IMPORTANT NOTICE

NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION IN OR INTO, OR TO ANY PERSON LOCATED OR RESIDENT IN, ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO RELEASE, PUBLISH OR DISTRIBUTE THIS DOCUMENT.

IMPORTANT: The Consent Solicitation Memorandum following this page (the "**Consent Solicitation Memorandum**"), is made available by The Co-operative Bank p.l.c. (the "**Issuer**" or the "**Bank**") to all holders of the 2023 Notes (as defined below), subject to each such holder providing the confirmation set out in this important notice to the Issuer and the other entities specified below. Only holders who have provided such confirmation are authorised to receive or review the Consent Solicitation Memorandum or participate in the Consent Solicitation (as defined in the Consent Solicitation Memorandum) made thereby.

NOTHING IN THE CONSENT SOLICITATION MEMORANDUM OR THE ELECTRONIC TRANSMISSION THEREOF CONSTITUTES OR CONTEMPLATES AN OFFER OF, AN OFFER TO PURCHASE OR THE SOLICITATION OF AN OFFER TO SELL SECURITIES IN THE UNITED STATES OR ANY OTHER JURISDICTION. THE 2023 NOTES (AS DEFINED BELOW), HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE 2023 NOTES MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE CONSENT SOLICITATION MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE CONSENT SOLICITATION MEMORANDUM, IN WHOLE OR IN PART, IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF APPLICABLE LAWS. IF YOU HAVE NOT PROVIDED THE ISSUER AND THE OTHER ENTITIES SPECIFIED BELOW WITH THE CONFIRMATION DESCRIBED BELOW OR HAVE GAINED ACCESS TO THE CONSENT SOLICITATION MEMORANDUM CONTRARY TO ANY OF THE RESTRICTIONS SET OUT IN THIS IMPORTANT NOTICE, YOU ARE NOT AUTHORISED TO PARTICIPATE IN THE CONSENT SOLICITATION DESCRIBED IN THE CONSENT SOLICITATION MEMORANDUM.

Confirmation of your Representation: In order to participate in the Consent Solicitation (as defined in the Consent Solicitation Memorandum), you must be a person to whom the Consent Solicitation can be lawfully made. The Consent Solicitation Memorandum was sent at your request and you have represented to the Issuer, and each of Merrill Lynch International and UBS Limited (the "**Solicitation Agents**"), Lucid Issuer Services Limited (the "**Information Agent**"), Law Debenture Trustees Limited (the "**Trustee**") and Computershare Investor Services PLC (the "**Paying Agent**" and "**Registrar**") that:

(i) you are a holder or a beneficial owner of the Bank's £206,000,000 11 per cent. Subordinated Notes due 2023 (ISIN: GB00BFXW0853) (the "**2023 Notes**");

(ii) you will not pass on the Consent Solicitation Memorandum to third parties or otherwise make the Consent Solicitation Memorandum publicly available;

(iii) you are a person to whom it is lawful to send the Consent Solicitation Memorandum;

(iv) you are not a Sanctions Restricted Person (as defined in the Consent Solicitation Memorandum);

(v) you consent to delivery of the Consent Solicitation Memorandum to you by electronic transmission; and

(vi) you have understood and agreed to the terms set forth in this disclaimer.

The Consent Solicitation Memorandum has been sent or otherwise made available to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Solicitation Agents, the Information Agent, the Trustee, the Paying Agent and the Registrar or any person who controls, or any director, officer, representative, employee, agent or affiliate of, any such person accepts any liability or responsibility whatsoever in respect of any difference between the Consent Solicitation Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Information Agent.

The Consent Solicitation Memorandum contains important information which should be read carefully before any decision is made with respect to the Consent Solicitation. If any holder is in any doubt as to the action it should take, it is recommended to seek its own financial advice, including as to any tax consequences, from its broker, bank manager, solicitor, accountant, independent financial, tax or legal adviser authorised under the Financial Services and Markets Act 2000 (the "**FSMA**") (if in the United Kingdom) or other appropriately authorised financial adviser. Any individual or company whose Notes are held on its behalf by a broker, dealer, bank, custodian, trust company or other nominee must contact such entity if it wishes to participate in the Consent Solicitation.

You are otherwise reminded that the Consent Solicitation Memorandum has been delivered to you on the basis that you are a person into whose possession the Consent Solicitation Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located or resident and you may not, nor are you authorised to, deliver the Consent Solicitation Memorandum to any other person.

The Consent Solicitation Memorandum may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply. Accordingly, the Consent Solicitation Memorandum is only for circulation to persons inside the United Kingdom who fall within one of the following categories:

(i) a person who is a holder of any 2023 Notes; or

(ii) any other person also falling within Article 43(2) or within Article 49(2)(a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or falling within the definition of "investment professionals" (as defined in Article 19(5) of the Order).

The Consent Solicitation Memorandum is only available in the United Kingdom to such persons, and the transactions contemplated therein will be available only to, and may be engaged in only with, such persons.

The distribution of the Consent Solicitation Memorandum in certain jurisdictions may be restricted by law, and persons into whose possession the Consent Solicitation Memorandum comes are requested to inform themselves about, and to observe, any such restrictions. You are responsible for protecting against viruses and other destructive items. Your receipt of this document via electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

KEY QUESTIONS

The following are some key questions that Holders may have, and answers to those questions. These questions and answers are not meant to be a substitute for the information contained in this Consent Solicitation Memorandum and the information is qualified in its entirety by the information contained elsewhere in this Consent Solicitation Memorandum.

What is this document?

This document (the "**Consent Solicitation Memorandum**") contains details of the Consent Solicitation which is being conducted as part of the Restructuring and Recapitalisation of The Co-operative Bank p.l.c. (the "**Issuer**" or the "**Bank**").

Is this document relevant to me?

This document will be relevant to you if you hold any of the £206,000,000 11 per cent. Subordinated Notes due 2023 (ISIN: GB00BFXW0853) issued by the Bank (the "**2023 Notes**").

I hold some of these 2023 Notes. Where do I start?

This document contains detailed information on what the Consent Solicitation means for you. It is important that you read it carefully in full, however you are encouraged first to read "*Part 2: Questions and Answers about the Consent Solicitation*" beginning on page 16.

CONSENT SOLICITATION MEMORANDUM dated 28 July 2017

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

The distribution of this Consent Solicitation Memorandum in certain jurisdictions may be restricted by law and persons into whose possession this Consent Solicitation Memorandum comes are required to inform themselves about, and to observe, any such restrictions. Nothing in this Consent Solicitation Memorandum constitutes or contemplates an offer to sell any security in the United States or any other jurisdiction.

The **co-operative** bank

Invitation by

THE CO-OPERATIVE BANK P.L.C.

(incorporated with limited liability in England and Wales with registered number 00990937)

(the **"Issuer"** and the **"Bank"**)

to the holders of its

£206,000,000 11% Subordinated Notes due 2023 (the "2023 Notes")

Retail Cash Consideration for Retail Holders of the 2023 Notes

Description	ISIN	Outstanding principal amount	Retail Cash Consideration[1]	Maximum Cash Amount[2]
2023 Notes (Retail Holders only)	GB00BFXW0853	£206,000,000	Up to £4.50 per £10 in principal amount of 2023 Notes (subject to the Maximum Cash Amount)	£13,500,000

1 Accrued Interest on the 2023 Notes for the period from (and including) 20 June 2017 to (but excluding) 31 July 2017 will also be paid as described herein.

2 The maximum aggregate cash amount payable to Retail Holders in respect of the Retail Cash Consideration. The payment of Accrued Interest is not subject to this cap.

to consider and, if thought fit, approve the Proposals at a meeting of Holders of the 2023 Notes (the "**Meeting**") by means of Extraordinary Resolutions of Holders of the 2023 Notes, all as further described in this Consent Solicitation Memorandum (such invitation, the "**Consent Solicitation**"). The Proposals include (amongst other things) modification of the terms and conditions of the 2023 Notes (the "**Conditions**") to insert a mandatory cancellation condition (the "**Mandatory Cancellation**") pursuant to which 2023 Notes of Retail Holders shall (subject to PRA Consent (as defined herein)) be irrevocably cancelled and all of the rights, liabilities and obligations thereunder released in consideration of the payment of the Retail Cash Consideration to those Retail Holders, the aggregate amount of which is subject to the Maximum Cash Amount and shall be calculated on the terms described herein.

The 2023 Notes of Non-Retail Holders are not subject to the Mandatory Cancellation and are instead subject to the Creditors' Scheme.

The Consent Solicitation is part of the Restructuring and Recapitalisation, which is further described herein and involves the Creditors' Scheme, the Members' Scheme, the Equity Subscriptions and the Resolutions being proposed at the General Meeting. The Consent Solicitation will be completed on the Settlement Date, being the date on which the Mandatory Cancellation of the 2023 Notes of Retail Holders occurs and which is conditional on the Consent Conditions being satisfied, including the approval and sanction of each of the Creditors' Scheme and the Members' Scheme, the completion of the Equity Subscriptions and the approval of the Resolutions at the General Meeting.

In order to facilitate the Restructuring and Recapitalisation, the Bank has entered into an agreement (which is further described herein) with the Principal Investors pursuant to which the Principal Investors have undertaken to support the Proposals, the Creditors' Scheme, the Members' Scheme and the Resolutions to be proposed at the General Meeting, subject to certain conditions being satisfied or waived. As at 25 July 2017, being the latest practicable date prior to the publication of this Consent Solicitation Memorandum, the Consenting Holders represented 78 per cent. in aggregate principal amount of the 2023 Notes and, accordingly, the Extraordinary Resolutions are expected to be passed at the initial Meeting.

Notice of the Meeting has been given to Holders on the date of this Consent Solicitation Memorandum. The Meeting will be held at 10.00 a.m. (London Time) (or as soon thereafter as the Creditors' Scheme Court Meeting (as defined herein) shall have concluded or been adjourned) on 21 August 2017 at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ. The form of the Notice of Meeting is set out in Annex I (*Form of Notice of Meeting*) to this Consent Solicitation Memorandum.

The Consent Solicitation expires at 5.00 p.m. (London Time) on 18 August 2017 (as the same may be extended, the "Expiration Deadline"). Eligible Holders may submit Consent Instructions up to the Expiration Deadline. The deadlines set by any intermediary or Clearing System will be earlier than the deadlines set out in this Consent Solicitation Memorandum. Holders that do not deliver a valid Consent Instruction, but who wish to attend and vote at the Meeting in person or to be represented or to otherwise vote at the Meeting, must make the necessary arrangements prior to the Expiration Deadline.

Solicitation Agents

BOFA MERRILL LYNCH **UBS INVESTMENT BANK**

This Consent Solicitation Memorandum contains important information which should be read carefully before any decision is made with respect to the Consent Solicitation. If any Holder is in any doubt as to the action it should take or is unsure of the impact of the implementation of the Proposals (including the Mandatory Cancellation) or the passing of the Extraordinary Resolutions, it is recommended to seek its own financial and legal advice, including in respect of any tax consequences, immediately from its broker, bank manager, solicitor, accountant or other independent financial, tax or legal adviser. Any individual or company whose 2023 Notes are held on its behalf by a broker, dealer, bank, custodian, trust company or other nominee or intermediary must contact such entity if it wishes to participate in the Consent Solicitation or otherwise participate at the Meeting (including any Adjourned Meeting) at which the Extraordinary Resolutions are to be considered.

Any Holder who considers that he or she is a Retail Holder or is unsure as to whether or not he or she is a Retail Holder should contact Lucid Issuer Services Limited as Information Agent using the contact details on the last page of this Consent Solicitation Memorandum. Only Holders that have validly confirmed their status as Retail Holders or who have otherwise been assessed on reasonable enquiry by the Bank to be a Retail Holder (in each case by no later than the Retail Confirmation Deadline) will receive the Retail Cash Consideration and Accrued Interest in cash in respect of their 2023 Notes. All other Holders will be deemed to be Non-Retail Holders and their holdings of 2023 Notes will be subject to the Creditors' Scheme.

Recipients of this Consent Solicitation Memorandum should use it solely for the purposes of considering the Consent Solicitation and the Proposals. For the avoidance of doubt: (i) Shareholders should not use or rely on this Consent Solicitation Memorandum for the purposes of considering the terms of the Resolutions at the General Meeting, the Members' Scheme or the entitlements thereunder and instead Shareholders should refer to the Shareholder Circular; and (ii) Scheme Creditors should not use or rely on this Consent Solicitation Memorandum for the purposes of considering the Creditors' Scheme or the entitlements thereunder and instead Scheme Creditors should refer to the Creditors' Scheme Circular.

None of: (i) Merrill Lynch International, UBS Limited (the "Solicitation Agents"), (ii) Lucid Issuer Services Limited in its capacity as information agent (the "Information Agent"), (iii) Law Debenture Trustees Limited (the "Trustee") or (iv) Computershare Investor Services PLC in its capacity as paying agent, tabulation agent and registrar in respect of the 2023 Notes (the "Paying Agent" and "Registrar") and, in each case, their respective financial, legal and tax advisers (together, in each case, with their respective directors, members, agents, affiliates, employees and representatives) expresses any opinion about the terms of the Consent Solicitation or the Extraordinary Resolutions (or the impact thereof on particular Holders) or makes any recommendation as to whether Holders should participate in the Consent Solicitation or otherwise participate at the Meeting.

Capitalised terms used in this Consent Solicitation Memorandum have the meaning given in "*Part 3: Definitions*" and any other definitions of such terms are for ease of reference only and shall not affect their interpretation.

CONTENTS

		Page
SOLICITATION RESTRICTIONS		4
IMPORTANT NOTICES		6
FORWARD-LOOKING STATEMENTS		9
PART 1:	INDICATIVE TIMETABLE	13
PART 2:	QUESTIONS AND ANSWERS ABOUT THIS CONSENT SOLICITATION	16
PART 3:	DEFINITIONS	29
PART 4:	SECTION A: LETTER FROM THE CHAIRMAN OF THE BANK	41
	SECTION B: POTENTIAL CONSEQUENCES IF THE RESTRUCTURING AND RECAPITALISATION IS NOT IMPLEMENTED	67
PART 5:	CONSENT SOLICITATION	73
PART 6:	RISK FACTORS RELATING TO THE CONSENT SOLICITATION	83
PART 7:	TAX CONSEQUENCES	87
PART 8:	PROCEDURES FOR PARTICIPATING IN THE CONSENT SOLICITATION	90
PART 9:	AMENDMENT AND TERMINATION	102
PART 10:	SOLICITATION AGENTS AND TABULATION AND INFORMATION AGENT	104
ANNEX I:	FORM OF NOTICE OF THE MEETING	105
ANNEX II:	EXTRACTS FROM THE SHAREHOLDER CIRCULAR	125
PART 3:	RISK FACTORS	126
PART 4:	INFORMATION ON THE BANK	215
PART 5:	DIRECTORS, SENIOR MANAGERS AND CORPORATE GOVERNANCE	251
	SECTION A: HOLDCO	251
	SECTION B: BANK	253
PART 6:	THE BANK'S HISTORICAL FINANCIAL INFORMATION	261
PART 7:	OPERATING AND FINANCIAL REVIEW	263
PART 8:	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF HOLDCO	314
PART 9:	CAPITAL ADEQUACY	317
PART 10:	RISK MANAGEMENT	326
PART 11:	REGULATORY OVERVIEW	327
PART 15:	INFORMATION ON HOLDCO	345
PART 16:	ADDITIONAL INFORMATION	364
PART 19:	DEFINITIONS	424

SOLICITATION RESTRICTIONS

This Consent Solicitation Memorandum does not constitute an invitation to participate in the Consent Solicitation in any jurisdiction in which, or to any person to whom, it is unlawful to make such invitation or for there to be such participation under applicable securities laws. The distribution of this Consent Solicitation Memorandum in certain jurisdictions may be restricted by law.

Persons into whose possession this Consent Solicitation Memorandum comes are required by each of the Issuer, the Solicitation Agents, the Information Agent, the Trustee, the Paying Agent and the Registrar to inform themselves about, and to observe, any such restrictions.

United States

The Consent Solicitation is only being made outside the United States, to persons other than "**U.S. persons**" (as defined in Regulation S under the Securities Act); or persons to whom the Consent Solicitation can otherwise lawfully be made and that may lawfully participate in the Consent Solicitation. In its absolute discretion at any time prior to the Expiration Deadline, the Bank may extend the Consent Solicitation to any U.S. person that: (i) is in a category of investors that has been approved to participate by the Bank in its absolute discretion; and (ii) has submitted or will submit a validly executed U.S. Investor Letter prior to the Expiration Deadline; and (iii) is a person to whom the Consent Solicitation can otherwise be made and that may lawfully participate in the Consent Solicitation including under U.S. securities laws. This Consent Solicitation is not otherwise being made to U.S. persons. Any purported participation in the Consent Solicitation resulting directly or indirectly from a violation of these restrictions will be invalid.

This Consent Solicitation is not an offer of securities for sale in the United States or to any U.S. person. Securities referred to herein may not be offered or sold in the United States absent registration or an exemption from registration. The 2023 Notes have not been registered under the Securities Act, or the laws of any state or other jurisdiction of the United States, and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons, except in transactions exempt from the registration requirements of the Securities Act.

For the purpose of this Consent Solicitation Memorandum, "**United States**" means the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia.

United Kingdom

This Consent Solicitation Memorandum may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 ("**FSMA**") does not apply. Accordingly, this Consent Solicitation Memorandum is only for circulation to persons inside the United Kingdom who fall within one of the following categories:

(i) a person who is a Holder of any 2023 Notes; or

(ii) any other person also falling within Article 43(2) or within Article 49(2)(a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or falling within the definition of "investment professionals" (as defined in Article 19(5) of the Order).

This Consent Solicitation Memorandum is only available in the United Kingdom to such persons, and the transactions contemplated herein will be available only to, and may be engaged in only with, such persons.

General

Nothing in this Consent Solicitation Memorandum constitutes or contemplates an offer of, an offer to purchase or the solicitation of an offer to sell, any security in any jurisdiction and participation in the Consent Solicitation by a Holder in any circumstances in which such participation is unlawful will not be accepted.

Each Holder participating in the Consent Solicitation will be required to represent to various matters including that it is an Eligible Holder and not a Sanctions Restricted Person as set out in "*Part 8: Procedures*

for Participating in the Consent Solicitation". Any Consent Instruction from a Holder that is unable to make these representations will not be accepted. However, for the avoidance of doubt, all Holders of the 2023 Notes will be able to participate at the Meeting, even if such Holders are not eligible to participate in the Consent Solicitation.

Each of the Issuer, the Solicitation Agents, the Trustee, the Paying Agent, the Registrar and the Information Agent reserves the right, in its absolute discretion, to investigate, in relation to any submission of Consent Instructions, whether any such representation given by a Holder is correct and, if such investigation is undertaken and as a result the Issuer determines (for any reason) that such representation is not correct, such Consent Instruction will be rejected.

IMPORTANT NOTICES

Each Holder is solely responsible for making its own independent appraisal of all matters as such Holder deems appropriate (including those relating to the Consent Solicitation and the Extraordinary Resolutions) and each Holder must make its own decision whether to participate in the Consent Solicitation or otherwise participate at the Meeting.

The delivery or distribution of this Consent Solicitation Memorandum shall not under any circumstances create any implication that the information contained in this Consent Solicitation Memorandum is correct as of any time subsequent to the date of this Consent Solicitation Memorandum or that there has been no change in the information set out in this Consent Solicitation Memorandum or in the affairs of the Issuer, or that the information in this Consent Solicitation Memorandum has remained accurate and complete. None of the Solicitation Agents, the Information Agent, the Trustee, the Paying Agent, the Registrar (or, in each case, any of their respective agents, affiliates, directors, members, employees or representatives) accepts any responsibility for the information contained in, or incorporated by reference in, this Consent Solicitation Memorandum.

The Issuer accepts responsibility for the information contained in this Consent Solicitation Memorandum. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Consent Solicitation Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

If any Holder is in any doubt as to any aspect of the Proposals in this Consent Solicitation Memorandum and/or the action it should take, it is recommended to seek its own financial advice, including as to any tax consequences, from its broker, bank manager, solicitor, accountant, independent financial, tax or legal adviser authorised (as applicable) under the FSMA (if in the United Kingdom) or other appropriately authorised financial, tax or legal adviser.

This Consent Solicitation Memorandum does not constitute a solicitation in any circumstances in which such solicitation is unlawful. No person has been authorised to make any recommendation on behalf of the Issuer, the Solicitation Agents, the Information Agent, the Paying Agent, the Trustee or the Registrar in respect of this Consent Solicitation Memorandum, the Consent Solicitation, the Proposals or the Extraordinary Resolutions. No person has been authorised to give any information, or to make any representation in connection with the Consent Solicitation, the Proposals or the Extraordinary Resolutions, other than those contained in this Consent Solicitation Memorandum. If made or given, such recommendation or any such information or representation must not be relied upon as having been authorised by any of the Issuer, the Solicitation Agents, the Information Agent, the Trustee, the Paying Agent, the Registrar (or, in each case, any of their respective agents, affiliates, directors, members, employees or representatives).

None of the Issuer, Solicitation Agents, the Information Agent, the Trustee, the Paying Agent or the Registrar (or, in each case, any of their respective agents, affiliates, directors, members, employees or representatives, other than the Board) express any opinion on the merits of, or makes any representation or recommendation whatsoever regarding, the Consent Solicitation, the Extraordinary Resolutions, the Proposals or this Consent Solicitation Memorandum (or the impact thereof on particular Holders) or makes any recommendation whether Holders should participate in the Consent Solicitation or otherwise participate at the Meeting. None of the Solicitation Agents, the Information Agent, the Trustee, the Paying Agent or the Registrar (or, in each case, any of their respective agents, affiliates, directors, members, employees or representatives) have verified, or assume any responsibility for the accuracy or completeness of, any of the information concerning the Consent Solicitation, the Proposals, the Extraordinary Resolutions, the other aspects of the Restructuring and Recapitalisation, the Issuer, Holdco, the 2023 Notes or the factual statements contained in (or incorporated by reference into), or the effect or effectiveness of, this Consent Solicitation Memorandum or any other documents referred to in this Consent Solicitation Memorandum or assume any responsibility for any failure by the Issuer to disclose events that may have occurred and may affect the significance or accuracy of such information or the terms of any amendment (if any) to the Consent Solicitation.

The Information Agent, the Paying Agent and the Registrar (as the agents of the Issuer) and the Solicitation Agents owe no duty to any Holder.

The applicable provisions of the FSMA must be complied with in respect of anything done in relation to the Consent Solicitation or the Meeting in, from or otherwise involving the United Kingdom.

No incorporation of website information, information in annual report or investor presentations

Except to the extent expressly set out in this Consent Solicitation Memorandum:

- neither the content of the Bank's website or any other website (including the Co-operative Group Limited's ("**Co-operative Group**") website), nor the content of any website accessible from hyperlinks on the Bank's website (including the Co-operative Group's website) or any other website, is incorporated into, or forms part of, this Consent Solicitation Memorandum; and
- neither the content of the Bank's Annual Report and Accounts 2016, the Bank's Annual Report and Accounts 2015, the Bank's Annual Report and Accounts 2014, nor the content of the Investor Presentation are incorporated into, or form any part of, this Consent Solicitation Memorandum.

See "*Annex II Part 6: The Bank's Historical Financial Information*", "*Annex II Part 7: Operating and Financial Review*" and "*Annex II Part 10: Risk Management*" of this Consent Solicitation Memorandum for details of what information is incorporated by reference into this Consent Solicitation Memorandum.

Rounding

Certain figures contained in this Consent Solicitation Memorandum or referred to or incorporated by reference into this Consent Solicitation Memorandum, including financial, statistical and operating information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Consent Solicitation Memorandum or referred to or incorporated by reference into this Consent Solicitation Memorandum may not conform exactly to the total figure given for that column or row.

Currency presentation

Unless otherwise indicated, all references in this Consent Solicitation Memorandum to "**GBP**", "**pounds sterling**", "**sterling**", "**£**", "**pence**", or "**p**" are to the lawful currency of the United Kingdom; all references to "**US dollars**", "**dollars**", "**USD**", "**US$**" or "**cents**" are to the lawful currency of the United States and all references to "**€**", "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended.

Non-IFRS Measures

In this Consent Solicitation Memorandum, the Issuer presents certain financial measures, including CET1 capital and other regulatory measures, which are not recognised by IFRS. These measures are presented because the Issuer believes that they and similar measures are widely used in the Issuer's industry as a means of evaluating operating performance. These measures may not be comparable to similarly titled measures used by other companies and are not measurements under IFRS or any other body of generally accepted accounting principles, and thus should not be considered substitutes for the financial information set out in "*Annex II Part 6: The Bank's Historical Financial Information*" of this Consent Solicitation Memorandum and which has been incorporated by reference into this Consent Solicitation Memorandum.

Alternative Performance Measures

In addition to the conventional financial performance measures established by IFRS, certain alternative performance measures (as defined in the ESMA Guidelines on Alternative Performance Measures) ("**Alternative Performance Measures**" or "**APMS**") are included in this Consent Solicitation Memorandum. See "*Part 3: Definitions and Glossary*" of this Consent Solicitation Memorandum for more information.

Defined terms

Certain terms used in this Consent Solicitation Memorandum, including capitalised terms and certain technical and other items, are defined and explained in "*Part 3: Definitions and Glossary*" of this Consent Solicitation Memorandum.

Certain terms used in Part 4 and Annex II of this Consent Solicitation Memorandum, including capitalised terms and certain technical and other terms, are defined and explained in "*Annex II Part 19: Definitions*" of this Consent Solicitation Memorandum.

Capital Ratios

Regulatory capital ratios included in this Consent Solicitation Memorandum are, unless otherwise stated, given on a consolidated basis in respect of the Bank and its subsidiaries and subsidiary undertakings (together, the "**Bank Group**") and not on a solo basis.

Issuances of Tier 2 debt and MREL-qualifying debt

References in this Consent Solicitation Memorandum to targeted issuances of Tier 2 debt and MREL-qualifying debt by the Bank would, following completion of the Restructuring and Recapitalisation, instead likely be issued by another appropriate entity to be incorporated as a public limited company and inserted within the Holdco Group between the Bank and Holdco ("**Issuerco**") in due course following completion of the Restructuring and Recapitalisation.

Presentation of financial information

The historical financial information incorporated by reference into this Consent Solicitation Memorandum has been audited and prepared in accordance with IFRS. This Consent Solicitation Memorandum also includes certain unaudited financial information for the three months ended 31 March 2017 and the five months ended 31 May 2017.

All historical financial information and financial forecasts, targets and assumptions presented in this Consent Solicitation Memorandum are that of the Bank Group (as defined below) on a consolidated basis, except where specifically indicated. Such information of the Bank Group can be taken as substantially the same as that of the expected Holdco Group as illustrated in the pro forma financial information in "*Annex II Part 8: Unaudited Pro Forma Financial Information of Holdco*" of this Consent Solicitation Memorandum.

Presentation of regulatory capital information

The Bank currently reports both on a solo-consolidated basis and on a consolidated basis in respect of the Bank Group. The Bank has permission from the PRA to report on a solo-consolidated (being the Bank consolidated with a subset of the Bank's subsidiaries which the Bank has PRA permission to include within its solo-consolidation) rather than solo (Bank only) basis. References to the Bank's regulatory position in this Consent Solicitation Memorandum are to the consolidated returns of the Bank Group unless otherwise stated. See paragraph 1 of "*Annex II Part 9: Capital Adequacy*" for further information on the presentation of regulatory capital information in this Consent Solicitation Memorandum and the expected impact of the Restructuring and Recapitalisation on the Bank's regulatory capital position.

Pillar 3 disclosures

The Bank makes available on the Investor Relations section of the Bank's website www.co-operativebank.co.uk/investorrelations/financialresults the Bank's Pillar 3 Disclosures intended to comply with the rules, unless otherwise stated, laid out in the Capital Requirements Regulation (CRR), Part 8. The disclosure included in the Bank's Pillar 3 Disclosures differs from those stated in the U.S. Securities and Exchange Commission ("**SEC**") Industry Guide 3. Accordingly, the Bank's Pillar 3 Disclosures included on its website may not be comparable to the equivalent information from U.S. companies subject to the reporting and disclosure requirements of the SEC. The Bank's Pillar 3 Disclosures are not incorporated by reference into this Consent Solicitation Memorandum.

