211.9**		2,224.7	
	2,489.8		2,768.1		**2,277.2**		2,578.5	
Unamortised profit on sales of investment securities	**(11.7)**		(18.7)		**(11.2)**		(17.9)	
	2,478.1		2,749.4		**2,266.0**		2,560.6	
(ii) Maturity								
Due within one year	**2,125.1**		2,346.3		**1,912.6**		2,156.8	
Due one year and over	**364.7**		421.8		**364.6**		421.7	
	2,489.8		2,768.1		**2,277.2**		2,578.5	
Unamortised profit on sales of investment securities	**(11.7)**		(18.7)		**(11.2)**		(17.9)	
	2,478.1		2,749.4		**2,266.0**		2,560.6	
Unamortised premiums on investment securities	**2.1**		2.5		**2.1**		2.5	

all amounts are stated in £m unless otherwise indicated

13. Debt Securities (continued)

	The Group				The Bank			
	2002		2001		2002		2001	
	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	**381.0**	**388.4**	505.4	513.6	**380.9**	**388.3**	505.3	513.5
listed elsewhere	**129.9**	**131.6**	128.3	129.8	**129.9**	**131.6**	128.3	129.8
unlisted	**218.1**	**224.2**	197.0	202.4	**5.6**	**5.6**	7.5	7.5
	729.0	**744.2**	830.7	845.8	**516.4**	**525.5**	641.1	650.8
Unamortised profit on sales of investment securities	**(11.7)**		(18.7)		**(11.2)**		(17.9)	
	717.3		812.0		**505.2**		623.2	
Other securities								
listed on a recognised UK exchange	**25.4**		308.7		**25.4**		308.7	
listed elsewhere	**–**		–		**–**		–	
unlisted	**1,735.4**		1,628.7		**1,735.4**		1,628.7	
	1,760.8		1,937.4		**1,760.8**		1,937.4	
	2,478.1		2,749.4		**2,266.0**		2,560.6	

(iv) Movement	**Cost**	**Discounts and premiums**	**Unamortised profit on sales**	**Carrying value**
Investment securities				
Group:				
At 12th January 2002	**815.8**	**14.9**	**(18.7)**	**812.0**
Acquisitions	**428.1**	**–**	**–**	**428.1**
Disposals and maturities	**(521.5)**	**1.9**	**–**	**(519.6)**
Exchange adjustments	**–**	**(9.7)**	**–**	**(9.7)**
Amortisation	**–**	**(0.5)**	**7.0**	**6.5**
At 11th January 2003	**722.4**	**6.6**	**(11.7)**	**717.3**
Bank:				
At 12th January 2002	**624.3**	**16.8**	**(17.9)**	**623.2**
Acquisitions	**106.6**	**–**	**–**	**106.6**
Disposals and maturities	**(221.1)**	**–**	**–**	**(221.1)**
Exchange adjustments	**–**	**(9.7)**	**–**	**(9.7)**
Amortisation	**–**	**(0.5)**	**6.7**	**6.2**
At 11th January 2003	**509.8**	**6.6**	**(11.2)**	**505.2**

The exchange adjustment of £9.7 million represents the revaluation of debt securities held in a currency other than sterling. These are hedged by deposits of equal value held in the same currency. The net gain on these transactions due to foreign exchange revaluation is nil.

Group

Profits on disposals in the year were **£nil million** (2001–£nil). However, due to the application of accounting policy (b) relating to securities held in designated investment portfolios, **£7.0 million** (2001–£6.9 million) has been credited to the profit and loss account. The application of this accounting policy therefore increased profits for the year by **£7.0 million** (2001–£6.9 million).

Bank

Profits on disposals in the year were **£nil million** (2001–£nil). However, due to the application of accounting policy (b) relating to securities held in designated investment portfolios, **£6.7 million** (2001–£6.7 million) has been credited to the profit and loss account. The application of this accounting policy therefore increased profits for the year by **£6.7 million** (2001–£6.7 million).

all amounts are stated in £m unless otherwise indicated

14. Equity shares

	Group and Bank 2002	Group and Bank 2001
Investment securities – unlisted	**0.9**	1.3

	Group and Bank 2002	Group and Bank 2001
Included above are the following trade investments:		
BACS Ltd **83,568** (2001–83,568) ordinary shares of £1 each	**0.6**	0.6
LINK Interchange Network Limited 3,550 (2001-3,421) ordinary shares of £1 each and 72,380 (2001–69,748) ordinary shares of £0.01 each	**0.1**	–
	0.7	0.6

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

	Cost	Provision	Carrying value
Group and Bank			
At 12th January 2002	1.5	(0.2)	1.3
Additions	0.1	–	0.1
Disposals	(0.6)	0.1	(0.5)
At 11th January 2003	1.0	(0.1)	0.9

15. 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:

Associates	**Nature of business**	**Total issued share capital at 11th January 2003**	**Group interest 2002**	Group interest 2001
* Co-operative Pension Funds Unit Trust Managers Limited	Investment managers	165,000 Ordinary shares of £1 each	33%	33%

Joint ventures	**Nature of business**	**Total issued share capital at 11th January 2003**	**Group interest 2002**	Group interest 2001
Ochil Residential Limited	Property development/ house building	2 Ordinary shares of £1 each	**50%**	50%
† Unity Financial Holdings Limited	Holding company	2 Ordinary shares of £1 each	**13%**	13%
§ Unity Pension Services	Marketing of pension plans	400,000 Ordinary shares of £1 each	**13%**	13%
§ Unity Financial Services Limited	Marketing of financial services	1,000,000 Ordinary shares of £1 each	**13%**	13%
§ Jacques Martin Unity Limited	Administration of pension schemes	1,000,000 Ordinary shares of £1 each	**13%**	13%

* The ultimate holding organisation of this undertaking is Co-operative Group (CWS) Limited

