Presentation to Wholesale Credit Counterparties - July 10th 2009

STRICTLY PRIVATE AND CONFIDENTIAL

Britannia

The co-operative bank
good with money

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Britannia

The co-operative bank
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Well positioned for future growth
A real alternative

- Powerful vision, compelling business case and customer proposition
- Well planned integration, tight control of risks
- Financial strength:
  - Liquidity position continues to be excellent
  - Capital remains robust
    - Fair value adjustments of Britannia balance sheet shelter against credit losses
    - Future capital strength supported by improving profitability
  - Risk remains low and diversified
- Key challenges understood and planned for

Well positioned for future growth
Financial strength

Excellent liquidity and funding

- Strong funding position
- Indicative coverage of customer loans by deposits approaching 100% for 2009
- Cumulative net funding gap positive out to 2 years

Balance

Prudent capitalisation

- Robust capital position
- Pro forma 2008 tier 1 ratio of 9.2%
- Strength to continue in 2009, with tier 1 ratio projected to remain at similar levels

Resilient underlying profits

- Strong underlying profits
- Cost control forecast to continue
- Significant synergy benefits expected

Powerful vision

Powerful vision
Distinctive new force in Financial Services

- **National** presence
- **Focus** on the 'conscience customer' (est.10m)
- Serves customers' best interests with a **full range**
- Serves members' interests by retaining **mutual** status
- Covers initial costs from obvious **synergies**
- Builds potential for significantly increased future **profitability**
- Provides **scale** to play in an increasingly consolidated market

To create a real alternative in the banking sector - Mutual, Ethical, Co-operative

2008	**Co-operative Bank**	**Britannia**
Assets	£15.0bn	£37.2 bn
Pre impairment profit	£233.1m	£158.2m
Pre tax profit *	£85.6m	£43.0m
Employees	4,108	4,893
Branches/Outlets	128	245
Customers	c. 5m (CFS)	c. 3m

As published, inc UTB (CFS), excl JV profits (Britannia)

* before distribution, significant items, FSCS levy and short term investment fluctuations

Powerful vision
Strong position despite challenging times

- Tough conditions:
  - Economic downturn – worst recession for at least three decades
  - Low interest rate environment, putting pressure on margin
- Opportunities for the merged business:
  - Customers turning to trusted names: benefit to merged entity as trusted, admired and valued financial services company, leveraging our joint brand heritage and leadership position in social responsibility
  - Enhanced rewards proposition linked to membership of the Co-operative Group, one of the world's largest consumer co-operatives
- Current strength of both businesses allow scope to capitalise on these opportunities
- Strategic review:
  - Determination to transform the business
  - Reduce costs and improve efficiencies

