

10th September 2009

News Release

PROFITS INCREASE BY 11% AT THE CO-OPERATIVE FINANCIAL SERVICES

Interim Result Highlights for The Co-operative Financial Services (CFS) for the 28 weeks to 25 July 2009

Following its merger with Britannia Building Society on 1 August 2009, The Co-operative Financial Services (CFS) is one of the largest and most diversified financial mutual businesses operating in both retail and corporate markets. The combination of the financial strength, customer focus and co-operative values, principles and ethics of the new organisation, will offer our members and customers a trusted and ethical alternative to shareholder-owned banks.

CFS is part of The Co-operative Group, which is the UK's largest mutual retailer with 4.5 million members, over £14 billion turnover, over 5,000 retail trading outlets and core business interests in food, financial services, travel, pharmacy and funeralcare.

Highlights

- Total shareholder profit before tax, FSCS levy, significant items and short-term investment fluctuations was £81.4m (2008: £73.4m) an increase of £8.0m (11%).
- £14.6m profit from General Insurance (2008: £1.5m loss).
- £41.7m profit from Banking activities (2008: £46.2m). Bank wholly funded by customer deposits.
- General Insurance claims ratio reduced to 73.3% (2008: 74.0%).
- Strong balance sheet growth achieved in both lending and deposit balances. 12% growth in customer lending, funded by strong growth in customer deposits (up 21%).
- Strong liquidity and capital ratios with a capital ratio of 12.8% and core tier 1 ratio of 9.2%.
- Merger between The Co-operative Financial Services and Britannia took place on 1 August 2009, resulting in one of the largest and most diversified financial mutual businesses, with over £70 billion in assets.
- Winner of the prestigious 2009 Which? Award for Best Financial Services Provider.
- Strong new business growth including; current accounts sales, which are 68% higher than in 2008, an 18% increase in annualised new premiums for life and savings, and general insurance sales, which increased by 27% over 2008.

(Long-term business in Life and Savings is transacted on a mutual basis with all profits retained for the benefit of policyholders)

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CFS Business Highlights

- The underlying improvement in shareholder profit of 11% has been achieved through prudent financial management and improved results in the General Insurance business.
- Throughout a difficult economic climate the Bank has maintained a very strong balance sheet position, with continuing robust liquidity and capital ratios.
- The first half of 2009 has seen strong new business sales performance across the Retail Banking, Corporate Banking, General Insurance and Life and Savings sectors.
 - **General Insurance** – New business income increased by 27% to £78.3m and new policy sales also increased by 27% mainly through growth in direct, broker and aggregator channels.
 - **Banking** - Across both retail and corporate areas average customer deposits grew by 21% to £11,209m whilst average customer lending grew by 12% to £9,908m, reflecting significant growth in corporate and mortgage balances.
 - **Life and Savings** - New business increased with annualised new premiums 18% higher overall, rising to £50.24m, and an uplift of 41% on life protection APE, rising from 9.26m to £13.07m.
- CFS has continued to develop its sales capability especially across online, telephone, face to face and intermediary channels. The Co-operative Insurance was voted 'Best Direct Motor Insurer for 2009' by *Your Money* magazine.
- CFS customer satisfaction remains high relative to its peer group. CFS received external recognition for its customer satisfaction, with The Co-operative Bank being judged best financial services provider for 2009 by Which? Corporate Banking customer satisfaction has continued to operate at very high levels.

Neville Richardson, Chief Executive of The Co-operative Financial Services Commentary:

"These are encouraging trading results, which serve to illustrate the strength, sustainability and financial prudence of our business in what remains a very tough economic environment. We have maintained a strong balance sheet which has been supported by excellent sales growth across our core banking, insurance & investment areas.

"We are moving forwards from a position of strength and the merger with Britannia creates a new and powerful force within UK financial services. The new and stronger CFS will be a pioneering business, providing high quality financial products to co-operative customers and members.

"We are at the start of creating something quite special within UK financial services, a business which is member-owned, customer-led and ethically guided."

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Operating Highlights

Banking

The banking business recorded a profit before tax and significant items of £41.7m, compared to £46.2m in 2008. This reflects the Bank's prudent approach to banking with a cautious approach to lending, which is wholly funded by retail deposits.