FORWARD-LOOKING STATEMENTS

This Consent Solicitation Memorandum may contain or incorporate by reference certain "forward-looking statements" regarding the belief or current expectations of the Bank with respect to the business, strategy and plans of the Bank and its current targets, goals and expectations relating to its future financial condition, performance, developments and/or prospects. Generally, but not always, words such as "may", "will", "expect", "seek", "continue", "target", "projected", "goal", "believe", "achieve", "meet", "predict", "intend", "estimate", "plan", "aims", "plans", "could", "should", "would" and "anticipates" or their negative variations or similar expressions identify forward-looking statements. Examples of such statements include statements regarding the Bank's future financial condition, profitability, net interest margin growth, targeted non-interest income, operating costs, project costs, return on equity ("**RoE**"), risk weighted assets ("**RWAs**"), assets, impairment charges, business strategy, capital ratios, including CET1 capital ratios and targets, Pillar 2a targets, leverage, excess capital targets, payment of dividends, projected costs, commitments in connection with the Plan, estimates of capital expenditures and plans and objectives for future operations and other statements that are not historical fact. These forward-looking statements are not historical facts or guarantees of future performance. Rather, they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance, achievements or developments of the Bank or the industry in which it operates to differ materially from any future results, performance, achievements or developments expressed or implied from the forward-looking statements. Holders are particularly advised to read "*Annex II Part 3: Risk Factors*" of this Consent Solicitation Memorandum for more information about the risk factors that may affect the Bank's future performance.

Some of the important factors that could cause the Bank's actual operating results, financial condition, prospects, performance and achievements to differ materially from those expressed in these forward-looking statements include, amongst others, the matters set out in "*Annex II Part 3: Risk Factors*" of this Consent Solicitation Memorandum. For example:

- the Bank's ability to respond to a change in its business environment and successfully deliver all or any part of the Bank's strategy as the Bank has planned or targeted;
- whether following completion of the Restructuring and Recapitalisation, B Shareholders determine that the Bank should pursue a different strategy to that described in this Consent Solicitation Memorandum or otherwise determine that operational and business changes at the Bank should be implemented;
- the Bank's ability to continue as a going concern;
- any enforcement action the Bank's regulators may take in relation to the Bank's shortfall in meeting its regulatory capital requirements and loss-absorbing capacity requirements including (but not limited to) imposing a special resolution procedure on the Bank under the Banking Act 2009, as amended (the "**Banking Act**"), or the exercise of any of their various powers;
- changes to law, regulation, accounting policies or standards (including IFRS 9) or tax legislation and its interpretation, including changes to regulatory capital or liquidity requirements;
- the Bank's ability to obtain requisite regulatory, Shareholder and Subordinated Noteholder approvals, as well as the sanction of the High Court in respect of the Creditors' Scheme and the Members' Scheme and otherwise to successfully implement the Restructuring and Recapitalisation;
- the Bank's ability to complete its transformation programme (which is a component of the Plan) as the Bank has planned and in line with target costs and whether the programme is able to generate the anticipated benefits in the timeframe anticipated or at all;
- the risks associated with actual or attempted cyber-attacks against the Bank that could, among other things, result in the loss of operational availability of the Bank's systems to its employees and/or customers;
- the extent of the amounts the Bank will be required to pay in relation to its defined benefit pension schemes or any other pension-related payments and commitments under any deficit recovery plan;

- whether the sectionalisation of Pace successfully occurs in accordance with the Pace Heads of Terms;
- market-related risks, including but not limited to changes in interest rates and exchange rates or changes to such rates not occurring as planned;
- whether RWAs are greater than those assumed in the May 2017 Outlook on the Plan, for example due to worsening economic conditions, and the risk that any material increases in RWAs will significantly increase the Bank's capital requirements;
- operational risks, including but not limited to the ability of the Bank to reduce operating costs;
- whether the Bank is able to improve its credit rating;
- whether the Bank is able to improve its net interest margin in line with forecast base rate increases (assumed by the Bank based on the six-month moving average of the forward-looking market implied SONIA rate from 22 November 2016 to 31 May 2017 (to reduce the impact of volatility) and rounded to the nearest increment of 25 basis points), assumed by the Bank to begin in 2018;
- whether the Bank is able to address its CRR IRB non-compliance by the end of 2017 (or at all);
- whether the Bank (or, following completion of the Restructuring and Recapitalisation, Issuerco) will complete a targeted Tier 2 debt issuance of approximately £250 million in 2018 and debt issuances in 2020 and 2021, of approximately £200 and £300 million respectively, intended to qualify towards the Bank's MREL when planned, on acceptable terms, or at all;
- whether any deficiencies in project scoping, appropriate governance and related programme management processes would impede the satisfactory delivery of the transformation programme, the Plan and the May 2017 Outlook on the Plan as planned, and in line with targeted costs which would impact associated cost reductions or income generation plans;
- whether the Bank is successful in reducing its Pillar 2a regulatory capital requirements, within the Bank's assumed timeframe or at all, which are currently elevated relative to the Bank's peers principally due to the Bank's operational risk, pension risk, model risk and transformation risk;
- the ability to access sufficient funding to meet the Bank's liquidity requirements (including in relation to the redemption of the Bank's senior debt issuance scheduled for September 2017);
- the effect of competition and the actions of competitors;
- actions of rating agencies and/or negative market sentiment with respect to the Bank, the UK banking sector and/or the UK;
- whether growth in new mortgage origination is significantly less than assumed in the Plan;
- whether the Bank is successful in completing its expected reduction of approximately £2 billion in Optimum assets through securitisations and/or whole-loan sales during the fourth quarter of 2017 on the terms assumed by the Bank or at all;
- greater than planned losses identified in the Plan and the May 2017 Outlook on the Plan on any remaining asset sales, including in relation to the expected further reduction of Optimum assets through securitisations and/or whole-loan sales as described in paragraph 8.2 of "*Annex II Part 7: Operating and Financial Review*" of this Consent Solicitation Memorandum;
- changes in the business of the Bank, such as fee changes, resulting in cash outflows and a lower than expected overall non-interest income;
- the Bank's cost:income ratio continuing to negatively impact its profitability and its capital position;
- whether the Bank will be able to meet its ICG and all capital requirements and MREL when planned;
- whether the Bank is able to recognise the amount of deferred tax assets stated in the May 2017 Outlook on the Plan and generate the profits after tax targeted in the May 2017 Outlook on the Plan when expected, or at all;

- the level of conduct redress and remediation costs the Bank has to bear being higher than those already provided for in the Bank's provisions;
- the level of losses the Bank has to bear due to the crystallisation of non-performing loans;
- exposure to litigation, regulatory scrutiny, legal proceedings, regulatory investigations or complaints, and other factors;
- exposure to reputational risks, conduct risks, anti-money laundering, anti-bribery, sanctions and other compliance risks;
- inadequate risk management guidelines and policies;
- dependence on certain key management and personnel and the ability to attract and retain key management and personnel;
- reliance on IT and communication systems, as well as third-party providers of services, IT, software, data and other assets that may prove unreliable;
- the Bank's remaining dependence on the Co-operative Group and whether the Bank's relationship with the Co-operative Group is materially affected by the Restructuring and Recapitalisation, the termination and run-off of the Relationship Agreement and the termination of the Co-Existence Principles, as well as the Co-operative Group's reducing influence over and co-operation with the Bank;
- continued use by the Bank of its brand and the "Co-operative" name;
- the Bank's ability successfully to deliver management actions required to implement the Bank's strategy, the Plan and the May 2017 Outlook on the Plan;
- UK domestic and global economic and business conditions and political developments; and
- instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or sovereign financial issues.

This list of factors that might affect the forward-looking statements contained in this Consent Solicitation Memorandum is not exhaustive. In addition, there are other risks and uncertainties that could adversely affect the Bank's future results, ability to deliver its strategy, the Plan and, where applicable, the May 2017 Outlook on the Plan, cause it to miss its targets or impact the accuracy of forward-looking statements. These include, but are not limited to: deterioration in general economic conditions in the UK and internationally; inflation, deflation, interest rates and policies of the Bank of England, the European Central Bank and other Group of 8 (being Canada, France, Germany, Italy, Japan, Russia, the UK and the U.S.) central banks; instability in global financial markets including fluctuations in exchange rates, stock markets and currencies; the UK's impending departure from the European Union ("**EU**") which may occur as early as April 2019 and any consequential regulatory capital or liquidity or loss-absorbing capacity requirements or similar contingencies outside of the Bank's control; the outcome of the recent elections in the UK and France and forthcoming elections in certain other EU Member States (including parliamentary elections in Germany); further clarity around future regulatory requirements, including expectations regarding MREL; a possible contraction in the UK mortgage market negatively impacting loan book growth; systemic capital markets volatility; the UK banks' reaction to the Bank of England stimulus package; higher unemployment and lower property prices; risks stemming from any regulatory change, increasing regulatory enforcement and an increasingly litigious environment; changing demographic developments, including mortality and changing customer behaviour, including consumer spending, saving and borrowing habits; changes to borrower or counterparty credit quality; technological changes and risks to cyber security; natural and other disasters, adverse weather and similar contingencies outside the Bank's control; terrorist acts and other acts of war or hostility and responses to those acts; and geopolitical, pandemic or other such events; and impact of changes in laws, regulations, taxation, accounting standards (including, with effect from 1 January 2018, IFRS 9) or practices in the UK, the EU, the United States or elsewhere, including the implementation and interpretation of key legislation and regulation, following the recommendations made by the Independent Commission on Banking.

Neither the Bank nor any of its respective affiliates or representatives undertakes any obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. Recipients of this Consent Solicitation Memorandum should not place any reliance on the forward-looking statements and are advised to make their own independent analysis and determination with respect to the forecast periods.

PART 1

INDICATIVE TIMETABLE

Set out below is an indicative timetable showing one possible outcome for the timing of the Consent Solicitation, which will depend, among other things, on timely receipt (and non-revocation) of instructions, the rights of the Issuer (where applicable) to extend, waive any condition of, amend and/or terminate the Consent Solicitation (other than the terms of the Extraordinary Resolutions) as described in this Consent Solicitation Memorandum, the passing of the Extraordinary Resolutions (and satisfaction of the Eligibility Condition, as applicable) at the initial Meeting, the timetables of the Creditors' Scheme and the Members' Scheme and the other Consent Conditions being satisfied. Accordingly, the actual timetable may differ significantly from the timetable below.

Event	
Retail Record Date	27 June 2017
In addition to satisfying the other conditions and procedures set out in this Consent Solicitation Memorandum, in order to be treated as a Retail Holder for the purposes of the Mandatory Cancellation a Holder must have fallen within the definition of "Retail Holder" as at 5.00 p.m. (London Time) on this date	
Circulation of the practice statement letter in connection with the Creditors' Scheme and Members' Scheme	14 July 2017
Initial court hearings in connection with the Creditors' Scheme and the Members' Scheme	27 July 2017
Documents in respect of the Creditors' Scheme, Members' Scheme and General Meeting made available to holders of the 2023 Notes and the 2025 Notes and Shareholders, as applicable	28 July 2017
Launch Date of the Consent Solicitation	28 July 2017
Notice of Meeting delivered to the Clearing Systems for communication to Direct Participants and published via RNS. The Bank will, in addition, procure that the Notice of Meeting is mailed to the Holders of the 2023 Notes at their respective addresses in the register of Holders maintained by the Registrar	
Documents referred to under "*General*" in the Notice of Meeting will be available from the specified offices of the Information Agent	
Scheduled publication of the Bank's interim results for the six months ended 30 June 2017	10 August 2017
Expiration Deadline[3]	
The voting deadline for receipt by the Registrar of valid Consent Instructions from Holders in order for such Holders to be able to participate in the Consent Solicitation	5.00 p.m. (London Time) on 18 August 2017
This will also be the deadline for making any other arrangements to attend or be represented or to vote at the Meeting	
Members' Scheme Court meeting	From 9.15 a.m. (London Time) on 21 August 2017

[3] In accordance with certain securities law requirements, Holders may continue to submit Consent Instructions up to 6 p.m. (New York Time) on 25 August 2017 but their votes will not be counted towards the quorum and voting thresholds of the Meeting.

General Meeting	From 9.30 a.m. (London Time) (or as soon thereafter as the Members' Scheme Court Meeting shall have concluded or been adjourned) on 21 August 2017
Creditors' Scheme Court meeting	From 9.45 a.m. (London Time) (or as soon thereafter as the General Meeting shall have concluded or been adjourned) on 21 August 2017
Meeting of Holders of the 2023 Notes	
Meeting of the Holders of the 2023 Notes to be held at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ	From 10.00 a.m. (London Time) (or as soon thereafter as the Creditors' Scheme Court Meeting shall have concluded or been adjourned) on 21 August 2017
The First Supplemental Trust Deed will be signed during the Meeting if the First Extraordinary Resolution proposed at the Meeting is passed	
Entitlements Record Date	
The record date for entitlements under the Creditors' Scheme and Members' Scheme	6.00 p.m. (London Time) on the date of the General Meeting, expected to be 21 August 2017 (or, if later, any date to which it is adjourned)
In addition to satisfying the other conditions and procedures set out in this Consent Solicitation Memorandum, in order to be treated as a Retail Holder for the purposes of the Mandatory Cancellation, a Holder must fall within the definition of "Retail Holder" as at 5.00 p.m. (London Time) on this date	
Announcement of results of Meetings	
Announcement of the results of the Meeting of Holders of the 2023 , Notes the Creditors' Scheme Court meeting, the Members' Scheme Court meeting and the General Meeting	As soon as reasonably practicable after the meetings (and in any event no later than 14 days after the Meeting of the Holders of the 2023 Notes)
Second Court hearing to approve the Creditors' Scheme and the Members' Scheme, and sanction orders in respect of the Creditors' Scheme and the Members' Scheme lodged with the Registrar of Companies	24 August 2017
Execution of the Second Supplemental Trust Deed	
Subject to satisfaction of the Consent Conditions, the date on which the Second Supplemental Trust Deed is expected to be executed	As soon as reasonably practicable after the Court Orders in respect of the Creditors' Scheme and the Members' Scheme are lodged with the Registrar of Companies

Retail Confirmation Deadline

Deadline for receipt by the Registrar of valid Retail Confirmations from Holders in order for the 2023 Notes of such Holders to be subject to the Mandatory Cancellation and, accordingly, be eligible for the Retail Cash Consideration and Accrued Interest in cash	Expected to be 10.00 a.m. (London Time) on 30 August 2017, or, only if later on the third Business Day following the date on which each of the sanction orders with respect to the Creditors' Scheme and the Members' Scheme are delivered to the Registrar of Companies (subject to the right of the Bank to amend such date upon notice to Holders)
	Expected to be 1 September 2017

Restructuring and Recapitalisation Settlement Date

Notice of the Mandatory Cancellation expected to be given to Holders including confirmation of satisfaction of the Consent Conditions and notification of the Retail Cash Consideration to be paid per £10 in principal amount of the 2023 Notes cancelled thereunder

Expected settlement date of (i) the Consent Solicitation, including Mandatory Cancellation of the 2023 Notes held by Retail Holders and the payment by the Issuer of the Retail Cash Consideration and Accrued Interest to those Retail Holders in respect of such 2023 Notes; and (ii) Scheme Creditor and Scheme Shareholder entitlements and claims under respectively the Creditors' Scheme, and the Members' Scheme; and (iii) the implementation of all other steps under the Restructuring Deed

If the Meeting is not quorate on the date stated above, such Meeting shall stand adjourned for such period being not less than 14 clear days nor more than 42 clear days, and at such place as may be appointed by the Chairman of the Meeting (and approved by the Trustee) and notice of any Adjourned Meeting shall be given in the same manner as notice of the original Meeting, save that 10 days' notice (containing the information required for the notice of the original Meeting) shall be given.

Unless stated otherwise and subject to the requirements of the Trust Deed, announcements in connection with the Consent Solicitation will be made via RNS. Such announcements may also be made by (i) the issue of a press release to a Notifying News Service and/or (ii) the delivery of notices to the Clearing Systems for communication to Direct Participants. With respect to the Notice of Meeting, the Issuer will also procure that such notice is mailed to the Holders of the 2023 Notes at their respective addresses in the register of Holders maintained by the Registrar. Copies of all such announcements, press releases and notices can also be obtained from the Information Agent, the contact details for whom are on the last page of this Consent Solicitation Memorandum. Significant delays may be experienced where notices are delivered to the Clearing Systems and Holders are urged to contact the Information Agent for the relevant announcements relating to the Consent Solicitation.

Holders are advised to check with any bank, securities broker or other intermediary through which they hold their 2023 Notes when such intermediary would need to receive instructions from a Holder in order for such Holder to participate in, or (in the limited circumstances in which revocation is permitted) to validly revoke their instruction to participate in, the Consent Solicitation and/or the Meeting, or to submit or revoke a Retail Confirmation, by the deadlines specified above. The deadline set by any such intermediary and each Clearing System for the submission and (where permitted) revocation of Consent Instructions or Retail Confirmations will be earlier than the relevant deadlines above.

PART 2

QUESTIONS AND ANSWERS ABOUT THIS CONSENT SOLICITATION

The following are some of the questions that Holders may have, and answers to those questions. These questions and answers, as well as the following summary, are not meant to be a substitute for the information contained in the remainder of this Consent Solicitation Memorandum, and this information is qualified in its entirety by the more detailed descriptions and explanations contained elsewhere in this Consent Solicitation Memorandum (see also "*Part 4, Section A: Letter from the Chairman of the Bank*"). Holders are urged to read this Consent Solicitation Memorandum in its entirety prior to making any decision.

1. What is a "consent solicitation"?

A consent solicitation is a form of liability management exercise where a company seeks to restructure some or all of its debts and other obligations. Companies conduct liability management exercises for a number of reasons. A number of banks in the United Kingdom (including the Bank in 2013) and across Europe have conducted liability management exercises since the global financial crisis in 2008 as a means of strengthening their capital position.

In a consent solicitation, an issuer invites holders, at a meeting convened by the issuer, to consider, and vote in respect of a certain set of proposals. If the required quorum (the aggregate principal amount of notes that must be represented by those eligible to participate at the meeting) is achieved, and if the required proportion of those voting vote in favour of the proposals, the proposals will be passed and can be implemented, subject to certain conditions. If the proposals are passed and implemented, the proposals become binding on all holders regardless of whether they voted for or against the changes, or even if they did not vote at all; if the vote is not successful and the proposals are not passed, no holders' notes are subject to the proposed changes (even if that holder voted in favour). For the quorum and voting thresholds that are applicable to this Consent Solicitation see Question 14 "*What are the voting and quorum requirements in respect of the Meetings and the Extraordinary Resolutions*?"

2. Why has the Consent Solicitation been launched?

The Consent Solicitation is part of the Restructuring and Recapitalisation, which is being carried out to strengthen the Bank's capital base. The Restructuring and Recapitalisation will raise approximately £700 million of additional CET1 capital in total (depending on the actual amount of Retail Cash Consideration paid out by the Bank pursuant to the Mandatory Cancellation and excluding costs and expenses incurred by the Bank), positioning the Bank to meet regulatory capital requirements in the medium term. It is being carried out concurrently with the Creditors' Scheme, the Members' Scheme and the Equity Subscriptions and also involves the approval by Shareholders of the Resolutions relating to the Restructuring and Recapitalisation. See "*Part 4, Section A: Letter from the Chairman of the Bank*" for further information on the rationale and background to the Consent Solicitation, the Restructuring and Recapitalisation and these related transactions.

The Proposals that are the subject of this Consent Solicitation are described in Question 7 "*What are the Proposals that the Issuer is inviting Holders to vote on?*" below and involve amendments to the Conditions, which must be approved by Holders at a meeting convened and held in accordance with the Trust Deed.

In order to facilitate the Restructuring and Recapitalisation, on 28 June 2017 the Bank entered into an agreement (the "**Lock-Up Agreement**") with a group of Non-Retail Holders of the 2023 Notes, holders of the 2025 Notes and holders of the Ordinary Shares (referred to herein as the "**Principal Investors**"). Subsequent to such date, additional Subordinated Noteholders and Shareholders have acceded as "Consenting Holders" to the Lock-Up Agreement. Under the Lock-Up Agreement, the Bank and the Consenting Holders have committed to take certain steps to implement the Restructuring and Recapitalisation. The Lock-Up Agreement includes an undertaking by the Consenting Holders to use best efforts and take such reasonable and necessary actions (that are consistent with the Lock-Up Agreement and the Restructuring and Recapitalisation) as each Consenting Holder may have available to it in furtherance of the implementation and consummation of the Restructuring and Recapitalisation, including voting in favour

of the Proposals, the Creditors' Scheme, the Members' Scheme and the Resolutions to be proposed at the General Meeting.

The Lock-Up Agreement contains a number of termination provisions. These include if the Bank enters insolvency or resolution proceedings or if the Restructuring is not completed before a "Long Stop Date". The Long Stop Date is currently 18 September 2017 but may be extended with the agreement of the Bank and Consenting Holders holding more than 50 per cent. of the aggregate principal amount of the 2023 Notes and 2025 Notes (as applicable) held by Consenting Holders at the relevant time.

As at 25 July 2017, being the latest practicable date prior to the publication of this Consent Solicitation Memorandum, the Consenting Holders represented 78 per cent. in aggregate principal amount of the 2023 Notes and, accordingly, the Extraordinary Resolutions are expected to be passed at the initial Meeting. The Consenting Holders also represented 93 per cent. in aggregate principal amount of the 2025 Notes and 63 per cent. in aggregate principal amount of the Bank's Ordinary Shares.

3. What happens if the Consent Solicitation does not succeed?

The Bank is currently unable to meet regulatory requirements relating to its credit risk modelling under the CRR, its ICG, its Combined Buffer, its PRA Buffer and its MREL (such terms as defined in "*Annex II Part 19: Definitions*"), as further set out in paragraph 4 of "*Part 4, Section A: Letter from the Chairman of the Bank*". The Bank's ability to continue in its operations is therefore subject to any enforcement action HM Treasury, the Bank of England, the Financial Conduct Authority and/or the PRA may take against it. The Bank does not currently believe that there is any realistic alternative to raising the required additional capital if the Restructuring and Recapitalisation is unsuccessful.

The Bank would expect to hold urgent discussions with the PRA and the Bank of England if the Restructuring and Recapitalisation, of which the Consent Solicitation is a key component, were not implemented. It is not possible to be certain what the outcome of those discussions may be, nor whether or not HM Treasury, the Bank of England, the Financial Conduct Authority and/or the PRA will continue to not take enforcement action against the Bank in relation to its inability to meet regulatory requirements relating to its credit risk modelling under the CRR, its ICG, its Combined Buffer, its PRA Buffer and its MREL. However, implementation of the Restructuring and Recapitalisation is an essential component of the May 2017 Outlook on the Plan, albeit that it will generate less incremental CET1 capital for the Bank than was assumed in the Plan which the PRA accepted on 13 February 2017 (see paragraph 2 of "*Part 4, Section A: Letter from the Chairman of the Bank*" for a description of the Plan). On 27 June 2017, the PRA confirmed its acceptance of the May 2017 Outlook on the Plan, including the terms of the Restructuring and Recapitalisation. The PRA may withdraw its acceptance and/or approval of the Plan and/or the May 2017 Outlook on the Plan at any time, whether or not the Restructuring and Recapitalisation is successful. If the Bank failed to satisfy its threshold conditions for authorisation (for which the PRA is responsible under Section 55B(2) of FSMA) in circumstances where such failure would justify the variation or cancellation of the Bank's permission to carry out regulated activities by the PRA under Section 55J of FSMA, this would be sufficient grounds for the PRA to conclude that the Bank was failing or likely to fail for the purposes of the Banking Act.

It is not possible to be certain as to what actions the Bank of England and/or other authorities would take in these circumstances, as they are afforded a wide degree of discretion. **However, in light of the considerations summarised in "*Part 4, Section B: Letter from the Chairman of the Bank*", the Bank believes that the most likely outcome is that the Bank of England would exercise the mandatory write-down tool in respect of the Bank's capital instruments, followed by or together with placing the Bank into the Special Resolution Regime.** The consequences of these steps for Subordinated Noteholders and Shareholders are summarised in "*Part 4, Section B: Letter from the Chairman of the Bank*".

Each Holder must make its own decision whether or not to support the Consent Solicitation, and should consult its own professional advisers if it is unsure as to any action it should take. Holders' attention is drawn to the letter from Dennis Holt, the Chairman of the Bank, set out in "*Part 4, Section A: Letter from the Chairman of the Bank*" of this Consent Solicitation Memorandum. In particular, Holders' attention is drawn to the statement from the board of directors of the Bank (the "**Board**") recommending that Holders vote in

favour of the Extraordinary Resolutions set out on page 66 and the consequences if the Restructuring and Recapitalisation (of which the Extraordinary Resolutions are part) does not succeed on pages 67 to 72.

4. How will the Restructuring and Recapitalisation strengthen the Bank's capital base?

If successful, the Restructuring and Recapitalisation is expected to generate approximately £700 million of incremental CET1 capital (depending on the actual amount of Retail Cash Consideration paid out by the Bank pursuant to the Mandatory Cancellation and excluding costs and expenses incurred by the Bank). A successful Restructuring and Recapitalisation will, therefore, increase the CET1 component of the Bank's headroom above its minimum Pillar 1 (as defined herein) regulatory capital requirements (on both a solo-consolidated and consolidated basis). This is expected to help the Bank achieve its target of meeting the Tier 1 component of its ICG in 2017 subject to delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan. See paragraph 7 of "*Part 4, Section A: Letter from the Chairman of the Bank*".

5. What is Common Equity Tier 1 capital?

Common Equity Tier 1 capital (referred to herein as CET1 capital) is the highest quality form of capital which banks and other financial institutions are required to maintain to help absorb losses, including in times of financial distress. CET1 capital is a form of capital that helps a UK bank to reach its individual capital guidance (being the PRA's guidance as to the regulatory capital it expects the Bank to hold) and minimum requirement for own funds and eligible liabilities (as prescribed by the EU Bank Recovery and Resolution Directive (2014/59/EU)).

The PRA has required UK banks to bolster their capital resources so that they (and the UK banking system generally) are better able to withstand future losses and financial shocks.

6. How do I know if I own the 2023 Notes?

You will either have a note certificate (if you own the 2023 Notes directly), or, if you have invested through a broker, or hold directly or indirectly in a Clearing System account, your account statements should reference the 2023 Notes. Their ISIN number is GB00BFXW0853.

7. What are the Proposals that the Issuer is inviting Holders to vote on?

The purpose of the Consent Solicitation is to invite Eligible Holders to consider and, if thought fit, approve the Proposals to:

(i) assent to and sanction the modification to the Conditions of the 2023 Notes to insert a mandatory cancellation condition pursuant to which the 2023 Notes held by Retail Holders shall (subject to PRA Consent) be irrevocably cancelled and the rights, liabilities and obligations thereunder released in consideration of the payment of the Retail Cash Consideration to those Retail Holders (subject (in aggregate) to the Maximum Cash Amount) (see Question 9 "*What is the Retail Cash Consideration?*" for more information);

(ii) waive any and all Events of Default, Potential Events of Default and any other breach of the Conditions of the 2023 Notes or the Trust Deed (in each case, if any) that have been, are or may be, triggered by or in connection with the Restructuring and Recapitalisation;

(iii) assent to and sanction the extension of the powers of a meeting of Holders under the Trust Deed in order to allow for the assent and sanction of the releases and waivers referred to in (iv) below; and

(iv) assent to and sanction, to the fullest extent permitted by law:

  (a) subject to certain conditions, the irrevocable and unconditional, full and final waiver and release and forever discharge from the Settlement Date of (x) all Note Claims; and (y) any and all actions, proceedings, claims, damages, counterclaims, complaints, liabilities, liens, rights, demands and set-offs, whether in this jurisdiction or any other, of whatsoever nature and howsoever arising, whether in law or in equity, in contract (including but not limited to breaches or non-performances of contract), statute or in tort (including but not limited to negligence and misrepresentation), breaches of statutory duty, for contribution, or for interest

and/or costs and/or disbursements, whether filed or unfiled, whether or not presently known to the parties or to the law, all claims that each Holder ever had, may have or hereafter can, shall or may have against any Relevant Person in relation to or arising out of or in connection with:

(i) the preparation, negotiation or implementation of the Consent Solicitation and the Creditors' Scheme (including, but not limited to, the Restructuring Deed and Restructuring Implementation Documents); and/or

(ii) the preparation, negotiation or implementation of the Restructuring and Recapitalisation; and/or

(iii) any event or circumstance arising in the period from 1 January 2016 to the Completion Time which caused or, contributed to, directly or indirectly the requirement for the Restructuring and Recapitalisation;

(b) that Relevant Persons may enforce the agreement of each Holder to release liabilities and waive its rights and entitlements, as described in (a) above, subject to and in accordance with the provisions of the Contracts (Rights of Third Parties) Act 1999; and

(c) the modification, abrogation, compromise or arrangement in respect of its rights against the Relevant Persons necessary to give effect to the foregoing provisions of this paragraph (iv);

all as more fully set out in the "*Form of Notice of Meeting*" in Annex 1 hereto.