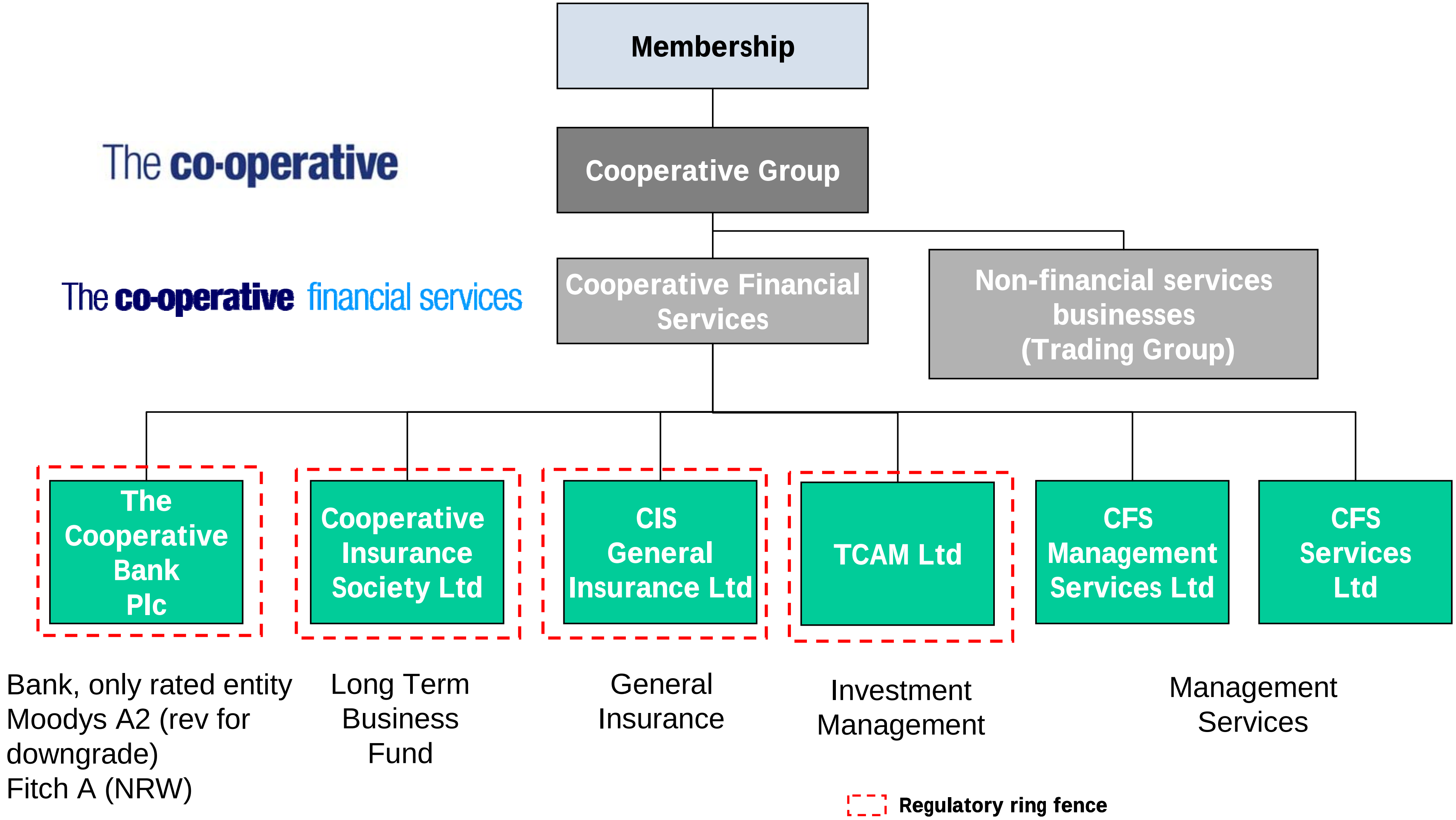
Powerful vision
Combines investment and capability

- Growth potential via:
  - Brands/combined franchise
  - Complementary product ranges:
    - Britannia: mortgages, savings/GEBs, branch network
    - Co-operative Bank: mortgages, current accounts, credit cards, personal loans
  - Cross-sale of each company's products to other's customers
  - Offering new, full range of products to both sets of members and customers
- Complementary channels – branches, internet (inc smile), direct
- Making better use of significant future investments
  - Distribution channels, e.g. branches, internet
  - Co-operative Bank banking system being re-platformed
  - Savings on infrastructure and regulatory costs
- Combining core capabilities for greater impact
  - Change management experience and methods; process improvement
  - Customer service
  - Member engagement
  - Employee engagement

Powerful vision
Major presence in sector

- Unique position
- Considerable size:
  - Britannia: total assets £37.2 billion (end 2008)
  - CFS: total assets £38.8 billion (end 2008)
    - Co-operative Bank: £15.0 billion (end 2008)
- High level of combined retail deposits:
  - Britannia: £20.8 billion (end 2008)
  - Co-operative Bank: £11.9 billion, including corporate/SMEs (end 2008)
- Co-operative nature and significant number of members
- Clear differentiation via ethical positioning
- Clearing bank status
- FSA/tripartite strongly supportive of merger