† Unity Trust Bank p.l.c. holds 50% of the ordinary share capital of this company

§ Unity Financial Holdings Limited holds 100% of the ordinary share capital of this company

all amounts are stated in £m unless otherwise indicated

15. Interests in associated undertakings (continued)

The interest in associates is made up as follows:

	The Group	The Bank
	Share of net assets	Cost
At 12th January 2002	**0.4**	–
Transfers	**(0.4)**	–
At 11th January 2003	–	–

The interest in joint ventures is made up as follows:

			The Group	The Bank
	Share of gross assets	Share of gross liabilities	Share of net assets	Cost
At 12th January 2002	**0.7**	**0.5**	**0.2**	–
At 11th January 2003	**3.2**	**3.0**	**0.2**	–

16. Ultimate holding organisation and subsidiary undertakings

Co-operative Financial Services Limited owns 100% of the issued ordinary share capital of the bank and is the bank's immediate holding company. Co-operative Financial Services Limited is incorporated in Great Britain and is registered under the Industrial and Provident Societies Acts 1965 to 1978. The ultimate holding organisation is the Co-operative Group (CWS) Limited, which is incorporated in Great Britain and is registered under the Industrial and Provident Societies Acts 1965 to 1978. The financial statements of the immediate and ultimate holding organisations are available from New Century House, Manchester M60 4ES. 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 are quoted are:

Operating subsidiaries	Nature of business	Total issued share capital at 11th January 2003	Group interest 2002	Group interest 2001
* Unity Trust Bank p.l.c.	Banking	16,428,460 Ordinary shares of £1 each	**27%**	27%
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%

* Held through subsidiary undertaking

all amounts are stated in £m unless otherwise indicated

16. Ultimate holding organisation and subsidiary undertakings (continued)

Shares in Group undertakings:	Cost	Provision	Carrying value
At 11th January 2003 and at 12th January 2002	**1.6**	**0.4**	**1.2**

The above provision is held against dormant subsidiaries.

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

Unity Trust Bank p.l.c. is considered to be a subsidiary undertaking 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 undertaking 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.

all amounts are stated in £m unless otherwise indicated

17. Tangible fixed assets	Freehold and leasehold buildings	Computer and other equipment	Finance leased assets	Total
Group:				
Cost				
At 12th January 2002	**10.3**	**153.8**	**1.7**	**165.8**
Additions	**–**	**31.4**	**–**	**31.4**
Disposals	**–**	**(2.2)**	**–**	**(2.2)**
At 11th January 2003	**10.3**	**183.0**	**1.7**	**195.0**
Accumulated depreciation				
At 12th January 2002	**1.7**	**95.1**	**1.7**	**98.5**
Disposals	**–**	**(2.0)**	**–**	**(2.0)**
Charge for the year	**0.2**	**19.9**	**–**	**20.1**
At 11th January 2003	**1.9**	**113.0**	**1.7**	**116.6**
Net book value at 11th January 2003	**8.4**	**70.0**	**–**	**78.4**
Net book value at 12th January 2002	8.6	58.7	–	67.3
Bank:				
Cost				
At 12th January 2002	**2.8**	**150.8**	**1.7**	**155.3**
Additions	**–**	**30.9**	**–**	**30.9**
Disposals	**–**	**(1.8)**	**–**	**(1.8)**
At 11th January 2003	**2.8**	**179.9**	**1.7**	**184.4**
Accumulated depreciation				
At 12th January 2002	**0.6**	**93.9**	**1.7**	**96.2**
Disposals	**–**	**(1.8)**	**–**	**(1.8)**
Charge for the year	**0.1**	**19.3**	**–**	**19.4**
At 11th January 2003	**0.7**	**111.4**	**1.7**	**113.8**
Net book value at 11th January 2003	**2.1**	**68.5**	**–**	**70.6**
Net book value at 12th January 2002	2.2	56.9	–	59.1

	The Group		The Bank	
	2002	2001	**2002**	2001
The net book value of land and buildings comprises:				
Freehold	**8.3**	8.5	**2.0**	2.1
Short leasehold	**0.1**	0.1	**0.1**	0.1
	8.4	8.6	**2.1**	2.2

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

all amounts are stated in £m unless otherwise indicated

18. Other assets	**The Group**		**The Bank**	
	2002	2001	**2002**	2001
Foreign exchange and interest rate contracts	**64.6**	32.8	**64.6**	32.8
Trade debtors	**3.9**	3.6	**2.8**	1.9
Deferred taxation (see note 23)	**–**	–	**2.5**	4.1*
	68.5	36.4	**69.9**	38.8*

* The above analysis has been restated following the introduction of FRS 19 'Deferred Tax', see accounting policy (a) on page 37.

19. Deposits by banks	**The Group**		**The Bank**	
	2002	2001	**2002**	2001
With agreed maturity dates or periods of notice, by remaining maturity:				
1 year or less but over 3 months	**2.0**	10.0	**2.0**	10.0
3 months or less but not repayable on demand	**720.9**	681.8	**728.8**	688.1
Repayable on demand	**25.6**	35.5	**25.6**	35.5
	748.5	727.3	**756.4**	733.6
Amounts include:				
Due to subsidiary undertakings			**7.9**	6.3

20. Customer accounts	**The Group**		**The Bank**	
	2002	2001	**2002**	2001
With agreed maturity dates or periods of notice, by remaining maturity:				
5 years or less but over 1 year	**49.6**	0.1	**49.5**	–
1 year or less but over 3 months	**82.1**	31.7	**81.6**	31.6
3 months or less but not repayable on demand	**2,145.6**	1,861.3	**2,071.7**	1,792.6
Repayable on demand	**4,624.7**	4,222.7	**4,476.7**	4,082.6
	6,902.0	6,115.8	**6,679.5**	5,906.8
Amounts include:				
Due to subsidiary undertakings			**1.6**	3.6
Due to parent undertakings	**–**	5.7	**–**	5.7
Due to fellow subsidiary undertakings	**77.2**	61.6	**77.2**	61.6
Due to associated undertakings	**0.4**	1.7	**–**	1.2

all amounts are stated in £m unless otherwise indicated

21. Debt securities in issue	The Group		The Bank	
	2002	2001	**2002**	2001
Other debt securities				
By remaining maturity:				
1 year or less but over 3 months	**4.0**	6.9	**4.0**	6.9
3 months or less	**1.0**	80.6	**1.0**	80.6
	5.0	87.5	**5.0**	87.5

