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The last twelve months

The Co-operative Bank p.l.c.
Financial Statements 2003

The Co-operative Bank

Customer led, ethically guided

smile the internet bank

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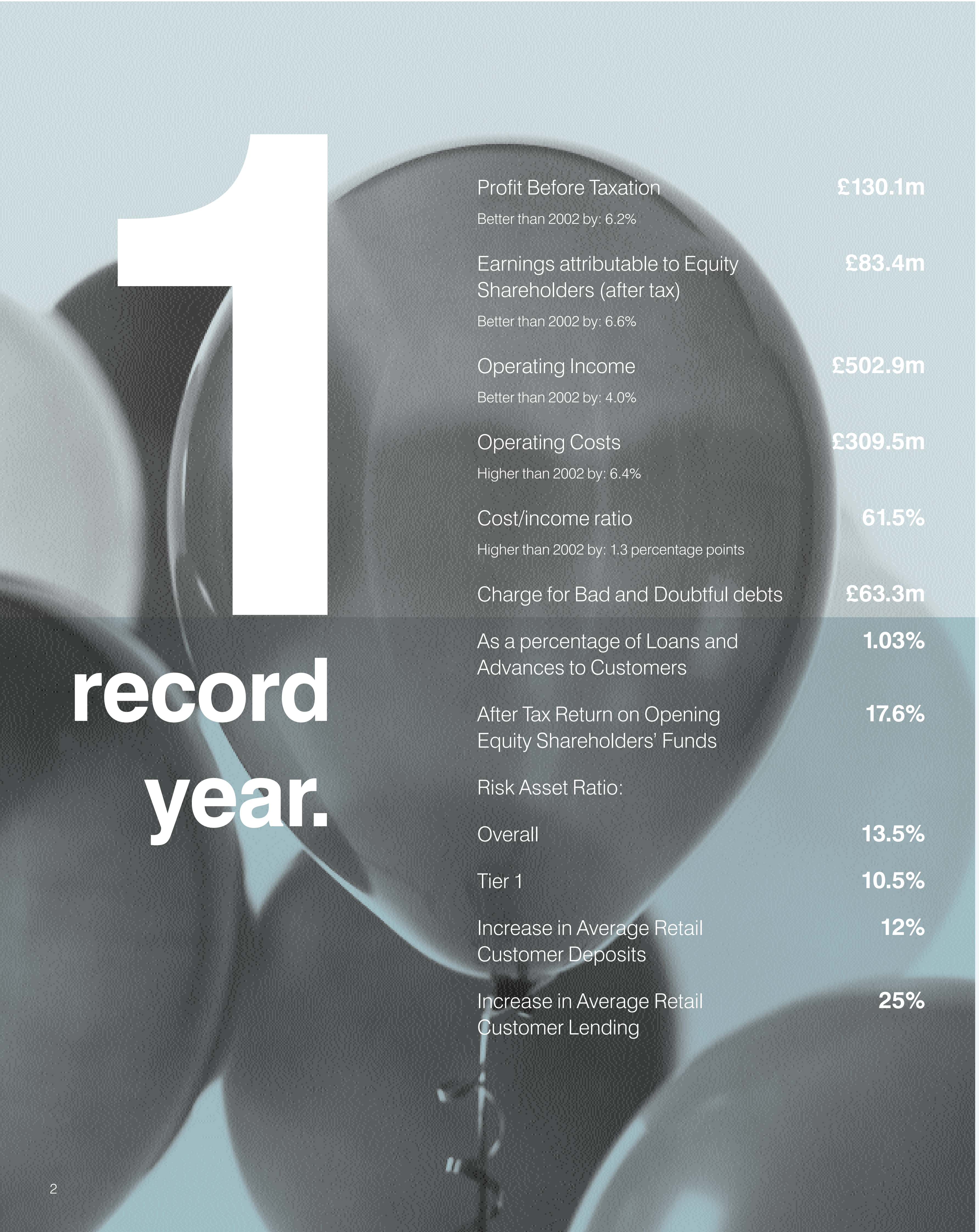
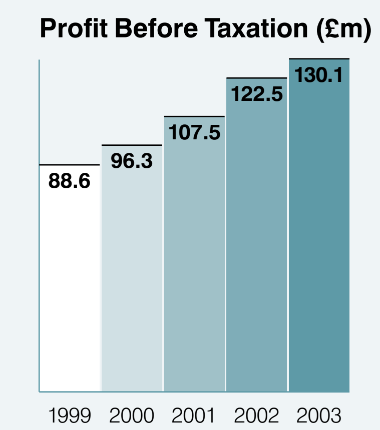


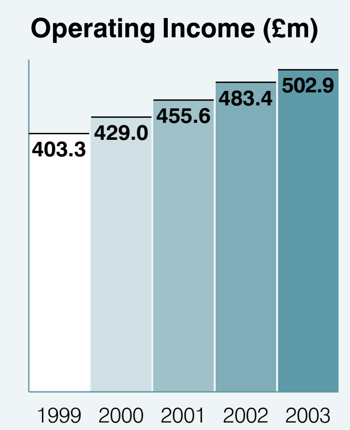
1 record year.

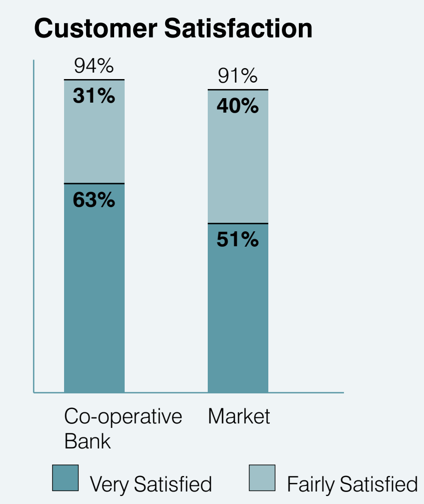
Profit Before Taxation Better than 2002 by: 6.2%	£130.1m
Earnings attributable to Equity Shareholders (after tax) Better than 2002 by: 6.6%	£83.4m
Operating Income Better than 2002 by: 4.0%	£502.9m
Operating Costs Higher than 2002 by: 6.4%	£309.5m
Cost/income ratio Higher than 2002 by: 1.3 percentage points	61.5%
Charge for Bad and Doubtful debts	£63.3m
As a percentage of Loans and Advances to Customers	1.03%
After Tax Return on Opening Equity Shareholders' Funds	17.6%
Risk Asset Ratio:	
Overall	13.5%
Tier 1	10.5%
Increase in Average Retail Customer Deposits	12%
Increase in Average Retail Customer Lending	25%

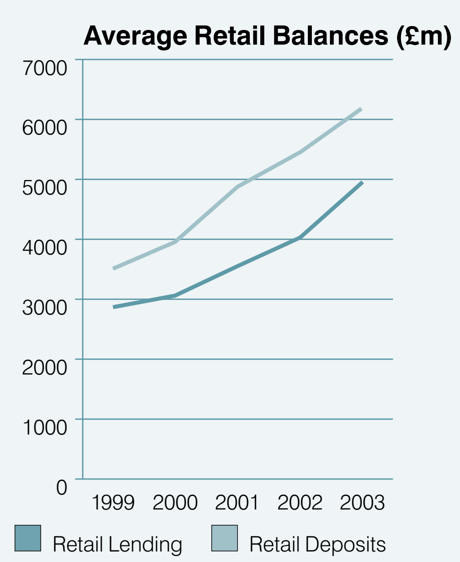
Performance indicators.

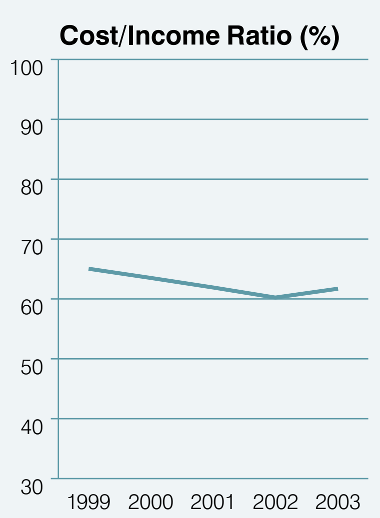
Profit before tax of £130.1 million, an increase of 6.2%. The after tax return on opening equity was 17.6%.

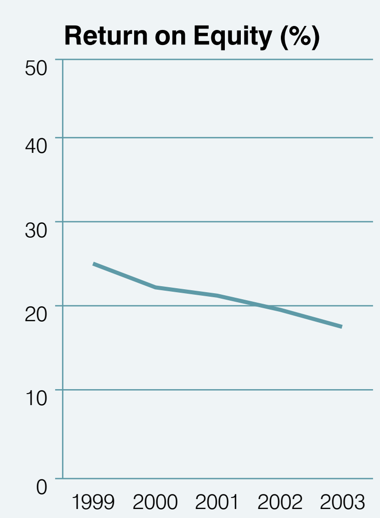












Graham Bennett, Chair

Chair's statement: A winning team.

Long term success is only possible if there is a commitment to satisfying, and balancing, the needs of all partners in our business.

I am pleased to report the tenth consecutive year of record profits for The Co-operative Bank. This is a magnificent achievement – whilst many companies strive for continued and sustainable profit growth, few actually achieve it. We have always believed that long-term success is only possible if there is a commitment to satisfying, and balancing, the needs of all partners in our business.

The bank's Profit before Tax was £130.1 million, higher than 2002 by 6.2%. Earnings after tax attributable to our ultimate shareholder, Co-operative Group (CWS) Limited, were £83.4 million, an increase of 6.6%.

Over the past ten years, The Co-operative Bank has developed a compelling proposition for its customers: excellent service backed by attractive products, a variety of ways to access them and a unique ethical policy which underpins both our approach to business and to all our stakeholders. This combination has been, and will continue to be, the foundation for our success. Attracting and motivating the right people are also high priorities for us, and the connection we make between good employment practices and maintaining our high quality of service is regularly reflected in our ranking in independent surveys of customer satisfaction across the banking industry.

At a time when it seems that many service orientated businesses are transferring front-line customer service staff to call centres on the other side of the world, we have said that we have no such plans. We believe that short lines of communication between management, well-trained and committed employees and customers are essential to the levels of service our customers have come to expect from The Co-operative Bank.

Looking ahead, the bank is now part of Co-operative Financial Services (CFS), an Industrial and Provident Society formed in April 2002 to bring the bank and Co-operative Insurance Society (CIS) together under common leadership. CFS is already building on the foundations laid down by both the bank and CIS, to offer millions of customers a more extensive choice of co-operative financial products and services. Indeed, the vision of CFS is to provide a consistently high level of service by whichever contact channel the customer chooses, whether it is in the home, through our network of high street branches, by telephone, post or over the internet.

We have also been working closely with the Co-operative Group on the introduction of a Group-wide individual member dividend scheme, through which many customers should be eligible to become members of the Co-operative Group. Membership benefits are likely to include a dividend based on their trading relationship with the whole of the Co-operative Group, including the bank.

In closing, I would like to thank my fellow board members for their commitment and continuing support. This year saw the retirement of three of our Non-Executive Directors – Chris Blanchett, David Jackson and Sir Graham Melmoth – and the appointment of two independent professional Non-Executive Directors – Graham Stow and David Davies. I would also like to pay a special tribute to Mick Firth, who retired in January 2004. Mick joined The Co-operative Bank in 1991 and became an Executive Director in 1992, serving in several capacities including that of Deputy Chief Executive from 1998 to 2002. We all wish him well in his retirement.

Graham Bennett, Chair

1 vision as to how we focus our business.

Mervyn Pedelty, Chief Executive

Our belief in providing the best possible customer service has continued to be a key to our success.

Chief Executive's overview: Customer led...

Summary

2003 has been another record year for The Co-operative Bank, demonstrating again that our commitment to corporate social responsibility, combined with a keen customer focus, innovative product development and motivated staff, is a solid foundation for sustainable growth. The development of a new organisational structure, to bring to life the formation of Co-operative Financial Services (CFS) – which now includes the bank, CIS and **smile** – has been an important aspect of the year's activities, and I report on this in more detail below. However, during this period of change, we have maintained a clear focus on the bank's priorities. These priorities, and our belief in providing the best possible customer service, have continued to be the key to our success.

Financial performance

In 2003, the bank produced a pre-tax profit of £130.1 million. This is a 6.2% increase on 2002, and is our tenth consecutive year of record profits. The financial services industry continued to face increased competition and economic and other uncertainties during 2003. Our financial results demonstrate, once again, that our beliefs and principles, together with our co-operative values and heritage, can provide a unique and attractive alternative to consumers and businesses. The return on opening equity, after tax, was 17.6% and our operating income grew by 4.0%. The Cost/Income Ratio increased by 1.3% reflecting our investment expenditure on major projects to deliver the future growth offered by the formation of CFS. Average retail customer lending balances grew by 25% and average retail customer deposit balances by 12%. Provisions for bad and doubtful debts stood at 1.03% of year-end loans and advances, which was 0.57 percentage points lower than in 2002.

Co-operative Financial Services (CFS)

We have created one of the UK's major financial services organisations, by bringing together The Co-operative Bank (including **smile**) and the Co-operative Insurance Society (CIS), under the auspices of Co-operative Financial Services (CFS). This provides us with the opportunity to deliver a unique co-operative alternative to millions of UK households, based on our values of trust and fair dealing and our fundamental commitment to social responsibility.

Since its creation in 2002, CFS has made good progress towards its objective of offering customers a much broader range of co-operative financial products than they could previously receive from either the bank or CIS operating independently. A number of joint sales initiatives have met with early success, including the development of a single CFS mortgage service and the launch of our Guaranteed Stock Market Deposit Bond, produced by the bank and marketed very successfully by CIS financial advisers. CIS motor insurance has been offered to bank customers since February 2003. From January 2004, the bank also began promoting CIS home insurance, and CIS financial advisers began offering bank credit cards, loans and current accounts.

Our aim with each of these initiatives has been to help bring about the CFS vision of becoming the primary financial services provider for a broad range of co-operative customers, accessed seamlessly through multiple channels. This vision is firmly founded on the shared heritage of the bank and CIS, and on our real willingness to listen to our customers. At CFS, we are building our position in the market around our approach to ethical and social responsibility, and our determination to offer products, advice and service that meet or exceed our customers' expectations.

People

I have always believed in the central importance of our staff and that their commitment is critical to the future success of The Co-operative Bank. Our staff are vital to the quality of our customer service and so, as major changes take place in our organisation, we have taken care to continue to invest in our employees, through initiatives such as our policies for 'work/life balance' and 'well-being' as well as in staff learning and development.

We are still recruiting staff to our call centres and we intend to maintain these important customer-facing operations here in the United Kingdom. I believe that when customers contact us they should be dealing with our own staff, trained and managed by us, with their dedicated focus on meeting our customers' specific needs.

In supporting the wider community, many of our staff also work voluntarily for charity. For example, in March 2003, 200 bank staff supported Comic Relief by taking telephone pledges through the night.

More than **75%** of our staff are now in customer-facing activities, and this has a continuous impact on the thinking and culture of the organisation.

Service channels

At the bank, more than 75% of our staff are now involved in customer-facing activities, and this has had a continuous impact on the thinking and culture of the organisation. We are constantly looking for new ways to improve our customer service offerings, and this has given rise to some important initiatives during 2003.

We have opened new-look branches in Belfast and Manchester, and in the latter we have brought banking, insurance & investment and travel services together under one roof. This represents a partnership between the bank, CIS and the Co-operative Group's Travelcare, and is a good example of how we can build on our relationships within the Co-operative Group to create unique service offerings for our customers. On a similar theme, we opened a specialist mortgage shop in Didsbury (Manchester), and dedicated 'Mortgage Zones' in Derby and Croydon, providing alternative ways for our customers to access our full range of mortgages. We have extended our branch opening hours, and 90% of our branches are now open on a Saturday morning.

During the year, we also continued to make improvements to our call centre operations, increasing both the speed at which we respond to customer calls, and the quality of customers' service experience. As part of the development of CFS, we also began to integrate the bank's call centres with those of CIS, resulting in a greater range of service and advice now being available to all CFS customers.

Personal banking

2003 was an active year in terms of new product launches and the development of our services in personal banking. Sales of residential mortgages continued to grow strongly and mortgage balances reached £2 billion by the end of the financial year. I believe this success is not only due to the broad range of mortgages we offer but also to the flexibility built into our products. During 2003, the bank expanded its mortgage product range with the launch of competitively priced 2, 5 and 10 year fixed rate mortgages. 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 makes 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.

In April 2003 we launched, jointly with CIS, our new Guaranteed Stock Market Deposit Bond. Research we conducted during 2003 showed that instability in the stock market was causing individuals to rethink the way they wanted to invest their money, and therefore we designed our new deposit bond to give customers real growth potential with no capital risk to their initial cash investment.

In June 2003, we acquired Northern Rock's credit card balances, which resulted in the transfer of Northern Rock's existing credit card portfolio to the bank. We regard credit cards as a core activity and this acquisition fits well with our existing portfolio, and is designed to make an important contribution to our future growth.

