

21 January 2009

## **Britannia and Co-operative Financial Services unveil plans for super-mutual**

- Britannia and Co-operative Financial Services Boards recommend merger to create new super-mutual as an ethical alternative to shareholder-owned banks
- Combined business to be the most diversified customer-owned business in UK financial services, strongly capitalised and with scale and strength in product, distribution and service
- Strong strategic and cultural fit between the two organisations with expected efficiency and revenue benefits of £60 million a year by year three
- Customers will continue to share profits and have a say in running the business

The Boards of Britannia Building Society and Co-operative Financial Services (CFS) – two of the biggest customer-owned financial services businesses in the UK – today confirm they have agreed to merge to create a super-mutual as a unique, ethical alternative to shareholder- and Government-owned banks.

The new business will combine CFS's strong personal and corporate banking, insurance and investment expertise with Britannia's extensive high street presence and savings and mortgage product strength.

Combining CFS, part of the world's biggest consumer co-operative, with Britannia, the UK's second biggest building society, will create a business with £70 billion of assets, nine million customers, more than 12,000 employees, more than 300 branches and 20 corporate banking centres. The business will be strongly capitalised, with a pro forma Tier 1 ratio of 9.8% as at 31 December 2008 (calculated on the same basis as if the combined businesses remained standalone).

The business will be led by current Britannia group chief executive Neville Richardson. Bob Burlton, the current CFS non-executive chairman will chair the new board. CFS chief financial officer Barry Tootell will become the new chief financial officer. After supporting the integration process, CFS chief executive David Anderson will leave the business.

Britannia chairman Rodney Baker-Bates commented: “The combined and complementary strengths of our businesses will offer customers a strong, fair and ethical alternative to banking plcs. Customers will be owners and will have available all the services they would expect from a major financial provider, together with a real say in setting strategy combined with a share of the profits.”

CFS chairman Bob Burlton added: “This move will accelerate the momentum within the co-operative and mutual sector. Both businesses have been pursuing successful strategies independently and are strong in their own right but we recognise we could be even more successful by coming together to create the UK’s most trusted financial services business.”

The new business will be a wholly owned subsidiary of The Co-operative Group, one of the world’s largest and most successful consumer co-operatives with core business interests in financial services, food, travel, pharmacy and funeral care.

Britannia members will become members of The Co-operative Group and will need to approve the deal in a vote at a general meeting expected to take place on 29 April 2009.

### **Customer benefits**

Customers will be able to access the full range of banking, savings, investment, insurance and mortgage services from an expanded network of more than 300 branches, British-based call centres and the internet after integration of the two businesses, which is expected to take up to three years.

The new business will continue to trade under the Britannia and Co-operative brands, as well as the Smile internet bank and Platform intermediary lender brands. It will look to move quickly to a single product range once the necessary integration of customer systems is complete, but customers will see no immediate change to the products and services they receive.

Britannia and CFS are committed to continuing their high levels of member involvement in the combined business. Britannia operates a unique Members’ Council and The Co-operative Group is highly regarded for its member democracy.

Both businesses also have a tradition of sharing profits with their members - Britannia through its Membership Reward and CFS through the Co-operative dividend. Customers will have the potential to earn greater member rewards through the wider range of products offered by the most broadly based and diversified financial services mutual in the UK, and through wider membership of The Co-operative Group.

The combined business will expect to deliver more than £60 million a year in efficiency and revenue benefits from year three and, as a customer-owned

business, customers will share in these savings through more competitive rates, improved customer service or increased member dividends.

Both organisations have remained active in the mortgage and personal and corporate lending markets over the last year, and expect the new business will be in a stronger position to expand lending after the merger.

### **Employees and locations**

The merged business will continue to have a significant presence in Leek and Manchester. Combining the two branch networks will increase the number of branches available for customers to more than 300. Where there are two branches in the same town, these may be merged in due course but there will be no compulsory redundancies among branch staff as a result of the merger.

It is expected that there will be some reduction in roles during the three-year integration process, however significant synergy benefits are also expected from procurement and supplier savings. Any compulsory redundancies will be kept to a minimum through redeployment, re-training and normal staff turnover over the three-year timeframe.

The new business is committed to working with all recognised trade unions to effectively manage any changes.

### **What happens next?**

The merger has been enabled by new legislation which, for the first time, allows mergers between different types of mutuals while maintaining mutual ownership. A draft statutory instrument under the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007 - known as the Butterfill Act, after its sponsor Sir John Butterfill MP - was laid before both Houses of Parliament on 19 January 2009 and, subject to approval by both Houses, is expected to become law in March.

Details of the proposed merger are expected to be sent to Britannia members in March 2009, and they will be asked to endorse the proposals at a general meeting, expected to be held on 29 April 2009.

The FSA has confirmed that the enlarged business will be eligible to apply for HM Treasury's credit guarantee scheme and that no external capital raising is required at this stage. The merger is expected to become effective in the summer, subject to confirmation by the FSA.

## **Commentary**

David Anderson said: “The co-operative and mutual movements have never been more relevant. Owing to the damage done by the credit crunch, people have been crying out for a new way of doing business with a financial organisation of substance that truly has their interests at heart – this merger will create that organisation and we’d hope to attract many thousands of new customers as a result.”

