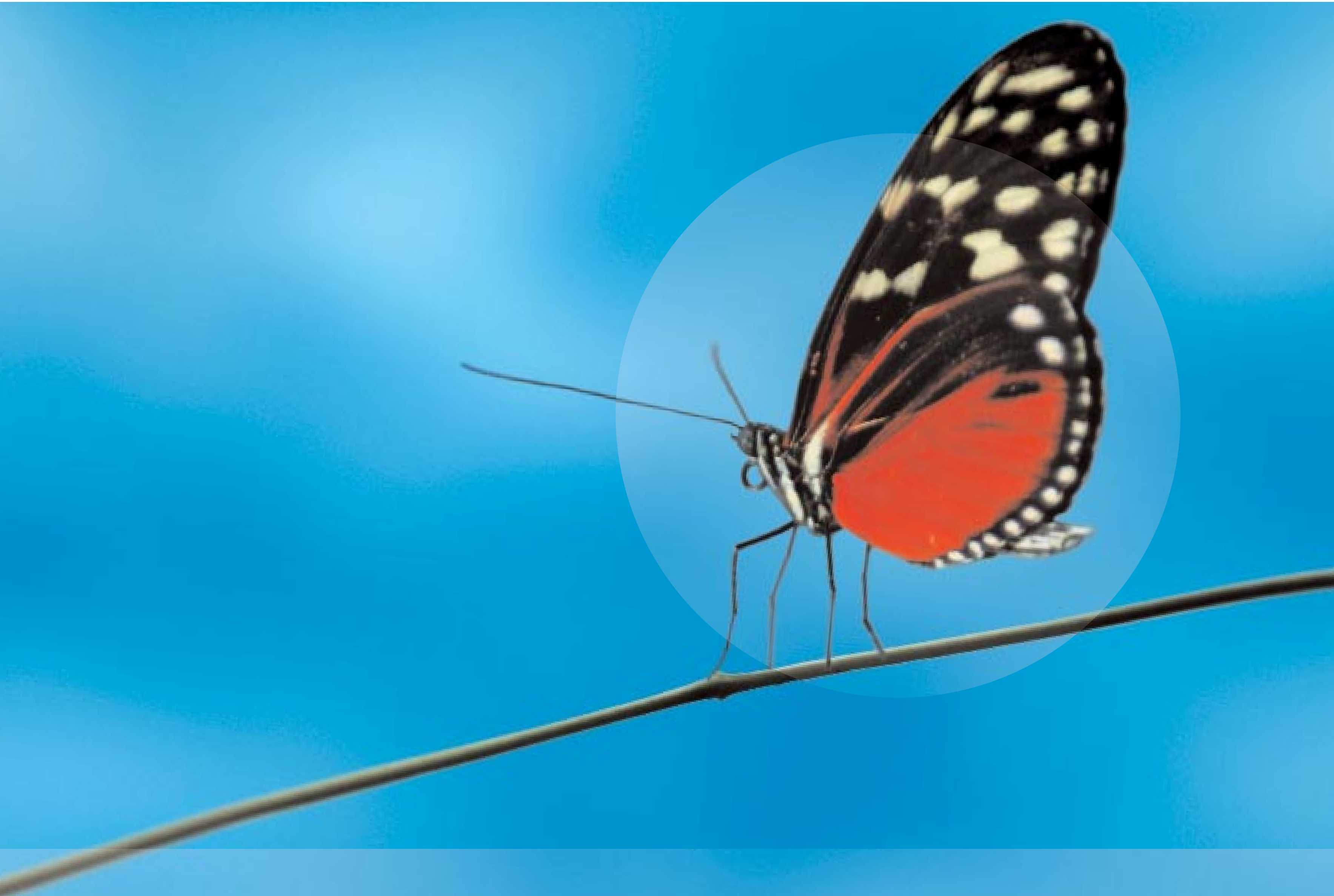


A year in focus

The Co-operative Bank p.l.c.
Financial Statements 2004

The Co-operative Bank
Customer led, ethically guided

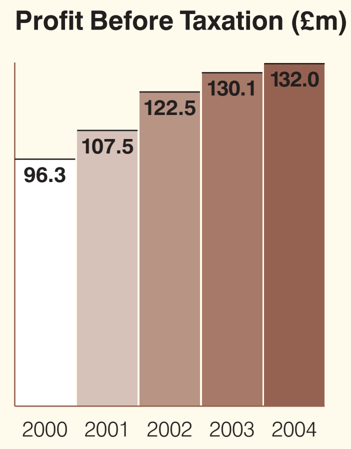
smile .co.uk the internet bank

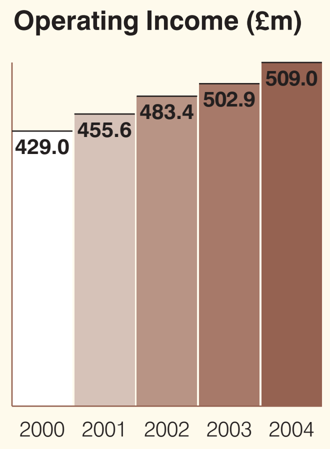
Contents

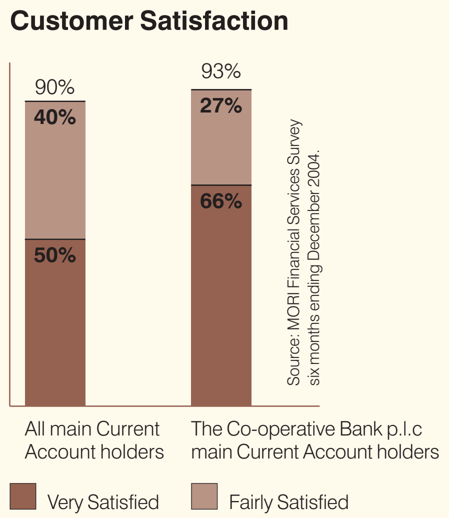
Profit Before Taxation Better than 2003 by: 1.5%	**£132.0m**
Earnings attributable to Equity Shareholders (after tax) Better than 2003 by: 1.6%	**£84.7m**
Operating Income Better than 2003 by: 1.2%	**£509.0m**
Operating Costs Higher than 2003 by: 1.5%	**£314.2m**
Cost/income ratio Higher than 2003 by: 0.2 percentage points	**61.7%**
Charge for Bad and Doubtful debts	**£62.8m**
As a percentage of Loans and Advances to Customers	**0.82%**
After Tax Return on Opening Equity Shareholders' Funds	**15.2%**
Risk Asset Ratio:	
Overall	**15.0%**
Tier 1	**10.2%**
Increase in Average Retail Customer Deposits	**7%**
Increase in Average Retail Customer Lending	**41%**

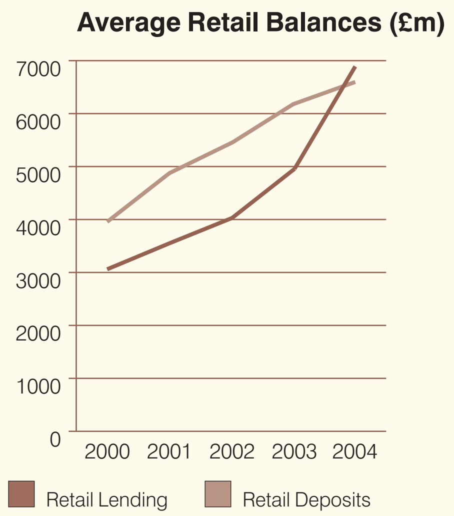
Performance indicators.

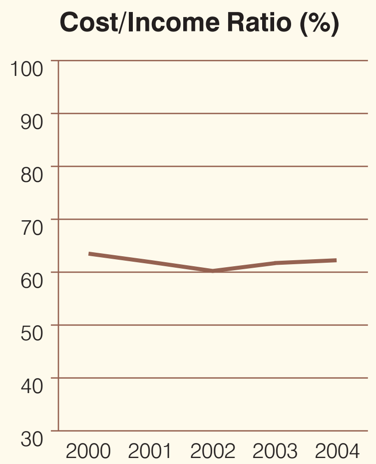
Profit before tax of £132.0 million, an increase of 1.5%.
The after tax return on opening equity was 15.2%.

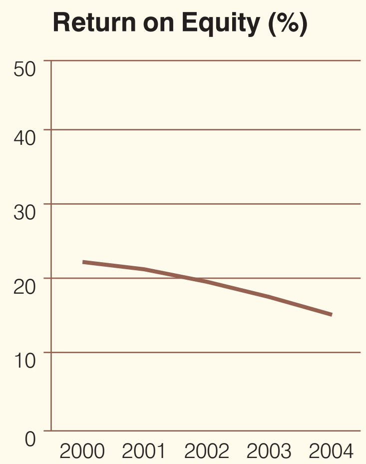












Graham Bennett, Chair

Chair’s statement: standing out from the crowd.

I am pleased to report the 11th consecutive year of record profits for The Co-operative Bank. In an intensely competitive financial services market this is a great achievement, and one that continues to demonstrate that sustainable profit growth is achievable for a business with ethical and co-operative values so clearly in place. Our challenge over the coming years is to sustain this success which will require ongoing further investment in our business.

The Bank’s Profit Before Tax was £132.0 million, £1.9 million higher than 2003, and the Return on Opening Equity after tax was 15.2%. Earnings after tax attributable to our ultimate shareholder, the Co-operative Group (CWS) Limited, were £84.7 million, an increase of 1.6% compared to 2003.

In a crowded market place, The Co-operative Bank’s ethical policy continues to differentiate it from the competition, and I believe that this, together with our excellent service, attractive products and variety of service channels has been the foundation for our success over the years.

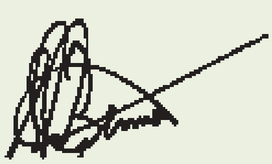
To build on this, the formation of Co-operative Financial Services Limited (CFS) in 2002 brought the Bank (including **smile**) and Co-operative Insurance Society Limited (CIS) together under common leadership, and a major programme of work was initiated to enable the offering of a much wider range of products to all of CFS’ customers. Whilst this programme has been put on hold to allow management to concentrate on the modernisation of CIS, we will be able to resume the focus on integration in 2006 and beyond.

At a time when thousands of UK jobs are being lost to offshore locations we are continuing to recruit staff to service centre positions in North-West England. We believe that if we are to continue to provide the high levels of service that our customers have come to expect from The Co-operative Bank, it is essential that our customer-facing roles are retained within the UK.

The Co-operative Bank is part of the Co-operative Group and last year the Group made a commitment to return a share of its profits to its members. This was successfully delivered in October and I am pleased to say that in October 2005 the Group will be making a further payment to its members. This payment, in line with our co-operative principles, will be linked to the amount of trade the member has transacted with the Group, including The Co-operative Bank .

Finally, I would like to give thanks to my fellow Board members for their commitment and continuing support. The Bank has continued to strengthen its Board in 2004 with the appointment of a third Independent Professional Non-Executive Director, Tony Lancaster, who was appointed in May 2004. New Executive Director appointments included John Reizenstein, CFS Executive Director, Finance and Actuarial and Craig Shannon, CFS Executive Director, Marketing.

I would like to take this opportunity to particularly thank Keith Darwin, a Non-Executive Director, who had served on the Bank Board from 2000 to his retirement in May 2004. He was appointed Chair of Co-operative Group in 2000 and Chair of CFS in 2002. The Chief Executive, Sir Mervyn Pedelty also retired in December 2004, and the Board would like to record its thanks for his services.



Graham Bennett, Chair

Investment is key
to future growth.

Paul Hewitt, Acting Chief Executive

Chief Executive's overview: meeting the challenge.

Summary

2004 has been the eleventh year of record profits for The Co-operative Bank, however, we are far from complacent. Our co-operative values and ethical principles continue to differentiate us from our competitors, but the financial services market remains intensely competitive – so, if we are to maintain our position, we recognise the need to keep investing in and developing all areas of our business.

The formation of Co-operative Financial Services Limited (CFS) in 2002 brought together the Bank (including **smile**) and the Co-operative Insurance Society Limited (CIS) under common leadership. A major programme of integration was set in motion to offer a much wider range of products to our customers. Although we have seen some early successes, we decided in 2004 that further progress would be deferred until an extensive programme of modernising CIS was complete, and I will report on that in more detail.

In 2004, the Bank made significant progress developing our customer service and introducing new products in both personal and business banking and we expect this trend to continue in 2005.

Financial performance

In 2004, the Bank produced a pre-tax profit of £132.0 million, £1.9 million higher than 2003 giving us our eleventh consecutive year of record profits. With market conditions remaining challenging for the financial services industry in general, I am pleased to report this steady progress – although, as I mention above, maintaining and enhancing our growth will require more investment. The Return on Opening Equity, after tax, was 15.2%. Our Operating Income grew by 1.2% and the Cost/Income Ratio increased by 0.2%. Average retail customer lending balances grew by 41% and average retail customer deposit balances by 7%. The charge for bad and doubtful debts stood at 0.82% of year-end loans and advances, which was 0.21 percentage points lower than in 2003.

Co-operative Financial Services

Since the creation of Co-operative Financial Services (CFS) in 2002, we have moved steadily toward our 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 separately. For example, in January 2004 the Bank began promoting CIS home insurance, and CIS Financial Advisers started to offer Co-operative Bank credit cards, loans and current accounts. We have also created a single CFS mortgage operation, supporting the Bank's mortgage portfolio.

In the second half of 2004, CIS began a thorough modernisation programme, which will continue throughout 2005 and which we need to complete before developing the CFS offer further. When the new operating model for our insurance business is established, we will be able to resume our focus on integrating Bank and CIS activities.

People

Our staff, and their commitment, have always been critical to the success of The Co-operative Bank. They are vital to the quality of our customer service and so, as we make significant changes to our organisation, investing in our employees remains a key priority. In 2005 we will be progressing our work/life balance policies, as well as staff learning and development initiatives.

Unlike many of our competitors, we are committed to retaining our primary customer service operations in the UK. At a time when thousands of UK jobs are being lost to offshore locations, we are recruiting – along with CIS – to fill around 500 service centre positions in North-West England. Our conviction is that customer-facing roles are of paramount importance, and should be retained geographically close to our main business operations.

As an organisation, we are keen contributors to the development and improvement of the wider community – and we encourage our staff to work voluntarily for charities, credit unions and community organisations. During 2004, CFS staff gave the equivalent of 1,526 days to community organisations, taking part both in team challenges – such as gardening for elderly people or painting community centres – and individual volunteering – including reading with school children and becoming a Prince's Trust Business Mentor. As well as bringing obvious benefits to the community, these activities also help our staff's personal development; teaching them skills such as team building, project management, communication and creative thinking.

Service channels

We aim to make our services as accessible to customers as possible. Over 77% of the Bank's staff are now involved in customer-facing activities, an increase from 75% last year, and this has had an impact on the thinking and culture of our organisation. In 2004 we focused our investment on four key areas: call centres, branches, the Internet and ATMs.

We have continued to integrate the activities of Bank and CIS call centres; for example, Bank staff can now take calls relating to insurance products. As well as improving customer service, this also makes more efficient use of our resources. With the same staff able to deal with both Bank and CIS customers, we have made over 100,000 sales contacts during the year, and arranged more than 13,500 financial adviser appointments.

Branch refurbishments during 2004 were prioritised to ensure compliance with the new Disability Discrimination Act (DDA) regulations, which came into force on the 1st October, and works are now completed or ongoing in most branches. There are just four branches remaining and we have long-term plans in place for these to ensure their compliance.

We have taken a principled stance to the issue of ATM charges – charging only at the minority of our ATMs where low usage would make a charge free ATM uneconomic, and ensuring that signage clearly indicates charges. Each year a review of the usage of these machines is undertaken, and, where usage levels warrant, charges are removed. We believe that, with these protections, a cash machine with a charge is a better facility for the community than no cash machine at all; when asked, 61% of Co-operative Group customers agreed with us.

We're committed to keeping our call centres in Britain.

We have continued to integrate the Bank and CIS call centres.

Personal banking

In 2004 the success of our residential mortgages continued with balances growing to over £3.2 billion. Our mortgages combine value for money with a range of environmentally friendly features; for each mortgage on its books, CFS makes an annual payment to Climate Care, an organisation dedicated to helping combat global warming by countering the emissions of carbon dioxide. In the past 12 months this contribution amounted to £225,000 and one of the projects financed was the replanting of 53 hectares of new forest in Uganda, providing employment to over 400 local workers. Homes produce almost a quarter of the UK's total output of carbon dioxide emissions, but last year CFS projects helped to offset over 40,000 tonnes of carbon dioxide generated by CFS customers' homes. This equates to offsetting 20% of each household's carbon dioxide emissions.

We also enhanced and built on our product range during 2004; launches included the Balanced Savings Plan, retention mortgages and the Bonus Account.

Our Balanced Savings Plan allows customers to split their savings equally into two accounts; a Fixed Term Deposit with a guaranteed interest rate for one year, and a Guaranteed Stock Market Deposit Bond where the interest rate is based on 75% of any rise of the FTSE 100 index over five years. New investment products included a market-leading fixed rate deposit bond and issue ten of our popular Guaranteed Stock Market Deposit Bond.

Retention mortgages were launched in April 2004, aimed at providing existing mortgage customers who are coming to the end of their introductory period with a fee-free alternative to re-mortgaging to another lender. The range now includes 2 and 3 year discounted mortgages, and 2, 3 and 5 year fixed rate products, and is another example of how we are developing our products in line with customers' needs.

The Bonus Account for children, which promotes and contributes to the animal welfare charity the Born Free Foundation, was also successfully re-launched. The intention is for each child to learn to understand the importance of budgeting, how to use a cash card and how to keep track of their spending. With this goal in mind, each child is sent educational gifts when the account is opened and at key stages in their development, all supplied by the Born Free Foundation.

Our portfolio of affinity credit cards has continued its success. These cards generate donations to the affinity partner each time they are used by a cardholder and, during 2004, generated a total of more than £1.59 million for our partners, providing a source of much needed funds for their work. We now have over 30 partners benefiting from the scheme including high profile organisations such as Amnesty International, Oxfam and Greenpeace. RSPB is our longest running affinity partner and in the past five years over £3 million has been raised for Britain's threatened wetlands through this affinity card.

Independent financial advice

Co-operative Bank Financial Advisers (CBFA), our IFA subsidiary, confirmed its position as a leading independent financial adviser when it came runner up in the hotly contested Best Independent Financial Adviser category of the Guardian/Observer Consumer Finance Awards 2004.

In our latest customer survey 94% of respondents expressed satisfaction with their CBFA Adviser, and overall customer satisfaction with the services CBFA offers was 86%. Among the reasons given for this result were the professionalism, knowledge and trustworthiness of our Advisers.

Internet banking

smile, our dedicated Internet banking service, celebrated its fifth anniversary in October 2004. Launched at the height of the Internet boom in 1999, it was the UK's first full service online bank, and has avoided the problems suffered by others in this market, some of whom have withdrawn from the marketplace entirely. It moved quickly from being a start-up to an established business, and is still growing strongly and profitably.

This year, we strengthened the **smile** brand further with a national TV advertising campaign. We also gained some excellent publicity with the '**smile** Cape 2 Cape' challenge, where we sponsored celebrated polar explorer David Hempleman-Adams to fly a small training plane from Cape Columbia in the Canadian Arctic Circle to Cape Horn in Chile.

Several awards and surveys recognised the quality of service **smile** offers. In the Guardian/ Observer Consumer Finance Awards, it won 'Best ISA Provider', 'Best Credit Card Provider' and 'Best Customer Service Overall'. For the second year running, **smile** won the 'Best Bank website' at the prestigious Online Finance Awards. Magazine readers also showed their appreciation: Personal Finance named **smile** 'Best Online Bank' and Moneywise voted it 'Best Current Account in Britain'.

Our customers have continued to increase their use of the **Co-operative Bank's Internet Banking Service**. The total number of registered Internet banking customers grew by 20% and over 14 million bank statements were viewed online in 2004, illustrating how important the Internet banking service is as a service channel for many of our customers.

The **smile** brand campaign took off with the sponsored Cape 2 Cape challenge.

Corporate and business banking
In 2004, our corporate customer base continued to grow, particularly in those areas where we have developed specific expertise: small to medium-sized enterprises (SMEs), charities, the public sector, co-operative organisations and social enterprises.

Having become, in 2003, the first UK clearing bank to receive endorsement from the Federation of Small Businesses (FSB), in March 2004 we launched FSB Business Banking. This is a banking package tailored to the needs of FSB members and promoted directly to them. It offers excellent value for money for small businesses, combined with the reassurance of ethical investment.

March 2004 saw the launch of Clarity Business Banking, a new account which offers SMEs a fixed fee structure, a guaranteed credit interest rate and free legal, tax and counselling helplines. This is a free service offering businesses expert advice on issues that directly affect their business and their families. Customers are also automatically covered by our commercial legal protection policy, giving them up to £50,000 of cover per claim should they be involved in any legal dispute.

2004 also brought a number of high-profile corporate projects, such as helping to finance the new £30 million head office for the Littlewoods group of companies – a converted, listed aircraft hangar in Speke.

In the charity and not-for-profit sector, the Community Directplus account, now in its second year, helped us donate £20,000 to charitable groups. Designed specifically to meet the needs of community and voluntary organisations, charities, social enterprises and co-operatives, the account features a donation fund that we add to as overall deposits grow. This year, we were pleased to give grants to a variety of special projects, including the introduction of a rape crisis and sexual abuse helpline and the provision of equipment for an amateur sports club.