Powerful vision
Part of major and unique group



- Britannia to merge with the Co-operative Bank; all current Britannia subsidiaries to be transferred to become subsidiaries of the Co-operative Bank

Powerful vision
Part of major and unique group (continued)

The co-operative financial services

Cooperative Financial Services

- Holds free shareholder capital (see p 20)

Cooperative Insurance Society Ltd

- Long Term Business Fund (mutual)
- Underwrites all Life & Savings business
- General Reserve belongs to the shareholder but supports the Life Fund & GI run off

CIS General Insurance Ltd

- General Insurance (newco set up 2006)
- Underwrites all new GI & reinsures existing GI running off in CIS

CFS Management Services Ltd

- Management Services
- Service company holding all insurance infrastructure including employing staff

Well planned integration

Well planned integration
Significant progress to date

- First implementation of new Butterfill legislation
- Major internal and external communications campaign
- AGM - 29th April 2009 at the NEC
- 450,000 members voted (30% of total membership)
- Overwhelming support for the merger
  - 88% of savings members (75% required)
- Members and customers: overwhelmingly positive
- Employees (Britannia and CFS)
  - Enthusiastic
  - Excited
  - Ready for success

Well planned integration
Clear structure and responsibilities

- Key appointments made and responsibilities defined in top three tiers of management; fourth tier to be completed in August 2009

Chief Executive

Neville Richardson

Retail	Corporate & Markets	Operations	Finance	Risk	Organisational Design	Change
Rod Bulmer	John Reizenstein	Tim Franklin	Barry Tootell	Mike Fairbairn	Karen Moir	Phil Lee
-Retail Products -General Insurance -Life & Savings -Brand & Marketing -Field Sales Force -Channels	-Treasury -Corporate Banking -Asset Management -Platform -Optimum Mortgages -Business Services	-Shared Services -IS Operations & Development -Operational Arrears Management -Process Management -Corporate Affairs	-Financial Control -Group Finance -Actuarial Risk -Banking Risk -With Profits Actuary -Finance Business Partnering	-Regulatory Compliance -Corporate Governance -Financial Crime -Internal Audit -Legal Services -Operational Risk	-HR -Leadership & People Development -Culture -Strategy	-Integration -Systems Change Programme -Change Management -IS Strategy

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Well planned integration
Clear targets, on course

- No unforeseen issues expected from the FSA confirmation hearing on 26th June (sign off expected 24th July)
- High level of confidence for merger day

Time	Plan	Customer impact
Now	Preparation for merger day	E.g. signs, letterheads, pricing
08/09 - 12/09	'Operationalise'	E.g. Co-operative Bank cards & loans to Britannia customers, Britannia wider savings product portfolio to Co-operative Bank customers
01/10 - mid 2012	'Transform'	E.g. new customer experience and culture, member/customer experience, operating model and systems

- Excellent track record in integration:
  - Britannia B&W acquisition, c. 97 branches bought and retained £4.4 billion deposits
  - Complete restructuring of CFS businesses following co-op bank merger; £400m of shareholder capital, life funds de-risked, FTEs reduced from 14,000 (2003) to 7,500 (2009)
- Transitional treasury operational model ready for merger day, details circulated to counterparties

Excellent liquidity

Excellent funding and liquidity
Strong funding

- As at end May 2009, 54% of combined liquid assets have less than 12 months to maturity
- Indicative coverage of customer loans by deposits approaching 100% for 2009
- Combined funding plan:
  - Reduce reliance on wholesale funding and SLS in the longer term
  - Cumulative net wholesale funding gap positive out to 2 years (as at end May 2009)
  - EMTNs reduce by c. £1 billion over the next 12 months (as at end May 2009), with a plan in place to repay without additional funding requirement
  - Build CP08/22 compliant liquidity pool (currently £2 billion or c. 4% of total assets)
- Combined stress testing:
  - Management of liquidity risk is via scenario analysis-based risk management
  - Combined mis-match models are calibrated indicating joint tolerances
  - New idiosyncratic stress is being calibrated in line with CP08/22 requirements, modelling a two week shock on instant access deposits followed by a multinotch ratings downgrade
  - Liquidity cover on a combined basis exceeds severe stress tests on both retail and wholesale markets