We also introduced several new credit cards during the year, including the new Travel Reward VISA card, which pays points redeemable at our sister organisation, Travelcare, and offers a range of other travel benefits. We continued to develop our portfolio of affinity VISA cards, with the launch of a number of new cards in 2003 including Christian Aid and WaterAid. These cards generate donations to the affinity partner each time they are used by a cardholder and, during 2003, the bank's affinity cards raised a total of more than £1.58 million for its partners, providing a source of much needed funds for their work. We also extended our partnership with the RSPB, ensuring that one of the longest-running affinity credit card relationships in the market will continue for at least another five years.

The success of our Privilege current account range continued throughout 2003, as more customers took advantage of the benefits it offers. Building on this, in September 2003 we launched Privilege Premier, which offers customers the chance to upgrade to a wider range of financial, travel and lifestyle benefits, for a modest monthly subscription.

Independent financial advice

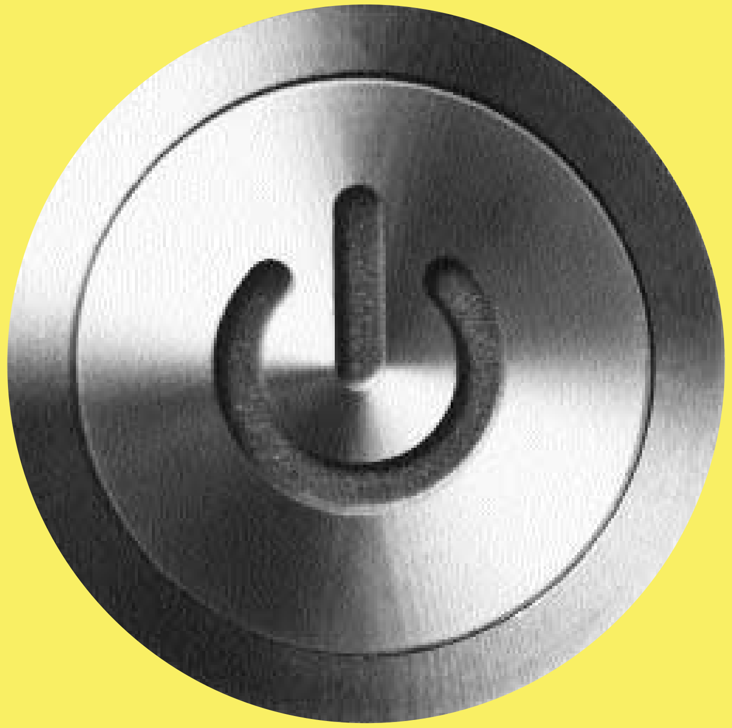
Co-operative Bank Financial Advisers (CBFA), our IFA subsidiary, enhanced its position as a leading independent financial adviser when it was confirmed in the top 15 of the list of the UK's Top 100 IFAs, published by the industry trade journal, Financial Adviser.

In our annual survey of customers, 94% of customers were satisfied with their CBFA Adviser, whilst overall customer satisfaction of services offered by CBFA was 86%, an increase of 6% on 2002. Professionalism, knowledge, trustworthiness and not being 'too pushy' were the main factors influencing their opinion.

Internet banking

Our internet banking operation **smile** has continued to strengthen its position in the market and the quality of the **smile** banking service was recognised in several awards and surveys. At the Online Finance Awards, **smile** won 'Best Online Bank and Building Society Website', and the Guardian/Observer Consumer Finance Awards named it 'Best Customer Service Overall', 'Best Current Account Provider (online)' and 'Best Credit Card Provider'. **smile** also received five of the Your Money Direct Awards and came top, three times, in the Virtual Survey's UK league table for electronic banking customer satisfaction.

In April 2003, **smile** launched an added-value current account, **smilemore.** This offers a wide range of financial and lifestyle benefits, including a £260 interest-free overdraft, free family travel insurance, discounted gym membership and roadside assistance. It is the first of its kind from an internet bank, offering value for money and giving our customers a wide range of benefits and services.



smile
was recognised in several awards and surveys during 2003.

For every £100 deposited in **Community** Directplus, we will add 10 pence to both a Customer Donation Fund and a Community Donation Fund.

All bank customers have been offered the **Co-operative Bank Internet Banking Service** since 1998, freely available alongside more traditional banking channels. This year, we launched a redesigned service with a new look, improved access, simpler navigation and added features. We made these changes in response to customer feedback, and reaction to the new website has been very positive.

Corporate and business banking

Our corporate account customer base continued to expand during 2003, particularly in the areas where our traditional strengths lie: small to medium-sized businesses (SMEs), the charity and voluntary sector, local authorities and co-operative organisations. We continue to be a major provider of financial services to the public sector, and remain the banker to all ten local authorities in Greater Manchester.

We have also been actively involved in the Private Finance Initiative (PFI) market. During 2003, the bank provided finance for a number of PFI deals to construct schools, hospitals and police stations as well as post-construction funding for roads.

During the year we created a specialised Commercial Property Finance team, providing focus and concentrated expertise in an area which remains important for the growth of our business.

In the charity and not-for-profit sector, our corporate and business banking activities included the launch, in June 2003, of the Community Directplus account. As well as free banking and a competitive rate of interest, charities opening a new Community Directplus account could benefit from a unique donation fund that will grow in relation to deposits. For every £100 deposited in Community Directplus, 10 pence will be added to a Customer Donation Fund. Customers will have the opportunity to apply for project funding from this fund. In addition, we will also contribute 10 pence for every £100 deposited to a Community Donation Fund, which we then donate to our chosen charity partner each year. For the year June 2003 to June 2004, this is the National Council for Voluntary Organisations (NCVO).

During 2003 we also developed two new products which were launched in March 2004 – The Federation of Small Businesses (FSB) Business Banking and *Clarity*, a new account for smaller businesses. FSB Business Banking is the first business bank account from a high street bank to be endorsed by the FSB and offers members exclusive access to a range of business banking products. *Clarity*, with its transparent and open pricing structure, has been established to eliminate confusion for SMEs and offers a fixed fee structure based on actual transaction levels plus a guaranteed credit interest rate.

The Co-operative movement
In recent years, consumer trust – in business in general, and in financial services in particular – has fallen dramatically. A recent study by Taylor Nelson Sofres shows that more than 25% of people do not believe that businesses treat them fairly. So the trust our customers place in us is key to our future success, and our co-operative heritage is fundamental to this.

In addition to our successful joint sales initiatives with CIS, the bank has also developed a range of Co-op branded credit cards, savings accounts and other services for customers of the Co-operative Group and the wider Co-operative movement. Our programme to install cash machines with our colleagues in Co-operative retail societies expanded further during 2003, with the installation of an additional 500 ATMs bringing the total number in the bank's estate to over 1,600 by the year end.

A Responsible business
The bank's commitment to ethical, social and ecological issues has been externally recognised for a number of years, and 2003 was no exception. Our Partnership Report was named 'Best Sustainability Report' at the European Sustainability Reporting Awards, and for the third year running it won the premier Sustainability Reporting Award at the UK Sustainability Reporting Awards, organised by the Association of Chartered Certified Accountants (ACCA). The electronic version of our report also received a commendation from ACCA, for its accessibility and usability.

The bank was highly commended in the 'Best Environmental Practice' category at the North West Business Environment Awards, and also won the prestigious Business in the Community (BiTC) Cause Related Marketing Award for its cluster bomb campaign. This campaign aimed to raise awareness of the problems caused by unexploded cluster bombs after conflicts have ended, and to help tackle the humanitarian consequences. We were particularly proud to receive this award, as it acknowledged not only the difficulty of the issue, but also how our involvement extended beyond a financial one.

Our latest 'Customers Who Care' campaign has focused on safer chemicals. Working with the leading environmental charity, WWF-UK, we targeted 'persistent' chemicals (those which do not readily break down) and 'bioaccumulative' chemicals (those which tend to build up in living things). Every day, tens of thousands of man-made chemicals are manufactured, used and released into the environment – in everything from soap and perfume to computers, TVs, furniture and paint. In many ways, they have made a great contribution to modern life, but some chemicals now present a global problem with the potential to contaminate the environment, wildlife and our own bodies. Our campaign advocated a 'better safe than sorry approach' calling for such chemicals to be phased out and replaced with safer alternatives.

In September 2003, we teamed up with Amnesty International, ActionAid and Global Witness to highlight another global issue – the illegal diamond trade which has helped finance many conflicts in Africa. We asked people buying diamond jewellery to question the origins of the jewel before buying it, and to sign a 'Diamond Pledge', calling for regular impartial monitoring of the diamond trade.

We also continued to develop products with an ethical or ecological aspect. In May 2003, we launched a 'carbon dioxide conscious' car loan, helping to offset some of the 3.1 tonnes of CO_2 generated each year by the average car. For every car loan our customers take out, we make an annual donation to Climate Care, supporting them in their efforts to deal with global warming. We also give loan customers tips on how to become 'greener' drivers, and on points to consider when looking for a more fuel-efficient car.

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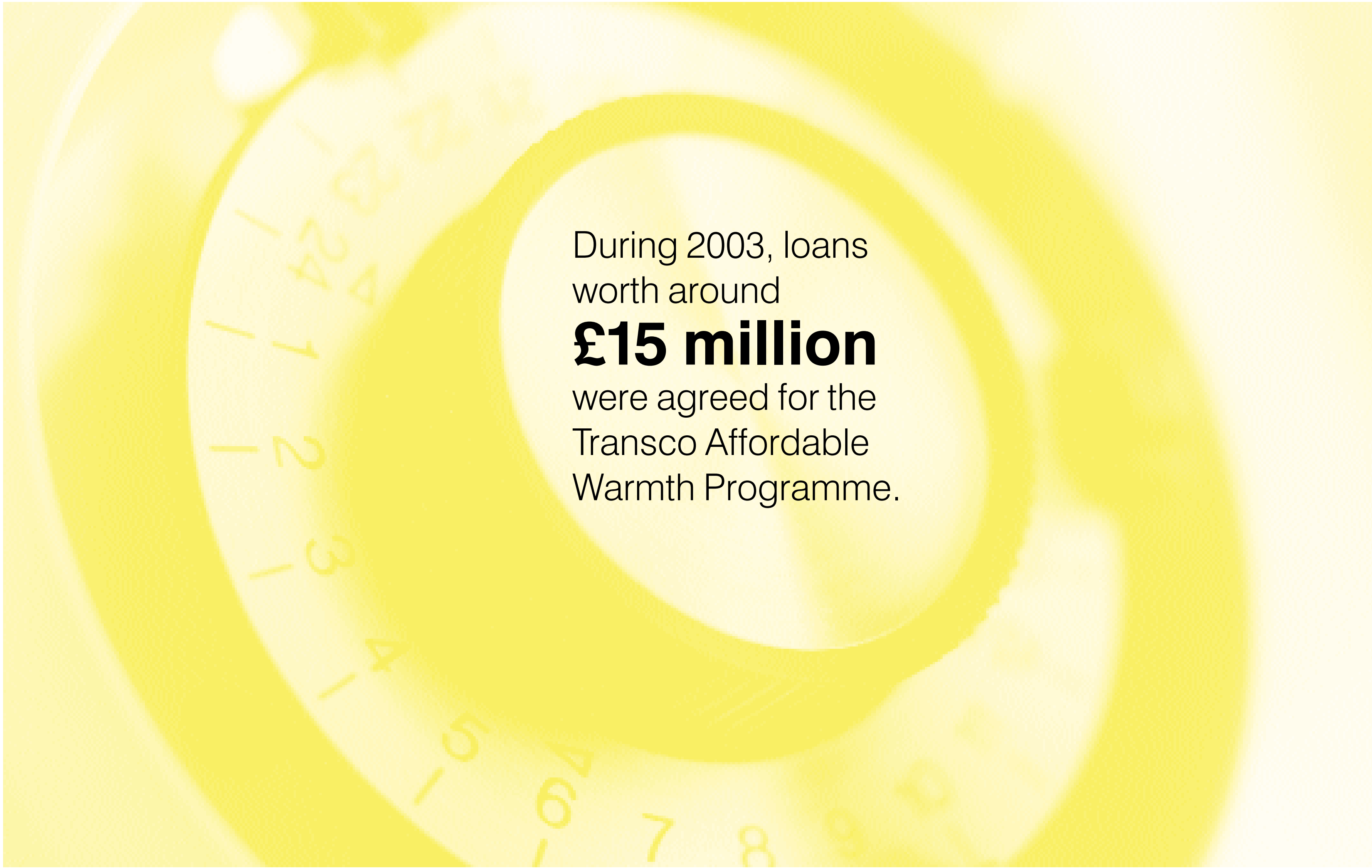


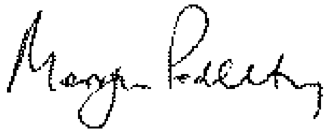
During 2003, loans worth around
£15 million
were agreed for the Transco Affordable Warmth Programme.

In last year's report, I wrote about our participation in the Transco Affordable Warmth Programme, developing a loan scheme to help local authorities and social housing landlords finance the installation of energy-efficient heating systems. During 2003, loans worth around £15 million were agreed and we look forward to giving the scheme our continued support and playing an important role in its future development.

In December 2003, we published our third annual Ethical Purchasing Index (EPI), a unique measure of the size of the market for ethical goods and services. Based on hard sales data, this is the only tool available to business, policymakers and campaigners to support claims about growth in the ethical marketplace. This year, we saw demand for ethical products and services grow faster than the general market – a firm indication that the future looks promising for ethical businesses. One of our new findings was that many consumers now deliberately avoid products from companies they believe act wrongly, and these boycotts are costing the 'big brands' £2.6 billion a year. We also saw the total value of ethical banking increase by 16% to £3.9 billion.

2004 and beyond
Looking ahead to 2004, our belief in ethical, social and ecological responsibility – and the way it inspires our products and services – will help to ensure sustained success for The Co-operative Bank. While the UK financial services market continues to become increasingly competitive, I believe our unique combination of values and customer focus will guide us effectively through another year.

The development of Co-operative Financial Services, now in its second year, is already demonstrating how the shared heritage and commitment of the bank and CIS can make a greater range of co-operative financial services available to a broader group of people. In areas such as mortgages, we have seen growth beyond our initial expectations, and I am confident that our joint efforts will continue to bear fruit throughout 2004. Most importantly, I look forward to bringing the benefits of better choice and more convenient access to all our customers, raising the service they receive from us to even higher levels.



Mervyn Pedelty, Chief Executive

6.2 % increase in profit during 2003.

Profit Before Tax was £130.1 million, £7.6 million (6.2%) higher than 2002 despite significant investment in business development.

Operating and financial review: growth & investment.

Financial highlights

In 2003, The Co-operative Bank achieved a Profit Before Tax of £130.1 million, £7.6 million (6.2%) higher than 2002 despite significant investment in business development. Earnings attributable to the equity shareholder, after tax and before an ordinary dividend payment of £20 million, were £83.4 million, a rise of 6.6%. The Return on Opening Equity, after tax, was 17.6%.

The increase in profitability arose from a 4.0% rise in Operating Income and a 9.7% reduction in the charge for bad debts, which was partially offset by higher operating costs.

Results Summary	**2003 £m**	2002 £m	Change £m
Operating Income	**502.9**	483.4	19.5
Operating Costs	**(309.5)**	(290.8)	(18.7)
Operating Profit (before Bad Debts)	**193.4**	192.6	0.8
Bad Debt Provisions	**(63.3)**	(70.1)	6.8
Profit Before Tax	**130.1**	122.5	7.6
Retained profit after Preference Dividend	**83.4**	78.2	5.2
Cost/Income Ratio	**61.5%**	60.2%	1.3%

The Balance Sheet remained robust throughout the year with strong liquidity and capital ratios. Credit quality improved overall and the charge for bad and doubtful debts was 1.03% of year-end loans and advances, an improvement of 0.57 percentage points on 2002. The year-end Risk Asset Ratio was 13.5% with a Tier I Ratio of 10.5%, substantially higher than the regulatory requirements.

Business highlights

UK economic growth during 2003 was supported by high consumer spending and sustained by low interest rates, low unemployment and a strong housing market. In contrast, performance in the manufacturing sector was generally weak. The outlook for 2004 has improved, with an improved forecast for economic growth, particularly in the business sector, with continuing, historically low, interest rates and low unemployment. However, with household borrowing now at record levels, further increases in interest rates may arise and any sharp correction could depress future economic growth and increase credit risk.

In view of this, the bank has adopted a cautious lending policy. Asset growth has been carefully targeted to maintain or improve credit quality, for example by increasing the proportion of secured lending and by the application of strict credit criteria to both personal and corporate business.