Our involvement with the Private Finance Initiative (PFI) market continued to grow in 2004. The Bank financed PFIs that helped to build 17 new schools, a new hospital and two new hospital wings – providing 1,219 new hospital beds. We also contributed funding to five NHS LIFT (Local Improvement Finance Trust) schemes; through which we were able to finance new community related health properties such as primary care centres and GP surgeries.

The Co-operative movement

Our commitment to the co-operative approach, and the value we place on our position within the co-operative movement, remained as strong as ever in 2004. It continues to influence many aspects of our business and is particularly significant in our relationship with the Co-operative Group. Last year the Group made a commitment to return a share of their profits to all their members. This was delivered in October 2004 to over 600,000 members in the form of a £10 flat payment. In October 2005 there will be a further payment, linked to the amount of trade that the individual member makes with the Group family of businesses, including the Bank.

To extend our product offering across the Co-operative Group, we launched an exclusive Members' Savings Account to Co-operative Group members. Over 8,000 accounts were opened in the year, with members depositing more than £2.8 million.

As part of our ongoing programme, we increased the number of cash machines within co-operative retail stores by 500, bringing the total number of cash machines in the Bank's estate to over 2,100 by the year end. This offers greater convenience to a wide range of Co-operative customers, and in 2005 we plan to install a further 575.

Co-operative Retail Store cash machines increased to 2,100.

A responsible business

As in previous years, our commitment to social, ethical and environmental issues earned both national and international recognition during 2004. The CFS Sustainability Report 2003 emerged as 'number one' in the biennial global benchmark of sustainability reporting commissioned by the United Nations Environment Programme. We are particularly proud of this, as the reports of some 2,000 companies from around the world were considered.

The Association of Chartered Certified Accountants (ACCA) judged our 2003 Sustainability Report the UK's best, singling out the Report's "impressive coverage and grasp of relevant issues…..both informative and transparent". We were also proud to be awarded an Electronic Media Commendation for the online version of the Report.

Being a responsible business affects all aspects of our operations, and within CFS we have been working towards accreditation for the environmental management system ISO 14001. In 2004, we became the first major financial institution to gain certification. This encompasses the complete range of operations, products, services and investments of CFS, CIS, The Co-operative Bank and **smile**.

This year we celebrated ten years of 'Customers Who Care' campaigns whereby we donate 1.25p per £100 spent on customers' Visa credit and debit cards to good causes and campaigning. Since its launch, we have donated over £3 million to more than 80 charities and organisations through the scheme and we have actively campaigned on a broad range of issues relating to our Ethical Policy.

In 2004, we continued our Safer Chemicals campaign in partnership with leading environmental charity, WWF-UK. Highlights in 2004 included an awareness-raising advertising campaign in national press, reaching one in three of the population, which was awarded the IVCA Clarion Award for Advertising and Promotion. The annual customer vote divided a campaign donation of £112,000 between five charities. Almost 50% of customers taking part voted to support the Bhopal Medical Appeal. On the 20th anniversary of the Bhopal disaster, our donation funded an entire years medicine supply and a solar powered generator for a new clinic set up to help survivors.

CFS Sustainability Report 2003 named ‘number one’ by UN Environment programme.

The year ended with the launch of a new ‘Customers Who Care’ campaign for Trade Justice. The campaign, in partnership with Christian Aid, recognises the important part trade could and should play in reducing poverty. Throughout 2005 the campaign will call on Government to change the unjust rules which govern trade in poor countries.

As a leading exponent of ethical consumerism, the Bank is also an analyst of and commentator on the wider ethical marketplace. In our fourth annual Ethical Purchasing Index (EPI), published in December 2004, we reported that the UK market in ethical consumerism has increased to £24.7 billion per year. This unique measure of the market for ethical goods and services has observed steep growth, where the share of the overall market taken by ethical products and services has increased by almost 40% in five years.

2005 and beyond

So as we look ahead, how we develop and invest in our business will always be guided by our belief in social, ethical and environmental responsibility – and by our determination to provide the best possible service for our customers. From the way we look after the interests of our staff to the types of products we offer, our values will continue to guide every initiative.

We have developed robust plans to ensure that our long-term strategy of satisfying our customers’ wider financial needs will be delivered. Once the extensive CIS modernisation programme is complete we will continue to integrate our businesses and I am convinced that this will lay the foundation for a successful future; one in which we can harness the competitive advantages that we have from our brand, and the trust our customers place in us, to drive the Bank and CFS forward.

Paul Hewitt, Acting Chief Executive

Mortgage balance growth has now exceeded £3.2 billion.

Operating and financial review: growth & investment.

Financial highlights

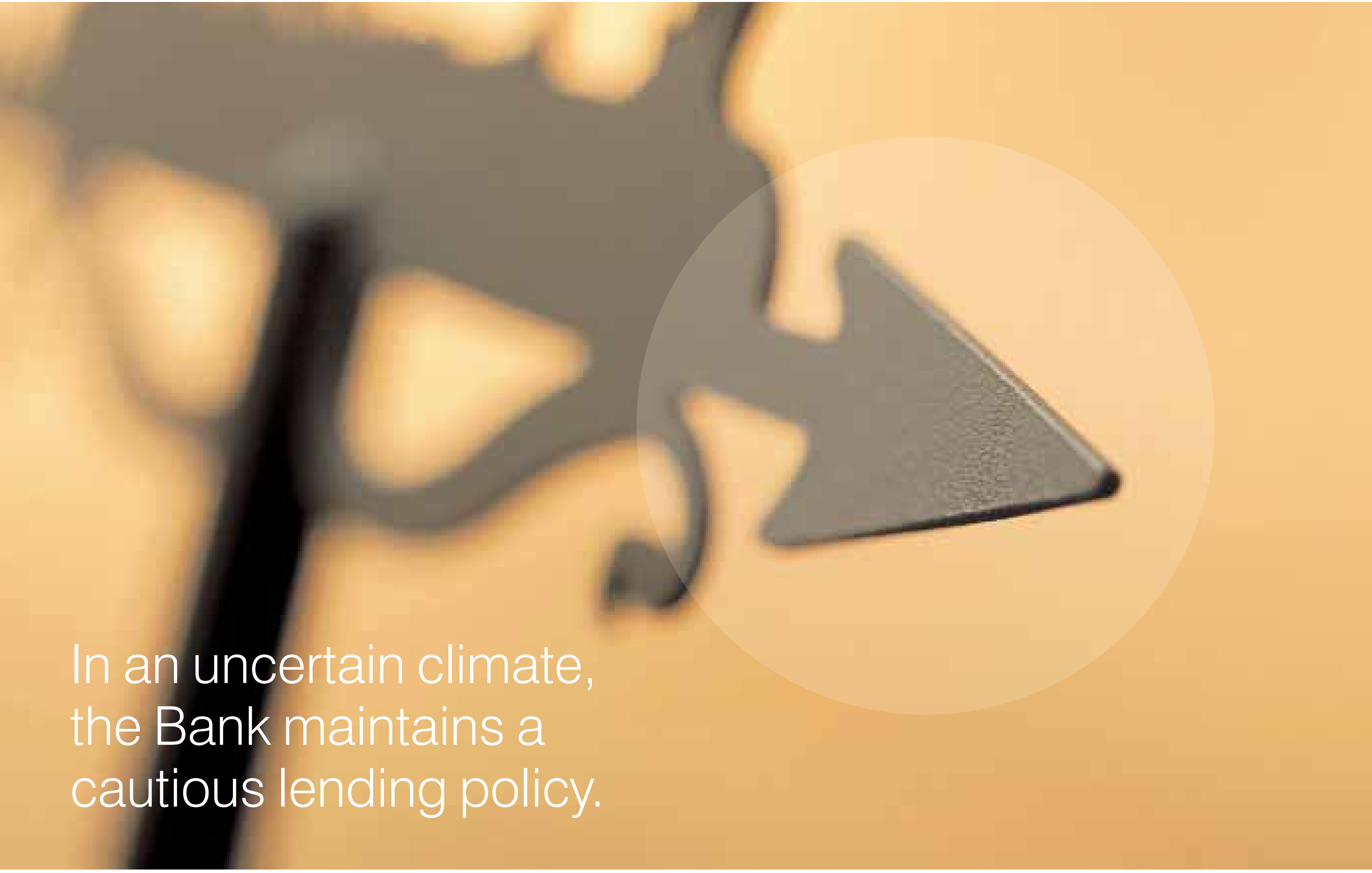
In 2004, The Co-operative Bank achieved a Profit Before Tax of £132.0 million, £1.9 million higher than 2003, and a Return on Opening Equity after tax of 15.2%. Earnings attributable to the Equity shareholder, after tax and before a dividend of £20 million, were £84.7 million, an increase of 1.6% compared to 2003.

The eleventh year of record profits arose from a 1.2% growth in Operating Income and a stable bad debt charge, partially offset by a 1.5% increase in Operating Costs. Although the credit climate was benign in 2004, the Bank has continued to adopt a cautious lending policy while expanding both lending and deposit balances. In particular strong growth in lower risk, first mortgage advances combined with tight credit criteria for other new business has enhanced credit quality.

Results Summary	2004 £m	2003 £m	Change £m
Operating Income	**509.0**	502.9	6.1
Operating Costs	**(314.2)**	(309.5)	(4.7)
Operating Profit (before Bad Debts)	**194.8**	193.4	**1.4**
Bad Debt Provisions	**(62.8)**	(63.3)	0.5
Profit Before Tax	**132.0**	130.1	**1.9**
Retained profit	**64.7**	63.4	1.3
Cost/Income Ratio	**61.7%**	61.5%	0.2%

This has delivered a 0.21 percentage point improvement in the charge for bad debts as a percentage of year end balances to only 0.82% for 2004. Growth in Operating Income, on the back of this balance sheet growth, was offset by lower wholesale market income and tighter lending margins. Despite further investment in the sales and service infrastructure, combined with additional expenditure on regulatory compliance and staff pensions, the overall increase in Operating Costs has been contained by tight cost control and the generation of synergy benefits from further integration with Co-operative Financial Services (CFS) and Co-operative Insurance Society (CIS). As a result the Cost/Income ratio only increased by 0.2% to 61.7%.

The Bank's policy is to maintain a strong balance sheet with consistently robust liquidity and capital ratios, enhanced by the issue of £150 million Tier 2 dated and callable subordinated notes in April 2004. The year-end Risk Asset Ratio was 15.0% with a Tier 1 Ratio of 10.2%, substantially higher than the regulatory requirements.



In an uncertain climate, the Bank maintains a cautious lending policy.

In 2004 growth in the UK economy was higher than the long term trend rate, fuelled by high consumer spending supported by low interest rates, high employment and low inflation. The outlook for 2005 is generally weaker with slower growth rates in Gross Domestic Product, some indications that the housing market is beginning to cool and signs that consumers' ability and willingness to spend will be weakened by slower growth in employment and rising interest rates.

In this uncertain climate and in the face of greater competition, the Bank maintains a cautious lending policy with growth targeted at both sides of the balance sheet. Retail deposits continue to form an important part of the Bank's funding strategy but were supported by additional wholesale balances to fund the growth in lending and enhance capital ratios. Investment in sophisticated credit risk rating systems has facilitated the application of strict credit criteria to both personal and corporate business and is a keystone in the development of the Basel accord.

Balance Sheet

Average retail customer deposits of £6,566 million grew by £408 million (7%) over the year. Average customer retail lending balances increased at a faster rate reaching £6,974 million, an increase of £2,024 million (41%), principally due to growth in residential mortgages.

Retail lending

The Personal sector dominated the growth in retail lending balances with an increase of £1,948 million (61%) compared to 2003 although the Corporate sector still achieved growth of 4% in an intensely competitive market. In 2004 the Bank continued with its strategy of carefully targeting growth at the residential mortgage market to increase the proportion of secured lending and to reduce the Bank's unsecured credit exposure whilst maintaining the balance between personal and corporate business in the portfolio.

The residential mortgage market was relatively buoyant in the first half of the year but slowed in the second half following a series of base rate rises and the introduction of new mortgage regulation in October. The growth in the Bank's mortgage portfolio reflected this market position with stronger growth achieved in the first half of the year. In addition the Bank acquired £360 million of mortgage assets from CIS in May 2004 increasing average balances by £195 million. Including this acquisition, total average mortgage balances increased by £1,809 million reaching £3,292 million by the end of the year. The Bank continued to develop the range of products, including fixed, capped and discounted variable rate products. The Bank also offers 'green' mortgage products, which include free energy surveys and a donation to Climate Care, in line with its ethical and environmental policies and remains a responsible lender avoiding significant lending in the higher risk sectors of the market. The average Loan to Value at the end of the year was just 42% and only 20% of mortgages have a Loan to Value of more than 75%.

Mortgages contributed the most significant growth in the year and the Bank's determination not to compromise lending criteria in the face of rising interest rates and increasing competition resulted in good but slower overall rates of growth in other Retail lending balances including VISA and personal loans.

The Bank continues to offer a range of VISA cards including a Travel Reward VISA card, which pays points that are redeemable at our sister organisation, Travelcare. Average VISA balances increased by £94 million (10%) in the year. Moderate growth was also achieved in other Personal lending products, excluding mortgages.

Growth of £408 million in average retail customer deposits arose both in the Personal and Corporate sectors. Average Personal sector deposit balances increased by £253 million (6%) to £4,483 million, with growth particularly strong in current accounts, ISAs and bonds. The Bank's Internet operation, **smile**, continues to grow and average deposits increased a further 7% during the year. **smile** continues to offer a wide range of personal banking products and to win awards including 'Best Customer Service Overall', 'Best ISA Provider' and 'Best Credit Card Provider' at the Guardian/Observer Consumer Finance Awards 2004 and the 'Best Bank website' at the On-line Finance awards.

Building on the success in the previous year the Bank launched further tranches of its Guaranteed Stock Market Deposit Bonds. The Bonds provide savings customers with a capital guarantee and an interest return linked to the performance of the stock market. The Bank also launched a new Balanced Savings Plan, which combines a guaranteed fixed rate of interest and a return based on growth in the stock market.

The Corporate sector achieved a satisfactory growth of 8% in average deposits, reaching a total balance of £2,083 million. Growth was achieved across the Corporate customer base including some significant and prestigious arrangements finalised with organisations including the North West Regional Assembly and the Committee of European Banking Supervisors. The Bank consistently aims to provide excellent customer service combined with competitive products which match customers' commercial requirements. In order to achieve this, bespoke Corporate products have been designed for specific groups of customers including Business Directplus – a banking service for SMEs – and an account designed for the community and voluntary sectors, Community Directplus. The Bank has achieved an impressive growth in both these accounts during the year. Take up of the bespoke business banking package for members of the Federation of Small Businesses, launched in 2004, has also been encouraging. The Bank increased its presence in the public sector market particularly with regard to Private Finance Initiative (PFI) deals to construct schools, hospitals and police stations as well as post-construction funding for roads.

Partnerships

During 2004 the Bank continued to develop its partnership with the Co-operative Group and with CIS. The closer relationship with CIS included a number of cross-selling initiatives between the two organisations. CIS' financial advisers have successfully sold fixed term deposits and Guaranteed Stock Market Deposit Bonds on behalf of the Bank, and the Bank has promoted certain CIS general insurance products. During the year the Bank purchased £360 million of mortgage assets from CIS creating a single mortgage portfolio for CFS on the Bank's modern systems platform. This strategy ensured that CIS avoided potentially significant systems and compliance development costs on its own mortgage systems.

The Bank remains committed to the development of CFS as a financial services provider for a broad range of co-operative customers and has achieved some significant early successes and benefits. CIS is now undergoing a comprehensive modernisation programme which will extend throughout 2005. This programme will enable CIS to compete successfully in today's financial services market and will create significant further cross-selling opportunities for the Bank once the modernisation programme is complete. The Bank continues to maintain strong collaborative links with the wider Co-operative movement and the Co-operative Group and offers a range of Co-op branded credit cards, savings accounts and other services, including a bespoke banking package Co-operative Directplus. During the year the Bank successfully launched a Members' Savings account, offering a competitive rate of interest, to members of the Co-operative Group, creating an alternative to investment in share capital of the Society.

The total number of ATMs located within Co-operative retail stores has continued to increase. In 2004 more than 500 ATMs were installed, bringing the total number of cash machines in the Bank's estate to over 2,100 by the year end. Several hundred additional cash machine installations are also planned for 2005.

During 2004 the Bank developed its partnership with the Co-operative Group and CIS.

Paul Hewitt
Acting Chief Executive

Sheila Macdonald
Executive Director &
Chief Operating Officer

Kevin Blake
Credit Risk & Compliance
Management Director

David Craggs
Customer Services Director

Ian Hodges
Director of Retail Network

Keith Alderson
Director of Corporate Banking

Richard Goddard
Executive Director, Finance & Risk

Peter Sutcliffe
Executive Director, Retail Banking
Business Management

Christine Petyt
Director of Operations, **smile**

Executive Committee

Rob Woolley
Director of Customer Contact Centre (CIS)

Operating income

Operating Income of £509.0 million represented a modest growth of £6.1 million compared to 2003. Although Non-Interest Income increased by £13.5 million (8%) this was offset by a decrease in Net Interest of £7.4 million (2%).

The decline in Net Interest Income was principally due to lower wholesale Net Interest Income in difficult wholesale markets, and a reduction in the Bank's overall net interest margin offset by the positive impact of higher customer balances.

Net interest from the Bank's Treasury wholesale activities has declined as the Bank trades in lower risk markets where profitable opportunities have been limited over the last year. A large proportion of the Bank's Treasury Net Interest Income is generated from trading in the sterling money markets. Changes recently introduced by the Bank of England have reduced the volatility in the short-term money markets which, combined with a flat yield curve, has led to fewer opportunities for Treasury net income. The net yield from the Bank's longer-term investment portfolio has also declined as maturing, high yielding, investments are replaced with lower yielding assets in the current lower interest rate environment. During 2004, dealing activities consistently operated well below their maximum 'Value at Risk' levels and exposure to market risk was similar to last year.

In the Retail sector Net Interest Income increased, reflecting higher customer balances partly offset by a reduction in the Bank's overall net interest margin. Average interest-earning assets of £9,604 million increased by £1,059 million (12%), reflecting growth in retail customer lending of £2,024 million, including strong growth in mortgage lending, offset by a decrease in interest-earning wholesale market placements of £965 million. Average interest-bearing liabilities rose by £903 million (13%) to £7,959 million, driven by growth in average interest-bearing retail customer deposits of £311 million and growth in wholesale deposits of £592 million including £150 million Tier 2 loan stock issued in April. The increase in average interest-free liabilities mainly arose from higher Current Account balances and the Bank's retained earnings.

The decline in net interest margin was partly a consequence of the strong growth achieved in mortgage lending compared to a lower growth rate in corporate lending and unsecured personal lending. Secured, quality, mortgage lending represents a lower credit risk compared to unsecured personal lending and so attracts a lower margin. Margins for individual unsecured lending products have also declined in line with industry trends, and particularly so for credit cards reflecting the impact from intense price competition during a period when funding costs have been increasing as a result of higher interest rates.

Average Balances and Interest Margins	**2004 £m**	**2003 £m**	**Change £m**
Net Interest Income	**324.9**	332.3	(7.4)
Average Balances			
Interest-earning Assets	**9,604**	8,545	1,059
Interest-bearing Liabilities	**7,959**	7,056	903
Interest-free Liabilities	**1,645**	1,489	156
Average Rates	**%**	**%**	**%**
Gross Yield on Interest-earning Assets	**6.2%**	6.2%	-
Cost of Interest-earning Liabilities	**3.4%**	2.8%	0.6%
Interest Spread	**2.8%**	3.4%	(0.6)%
Contribution of Interest-free Liabilities	**0.6%**	0.5%	0.1%
Net Interest Margin	**3.4%**	3.9%	(0.5)%

As a result of the combination of lower lending margins, improvement in the credit profile and lower wholesale net interest, the Bank's overall net interest margin reduced from 3.9% in 2003 to 3.4% in 2004.

Fees and Commission receivable increased by £14.1 million (8%) mainly reflecting higher interbank commission from the Bank's growing ATM network, increased corporate arrangement fees and growth in VISA income. VISA commission has increased due to balance sheet growth including the impact of the acquisition of the Northern Rock credit card portfolio in June 2003. The Bank has successfully developed and expanded its fee bearing current account range to generate additional fee income. These accounts, including Privilege Premier, **smilemore** and the basic Privilege account, offer a wide range of services for a small monthly fee.

Fees and commissions payable have increased by £10.3 million reflecting the fees paid to third parties (including CIS) for the introduction of new business and the amortisation of premium paid on the purchase of the CIS mortgage portfolio in 2004 and on the purchase of the Northern Rock credit card portfolio in 2003.

Insurance commission income declined by £3.8 million due to lower commission income generated by the independent financial adviser subsidiary CBFA and a lower share of third party insurance profits received from the insurance provider.