Strong balance sheet growth was achieved in both lending and deposit balances, resulting in higher net interest income, with a growth of £11.3m and reduced investment losses. At the end of the half year, the capital ratio was 12.8% with a tier 1 ratio of 9.9% and a core tier 1 ratio of 9.2%, reflecting the quality of our capital resources.

Operating costs rose by 3%, which reflects the system developments for regulatory requirements, new security measures to support the ATM estate and increases in customer support areas. This contributed to a slight increase in the Cost / Income ratio of 1.1% to 61.2%

The first half of 2009 saw a small increase in personal bad debt, which reflects the increased difficulties, faced by some retail customers in meeting unsecured debt repayments.

The corporate sector operating contribution reflects strong growth in operating income driven by higher lending and deposit balances. Additional costs have been incurred as a result of the expansion of the number of Corporate Banking Centres, together with an increase in bad debt on a small number of counterparties as a result of the current economic conditions.

In total impairment losses rose by 3.8% to £73m. However looking across both the corporate and retail areas, our bad debt charge for the half year period is under 1.3% on total loans and advances on an annualised basis, which is significantly lower than the other major banks.

Across both the retail and corporate areas, average customer deposits grew by 21% to £11,209m and average customer lending grew by 12% to £9,908m, reflecting strong growth in corporate and mortgage balances.

General Insurance

The general insurance business achieved a significant improvement in the first half of 2009, delivering profits of £14.6m (2008: loss of £1.5m)

Gross Written Premium has improved by £7.5m to £228.4m which has been predominantly driven by increasing sales volumes through both our online, telephone, broker and aggregator channels, further continuing the growth seen in 2007 and 2008.

Retention rates have remained broadly stable despite the economic climate, which is a reflection of the loyalty of our customer base and success of new retention initiatives. We have also seen an increase in new business income of 27%.

The general insurance claims ratio was 73.3% (2008: 74%) and this has been achieved despite claims for the cold weather experienced earlier in the year and the growing trend for claims to settle on a periodical, rather than lump sum basis, which has become more attractive to claimants in the current interest rate environment. Overall costs remained broadly unchanged, despite increases in overall income, new business volumes and associated commissions.

New business developments included the launch of market leading business insurance products, offering customers the chance to tailor policies to suit their needs. Other new developments included improvements to our web sales proposition and full 'quote and close' capabilities for our home insurance product provided in our bank branches.

Customer satisfaction for general insurance also remains high, standing at 75.3% and we have widened the gap over the market average. This year we have won the Corporate Social Responsibility Award at the British Insurance Awards and also a Claims Platinum Award for the quality of our claims handling.

Long Term Business – Life & Savings

The first half of 2009 has seen the continuation of the difficult economic conditions and turbulence in the markets, which reached a six year low in early March.

Despite this, long-term sales figures remain stable for the year to date, with profitability of new business exceeding target levels. The present value of New Business Premiums for the first half of 2009 has risen by 21% to £307.5m, when compared with the first half of 2008.

We have seen customers continue to take a more cautious attitude to risk in the first half of the year and this has led to significantly higher sales of single premium Investment Bonds, when compared with 2008 levels.

We are continuing with our work on expanding the distribution of our Unit Trusts to IFAs and other intermediaries in the wider investment market, and believe this represents an exciting opportunity for The Co-operative Asset Management over the medium to long term.

Our pioneering and unique market-leading approach to responsible shareholding which feeds directly into our fund management process provides the basis for us to continue exploring further new business opportunities in both the retail and institutional markets.

Gross earned insurance premiums for the life and pensions business in the first half of 2009 was £269.8m, compared to £274.4m for the corresponding period last year. This fall in gross premium income is due to a reduction in regular premium from in-force with-profits business as policies reach maturity or retirement, partly offset by new business.

The first half of 2009 has seen mixed returns on all major asset classes. The FTSE All-Share return produced a positive return of 7.2%, whilst the FTSE World index produced 6.6%. Corporate bonds also performed well, as spreads began to fall when confidence returned. Property returns were poor with the IPD Property index yielding minus 9.0% over the period. Government bonds also performed poorly with returns of around minus 7.6%.