Excellent funding and liquidity
Strong funding (continued)

- Covered bonds
  - CFS £3 billion programme, £1.0 billion 3 year bonds issued, of which c. £250m placed in SLS for contingency funding
  - Britannia £3 billion programme, debut issuance of £1.4 billion, of which c. £800m pledged with the BoE (as at end June)
  - Both Aaa/AAA rated by Moodys and Fitch
  - Complementary structuring (e.g. Britannia pass through, CFS 'soft bullet')
- Active management of counterparty risks
  - Consideration of alternative funding sources to support liquidity
    - Issuance under the Government Guarantee scheme (eligible but not issued to date)
    - Additional covered bond
  - Investment in highly rated counterparties, sectors and instruments
  - Full engagement process underway

Robust capital, supported by strong underlying profits

Robust capital, supported by strong underlying profits
Current capital strength to continue post merger

- Strong current capital despite prudent credit deterioration assumptions:

2008 year end position	**Co-operative bank**	**BBS**	**Total ***
Tier 1 capital	749	1,158	1,907
Tier 2 capital	265	444	709
Total capital available	1,014	1,602	2,616
Risk weighted assets	9,061	11,600	20,661
Tier 1 ratio	8.3%	10.0%	9.2%
Total capital ratio	11.2%	13.8%	12.7%

* Pro forma combination, excluding FVA and merger adjustments

- PIBS treated as tier 1; although PIBS roll-over as tier 2 by law, FSA to treat as tier 1 capital (recognising mutual status of CFS and permanence of PIBS)

- Further £120m equity injection (Jan 09) resulting in revised Co-operative tier 1 ratio of 9.6% and total capital ratio of 12.5%

Robust capital, supported by strong underlying profits
Current capital strength to continue post merger (continued)

- FSA final discussion/testing of capital position by end July
- Post merger, the combined entity will maintain strong levels of capital and is expected to be eligible for government guarantee scheme
- Other Shareholder Capital of £730m at CFS level comprises:
  - Committed capital of £115m
    - £105m CISGIL Sub-debt
    - £10m CFSMS Loan
  - General Reserve of £317m
  - Free Shareholder Capital of £318m: available to provide capital support to regulated entities
  - Low risk investment strategy, primarily cash equivalent

Robust capital, supported by strong underlying profits
Prudent and thorough fair value adjustments

- Original review at November 2008 performed to establish the estimated impact on the balance sheet at merger
- Final adjustments to be determined at end July 2009
- Approach based on mark-to-market valuation reflecting impact of:
  - Credit risk impact on loans and advances and AFS – very conservative approach provides protection to balance sheet going forward
  - Impact of current interest rate and liquidity environment on both assets and liabilities
    - Anomaly of accounting standards which reverses over time
- Actively managed via original exercise updated at each month end since March 2009
- Confidence in expectation of final results

Robust capital, supported by strong underlying profits
Solid starting position for underlying profitability

Results combined on pro forma basis (£m)	2007	2008
Net interest income	649.6	681.8
Net other income	270.3	286.8
Total income	**919.9**	**968.6**
Management expenses	(607.1)	(577.3)
Pre impairment profit	**312.8**	**391.3**
Impairment losses on loans and advances to customers	(116.0)	(154.6)
Impairment losses on investments and counterparties	(31.8)	(108.1)
Share of post tax profits from joint ventures	0.6	0.6
Pre tax profits before distribution and significant items	**165.6**	**129.2**
FSCS levy	0.0	(30.3)
Member reward/dividend	(47.2)	(23.1)
Pre tax profits before significant items	**118.4**	**75.8**

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Robust capital, supported by strong underlying profits
Profit momentum indicators for 2009