Non-Interest Income	2004 £m	2003 £m	Change £m
Fees and commission receivable	**181.5**	167.4	14.1
Insurance Commission Income	**46.2**	50.0	(3.8)
Fees and commission payable	**(49.7)**	(39.4)	(10.3)
Other Income, including Dealing Profits/Losses	**6.1**	(7.4)	13.5
Total	**184.1**	**170.6**	**13.5**

Other income increased by £13.5 million mainly due to a £12.4 million improvement in dealing profit. The dealing profit in 2004 of £4.1 million included £4.3 million foreign exchange profits partially offset by a loss of only £0.2 million from derivatives and debt securities, reflecting the limited trading within the sterling money markets in 2004 referred to above. In 2003 the dealing loss of £8.3 million included a profit of £3.9 million from foreign exchange offset by a loss of £12.2 million from derivatives and debt securities. This dealing loss in 2003 was offset by higher net interest from holding trading instruments reflecting the more extensive trading in the sterling money markets that year. Overall, the total income from trading activities in 2004 was higher than 2003.

Contributions to the staff pension fund were increased from 15.6% to 22% of pensionable salaries.

Operating Cost Analysis	2004 £m	2003 £m	Change £m
Staff Costs			
Wages and Salaries	**98.9**	95.5	3.4
Pensions and Social Security Costs	**27.8**	23.4	4.4
Other Staff Costs	**7.9**	7.9	-
	134.6	**126.8**	**7.8**
Other Administrative Expenses	**156.9**	161.5	(4.6)
Depreciation	**22.7**	21.2	1.5
Total Operating Costs	**314.2**	**309.5**	**4.7**
Cost/Income Ratio	**61.7%**	61.5%	0.2%

Operating costs

Operating Costs of £314.2 million were £4.7 million higher than last year, a rise of only 1.5% reflecting adverse upward pressure from inflation, funding pensions, regulatory compliance and business investment offset by tight cost control and the realisation of synergy benefits from CFS. The Cost/Income ratio increased by only 0.2% to 61.7%.

Staff costs were £7.8 million (6%) higher than last year reflecting the annual pay award and higher staff pension scheme contributions. Following the pension fund actuarial valuation in April 2003, contributions to the fund were increased from 15.6% of pensionable salaries to 22% from April 2004. For accounting purposes the pension fund charge increase was from the start of the year resulting in an increased charge of £4.3 million from 2003. Employee contributions have been introduced for new staff in 2004 and phased in for existing staff from the start of 2005 on a sliding scale.

Other operating costs were £3.1 million lower than last year despite significant investment in infrastructure, including branch refurbishment to meet new Disability Discrimination Act regulations, integration of call centres with CIS, redevelopment of internet access and continued expansion of the income generating ATM network. Investment has also been required in industry-wide initiatives including the roll out of 'Chip and PIN' cards and further development of BACS payment systems. Higher costs have also been incurred in preparation for a new regulatory environment in the mortgage business together with other requirements including compliance with FSA Prudential Sourcebook, Basel II, Anti Money Laundering rules and International Financial Reporting Standards. These additional investment and regulatory compliance costs have been more than offset by strong cost control together with realisation of cost efficiencies and synergy benefits from the creation of CFS.

Credit quality and provisions

The Profit and Loss charge for bad debts of £62.8 million was £0.5 million lower than last year despite the growth in lending balances. Additional bad debt provisions in respect of specific Corporate bad debts were more than offset by lower Personal and general provisions. The bad debt charge as a percentage of year end Loans and Advances to customers was 0.82%, an improvement of 0.21 percentage points compared to 2003. Personal sector bad debt charges decreased by £3.8 million reflecting an improvement in the credit quality in much of the Personal sector portfolio, including personal loans and overdrafts, and mortgage balances in arrears remained at a very low level. This improvement was partially offset by higher charges against the credit card portfolio.

The Personal sector bad debt charge represented 1.0% of average balances, an improvement of 0.8 percentage points compared to the previous year reflecting the improved quality of the loan portfolio. This resulted from the combination of the strong growth of secured, good quality mortgage balances and the continued adoption of a cautious and responsible lending policy. The Bank operates tight credit policy over new business through behavioural scoring and monitors overall debt for existing customers to enable early action to manage over indebtedness.

Bad and Doubtful Debt Charge	2004 £m	2003 £m	Change £m
Profit and Loss Charge			
Personal Sector	**53.4**	57.2	(3.8)
Corporate Sector	**9.4**	6.1	3.3
Total	**62.8**	**63.3**	**(0.5)**
Charge as a percentage of Loans and Advances to Customers	**0.82%**	1.03%	(0.21)%

The Bank's Corporate and Business portfolio is weighted towards small and medium-sized businesses. Credit quality in that sector remains stable with low bad debt charges in recent years. The Bank has continued with its strategy of reducing exposure to higher risk sectors and consequently the number of problem accounts is low. However, in realising this strategy a small number of significant additional specific provisions have been raised and as a result the Corporate sector bad debt charges have increased by £3.3 million to a total of £9.4 million. Despite the increase in the charge and due to the overall quality of the portfolio the bad debt charge represents only 0.5% of average Corporate balances, compared to 0.3% last year.

The Bank's lending growth was biased in favour of lower-risk, secured mortgage balances, which tend to incur lower bad debts than unsecured lending. Although there are early signs that consumer confidence is weakening in the face of rising interest rates and indications of a slowdown in the housing market, asset quality remains strong and the Bank's credit assessment processes are sufficiently robust to deal with a potential downturn in credit quality in the UK.

Summary

The Co-operative Bank has achieved a moderate growth in profit during a period of intense competition manifested in narrowing margins and slower balance sheet growth. Although the Bank continues to support CFS in its development as a leading financial services provider, opportunities to deliver further cost savings and synergies will, inevitably, be reduced in the next year as CIS focuses attention on a significant restructuring and change programme. In the meantime, the Bank is developing its retail strategy and considering further opportunities for longer term cost efficiencies which are likely to require up-front investment. These development programmes, combined with strong capital rates, should ensure that The Co-operative Bank is well placed to compete in an increasingly challenging UK financial services market.

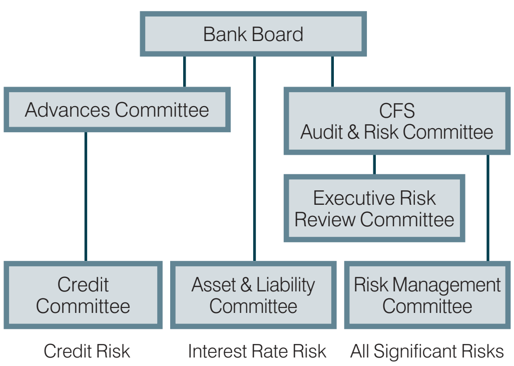
Risk management.

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

Risk Management Framework

The Board is responsible for approving the Bank's strategy, its principal markets and the level of acceptable risks. 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.

Risk Management Structure



Advances Committee is a Board sub-committee, chaired by a non-executive director. It assesses and approves transactions that exceed the delegated authority of the Chief Executive and reviews key features of the loan portfolios and related credit strategy.

CFS Audit & Risk Committee is a CFS Board sub-committee, chaired by a non-executive director. It also supports the Bank Board in carrying out its responsibilities for internal control and risk assessment. The Committee monitors the ongoing process of the identification, evaluation and management of all significant risks across the Bank and provides an independent review of risk management and controls. The Committee is supported by Group Internal Audit and Risk Management functions.

The Bank's Executive Risk Review Committee, comprising Executive Directors, the Chief Executive and Chief Operating Officer, continued to meet in 2004. The Terms of Reference include the maintenance of the Risk Management Policy, the identification and evaluation of risks and the provision of assurance to the Board and Audit & Risk Committee. Regular risk and control assessments are provided by line management to the Risk Committee in respect of the Bank's significant risks.

Risk Management Committee comprises a minimum of two Bank Executive Directors, the CFS Risk & Compliance Director and the Director of Risk Management, along with risk managers responsible for specific types of risk within the Bank. The Committee advises both the Bank's Executive Risk Review Committee and the Board Audit & Risk Committee.

Credit Committee is chaired by the CFS Risk & Compliance Director and includes the Bank's Credit Risk & Compliance Management Director. The Chair has delegated authority for approving credit facilities, managing lending discretions and credit strategy.

Asset & Liability Committee (ALCO) is chaired by the Chief Executive. It is primarily responsible for managing the interest rate risk inherent in the Bank's asset and liability portfolio, liquidity and capital adequacy.

The Bank's significant risks arise in four broad categories:-

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk

Financial instruments are essential to the Group's activities.

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 Credit Risk Management Policies are approved by the Board annually and determine the criteria for the management of personal, corporate and wholesale market exposures. They specify 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.

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

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

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

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

Interest Rate Risk Policy Statements, approved by the Audit & 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 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 principal analytical techniques involve assessing the impact of different interest rate scenarios and changes in balances over various time periods.

Treasury executes funding and hedging transactions with the wholesale markets on behalf of the Bank and its customers. It also generates incremental income from proprietary trading within strict risk limits. There are two prime measures of risk supplemented by additional controls such as maturity and stop loss limits. Risk units express the various re-pricing and maturity mismatches as a common unit of measurement. Value at Risk (VaR) measures the daily maximum potential gain or loss due to recent market volatility to a statistical confidence level of 95% and uses 250 days of historical data and a one day holding period. During 2004, the daily VaR in the trading portfolios was less than £1.3 million. The VaR methodology has inherent limitations in that market volatility in the past may not be a reliable predictor of the future, and may not reflect the time required to hedge or dispose of the position, hence VaR is not used by the Bank as the sole measure of risk. The Board receive quarterly reports on the management of Balance Sheet risk and, each month, ALCO reviews the Balance Sheet risk position and the utilisation of wholesale market risk limits.

In 2004 Treasury Risk Management introduced PV01 as an additional risk measure to supplement VaR. This risk measure is based upon a full revaluation and indicates the change in value of a fixed income product, or portfolio, given a 1 basis point movement in interest rates.

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 & 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. The Internal Audit Department conduct a programme of operational reviews and report regularly to Executive Directors and to the Audit & 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.

Basel II (Capital Requirements Directive) is an internationally agreed framework for banking regulation and capital management. The FSA plan to introduce these new standards and implementation requirements over the forthcoming year in preparation for parallel running in 2006 and the introduction of the new regulations in January 2007. The Basel II programme is a key risk management development for the Bank in 2005.

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 The Group issues medium term notes within an established Euro Medium Term Note programme and also issues Certificates of Deposit and Commercial Paper as part of its normal Treasury activities. These sources of funds alongside wholesale market loans are invested in marketable, investment grade debt securities, short-term wholesale market placements and used to fund customer loans. Debt securities also underpin the Group's liquidity requirements and generate incremental net interest and trading income.

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

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

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

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

Specific arrangements are made for developing safe working practice.

Health and safety policy.

The health and safety policy for the Bank is managed by its parent organisation, CFS.

CFS, including the Bank, ensures that all reasonable steps are taken to:

- Safeguard the health, safety and welfare of all members of staff whilst they are at work.
- Protect all non-employees from any potential hazard created by CFS operations.

Specific arrangements are made within each business area for developing safe working practice, allocating the required resources and ensuring suitable and sufficient training for all employees.

Consultation and involvement of employees and safety representatives

CFS recognises the need to consult with its employees on health and safety issues and the rights of individuals and Trades Unions in respect of this. Accredited safety representatives will be afforded every opportunity to effect this consultation and to receive training as appropriate from their Trade Union.

Formal consultation arrangements with all unions exist through the Health and Safety Committee.

Health and safety issues are brought to the attention of all employees through business specific communication channels, and employees are similarly encouraged to raise issues through their line management.

Accident statistics

The table below shows the total number of accidents causing personal injury to employees during the year by business area, together with incidence rate expressed as the number of accidents per 100 full time equivalent employees (FTEs). Incidence rate is calculated as follows:

$$\frac{\text{No of accidents}}{\text{No of FTEs}} \times 100$$

Business Area	Number of accidents to employees, contractors and visitors	Number of statutorily reportable accidents	Incidence rate of accidents per 100 FTEs
Co-operative Bank	79 (all to staff)	1	2.03
CIS	467 (443 to staff)	57	5.20
CFS	546 (522 to staff)	58	4.21

Fatal accidents

There were no fatal accidents within CFS in 2004.

Enforcement action on CFS

During the reporting year no enforcement notices were issued against the organisation by any of the enforcing authorities.

Convictions for health and safety offences

No proceedings were instigated against CFS for breaches of health and safety regulations within the reporting period.

Health and safety training

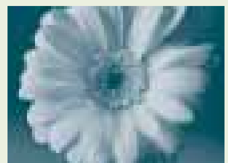
CFS is committed to ensuring that all employees receive adequate training in health and safety to make them aware of their individual responsibilities and to enable them to carry out their work tasks without injury or damage to health of themselves or others affected by their work. All employees on commencing employment with any business area receive induction training, which includes basic health and safety requirements, such as fire action, accident reporting, first aid arrangements etc. Training is then provided in respect of health and safety issues associated with specific tasks through line management, dedicated training, or health and safety personnel.

Statement on social, ethical and environmental risks.

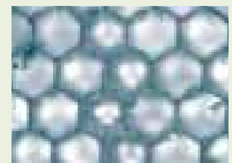

Shareholders


Customers


Staff


Suppliers


Society


Co-operative movement

Introduction
CFS, including the Bank, recognises the need to develop its business in a sustainable manner. CFS has identified six groups, or Partners, upon whom its continued success is, to varying degrees, dependent (as described in its Sustainable Development Policy that can be found in the separate Sustainability Report for CFS, Bank and CIS produced later in the first half of 2005). CFS has established a world-class reputation with regard to the management and reporting of the degree to which it delivers value to its Partners in an ecologically sustainable and socially responsible manner. The CFS Sustainability Report 2003 emerged as 'number one' in the biennial global benchmark of sustainability reporting commissioned by the United Nations Environment Programme. In 2005, it was declared the best in the UK at the Association of Chartered Certified Accountants UK Awards for Sustainability Reporting 2004.

Significant risks
The following ethical and sustainability issues have been identified as being most material to the business of the Bank (i.e. those risks determined to be potentially material to the short and long term value of the business).

Employee welfare
Recognising the fundamental importance of staff to business performance, CFS has taken care to continue to invest in its employees. Work in the area of Health and Safety and Well-being was reconciled across the Bank and CIS in 2004 with the launch of new CFS policies.

The new Health and Safety policy was underpinned by the development of a CFS Health and Safety Committee; and, in order to ensure that occupational health services are delivered in a more consistent manner, these will be outsourced in 2005. Supporting the new Well-being policy will be the provision of an external counselling service for all CFS staff.

In 2005, a CFS Work/Life Balance policy will be developed, to reconcile and improve on existing Bank and CIS policies, and staff learning and development initiatives will be progressed.

Financial solvency
One of the prime responsibilities of the Bank is to make sure it is financially secure and can meet its obligations as and when required. Capital is maintained in connection with the various risks the Bank is exposed to, ensuring that depositors are protected against any foreseeable loss incurred. The capital required is governed by the FSA; however, it is the Bank's policy to hold more than the regulatory minimum. The capital adequacy policy is set and monitored on a monthly basis by the Asset and Liability Committee (ALCO). Related risks within the Bank are detailed in the risk management section on pages 23 to 25.

A second policy, which focuses on financial security, ensures that sufficient funds are available at all times (excluding unforeseen and extreme situations) to meet demands from depositors to fund agreed advances and to meet other commitments as and when they fall due. The liquidity risk policy is set by the Bank's ALCO and monitored on a daily basis by the Treasury department.

Customer service

CFS' Sustainability Report describes customer satisfaction with service across all key products and services, with independent research indicating that CFS customers are more satisfied than the industry average in most major product classes.

Effective customer service is needed to ensure that customer retention and growth are in line with plans. 77% of Bank staff are now involved in customer-facing activities, an increase from 75% last year, and this has a major impact on thinking and culture across the organisation. In 2004, investment focused on four key areas: call centres, branches, the Internet and ATMs. Branch refurbishments during 2004 have prioritised compliance with the new Disability Discrimination Act (DDA) regulations, which came into force on 1st October.

CFS has recognised that outsourcing, and indeed insourcing, has a place in business organisation discussions; however, the Bank and CIS have pledged not to outsource customer-facing jobs as these are considered to be core to a high quality service offering.

Ethical Policy compliance

The Co-operative Bank launched its Ethical Policy in 1992, and this was subsequently reviewed in 1995, 1998 and 2001. The Ethical Policy stipulates who the Bank will and will not finance, as directed by customers. This is supported by the CFS Sustainable Development Team. As of 2002, the Bank has provided a detailed annual breakdown of all instances where business has been declined, most recently in the CFS Sustainability Report. CFS' sustainability auditors, **just**assurance, directly investigate, on a sample basis, the veracity of policy implementation; reviewing case files and assuring themselves of the integrity of the process and outcome. Furthermore, Ethical Policy implementation is subject to an annual internal audit review.

Statutory and regulatory compliance/industry codes of conduct

The Bank is authorised and regulated by the Financial Services Authority (FSA) and subscribes to the Banking Code and Business Banking Code. The Bank subscribed to the Mortgage Code and the General Insurance Standards Council Code prior to the statutory regulation of mortgages and general insurance by the FSA in November 2004 and January 2005 respectively. In 2004, the Banking Code Standards Board (BCSB) and the Mortgage Code Compliance Board carried out reviews of compliance against their codes within the Bank. The reviews confirmed satisfactory compliance with the code's requirements, with no further actions required. In 2004, the BCSB also undertook a mystery shopping exercise to determine the extent to which the 16 providers of basic Bank accounts are fulfilling their responsibilities under the Banking Code. The Bank was one of only six banks to be graded 'green' (the highest ranking) in the survey, indicating that arrangements for the sale of basic bank accounts are satisfactory and that any areas of weakness are relatively minor. The Bank has an appointed Code Compliance Officer who liaises closely with the relevant regulatory bodies.

During 2004, the BCSB resolved that the Bank had materially breached paragraph 4.1(e) of the Banking Code, by giving an incorrect answer in its Annual Statement of Compliance questionnaire for the year ended 31st December 2003. This was identified by the Bank and subsequently notified to the BCSB, who agreed that the incorrect answer was given in good faith and regarded the Bank's notification to them as a strength of self-regulation.

The FSA's rules governing anti-money laundering activities are described in the Money Laundering Sourcebook. Additionally, the Joint Money Laundering Steering Group provides practical guidance for the financial sector via money laundering guidance notes (most recently in December 2003). During 2004, the Bank made a significant investment in a project to implement a new anti-money laundering solution that will systematically and intelligently monitor its customer accounts and daily transactions in order to further automate the detection of unusual behaviour.

Key suppliers and outsourcing

Effective contract and relationship management is required for key suppliers and outsourcing in order to assure service provision and financial performance. CFS' Sustainability Report describes performance (together with benchmarking) in the areas of 'prompt payment', 'good relationships', 'fair treatment' and 'effective communication'. It also details the development of a new CFS Outsourcing Policy in 2004 and the contract areas falling under FSA guidance. The Outsourcing Policy outlines best practice for general outsourcing arrangements, but is considered mandatory for all material outsourcing arrangements (defined as those instances where a weakness or failure on the part of the service provider would reduce availability of a CFS critical service to below 50% for over four hours, or result in an unexpected cost in excess of £500,000). A risk assessment is undertaken quarterly as part of a formal review of each outsourcing contract, and this is submitted to the respective Bank Risk Management committee. Also in 2004, a Sustainable Procurement and Supplier Policy was agreed for CFS. This is supported by the CFS Sustainable Development Team and the CFS Sustainability Steering Committee. In parallel, a CFS-wide Supplier Acquisition and Management (SAM) Policy was agreed, with implementation proceeding across CFS through the first half of 2005. The Policy is designed to allow CFS to pool its supplier intelligence, maximise buying potential and to reduce risk by ensuring that business arrangements are documented to a consistent standard. The SAM Policy is supported by CFS Procurement and Supplier Management and a SAM Steering Group, and covers spend in excess of £50,000 and/or business critical goods and services.

Governance

The Bank can confirm the following:

- The Board receives quarterly progress reports on ethical and sustainability matters, and the degree to which they impact on the business and Partners at large. In addition, the Board approves the CFS Sustainability Report; which describes the degree to which CFS delivers value to its Partners in an ecologically sustainable and socially responsible manner. Unless otherwise stated, the Report is considered to be a complete commentary on CFS' material, ethical and sustainability impacts. The Report also details some 70 targets; these in part seek to be responsive to stakeholders' views on performance expectation.
- The Board has identified and assessed the significant risks to the business arising from social, ethical and environmental matters via the risk management process described on pages 23 to 25. CFS operates a central risk register containing some 500 risks and associated internal controls. In addition, the Bank and CIS operate separate significant risk registers, on which all of the above issues are referenced.
- CFS has established a Sustainable Development Policy, and a rigorous system of stakeholder engagement, management and reporting, and this is consistent with the AA1000 management framework, as described in its Sustainability Report. The CFS Sustainability Report, and underlying accounting systems and management controls, is subject to rigorous third party assurance as per AA1000as. CFS considers it vital that social, ethical and environmental issues are identified on the basis that they are material to Partners' concerns, and not only on the basis of the degree to which they impact on the 'bottom-line' of the business. To this end, the CFS Sustainability Report describes a much broader set of ethical and sustainability impacts than those assigned via the ABI guidelines.

Non-Executive Directors


Graham Bennett


Martin Beaumont


Bob Burlton


Simon Butler


David Davies


Tony Lancaster


Kathryn Smith


Graham Stow

Executive Directors


Paul Hewitt


Richard Goddard


Sheila Macdonald


John Marper

The Board


John Reizenstein


Craig Shannon


Peter Sutcliffe

The Co-operative Bank Board

Non-Executive Directors:

Graham Bennett Age 54. Chair of The Co-operative Bank plc. Occupation – Chief Executive Officer and Secretary, Southern Co-operatives. Non-Executive Director of the Co-operative Group, Co-operative Financial Services Limited and Co-operative Insurance Society Limited. First elected to the Bank Board in 1989.