The Bank is proposing two Extraordinary Resolutions at the Meeting of Holders: (a) the First Extraordinary Resolution, to extend the powers of the Meeting as described in (iii) above; and (b) subject to the passing and implementation of the First Extraordinary Resolution, the Second Extraordinary Resolution, in respect of the other Proposals (together, the First Extraordinary Resolution and the Second Extraordinary Resolution, the "**Extraordinary Resolutions**").

If the Consent Conditions are satisfied and the PRA Consent is obtained, the mandatory cancellation referred to in (i) above (the "**Mandatory Cancellation**") will occur on the Settlement Date following "Restructuring Step 8" and in accordance with the Restructuring Deed.

Upon Mandatory Cancellation, the 2023 Notes held by Retail Holders will be irrevocably cancelled and the rights, liabilities and obligations thereunder released in consideration of the payment of the Retail Cash Consideration to those Retail Holders (subject (in aggregate) to the Maximum Cash Amount). Accrued Interest will also be paid in cash to those Retail Holders on the Settlement Date. See Question 12 "*What is being proposed in respect of interest that has accrued but not yet been paid on the 2023 Notes?*"

Implementation of the Proposals may only occur, and Mandatory Cancellation will only be effected, if certain conditions (referred to herein as the "**Consent Condition**s") are satisfied. See Question 15 "*What conditions must be satisfied in order for the Consent Solicitation to be completed?*" below for further information.

The 2023 Notes of Non-Retail Holders are not subject to the Mandatory Cancellation and are instead subject to the Creditors' Scheme. See Question 11 "*What is happening to the 2023 Notes of Non-Retail Holders and the 2025 Notes?*"

8. Why are Retail Holders subject to the Mandatory Cancellation rather than the Creditors' Scheme?

The Bank has purposefully offered to provide the Retail Cash Consideration to Retail Holders in order to offer Retail Holders a more attractive proposition in the implementation of the Restructuring and Recapitalisation than they would otherwise have by participating in the Creditors' Scheme and receiving the equity consideration thereunder. In particular:

(i) the Retail Cash Consideration provides cash for investors as opposed to the uncertain potential value and return of the equity offered in the Creditors' Scheme;

(ii) cash is the most liquid exit consideration. In contrast, the equity to be offered to Scheme Creditors pursuant to the Creditors' Scheme will not be listed on any stock exchange, will have limited voting rights and may be difficult to sell; and

(iii) based on investigations to date, whilst it has not been possible to definitively identify all Retail Holders due to the way in which the 2023 Notes are held, the Bank anticipates that the Retail Cash Consideration payable to Retail Holders should have a value in excess of the value of the equity to be issued to Scheme Creditors in accordance with the Creditors' Scheme, based on the following assessment:

- The implied pro forma equity value of the Bank, calculated on the basis of 67.6 per cent. of Holdco representing £250 million of new equity, is in the region of £370 million. The Bank and its advisers ran a public process over many months to secure a buyer or equity capital provider for the Bank and only the Ad Hoc Committee and other backstop providers had a credible proposal.
- Pursuant to the terms of the Restructuring and Recapitalisation, Non-Retail Holders will receive approximately a 17.4 per cent. pro-forma shareholding in Holdco for their £426 million nominal value of 2025 Notes and 2023 Notes with the assumption that £30 million nominal amount of 2023 Notes are held by Retail Holders (although as at the date of this Consent Solicitation Memorandum, Retail Holder declarations are currently below this level and the final level will not be known until the Retail Confirmation Deadline).
- The implied value of the offer to Non-Retail Holders is therefore £1.50 per £10 principal amount of 2023 Notes. This is materially worse than the maximum aggregate cash amount payable to Retail Holders of £4.50 per £10 principal amount of 2023 Notes and also materially worse than the worst case outcome for Retail Holders of approximately £3 per £10 principal amount of 2023 Notes (if all those Holders who, as at the date of this Consent Solicitation Memorandum, have not acceded to the Lock-Up Agreement are Retail Holders, which the Bank believes to be unlikely on the basis of a recent search exercise carried out on behalf of the Bank (therefore meaning that the more likely outcome will be that the amount payable to Retail Holders is closer to the maximum aggregate cash amount of £4.50 per £10 principal amount of 2023 Notes)).

See paragraph 5 of "*Part 4, Section A: Letter from the Chairman of the Bank*" and *Question 11 "What is happening to the 2023 Notes held by Non-Retail Holders?"*

The right to participate in the Equity Subscriptions is not open to Retail Holders and is restricted to persons that (i) in the case of U.S Persons (as defined in Regulation S of the U.S. Securities Act 1933), are QIBs or Accredited Investors, or (ii) in the case of persons in the European Economic Area, are "qualified investors" (as defined in the Prospectus Directive), or (iii) do not have a registered address, or who are not resident or located, in an Excluded Territory (such term as defined in "Annex II Part 19: Definitions" or (iv) which have been otherwise approved to participate by the Bank, in order to enable the Bank to raise the capital it requires, within the time available to it, in compliance with the applicable securities laws.

9. What is the Retail Cash Consideration?

The Retail Cash Consideration is the cash amount that is payable pursuant to the Mandatory Cancellation on the Settlement Date to Retail Holders of the 2023 Notes only. The Retail Cash Consideration is subject to a cap of £13,500,000 on the aggregate cash amount paid to such Retail Holders (the "**Maximum Cash Amount**") and, accordingly, shall be the lesser of:

(i) £4.50 per £10 in principal amount of 2023 Notes; and

(ii) the amount (rounded to the nearest £0.01) per £10 in principal amount of 2023 Notes calculated by (a) dividing the Maximum Cash Amount by the aggregate principal amount of 2023 Notes that will be subject to the Mandatory Cancellation, and (b) multiplying the resultant figure by 10.

The Retail Cash Consideration to be paid to each Retail Holder in respect of its 2023 Notes will be calculated by the Registrar.

10. Am I eligible to receive the Retail Cash Consideration?

To be eligible to receive the Retail Cash Consideration, a Holder must be a Retail Holder of the 2023 Notes.

A "**Retail Holde**r" is a Holder:

(A) who as at 5.00 p.m. (London Time) on the Retail Record Date satisfied and, at 6.00 p.m. (London Time) on the Entitlements Record Date will continue to satisfy, the following conditions:

(i) it is an individual person;

(ii) it is the Beneficial Owner of less than £100,000 in aggregate principal amount of 2023 Notes;

(iii) (a) if it is resident in the United States, it is not an Accredited Investor, or (b) if it is not resident in the United States, it is not a "qualified investor" as defined in the Prospectus Directive;

(iv) it is not a Sanctions Restricted Person; and

(B) who (i) has validly confirmed the matters set out in paragraph (A) above in accordance with the procedures set out in this Consent Solicitation Memorandum; or (ii) has been assessed, on reasonable enquiry, by the Bank to satisfy the criteria set out in paragraph (A) above (which assessment shall be conclusive and binding) on or prior to the Retail Confirmation Deadline.

The Retail Cash Consideration is only payable to a Retail Holder that:

(i) has submitted (and not subsequently revoked in the limited circumstances in which such revocation is permitted) a Consent Instruction (i) that includes a valid confirmation of the relevant Holder's status as a Retail Holder, and (ii) that is received by the Registrar on or prior to the Expiration Deadline;

(ii) has submitted a valid Retail Confirmation that includes a valid confirmation of the relevant Holder's status as a Retail Holder, which is received by the Registrar on or prior to the Retail Confirmation Deadline; or

(iii) the Bank has assessed, on reasonable enquiry, to be a Retail Holder (which determination shall be conclusive and binding) on or prior to the Retail Confirmation Deadline.

Each Consent Instruction or Retail Confirmation, as applicable, must be submitted in respect of the entire principal amount of 2023 Notes beneficially owned by a Retail Holder and must include the Holder's name, address and telephone number and custodian's name (if applicable), in order for it to constitute a valid confirmation as to such Holder's retail status.

The Bank is allowing Holders to submit Retail Confirmations up to and including the Retail Confirmation Deadline (which is later than the Expiration Deadline and after the Meeting) in order to give Holders who may be eligible for the Retail Cash Consideration as much time as practicable to identify themselves as Retail Holders. Holders who (i) fail to validly confirm their status as Retail Holders, or (ii) are not otherwise determined by the Bank to be Retail Holders, in each case, on or before the Retail Confirmation Deadline will be deemed to be Non-Retail Holders and will be subject to the Creditors' Scheme and will not be eligible to receive the Retail Cash Consideration and Accrued Interest in cash.

The Issuer reserves the right to request evidence from a Holder to support a Holder's confirmation as to Retail Holder status. All determinations, including any determination that a Holder is or is not a Retail Holder by the Issuer, and all calculations performed by the Registrar in connection with the Mandatory Cancellation will, in the absence of manifest error, be conclusive and binding on Holders.

Any Holder who considers that he or she is a Retail Holder or is unsure as to whether or not he or she is a Retail Holder should contact Lucid Issuer Services Limited as Information Agent using the contact details in Question 27 "*Where can I find further information about the Consent Solicitation?*". Only Holders that have validly confirmed their status as Retail Holders or who have otherwise been assessed on reasonable enquiry by the Bank to be a Retail Holder (in each case by no later than the Retail

Confirmation Deadline) will receive the Retail Cash Consideration and Accrued Interest in cash in respect of their 2023 Notes. All other Holders will be deemed to be Non-Retail Holders and their holdings of 2023 Notes will be subject to the Creditors' Scheme.

11. What is happening to the 2023 Notes of Non-Retail Holders and the 2025 Notes?

The 2023 Notes held by Non-Retail Holders are not subject to the Mandatory Cancellation and instead are subject to the Creditors' Scheme. All of the 2025 Notes are also subject to the Creditors' Scheme. If the Creditors' Scheme is approved by Scheme Creditors and sanctioned by the Court, and certain other conditions are satisfied, all of the 2023 Notes held by Non-Retail Holders and all of the 2025 Notes will be transferred to Holdco in consideration of the delivery of A Shares or, in the case of unidentified holders, transferred to a trust for a holding period (as further described in the Creditors' Scheme Circular), and will be subsequently cancelled and will not be re-issued or resold.

Only Holders of the 2023 Notes that have validly confirmed their status as Retail Holders or who are otherwise assessed on reasonable enquiry by the Bank to be Retail Holders (in each case no later than the Retail Confirmation Deadline) will be treated as Retail Holders in respect of the Mandatory Cancellation. All other Holders will be deemed to be Non-Retail Holders and their holdings of 2023 Notes will be subject to the Creditors' Scheme.

12. What is being proposed in respect of interest that has accrued but not yet been paid on the 2023 Notes on the Mandatory Cancellation?

On the Settlement Date, the Bank will pay Accrued Interest in respect of the 2023 Notes held by Retail Holders that are subject to the Mandatory Cancellation for the period from (and including) the last interest payment date, being 20 June 2017, to (but excluding) 31 July 2017, amounting to £0.1226 per £10 in principal amount of the 2023 Notes which will be paid in cash and rounded to the nearest £0.01. For the avoidance of doubt, the payment of Accrued Interest is not subject to the Maximum Cash Amount.

13. Why is the Issuer seeking the approval of Holders and are any other approvals required?

The amendments to the Conditions and waivers and releases that form the Proposals require approval by Extraordinary Resolutions of Holders passed at a quorate meeting of the holders of the 2023 Notes duly convened in accordance with the Meeting Provisions set out in the Trust Deed. As referred to in Question 2 "*Why has the Consent Solicitation been launched?*" above, the Consenting Holders have undertaken to support the Restructuring and Recapitalisation and, accordingly, will vote in favour of the Extraordinary Resolutions. As at 25 July 2017, being the latest practicable date prior to publication of this Consent Solicitation Memorandum, the Consenting Holders represented 78 per cent. in aggregate principal amount of the 2023 Notes and accordingly the Extraordinary Resolutions are expected to be passed at the initial Meeting.

The Creditors' Scheme and the Members' Scheme must each be approved by the requisite majority of Scheme Creditors and Shareholders respectively and each such scheme must be sanctioned by the Court.

The approval by Shareholders of the Resolutions is also required and is being sought at the General Meeting as further described herein.

For further information as to the potential impact of the Principal Investors undertaking to support the Recapitalisation and Restructuring, see Question 2 "*Why has the Consent Solicitation been launched?*" and Question 15 "*What are the voting and quorum requirements in respect of the Meetings and the Extraordinary Resolutions?*"

In order to cancel the 2023 Notes and the 2025 Notes pursuant to the Restructuring and Recapitalisation, the Bank also requires the consent of the PRA under Article 77 of the Capital Requirements Regulation (Regulation (EU) 575/2013) ("**CRR**"). Article 78(1) of the CRR requires the PRA to grant permission to the Bank where either one of two conditions is met.

14. What are the voting and quorum requirements in respect of the Meetings and the Extraordinary Resolutions?

The quorum required to consider the Extraordinary Resolutions at the Meeting is as follows:

(i) *The First Extraordinary Resolution*: one or more persons present and holding or representing a clear majority of the principal amount of the 2023 Notes for the time being outstanding, and at any Adjourned Meeting, one or more persons (whatever the principal amount of 2023 Notes represented or held by them); and

(ii) *The Second Extraordinary Resolution*: one or more persons present and holding or representing in aggregate not less than two-thirds of the principal amount of the 2023 Notes for the time being outstanding, and at any Adjourned Meeting, one or more persons present and holding or representing in aggregate not less than one-third of the principal amount of the 2023 Notes for the time being outstanding.

To be passed at the Meeting, each Extraordinary Resolution requires a majority in favour consisting of not less than three quarters of votes cast. The Second Extraordinary Resolution is conditional on the passing and implementation of the First Extraordinary Resolution.

If, in respect of the Meeting, the quorum required to consider the First Extraordinary Resolution is satisfied, but the quorum required to consider the Second Extraordinary Resolution is not satisfied, that Meeting shall proceed on the basis that the First Extraordinary Resolution only shall be proposed thereat and voted upon by Holders present or represented at that Meeting in accordance with the Trust Deed. In such circumstances, that Meeting shall stand adjourned in respect of the Second Extraordinary Resolution only in accordance with the provisions of the Notice of Meeting and the Trust Deed.

If the Second Extraordinary Resolution is passed but the Eligibility Condition (as defined herein) is not satisfied, it is a term of the Second Extraordinary Resolution that the Meeting shall be adjourned on the same basis as for a Meeting where the necessary quorum is not obtained. In such event, the Second Extraordinary Resolution shall be proposed again to Holders at such Adjourned Meeting for the purposes of determining whether it can be passed irrespective of any participation by Ineligible Holders at such Adjourned Meeting (and would also have been so passed if any Ineligible Holders who provided confirmation of their status as Ineligible Holders and waived their right to attend and vote (or be represented) at the Meeting had actually participated at the Meeting) and, if so, the Eligibility Condition will be satisfied on such subsequent passing of the Second Extraordinary Resolution.

The Consenting Holders have undertaken to vote in favour of the Extraordinary Resolutions and, accordingly, the Extraordinary Resolutions are expected to be passed at the initial Meeting. In addition, the Eligibility Condition is expected to be satisfied. For further information, see Question 2 "*Why has the Consent Solicitation been launched?*"

15. What conditions must be satisfied in order for the Consent Solicitation to be completed?

The Consent Solicitation will be completed on the Mandatory Cancellation of the 2023 Notes held by Retail Holders, which is conditional on all of the following (in each case, as further described in this document) occurring:

(i) the passing of both Extraordinary Resolutions in respect of the 2023 Notes by the Holders of the 2023 Notes, and the satisfaction of the Eligibility Condition relating to the Second Extraordinary Resolution in respect of the 2023 Notes;

(ii) (A) the Creditors' Scheme being approved by the requisite majority of the Scheme Creditors at the Creditors' Scheme Court Meeting and sanctioned by the Court; (B) an office copy of the sanction order being lodged with the Registrar of Companies at Companies House; and (C) the Creditors' Scheme becoming unconditional in accordance with its terms;

(iii) (A) the Members' Scheme being approved by the requisite majority of the Members at the Members' Scheme Court Meeting and sanctioned by the Court; (B) an office copy of the sanction order being

lodged with the Registrar of Companies at Companies House; and (C) the Members' Scheme becoming unconditional in accordance with its terms;

(iv) the Equity Subscriptions being completed; and

(v) the passing of the Resolutions at the General Meeting.

The requirements of paragraphs (i) to (v) (inclusive) above are collectively referred to in this document as the "**Consent Conditions**".

The implementation of the Proposals in respect of the 2023 Notes and the implementation of the proposals set out in the Creditors' Scheme and the Members' Scheme, the completion of the Equity Subscriptions and the implementation of the Resolutions (as described above) are inter-conditional and, accordingly, the Issuer will only effect the Mandatory Cancellation of the 2023 Notes held by Retail Holders if each of the Consent Conditions set out in paragraphs (ii), (iii), (iv) and (v) above are met.

The implementation of these inter-conditional steps of the Restructuring and Recapitalisation will take place in accordance with the Restructuring Deed. The Mandatory Cancellation will occur at "Restructuring Step 8" as set out in the Restructuring Deed following the capitalisation of the Bank.

16. If the Proposals are approved at the Meeting, when will the proposed amendments to the 2023 Notes be effective?

The Bank and the Trustee will execute (i) the First Supplemental Trust Deed following the passing of the First Extraordinary Resolution at the Meeting; and (ii) the Second Supplemental Trust Deed after the Consent Conditions have been satisfied and prior to the Settlement Date, and these documents will become effective immediately upon execution. The Mandatory Cancellation of the 2023 Notes held by Retail Holders, and accordingly the completion of the Consent Solicitation, will occur on the Settlement Date which is expected to be 1 September 2017 and is expected to be the same day as the settlement of each of the Creditors' Scheme, the Members' Scheme and Equity Subscriptions.

17. What decisions do I need to take?

A Retail Holder has the following options available:

(i) vote all of its 2023 Notes in favour of or against both of the Extraordinary Resolutions to be proposed at the Meeting by submitting a valid Consent Instruction, including a valid confirmation as to its status as a Retail Holder and providing the Holder's name, address and telephone number and custodian's name (if applicable);

(ii) vote some or all of its 2023 Notes against one or both of the Extraordinary Resolutions to be proposed at the Meeting in accordance with the Meeting Provisions and, if applicable, submit a Retail Confirmation to confirm its status as a Retail Holder and providing the Holder's name, address and telephone number and custodian's name (if applicable);

(iii) abstain from voting, but confirm its status as a Retail Holder and the Holder's name, address and telephone number and custodian's name (if applicable);

(iv) submit a Retail Confirmation to confirm its status as a Retail Holder and the Holder's name, address and telephone number and custodian's name (if applicable) without voting or being counted towards the quorum; or

(v) do nothing.

A Non-Retail Holder of 2023 Notes has the following options available:

(i) (a) vote all of its 2023 Notes in favour of or against both of the Extraordinary Resolutions to be proposed at the Meeting by submitting of a valid Consent Instruction, including a valid confirmation as to its status as a Non-Retail Holder and providing the Holder's name, address and telephone number and custodian's name (if applicable), and (b) instruct to participate in the Creditors' Scheme;

(ii) vote some or all of its 2023 Notes against one or both of the Extraordinary Resolutions to be proposed at the Meeting in accordance with the Meeting Provisions and, confirm its status as a Non-Retail Holder and providing the Holder's name, address and telephone number and custodian's name (if applicable), and (b) instruct to participate in the Creditors' Scheme;

(iii) (a) abstain from voting, but confirm its status as a Non-Retail Holder; and provide the Holder's name, address and telephone number and custodian's name (if applicable), and (b) instruct to participate in the Creditors' Scheme:

(iv) (a) confirm its status as a Non-Retail Holder and provide the Holder's name, address and telephone number and custodian's name (if applicable), and (b) instruct to participate in the Creditors' Scheme; or

(v) do nothing.

Holders of the 2023 Notes should note that, if the Extraordinary Resolutions proposed at the Meeting are passed and implemented, the Extraordinary Resolutions will be binding on all Holders of 2023 Notes, whether or not present at the Meeting and whether or not voting. As at 25 July 2017, being the latest practicable date prior to publication of this Consent Solicitation Memorandum, the Consenting Holders represented 78 per cent. in aggregate principal amount of the 2023 Notes have undertaken to vote in favour of the Extraordinary Resolutions and, accordingly, the Extraordinary Resolutions are expected to be passed at the initial Meeting. For further information, see Question 2 "*Why has the Consent Solicitation been launched?*" and Question 14 *"What are the voting and quorum requirements in respect of the Meetings and the Extraordinary Resolutions?*"

Nothing in this Consent Solicitation Memorandum affects the rights of Holders to attend and vote at the Meeting in person or to make other arrangements to be represented or to vote at the Meeting in accordance with the Meeting Provisions. Holders voting at the Meeting or making such arrangements may vote in favour or against one or both of the Extraordinary Resolutions being proposed at such Meeting. However, any Retail Holders will only be eligible to receive the Retail Cash Consideration as further described herein if they attend and vote at any such Meeting or make other arrangements (other than voting via a Consent Instruction including a valid confirmation as to Retail Holder status) to be represented or to vote at the Meeting in accordance with the Meeting Provisions or if they refrain from voting, if they also submit a valid Retail Confirmation.

18. Am I eligible to participate in the Consent Solicitation?

Holders located in the United Kingdom

All Holders who are located in the United Kingdom will be eligible to participate in the Consent Solicitation.

Holders located in the United States and U.S. persons

Subject as set out below, Holders who are resident or located in the United States, or who are "U.S. persons" (as defined in this Consent Solicitation Memorandum) wherever they are located, are not eligible to participate in the Consent Solicitation.

In its absolute discretion at any time prior to the Expiration Deadline, the Bank may extend the Consent Solicitation to any U.S. person that: (i) is in a category of investors that has been approved to participate by the Bank in its absolute discretion; and (ii) has submitted or will submit a validly executed U.S. Investor Letter prior to the Expiration Deadline; and (iii) is a person to whom the Consent Solicitation can otherwise be made and that may lawfully participate in the Consent Solicitation including under U.S. securities laws.

Holders located in other countries

In countries other than the United Kingdom, whether or not Holders of Notes are able to participate in the Consent Solicitation may be restricted by law. Holders are responsible for ensuring that they inform themselves about, and comply with, any such restrictions. See "*Solicitation Restrictions*" for further information.

For the avoidance of doubt, all Holders of the 2023 Notes will be able to participate at the Meeting even if such Holders are not eligible to participate in the Consent Solicitation.

19. What are the tax consequences if I participate in the Consent Solicitation?

A general summary of certain United Kingdom tax considerations is set out herein (see "*Part 7: Tax Consequences*"). The information set out in this Consent Solicitation Memorandum does not purport to be a complete analysis of all potential tax consequences for Holders arising from the Consent Solicitation.

Holders who are in any doubt as to their tax position are urged to consult their professional advisers regarding the possible tax consequences under the laws of the jurisdictions that apply to them.

20. What are the risks associated with the Consent Solicitation?

There are a number of risks and other considerations which may be relevant to a Holder's decision whether or not to participate in the Consent Solicitation, including risks relating to the Consent Solicitation, whether the Restructuring and Recapitalisation is successful and risks relating to the Bank generally.

Holders of 2023 Notes should read carefully and consider the sections headed "*Part 6: Risk Factors Relating to the Consent Solicitation"* and *"Annex II Part 3: Risk Factors*" in this Consent Solicitation Memorandum.

21. Should I support the Consent Solicitation?

Each Holder must make its own decision whether or not to support the Consent Solicitation, and should consult its own professional advisers if it is unsure as to any action it should take. Holders' attention is drawn to the letter from Dennis Holt, the Chairman the Bank, set out in "*Part 4, Section A: Letter from the Chairman of the Bank*". In particular Holders' attention is drawn to the statement from the Board, recommending that Holders vote in favour of the Extraordinary Resolutions set out on page 66 and the consequences if the Restructuring and Recapitalisation does not succeed on pages 67 to 72.

None of the Issuer, the Solicitation Agents, the Paying Agent, the Trustee, the Information Agent or the Registrar (or, in each case, any of their respective agents, affiliates, directors, members, employees or representatives, other than the Board in the case of the Issuer) or any other person named in this document is providing any advice or recommendation to any Holder as to what action it should take in respect of the Consent Solicitation.

22. How do I participate in the Consent Solicitation and what are the key deadlines?

Holders of the 2023 Notes are referred to "*Part 8, Procedures for Participating in the Consent Solicitation*" in this Consent Solicitation Memorandum for information on how to participate in the Consent Solicitation. Holders should note that the Consent Solicitation expires at 5.00 p.m. (London Time) on 18 August 2017 (as the same may be extended, the "**Expiration Deadline**"). Holders may continue to submit Retail Confirmations up to the "Retail Confirmation Deadline" which is expected to be 10.00 a.m. (London Time) 30 August 2017, or, only if later, on the third Business Day following the date on which the sanction orders in respect of each of the Creditors' Scheme and the Members' Scheme are delivered to the Registrar of Companies (as the same may be extended, the "**Retail Confirmation Deadline**").

In addition, in order to comply with certain securities laws, Holders may continue to submit Consent Instructions up to 6.00 p.m. (New York Time) on 25 August 2017 but their votes will not be counted towards the quorum and voting thresholds, however any confirmation as to a Holder's status as either a Retail Holder or a Non-Retail Holder contained therein will still be valid. Consent Instructions must also include the Holder's name, address and telephone number and custodian's name (if applicable).

Holders should refer to "*Part 1: Indicative Timeline*" on page 9 and Question 17 "*What decisions do I need to take?*" above for further information with respect to the applicable deadlines and the options available to them.

Holders who hold their 2023 Notes through a custodian, broker or other financial intermediary are urged to contact that intermediary as a matter of priority to discuss their arrangements and to determine what instructions that intermediary will require in order for the relevant Holder to participate in the Consent Solicitation.

23. How do I participate in the Creditors' Scheme?

Scheme Creditors (which includes Non-Retail Holders of the 2023 Notes) should not use or rely on this Consent Solicitation Memorandum for the purposes of considering the Creditors' Scheme; instead they should refer to the Creditors' Scheme Circular prepared in connection with the Creditors' Scheme. Recipients of this Consent Solicitation Memorandum, including Holders, are authorised solely to use it for the purpose of considering the terms of this Consent Solicitation and may not use any information herein for any other purpose.

The Creditors' Scheme is subject to certain restrictions, as fully set out in the Creditors' Scheme Circular.

A summary of the Creditors' Scheme can be found in paragraph 5 of "*Part 4, Section A: Letter from the Chairman of the Bank*".

24. How do I participate in the Members' Scheme?

Holders should not use or rely on this Consent Solicitation Memorandum for the purposes of considering the Members' Scheme; instead they should refer to the Shareholder Circular prepared in connection with, amongst other things, the Members' Scheme. Recipients of this Consent Solicitation Memorandum, including Holders, are authorised solely to use it for the purpose of considering the terms of this Consent Solicitation and may not use any information herein for any other purpose.

The Members' Scheme is subject to certain restrictions, as fully set out in the Shareholder Circular.

A summary of the Members' Scheme can be found in paragraph 5 of "*Part 4, Section A: Letter from the Chairman of the Bank*".

25. What next?

Holders should read the rest of this Consent Solicitation Memorandum carefully. It contains detailed information on the Consent Solicitation and the Proposals to help you make your decision.

26. Where can I obtain the relevant documents?

This Consent Solicitation Memorandum, the current drafts of the Supplemental Trust Deeds and the Deed Poll, the Lock-Up Agreement and the Restructuring Deed will be made available to Holders on the Bank's website at: www.co-operativebank.co.uk/retailnoteholders.

