I was Group CEO of Britannia Building Society from 2002 and became CEO of Co-operative Financial Services in August 2009 at the time of the merger of Co-operative Financial Services (CFS) and Britannia.

Throughout my career I have been personally committed to the mutual model, to greater competition in banking and other financial services, and to protecting the interests of the members, customers and employees of the institutions I have led.

In July 2011 I announced that I was stepping down as CEO of CFS and as Deputy CEO of the Co-op Group. CFS had announced two weeks earlier that it would make an offer for the 632 Lloyds Bank branches in the process known as Project Verde.

The Committee has asked me to assist with its inquiry into circumstances surrounding the Co-op’s bid for this part of the Lloyds business, and to give my views on the issues currently facing the Co-op Bank, and the consequences of the merger of CFS and Britannia.

I would like to place on record my thanks to the Committee for this invitation to discuss events at CFS up to the point of my departure, and my views of subsequent developments.

This is my first opportunity to talk publicly and in any detail about these issues since I stepped down. My only public statement since July 2011 was made in June this year when I gave up my NED role at M&S Bank, in which I said:

"Following the ill-informed and inaccurate commentary in the media concerning myself and my departure from the Co-operative Bank and the acquisition of Britannia by the Co-operative Group, this was the right thing to do.

"I will co-operate fully with any official enquiry there may be into the transaction between Britannia and the Co-operative Group, or the circumstances of my departure from the Co-operative Bank."

Summary

In 2009 the Britannia Building Society was a successful mutual which had come through the financial crisis at a time when other financial institutions were being bailed out, nationalised, and were writing off unprecedented levels of bad debt.

At the time of Britannia’s merger with CFS, completed after due diligence and with the approval of the regulator, the combined business had great prospects. I believe that now the Project Verde bid has fallen, CFS can rebuild its reputation and retains every prospect of a successful future.

However, in July 2011 I was firmly convinced that mounting pressures facing CFS - including the Project Verde bid - put CFS at unacceptable risk, because the Britannia/CFS merger had not yet achieved full integration and because of other issues which I describe in detail in this statement. It was the right deal at the wrong time.
The Board and CEO of Co-op Group at that time did not accept my warnings and were determined to press ahead. That is why I stepped down.

In recent months, difficulties at the Co-op Bank have been widely blamed in some parts of the media on Britannia commercial loan losses. However such losses amount to around one third of the impairments and significant items as reported by Co-op Bank over the last eighteen months. To be clear, these are not yet actual losses, but provisions against potential losses. Commercial property loans represented only 5% of the Britannia balance sheet and were originated between 6 - 10 years ago. Commentary suggesting that these loans were all 'toxic' at the time of origination and yet have been subject to 6 - 10 statutory audits and approval by boards, and extensive due diligence, lacks credibility.

Project Verde and Events leading to my departure from the Co-op Group

By late 2010/early 2011 much of the merger of Co-op Bank and Britannia had been completed. A single product range, management structure and clear reporting lines were in place. Targeted synergy cost savings at the rate of over £50 million per annum were being achieved. Current accounts were being offered throughout the entire branch network. Full integration could not be achieved until the outdated Co-op Bank core banking systems had been replaced (see below).

Five major activities or projects were in progress: a cumulative workload for the organisation which was reaching an unacceptable level and which I felt and said to the CFS Chair, Deputy Chair and the Co-operative Group Chief Executive could not be achieved without serious operating problems for the Bank. These activities were:

(1) Business as usual.
CFS was a large and complex entity operating with out of date systems and many manual workarounds to achieve a good level of customer service. The merger of Britannia and CFS had tripled the size of Co-op Bank and was still bedding in. The economic environment was febrile and not improving, meaning pressure on margins and funding was intense. In these circumstances I was strongly of the view that nothing should be done to distract management from the essential job of running the business. I made my views on this and concerns over management stretch known at several Board meetings in 2011. For clarity, I felt that the bank was performing well, but management had very little capacity to cope with further distractions.