Martin Beaumont Age 55. Deputy Chair. Occupation – Chief Executive, the Co-operative Group. Non-Executive Director of Co-operative Financial Services Limited and Co-operative Insurance Society Limited. First elected to the Bank Board in 1996.

Bob Burlton Age 56. Occupation – Chief Executive, Oxford, Swindon & Gloucester Society. Chair of the Co-operative Group and Co-operative Financial Services Limited. Non-Executive Director of Co-operative Insurance Society Limited. First elected to the Bank Board in 2004.

Simon Butler Age 50. Occupation – Teacher. Member of the Co-operative Group Central & Eastern Regional Board. Chair of Co-operative Insurance Society Limited. Non-Executive Director of the Co-operative Group and Deputy Chair of Co-operative Financial Services Limited. First elected to the Bank Board in 2003.

David Davies Age 57. Senior Independent Director. Occupation – Independent Professional Non-Executive Director. Also holds this position on the Boards of Co-operative Financial Services Limited and Co-operative Insurance Society Limited. He is Chairman of Sun Life Assurance Company of Canada (UK) Limited. First elected to the Bank Board in 2003.

Tony Lancaster Age 62. Occupation – Independent Professional Non-Executive Director. Also holds this position on the Boards of Co-operative Financial Services Limited and Co-operative Insurance Society Limited. Previously Chair and Chief Executive of Groupama Insurance Company from 1991 until his retirement in 2002. First elected to the Bank Board in 2004.

Kathryn Smith Age 45. Occupation – Public Affairs Consultant. Member of the Co-operative Group South East Regional Board. Non-Executive Director of the Co-operative Group and Co-operative Financial Services Limited. First elected to the Bank Board in 2001.

Graham Stow Age 60. Occupation – Independent Professional Non-Executive Director. Also holds this position on the Boards of Co-operative Financial Services Limited and Co-operative Insurance Society Limited. Previously Group Chief Executive of Britannia Building Society from 1999 until 2003. First elected to the Bank Board in 2003.

Executive Directors:

Paul Hewitt Age 48. Acting Chief Executive. Also Acting Chief Executive of Co-operative Financial Services Limited and Co-operative Insurance Society Limited. First appointed to the Bank Board in 2003 as a Non-Executive Director in his role as Chief Financial Officer of the Co-operative Group.

Richard Goddard Age 47. Executive Director, Finance and Risk. First appointed to the Bank Board in 2002.

Sheila Macdonald Age 57. Executive Director and Chief Operating Officer. Also Executive Director of Co-operative Financial Services Limited. First appointed to the Bank Board in 1999.

John Marper Age 58. Executive Director, Risk & Compliance of Co-operative Financial Services Limited. First appointed to the Bank Board in 1989.

John Reizenstein Age 48. Executive Director, Finance and Actuarial of Co-operative Financial Services Limited. Also Executive Director of Co-operative Insurance Society Limited. First appointed to the Bank Board in 2004.

Craig Shannon Age 41. Executive Director, Marketing of Co-operative Financial Services Limited. Also Executive Director of Co-operative Insurance Society Limited. First appointed to the Bank Board in 2004.

Peter Sutcliffe Age 57. Executive Director, Retail Banking Business Management. First appointed to the Bank Board in 2003.

The Directors submit their report, together with the audited financial statements, for the year ended 8 January 2005.

Principal Activities and Business Review

The Bank and its subsidiary undertakings provide an extensive range of banking and financial services, in the United Kingdom.
A review of the performance of the Bank and its operating subsidiaries together with future developments are set out on pages 15 to 22 in the Operating and Financial Review section of this report. Note 15 of the financial statements provides details of the principal subsidiaries.

Outlets

At 8 January 2005 the Bank had 126 outlets and 100 Handybanks (instore facilities).

Changes to the Board

The names of the present members of the Board and their biographies and details of length of service are set out on page 32.
Bob Burlton was appointed as a Non-Executive Director on 30 March 2004.
Keith Darwin, Non-Executive Director, served on the Board until his retirement on 23 May 2004.
Tony Lancaster was appointed as an Independent Professional Non-Executive Director on 27 May 2004.
John Reizenstein, Executive Director, Finance and Actuarial of CFS and Craig Shannon, Executive Director, Marketing of CFS were appointed to the Board on 14 September 2004.
Paul Hewitt, an existing Non-Executive Director on the Board, was appointed Acting Chief Executive following Sir Mervyn Pedelty's retirement from the Board as Chief Executive with effect from 15 December 2004. The Board is actively considering recruitment to the position.

Election of Directors

In accordance with the Articles of Association, Tony Lancaster, Craig Shannon and John Reizenstein, having been appointed since the date of the last Annual General Meeting, retire and being eligible, offer themselves for re-appointment at the next Annual General Meeting.
In accordance with the Articles of Association, Graham Bennett, Richard Goddard and John Marper retire by rotation and, being eligible, offer themselves for re-election. None of the Directors offering themselves for re-election have service contracts with the Bank or any of its subsidiary undertakings which has a duration of more than one year.
All Directors up for re-appointment and re-election continue to demonstrate commitment to their roles (see schedule of attendance on page 38).
The Notice for the Annual General Meeting at which the Directors will be re-elected can be found on page 84.

Results and Dividends

The profit on ordinary activities before taxation was **£132.0 million** (2003-£130.1 million), an increase of £1.9 million on 2003. After preference dividends of **£5.5 million**, the profit attributable to the ordinary shareholders amounted to **£84.7 million**. An interim dividend of £15 million was paid on 30 November 2004 to the ordinary shareholders. The Directors recommend the payment of a final dividend of £5 million on 31 May 2005 on the ordinary shares and **£64.7 million** will be added to reserves.
A more detailed review of the business is contained in the Operating and Financial Review on pages 15 to 22.
The Bank is part of the Co-operative Group and in 2004 the Group successfully returned over £6 million of profits to its members. This was a flat payment of £10, made to members who had bought qualifying goods or services from the Group's consumer businesses in the previous year.
In 2005 the Co-operative Group will offer a share of its profits to members linked to the value of trade each member did with its customer facing businesses in 2004, including the Bank. Work is underway to develop a card-based membership solution that will be launched to the Group's members in 2006.

Directors and their interests

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

	Number of Shares	
	2004	2003
John Marper	11,042	11,042

No other Director had a beneficial interest in any shares in the Group or in the Co-operative Group which is the ultimate holding organisation, or in any other companies controlled by the Co-operative Group.
There have been no changes in the Directors' shareholdings between the end of the financial year and 7 April 2005.

Staff

The Bank and its subsidiary undertakings employed **4,300** persons at 8 January 2005 (2003 - 4,237). The weekly average number of persons was **4,356** (2003 - 4,310) and their aggregate remuneration for the year was **£98.9 million** (2003 - £95.5 million).
The Bank operates learning and development initiatives across the organisation as part of a continuous improvement programme, supporting its approach to performance management, personal development and succession planning.
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 Amicus-UNIFI, who continue to be fully involved with the Bank where organisational change and other issues affect staff, through the Partnership Agreement. The Bank has been acknowledged as being one of the "Best Places to Work" in the UK, and as an "Investor in People".

Diversity

The Bank welcomes diversity and actively promotes a policy and practice of equality of opportunity in employment for all employees, regardless of sex, gender reassignment, marital status, sexual orientation, colour, race and nationality, national or ethnic origin, religion or creed, disability, responsibility for dependants, age, membership or non membership of a trade union or political affiliation.

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 has an Equal Opportunities Policy, which includes provisions to consider employment applications from people with disabilities and to match vacancies with an individual's particular aptitudes and abilities. Additionally, it has produced bespoke Disability Discrimination Act guidance for staff, which outlines its responsibilities with respect to the employment of people with disabilities. Further guidance and information for staff on disability issues is available through Human Resources and on the staff intranet. The Bank recognises its responsibility for making 'reasonable adjustments' for new staff with disabilities and for those individuals who develop disabilities whilst in employment. The views of disabled people are sought through the annual staff survey, which includes special provisions to gather information relating to potential incidences of bullying and harassment in the workplace.

Corporate Responsibility and the Environment

The Bank's corporate responsibility activities are outlined on pages 12 and 13. The Company's Statement on Social, Ethical and Environmental Risks can be found on pages 28 to 30. In addition, the CFS Sustainability Report, which will be published towards the latter half of the 2005 financial year, describes how CFS, CIS and the Bank manage their social, ethical and environmental impacts.

Donations

During the year, the Bank and its subsidiaries made donations (which excludes affinity card payments) of **£0.6 million** (2003 – £0.5 million) to United Kingdom charitable organisations. Additional costs associated with the Bank's community involvement are provided within the CFS Sustainability Report. It is the Bank's policy that no donations are made for political purposes.

Supplier Payment Policy and Practice

The Bank's suppliers are one of six 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 16 days (2003 – 19 days) purchases outstanding at 8 January 2005, based on the average daily amount invoiced by suppliers during the financial year.

International Financial Reporting Standards

The Bank has continued its preparation for the introduction of International Financial Reporting Standards (IFRS) across all areas of the business to ensure that IFRS compliant financial statements for the year ending14 January 2006 can be produced, including results for the half year ending 23 July 2005, which will be published in the third quarter of 2005.

Progress reports and impact assessments have been provided to the Board, Audit & Risk Committee and Executive Committees. A training programme has been used to spread knowledge and understanding of IFRS across the organisation. All IFRS and their impacts have been reviewed and the most significant are:

IFRS/IAS	Description of changes	Impact on Profit before tax	Impact on shareholders' funds
IAS32	The Bank's preference shares will be classified as a liability rather than equity	Reduction	Reduction
IAS19	Accounting for pension assets and liabilities within the Bank balance sheet	Reduction	Reduction
IAS39	Income recognition for loans and deposits on an effective yield basis	No material change	No material change
IAS39	Loan provisioning on a discounted cash flow basis	Increased bad debt charges and increased interest receivable	Reduction
IAS39	All derivatives must be stated at fair value	No material change	Dependent on market rates

The project team has continued to work with other interested parties, in particular the BBA, to identify and tackle IFRS implementation issues and the project is currently proceeding to plan.

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 the group will continue in business.

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

Auditor

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

By Order of the Board,
Moira Lees, Secretary,
7 April 2005

UK Combined Code on Corporate Governance

In July 2003, the Financial Reporting Council in the UK issued the revised Combined Code ('the Code') on Corporate Governance, which superseded and replaced the Combined Code published by the Hampel Committee on Corporate Governance in 1998. It applies for reporting years beginning on or after 1 November 2003.

In the 2003 Annual Report it was noted that during 2004 a full review would be undertaken of the new provisions of the Combined Code for both Higgs and Smith Reports, in particular to follow the guiding principle of 'comply or explain'. A working party was set up with the objective of reviewing each of the provisions set out in the new Code. Steps have since been taken to ensure that the Bank is in compliance with those provisions as at the date of this Report, and to ensure that an explanation in respect of non-compliance is provided. This Corporate Governance report explains how the Bank has applied the principles in the new Code and the extent to which compliance has been achieved.

The Co-operative Bank Board

The Directors believe that it is essential that the Company should be led and controlled by an effective Board. The Board is responsible for the success of the Company within a framework of controls, which enables risk to be assessed and managed. It is responsible for setting strategy, maintaining the policy and decision making framework in which this strategy is implemented, ensuring that the necessary financial and human resources are in place to meet strategic aims, monitoring performance against key financial and non-financial indicators, overseeing the system of risk management and for setting values and standards in governance matters.

The responsibility of the Bank Board is to direct the business of the Bank, and in particular to:

- ensure that the Company's affairs are conducted and managed in accordance with its Memorandum and Articles of Association, and in accordance with the best interests of its stakeholders within the ethics and values of co-operative principles;
- agree objectives, policies and strategies, and monitor executive management;
- determine the vision and strategy of the Company in consultation with the Chief Executive and the Executive;
- approve the annual budget and business plan;
- approve the reported financial statements and dividends;
- monitor, through various Committees, the key significant risks facing the Company
- establish Board Committees; and
- approve the delegated financial authorities.

The Board manages these matters at its regular Board meetings and strategy meetings. Details of attendance are noted on page 38. It has met twelve times in 2004. The Board is scheduled to meet for ten Board meetings and two strategy meetings in 2005.

Board Balance and Independence

The Board comprises eight Non-Executive Directors and seven Executive Directors. Paul Hewitt held a position of Non-Executive Director in his capacity as the Chief Financial Officer of the Co-operative Group until the retirement of Sir Mervyn Pedelty, the former Chief Executive, with effect from 15 December 2004, whereupon Paul Hewitt was appointed Acting Chief Executive.

The Board has appointed three Independent Professional Non-Executive Directors as defined under the Combined Code; David Davies, Tony Lancaster and Graham Stow.

The Code requires at least half of the Board, excluding the Chair, to be independent non-executive directors.

In accordance with the Code, it is for the Board to consider whether a Director is independent in character and judgement and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. The Board has concluded that looking across the wider Co-operative Group, Co-operative Group Regional Directors (unless employees within the last five years) should be defined as independent while those representing corporate members of the Co-operative Group could not be so categorised in the Co-operative context. This was because the latter represented significant "shareholders" with material business relationships.

With the exception of Graham Bennett and Bob Burlton, who represent corporate members of the Co-operative Group, and Martin Beaumont, who holds an executive appointment in the Co-operative Group, the Board has determined the remaining two Non-Executive Directors; Simon Butler and Kathryn Smith, being Regional Directors of the Co-operative Group, to be independent. However, the Board believes that all the Non-Executive Directors bring considerable business experience and make valuable contributions to the work of the Company.

The Board Non-Executive Directors constructively challenge and help develop proposals on strategy, bring strong, independent judgement, knowledge, and experience to the Board's deliberations. The Non-Executive Directors are of sufficient calibre and number that their views carry significant weight in the Board's decision making.

Until the 23 February 2005 the Bank did not comply with the Code in relation to having appointed a Senior Independent Director. As at 23 February 2005, David Davies has been nominated as the Senior Independent Director.

Board Procedures

Board and Committee papers are distributed at least one week in advance of meetings. This provides the opportunity for Directors to fully prepare for meetings. The minutes of all meetings are circulated to all Directors.

There is regular communication between the Directors, the Chair and the Secretary between meetings.

When a Director is unable to attend Board or Committee meetings, issues can be relayed in advance to the relevant Chair. Written questions for management on papers are encouraged from Directors between meetings. A rolling schedule of matters arising from Board and Committee meetings are followed through.

The Roles of the Chair and Chief Executive

The division of responsibilities between the Chair of the Board and the Chief Executive is clearly defined and has been approved by the Bank Board.

The Chair is a Non-Executive Director. He leads the Board in the determination of its strategy and in the achievement of its objectives. The Chair is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. He has no involvement in the day-to-day business of the Bank. The Chair facilitates the effective contribution of Directors and constructive relations between the Executive and Non-Executive Directors, ensures Directors receive accurate, timely and clear information and facilitates effective communication with shareholders.

Details of the Chair's professional commitments are included in the Chair's biography on page 32. The Board is satisfied that these responsibilities do not interfere with the performance of the Chair's duties for the Company.

The Chief Executive has direct charge of the Bank on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Bank.

Board Committees

With the agreement of the Financial Services Authority, the Board has delegated certain responsibilities to the following Committees, all of which have written terms of reference covering the authority delegated to it by the Board, copies of which are available from the Secretary on request.

Each of these Committees has a role in overseeing the Company and its subsidiaries.

Audit & Risk Committee

The Bank Audit & Risk Committee stood as a separate Committee until November 2004 when the Board delegated the responsibility of that Committee to the CFS Audit & Risk Committee.

The Bank Audit & Risk Committee comprised four members and was chaired by one of the Independent Professional Non-Executive Directors, Graham Stow. During the year the Committee also comprised David Davies, Tony Lancaster (appointed to the Committee on 6 July 2004) and Kathryn Smith. This Committee met four times during the financial year.

Membership of the CFS Audit & Risk Committee comprises six members, the four listed above together with Len Wardle and Terry Morton (both Non-Executive Directors of CIS and members of the CIS Audit & Risk Committee). There were five meetings of the Committee during the financial year with the fifth meeting being the first occasion that the Committee held the delegated responsibility for Bank audit and risk as referred to above.

The Executive Director, Finance and Actuarial of CFS, the Executive Director Risk & Compliance of CFS, Heads of Internal Audit and the External Auditor usually attend by invitation.

The Code requires at least one member of the CFS Audit & Risk Committee to have significant, recent and relevant financial experience, for example an auditor or finance director of a listed company. Whilst the Board has determined that no single member meets the requirements of the Combined Code in respect of significant recent and relevant financial experience, it does believe, however, that collectively the Committee has the skills and experience required to discharge its duties in regard to the Bank.

The main role and responsibilities of the Committee include all of the recommendations of the Smith Report as seen in the Revised Combined Code. The CFS Audit & Risk Committee reviews and reports on internal controls in accordance with the Turnbull guidance.

Under its terms of reference, the Committee:

- monitors the integrity of the Bank's financial statements and any formal announcements relating to the Bank's performance, together with any significant financial reporting judgements contained in the financial statements;
- monitors the effectiveness of the external audit process and makes recommendations to the Board in relation to the appointment, re-appointment and remuneration of the external auditor;
- ensures that an appropriate relationship between the Company and the external auditor is maintained, including reviewing non-audit services and fees;
- reviews annually the Bank's systems of internal control and the processes for monitoring and evaluating the risks facing the Bank;
- reviews the effectiveness of the internal audit function and is responsible for approving, upon the recommendation of the Chief Executive, the appointment and termination of the Head of that function;
- reviews its terms of reference; and
- reviews effectiveness annually and recommends to the Board any changes required as a result of the review.

In 2004 the Committee discharged its responsibilities by reviewing:

- the Bank's draft financial statements and interim results statement prior to Board approval and reviewing the external auditor's detailed reports thereon;
- the appropriateness of the Bank's accounting policies;
- regularly the potential impact in the Bank's financial statements of certain matters and proposed International Financial Reporting Standards;
- the audit fee and reviewing non-audit fees payable to the Bank's external auditor;
- the external auditor's plan for the audit of the Bank's financial statements, which included key areas of work, key risks in the financial statements, confirmations of auditor independence, and approval of the terms of engagement for the audit;
- an annual report on the Bank's systems of internal control and its effectiveness, reporting to the Board on the results of the review and receiving regular updates on key risk areas of financial control;
- the risks associated with major business programmes; and
- the internal audit function's terms of reference, its work programme and reports on its work during the year.

The Committee also monitors the Bank's whistleblowing procedures, ensuring that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety in confidence, with suitable subsequent follow-up action.

There should be arrangements for the CFS Audit & Risk Committee to meet with external and internal auditors independently during the year without the presence of management. Members of the CFS Audit & Risk Committee have met KPMG the external auditor five times during 2004. The Committee Chair met with Internal Audit four times in 2004. New arrangements were introduced early in 2005 to ensure that the CFS Audit & Risk Committee, External and Internal Audit meet collectively on a regular basis (around the Audit & Risk Committee meeting dates) without the presence of management.

Remuneration & Appointments Committee

The CFS Remuneration & Appointments Committee meets as a joint committee for CFS, CIS and the Bank.

The Committee comprises seven members and is chaired by the CFS Chair, Bob Burlton. During the year the Committee also comprised Martin Beaumont, Graham Bennett, Simon Butler, Terry Morton (Non-Executive Director of CIS), Kathryn Smith and Graham Stow. Keith Darwin was Chair of the Committee until his retirement in May 2004 and Douglas Fletcher (Non-Executive Director of CIS) also sat on the Committee until his resignation in July 2004. The Committee's role in respect of Executive management is to determine remuneration and employment policy, oversee contractual arrangements, review salaries, approve incentive schemes and any payments made under such schemes and recommend appointments to the Board. In respect of Directors, the Committee makes recommendations to the Board on Director remuneration, which in turn makes recommendations to members at the Annual General Meeting. The Committee also makes recommendations on appointments to Board Committees. The Committee is supported by the Co-operative Group Remuneration & Appointments Committee in ensuring consistency, where appropriate, across the wider group. The Committee is responsible for overseeing succession planning. It uses external consultants for the appointment of the Executive and Independent Professional Non-Executive Directors. Other Non-Executive Directors are appointed by and from the Co-operative Group Board. The Committee met eight times during 2004 and its report can be found on pages 42 to 45.

Bank Advances Committee

This Committee comprises six members and is chaired by the Bank Chair, Graham Bennett. During the year the Committee comprised David Davies, Paul Hewitt, John Marper, Kathryn Smith, and Kevin Blake (Credit Risk & Compliance Management Director). Mervyn Pedelty (former Chief Executive) also sat on the Committee until his resignation from the Board with effect from 15 December 2004. Keith Alderson (Director of Corporate Banking) usually attended the meetings by invitation.