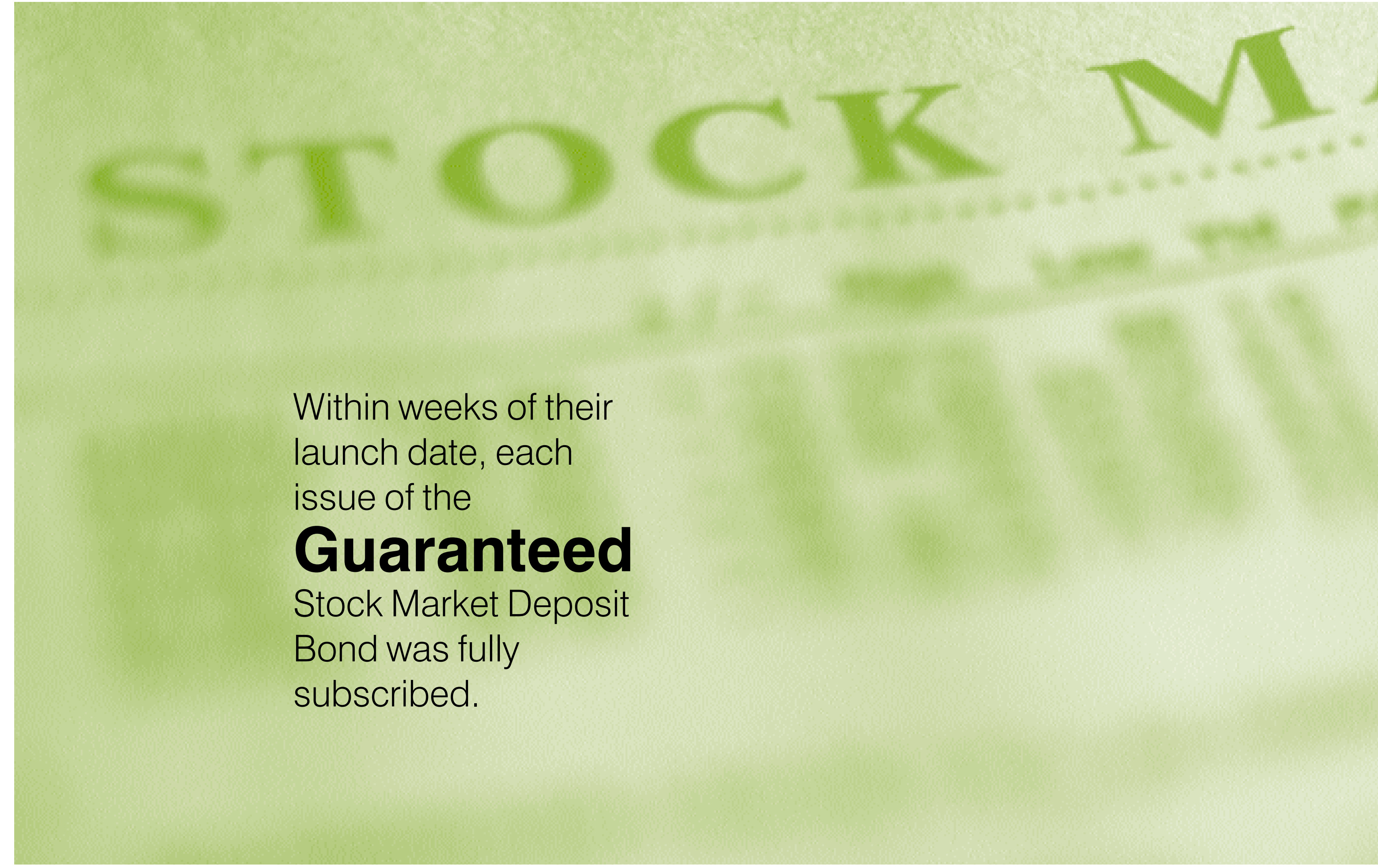
In 2003, growth in both retail customer deposit and lending balances was strong. Average customer retail deposits of £6,158 million grew by £680 million (12%) over the year and were £1,208 million higher than retail lending balances. Average customer retail lending balances increased at a faster rate than deposits and were £4,950 million for the year, higher than last year by £1,005 million (25%), reflecting particularly good growth in secured mortgage balances. As a result, average retail deposits were 124% of average retail lending balances compared to 139% in 2002.

During 2003, asset growth was targeted carefully at the residential mortgage market thus improving the bank's product mix, whilst maintaining both credit quality and a diversified yet balanced portfolio of personal and corporate business. As a result, although lending increased in both the Corporate and Personal sectors, growth was stronger in the Personal sector during 2003. Personal sector average lending increased by £976 million to £3,181 million, due to the strong growth in mortgage lending together with an increase in VISA credit card lending. Personal loan balances remained stable, reflecting the impact of the bank's cautious credit criteria.

The bank re-entered the mortgage market in late 2000 and, since that date, has enhanced both the product range and its delivery channels. In 2003, the bank added to its existing range of fixed-rate, capped-rate and discounted variable rate products, and launched competitively priced 2, 5 and 10 year fixed rate mortgages. In line with its ethical and environmental policies, the bank's 'green' mortgage products offer free energy surveys and a donation to Climate Care, an organisation dedicated to tackling the causes of global warming. Average mortgage balances have grown strongly since 2002, reaching £2,000 million by the end of the financial year. However credit approval standards remain conservative and the average Loan to Value is less than 55%.

The bank's full range of mortgage products are sold across a number of different channels but the development of a single Co-operative Financial Services (CFS) mortgage service has created further opportunities for new business growth. During 2003, one third of all mortgage completions were from customers of our sister company, the Co-operative Insurance Society (CIS). This successfully demonstrates the bank's commitment to providing co-operative financial services products to all CFS customers and the significant opportunities provided by the development of closer links between CIS and the bank. CIS financial advisers have also been successful in selling fixed term deposits and Guaranteed Stock Market Deposit Bonds on behalf of the bank, and the bank is now also selling certain CIS general insurance products. Other bank products are now also being made available to CIS customers, which together with other initiatives have the potential to create further synergies.

In June 2003, the bank acquired Northern Rock's credit card balances. The acquisition resulted in Northern Rock transferring its existing credit card portfolio of circa 90,000 accounts to the bank. Following this acquisition, in September 2003 the bank launched a new VISA credit card sold through Northern Rock's service channels and branded in its name.



Within weeks of their launch date, each issue of the **Guaranteed** Stock Market Deposit Bond was fully subscribed.

This acquisition more than offset a small decline in existing credit card balances which resulted from direct price competition as some credit card issuers offered unsustainable loss-leading lending rates to acquire new business. The bank has responded by creating a number of successful new products, including the new Travel Reward VISA card, which pays points that are redeemable at our sister organisation, Travelcare, and offers a range of other travel benefits.

The bank continues to develop its successful collaborations with a range of commercial and charitable organisations and in 2003 launched a number of new affinity credit cards including card schemes for the Association of Surgeons, Christian Aid, WaterAid and the Medical Foundation.

The 12% growth in average retail customer deposits arose both in the Personal and Corporate sectors. Average Personal sector deposit balances of £4,230 million were £557 million (15%) higher than last year. Deposits at **smile,** the bank's full-service internet operation, continue to grow and increased by 20% during the year. **smile's** customer base has grown impressively since its launch and over 80% of its customers are new to The Co-operative Bank group. Over the past year, the product range has been extended including the launch of **smilemore,** the first on-line current account offering discounted lifestyle benefits for a small monthly fee as well as preferential rates on loans and overdrafts. **smile** now offers a wide range of personal banking products together with industry-leading customer service. In 2003, **smile** won the Guardian/Observer Consumer Finance Award for Best Customer Service Overall and was also ranked top in Virtual Survey's UK league table for electronic banking customer satisfaction.

Mervyn Pedelty
Chief Executive

Sheila Macdonald
Executive Director &
Chief Operating Officer

Kevin Blake
Credit Risk & Compliance
Management Director

David Craggs
Customer Services Director

Patrick Walsh
Retail Network & Operations Director

Keith Alderson
Corporate & Business Banking Director

Richard Goddard
Executive Director, Finance & Risk

Peter Sutcliffe
Executive Director, Retail Banking
Business Management

Phil Garlick
Director of Operations, **smile**

Shelagh Everett
Business Transformation Director

Executive Committee

The bank's savings product range has been extended to include competitively priced fixed-rate fixed-term deposit accounts. During 2003, the bank launched, in partnership with CFS and CIS, a number of Guaranteed Stock Market Deposit Bonds, providing cash savings customers with a capital guarantee and an interest return linked to the performance of the stock market. Each issue was fully subscribed within weeks of its launch date. A further new current account, Privilege Premier, was launched to existing bank customers during the year, offering a full range of banking facilities and attractive lifestyle benefits for a monthly subscription.

Corporate average deposit balances increased by 7% to £1,928 million, reflecting steady growth across the portfolio, including both larger company relationships and small and medium sized businesses. The bank's telephone and internet banking service for small businesses, Business Directplus, offers a low-cost interest-bearing current account and the customer base has grown significantly. The bank continues to strengthen its relationships with trade associations, recently receiving endorsement from the Federation of Small Businesses for a bespoke business banking package for its members. The bank also continues to be a major provider of financial services to the public sector, including Local Authorities, and during 2003 provided finance to a number of Private Finance Initiative (PFI) deals to construct schools, hospitals and police stations as well as post-construction funding for roads. The bank's business has also increased in the community and voluntary sectors with the launch of Community Directplus, a telephone based account for community groups and charities, providing a low-cost, interest-bearing current account.

The bank has continued to develop both its closer partnership with CIS, under the leadership of CFS, and its partnership with the Co-operative Group. 2003 was a period of investment in people, organisational structures and the technical infrastructure to ensure the success of CFS and to realise the vision of becoming a financial services provider for a broad range of co-operative customers as well as facilitating delivery of future cost efficiencies and other synergies.

In addition to cross-selling initiatives with CIS, the bank also has a range of Co-op branded credit cards, savings accounts and other services specially developed for retail customers of the Co-operative Group and the wider Co-operative movement. Refurbished or new branches were opened in Manchester and Belfast, with the former bringing together the bank, the Co-operative Group's Travelcare and CIS under one roof to provide a 'one stop shop' for banking, travel and insurance & investment products.

The bank has continued to expand its network of ATMs located within Co-operative retail stores. During 2003, an additional 500 ATMs were installed, which brought the total number of cash machines in the bank's estate to over 1,600 by the year end. Several hundred additional cash machine installations are also planned for 2004. In June 2003, the bank became the first UK bank to offer mobile phone top ups from its ATMs, a pioneering service developed by LINK, the UK's shared ATM system.

An additional **500** ATMs were installed during 2003.

Operating income

Operating Income of £502.9 million was £19.5 million (4%) higher than last year. Net Interest Income increased by £2.7 million (1%) and Non-Interest Income by £16.8 million (11%).

The increase in Net Interest Income was principally due to higher customer balances, offset by lower wholesale net interest income and a reduction in the bank's overall net interest margin.

Average interest-earning assets of £8,545 million increased by £790 million (10.2%), reflecting growth in retail customer lending of £1,005 million, including strong growth in mortgage lending, offset by a decrease in interest-earning wholesale market placements of £215 million. Average interest-bearing liabilities rose by £602 million (9.3%) to £7,056 million, driven by growth in average interest-bearing retail customer deposits of £582 million. The increase in average interest-free liabilities mainly arose from higher Current Account balances and the bank's retained earnings.

The strong growth in mortgage balances has improved the bank's overall asset mix.

Secured mortgage lending attracts a lower margin than unsecured personal lending as it represents a lower credit risk. This change in asset mix and the improvement in credit profile was the main reason that the banks overall net interest margin reduced from 4.2% in 2002 to 3.9%, although margins for individual products and wholesale assets have narrowed in line with general industry trends. This reflects both the lower interest rate environment and increased competition.

Average Balances and Interest Margins	**2003 £m**	2002 £m	Change £m
Net Interest Income	**332.3**	329.6	2.7
Average Balances			
Interest-earning Assets	**8,545**	7,755	790
Interest-bearing Liabilities	**7,056**	6,454	602
Interest-free Liabilities	**1,489**	1,301	188
Average Rates			
Gross Yield on Interest-earning Assets	**6.2%**	6.8%	(0.6)%
Cost of Interest-earning Liabilities	**2.8%**	3.1%	0.3%
Interest Spread	**3.4%**	3.7%	(0.3)%
Contribution of Interest-free Liabilities	**0.5%**	0.5%	-
Net Interest Margin	**3.9%**	4.2%	(0.3)%

There has been strong **growth** in average mortgage balances since 2002.

Non-interest Income of £170.6 million was £16.8 million higher than last year, an increase of 11%. Net commission and fee income increased by £18.4 million, mainly reflecting mortgage arrangement fees from the expanding mortgage book and higher inter-bank commission from the bank's growing ATM network, together with higher VISA commissions and customer service fees.

Insurance commission income at £50.0 million was £6.4 million (14.7%) higher than 2002. Other income was £8.0 million lower than last year due to adverse movements in market values of financial instruments within the trading portfolio. In practice, the majority of these instruments are held for the longer term, generating net interest income which offsets these dealing losses. Overall most of the bank's income from Treasury activities is included in Net Interest Income, although the income from Treasury declined in 2003 due to less favourable conditions in the wholesale markets.

Non-Interest Income	**2003 £m**	2002 £m	Change £m
Net Commission and Fee Income	**128.0**	109.6	18.4
Insurance Commission Income	**50.0**	43.6	6.4
Other Income, including Dealing Profits/Losses	**(7.4)**	0.6	(8.0)
Total	**170.6**	153.8	16.8

Operating costs

Operating Costs of £309.5 million were £18.7 million higher than last year, a rise of 6.4%. The increase in costs arose mainly from investment in strategic business developments and higher costs associated with increased business volumes. The cost/income ratio increased by 1.3% to 61.5%, reflecting this investment expenditure.

Operating Cost Analysis	**2003 £m**	2002 £m	Change £m
Staff Costs			
Wages and Salaries	**95.5**	93.3	2.2
Pensions and Social Security Costs	**23.4**	21.4	2.0
Other Staff Costs	**7.9**	7.3	0.6
	126.8	122.0	4.8
Other Administrative Expenses	**161.5**	148.7	12.8
Depreciation	**21.2**	20.1	1.1
Total Operating Costs	**309.5**	290.8	18.7
Cost/Income Ratio	**61.5%**	60.2%	1.3%

Staff costs were £4.8 million (3.9%) higher than last year mainly reflecting business growth, the annual pay award and increased rates for employers national insurance contributions. Staff numbers have increased due to planned expansion in the mortgage service centres.

Other operating costs were £13.9 million (8.2%) higher than last year due to incremental expenditure on strategic business developments including initiatives to deliver the future growth offered by the formation of CFS, a strong expansion in the ATM network as outlined earlier, investment in new technology and product marketing expenditure. The expenditure relating to CFS has been incurred on integrating products, distribution channels and the service functions of both the bank and CIS. Other major IT projects in 2003 included the redevelopment and relaunch of the bank's Internet Banking Service, introduction of improved security in support of the industry's BACS technology renewal programme (NewBACS), development of the bank's payment systems in response to banking industry initiatives and continued development of sophisticated risk management systems to meet future regulatory requirements. Excluding this additional investment spending, Other Administrative Expenses were lower than in 2002.

Bad and doubtful debts

The Profit and Loss charge for bad debts of £63.3 million was £6.8 million lower than last year, despite the growth in lending balances. Additional general bad debt provisions in respect of mortgage and other lending growth were more than offset by lower specific provisions. The bad debt charge represented 1.03% of year end Loans and Advances to Customers, an improvement of 0.57 percentage points compared to 2002.

Bad and Doubtful Debt Charge	2003 £m	2002 £m	Change £m
Profit and Loss Charge			
Personal Sector	**57.2**	61.6	(4.4)
Corporate Sector	**6.1**	8.5	(2.4)
Total	**63.3**	70.1	(6.8)
Charge as a percentage of Loans and Advances to Customers	**1.03%**	1.60%	(0.57)%

Personal sector bad debt charges decreased by £4.4 million (7.1%) due to improvements in the credit quality of the personal sector portfolio and lower fraud charges. The bank's credit criteria have been progressively tightened over recent years. In addition, the cost of fraud included within the bad debt charge declined following the implementation of additional fraud detection and prevention systems.

A large part of the bank's Corporate and Business lending is to small and medium-sized businesses and credit quality has remained stable in that sector with low bad debt charges in recent years. Credit approval standards are conservative but during the year more stringent standards were applied to the quality of security and the central management of higher risk sectors has been strengthened. The number of problem accounts is at minimal levels, as the bank's strategy of reducing its exposure to higher risk sectors is realised. As a result, Corporate sector bad debt charges of £6.1 million were £2.4 million lower than in 2002. The bad debt charge as a percentage of average Corporate balances was 0.3%, compared to 0.5% last year.

Despite current economic uncertainties, business confidence is generally showing early signs of improvement, consumer spending remains relatively strong, and there are as yet no clear signs of a deterioration in the overall credit climate.

