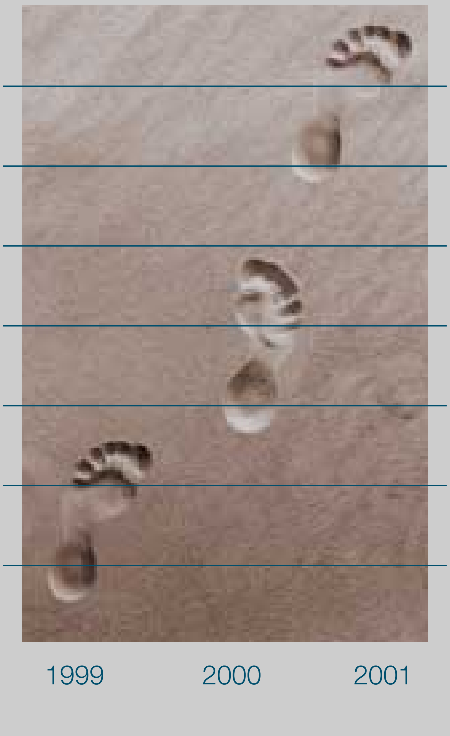
The CO-OPERATIVE BANK

our results

Financial Statements 2001



1999 2000 2001

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A full version of the report is also available on the website at **www.co-operativebank.co.uk**

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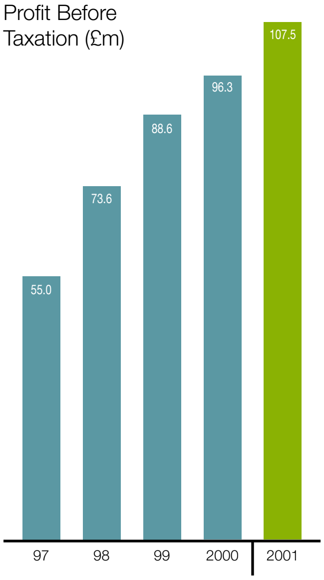
highlights

Profit before Taxation	£107.5m	Better than 2000 by: 11.6%
Earnings attributable to Equity Shareholder (after Tax)	£68.5m	Better than 2000 by: 15.7%
Operating Income	£455.6m	Better than 2000 by: 6.2%
Operating Costs	£281.9m	Higher than 2000 by: 3.3%
Cost/Income Ratio	61.9%	Better than 2000 by: 1.7 percentage points
Charge for Bad and Doubtful Debts	£66.2m	
As a percentage of Loans and Advances to Customers	1.71%	
After Tax Return on Opening Equity Shareholder's Funds	21.1%	
Risk Asset Ratio:		
Overall	13.7%	
Tier 1	9.9%	
Increase in Average Retail Customer Deposits	24%	
Increase in Average Retail Customer Lending	16%	

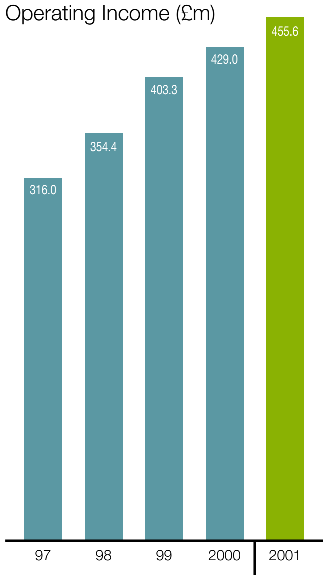
performance indicators

Profit before tax of £107.5 million, an increase of 11.6%. The after tax return on opening equity was 21.1%.

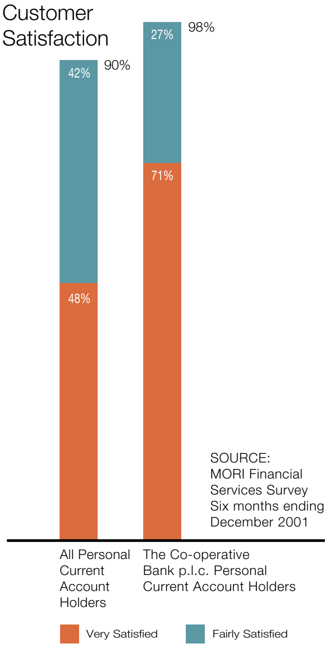
Profit Before Taxation (£m)



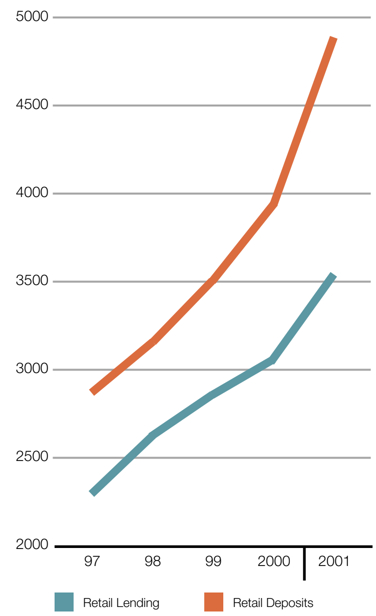
Operating Income (£m)



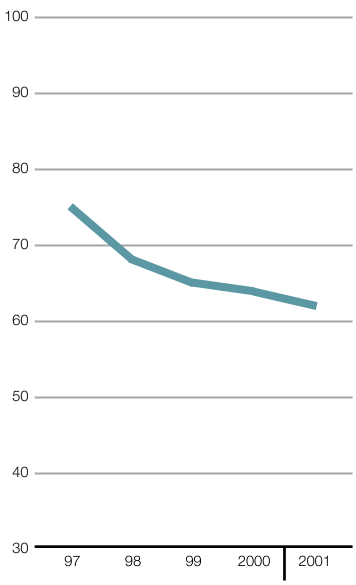
Customer Satisfaction



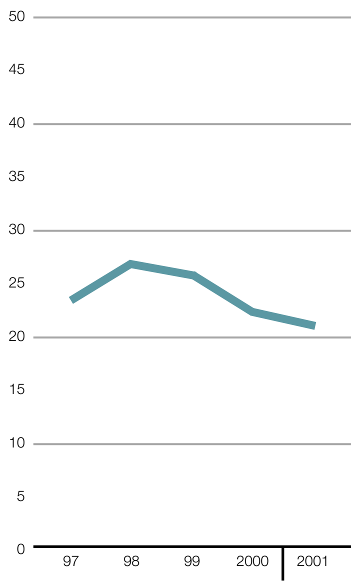
Average Retail Balances (£m)



Cost/Income Ratio (%)



Return on Equity (%)



> "The Co-operative Bank has continued to demonstrate just what can be achieved by using co-operative values to create business advantage, and to meet co-operative social goals."

chairman's statement

In the year that marks the tenth anniversary of the publication of the bank's original Ethical Policy, I am delighted to be able to report another year of excellent business performance. For eight consecutive years, the bank has produced record pre-tax profits. Profit before tax was £107.5 million, higher than 2000 by 11.6%. Earnings attributable to Co-operative Group (CWS) Limited, after tax, were £68.5 million, an increase of 15.7%.

2001 also saw the publication of the findings and recommendations of The Co-operative Commission, a forward-looking strategy designed to underpin the co-operative movement's future success. The Co-operative Bank has continued to demonstrate just what can be achieved by using co-operative values to create business advantage, and to meet co-operative social goals.

It is important, therefore, that the bank measures its success not just in financial terms. Alongside this financial report is published the annual Partnership Report, which demonstrates equally satisfactory progress in delivering value to all the bank's partners, as well as maintaining the highest standards of environmental and social responsibility.

The bank has continued to demonstrate its ability to innovate – launching new credit cards, mortgages, savings and current accounts. **smile**, our internet bank now in its third year, continues to impress both customers and independent commentators alike, with its new services, faster download times, and its enviable record on security, service and transparency.

From its early roots as banker to the movement, The Co-operative Bank now also provides financial services to co-operative retail customers; for example, it has built a substantial network of cash machines based in co-operative retail stores; and it has established a brand proposition that continues to inspire. Closer working with the Co-operative Insurance Society (CIS) now promises to provide many new opportunities for both these co-operative financial services businesses, as well as for the wider retail movement.

Achieving excellent results year after year becomes an ever greater challenge, particularly in such a competitive marketplace. The clear sense of motivation, purpose and involvement shown by the bank's staff and leaders, together with their pride in their work, gives me confidence that the bank will continue to make progress in 2002.

I would like to take this opportunity to express my appreciation to Bob Burlton, who stood down from the board during 2001 after 8 years service as a Non-executive Director, and at the same time to welcome Kathryn Smith to the board as his replacement. I would also like to thank Michael Woodward who, at the end of the year, retired as Executive Director, Corporate and Commercial Banking, for his contribution to the bank's success over the last ten years.

Graham Bennett, Chairman

“The combination of customer focus, innovative products and quality service, supported by committed people, and operating within an accountable framework of social, ethical and environmental responsibility, is a powerful formula.”

chief executive’s overview

Summary 2001 has been another good year for The Co-operative Bank. In last year's report, I emphasised our underlying principle that sustainable success is most likely to be achieved by those organisations taking the broadest view of their responsibilities. In 2001, our adherence to this principle continued to serve us well. The combination of customer focus, innovative products and quality service, supported by committed people, and operating within an accountable framework of social, ethical and environmental responsibility, is a powerful formula. It has also been a successful one, and I believe it will continue to serve us well in the future.

Financial Performance In 2001, the bank produced a pre-tax profit of £107.5 million, an increase of 11.6% compared with 2000, and the eighth consecutive year of record profits. The return on opening equity, after tax, was 21.1%. Operating income increased by 6.2% and the cost/income ratio fell once again, despite significant business development expenditure. Average retail customer lending and deposit balances both grew significantly, by 16% and 24% respectively. Provisions for bad and doubtful debts, at 1.71% of loans and advances to customers, represent a reduction in percentage terms compared with 2000.

People Last year, I began my overview, perhaps somewhat unusually, by focusing on the bank's staff, who I referred to as a key reason for our success. This year, I am doing exactly the same, and make no apology for that at all.

All the points relating to our staff I made in last year's report remain equally important this year, in some cases even more so, and this is likely to be the pattern in future years as well.

The major programme we began in 2000 to review and improve our whole range of 'people policies' becomes more vital as every year goes by. Real improvement in this area does not come quickly or easily – particularly when starting from a position of some strength. It requires long term and sustained commitment.

I am therefore delighted to be able to say that, 18 months into the programme, we have made significant achievements in the priority areas we identified for action first. We have addressed, for example, role models of behaviour and leadership; development of talent; the definition and measurement of performance, underpinned by 'self service' technology and information, to provide each individual with a real insight into his or her own performance; and the linkages between performance and reward.

The success of these 'people policies' is, I am sure, a major reason why, by flexibly adapting our resources, we have been able to respond so readily to the many operational changes that are necessary to meet the business demands of the 21st century.

I am also certain it is not by coincidence that we have retained, for a second year, our listing in the Sunday Times' "Best Companies to Work For". This is compiled on the basis of a thorough and independent assessment, including a random and confidential survey of employees' views of their employer.

For the second consecutive year, the bank is listed in The Sunday Times' "Best Companies to Work For".

Having carried out our own survey of staff attitudes in mid-2000, before we embarked on our new programme, we repeated it in November 2001 in order to assess what changes there had been. I found it an encouraging start that, not only had the overall rate of response increased by several percentage points but also that, of the nine survey categories, the results had improved significantly in four of them, improved marginally in three, with the other two remaining level.

Customer Service Of course, the belief in our staff and our investment in their development is a key element in our ultimate focus of serving our customers. Since last year's report, I have been asked several times who I put first – staff or customers. I always reply that I do not need to choose between them; the important thing is that our staff put our customers first. Particularly in the current climate of intense competition and increasing regulation, anything less than the total commitment to and focus on our customers as individuals would be a recipe for failure. We have no higher priority than providing our customers with the services and products they need, in a manner that matches or exceeds what they expect of us.

In a major independent survey of customers' satisfaction with their banks, carried out by MORI in December 2001, we were one of only two banks where over 70% of customers expressed themselves as 'very satisfied' with their current account. The next highest figure was 62%, and the average for all banks was 48%. These findings match our own in-depth service benchmarking against competitors, which is commissioned by us but carried out by independent research firms.

We are still the only bank to provide customers with service level guarantees, covering their routine banking activities. If we fail on any of these, we both apologise to customers and give them £15 in compensation – and we do it without quibble and often without being asked.

We know that different customers – both personal and corporate – have differing preferences as to how they wish to do business with us, and we therefore provide a full range of channels which enable them to do so – anytime, anywhere and at their choice.

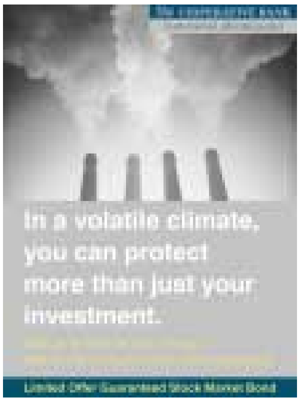
Personal Banking We know that our personal customers need a comprehensive range of products to choose from in order to meet their individual circumstances. In 2001, we have again been active in trying to make sure that we can provide many of these. For example, during the year we introduced two 'best buy' VISA Platinum credit cards; one with a fixed rate of 9.8% APR guaranteed for 5 years, and designed to take the uncertainty out of credit card rates for those customers who value that; the other at a competitive variable rate of 13.9% p.a. with a six month introductory rate of 0% p.a., particularly suited to those customers with short term borrowing needs. Both also have the expected Platinum Card benefits, and both have been very successful.

We also launched a new type of current account, Privilege which, for a small monthly fee, provides a guaranteed overdraft at preferential rates, together with free comprehensive annual family travel insurance

Our new Privilege current account was launched in June 2001, offering customers, for a small monthly subscription, free annual travel insurance, a free £100 overdraft and a wide range of lifestyle benefits.

and a wide range of other lifestyle products and services at discounted prices.

Following our re-entry into the mortgage market in late 2000, our core mortgage product, which combines a



Linked to the performance of the FTSE4Good Index, the bank's Guaranteed Stock Market Bond, offers the socially responsible investor up to 66% return on their investment over 5 years, with no capital risk.

competitive rate, an initial six month discount and flexible repayment options, plus environmental benefits, has proved very popular. During 2001, we began to expand our mortgage product range with the addition of fixed and capped rate mortgages. We also expanded the channels through which they are available, which now include telephone, the internet, our branches and selected intermediaries.