The Committee met nine times during the financial year. The main responsibilities of the Committee are to;

- approve all advances in excess of the delegated lending authority of the Chief Executive.
- review all decisions taken within the delegated authority of the Chief Executive by way of Noting Returns.
- approve Policy, Sector and other Credit Strategy papers recommended by Credit Committee, and call for such papers and other reports as considered appropriate.
- review and approve the reports scheduled under the Reporting Chapter.
- note positions of reportable excesses for exposures that exceed the delegated lending discretions of the Chief Executive.
- note exposures equal to or greater than 5% of the Large Exposure Capital Base in line with revised reporting requirements introduced by the FSA in 2004.
- note individual counterparty positions on the High Risk Exposures Return, where Credit Committee determines that these should be escalated.
- review any other positions, which Credit Committee determines should be brought to its attention.

Chair's Committee

For consideration of urgent business between meetings, a Chair's Committee can stand. The Committee meets on an ad hoc basis. The Committee held one meeting in 2004. The Committee comprises the Chair, the Chief Executive and three Non-Executive Directors.

The following table sets out the frequency of, and attendance at, the Board and Board Committee meetings for the period under review by Directors at the financial year-end.

	Main Board	Bank Audit & Risk Committee	CFS Audit & Risk Committee	CFS Remuneration & Appointments Committee	Bank Advances Committee	Chair's Committee
Number of meetings held	12	4	1	8	9	1
Graham Bennett*	12 (12)	-	-	7 (8)	9 (9)	1 (1)
Martin Beaumont	11 (12)	-	-	7 (8)	-	1 (1)
Bob Burlton	9 (9)	-	-	5 (5)	-	-
Simon Butler	12 (12)	-	-	8 (8)	-	1 (1)
Keith Darwin	5 (6)	-	-	3 (3)	-	1 (1)
David Davies	7 (12)	3 (4)	1 (1)	-	6 (9)	-
Richard Goddard	11 (12)	-	-	-	-	-
Paul Hewitt	12 (12)	-	-	-	9 (9)	-
Tony Lancaster	6 (6)	0 (1)	0 (1)	-	-	-
Sheila Macdonald	11 (12)	-	-	-	-	-
John Marper	11 (12)	-	-	-	9 (9)	-
Sir Mervyn Pedelty	12 (12)	-	-	-	8 (9)	1 (1)
John Reizenstein	4 (4)	-	-	-	-	-
Craig Shannon	4 (4)	-	-	-	-	-
Kathryn Smith	12 (12)	4 (4)	1 (1)	7 (8)	9 (9)	-
Graham Stow*	11 (12)	4 (4)	1 (1)	4 (8)	-	-
Peter Sutcliffe	11 (12)	-	-	-	-	-

*Also members of the Co-operative Group Audit & Risk Committee.

The number in brackets indicates the total number of meetings the Director was eligible to attend during the year.

In the case of a Director being unable to attend a meeting, the Chair has received a satisfactory reason for their absence.

Attendance of CIS Directors who also sit on any of the above Committees may be found in the Statement of Corporate Governance in the 2004 Report and Financial Statements of that Society.

Provision of advice to Directors

A number of external consultants provide professional advice to the Board at no expense to the Directors. This is co-ordinated through the Group Secretariat. The Bank maintains appropriate Directors and Officers' Liability Insurance cover in respect of legal action against its Directors.

Professional Development

On appointment, the Directors take part in an induction programme where they receive information about the Bank. This includes the role of the Board and the matters reserved for its decision, the terms of reference and membership of the principal Board and management Committees, and the powers delegated to those Committees, the Bank's corporate governance practices and procedures, including the powers reserved to the Bank's most senior executives, and the latest financial information about the Bank. Training programmes have been provided to address specific business areas e.g. Regulation under the Financial Services Authority. In 2004 the Bank introduced training using an external consultant for Audit & Risk Committee members. Throughout their period in office the Directors are continually updated on the Bank's business, the competitive and regulatory environments in which it operates, corporate social responsibility matters and other changes affecting the Bank and the industries in which it operates by written briefings and meetings with senior executives. Directors are also advised on appointment of their legal and other duties and obligations as a Director both in writing and in face-to-face meetings with the Secretary.

Performance Evaluation

The Code requires the Board to undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and individual directors.

During 2004, CFS appointed external consultants to undertake a review of, in accordance with professional standards, the high level controls and governance structure across CFS, the Bank and CIS, including the strength and effectiveness of the Bank Board and the process for defining and implementing strategy. Key to this review was an assessment of the operation of the Bank Board, Board Committees, Senior Management and Internal Audit. Work included interviews with Directors, review of management information, documentation of policies and Board and Committee minutes. The Board reviewed the comments from the review and has taken action to address any issues. Building on this work, in 2005 each Director will be asked to complete a questionnaire on Board performance which will be analysed by the Secretary and reported back to the Board.

The Board has developed an assessment process using external consultants for individual Non-Executive Directors. It is currently reviewing how this process can be supplemented to further strengthen the Board's evaluation of the performance of individual directors.

The Secretary to the Board

The Secretary is professionally qualified and is responsible for advising the Board through the Chair on all governance matters. The Directors have access to the advice and services of the Secretary. The Bank's Articles of Association and the schedule of matters reserved to the Board for decision provide that the appointment and removal of the Secretary is a matter for the full Board.

The Executive

The Board delegates management of the business to an Executive Committee, headed by the Chief Executive (from 16 December 2004, Paul Hewitt, Acting Chief Executive). Some of the Committee, but not all, are Board Executive Directors. It is the responsibility of the Executive Management to implement the strategic objectives as agreed by the Board. The Executive, under the leadership of the Chief Executive is responsible for the day-to-day management of the Bank.

The Executive Management of the Bank as at January 2005 is listed below:

Paul Hewitt*	Age 48	Acting Chief Executive
Sheila Macdonald *	Age 57	Executive Director & Chief Operating Officer.
Keith Alderson	Age 44	Director of Corporate Banking
Kevin Blake	Age 46	Credit Risk & Compliance Management Director
David Craggs	Age 41	Customer Services Director
Richard Goddard *	Age 47	Executive Director, Finance & Risk
Ian Hodges	Age 35	Director of Retail Network
Christine Petyt	Age 45	Director of Operations, **smile**
Peter Sutcliffe *	Age 57	Executive Director, Retail Banking Business Management
Rob Woolley	Age 36	Director of Customer Contact Centre (CIS)

*Board Executive Director

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. The remainder of the shares are held by the Co-operative Group. A number of Directors from the Boards of the member organisations sit on the Bank Board ensuring a common understanding of objectives.

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.

INTERNAL CONTROL

The Board has overall responsibility for the Company's system of internal controls, which aim to safeguard the Bank's assets, ensure that proper accounting records are maintained and that the financial information used within the business and for publication is accurate, reliable and fairly presents the financial position of the Bank and the results of its business operations. The Board is also responsible for reviewing the effectiveness of the system of internal controls. This has been in place for the year under review and is regularly reviewed by the Board. The system is designed to provide reasonable assurance of effective operations and compliance with laws and regulations, although any system of internal controls can only provide reasonable, not absolute, assurance against material misstatement or loss, and can only mitigate rather than eliminate the risk of failure to achieve business objectives.

Since the publication in September 1999 by the Institute of Chartered Accountants in England and Wales of the Turnbull Report, 'Internal Control: Guidance for Directors on the Combined Code', the Directors have continued to review the effectiveness of the Bank's system of financial and non-financial controls, including operational and compliance controls, risk management and the Bank's high level internal control arrangements.

The Bank has adopted an internal control framework that contains the following key elements:

Control environment

The Bank's control environment is designed to create an attitude of taking acceptable business risk within clearly defined limits. The control environment includes:

- an organisational structure with clear lines of responsibility, delegation of authority and reporting requirements;
- clearly defined policies for capital and revenue expenditure. Larger capital and revenue expenditure requires the Co-operative Group Board authorisation;
- comprehensive systems of financial reporting. The annual budget and long term plan of the Bank and of each Division are reviewed and approved by the Board. Results are reported against budget and prior year. The relevant Executives consider any significant changes and variances and remedial action is taken where appropriate;
- a Whistleblowing Policy and Procedure which provides for any employee to report in confidence, suspected serious malpractice; and
- internal Audit and Compliance functions that review the system of internal control.

Risk assessment

The Board and Executive Management have the primary responsibility for identifying the key business risks facing the Company. 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 ensures they are managed effectively.

Management has the prime responsibility for identifying and evaluating significant risks and for designing and operating suitable controls.

Each risk in the Risk Register is assigned to an appropriate manager who is responsible for ensuring that it is managed in accordance with the Bank's risk management process which is kept under review to ensure that it accords with best practice and the evolving requirements of the FSA. Risk assessments are updated on a quarterly basis. Significant risks are reported to the Risk Management Committee, the Executive Risk Review Committee and the CFS Audit & Risk Committee.

Details of the Bank's Risk Management policy and procedures are provided on pages 23 to 25.

Executive Risk Review Committee

The Committee comprises of five members and is chaired by John Marper (Executive Director, Risk & Compliance of CFS). The Committee met five times in 2004. The main responsibilities of the Committee are to:

- review the quarterly Significant Risk Reports and advice provided to the Executive and Risk Managers;
- ensure that Significant Risks have been considered as an integral part of normal Executive Committee meetings; and
- provide input to Risk Management from Executives who do not have direct specific Risk Management responsibilities.

Control Procedures

The Bank control procedures are designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to loss of assets or fraud.

Up to date manuals are maintained that cover the Bank's accounting policies and procedures, banking, insurance, employees' policies and procedures, and information technology standards. These manuals are issued to appropriate management who are trained in the procedures.

Information and communication

Communication takes place with all key stakeholders through a variety of media including the CFS Sustainability Report. Employees receive and provide information on strategy and objectives through their reporting lines and a formal performance measurement process. Newsletters, bulletins and electronic media communicate other information.

Monitoring

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 CFS Audit & Risk Committee on behalf of the Board reviews the reports of the Bank on internal control. Full details of the operation of the Committee can be found on pages 36 and 37.

A key part of the work of the Committee is an annual 'letter of assurance' process by which responsible managers confirm the adequacy of their systems of internal financial and non-financial controls, their compliance with Bank policies (including those relating to safety, health and the environment), local laws and regulations (including the industry's regulatory requirements) and report any control improvements required. The Directors review the system of internal controls and believe it complies with the Turnbull Report guidance.

External Audit

One of the duties of the CFS Audit & Risk Committee is to make recommendations to the Co-operative Group Audit and Risk Committee in relation to the appointment of the external auditor. In July 2003 the Co-operative Group Board approved the re-appointment of KPMG Audit Plc as the external auditor following a competitive tender exercise.

Details of the amounts paid to the external auditor during the year for audit and other services are set out in note 2 on page 56.

The Committee has put in place safeguards to ensure that the independence of the audit is not compromised including a policy on the conduct of non-audit services from the external auditor. The external auditor is permitted to provide some non-audit services that are not, and are not perceived to be, in conflict with its independence. The Co-operative Group Audit & Risk Committee receives at each meeting a report providing details of assignments and related fees carried out by the external auditor of the Bank in addition to its statutory audit work. The pre-approval of the Committee is required for services above certain thresholds determined by the Committee. In addition, the following assignments are prohibited from being performed by the external auditor:

- book keeping or other services related to the accounting records or financial statements;
- financial information systems design and implementation;
- actuarial services;
- internal audit outsourcing services;
- management functions or human resources; and
- any other services that the Audit & Risk Committee may determine.

The performance of the external auditor is regularly monitored to ensure it meets the needs of the Bank and the results are reported to the Committee.

Internal Audit

The Internal Audit function is an independent appraisal function, which derives its authority from the Board through the CFS Audit & Risk Committee. Its primary role is to provide reasonable and objective assurance about the adequacy and effectiveness of the Company's financial control framework and risk management.

Internal Audit seeks to discharge the responsibilities set down in its charter by reviewing the processes which ensure that business risks are effectively managed; reviewing the financial and operational controls which help to ensure that the Bank's assets are properly safeguarded from losses, including fraud; reviewing the controls which help to ensure compliance with corporate objectives, policies and procedures and external legislation and regulation; and on an ad hoc basis, reviewing that value for money is obtained.

Internal Audit also acts as a source of constructive advice and best practice, assisting senior management with its responsibility to improve the processes by which business risks are identified and managed and to report and advise on the proper and effective use of resources.

Internal Audit reports are submitted to the CFS Audit & Risk Committee and significant issues are reported from that Committee to the Co-operative Group Audit & Risk Committee.

STATEMENT ON 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.

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 Bank Board comprises Non-Executive Directors including Independent Professional Non-Executive Directors appointed by the Co-operative Group Board, and Executive Directors appointed by the CFS Board. The former Chief Executive, Sir Mervyn Pedelty, who resigned from the Board with effect from 15 December 2004, had a contract of service with the Bank, CFS, CIS and the Co-operative Group Boards. Paul Hewitt joined the Bank Board on 16 May 2003 as a Non-Executive Director and, on 16 December 2004, was appointed Acting Chief Executive for CFS, CIS and the Bank. His emoluments, in respect of his former role, can be found in the Co-operative Group accounts. Those for his current role can be found in Table 1.

This report provides details of the remuneration of both the Executive Directors and Non-Executive Directors.

This report will be put to a vote of shareholders of the company at its Annual General Meeting which will be held on 11 May 2005.

Introduction

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

- a description of the role of the CFS Remuneration & Appointments Committee ("the Committee"), in respect of the Bank;
- a summary of the Bank's remuneration policy, including a statement of policy on Executive Directors and Non-Executive Directors;
- details of the terms of the Service Contracts and the remuneration of the Executive Directors and Non-Executive Directors for the 2004 financial year.

The CFS Remuneration & Appointments Committee meets as a joint Committee for CFS, CIS and the Bank. Its role is described below.

Role of the CFS Remuneration & 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 trustees of the The Co-operative Bank Pension Scheme, and advise the Board about them as appropriate.

The Co-operative Group Remuneration & Appointments Committee oversees these arrangements in respect of the Chief Executive of CFS and the Bank.

At the end of 2004, the CFS Remuneration & Appointments Committee comprised Bob Burlton (Chair of the CFS Board) as Chair of the Committee, together with Graham Bennett (Chair of the Bank), Simon Butler (Chair of CIS), Martin Beaumont, Terry Morton (Non Executive Director of CIS), Kathryn Smith and Graham Stow. Keith Darwin was Chair of the Committee until his retirement on 23 May 2004. Douglas Fletcher (Non-Executive Director of CIS) was also a member of the Committee until his resignation from the CIS Board on 21 July 2004. The former Chief Executive, and from 16 December 2004, the Acting Chief Exective and the CFS Resources Director have usually attended the meetings of the Committee, except when matters concerning their own remuneration arrangements were being considered. The CFS Secretary usually attends all meetings. Other individuals are invited to attend for specific agenda items when necessary.

The Committee members are all Non-Executive Directors, one of whom is an Independent Professional Non-Executive Director. They have no personal financial interests in the Committee's decisions, and they have no involvement in the day-to-day business of the Bank. The Committee met eight times in the period under review.

To ensure that it receives independent guidance on remuneration matters, the Committee has retained remuneration consultants Watson Wyatt as its adviser. Watson Wyatt have supplied advice on remuneration survey data, market trends and pensions matters, including incentive schemes. Watson Wyatt also provides specialist advice in relation to The Co-operative Bank Pension Scheme and some other general remuneration advisory services. Solicitors Addleshaw Goddard, who were appointed by the Secretary of the Committee, provided legal advice to the Committee with respect to Executive Directors' Service Contracts.

Policy on Directors' remuneration

Executive Directors

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 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 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, who sit on the Bank Board only, at the Financial Services Sector market median.

In 2004, 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, and appropriate remuneration covering all major components of their reward package. The Committee considers that a successful remuneration policy needs to be sufficiently flexible to take account of future changes in the Bank's business environment, and in comparative remuneration practice.

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), business 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. Salaries received by Executive Directors during the financial year are set out in Table 1 on page 44.

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 2004 financial year was 35% of base salary for CFS Executive Directors, except for the former Chief Executive for whom the target level was 40% of salary, and 25% for other Bank Executive Directors. There is a maximum bonus potential for CFS Executive Directors of 60% of base salary for substantially exceeding targets, (former Chief Executive 66.8%) and 40% for other Bank Executive Directors. From 2005, the bonus architecture for the Chief Executive will be the same as for all other CFS Executive Directors.

For CFS Executive Directors, targets in the bonus year 2004 related to financial performance measured by CFS' profit (including that contributed by the Bank), and CIS' life fund performance with weightings appropriate to each individual's area of responsibility, and 30% to individual performance. For the Chief Operating Officer of the Bank and Bank Executive Directors, 30% and 40% respectively of their maximum bonus is weighted to their business unit and individual performance, and 70% and 60% respectively to CFS' performance. For the former Chief Executive, the ratio was 90% against CFS performance, and 10% based on wider Co-operative Group initiatives.

All ratios will remain the same for 2005.

The payments for the Annual Incentive Scheme in respect of the year 2004 are reflected in Table 1 within "Performance related pay."

3) Medium Term Incentive Scheme

A Medium Term Incentive Scheme was introduced in 2003 for both CFS Executive Directors and for Executive Directors of the Bank in order to align their objectives 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. Cumulative annual profit performance must be at or above "Threshold" level for payment to be made for that particular year. Targets for subsequent three-year periods are then set. The second three-year period of operation of the scheme is 2004 - 2006 with potential payment in 2007. The target payment level under the scheme for CFS Executive Directors for that three-year period (and subsequent years) is 28% of basic salary (33.3% for the former Chief Executive) with a stretch level of 42% of basic salary (50% for the former Chief Executive) for substantially out-performing targets. Equivalent figures for Bank Executive Directors are 20% and 30%. For the 2005 scheme, the bonus architecture for the Chief Executive will be the same as for all other CFS Executive Directors. The first potential payment under the scheme 2003 - 2005 would be made in 2006 on the basis disclosed in the 2003 Remuneration Report.

The performance measures selected by the Committee are specific projects related to delivery of strategic objectives, derived from CFS' Strategic Plan which is updated annually. The performance measures are based on the achievement of milestones and objectives limited to strategically important projects, and on the maintenance of financial objectives.

4) Service Contracts

It is the Bank's policy for the notice period in Executive Directors' service contracts not to exceed one year. CFS Executive Directors have consistent contracts which are terminable by up to one year's notice by the organisation and six months' notice by the individual. Payment in lieu of notice includes salary, benefits in kind and pension. The Remuneration & Appointments Committee may make a discretionary award of outstanding bonus payments earned up to the date of termination of employment.

The intention is that all the Bank Executive Directors should have similar contracts during 2005. The dates of existing contracts or dates of appointment are shown in Table 1.

The former Chief Executive entered into a new service contract in 2003 with the Co-operative Group, CFS, CIS and the Bank on the above terms.

It is the Committee's policy to apply 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

	2004					2003
	Date of service contract or appointment (viii)	Basic Salary £'000	Performance related pay £'000	Benefits in kind £'000	2004 Total emoluments (ix) £'000	2003 Total emoluments (ix) £'000
Sir Mervyn Pedelty (i), (ii), (iv), (v)	6 May 2003	541	–	40	581	960
Paul Hewitt (iii), (iv), (v), (x)	16 December 2004	35	–	2	37	–
Sheila Macdonald (iv), (v)	6 January 2005	261	31	27	319	362
Richard Goddard (vi)	8 November 2002	122	13	10	145	207
John Marper (iv), (v)	6 January 2005	253	29	18	300	394
Peter Sutcliffe (vi)	10 January 2003	138	15	10	163	251
John Reizenstein (iv), (v), (vi), (vii), (x)	6 January 2005	98	10	7	115	–
Craig Shannon (iv), (v), (vii)	11 February 2005	92	10	8	110	–
		1,540	108	122	1,770	2,174
Former Directors who served the Bank in 2003		–	–	–	–	70
Amounts attributable to fellow subsidiaries (iv)		(919)	(47)	(69)	(1,035)	(1,016)
Total		621	61	53	735	1,228

Notes

(i) Highest paid Director

(ii) Sir Mervyn Pedelty resigned as a Bank Executive Director with effect from 15 December 2004 and may become entitled to payments after that date with a cost to be determined.

(iii) Appointed Acting Chief Executive, CFS on 16 December 2004. Emoluments for his former role as Non-Executive Director for the Co-operative Group are included within that entity's financial statements.

(iv) The emoluments in the table represent total basic pay, benefits in kind and performance related pay in respect of services as a Director of the Bank, CFS and CIS. Of these emoluments, 15% (80% for Sheila Macdonald) have been apportioned to the Bank and 85% (20% for Sheila Macdonald) of the emoluments have been recharged to fellow group companies in respect of services as a Director or Senior Manager of CIS and CFS. 2003 emoluments have been restated accordingly.

(v) Executive Directors who also sit, or who have sat, on the CFS Board during the financial year.

(vi) Benefits in kind includes a car allowance which is paid with base salary, but is not pensionable.

(vii) Appointed to the Bank Board 14 September 2004.

(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.

(x) The basic salary figures for Paul Hewitt and John Reizenstein include a salary supplement in lieu of certain pension benefits.

Share Options

The Bank does not operate a Share Option Scheme.

Appointments Outside the Bank

The Committee has determined that Executive Directors may accept one Non-Executive directorship, or similar, with an external organisation believing that this represents an important opportunity for professional development. Paul Hewitt has one Non-Executive directorship. Any fees received from such a role will normally be paid to the Bank, CFS or the Co-operative Group.