- Strong positive trends
  - CFS:
    - Current account sales 167% of plan with year on year growth of 22% YTD to May
    - Fee paying packaged current accounts (new & upgrades) at 120% of plan YTD to May
  - Britannia:
    - Fixed term savings balances at 126% of YTD plan to May
    - Commission earned on GCEB savings sales is 27% higher YTD to May 2009 vs 2008
    - New business mortgage completion margins YTD 2009 are in excess of 200 basis points over LIBOR, vs an average of 55 basis points over LIBOR in 2008
- Co-operative brand re-launch and renaissance of Co-operative group as a whole
- Combined cost control: reduction in YTD to May combined costs from 2008 to 2009
- Well positioned for future growth:
  - C. £18m revenue synergies anticipated by 2013
  - C. £60m cost synergies anticipated by 2013

Low, diversified risk

Low, diversified risk
Credit risk significantly reduced by transaction

- Sheltering of Britannia assets from credit risk via fair value adjustments
  - Fair value adjustments to restate valuation of Britannia balance sheet prior to merger
  - Effective elimination of credit risk in Britannia assets
- Combination of balance sheets results in dilution of risk
- Pro forma position at March 09:
  - High quality investment/liquid assets
  - Prime lending comprises 82% of originated residential loans
  - Minimal arrears:
    - Only 1% of originated residential loans > 2.5% of total balance in arrears for combined assets at March 2009
  - Well managed corporate/commercial lending portfolio
- Low risk appetite to continue in merged entity

Low, diversified risk
Robust balance sheet

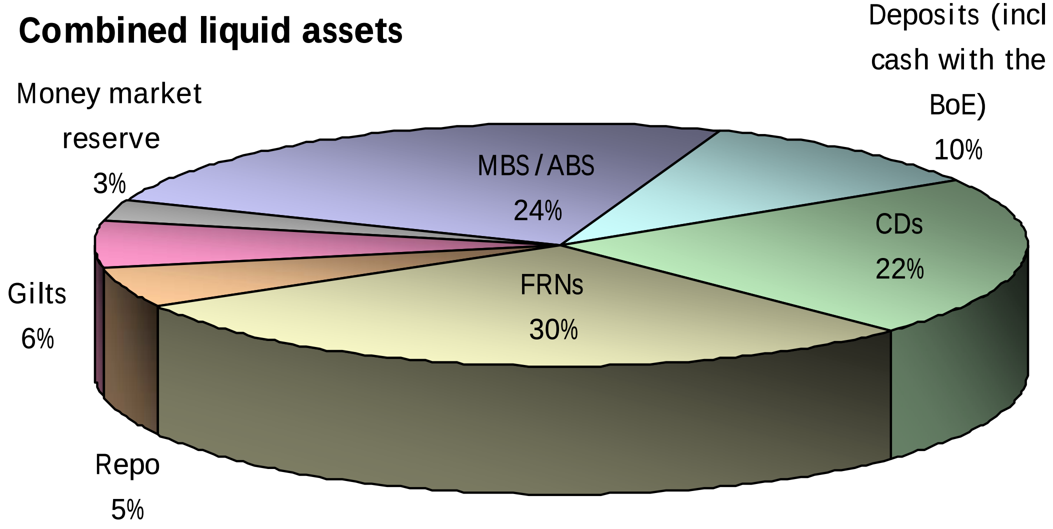
March 09: stock balances (£ bn)	Britannia	Co-operative Bank	Combined
Investment/liquid assets			
Treasury Assets	5.5	4.2	9.7
Asset backed inv portfolio (MBSABS)	3.1	0.0	3.1
Total investment/liquid assets	**8.6**	**4.2**	**12.8**
Investment portfolio - acquired mortgages	3.3	0.0	3.3
Originated residential loans			
Prime	11.1	3.9	15.0
BTL	0.7	0.1	0.8
Self Cert	1.1	0.1	1.2
Non Conforming	0.7	0.0	0.7
Higher risk *	0.8	0.0	0.8
Total originated residential loans	**14.4**	**4.1**	**18.5**
Unsecured personal lending	0.0	1.7	1.7
Corporate/commercial loans	3.7	4.5	8.2
Memo: Social housing	*0.8*	*0.1*	*0.9*
Subtotal: unsecuritised assets	**30.0**	**14.5**	**44.6**
Securitised assets	2.8	0.0	2.8
Total earning assets	**32.9**	**14.5**	**47.4**