This Consent Solicitation Memorandum may also be obtained from the Information Agent who can be contacted at the telephone number and address set out in Question 27 "*Where can I find further information about the Consent Solicitation?*" below.

Copies of (i) the Trust Deed; and (ii) the current drafts of the Supplemental Trust Deeds and the Deed Poll, as referred to in the Extraordinary Resolutions, are also available for inspection by Holders (a) on and from the date of this Consent Solicitation Memorandum up to and including the date of the Meeting, at the specified offices of the Information Agent during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) and (b) at the Meeting and at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ for 15 minutes before the Meeting.

27. Where can I find further information about the Consent Solicitation?

Holders should read this Consent Solicitation Memorandum which contains all information relating to the Consent Solicitation.

Certain information relating to the Consent Solicitation is also available to Holders on the Bank's website at: www.co-operativebank.co.uk/retailnoteholders.

Questions of a practical nature regarding how to participate in the Consent Solicitation should be directed to the Information Agent at the following contact details (in particular, Retail Holders of the 2023 Notes should contact the Information Agent using the "0300" telephone number set out below):

Lucid Issuer Services Limited
Tankerton Works
12 Argyle Walk
London WC1H 8HA

Telephone (from outside the UK): +44 20 7704 0880
Fax: +44 20 3004 1590
Attention: David Shilson/Sunjeeve Patel
Email: co-op@lucid-is.com

Holders of the 2023 Notes who are not Registered Holders (as defined herein) should contact Lucid as Information Agent on the following telephone number: 0300 303 3491

The "0300" line is open from 8.30 a.m. to 5.30 p.m. (London Time) Monday to Friday (except UK public holidays). Calls may be recorded and randomly monitored for security and training purposes. Please note that the telephone operators cannot provide advice on the merits of the 2023 Notes Consent Solicitation or any part of it, nor can they give financial, tax, investment or legal advice.

Registered Holders of the 2023 Notes should contact Computershare as Registrar for the 2023 Notes, at the following contact details:

Computershare Investor Services PLC
Corporation Actions Projects
Bristol BS99 6AH
United Kingdom
Telephone: 0370 889 3293

Lines are open from 8.30 a.m. to 5.30 p.m. (London Time) Monday to Friday (except UK public holidays). Calls may be recorded and randomly monitored for security and training purposes. Please note that the telephone operators cannot provide advice on the merits of the Consent Solicitation or any part of it, nor can they give financial, tax, investment or legal advice.

Questions from Holders of the 2023 Notes other than Retail Holders of the 2023 Notes about the terms of the Consent Solicitation can be directed to the Solicitation Agents at the following contact details:

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
United Kingdom
Telephone: +44 20 7996 5420
Attention: Liability Management Group
Email: DG.LM_EMEA@baml.com

UBS Limited
5 Broadgate
London EC2M 2QS
United Kingdom
Telephone: +44 20 7568 2133
Attention: EMEA Liability Management Group
Email: ol-liabilitymangement-eu@ubs.com

Any investor who does not fully understand any part of the Consent Solicitation relevant to it, or any of the information relating to the relevant part of the Consent Solicitation as set out in this Consent Solicitation Memorandum should seek independent advice from such financial, legal, tax and/or other professional advisers as it considers appropriate.

Amendments and Supplements

The Bank may amend or supplement this Consent Solicitation Memorandum at any time to add, update or change the information contained herein. You should read this Consent Solicitation Memorandum and any amendment or supplement to it, together with the documents incorporated by reference herein and the additional information described under "*Annex II Part 6: The Bank's Historical Financial Information*".

Use of defined terms in this Consent Solicitation Memorandum

Capitalised terms used in this Consent Solicitation Memorandum have the meanings given in "*Part 3: Definitions and Glossary*" of this Consent Solicitation Memorandum.

Certain terms used in Annex II of this Consent Solicitation Memorandum, including capitalised terms and certain technical and other terms, are defined and explained in "*Annex II Part 19: Definitions*".

PART 3

DEFINITIONS

Capitalised terms used but not defined in this Consent Solicitation Memorandum shall, unless the context otherwise requires, have the meanings set out in the Conditions.

2023 Notes	The Bank's £206,000,000 11% Subordinated Notes due 2023 (ISIN: GB00BFXW0853).
2025 Notes	The Bank's £250,000,000 Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2025 (ISIN: XS1249403541).
A Share	A class A ordinary share of £0.0001 in the capital of Holdco.
Accredited Investor	An "accredited investor" as defined in Regulation D of the Securities Act.
Accrued Interest	Interest accrued on the aggregate principal amount of the 2023 Notes that are subject to the Mandatory Cancellation, for the period from (and including) 20 June 2017 to (but excluding) 31 July 2017 amounting to £0.1226 per £10 in principal amount of the 2023 Notes which will be paid in cash and rounded to the nearest £0.01.
Ad-Hoc Committee	The informal committee of holders of the 2023 Notes and 2025 Notes formed for the purpose of negotiating the terms of the Restructuring and Recapitalisation with the Issuer.
Adjourned Meeting	Any Meeting which needs to be convened due to the required quorum not being met at an earlier Meeting. Such Adjourned Meeting will be held not less than 14 days nor more than 42 days after the related Meeting.
Advisers	Advisers are: (a) Clifford Chance LLP; (b) Paul Hasting (Europe) LLP and any other adviser retained to advise the Principal Investors via Paul Hastings (Europe) LLP; (c) Houlihan Lokey EMEA, LLP; (d) PJT Partners Inc; (e) UBS Limited; (f) Merrill Lynch International; (g) Linklaters LLP; and (h) Grant Thornton UK LLP, and any of their directors, partners, employees and Affiliates.
Affiliate	In respect of any other person or entity: (a) a Subsidiary of that person or entity or a Holding Company of that person or entity or any other Subsidiary of such a Holding Company; and (b) any Affiliated Entities of any of the persons or entities referred to in sub-paragraph (a) above.
Affiliated Entities	a) In relation to a fund (the "**first fund**"), (i) a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, (ii) if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an associate of the investment

manager or investment adviser of the first fund or which is a co-investment vehicle under common control with the first fund; and (b) in relation to any other person, a fund which is managed or advised by such person or any of its associates.

Articles of Association — The articles of association of the Bank adopted on 15 November 2013.

Bank — The Co-operative Bank p.l.c., a company incorporated in England and Wales (registered number 00990937), whose registered office is at P.O. Box 101, 1 Balloon Street, Manchester M60 4EP.

Beneficial Owner — A person who is the owner of (i) an interest in a particular principal amount of 2023 Notes held in a Clearing System, as shown in the records of the relevant Clearing System or its Direct Participants, or (ii) a 2023 Note in certificated form held outside the Clearing Systems.

Board — The Board of directors from time to time of the Bank.

Business Day — A day other than a Saturday or Sunday or a public holiday in England and Wales.

Certificated Holding Consent Instruction — The form of Consent Instruction to be submitted by Eligible Holders who hold 2023 Notes in certificated form outside the Clearing Systems and who wish to vote in favour of or against the Proposals.

Chairman — The appointed Chairman at any Meeting.

Clearing System Notice — The relevant notice to be sent to Direct Participants (or, if applicable, CREST Participants) by each Clearing System on or about the date of this Consent Solicitation Memorandum informing Direct Participants (or, where applicable, CREST Participants), *inter alia*, of the procedures to be followed in order to participate in the Consent Solicitation.

Clearing Systems — Euroclear, Clearstream, Luxembourg and CREST (and each a "**Clearing System**").

Clearstream, Luxembourg — Clearstream Banking S.A.

Common Equity Tier 1 capital or **CET1** — Is as defined in accordance with the Capital Requirements Regulation (Regulation (EU) 575/2013).

Completion — The completion of the Restructuring and Recapitalisation in accordance with the terms of the Restructuring Deed.

Completion Time — The time at which the last of the Restructuring Steps (as defined in the Restructuring Deed) is completed.

Companies Act — The Companies Act 2006, including any statutory modification or re-enactment thereof.

Conditions — The terms and conditions of the 2023 Notes as endorsed on the form of certificated note in Schedule 1 to the Trust Deed.

Consent Conditions — The following conditions which must be satisfied in order for the Mandatory Cancellation of the 2023 Notes of Retail Holders to occur:

(i) the passing of both Extraordinary Resolutions in respect of the 2023 Notes by the Holders of the 2023 Notes, and the

satisfaction of the Eligibility Condition relating to the Second Extraordinary Resolution in respect of the 2023 Notes;

(ii) (A) the Creditors' Scheme being approved by the requisite majority of the Scheme Creditors at the Creditors' Scheme Court Meeting and sanctioned by the Court; (B) an office copy of the sanction order being lodged with the Registrar of Companies; and (C) the Creditors' Scheme becoming unconditional in accordance with its terms;

(iii) (A) the Members' Scheme being approved by the requisite majority of the Members at the Members' Scheme Court Meeting and sanctioned by the Court; (B) an office copy of the sanction order being lodged with the Registrar of Companies; and (C) the Members' Scheme becoming unconditional in accordance with its terms;

(iv) completion of the Equity Subscriptions; and

(v) the passing of the Resolutions at the General Meeting.

Consent Instruction

An instruction by which an Eligible Holder may participate in the Consent Solicitation on the terms set out herein, which shall include a vote in respect of both the First Extraordinary Resolution and the Second Extraordinary Resolution, and shall more particularly mean:

(i) in respect of 2023 Notes held through Euroclear and Clearstream, Luxembourg, the electronic instruction to be submitted by a Direct Participant to the Information Agent through such Clearing System, in the form described in the relevant Clearing System Notice;

(ii) in respect of 2023 Notes held through CREST, the submission of a TTE Instruction in respect of the Holder's 2023 Notes, specifying the Registrar as escrow agent; or

(iii) in respect of 2023 Notes held in certificated form outside the Clearing Systems, the Certificated Holding Consent Instruction.

Consent Solicitation

The invitation by the Issuer to Eligible Holders to consent to the approval of the Extraordinary Resolutions on the terms described in this Consent Solicitation Memorandum.

Consent Solicitation Memorandum

This Consent Solicitation Memorandum.

Consenting Holder

Has the meaning given in "*Part 4, Section A: Letter from the Chairman of the Bank*".

Co-operative Group

The Co-operative Group Limited or Co-operative Group Limited and its subsidiary undertakings, as the context requires.

Court

The High Court of Justice of England and Wales.

Creditors' Scheme

The Scheme of Arrangement under Part 26 of the Companies Act between the Bank and the Scheme Creditors dated on or around the date hereof.

Creditors' Scheme Circular	The document dated 28 July 2017 containing, amongst other things, the Creditors' Scheme and the explanatory statement prepared in connection with the Creditors' Scheme in accordance with section 899 of the Companies Act.
Creditors' Scheme Court Meeting	The meeting convened for the Non-Retail Holders of the 2023 Notes and holders of the 2025 Notes to vote on the Creditors' Scheme.
CREST	The relevant system (as defined in the CREST Regulations) in respect of which EUI is the operator (as defined in the CREST Regulations).
CREST Manual	The rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedure and CREST Glossary of Terms (all as defined in the CREST Glossary of Terms).
CREST Participant	A person who is, in relation to CREST, a system-participant (as defined in the CREST Regulations).
CREST Regulations	The Companies Act 1996 (Uncertificated Securities) Regulations 1996 (S.I. No 68/1996) and the UK Uncertificated Securities Regulations 2001 (SI 2001 No. 2001/3755), including any modifications thereof or any regulations in substitution therefor and for the time being in force.
Deed Poll	The Deed Poll to be executed by the Trustee at the time of the execution of the Second Supplemental Trust Deed if the Second Extraordinary Resolution is passed in respect of the 2023 Notes, in respect of the waivers and releases referred to in the Second Extraordinary Resolution set out in the Notice of Meeting.
Director	A director of the Bank from time to time.
Direct Participant	Each person who is shown in the records of Euroclear or Clearstream, Luxembourg as a Holder of an interest in the 2023 Notes, or a CREST Participant, as the context requires.
Eligibility Condition	The quorum required for, and the requisite majority of votes cast at, the Meeting in respect of the Second Extraordinary Resolution, being reached by Eligible Holders, irrespective of any participation at the Meeting by Ineligible Holders (and which would also have been so reached if any Ineligible Holders who provided confirmation of their status as Ineligible Holders and waived their right to attend and vote (or be represented) at the Meeting had actually participated at the Meeting) including (if applicable) the satisfaction of such condition at an Adjourned Meeting.
Eligible Holder	A Holder that is eligible to participate in the Consent Solicitation on the basis that such Holder (a) is not a U.S. person; or (b) is a person to whom the Consent Solicitation can otherwise lawfully be made and that may lawfully participate in the Consent Solicitation (see "*Solicitation Restrictions*"). In its absolute discretion at any time prior to the Expiration Deadline, the Bank may extend the definition of "Eligible Holder" to also include any U.S. person that: (i) is in a category of investors that has been approved to participate by the

	Bank in its absolute discretion; and (ii) has submitted or will submit a validly executed U.S. Investor Letter prior to the Expiration Deadline; and (iii) is a person to who the Consent Solicitation can otherwise be made and that may lawfully participate in the Consent Solicitation including under U.S. securities laws. "**Holder**" shall be construed accordingly unless the context otherwise admits.
Entitlements Record Date	The date of the General Meeting, expected to be 21 August 2017 (or, if later, any date to which it is adjourned).
Equity Subscriptions	The Members' Equity Subscription and the Scheme Creditors' Equity Subscription.
ESA Instruction	An escrow account adjustment input (AESN), transaction type "ESA" (as described in the CREST Manual).
EUI	Euroclear UK & Ireland Limited (previously CRESTCo Limited).
Euroclear	Euroclear Bank S.A./N.V.
Event of Default	Means any of the conditions, events or acts provided in Condition 9 of the 2023 Notes to be events upon the happening of which the Notes would, subject only to notice by the Trustee as then provided, become immediately due and repayable.
Expiration Deadline	5.00 p.m. (London Time) on 18 August 2017 (subject to the right of the Bank to amend such date upon notice to Holders).
Extraordinary Resolution(s)	The First Extraordinary Resolution and Second Extraordinary Resolution, individually or taken together, as the context requires, in each case to be proposed at the Meeting of Holders as set out in the Notice of Meeting, the form of which is set out in Annex I hereto. The Second Extraordinary Resolution shall be conditional on the passing and implementation of the First Extraordinary Resolution.
First Extraordinary Resolution	The first extraordinary resolution to be proposed at the Meeting as set out in the Notice of Meeting, the form of which is in Annex I.
First Supplemental Trust Deed	The first supplement to the Trust Deed to be executed at the Meeting if the First Extraordinary Resolution (as set out in the Notice of Meeting) is passed at the Meeting.
General Meeting	The general meeting of the Bank scheduled to take place at 9.30 a.m. on 21 August 2017 at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ (and any adjournment thereof) in connection with the Restructuring and Recapitalisation.
HMRC	HM Revenue & Customs.
Holdco	Balloon Street Holdings Limited, a company incorporated in England and Wales (registered number 10865342), whose registered office is at P.O. Box 101, 1 Balloon Street, Manchester M60 4EP, which at completion of the Restructuring and Recapitalisation will be the new holding company of the Bank.
Holder	A Holder of 2023 Notes which shall, unless the context otherwise requires, include: (i) each Direct Participant or CREST Participant in respect of the 2023 Notes;

	(ii) any broker, dealer, commercial bank, trust company, custodian or other nominee or intermediary who holds 2023 Notes on behalf of a Beneficial Owner; and (iii) each Beneficial Owner of the 2023 Notes, including holders who hold their 2023 Notes in certificated form outside the Clearing Systems and Holders who hold beneficial interests in Notes through a Clearing System or another intermediary.
Holding Company	In relation to a person or entity, any other person or entity in respect of which it is a Subsidiary.
Ineligible Holder	A Holder that is not eligible to participate in the 2023 Notes Consent Solicitation on the basis that such Holder is not an Eligible Holder.
Information Agent	Lucid Issuer Services Limited.
Initial Backstop Provider	Is as defined in the backstop agreement dated 14 July 2017 and made between the Issuer, Holdco, the Escrow Agent and the Backstop Providers (each as defined therein).
Investor Presentation	The investor presentation given to investors by the Bank on 9 March 2017 and prepared in conjunction with the announcement of the Bank's 2016 results.
Issuer	The Co-operative Bank p.l.c., a company incorporated in England and Wales (registered number 00990937), whose registered office is at P.O. Box 101, 1 Balloon Street, Manchester M60 4EP.
Launch Date	28 July 2017.
Lock-Up Agreement	The lock-up and support agreement dated 28 June 2017 between the Bank and the Principal Investors.
Mandatory Cancellation	The mandatory cancellation of the 2023 Notes of Retail Holders pursuant to the new Condition 6.7 to be inserted into the Conditions of the 2023 Notes, as set out in the Second Extraordinary Resolution, in consideration of which the Retail Cash Consideration (subject (in aggregate) to the Maximum Cash Amount) will be paid to Retail Holders.
Maximum Cash Amount	The cap of £13,500,000 on the aggregate cash amount to be paid in respect of the Retail Cash Consideration to all Retail Holders in respect of their 2023 Notes pursuant to the Mandatory Cancellation.
May 2017 Outlook on the Plan	Has the meaning given in paragraph 2 of "*Part 4, Section A: Letter from the Chairman of the Bank*".
Meeting	The Meeting convened for the Holders of the 2023 Notes to vote on the Extraordinary Resolutions proposed at such Meeting (and, if such Meeting is adjourned, shall include the Adjourned Meeting).
Meeting Provisions	The provisions for the meetings of Holders set out in Schedule 3 to the Trust Deed, and as described in the Notice of Meeting.
Members' Equity Subscription	The entitlement of Qualifying Shareholders (as defined in *Annex II Part 19: Definitions*) to subscribe in aggregate for such number of Subscription Shares (as defined in *Annex II Part 19: Definitions*) as represent 3.3785 per cent. of the total number of fully-diluted issued

	A Shares as at Completion for an aggregate net cash consideration of £12.5 million.
Members' Scheme	The Scheme of Arrangement under Part 26 of the Companies Act between the Bank and the Shareholders and dated on or around the date hereof.
Members' Scheme Court Meeting	The meeting convened for Shareholders to vote on the Members' Scheme.
Non-Retail Holder	A Holder that is not a Retail Holder.
Note Claims	All the rights, title and interest to and claims against the Issuer or the Trustee arising out of or in connection with the 2023 Notes.
Notice of Meeting	The notice convening the Meeting, the form of which is set out in Annex I hereto.
Notifying News Service	A recognised financial news service or services as selected by the Bank (e.g. Reuters/Bloomberg).
Official List	The Official List maintained by the Financial Conduct Authority.
Optimum	The Optimum closed book mortgage portfolio, as further described in "*Annex II Part 3: Risk Factors*".
Ordinary Shares	Means an ordinary share in the capital of the Bank (with a nominal value of £0.05 each).
Paying Agent	Computershare Investor Services PLC in its capacity as Paying Agent in respect of the 2023 Notes.
Plan	Has the meaning given to such term in paragraph 2 of "*Part 4, Section A: Letter from the Chairman of the Bank*".
PRA	Prudential Regulation Authority.
PRA Consent	The PRA's consent under Articles 77 and 78(1) of the CRR for the Bank to cancel the 2023 Notes.
Principal Investors	The funds managed and/or advised by Anchorage Capital Group L.L.C, BlueMountain Capital Management, LLC, Cyrus Capital Partners L.P., GoldenTree Asset Management L.P. and Silver Point Capital, L.P.
Proposals	The proposals that the Issuer is inviting Eligible Holders of 2023 Notes to approve by way of Extraordinary Resolutions at the Meeting, including to: (i) assent to and sanction the modification to the Conditions of the 2023 Notes to insert a mandatory cancellation condition pursuant to which the 2023 Notes held by Retail Holders shall (subject to PRA Consent) be irrevocably cancelled and the rights, liabilities and obligations thereunder released in consideration of the payment of the Retail Cash Consideration to those Retail Holders (subject (in aggregate) to the Maximum Cash Amount); (ii) waive any and all Events of Default, Potential Events of Default and any other breach of the Conditions of the 2023 Notes or the Trust Deed (in each case, if any) that have been,

are or may be, triggered by or in connection with the Restructuring and Recapitalisation;

(iii) assent to and sanction the extension of the powers of a meeting of Holders under the Trust Deed in order to allow for the assent and sanction of the releases and waivers referred to in (iv) below; and

(iv) assent to and sanction, to the fullest extent permitted by law:

(a) subject to certain conditions, the irrevocable and unconditional, full and final waiver and release and forever discharge from the Settlement Date (x) all Note Claims; and (y) any and all actions, proceedings, claims, damages, counterclaims, complaints, liabilities, liens, rights, demands and set-offs, whether in this jurisdiction or any other, of whatsoever nature and howsoever arising, whether in law or in equity, in contract (including but not limited to breaches or non-performances of contract), statute or in tort (including but not limited to negligence and misrepresentation), breaches of statutory duty, for contribution, or for interest and/or costs and/or disbursements, whether filed or unfiled, whether or not presently known to the parties or to the law, all claims that each Holder ever had, may have or hereafter can, shall or may have against any Relevant Person in relation to or arising out of or in connection with:

(i) the preparation, negotiation or implementation of the Consent Solicitation and the Creditors' Scheme (including, but not limited to, the Restructuring Deed and Restructuring Implementation Documents); and/or

(ii) the preparation, negotiation or implementation of the Restructuring and Recapitalisation; and/or

(iii) any event or circumstance arising in the period from 1 January 2016 to the Completion Time which caused or, contributed to, directly or indirectly the requirement for the Restructuring and Recapitalisation;

(b) that Relevant Persons may enforce the agreement of each Holder to release liabilities and waive its rights and entitlements, as described in (a) above, subject to and in accordance with the provisions of the Contracts (Rights of Third Parties) Act 1999; and

(c) the modification, abrogation, compromise or arrangement in respect of its rights against the Relevant Persons necessary to give effect to the foregoing provisions of this paragraph (iv),

all as more fully set out in the "*Form of Notice of Meeting*" in Annex I hereto.

Prospectus Directive — Directive 2003/71/EC (and any amendments thereto) and includes any relevant implementing measure in the Relevant Member State.

Potential Events of Default	Means any condition, event, act or circumstance which, with the lapse of time and/or the issue, making or giving of any notice or certification of the fulfilment of any condition would constitute an Event of Default.
QIB	A "qualified institutional buyer" as defined in Rule 144A of the Securities Act.
Registered Holder	A Holder who holds their 2023 Notes in certificated form.
Registrar	Computershare Investor Services PLC in its capacity as registrar and tabulation agent in respect of the 2023 Notes.
Regulation S	Regulation S under the Securities Act.
Related Party Transactions	The arrangements with the Co-operative Group described in paragraph 11 of "*Part 4, Section A: Letter from the Chairman of the Bank*", the arrangements with GoldenTree Asset Management LP described in paragraph 11 of "*Part 4, Section A: Letter from the Chairman of the Bank*", and the arrangements with Silver Point Capital, LP described in paragraph 11 of "*Part 4, Section A: Letter from the Chairman of the Bank*".
Relevant Persons	Each of the Issuer and each of its Affiliates (together, the "**Bank Group**"), Holdco, any director, officer or employee of the Issuer, Holdco or any member of the Bank Group (in each case, (A) in respect of an employee, who is, on the Settlement Date, employed; or (B) in respect of an officer or director, who is, as at the date hereof, employed or holding office or was at any time, during the period from (and including) 13 February 2017 to the date hereof, employed or held office) the Co-operative Group Limited, each of its current directors, officers, employees and advisers and each of its Affiliates, Lucid Issuer Services Limited, PACE Trustees Limited, (trustee of the Co-operative Bank Pension Scheme), the Trustee, Computershare Investor Services PLC, the Advisers, the members of the Ad-Hoc Committee, the Initial Backstop Providers or any of their Affiliates.
Resolutions	The resolutions to be proposed at the General Meeting.
Restructuring Deed	The restructuring deed in the form appended to, and which forms a part of, each of the Creditors' Scheme and the Members Scheme.
Restructuring and Recapitalisation	The corporate and financial restructuring and recapitalisation of the Bank as defined in "*Part 4, Section A: Letter from the Chairman of the Bank*".
Restructuring Implementation Documents	The documents listed in Schedule 1 of the Restructuring Deed.
Retail Cash Consideration	The cash amount that is payable on the Settlement Date (separate from the Accrued Interest payment) pursuant to the Mandatory Cancellation to Retail Holders in respect of their 2023 Notes, such cash amount being subject (in aggregate) to the Maximum Cash Amount and, accordingly, shall be the lesser of: (i) £4.50 per £10 in principal amount of 2023 Notes; and (ii) the amount (rounded to the nearest £0.01) per £10 in principal amount of 2023 Notes calculated by (a) dividing the Maximum Cash Amount by the aggregate principal amount of

2023 Notes that will be subject to the Mandatory Cancellation, and (b) multiplying the resultant figure by 10.

The amount to be paid to each Retail Holder in respect thereof shall be calculated by the Registrar as further described in this Consent Solicitation Memorandum.

Retail Confirmation

An instruction by which a Holder may confirm its status as a Retail Holder, which must be made by the submission of:

(i) in respect of 2023 Notes held through Euroclear and Clearstream, Luxembourg, an electronic instruction to be submitted by a Direct Participant to the Information Agent through such Clearing System, in the form described in the relevant Clearing System Notice;

(ii) in respect of 2023 Notes held through CREST, a TTE Instruction in respect of the Holder's 2023 Notes, specifying the Registrar as escrow agent; or

(iii) in respect of 2023 Notes held in certificated form outside the Clearing Systems, a Certificated Holding Consent Instruction or Retail Confirmation; and

must include the Holder's name, address and telephone number and custodian's name (if applicable).

Retail Confirmation Deadline

Expected to be 10.00 a.m. (London Time) on 30 August 2017, or, only if later, on the third Business Day following the date on which the sanction order in respect of the Creditors' Scheme is delivered to the Registrar of Companies (subject to the right of the Bank to amend such date upon notice to Holders).

Retail Holder

A Retail Holder is a Holder;

(A) who as at 5.00 p.m. (London Time) on the Retail Record Date satisfied and, at 6.00 p.m. (London Time) on the Entitlements Record Date will continue to satisfy, the following conditions:

  (i) it is an individual person;

  (ii) it is the Beneficial Owner of less than £100,000 in aggregate principal amount of 2023 Notes;

  (iii) (a) if it is resident in the United States, it is not an Accredited Investor, or (b) if it is not resident in the United States, it is not a "qualified investor" as defined in the Prospectus Directive;

  (iv) it is not a Sanctions Restricted Person; and

(B) who (i) has validly confirmed the matters set out in paragraph (A) above in accordance with the procedures set out in this Consent Solicitation Memorandum; or (ii) has been assessed, on reasonable enquiry, by the Bank to satisfy the criteria set out in paragraph (A) above, (which assessment shall be conclusive and binding) on or prior to the Retail Confirmation Deadline.

Retail Record Date

27 June 2017.

RNS

Regulatory News Service operated by the London Stock Exchange.

Sanctions Authority	Means: (i) the United States government; (ii) the United Nations; (iii) the European Union (or any of its member states including, without limitation, the United Kingdom); (iv) any other equivalent governmental or regulatory authority, institution or agency which administers economic, financial or trade sanctions; or (v) the respective governmental institutions and agencies of any of the foregoing including, without limitation, the Office of Foreign Assets Control of the US Department of the Treasury, the United States Department of State, the United States Department of Commerce and Her Majesty's Treasury.
Sanctions Restricted Person	Each Person or entity (a "**Person**"): (i) that is, or is directly or indirectly owned or controlled by a Person that is, described or designated in (a) the most current "Specially Designated Nationals and Blocked Persons" list (which as of the date hereof can be found at: https://www.treasury.gov/ofac/downloads/sdnlist.pdf) or (b) the most current "Foreign Sanctions Evaders List" (which as of the date hereof can be found at https://www.treasury.gov/ofac/ downloads/fse/fselist.pdf) or (c) the most current "Consolidated list of persons, groups and entities subject to EU financial sanctions" (which as of the date hereof can be found at: https://data.europa.eu/euodp/en/data/dataset/consolidated-list-of-persons-groups-and-entities-subject-to-eu-financial-sanctions); or (ii) that is otherwise the subject of any sanctions administered or enforced by any Sanctions Authority, other than solely by virtue of their inclusion in: (a) the most current "Sectoral Sanctions Identifications" list (which as of the date hereof can be found at https://www.treasury.gov/ofac/downloads/ ssi/ssilist.pdf) (the "**SSI List**"), (b) Annexes 3, 4, 5 and 6 of Council Regulation No. 833/2014, as amended by Council Regulation No. 960/2014 (the "**EU Annexes**") or (c) any other list maintained by a Sanctions Authority, with similar effect to the SSI List or the EU Annexes.
Scheme Creditors	Holders of the 2025 Notes and Non-Retail Holders of the 2023 Notes.
Second Extraordinary Resolution	The second extraordinary resolution to be proposed at the Meeting as set out in the Notice of Meeting, the form of which is in Annex I.
Second Supplemental Trust Deed	The second supplement to the Trust Deed to be executed after the Consent Conditions have been satisfied and prior to the Settlement Date.
Securities Act	The United States Securities Act of 1933, as amended.