22. Other liabilities	The Group		The Bank	
	2002	2001	**2002**	2001
Foreign exchange and interest rate contracts	**56.3**	27.2	**56.3**	27.2
Trade creditors	**53.7**	41.7	**52.5**	40.1
Taxation	**21.2**	20.8	**18.9**	18.3
Dividends	**1.2**	1.1	**0.7**	0.7
	132.4	90.8	**128.4**	86.3

23. Provisions for liabilities and charges

	The Group		The Bank	
	2002	2001	**2002**	2001
(i) Deferred taxation Taxation deferred by timing differences in accordance with the basis of accounting set out in Accounting Policy (h)				
Short term differences	**(1.9)**	(0.8)	**(1.8)**	(0.7)
Other timing differences	**(6.0)**	(7.7)	**(5.8)**	(7.6)
Capital allowances on fixed assets	**1.9**	1.0	**1.3**	0.6
Capital allowances on assets leased to customers	**14.7**	16.4	**3.8**	3.6
	8.7	8.9	*** (2.5)**	* (4.1)
The movement in the deferred taxation balance has all taken place through the profit and loss account	**(0.2)**	(1.1)	**1.6**	0.3

The potential liability on rolled over gains and other gains not provided for, amounts to **£1.6 million** (2001–£1.0 million). Full provision has been made for all other potential liabilities to deferred taxation.

* 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 18).

The above analysis has been restated following the introduction of FRS 19 'Deferred Tax'. See accounting policy (a) on page 37.

all amounts are stated in £m unless otherwise indicated

23. Provisions for liabilities and charges (continued)

(ii) Other provisions	The Group		The Bank	
	2002	2001	**2002**	2001
At 12th January 2002	**6.0**	5.3	**3.6**	2.6
Utilised	**(1.7)**	(2.8)	**–**	–
Profit and loss charge	**7.2**	3.5	**6.3**	1.0
At 11th January 2003	**11.5**	6.0	**9.9**	3.6

The above provisions at 11th January 2003 include an estimate of future unavoidable lease payments and related costs for vacant properties not in use (group–£9.2 million, bank–£8.5 million) and an estimate of future payments to customers in compensation for loss suffered from past pension and investment advice (group–£2.3 million, bank–£1.4 million).

Payments under future unavoidable lease commitments, net of amounts receivable under sub-lettings, are due on leases terminating between 2007 and 2016. Payments relating to past pension and investment advice will be made as individual cases are settled. The amounts provided in respect of compensation are based on a case by case review of expected payment for each outstanding claim and an estimate of the number and value of future claims based on past experience.

24. Subordinated liabilities	The Group		The Bank	
	2002	2001	**2002**	2001
£703,000 Convertible Subordinated Unsecured Floating Rate Loan Stock 2003	**0.7**	0.7	**–**	–
£50,000,000 Fixed Rate Perpetual Subordinated Notes	**50.0**	50.0	**50.0**	50.0
£30,000,000 Subordinated Perpetual Floating Rate Notes	**30.0**	30.0	**30.0**	30.0
£100,000,000 Step Up Callable Subordinated Notes 2011	**100.0**	100.0	**100.0**	100.0
Issue costs and discount	**(1.1)**	(1.3)	**(1.1)**	(1.3)
	179.6	179.4	**178.9**	178.7
Remaining maturity of dated subordinated liabilities				
Repayable				
over five years	**100.0**	100.0	**100.0**	100.0
one year or less or on demand	**0.7**	0.7	**–**	–
	100.7	100.7	**100.0**	100.0

Convertible Subordinated Unsecured 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.

There were no conversions of loan stock during the year.

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

all amounts are stated in £m unless otherwise indicated

24. Subordinated liabilities (continued)

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).

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 excluding) 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.

Step Up Callable Subordinated Notes 2011

The notes were issued on 16th November 2000 at a discount of 0.472%.

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 7.375% per annum to (but excluding) 16th November 2006, and thereafter the interest rate will be determined by reference to the gross redemption yield on the five year benchmark gilt, and a margin of 2.5%. Interest is payable half yearly in arrears on 16th May and 16th November.

The bank may redeem all, but not less than all of the notes at their principal amount on 16th November 2006.

No early repayment, which includes the purchase of the notes or stock by the Group for cancellation, of any of the above subordinated liabilities can be made without the prior written agreement of the Financial Services Authority.

25. Called up share capital	**2002**	2001
Authorised		
1,100,000,000 ordinary shares of 5p each	**55.0**	55.0
75,000,000 9.25% non-cumulative irredeemable preference shares of £1 each	**75.0**	75.0
	130.0	130.0
Issued		
700,000,000 ordinary shares of 5p each	**35.0**	35.0
60,000,000 9.25% non-cumulative irredeemable preference shares of £1 each	**60.0**	60.0
	95.0	95.0

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.

all amounts are stated in £m unless otherwise indicated

25. Called up share capital (continued)

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.

26. Reserves

	The Bank and subsidiary undertakings	Associated undertakings	The Group	The Bank
Share premium account at 11th January 2003 and at 12th January 2002	**8.8**	–	**8.8**	**8.8**
Profit and loss account at 12th January 2002	**351.3***	**(0.7)**	**350.6***	**336.2***
Retained profit/(loss) for the financial year	**78.6**	**(0.4)**	**78.2**	**78.4**
Profit and loss account at 11th January 2003	**429.9**	**(1.1)**	**428.8**	**414.6**

The cumulative amount of goodwill arising on the acquisition of subsidiary undertakings, net of goodwill attributed to subsidiary undertakings disposed of, is **£247,000** (2001–£247,000).