*LTV>85% and also either a first time buyer, new build flat, or non-conforming loan

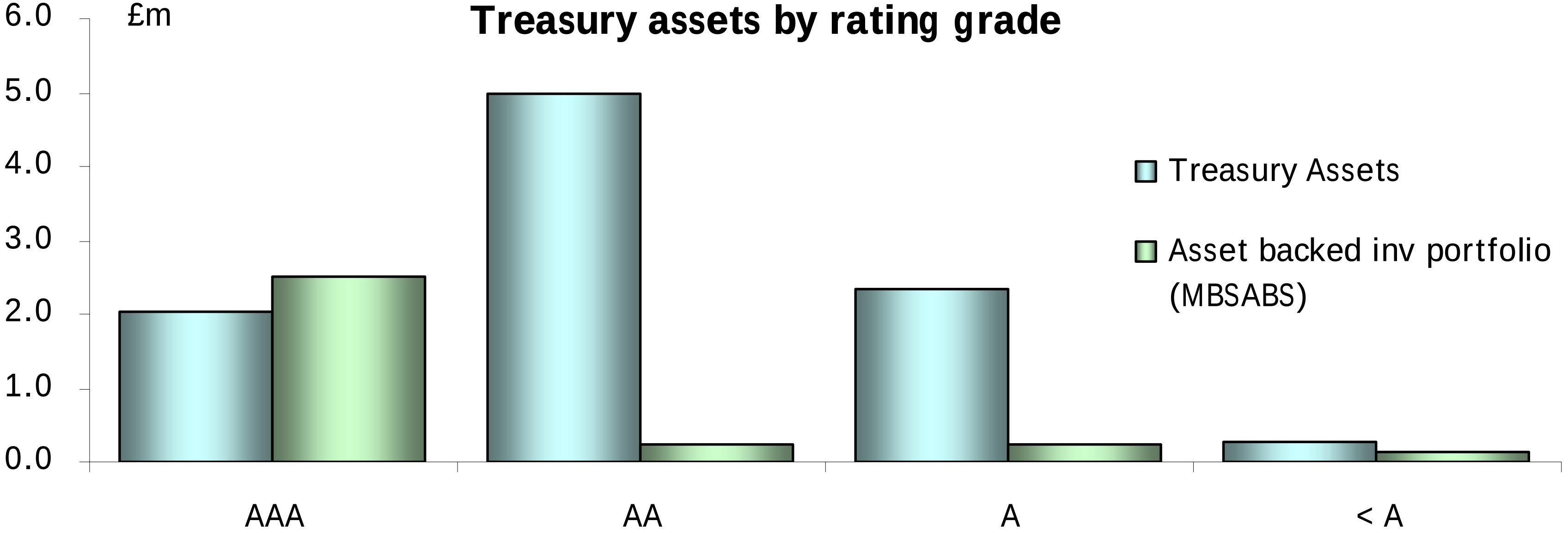
Low, diversified risk
High quality investment/liquid assets

- Portfolio of £12.8 billion
  - Well diversified by instrument
  - High quality evident in external ratings

Combined liquid assets



Treasury assets by rating grade



Low, diversified risk
Excellent returns on investment portfolio - acquired mortgages

- Investment portfolio – acquired mortgages of £3.3bn
- Target RoE of 18% achieved for all portfolios
- Thorough due diligence assessment pre acquisition:
  - Against current lending criteria, rating agency & Basel models, fraud, valuation & underwriting quality
  - Conducted by internal & external experts
  - Resulting in significant levels of exclusions
  - Independent internal approval required
- No instances of forward obligations to purchase
- Significant additional protection afforded via warranties
- Have benefited from significant discounts, providing further coverage of potential losses