Summary

The Co-operative Bank has continued to grow steadily, despite increased competition and a narrower interest margin and has produced its tenth consecutive year of record profits. The bank has also invested in new technology and the infrastructure required to support its plans as part of CFS. At the same time, an excellent Return on Equity of 17.6% after tax has been generated. The development of CFS as the leading financial services provider for Co-operative customers, together with the bank's unique ethical stance, should ensure that The Co-operative Bank is well placed to continue to innovate and compete in a challenging and changing UK financial services market.

The bank's customer base for Business Directplus, its telephone and internet banking **service** for small businesses, has grown significantly.

Risk management.

The Group takes a balanced view of risk and actively monitors all relevant activity accordingly.

We look to balance risk across **four** key areas.

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 2003. 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 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

Value
is driven by the balance
between risk and reward.

of the risk arises from changes in interest rates as the bank does not trade in equities or commodities and has limited foreign currency activities.

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) whose Chairman has been delegated authority by the Chief Executive. ALCO meets monthly and 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 principle 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 2003, the daily VaR in the trading portfolios was less than £1.2 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 generated 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 systems 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, are 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. In addition to mortgage lending, much of the lending to corporate and business banking customers is also 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 contacts 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.

Risk management
is key to
building
a successful business.

The board

Chair

Graham Bennett, FIMgt

Non-Executive Deputy Chair

Martin Beaumont, MA, FCA

Chief Executive

Mervyn Pedelty, FCA, FCIB

Chief Operating Officer

Sheila Macdonald

Executive Directors

Richard Goddard, MA, FCA

John Marper, FCA

Peter Sutcliffe, ACIB

Non-Executive Directors

Bob Burlton

Simon Butler

Keith Darwin, OBE, BA(Hons)

David Davies*, BA(Econ),FIA

Paul Hewitt, BA(Hons), ACA

Kathryn Smith

Graham Stow*, FCIB, FCIPD

Secretary

Moira Lees, FCIS

*Independent Professional Non-Executive Directors

The Co-operative Bank p.l.c.

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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 10th January 2004.

Results and Dividends

The profit on ordinary activities before taxation was **£130.1million** (2002–£122.5 million), an increase of £7.6 million on 2002. After preference dividends of **£5.5 million**, the profit attributable to the ordinary shareholders amounted to **£83.4 million**. An interim dividend of £20 million was paid on 16th December 2003 to the ordinary shareholders. The Directors do not recommend the payment of a final dividend on the ordinary shares and £63.4 million will be added to reserves.

Activities and Business Review

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

The operating and financial review sets out the business of the Group for the year ended 10th January 2004 and future developments.

Outlets

At 10th January 2004 the bank had **124** outlets and **103** Handybanks (instore facilities).

Directors and their Interests

The names of the present members of the Board are set out on page 26.

Chris Blanchett, David Jackson and Sir Graham Melmoth also served as Non-Executive Directors until their resignations on 16th May 2003.

Bryce Glover also served as an Executive Director until his resignation on 30th May 2003.

Simon Butler was appointed as a Non-Executive Director on 28th January 2003.

Graham Stow was appointed as an Independent Professional Non-Executive Director on 4th March 2003.

Paul Hewitt was appointed as a Non-Executive Director on 16th May 2003.

David Davies was appointed as an Independent Professional Non-Executive Director on 3rd June 2003.

Bob Burlton was also appointed on 30 March 2004.

In accordance with the Articles of Association, Paul Hewitt, David Davies and Bob Burlton, 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, Sheila Macdonald, Martin Beaumont and Kathryn Smith 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, Graham Bennett held 40 ordinary shares of 5p each until 21st March 2003 when they were transferred to the ultimate parent organisation.

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

	No. of Shares	
	2003	2002
John 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.

There have been no changes in the Directors' shareholdings between the end of the financial year and 7th April 2004, except as stated above.

Directors

The Directors are as follows:

- Graham Bennett, 53, Chief Executive, Southern Co-operatives Limited.
- Martin Beaumont, 54, Chief Executive, Co-operative Group (CWS) Limited.
- Bob Burlton, 55, Chair Designate, Co-operative Group (CWS) Limited.
- Simon Butler, 49, Chair, Co-operative Insurance Society Limited.
- Keith Darwin, 59, Chair, Co-operative Financial Services Limited.
- David Davies, 56, Independent Professional Non-executive Director.
- Richard Goddard, 46, Executive Director, Finance and Risk.
- Paul Hewitt, 47, Chief Financial Officer, Co-operative Group (CWS) Limited.
- Sheila Macdonald, 56, Executive Director & Chief Operating Officer.
- John Marper, 57, Risk & Compliance Director, CFS.
- Mervyn Pedelty, 54, Chief Executive.
- Kathryn Smith, 44, Public Affairs Consultant.
- Graham Stow, 59, Independent Professional Non-Executive Director.
- Peter Sutcliffe, 57, Executive Director, Retail Banking Business Management.

Supplier Payment Policy and Practice

The bank's suppliers are one of seven groups it recognises as partners in its business, each of whom has clear responsibilities to the bank, which 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 19 days (2002–29 days) purchases outstanding at 10th January 2004, based on the average daily amount invoiced by suppliers during the financial year.

Staff

The bank and its subsidiary undertakings employed **4,237** persons at 10th January 2004 (2002–4,247). The weekly average number of persons was **4,310** (2002–4,161) and their aggregate remuneration for the year was **£95.5 million** (2002–£93.3 million).

The bank operates new learning and development initiatives across the organisation as part of a continuous improvement programme supporting its approach to performance management and personal development.

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

The bank was named by The Financial Times as one of the 'UK's 50 Best Workplaces 2003'. This is the third year that such an accolade has been awarded to the bank in an independent survey of employment polices and working conditions of leading British organisations. Most importantly, this survey took the views of staff as the key element in judging performance. This approach reinforces our co-operative values and Brand and is key to the operation of our Corporate and Social 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.

International Financial Reporting Standards

The bank established a project team in 2002 in anticipation of the introduction of International Financial Reporting Standards (IFRS). The project team has worked with all areas of the business and other interested parties, in particular the BBA, to identify and tackle IFRS implementation issues and to ensure that IFRS compliant financial statements for the year ending 14th January 2006 can be produced. Regular progress reports are reviewed by the Audit & Risk Committee and Executive Committee and the project is currently proceeding to plan.

All the major impacts have been reviewed to ensure that system requirements have been appropriately identified. Work is continuing to review and assess requirements following the reissue of IAS39 and IAS32 in December 2003.

Donations

During the year, the bank and its subsidiaries made donations (which excludes affinity card payments) of **£0.5 million** (2002–£1.1 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 Company and 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
Moira Lees, Secretary
7th April 2004

The Combined Code

The Board supports the principles of Corporate Governance advocated by the Combined Code ("the Code") issued by the Financial Reporting Council. Listed companies are expected to comply with the Code. 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 existing Code.

The Code has been revised in 2003 and the changes apply to reporting periods beginning on or after the 1st November 2003. Full compliance with the new provisions of the Code will take some time to achieve and 2004 will provide an opportunity for a working party to consider the proposals further. The Board will be considering these in full for the forthcoming year-end. In the meantime the Board has taken the opportunity to improve its practices by adopting some of the recommendations of the two reports contained in the revised Code:

- The Higgs review – on the role and effectiveness of Non-Executive Directors
- The Smith Report – Combined Code Guidance for Audit Committees.

Directors

The business of the bank is controlled by the Board of Directors. The Board has met twelve times in 2003. The Board includes a Non-Executive Chair, eight Non-Executive Directors, one of whom is designated Deputy Chair, two of whom are Independent Professional Non-Executive Directors, three Executive Directors, the Chief Executive and the 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 Board and Committee Members on a collective and individual basis. This is 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.

External consultants have carried out a skills assessment in respect of Non-Executive Directors. Using this, a development plan for each director is being developed. In addition three levels of training have been provided. A process for performance evaluation is currently being developed.

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

The absence of strict independence of the majority of Non-Executive Directors and the absence of a designated senior Non-Executive Director means that the bank has not fully complied with the requirements of the Code. Nevertheless, the Audit and Risk Committee and Remuneration and Appointments Committee are composed of Non-Executive Directors, including Independent Professional Non-Executive Directors appointed during 2003 – Graham Stow on 4th March 2003 and David Davies on 3rd June 2003.

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 the shares are held by the Co-operative Group (CWS) Limited. Co-operative Financial Services Limited provides the Chair, Deputy Chair 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 three Non-Executive Directors. The Committee met three times in the year with Internal Audit and the external auditors. Executive Directors and senior managers regularly attend to brief the Committee on specific issues. Additional 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 2003 and up to the date of approval of the Annual Report and Accounts, is regularly reviewed by the Board and accords with the guidance in the Code.

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 Chair 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 23 to 25.

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

After making all appropriate enquiries, the Directors have a reasonable expectation that the bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the bank's Financial Statements.

Directors' Committees

Audit and Risk Committee

Chris Blanchett (resigned 4th March 2003)
David Davies (appointed 8th July 2003)
David Jackson (resigned 16th May 2003)
Kathryn Smith
Graham Stow (appointed 4th March 2003)*

Advances Committee

Graham Bennett*
Kevin Blake (management representative)
Chris Blanchett (resigned 4th March 2003)
David Davies (appointed 3rd June 2003)
Paul Hewitt (appointed 16th May 2003)
David Jackson (resigned 16th May 2003)
John Marper
Sir Graham Melmoth (resigned16th May 2003)
Mervyn Pedelty
Kathryn Smith (appointed 3rd June 2003)
Graham Stow (appointed 4th March 2003; resigned 3rd June 2003)

Remuneration and Appointments Committee

(The CFS Committee sits as one body for CFS, CIS and the bank)

Martin Beaumont
Graham Bennett
Chris Blanchett (resigned 4th March 2003)
Bob Burlton (appointed 12th November 2003)
Simon Butler (appointed 4th March 2003)
Keith Darwin*
Doug Fletcher, Non-Executive Director, CFS
Terry Morton, Non- Executive Director, CFS
Kathryn Smith (appointed 8th July 2003)
Graham Stow (appointed 8th July 2003)

Executive Directors' Risk Review Committee

Bryce Glover (resigned 30th May 2003)
Richard Goddard
Sheila Macdonald
John Marper
Mervyn Pedelty*
Peter Sutcliffe

* Chair

Remuneration Report

The Co-operative Bank uses, as a guideline for its disclosure in relation to remuneration, the requirements applicable to Listed Companies, as set out in the Directors' Remuneration Report Regulations 2002.

The Co-operative Bank Board comprises Non-Executive Directors appointed by the Co-operative Group Board, and Independent Professional Non-Executive Directors and Executive Directors appointed by the Co-operative Financial Services Limited (CFS) Board. The Chief Executive is appointed by both the bank and the Co-operative Group Board. This report provides details of the remuneration of these Executive Directors.

The Co-operative Bank's Remuneration and Appointments Committee meets as part of a combined Remuneration and Appointments Committee for CFS, the bank's parent company. Its role is described below.

Introduction

The Remuneration Report is presented by the Board and contains the following information:

- A description of the role of the CFS Remuneration and Appointments Committee ('The Committee'), covering The Co-operative Bank;
- A summary of its remuneration policy, including a statement of policy on Executive Directors;
- Details of the terms of the Service Contracts and the remuneration of each Executive Director for the financial year.

Role of the Remuneration and Appointments Committee

The Committee's principal terms of reference are to:

- determine policy on remuneration and other main terms and conditions of employment;
- oversee contractual arrangements for Executive Directors and approve the principal terms and conditions of employment of such Executive Directors;
- review salaries using comparisons against the agreed market policy;
- approve any incentive schemes and ensure that they are in line with current market practice and authorise payments under any incentive schemes in line with their rules;
- receive, review and decide on issues raised by The Co-operative Bank Pension Scheme and advise the Board about them as appropriate.

At the end of 2003, the Committee comprised Keith Darwin (Chair of the CFS Board) as Chair, together with Bob Burlton (Chair Designate of the Co-operative Group Board), Graham Bennett (Chair of The Co-operative Bank), Simon Butler (Chair of CIS), Martin Beaumont, Douglas Fletcher, Terry Morton, Kathryn Smith and Graham Stow. The Chief Executive, the CFS Secretary and the CFS Resources Director also usually attended the meetings of the Committee, except when matters concerning their own remuneration arrangements were being considered. Other individuals were invited to attend for specific agenda items when necessary.

The Committee members are all Non-Executive or Independent Professional Non-Executive Directors and they have no personal financial interest in the Committee's decisions. They have no conflicts of interest arising from cross-directorships with Executive Directors, nor are they involved in the day-to-day business of the bank. The Committee met 5 times in the period under review.

To ensure that it receives independent advice on remuneration matters, and following competitive evaluation, the Committee in 2003 appointed Watson Wyatt, in replacement of Hay Group, as its advisers, to supply survey data and to advise on market trends, pensions matters and other general remuneration issues including incentive schemes. Watson Wyatt also provide specialist advice in relation to The Co-operative Bank Pension Scheme. Solicitors Addleshaw Goddard were also appointed by the Secretary to provide legal advice to the Committee with respect to Executive Directors' Service Contracts.

Policy on Executive Directors' remuneration

In determining the remuneration policy for Executive Directors, the Committee has considered a number of factors including:

- the importance of attracting, retaining and motivating senior management of the appropriate calibre to further the success of The Co-operative Bank;
- the linking of reward to both business and individual performance; and
- ensuring that the interests of the Executive Directors are aligned with those of The Co-operative Bank.

The current policy is to remunerate those Executive Directors who also sit on the CFS Board in line with the market median for similar sized main board roles in the Financial Services Sector, and to remunerate other Executive Directors at the Financial Services Sector market median.

In 2003, the Committee considered a valuation of all elements of Executive Directors' remuneration, including pension benefits, to ensure that it was aware of their total remuneration in comparison with relevant external comparators. The results of that valuation and its implications are still under review. The Committee considers that a successful remuneration policy needs to be sufficiently flexible to take account of future changes in The Co-operative Bank's business environment and in comparative remuneration practice. The Co-operative Bank is in a state of transition and, as a part of this process, the

Committee will, during 2004, be developing an appropriate remuneration policy covering all major components of the remuneration package.
The main components of Executive Directors' remuneration are:

1) Basic Salary

It is the Committee's policy to ensure that the basic salary for each Executive Director is appropriate and competitive for the responsibilities involved. Base salaries for Executive Directors are reviewed by the Committee, normally annually, having regard to competitive market practice (in particular salary levels for similar positions in comparable companies) and individual performance during the financial year. The normal salary review date for those Executive Directors who also sit on the CFS Board (CFS Executive Directors) is at the start of each financial year in January, and on 1 April for other Executive Directors. Base salary is the only element of remuneration that is pensionable. The basic salaries received by Executive Directors for 2003 are set out in Table 1 on page 33.

2) Annual Incentive Scheme

Each Executive Director is eligible to participate in an annual performance related incentive scheme. The Committee reviews and sets incentive targets and levels of eligibility annually. The target level under the scheme for the 2003 financial year is 35% of base salary for CFS Directors, except for the Chief Executive for whom the target level is 40%, and 25% of salary for other Co-operative Bank Executive Directors. There is a maximum bonus potential for CFS Directors of 60% of base salary for substantially exceeding targets, (Chief Executive 66.8%), and 40% for other Co-operative Bank Executive Directors.
For CFS Directors, targets in the bonus year 2003 related to financial performance measured by CFS profit (including that contributed by The Co-operative Bank), and CIS' life fund performance with weightings appropriate to each individual's area of responsibility. For the Chief Operating Officer of The Co-operative Bank and Bank Executive Directors, 30% and 40% respectively of their maximum bonus is weighted to their business unit performance, and 70% and 60% respectively to CFS performance.
The payments for the Annual Incentive Scheme in respect of the year 2003 are reflected in Table 1 within 'Performance related pay'.

3) Medium Term Incentive Scheme

A new Medium Term Incentive Scheme was introduced in 2003 for both CFS Directors and other Executive Directors of The Co-operative Bank in order to align these Executives with the longer term interests of the business. The Scheme sets cumulative targets across a three-year period. Performance against these targets is reviewed by the Committee on an annual basis and targets for subsequent three-year periods are then set. The first three-year period of operation of the Scheme is for the financial years 2003 to 2005. The target payment level under the Scheme for CFS Directors on an annualised basis is 28.3% of base salary (33.3% for the Chief Executive) with a stretch level of 41.6% of base salary (50% for the Chief Executive) for substantially out-performing targets. The equivalent figures for other Co-operative Bank Directors are 20% and 30% of base salary respectively. The first potential payment under the Scheme would normally be made in the Spring of 2006.
The performance measures selected by the Committee are specific projects related to delivery of strategic objectives, derived from CFS' Strategic Plan 2003 to 2005 (updated annually). The performance measures are based on the achievement of milestones and objectives deriving from strategically important projects, and on the maintenance of financial objectives.
The previous Medium Term Incentive Scheme covered the period 2000 to 2002 for CFS Directors, and 2001 to 2003 for other Executive Directors of the Bank. These figures are reflected in Table 1 in 2002 and 2003 respectively.