Settlement Date	The date on which the Restructuring and Recapitalisation is completed, as determined in accordance with the Restructuring Deed.
Shareholder	A holder of an Ordinary Share.
Shareholder Circular	The shareholder circular dated 28 July 2017 prepared in connection with the Members' Scheme, the Equity Subscriptions and the Resolutions to be proposed at the General Meeting.
Solicitation Agents	Merrill Lynch International and UBS Limited (and each a "**Solicitation Agent**").
Solicitation Restrictions	The solicitation restrictions set out in this Consent Solicitation Memorandum (see "*Solicitation Restrictions*").
Subordinated Noteholders	Holders of the 2023 Notes and holders of the 2025 Notes.
Subsidiary	Has the meaning given to that term in section 1159 of the Companies Act 2006.
Supplemental Trust Deeds	The First Supplemental Trust Deed and the Second Supplemental Trust Deed.
Trust Deed	The trust deed constituting the 2023 Notes dated 20 December 2013 made between the Bank and the Trustee.
Trustee	Law Debenture Trustees Limited as trustee in respect of the 2023 Notes.
TTE Instruction	The "transfer to escrow" instruction pursuant to which CREST Participants may submit Consent Instructions or Retail Confirmations in respect of 2023 Notes held in CREST pursuant to the terms of the Consent Solicitation.
UK Corporate Governance Code	The UK Corporate Governance Code published by the Financial Reporting Council.
United Kingdom or **UK**	United Kingdom of Great Britain and Northern Ireland.
U.S. Investor Letter	A letter furnished to the Bank by an Eligible Holder in connection with their submission of a Consent Instruction containing certain representations and warranties, including representations and warranties required under U.S. securities laws.
U.S. person	A "U.S. person" as defined in Regulation S under the Securities Act.

PART 4

Capitalised terms used but not defined in this Part 4 shall, unless the context otherwise requires, have the meanings set out in "*Annex II: Part 19: Definitions*" of this Consent Solicitation Memorandum.

SECTION A: LETTER FROM THE CHAIRMAN OF THE BANK

The co-operative bank

(incorporated in England and Wales under the Companies Act 2006, as amended and restated, with registered number 00990937)

Registered office:
1 Balloon Street
Manchester
M60 4EP

28 July 2017

Dear 2023 Noteholders

I am writing to you to explain the proposed restructuring and recapitalisation of the Bank announced by it on 14 July 2017.

1. PROGRESS MADE SINCE 2013

Since 2013, considerable progress has been made in delivering a more resilient, focused and digitally-enabled bank, differentiated in the market by its Values & Ethics, strong customer service and a consistently loyal customer base. This progress includes:

- successfully re-launching a current account proposition, Everyday Rewards, in 2016, which has contributed to a stable current account base. High levels of customer satisfaction have been maintained, evidenced by a current account NPS (as defined in Annex II Part 19 of this Consent Solicitation Memorandum) of +20 at the end of March 2017, ranking the Bank third in the UK current account retail banking market;

- continued investment in a differentiated brand and being recognised as the most improved brand by YouGov in 2015, successfully built on the refreshed Values & Ethics policy re-launched by the Bank in 2015 which sought greater involvement from customers as well as non-profit organisations;

- a 22 per cent. reduction in the Bank's cost base over the three years ended 31 December 2016 and the development of an ongoing cost reduction programme expected by the Bank to deliver further savings. In addition, the Bank has delivered a comprehensive remediation programme which has identified and substantially addressed a broad range of historical conduct issues, including PPI;

- substantially improving the Bank's overall IT resilience and stability since 2013, with stronger end-to-end disaster recovery capability as the Bank successfully completed the migration of its mainframe-based core banking systems to IBM during February 2017, resulting in the remediation of non-compliance with an FCA threshold condition in relation to the recoverability of the Bank's IT systems;

- delivery of a successful digital transformation, including the migration of approximately 600,000 "smile" and Bank customers to a new platform in 2016;

- a managed reduction in liquidity with £3.8 billion of primary liquidity as at 31 December 2016 compared to £7.0 billion as at 31 December 2013;

- delivery of a significantly de-risked balance sheet with £8.5 billion of the Bank's Non-core portfolio assets having been sold between 31 December 2013 and 31 December 2016 in an orderly manner; and
- implementation of enhanced levels of governance across the Bank, including a strongly engaged Board and the ongoing implementation of a risk management framework.

Importantly, the Bank's strong brand, reputation for excellence in customer service, simple product range, and multi-channel approach (including digital) serves approximately 4 million UK customers which the Bank believes is clear evidence of a place for ethically-led banking in the UK.

However, although the Bank meets its minimum Pillar 1 regulatory capital requirements and expects to continue to do so (based on the Bank's own economic assumptions), the combination of the statutory and operating losses incurred by the Bank since 2012 and the upcoming maturity of the £400,000,000 5.125 per cent. notes due 20 September 2017 issued by The Co-operative Bank p.l.c. pursuant to its £3,000,000,000 Euro Note Programme (the "**Senior Notes**"), means that the Bank needs to build its capital in advance of this debt maturing in order to move towards meeting current and longer-term UK bank regulatory capital requirements, including enhanced regulatory capital requirements expected of all UK banks, such as MREL. The Bank's ability to generate capital and loss absorbing capacity organically has been constrained by: (i) the impact of interest rates that are and have been lower than previously forecast, reducing the Bank's ability to generate income; and (ii) higher than anticipated transformation and conduct redress and remediation costs.

To meet these current and longer-term capital and loss absorbing capacity requirements and move to a financially-sustainable future for the Bank such that its long history and unique ethically-led position in UK banking is secure, the Bank strongly believes the proposed Restructuring and Recapitalisation is required and is a key step to delivering the Plan and, where applicable, the May 2017 Outlook on the Plan (each as described in paragraph 2 below).

For a description of the Bank's current trading, see paragraph 7 of Annex II Part 7 of this Consent Solicitation Memorandum.

2. THE BANK'S STRATEGY

The Bank's strategy aims to give effect to the Bank's vision of becoming an efficient, financially-sustainable and capital-resilient UK bank focused on retail and SME customers, differentiated by an ethically-led brand and a customer-centric proposition.

The Bank's strategy is focused on: (i) offering a differentiated proposition and serving a loyal customer base; (ii) offering a choice of distribution channels; (iii) offering a customer-centric product range; and (iv) delivering a reduced operating cost base to improve organic capital generation.

The Bank's five-year strategic business plan covering the period from 2017 to 2021 (the "**Plan**"), which was adopted on 13 February 2017 as part of its annual planning review, reflected the Bank's strategy.

The key financial pillars of the Plan, as adopted, included: (i) returning the Bank to profitability; (ii) increasing the Bank's CET1 capital ratio to meet the Tier 1 component of its ICG (as such term is defined in paragraph 4 below) by 31 December 2017; (iii) meeting its ICG in 2018; (iv) delivering MREL compliance (based on the Bank's own internal assessment), starting in 2018 (excluding PRA Buffer, meaning that the Bank meets its MREL (as such term is defined in paragraph 4 below) by including CET1 capital counted towards its PRA Buffer) and 2019 (inclusive of its PRA Buffer, meaning that the Bank meets its MREL without including CET1 capital counted towards its PRA Buffer); and (v) meeting, and building a surplus to, its PRA Buffer in 2019.

The key capital and operational components of the Plan, as adopted, included:

- implementing a liability management exercise and equity capital raise to generate between £700 million and £750 million of incremental CET1 capital for the Bank;
- completing a targeted Tier 2 debt issuance of approximately £250 million during 2018;

- completing two targeted further MREL-qualifying debt issuances in 2020 and 2021;
- improving the Bank's net interest margin in line with market implied forecast base rate increases (assumed by the Bank based on the market forward-looking implied SONIA rate averaged over the 10-day period to 22 November 2016), assumed by the Bank to begin in 2018;
- increasing the Bank's mortgage assets;
- reducing the Bank's cost base, thereby improving the Bank's cost:income ratio, by implementing cost reduction initiatives to deliver targeted cost savings and significant reductions in operating expenditure;
- delivery of the Bank's remaining remediation projects, strategic projects and operational projects (as described in paragraph 2.4 of Annex II Part 7 of this Consent Solicitation Memorandum), including in relation to the Bank's IT systems and infrastructure, on time and to budget; and
- reducing the Bank's minimum Pillar 2a regulatory capital requirements.

The Plan was based on a number of key assumptions, forecasts and targets relating to a variety of factors within and outside of the control of the Bank and the Bank's prospects of implementing its strategy are sensitive to those factors. Since 13 February 2017, there have been significant developments that have affected the Bank's outlook for its business and the prospects of achieving some of the key components of the Plan (or the timing of when they are expected to be achieved). Certain of these developments include:

- on 26 June 2017, the Bank announced that in light of the advanced nature of the discussions with a group of existing investors (being the Principal Investors) regarding a prospective equity capital raise and recapitalisation, with a majority of the key commercial aspects of such transaction substantially agreed, the Bank had decided to discontinue its formal sale process announced on 13 February 2017 (the "**FSP**"). On 28 June 2017, as an update to its announcement dated 26 June 2017, the Bank announced that the Board had decided to support an equity capital raise and recapitalisation proposal (being the outline of the Restructuring and Recapitalisation) from the Principal Investors and had entered into the Lock-Up Agreement whereby the Principal Investors and the Bank have committed to take certain steps to implement the Restructuring and Recapitalisation. On 14 July 2017, the Bank announced the detailed terms of the Restructuring and Recapitalisation, including those relating to the Capital Raising. Through the Capital Raising the Bank is seeking to generate approximately £700 million of incremental CET1 capital for the Bank (depending on the actual amount of Retail Cash Consideration paid out by the Bank pursuant to the Mandatory Cancellation described in paragraph 5(f) below and excluding costs and expenses incurred by the Bank);
- the Bank is planning to give formal notice to exercise its right to terminate the Calico Finance Number One synthetic securitisation transaction in September 2017 and, following such termination, the Bank is expecting to make a reduction of approximately £2 billion in Optimum assets through securitisations and/or whole-loan sales during the fourth quarter of 2017 (subject to market conditions, including as to market capacity and available pricing, timing and terms being subject to PRA approval);
- the Bank has entered into a legally binding agreement with the Co-operative Group and the Pace Trustee to implement an agreement that is designed to remove uncertainty around the Bank's liability to Pace if it is approved by the Bank's Shareholders, and other stakeholders, and if certain other conditions are satisfied;
- in a letter dated 23 June 2017, the PRA notified the Bank that it had set the Bank's Pillar 2b requirement in an amount which is higher than that assumed in the Plan. Whilst this change is expected to adversely affect the anticipated amount of the Bank's surplus to its PRA Buffer in 2019, the Bank is still nevertheless targeting to achieve such a surplus in 2019; and
- significant volatility in the market implied forecast base rate increases compared to the market forward-looking implied SONIA rate averaged over the 10-day period to 22 November 2016 used in

the Plan, which had led the Bank to use a six-month moving average of the forward-looking market implied SONIA rate from 22 November 2016 to 31 May 2017, featuring a deteriorated base rate profile, with the assumed timing of rate increases delayed compared to the Plan.

Accordingly, it became necessary to reassess the achievability of the Plan, and to adjust its implementation, to reflect the Bank's view of the impact on the Plan of trading through the first five months of 2017, the prevailing business environment, the differences between the capital raising contemplated in the Plan and the Restructuring and Recapitalisation the Bank is now seeking to implement and discussions that the Bank has had with its regulators since the Plan was adopted (the result being the "**May 2017 Outlook on the Plan**"). See paragraph 8.2 of Annex II Part 7 of this Consent Solicitation Memorandum for a description of the May 2017 Outlook on the Plan.

The PRA accepted the Plan on 13 February 2017. On 27 June 2017, the PRA confirmed its acceptance of the May 2017 Outlook on the Plan, including the terms of the Restructuring and Recapitalisation. The PRA may, however, withdraw its acceptance of the Plan and/or the May 2017 Outlook on the Plan at any time, whether or not the Restructuring and Recapitalisation is successful.

For further details on the targets of, and assumptions and risks relating to, the Plan and/or the May 2017 Outlook on the Plan, see paragraph 7 of Annex II Part 9 of this Consent Solicitation Memorandum. See also Annex II Part 3 of this Consent Solicitation Memorandum for a discussion of the risks relating to the implementation of, and the targets provided for in, the Plan and the May 2017 Outlook on the Plan.

3. THE PURPOSE OF THIS CONSENT SOLICITATION MEMORANDUM

This Consent Solicitation Memorandum sets out the terms of the proposals being made to the holders of the 2023 Notes and describes the Restructuring and Recapitalisation, as well as its anticipated impact on the Bank, and explains the steps 2023 Noteholders should take if they wish to vote in the Consent Solicitation (as defined below) and support the Restructuring and Recapitalisation.

In this letter, I set out, among other things:

- the background and reasons for the Restructuring and Recapitalisation and its benefits;
- a description of the Bank's strategy, the Plan and the May 2017 Outlook on the Plan;
- a summary of the terms of each of the elements of the Restructuring and Recapitalisation, including: (a) the Consent Solicitation (including the Mandatory Cancellation) (b) the Members' Scheme (including the Share Transfer and the Members' Equity Subscription); (c) the Creditors' Scheme (including the Notes Exchange, the Scheme Creditors' Equity Subscription and the Backstop Arrangements); (d) the Holdco Subscriptions; (e) the B Shares Subscription; and (f) the Preference Shares Cancellation;
- a description of the proposed arrangements with the Co-operative Group, in relation to: (a) the Bank's and the Co-operative Group's participation in The Co-operative Pension Scheme (Pace) ("**Pace**"); and (b) the Bank's continuing relationship with the Co-operative Group, that together constitute the Group Related Party Transaction;
- a description of the proposed arrangements with GoldenTree and Silver Point Capital that constitute the Investor Related Party Transactions;
- an explanation as to why the Unrelated Directors consider the Restructuring and Recapitalisation, including the Capital Raising, and the Related Party Transactions to be in the best interests of the Bank and its Shareholders as a whole and why they consider the Related Party Transactions to be fair and reasonable as far as Shareholders are concerned;
- a recommendation by the Directors that you vote in favour of the Extraordinary Resolutions at the Meeting; and

- in Section B, a comparison of the position for 2023 Noteholders if the Restructuring and Recapitalisation is successfully implemented to what the Bank considers to be the most likely outcome if the Restructuring and Recapitalisation is not successful, the purpose of which is to assist 2023 Noteholders in determining whether or not to vote in favour of the 2023 Noteholder Extraordinary Resolutions at the 2023 Noteholder Meeting and support the implementation of the Restructuring and Recapitalisation, including the Capital Raising.

This Consent Solicitation Memorandum also contains a form of notice of the Meeting to consider and, if thought fit, approve the Extraordinary Resolutions required to implement the Restructuring and Recapitalisation.

4. BACKGROUND TO THE RESTRUCTURING AND RECAPITALISATION

On 26 January 2017, the Bank announced that it expected its CET1 capital ratio (in the absence of any management actions) to fall and remain below 10 per cent. over the medium-term and an expectation that the Bank was unlikely to meet the minimum level of regulatory capital which the PRA expects the Bank to hold (known as the Bank's Individual Capital Guidance or "**ICG**"), over the then applicable planning period (to the year ending 31 December 2020). The Bank's ICG requirement is the aggregate of its minimum Pillar 1 and Pillar 2a regulatory capital requirements. In addition, the Bank reported that it continued to expect to meet its minimum Pillar 1 regulatory capital requirements and to maintain sufficient liquidity to meet its obligations.

The Bank's minimum Pillar 1 regulatory capital requirement was, as at 31 December 2016, and remains, 8 per cent. of RWAs, of which a maximum of 2 per cent. could be met with Tier 2 capital, a maximum of 3.5 per cent. could be met with AT1 capital and a minimum of 4.5 per cent. had to be met with CET1 capital. As at 31 December 2016, the Bank had no AT1 capital (as at the date of this Consent Solicitation Memorandum, the Bank still has no AT1 capital) and was, therefore, and is still, required to meet its Tier 1 capital requirement of 6 per cent. of RWAs with CET1 capital.

As at 31 March 2017, the Bank's capital ratios were: 18.7 per cent. total capital ratio (compared to 17.7 per cent. as at 31 December 2016), 11.5 per cent. Tier 1 Capital Ratio (compared to 11.0 per cent. as at 31 December 2016) and 11.5 per cent. CET1 capital ratio (compared to 11.0 per cent. as at 31 December 2016).

In addition to its minimum Pillar 1 regulatory capital requirements, the Bank is required to hold capital against its minimum Pillar 2a regulatory capital requirements. The Bank's minimum Pillar 2a regulatory capital requirement was, as at 31 March 2017, 15.09 per cent. of total RWAs (compared to 14.49 per cent. as at 31 December 2016), of which: (i) a maximum of 3.77 per cent. (compared to 3.62 per cent. as at 31 December 2016) could be met with Tier 2 capital (this proportion could also be met with AT1 capital or CET1 capital); (ii) a maximum of 6.64 per cent. (compared to 6.38 per cent. as at 31 December 2016) could be met with AT1 capital (including the Tier 2 capital element); and (iii) a minimum of 8.45 per cent. (compared to 8.12 per cent. as at 31 December 2016) had to be met with CET1 capital. As at 31 March 2017, the Bank had no AT1 capital (as the date of this Consent Solicitation Memorandum, the Bank still has no AT1 capital), and was, therefore, and is still, required to meet the proportion set out above of RWAs (which could be met with CET1 or AT1 capital) with CET1 capital. In addition to these requirements, the Bank will need to meet its Combined Buffer and its PRA Buffer with CET1 capital only.

As at 31 March 2017, the Bank had ICG capital resources (composed of Tier 1 capital post-regulatory deductions and allowable Tier 2 capital) of £1,079.7 million (compared to £1,112.3 million as at 31 December 2016) against an ICG requirement of £1,442.0 million (Pillar 1 of £499.6 million, being 8 per cent. of total RWAs and Pillar 2a of £942.4 million, compared to £1,501.5 million, with Pillar 1 of £534.1 million, being 8 per cent. of total RWAs and Pillar 2a of £967.4 million, each as at 31 December 2016) resulting in a deficit of £362.3 million (compared to £389.2 million as at 31 December 2016). The additional Combined Buffer requirement of 1.25 per cent. of total RWAs equated to a further £78.1 million (compared to £41.7 million, or a requirement of 0.625 per cent. of RWAs, as at 31 December 2016), against which the Bank had a capital deficit of £440.4 million (compared to £431.0 million as at 31 December 2016).

CRR regulatory capital requirements apply to the Bank on both a consolidated basis and on an individual entity basis. Under CRR, a bank may apply for permission to include subsidiaries that meet certain criteria within its individual position, referred to as "solo-consolidation". The Bank's permission does not cover all of the Bank's subsidiaries (those excluded are referred to as "non-solo entities"). The Bank's solo-consolidated CET1 capital ratio is lower than its consolidated CET1 capital ratio. Accordingly, there is lower projected headroom above the Bank's solo-consolidated minimum Pillar 1 regulatory capital requirement on a solo-consolidated position as compared to a consolidated position. Consequently, there is a strong likelihood that any possible future breach of the Bank's regulatory capital minimum requirements would occur on a solo-consolidated basis prior to any breach in the Bank's consolidated position albeit that the Bank expects to continue to meet its minimum Pillar 1 regulatory capital requirements (based on the Bank's own economic assumptions in both cases).

On 13 February 2017, the Bank announced that although it met all of its minimum Pillar 1 regulatory capital requirements and expected to continue to do so (based on the Bank's own economic assumptions) it needed to build its capital and meet the longer-term regulatory capital requirements required of all UK banks. The Bank noted that its capacity to build capital organically had been constrained by: (i) the impact of interest rates that are and have been lower than previously forecast, reducing the Bank's ability to generate income; and (ii) higher than anticipated transformation and conduct redress and remediation costs. The announcement also noted that the Bank needed to consider enhanced regulatory capital and loss-absorbing capacity requirements expected of all UK banks known as the minimum requirement for own funds and eligible liabilities ("**MREL**").

The Bank has been subject to a heightened degree of regulatory supervision since 2013 and does not currently comply with or meet certain regulatory capital and loss-absorbing capacity requirements. These are:

- the Capital Requirements Regulation (Regulation (EU) 575/2013) ("**CRR**") provisions relating to its use of an Internal Ratings Based ("**IRB**") approach to modelling its credit risk capital requirements. This non-compliance resulted in the PRA levying a CRR-related Pillar 2a regulatory capital requirement in the form of a fixed requirement to cover the associated risks and will not, for the avoidance of doubt, be resolved by implementing the Restructuring and Recapitalisation. It is the Bank's objective, subject to successful completion of a remediation plan by the end of 2017, to seek and obtain PRA approval of such remediation by the end of 2017 and to have this fixed requirement removed from its ICG during the first quarter of 2018;

- the Bank's ICG;

- the Bank's Combined Buffer requirement under the CRD (currently comprised only of its capital conservation buffer and set at 1.25 per cent. of total RWAs met entirely by CET1 capital. The capital conservation buffer is set to rise to 2.5 per cent. of total RWAs met entirely by CET1 capital in 2019 with a rise of 0.625 per cent. in both 2018 and 2019. In addition to the capital conservation buffer, the counter-cyclical capital buffer will rise from the current requirement of zero per cent. to 0.5 per cent. of total RWAs in June 2018 and is expected to rise to 1 per cent. of total RWAs by the end of 2018, which would result in an aggregate Combined Buffer requirement of 3.5 per cent. of total RWAs in 2019);

- the Bank's PRA Buffer (currently set by the PRA at a level in order to withstand prudential stress test scenarios and comprised exclusively of CET1 capital); and

- the Bank's MREL.

The Bank must raise and maintain significant amounts of loss-absorbing capacity to comply with its MREL. MREL is a requirement to maintain a minimum level of own funds and eligible liabilities in accordance with the Bank of England's statement of policy of November 2016 titled "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)" (the "**MREL Statement of Policy**"). The Bank has received a binding MREL requirement for the year ending 31 December 2017 from the Bank of England requiring, in line with other UK banks, MREL which is equivalent to the Bank's ICG

requirement. The Bank is not expecting to meet its full ICG until 2018 (assuming the successful implementation of the Restructuring and Recapitalisation, subject to delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan, based on the Bank's own internal assessment of future minimum Pillar 2a regulatory capital requirements and subject to future supervisory review and evaluation process ("**SREP**")) and, therefore, the Bank is not expecting to meet its MREL for 2017. The MREL Statement of Policy includes a transitional requirement for the period up to 1 January 2020 which is equivalent to the Bank's ICG requirement, followed by an interim requirement from 1 January 2020 up to 1 January 2022, which is equivalent to 18 per cent. of its RWAs. End-state MREL, from 1 January 2022, will be set on a case-by-case basis for all UK banks depending on the agreed resolution strategy for that bank. These requirements are currently expected to be either two times ICG or a lower amount determined by the Bank of England based on the Bank's resolution strategy set by the Bank of England, of which the Bank's current planning assumption is the latter of these two options.

As set out in the MREL Statement of Policy, the Bank of England can provide institutions with a non-binding indication of any MREL which the Bank of England expects institutions to meet in future years. The Bank of England's current intention is to set MREL in excess of regulatory capital requirements in 2020 for all institutions for which the preferred resolution strategy is not a bank insolvency procedure. In addition, the Bank of England can provide particular institutions with a non-binding indication of its intention to set a higher or earlier future MREL, or set higher or earlier required MREL levels. As set out in the MREL Statement of Policy, the Bank of England will do so where action is needed to enhance an institution's resolvability and this is necessary to meet the Bank of England's objectives as resolution authority. The Bank of England has chosen to do so for the Bank, in line with the Bank of England having identified a shortage of loss-absorbing capacity as a substantive impediment to the Bank's resolvability.

As such, the Bank of England has provided the Bank with a non-binding indication that its current intention is to set the Bank's MREL for 2018 in an amount which strongly indicated that the Bank would need to issue MREL-qualifying debt earlier than assumed in the Plan (which assume issuances in 2020 and 2021, following a Tier 2 debt issuance in 2018 (with such same timing assumptions also made in the May 2017 Outlook on the Plan)), possibly as early as before the end of 2017. The Bank does not believe its current capital position, in the absence of the successful implementation of the Restructuring and Recapitalisation, would be sufficient to enable it in the future to issue MREL-qualifying debt on acceptable terms in such amount as would be required. The Bank of England indicated to the Bank that it would review this intention as part of the process for setting the Bank's MREL for 2018, which will include a consideration of any revisions in the Bank's business plan and strategy. Furthermore, the Bank of England has publically stated (as part of its publication of indicative MREL data on 5 May 2017) that "*The Co-operative Bank has been excluded from the calculation of the average because the firm is currently seeking a sale, which has the potential to significantly affect The Co-operative Bank's balance sheet. Therefore an indicative MREL based on The Co-operative Bank's balance sheet today may not be a useful guide to the eventual requirement.*". The Bank believes that the Restructuring and Recapitalisation would significantly affect the Bank's balance sheet and, accordingly, the Bank assumes that, if the Restructuring and Recapitalisation is successfully implemented, the Bank's MREL will be reviewed by the Bank of England to take into account the completed Restructuring and Recapitalisation and subsequently revised to be brought in line with the MREL Statement of Policy. As a result, the May 2017 Outlook on the Plan assumes compliance with the transitional MREL set out in the MREL Statement of Policy during the course of 2018 (for the avoidance of doubt, exclusive of the Bank's PRA Buffer (meaning the Bank would meet its MREL by including CET1 capital counted towards its PRA Buffer)), when the Bank is targeting to meet its ICG, with such MREL compliance maintained thereafter supported by the targeted MREL-qualifying debt issuances in 2020 and 2021. The above-mentioned MREL issuances may not be completed when planned, on acceptable terms, or at all. See the risk factor entitled "*Rating downgrades and/or negative market sentiment with respect to the Bank may have an adverse effect on the Bank's ability to implement its strategy, the Plan and/or, where applicable, the May 2017 Outlook on the Plan and on its business. The Bank's ability to raise the capital and debt it needs, including the Tier 2 and MREL-qualifying debt it is targeting under its strategy, when needed, on acceptable terms, or at all, may depend on the Bank improving its credit rating.*" in Annex II Part 3 of this Consent Solicitation Memorandum for further information. The Bank is expected by its regulator to meet its Combined Buffer and PRA Buffer in addition to both its transitional, interim and end-state MREL.

Furthermore, the auditor's reports contained in the Bank's financial statements for the three years ended 31 December 2014, 2015 and 2016 each contain an "emphasis of matter" in relation to the Bank's ability to continue as a "going concern", indicating that there are material uncertainties which may cast significant doubt on the Bank's ability to continue as a going concern. The going concern status of the Bank is dependent on the Bank successfully implementing the Plan and, where applicable, the May 2017 Outlook on the Plan, including the implementation of the Restructuring and Recapitalisation, and may be subject to any enforcement action that HM Treasury, the Bank of England, the FCA and/or the PRA (together, the "**Authorities**") may take in relation to any inability of the Bank to meet regulatory requirements relating to its credit risk modelling under the CRR, its ICG, its Combined Buffer, its PRA Buffer and its MREL.

As a result, and having concluded its annual planning review, the Bank announced on 13 February 2017 the commencement of the FSP, inviting offers for all of its issued ordinary share capital, and that it was considering, as an alternative to the FSP, ways of raising equity capital from existing and new capital providers and a potential liability management exercise of its outstanding public debt.