Pensions

All the Executive Directors (excluding Paul Hewitt who is a member of the Co-operative Group (CWS) Limited Pension Fund ('the Group Fund')) are members of The Co-operative Bank Pension Scheme ('the Scheme'). The Scheme and the Group Fund are funded, Inland Revenue approved, defined benefit final salary occupational pension schemes. Members of the Group Fund are required to contribute. Existing members of the Scheme will be required to contribute from January 2005. Pension details of the Executive Directors are shown in Table 2.

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 Sir 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.

Unfunded, unapproved arrangements are in place to provide pension benefits to those Executive Directors affected by the pensions cap except for Paul Hewitt and John Reizenstein. These arrangements 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 pension benefits for Paul Hewitt and John Reizenstein are limited to the Inland Revenue cap but they are paid a salary supplement of 30% and 15% of salary above the cap respectively, in lieu of pension benefits above the cap.

Supplementary life assurance cover is provided to Executive Directors in order to provide total life cover of 4 x salary when aggregated with Scheme benefits.

The normal retirement age of the Executive Directors is 60.

The Finance Act 2004 introduces significant changes to the way in which benefits can be provided from approved pension schemes. These changes will take effect from 6 April 2006 and in preparation for this, a review of Executive Directors' pension arrangements will be undertaken during 2005.

Table 2 - Pension details of the Executive Directors

	Age at 8 January 2005	Years of Service	Total accrued pension at 8 January 2005 (i)	Increase in accrued pension during the year	Increase in accrued pension during the year (net of inflation)	Transfer value of previous column at 8 January 2005 net of member's contributions	Transfer Value of total accrued pension at 10 January 2004	Transfer Value of total accrued pension at 8 January 2005	Increase in transfer value
			£'000	£'000	£'000	£'000	£'000	£'000	£'000
Sir Mervyn Pedelty (ii)	55	7	139	29	26	393	1,577	2,118	541
Paul Hewitt (iii)	48	1	3	–	–	1	30	33	3
Sheila Macdonald	57	25	121	24	21	342	1,450	1,956	506
Richard Goddard	47	11	32	6	5	46	243	313	70
John Marper	58	15	84	11	9	150	1,161	1,442	281
John Reizenstein (iii)	48	1	3	–	–	4	20	26	6
Craig Shannon (iii)	41	1	9	2	2	13	53	68	15
Peter Sutcliffe	57	32	74	7	5	84	1,035	1,242	207

(i) The accrued pension is that which would be paid annually on retirement at normal retirement age based on service to 8 January 2005.

(ii) Sir Mervyn Pedelty resigned as a Director with effect from 15 December 2004, the pension details are based on the date of leaving.

(iii) John Reizenstein and Craig Shannon were appointed as Directors on 14 September 2004. Paul Hewitt was appointed Acting Chief Executive, CFS on 16 December 2004. The increase in accrued pension during the year and the increase in transfer value apply from the date of the relevant appointments.

(iv) 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.

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

(vi) Executive Directors may elect to take the value of any unfunded, unapproved pension as a taxable lump sum rather than as pension. If an Executive Director exercises this option, the cost of this may differ from the value shown in the table depending, inter alia, on market rates at the time the option is exercised. The most significant adjustments would be that, under existing tax rules and on certain standard actuarial assumptions, for Sir Mervyn Pedelty the transfer value at 10 January 2004 would have been circa £1.8 million and at 15 December 2004 circa £2.7 million.

Non-Executive Directors

All the Non-Executive Directors are appointed by, and their Directors fees are determined and paid by, the Co-operative Group. Details of the Non-Executive Directors' fees can be found in the Co-operative Group's annual remuneration report except for the Independent Professional Non-Executive Directors, for whom the details are set out below.

The Bank Board includes three Independent Professional Non-Executive Directors, who are:

- David Davies, who was appointed to the Board on 3 June 2003, and received total remuneration of £38,654 during the year
- Tony Lancaster, who was appointed to the Board on 27 May 2004, and received total remuneration of £31,538 during the year
- Graham Stow, who was appointed to the Board on 4 March 2003, and received total remuneration of £38,654 during the year

With effect from 1 March 2004, the Directors' fees for the Independent Professional Non-Executive Directors are £40,000 per annum.

Of the Non-Executive Directors only the Independent Professional Non-Executive Directors are party to agreements with the Co-operative Group governing the terms on which their services are made available to the Bank.

- Graham Stow has a three-year agreement effective up to 31 May 2006.
- David Davies had a three-year agreement effective up to 31 May 2006 which has been extended to the end of the Co-operative Group's Annual General Meeting in 2007 with the approval of the Co-operative Group Board following his appointment as Senior Independent Director with effect from 23 February 2005.
- Tony Lancaster holds a three-year agreement effective from 1 April 2004 to 31 May 2007.

The Co-operative Group Board may resolve to reappoint any of the Independent Professional Non-Executive Directors at or before the date their contracts expire for a further three-year term.

The agreements contain no specific provision for liquidated damages on early termination of a contract.

None of the above Directors are Directors of the Co-operative Group or members of any Group Pension Scheme or Incentive Scheme.

By Order of the Board
Bob Burlton, Chair, CFS Remuneration & Appointments Committee
Graham Bennett, Chair of the Board
7 April 2005

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

We have audited the financial statements on pages 48 to 80.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 34 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 35 to 41 reflects the company's compliance with the nine provisions of the 2003 FRC 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 8 January 2005 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
7 April 2005

Consolidated profit and loss account

For the year ended 8 January 2005
All amounts are stated in £m unless otherwise indicated

	Notes	2004	2003
Interest receivable			
Interest receivable and similar income arising from debt securities		**79.2**	108.1
Other interest receivable and similar income		**513.3**	419.2
		592.5	527.3
Interest payable		**(267.6)**	(195.0)
Net Interest Income		**324.9**	332.3
Dividend income		**0.3**	0.2
Fees and commissions receivable		**229.4**	218.1
Fees and commissions payable		**(49.7)**	(39.4)
Dealing profits/(losses)	28	**4.1**	(8.3)
Operating Income		**509.0**	502.9
Administrative expenses			
Staff costs	1	**(134.6)**	(126.8)
Other		**(156.9)**	(161.5)
Depreciation and amortisation	16	**(22.7)**	(21.2)
		(314.2)	(309.5)
		194.8	193.4
Provisions for bad and doubtful debts	11	**(62.8)**	(63.3)
Profit on Ordinary Activities before Taxation	2	**132.0**	130.1
Taxation on profit on ordinary activities	5	**(39.6)**	(39.1)
Profit on Ordinary Activities after Taxation		**92.4**	91.0
Minority interests		**(2.2)**	(2.1)
Profit for the Financial Year	6	**90.2**	88.9
Preference dividend to non-equity shareholders	7	**(5.5)**	(5.5)
Ordinary dividend to equity shareholders	7	**(20.0)**	(20.0)
Retained Profit for the Year	25	**64.7**	63.4
Earnings per share (basic and diluted)	8	**7.70p**	11.46p

Movements in profit and loss account reserves are shown in note 25 on page 71.
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 8 January 2005
All amounts are stated in £m unless otherwise indicated

	Notes	2004	2003
Assets			
Cash and balances at central banks		**172.4**	140.4
Items in the course of collection from other banks		**108.1**	121.0
Loans and advances to banks	9	**1,073.0**	773.2
Loans and advances to customers	10	**7,613.1**	6,133.8
Debt securities	12	**1,676.8**	2,079.9
Equity shares	13	**1.2**	1.2
Interests in associated undertakings	14	**0.2**	0.2
Tangible fixed assets	16	**94.0**	91.9
Other assets	17	**41.7**	59.3
Prepayments and accrued income		**98.8**	77.1
Total assets	26	**10,879.3**	9,478.0
Liabilities			
Items in the course of transmission to other banks		**7.8**	7.3
Deposits by banks	18	**647.2**	770.0
Customer accounts	19	**8,098.7**	7,385.4
Debt securities in issue	20	**771.7**	224.7
Other liabilities	21	**138.8**	128.0
Accruals and deferred income		**165.3**	129.7
Provisions for liabilities and charges	22		
Deferred taxation		**13.1**	9.8
Other provisions		**6.9**	7.7
Subordinated liabilities	23	**327.6**	179.2
Minority interests (equity)	15	**21.5**	20.2
Called up share capital	24		
Ordinary shares		**55.0**	55.0
Preference shares (non-equity)		**60.0**	60.0
		115.0	115.0
Share premium account	25	**8.8**	8.8
Profit and loss account	25	**556.9**	492.2
Shareholders' funds (£60 million of which relates to non-equity)		**680.7**	616.0
Total liabilities	26	**10,879.3**	9,478.0
Memorandum items	27		
Contingent liabilities			
Acceptances and endorsements		**37.5**	37.5
Guarantees and assets pledged as collateral security		**66.9**	61.3
		104.4	98.8
Commitments			
Other commitments		**6,257.5**	6,392.5

Approved by the Board on 7 April 2005 and signed on its behalf by

Graham Bennett, Chair
Paul Hewitt, Acting Chief Executive
Moira Lees, Secretary

The notes on pages 53 to 80 form part of these financial statements

Balance sheet

At 8 January 2005
All amounts are stated in £m unless otherwise indicated

	Notes	**2004**	2003
Assets			
Cash and balances at central banks		**172.4**	140.4
Items in the course of collection from other banks		**108.0**	116.0
Loans and advances to banks	9	**1,073.0**	773.2
Loans and advances to customers	10	**7,546.4**	6,073.2
Debt securities	12	**1,378.3**	1,850.0
Equity shares	13	**1.2**	1.2
Shares in Group undertakings	15	**1.2**	1.2
Tangible fixed assets	16	**87.3**	84.6
Other assets	17	**41.4**	58.1
Prepayments and accrued income		**89.4**	70.4
Total assets	26	**10,498.6**	9,168.3
Liabilities			
Items in the course of transmission to other banks		**7.5**	7.1
Deposits by banks	18	**659.4**	773.8
Customer accounts	19	**7,778.5**	7,126.2
Debt securities in issue	20	**771.7**	224.7
Other liabilities	21	**135.0**	124.1
Accruals and deferred income		**146.9**	127.3
Provisions for liabilities and charges	22		
Deferred taxation		**4.5**	-
Other provisions		**6.0**	6.9
Subordinated liabilities	23	**327.6**	179.2
Called up share capital	24		
Ordinary shares		**55.0**	55.0
Preference shares (non-equity)		**60.0**	60.0
		115.0	115.0
Share premium account	25	**8.8**	8.8
Profit and loss account	25	**537.7**	475.2
Shareholders' funds (£60 million of which relates to non-equity)		**661.5**	599.0
Total liabilities	26	**10,498.6**	9,168.3

	Notes	**2004**	2003
Memorandum items	27		
Contingent liabilities			
Acceptances and endorsements		**37.5**	37.5
Guarantees and assets pledged as collateral security		**66.1**	61.1
		103.6	98.6
Commitments			
Other commitments		**6,245.7**	6,388.6

Approved by the Board on 7 April 2005 and signed on its behalf by

Graham Bennett, Chair
Paul Hewitt, Acting Chief Executive
Moira Lees, Secretary

The notes on pages 53 to 80 form part of these financial statements

Reconciliation of movements in shareholders' funds

All amounts are stated in £m unless otherwise indicated

	2004	2003
Group		
Profit for the financial year	**90.2**	88.9
Issued share capital	**–**	20.0
Dividends	**(25.5)**	(25.5)
Net increase in shareholders' funds	**64.7**	83.4
Shareholders' funds at beginning of year	**616.0**	532.6
Shareholders' funds at end of year	**680.7**	616.0
Bank		
Profit for the financial year	**88.0**	86.1
Issued share capital	**–**	20.0
Dividends	**(25.5)**	(25.5)
Net increase in shareholders' funds	**62.5**	80.6
Shareholders' funds at beginning of year	**599.0**	518.4
Shareholders' funds at end of year	**661.5**	599.0

The notes on pages 53 to 80 form part of these financial statements

Consolidated cash flow statement

For the year ended 8 January 2005
All amounts are stated in £m unless otherwise indicated

	Notes	2004	2003
Net cash (outflow)/inflow from operating activities	30	**(108.4)**	665.1
Returns on investments and servicing of finance			
Preference dividends paid		**(5.6)**	(5.6)
Interest paid on subordinated liabilities		**(13.6)**	(13.7)
Dividend paid to minority shareholders in subsidiary undertaking		**(0.8)**	(0.7)
Net cash outflow from returns on investments and servicing of finance		**(20.0)**	(20.0)
Taxation			
United Kingdom corporation tax paid		**(33.4)**	(38.6)
Capital expenditure and financial investment			
Purchase of investments		**(951.8)**	(1,364.9)
Proceeds from sale and maturity of investments		**1,036.9**	838.2
Purchase of tangible fixed assets		**(26.9)**	(36.5)
Proceeds from sale of tangible fixed assets		**0.1**	0.1
Net cash inflow/(outflow) from capital expenditure and financial investment		**58.3**	(563.1)
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		**(15.0)**	(20.0)
Financing			
Repayment of subordinated loanstock		**–**	(0.7)
Issue of subordinated loanstock		**147.9**	–
Proceeds from issue of Ordinary Share Capital		**–**	20.0
Net cash inflow from financing		**147.9**	19.3
Increase in cash	30	**29.4**	42.8

The notes on pages 53 to 80 form part of these financial statements

Accounting policies

(a) Basis of preparation and accounting date

The financial statements of the Group relate to the 52 weeks to 8 January 2005. Since the Group accounting date is virtually co-terminous with the calendar year 2004 the financial year's figures are headed 2004 and the corresponding figures for the 52 weeks to 10 January 2004 are headed 2003.

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.

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, less provision for permanent diminution in value, adjusted for the amortisation of premiums and discounts in the purchase price.

Undated securities are valued at the lower of cost, less provision for permanent diminution in value, 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 12).

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 against 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 and mortgage 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

Finance leases

Assets leased to customers are included within 'loans and advances to customers' and valued at original cost less a charge calculated to write off that cost over the primary period of the lease.

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 present value of minimum lease payments. 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 10 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

	2004	2003
Wages and salaries	**98.9**	95.5
Social security costs	**8.3**	8.2
Other pension costs	**19.5**	15.2
Other staff costs	**7.9**	7.9
	134.6	126.8

2. Profit on ordinary activities before taxation

	2004	2003
Is stated after:		
(i) Income:		
Aggregate amounts receivable, including capital repayments, under finance leases, hire purchase and conditional sale contracts	**75.8**	71.1
Income from listed investments	**36.0**	25.7
Profits on disposal of investment securities	**6.4**	5.9
(ii) Charges:		
Interest payable in respect of subordinated liabilities	**21.0**	13.8
Rentals payable in respect of operating leases		
hire of computers, equipment and vehicles	**1.3**	1.2
other operating leases	**12.0**	11.4

	£'000	£'000
Statutory audit services – parent company **£167,075** (2003 – £167,075)	**255**	255
Further assurance services	**349**	451
Other non-audit services	**30**	18
Fees paid to the auditor	**634**	724

3. Directors' emoluments

	2004 £'000	2003 £'000
Non-Executive Directors	**–**	–
Executive Directors	**735**	1,228
	735	1,228

Retirement benefits are accruing to seven Directors (2003 – five) under defined benefit schemes.

Further details of Directors' emoluments are included in the remuneration report on pages 42 to 45.

All amounts are stated in £m unless otherwise indicated

4. Pensions

In November 2000 the Accounting Standards Board issued FRS 17, 'Retirement benefits', which will replace SSAP 24, 'Accounting for pension costs'. FRS 17 is not fully effective for the Bank's year ending 8 January 2005, 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 except as disclosed on page 45. As at 8 January 2005, the actuarial valuation of the unfunded pension liability for obligations in respect of former directors was £4.5 million (2003 – £1.2 million).

The total pension charge was **£19.5 million** (2003 – £15.2 million). The pension charge is assessed in accordance with the advice of a qualified actuary using the projected unit method. The latest valuation of The Co-operative Bank Pension Scheme was carried out as at 5 April 2003 by a qualified actuary employed by Co-operative Insurance Society Limited. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return used to discount the liabilities and the rates of increase in salaries and pensions. For the purpose of the valuation, it was assumed that the discount rate would average 6.5% per annum, that wage increases would average 4.0% per annum, and that present and future pensions would increase at an average rate of 2.5% per annum.

At the date of the valuation, the market value of the Scheme's assets 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). Following the full actuarial review of the funded scheme at 5 April 2003, the contribution rate of pensionable salaries was increased from 15.6% to 22% from 5 April 2004. In addition a one-off contribution of £14.4 million was paid into the scheme in December 2004. The ongoing contribution rate of 22% includes the cost of future service and the cost of the past service deficit in the scheme amortised over the remaining expected service lives of current members. In the year ended 8 January 2005, total contributions of **£32.2 million** were paid into the scheme including Bank contributions and employee contributions. New employees who joined the scheme from 1 July 2004 contribute 6% of pensionable salary with contributions from existing staff being phased in from 2005 over the next 3 years. The balance is contributed by the Bank.

The amount paid into the fund (£32.2 million) exceeds the amount charged in the profit and loss account (£19.5 million) by **£12.7 million** (2003 – profit and loss charge exceeded amount paid by £1.0 million) resulting in a prepayment of **£7.3 million** (2003 – accrual of £5.4 million), which includes the unfunded pension liability of £4.5 million (2003 – £1.2 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 8 January 2005. The principal assumptions used to calculate the Schemes' liabilities were:

	2004	**2003**	**2002**
Inflation rate	**2.7%**	2.8%	2.3%
Rate of increase of pensions in payment	**2.7%**	2.8%	2.3%
Rate of increase in salaries	**4.2%**	4.3%	3.8%
Discount rate	**5.1%**	5.3%	5.4%

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 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 £34 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 on those assets were:

	2004		2003		2002	
	£m	**%**	£m	%	£m	%
Equities	**243.8**	**7.5**	262.0	7.3	211.7	7.0
Bonds	**102.8**	**4.5**	27.7	4.8	21.6	4.5
	346.6		289.7		233.3	
Present value of Scheme liabilities	**(450.3)**		(431.3)		(340.9)	
Surplus/(deficit) in the Scheme	**(103.7)**		(141.6)		(107.6)	
Related deferred tax asset	**31.1**		42.5		32.3	
Net pension asset/(liability)	**(72.6)**		(99.1)		(75.3)	

The amount of this net pension liability would reduce reserves by £81.5 million after elimination of the existing post-tax prepayment of £8.9 million (pre-tax – £12.7 million).

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

	2004	2003
Analysis of amount charged to operating profit	**£m**	£m
Current service cost	**21.8**	18.7
Past service cost	**–**	–
	21.8	18.7
Analysis of amount credited to other financial income		
Expected return on pension scheme assets	**20.8**	16.0
Interest on pension scheme liabilities	**(23.2)**	(18.7)
Net return	**(2.4)**	(2.7)
The movement in deficit during the year was as follows:		
Deficit at beginning of the year	**(141.6)**	(107.6)
Movement in the year:		
Current service cost	**(21.8)**	(18.7)
Contributions	**32.2**	14.2
Past service costs	**–**	–
Other finance income	**(2.4)**	(2.7)
Actuarial gain/(loss)	**29.9**	(26.8)
Deficit in scheme at the end of the year	**(103.7)**	(141.6)
Analysis of amount recognised in statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension Scheme assets	**10.6**	32.7
Experience gains/(losses) arising on the Scheme liabilities	**32.8**	5.9
Changes in assumptions underlying the present value of the Scheme liabilities	**(13.5)**	(65.4)
Actuarial gain/(loss) recognised in STRGL	**29.9**	(26.8)

	2004		2003		2002	
History of experience gains and losses	**£m**	**%**	£m	%	£m	%
Difference between the expected and actual return on scheme assets: (% of Scheme assets)	**10.6**	**3.1**	32.7	11.3	(84.2)	36.1
Experience gains/(losses) on scheme liabilities: (% of the present value of the Scheme liabilities)	**32.8**	**7.3**	5.9	1.4	(1.1)	0.3
Total amount recognised in STRGL: (% of the present value of the Scheme liabilities)	**29.9**	**6.6**	(26.8)	6.2	(103.5)	30.4

5. Taxation on profit on ordinary activities

	2004 £m	2003 £m
a) Analysis of charge in period		
Current tax		
UK Corporation tax on profits of the period	**36.1**	38.0
Adjustments in respect of previous periods	**0.2**	–
Total current tax	**36.3**	38.0
Deferred tax		
Origination and reversal of timing differences	**3.3**	1.1
Total deferred tax	**3.3**	1.1
Tax on profit on ordinary activities	**39.6**	39.1

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:

	2004 £m	2003 £m
Profit on ordinary activities before tax	**132.0**	130.1
Profit on ordinary activities before tax at the standard rate of UK Corporation tax (30%)	**39.6**	39.0
Effects of:		
Expenses not deductible for tax purposes	**0.4**	0.2
Difference between depreciation and capital allowances for period and other timing differences	**(3.7)**	(1.1)
Depreciation of expenditure not qualifying for capital allowances	**0.2**	0.2
Sheltered capital gains	**–**	(0.3)
Non taxable income	**(0.4)**	–
Adjustments to tax charge in respect of previous periods	**0.2**	–
Current tax charge for the year	**36.3**	38.0

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

£88.0 million (2003 – £86.1 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

	2004 pence per share	2003 pence per share	**2004 £m**	2003 £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 1,100,000,000 (2003 – 700,000,000) ordinary shares of 5p each				
– paid	**1.36p**	2.86p	**15.0**	20.0
– proposed	**0.45p**	–	**5.0**	–
	1.81p	2.86p	**20.0**	20.0

All amounts are stated in £m unless otherwise indicated

8. Earnings per share

Earnings per share are calculated by dividing the profit for the financial year **£90.2 million** (2003 – £88.9 million) less dividends on preference shares **£5.5 million** (2003 – £5.5 million) by the weighted average number of ordinary shares **1,100 million** (2003 – 727.5 million) in issue during the year.