At the end of the financial year, we introduced a 5-year Stock Market deposit bond, the first ever to be linked to the FTSE4Good Index of leading UK companies which meet FTSE's requirements on corporate social responsibility. It provides depositors with a return of up to 66% over 5 years, with no capital risk, and early indications are that it has also been enthusiastically received.

Independent Financial Advice

For those of our customers with larger or broader investment requirements, our IFA subsidiary, Co-operative Bank Financial Advisers Ltd (CBFA), provides independent investment advice. Last year, I was able to report that CBFA had won a prestigious "Best Independent Financial Adviser" award. This year, I am equally delighted to be able to say that CBFA has recently received the Department for Education and Skills supported UK National Training Award, in recognition of its innovative behavioural skills programme.

Internet Banking

The internet has brought about significant changes to the 'customer-business' interface in many areas, and certainly in banking. Following the launch in October 1999 of our Internet Bank **smile**, and its remarkable success since that time, our main priority for 2001 was to both consolidate and grow its customer base, as well as maintaining its high level of service and industry-leading position. I am pleased to be able to report that, in contrast to some of the internet banks launched subsequently, these objectives have been successfully achieved.

In addition, **smile** has developed and introduced through its website various third party financial service offerings, such as a funds supermarket, holiday and flight reservations and car insurance, the latter two being provided by sister businesses within the Co-operative Group.

In the statistics produced by Presswatch, the independent press monitoring service which measures both the quantity and the quality of press coverage, **smile** was ranked fifth out of a total of some 3,000 companies in 2000. This was a very pleasing outcome but, in the event, **smile** improved its ranking in 2001 to come third.

There are, of course, many customers, both personal and corporate, who do not want to exclusively use an internet bank, but who do want to use the internet, as and when they wish, but alongside the various other traditional banking channels. We recognise this, and also provide a free internet-based service for Co-operative Bank customers. At the 2001 Guardian/Observer Consumer Finance Awards, we were judged, among the 'traditional' banks, to have the Best Financial Services Internet Site.

Corporate and Business Banking

Corporate and Business banking had another very good year in 2001 with customer lending and deposit balances growing by 28% and 17% respectively. New facilities included a substantial financing arrangement for Manchester Airport, and participation in major syndications for several high quality national companies.

To assist small and medium-sized companies, the bank extended its Business Banking team and, under the 'Clarity' concept of openness, trustworthiness and value for money, re-aligned its business banking facilities, working in partnership with several trade associations.

Of particular note, also, were achievements in those sectors with which the bank has developed a particular affinity. For example, during 2001, the bank gained the business of 8 further Local Authority customers and, for the first time, we are now banker to all 10 Local Authorities within Greater Manchester.

The bank has been similarly successful in the charities sector, where we are now banker to some of the leading names, including the well known international charity WWF. We also sought new opportunities for our affinity credit card business and I am delighted to report that, in 2001, we launched new card schemes with Barnardo's and ActionAid, as well as extending our long-standing relationship with RSPB, our largest affinity card partner.

In November 2001, we were welcomed by HRH the Princess Royal as an associate corporate member of Save the Children, in recognition of the funds raised through their card.

The Charity Times named the bank "Charity Bank of the Year". The award recognises excellence in service provided to the charity sector.

Our commitment to the charities sector, and the quality of the banking services we offer them, were recognised in September 2001 by the accolade "Charity Bank of the Year", awarded by the Charity Times.

The Co-operative Movement

In many respects, our place within the Co-operative family brings cohesion to our products, services, community involvement and brand values. 2001 was a milestone year for the UK Co-operative movement. After extensive consultation, the new Co-operative Commission published its findings and recommendations in early 2001, which were endorsed at a special Co-operative Congress in November 2001. There is now an agreed and forward-looking strategy for the movement, designed to underpin its future success.

Against this background, The Co-operative Bank's shared endeavours with other parts of the Co-operative Group and the wider movement continued to prosper during 2001.

The programme to install a network of cash machines in the stores of 20 retail Co-operative Societies proceeded apace, with 650 machines in place by the end of the year and more being installed throughout 2002.

A new Co-op VISA credit card, specifically tailored for Co-operative Group non-food retail customers, was launched in the autumn of 2001, and is planned to be extended to food customers during 2002. Other initiatives with Co-op retail stores, including Co-op Cash Mini ISA's and Co-op Savings products, also continued to develop well alongside even closer collaboration with our sister businesses CIS and Travelcare.

Ethics

2002 marks the tenth anniversary of our ethical policy. Its introduction proved to be an important decision when, in the context of our co-operative

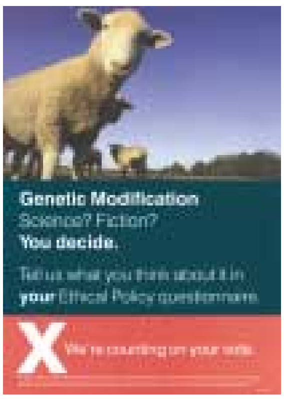
smile developed a number of advertisements targeted at specific markets. This ad appeared in a number of women's magazines in June 2001.

values, we sought the views of our customers on a range of ethical issues. In the early 1990's, this was thought by many to be an unusual thing for any organisation to seek to do, and particularly so for a bank. However, the enthusiastic and concerned response of our customers provided us with a clear mandate to publish our original ethical policy in May 1992 – a public commitment on who we would, and would not, do business with.

Although considered at the time to be high risk by many commentators, it did in fact give the bank a distinct and co-operative difference within a crowded financial services marketplace, where genuine differentiation of an individual organisation is difficult to achieve and sustain.

Consumers' ethical concerns are not necessarily constant, however, and therefore we have at intervals since then been back to our customers, to ensure that our ethical policy is up to date and in line with our customers' developing views, and have updated it accordingly.

The fourth such customer consultation, which for the first time has also used web-based and branch-based 'polling stations' as well as postal questionnaires, was recently completed, and the results will be announced shortly to commemorate the policy's original publication in May 1992. Our ethical policy review process was recently acknowledged in the IPPR/Guardian awards as a leading example of public involvement.



In late 2001, customers were encouraged to take part in the fourth and largest consultation on the bank's Ethical Policy.

We know that the adoption of, and ongoing commitment to, our ethical policy has worked in favour of our business performance, rather than against it. For example, our customers tell us that our ethical policy, more than any other single factor, was the main reason they chose to join The Co-operative Bank.

In the last couple of years, we have felt confident enough to try and identify the positive impact on our business of our ethical policy in financial terms, and include this analysis in our annual Partnership Report. It was pleasing to see this Report publicly recognised, when it was judged the foremost sustainability report of 2001 by the Institute of Social and Ethical Accountability and the Association of Chartered Certified Accountants. Such is our belief in the positive business impact of the convergence of our customer focus and ethical policy that, during 2001, we adopted the phrase "customer led, ethically guided" as the headline for our advertising and product promotional material.

Perhaps it was not so surprising that, when FTSE was proposing to establish a new index of leading companies selected on the basis of their good record on corporate social responsibility (FTSE4Good), The Co-operative Bank was asked to help with its planning, development and launch.

The FTSE4Good indices were launched in July 2001, with selection criteria including environmental sustainability, commitment to universal human rights and positive relationships with stakeholders. I was privileged to have been invited to be the first Chair of the FTSE4Good Advisory Committee. As I mentioned earlier, the bank has recently launched its first guaranteed deposit bond linked to the performance of the new FTSE4Good UK Index.

Environment

Our customer consultation over the last few years has revealed that, alongside ethical issues, our customers are also increasingly expressing environmental concerns. As a result, we have taken on board these separate, but sometimes overlapping, concerns, and incorporated them into our way of doing business.

For example, for every home purchase made with a Co-operative Bank mortgage, we provide a free home energy survey to identify how the home can be made more energy efficient, producing both financial and environmental benefits. And, for the life of every mortgage, the bank makes an annual donation to Climate Care, an international scheme that helps to tackle global warming.

As with ethical issues, the various environmental measures the bank has taken have also been reflected in our Partnership Report, as a result of which it has been judged joint-winner of the 2001 UK Environmental Reporting Awards by the Association of Chartered Certified Accountants.

In addition, our own programme to play our part in addressing the problems of global climate change – for example by reducing our energy consumption and switching to renewable energy sources – was named as winner of the 2001 Awards for Business Commitment to the Environment.

The Secretary of State for Trade and Industry, the Rt Hon Patricia Hewitt MP, presents Mervyn Pedelty with Business in the Community's prestigious 'Company of the Year' award.

Finally Looking forward to 2002 and beyond, there is little doubt that the economic prospects for both the UK and other major economies are less certain than they have been for several years. In the UK retail financial services industry, competition is expected to remain intense, partially fuelled by welcome changes in the regulatory environment aimed at making financial products more transparent and easier for consumers to compare.

Despite the uncertainties, I believe that our clear customer mandate, our Co-operative values, our commitment to service and the effective use of modern technology, and the wholehearted commitment of our most important asset – our staff – will continue to ensure that we compete effectively and can look forward to the future with confidence.

In concluding this overview, I would like to mention an award in 2001 which gave us all at The Co-operative Bank a particular feeling of pride, and which perhaps succinctly reflects the all-round balance of performance we strive to achieve. This was our designation as 'Company of the Year 2001', at the Business in the Community Annual Awards for Excellence.

Mervyn Pedelty, Chief Executive

operating and financial review

Financial Highlights In 2001, The Co-operative Bank recorded a Profit Before Tax of £107.5 million, £11.2 million (11.6%) higher than 2000, despite significant business development expenditure. Earnings attributable to the equity shareholder, after tax, were £68.5 million, a rise of 15.7%, and the Return on Opening Equity, after tax, was 21.1%. The increase in profitability arose from higher operating profits, before bad debts, up by 11.3%, reflecting a 6.2% rise in Operating Income and a further improvement of 1.7 percentage points in the Cost/ Income Ratio. Credit quality remained stable, and the

Results Summary	**2001 £m**	2000 £m	Change £m
Operating Income	**455.6**	429.0	26.6
Operating Costs	**(281.9)**	(272.9)	(9.0)
Operating Profit (before Bad Debts)	**173.7**	156.1	17.6
Bad Debt Provisions	**(66.2)**	(59.9)	(6.3)
Operating Profit	**107.5**	96.2	11.3
Associates and Exceptional Income	**–**	0.1	(0.1)
Profit before Tax	**107.5**	96.3	11.2
Retained Profit	**68.5**	59.2	9.3
Cost/Income Ratio	**61.9%**	63.6%	-1.7%

charge for bad debts, which increased by £6.3 million, was slightly better than last year, at 1.71% of loans and advances to customers.

The Balance Sheet remained strong throughout the year, with continuing robust liquidity and capital ratios. The year-end Risk Asset Ratio was 13.7%, with a Tier I Ratio of 9.9%, substantially higher than the regulatory standards. At the year-end, Balance Sheet liquidity was underpinned by £2.7 billion of highly-rated debt securities.

Business Highlights

There are various indications of growing pressures within the UK economy. Output has been falling, with manufacturing businesses slipping into recession, but consumer confidence and retail demand have so far generally remained robust. These imbalances are unlikely to be sustainable indefinitely, and the timing of an economic recovery is particularly uncertain, with other major world economies experiencing severe slowdowns or recessionary conditions. In this unusual business climate, the bank has continued to grow steadily whilst continuing to adopt a cautious lending policy.

In 2001, retail customer deposit and lending balances both grew strongly. Average retail deposit balances of £4,887 million increased by £935 million (24%) and were £1,344 million higher than average retail lending balances which, at £3,543 million, increased by £485 million (16%).

The growth in retail customer deposits was spread fairly evenly across the Personal and Corporate sectors, with average Personal deposits growing by 28% and average Corporate deposits by 17%. Both the Personal and Corporate sectors increased their retail lending, although growth was stronger in the Corporate sector, with an increase in average lending of £357 million. In the Personal sector, average lending increased by £128 million. This had the effect of better balancing the retail lending portfolio between the Corporate and Personal sectors, and reflected both our successful focusing on specific opportunities within the Corporate sector, and the more targeted marketing and tighter acceptance criteria within our Personal sector credit application and behavioural scoring systems.

Corporate and Business banking in general had a fruitful year, which included a substantial financing arrangement for Manchester Airport, and participation in major syndications for high quality national companies. It also benefited from the specialist expertise developed in the community, voluntary and environmental sectors, and business was increased in all these areas. In addition, during the last year, the banking business of a further eight Local Authorities was gained, consolidating and strengthening the bank's position as a major provider of financial services to that sector. The bank is now, for the first time, banker to all ten Local Authorities in Greater Manchester.

In September 2001, the bank received the prestigious award "Charity Bank of the Year" from the Charity Times, reflecting the bank's reputation for superior service and product offerings, alongside its ethical and environmental policies.

In addition, business banking facilities for small and medium-sized companies were re-aligned, working in partnership with several trade associations.

Personal Banking also had a successful year, balancing careful control of new lending with timely and well-received new product launches to meet the changing needs of customers.

In June 2001, 'Privilege', a new current account was launched. As well as offering full current account facilities, including a guaranteed overdraft at a preferential rate, it also provides a wide range of attractive lifestyle benefits at discounted prices, and all for a small monthly fee. So far, take up of Privilege has been very encouraging.

The bank re-entered the mortgage market in late 2000, initially offering mortgages mainly to existing customers. In 2001, the mortgage product range was extended to include fixed-rate and capped-rate products, delivered across a range of channels, including telephone, internet, branches and intermediaries. The mortgage range was also promoted to attract new customers to the bank as well as to appeal to existing customers.

Growth has continued in the personal loan market, where efforts have been focused on existing customers and established introducers, rather than extensive direct marketing to non-customers. As part of this programme, the bank trialled new pricing structures which relate the interest rate on a loan to the credit risk profile of individual customers.

VISA credit cards were also promoted selectively and new products were also introduced. There was solid growth in our affinity card base, where we welcomed two major new affinity partners in Barnardo's and ActionAid. In the Platinum card market, we launched both an innovative 5-year fixed-rate product and a competitive variable-rate product; and in our own Co-operative sector we introduced a credit card specifically tailored to retail non-food customers.