On 26 June 2017, the Bank announced that in light of the advanced nature of the discussions with a group of existing investors (being the Principal Investors) regarding a prospective equity capital raise and recapitalisation, with a majority of the key commercial aspects of such transaction substantially agreed, the Bank had decided to discontinue the FSP.

On 28 June 2017, as an update to its announcement dated 26 June 2017, the Bank announced that the Board had decided to support an equity capital raise and recapitalisation proposal (being the outline of the Restructuring and Recapitalisation) from the Principal Investors and had entered into the Lock-Up Agreement whereby the Principal Investors and the Bank have committed to take certain steps to implement the Restructuring and Recapitalisation.

5. OVERVIEW OF THE RESTRUCTURING AND RECAPITALISATION

On 14 July 2017, the Bank announced the detailed terms of its restructuring and recapitalisation, which comprises the following elements (together, the "**Restructuring and Recapitalisation**"):

(a) the transfer by Shareholders of all the Ordinary Shares in the Bank to a newly incorporated company ("**Holdco**") in exchange for A Shares in Holdco (representing in aggregate five per cent. of the total number of fully-diluted issued A Shares of Holdco immediately following completion of the Restructuring and Recapitalisation ("**Completion**"), inclusive of the Early Bird Members' Premium referred to in paragraph 6 below), to be implemented pursuant to the Members' Scheme (the "**Share Transfer**") and pursuant to which, Holdco shall become the sole ordinary shareholder of the Bank;

(b) the exchange of all Subordinated Notes held by Subordinated Noteholders (other than the 2023 Notes held by Retail Noteholders which shall be subject to the Mandatory Cancellation (as described in paragraph (f) below)), solely in consideration for A Shares in Holdco (representing in aggregate approximately 17.4 per cent. of the total number of fully-diluted issued A Shares of Holdco immediately following Completion), to be implemented pursuant to the Creditors' Scheme (the "**Notes Exchange**");

(c) the subscription by Qualifying Shareholders and Qualifying Scheme Creditors of A Shares in Holdco representing in aggregate approximately 67.6 per cent. of the total number of fully-diluted issued A Shares of Holdco immediately following Completion (the "**Subscription Shares**") for an aggregate of £250 million (the "**Subscription Proceeds**"), to be implemented pursuant to the Members' Scheme and the Creditors' Scheme, respectively (entitling Qualifying Shareholders to subscribe for up to approximately 3.4 per cent. (the "**Members' Equity Subscription**") and Qualifying Scheme Creditors to subscribe for up to approximately 64.2 per cent. (the "**Scheme Creditors' Equity Subscription**" and, together with the Members' Equity Subscription, the "**Equity Subscriptions**"), of the total number of fully-diluted issued A Shares of Holdco immediately following Completion), or, to the extent such amount is not so subscribed, the subscription of such A Shares by the Backstop Providers pursuant to the Backstop Arrangements. In consideration for their commitment under the Backstop Arrangements (as further described and defined in paragraph 6 below), the Backstop

Providers will receive a premium, to be settled by the issue to those Backstop Providers of A Shares of Holdco representing, in aggregate, five per cent. of the total number of fully-diluted issued A Shares of Holdco immediately following Completion (the "**Backstop Consideration Shares**");

(d) the application by Holdco of the Subscription Proceeds in subscription for, and the release by Holdco and, subject to the prior approval of the PRA under Articles 77 and 78 of the CRR, cancellation by the Bank of the Subordinated Notes held by Holdco following the Notes Exchange in exchange for, the issue to Holdco of New Ordinary Shares in the Bank (together, the "**Holdco Subscriptions**");

(e) the issue of B Shares in Holdco to each holder of A Shares who, together with their affiliates, are the registered holder(s) of at least 10 per cent. of the total number of fully-diluted issued A Shares of Holdco immediately following Completion and fulfils certain other criteria (the "**B Shares Subscription**");

(f) an amendment to the terms and conditions of the 2023 Notes to insert a mandatory cancellation provision (the "**Mandatory Cancellation**") into the terms of the 2023 Notes by way of the Consent Solicitation (as defined below) pursuant to which the 2023 Notes held by Retail Noteholders, subject to the prior approval of the PRA under Articles 77 and 78 of the CRR, shall be irrevocably cancelled and the rights, liabilities and obligations thereunder released in consideration of the payment by the Bank of a cash amount. Such cash amount is payable on the Settlement Date (separate to the Retail Accrued Interest payment) pursuant to the Mandatory Cancellation, to Retail Noteholders. Such cash amount is subject to (in aggregate) the Maximum Cash Amount (as defined below) and, accordingly, shall be the lesser of (i) £4.50 per £10 in principal amount of 2023 Notes, and (ii) the amount (rounded to the nearest £0.01) per £10 in principal amount of 2023 Notes calculated by (A) dividing the Maximum Cash Amount by the aggregate principal amount of 2023 Notes that will be subject to the Mandatory Cancellation, and (B) multiplying the resultant figure by 10 (the "**Retail Cash Consideration**"). The Retail Cash Consideration is subject to a cap of £13,500,000 on the aggregate cash amount to be paid to all Retail Noteholders pursuant to the Mandatory Cancellation (the "**Maximum Cash Amount**") and accordingly, if the aggregate principal amount of 2023 Notes that are subject to the Mandatory Cancellation would otherwise exceed the Maximum Cash Amount, the Retail Cash Consideration to be paid to each Retail Noteholder will be subject to downward adjustment. Accordingly, the amount of Retail Cash Consideration to be paid to Retail Noteholders will depend on the number of Subordinated Noteholders who are ultimately identified as Retail Noteholders in accordance with the Consent Solicitation. Recent inquiries of 2023 Noteholders made on behalf of the Bank currently indicate a worst case outcome for Retail Noteholders of approximately £3 per £10 principal amount of 2023 Notes. This assumes that all those 2023 Noteholders who have not acceded to the Lock-Up Agreement as at the date of this Circular are Retail Noteholders, which the Bank believes to be unlikely. These inquiries suggest that a more likely outcome for Retail Noteholders is that the amount payable will be closer to the maximum aggregate cash amount of £4.50 per £10 in principal amount of the 2023 Notes. In addition, interest accrued and unpaid on the 2023 Notes cancelled pursuant to the Mandatory Cancellation for the period from (and including) 20 June 2017 to (but excluding) 31 July 2017 will be paid in cash upon the settlement of the Mandatory Cancellation and, for the avoidance of doubt, is not subject to the Maximum Cash Amount;

(g) the cancellation of the 9.25 per cent. non-cumulative irredeemable preference shares (the "**Preference Shares**") held by the Co-operative Group in the Bank (the "**Preference Shares Cancellation**");

(h) the agreement of the Pace Trustee, the Co-operative Group and the Bank to new arrangements for Pace by way of the Pace Heads of Terms; and

(i) new governance arrangements for the Bank and the termination and run-off of the Relationship Agreement and the termination of the Co-Existence Principles.

As a preliminary step to implementing the Restructuring and Recapitalisation, on 13 July 2017 Holdco was incorporated by the Initial Holdco Shareholders who together contributed £250,107.18 by way of subscription for 451,457 ordinary shares with a nominal value of £0.10 each in Holdco (the "**Incorporation**

Shares"). On or prior to Completion, the Incorporation Shares will be sub-divided and re-designated into A Shares representing approximately five per cent. of the total number of fully diluted issued A Shares of Holdco immediately following Completion. These A Shares will continue to be owned by the Initial Holdco Shareholders upon Completion.

If successfully implemented, the Restructuring and Recapitalisation will generate approximately £700 million of incremental CET1 capital for the Bank (depending on the actual amount of Retail Cash Consideration paid out by the Bank pursuant to the Mandatory Cancellation and excluding costs and expenses incurred by the Bank). The separate elements of the Restructuring and Recapitalisation are all subject to certain conditions designed to ensure that each is dependent on the approval of each other element by Shareholders and/or Subordinated Noteholders (as applicable) as well as, where applicable, certain approvals from regulatory authorities.

For details on the Restructuring and Recapitalisation, including the terms of the Members' Scheme, see Part 2 and Part 13 of the Circular. For further details on the conditions to the implementation of the Restructuring and Recapitalisation, see paragraph 13 of Section A of Part 4 of this Consent Solicitation Memorandum.

The Consent Solicitation

The Mandatory Cancellation of the 2023 Notes of Retail Noteholders, which involves an amendment to the terms and conditions of the 2023 Notes, will be proposed to 2023 Noteholders pursuant to the consent solicitation (the "**Consent Solicitation**") (as further described in Part 5: Consent Solicitation of this Consent Solicitation Memorandum). Eligible 2023 Noteholders will be invited to consider and, if thought fit, to vote in favour of inserting the Mandatory Cancellation condition into the terms and conditions of the 2023 Notes which would allow the Bank to cancel the outstanding 2023 Notes of Retail Noteholders in consideration for the payment by the Bank of a cash amount. The 2023 Noteholder Extraordinary Resolutions to be considered at the meeting of 2023 Noteholders (the "**2023 Noteholder Meeting**") will be passed if the 2023 Noteholder Meeting is quorate and if a majority consisting of not less than three quarters of votes cast at such meeting vote in favour of the 2023 Noteholder Extraordinary Resolutions. It is a condition to the implementation of the 2023 Noteholder Extraordinary Resolutions, if passed, that the Eligibility Condition is also satisfied, which means that the quorum required for, and the requisite majority of votes cast at the 2023 Noteholder Meeting are satisfied by 2023 Noteholders that meet certain eligibility criteria.

The terms of the Consent Solicitation are further set out in this Consent Solicitation Memorandum. Notice of the Meeting to be held at 10 Upper Bank Street, Canary Wharf, London E14 5JJ on 21 August 2017 is set out in Annex I to this Consent Solicitation Memorandum and Holders' attention is drawn to the Directors' recommendations set out in paragraph 16 below.

The Members' Scheme

The Share Transfer and the Members' Equity Subscription will be implemented by way of the Members' Scheme, being a scheme of arrangement under Part 26 of the Companies Act. Shareholders will be invited to vote in favour of the Members' Scheme at the Members' Scheme Court Meeting, which is a meeting of Shareholders convened by the Bank with the permission of the Court. The Members' Scheme will become effective in accordance with its terms if:

(a) approved by a majority (in person or by proxy) in number, representing at least 75 per cent. in value, of the members present and voting at the Members' Scheme Court Meeting;

(b) subsequently sanctioned by an order of the Court (the "**Members' Scheme Sanction Order**"); and

(c) an office copy of the Members' Scheme Sanction Order has been delivered to the Registrar of Companies for registration.

An Explanatory Statement relating to the Members' Scheme is set out in the Shareholder Circular and the full text of the Members' Scheme is set out in the Shareholder Circular.

The Creditors' Scheme

The Notes Exchange, the Scheme Creditors' Equity Subscription and the issue of the Backstop Consideration Shares will be implemented by way of the Creditors' Scheme, being a scheme of arrangement under Part 26 of the Companies Act. Subordinated Noteholders (excluding the Retail Noteholders) will be invited by way of the Creditors' Scheme Circular (as defined in Annex II Part 19 of this Consent Solicitation Memorandum) to vote in favour of the Creditors' Scheme at the Creditors' Scheme Court Meeting, being a meeting convened by the Bank with the permission of the Court. The Creditors' Scheme will become effective in accordance with its terms if:

(a) approved by a majority (in person or by proxy) in number, and at least 75 per cent. in value, of the members of the class of creditors present and voting at the Creditors' Scheme Court Meeting;

(b) subsequently sanctioned by an order of the Court (the "**Creditors' Scheme Sanction Order**"); and

(c) an office copy of the Creditors' Scheme Sanction Order has been delivered to the Registrar of Companies for registration.

The Creditors' Scheme is set out in the Creditors' Scheme Circular, dated the same date as this Consent Solicitation Memorandum and circulated to the Scheme Creditors.

The Restructuring Deed

The Share Transfer, the Notes Exchange, the Equity Subscriptions (including the issue of any Backstop Consideration Shares), the Holdco Subscriptions, the B Shares Subscription, the Mandatory Cancellation and the Preference Shares Cancellation will all be implemented pursuant to the terms of a restructuring deed which forms part of the Members' Scheme and the Creditors' Scheme and which is to be entered into between the Bank, Holdco, the Scheme Shareholders, the Scheme Creditors, the Escrow Agent and the Holding Period Trustee (the "**Restructuring Deed**"). Pursuant to the Members' Scheme and the Creditors' Scheme, the Bank will be authorised to enter into the Restructuring Deed and the Restructuring Implementation Documents (as defined in Annex II Part 19 of this Consent Solicitation Memorandum) on behalf of the Scheme Shareholders and Scheme Creditors respectively and take such steps or actions as are reasonably necessary or desirable to give effect to the terms, or otherwise implement the transactions contemplated in those documents.

The General Meeting

The General Meeting has been called by the Bank for the purposes of considering and, if thought fit, passing the Resolutions set out in full in the Notice of General Meeting in the Shareholder Circular required in connection with, and to implement, the Restructuring and Recapitalisation, including the Holdco Subscriptions, the Group Related Party Transaction, the Investor Related Party Transactions and to authorise the Directors to effect the Members' Scheme (each as defined in Annex II Part 19 of this Consent Solicitation Memorandum).

The Resolutions are inter-conditional and consequently all Resolutions will need to be approved in order for the Restructuring and Recapitalisation to be implemented.

6. STAKEHOLDER SUPPORT

The Lock-Up Agreement and the Group Agreement

The Lock-Up Agreement (appending term sheets setting out the proposed terms of the Restructuring and Recapitalisation) was entered into on 28 June 2017 by the Bank and the Principal Investors (who between themselves represented 47 per cent. of the Subordinated Notes and 32 per cent. of the Ordinary Shares as at the date of the Lock-Up Agreement).

Pursuant to the terms of the Lock-Up Agreement (amongst other things):

(a) the Bank and the Consenting Holders (as defined below) undertook to use their best efforts and to take such reasonable and necessary actions in furtherance of the implementation and consummation of the Restructuring and Recapitalisation (as contemplated in the term sheets attached thereto); and

(b) the Consenting Holders agreed to vote (or procure that a vote was cast on its behalf) in favour of the Creditors' Scheme, the Members' Scheme, the 2023 Noteholder Extraordinary Resolutions and the Resolutions (as applicable).

As at 25 July 2017, being the latest practicable date prior to the publication of this Consent Solicitation Memorandum, 59 Subordinated Noteholders representing approximately 86 per cent. of the aggregate principal amount of the Subordinated Notes (with 48 2023 Noteholders representing approximately 78 per cent. of the aggregate principal amount of the 2023 Notes) and 30 Shareholders representing approximately 63 per cent. in aggregate of the Ordinary Shares (together, including funds represented by the Principal Investors, and Shareholders and Subordinated Noteholders that have acceded to the Lock-Up Agreement, the "**Consenting Holders**") have entered into, or acceded to, the Lock-Up Agreement and undertaken to support the Restructuring and Recapitalisation.

On 28 June 2017, the Co-operative Group (as defined in Annex II Part 19 of this Consent Solicitation Memorandum), who as at that date represented 20.16 per cent of the Ordinary Shares, entered into the Group Agreement (which appended the Lock-Up Agreement) with the Bank and agreed to use its best efforts to implement the Restructuring and Recapitalisation.

See paragraph 17.13 of Annex II Part 16 of this Consent Solicitation Memorandum for a further description of the terms of the Lock-Up Agreement and paragraph 17.14 of Annex II Part 16 of this Consent Solicitation Memorandum for a description of the terms of the Group Agreement.

"Early Bird" Members' Arrangements

On 14 July 2017, the Bank published a practice statement letter to all Shareholders and Subordinated Noteholders (the "**Practice Statement Letter**"). As explained in the Practice Statement Letter, Shareholders who enter into the Lock-Up Agreement or otherwise undertake in writing to support the implementation of the Restructuring and Recapitalisation on terms acceptable to the Bank by 28 July 2017 are eligible to receive their *pro rata* share of additional A Shares (based on the Ordinary Shares held by such Shareholder and in respect of which such Shareholder has acceded to the Lock-Up Agreement) representing, in aggregate, an additional 0.25 per cent. of the total number of fully-diluted issued A Shares of Holdco immediately following Completion (the "**Early Bird Members' Premium**").

Given that the opportunity to become an Early Bird Consenting Member and participate in the Early Bird Members' Arrangements remains open until 28 July 2017, the *pro rata* share of each Early Bird Consenting Member cannot be definitively stated as at the time of publication of this Consent Solicitation Memorandum.

Backstop Arrangements

On 14 July 2017, a backstop agreement was entered into by the Principal Investors, the Bank, Holdco and the Information Agent (the "**Backstop Agreement**") pursuant to which the Principal Investors committed, in proportion to their respective entitlements to subscribe for Subscription Shares under the Equity Subscriptions, to subscribe and pay for any Subscription Shares that are not subscribed and paid for under the Equity Subscriptions (the "**Backstop Arrangements**"). The obligations of the Principal Investors under the Backstop Agreement are several and not joint or joint and several and therefore if a Principal Investor fails to fund, the other Principal Investors are not obligated to make up such Principal Investor's shortfall.

Pursuant to the Practice Statement Letter, Qualifying Scheme Creditors were offered the opportunity, in addition to their participation under the Scheme Creditors' Equity Subscription, to commit, by acceding to the Backstop Agreement (the "**Backstop Accession Right**"), to assume on a several basis a share of the obligation under the Backstop Arrangements to subscribe for any Subscription Shares not applied and paid for under the Equity Subscriptions, in proportion to their holding of Subordinated Notes (the "**Backstop Commitment**") (any such person so acceding being an "**Additional Backstop Provider**" and all such persons together with the Principal Investors being the "**Backstop Providers**"), with the Backstop

Commitment of each other Backstop Provider being adjusted to take account of each new Backstop Provider. The Backstop Commitment of each Backstop Provider once all Backstop Providers have acceded to the Backstop Arrangements pursuant to the Backstop Accession Right is referred to as the "**Final Backstop Commitment**".

Consequently, any Subscription Shares that are not so applied and paid for under the Equity Subscriptions will be acquired and paid for by the Backstop Providers pursuant to the Backstop Arrangements under the terms of the Backstop Agreement in proportion to their Final Backstop Commitments.

In consideration for their commitment under the Backstop Arrangements, the Backstop Providers will be entitled to receive an aggregate premium which shall be satisfied by the issue of the Backstop Consideration Shares, being 451,456,510 A Shares (fully paid), representing five per cent. of the total number of fully diluted issued A shares of Holdco, following Completion, divided between them in proportion to their Final Backstop Commitments.

As at 25 July 2017 (being the latest practicable date prior to the date of this Consent Solicitation Memorandum), each of Invesco, Ravensworth, Serengeti Asset Management and Stichting Value Partners have agreed to become Additional Backstop Providers. Given that the opportunity to take up the Backstop Accession Right and participate as an Additional Backstop Provider is open until 4:00 p.m. (London time) on 28 July 2017, the Final Backstop Commitment of each Backstop Provider cannot be definitively stated as at the time of publication of this Consent Solicitation Memorandum.

Level of B shareholdings of the Principal Investors and Invesco following Completion

The Bank has been informed that, based on their commitments under the Lock-Up Agreement, their holdings of Ordinary Shares and Subordinated Notes, as applicable, as at 25 July 2017 (being the latest practicable date prior to the date of this Consent Solicitation Memorandum), and assuming each of them have been issued and subscribes for (as the case may be) their full entitlement of (where applicable): (i) A Shares pursuant to the Share Transfer (including the Early Bird Members' Premium); (ii) A Shares pursuant to the Notes Exchange; (iii) A Shares pursuant to the Equity Subscriptions; and (iv) their *pro rata* share of the Backstop Consideration Shares, and taking into account their holdings of Incorporation Shares (where applicable), and further assuming that: (a) no other Qualifying Scheme Creditors have acceded to the Backstop Arrangements following 25 July 2017 (being the latest practicable date prior to the date of this Consent Solicitation Memorandum); (b) no other Shareholder has become entitled to share in the Early Bird Members' Premium following 25 July 2017 (being the latest practicable date prior to the date of this Consent Solicitation Memorandum); (c) the Subscription Shares have been subscribed for in full by the Qualifying Shareholders and Qualifying Scheme Creditors as applicable; and (d) £30 million in principal amount of 2023 Notes are subject to the Mandatory Cancellation, upon Completion:

- Silver Point Capital will hold approximately 28 per cent. of the expected initial issued B Shares;
- funds and/or accounts managed and/or advised by Goldentree Asset Management L.P. will hold approximately 25 per cent. of the expected initial issued B Shares;
- Anchorage Capital Group will hold approximately 16 per cent. of the expected initial issued B Shares;
- Invesco will hold approximately 16 per cent. of the expected initial issued B Shares; and
- Cyrus Capital Partners will hold approximately 15 per cent. of the expected initial issued B Shares.

Details of the rights attaching to the A Shares and the B Shares are set out in paragraph 9 below and paragraphs 4.3 and 4.4 of Annex II Part 15 of this Consent Solicitation Memorandum.

See paragraph 9 of Annex II Part 15 of this Consent Solicitation Memorandum for further details on the expected B Shareholders of Holdco upon Completion.

The Bank is authorised by the PRA and regulated by the FCA and the PRA. Part XII of the Financial Services and Markets Act 2000 ("FSMA"), requires any person who decides to acquire or increase control over a UK authorised person to notify and seek approval from the appropriate regulator (in

this case, the PRA) before proceeding with such acquisition or increase in control. Acquiring control means, broadly, acquiring 10 per cent. or more of the shares or voting power or holding shares or voting power as a result of which such person(s) are able to exercise significant influence over the management of the UK authorised person. Increasing control means, broadly, an increase in percentage holdings of shares or voting power from less than 20 per cent. to 20 per cent. or more, from less than 30 per cent. to 30 per cent. or more, from less than 50 per cent. to 50 per cent. or more. It is a criminal offence if a person fails to both seek and obtain such approval before making the acquisition in question. This summary is provided for information purposes only, it is not exhaustive and does not constitute legal advice.

If any Shareholder or Subordinated Noteholder considers that it may, as a result of the Restructuring and Recapitalisation, acquire or increase control over the Bank within the meaning of Part XII of the Financial Services and Markets Act 2000, it is advised to seek independent legal advice.

7. THE BENEFITS OF THE RESTRUCTURING AND RECAPITALISATION

On 26 June 2017, the Bank announced that in light of the advanced nature of the discussions with a group of existing investors (being the Principal Investors) regarding a prospective equity capital raise and recapitalisation, with a majority of the key commercial aspects of such transaction substantially agreed, the Bank had decided to discontinue the FSP. On 28 June 2017, as an update to its announcement dated 26 June 2017, the Bank announced that the Board had decided to support an equity capital raise and recapitalisation proposal (being the outline of the Restructuring and Recapitalisation) from the Principal Investors and had entered into the Lock-Up Agreement whereby the Principal Investors and the Bank have committed to take certain steps to implement the Restructuring and Recapitalisation. On 14 July 2017, the Bank announced the detailed terms of the Restructuring and Recapitalisation, including those relating to the Capital Raising. The actual amount of CET1 capital generated by the Restructuring and Recapitalisation will depend on the actual amount of Retail Cash Consideration paid out by the Bank pursuant to the Mandatory Cancellation and the actual amount of costs and expenses incurred by the Bank. Assuming that the Restructuring and Recapitalisation is successfully implemented (and assuming that the maximum aggregate amount of Retail Cash Consideration is paid out by the Bank pursuant to the Mandatory Cancellation), the incremental CET1 capital expected to be generated upon completion of the Restructuring and Recapitalisation is approximately 10 per cent. of RWAs. The Bank is targeting, as a key pillar of the May 2017 Outlook on the Plan, a CET1 capital ratio of approximately 22 to 23 per cent. as at 31 December 2017 (taking into account the Bank's forecast loss post-tax for the year ending 31 December 2017, the CET1 capital contribution made by the Restructuring and Recapitalisation and assuming the reduction in RWAs expected by the Bank as a result of the de-leverage of approximately £2 billion in Optimum assets during the fourth quarter of 2017) at both the Bank and the Holdco consolidated level. The Restructuring and Recapitalisation will enable the Bank to strengthen its CET1 capital position and help the Bank meet its regulatory capital and loss-absorbing capacity requirements in the future.

Anticipated immediate benefits:

If successful, the Restructuring and Recapitalisation is expected to generate approximately £700 million of incremental CET1 capital (depending on the actual amount of Retail Cash Consideration paid out by the Bank pursuant to the Mandatory Cancellation and excluding costs and expenses incurred by the Bank). A successful Restructuring and Recapitalisation will, therefore, increase the CET1 component of the Bank's headroom above its minimum Pillar 1 regulatory capital requirements (on both a solo-consolidated and consolidated basis). This is expected to help the Bank achieve its target of meeting the Tier 1 component of its ICG in 2017 subject to delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan. Successful implementation of the Restructuring and Recapitalisation will also generate interest expense savings of approximately £45 million per annum for the Bank by cancelling the Subordinated Notes, which bear interest at rates substantially higher than those the Bank's peers are paying on similar subordinated capital securities.

Furthermore, as described in paragraph 2.16 of Annex II Part 7 of this Consent Solicitation Memorandum, in a Working Capital Stress Scenario (an adverse scenario, which includes both a macro-economic recession

stress and idiosyncratic stress events, which is akin to the scenario considered by the Bank as part of its stress testing of the Plan (and is, consequently, not a scenario assumed to take place under the Plan or the May 2017 Outlook on the Plan, or a regulatory measure prescribed by the Authorities)), absent the successful implementation of the Restructuring and Recapitalisation, the Bank would not have enough CET1 capital to meet its minimum Pillar 1 regulatory capital requirements over the Working Capital Period (that is, the 12 months from the date of this Consent Solicitation Memorandum). However, the successful implementation of the Restructuring and Recapitalisation would mean that if a Working Capital Stress Scenario were to occur within the Working Capital Period, the Bank would continue to meet its minimum Pillar 1 regulatory capital requirements.

The Bank has an oustanding £400 million in principal amount senior unsecured bond issuance which matures on 20 September 2017. The May 2017 Outlook on the Plan asumes, following a successful Restructuring and Recapitalisation, the repayment of this senior unsecured bond issuance at maturity. Whilst no regulatory permission is required to repay this senior unsecured bond issuance, such repayment would reduce the Bank's loss-absorbing capacity available to the Bank of England or HM Treasury in the event of the Bank becoming subject to the Special Resolution Regime.

Anticipated near-term benefits:

The Bank's current minimum Pillar 2a regulatory capital requirement is elevated relative to the Bank's peers principally due to the Bank's operational, pension, model and transformation risks. For more information on each of these risks, see Annex II Part 3 of this Consent Solicitation Memorandum. The Bank anticipates that if the Restructuring and Recapitalisation is successful and the Bank completes its credit risk modelling deficiencies (part of its model risk) remediation programme, completes the remaining parts of its strategic and remediation projects on time and within budget and reduces its operational and pension risks, and the Bank otherwise delivers the Plan and, where applicable, the May 2017 Outlook on the Plan, these actions will reduce the Bank's minimum Pillar 2a regulatory capital requirement (with a targeted end-state, at the end of the life of the Plan (substantially progressed by the end of 2019), of approximately 8.5 per cent. of RWAs including the targeted reduction to the Pillar 2a pension risk resulting from the implementation of the Pace Pensions Sectionalisation, the assumed RWAs reduction driven from the expected de-leverage of approximately £2 billion in Optimum assets during the fourth quarter of 2017, alongside other Pillar 2a developments driven from the Bank's 2016 Internal Capital Adequacy Assessment Process (subject to PRA approval and subject to the outcome of future SREP)). The Bank's targeted Pillar 2a reduction as described above, together with the delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan, are expected by the Bank to result in the Bank achieving its target of meeting full ICG during 2018, irrespective of whether the issuance of approximately £250 million Tier 2 debt targeted in the Plan for 2018 takes place (albeit that such Tier 2 debt issuance is required for the purposes of the Bank meeting its regulatory capital and loss absorbing capacity requirements at the end of the life of the Plan). This reduction in the Bank's minimum Pillar 2a regulatory capital requirement and targeted return to meeting its ICG is based on the Bank's internal view of how its ICG will evolve over time and there is a risk that a future SREP may set a requirement different to that which the Bank assumes for the purposes of delivering the May 2017 Outlook on the Plan, including any Pillar 2a pension risk component specific to the Pace Pensions Sectionalisation. Furthermore, following completion of the Restructuring and Recapitalisation, the Bank is also targeting compliance with its Combined Buffer in 2018. The Bank expects that, following Completion these requirements will also be met at the Holdco consolidated level.