9. Loans and advances to banks

	Group		Bank	
	2004	2003	**2004**	2003
Remaining maturity:				
over 5 years	**9.6**	7.2	**9.6**	7.2
1 year or less but over 3 months	**100.0**	5.0	**100.0**	5.0
3 months or less but not repayable on demand	**958.9**	760.8	**958.9**	760.8
Repayable on demand	**4.5**	0.2	**4.5**	0.2
	1,073.0	773.2	**1,073.0**	773.2

10. Loans and advances to customers

	Group		Bank	
	2004	2003	**2004**	2003
Remaining maturity:				
over 5 years	**3,569.8**	2,500.3	**3,503.5**	2,430.8
5 years or less but over 1 year	**1,914.2**	1,807.6	**1,883.6**	1,761.0
1 year or less but over 3 months	**657.2**	577.9	**649.5**	567.0
3 months or less but not repayable on demand	**931.3**	844.3	**983.6**	925.6
Repayable on demand	**657.1**	539.3	**641.7**	523.0
General and specific bad and doubtful debt provisions (note 11)	**(116.2)**	(134.5)	**(115.5)**	(133.4)
Suspended interest provisions	**(0.3)**	(1.1)	**–**	(0.8)
	7,613.1	6,133.8	**7,546.4**	6,073.2
Amounts include:				
Due from subsidiary undertakings unsubordinated			**52.4**	81.2
Due from parent undertakings	**10.2**	2.1	**10.2**	2.1
Due from fellow subsidiary undertakings	**6.3**	6.2	**6.3**	6.2

Analysis of concentration of exposure is provided in note 33(iii) on page 80.

All amounts are stated in £m unless otherwise indicated

11. Provisions for bad and doubtful debts

	2004			2003		
	Specific	**General**	**Total**	Specific	General	Total
Group:						
At 10 January 2004	**126.2**	**8.3**	**134.5**	180.3	5.4	185.7
Acquisitions	**–**	**–**	**–**	5.3	–	5.3
Charge against profits	**64.3**	**(1.5)**	**62.8**	60.4	2.9	63.3
Amounts written off	**(81.3)**	**–**	**(81.3)**	(120.1)	–	(120.1)
Recoveries	**0.2**	**–**	**0.2**	0.3	–	0.3
At 8 January 2005	**109.4**	**6.8**	**116.2**	126.2	8.3	134.5
Bank:						
At 10 January 2004	**125.4**	**8.0**	**133.4**	175.5	5.2	180.7
Acquisitions/transfers	**0.2**	**–**	**0.2**	5.3	–	5.3
Charge against profits	**64.1**	**(1.5)**	**62.6**	61.5	2.8	64.3
Amounts written off	**(80.8)**	**–**	**(80.8)**	(117.2)	–	(117.2)
Recoveries	**0.1**	**–**	**0.1**	0.3	–	0.3
At 8 January 2005	**109.0**	**6.5**	**115.5**	125.4	8.0	133.4

All provisions are held against loans and advances to customers.

Non-performing debt:

	2004	2003
Group advances	**136.5**	124.5
Provisions for bad and doubtful debts	**(82.7)**	(90.7)
	53.8	33.8
Bank advances	**135.1**	122.8
Provisions for bad and doubtful debts	**(82.3)**	(89.9)
	52.8	32.9

All amounts are stated in £m unless otherwise indicated

12. Debt securities

	Group				Bank			
	2004		2003		**2004**		2003	
	Balance sheet	**Market value**	Balance sheet	Market value	**Balance sheet**	**Market value**	Balance sheet	Market value
(i) Issue								
Issued by public bodies								
Investment securities								
government securities	**24.2**	**28.0**	280.4	283.7	**24.2**	**28.0**	280.3	283.6
other public sector securities	**13.7**	**16.2**	13.7	16.4	**13.7**	**16.2**	13.7	16.4
	37.9	**44.2**	294.1	300.1	**37.9**	**44.2**	294.0	300.0
Other securities								
government securities	**–**		50.2		**–**		50.2	
	37.9		344.3		**37.9**		344.2	
Issued by other issuers								
Investment securities								
bank and building society certificates of deposit	**655.0**	**654.6**	381.0	383.5	**356.5**	**355.8**	151.0	151.0
other debt securities	**453.5**	**454.7**	560.1	561.7	**453.5**	**454.7**	560.1	561.7
	1,108.5	**1,109.3**	941.1	945.2	**810.0**	**810.5**	711.1	712.7
Other securities								
bank and building society certificates of deposit	**530.4**		800.3		**530.4**		800.3	
	1,638.9		1,741.4		**1,340.4**		1,511.4	
	1,676.8		2,085.7		**1,378.3**		1,855.6	
Unamortised profit on sales of investment securities	**–**		(5.8)		**–**		(5.6)	
	1,676.8		2,079.9		**1,378.3**		1,850.0	
(ii) Maturity								
Due within 1 year	**1,022.5**		1,489.4		**724.0**		1,259.4	
Due 1 year and over	**654.3**		596.3		**654.3**		596.2	
	1,676.8		2,085.7		**1,378.3**		1,855.6	
Unamortised profit on sales of investment securities	**–**		(5.8)		**–**		(5.6)	
	1,676.8		2,079.9		**1,378.3**		1,850.0	
Unamortised premiums on investment securities	**1.3**		3.0		**1.3**		3.0	

All amounts are stated in £m unless otherwise indicated

12. Debt Securities (continued)

	Group				Bank			
	2004		2003		**2004**		2003	
	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	**242.0**	**249.0**	613.1	620.2	**242.0**	**249.0**	613.0	620.1
listed elsewhere	**246.7**	**247.3**	238.4	238.9	**246.7**	**247.3**	238.4	238.9
unlisted	**657.7**	**657.2**	383.7	386.2	**359.2**	**358.4**	153.7	153.7
	1,146.4	**1,153.5**	1,235.2	1,245.3	**847.9**	**854.7**	1,005.1	1,012.7
Unamortised profit on sales of investment securities	**–**		(5.8)		**–**		(5.6)	
	1,146.4		1,229.4		**847.9**		999.5	
Other securities								
listed on a recognised UK exchange	**–**		50.2		**–**		50.2	
unlisted	**530.4**		800.3		**530.4**		800.3	
	530.4		850.5		**530.4**		850.5	
	1,676.8		2,079.9		**1,378.3**		1,850.0	

	Cost	**Discounts and premiums**	**Unamortised profit on sales**	**Carrying value**
(iv) Movement				
Investment securities				
Group:				
At 10 January 2004	**1,249.0**	**(13.8)**	**(5.8)**	**1,229.4**
Acquisitions	**951.8**	**–**	**–**	**951.8**
Disposals and maturities	**(1,042.9)**	**6.6**	**–**	**(1,036.3)**
Exchange adjustments	**–**	**(2.9)**	**–**	**(2.9)**
Amortisation	**–**	**(1.4)**	**5.8**	**4.4**
At 8 January 2005	**1,157.9**	**(11.5)**	**–**	**1,146.4**
Bank:				
At 10 January 2004	**1,018.9**	**(13.8)**	**(5.6)**	**999.5**
Acquisitions	**431.3**	**–**	**–**	**431.3**
Disposals and maturities	**(590.8)**	**6.6**	**–**	**(584.2)**
Exchange adjustments	**–**	**(2.9)**	**–**	**(2.9)**
Amortisation	**–**	**(1.4)**	**5.6**	**4.2**
At 8 January 2005	**859.4**	**(11.5)**	**–**	**847.9**

The exchange adjustment of £2.9 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 **£0.6 million** (2003 – £nil). However, due to the application of accounting policy (b) relating to securities held in designated investment portfolios, **£6.4 million** (2003 – £5.9 million) has been credited to the profit and loss account. The application of this accounting policy therefore increased profits for the year by **£5.8 million** (2003 – £5.9 million).

Bank

Profits on disposals in the year were **£0.6 million** (2003 – £nil). However, due to the application of accounting policy (b) relating to securities held in designated investment portfolios, **£6.2 million** (2003 – £5.6 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** (2003 – £5.6 million).

All amounts are stated in £m unless otherwise indicated

13. Equity shares

	Group and Bank 2004	Group and Bank 2003
Investment securities – unlisted	**1.2**	1.2

	Group and Bank 2004	Group and Bank 2003
Included above are the following trade investments:		
BACS Limited **92,425** (2003 – 83,568) ordinary shares of £1 each	**0.7**	0.6
LINK Interchange Network Limited **3,845** (2003 – 3,845) ordinary shares of £1 each and **78,396** (2003 – 78,396) ordinary shares of £0.01 each	**0.4**	0.4
	1.1	1.0

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

	Cost and carrying value
Group and Bank	
At 10 January 2004 and at 8 January 2005	**1.2**

14. Interests in associated undertakings and joint ventures

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

Joint ventures	Nature of business	Total issued share capital at 8 January 2005	Group interest 2004	Group interest 2003
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%

† 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

The interest in joint ventures is made up as follows:

	Group Share of gross assets	Group Share of gross liabilities	Group Share of net assets	Bank Cost
At 10 January 2004	**0.3**	**0.1**	**0.2**	**–**
At 8 January 2005	**0.2**	**–**	**0.2**	**–**

All amounts are stated in £m unless otherwise indicated

15. 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 8 January 2005**	**Group interest 2004**	Group interest 2003
* 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

Shares in Group undertakings:

		Bank	
	Cost	**Provision**	**Carrying value**
At 8 January 2005 and at 10 January 2004	**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 Pioneers Leasing Limited
30th June	Second Pioneers Leasing Limited
30th September	Third Pioneers Leasing Limited

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

All amounts are stated in £m unless otherwise indicated

16. Tangible fixed assets

	Freehold and leasehold buildings	Computer and other equipment	Total
Group:			
Cost			
At 10 January 2004	**10.3**	**218.1**	**228.4**
Additions	**–**	**24.9**	**24.9**
Disposals	**–**	**(8.1)**	**(8.1)**
At 8 January 2005	**10.3**	**234.9**	**245.2**
Accumulated depreciation			
At 10 January 2004	**2.2**	**134.3**	**136.5**
Disposals	**–**	**(8.0)**	**(8.0)**
Charge for the year	**0.3**	**22.4**	**22.7**
At 8 January 2005	**2.5**	**148.7**	**151.2**
Net book value at 8 January 2005	**7.8**	**86.2**	**94.0**
Net book value at 10 January 2004	8.1	83.8	91.9
Bank:			
Cost			
At 10 January 2004	**2.8**	**214.8**	**217.6**
Additions	**–**	**24.8**	**24.8**
Disposals	**–**	**(7.8)**	**(7.8)**
At 8 January 2005	**2.8**	**231.8**	**234.6**
Accumulated depreciation			
At 10 January 2004	**0.8**	**132.2**	**133.0**
Disposals	**–**	**(7.7)**	**(7.7)**
Charge for the year	**0.1**	**21.9**	**22.0**
At 8 January 2005	**0.9**	**146.4**	**147.3**
Net book value at 8 January 2005	**1.9**	**85.4**	**87.3**
Net book value at 10 January 2004	2.0	82.6	84.6

	Group		Bank	
	2004	2003	**2004**	2003
The net book value of land and buildings comprises:				
Freehold	**7.8**	8.0	**1.9**	1.9
Short leasehold	**–**	0.1	**–**	0.1
	7.8	8.1	**1.9**	2.0

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

Included within tangible fixed assets are finance leased assets. At 8 January 2005, the net book value of these assets was £nil (2003 – £nil).

All amounts are stated in £m unless otherwise indicated

17. Other assets

	Group		Bank	
	2004	2003	**2004**	2003
Unrealised gains on foreign exchange and interest rate contracts	**28.2**	38.8	**28.2**	38.8
Trade debtors	**4.2**	8.6	**3.9**	6.6
Deferred taxation (see note 22)	**–**	–	–	0.8
Other assets	**9.3**	11.9	**9.3**	11.9
	41.7	59.3	**41.4**	58.1

Other assets are acquisition premium of £9.3 million (2003 – £11.9 million) relating to the purchase of credit card and mortgage portfolios.

18. Deposits by banks

	Group		Bank	
	2004	2003	**2004**	2003
With agreed maturity dates or periods of notice, by remaining maturity:				
1 year or less but over 3 months	**1.0**	1.0	**1.0**	1.0
3 months or less but not repayable on demand	**593.8**	734.6	**606.0**	738.4
Repayable on demand	**52.4**	34.4	**52.4**	34.4
	647.2	770.0	**659.4**	773.8
Amounts include:				
Due to subsidiary undertakings			**12.2**	3.8

19. Customer accounts

	Group		Bank	
	2004	2003	**2004**	2003
With agreed maturity dates or periods of notice, by remaining maturity:				
5 years or less but over 1 year	**58.6**	87.1	**58.5**	87.0
1 year or less but over 3 months	**141.3**	60.7	**141.0**	60.7
3 months or less but not repayable on demand	**2,224.9**	2,103.6	**2,124.1**	2,021.9
Repayable on demand	**5,673.9**	5,134.0	**5,454.9**	4,956.6
	8,098.7	7,385.4	**7,778.5**	7,126.2
Amounts include:				
Due to subsidiary undertakings			–	–
Due to parent undertakings	**1.7**	1.7	**1.7**	1.7
Due to fellow subsidiary undertakings	**52.3**	62.9	**52.3**	62.9
Due to associated undertakings	**0.4**	0.4	**–**	–

All amounts are stated in £m unless otherwise indicated

20. Debt securities in issue

	Group		Bank	
	2004	2003	**2004**	2003
Bonds and Medium Term Notes				
By remaining maturity				
5 years or less but over 2 years	**299.8**	–	**299.8**	–
Other debt securities in issue				
By remaining maturity:				
1 year or less but over 3 months	**56.4**	7.0	**56.4**	7.0
3 months or less	**415.5**	217.7	**415.5**	217.7
	771.7	224.7	**771.7**	224.7

21. Other liabilities

	Group		Bank	
	2004	2003	**2004**	2003
Unrealised losses on foreign exchange and interest rate contracts	**25.9**	36.6	**25.9**	36.6
Trade creditors	**83.0**	69.4	**81.9**	68.1
Taxation	**23.5**	20.6	**21.6**	18.7
Dividends	**6.4**	1.4	**5.6**	0.7
	138.8	128.0	**135.0**	124.1

22. Provisions for liabilities and charges

	Group		Bank	
	2004	2003	**2004**	2003
(i) Deferred taxation				
Short term differences	**(0.6)**	(0.8)	**(0.6)**	(0.7)
Other timing differences	**(3.3)**	(6.3)	**(3.2)**	(6.2)
Capital allowances on fixed assets	**3.2**	2.9	**2.7**	2.4
Capital allowances on assets leased to customers	**13.8**	14.0	**5.6**	3.7
	13.1	9.8	**4.5**	* (0.8)
The movement in the deferred taxation balance has all taken place through the profit and loss account	**3.3**	1.1	**5.3**	1.7

The potential liability on rolled over gains and other gains not provided for, amounts to **£1.6 million** (2003 – £1.0 million). Full provision has been made for all other potential liabilities to deferred taxation.

* The net deferred taxation position for The Co-operative Bank p.l.c. for 2003 gave rise to a deferred tax asset. This was recognised in the balance sheet of The Co-operative Bank p.l.c. and appears within Other assets (see note 17).

All amounts are stated in £m unless otherwise indicated

22. Provisions for liabilities and charges (continued)

(ii) Other provisions	Group 2004	Group 2003	Bank 2004	Bank 2003
At 10 January 2004	**7.7**	11.5	**6.9**	9.9
Utilised	**(2.3)**	(4.7)	**(2.1)**	(3.9)
Profit and loss charge	**1.5**	0.9	**1.2**	0.9
At 8 January 2005	**6.9**	7.7	**6.0**	6.9

The above provisions at 8 January 2005 include an estimate of future unavoidable lease payments and related costs for vacant properties not in use (group – £4.9 million, Bank – £4.4 million) and an estimate of future payments to customers in compensation for loss suffered from past pension and investment advice (group – £2.0 million, Bank – £1.6 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.

23. Subordinated liabilities

	Group 2004	Group 2003	Bank 2004	Bank 2003
£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
£150,000,000 Step up Callable Subordinated Notes 2019	**150.0**	–	**150.0**	–
Issue costs and discount	**(2.4)**	(0.8)	**(2.4)**	(0.8)
	327.6	179.2	**327.6**	179.2
Remaining maturity of dated subordinated liabilities				
Repayable				
over five years	**250.0**	100.0	**250.0**	100.0

Fixed Rate Perpetual Subordinated Notes

The notes were issued on 20 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) 21 December 2005. From this date and on 20 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 20 December each year.

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

Subordinated Perpetual Floating Rate Notes

The notes were issued on 9 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) 9 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 9 January and 9 July each year.

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

All amounts are stated in £m unless otherwise indicated

23. Subordinated liabilities (continued)

Step Up Callable Subordinated Notes 2011

The notes were issued on 16 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) 16 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 16 May and 16 November.

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

Step Up Callable Subordinated Notes 2019

The notes were issued on 1 April 2004 at a discount of 0.946%

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 5.875% per annum to (but excluding) 2 April 2014, 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 2.25%. Interest is payable annually in arrears on 2 April.

The Bank may redeem all, but not less than all of the notes at their principal amount on 2 April 2014.

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.

24. Share capital

	2004	2003
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 ordinary shares of 5p each	**55.0**	55.0
60,000,000 9.25% non-cumulative irredeemable preference shares of £1 each	**60.0**	60.0
	115.0	115.0

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

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

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

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

All amounts are stated in £m unless otherwise indicated

25. Reserves

	Bank and subsidiary undertakings	Associated undertakings	Group	Bank
Share premium account at 8 January 2005 and at 10 January 2004	**8.8**	–	**8.8**	**8.8**
Profit and loss account at 10 January 2004	**493.3**	**(1.1)**	**492.2**	**475.2**
Retained profit/(loss) for the financial year	**64.7**	–	**64.7**	**62.5**
Profit and loss account at 8 January 2005	**558.0**	**(1.1)**	**556.9**	**537.7**

The cumulative amount of goodwill arising on the acquisition of subsidiary undertakings prior to 1998, net of goodwill attributed to subsidiary undertakings disposed of, is **£247,000** (2003 – £247,000).

26. Miscellaneous

	Group		Bank	
	2004	2003	**2004**	2003
(i) Assets and liabilities				
Denominated in sterling	**10,430.3**	9,103.9	**10,049.6**	8,794.2
Denominated in currencies other than sterling	**449.0**	374.1	**449.0**	374.1
Total assets	**10,879.3**	9,478.0	**10,498.6**	9,168.3
Denominated in sterling	**10,439.4**	9,106.3	**10,058.7**	8,796.6
Denominated in currencies other than sterling	**439.9**	371.7	**439.9**	371.7
Total liabilities	**10,879.3**	9,478.0	**10,498.6**	9,168.3
(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	**219.5**	213.0	**151.6**	116.0
Assets acquired during the year	**70.3**	54.0	**86.4**	45.1

All amounts are stated in £m unless otherwise indicated

27. 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.

		2004			2003	
	Contract amount	**Credit equivalent amount (i)**	**Average risk weight**	**Risk weighted amount**	Contract amount	Risk weighted amount
Group:						
Contingent Liabilities						
Acceptances and endorsements	**37.5**	**37.5**	**100.0%**	**37.5**	37.5	36.3
Guarantees and irrevocable letters of credit	**66.9**	**56.1**	**95.5%**	**53.6**	61.3	48.7
	104.4			**91.1**	98.8	85.0
Bank:						
Contingent Liabilities						
Acceptances and endorsements	**37.5**	**37.5**	**100.0%**	**37.5**	37.5	36.3
Guarantees and irrevocable letters of credit	**66.1**	**55.7**	**95.5%**	**53.2**	61.1	48.6
	103.6			**90.7**	98.6	84.9
Group:						
Other commitments						
Documentary credits and short-term trade-related transactions	**1.6**	**0.3**	**94.0%**	**0.3**	4.2	0.8
Undrawn formal standby facilities, credit lines and other commitments to lend:						
1 year and over	**379.1**	**189.6**	**99.1%**	**187.8**	238.1	115.9
less than 1 year (ii)	**5,876.8**	**–**	**–**	**–**	6,150.2	–
	6,257.5			**188.1**	6,392.5	116.7

All amounts are stated in £m unless otherwise indicated

27. Contingent liabilities and commitments (continued)

	2004 Contract amount	2004 Credit equivalent amount (i)	2004 Average risk weight	2004 Risk weighted amount	2003 Contract amount	2003 Risk weighted amount
Bank:						
Other commitments						
Documentary credits and short-term trade-related transactions	**1.6**	**0.3**	**94.0%**	**0.3**	4.2	0.8
Undrawn formal standby facilities, credit lines and other commitments to lend:						
1 year and over	**379.1**	**189.6**	**99.1%**	**187.8**	238.1	115.9
less than 1 year (ii)	**5,865.0**	**–**	**–**	**–**	6,146.3	–
	6,245.7			**188.1**	6,388.6	116.7

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.