(2) IT Transformation.
CFS had commenced replacement of its core IT systems prior to the merger discussions with Britannia. Replacement of entire core systems in a clearing bank is highly risky and as far as I am aware has never been attempted by a UK clearing bank. For CFS it was essential due to many years of underinvestment in its IT capability. Many of its systems were not adequately documented, interfaces between systems were cumbersome and often non-existent (such that there was no single view of customer), and disaster recovery capability was inadequate.

Post merger the IT Transformation was re-planned to include the Britannia systems. Britannia’s own systems had been replaced prior to merger and were relatively state of the art for mortgages, savings and customer information, but did not have current account or clearing bank capability. As of my date of leaving, external Quality Assurance reports had confirmed that this programme was proceeding well though much work still had to be done.
The magnitude and complexity of the IT Transformation programme was such that, combined with the Business as Usual complexities referred to above, management resource and capability was extremely stretched.

(3) Sale of the Life and Savings business.
On merger a number of strategic reviews were set up, including the potential disposal of the Life and Savings and General Insurance businesses. Both could not be done at the same time, but neither was core to the ongoing banking business. Life and Savings represented the greatest risk to the Group as it was a potential drain on capital but provided no profit stream to the Group. It also included an asset management business which was sub-scale and a field sales force of over 600 people. Regulatory changes (RDR) meant that retaining the status quo was not a possibility - to be RDR compliant would require a major reorganisation of the field sales force and significant (£60million) investment in systems and training.

The Executive, and subsequently the CFS and Co-op Group Boards, concluded that sale of the Life and Savings business was appropriate and would in time free up over £200million of capital and vital management resource. Acknowledging the pressures on management of Business as Usual and the IT transformation process, a sale was embarked upon in 2010. I personally concluded an agreed deal with Royal London in July 2011, although it has taken a further period of two years to satisfy the Regulators that the deal could go through.

(4) Project Unity
During 2010 I became increasingly concerned at Co-op Group’s aim to fully integrate CFS within Co-op Group from a management and administrative point of view (Project Unity). I made my concerns that this would cause serious disruption and distraction to the CFS business known to Len Wardle (Group Chair) and Paul Flowers (CFS Chair) on a number of occasions. I felt that the agenda was being driven from Group, and by Peter Marks in particular. It was not taking into account the risks which would be created in the bank.

I expressed my concerns to Peter Marks directly in April 2010, when he first told me that Project Unity was going to take place in 2011. I also expressed these concerns to Paul Flowers and Len Wardle at the Annual Board offsite in July 2010 and at a dinner between the three of us in June/July 2010. I believed that the disruption at a time when the Britannia merger was not complete and the IT systems replacement was in progress was highly dangerous. I sat on the Project Unity steering committee and frequently made my concerns over timing and potential disruption to the bank known.

In January 2011 in recognition of my contribution to the Group and as part of Project Unity I was appointed Deputy CEO Co-op Group.

The integration commenced in early 2011. My reporting line changed from the Chairman and Board of CFS to Peter Marks. Project Unity gathered pace and it became apparent it would involve transferring responsibility for key bank activities including finance, strategy, HR, communications, governance, legal and internal audit to Group control. It would create major disruption for individuals who would have to apply for their own roles, or new roles, only months after doing this on the Britannia merger.

(5) Project Verde
In the first half of 2011 the possibility of Co-op bidding for Lloyds branches (project Mars/Verde) was raised with us by Credit Suisse. I expressed the view that it was too risky due to the impact on an
already heavily loaded management, and due to the capital and liquidity requirements. Peter Marks wanted to proceed.

By June 2011, a high level desk top review of Verde had been carried out leading to a non-binding bid in July 2011. At that stage, whilst I believed that carrying out a fuller assessment of Verde was worthwhile it became absolutely clear to me that the business could not cope with all of the above five activities simultaneously.

I was deeply concerned that my views were neither being accepted nor acted upon and felt it was now necessary to bring matters to a head. This I did on 10 July 2011 in a telephone conversation with Paul Flowers (CFS Chair and Group Deputy-Chair) and Rodney Baker Bates (CFS Deputy-Chair), and on 11 July in a face-to-face meeting with Peter Marks.