Neville Richardson said: “This proposed merger offers a unique opportunity to create a new force in British financial services – strongly capitalised and with the scale to offer customers a full range of products and services that are ethical, mutual and co-operative.

“Britannia members have an historic opportunity to help create a new way of doing business in British financial services by voting to bring together two leading customer-owned businesses with unrivalled reputations for social responsibility, customer satisfaction, employee engagement and member democracy. They can choose to be part of something good.”

-Ends-

## **Notes**

### **About CFS & Britannia**

The Co-operative Financial Services (CFS) is part of The Co-operative Group, which is the world’s largest consumer co-operative with over three million members, over £10 billion turnover, and core business interests in financial services, food, travel, pharmacy and funeral care. The Co-operative Group has over 4,500 retail trading outlets.

CFS provides a range of financial products, from current and savings accounts to credit cards, personal loans, corporate lending and payments, insurance products, unit trusts, investment bonds and pensions to some six million customers. It has 109 retail and corporate centres and over 1,000 face-to-face financial advisers throughout the UK. The CFS also has £40 billion of assets under management across its retail and corporate business areas. It employs 8,000 people with a major presence in Manchester, Skelmersdale and Stockport.

Britannia is the UK’s second largest building society, with nearly three million members countrywide. Its 4,700 employees are based at offices in Leek, London, Bristol and Plymouth and 245 branches across the UK.

## **Financial summary**

	<b>Britannia</b>	<b>CFS</b>
<b>Key metrics (H1 2008)</b>		
Mortgages & Unsecured Lending	£21.4bn	£5.6bn
Commercial lending	£3.7bn	£4.4bn
Deposits	£17.6bn	£11.2bn
Long Term Life Fund Assets Under Management		£17.7bn
General Insurance Investments		£1.0bn
Profit before Tax	£50.5m	*£81.2m
Net interest margin	0.94%	**2.71%
Cost/Income ratio	57.4%	**60.1%
Tier 1 ratio	10.6%	**8.5%

	<b>Britannia</b>	<b>CFS</b>
<b>Key metrics (FY 2007)</b>		
Profit before Tax	£115.2m	*£151.5m
Total Assets	£36.8bn	£39.8bn

\* Before significant items

\*\* Relates to Co-operative Bank

## **PIBS**

In a merger between two building societies, the permanent interest bearing shares (PIBS) of a transferring society are exchanged for similar instruments of the successor society. The Butterfill legislation does not address this issue. In the absence of further legislation, the Britannia PIBS would be exchanged for perpetual subordinated debt instruments of Co-operative Bank in accordance with their existing terms. Further information on the impact of the merger on the Britannia PIBS will be made available to PIBS holders in due course.

## **Britannia trading update**

Britannia remains financially strong and has been trading profitably in 2008. It has maintained balance sheet strength, ended the year with a Tier 1 capital ratio of over 10 per cent and had strong levels of liquidity.

2008 results will be affected by a small number of exceptional items. The society has exposure to two banks which failed during the year and the process of recovering the funds is underway. The potential provisions to be made in respect to these exposures will not have a significant impact on its strong capital and liquidity position. Another exceptional item concerns the Government's Financial Services Compensation Scheme. All savings institutions in the UK are required to pay towards this scheme, but building societies are disproportionately

impacted as they have higher levels of retail funds. Further information will be provided when Britannia publishes its 2008 results in February.

### **CFS trading update**

Co-operative Financial Services has continued to trade strongly throughout 2008 and has strengthened still further its capital and liquidity positions since those reported at half year. Customer deposits have grown by over 20 per cent in 2008 with corresponding growth in customer lending of 15 per cent over the same period, demonstrating a balanced approach to capital and liquidity management. Customer deposits now represent in excess of 105% of customer lending (100% at the end of 2007). Bank profits have continued to increase, despite difficult market conditions, with increased income, lower costs and lower bad debt charges compared to 2007. Further information will be provided when CFS publishes its 2008 results in April.

### **Advisers**

Citigroup Global Markets Limited ("Citi"), which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as financial adviser to Britannia and no-one else in connection with the matters described in this announcement and will not be responsible to any other person for providing the protections afforded to the clients of Citi nor for providing advice in relation to any matter referred to in this announcement or the transaction generally.

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Allen & Overy LLP is acting as legal adviser to Britannia. Slaughter and May is acting as legal adviser to CFS. Brunswick Group LLP is acting as communications adviser to both Britannia and CFS.

### **For more information**

For today only (21 January 2009), Neville Richardson and David Anderson will be based at Brunswick's offices – to arrange to speak with them, please call 020 7404 5959.

#### **At Britannia:**

Head of Communications Graham Leftwich – 01538 393075 or 07948 372666

Citi – Chris Williams, Ian Hart or John Sandhu on 020 7986 4000.

Brunswick – Kevin Byram or Gill Ackers on 020 7404 5959.

#### **At CFS:**

Head of Corporate Affairs Russell Brady – 0161 903 3987 or 07880 784442

JPMorgan Cazenove - Tim Wise, Conor Hillery or Edward Squire on 020 7588 2828

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