28. 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.

8 January 2005	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								
Loans and advances to banks	**962**	**100**	**–**	**–**	**–**	**11**	**–**	**1,073**
Loans and advances to customers	**5,499**	**172**	**295**	**1,338**	**309**	**–**	**–**	**7,613**
Debt securities and equity shares	**470**	**102**	**243**	**307**	**26**	**–**	**530**	**1,678**
Other assets	**280**	**–**	**–**	**–**	**–**	**188**	**47**	**515**
Loans to trading book	**451**	**80**	**–**	**–**	**–**	**7**	**(538)**	**–**
Total assets	**7,662**	**454**	**538**	**1,645**	**335**	**206**	**39**	**10,879**
Liabilities								
Deposits by banks	**644**	**–**	**1**	**2**	**–**	**–**	**–**	**647**
Customer accounts	**6,394**	**50**	**95**	**232**	**–**	**1,328**	**–**	**8,099**
Debt securities in issue	**715**	**52**	**5**	**–**	**–**	**–**	**–**	**772**
Other liabilities	**–**	**–**	**–**	**–**	**–**	**292**	**39**	**331**
Loan capital	**30**	**–**	**50**	**100**	**150**	**(2)**	**–**	**328**
Minority interests and shareholders' funds	**–**	**–**	**–**	**–**	**60**	**642**	**–**	**702**
Total liabilities	**7,783**	**102**	**151**	**334**	**210**	**2,260**	**39**	**10,879**
Off balance sheet items	**(455)**	**(275)**	**(11)**	**656**	**85**	**–**	**–**	
Interest rate sensitivity gap	**(576)**	**77**	**376**	**1,967**	**210**	**(2,054)**	**–**	
Cumulative gap	**(576)**	**(499)**	**(123)**	**1,844**	**2,054**	**–**	**–**	

All amounts are stated in £m unless otherwise indicated

28. Derivatives and other financial instruments (continued)

10 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								
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	–	–	

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 8 January 2005 the Group's open position was **£2.1 million** (2003 – £1.9 million) representing a potential loss of **£0.06 million** given a 3% appreciation in sterling (2003 – loss of £0.06 million given a depreciation in sterling).

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 8 January 2005, total Treasury VaR of **£0.3 million** (2003 – £0.3 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 8 January 2005 were **£0.5 million** (2003 – £0.6 million), **£1.3 million** (2003 – £1.2 million) and **£0.2 million** (2003 – £0.2 million).

(ii) Derivatives

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

Positive and negative fair values have not been netted as the Bank does not have legal right of offset. All derivatives were held by the Bank.

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

28. 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

	2004			2003		
	Notional principal amount	**Fair value asset**	**Fair value liability**	Notional principal amount	Fair value asset	Fair value liability
Interest rate swaps	**4,949.5**	**9.1**	**9.3**	10,094.5	16.7	15.9
Interest rate caps and floors	**147.0**	**0.5**	**0.5**	153.8	0.6	0.6
Futures	**3,250.0**	**–**	**–**	3,100.0	–	–
	8,346.5	**9.6**	**9.8**	13,348.3	17.3	16.5

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

	2004			2003		
	Notional principal amount	**Fair value asset**	**Fair value liability**	Notional principal amount	Fair value asset	Fair value liability
1 year or less	**4,633.6**	**5.3**	**6.5**	9,047.4	10.4	8.5
1 to 5 years	**324.2**	**1.9**	**1.4**	1,073.0	4.5	6.1
Over 5 years	**138.7**	**2.4**	**1.9**	127.9	2.4	1.9
	5,096.5	**9.6**	**9.8**	10,248.3	17.3	16.5

Counterparty for over the counter trading contracts

	2004			2003		
	Notional principal amount	**Fair value asset**	**Fair value liability**	Notional principal amount	Fair value asset	Fair value liability
Financial institutions	**4,896.2**	**6.3**	**9.4**	10,062.7	14.0	15.8
Non-financial institutions	**200.3**	**3.3**	**0.4**	185.6	3.3	0.7
	5,096.5	**9.6**	**9.8**	10,248.3	17.3	16.5

The Bank had no non-margin exchange traded contracts at the year end (2003 – £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

	2004			2003		
	Notional principal amount	**Fair value asset**	**Fair value liability**	Notional principal amount	Fair value asset	Fair value liability
Interest rate swaps	**2,577.0**	**17.8**	**16.1**	1,864.8	22.6	18.1

All amounts are stated in £m unless otherwise indicated

28. 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

	2004			2003		
	Notional principal amount	**Fair value asset**	**Fair value liability**	Notional principal amount	Fair value asset	Fair value liability
1 year or less	**589.0**	**2.4**	**0.5**	456.7	2.5	1.3
1 to 5 years	**1,755.9**	**15.4**	**8.1**	1,338.7	20.1	9.1
Over 5 years	**232.1**	**–**	**7.5**	69.4	–	7.7
	2,577.0	**17.8**	**16.1**	1,864.8	22.6	18.1

All interest rate related transaction counterparties were financial institutions.

Exchange rate related transactions

	2004			2003		
	Total	**Financial institutions**	**Non-financial institutions**	Total	Financial institutions	Non-financial institutions
Forward currency transactions	**503.5**	**494.1**	**9.4**	165.9	150.1	15.8

Maturity of over the counter exchange rate related transactions

	2004			2003		
	Notional principal amount	**Fair value asset**	**Fair value liability**	Notional principal amount	Fair value asset	Fair value liability
One year or less	**503.5**	**1.4**	**1.5**	165.9	1.2	1.1

(iii) Other analysis

Dealing profits/(losses)

Dealing profits/(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.

	2004	2003
Debt securities	**(0.2)**	(2.1)
Derivatives	**–**	(10.1)
Foreign exchange	**4.3**	3.9
	4.1	(8.3)

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 8 January 2005.

All amounts are stated in £m unless otherwise indicated

28. Derivatives and other financial instruments (continued)

The table below sets out the unrecognised and deferred gains and losses on hedges at 8 January 2005 and the movements during the year and the previous year.

	Gains	Losses	Net
At 11 January 2003	**38.5**	**(7.3)**	**31.2**
Gains and losses arising in previous years that were recognised in the year ended 10 January 2004	**(15.4)**	**4.3**	**(11.1)**
Gains and losses arising before 11 January 2003 that were not recognised in the year ended 10 January 2004	**23.1**	**(3.0)**	**20.1**
Gains and losses arising in the year ended 10 January 2004 that were not recognised in the year ended 10 January 2004	**(2.6)**	**(1.9)**	**(4.5)**
At 10 January 2004	**20.5**	**(4.9)**	**15.6**
Gains and losses arising in previous years that were recognised in the year ended 8 January 2005	**(10.6)**	**2.0**	**(8.6)**
Gains and losses arising before 10 January 2004 that were not recognised in the year ended 8 January 2005	**9.9**	**(2.9)**	**7.0**
Gains and losses arising in the year ended 8 January 2005 that were not recognised in the year ended 8 January 2005	**6.6**	**(3.3)**	**3.3**
At 8 January 2005	**16.5**	**(6.2)**	**10.3**
Of which			
8 January 2005			
Gains and losses expected to be recognised in the year ended 14 January 2006	**7.4**	**(2.3)**	**5.1**
Gains and losses expected to be recognised in the year ended 13 January 2007 or later	**9.1**	**(3.9)**	**5.2**
10 January 2004			
Gains and losses expected to be recognised in the year ended 8 January 2005	**10.6**	**(2.0)**	**8.6**
Gains and losses expected to be recognised in the year ended 14 January 2006 or later	**9.9**	**(2.9)**	**7.0**

29. 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 8 January 2005 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.

	2004					2003				
	Total	**Trading**	**Non-trading**			Total	Trading	Non-trading		
Assets	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**	**Accrued Interest**	Carrying value	Fair value	Carrying value	Fair value	Accrued Interest
Debt securities	**1,676.8**	**530.4**	**1,146.4**	**1,153.5**	**18.8**	2,085.7	850.5	1,235.2	1,245.3	24.6
Equity shares	**1.2**	**–**	**1.2**	**1.2**	**–**	1.2	–	1.2	1.2	–
Interest rate derivatives	**10.9**	**9.6**	**1.3**	**17.8**	**15.9**	19.4	17.3	2.1	22.6	54.1
Exchange rate derivatives	**1.4**	**–**	**1.4**	**1.4**	**–**	1.2	–	1.2	1.2	–
	1,690.3	**540.0**	**1,150.3**	**1,173.9**	**34.7**	2,107.5	867.8	1,239.7	1,270.3	78.7

All amounts are stated in £m unless otherwise indicated

29. Fair values of financial instruments (continued)

	2004					2003				
	Total	**Trading**	**Non-trading**			Total	Trading	Non-trading		
	Carrying	**Fair**	**Carrying**	**Fair**	**Accrued**	Carrying	Fair	Carrying	Fair	Accrued
Liabilities	**value**	**value**	**value**	**value**	**Interest**	value	value	value	value	Interest
Debt securities in issue	**771.7**	**–**	**771.7**	**772.6**	**1.3**	224.7	–	224.7	224.7	0.5
Non-equity shareholders' funds	**60.0**	**–**	**60.0**	**86.9**	**0.6**	60.0	–	60.0	80.0	0.7
Interest rate derivatives	**19.7**	**9.8**	**9.9**	**16.1**	**8.1**	29.7	16.5	13.2	18.1	46.0
Exchange rate derivatives	**1.5**	**–**	**1.5**	**1.5**	**–**	1.1	–	1.1	1.1	–
	852.9	**9.8**	**843.1**	**877.1**	**10.0**	315.5	16.5	299.0	323.9	47.2

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

30. Consolidated cash flow statement

	2004	2003
Reconciliation of Group operating profit to net cash (outflow)/inflow from operating activities		
Group operating profit	**132.0**	130.1
(Increase)/decrease in prepayments and accrued income	**(21.7)**	28.1
Increase/(decrease) in accruals and deferred income	**15.4**	(9.8)
Interest payable in respect of subordinated liabilities	**21.0**	13.8
Effect of exchange rate movements	**(4.3)**	(3.9)
Provisions for bad and doubtful debts	**62.8**	63.3
Depreciation	**22.7**	21.2
Amortisation of investments	**1.4**	2.3
Profit on sale of investments	**(6.4)**	(5.9)
Loss on disposal of Fixed Assets	**–**	0.3
Net cash flow from trading activities	**222.9**	239.5
(Decrease)/increase in deposits by Banks	**(122.4)**	43.5
Increase in customer accounts	**713.3**	483.4
Increase in debt securities in issue	**547.0**	219.7
(Increase)/decrease in loans and advances to Banks	**(295.6)**	517.8
Increase in loans and advances to customers	**(1,542.0)**	(1,812.5)
Decrease in trading debt securities	**320.1**	910.3
Decrease in treasury and eligible bills	**–**	18.0
Net movement of other assets and other liabilities	**34.9**	1.1
Net decrease in cheques in course of collection	**13.4**	44.3
Net cash (outflow)/inflow from operating activities	**(108.4)**	665.1

Analysis of the balances of cash	**Cash and balances at central banks**	**Loans and advances to banks repayable on demand**	**Total**
At 11 January 2003	**97.5**	**0.3**	**97.8**
Change in year	**42.9**	**(0.1)**	**42.8**
At 10 January 2004	**140.4**	**0.2**	**140.6**
Change in year	**32.0**	**(2.6)**	**29.4**
At 8th January 2005	**172.4**	**(2.4)**	**170.0**

The Group is required to maintain balances with the Bank of England which at 8 January 2005 amounted to **£9.6 million** (2003 – £7.2 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

31. 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.

	2004	2003
Profit before taxation:		
Retail banking	**215.9**	226.4
Other financial services	**0.7**	2.9
	216.6	229.3
Shared costs:		
Centralised services and processing	**(49.7)**	(57.9)
Management services and marketing	**(39.2)**	(45.4)
Profit before Unity Trust group and associates	**127.7**	126.0
Unity Trust group and associates	**4.3**	4.1
Profit before taxation	**132.0**	130.1
Gross assets:		
Retail banking	**9,883.6**	8,561.6
Other financial services	**242.9**	243.7
Unity Trust group	**359.0**	282.0
Group central assets	**393.8**	390.7
Total	**10,879.3**	9,478.0
Net assets:		
Retail banking	**741.3**	501.3
Other financial services	**17.3**	17.6
Unity Trust group	**29.3**	27.5
Group central net assets	**(85.7)**	89.8
Total	**702.2**	636.2

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.

As the Bank is not required to disclose turnover, no segmental analysis of turnover is provided.

32. Directors' and officers' loans

The aggregate amounts outstanding at 8 January 2005 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	**–**	**–**
quasi-loans	**£6,620**	**7**
Officers		
loans	**£1,227,596**	**13**
quasi-loans	**£30,363**	**15**

All amounts are stated in £m unless otherwise indicated

33. General

(i) Operating lease commitments

At the year end, annual commitments under non-cancellable operating leases were:

	2004 Land and buildings	**2004 Motor vehicles**	2003 Land and buildings	2003 Motor vehicles
Group				
Expiring:				
within 1 year	**1.3**	**1.0**	0.9	1.0
between 1 and 5 years	**2.1**	**–**	2.2	–
in 5 years or more	**7.6**	**–**	7.6	–
	11.0	**1.0**	10.7	1.0
Bank				
Expiring:				
within 1 year	**1.3**	**1.0**	0.9	1.0
between 1 and 5 years	**2.1**	**–**	2.1	–
in 5 years or more	**8.2**	**–**	8.1	–
	11.6	**1.0**	11.1	1.0

(ii) Average number of employees

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

	2004	2003
Full time	**3,317**	3,341
Part time	**1,039**	969
	4,356	4,310

(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.

	2004	2003
Distribution, transport and hotels	**482.4**	446.9
Business and other services	**1,737.8**	1,436.1
Personal	**5,509.4**	4,386.4

(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 15.

Summarised average balance sheet

Cleared Balances	2000 £m	2001 £m	2002 £m	2003 £m	**2004 £m**	Change £m	Change %
Retail Lending							
Personal sector							
Visa	778	774	843	965	**1,059**	94	10
Other	984	1,116	1,362	2,216	**4,070**	1,854	84
Corporate sector	1,296	1,653	1,740	1,769	**1,845**	76	4
Total	3,058	3,543	3,945	4,950	**6,974**	2,024	41
Wholesale Placements							
Debt securities	2,543	2,898	2,870	2,702	**1,723**	(979)	(36)
Wholesale lending	595	739	945	900	**915**	15	2
Other assets	114	158	198	235	**293**	58	25
Total Assets	6,310	7,338	7,958	8,787	**9,905**	1,118	13
Retail Deposits							
Personal sector	2,476	3,166	3,673	4,230	**4,483**	253	6
Corporate sector	1,476	1,721	1,805	1,928	**2,083**	155	8
Total	3,952	4,887	5,478	6,158	**6,566**	408	7
Wholesale Deposits	1,685	1,688	1,645	1,665	**2,142**	477	29
Other liabilities	128*	163*	163	174	**255**	81	47
Subordinated debt	188	179	179	179	**294**	115	64
Preference shares	60	60	60	60	**60**	–	–
Equity share capital, reserves	297*	361*	433	551	**588**	37	7
Total Liabilities	6,310	7,338	7,958	8,787	**9,905**	1,118	13
% Growth in retail lending (year on year)	7	16	11	25	**41**		
% Growth in retail deposits (year on year)	13	24	12	12	**7**		
Retail deposits % retail loans	129	138	139	124	**94**		
Risk Asset Ratio % (at year end)							
Total	13.7	13.7	14.1	13.5	**15.0**		
Tier 1	9.4	9.9	10.6	10.5	**10.2**		

*Restated on implementation of FRS19 in 2002.

Consolidated profit and loss account history

	2000 £m	2001 £m	2002 £m	2003 £m	**2004 £m**	Change £m	Change %
Net interest income	294.1	313.5	329.6	332.3	**324.9**	(7.4)	(2.2)
Non-interest income	134.9	142.1	153.8	170.6	**184.1**	13.5	7.9
Operating income	429.0	455.6	483.4	502.9	**509.0**	6.1	1.2
Operating costs	(272.9)	(281.9)	(290.8)	(309.5)	**(314.2)**	(4.7)	1.5
Profit before bad debts	156.1	173.7	192.6	193.4	**194.8**	1.4	0.7
Provisions for bad debts	(59.9)	(66.2)	(70.1)	(63.3)	**(62.8)**	0.5	0.8
Operating profit	96.2	107.5	122.5	130.1	**132.0**	1.9	1.5
Associated undertakings and exceptional items	0.1	–	–	–	**–**	–	–
Profit before taxation	96.3	107.5	122.5	130.1	**132.0**	1.9	1.5
Taxation	(29.8)	(31.7)	(36.6)	(39.1)	**(39.6)**	(0.5)	1.3
Profit after taxation	66.5	75.8	85.9	91.0	**92.4**	1.4	1.5
Minority interests	(1.7)	(1.8)	(2.2)	(2.1)	**(2.2)**	(0.1)	4.8
Dividends	(5.6)	(5.5)	(5.5)	(25.5)	**(25.5)**	–	–
Retentions	59.2	68.5	78.2	63.4	**64.7**	1.3	2.1

	2000	2001	2002	2003	**2004**
Average numbers of staff	4,100	4,067	4,161	4,310	**4,356**
Net interest margin %	4.8	4.4	4.2	3.9	**3.4**
Cost/income ratio %	63.6	61.9	60.2	61.5	**61.7**
Return on opening equity shareholders' funds %	22.2*	21.0*	19.8	17.6	**15.2**
Earnings per share	8.46p	9.79p	11.17p	11.46p	**7.70p**

*Restated on implementation of FRS 19 in 2002

	2000 £m	2001 £m	2002 £m	2003 £m	**2004 £m**
Equity share capital	35.0	35.0	35.0	55.0	**55.0**
Reserves	290.9*	359.4*	437.6	501.0	**565.7**
Preference shares	60.0	60.0	60.0	60.0	**60.0**
Shareholders' funds	385.9*	454.4*	532.6	616.0	**680.7**
Minority interests	16.3	17.4	18.9	20.2	**21.5**
Subordinated liabilities	179.1	179.4	179.6	179.2	**327.6**
Debt securities in issue	54.1	87.5	5.0	224.7	**771.7**
Deposits by banks	750.4	727.3	748.5	770.0	**647.2**
Deposits by customers	5,186.3	6,115.8	6,902.0	7,385.4	**8,098.7**
Other liabilities	216.2*	244.4*	301.0	282.5	**331.9**
	6,788.3	7,826.2	8,687.6	9,478.0	**10,879.3**
Tangible fixed assets	69.2	67.3	78.4	91.9	**94.0**
Loans and advances to banks	580.6	733.2	1,291.0	773.2	**1,073.0**
Loans and advances to customers	3,363.7	3,869.2	4,384.6	6,133.8	**7,613.1**
Debt securities and bills	2,417.2	2,751.0	2,496.1	2,079.9	**1,676.8**
Cash, balances at central banks and items in the course of collection from other banks	178.6	259.3	262.7	261.4	**280.5**
Other assets	179.0	146.2	174.8	137.8	**141.9**
	6,788.3	7,826.2	8,687.6	9,478.0	**10,879.3**

*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 Wednesday 11 May 2005 at 10.00 am for the following purposes:

1. To receive the Notice convening the meeting.
2. To receive the Annual Reports and adopt the financial statements for the year ended 8 January 2005 together with the Auditor's Report.
3. To approve the Remuneration Report for the year ended 8 January 2005.
4. To accept the following recommendations of the Board in respect of the Non-cumulative Irredeemable Preference Shares:
   (i) that the payment of the dividend of 4.625p per £1 share on 30 November, 2004 be confirmed.
   (ii) that a dividend of 4.625p per £1 share be declared and paid on 31 May 2005 to the registered holders as at 29 April 2005 providing a dividend rate of 9.25 per cent per annum and making a total distribution of £5,550,000.
5. To accept the following recommendations of the Board in respect of the Ordinary Shares:
   (i) that the payment of the interim dividend of £15 million paid on 30 July 2004 be confirmed.
   (ii) that a final dividend of £5 million be declared and paid on 31 May 2005.
6. (a) To re-elect the following Directors who retire by rotation, in accordance with the provisions of Article 105:
   (i) Graham Bennett, Chair, The Co-operative Bank p.l.c.
   (ii) Richard Goddard, Executive Director, Finance and Risk
   (iii) John Marper, Executive Director, Risk and Compliance of CFS
   (b) To re-elect the following Directors who were appointed since the date of the last Annual General Meeting, in accordance with the provisions of Article 111:
   (i) Tony Lancaster, Independent Professional Non Executive Director
   (ii) John Reizenstein, Executive Director, Finance and Actuarial of CFS
   (iii) Craig Shannon, Executive Director, Marketing of CFS
7. 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.

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Tel: 0161 832 3456
Fax: 0161 829 4475

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

By Order of the Board
Moira Lees,
Secretary
7 April 2005

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 27 April 2005. This applies to shares held in uncertified forms in CREST and to shares held in certified form.

Notes:

1. Director Information

The biographies of the Directors up for re-election and re-appointment at the Annual General Meeting can be found on page 32 of the Reports and financial statements.

2. 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 attend (either in person or by proxy) all General Meetings of the Company. The holders of the Preference Shares shall have a 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 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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