4) Service Contracts

It is The Co-operative Bank's policy for the notice period in Executive Directors' Service Contracts not to exceed one year. All the Executive Directors have contracts which are terminable by one year's notice. The Chief Executive entered into a comprehensive new Service Contract in 2003. New contracts have also been developed recently for other Executive Directors and will be discussed with them during 2004. The intention is that all the Executive Directors should have consistent contracts by the end of 2004. The dates of existing contracts or dates of appointment are shown in Table 1.
In normal circumstances, it is the Committee's policy to design service contracts for any newly recruited Executive Directors in a similar form to the model which has been developed for existing Executive Directors.

Table 1 - Executive Directors' Emoluments

	Date of service contract or appointment (viii)	Basic Salary	Performance related pay	Benefits in kind	2003 Total emoluments (ix)	2002 Total emoluments (ix)
		£'000	£'000	£'000	£'000	£'000
Mervyn Pedelty (i), (iii), (iv)	6 May 2003	130	87	23	240	615
Sheila Macdonald (iv)	2 November 1999	220	122	20	362	419
Bryce Glover (ii), (v)	10 January 2003	49	18	3	70	1
Richard Goddard (v)	8 November 2002	108	89	10	207	22
John Marper (iii) (iv)	31 May 1989	59	35	4	98	397
Peter Sutcliffe (v)	10 January 2003	129	112	10	251	1
		695	463	70	1,228	1,455
Sums Paid to Third Parties (vi)		-	-	-	-	11
Former Directors who served the bank in 2002 (vii)		-	-	-	-	893
Total		695	463	70	1,228	2,359

Notes
(i) Highest Paid Director - See comment in (iii).
(ii) Resigned from the Board on 30 May 2003. The emoluments in 2003 relate to the period prior to his resignation.
(iii) Total emoluments of £960,000 (2002 - £1,054,000) and £394,000 (2002 - £476,000) for Mervyn Pedelty and John Marper respectively have been paid by The Co-operative Bank. The total emoluments in the Table represent apportioned basic pay, benefits in kind and performance related pay in respect of services as a Director of The Co-operative Bank plc. The remaining emoluments have been recharged to fellow group companies in respect of services as a Director or Senior Manager of Co-operative Insurance Society Limited and Co-operative Financial Services Limited.
(iv) Executive Directors who also sit on the CFS Board and/or Executive (CFS Directors).
(v) Benefits in kind refers to a car allowance which is paid with base salary, but is not pensionable.
(vi) Paid to the Co-operative Group (CWS) Limited for the provision of the services of a Non-Executive Director.
(vii) This sum includes £30,138 as a compensation payment to Michael Woodward who retired on 1 February 2002.
(viii) Date of appointment or service contract may differ from date service commenced with the bank.
(ix) Excludes pension values which are shown in Table 2.

Share Options

The bank does not operate a Share Option Scheme.

Appointments Outside the bank

Executive Directors can accept appointments from sources outside the bank and the CFS Group, with the consent of the Board, which will be forthcoming if it considers the appointment beneficial to the interests of the bank and the CFS Group. Any payments received from such appointments are passed on to the bank and/or the CFS Group.

Non-Executive Directors

Non-Executive Directors, except the Independent Professional Non-Executive Directors, are appointed by the Co-operative Group Board, and they do not have Service Contracts, except as stated below. The Independent Professional Non-Executive Directors are appointed by the Co-operative Group (CWS) Limited and the Board of Co-operative Financial Services Limited.
All Non-Executive Directors' fees are determined and paid by the Co-operative Group and are included in that entity's report.
The Board of The Co-operative Bank plc includes two Independent Professional Non-Executive Directors, who are:
- Graham Stow, who was appointed to the Board on 4 March 2003, and received total remuneration of £19,450 during the year.
- David Davies, who was appointed to the Board on 3 June 2003, and received total remuneration of £11,950 during the year.
A portion of their remuneration relates to their Co-operative Bank Board responsibilities.
David Davies and Graham Stow each have contracts with Co-operative Financial Services Limited for providing services to Co-operative Financial Services Limited and its subsidiaries. These contracts are effective up to 31 May 2006 and the Board may resolve to re- appoint them at or before this date for a further three year term.
Neither of the above Directors is a Director of the Co-operative Group (CWS) Limited and neither is a member of any Group Pension Scheme or Incentive Scheme.

Pensions

All the Executive Directors are members of The Co-operative Bank Pension Scheme ('the Scheme'). The Scheme is a funded, Inland Revenue approved, defined benefit final salary occupational pension scheme. Members of the Scheme are not required to contribute. Pension details of the Executive Directors are shown in Table 2.

Unfunded, unapproved arrangements are in place to provide pension and life assurance benefits to those Executive Directors affected by the pensions cap. These are designed to provide pension benefits in excess of the Inland Revenue cap, thereby placing those Executive Directors in broadly the same position as those whose pension is unaffected by the cap.

The retirement age of the Executive Directors is 60.

The pension arrangements broadly provide a pension of two-thirds of final pensionable salary after 40 years' service, subject to Inland Revenue limits. However, the pensions for Mervyn Pedelty, John Marper and Sheila Macdonald accrue at an enhanced rate. Pensions are also payable to dependants on death and a lump sum is payable if death occurs in service.

Table 2 - Pension details of the Executive Directors

	Age at 10 January 2004	Years of Service	Total accrued pension at 10 January 2004 (a)	Increase in accrued pension during the year	Increase in accrued pension during the year (net of inflation)	Transfer value of previous column at 10 January 2004 net of member's contributions	Transfer value of total accrued pension at 11 January 2003	Transfer Value of total accrued pension at 10 January 2004 (d)	Increase in transfer value
			£'000	£'000	£'000	£'000	£'000	£'000	£'000
Mervyn Pedelty	54	6	110	28	26	375	928	1,577	649
Sheila Macdonald	56	24	97	17	15	227	988	1,450	462
Bryce Glover (b)	43	13	27	4	4	28	135	195	60
Richard Goddard	46	10	26	8	7	70	127	243	116
John Marper	57	14	73	11	9	150	791	1,161	370
Peter Sutcliffe	57	31	67	11	10	154	691	1,035	344

(a) The accrued pension is that which would be paid annually on retirement at normal retirement age based on service to 10 January 2004.

(b) Bryce Glover resigned as a Director on 30 May 2003, the pension details are based on the date of leaving.

(c) Members of the Scheme have the option of paying additional voluntary contributions within Inland Revenue limits. Neither these contributions nor the benefits arising from them are shown in the Table above.

(d) All transfer values have been calculated in accordance with Actuarial Guidance Note GN11.

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

We have audited the financial statements on pages 36 to 69.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 and our terms of engagement. 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 our auditors' 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 28 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.

In addition to our audit of the financial statements, the Directors have engaged 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 29 and 30 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 risk and control procedures.

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.

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 10th January 2004 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
Chartered Accountants
Registered Auditor
Manchester
7th April 2004

Consolidated profit and loss account

For the year ended 10th January 2004
All amounts are stated in £m unless otherwise indicated

	Notes	2003	2002
Interest receivable			
Interest receivable and similar income arising from debt securities		**108.1**	131.3
Other interest receivable and similar income		**419.2**	397.4
		527.3	528.7
Interest payable		**(195.0)**	(199.1)
Net Interest Income		**332.3**	329.6
Dividend income		**0.2**	0.2
Fees and commissions receivable		**218.1**	179.0
Fees and commissions payable		**(39.4)**	(23.8)
Dealing losses	29	**(8.3)**	(1.6)
Operating Income		**502.9**	483.4
Administrative expenses			
Staff costs	1	**(126.8)**	(122.0)
Other		**(161.5)**	(148.7)
Depreciation and amortisation	17	**(21.2)**	(20.1)
		(309.5)	(290.8)
		193.4	192.6
Provisions for bad and doubtful debts	12	**(63.3)**	(70.1)
Profit on Ordinary Activities before Taxation	2	**130.1**	122.5
Taxation on profit on ordinary activities	5	**(39.1)**	(36.6)
Profit on Ordinary Activities after Taxation		**91.0**	85.9
Minority interests		**(2.1)**	(2.2)
Profit for the Financial Year	6	**88.9**	83.7
Preference dividend to non-equity shareholders	7	**(5.5)**	(5.5)
Ordinary dividend to equity shareholders	7	**(20.0)**	–
Retained Profit for the Year	26	**63.4**	78.2
Earnings per share (basic and diluted)	8	**11.46p**	11.17p

Movements in profit and loss account reserves are shown in note 26 on page 60.
There are no recognised gains and losses other than the profit for the year.
All profits have been derived from continuing operations.
Profit on ordinary activities before taxation represents the FRS 3 caption operating profit.

Consolidated balance sheet

At 10th January 2004
All amounts are stated in £m unless otherwise indicated

	Notes	2003	2002
Assets			
Cash and balances at central banks		**140.4**	97.5
Items in the course of collection from other banks		**121.0**	165.2
Treasury bills and other eligible bills	9	**–**	18.0
Loans and advances to banks	10	**773.2**	1,291.0
Loans and advances to customers	11	**6,133.8**	4,384.6
Debt securities	13	**2,079.9**	2,478.1
Equity shares	14	**1.2**	0.9
Interests in associated undertakings	15	**0.2**	0.2
Tangible fixed assets	17	**91.9**	78.4
Other assets	18	**59.3**	68.5
Prepayments and accrued income		**77.1**	105.2
Total assets	27	**9,478.0**	8,687.6
Liabilities			
Items in the course of transmission to other banks		**7.3**	7.2
Deposits by banks	19	**770.0**	748.5
Customer accounts	20	**7,385.4**	6,902.0
Debt securities in issue	21	**224.7**	5.0
Other liabilities	22	**128.0**	132.4
Accruals and deferred income		**129.7**	141.2
Provisions for liabilities and charges	23		
Deferred taxation		**9.8**	8.7
Other provisions		**7.7**	11.5
Subordinated liabilities	24	**179.2**	179.6
Minority interests (equity)	16	**20.2**	18.9
Called up share capital	25		
Ordinary shares		**55.0**	35.0
Preference shares (non-equity)		**60.0**	60.0
		115.0	95.0
Share premium account	26	**8.8**	8.8
Profit and loss account	26	**492.2**	428.8
Shareholders' funds (£60 million of which relates to non-equity)		**616.0**	532.6
Total liabilities	27	**9,478.0**	8,687.6
Memorandum items	28		
Contingent liabilities			
Acceptances and endorsements		**37.5**	28.0
Guarantees and assets pledged as collateral security		**61.3**	98.3
		98.8	126.3
Commitments			
Other commitments		**6,392.5**	5,356.4

Approved by the Board on 7th April 2004 and signed on its behalf by

Graham Stow, *Director*
Mervyn Pedelty, *Chief Executive*

Balance sheet

At 10th January 2004
All amounts are stated in £m unless otherwise indicated

	Notes	2003	2002
Assets			
Cash and balances at central banks		**140.4**	97.5
Items in the course of collection from other banks		**116.0**	164.9
Treasury bills and other eligible bills	9	**–**	18.0
Loans and advances to banks	10	**773.2**	1,291.0
Loans and advances to customers	11	**6,073.2**	4,329.2
Debt securities	13	**1,850.0**	2,266.0
Equity shares	14	**1.2**	0.9
Shares in Group undertakings	16	**1.2**	1.2
Tangible fixed assets	17	**84.6**	70.6
Other assets	18	**58.1**	69.9
Prepayments and accrued income		**70.4**	96.2
Total assets	27	**9,168.3**	8,405.4
Liabilities			
Items in the course of transmission to other banks		**7.1**	6.7
Deposits by banks	19	**773.8**	756.4
Customer accounts	20	**7,126.2**	6,679.5
Debt securities in issue	21	**224.7**	5.0
Other liabilities	22	**124.1**	128.4
Accruals and deferred income		**127.3**	122.2
Provisions for liabilities and charges	23	**6.9**	9.9
Subordinated liabilities	24	**179.2**	178.9
Called up share capital	25		
Ordinary shares		**55.0**	35.0
Preference shares (non-equity)		**60.0**	60.0
		115.0	95.0
Share premium account	26	**8.8**	8.8
Profit and loss account	26	**475.2**	414.6
Shareholders' funds (£60 million of which relates to non-equity)		**599.0**	518.4
Total liabilities	27	**9,168.3**	8,405.4

	Notes	2003	2002
Memorandum items	28		
Contingent liabilities			
Acceptances and endorsements		**37.5**	28.0
Guarantees and assets pledged as collateral security		**61.1**	98.1
		98.6	126.1
Commitments			
Other commitments		**6,388.6**	5,353.0

Approved by the Board on 7th April 2004 and signed on its behalf by

Graham Stow, *Director*
Mervyn Pedelty, *Chief Executive*

The notes on pages 41 to 69 form part of these financial statements

Reconciliation of movements in shareholders' funds

All amounts are stated in £m unless otherwise indicated

	2003	2002
Group		
Profit for the financial year	**88.9**	83.7
Issued share capital	**20.0**	–
Dividends	**(25.5)**	(5.5)
Net increase in shareholders' funds	**83.4**	78.2
Shareholders' funds at beginning of year	**532.6**	454.4
Shareholders' funds at end of year	**616.0**	532.6
Bank		
Profit for the financial year	**86.1**	83.9
Issued share capital	**20.0**	–
Dividends	**(25.5)**	(5.5)
Net increase in shareholders' funds	**80.6**	78.4
Shareholders' funds at beginning of year	**518.4**	440.0
Shareholders' funds at end of year	**599.0**	518.4

The notes on pages 41 to 69 form part of these financial statements

Consolidated cash flow statement

For the year ended 10th January 2004
All amounts are stated in £m unless otherwise indicated

	Notes	2003	2002
Net cash inflow/(outflow) from operating activities	31	**665.1**	(25.2)
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		**(13.7)**	(13.9)
Dividend paid to minority shareholders in subsidiary undertaking		**(0.7)**	(0.6)
Net cash outflow from returns on investments and servicing of finance		**(20.0)**	(20.1)
Taxation			
United Kingdom corporation tax paid		**(38.6)**	(36.3)
Capital expenditure and financial investment			
Purchase of investments		**(1,364.9)**	(428.1)
Proceeds from sale and maturity of investments		**838.2**	520.1
Purchase of tangible fixed assets		**(36.5)**	(27.2)
Proceeds from sale of tangible fixed assets		**0.1**	0.2
Net cash (outflow)/inflow from capital expenditure and financial investment		**(563.1)**	65.0
Acquisitions and disposals			
Proceeds from disposal of associated undertaking		**0.1**	–
Net cash Inflow from acquisitions and disposals		**0.1**	–
Equity dividends paid			
Ordinary share dividends paid		**(20.0)**	–
Financing			
Repayment of subordinated loanstock		**(0.7)**	–
Proceeds from issue of Ordinary Share Capital		**20.0**	–
Net cash inflow from financing		**19.3**	–
Increase/(Decrease) in cash	31	**42.8**	(16.2)

The notes on pages 41 to 69 form part of these financial statements

Accounting policies

Accounting policies

(a) Basis of preparation and accounting date

The financial statements of the Group relate to the 52 weeks to 10th January 2004. Since the Group accounting date is virtually co-terminous with the calendar year 2003 the financial year's figures are headed 2003 and the corresponding figures for the previous year are headed 2002. The financial statements are prepared on a historical cost basis in accordance with the special provisions of Part VII of the Companies Act 1985 relating to Banking Groups, applicable accounting standards and statements of recommended accounting practice issued by the British Bankers' Association and the Finance and Leasing Association.

The bank has adopted the transitional provisions of FRS 17, which has not required a change in accounting policy. No accounting policies have changed during the year, except in relation to mortgage incentives as disclosed on page 61.

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.

(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 homogeneous 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 customer's 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 a level yield basis as appropriate.

Interest earned on loans and advances is credited to the profit and loss account as it accrues.

Mortgage incentive costs are charged in the period in which they are incurred.

Acquisition Premium

Premiums paid on the acquisition of credit card portfolios are held within other assets and amortised over the estimated economic life of the underlying assets on a level yield basis. The resulting amortisation is charged to the profit and loss account.

(d) Sale and repurchase transactions

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

(e) Depreciation

Depreciation is provided on a straight line basis at the following rates which are estimated to write down the assets to realisable values at the end of their useful lives.

Freehold and long leasehold buildings	2.5 per cent per annum
Short leasehold buildings	life of lease
Equipment	10 to 33.3 per cent per annum
Vehicles	25 per cent per annum

(f) Assets leased to customers

Assets leased to customers are 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.

(m) Associated undertakings

An associate is an undertaking in which the group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. The group's share of the profits less losses of associates is included in the consolidated profit and loss account and its interest in their net assets, including goodwill, is included in investments in the consolidated balance sheet.

(n) 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.