*The above analysis has been restated following the introduction of FRS 19 'Deferred tax', see accounting policy (a) on page 37.

27. Miscellaneous

	The Group		The Bank	
	2002	2001	**2002**	2001
(i) Assets and liabilities				
Denominated in sterling	**8,300.6**	7,418.8	**8,018.4**	7,165.1
Denominated in currencies other than sterling	**387.0**	407.4	**387.0**	407.4
Total assets	**8,687.6**	7,826.2	**8,405.4**	7,572.5
Denominated in sterling	**8,301.0**	7,420.9	**8,018.8**	7,167.2
Denominated in currencies other than sterling	**386.6**	405.3	**386.6**	405.3
Total liabilities	**8,687.6**	7,826.2	**8,405.4**	7,572.5
(ii) Assets subject to sale and repurchase transactions				
Debt securities	–	107.4	–	107.4
(iii) Assets leased to customers				
Loans and advances to customers – Finance leases and hire purchase contracts	**220.4**	219.4	**112.6**	105.4
Assets acquired during the year	**66.3**	61.7	**52.2**	46.9

all amounts are stated in £m unless otherwise indicated

27. Miscellaneous (continued)

(iv) Deferred mortgage incentives	Group and Bank
At 12th January 2002	0.5
Expenditure incurred in year	2.8
Transfer to profit and loss account	(0.8)
At 11th January 2003	2.5

Expenditure incurred in the year is the amount that would have been charged to the profit and loss account for the year if incentives were not being amortised.

Interest due but not received on loans and advances in arrears has not been recognised in interest receivable where recoverability is in doubt, but has been suspended.

28. 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 FSA guidelines implementing the Solvency Ratio Directive on capital adequacy.

	2002				2001	
	Contract amount	Credit equivalent amount (i)	Average risk weight	Risk weighted amount	Contract amount	Risk weighted amount
Group:						
Contingent Liabilities						
Acceptances and endorsements	28.0	28.0	100.0%	28.0	37.9	37.2
Guarantees and irrevocable letters of credit	98.3	87.9	98.1%	86.3	71.8	58.7
	126.3			114.3	109.7	95.9
Bank:						
Contingent Liabilities						
Acceptances and endorsements	28.0	28.0	100.0%	28.0	37.9	37.2
Guarantees and irrevocable letters of credit	98.1	87.8	98.1%	86.2	71.6	58.5
	126.1			114.2	109.5	95.7
Group:						
Other commitments						
Documentary credits and short-term trade-related transactions	2.9	0.6	93.9%	0.5	0.6	0.1
Undrawn formal standby facilities, credit lines and other commitments to lend:						
1 year and over	140.1	70.1	97.1%	68.1	159.2	77.2
less than 1 year (ii)	5,213.4	–	–	–	4,831.3	–
	5,356.4			68.6	4,991.1	77.3

all amounts are stated in £m unless otherwise indicated

28. Contingent liabilities and commitments (continued)

	2002				2001	
	Contract amount	Credit equivalent amount (i)	Average risk weight	Risk weighted amount	Contract amount	Risk weighted amount
Bank:						
Other commitments						
Documentary credits and short-term trade-related transactions	**2.9**	**0.6**	**93.9%**	**0.5**	0.6	0.1
Undrawn formal standby facilities, credit lines and other commitments to lend:						
1 year and over	**140.1**	**70.1**	**97.1%**	**68.1**	159.2	77.2
less than 1 year (ii)	**5,210.0**	**-**	**-**	**-**	4,818.2	-
	5,353.0			**68.6**	4,978.0	77.3

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. This item consists largely of undrawn credit card facilities.

29. Derivatives and other financial instruments

The Group's objectives and policies in managing the risks that arise in connection with the use of financial instruments are set out on pages 21 to 23 of the operating and financial review under 'risk management', 'financial instruments' and 'derivatives'. This section in the operating and financial review forms part of the notes to the financial statements.

(i) Risk profiles

(ia) Interest rate sensitivity gap

The table below summarises the repricing periods for the assets and liabilities in the Group's non-trading book. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

11th January 2003	**Within 3 months**	**Over 3 months but within 6 months**	**Over 6 months but within 1 year**	**Over 1 year but within 5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
Assets							
Treasury bills and other eligible bills	-	-	-	-	-	-	-
Loans and advances to banks	1,032	1	-	-	-	7	1,040
Loans and advances to customers	2,792	141	181	1,036	264	(29)	4,385
Debt securities and equity shares	474	108	37	58	40	1	718
Other assets	278	-	-	-	-	169	447
Loans to trading book	1,247	659	53	15	58	66	2,098
Total assets	5,823	909	271	1,109	362	214	8,688
Liabilities							
Deposits by banks	746	2	1	-	-	-	749
Customer accounts	5,662	22	60	78	-	1,080	6,902
Debt securities in issue	1	1	3	-	-	-	5
Other liabilities	-	-	-	-	-	301	301
Loan capital	-	31	-	150	-	(1)	180
Minority interests and shareholders' funds	-	-	-	-	60	491	551
Total liabilities	6,409	56	64	228	60	1,871	8,688
Off balance sheet items	(410)	(231)	97	645	(101)	-	
Interest rate sensitivity gap	(996)	622	304	1,526	201	(1,657)	
Cumulative gap	(996)	(374)	(70)	1,456	1,657	-	