Anticipated medium-/longer-term benefits:

Assuming the Bank delivers the Plan and, where applicable, the May 2017 Outlook on the Plan (the key components of which are described in paragraph 2 of Section A of Part 4 of this Consent Solicitation Memorandum and in paragraph 8.2 of Annex II Part 7 of this Consent Solicitation Memorandum), the Bank expects that during 2019 it will be able to meet, and build a surplus to, its PRA Buffer and its MREL (inclusive of its PRA Buffer, meaning that the Bank meets its MREL without including CET1 capital counted towards its PRA Buffer).

The Bank's strategy aims to build an efficient, financially-sustainable and capital-resilient UK bank focused on retail and SME customers, differentiated by an ethically-led brand and a customer-centric proposition, and is designed to achieve a surplus to the Bank's PRA Buffer later in 2019 (based on the Bank's own internal assessment of future minimum Pillar 2a and 2b regulatory capital requirements and subject to future SREP). In addition to the issuance of approximately £250 million of Tier 2 debt targeted for 2018, the May 2017 Outlook on the Plan also assumes that the Bank will complete further MREL-qualifying debt issuances in 2020 and 2021, of £200 million and £300 million respectively, so as to meet the Bank's assessment of its ongoing MREL. Furthermore, delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan, including the successful implementation of the Restructuring and Recapitalisation, is expected to improve the Bank's leverage ratio to levels in excess of 3.25 per cent. over the life of the Plan. The precise structure of MREL issuance, following completion of the Restructuring and Recapitalisation, within the Holdco Group is yet to be determined, but it will be such as to ensure that the applicable requirements are met at the Holdco consolidated level and the Bank level.

Irrespective of whether the Restructuring and Recapitalisation is successfully implemented, the Bank will remain subject to any enforcement action the Authorities may take in relation to any inability of the Bank to meet regulatory requirements relating to its credit risk modelling under the CRR, its ICG, its Combined Buffer, its PRA Buffer and its MREL.

However, the Bank believes that a successful Restructuring and Recapitalisation would be an important step to the Bank delivering compliance with regulatory capital and loss absorbing capacity requirements over the life of the Plan and implementing its strategy to become an efficient, financially-sustainable and capital-resilient UK bank focused on retail and SME customers, differentiated by an ethically-led brand and a customer-centric proposition, and to return to profitability.

8. GOVERNANCE ARRANGEMENTS OF THE BANK

For a description of the Bank's Board and committee structure, see Section B of Annex II Part 5 of this Consent Solicitation Memorandum.

As part of the Restructuring and Recapitalisation, and in order to reflect the fact that the Bank will be a wholly-owned subsidiary of Holdco, the Bank will simplify its Articles of Association to, amongst other things, remove the requirement that the Bank adopt policies and procedures to comply with Chapters 10 to 13 of the Listing Rules. These requirements were introduced at the time of the Bank's 2013 recapitalisation when a possible initial public offering was in contemplation in order to facilitate the Bank's transition to a listed company. The Directors consider that following the Restructuring and Recapitalisation, such requirements will no longer be suitable for the Bank. However, the Bank's commitment to Values & Ethics remains unchanged and its Articles of Association will continue to contain the existing co-operative values and ethics provisions.

The Bank will remain subject to the corporate governance requirements imposed by the PRA and, for so long as it has listed debt securities, the disclosure requirements of the Listing Rules, the Prospectus Rules, the Market Abuse Regulation, the Disclosure Guidance and Transparency Rules and other applicable laws and regulations in relation thereto.

The Articles of Association will also be amended to more closely align with the Holdco Articles of Association, including with respect to notification matters and information rights as well as ensuring that the boards of each of the Bank and Holdco are identical going forward.

The Articles of Association will also be amended to introduce the power for the Board to suspend the transfer of the Ordinary Shares. In order to ensure that those Shareholders on the register of members at the Entitlements Record Time, when entitlements to participate in the Members' Equity Subscription are calculated, remain Scheme Shareholders when the Member's Scheme is sanctioned and made effective, the Board will exercise that power to suspend the ability to transfer an Ordinary Share in the period from the General Meeting until the Settlement Date. Shareholders should note that no proposed transfer of Ordinary Shares during that period will therefore be registered.

Additionally, a new article will be introduced to the Articles of Association to complement the Share Transfer part of the Members' Scheme. This will ensure that any Ordinary Shares allotted and issued to any person other than Holdco and/or its nominee(s) after the adoption of the new article but on or before the Entitlements Record Time will be allotted and issued subject to the terms of the Members' Scheme and will accordingly constitute Scheme Shares. Further, subject to the Members' Scheme becoming effective, any Ordinary Shares issued after the Entitlements Record Time and on or before the Settlement Date to any person other than Holdco and/or its nominee(s) will be allotted and issued on terms that they will, immediately upon their allotment or issue or, if later, immediately after the Settlement Date, be transferred to Holdco and/or its nominee(s) in exchange for A Shares in Holdco. The Bank does not intend to issue any Ordinary Shares in this period.

9. GOVERNANCE ARRANGEMENTS OF HOLDCO

For a description of Holdco's Board and committee structure, see Section A of Annex II Part 5 of this Consent Solicitation Memorandum.

Holdco is a private limited company incorporated by the Initial Holdco Shareholders on 13 July 2017 with 451,457 ordinary shares of £0.10 each in issue. On or prior to the Settlement Date, the Incorporation Shares will be sub-divided and re-designated into A Shares representing approximately five per cent. of the total number of fully-diluted issued A Shares of Holdco immediately following Completion.

The A Shares will be the shares with the primary economic interest in Holdco. The A Shares will: (i) entitle holders to distributions, including, but not limited to, dividends and capital on a winding up of Holdco; (ii) be freely transferable save that they may not be transferred to a Commercial Competitor of the Bank without the sanction of a special resolution; and (iii) be structured so as to constitute CET1 capital. The A Shares will not have the power to attend or to vote at general meetings except on limited matters, including those affecting their rights as a class and in respect of a resolution proposed on a Bank Exit (as defined in Annex II Part 15 of this Consent Solicitation Memorandum) or IPO Exit (as defined in Annex II Part 15 of this Consent Solicitation Memorandum). If however, at any time following Completion: (i) there are no B Shares in issue or all B Shares in issue are subject to a notice from the Holdco Board that they will be redeemed or brought back; or (ii) Holdco ceases to own (directly or indirectly) more than 50 per cent. of the shares of the Bank as a result of a mandatory write down or bail-in or the automatic conversion of securities by reason of the Bank failing to meet certain regulatory thresholds, then voting rights will vest in the A Shares from the B Shares (save that, in the event that any A Shareholder owns 10 per cent. or more of the A Shares, such shareholder will not be able to exercise the votes attaching to those A Shares prior to, if required, being approved by the PRA and the FCA as a "controller" of Holdco). The issue of A Shares will be subject to pre-emption rights.

Holders of A Shares who together with their affiliates, are the registered holders of 10 per cent. or more of the fully diluted A Shares at Completion (and fulfil certain other criteria) will be entitled to subscribe at par for B Shares on the basis of one B Share for every one per cent. of A Shares held by it. B Shares are redeemable preference shares that will, subject to limited exceptions, carry all of the voting rights at a general meeting and the Holdco Articles of Association will also set out certain matters for which approval from B Shareholders is required. B Shares will not be entitled to distributions but each B Shareholder shall subject to the principles set out in the B Shareholders Agreement be entitled to a *pro rata* share of a £25 million distribution from Holdco on a Bank Exit or a *pro rata* share of an issue of A Shares equivalent to the value of £25 million on an IPO Exit. The B Shareholders also have the right to nominate up to two directors to the Holdco Board, and, via Holdco's ownership of the Bank, the Board. It is not intended that B Shares will constitute CET1 capital.

10. PENSIONS

Pace

The Bank, the Co-operative Group and, *inter alia*, several employers owned by the Co-operative Group participate in Pace. A triennial actuarial valuation of Pace with an effective date of 5 April 2016 is currently being prepared and discussions between the Pace Trustee and the Co-operative Group are ongoing.

The most recently completed actuarial valuation of Pace was carried out as at 5 April 2013. This valuation reported assets at a value of £7,728 million and liabilities of £8,328 million and a funding deficit of £600 million. The most recent actuarial report update as at 5 April 2015 indicated that the funding deficit had decreased to £304 million on a valuation basis consistent with that used for the 5 April 2013 actuarial valuation. While Pace has a funding deficit, it has a significant IAS 19 surplus of £1,784 million as at 31 December 2016.

Under the schedule of contributions agreed following the 2013 actuarial valuation, the Co-operative Group, as principal employer in Pace, agreed to pay aggregate deficit reduction contributions of £25 million a year, from 1 July 2014 until 30 June 2019 inclusive, to repay the £104 million funding deficit calculated on an approximate basis as at 31 May 2014. In the financial year ended 31 December 2016, the Bank contributed £5 million out of the £25 million. The Co-operative Group has undertaken to agree with the Bank its proportion of the employer contributions to Pace (and, if not agreed, the matter may be referred to, and decided by, an independent actuary).

All of the assets of Pace are currently held on a non-segregated basis, from which all benefits are payable. A particular risk for the Bank arises from the fact that Pace is a "last-man standing" scheme. This means that, whilst the Bank continues to participate in Pace (in its current unsectionalised form), there is a risk that all employers other than the Bank (including the Co-operative Group) exit Pace or become insolvent without satisfying their liabilities to Pace, with the effect that the Bank becomes solely responsible for funding Pace (that is the Bank becomes the "last-man standing"). Similarly, the Co-operative Group has "last-man standing" risk if the Bank exits Pace or becomes insolvent without satisfying its liabilities to Pace.

For further information regarding the Pace Pensions Sectionalisation see paragraph 11 below.

The Britannia Pension Scheme ("Britannia Scheme")

The Bank is the sole substantive sponsor of the Britannia Scheme, and no changes to this position are proposed.

The most recently completed actuarial valuation of the Britannia Scheme was carried out as at 5 April 2014. This valuation reported that there was a funding deficit of £41.2 million. The Britannia Scheme actuary estimated that the shortfall had increased to £144.7 million as at 5 April 2016. While the Britannia Scheme operates with an actuarial deficit, it still had an IAS 19 surplus with £20 million recognised as at 31 December 2016. A triennial actuarial valuation with an effective date of 5 April 2017 is currently underway, with the outcome of this valuation not expected to be known until at least Q3 2017, and with a statutory deadline for completion of 5 July 2018.

The Bank has agreed to pay deficit contributions totalling £50 million over a period to 31 July 2022. A security arrangement has also been put in place pursuant to which the Bank has charged in favour of the trustee of the Britannia Scheme (the "**Britannia Trustee**") certain mortgage-backed notes (which had a principal outstanding amount of £165.1 million when the security was put in place in 2016, and with a 17 per cent. haircut having been applied to this security value). The Britannia Trustee's maximum claim in the event the security becomes enforceable is £137 million.

For further information regarding the Bank's pensions arrangements see paragraph 14 of Annex II Part 14 of this Consent Solicitation Memorandum.

11. RELATED PARTY TRANSACTIONS

As included in the Bank's Articles of Association, the Bank has, for so long as its Ordinary Shares are not admitted to listing on the Official List, committed to adopt policies and procedures to comply with Chapters 10-13 of the Listing Rules to the extent reasonably practicable and in accordance with the spirit of those rules.

Group Related Party Transaction

For the purposes of Chapter 11 of the Listing Rules, the Co-operative Group would be a related party and, if the Bank were, as a matter of regulatory requirement, subject to Chapter 11 of the Listing Rules, certain aspects of the arrangements with the Co-operative Group relating to the Restructuring and Recapitalisation may be considered to be related party transactions. Accordingly, consistent with the Bank's commitment to Values & Ethics, the Board has decided to obtain the approval of Independent Shareholders for the Co-operative Group pensions arrangements and the Co-operative Group commercial arrangements pursuant to Resolution 4. The relevant arrangements include:

A. ***Co-operative Group Pensions Arrangements***

With a view to addressing the "last-man standing" risk for the Bank, on 14 July 2017, the Bank, the Co-operative Group and the trustee of Pace (the "**Pace Trustee**") (together the "**Sectionalisation Parties**") entered into a legally binding agreement (the "**Pace Heads of Terms**") which, when implemented, will effect pensions separation within Pace (the "**Pace Pensions Sectionalisation**"), such that the Bank will become responsible for its own section of Pace only, and will no longer have "last-man standing" risk for the rest of Pace (or the risk of any other liability to the Co-operative Group's section of Pace absent the exercise of the Pensions Regulator's "moral hazard" powers to impose financial support directions and/or contribution notices pursuant to sections 38 to 51 of the Pensions Act 2004). By way of summary:

- the only condition left to be satisfied for implementation of the Pace Pensions Sectionalisation is completion of the "Restructuring and Recapitalisation";
- the Pace Pensions Sectionalisation will take the form of Pace being divided into two legally separate sections, with the Bank the sole sponsor of one section (the "**Bank Section**"), and the Co-operative Group and all other participating employers being the sponsors of the other section (the "**Co-operative Group Section**"). As legally separate sections, the two sections will under pensions legislation and the rules of Pace be operated as though they were separate schemes (with the exception of the fact they share a common trustee). The Bank will have no liability for the Co-operative Group Section and the Co-operative Group will have no liability for the Bank Section (unless Pace is desectionalised (see below) or the Pensions Regulator exercises its "moral hazard" powers to impose financial support directions and/or contribution notices pursuant to sections 38 to 51 of the Pensions Act 2004). Formal clearance has been obtained from the Pensions Regulator in relation to the transactions expected to be implemented pursuant to the Pace Heads of Terms (and on the basis of completion of the Restructuring and Recapitalisation before 19 October 2017), which substantially mitigates the risk of the Pensions Regulator exercising its "moral hazard" powers against the Bank in relation to the Co-operative Group Section following Pace Pensions Sectionalisation;
- it is envisaged that the Bank Section will contain the Pace benefits which relate to the Bank (that is, the benefits of current and former Bank employees) and a *pro-rata* share of "orphan" Pace benefits (that is, benefits that do not relate to any current employer participating in Pace, and which the Pace Trustee has determined should be allocated on a *pro-rata* basis between the Pace employers) in accordance with the Pace Heads of Terms. It is estimated that the Bank Section will contain 20.55 per cent. of Pace liabilities (assessed on a "low risk target basis" agreed in the Pace Heads of Terms). A proportionate share (estimated to be 20.55 per cent.) of Pace assets will be allocated to the Bank Section. The Sectionalisation Parties have agreed that they will use their best endeavours to implement the Pace Pensions Sectionalisation by 30 June 2018;
- the initial deficit recovery plan for the Bank Section will provide for the Bank to pay (in advance) £12.5 million per annum deficit contributions in respect of each of the calendar years 2018 to 2022 inclusive and £7.5 million per annum deficit contributions in respect of each of the calendar years 2023 to 2027 inclusive (and which will be subject to revision at future actuarial valuations in accordance with scheme funding legislation). An agreed "technical

provisions basis" will be used as the initial basis for calculating the technical provisions pursuant to Part 3 of the Pensions Act 2004 for the Bank Section, as the starting point for calculating technical provisions at future valuations of the Bank Section and as a reference point (along with the agreed "low risk target basis") for funding discussions at future valuations of the Bank Section over the period to 31 December 2027. The Bank and the Pace Trustee have agreed that the funding target for the Bank Section will be to aim to be fully funded on the "low risk target basis" by 31 December 2027;

- a security arrangement will also be put in place pursuant to which the Bank will charge in favour of the Pace Trustee (unless cash or gilts are used as the security assets) certain AAA rated debt securities which will be subject to haircuts described more fully in the description of how an "asset value" will be calculated in paragraph 14.1 of Annex II Part 16 of this Consent Solicitation Memorandum. The Pace Trustee's maximum claim in the event the security becomes enforceable will initially be at a level of £216 million (being the indicative deficit for the Bank Section on the agreed "low risk target basis" had the Pace Pensions Sectionalisation taken place as at 31 March 2017: the value of Pace assets as at 31 March 2017 was estimated to be £11,128 million), and will reduce in line with deficit payments made by the Bank (but subject to upward revision up to a maximum of £216 million before 1 January 2028 and a maximum of £250 million on or after 1 January 2028 in the event deficit contributions become payable which exceed the then maximum claim following later valuations). If the Co-operative Group still has potential "last-man standing" risk for the Bank Section on 1 January 2028, the Pace Trustee's maximum claim will increase to £250 million, reducing in line with deficit payments made by the Bank from 1 January 2028;

- if the Bank suffers an insolvency event (for example, Bank administration), Pace will be desectionalised (unless the Pace Trustee chooses to retain sectionalisation) such that Pace again operates with all assets being held on a non-segregated basis, from which all benefits are payable. On insolvency, the Bank would be liable for a debt pursuant to section 75 of the Pensions Act 1995 (a "**section 75 debt**"), and if desectionalisation takes place, the Co-operative Group would have (as now) "last-man standing" risk for the whole of Pace. If the Bank was not insolvent and the Co-operative Group suffered an insolvency event, there is no provision for Pace to be desectionalised, and the Bank would not have liability to the Co-operative Group Section; and

- this risk of desectionalisation for the Co-operative Group will, however, terminate if the Bank Section reaches 100 per cent. funding on the agreed "low risk target basis" and if the Pace Trustee is of the opinion (having received covenant advice) that the Bank's covenant is sufficient to provide adequate support to the Bank's liabilities. The Pace Trustee can also in its discretion terminate this risk of desectionalisation for the Co-operative Group where the Bank Section is less than 100 per cent. funded on the agreed "low risk target basis" if it is of the opinion that the Bank's covenant is sufficient to provide adequate support to the Bank's liabilities.

B. ***Co-operative Group Commercial Arrangements***

The Co-operative Group has agreed, pursuant to the Group Agreement dated 28 June 2017 (further described in paragraph 16.14 of Annex II Part 16 of this Consent Solicitation Memorandum), with the Bank to use its best efforts to implement the Restructuring and Recapitalisation, including to procure that the Co-operative Banking Group Limited ("**CBG**"), being the entity in the Co-operative Group which holds its shareholding in the Bank, votes in favour of, the Restructuring and Recapitalisation and has entered into certain new agreements with the Bank giving effect to the commercial arrangements reached between the Co-operative Group and the Bank in connection with the Restructuring and Recapitalisation prior to the 28 June 2017 announcement that the Bank had entered into the Lock-Up Agreement. These new arrangements are as follows:

- the Group Implementation Deed, as further described in paragraph 17.15 of Annex II Part 16 of this Consent Solicitation Memorandum, amongst other things, records that:
    - the Relationship Agreement will, upon completion of the Restructuring and Recapitalisation, terminate (save as described in (a) to (d) below) and that the existing arrangements between the Co-operative Group and the Bank, with respect to the Co-operative Group's obligations entered into for the benefit of the Bank under the Relationship Agreement, including: (a) to use the Bank as its exclusive or primary financial services provider, (b) to promote the Bank's business to its members and encourage them to use the services of the Bank, (c) not to compete, operate, establish or acquire any undertaking which constitutes a competing business and (d) not to solicit for employment senior employees of the Bank (in each case subject to certain exceptions), will enter into run off in accordance with their terms. On that basis, the obligations of the Co-operative Group referred to in (a) to (b) above will expire, in accordance with the terms of the Relationship Agreement, in December 2020 and those in (c) and (d) will expire, in accordance with the terms of the Relationship Agreement, in September 2020;
    - in order to protect the legitimate business interests of the parties, the Co-operative Group and the Bank each agree not to, at any time in the next two years from the Settlement Date, make critical comments about one another in any official statements or press briefings;
    - the 2014 Shareholder Rights Agreement entered into by the Bank with, *inter alia*, the Co-operative Group and CBG in connection with the Bank's 2014 capital raising and described in paragraph 17.5 of Annex II Part 16 of this Consent Solicitation Memorandum, will terminate and cease to be of any effect as between the Bank, CBG and the Co-operative Group;
    - the right of the Co-operative Group to appoint a nominee director to the Board pursuant to the Variation and Director Appointment Deed entered into between the Bank, the Co-operative Group and CBG in connection with the Bank's 2014 capital raising and described in paragraph 17.4 of Annex II Part 16 of this Consent Solicitation Memorandum will cease;
    - the Co-operative Group will enter into the Deed of Gift (as further described in paragraph 17.16 of Annex II Part 16 of this Consent Solicitation Memorandum);
    - the Co-existence Principles (further described in paragraph 17.8 of Annex II Part 16 of this Consent Solicitation Memorandum will no longer be applicable and shall immediately cease to have any effect;
    - the Co-operative Group and the Bank each agree not to make any announcement in connection with the Restructuring and Recapitalisation up to the Settlement Date without the prior written approval of the other parties;
    - the Co-operative Group and the Bank each agree to a mutual waiver of claims whereby the parties each irrevocably and unconditionally waive, release and discharge fully and absolutely, to the fullest extent permitted by law, all liabilities of the other party and its advisers, directors, senior managers, employees and affiliates to it in relation to or in connection with or in any way arising out of the preparation, negotiation or implementation of the Restructuring and Recapitalisation;
    - the Co-operative Group acknowledges the Bank's ownership of the trademark "The Co-operative Bank";
    - the Bank will at all times: (i) ensure that all its brands are distinguishable from the brands of the Co-operative Group; and (ii) uses all reasonable endeavours to avoid confusion on the part of the public into believing that the Bank or any of its subsidiaries

are part of the Co-operative Group of companies or otherwise associated with the Co-operative Group; and

- the Bank shall reimburse the Co-operative Group for up to £6 million of its advisers' fees incurred by it prior to the Settlement Date arising out of or in connection with the preparation and implementation of the Restructuring and Recapitalisation.

- the Amended Tax Deed (as further described in paragraph 17.17 of Annex II Part 16 of this Consent Solicitation Memorandum) sets out certain arrangements with respect to the future sharing of tax benefits realised by the Co-operative Group from tax losses surrendered to it historically by the Bank Group.

As would be required by Chapter 11 of the Listing Rules, CBG will abstain, and has undertaken to take all reasonable steps to ensure that its associates will abstain, from voting on Resolution 4 in respect of the Group Related Party Transaction at the General Meeting.

Investor Related Party Transactions

GoldenTree and Silver Point Capital, both of which are Principal Investors, which hold 60,786,703 and 64,425,461 Ordinary Shares respectively as at 25 July 2017 (being the latest practicable date prior to the date of this Consent Solicitation Memorandum) (representing approximately 13.5 per cent. and 14.3 per cent., respectively, of the existing issued ordinary share capital of the Bank), have entered into certain arrangements with the Bank in connection with the Restructuring and Recapitalisation, pursuant to the Lock-Up Agreement and the Backstop Agreement. These arrangements are:

- as a preliminary step to implement the Restructuring and Recapitalisation, Holdco was incorporated by the Initial Holdco Shareholders (which include GoldenTree and Silver Point Capital) who together contributed £250,107.18 by way of subscription for the Incorporation Shares. On or prior to Completion, the Incorporation Shares will be sub-divided and re-designated into A Shares representing approximately five per cent. of the total number of fully diluted issued A Shares of Holdco immediately following Completion. These A Shares will continue to be owned by the Initial Holdco Shareholders (including GoldenTree and Silver Point Capital) upon Completion;

- (i) the transfer by each of GoldenTree and Silver Point Capital of their Ordinary Shares in the Bank to Holdco in exchange for A Shares in Holdco pursuant to the Share Transfer contemplated by the Members' Scheme; and (ii) the exchange of all Subordinated Notes held by each of GoldenTree and Silver Point Capital in consideration for A Shares in Holdco pursuant to the Notes Exchange contemplated by the Creditors' Scheme;

- to subscribe for A Shares pursuant to the Equity Subscriptions and, as a Backstop Provider, to subscribe for their pro-rata share of any A Shares not subscribed and paid for by other Qualifying Scheme Creditors and/or Qualifying Shareholders, as the case may be, that are not Backstop Providers pursuant to the Equity Subscriptions;

- the payment by the Bank of a premium to the Backstop Providers (which includes GoldenTree and Silver Point Capital) to be satisfied by their respective proportionate entitlements to the Backstop Consideration Shares issued in consideration for their commitment under the Backstop Agreement to subscribe for A Shares not subscribed and paid for pursuant to the Equity Subscriptions; and

- the governance arrangements, as described in paragraph 9 above, pursuant to which: (i) GoldenTree and Silver Point Capital, will become entitled to subscribe for B Shares in Holdco and thereby exercise significant influence over the Bank; (ii) the holders of B Shares, which are expected to include GoldenTree and Silver Point Capital, will become entitled to appoint two directors to the Holdco Board; (iii) the holders of B Shares, which are expected to include GoldenTree and Silver Point Capital, will become entitled to exercise a right of veto over certain matters relating to the Bank's business and its governance; and (iv) the Principal Investors, including GoldenTree and Silver Point Capital, will become entitled to nominate a restructuring officer of the Bank.

As a consequence of the current interest in the Bank held by GoldenTree and Silver Point Capital, GoldenTree and Silver Point Capital would each be a related party of the Bank and these arrangements may, if the Bank were, as a matter of regulatory requirement, subject to Chapter 11 of the Listing Rules, be considered to constitute a related party transaction which requires the prior approval of Independent Shareholders. Accordingly, the Independent Shareholders are being requested to approve the Investor Related Party Transactions at the General Meeting, at which GoldenTree will abstain (as regards the resolution to approve the GoldenTree Related Party Transaction) and Silver Point Capital will abstain (as regards the Silver Point Capital Related Party Transaction), each having undertaken to take all reasonable steps to ensure that its associates abstain, from voting on Resolution 5 (in the case of the GoldenTree Related Party Transaction) and Resolution 6 (in the case of the Silver Point Capital Related Party Transaction), at the General Meeting.

12. CANCELLATION OF PREFERENCE SHARES

It is proposed that, in order to simplify the share capital of the Bank following Completion, the Preference Shares, all of which are held by the Co-operative Group, will be cancelled in their entirety. This is proposed to be effected by means of a transfer of the Preference Shares for no consideration to the Bank (or its nominee) by way of a Deed of Gift and their subsequent cancellation, (as further described in paragraph 17.16 of Annex II Part 16 of this Consent Solicitation Memorandum), which will be implemented on the Settlement Date. No value will be paid to the Co-operative Group for the cancellation. The Preference Shares are currently not recognised on the balance sheet of the Bank as all rights to receive dividends and capital have been waived and, accordingly, there is no impact on the Bank's balance sheet and reserves as a result of this cancellation.

13. CONDITIONALITY

The implementation of the Restructuring and Recapitalisation is conditional upon:

(a) approval of the Members' Scheme at the Members' Scheme Court Meeting by the relevant statutory majority;

(b) approval of the Resolutions at the General Meeting by the relevant majorities;

(c) approval of the Creditors' Scheme at the Creditors' Scheme Court Meeting by the relevant statutory majority;

(d) approval of the 2023 Noteholder Extraordinary Resolutions at the 2023 Noteholder Meeting by the relevant majorities;

(e) sanction of the Members' Scheme by the Court at the Members' Scheme Court Hearing;

(f) sanction of the Creditors' Scheme by the Court at the Creditors' Scheme Court Hearing;

(g) execution of a supplemental trust deed to amend the terms of the 2023 Notes pursuant to the Consent Solicitation;

(h) approval by either or both of the PRA or FCA (if required) pursuant to Part XIII of FSMA for the Principal Investors (as applicable) and Holdco to become controllers of the Bank;

(i) the PRA granting Holdco permission to classify the A Shares as CET1 instruments;

(j) approval of the PRA pursuant to Articles 77 and 78 of the CRR for the Bank to reduce, repurchase or redeem the Subordinated Notes in connection with the Restructuring and Recapitalisation;

(k) the Backstop Agreement having not terminated in accordance with its terms (the key terms of the Backstop Agreement, including relevant termination rights, are summarised in paragraph 17.19 of Annex II Part 16 of this Consent Solicitation Memorandum); and

(l) the Subscription Proceeds for Subscription Shares in the sum of £250 million having been received by the Information Agent and being held in escrow pending Completion.