1. Staff costs

	2003	2002
Wages and salaries	**95.5**	93.3
Social security costs	**8.2**	7.1
Other pension costs	**15.2**	14.3
Other staff costs	**7.9**	7.3
	126.8	122.0

2. Profit on ordinary activities before taxation

	2003	2002
Is stated after:		
(i) Income:		
Aggregate amounts receivable, including capital repayments, under finance leases, hire purchase and conditional sale contracts	**71.1**	76.9
Income from listed investments	**25.7**	23.7
Profits on disposal of investment securities	**5.9**	7.0
(ii) Charges:		
Interest payable in respect of subordinated liabilities	**13.8**	13.9
Rentals payable in respect of operating leases		
hire of computers, equipment and vehicles	**1.2**	1.2
other operating leases	**11.4**	11.2

	£'000	£'000
Statutory audit services – parent company **£167,075** (2002–£180,500)	**255**	310
Further assurance services	**451**	371
Other non-audit services	**18**	274
Fees paid to the auditor	**724**	955

3. Directors' emoluments

	2003 £'000	2002 £'000
Non-Executive Directors	**–**	–
Executive Directors	**1,228**	2,318
Compensation for loss of office	**–**	30
Payments to third parties for services of Non-Executive Directors	**–**	11
	1,228	2,359

Retirement benefits are accruing to five Directors (2002–six) under defined benefit schemes.

Further details of Directors' emoluments are included in the remuneration report on pages 33 and 34.

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 10th January 2004, the actuarial valuation of the unfunded pension liability for obligations in respect of former Directors was £1.2 million (2002–£0.7million).

The total pension charge was **£15.2 million** (2002–£14.3 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 2003. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of increase in salaries and pensions and the rate of return used to discount the liabilities. It was assumed that the discount rate would average 6.5% per annum, that salary increases would average 4.0% per annum and that present and future pensions would increase at the rate of 2.5% per annum.

At the date of the latest actuarial valuation, the market value of the assets of the funded scheme was **£231.0 million** and was sufficient to cover 81% of the benefits that had accrued to members, after allowing for future increases in earnings. The deficiency is being amortised in the bank's accounts over the remaining expected service lives of the current members. The average expected service lives of the current members is approximately 12 years.

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). In the year ended 10th January 2004 the bank paid contributions of **£14.2 million** at the rate of 15.6% of pensionable salaries. The actuary to the scheme has reviewed the contribution rate following the full actuarial review of the funded scheme at 5th April 2003 and has recommended a contribution rate of 22% of pensionable salaries from 5th April 2004. In February 2004, the Board of Directors of the bank and the Board of Trustee Directors of the scheme approved the increase in contributions recommended by the actuary. The recommended contribution rate of 22% includes the cost of future service and the cost of the past service deficiency in the scheme amortised over the remaining expected service lives of the current members. In addition a one-off contribution of £14.4 million will be paid into the scheme.

The amount charged in the profit and loss account (**£15.2 million**) exceeds the amount paid into the fund (£14.2 million) by **£1.0 million** (2002–£2.0 million) resulting in an accrual of **£5.4 million** (2002–£4.4 million), which includes the unfunded pension liability of £1.2 million (2002–£0.7 million).

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 10th January 2004. The principal assumptions used to calculate the schemes' liabilities were:

	2003	2002	2001
Inflation rate	**2.8%**	2.3%	2.6%
Rate of increase of pensions in payment	**2.8%**	2.3%	2.6%
Rate of increase in salaries	**4.3%**	3.8%	4.1%
Discount rate	**5.3%**	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 £32 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 £10 million.

4. Pensions (continued)

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

	2003		2002		2001	
	£m	**%**	£m	%	£m	%
Equities	**262.0**	**7.3**	211.7	7.0	265.1	7.5
Bonds	**27.7**	**4.8**	21.6	4.5	25.4	5.0
	289.7		233.3		290.5	
Present value of Scheme liabilities	**(431.3)**		(340.9)		(295.0)	
Surplus/(deficit) in the scheme	**(141.6)**		(107.6)		(4.5)	
Related deferred tax asset	**42.5**		32.3		1.4	
Net pension asset/(liability)	**(99.1)**		(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:

	2003	2002
Analysis of amount charged to operating profit	**£m**	£m
Current service cost	**18.7**	15.6
Past service cost	**–**	–
	18.7	15.6
Analysis of amount credited to other financial income	**£m**	£m
Expected return on pension scheme assets	**16.0**	21.4
Interest on pension scheme liabilities	**(18.7)**	(17.7)
Net return	**(2.7)**	3.7
The movement in deficit during the year was as follows:	**£m**	£m
Deficit at beginning of the year	**(107.6)**	(4.5)
Movement in the year:		
Current service cost	**(18.7)**	(15.6)
Contributions	**14.2**	12.3
Past service costs	**–**	–
Other finance income	**(2.7)**	3.7
Actuarial gain/(loss)	**(26.8)**	(103.5)
Deficit in scheme at the end of the year	**(141.6)**	(107.6)
Analysis of amount recognised in statement of total recognised gains and losses (STRGL)	**£m**	£m
Actual return less expected return on pension scheme assets	**32.7**	(84.2)
Experience gains/(losses) arising on the scheme liabilities	**5.9**	(1.1)
Changes in assumptions underlying the present value of the scheme liabilities	**(65.4)**	(18.2)
Actuarial gain/(loss) recognised in STRGL	**(26.8)**	(103.5)

	2003		2002	
History of experience gains and losses	**£m**	**%**	£m	%
Difference between the expected and actual return on scheme assets: (% of scheme assets)	**32.7**	**11.3**	(84.2)	36.1
Experience gains/(losses) on scheme liabilities: (% of the present value of the scheme liabilities)	**5.9**	**1.4**	(1.1)	0.3
Total amount recognised in STRGL: (% of the present value of the scheme liabilities)	**(26.8)**	**6.2**	(103.5)	30.4

5. Taxation on profit on ordinary activities

	2003 £m	2002 £m
a) Analysis of charge in period		
Current tax		
UK Corporation tax on profits of the period	**38.0**	37.5
Adjustments in respect of previous periods	**–**	(0.7)
Total current tax	**38.0**	36.8
Deferred tax		
Origination and reversal of timing differences	**1.1**	(0.2)
Total deferred tax	**1.1**	(0.2)
Tax on profit on ordinary activities	**39.1**	36.6

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:

	2003 £m	2002 £m
Profit on ordinary activities before tax	**130.1**	122.5
Profit on ordinary activities before tax at the standard rate of UK Corporation tax (30%)	**39.0**	36.8
Effects of:		
Expenses not deductible for tax purposes	**0.2**	0.2
Difference between depreciation and capital allowances for period and other timing differences	**(1.1)**	0.3
Depreciation of expenditure not qualifying for capital allowances	**0.2**	0.2
Sheltered capital gains	**(0.3)**	–
Adjustments to tax charge in respect of previous periods	**–**	(0.7)
Current tax charge for the year	**38.0**	36.8

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

£86.1 million (2002–£83.9 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

	2003 pence per share	2002 pence per share	2003 £m	2002 £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
Dividend on 700,000,000 ordinary shares of 5p each (paid and proposed)	**2.86p**	–	**20.0**	–

8. Earnings per share

Earnings per share are calculated by dividing the profit for the financial year **£88.9 million** (2002–£83.7 million) less dividends on preference shares **£5.5 million** (2002–£5.5 million) by the weighted average number of ordinary shares **727.5 million** (2002–700.0 million) in issue during the year.

9. Treasury bills and other eligible bills

	Group and Bank 2003 £m	2002 £m
Other securities		
other eligible bills – private sector	**–**	18.0

10. Loans and advances to banks

	Group 2003	Group 2002	Bank 2003	Bank 2002
Remaining maturity:				
over 5 years	**7.2**	5.8	**7.2**	5.8
1 year or less but over 3 months	**5.0**	1.5	**5.0**	1.5
3 months or less but not repayable				
on demand	**760.8**	1,283.4	**760.8**	1,283.4
Repayable on demand	**0.2**	0.3	**0.2**	0.3
	773.2	1,291.0	**773.2**	1,291.0

11. Loans and advances to customers

	Group 2003	Group 2002	Bank 2003	Bank 2002
Remaining maturity:				
over 5 years	**2,500.3**	1,157.3	**2,430.8**	1,084.0
5 years or less but over 1 year	**1,807.6**	1,449.5	**1,761.0**	1,400.0
1 year or less but over 3 months	**577.9**	548.2	**567.0**	538.9
3 months or less but not repayable				
on demand	**844.3**	821.6	**925.6**	912.0
Repayable on demand	**539.3**	596.7	**523.0**	575.9
General and specific bad and doubtful				
debt provisions (note 12)	**(134.5)**	(185.7)	**(133.4)**	(180.7)
Suspended interest provisions	**(1.1)**	(3.0)	**(0.8)**	(0.9)
	6,133.8	4,384.6	**6,073.2**	4,329.2
Amounts include:				
Due from subsidiary undertakings				
unsubordinated			**81.2**	92.8
Due from parent undertakings	**2.1**	33.3	**2.1**	33.3
Due to fellow subsidiary undertakings	**6.2**	–	**6.2**	–
Due from associated undertakings	**–**	5.0	**–**	5.0

Analysis of concentration of exposure is provided in note 34(iii) on page 69.

12. Provisions for bad and doubtful debts

	2003 Specific	2003 General	2003 Total	2002 Specific	2002 General	2002 Total
Group:						
At 11th January 2003	**180.3**	**5.4**	**185.7**	155.6	5.4	161.0
Acquisitions	**5.3**	**–**	**5.3**	–	–	–
Charge against profits (i)	**60.4**	**2.9**	**63.3**	70.2	–	70.2
Amounts written off	**(120.1)**	**–**	**(120.1)**	(45.6)	–	(45.6)
Recoveries	**0.3**	**–**	**0.3**	0.1	–	0.1
At 10th January 2004	**126.2**	**8.3**	**134.5**	180.3	5.4	185.7
Bank:						
At 11th January 2003	**175.5**	**5.2**	**180.7**	152.5	5.2	157.7
Acquisitions	**5.3**	**–**	**5.3**	–	–	–
Charge against profits	**61.5**	**2.8**	**64.3**	68.2	–	68.2
Amounts written off	**(117.2)**	**–**	**(117.2)**	(45.3)	–	(45.3)
Recoveries	**0.3**	**–**	**0.3**	0.1	–	0.1
At 10th January 2004	**125.4**	**8.0**	**133.4**	175.5	5.2	180.7

All provisions are held against loans and advances to customers.

Non-performing debt:	2003	2002
Group advances	**124.5**	114.0
Provisions for bad and doubtful debts	**(90.7)**	(92.8)
	33.8	21.2
Bank advances	**122.8**	105.2
Provisions for bad and doubtful debts	**(89.9)**	(88.0)
	32.9	17.2

(i) The charge for provision for bad and doubtful debts of **£63.3 million** (2002–£70.1 million) on page 36, includes a release of **£nil** (2002–£0.1 million) relating to equity shares.

All amounts are stated in £m unless otherwise indicated

13. Debt securities

	Group				Bank			
	2003		2002		**2003**		2002	
	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	**280.4**	**283.7**	24.8	28.4	**280.3**	**283.6**	24.7	28.3
other public sector securities	**13.7**	**16.4**	15.2	18.1	**13.7**	**16.4**	15.2	18.1
	294.1	**300.1**	40.0	46.5	**294.0**	**300.0**	39.9	46.4
Other securities								
government securities	**50.2**		25.4		**50.2**		25.4	
	344.3		65.4		**344.2**		65.3	
Issued by other issuers								
Investment securities								
bank and building society certificates of deposit	**381.0**	**383.5**	212.5	218.6	**151.0**	**151.0**	–	–
other debt securities	**560.1**	**561.7**	476.5	479.1	**560.1**	**561.7**	476.5	479.1
	941.1	**945.2**	689.0	697.7	**711.1**	**712.7**	476.5	479.1
Other securities								
bank and building society certificates of deposit	**800.3**		1,735.4		**800.3**		1,735.4	
	1,741.4		2,424.4		**1,511.4**		2,211.9	
	2,085.7		2,489.8		**1,855.6**		2,277.2	
Unamortised profit on sales of investment securities	**(5.8)**		(11.7)		**(5.6)**		(11.2)	
	2,079.9		2,478.1		**1,850.0**		2,266.0	
(ii) Maturity								
Due within one year	**1,489.4**		2,125.1		**1,259.4**		1,912.6	
Due one year and over	**596.3**		364.7		**596.2**		364.6	
	2,085.7		2,489.8		**1,855.6**		2,277.2	
Unamortised profit on sales of investment securities	**(5.8)**		(11.7)		**(5.6)**		(11.2)	
	2,079.9		2,478.1		**1,850.0**		2,266.0	
Unamortised premiums on investment securities	**3.0**		2.1		**3.0**		2.1	

13. Debt Securities (continued)

	Group				Bank			
	2003		2002		**2003**		2002	
	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	**613.1**	**620.2**	381.0	388.4	**613.0**	**620.1**	380.9	388.3
listed elsewhere	**238.4**	**238.9**	129.9	131.6	**238.4**	**238.9**	129.9	131.6
unlisted	**383.7**	**386.2**	218.1	224.2	**153.7**	**153.7**	5.6	5.6
	1,235.2	**1,245.3**	729.0	744.2	**1,005.1**	**1,012.7**	516.4	525.5
Unamortised profit on sales of investment securities	**(5.8)**		(11.7)		**(5.6)**		(11.2)	
	1,229.4		717.3		**999.5**		505.2	
Other securities								
listed on a recognised UK exchange	**50.2**		25.4		**50.2**		25.4	
unlisted	**800.3**		1,735.4		**800.3**		1,735.4	
	850.5		1,760.8		**850.5**		1,760.8	
	2,079.9		2,478.1		**1,850.0**		2,266.0	

	Cost	**Discounts and premiums**	**Unamortised profit on sales**	**Carrying value**
(iv) Movement				
Investment securities				
Group:				
At 11th January 2003	**722.4**	**6.6**	**(11.7)**	**717.3**
Acquisitions	**1,364.6**	**–**	**–**	**1,364.6**
Disposals and maturities	**(838.0)**	**–**	**–**	**(838.0)**
Exchange adjustments	**–**	**(18.1)**	**–**	**(18.1)**
Amortisation	**–**	**(2.3)**	**5.9**	**3.6**
At 10th January 2004	**1,249.0**	**(13.8)**	**(5.8)**	**1,229.4**
Bank:				
At 11th January 2003	**509.8**	**6.6**	**(11.2)**	**505.2**
Acquisitions	**695.7**	**–**	**–**	**695.7**
Disposals and maturities	**(186.6)**	**–**	**–**	**(186.6)**
Exchange adjustments	**–**	**(18.1)**	**–**	**(18.1)**
Amortisation	**–**	**(2.3)**	**5.6**	**3.3**
At 10th January 2004	**1,018.9**	**(13.8)**	**(5.6)**	**999.5**

The exchange adjustment of £18.1 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** (2002–£nil). However, due to the application of accounting policy (b) relating to securities held in designated investment portfolios, **£5.9 million** (2002–£7.0 million) has been credited to the profit and loss account. The application of this accounting policy therefore increased profits for the year by **£5.9 million** (2002–£7.0 million).

Bank

Profits on disposals in the year were **£nil** (2002–£nil). However, due to the application of accounting policy (b) relating to securities held in designated investment portfolios, **£5.6 million** (2002–£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 **£5.6 million** (2002–£6.7 million).

All amounts are stated in £m unless otherwise indicated

14. Equity shares

	Group and Bank 2003	2002
Investment securities – unlisted	1.2	0.9

	Group and Bank 2003	2002
Included above are the following trade investments:		
BACS Ltd **83,568** (2002–83,568) ordinary shares of £1 each	0.6	0.6
LINK Interchange Network Limited 3,845 (2002–3,550) ordinary shares of £1 each and 78,396 (2002–72,380) ordinary shares of £0.01 each	0.4	0.1
	1.0	0.7

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

	Cost	Provision	Carrying value
Group and Bank			
At 11th January 2003	1.0	(0.1)	0.9
Additions	0.3	–	0.3
Disposals	(0.1)	0.1	–
At 10th January 2004	1.2	–	1.2

15. Interests in associated undertakings and joint ventures

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 10th January 2004	Group interest 2003	Group interest 2002
* Co-operative Pension Funds Unit Trust Managers Limited	Investment managers	165,000 Ordinary shares of £1 each	0%	33%

Joint ventures	Nature of business	Total issued share capital at 10th January 2004	Group interest 2003	Group interest 2002
Ochil Residential Limited	Property development/ house building	2 Ordinary shares of £1 each	50%	50%
† Unity Financial Holdings Limited	Holding company	100 Ordinary shares of £1 each	13%	13%
§ Unity Pension Services	Marketing of pension plans	2 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

15. Interests in associated undertakings and joint ventures (continued)

The interest in joint ventures is made up as follows:

	Group Share of gross assets	Share of gross liabilities	Share of net assets	Bank Cost
At 11th January 2003	3.2	3.0	0.2	–
At 10th January 2004	0.3	0.1	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 10th January 2004	Group interest 2003	Group interest 2002
* 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	Bank Provision	Carrying value
At 10th January 2004 and at 11th January 2003	**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 Chair 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.