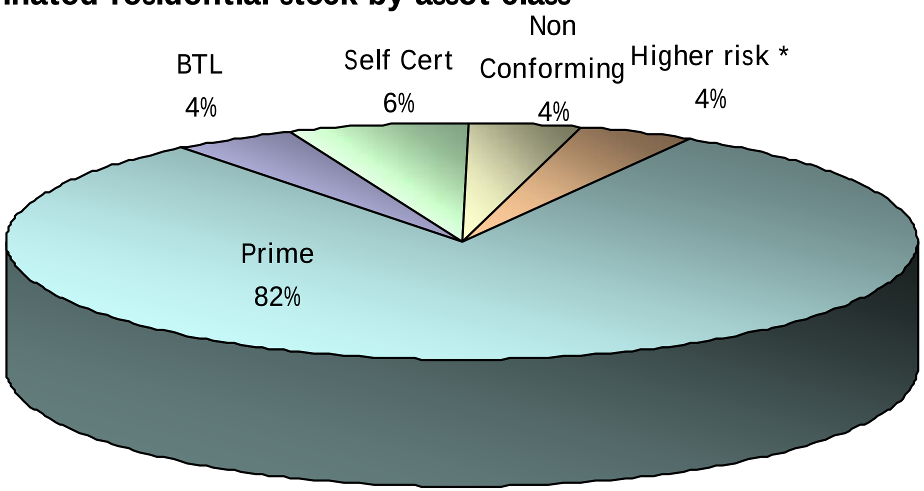
Low, diversified risk
Low risk originated residential books

- Good geographical diversification and national presence

£bn, by LTV	< 60 %	60 % - 75 %	75 % - 90 %	> 90 %
Stock balances (indexed)	8.5	3.0	2.8	4.1
New lending: 08 & 09 (unindexed)	1.3	0.8	1.2	0.1

- 62% of combined originated residential loans at March 2009 below 75% indexed LTV
- Low risk appetite evident in new business: only 3% of 2008/09 lending was > 90% LTV
- Platform new business focussed on prime lending
- Minimal arrears:
  - Only 1% of originated residential loans are more than 2.5% of total balance in arrears for combined assets at March 2009
  - Britannia arrears have fallen in total for the last 3 months

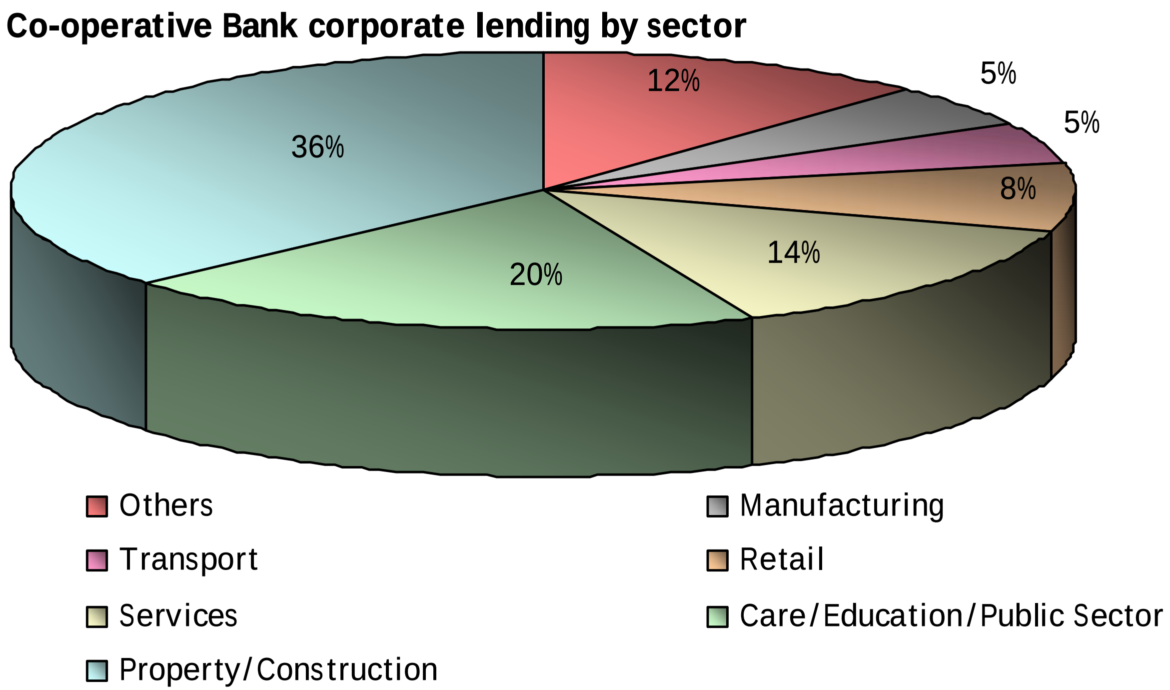
Originated residential stock by asset class