Also, within the Co-operative movement, we continued to expand our network of cash machines located in retail stores. By the end of the year these numbered 650, a figure which will rise during 2002 as more installations are completed.

Operating Income

Operating Income of £455.6 million was £26.6 million (6.2%) higher than last year, reflecting steady growth in both Net Interest Income and Non-Interest Income.

Net Interest Income was £313.5 million, an increase of £19.4 million (6.6%). The rise in Net Interest Income was mainly due to growth in customer balances, partly offset by a reduction in the overall net interest margin. Although margins for certain products have narrowed in line with industry trends, the reduction in the overall margin mainly arose from mix changes, where the growth in Corporate lending and wholesale asset balances was higher than in Personal lending. The bank's increase in wholesale assets mainly arose because retail deposits overall grew faster than retail lending and these incremental deposits were placed in the financial markets.

Corporate and wholesale lending attracts a lower margin than unsecured Personal lending because such lending generally represents a lower credit risk. As a

Average Balances and Interest Margins	**2001 £m**	2000 £m	Change £m
Net Interest Income	**313.5**	294.1	19.4
Average Balances			
Interest-earning Assets	**7,175**	6,192	983
Interest-bearing Liabilities	**6,001**	5,145	856
Interest-free Liabilities	**1,174**	1,047	127
Average Rates			
Gross Yield on Interest-earning Assets	**7.9%**	9.1%	(1.2%)
Cost of Interest-earning Liabilities	**4.2%**	5.2%	1.0%
Interest Spread	**3.7%**	3.9%	(0.2%)
Contribution of Interest-free Liabilities	**0.7%**	0.9%	(0.2%)
Net Interest Margin	**4.4%**	4.8%	(0.4%)

Non-Interest Income	**2001 £m**	2000 £m	Change £m
Net Commission and Fee Income	**97.2**	89.1	8.1
Insurance Commission Income	**43.2**	42.8	0.4
Other Income, including Dealing Profits/Losses	**1.7**	3.0	(1.3)
Total	**142.1**	134.9	7.2

result of this improvement in the credit profile, the bank's net interest spread (the difference between interest rates paid on deposits and that earned from loans) reduced by 0.2% to 3.7%. In addition, the contribution from interest-free liabilities was reduced by 0.2%, due to the lower interest rate environment. Hence, the overall net interest margin was 4.4% compared with 4.8% last year.

Average interest-earning assets of £7,175 million increased by £983 million (15.9%), reflecting growth in retail customer lending of £485 million and an increase in wholesale market placements of £498 million. Average interest-bearing liabilities rose by £856 million (16.6%) to £6,001 million, driven by growth in interest-bearing retail customer deposits of £860 million. The increase in average interest-free balances mainly arose from higher Current Account balances and the bank's retained earnings.

Non-Interest Income of £142.1 million was £7.2 million higher than last year, an increase of 5.3%. Net commission and fee income increased by £8.1 million (9.1%) mainly reflecting higher inter-bank commission from the bank's expanded ATM network, along with higher VISA commission and customer service fees. Insurance commission income was slightly higher than last year by £0.4 million. Other income was £1.3 million lower than last year due to lower dealing income in 2001. Most of the bank's income from its Treasury activities is included in Net Interest Income.

Operating Costs

Operating Costs of £281.9 million were £9.0 million higher than last year, a rise of 3.3%. The increase in costs reflects business development expenditure. The Cost/Income Ratio improved to 61.9%, better than last year by 1.7 percentage points.

Staff costs were £3.9 million (3.5%) higher than last year, mainly reflecting the annual pay award and staff profit share. Staff numbers have remained stable, with

Operating Cost Analysis	**2001 £m**	2000 £m	Change £m
Staff Costs			
Wages and Salaries	**88.9**	85.2	3.7
Pensions and Social Security Costs	**19.5**	18.0	1.5
Severance	**1.6**	2.7	(1.1)
Other Staff Costs	**6.3**	6.5	(0.2)
	116.3	112.4	3.9
Other Administrative Expenses	**143.5**	140.9	2.6
Depreciation	**22.1**	19.6	2.5
Total Operating Costs	**281.9**	272.9	9.0
Cost/Income Ratio	**61.9%**	63.6%	-1.7%

Mervyn Pedelty
Chief Executive

Sheila Macdonald
Executive Director
Customer Services

Ken Lewis
Executive Director
Resources

Mick Firth
Deputy Chief Executive

Bob Head
Chief Executive, smile

John Marper
Executive Director
Finance and Risk

Michael Woodward was a member of the executive team until his retirement on 1st February 2002.

executive team

additional staff in the new **smile** and mortgage service centres more than offset by staff reductions in the rest of the bank.

Other Administrative and Depreciation costs increased by £5.1 million (3.2%) mainly reflecting incremental expenditure on strategic business developments, such as the extended ATM network, the new mortgage service centre and enhancements to the bank's major payment systems (including banking industry initiatives such as the introduction of chip cards and "newCHAPS" systems). Excluding this investment spending, core Operating Costs were lower than last year.

Despite a significant growth in business, the Operating Costs of **smile**, the internet banking service, were slightly lower than last year. **smile**'s customer base has grown impressively since its launch two years ago and approximately 75% of its customers are new to The Co-operative Bank group. Earlier in the year, **smile**'s internet operating system and content management systems were completely re-designed to further enhance customer service and internet response times. The product range was also extended and **smile** now offers insurance, travel, mortgages and a funds supermarket in addition to its current and savings accounts, loans and credit cards.

Bad and Doubtful Debts

The Profit and Loss charge for bad debts of £66.2 million was £6.3 million higher than last year due to growth in customer lending balances. The bad debt charge represented 1.71% of Loans and Advances to Customers, slightly lower than last year by 0.07%.

Personal sector bad debt charges of £61.1 million rose by only £2.4 million (4.1%). During the last two years, credit criteria have been progressively tightened and bad debt charges in 2001 have risen at a slower rate than lending balances.

The bank's Corporate lending is largely to small and medium-sized business enterprises and credit quality has remained stable in recent years. Corporate sector bad debt charges were £5.1 million, higher than in 2000 by £3.9 million. However, last year's Corporate bad debt charge of £1.2 million was particularly low, representing a combination of low provisions for new debt and high recoveries of previously provided debt. The bank's problem loan portfolio has now been reduced to minimal levels, hence there are fewer provisions to be released.

Despite the current uncertainties within the economy, and record levels of consumer debt, there are no firm signs yet of a significant deterioration in the credit climate. Interest rates, unemployment and company failures remain low by historic standards. Although unemployment increased, albeit slightly, during the fourth quarter of 2001, this followed a long period of steadily falling unemployment. Despite a manufacturing slowdown and declining corporate profitability, there are no firm indications of an increasing trend in business failures.

Bad and Doubtful Debt Charge

	2001 £m	2000 £m	Change £m
Profit and Loss Charge			
Personal Sector	**61.1**	58.7	2.4
Corporate Sector	**5.1**	1.2	3.9
Total	**66.2**	59.9	6.3
Charge as a percentage of Loans and Advances to Customers at year end	**1.71%**	1.78%	0.07%

However, at a time when many of the major world economies are experiencing an economic slowdown, the timing of economic recovery in the UK is inevitably uncertain and the credit climate is likely to be weaker in 2002 than in recent years.

Summary

In 2001, the bank continued to grow strongly, despite increased competition. Profitability has risen, cost efficiency has improved and an excellent return on capital has been generated. Innovative new products and services have been introduced and The Co-operative Bank continues to be well placed to compete in the changing UK retail financial services market.

risk management

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

The bank's Executive Risk Review Committee, comprising all Executive Directors, the Chief Executive and Deputy Chief Executive has continued to meet in 2001. The Terms of Reference include the maintenance of the Risk Management Policy, the identification and evaluation of risks and the provision of assurance to Board and Audit Committees. Regular risk and control assessments are provided by line management to the Risk Committee in respect of the bank's significant risks.

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

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

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

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

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

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

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

Treasury executes funding and hedging transactions with the wholesale markets on behalf of the bank and its customers. It also generates incremental income from proprietary trading within strict risk limits. There are two prime measures of risk supplemented by additional controls such as maturity and stop loss limits. Risk units express the various re-pricing and maturity mismatches as a common unit of measurement. Value at Risk (VaR) measures the daily maximum potential gain or loss due to recent market volatility to a statistical confidence level of 95% and uses 250 days of historical data and a one day holding period. During 2001, the daily VaR in the trading portfolios was less than £1.2 million. The VaR methodology has inherent limitations in that market volatility in the past may not be a reliable predictor of the future, and may not reflect the time required to hedge or dispose of the position, hence VaR is not used by the bank as the sole measure of risk.

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

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

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

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

Operational risk is controlled and mitigated through comprehensive, ongoing risk management practices which include formal internal control procedures, training, segregation of duties, delegated authorities and contingency planning. Internal Audit and

Compliance Departments conduct a programme of operational reviews and report regularly to Executive Directors and to the Audit Committee.

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

Financial Instruments

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

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

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

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

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

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

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

the board

Non-Executive Chairman

G. R. Bennett, FIMgt

Non-Executive Deputy Chairman

M. D. Beaumont, MA, FCA

Chief Executive

M. K. Pedelty, FCA, FCIB

Deputy Chief Executive

M. A. Firth, BA(Hons), FCIB

Executive Directors

K. J. Lewis, BScEcon(Hons), FCIB, FIPD

S. P. B. Macdonald

W. J. Marper, FCA

Non-Executive Directors

C. B. Blanchett

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

D. S. Hollas, MSc, FIA

D. J. Jackson, FCA

Sir Graham Melmoth, FCIS, FIGD, CIMgt

K. A. Smith

W. Tucker, DL

Secretary

M. A. Lees, FCIS

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1 Balloon Street, Manchester M60 4EP.

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

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

The Directors submit their report, together with the audited financial statements for the year ended 12th January 2002.

Results and Dividends

The profit on ordinary activities before taxation was **£107.5 million** (2000-£96.3 million), an increase of £11.2 million on 2000. After preference dividends of **£5.5 million**, the profit attributable to the ordinary shareholders amounted to **£68.5 million**. The Directors do not recommend the payment of a dividend on the ordinary shares.

Activities and Business Review

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

The operating and financial review sets out the business of the Group for the year ended 12th January 2002 and future developments.

Outlets

At 12th January 2002 the bank had **136** outlets and **125** Handybanks (instore facilities).

Directors and their Interests

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

Mr. D. M. Conway also served as an Executive Director until his resignation on 28th March 2001.

Mr. R. H. Burlton also served as a Non-executive Director until his resignation on 8th November 2001.

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

Ms. K. A. Smith was appointed as a Non-executive Director on 8th November 2001.

In accordance with the Articles of Association, Ms. Smith, having been appointed since the date of the last Annual General Meeting, retires and being eligible, offers herself for re-election.

In accordance with the Articles of Association, Messrs. Beaumont, Blanchett, Macdonald and Jackson retire by rotation and, being eligible, offer themselves for re-election.

No Director offering themself for re-election has a service contract with the bank or any of its subsidiary undertakings which has a duration of more than one year.

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

As nominee of the parent organisation, Mr. G.R. Bennett held 40 ordinary shares of 5p each throughout the year.

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

	No. of Shares	
	2001	2000
W. J. Marper	**11,042**	11,042

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

	2001 'C' Shares of £1 each	2000 'C' Shares of £1 each
Sir Graham Melmoth	**226**	226

There have been no changes in the Directors' shareholdings between the end of the financial year and 23rd April 2002.

Non-Executive Directors

The Non-executive Directors are appointed from the Board and Executive of Co-operative Group (CWS) Limited, which is the holder of all the ordinary share capital, as follows:

Graham Bennett, 51, Chief Executive, Southern Co-operatives Limited.
Martin Beaumont, 52, Chief Executive, United Norwest Co-operatives Limited.
Christopher Blanchett, 55, Chief Executive, Colchester and East Essex Co-operative Society Limited.
Keith Darwin, 57, Chief Executive, Lincoln Co-operative Society Limited.
David Hollas, 60, Chief General Manager, Co-operative Insurance Society Limited.
David Jackson, 54, Financial Controller, Co-operative Group (CWS) Limited.
Sir Graham Melmoth, 64, Chief Executive, Co-operative Group (CWS) Limited
Kathryn Smith, 42, Research and Communications Consultant.
William Tucker, 56, Chief Executive, Midlands Co-operative Society Limited.

Supplier Payment Policy and Practice

The bank's suppliers are one of seven groups recognised by the bank as partners in its business. Each partner has clear responsibilities to the bank and the bank in turn acknowledges its responsibilities to them. The bank considers that the prompt payment of invoices is one of its responsibilities to its suppliers and is a signatory to the Better Payment Practice Code. Signatories to the code promise to agree payment terms at the outset of a relationship, explain their payment procedures to suppliers, pay bills in accordance with any contract agreed with the supplier or as required by law, tell suppliers without delay when an invoice is contested and settle disputes quickly. The bank had 19 days purchases outstanding at 12th January 2002, based on the average daily amount invoiced by suppliers during the financial year.

Staff

The bank and its subsidiary undertakings employed **4,057** persons at 12th January 2002 (2000-4,117). The weekly average number of persons was **4,067** (2000-4,100) and their aggregate remuneration for the year was **£88.9 million** (2000-£85.2 million).

The bank continues to consult and communicate with staff on relevant matters, particularly actual business performance, using staff publications, surveys, conferences, videos, the Staff Council and forums with UNIFI who have been fully involved where organisational change affects staff.

The bank was named by The Sunday Times as one of the "Best Companies to Work For" in a survey of employment policies and working conditions of leading British organisations which was supported by the Department of Trade and Industry and Learndirect. The 2001 successful re-assessment of the bank by 'Investors in People' commended the bank and its people as outstanding examples of the practices of that organisation.

Employees with Special Needs

The bank's policy is to carefully consider employment applications from people with special needs, matching vacancies against their particular aptitudes and abilities. The bank recognises its responsibility to the training and development of persons with special needs and those individuals who develop special needs whilst in its employment. As holder of the Disability Symbol, an accreditation given by The Government's Employment Service Agency, the bank is committed to continuing to work in partnership with the Disability Service in establishing suitable opportunities bankwide. The bank continues to be represented at the most senior level on groups such as Business in the Community, which have particular interests in this area.

Donations

During the year, the bank and its subsidiaries made donations (which excludes affinity card payments) of **£0.7 million** (2000-£0.6 million) to United Kingdom charitable organisations.