all amounts are stated in £m unless otherwise indicated

29. Derivatives and other financial instruments (continued)

12th January 2002	Within 3 months	Over 3 months but within 6 months	Over 6 months but within 1 year	Over 1 year but within 5 years	More than 5 years	Non-interest bearing	Total
Assets							
Treasury bills and other eligible bills	–	–	–	–	–	–	–
Loans and advances to banks	676	50	–	–	–	7	733
Loans and advances to customers	2,404	210	183	897	212	(37)	3,869
Debt securities and equity shares	601	90	40	42	40	1	814
Other assets	259	–	–	–	–	189	448
Loans to trading book	1,270	411	260	–	–	21	1,962
Total assets	5,210	761	483	939	252	181	7,826
Liabilities							
Deposits by banks	716	10	1	–	–	–	727
Customer accounts	4,965	98	26	25	–	1,002	6,116
Debt securities in issue	80	7	–	–	–	–	87
Other liabilities	–	–	–	–	–	245	245
Loan capital	–	30	–	150	–	(1)	179
Minority interests and shareholders' funds	–	–	–	–	60	412	472
Total liabilities	5,761	145	27	175	60	1,658	7,826
Off balance sheet items	(1,238)	(297)	758	891	(114)	–	
Interest rate sensitivity gap	(1,789)	319	1,214	1,655	78	(1,477)	
Cumulative gap	(1,789)	(1,470)	(256)	1,399	1,477	–	

The period end position shown above is regarded as materially representative of the Group's position throughout the year and reflects the bank Group policies on risk management, subject to the following comments:

The gap analysis disclosed reflects contractual repricing in accordance with accounting standards.

Interest free current account balances are included in the 'non-interest bearing' maturity band.

The bank Group's asset and liability policies reflect the actual stability of customer accounts.

(ib) Currency exposure

At 11th January 2003 the Group's open position was **£0.7 million** (2001–£1.5 million) representing a potential loss of **£0.02 million** given a 3% depreciation in sterling (2001–loss of £0.05 million).

(ic) Trading value at risk

The Group's approach to monitoring and controlling market risk is set out on pages 21 to 23 of the operating and financial review.

At 11th January 2003, total Treasury VaR of **£0.2 million** (2001–£0.9 million) represents the maximum potential daily gain or loss in market rates within a confidence level of 95% based on recent market performance. The average, highest and lowest VaR, as calculated on a daily basis, for the accounting period ended 11th January 2003 were **£0.5 million** (2001–£0.5 million), **£1.3 million** (2001–£1.2 million) and **£0.1 million** (2001–£0.2 million).

(ii) 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.

(iia) Derivatives held for trading purposes

The trading transactions are wholly interest rate related contracts including swaps, caps and floors, forward rate agreements and exchange traded futures. Trading transactions include derivatives where the bank enters into a transaction to accommodate a customer together with the corresponding hedge transaction.

all amounts are stated in £m unless otherwise indicated

29. Derivatives and other financial instruments (continued)

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

Interest rate related transactions

	2002			2001		
	Notional principal amount	**Fair value asset**	**Fair value liability**	Notional principal amount	Fair value asset	Fair value liability
Interest rate swaps	**7,063.0**	**26.8**	**19.3**	1,412.5	5.7	5.2
Interest rate caps and floors	**158.0**	**1.1**	**1.1**	143.9	0.8	0.8
Futures	**1,750.4**	**–**	**–**	–	–	–
	8,971.4	**27.9**	**20.4**	1,556.4	6.5	6.0

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

	2002			2001		
	Notional principal amount	**Fair value asset**	**Fair value liability**	Notional principal amount	Fair value asset	Fair value liability
One year or less	**4,342.7**	**13.8**	**10.8**	1,305.0	3.2	2.9
One to five years	**2,790.3**	**11.1**	**7.0**	208.1	2.1	3.0
Over five years	**88.0**	**3.0**	**2.6**	43.3	1.2	0.1
	7,221.0	**27.9**	**20.4**	1,556.4	6.5	6.0

Counterparty for over the counter trading contracts

	2002			2001		
	Notional principal amount	**Fair value asset**	**Fair value liability**	Notional principal amount	Fair value asset	Fair value liability
Financial institutions	**7,033.0**	**23.5**	**19.3**	1,403.1	4.1	4.8
Non-financial institutions	**188.0**	**4.4**	**1.1**	153.3	2.4	1.2
	7,221.0	**27.9**	**20.4**	1,556.4	6.5	6.0

The bank had no non-margin exchange traded contracts at the year end (2001–£Nil).

(iib) Non-trading derivatives

Non-trading transactions comprise derivatives held for hedging purposes to manage the asset and liability positions in the bank. Derivatives used to manage interest rate related positions include swaps, caps and floors, forward rate agreements and exchange traded futures. 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

	2002			2001		
	Notional principal amount	**Fair value asset**	**Fair value liability**	Notional principal amount	Fair value asset	Fair value liability
Interest rate swaps	**1,878.9**	**45.8**	**26.5**	16,664.8	60.3	50.7
Interest rate caps and floors	**–**	**–**	**–**	20.0	0.3	–
	1,878.9	**45.8**	**26.5**	16,684.8	60.6	50.7

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.

all amounts are stated in £m unless otherwise indicated

29. Derivatives and other financial instruments (continued)

With the exception of the unrecognised gains/losses outlined in the following note on hedge transactions, the fair values of the non-trading derivatives have been reflected in the profit and loss account, offset by the underlying transactions being hedged.

Maturity of over the counter interest rate related transactions

	2002			2001		
	Notional principal amount	**Fair value asset**	**Fair value liability**	Notional principal amount	Fair value asset	Fair value liability
One year or less	**382.6**	**2.8**	**1.6**	14,043.8	29.2	26.6
One to five years	**1,380.2**	**42.5**	**13.1**	2,496.7	31.1	14.7
Over five years	**116.1**	**0.5**	**11.8**	144.3	0.3	9.4
	1,878.9	**45.8**	**26.5**	16,684.8	60.6	50.7

All interest rate related transaction counterparties were financial institutions.