17. Tangible fixed assets

	Freehold and leasehold buildings	Computer and other equipment	Total
Group:			
Cost			
At 11th January 2003	**10.3**	**184.7**	**195.0**
Additions	**–**	**35.0**	**35.0**
Disposals	**–**	**(1.6)**	**(1.6)**
At 10th January 2004	**10.3**	**218.1**	**228.4**
Accumulated depreciation			
At 11th January 2003	**1.9**	**114.7**	**116.6**
Disposals	**–**	**(1.3)**	**(1.3)**
Charge for the year	**0.3**	**20.9**	**21.2**
At 10th January 2004	**2.2**	**134.3**	**136.5**
Net book value at 10th January 2004	**8.1**	**83.8**	**91.9**
Net book value at 11th January 2003	8.4	70.0	78.4
Bank:			
Cost			
At 11th January 2003	**2.8**	**181.6**	**184.4**
Additions	**–**	**34.7**	**34.7**
Disposals	**–**	**(1.5)**	**(1.5)**
At 10th January 2004	**2.8**	**214.8**	**217.6**
Accumulated depreciation			
At 11th January 2003	**0.7**	**113.1**	**113.8**
Disposals	**–**	**(1.2)**	**(1.2)**
Charge for the year	**0.1**	**20.3**	**20.4**
At 10th January 2004	**0.8**	**132.2**	**133.0**
Net book value at 10th January 2004	**2.0**	**82.6**	**84.6**
Net book value at 11th January 2003	2.1	68.5	70.6

	Group		Bank	
	2003	2002	**2003**	2002
The net book value of land and buildings comprises:				
Freehold	**8.0**	8.3	**1.9**	2.0
Short leasehold	**0.1**	0.1	**0.1**	0.1
	8.1	8.4	**2.0**	2.1

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

Included within tangible fixed assets are finance leased assets. At 10th January 2004, the net book value of these assets was £nil (2002–£nil).

18. Other assets

	Group 2003	Group 2002	Bank 2003	Bank 2002
Unrealised gains on foreign exchange and interest rate contracts	**38.8**	64.6	**38.8**	64.6
Trade debtors	**8.6**	3.9	**6.6**	2.8
Deferred taxation (see note 23)	**–**	–	**0.8**	2.5
Other assets	**11.9**	–	**11.9**	–
	59.3	68.5	**58.1**	69.9

Other assets are £11.9 million (2002–£nil) of acquisition premium relating to the purchase of a credit card portfolio.

19. Deposits by banks

	Group 2003	Group 2002	Bank 2003	Bank 2002
With agreed maturity dates or periods of notice, by remaining maturity:				
1 year or less but over 3 months	**1.0**	2.0	**1.0**	2.0
3 months or less but not repayable on demand	**734.6**	720.9	**738.4**	728.8
Repayable on demand	**34.4**	25.6	**34.4**	25.6
	770.0	748.5	**773.8**	756.4
Amounts include:				
Due to subsidiary undertakings			**3.8**	7.9

20. Customer accounts

	Group 2003	Group 2002	Bank 2003	Bank 2002
With agreed maturity dates or periods of notice, by remaining maturity:				
5 years or less but over 1 year	**87.1**	49.6	**87.0**	49.5
1 year or less but over 3 months	**60.7**	82.1	**60.7**	81.6
3 months or less but not repayable on demand	**2,103.6**	2,145.6	**2,021.9**	2,071.7
Repayable on demand	**5,134.0**	4,624.7	**4,956.6**	4,476.7
	7,385.4	6,902.0	**7,126.2**	6,679.5
Amounts include:				
Due to subsidiary undertakings			**–**	1.6
Due to parent undertakings	**1.7**	–	**1.7**	–
Due to fellow subsidiary undertakings	**62.9**	77.2	**62.9**	77.2
Due to associated undertakings	**0.4**	0.4	**–**	–

The Co-operative Bank p.l.c.
Notes to the financial statements
All amounts are stated in £m unless otherwise indicated

21. Debt securities in issue

	Group 2003	Group 2002	Bank 2003	Bank 2002
Other debt securities				
By remaining maturity:				
1 year or less but over 3 months	**7.0**	4.0	**7.0**	4.0
3 months or less	**217.7**	1.0	**217.7**	1.0
	224.7	5.0	**224.7**	5.0

22. Other liabilities

	Group 2003	Group 2002	Bank 2003	Bank 2002
Unrealised losses on foreign exchange and interest rate contracts	**36.6**	56.3	**36.6**	56.3
Trade creditors	**69.4**	53.7	**68.1**	52.5
Taxation	**20.6**	21.2	**18.7**	18.9
Dividends	**1.4**	1.2	**0.7**	0.7
	128.0	132.4	**124.1**	128.4

23. Provisions for liabilities and charges

	Group 2003	Group 2002	Bank 2003	Bank 2002
(i) Deferred taxation Taxation deferred by timing differences in accordance with the basis of accounting set out in Accounting Policy (h)				
Short term differences	**(0.8)**	(1.9)	**(0.7)**	(1.8)
Other timing differences	**(6.3)**	(6.0)	**(6.2)**	(5.8)
Capital allowances on fixed assets	**2.9**	1.9	**2.4**	1.3
Capital allowances on assets leased to customers	**14.0**	14.7	**3.7**	3.8
	9.8	8.7	*** (0.8)**	* (2.5)
The movement in the deferred taxation balance has all taken place through the profit and loss account	**1.1**	(0.2)	**1.7**	1.6

The potential liability on rolled over gains and other gains not provided for, amounts to **£1.0 million** (2002–£1.6 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 Other assets (see note 18).

All amounts are stated in £m unless otherwise indicated

23. Provisions for liabilities and charges (continued)

(ii) Other provisions	Group 2003	Group 2002	Bank 2003	Bank 2002
At 11th January 2003	**11.5**	6.0	**9.9**	3.6
Utilised	**(4.7)**	(1.7)	**(3.9)**	–
Profit and loss charge	**0.9**	7.2	**0.9**	6.3
At 10th January 2004	**7.7**	11.5	**6.9**	9.9

The above provisions at 10th January 2004 include an estimate of future unavoidable lease payments and related costs for vacant properties not in use (group–£7.0 million, bank–£6.4 million) and an estimate of future payments to customers in compensation for loss suffered from past pension and investment advice (group–£0.7 million, bank–£0.5 million).

Payments under future unavoidable lease commitments, net of amounts receivable under sub-lettings, are due on leases terminating between 2006 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

	Group 2003	Group 2002	Bank 2003	Bank 2002
£703,000 Convertible Subordinated Unsecured Floating Rate Loan Stock 2003	**–**	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	**(0.8)**	(1.1)	**(0.8)**	(1.1)
	179.2	179.6	**179.2**	178.9
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	**–**	–
	100.0	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 and all loan stock was repaid during the year.

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. Share capital

	2003	2002
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		
1,100,000,000 (2002–700,000,000) ordinary shares of 5p each	**55.0**	35.0
60,000,000 9.25% non-cumulative irredeemable preference shares of £1 each	**60.0**	60.0
	115.0	95.0

On 16th December 2003, the bank issued 400,000,000 ordinary shares of 5p each. Their aggregate nominal value was £20 million and consideration received was £20 million.

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. 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

	Bank and subsidiary undertakings	Associated undertakings	Group	Bank
Share premium account at 10th January 2004 and at 11th January 2003	**8.8**	**–**	**8.8**	**8.8**
Profit and loss account at 11th January 2003	**429.9**	**(1.1)**	**428.8**	**414.6**
Retained profit/(loss) for the financial year	**63.4**	**–**	**63.4**	**60.6**
Profit and loss account at 10th January 2004	**493.3**	**(1.1)**	**492.2**	**475.2**

The cumulative amount of goodwill arising on the acquisition of subsidiary undertakings, net of goodwill attributed to subsidiary undertakings disposed of, is **£247,000** (2002–£247,000).

27. Miscellaneous

	Group 2003	Group 2002	Bank 2003	Bank 2002
(i) Assets and liabilities				
Denominated in sterling	**9,103.9**	8,300.6	**8,794.2**	8,018.4
Denominated in currencies other than sterling	**374.1**	387.0	**374.1**	387.0
Total assets	**9,478.0**	8,687.6	**9,168.3**	8,405.4
Denominated in sterling	**9,106.3**	8,301.0	**8,796.6**	8,018.8
Denominated in currencies other than sterling	**371.7**	386.6	**371.7**	386.6
Total liabilities	**9,478.0**	8,687.6	**9,168.3**	8,405.4
(ii) Assets subject to sale and repurchase transactions				
Debt securities	**102.4**	–	**102.4**	–
(iii) Assets leased to customers				
Loans and advances to customers – Finance leases and hire purchase contracts	**213.0**	220.4	**116.0**	112.6
Assets acquired during the year	**54.0**	66.3	**45.1**	52.2

27. Miscellaneous (continued)

(iv) Deferred mortgage incentives	Group and Bank
At 11th January 2003	**2.1**
Expenditure incurred in year	**–**
Transfer to profit and loss account	**(2.1)**
At 10th January 2004	**–**

Mortgage incentive costs are now written off immediately to profit and loss account rather than amortised in order to better reflect the economics of the transaction. The impact of this change is to reduce profit for the year by £1.7m.

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.

	2003 Contract amount	2003 Credit equivalent amount (i)	2003 Average risk weight	2003 Risk weighted amount	2002 Contract amount	2002 Risk weighted amount
Group:						
Contingent Liabilities						
Acceptances and endorsements	**37.5**	**37.5**	**96.8%**	**36.3**	28.0	28.0
Guarantees and irrevocable letters of credit	**61.3**	**50.9**	**95.7%**	**48.7**	98.3	86.3
	98.8			**85.0**	126.3	114.3
Bank:						
Contingent Liabilities						
Acceptances and endorsements	**37.5**	**37.5**	**96.8%**	**36.3**	28.0	28.0
Guarantees and irrevocable letters of credit	**61.1**	**50.8**	**95.7%**	**48.6**	98.1	86.2
	98.6			**84.9**	126.1	114.2
Group:						
Other commitments						
Documentary credits and short-term trade-related transactions	**4.2**	**0.8**	**97.7%**	**0.8**	2.9	0.5
Undrawn formal standby facilities, credit lines and other commitments to lend:						
1 year and over	**238.1**	**119.1**	**97.3%**	**115.9**	140.1	68.1
less than 1 year (ii)	**6,150.2**	**–**	**–**	**–**	5,213.4	–
	6,392.5			**116.7**	5,356.4	68.6

All amounts are stated in £m unless otherwise indicated

28. Contingent liabilities and commitments (continued)

	2003 Contract amount	2003 Credit equivalent amount (i)	2003 Average risk weight	2003 Risk weighted amount	2002 Contract amount	2002 Risk weighted amount
Bank:						
Other commitments						
Documentary credits and short-term trade-related transactions	**4.2**	**0.8**	**97.7%**	**0.8**	2.9	0.5
Undrawn formal standby facilities, credit lines and other commitments to lend:						
1 year and over	**238.1**	**119.1**	**97.3%**	**115.9**	140.1	68.1
less than 1 year (ii)	**6,146.3**	**–**	**–**	**–**	5,210.0	–
	6,388.6			**116.7**	5,353.0	68.6

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 23 to 25 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

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.

10th January 2004	**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**	**Trading book**	**Total**
Assets								
Treasury bills and other eligible bills	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Loans and advances to banks	**760**	**5**	**–**	**–**	**–**	**8**	**–**	**773**
Loans and advances to customers	**4,234**	**217**	**224**	**1,201**	**258**	**–**	**–**	**6,134**
Debt securities and equity shares	**526**	**349**	**256**	**44**	**56**	**–**	**850**	**2,081**
Other assets	**261**	**–**	**–**	**–**	**–**	**209**	**20**	**490**
Loans to trading book	**286**	**145**	**425**	**–**	**–**	**5**	**(861)**	**–**
Total assets	**6,067**	**716**	**905**	**1,245**	**314**	**222**	**9**	**9,478**
Liabilities								
Deposits by banks	**769**	**1**	**–**	**–**	**–**	**–**	**–**	**770**
Customer accounts	**5,900**	**26**	**38**	**188**	**–**	**1,233**	**–**	**7,385**
Debt securities in issue	**218**	**1**	**6**	**–**	**–**	**–**	**–**	**225**
Other liabilities	**–**	**–**	**–**	**–**	**–**	**274**	**9**	**283**
Loan capital	**–**	**30**	**–**	**150**	**–**	**(1)**	**–**	**179**
Minority interests and shareholders' funds	**–**	**–**	**–**	**–**	**60**	**576**	**–**	**636**
Total liabilities	**6,887**	**58**	**44**	**338**	**60**	**2,082**	**9**	**9,478**
Off balance sheet items	**(616)**	**(359)**	**100**	**943**	**(68)**	**–**	**–**	
Interest rate sensitivity gap	**(1,436)**	**299**	**961**	**1,850**	**186**	**(1,860)**	**–**	
Cumulative gap	**(1,436)**	**(1,137)**	**(176)**	**1,674**	**1,860**	**–**	**–**	

29. Derivatives and other financial instruments (continued)

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	Trading book	Total
Assets								
Treasury bills and other eligible bills	–	–	–	–	–	–	18	18
Loans and advances to banks	1,032	1	–	–	–	7	251	1,291
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	1,761	2,479
Other assets	278	–	–	–	–	169	68	515
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	–	–	

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 historical stability of customer accounts.

Currency exposure

At 10th January 2004 the Group's open position was **£1.9 million** (2002–£0.7 million) representing a potential loss of **£0.06 million** given a 3% depreciation in sterling (2002–loss of £0.02 million).

Trading value at risk

The Group's approach to monitoring and controlling market risk is set out on pages 23 to 25 of the operating and financial review.

At 10th January 2004, total Treasury VaR of **£0.3 million** (2002–£0.2 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 10th January 2004 were **£0.6 million** (2002–£0.5 million), **£1.2 million** (2002–£1.3 million) and **£0.2 million** (2002–£0.1 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.

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

	2003			2002		
	Notional principal amount	Fair value asset	Fair value liability	Notional principal amount	Fair value asset	Fair value liability
Interest rate swaps	10,094.5	16.7	15.9	7,063.0	26.8	19.3
Interest rate caps and floors	153.8	0.6	0.6	158.0	1.1	1.1
Futures	3,100.0	–	–	1,750.4	–	–
	13,348.3	17.3	16.5	8,971.4	27.9	20.4

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

	2003			2002		
	Notional principal amount	Fair value asset	Fair value liability	Notional principal amount	Fair value asset	Fair value liability
One year or less	9,047.4	10.4	8.5	4,342.7	13.8	10.8
One to five years	1,073.0	4.5	6.1	2,790.3	11.1	7.0
Over five years	127.9	2.4	1.9	88.0	3.0	2.6
	10,248.3	17.3	16.5	7,221.0	27.9	20.4

Counterparty for over the counter trading contracts

	2003			2002		
	Notional principal amount	Fair value asset	Fair value liability	Notional principal amount	Fair value asset	Fair value liability
Financial institutions	10,062.7	14.0	15.8	7,033.0	23.5	19.3
Non-financial institutions	185.6	3.3	0.7	188.0	4.4	1.1
	10,248.3	17.3	16.5	7,221.0	27.9	20.4

The bank had no non-margin exchange traded contracts at the year end (2002–£Nil).

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

	2003			2002		
	Notional principal amount	Fair value asset	Fair value liability	Notional principal amount	Fair value asset	Fair value liability
Interest rate swaps	1,864.8	22.6	18.1	1,878.9	45.8	26.5

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

	2003			2002		
	Notional principal amount	Fair value asset	Fair value liability	Notional principal amount	Fair value asset	Fair value liability
One year or less	456.7	2.5	1.3	382.6	2.8	1.6
One to five years	1,338.7	20.1	9.1	1,380.2	42.5	13.1
Over five years	69.4	–	7.7	116.1	0.5	11.8
	1,864.8	22.6	18.1	1,878.9	45.8	26.5

All interest rate related transaction counterparties were financial institutions.

Exchange rate related transactions

	2003			2002		
	Total	Financial institutions	Non-financial institutions	Total	Financial institutions	Non-financial institutions
Forward currency transactions	165.9	150.1	15.8	99.9	90.6	9.3

Maturity of over the counter exchange rate related transactions

	2003			2002		
	Notional principal amount	Fair value asset	Fair value liability	Notional principal amount	Fair value asset	Fair value liability
One year or less	165.9	1.2	1.1	99.4	0.5	0.4
One to five years	–	–	–	0.5	–	–
	165.9	1.2	1.1	99.9	0.5	0.4

(iii) Other analysis

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.

	2003	2002
Debt securities	(2.1)	0.3
Derivatives	(10.1)	(5.7)
Foreign exchange	3.9	3.8
	(8.3)	(1.6)

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 10th January 2004.

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 10th January 2004 and the movements during the year and the previous year.