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

Directors' Responsibilities in respect of the financial statements

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

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

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

Auditor

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

By Order of the Board
M. A. Lees, Secretary
23rd April 2002

The Combined Code

The Combined Code of Corporate Governance, which is incorporated into the Listing Rules of the Financial Services Authority, incorporates the recommendations of the Cadbury, Greenbury and Hampel Committees. The Turnbull Committee provided guidance in September 1999 on Directors' responsibilities for internal control. The Directors believe the bank group has procedures necessary to comply with the Turnbull Guidance. The manner in which the bank has complied with the Combined Code is outlined below:

Directors

The business of the bank is controlled by the Board of Directors. The Board meets monthly, apart from August, when no meeting is held. The Board includes a Non-executive Chairman, eight Non-executive Directors, one of whom is designated Deputy Chairman, three Executive Directors and the Chief Executive and Deputy Chief Executive.

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

There is an agreed procedure for Board members to take independent advice, if necessary, at the bank's expense.

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

Every Director, on appointment, is invited to meet with the Head of Internal Audit and Inspection to receive appropriate training, advice and background information.

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

Areas of Non-compliance

The Non-executive Directors represent the sole equity shareholder and the majority are also senior executives of businesses which are customers of the bank. In this respect they are not strictly independent as defined by the Code. Nevertheless, the bank meets the requirements of the Code in respect of Non-executive Directors concerning the composition of the Audit Committee, the Remuneration and Nominations Committee and the recognition of a senior Non-executive Director, but the absence of strict independence means that the bank does not fully comply with the requirements of the Code in these areas.

Directors' Remuneration

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

Relations with Shareholders

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

Accountability and Audit

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

The Audit Committee consists of four Non-executive Directors. The Committee meets quarterly with the Head of Internal Audit and Inspection and the external auditors. Other meetings will be arranged if circumstances suggest that a meeting is required. Close contact is maintained between the internal and external auditors.

Internal Control

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

The Board confirms there is a process for identifying, evaluating and managing the significant risks faced by the bank. The process has been in place throughout the whole of 2001, is regularly reviewed by the Board and accords with the Turnbull Guidance.

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

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

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

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

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

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

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

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

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

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

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

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

The Audit Committee, on behalf of the Board, has reviewed the effectiveness of the bank's systems of internal control for the year and up to the date of approval of the annual report and accounts. As might be expected in a group of this size and complexity, a small number of internal control irregularities occurred during the period under review. These were identified on a timely basis and appropriate actions taken. None of these irregularities in internal control resulted in any material losses which require disclosure.

Going Concern

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

Directors' Committees

Audit Committee

M. D. Beaumont
C. B. Blanchett
R. H. Burlton (resigned 8th November 2001)
D. J. Jackson *
K. A. Smith (appointed 8th November 2001)

Advances Committee

M. D. Beaumont
G. R. Bennett *
C. B. Blanchett
D. J. Jackson
W. J. Marper
M. K. Pedelty

Remuneration and Nominations Committee

M. D. Beaumont
G. R. Bennett *
K. W. Darwin
Sir Graham Melmoth

Executive Directors' Risk Review Committee

M. A. Firth
K. J. Lewis
S. P. B. Macdonald
W. J. Marper
M. K. Pedelty *

* Chairman

Non-Executive Directors

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

Executive Directors

Basic salaries and benefits

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

Service contracts

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

Pension scheme

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

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

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

Action was taken to enhance benefits for M.K. Pedelty and M.J. Woodward.

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

Incentive scheme

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

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

The annual incentive payment in respect of the year 2001 is reflected in the table below within 'Performance Related Pay'.

Directors' Emoluments

	Basic Pay	Benefits in Kind	Performance Related Pay	Total Emoluments	Accrued Pension	Increase in Accrued Pension	Transfer Value (v)	2000 Total Emoluments
	£	£	£	£	£	£	£	£
M. K. Pedelty (i)	**350,000**	**27,513**	**147,714**	**525,227**	**50,556**	**16,659**	**204,420**	485,378
M. A. Firth	**205,000**	**–**	**72,099**	**277,099**	**63,600**	**1,366**	**17,888**	270,981
D. M. Conway (ii)	**61,106**	**17,780**	**–**	**78,886**	**–**	**–**	**–**	242,979
K. J. Lewis	**160,000**	**15,205**	**56,272**	**231,477**	**52,047**	**7,802**	**99,078**	222,662
S. P. B. Macdonald	**155,000**	**14,516**	**54,514**	**224,030**	**61,135**	**11,002**	**143,352**	207,849
W. J. Marper	**195,000**	**12,941**	**68,582**	**276,523**	**50,873**	**6,533**	**84,705**	277,859
M. J. Woodward (iii)	**180,000**	**17,685**	**63,306**	**260,991**	**104,748**	**8,179**	**147,660**	257,600
	1,306,106	**105,640**	**462,487**	**1,874,233**	**382,959**	**51,541**	**697,103**	1,965,308
Compensation for loss of office (ii)	**103,749**	**–**	**–**	**103,749**	**–**	**–**	**–**	–
Sums paid to third parties (iv)	**10,693**	**–**	**–**	**10,693**	**–**	**–**	**–**	42,419
	1,420,548	**105,640**	**462,487**	**1,988,675**	**382,959**	**51,541**	**697,103**	2,007,727

(i) Highest Paid Director

(ii) D.M. Conway resigned as a Director of the bank on 28th March 2001 and left the bank's employment on 25th May 2001. He received a compensation payment of £90,416 in lieu of notice plus a payment of £13,333 in respect of his pension arrangements.

(iii) M.J. Woodward waived his entitlement to performance related pay due to him under the Executive Directors Annual Incentive Scheme.

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

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

Share options

The bank does not operate a share option scheme.

Appointments outside the bank

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

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

We have audited the financial statements on pages 32 to 64.

Respective responsibilities of directors and auditors

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group as at 12th January 2002 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
23rd April 2002

consolidated profit and loss account

for the year ended 12th January 2002
all amounts are stated in £m unless otherwise indicated

	Notes	**2001 (52 weeks)**	2000 (53 weeks)
Interest receivable			
Interest receivable and other income arising from debt securities		**166.8**	174.0
Other interest receivable and similar income		**396.4**	386.8
		563.2	560.8
Interest payable		**(249.7)**	(266.7)
Net Interest Income		**313.5**	294.1
Fees and commissions receivable		**163.7**	153.6
Fees and commissions payable		**(20.1)**	(18.6)
Dealing losses	29	**(1.5)**	(0.3)
Other operating income		**–**	0.2
Operating Income		**455.6**	429.0
Administrative expenses			
Staff costs	1	**(116.3)**	(112.4)
Other		**(143.5)**	(140.9)
Depreciation and amortisation	17	**(22.1)**	(19.6)
		(281.9)	(272.9)
		173.7	156.1
Provisions for bad and doubtful debts	12	**(66.2)**	(59.9)
Group Operating Profit		**107.5**	96.2
Income from interests in associated undertakings	15	**–**	0.1
Profit on Ordinary Activities before Taxation	2	**107.5**	96.3
Taxation on profit on ordinary activities	5	**(31.7)**	(29.8)
Profit on Ordinary Activities after Taxation		**75.8**	66.5
Minority interests		**(1.8)**	(1.7)
Profit for the Financial Year	6	**74.0**	64.8
Preference dividend to non-equity shareholders	7	**(5.5)**	(5.6)
Retained Profit for the Year	26	**68.5**	59.2
Earnings per share (basic and diluted)	8	**9.79p**	8.46p

Movements in profit and loss account reserves are shown in note 26 on page 55.
There are no recognised gains or losses other than the profit for the year and the previous year.
All profits have been derived from continuing operations.

The notes on pages 37 to 64 form part of these financial statements

at 12th January 2002
all amounts are stated in £m unless otherwise indicated

	Notes	2001	2000
Assets			
Cash and balances at central banks		**113.7**	61.7
Items in the course of collection from other banks		**145.6**	116.9
Treasury bills and other eligible bills	9	**1.6**	55.6
Loans and advances to banks	10	**733.2**	580.6
Loans and advances to customers	11	**3,869.2**	3,363.7
Debt securities	13	**2,749.4**	2,361.6
Equity shares	14	**1.3**	1.3
Interests in associated undertakings	15	**0.6**	0.6
Tangible fixed assets	17	**67.3**	69.2
Other assets	18	**36.4**	32.7
Prepayments and accrued income		**107.9**	144.4
Total assets	27	**7,826.2**	6,788.3
Liabilities			
Items in the course of transmission to other banks		**10.2**	11.1
Deposits by banks	19	**727.3**	750.4
Customer accounts	20	**6,115.8**	5,186.3
Debt securities in issue	21	**87.5**	54.1
Other liabilities	22	**90.8**	75.0
Accruals and deferred income		**128.5**	114.8
Provisions for liabilities and charges	23		
Deferred taxation		**10.5**	11.6
Other provisions		**6.0**	5.3
Subordinated liabilities (including convertible debt)	24	**179.4**	179.1
Minority interests (equity)	16	**17.4**	16.3
Called up share capital	25		
Ordinary shares		**35.0**	35.0
Preference shares (non-equity)		**60.0**	60.0
		95.0	95.0
Share premium account	26	**8.8**	8.8
Profit and loss account	26	**349.0**	280.5
Shareholders' funds (£60 million of which relates to non-equity)		**452.8**	384.3
Total liabilities	27	**7,826.2**	6,788.3
Memorandum items	28		
Contingent liabilities			
Acceptances and endorsements		**37.9**	56.5
Guarantees and assets pledged as collateral security		**71.8**	60.7
		109.7	117.2
Commitments			
Other commitments		**4,991.1**	4,939.7
		4,991.1	4,939.7

Approved by the Board on 23rd April 2002 and signed on its behalf by

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

The notes on pages 37 to 64 form part of these financial statements

at 12th January 2002
all amounts are stated in £m unless otherwise indicated

	Notes	**2001**	2000
Assets			
Cash and balances at central banks		**113.7**	61.7
Items in the course of collection from other banks		**145.3**	116.7
Treasury bills and other eligible bills	9	**1.6**	55.6
Loans and advances to banks	10	**733.2**	580.6
Loans and advances to customers	11	**3,817.4**	3,305.0
Debt securities	13	**2,560.6**	2,187.6
Equity shares	14	**1.3**	1.3
Shares in Group undertakings	16	**1.2**	1.2
Tangible fixed assets	17	**59.1**	60.6
Other assets	18	**37.2**	33.7
Prepayments and accrued income		**100.3**	137.6
Total assets	27	**7,570.9**	6,541.6
Liabilities			
Items in the course of transmission to other banks		**9.9**	11.1
Deposits by banks	19	**733.6**	750.5
Customer accounts	20	**5,906.8**	4,992.0
Debt securities in issue	21	**87.5**	54.1
Other liabilities	22	**86.3**	70.3
Accruals and deferred income		**126.1**	111.4
Provisions for liabilities and charges	23	**3.6**	2.6
Subordinated liabilities	24	**178.7**	178.4
Called up share capital	25		
Ordinary shares		**35.0**	35.0
Preference shares (non-equity)		**60.0**	60.0
		95.0	95.0
Share premium account	26	**8.8**	8.8
Profit and loss account	26	**334.6**	267.4
Shareholders' funds (£60 million of which relates to non-equity)		**438.4**	371.2
Total liabilities	27	**7,570.9**	6,541.6

	Notes	**2001**	2000
Memorandum items	28		
Contingent liabilities			
Acceptances and endorsements		**37.9**	56.5
Guarantees and assets pledged as collateral security		**71.6**	60.2
		109.5	116.7
Commitments			
Other commitments		**4,978.0**	4,934.0
		4,978.0	4,934.0

Approved by the Board on 23rd April 2002 and signed on its behalf by

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

The notes on pages 37 to 64 form part of these financial statements

reconciliation of movements in shareholders' funds

all amounts are stated in £m unless otherwise indicated

	2001	2000
Group		
Profit for the financial year	**74.0**	64.8
Dividends	**(5.5)**	(5.6)
Net increase in shareholders' funds	**68.5**	59.2
Shareholders' funds at beginning of year	**384.3**	325.1
Shareholders' funds at end of year	**452.8**	384.3
Bank		
Profit for the financial year	**72.7**	61.8
Dividends	**(5.5)**	(5.6)
Net increase in shareholders' funds	**67.2**	56.2
Shareholders' funds at beginning of year	**371.2**	315.0
Shareholders' funds at end of year	**438.4**	371.2

The notes on pages 37 to 64 form part of these financial statements

consolidated cash flow statement

for the year ended 12th January 2002
all amounts are stated in £m unless otherwise indicated

	Notes	2001 (52 weeks)	2000 (53 weeks)
Net cash inflow/(outflow) from operating activities	31	**144.6**	(345.8)
Returns on investments and servicing of finance			
Preference dividends paid		**(5.6)**	(5.6)
Interest paid on subordinated liabilities		**(14.2)**	(13.7)
Dividend paid to minority shareholders in subsidiary undertaking		**(0.5)**	(0.5)
Net cash outflow from returns on investments and servicing of finance		**(20.3)**	(19.8)
Taxation			
United Kingdom corporation tax paid		**(32.0)**	(30.1)
Capital expenditure and financial investment			
Purchase of investments		**(701.6)**	(504.7)
Sale of investments		**681.2**	925.2
Purchase of tangible fixed assets		**(21.2)**	(24.8)
Sale of tangible fixed assets		**0.4**	1.0
Net cash (outflow)/inflow from capital expenditure and financial investment		**(41.2)**	396.7
Financing			
Repayment of subordinated loan stock		**–**	(113.0)
Issue of subordinated loan stock		**–**	99.0
Net cash outflow from financing		**–**	(14.0)
Increase/(decrease) in cash	31	**51.1**	(13.0)

During 2000, investments were sold generating a net cash inflow. Swap contracts were acquired to generate additional fixed rate, medium-term income. Additional liquid short-term trading securities were acquired contributing to the net cash outflow from operating activities.