Exchange rate related transactions

	2002			2001		
	Total	**Financial institutions**	**Non-financial institutions**	Total	Financial institutions	Non-financial institutions
Forward currency transactions	**99.9**	**90.6**	**9.3**	332.6	309.2	23.4

Maturity of over the counter exchange rate related transactions

	2002			2001		
	Notional principal amount	**Fair value asset**	**Fair value liability**	Notional principal amount	Fair value asset	Fair value liability
One year or less	**99.4**	**0.5**	**0.4**	328.6	0.5	0.5
One to five years	**0.5**	**–**	**–**	4.0	–	–
	99.9	**0.5**	**0.4**	332.6	0.5	0.5

(iii) Other analysis

(iiia) Dealing losses

Dealing losses 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 Group's activities.

	2002	2001
Debt securities	**0.3**	(4.8)
Derivatives	**(5.7)**	(1.2)
Foreign exchange	**3.8**	4.5
	(1.6)	(1.5)

(iiib) Hedges

Hedge transactions are accounted for in accordance with the accounting treatment of the underlying transaction. Accordingly, hedge gains or losses may not be recognised at all in the financial statements or, if recognised, the gains and losses may be deferred and held on the balance sheet. The Group had no deferred gains or losses throughout the year ended 11th January 2003.

all amounts are stated in £m unless otherwise indicated

29. Derivatives and other financial instruments (continued)

The table below sets out the unrecognised and deferred gains and losses on hedges at 11th January 2003 and the movements during the year and the previous year.

	Gains	Losses	Net
At 13th January 2001	**18.2**	**(8.6)**	**9.6**
Gains and losses arising in previous years that were recognised in the year ended 12th January 2002	**(3.3)**	**1.4**	**(1.9)**
Gains and losses arising before 13th January 2001 that were not recognised in the year ended 12th January 2002	**14.9**	**(7.2)**	**7.7**
Gains and losses arising in the year ended 12th January 2002 that were not recognised in the year ended 12th January 2002	**22.2**	**(23.8)**	**(1.6)**
At 12th January 2002	**37.1**	**(31.0)**	**6.1**
Gains and losses arising in previous years that were recognised in the year ended 11th January 2003	**(31.6)**	**27.7**	**(3.9)**
Gains and losses arising before 12th January 2002 that were not recognised in the year ended 11th January 2003	**5.5**	**(3.3)**	**2.2**
Gains and losses arising in the year ended 11th January 2003 that were not recognised in the year ended 11th January 2003	**33.0**	**(4.0)**	**29.0**
At 11th January 2003	**38.5**	**(7.3)**	**31.2**
Of which			
11th January 2003			
Gains and losses expected to be recognised in the year ended 10th January 2004	**15.4**	**(4.3)**	**11.1**
Gains and losses expected to be recognised in the year ended 8th January 2005 or later	**23.1**	**(3.0)**	**20.1**
12th January 2002			
Gains and losses expected to be recognised in the year ended 11th January 2003	**31.6**	**(27.7)**	**3.9**
Gains and losses expected to be recognised in the year ended 10th January 2004 or later	**5.5**	**(3.3)**	**2.2**

30. Fair values of financial instruments

The table below sets out a comparison of the book value and the fair value of all of the Group's financial instruments, off balance sheet financial instruments and other financial instruments which have an active and liquid market.

The fair value represents the amount at which the instrument would be exchanged at 11th January 2003 in an arms length transaction between two willing parties. In the vast majority of cases, quoted market prices are readily available and are used, otherwise prices are obtained by other well established valuation techniques, which utilise present value cash flows.

The fair value will approximate to the carrying value when instruments are carried in the balance sheet at market value or where the instruments are short term or contain frequent repricing provisions.

	2002					2001				
	Total	**Trading**	**Non-trading**			Total	Trading	Non-trading		
Assets	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**	**Accrued Interest**	Carrying value	Fair value	Carrying value	Fair value	Accrued Interest
Treasury bills and eligible bills	**18.0**	**18.0**	**–**	**–**	**–**	1.6	1.6	–	–	–
Debt securities	**2,489.8**	**1,760.8**	**729.0**	**744.2**	**42.8**	2,768.1	1,937.4	830.7	845.8	47.7
Equity shares	**0.9**	**–**	**0.9**	**0.9**	**–**	1.3	–	1.3	1.3	–
Interest rate derivatives	**35.2**	**27.9**	**7.3**	**45.8**	**70.3**	30.0	6.5	23.5	60.6	187.2
Exchange rate derivatives	**0.5**	**–**	**0.5**	**0.5**	**–**	0.5	–	0.5	0.5	–
	2,544.4	**1,806.7**	**737.7**	**791.4**	**113.1**	2,801.5	1,945.5	856.0	908.2	234.9

all amounts are stated in £m unless otherwise indicated

30. Fair values of financial instruments (continued)

	2002					2001				
	Total	Trading	Non-trading			Total	Trading	Non-trading		
Liabilities	Carrying value	Fair value	Carrying value	Fair value	Accrued Interest	Carrying value	Fair value	Carrying value	Fair value	Accrued interest
Debt securities in issue	**5.0**	**–**	**5.0**	**5.0**	**0.1**	87.5	–	87.5	87.5	0.8
Non-equity shareholders' funds	**60.0**	**–**	**60.0**	**79.8**	**0.7**	60.0	–	60.0	82.3	0.7
Interest rate derivatives	**39.6**	**20.4**	**19.2**	**26.5**	**49.5**	25.7	6.0	19.7	50.7	156.6
Exchange rate derivatives	**0.4**	**–**	**0.4**	**0.4**	**–**	0.5	–	0.5	0.5	–
	105.0	**20.4**	**84.6**	**111.7**	**50.3**	173.7	6.0	167.7	221.0	158.1

The fair values and carrying values shown above exclude accrued interest.