I was so concerned with the events as they were unfolding that I had prepared a script for the conversations of 10 and 11 July so that I could be sure that exactly the same message was delivered on both occasions. I have full contemporaneous transcripts of the meetings in which I told them amongst other things that "to push through all projects simultaneously could lead to disastrous consequences and would be completely to disregard the interests of key stakeholders, namely employees and customers. This breaches Directors' duties and also is likely to breach contractual and other obligations". I also said that "I do not want these consequences to happen and I do not believe you do either."

The result of this was my departure from the Group. I had expressed my grave concerns and as it was clear to me that my experienced view was not going to be acted on, my position became untenable and we mutually agreed that I would leave.

Events since my departure from the Cooperative Group

Results for year ended 31 December 2012

In March 2013 Co-op Group announced its results for year ended 31 December 2012, which included a loss of £674m for CFS. Its operating profit prior to significant items and impairment provisions was £179m, meaning that loan loss provisions and significant items were some £853m.

Included within the result was loan/ bad debt write offs of over £474m, including £350m relating to assets now classified as non-core. The wording used was that these assets 'principally' related to former Britannia Commercial and Platform loans. The use of the word 'principally' leads me to believe that these write-offs included CFS loans written prior to merger. Prior to my departure I was aware that CFS held some doubtful loans written prior to merger. Having reviewed the Bank’s Basel 3 returns for 31 December 2012 I believe that between £100m and £150m of the £350m reported write-offs related to loans originated by CFS prior to the merger. The 2012 return shows that of the total provisions against corporate loans only £265m relates to the Britannia type of loan (commercial investment), but that the total of such loans at 31 December 2012 was £3.5bn. Britannia’s share of such loans at merger was £2bn so therefore some proportion of the £265m must have related to loans made by CFS prior to merger.

It should be noted that net P&L charges in the CFS accounts (audited by KPMG) in the years 2009/2010/2011 arising from Britannia non-core loans were low. The loans were performing well.

The loss of £674m also included a charge of £150m in relation to misselling of PPI (on top of a £90m charge in earlier years). Britannia did not sell PPI.
The loss of £674m also included a £150m write off of IT systems. This relates to the CFS IT Transformation commenced prior to the merger. The loss also includes a £38m charge from the aborted Verde bid and further merger related costs of £47m. In summary, it would appear from research of the audited Report and Accounts and other publicly available data that Britannia accounted for around one third of the reported loan loss provisions and significant items of £853m in 2012.

**Interim results for 6 months ended 30 June 2013**

On 29 August 2013 Co-op Group announced its results for the 6 months ended 30 June 2013 which included a pre-tax loss of £709m for CFS. Its operating profit prior to significant items and impairment provisions was £38m, meaning that loan loss provisions and significant items were some £747m.

Included within the result were loan impairment losses of £496m, including £330m relating to the non-core business. The report states that these loans predominantly originated in the non-member Britannia business. However it was clear from the CFS 2012 Pillar 3 returns that part of the non-core business was originated by CFS prior to merger and that therefore part of the £330m charge relates to non-Britannia loans. The remainder of the impairment losses of £166m relates to the core business loans which would seem to have been originated principally by CFS prior to merger.

It is difficult to understand the reason for such an increase in losses being reported only months after the board of Co-op Bank, Co-op Group and its auditors KPMG approved the 2012 accounts, despite an improving economy, rising house prices and reduced unemployment.

The loss of £709m also included a charge of £61m in respect of customer redress including PPI (on top of £240m charged in earlier years.) Britannia did not sell PPI.

The loss of £709m also included a £148m write-off of IT systems relating to the CFS IT transformation commenced prior to merger. This write-off reflects the new management's strategy going forwards. The loss also includes £35m relating to Project Verde and other items. In summary it would appear from the published 2013 interim statements that Britannia accounted for no more than 40% of the reported loan loss provisions and significant items in 2013.