The notes on pages 37 to 64 form part of these financial statements

Accounting policies

(a) Basis of preparation and accounting date

(i) The financial statements of the Group relate to the 52 weeks to 12th January 2002. Since the Group accounting date is virtually co-terminous with the calendar year 2001 the financial year's figures are headed 2001 and the corresponding figures for the previous year are headed 2000. The financial statements are prepared on a historical cost basis in accordance with the special provisions of Part VII of the Companies Act 1985 relating to Banking Groups, applicable accounting standards and statements of recommended accounting practice issued by the British Bankers' Association, the Irish Bankers' Federation and the Finance and Leasing Association. The bank has adopted the requirements of FRS 18, the transitional provisions of FRS 17 and the requirements of the Finance and Leasing Association's Statement of Recommended Accounting Practice on Accounting Issues in the Asset Finance and Leasing Industry, none of which required changes to accounting policies. No other accounting policies have changed during the year.

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

(ii) Associated undertakings

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

(iii) Goodwill

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

(b) Debt securities

Held as investment securities

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

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

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

Realised profits and losses on the sale of debt securities held in designated closed investment portfolios are taken to the profit and loss account based on the maturity profile of the portfolio. This treatment has been adopted in order that the financial statements give a true and fair view of the operation of these closed investment portfolios. As a consequence in this respect, the financial statements depart from the Companies Act 1985. The normal treatment is to recognise profits and losses as they arise which would result in unrepresentative volatility from a closed portfolio which is operated as a single long-term financial fixed asset. The treatment of amortising profits and losses has been adopted to reflect this (see note 13).

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

Held as dealing securities

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

(c) Loans and advances

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

Provisions for corporate debt are raised on an individual basis. Provisions for personal debt are calculated from a model which uses assumptions regarding the recoverability of aged debt based on past experience.

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

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

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

Interest earned on loans and advances is credited to the profit and loss account as it accrues. When the collection of interest becomes doubtful this is credited to a suspended interest account and therefore excluded from the profit and loss account. Provisions for suspended interest which are no longer required are credited to the profit and loss account as interest receivable.

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

(d) Sale and repurchase transactions

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

(e) Depreciation

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

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

(f) Assets leased to customers

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

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

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

(g) Leased assets

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

Operating lease rentals are charged to the profit and loss account on a straight line basis.

(h) Deferred taxation

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

(i) Pension costs

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

(j) Exchange rates

Balances in foreign currencies are expressed in sterling at the rate ruling at the balance sheet date. All exchange differences are dealt with in the profit and loss account.

(k) Off balance sheet instruments

Derivatives are used for trading purposes, which include proprietary transactions and customer facilitation, or as a hedging activity for the management of interest rate risk and foreign exchange rate risk. Derivatives used in trading transactions include swaps, caps and floors, forward rate agreements and exchange traded futures and options. Derivatives used for the management of interest rate risk include swaps, caps and floors, forward rate agreements and exchange traded futures and options. Derivatives used for the management of exchange rate risk include forward currency transactions and currency swaps.

Derivatives used for trading purposes are measured at fair value and any gains or losses are shown in the profit and loss account as dealing profits/losses.

Derivatives used for specifically designated hedging purposes are accounted for based on the accounting treatment of the item being hedged. The criteria for a derivative to be treated as a specifically designated hedge are the existence of documented evidence of the intention to hedge a specific exposure and the hedge instrument should provide a reasonable basis for eliminating risk.

When the specific exposure which is being hedged ceases to exist the derivative is transferred to the trading book at fair value. The profit or loss arising is recognised immediately in the profit and loss account in the same category as the item being hedged.

Hedge transactions which are terminated early, and where the exposure still exists, are valued at fair value and the profit or loss is amortised over the period of the exposure being hedged.

(l) Dealing

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

1. Staff costs

	2001 (52 weeks)	2000 (53 weeks)
Wages and salaries	**88.9**	85.2
Social security costs	**6.9**	6.8
Other pension costs	**12.6**	11.2
Severance costs	**1.6**	2.7
Other staff costs	**6.3**	6.5
	116.3	112.4

2. Profit on ordinary activities before taxation

	2001 (52 weeks)	2000 (53 weeks)
Is stated after:		
(i) Income:		
Aggregate amounts receivable, including capital repayments, under finance leases, hire purchase and conditional sale contracts	**72.3**	68.6
Income from listed investments	**34.2**	49.5
Profits on disposal of investment securities	**6.8**	7.8
(ii) Charges:		
Interest payable in respect of subordinated liabilities	**14.4**	13.6
Rentals payable in respect of operating leases		
hire of computers, equipment and vehicles	**1.6**	1.6
other operating leases	**11.8**	12.9
	£'000	£'000
Auditor's remuneration – parent company **£165,500** (2000–£156,000)	**278.5**	273.0

Other fees paid to the auditor and its associates for non-audit work from The Co-operative Bank p.l.c. and its subsidiary undertakings was **£609,000** (2000–£642,000). All fees for non-audit work are non-recurring.

3. Directors' emoluments

	2001 £'000 (52 weeks)	2000 £'000 (53 weeks)
Non-executive Directors	**–**	–
Executive Directors	**1,874**	1,965
Compensation for loss of office	**104**	–
Payments to third parties for services of Non-executive Directors	**11**	43
	1,989	2,008

Retirement benefits are accruing to six Directors (2000–seven) under defined benefit schemes.

The emoluments of the highest paid Director were:

	2001 £'000 (52 weeks)	2000 £'000 (53 weeks)
Aggregate emoluments	**525**	485
Defined benefit scheme, accrued pension at the end of the year	**51**	33

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

4. Pensions

In November 2000 the Accounting Standards Board issued FRS 17, 'Retirement benefits', which will replace SSAP 24, 'Accounting for pension costs'. FRS 17 is fully effective for the bank's year ending 10th January 2004, 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.

The total pension charge was **£12.6 million** (2000–£11.2 million). The pension charge is assessed in accordance with the advice of a qualified actuary using the projected unit method. The latest full actuarial valuation of the funded scheme was at 5th April 2000. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries, pensions and equity dividends. It was assumed that the investment return would be 6.5% per annum, that salary increases would average 4.5% per annum, that present and future pensions would increase at the rate of 2.5% per annum and that equity dividends would increase at an average rate of 3.5% per annum.

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

The amount charged in the profit and loss account (**£12.6 million**) exceeds the amount paid into the fund (£11.2 million) by **£1.4 million** (2000–£0.4million) resulting in an accrual of **£2.4 million** (2000–£1.0 million).

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

b) FRS 17 disclosures

The actuarial valuation noted in part (a) above has been updated to12th January 2002. The principal assumptions used to calculate the schemes liabilities were:

Inflation rate	2.6%
Rate of increase of pensions in payment	2.6%
Rate of increase in salaries	4.1%
Discount rate	5.9%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

4. Pensions (continued)

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 £23 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 £9 million.

The values of the assets and liabilities of the scheme at 12th January 2002, and the expected rate of return on those assets were:

	£m	%
Equities	**265.1**	**7.5**
Bonds	**25.4**	**5.0**
	290.5	
Present value of scheme liabilities	**(295.0)**	
Surplus/(deficit) in the scheme	**(4.5)**	
Related deferred tax asset	**1.4**	
Net pension asset/(liability)	**(3.1)**	

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

The value of the scheme assets was based on the market value at 12th January 2002 although those assets are not expected to be realised in the short term and may be subject to significant change before they are realised. The volatile nature of stock market prices will have an impact on the value of the scheme assets at any one point in time. Recent experience of stock market movements of 5 per cent within one month would affect the valuation by £13 million.

At the date of the latest actuarial valuation of the scheme at 5th April 2000, the actuarial value of the scheme assets was sufficient to cover 111% of the benefits that had accrued to members. The actuarial valuation is calculated using projected future earnings and as such does not produce significant short term changes in value.

5. Taxation

	2001 (52 weeks)	2000 (53 weeks)
United Kingdom corporation tax at 30% (2000–30%)	**33.9**	28.6
Deferred taxation	**(1.1)**	1.3
Over provision in previous years	**(1.1)**	(0.1)
	31.7	29.8

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

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

£72.7 million (2000–£61.8 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

	2001 pence per share	2000 pence per share	**2001 (52 weeks)**	2000 (53 weeks)
Dividend on 60,000,000 9.25% non-cumulative irredeemable preference shares of £1 each (paid and proposed)	**9.25p**	9.25p	**5.5**	5.6

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 **£74.0 million** (2000–£64.8 million) less dividends on preference shares **£5.5 million** (2000–£5.6 million) by the weighted average number of ordinary shares **700,000,000** (2000–700,000,000) in issue during the year.

9. Treasury bills and other eligible bills

	Group and Bank			
	2001		2000	
	Balance sheet	**Market value**	Balance sheet	Market value
Investment securities				
other eligible bills – private sector	**–**	**–**	55.6	55.6
Other securities				
other eligible bills – private sector	**1.6**		–	

10. Loans and advances to banks

	The Group		The Bank	
	2001	2000	**2001**	2000
Remaining maturity:				
over 5 years	**5.4**	4.7	**5.4**	4.7
1 year or less but over 3 months	**0.6**	0.9	**0.6**	0.9
3 months or less but not repayable on demand	**726.9**	573.8	**726.9**	573.8
Repayable on demand	**0.3**	1.2	**0.3**	1.2
	733.2	580.6	**733.2**	580.6

11. Loans and advances to customers

	The Group		The Bank	
	2001	2000	**2001**	2000
Remaining maturity:				
over 5 years	**788.8**	585.9	**713.5**	502.9
5 years or less but over 1 year	**1,407.9**	1,271.9	**1,357.9**	1,228.0
1 year or less but over 3 months	**543.8**	492.3	**527.0**	480.9
3 months or less but not repayable on demand	**768.2**	668.8	**865.4**	757.8
Repayable on demand	**524.3**	492.2	**512.3**	480.2
General and specific bad and doubtful debt provisions (note 12)	**(161.0)**	(145.6)	**(157.7)**	(144.5)
Suspended interest provisions	**(2.8)**	(1.8)	**(1.0)**	(0.3)
	3,869.2	3,363.7	**3,817.4**	3,305.0
Amounts include:				
Due from subsidiary undertakings unsubordinated			**97.5**	97.2
Due from parent organisation	**47.0**	37.5	**47.0**	37.5
Due from associated undertakings	**1.9**	1.6	**–**	–

all amounts are stated in £m unless otherwise indicated

12. Provisions for bad and doubtful debts

	2001			2000		
	Specific	**General**	**Total**	Specific	General	Total
Group:						
At 13th January 2001	**140.2**	**5.4**	**145.6**	112.9	5.4	118.3
Charge against profits	**66.2**	**–**	**66.2**	59.9	–	59.9
Amounts written off	**(51.0)**	**–**	**(51.0)**	(33.0)	–	(33.0)
Recoveries	**0.2**	**–**	**0.2**	0.4	–	0.4
At 12th January 2002	**155.6**	**5.4**	**161.0**	140.2	5.4	145.6
Bank:						
At 13th January 2001	**139.3**	**5.2**	**144.5**	110.4	5.2	115.6
Charge against profits	**64.0**	**–**	**64.0**	61.4	–	61.4
Amounts written off	**(51.0)**	**–**	**(51.0)**	(32.9)	–	(32.9)
Recoveries	**0.2**	**–**	**0.2**	0.4	–	0.4
At 12th January 2002	**152.5**	**5.2**	**157.7**	139.3	5.2	144.5

All provisions are held against loans and advances to customers.

Non-performing debt:

	2001	2000
Group advances	**106.2**	91.0
Provisions for bad and doubtful debts	**(85.2)**	(76.1)
	21.0	14.9
Bank advances	**100.6**	87.1
Provisions for bad and doubtful debts	**(82.1)**	(75.2)
	18.5	11.9

all amounts are stated in £m unless otherwise indicated

13. Debt securities

	The Group				The Bank			
	2001		2000		**2001**		2000	
	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	**29.9**	**34.6**	25.2	28.1	**29.8**	**34.5**	25.2	28.1
other public sector securities	**15.3**	**16.6**	25.3	27.6	**15.3**	**16.6**	25.3	27.6
	45.2	**51.2**	50.5	55.7	**45.1**	**51.1**	50.5	55.7
Other securities								
government securities	**308.7**		286.9		**308.7**		286.9	
	353.9		337.4		**353.8**		337.4	
Issued by other issuers								
Investment securities								
bank and building society certificates of deposit	**189.5**	**194.9**	175.0	179.8	**–**	**–**	–	–
other debt securities	**596.0**	**599.7**	582.3	585.5	**596.0**	**599.7**	582.3	585.5
	785.5	**794.6**	757.3	765.3	**596.0**	**599.7**	582.3	585.5
Other securities								
bank and building society certificates of deposit	**1,628.7**		1,292.5		**1,628.7**		1,292.5	
other debt securities	**–**		–		**–**		–	
	2,414.2		2,049.8		**2,224.7**		1,874.8	
	2,768.1		2,387.2		**2,578.5**		2,212.2	
Unamortised profit on sales of investment securities	**(18.7)**		(25.6)		**(17.9)**		(24.6)	
	2,749.4		2,361.6		**2,560.6**		2,187.6	
(ii) Maturity								
Due within one year	**2,346.3**		1,755.0		**2,156.8**		1,580.0	
Due one year and over	**421.8**		632.2		**421.7**		632.2	
	2,768.1		2,387.2		**2,578.5**		2,212.2	
Unamortised profit on sales of investment securities	**(18.7)**		(25.6)		**(17.9)**		(24.6)	
	2,749.4		2,361.6		**2,560.6**		2,187.6	
Unamortised premiums on investment securities	**2.5**		2.9		**2.5**		2.9	

all amounts are stated in £m unless otherwise indicated

13. Debt Securities (continued)

	The Group				The Bank			
	2001		2000		**2001**		2000	
	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	**505.4**	**513.6**	406.2	413.5	**505.3**	**513.5**	406.2	413.5
listed elsewhere	**128.3**	**129.8**	219.1	220.2	**128.3**	**129.8**	219.1	220.2
unlisted	**197.0**	**202.4**	182.5	187.3	**7.5**	**7.5**	7.5	7.5
	830.7	**845.8**	807.8	821.0	**641.1**	**650.8**	632.8	641.2
Unamortised profit on sales of investment securities	**(18.7)**		(25.6)		**(17.9)**		(24.6)	
	812.0		782.2		**623.2**		608.2	
Other securities								
listed on a recognised UK exchange	**308.7**		286.9		**308.7**		286.9	
listed elsewhere	**–**		–		**–**		–	
unlisted	**1,628.7**		1,292.5		**1,628.7**		1,292.5	
	1,937.4		1,579.4		**1,937.4**		1,579.4	
	2,749.4		2,361.6		**2,560.6**		2,187.6	

	Cost	**Discounts and premiums**	**Unamortised profit on sales**	**Carrying value**
(iv) Movement				
Investment securities				
Group:				
At 13th January 2001	**795.5**	**12.3**	**(25.6)**	**782.2**
Acquisitions	**701.6**	**–**	**–**	**701.6**
Disposals and maturities	**(681.3)**	**–**	**–**	**(681.3)**
Exchange adjustments	**–**	**2.8**	**–**	**2.8**
Amortisation	**–**	**(0.2)**	**6.9**	**6.7**
At 12th January 2002	**815.8**	**14.9**	**(18.7)**	**812.0**
Bank:				
At 13th January 2001	**618.5**	**14.3**	**(24.6)**	**608.2**
Acquisitions	**97.1**	**–**	**–**	**97.1**
Disposals and maturities	**(91.3)**	**–**	**–**	**(91.3)**
Exchange adjustments	**–**	**2.8**	**–**	**2.8**
Amortisation	**–**	**(0.3)**	**6.7**	**6.4**
At 12th January 2002	**624.3**	**16.8**	**(17.9)**	**623.2**

The exchange adjustment of £2.8 million represents the revaluation of debt securities held in a currency other than sterling. These are hedged by deposits of equal value held in the same currency. The net gain on these transactions due to foreign exchange revaluation is nil.