31. Consolidated cash flow statement

	2002	2001
Reconciliation of Group operating profit to net cash (outflow)/inflow from operating activities		
Group operating profit	**122.5**	107.5
Decrease in prepayments and accrued income	**2.8**	36.5
Increase in accruals and deferred income	**8.8**	14.4
Interest payable in respect of subordinated liabilities	**13.9**	14.4
Effect of exchange rate movements	**(3.8)**	(4.5)
Provisions for bad and doubtful debts	**70.1**	66.2
Depreciation	**20.1**	22.1
Amortisation of investments	**0.5**	0.2
Profit on sale of investments	**(7.0)**	(6.8)
Profit on disposal of Fixed Assets	**(0.1)**	–
Net cash flow from trading activities	**227.8**	250.0
Increase/(Decrease) in deposits by banks	**34.7**	(21.4)
Increase in customer accounts	**786.2**	929.5
(Decrease)/Increase in debt securities in issue	**(82.5)**	33.4
Increase in loans and advances to banks	**(557.8)**	(153.5)
Increase in loans and advances to customers	**(585.6)**	(571.7)
Decrease/(Increase) in trading debt securities	**176.6**	(358.0)
(Increase)/Decrease in treasury and eligible bills	**(16.4)**	54.0
Net movement of other assets and other liabilities	**14.4**	11.9
Net increase in cheques in course of collection	**(22.6)**	(29.6)
Net cash (outflow)/inflow from operating activities	**(25.2)**	144.6

Analysis of the balances of cash

	Cash and balances at central banks	**Loans and advances to banks repayable on demand**	**Total**
At 13th January 2001	**61.7**	**1.2**	**62.9**
Change in year	**52.0**	**(0.9)**	**51.1**
At 12th January 2002	**113.7**	**0.3**	**114.0**
Change in year	**(16.2)**	**–**	**(16.2)**
At 11th January 2003	**97.5**	**0.3**	**97.8**

The Group is required to maintain balances with the Bank of England which at 11th January 2003 amounted to **£5.6 million** (2001–£5.4 million). This item is included on the balance sheet as a part of loans and advances to banks.

all amounts are stated in £m unless otherwise indicated

32. Segmental analysis

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

	2002	2001
Profit before taxation:		
Retail banking	**216.5**	197.0
Other financial services	**2.1**	0.4
	218.6	197.4
Shared costs:		
Centralised services and processing	**(55.4)**	(51.8)
Management services and marketing	**(44.9)**	(41.4)
Profit before Unity Trust group and associates	**118.3**	104.2
Unity Trust group and associates	**4.2**	3.3
Profit before taxation	**122.5**	107.5
Gross assets:		
Retail banking	**7,830.1**	7,017.8
Other financial services	**253.2**	249.6
Unity Trust group	**263.4**	234.5
Group central assets	**340.9**	324.3
Total	**8,687.6**	7,826.2
Net assets:		
Retail banking	**478.0**	409.7
Other financial services	**13.2**	7.7
Unity Trust group	**25.8**	23.8
Group central net assets	**34.5**	30.6
Total	**551.5**	471.8

Net assets are share capital, reserves and minority interest.

Costs which can be directly attributable to retail banking and other financial services have been allocated to these areas to determine the profit before taxation for these segments.

The figures for 2001 have been restated to reflect the change in accounting policy due to the adoption of FRS19 (see page 37).

33. Directors' and officers' loans

The aggregate amounts outstanding at 11th January 2003 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	**£223,060**	**3**
quasi-loans	**£28,407**	**13**
Officers		
loans	**£910,930**	**26**
quasi-loans	**£64,569**	**33**

all amounts are stated in £m unless otherwise indicated

34. General

	2002 Land and buildings	2001 Land and buildings
(i) Operating lease commitments		
At the year end, annual commitments under non-cancellable operating leases were:		
Group		
Expiring:		
within one year	**0.7**	0.7
between one and five years	**1.7**	1.5
in five years or more	**7.9**	9.2
	10.3	11.4
Bank		
Expiring:		
within one year	**0.7**	0.7
between one and five years	**1.7**	1.5
in five years or more	**8.4**	8.7
	10.8	10.9

(ii) Average number of employees

The average number of persons employed by the Group during the year was made up as follows:

	2002	2001
Full time	**3,263**	3,179
Part time	**898**	888
	4,161	4,067

(iii) Concentration of exposure

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

	2002	2001
Distribution, transport and hotels	**504.7**	501.1
Business and other services	**1,393.1**	1,306.9
Personal	**2,557.4**	1,980.6

(iv) Related parties

As the bank is a 100% owned subsidiary of Co-operative Financial Services Limited, which itself is a 100% owned subsidiary of Co-operative Group (CWS) 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 Group (CWS) Limited within which the bank is included can be obtained from the address given in note 16.

summarised average balance sheet

Cleared Balances	1998 £m	1999 £m	2000 £m	2001 £m	**2002 £m**	Change £m	Change %
Retail Lending							
Personal sector							
Visa	718	816	778	774	**843**	69	9
Other	787	890	984	1,116	**1,362**	246	22
Corporate sector	1,126	1,164	1,296	1,653	**1,740**	87	5
Total	2,631	2,870	3,058	3,543	**3,945**	402	11
Wholesale Placements							
Debt securities	2,022	2,225	2,543	2,898	**2,870**	(28)	(1)
Wholesale lending	469	525	595	739	**945**	206	28
Other assets	94	95	114	158	**198**	40	25
Total Assets	5,216	5,715	6,310	7,338	**7,958**	620	8
Retail Deposits							
Personal sector	1,889	2,059	2,476	3,166	**3,673**	507	16
Corporate sector	1,280	1,445	1,476	1,721	**1,805**	84	5
Total	3,169	3,504	3,952	4,887	**5,478**	591	12
Wholesale Deposits	1,497	1,584	1,685	1,688	**1,645**	(43)	(3)
Other liabilities	100*	135*	128*	163*	**163**	–	–
Subordinated debt	199	192	188	179	**179**	–	–
Preference shares	60	60	60	60	**60**	–	–
Equity share capital, reserves	191*	240*	297*	361*	**433**	72	20
Total Liabilities	5,216	5,715	6,310	7,338	**7,958**	620	8
% Growth in retail deposits (year on year)	10	11	13	24	**12**		
Retail deposits % retail loans	120	122	129	138	**139**		
Risk Asset Ratio % (at year end)							
Total	12.9	13.0	13.7	13.7	**14.1**		
Tier 1	7.8	8.6	9.4	9.9	**10.6**		