**Summary of results for 18 months ended 30 June 2013**

Summarising the above two accounting periods, CFS has incurred losses of £1.383bn in these 18 months. Operating profits of £217m were offset by impairment provisions and significant items of £1.6bn.

The £1.6bn comprises:
- IT system write-offs of £298m,
- PPI and other misselling costs of £211m
- Project Verde and other costs £73m
- Other costs £48m
- Core business loan losses of £290m
- Non-core loan losses £680m

The non-core losses are reported to have arisen predominantly from Britannia originated loans, however from published information it is clear that CFS originated loans were also part of this figure.
It is difficult to assess the extent to which the major distractions caused by Verde and other projects, changes in regulatory guidance, and new management approach have affected these figures, which in reality are provisions (or estimates of potential losses). It would seem that the Britannia loan losses represent around one third of the total impairments and significant items suffered by CFS in 2012/13.

**Regulation change in December 2012: uplift in capital requirements**

In recent months the Regulators have had a significant impact on the capital position of Co-op Bank, and all banks.

In December 2012 the Regulators told all lenders to increase their provisions on commercial loans. (For example Nationwide charged £475m provision in 2012/13 on top of £250m in 2011/12 for Commercial Loan write offs.) It would appear to be no coincidence that following this instruction, Co-op Bank's 'impaired' commercial loans increased from the 2011 level of £700m to £1.7bn and Nationwide's increased from £1.7bn to £2.7bn. This regulatory intervention changed the approach to provisioning from an accounting basis (providing for known issues) to an economic basis (providing based on assumptions as to future economic outcomes).

While this had consequences for all banks, for the Co-op it had a particular impact on the Project Verde process and contributed to the level of Co-op Bank's 2012 provision and charge.

In Spring 2013 the Regulators announced that the majority of major banks and building societies would have to raise further capital, comprising some £27bn across the sector. Part of Co-op Bank's capital shortfall of £1.5bn is explained by this change in Regulatory guidance.

In April 2013 Co-op announced that it was withdrawing from the Verde transaction, quoting (Peter Marks) 'worsened economic outlook and regulatory background'. The Regulatory demand that Co-op raise significantly more capital ensured that the Verde transaction did not progress.

All of the previous Britannia senior team left the business or were made redundant in the period between my departure and the current date. Co-op Bank has also parted company with many other senior executives. In the period after my departure, many of the most senior roles in the bank were occupied on a temporary basis (temporary CEO, CFO, Chief Risk Officer).

Significant attention was drawn from the 'Business as Usual' activities towards Projects Unity and Verde. The director responsible for the retail business was transferred onto Project Verde. The director responsible for Corporate and Commercial banking was given large parts of the Chief Operating Officer role with responsibility for several thousand employees in addition to his 'day job' of running the Corporate bank. During this period, responsibility for many of the bank's key activities (finance, strategy, HR, communications governance, legal and internal audit) was transferred under project Unity to Co-op group executives who had little or no knowledge and experience of financial services. My own view is that this level of distraction from Business as Usual is totally unacceptable and highly dangerous.

In the circumstances referred to above it is little surprise to me that control over loan management deteriorated significantly in 2011 and 2012.
History of the CFS/Britannia merger

Britannia was not seeking to merge with anyone, however in May 2008, David Anderson (CEO CFS) asked to meet me. He asked that if Britannia ever thought of a merger I should speak to him first, and to consider whether now might be a time to talk. I gave it some thought and a week later met David again. We agreed that there were many potential merits in taking this further. Britannia had an extensive branch network, new IT systems and a good name for mortgages and savings but had a relatively narrow product range. It also had a strong values-based culture. CFS had a current account, corporate bank and insurance business. It lacked distribution and was badly in need of replacement IT systems, the cost of which would be difficult to recover over CFS's small distribution base. The combination of the businesses would give the breadth and depth of the market that neither could achieve alone, and had potential to create a new force in UK banking. Further, CFS, after many years of underinvestment, had started a programme to replace its IT systems.