Group

Profits on disposals in the year were **£nil** (2000–£1.4 million). However, due to the application of accounting policy (b) relating to securities held in designated investment portfolios, **£6.9 million** (2000–£7.6 million) has been credited to the profit and loss account. The application of this accounting policy therefore increased profits for the year by **£6.9 million** (2000–£6.2 million).

Bank

Profits on disposals in the year were **£nil** (2000–£0.6 million). However, due to the application of accounting policy (b) relating to securities held in designated investment portfolios, **£6.7 million** (2000–£7.2 million) has been credited to the profit and loss account. The application of this accounting policy therefore increased profits for the year by **£6.7 million** (2000–£6.6 million).

all amounts are stated in £m unless otherwise indicated

14. Equity shares

	Group and Bank	
	2001	2000
Investment securities – unlisted	**1.3**	1.3

	Group and Bank	
	2001	2000
Included above is the following trade investment:		
BACS Ltd **83,568** (2000–83,568) ordinary shares of £1 each	**0.6**	0.6

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

	Cost	**Provision**	**Carrying value**
Group and Bank			
12th January 2002 and 13th January 2001	**1.5**	**0.2**	**1.3**

all amounts are stated in £m unless otherwise indicated

15. Interests in associated undertakings

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

	Associates	**Nature of business**	**Total issued share capital at 12th January 2002**	**Group interest 2001**	Group interest 2000
*	Co-operative Pension Funds Unit Trust Managers Limited	Investment managers	165,000 Ordinary shares of £1 each	**33%**	33%

	Joint ventures	**Nature of business**	**Total issued share capital at 12th January 2002**	**Group interest 2001**	Group interest 2000
	Ochil Residential Limited	Property development/ house building	2 Ordinary shares of £1 each	**50%**	50%
†	Unity Financial Holdings Limited	Holding company	2 Ordinary shares of £1 each	**13%**	13%
§	Unity Pension Services Limited	Marketing of pension plans	400,000 Ordinary shares of £1 each	**13%**	13%
§	Unity Financial Services Limited	Marketing of financial services	1,000,000 Ordinary shares of £1 each	**13%**	13%
§	Jacques Martin Unity Limited	Administration of pension schemes	1,000,000 Ordinary shares of £1 each	**13%**	13%

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

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

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

The interest in associates is made up as follows:

	The Group	**The Bank**
	Share of net assets	**Cost**
At 12th January 2002 and 13th January 2001	**0.4**	**–**

The interest in joint ventures is made up as follows:

			The Group	**The Bank**
	Share of gross assets	**Share of gross liabilities**	**Share of net assets**	**Cost**
At 12th January 2002 and 13th January 2001	**0.7**	**0.5**	**0.2**	**–**

all amounts are stated in £m unless otherwise indicated

16. Ultimate holding organisation and subsidiary undertakings

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

Operating subsidiaries	Nature of business	Total issued share capital at 12th January 2002	Group interest 2001	Group interest 2000
* Unity Trust Bank p.l.c.	Banking	16,428,460 Ordinary shares of £1 each	**27%**	27%
Co-operative Commercial Limited	Investment company	1,000,000 Ordinary shares of £1 each	**100%**	100%
Roodhill Leasing Limited	Leasing	2 Ordinary shares of £1 each	**100%**	100%
First Roodhill Leasing Limited	Leasing	100 Ordinary shares of £1 each	**100%**	100%
Second Roodhill Leasing Limited	Leasing	100 Ordinary shares of £1 each	**100%**	100%
Third Roodhill Leasing Limited	Leasing	100 Ordinary shares of £1 each	**100%**	100%
Fourth Roodhill Leasing Limited	Leasing	100 Ordinary shares of £1 each	**100%**	100%
First Pioneers Leasing Limited	Leasing	100 Ordinary shares of £1 each	**100%**	100%
Second Pioneers Leasing Limited	Leasing	100 Ordinary shares of £1 each	**100%**	100%
Third Pioneers Leasing Limited	Leasing	100 Ordinary shares of £1 each	**100%**	100%
Co-operative Bank Financial Advisers Limited	Financial advisers	100,000 Ordinary shares of £1 each	**100%**	100%

* Held through subsidiary undertaking

all amounts are stated in £m unless otherwise indicated

16. Ultimate holding organisation and subsidiary undertakings (continued)

Shares in Group undertakings:	**Cost**	**Provision**	**Carrying value**
At 12th January 2002 and at 13th January 2001	**1.6**	**0.4**	**1.2**

The above provision is held against dormant subsidiaries.

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

Unity Trust Bank p.l.c. is considered to be a subsidiary undertaking of The Co-operative Bank p.l.c. as The Co-operative Bank p.l.c. elects a majority of the Directors and appoints the Chairman and Managing Director of Unity Trust Bank p.l.c.

The financial statements of the above undertaking are consolidated into the Group financial statements.

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

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

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

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

all amounts are stated in £m unless otherwise indicated

17. Tangible fixed assets

	Freehold and leasehold buildings	Computer and other equipment	Finance leased assets	Total
Group:				
Cost				
At 13th January 2001	**10.3**	**138.7**	**1.7**	**150.7**
Additions	**–**	**20.5**	**–**	**20.5**
Disposals	**–**	**(5.4)**	**–**	**(5.4)**
At 12th January 2002	**10.3**	**153.8**	**1.7**	**165.8**
Accumulated depreciation				
At 13th January 2001	**1.4**	**78.4**	**1.7**	**81.5**
Disposals	**–**	**(5.1)**	**–**	**(5.1)**
Charge for the year	**0.3**	**21.8**	**–**	**22.1**
At 12th January 2002	**1.7**	**95.1**	**1.7**	**98.5**
Net book value at 12th January 2002	**8.6**	**58.7**	**–**	**67.3**
Net book value at 13th January 2001	8.9	60.3	–	69.2
Bank:				
Cost				
At 13th January 2001	**2.8**	**135.3**	**1.7**	**139.8**
Additions	**–**	**20.2**	**–**	**20.2**
Disposals	**–**	**(4.7)**	**–**	**(4.7)**
At 12th January 2002	**2.8**	**150.8**	**1.7**	**155.3**
Accumulated depreciation				
At 13th January 2001	**0.5**	**77.0**	**1.7**	**79.2**
Disposals	**–**	**(4.5)**	**–**	**(4.5)**
Charge for the year	**0.1**	**21.4**	**–**	**21.5**
At 12th January 2002	**0.6**	**93.9**	**1.7**	**96.2**
Net book value at 12th January 2002	**2.2**	**56.9**	**–**	**59.1**
Net book value at 13th January 2001	2.3	58.3	–	60.6

	The Group		The Bank	
	2001	2000	**2001**	2000
The net book value of land and buildings comprises:				
Freehold	**8.5**	8.8	**2.1**	2.2
Short leasehold	**0.1**	0.1	**0.1**	0.1
	8.6	8.9	**2.2**	2.3

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

all amounts are stated in £m unless otherwise indicated

18. Other assets

	The Group		The Bank	
	2001	2000	**2001**	2000
Foreign exchange and interest rate contracts	**32.8**	29.2	**32.8**	29.2
Trade debtors	**3.6**	3.5	**1.9**	1.7
Deferred taxation (see note 23)	**–**	–	**2.5**	2.8
	36.4	32.7	**37.2**	33.7

19. Deposits by banks

	The Group		The Bank	
	2001	2000	**2001**	2000
With agreed maturity dates or periods of notice, by remaining maturity:				
1 year or less but over 3 months	**10.0**	7.0	**10.0**	7.0
3 months or less but not repayable on demand	**681.8**	720.7	**688.1**	720.8
Repayable on demand	**35.5**	22.7	**35.5**	22.7
	727.3	750.4	**733.6**	750.5
Amounts include:				
Due to subsidiary undertakings			**6.3**	0.1

20. Customer accounts

	The Group		The Bank	
	2001	2000	**2001**	2000
With agreed maturity dates or periods of notice, by remaining maturity:				
5 years or less but over 1 year	**0.1**	5.7	**–**	5.6
1 year or less but over 3 months	**31.7**	32.2	**31.6**	31.8
3 months or less but not repayable on demand	**1,861.3**	1,830.9	**1,792.6**	1,767.9
Repayable on demand	**4,222.7**	3,317.5	**4,082.6**	3,186.7
	6,115.8	5,186.3	**5,906.8**	4,992.0
Amounts include:				
Due to subsidiary undertakings			**3.6**	3.9
Due to parent organisation	**5.7**	6.7	**5.7**	6.7
Due to fellow subsidiary undertakings	**61.6**	45.4	**61.6**	45.4
Due to associated undertakings	**1.7**	2.3	**1.2**	1.2

all amounts are stated in £m unless otherwise indicated

21. Debt securities in issue

	The Group		The Bank	
	2001	2000	**2001**	2000
By remaining maturity:				
1 year or less but over 3 months	**6.9**	–	**6.9**	–
3 months or less	**80.6**	54.1	**80.6**	54.1
	87.5	54.1	**87.5**	54.1

22. Other liabilities

	The Group		The Bank	
	2001	2000	**2001**	2000
Foreign exchange and interest rate contracts	**27.2**	22.0	**27.2**	22.0
Trade creditors	**41.7**	32.0	**40.1**	30.7
Taxation	**20.8**	19.9	**18.3**	16.9
Dividends	**1.1**	1.1	**0.7**	0.7
	90.8	75.0	**86.3**	70.3

23. Provisions for liabilities and charges

	The Group		The Bank	
	2001	2000	**2001**	2000
(i) Deferred taxation				
Taxation deferred by timing differences in accordance with the basis of accounting set out in Accounting Policy (h)				
Short term differences	**(0.8)**	(0.5)	**(0.7)**	(0.5)
Other timing differences	**(6.1)**	(7.8)	**(6.0)**	(7.4)
Capital allowances on fixed assets	**1.0**	1.6	**0.6**	1.5
Capital allowances on assets leased to customers	**16.4**	18.3	**3.6**	3.6
	10.5	11.6	* **(2.5)**	* (2.8)
The movement in the deferred taxation balance has all taken place through the profit and loss account	**(1.1)**	1.3	**0.3**	1.6

The potential liability on rolled over gains and other gains not provided for, amounts to **£1.0 million** (2000–£0.9 million). Full provision has been made for all other potential liabilities to deferred taxation.

* The net deferred taxation position for The Co-operative Bank p.l.c. gives rise to a deferred tax asset. This has been recognised in the balance sheet of The Co-operative Bank p.l.c. and appears within the category other assets (see note 18).

all amounts are stated in £m unless otherwise indicated

23. Provisions for liabilities and charges (continued)

(ii) Other provisions	The Group		The Bank	
	2001	2000	**2001**	2000
At 13th January 2001	**5.3**	6.2	**2.6**	2.8
Utilised	**(2.8)**	(2.0)	**–**	(0.2)
Profit and loss charge	**3.5**	1.1	**1.0**	–
At 12th January 2002	**6.0**	5.3	**3.6**	2.6

The above provisions include an estimate of future unavoidable lease payments and related costs for vacant properties not in use and an estimate of future payments to customers in compensation for loss suffered from past pension and investment advice.

Payments under future unavoidable lease commitments, net of amounts receivable under sub-lettings, are due on leases terminating between 2006 and 2015. 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 past experience and industry guidance on claims levels.

24. Subordinated liabilities

	The Group		The Bank	
	2001	2000	**2001**	2000
£703,000 Convertible Subordinated Unsecured Floating Rate Loan Stock 2003	**0.7**	0.7	**–**	–
£50,000,000 Fixed Rate Perpetual Subordinated Notes	**50.0**	50.0	**50.0**	50.0
£30,000,000 Subordinated Perpetual Floating Rate Notes	**30.0**	30.0	**30.0**	30.0
£100,000,000 Step Up Callable Subordinated Notes 2011	**100.0**	100.0	**100.0**	100.0
Issue costs and discount	**(1.3)**	(1.6)	**(1.3)**	(1.6)
	179.4	179.1	**178.7**	178.4

Remaining maturity of dated subordinated liabilities				
Repayable				
over five years	**100.0**	100.0	**100.0**	100.0
one year or less or on demand	**0.7**	0.7	**–**	–
	100.7	100.7	**100.0**	100.0

Convertible Subordinated Unsecured Floating Rate Loan Stock 2003

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

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

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

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

There were no conversions of loan stock during the year.

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

all amounts are stated in £m unless otherwise indicated

24. Subordinated liabilities (continued)

Fixed Rate Perpetual Subordinated Notes

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

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

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

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

Subordinated Perpetual Floating Rate Notes

The notes were issued on 9th January 1998.