*Restated (see page 37)

consolidated profit and loss account history

	1998 £m	1999 £m	2000 £m	2001 £m	**2002 £m**	Change £m	Change %
Net interest income	241.0	278.5	294.1	313.5	**329.6**	16.1	5.1
Non-interest income	113.4	124.8	134.9	142.1	**153.8**	11.7	8.2
Operating income	354.4	403.3	429.0	455.6	**483.4**	27.8	6.1
Operating costs	(241.0)	(261.7)	(272.9)	(281.9)	**(290.8)**	(8.9)	3.2
Profit before bad debts	113.4	141.6	156.1	173.7	**192.6**	18.9	10.9
Provisions for bad debts	(41.6)	(53.3)	(59.9)	(66.2)	**(70.1)**	(3.9)	5.9
Operating profit	71.8	88.3	96.2	107.5	**122.5**	15.0	14.0
Associated undertakings and exceptional items	1.8	0.3	0.1	–	**–**	–	–
Profit before taxation	73.6	88.6	96.3	107.5	**122.5**	15.0	14.0
Taxation	(22.8)	(27.5)	(29.8)	(31.7)	**(36.6)**	(4.9)	15.5
Profit after taxation	50.8	61.1	66.5	75.8	**85.9**	10.1	13.3
Minority interests	(0.9)	(1.4)	(1.7)	(1.8)	**(2.2)**	(0.4)	22.2
Dividends	(5.5)	(5.5)	(5.6)	(5.5)	**(5.5)**	–	–
Retentions	44.4	54.2	59.2	68.5	**78.2**	9.7	14.2

Average numbers of staff	4,049	4,010	4,100	4,067	**4,161**
Net interest margin %	4.7	5.0	4.8	4.4	**4.2**
Cost/income ratio %	68.0	64.9	63.6	61.9	**60.2**
Return on opening equity shareholder's funds %	26.4*	25.5*	22.2*	21.0*	**19.8**
Earnings per share	6.34 p	7.75p	8.46p	9.79p	**11.17p**

*Restated (see page 37)

consolidated balance sheet history

	1998 £m	1999 £m	2000 £m	2001 £m	**2002 £m**
Equity share capital	35.0	35.0	35.0	35.0	**35.0**
Reserves	177.5*	231.7*	290.9*	359.4*	**437.6**
Preference shares	60.0	60.0	60.0	60.0	**60.0**
Shareholders' funds	272.5*	326.7*	385.9*	454.4*	**532.6**
Minority interests	8.9	15.2	16.3	17.4	**18.9**
Subordinated liabilities	198.1	192.9	179.1	179.4	**179.6**
Debt securities in issue	56.8	62.4	54.1	87.5	**5.0**
Deposits by banks	599.0	912.3	750.4	727.3	**748.5**
Deposits by customers	4,196.2	4,533.0	5,186.3	6,115.8	**6,902.0**
Other liabilities	207.9*	191.3*	216.2*	244.4*	**301.0**
	5,539.4	6,233.8	6,788.3	7,826.2	**8,687.6**

Tangible fixed assets	60.8	64.7	69.2	67.3	**78.4**
Loans and advances to banks	431.3	493.9	580.6	733.2	**1,291.0**
Loans and advances to customers	2,784.0	2,978.1	3,363.7	3,869.2	**4,384.6**
Debt securities and bills	1,978.4	2,375.6	2,417.2	2,751.0	**2,496.1**
Cash, balances at central banks and items in the course of collection from other banks	152.9	210.1	178.6	259.3	**262.7**
Other assets	132.0	111.4	179.0	146.2	**174.8**
	5,539.4	6,233.8	6,788.3	7,826.2	**8,687.6**

*Restated (see page 37)

NOTICE IS HEREBY GIVEN that the Annual General Meeting of The Co-operative Bank p.l.c. will be held at The Board Room, 24th Floor, CIS Tower, Miller Street, Manchester M60 0AL on Friday, 16th May 2003 at 1.30 p.m. 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 Remuneration Report and to adopt the Financial Statements for the year ended 11th January, 2003 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 29th November, 2002 be confirmed; and
      (ii) that a dividend of 4.625p per £1 share be declared and paid on 30th May, 2003 to the registered holders as at 2nd May 2003 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) W.J. Marper, Executive Director
      (ii) K.W. Darwin, Chairman, Co-operative Financial Services Limited
      (iii) G.R. Bennett, Chief Executive, Southern Co-operatives Limited
   (b) To re-elect the following Directors who were appointed since the date of the last Annual General Meeting
      (i) S.J. Butler, Chairman, Co-operative Insurance Society Limited
      (ii) B.P. Glover, Executive Director, Corporate and Business Banking
      (iii) R.T. Goddard, Executive Director, Finance and Risk
      (iv) G.H. Stow, Chairman, Building Societies Association
      (v) P.J. Sutcliffe, Executive Director, Retail Banking, Business Management
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
10th April, 2003

Registrar:
Computershare Investor Services PLC
P.O. Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
Tel: 0870 702 0003

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 30th April 2003. 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.

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The Co-operative Bank p.l.c. Financial Statements 2002

The CO-OPERATIVE BANK

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