A workshop day was set up shortly thereafter involving senior executives of Britannia and CFS at which both groups agreed that in principle this was a deal worth pursuing.

Shortly after this, in July 2008, Britannia was due to hold its annual Board offsite strategy meeting. After discussion with the chairman I agreed that the potential CFS deal would not be mentioned until the second day. On the first day the Board had workshop discussions in which the current difficult state of the market were discussed: the squeeze on margins and the highly competitive nature of the savings market. We felt that on the whole Britannia had a good mortgage book and was a strong stand-alone business, but it would be difficult to fund further expansion without access to greater funding. This could be provided by a current account, however for Britannia to launch a successful current account which would be used by customers as their primary account would take several years to achieve. On the second day of the meeting I informed the Board of the outline discussions with CFS and the Board unanimously agreed that discussions and due diligence should proceed.

Due diligence commenced by both parties in August/September 2008, as did efforts to change legislation through parliament with the Butterfill Act. This was to enable a building society to merge with a co-operative. It was also agreed that the FSA would be engaged. In October 2008 the potential deal was first published in newspapers.

Due diligence for Britannia was assisted by PwC. For CFS it was assisted by KPMG. The CFS due diligence concentrated on the quality of the Britannia mortgage book, particularly the assets written by Platform and Commercial lending. Britannia concentrated on Corporate loans and insurance issues.

As due diligence came to a conclusion and after changes to the necessary legislation, the deal was brought to contract stage in Spring 2009. Throughout the due diligence phase the FSA were kept fully informed and involved. This was particularly important to the FSA as they were carrying out stress testing on all banks and major building societies to ensure that they had adequate capital. They were very keen to ensure that the newly merged bank had sufficient capital for stressed scenarios, according to their view of adequate capital levels at that time. These discussions continued after contracts were signed as the deal was contingent on approval by Britannia’s members. Extensive consultation and communication took place with Britannia’s members which resulted in an overwhelming vote for the transaction.

This was not a rescue. Completion of the transaction took place 15 months after discussions commenced, during which time both businesses had continued to trade in a reasonable manner despite the increasingly difficult economic conditions, which, for example, led to the part-
nationalisation of RBS and LBG. Both businesses could have continued to operate effectively on their own. During that period, both CFS and Britannia had been subject to statutory audit by KPMG and PricewaterhouseCoopers respectively.

Strength of Britannia at merger

At completion, Britannia's net capital and reserves of some £1.6bn were passed to Co-op Group at no cost.

Britannia's gross assets of £37bn were analysed at 31 December 2008 as follows:

<table>
<thead>
<tr>
<th></th>
<th>£bn</th>
<th>£bn</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard retail mortgages</td>
<td></td>
<td>11.9</td>
<td>32</td>
</tr>
<tr>
<td>Intermediary retail mortgages</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Buy to let retail</td>
<td>1.3</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>- Self certified retail</td>
<td>2.0</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>- non-conforming retail</td>
<td>2.5</td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>- securitised retail</td>
<td>2.8</td>
<td></td>
<td>8</td>
</tr>
<tr>
<td>Total intermediary retail</td>
<td></td>
<td>8.6</td>
<td></td>
</tr>
<tr>
<td>Secured on commercial property</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- retail premises</td>
<td>0.9</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>- offices</td>
<td>0.6</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>- leisure</td>
<td>0.3</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>- storage/distribution</td>
<td>0.2</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Total secured on commercial property</td>
<td></td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>Housing associations</td>
<td>0.8</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Residential</td>
<td>0.7</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Investments/Cash</td>
<td>13.0</td>
<td></td>
<td>35</td>
</tr>
<tr>
<td>TOTAL</td>
<td>37.0</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

From the above table it is clear that the total of Britannia's loans secured on commercial properties was £2bn representing only 5% of its balance sheet.