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

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

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

Step Up Callable Subordinated Notes 2011

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

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

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

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

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

25. Called up share capital

	2001	2000
Authorised		
1,100,000,000 ordinary shares of 5p each	**55.0**	55.0
75,000,000 9.25% non-cumulative irredeemable preference shares of £1 each	**75.0**	75.0
	130.0	130.0
Issued		
700,000,000 ordinary shares of 5p each	**35.0**	35.0
60,000,000 9.25% non-cumulative irredeemable preference shares of £1 each	**60.0**	60.0
	95.0	95.0

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

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

all amounts are stated in £m unless otherwise indicated

25. Called up share capital (continued)

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

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

26. Reserves

	The Bank and subsidiary undertakings	Associated undertakings	The Group	The Bank
Share premium account at 12th January 2002 and at 13th January 2001	**8.8**	**–**	**8.8**	**8.8**
Profit and loss account at 13th January 2001	**281.2**	**(0.7)**	**280.5**	**267.4**
Retained profit for the financial year	**68.5**	**–**	**68.5**	**67.2**
Profit and loss account at 12th January 2002	**349.7**	**(0.7)**	**349.0**	**334.6**

The cumulative amount of goodwill arising on the acquisition of subsidiary undertakings, net of goodwill attributed to subsidiary undertakings disposed of, is **£247,000** (2000–£247,000).

27. Miscellaneous

	The Group		The Bank	
	2001	2000	**2001**	2000
(i) Assets and liabilities				
Denominated in sterling	**7,418.8**	6,321.3	**7,163.5**	6,074.6
Denominated in currencies other than sterling	**407.4**	467.0	**407.4**	467.0
Total assets	**7,826.2**	6,788.3	**7,570.9**	6,541.6
Denominated in sterling	**7,420.9**	6,398.6	**7,165.6**	6,151.9
Denominated in currencies other than sterling	**405.3**	389.7	**405.3**	389.7
Total liabilities	**7,826.2**	6,788.3	**7,570.9**	6,541.6
(ii) Assets subject to sale and repurchase transactions				
Debt securities	**107.4**	123.4	**107.4**	123.4
(iii) Assets leased to customers				
Loans and advances to customers – Finance leases and hire purchase contracts	**219.4**	216.5	**105.4**	97.9
Assets acquired during the year	**61.7**	81.2	**46.9**	65.6

(iv) Deferred mortgage incentives	Group and Bank Cashbacks
At 13th January 2001	**–**
Expenditure incurred in year	**0.6**
Transfer to profit and loss account	**(0.1)**
At 12th January 2002	**0.5**

all amounts are stated in £m unless otherwise indicated

28. Contingent liabilities and commitments

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

	2001				2000	
	Contract amount	**Credit equivalent amount**	**Average risk weight**	**Risk weighted amount**	Contract amount	Risk weighted amount
Group:						
Contingent Liabilities						
Acceptances and endorsements	**37.9**	**37.9**	**98.1%**	**37.2**	56.5	56.5
Guarantees and irrevocable letters of credit	**71.8**	**61.7**	**95.1%**	**58.7**	60.7	49.4
	109.7			**95.9**	117.2	105.9
Bank:						
Contingent Liabilities						
Acceptances and endorsements	**37.9**	**37.9**	**98.1%**	**37.2**	56.5	56.5
Guarantees and irrevocable letters of credit	**71.6**	**61.5**	**95.1%**	**58.5**	60.2	48.9
	109.5			**95.7**	116.7	105.4
Group:						
Other commitments						
Documentary credits and short-term trade-related transactions	**0.6**	**0.1**	**88.3%**	**0.1**	1.4	0.3
Forward asset purchases and forward deposits placed	**–**	**–**	**–**	**–**	150.0	30.0
Undrawn note issuance and revolving underwriting facilities	**–**	**–**	**–**	**–**	15.0	5.5
Undrawn formal standby facilities, credit lines and other commitments to lend:						
1 year and over	**159.2**	**79.6**	**97.0%**	**77.2**	93.5	46.3
less than 1 year (ii)	**4,831.3**	**–**	**–**	**–**	4,679.8	–
	4,991.1			**77.3**	4,939.7	82.1
Bank:						
Other commitments						
Documentary credits and short-term trade-related transactions	**0.6**	**0.1**	**88.3%**	**0.1**	1.4	0.3
Forward asset purchases and forward deposits placed	**–**	**–**	**–**	**–**	150.0	30.0
Undrawn note issuance and revolving underwriting facilities	**–**	**–**	**–**	**–**	15.0	5.5
Undrawn formal standby facilities, credit lines and other commitments to lend:						
1 year and over	**159.2**	**79.6**	**97.0%**	**77.2**	93.5	46.3
less than 1 year (ii)	**4,818.2**	**–**	**–**	**–**	4,674.1	–
	4,978.0			**77.3**	4,934.0	82.1

all amounts are stated in £m unless otherwise indicated

28. Contingent liabilities and commitments (continued)

Notes:

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

(ii) Undrawn loan commitments which are unconditionally cancellable at any time or which have a maturity of less than one year have a risk weighting of zero. This item consists largely of undrawn credit card facilities.

29. Derivatives and other financial instruments

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

(i) Risk profiles

(ia) Interest rate sensitivity gap

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

12th January 2002	**Within 3 months**	**Over 3 months but within 6 months**	**Over 6 months but within 1 year**	**Over 1 year but within 5 years**	**More than 5 years**	**Non-interest bearing**	**Total**
Assets							
Treasury bills and other eligible bills	–	–	–	–	–	–	–
Loans and advances to banks	676	50	–	–	–	7	733
Loans and advances to customers	2,404	210	183	897	212	(37)	3,869
Debt securities and equity shares	601	90	40	42	40	1	814
Other assets	259	–	–	–	–	189	448
Loans to trading book	1,270	411	260	–	–	21	1,962
Total assets	5,210	761	483	939	252	181	7,826
Liabilities							
Deposits by banks	716	10	1	–	–	–	727
Customer accounts	4,965	98	26	25	–	1,002	6,116
Debt securities in issue	80	7	–	–	–	–	87
Other liabilities	–	–	–	–	–	247	247
Loan capital	–	30	–	150	–	(1)	179
Minority interests and shareholders' funds	–	–	–	–	60	410	470
Total liabilities	5,761	145	27	175	60	1,658	7,826
Off balance sheet items	(1,238)	(297)	758	891	(114)	–	
Interest rate sensitivity gap	(1,789)	319	1,214	1,655	78	(1,477)	
Cumulative gap	(1,789)	(1,470)	(256)	1,399	1,477	–	

all amounts are stated in £m unless otherwise indicated

29. Derivatives and other financial instruments (continued)

13th January 2001	Within 3 months	Over 3 months but within 6 months	Over 6 months but within 1 year	Over 1 year but within 5 years	More than 5 years	Non-interest bearing	Total
Assets							
Treasury bills and other eligible bills	56	–	–	–	–	–	56
Loans and advances to banks	576	–	–	–	–	5	581
Loans and advances to customers	2,116	117	165	765	235	(35)	3,363
Debt securities and equity shares	620	56	8	51	48	1	784
Other assets	178	–	–	–	–	230	408
Loans to trading book	1,279	249	51	–	–	17	1,596
Total assets	4,825	422	224	816	283	218	6,788
Liabilities							
Deposits by banks	743	7	–	–	–	–	750
Customer accounts	4,145	93	39	38	5	866	5,186
Debt securities in issue	54	–	–	–	–	–	54
Other liabilities	–	–	–	–	–	219	219
Loan capital	–	31	–	50	100	(2)	179
Minority interests and shareholders' funds	–	–	–	–	60	340	400
Total liabilities	4,942	131	39	88	165	1,423	6,788
Off balance sheet items	(770)	105	3	694	(32)	–	
Interest rate sensitivity gap	(887)	396	188	1,422	86	(1,205)	
Cumulative gap	(887)	(491)	(303)	1,119	1,205	–	

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

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

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

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

(ib) Currency exposure

At 12th January 2002 the Group's open position was **£1.5 million** (2000–£2.0 million) representing a potential loss of **£0.05 million** given a 3% depreciation in sterling (2000–loss of £0.06 million given a 3% appreciation in sterling).

(ic) Trading value at risk

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

At 12th January 2002, total Treasury VaR of **£0.9 million** (2000–£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 12th January 2002 were **£0.5 million** (2000–£0.3 million), **£1.2 million** (2000–£0.5 million) and **£0.2 million** (2000–£0.1 million).

(ii) Derivatives

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

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

(iia) Derivatives held for trading purposes

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

all amounts are stated in £m unless otherwise indicated

29. Derivatives and other financial instruments (continued)

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

Interest rate related transactions

	2001			2000		
	Notional principal amount	**Fair value asset**	**Fair value liability**	Notional principal amount	Fair value asset	Fair value liability
Interest rate swaps	**1,412.5**	**5.7**	**5.2**	227.6	3.3	2.7
Interest rate caps and floors	**143.9**	**0.8**	**0.8**	146.9	0.5	0.5
Futures	**–**	**–**	**–**	75.0	–	–
	1,556.4	**6.5**	**6.0**	449.5	3.8	3.2

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

	2001			2000		
	Notional principal amount	**Fair value asset**	**Fair value liability**	Notional principal amount	Fair value asset	Fair value liability
One year or less	**1,305.0**	**3.2**	**2.9**	11.5	–	–
One to five years	**208.1**	**2.1**	**3.0**	300.2	2.6	2.0
Over five years	**43.3**	**1.2**	**0.1**	62.8	1.2	1.2
	1,556.4	**6.5**	**6.0**	374.5	3.8	3.2

Counterparty for over the counter trading contracts

	2001			2000		
	Notional principal amount	**Fair value asset**	**Fair value liability**	Notional principal amount	Fair value asset	Fair value liability
Financial institutions	**1,403.1**	**4.1**	**4.8**	232.9	2.0	2.3
Non-financial institutions	**153.3**	**2.4**	**1.2**	141.6	1.8	0.9
	1,556.4	**6.5**	**6.0**	374.5	3.8	3.2

The bank had no non-margin exchange traded contracts at the year end (2000–£Nil).

(iib) Non-trading derivatives

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

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

Interest rate related transactions

	2001			2000		
	Notional principal amount	**Fair value asset**	**Fair value liability**	Notional principal amount	Fair value asset	Fair value liability
Interest rate swaps	**16,664.8**	**60.3**	**50.7**	8,883.9	37.9	24.9
Interest rate caps and floors	**20.0**	**0.3**	**–**	60.0	0.2	–
Forward rate agreements	**–**	**–**	**–**	200.0	–	–
Futures	**–**	**–**	**–**	16.8	–	0.1
	16,684.8	**60.6**	**50.7**	9,160.7	38.1	25.0

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

all amounts are stated in £m unless otherwise indicated

29. Derivatives and other financial instruments (continued)

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

Maturity of over the counter interest rate related transactions

	2001 Notional principal amount	**2001** Fair value asset	**2001** Fair value liability	2000 Notional principal amount	2000 Fair value asset	2000 Fair value liability
One year or less	**14,043.8**	**29.2**	**26.6**	3,902.3	4.5	2.7
One to five years	**2,496.7**	**31.1**	**14.7**	4,941.8	29.9	14.9
Over five years	**144.3**	**0.3**	**9.4**	299.8	3.7	7.3
	16,684.8	**60.6**	**50.7**	9,143.9	38.1	24.9

All interest rate related transaction counterparties were financial institutions.

Exchange rate related transactions

	2001 Total	**2001** Financial institutions	**2001** Non-financial institutions	2000 Total	2000 Financial institutions	2000 Non-financial institutions
Forward currency transactions	**332.6**	**309.2**	**23.4**	314.7	293.6	21.1

Maturity of over the counter exchange rate related transactions

	2001 Notional principal amount	**2001** Fair value asset	**2001** Fair value liability	2000 Notional principal amount	2000 Fair value asset	2000 Fair value liability
One year or less	**328.6**	**0.5**	**0.5**	314.7	1.7	1.7
One to five years	**4.0**	**–**	**–**	–	–	–
	332.6	**0.5**	**0.5**	314.7	1.7	1.7

(iii) Other analysis

(iiia) Dealing losses

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

	2001	2000
Debt securities	**(4.8)**	(3.2)
Derivatives	**(1.2)**	(0.4)
Foreign exchange	**4.5**	3.3
	(1.5)	(0.3)

(iiib) Hedges

Hedge transactions are accounted for in accordance with the accounting treatment of the underlying transaction. Accordingly, hedge gains or losses may not be recognised at all in the financial statements or, if recognised, the gains and losses may be deferred and held on the balance sheet. The Group had no deferred gains or losses throughout the year ended 12th January 2002.

all amounts are stated in £m unless otherwise indicated

29. Derivatives and other financial instruments (continued)

The table below sets out the unrecognised and deferred gains and losses on hedges at 12th January 2002 and the movements during the year and the previous year.

	Gains	Losses	Net
At 8th January 2000	1.1	(0.5)	0.6
Gains and losses arising in previous years that were recognised in the year ended 13th January 2001	(1.1)	(0.7)	(1.8)
Gains and losses arising before 8th January 2000 that were not recognised in the year ended 13th January 2001	–	(1.2)	(1.2)
Gains and losses arising in the year ended 13th January 2001 that were not recognised in the year ended 13th January 2001	18.2	(7.4)	10.8
At 13th January 2001	18.2	(8.6)	9.6
Gains and losses arising in previous years that were recognised in the year ended 12th January 2002	(3.3)	1.4	(1.9)
Gains and losses arising before 13th January 2001 that were not recognised in the year ended 12th January 2002	14.9	(7.2)	7.7
Gains and losses arising in the year ended 12th January 2002 that were not recognised in the year ended 12th January 2002	22.2	(23.8)	(1.6)
At 12th January 2002	37.1	(31.0)	6.1
Of which			
12th January 2002			
Gains and losses expected to be recognised in the year ended 11th January 2003	31.6	(27.7)	3.9
Gains and losses expected to be recognised in the year ended 10th January 2004 or later	5.5	(3.3)	2.2
13th January 2001			
Gains and losses expected to be recognised in the year ended 12th January 2002	3.3	(1.4)	1.9
Gains and losses expected to be recognised in the year ended 11th January 2003 or later	14.9	(7.2)	7.7

30. Fair values of financial instruments

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

The fair value represents the amount at which the instrument would be exchanged at 12th January 2002 in an arms length transaction between two willing parties. In the vast majority of cases quoted market prices are readily available and are used, otherwise prices are obtained by other well established valuation techniques, which utilise present value cash flows.