*LTV>85% and also either a first time buyer, new build flat, or non-conforming loan

Low, diversified risk
Well managed corporate/commercial books

- Fair value adjustments at merger provides adequate reserve for credit risk of Britannia commercial lending, based on prudent expected loss calculation
- Co-operative bank corporate portfolio of £4.5 billion:
  - Increased by £728m (23%) in 2008
  - £12m bad debt charge in 2008, down from £14.1m in 2007
  - 6 new corporate banking centres opened in 2008; in only 2 years, have doubled the number of centres to 20



Low, diversified risk
Continuation of existing low risk appetite

- Successive and ongoing tightening of credit criteria has resulted in:
  - Low risk appetite in both existing businesses
  - Seasoned book
- To continue for combined entity, to balance liquidity, capital & profit
- Day 1 proposal for residential lending:
  - Max LTV 85% (loans < £500,000 only)
  - Max LTV 75% for new build flats
  - Minimum term 5 years, maximum term 40 years
  - Minimum term for interest only mortgages of 10 years
  - Max loan amount of £1,500,000

Key challenges

Well positioned for future growth
Key challenges understood and detailed plans in place

- Pressures of a low interest rate environment and competition for deposits
- Maintaining BAU while managing the merger
- Continuation of reduction in cost base
- Management of corporate credit risk in a deteriorating environment
- Building customer awareness of brand
- Continuing rating agency engagement, view expected early August 2009

Rating	**Moodys**	**Fitch**
Co-operative Bank		
Long term	A2 (on review for possible downgrade)	A (negative watch)
Short term	P-1 (on review for possible downgrade)	F1 (negative watch)
Britannia		
Long term	A2 (on review for possible downgrade)	A- (negative outlook)
Short term	P-1 (on review for possible downgrade)	F2 (negative outlook)

Key dates

- Acquisition accounting and consolidation from 1st August; no Britannia half year results to be issued
- CFS standalone half year results announcement planned for September 10th 2009
- Continuing investor engagement throughout 2009
- 2009 results announcement expected Q1 2010

Conclusion

Well positioned for future growth
A real alternative

- Powerful vision, compelling business case and customer proposition
- Well planned integration, tight control of risks
- Financial strength:
  - Liquidity position continues to be excellent
  - Capital remains robust
    - Fair value adjustments of Britannia balance sheet shelter against credit losses
    - Future capital strength supported by improving profitability
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Important

This presentation has been prepared jointly by the Co-operative Financial Services ("CFS") (including its subsidiary, The Co-operative Bank) and Britannia Building Society ("Britannia") with the sole purpose of providing an overview of the past financial standing and projected financial results of both CFS and Britannia at the presentation on 10 July 2009. The directors, employees, agents or advisers of both CFS and Britannia neither accept nor assume any responsibility to any third party with respect to any information, assertions or opinions provided contained herein.

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