The Board of Britannia was of high quality and experience and it aspired to the highest standards of governance, including non-executives on many sub committees. Commercial decisions may have been taken which, with the benefit of hindsight, reflected the optimistic view of the market at that time as was the case with practically all banks. Proper governance was always followed. For
example, in Britannia’s Commercial book a small percentage of loans had been written on a subordinated basis. These were loans where Britannia took the highest risk portion of a consortium loan. A couple of years earlier the Britannia Board had held an extensive discussion as to whether to enter into higher risk subordinated lending and the Board had concluded that bearing in mind the relative return and risk and the small proportion of the balance sheet which this represented, it was appropriate. These loans were very largely provided against as fair value adjustments on merger and were fully known to the Co-op through due diligence and the merger accounting discussions.

**Strength of Co-op Bank at merger**

Prior to merger, Co-op Bank had loans to customers of £10.8bn (at 25 July 2009). Of this amount, £4.1bn was to corporate customers: £1.7bn to property and construction, and £2.4bn to business and other services. In addition, it would appear from the Co-op Bank Pillar 3 return as at 31 December 2008 that it had further undrawn credit commitments (overdraft and loans not yet drawn) to Corporate customers of over £1bn. Based on this information, it would appear that Co-op Bank’s exposure to Corporate customers (prior to the merger) was slightly larger than Britannia’s in absolute terms, but in percentage terms was significantly more of its total balance sheet: Britannia 15%, Co-op 38%.

It has been suggested in the media that CFS was a much more prudent organisation. However in 2006, 2007 and 2008 CFS had charged its P&L with £105m, £102m and £97m on assets of only £12-17bn. These charges related mainly to CFS credit card and personal loan balances: a problem which had been largely resolved by the time of the merger. In addition it had written off £32m and £51m in 2007 and 2008 respectively on very high risk 'structured investments'. By contrast, the P&L bad debt provision (audited by KPMG) for the 3 years post merger 2009, 2010, 2011 was £116m, £97m and £120m on assets of £47 - £51bn (i.e. the same level of provisions on assets of nearly 4 times the pre-merger level).

**Governance**

Prior to the merger, both Britannia and CFS had a full range of corporate governance activities including Audit Committees chaired by non-executive directors. Britannia had a Credit Committee which met on a monthly basis to consider credit policy and to review the credit performance of the portfolio of loans. This committee included a non-executive director. CFS had an Exposures committee which carried out a similar role and included several non-executive directors. In addition, CFS had a separate Risk Committee which was also chaired by a non-executive director. Both Britannia and CFS had a clear policy of credit limits requiring larger loans to be approved at increasingly higher levels in the organisation. In the case of Britannia, this required the largest loans to be approved by a sub-committee, the majority of which were non-executives, or by the Board as a whole for the largest loans.

Post merger the governance system for the newly merged entity was reviewed by the Board and resulted in an Audit Committee, a Risk Committee, and an Exposures Committee all chaired by non-executive directors. The Audit and Risk Committees met approximately four times per year. The Exposures Committee met monthly and concentrated its review on Corporate and commercial loans. At every meeting a very detailed analysis of problem and potentially problematic loans was presented to the Exposures Committee. The committee discussed these loans in detail at each meeting. At least twice per annum, the Chairs of the Exposures and Audit Committees met KPMG to discuss the adequacy of provisioning.
Merger: Fair value provisions

At merger in August 2009, a set of completion accounts for Britannia was drawn up and fully audited by PwC. The level of provisions against problem loans was at a normal level and a clean audit opinion was signed on a set of accounts that did not include the benefit of fair value provisions, which were subsequently set up by Co-op after the merger. (Effectively fair value provisions and adjustments restate the whole of the acquired company’s balance sheet onto a basis as though each asset and liability were acquired on the date of the merger at its fair value at that date. This is standard accounting practice and in the case of Co-op’s acquisition of Britannia resulted in a net capital write down of only £30 million.)

By way of clarity, the reason that the above mention of fair value provisions concentrates on Britannia, is that such provisions can only be made against the accounts of the acquiree company (Britannia). Through due diligence, it was apparent that additional provisions against the CFS corporate book would have been made if an equally highly prudent approach had been taken on the CFS book. An estimate by an experienced Britannia non-executive director was that additional provisions against the CFS book would have been around £100m.