	Gains	Losses	Net
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
Gains and losses arising in previous years that were recognised in the year ended 10th January 2004	(15.4)	4.3	(11.1)
Gains and losses arising before 11th January 2003 that were not recognised in the year ended 10th January 2004	23.1	(3.0)	20.1
Gains and losses arising in the year ended 10th January 2004 that were not recognised in the year ended 10th January 2004	(2.6)	(1.9)	(4.5)
At 10th January 2004	20.5	(4.9)	15.6
Of which			
10th January 2004			
Gains and losses expected to be recognised in the year ended 8th January 2005	10.6	(2.0)	8.6
Gains and losses expected to be recognised in the year ended 14th January 2006 or later	9.9	(2.9)	7.0
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

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 10th January 2004 in an arm's 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.

	2003					2002				
			Non-trading					Non-trading		
Assets	Total Carrying value	Trading Fair value	Carrying value	Fair value	Accrued Interest	Total Carrying value	Trading Fair value	Carrying value	Fair value	Accrued Interest
Treasury bills and eligible bills	–	–	–	–	–	18.0	18.0	–	–	–
Debt securities	2,085.7	850.5	1,235.2	1,245.3	24.6	2,489.8	1,760.8	729.0	744.2	42.8
Equity shares	1.2	–	1.2	1.2	–	0.9	–	0.9	0.9	–
Interest rate derivatives	19.4	17.3	2.1	22.6	54.1	35.2	27.9	7.3	45.8	70.3
Exchange rate derivatives	1.2	–	1.2	1.2	–	0.5	–	0.5	0.5	–
	2,107.5	867.8	1,239.7	1,270.3	78.7	2,544.4	1,806.7	737.7	791.4	113.1

30. Fair values of financial instruments (continued)

	2003					2002				
			Non-trading					Non-trading		
Liabilities	Total Carrying value	Trading Fair value	Carrying value	Fair value	Accrued Interest	Total Carrying value	Trading Fair value	Carrying value	Fair value	Accrued Interest
Debt securities in issue	224.7	–	224.7	224.7	0.5	5.0	–	5.0	5.0	0.1
Non-equity shareholders' funds	60.0	–	60.0	80.0	0.7	60.0	–	60.0	79.8	0.7
Interest rate derivatives	29.7	16.5	13.2	18.1	46.0	39.6	20.4	19.2	26.5	49.5
Exchange rate derivatives	1.1	–	1.1	1.1	–	0.4	–	0.4	0.4	–
	315.5	16.5	299.0	323.9	47.2	105.0	20.4	84.6	111.7	50.3

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

31. Consolidated cash flow statement

Reconciliation of Group operating profit to net cash inflow/(outflow) from operating activities	2003	2002
Group operating profit	130.1	122.5
Decrease in prepayments and accrued income	28.1	2.8
(Decrease)/Increase in accruals and deferred income	(9.8)	8.8
Interest payable in respect of subordinated liabilities	13.8	13.9
Effect of exchange rate movements	(3.9)	(3.8)
Provisions for bad and doubtful debts	63.3	70.1
Depreciation	21.2	20.1
Amortisation of investments	2.3	0.5
Profit on sale of investments	(5.9)	(7.0)
Loss/(Profit) on disposal of Fixed Assets	0.3	(0.1)
Net cash flow from trading activities	239.5	227.8
Increase in deposits by banks	43.5	34.7
Increase in customer accounts	483.4	786.2
Increase/(Decrease) in debt securities in issue	219.7	(82.5)
Decrease/(Increase) in loans and advances to banks	517.8	(557.8)
Increase in loans and advances to customers	(1,812.5)	(585.6)
Decrease in trading debt securities	910.3	176.6
Decrease/(Increase) in treasury and eligible bills	18.0	(16.4)
Net movement of other assets and other liabilities	1.1	14.4
Net decrease/(increase) in cheques in course of collection	44.3	(22.6)
Net cash inflow/(outflow) from operating activities	665.1	(25.2)

Analysis of the balances of cash	Cash and balances at central banks	Loans and advances to banks repayable on demand	Total
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
Change in year	42.9	(0.1)	42.8
At 10th January 2004	140.4	0.2	140.6

The Group is required to maintain balances with the Bank of England which at 10th January 2004 amounted to **£7.2 million** (2002–£5.6 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.

	2003	2002
Profit before taxation:		
Retail banking	**226.4**	216.5
Other financial services	**2.9**	2.1
	229.3	218.6
Shared costs:		
Centralised services and processing	**(57.9)**	(55.4)
Management services and marketing	**(45.4)**	(44.9)
Profit before Unity Trust group and associates	**126.0**	118.3
Unity Trust group and associates	**4.1**	4.2
Profit before taxation	**130.1**	122.5
Gross assets:		
Retail banking	**8,561.6**	7,830.1
Other financial services	**243.7**	253.2
Unity Trust group	**282.0**	263.4
Group central assets	**390.7**	340.9
Total	**9,478.0**	8,687.6
Net assets:		
Retail banking	**501.3**	478.0
Other financial services	**17.6**	13.2
Unity Trust group	**27.5**	25.8
Group central net assets	**89.8**	34.5
Total	**636.2**	551.5

Net assets are share capital, reserves and minority interest.

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

The Group's activities are in the UK.

33. Directors' and officers' loans

The aggregate amounts outstanding at 10th January 2004 from arrangements and agreements made by the Group 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	**£373,097**	**3**
quasi-loans	**£11,899**	**8**
Officers		
loans	**£884,014**	**11**
quasi-loans	**£11,583**	**14**

34. General

	2003 Land and buildings	2003 Motor vehicles	2002 Land and buildings	2002 Motor vehicles
(i) Operating lease commitments				
At the year end, annual commitments under non-cancellable operating leases were:				
Group				
Expiring:				
within one year	**0.9**	**1.0**	0.7	0.7
between one and five years	**2.2**	**–**	1.7	0.2
in five years or more	**7.6**	**–**	7.9	–
	10.7	**1.0**	10.3	0.9
Bank				
Expiring:				
within one year	**0.9**	**1.0**	0.7	0.7
between one and five years	**2.1**	**–**	1.7	0.2
in five years or more	**8.1**	**–**	8.4	–
	11.1	**1.0**	10.8	0.9

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

	2003	2002
Full time	**3,341**	3,263
Part time	**969**	898
	4,310	4,161

(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.

	2003	2002
Distribution, transport and hotels	**446.9**	504.7
Business and other services	**1,436.1**	1,393.1
Personal	**4,386.4**	2,557.4

(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	1999 £m	2000 £m	2001 £m	2002 £m	**2003 £m**	Change £m	Change %
Retail Lending							
Personal sector							
Visa	816	778	774	843	**965**	122	14
Other	890	984	1,116	1,362	**2,216**	854	63
Corporate sector	1,164	1,296	1,653	1,740	**1,769**	29	2
Total	2,870	3,058	3,543	3,945	**4,950**	1,005	25
Wholesale Placements							
Debt securities	2,225	2,543	2,898	2,870	**2,702**	(168)	(6)
Wholesale lending	525	595	739	945	**900**	(45)	(5)
Other assets	95	114	158	198	**235**	37	19
Total Assets	5,715	6,310	7,338	7,958	**8,787**	829	10
Retail Deposits							
Personal sector	2,059	2,476	3,166	3,673	**4,230**	557	15
Corporate sector	1,445	1,476	1,721	1,805	**1,928**	123	7
Total	3,504	3,952	4,887	5,478	**6,158**	680	12
Wholesale Deposits	1,584	1,685	1,688	1,645	**1,665**	20	1
Other liabilities	135*	128*	163*	163	**174**	11	7
Subordinated debt	192	188	179	179	**179**	–	–
Preference shares	60	60	60	60	**60**	–	–
Equity share capital, reserves	240*	297*	361*	433	**551**	118	27
Total Liabilities	5,715	6,310	7,338	7,958	**8,787**	829	10
% Growth in retail lending (year on year)	9	7	16	11	**25**		
% Growth in retail deposits (year on year)	11	13	24	12	**12**		
Retail deposits % retail loans	122	129	138	139	**124**		
Risk Asset Ratio % (at year end)							
Total	13.0	13.7	13.7	14.1	**13.5**		
Tier 1	8.6	9.4	9.9	10.6	**10.5**		

*Restated on implementation of FRS19 in 2002.

Consolidated profit and loss account history

	1999 £m	2000 £m	2001 £m	2002 £m	**2003 £m**	Change £m	Change %
Net interest income	278.5	294.1	313.5	329.6	**332.3**	2.7	0.8
Non-interest income	124.8	134.9	142.1	153.8	**170.6**	16.8	10.9
Operating income	403.3	429.0	455.6	483.4	**502.9**	19.5	4.0
Operating costs	(261.7)	(272.9)	(281.9)	(290.8)	**(309.5)**	(18.7)	6.4
Profit before bad debts	141.6	156.1	173.7	192.6	**193.4**	0.8	0.4
Provisions for bad debts	(53.3)	(59.9)	(66.2)	(70.1)	**(63.3)**	6.8	(9.7)
Operating profit	88.3	96.2	107.5	122.5	**130.1**	7.6	6.2
Associated undertakings and exceptional items	0.3	0.1	–	–	**–**	–	–
Profit before taxation	88.6	96.3	107.5	122.5	**130.1**	7.6	6.2
Taxation	(27.5)	(29.8)	(31.7)	(36.6)	**(39.1)**	(2.5)	6.8
Profit after taxation	61.1	66.5	75.8	85.9	**91.0**	5.1	5.9
Minority interests	(1.4)	(1.7)	(1.8)	(2.2)	**(2.1)**	0.1	(4.5)
Dividends	(5.5)	(5.6)	(5.5)	(5.5)	**(25.5)**	(20.0)	363.6
Retentions	54.2	59.2	68.5	78.2	**63.4**	(14.8)	(18.9)

	1999	2000	2001	2002	**2003**
Average numbers of staff	4,010	4,100	4,067	4,161	**4,310**
Net interest margin %	5.0	4.8	4.4	4.2	**3.9**
Cost/income ratio %	64.9	63.6	61.9	60.2	**61.5**
Return on opening equity shareholders' funds %	25.5*	22.2*	21.0*	19.8	**17.6**
Earnings per share	7.75p	8.46p	9.79p	11.17p	**11.46p**

*Restated on implementation of FRS 19 in 2002

	1999 £m	2000 £m	2001 £m	2002 £m	**2003 £m**
Equity share capital	35.0	35.0	35.0	35.0	**55.0**
Reserves	231.7*	290.9*	359.4*	437.6	**501.0**
Preference shares	60.0	60.0	60.0	60.0	**60.0**
Shareholders' funds	326.7*	385.9*	454.4*	532.6	**616.0**
Minority interests	15.2	16.3	17.4	18.9	**20.2**
Subordinated liabilities	192.9	179.1	179.4	179.6	**179.2**
Debt securities in issue	62.4	54.1	87.5	5.0	**224.7**
Deposits by banks	912.3	750.4	727.3	748.5	**770.0**
Deposits by customers	4,533.0	5,186.3	6,115.8	6,902.0	**7,385.4**
Other liabilities	191.3*	216.2*	244.4*	301.0	**282.5**
	6,233.8	6,788.3	7,826.2	8,687.6	**9,478.0**
Tangible fixed assets	64.7	69.2	67.3	78.4	**91.9**
Loans and advances to banks	493.9	580.6	733.2	1,291.0	**773.2**
Loans and advances to customers	2,978.1	3,363.7	3,869.2	4,384.6	**6,133.8**
Debt securities and bills	2,375.6	2,417.2	2,751.0	2,496.1	**2,079.9**
Cash, balances at central banks and items in the course of collection from other banks	210.1	178.6	259.3	262.7	**261.4**
Other assets	111.4	179.0	146.2	174.8	**137.8**
	6,233.8	6,788.3	7,826.2	8,687.6	**9,478.0**

*Restated on implementation of FRS 19 in 2002

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 Building, Miller Street, Manchester M60 0AL, on Friday 21st May 2004 at 10 am for the following purposes:

1. To receive the Notice convening the meeting.
2. To receive the Chair'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 10th January, 2004 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 28th November, 2003 be confirmed; and
      (ii) that a dividend of 4.625p per £1 share be declared and paid on 28th May, 2004 to the registered holders as at 30th April 2004 providing a dividend rate of 9.25 per cent per annum and making a total distribution of £5,550,000.
   (b) **Ordinary Shares**
      (i) That the payment of an interim dividend of £20 million on 16th December 2003 be confirmed; and
      (ii) That no final 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) Sheila Macdonald, Executive Director & Chief Operating Officer
      (ii) Martin Beaumont, Chief Executive, Co-operative Group (CWS) Limited
      (iii) Kathryn Smith, Public Affairs Consultant
   (b) To re-elect the following Directors who were appointed since the date of the last Annual General Meeting
      (i) Paul Hewitt, Chief Financial Officer, Co-operative Group (CWS) Limited
      (ii) David Davies, Independent Professional Non-Executive Director
      (iii) Bob Burlton, Chair Designate, Co-operative Group (CWS) Limited
5. That KPMG Audit Plc be and are hereby re-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
Moira Lees,
Secretary
7th April, 2004

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 5.00pm on 7th May 2004. 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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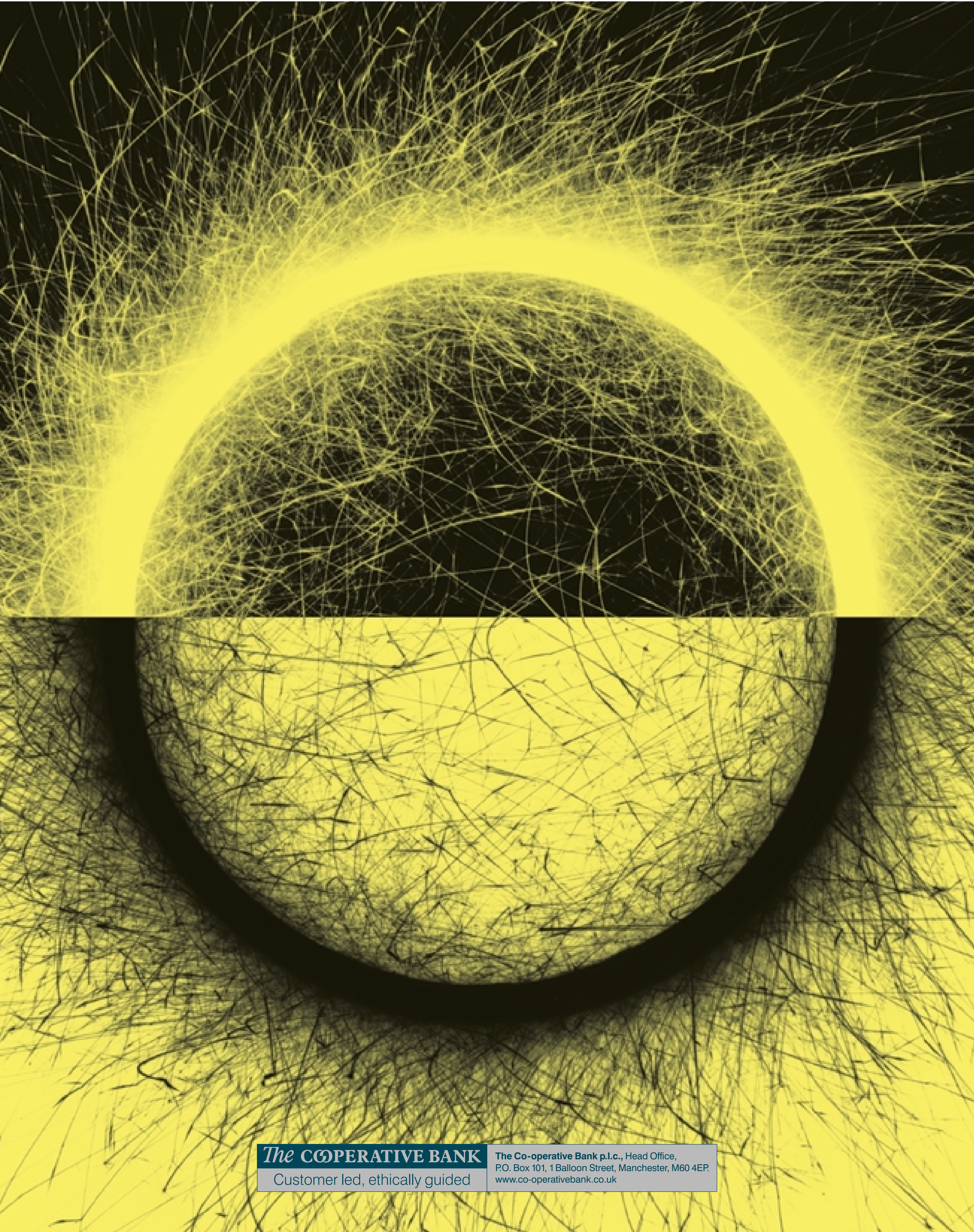

The Co-operative Bank
Customer led, ethically guided

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www.co-operativebank.co.uk