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

	2001					2000				
	Total	Trading	Non-trading			Total	Trading	Non-trading		
Assets	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**	**Accrued Interest**	Carrying value	Fair value	Carrying value	Fair value	Accrued Interest
Treasury bills and eligible bills	1.6	1.6	–	–	–	55.6	–	55.6	55.6	–
Debt securities	2,768.1	1,937.4	830.7	845.8	47.7	2,387.2	1,579.4	807.8	821.0	43.2
Equity shares	1.3	–	1.3	1.3	–	1.3	–	1.3	1.3	–
Interest rate derivatives	30.0	6.5	23.5	60.6	187.2	23.7	3.8	19.9	38.1	96.2
Exchange rate derivatives	0.5	–	0.5	0.5	–	1.7	–	1.7	1.7	–
	2,801.5	1,945.5	856.0	908.2	234.9	2,469.5	1,583.2	886.3	917.7	139.4

all amounts are stated in £m unless otherwise indicated

30. Fair values of financial instruments (continued)

	2001					2000				
	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	**87.5**	**–**	**87.5**	**87.5**	**0.8**	54.1	–	54.1	54.1	0.2
Non-equity shareholders' funds	**60.0**	**–**	**60.0**	**82.3**	**0.7**	60.0	–	60.0	71.9	0.7
Interest rate derivatives	**25.7**	**6.0**	**19.7**	**50.7**	**156.6**	19.6	3.2	16.4	25.0	23.7
Exchange rate derivatives	**0.5**	**–**	**0.5**	**0.5**	**–**	1.7	–	1.7	1.7	–
	173.7	**6.0**	**167.7**	**221.0**	**158.1**	135.4	3.2	132.2	152.7	24.6

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

31. Consolidated cash flow statement

	2001	2000
Reconciliation of Group operating profit to net cash inflow/(outflow) from operating activities		
Group operating profit	**107.5**	96.2
Decrease/(Increase) in prepayments and accrued income	**36.5**	(67.4)
Increase in accruals and deferred income	**14.4**	25.2
Interest payable in respect of subordinated liabilities	**14.4**	13.6
Effect of exchange rate movements	**(4.5)**	(3.3)
Provisions for bad and doubtful debts	**66.2**	59.9
Depreciation	**22.1**	19.6
Amortisation of investments	**0.2**	0.6
Profit on sale of investments	**(6.8)**	(7.8)
Net cash flow from trading activities	**250.0**	136.6
Decrease in deposits by banks	**(21.4)**	(176.1)
Increase in customer accounts	**929.5**	653.3
Increase/(decrease) in debt securities in issue	**33.4**	(8.3)
Increase in loans and advances to banks	**(153.5)**	(86.5)
Increase in loans and advances to customers	**(571.7)**	(445.1)
Increase in equity shares	**–**	(0.1)
Increase in trading debt securities	**(358.0)**	(417.4)
Decrease/(increase) in treasury and eligible bills	**54.0**	(20.0)
Net movement of other assets and other liabilities	**11.9**	(3.2)
Net (increase)/decrease in cheques in course of collection	**(29.6)**	21.0
Net cash inflow/(outflow) from operating activities	**144.6**	(345.8)

Analysis of the balances of cash

	Cash and balances at central banks	**Loans and advances to banks repayable on demand**	**Total**
At 8th January 2000	**74.9**	**1.0**	**75.9**
Change in year	**(13.2)**	**0.2**	**(13.0)**
At 13th January 2001	**61.7**	**1.2**	**62.9**
Change in year	**52.0**	**(0.9)**	**51.1**
At 13th January 2002	**113.7**	**0.3**	**114.0**

The Group is required to maintain balances with the Bank of England which at 12th January 2002 amounted to **£5.4 million** (2000–£4.7 million). This item is included on the balance sheet as a part of loans and advances to banks.

all amounts are stated in £m unless otherwise indicated

32. Segmental analysis

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

	2001	2000
Profit before taxation:		
Retail banking	**197.0**	182.4
Other financial services	**0.4**	5.5
	197.4	187.9
Shared costs:		
Centralised services and processing	**(51.8)**	(54.6)
Management services and marketing	**(41.4)**	(40.2)
Profit before Unity Trust group and associates	**104.2**	93.1
Unity Trust group and associates	**3.3**	3.2
Profit before taxation	**107.5**	96.3
Gross assets:		
Retail banking	**7,017.8**	6,069.4
Other financial services	**249.6**	254.0
Unity Trust group	**234.5**	219.6
Group central assets	**324.3**	245.3
Total	**7,826.2**	6,788.3
Net assets:		
Retail banking	**408.1**	383.4
Other financial services	**7.7**	14.0
Unity Trust group	**23.8**	22.1
Group central net assets	**30.6**	(18.9)
Total	**470.2**	400.6

Net assets are share capital, reserves and minority interest.

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

The figures for 2000 have been restated to reflect the consolidation of non-customer facing activities into the new Technology and Operations division. Centralised costs have increased by £18.0 million with a corresponding increase in branch banking profits. Overall, this gives a better representation of the bank's structure and activities.

33. Directors' and officers' loans

The aggregate amounts outstanding at 12th January 2002 under transactions, arrangements and agreements made by authorised institutions within the Group with those who were Directors (including connected persons) or officers of The Co-operative Bank p.l.c. during the year, and the number of persons concerned, were as follows:

	Aggregate amount outstanding	**Number of persons**
Directors		
loans	**£165,775**	**1**
quasi-loans	**£8,800**	**11**
Officers		
loans	**£637,330**	**13**
quasi-loans	**£36,768**	**21**

all amounts are stated in £m unless otherwise indicated

34. General

(i) Operating lease commitments

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

	2001 Land and buildings	2000 Land and buildings
Group		
Expiring:		
within one year	**0.7**	1.0
between one and five years	**1.5**	1.2
in five years or more	**9.2**	9.4
	11.4	11.6
Bank		
Expiring:		
within one year	**0.7**	1.0
between one and five years	**1.5**	1.2
in five years or more	**8.7**	8.9
	10.9	11.1

(ii) Average number of employees

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

	2001	2000
Full time	**3,179**	3,194
Part time	**888**	906
	4,067	4,100

(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.

	2001	2000
Distribution, transport and hotels	**501.1**	358.7
Business and other services	**1,306.9**	1,128.2
Personal	**1,980.6**	1,873.5

(iv) Related parties

As the bank is a wholly owned subsidiary of Co-operative Group (CWS) Limited, the bank has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of that Group (or investees of the Group qualifying as related parties).

Transactions with other related parties as defined by FRS 8 have not been disclosed because they are considered to have taken place in the normal course of banking business and as such are covered by banking confidentiality rules.

The consolidated financial statements of Co-operative Group (CWS) Limited within which the bank is included can be obtained from the address given in note 16.

Cleared Balances	1997 £m	1998 £m	1999 £m	2000 £m	**2001 £m**	Change £m	Change %
Retail Lending							
Personal sector							
Visa	509	718	816	778	**774**	(4)	(1)
Other	678	787	890	984	**1,116**	132	13
Corporate sector	1,118	1,126	1,164	1,296	**1,653**	357	28
Total	2,305	2,631	2,870	3,058	**3,543**	485	16
Wholesale Placements							
Debt securities	1,730	2,022	2,225	2,543	**2,898**	355	14
Wholesale lending	687	469	525	595	**739**	144	24
Other assets	96	94	95	114	**158**	44	39
Total Assets	4,818	5,216	5,715	6,310	**7,338**	1,028	16
Retail Deposits							
Personal sector	1,785	1,889	2,059	2,476	**3,166**	690	28
Corporate sector	1,098	1,280	1,445	1,476	**1,721**	245	17
Total	2,883	3,169	3,504	3,952	**4,887**	935	24
Wholesale Deposits	1,436	1,497	1,584	1,685	**1,688**	3	–
Other liabilities	121	102	137	130	**165**	35	27
Subordinated debt	169	199	192	188	**179**	(9)	(5)
Preference shares	60	60	60	60	**60**	–	–
Equity share capital, reserves	149	189	238	295	**359**	64	22
Total Liabilities	4,818	5,216	5,715	6,310	**7,338**	1,028	16
% Growth in retail deposits (year on year)	19	10	11	13	**24**		
Retail deposits % retail loans	125	120	122	129	**138**		
Risk Asset Ratio % (at year end)							
Total	12.8	12.9	13.0	13.7	**13.7**		
Tier 1	7.1	7.8	8.6	9.4	**9.9**		

	1997 £m	1998 £m	1999 £m	2000 £m	**2001 £m**	Change £m	Change %
Net interest income	208.8	241.0	278.5	294.1	**313.5**	19.4	6.6
Non-interest income	107.2	113.4	124.8	134.9	**142.1**	7.2	5.3
	316.0	354.4	403.3	429.0	**455.6**	26.6	6.2
Expenses	(236.5)	(241.0)	(261.7)	(272.9)	**(281.9)**	(9.0)	(3.3)
Profit before bad debts	79.5	113.4	141.6	156.1	**173.7**	17.6	11.3
Provisions for bad debts	(26.3)	(41.6)	(53.3)	(59.9)	**(66.2)**	(6.3)	(10.5)
Operating profit	53.2	71.8	88.3	96.2	**107.5**	11.3	11.7
Associated undertakings and exceptional items	1.8	1.8	0.3	0.1	**–**	(0.1)	(100.0)
Profit before taxation	55.0	73.6	88.6	96.3	**107.5**	11.2	11.6
Taxation	(18.0)	(22.8)	(27.5)	(29.8)	**(31.7)**	(1.9)	(6.4)
Profit after taxation	37.0	50.8	61.1	66.5	**75.8**	9.3	14.0
Minority interests	(0.8)	(0.9)	(1.4)	(1.7)	**(1.8)**	(0.1)	(5.9)
Dividends	(5.5)	(5.5)	(5.5)	(5.6)	**(5.5)**	0.1	1.8
Retentions	30.7	44.4	54.2	59.2	**68.5**	9.3	15.7

	1997	1998	1999	2000	**2001**
Average numbers of staff	4,155	4,049	4,010	4,100	**4,067**
Net interest margin %	4.5	4.7	5.0	4.8	**4.4**
Cost/income ratio %	74.8	68.0	64.9	63.6	**61.9**
Return on opening equity shareholder’s funds %	23.5	26.7	25.7	22.3	**21.1**
Earnings per share	4.64 p	6.34 p	7.75 p	8.46 p	**9.79p**

	1997 £m	1998 £m	1999 £m	2000 £m	**2001 £m**
Equity share capital	35.0	35.0	35.0	35.0	**35.0**
Reserves	131.5	175.9	230.1	289.3	**357.8**
Preference shares	60.0	60.0	60.0	60.0	**60.0**
Shareholders' funds	226.5	270.9	325.1	384.3	**452.8**
Minority interests	8.2	8.9	15.2	16.3	**17.4**
Subordinated liabilities	197.9	198.1	192.9	179.1	**179.4**
Debt securities in issue	167.0	56.8	62.4	54.1	**87.5**
Deposits by banks	575.6	599.0	912.3	750.4	**727.3**
Deposits by customers	3,912.6	4,196.2	4,533.0	5,186.3	**6,115.8**
Other liabilities	184.2	209.5	192.9	217.8	**246.0**
	5,272.0	5,539.4	6,233.8	6,788.3	**7,826.2**
Tangible fixed assets	64.1	60.8	64.7	69.2	**67.3**
Loans and advances to banks	507.7	431.3	493.9	580.6	**733.2**
Loans and advances to customers	2,502.6	2,784.0	2,978.1	3,363.7	**3,869.2**
Debt securities and bills	1,938.7	1,978.4	2,375.6	2,417.2	**2,751.0**
Cash, balances at central banks and items in the course of collection from other banks	158.7	152.9	210.1	178.6	**259.3**
Other assets	100.2	132.0	111.4	179.0	**146.2**
	5,272.0	5,539.4	6,233.8	6,788.3	**7,826.2**

NOTICE IS HEREBY GIVEN that the Annual General Meeting of The Co-operative Bank p.l.c. will be held at the registered office, 1 Balloon Street, Manchester M60 4EP on Tuesday, 14th May 2002 at 1.30 p.m. for the following purposes:

1. To receive the Notice convening the meeting.
2. To receive the Chairman's Statement, the Chief Executive's Overview, the Operating and Financial Review, the Report of the Directors, the Corporate Governance Report, the Remuneration Report and to adopt the Financial Statements for the year ended 12th January, 2002 together with the Auditor's Report thereon.
3. To accept the following recommendations of the Board:
   (a) **Non-cumulative Irredeemable Preference Shares**
      (i) That the payment of a dividend of 4.625p per £1 share on 30th November, 2001 be confirmed; and
      (ii) that a dividend of 4.625p per £1 share be declared and paid on 31st May, 2002 to the registered holders as at 3rd May 2002 providing a dividend rate of 9.25 per cent per annum and making a total distribution of £5,550,000.
   (b) **Ordinary Shares**
      That no dividend on ordinary shares be paid.
4. (a) To re-elect the following Directors who retire by rotation, in accordance with the provisions of Article 105:
      (i) M.D. Beaumont, 52, Chief Executive, United Norwest Co-operatives Limited.
      (ii) C.B. Blanchett, 55, Chief Executive, Colchester and East Essex Co-operative Society Limited.
      (iii) S.P.B. Macdonald, 54, Executive Director, Customer Services.
      (iv) D.J. Jackson, 54, Financial Controller, Co-operative Group (CWS) Limited.
   (b) To re-elect the following Director who was appointed since the date of the last Annual General Meeting:
      (i) K.A. Smith, 42, Research and Communications Consultant.
5. That KPMG Audit Plc be and are hereby appointed auditor of the Company, to hold office from the conclusion of this meeting until the conclusion of the next General Meeting at which accounts are laid before the Company, at a remuneration to be fixed by the Directors.

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

By Order of the Board
M. A. Lees,
Secretary
23rd April, 2002

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

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

Members should note that to attend the meeting their shareholding must be registered on the register of the Company not later than 5.00 p.m. on 1st May 2002. This applies to shares held in uncertificated forms in CREST and to shares held in certificated form.

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

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

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

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The CO-OPERATIVE BANK

THE CO-OPERATIVE BANK p.l.c., HEAD OFFICE, 1 BALLOON STREET, MANCHESTER M60 4EP.

www.co-operativebank.co.uk