Merger accounting and, in particular, provisions against doubtful debts in the merger accounts, was led by the CFS Finance Director and KPMG. It was reviewed by the FSA. In view of the worsening economic climate, all parties were keen to ensure that full provision was made against the Britannia loans, particularly commercial and Platform/Optimum loans. Every attempt was made to ensure that these provisions were prudent and issues not masked. Everyone was keen to start the newly merged business with as clean a sheet as possible. KPMG, who had been deeply involved in the due diligence, together with CFS Head of Credit Risk, signed off on the necessary level of provisions.

Taking fair value merger provisions into account, accounts audited by KPMG show that in 2009, 2010, 2011 and 2012 there was minimal write off of retail mortgages. Indeed in 2011 £20m of merger date provisions were released to profit and loss account. With regard to commercial loans, there were minimal write offs (again audited by KPMG) of loans not provided on merger until 2012 when large provisions were made.

In the Co-op Bank’s 2012 annual report (page 62) £115.9m of fair value provisions remain unutilised against the Platform/Optimum book (residential loans originated by intermediaries principally comprising buy to let, self certified and non-conforming loans). £215.9m remain unutilised against the Corporate book (page 69). This means that the underlying debts have not reached the stage of being written off: surprising, as they were created between 6 - 10 years earlier. The provisions against the Platform/Optimum book are after the release of some £20 million of excess merger fair value provisions in 2011. This release presumably reflects the improving state of that book, with late stage arrears falling from 1.67% to 1.18% of the book in 2011.

2009 - 2011

The post merger P&L charge clearly benefited from utilisation of provisions set up on merger. At each half and full year end significant concentration was placed on a forward looking review of provisions (i.e. would the total level of provisions set up prove adequate) by the Exposures Committee, Audit Committee and KPMG.

The Accounts of CFS were audited by KPMG at each year end 2009, 2010 and 2011, and reviewed at each half year end 2010 and 2011 by KPMG without any apparent major concern as to the adequacy of provisions. At no stage during my tenure at CFS were any major issues raised by KPMG, or the
Audit Committee as to the adequacy of provisions against either residential or Corporate/Commercial loans. Of course there were frequent discussions at Exposures Committee on individual loans, but these did not result in the feeling that provisions as a whole were understated.

On my departure the Co-op Bank thanked me publicly for my work and noted that all merger targets had been met. At that stage, the combined business was achieving annualised synergy cost savings of some £50m. Prior to merger, Britannia had been achieving annual pre-provision profits of over £100m per annum, implying that Britannia combined with the synergy savings was contributing some £150m towards the Co-op. In the four years post merger to current date, this contribution covers the level of provision charged to the Co-op Bank’s P&L account in respect of loans originated by Britannia.

Britannia’s management and staff were experienced in dealing with non-standard mortgages, ensuring that bad debts and write-offs were kept to a minimum. In my view it was essential that nothing should distract them from this activity.

* * *

Looking on two years later, I would suggest that commentators and analysts should reflect that the CFS acquisition of the Lloyds branches did not happen, and that alarm bells were heard in time, if later than would be the case in a perfect world. But it is important to remember that, on this occasion, the combined effect of market and regulator opinion worked just in time. What kind of inquiry would the Committee be undertaking now if the deal had gone ahead and then collapsed, with consequences that could well have been a replay of Northern Rock and the institutional crises that crippled the global financial system in late 2008.

I feel saddened at the position in which Co-op Bank finds itself and in particular the consequences for its customers and employees. I feel that many of its current problems could have been avoided and that I made this clear at the appropriate time. I am also saddened for the Co-operative movement. Making the wrong call on Verde has led to the Co-op Bank shares being listed. If the Rochdale Pioneers had been at Thursday's results announcement I think they’d say that their successors have not lived up to the example they set.

I will be happy to provide any further evidence that would assist the Committee during the course of its inquiry.

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