Despite tough economic conditions, the performance of the UK Growth and UK Income with Growth trusts continue to show above median performance over a rolling three year period.

The CIS Sustainable Leaders Trust, Co-operative Insurance's flagship Socially Responsible Investment (SRI) fund, recorded upper second quartile performance for the last 12 months and continues to be in the first quartile for the 3 years ending 30 June 2009, despite the absence of exposure, for environmental reasons, to the strongly performing mining and oil sectors.

Britannia Merger

Following the merger with Britannia on 1 August 2009, the new organisation is one of the largest and well diversified mutual businesses operating in both retail and corporate markets.

The new CFS business has £70 billion in assets, 12,000 staff and nine million customers. It also has over 300 high street branches, 20 corporate banking centres and a major presence in Manchester, London, Leek, Bristol, Plymouth, Skelmersdale and Stockport.

Going forwards the combination of the financial strength, customer focus and co-operative values, principles and ethics of the new organisation, will offer our members and customers a trusted and ethical alternative to shareholder-owned banks.

CFS has a clear vision to be the UK's most admired financial services business and the merger will accelerate the path to realising and sustaining this ambition. On their own CFS and Britannia already stood out amongst the UK mutual sector for their ethical trading policies, high levels of customer advocacy and their distinct member reward programmes. All these characteristics will remain a core part of the new business and in addition our customers and members will benefit from a wider range of competitive products, sourced through a greater range of channels.

At a time when trust in the UK financial services sector is at an historic low, the new and stronger CFS will be a pioneering business delivering sustainable financial services for members and society.

Social Responsibility

CFS was recognised as one of seven leaders in Corporate Social Responsibility, with the award of the Business in the Community (BitC) Corporate Responsibility Index of 'Platinum Plus'.

CFS has also launched a \$50m international development fund for co-operatives, aimed at helping to alleviate poverty in some of the world's poorest communities. This is the first specialised international development fund to specifically target credit unions and agricultural co-operatives that serve the world's poorest communities.

The Bank won two prestigious awards at the Card Awards 2009 for the Best Corporate Social Responsibility Programme and the Best Charity Credit Card Programme.

CFS has also increased support for community art projects, through the launch of a new CFS school art fund, enabling schools to apply for a grant of £2,000 to run art, music and drama projects.

The Co-operative Insurance came out top at the British Insurance Awards, winning the coveted 'Corporate Social Responsibility Project of the Year' award.

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Profit and loss account

	2009 £m	2008 £m	Change £m
Banking	41.7	46.2	(4.5)
General Insurance technical profit	14.6	(1.5)	16.1
Other shareholder activities	25.1	28.7	(3.6)
Result pre investment fluctuations and FSCS levy	81.4	73.4	8.0
FSCS Levy	(2.2)	-	(2.2)
Short Term Investment Fluctuations (STIF)	(6.4)	7.8	(14.2)
Profit before significant items*	72.8	81.2	(8.4)

FSCS – Financial Services Compensation Scheme, STIF – Short term investment fluctuations

*Profit before significant items and membership dividends. Total shareholder significant items were £22.3m (2008: £43.2m) and cover one off costs of substantial investment made in new technology and systems and merger costs.

Balance Sheet

	2009 £m	2008 £m
Investments	20,796.3	22,038.8
Loans	12,068.9	11,710.3
Other assets	4,543.2	4,789.2
Total assets	37,408.4	38,538.3
Deposits	15,066.3	14,262.2
Insurance and investment contract liabilities	15,769.2	17,589.3
Other borrowings	808.1	1,250.5
Other liabilities	2,949.8	2,601.1
Minority interests	33.2	27.0
Unallocated divisible surplus	851.0	997.1
Total liabilities	35,477.6	36,727.2
Equity	1,930.8	1,811.1

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Notes to Editors

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The Co-operative Group is characterised by its unique ethical and member reward policies and very high levels of customer advocacy. It is also the only mutual organisation that enables its members to earn financial rewards for the products they hold, as well as giving them the opportunity to have a say in how the business is run.

These results will form part of the consolidated interim results for The Co-operative Group to be issued on 12th October 2009.

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