Accordingly, if any of these conditions are not satisfied, the Restructuring and Recapitalisation will not be capable of being successfully completed.

The implementation of the Consent Solicitation, Creditors' Scheme and the Members' Scheme and the implementation of each of the Member's' Equity Subscription and the Creditors' Equity Subscription (including the implementation of the Backstop Arrangements if applicable) are inter-conditional. Further details of the implementation of, and conditionality applicable to, the Restructuring and Recapitalisation is set out in Part 5 of this Consent Solicitation Memorandum.

As at the date of this Consent Solicitation Memorandum, the Bank expects that the Consent Solicitation, the Members' Scheme and the Creditors' Scheme (which include the Equity Subscriptions and the Backstop Arrangements), the Holdco Subscriptions, the B Shares Subscription, the Consent Solicitation (which includes the Mandatory Cancellation) and the Preference Share Cancellation will run to the same timetable. However, the Bank reserves the right to amend the timetable and/or terms of either the Consent Solicitation, the Mandatory Cancellation, the Members' Scheme, the Creditors' Scheme, the Equity Subscriptions, the Backstop Arrangements, the Consent Solicitation, the Holdco Subscriptions, the B Shares Subscription or the Preference Share Cancellation independently of any amendments which may (or may not) be made to the timetable and/or terms of the Consent Solicitation, the Mandatory Cancellation, the Members' Scheme, the Creditors' Scheme, the Equity Subscriptions, the Backstop Arrangements, the Holdco Subscriptions, the B Shares Subscription or the Preference Share Cancellation.

14. PROPOSALS TO BE VOTED ON AT THE MEETING

The Bank is inviting Holders of the 2023 Notes to approve, by Extraordinary Resolution, the Proposals as set out in the Notice of Meeting. The Meeting will be held at 10 Upper Bank Street, Canary Wharf, London E14 5JJ at 10.00 a.m. on 21 August 2017.

The purpose of the Consent Solicitation is to invite Eligible Holders of the 2023 Notes to consider and, if thought fit, approve the Proposals, including to:

(a) assent to and sanction the modification to the Conditions of the 2023 Notes to insert a mandatory cancellation condition pursuant to which the 2023 Notes held by Retail Noteholders shall (subject to PRA Consent) be irrevocably cancelled and the rights, liabilities and obligations thereunder released in consideration of the payment of the Retail Cash Consideration to those Retail Noteholders (subject (in aggregate) to the Maximum Cash Amount);

(b) waive any and all Events of Default, Potential Events of Default and any other breach of the Conditions of the 2023 Notes or the Trust Deed (in each case, if any) that have been, are or may be, triggered by or in connection with the Restructuring and Recapitalisation;

(c) assent to and sanction the extension of the powers of a meeting of Holders under the Trust Deed in order to allow for the assent and sanction of the releases and waivers referred to in (d) below; and

(d) assent to and sanction, to the fullest extent permitted by law:

    (A) subject to certain conditions, the irrevocable and unconditional, full and final waiver and release and forever discharge from the Settlement Date of (x) all Note Claims; and (y) any and all actions, proceedings, claims, damages, counterclaims, complaints, liabilities, liens, rights, demands and set-offs, whether in this jurisdiction or any other, of whatsoever nature and howsoever arising, whether in law or in equity, in contract (including but not limited to breaches or non-performances of contract), statute or in tort (including but not limited to negligence and misrepresentation), breaches of statutory duty, for contribution, or for interest and/or costs and/or disbursements, whether filed or unfiled, whether or not presently known to the parties or to the law, all claims that each 2023 Noteholder ever had, may have or hereafter can, shall or may have against any Relevant Person in relation to or arising out of or in connection with:

(i) the preparation, negotiation or implementation of the Consent Solicitation and the Creditors' Scheme (including, but not limited to, the Restructuring Deed and Restructuring Implementation Documents); and/or

(ii) the preparation, negotiation or implementation of the Restructuring and Recapitalisation; and/or

(iii) any event or circumstance arising in the period from 1 January 2016 to the Completion Time (as defined in the Restructuring Deed) which caused or, contributed to, directly or indirectly the requirement for the Restructuring and Recapitalisation;

(B) that Relevant Persons may enforce the agreement of each 2023 Noteholder to release liabilities and waive its rights and entitlements, as described in (A) above, subject to and in accordance with the provisions of the Contracts (Rights of Third Parties) Act 1999; and

(C) the modification, abrogation, compromise or arrangement in respect of its rights against the Relevant Persons necessary to give effect to the foregoing provisions of this paragraph;

all as more fully set out in the "*Form of Notice of Meeting*" in Annex 1 hereto.

The Bank is proposing two Extraordinary Resolutions at the Meeting of Holders: (i) the First Extraordinary Resolution, to extend the powers of the Meeting as described in (c) above; and (ii) the Second Extraordinary Resolution, in respect of the other Proposals. The Second Extraordinary Resolution to be proposed at the Meeting shall be conditional on the passing and implementation of the First Extraordinary Resolution proposed at such Meeting.

15. CONSEQUENCES OF THE 2023 NOTEHOLDER EXTRAORDINARY RESOLUTIONS AND THE RESOLUTIONS NOT BEING PASSED AND THE SCHEMES NOT BEING APPROVED AND IMPLEMENTED

If the 2023 Noteholder Extraordinary Resolutions are not passed by the 2023 Noteholders and/or the Resolutions are not passed by the Shareholders, and/or the Schemes are not approved and implemented or any of the other conditions to the Restructuring and Recapitalisation are not satisfied, the Bank will not be able to proceed with the Restructuring and Recapitalisation. This would have a direct and material adverse effect on the Bank's ability to comply with its current and future regulatory capital requirements, loss-absorbing capacity and liquidity requirements.

The Bank would expect to hold urgent discussions with the PRA and the Bank of England if the Restructuring and Recapitalisation is not implemented. It is not possible to be certain what the outcome of those discussions may be, nor the extent to which the Authorities would impose on the Bank requirements in respect of the Bank's non-compliance with requirements relating to its credit risk modelling under the CRR, its ICG, its Combined Buffer, its PRA Buffer and its MREL. It is not possible to be certain as to what actions the Bank of England and/or other Authorities would take in these circumstances, as they are afforded a wide degree of discretion. The Authorities (between them) would have a wide range of measures available to them, including:

- agreeing a revised plan, or requiring the Bank to take other specified actions;
- varying or restricting the Bank's permissions or business;
- as a precursor to placing the Bank within the Special Resolution Regime, or as a standalone tool, using the mandatory write-down tool to write-down, cancel, or transfer some or all of the Bank's capital instruments, which could include the Ordinary Shares and the Subordinated Notes; and
- placing the Bank into the Special Resolution Regime under the Banking Act.

The Bank is aware that the Bank of England has already commenced preparatory steps in order to enable it to use the mandatory write-down tool and, if thought fit, subsequently or at the same time, to resolve the

Bank pursuant to the Special Resolution Regime, shortly following a failure successfully to implement the Restructuring and Recapitalisation.

If the Bank of England exercises its powers under the Banking Act or there is continuing press and/or market speculation regarding the occurrence of such an event, it is highly probable that the Bank would be materially adversely affected.

The Bank believes that, if the Restructuring and Recapitalisation is not successfully implemented, the most likely outcome is that the Ordinary Shares and the Subordinated Notes will be subjected to a mandatory write-down either as a preliminary step to, or in the course of the Bank's entry into, Special Resolution. In such a scenario, the Bank believes that Shareholders will receive no recovery in respect of the Ordinary Shares that they hold, and that Subordinated Noteholders will receive no recovery in respect of the Subordinated Notes that they hold. As a result, the Bank believes that a successful Restructuring and Recapitalisation is a substantially more beneficial outcome for Shareholders and Subordinated Noteholders than a Special Resolution of the Bank.

Furthermore, absent the successful implementation of the Restructuring and Recapitalisation, in a Working Capital Stress Scenario, the Bank would not have enough CET1 capital to meet its minimum Pillar 1 regulatory capital requirements over the Working Capital Period. Were these events to occur, the Bank believes the above described outcome and consequences would arise for Shareholders and Subordinated Noteholders. However, the successful implementation of the Restructuring and Recapitalisation would mean that if a Working Capital Stress Scenario were to occur within the Working Capital Period, the Bank would continue to meet its minimum Pillar 1 regulatory capital requirements. See paragraph 2.16 of Annex II Part 7 of this Consent Solicitation Memorandum for a description of the Working Capital Stress Scenario and the Bank's working capital position over the Working Capital Period. See further Section B of this Part 4 of this Consent Solicitation Memorandum below for more information.

16. RECOMMENDATION

The Unrelated Directors consider that the Restructuring and Recapitalisation, the Group Related Party Transaction, the Investor Related Party Transactions and the Members' Scheme are in the best interests of the Bank and 2023 Noteholders as a whole.

Accordingly, the Unrelated Directors unanimously recommend that 2023 Noteholders vote in favour of the Extraordinary Resolutions to be proposed at the 2023 Noteholder Meeting.

17. FURTHER INFORMATION

Your attention is drawn to the further information set out in Parts Annex II 3 to 16 (inclusive) of this Consent Solicitation Memorandum, which gives further details about the Restructuring and Recapitalisation, the risk factors set out in Annex II Part 3 of this Consent Solicitation Memorandum, the terms of the Consent Solicitation which are set out in Part 8 of this Consent Solicitation Memorandum, and the definitions in Annex II Part 3 of this Consent Solicitation Memorandum. You should read the whole of this Consent Solicitation Memorandum and not rely solely on the information set out in this letter.

Yours faithfully,

Dennis Holt
Chairman

SECTION B: POTENTIAL CONSEQUENCES IF THE RESTRUCTURING AND RECAPITALISATION IS NOT IMPLEMENTED

1. PURPOSE OF THIS SECTION B

The purpose of this Section B is to assist: 2023 Noteholders in determining whether or not to vote in favour of the 2023 Noteholder Extraordinary Resolutions set out in this Consent Solicitation Memorandum. It compares the position for Shareholders and Subordinated Noteholders if the Restructuring and Recapitalisation is successfully implemented to what the Bank considers to be the most likely outcome if the Restructuring and Recapitalisation is not successful, in order to assist 2023 Noteholders in deciding whether or not to vote in favour of the 2023 Noteholder Extraordinary Resolutions.

The Bank of England and, in certain circumstances, HM Treasury have wide discretionary powers as to how to effect a mandatory write-down and/or Special Resolution of the Bank. Any analysis of the position of 2023 Noteholders following a mandatory write-down or resolution of the Bank is subject to a number of uncertainties and 2023 Noteholders should take careful note of the significant limitations and uncertainties set out in the following paragraphs and in the risk factor entitled "*The implementation of the Restructuring and Recapitalisation faces a number of significant risks and relies on the Members' Scheme (including the Members' Equity Subscription), the Creditors' Scheme (including the Scheme Creditors' Equity Subscription) and the Consent Solicitation being executed successfully and the Resolutions being passed.. If the Restructuring and Recapitalisation does not succeed, the Bank believes the most likely outcome is that the Ordinary Shares and the Subordinated Notes will be subjected to a mandatory write-down, either as a preliminary step to, or in the course of the Bank's entry into, Special Resolution. In such a scenario, the Bank believes that Shareholders will receive no recovery in respect of the Ordinary Shares that they hold, and that Subordinated Noteholders will receive no recovery in respect of the Subordinated Notes that they hold*" in Annex II Part 3 of this Consent Solicitation Memorandum.

2. SUMMARY

In summary, the Bank believes that, if the Restructuring and Recapitalisation were to fail, then the most likely outcome is that the Bank would be subject to a mandatory write-down procedure, followed by or together with a Special Resolution of the Bank under the Banking Act. The Bank also believes that, in such a scenario, for the reasons outlined below, Shareholders and Subordinated Noteholders would not receive any recovery on their Ordinary Shares or Subordinated Notes, respectively.

By contrast, if the Restructuring and Recapitalisation is successful: (i) Retail Noteholders will receive the Retail Cash Consideration pursuant to the terms of the Restructuring and Recapitalisation; and (ii) if the Bank in turn succeeds in delivering the Plan and, where applicable, the May 2017 Outlook on the Plan, then Subordinated Noteholders who are Scheme Creditors for the purpose of the Creditors' Scheme (who will become shareholders of Holdco following conversion of their claims into A Shares) and Shareholders may benefit from any future capital growth in the Bank and/or the possibility of the payment of dividends in the future as the Bank reduces and, in due course, the risk of the Bank being subject to enforcement action by the Authorities is removed and the Bank takes significant steps towards becoming an efficient, financially-sustainable, and capital-resilient UK bank focused on retail and SME customers, differentiated by an ethically-led brand and a customer-centric proposition.

3. ESTIMATED OUTCOME ANALYSIS

In reaching the conclusions set out in this Section B, the Bank has had regard to a report (the "**Estimated Outcome Analysis**") prepared by Grant Thornton UK LLP ("**GT**").

The Estimated Outcome Analysis has been prepared for the Bank's benefit, and GT accepts no duty of care to 2023 Noteholders. The summary below has been prepared by the Bank to assist 2023 Noteholders in understanding the conclusions that the Bank has reached set out in paragraph 10 below.

The Estimated Outcome Analysis sets out GT's view of the likely outcome for the Bank's Shareholders, Subordinated Noteholders, and other financial stakeholders in two hypothetical scenarios:

- A "**Resolution Scenario**", in which the Bank of England exercises the mandatory write-down tool in respect of the Bank's capital instruments, followed by or together with placing the Bank into the Special Resolution Regime.
- A "**Liquidation Scenario**", in which the Bank enters a managed wind down as part of a Bank Insolvency Procedure.

The Estimated Outcome Analysis considers both the Resolution Scenario and the Liquidation Scenario (each a "**Scenario**") in a base case, an illustrative upper sensitivity case (where net recoveries are higher than expected in the base case), and an illustrative lower sensitivity case (where net recoveries are lower than expected in the base case).

The key conclusions set out in the Estimated Outcome Analysis are that:

- The value of the Bank's assets exceed the value of its liabilities, whilst the Bank continues to trade as a going concern. However, in either Scenario, additional liabilities would be expected to crystallise, and it is unlikely that the full value of the Bank's assets would be realised, leading to a shortfall.
- In both Scenarios, and under all illustrative sensitivities, the Bank's secured creditors and preferred depositors are expected to suffer no loss. This includes ordinary preferential creditors protected by the Financial Services Compensation Scheme and secondary preferential creditors for that part of a deposit which is not covered by the Financial Services Compensation Scheme.
- **In both Scenarios, and under all illustrative sensitivities, Shareholders are expected to suffer a complete loss and to receive no recovery at all in respect of the Ordinary Shares that they hold.**
- **In both Scenarios, and under all illustrative sensitivities, Subordinated Noteholders (including therefore all Scheme Creditors) are also expected to suffer a complete loss and to receive no recovery at all in respect of the Subordinated Notes that they hold.**
- In each of the base case, illustrative upper sensitivity case and illustrative lower sensitivity case of the Resolution Scenario, the Bank's senior unsecured creditors (including Senior Noteholders) are expected to receive a higher recovery than in the base case, illustrative upper sensitivity case and illustrative lower sensitivity case (respectively) of the Liquidation Scenario, but would still suffer a loss. The degree of loss that senior unsecured creditors would suffer in each Scenario is highly sensitive to the level of net recoveries achieved. However, in both Scenarios, and under all illustrative sensitivities, senior unsecured creditors would be expected to make a recovery that is below the par value of their claims.

In preparing the Estimated Outcome Analysis, GT have made a number of assumptions, which may or may not be borne out in any actual Resolution Scenario or Liquidation Scenario. GT's view is that there is more "downside risk" on the assumptions than "upside risk". That is to say, it is more likely that financial stakeholders' recoveries would be lower than set out in the Estimated Outcome Analysis than that they would be higher.

4. WHAT IS LIKELY TO HAPPEN IF THE RESTRUCTURING AND RECAPITALISATION IS NOT SUCCESSFULLY COMPLETED?

The Bank is currently unable to meet regulatory requirements relating to its credit risk modelling under the CRR, its ICG, its Combined Buffer, its PRA Buffer and its MREL, as further set out in paragraph 4 of Section A of Part 4 of this Consent Solicitation Memorandum. The Bank's ability to continue in its operations is therefore subject to any enforcement action the Authorities may take against it. The Bank does not currently believe that there is any realistic alternative to raising the required additional capital if the Restructuring and Recapitalisation is unsuccessful.

The Bank would expect to hold urgent discussions with the PRA and the Bank of England if the Restructuring and Recapitalisation were not implemented. It is not possible to be certain what the outcome of those discussions may be, nor whether or not the Authorities will continue to not take enforcement action against the Bank in relation to its inability to meet regulatory requirements relating to its credit risk

modelling under the CRR, its ICG, its Combined Buffer, its PRA Buffer and its MREL. However, implementation of the Restructuring and Recapitalisation is an essential component of the May 2017 Outlook on the Plan, albeit that it will generate less incremental CET1 capital for the Bank than was assumed in the Plan which the PRA accepted on 13 February 2017 (see paragraph 2 of Section A of this Part 4 of this Consent Solicitation Memorandum for a description of the Plan). On 27 June 2017, the PRA confirmed its acceptance of the May 2017 Outlook on the Plan, including the terms of the Restructuring and Recapitalisation. The PRA may withdraw its acceptance and/or approval of the Plan and/or the May 2017 Outlook on the Plan at any time, whether or not the Restructuring and Recapitalisation is successful. If the Bank failed to satisfy its threshold conditions for authorisation (for which the PRA is responsible under Section 55B(2) of FSMA) in circumstances where such failure would justify the variation or cancellation of the Bank's permission to carry out regulated activities by the PRA under Section 55J of FSMA, this would be sufficient grounds for the PRA to conclude that the Bank was failing or likely to fail for the purposes of the Banking Act.

It is not possible to be certain as to what actions the Bank of England and/or other Authorities would take in these circumstances, as they are afforded a wide degree of discretion. **However, in light of the considerations summarised below, the Bank believes that the most likely outcome is that the Bank of England would exercise the mandatory write-down tool in respect of the Bank's capital instruments, followed by or together with placing the Bank into the Special Resolution Regime**. The consequences of these steps for Shareholders and Subordinated Noteholders are summarised in paragraph 5 below. Actions that could be taken by the Bank of England and/or other Authorities include the following:

- The Bank of England must exercise the mandatory write-down tool where a bank has passed the "point of non-viability". The Bank will have passed the point of non-viability where, among other circumstances, the PRA has concluded that it is "failing or likely to fail", and the Bank of England has determined that the Bank meets the "conditions for resolution", in each case for the purposes of the Banking Act.
- Where the PRA has concluded that a bank is "failing or likely to fail", the "conditions for resolution" will be satisfied where the Bank of England determines that: (i) having regard to timing and other relevant circumstances, it is not reasonably likely that (ignoring the stabilisation powers) action will be taken by or in respect of the bank that will result in it no longer failing or being likely to fail; (ii) a resolution is necessary having regard to the public interest, in the advancement of one or more of the special resolution objectives[22]; and (iii) one or more of the special resolution objectives would not be met to the same extent by the winding up of the bank.
- If the PRA were to determine that the Bank was "failing or likely to fail" as a result of the Restructuring and Recapitalisation having not succeeded, then the Bank believes (by reference to each of the issues that the Bank of England is required to consider) that: (i) there is no realistic likelihood that another solution will be found to avoid the Bank failing or being likely to fail; (ii) the Bank's scale and the nature of its business mean that it is likely to be in the public interest to resolve it; and (iii) the effect of an insolvency of the Bank would likely be to impose significant losses on SMEs in respect of any deposits in excess of the limit protected by the FSCS which do not qualify as secondary preferential debt, which would be unlikely to achieve (for example) the special resolution objectives of "protecting and enhancing the stability of the financial system of the United Kingdom" or "protecting and enhancing public confidence in the stability of the financial system" to the same extent as (for example) transferring such deposits, supported by certain assets, to a private sector purchaser or a bridge bank, under the Special Resolution Regime. Accordingly, the Bank anticipates that the Bank of England would exercise one or more of its powers under the Special Resolution Regime.

[22] There are seven Special Resolution objectives, which in summary are: (1) to ensure the continuity of banking services in the United Kingdom and of critical functions; (2) to protect and enhance the stability of the financial system of the United Kingdom; (3) to protect and enhance public confidence in the stability of the financial system of the United Kingdom; (4) to protect public funds, including by minimising reliance on extraordinary public financial support; (5) to protect certain protected categories of investors and depositors; (6) to protect client assets; (7) to avoid interfering with property rights in contravention of the Human Rights Act 1998. These objectives are to be balanced as appropriate in each case.

- The Bank is aware that the Bank of England has already commenced preparatory steps in order to enable it to use the mandatory write-down tool, and if thought fit, subsequently or at the same time to resolve the Bank pursuant to the Special Resolution Regime, shortly following a failure successfully to implement the Restructuring and Recapitalisation.

The circumstances in which the mandatory write-down tool and Special Resolution Regime powers may or are required to be exercised are described further in Annex II Part 11 of this Consent Solicitation Memorandum.

5. WHAT WOULD A MANDATORY WRITE-DOWN OF THE BANK'S CAPITAL INSTRUMENTS AND ENTRY BY THE BANK INTO SPECIAL RESOLUTION MEAN FOR SHAREHOLDERS AND SUBORDINATED NOTEHOLDERS?

Prior to exercising the mandatory write-down tool or stabilisation powers, the Bank of England is required to commission an independent valuation of the Bank's assets and liabilities. The valuation will be used to determine (among other things) the extent to which instruments should be cancelled, diluted, transferred, written down, or converted under the "mandatory reduction instrument" the Bank of England is required to make in order to give effect to the mandatory write-down. Such a valuation must be accompanied by, among other things, an estimate of the amount that each class of creditors and shareholders might be expected to receive if the Bank went into insolvent liquidation.

The Bank would expect the valuation to be prepared in accordance with draft technical guidance published by the European Banking Authority. In summary, and insofar as relevant to Shareholders and Subordinated Noteholders, this provides that shareholders' and creditors' claims must be assessed by reference to their position in a hypothetical insolvency, so as to ensure that no creditor is left worse off by a mandatory write-down or Special Resolution than they would have been in on a hypothetical insolvency of the Bank. GT was instructed to prepare the Estimated Outcome Analysis in a manner consistent with the principles set out in the European Banking Authority's technical guidance.

The Bank cannot say what value may be assigned to its assets or liabilities, or Shareholders', Subordinated Noteholders', or other financial stakeholders' recoveries, in any valuation commissioned by the Bank of England. It is possible that different assumptions and methodologies would produce widely different outcomes.

However, as set out at paragraph 5 above, the Estimated Outcome Analysis prepared by GT indicates that Shareholders and Subordinated Noteholders would receive no recovery at all in respect of the Ordinary Shares and the Subordinated Notes that they hold, respectively. The Bank considers that the Estimated Outcome Analysis is the best estimate available to it of what Shareholders and Subordinated Noteholders would recover in an insolvency of the Bank.

When making a mandatory reduction instrument, the Bank of England is required to have regard to guidance published by the European Banking Authority.[23] The guidance provides, among other things, that shareholders' claims should be cancelled or transferred in full in circumstances where the bank's assets are assessed to be worth less than its liabilities in the pre-resolution valuation. Whilst it is not possible to be certain as to exactly how Ordinary Shares would be treated in a mandatory write-down (they could be cancelled, transferred, or diluted), on the basis that Shareholders would receive no recovery in respect of their Ordinary Shares in an insolvency of the Bank, the Bank believes that Shareholders would not receive any recovery on their Ordinary Shares following a mandatory write-down.

Similarly, whilst it is not possible to be certain as to exactly how the Subordinated Notes would be treated in a mandatory write-down (they could be cancelled, transferred, or equitised), on the basis that Subordinated Noteholders would receive no recovery in respect of their Subordinated Notes in an insolvency of the Bank, the Bank believes that Subordinated Noteholders would not receive any recovery on their Subordinated Notes following a mandatory-write down.

[23] European Banking Authority, *Final Guidelines on the treatment of shareholders in bail-in or the write-down and conversion of capital instruments.*

To the extent that Shareholders or Subordinated Noteholders have any remaining claims at the time the Bank enters into a Special Resolution, their level of recovery will again be informed by their recovery in a hypothetical insolvency. On the basis that Shareholders and Subordinated Noteholders would receive no recovery in respect of their Ordinary Shares or Subordinated Notes (respectively) in a hypothetical insolvency of the Bank, the Bank believes that they would receive no recovery if the Bank enters into a Special Resolution.

In summary, the Bank believes that, if the Restructuring and Recapitalisation is not successfully implemented, the most likely outcome is that the Ordinary Shares and the Subordinated Notes will be subjected to a mandatory write-down, either as a preliminary step to, or in the course of the Bank's entry into, Special Resolution. In such a scenario, the Bank believes that Shareholders will receive no recovery in respect of the Ordinary Shares that they hold, and that Subordinated Noteholders will receive no recovery in respect of the Subordinated Notes that they hold.

6. COULD THE BANK BE ENTITLED TO COMPENSATION AS A RESULT OF ITS RESOLUTION?

If a Special Resolution of the Bank involves a transfer of all or part of its assets or liabilities, the Bank will be entitled to claim compensation as a transferor under the compensation regime which must be established by HM Treasury (see paragraph 2.8 of Annex II Part 11 of this Consent Solicitation Memorandum for a description of the Special Resolution Regime and the compensation regimes that may be established thereunder). Compensation may be payable to the Bank as a transferor if all or part of its assets were transferred at an undervalue (in which case it would be entitled to claim under a scheme compensation order) or if the assets which were transferred were subsequently realised (in which case it may be able to claim under a resolution fund order).

Although the Bank of England and HM Treasury have wide discretionary powers and although the Bank is not waiving or abrogating any right to claim compensation as a transferor in the event of its resolution, the Bank is not aware of any circumstances which would lead it to believe that it would be able to recover compensation following its resolution either at all or of an amount which would result in any indirect return to Subordinated Noteholders or Shareholders, or any greater return to Senior Noteholders than they would be estimated to recover in a hypothetical insolvency of the Bank.

7. COULD THE BANK BE RESOLVED AS A GOING CONCERN?

It is in principle possible for a bank to enter the Special Resolution Regime and emerge as a going concern. For example, this may be the case where the Bank of England exercises the bail-in tool (described further at paragraph 2.8 of Annex II Part 11 of this Consent Solicitation Memorandum). HM Treasury's Code of Conduct in relation to the Special Resolution Regime distinguishes between 'open bank' bail-ins and 'closed bank' bail-ins, the distinction being that in the former case all or a significant portion of the bank is expected to continue to operate as an ongoing business following the bail-in, whereas in the latter case the bank will be wound down. Following an 'open bank' bail-in, the Code of Conduct provides that the Bank of England will require a resolution administrator or one or more directors to prepare a business reorganisation plan addressing, among other things, how the business will be returned to viability and operate as a going concern. Similarly, if a bank enters bank administration, which is a modified form of insolvency proceeding for banks, under the Banking Act the administrator will be required to pursue the rescue of the bank as a going concern in certain circumstances. It may in principle be possible for an exercise by the Bank of England and/or HM Treasury of other Special Resolution Regime powers to result in a bank continuing as a going concern thereafter.

However, the Bank faces significant impediments to its resolution as a going concern, including the Bank's:

- insufficient loss-absorbing capacity;
- inability to maintain operational continuity in resolution;
- inability to maintain access to financial markets intermediaries in resolution;

- inability of its existing valuation systems to meet resolution valuation requirements; and
- pension arrangements.

The Bank therefore does not believe that it would be capable of being resolved as a going concern. The Estimated Outcome Analysis does not contemplate the Bank continuing to trade as a going concern.

8. WOULD SUBORDINATED NOTEHOLDERS OR SHAREHOLDERS BE ENTITLED TO PROTECTION FROM THE FSCS?

No. Certain of the Bank's creditors are entitled to protection from the Financial Services Compensation Scheme ("**FSCS**") (for more information see paragraph 2.16 of Annex II Part 11 of this Consent Solicitation Memorandum) however, FSCS protection does not extend to the Subordinated Notes or the Ordinary Shares.

9. WHAT HAPPENS IF THE RESTRUCTURING AND RECAPITALISATION IS SUCCESSFULLY COMPLETED?

By contrast with the foregoing, on a successful completion of the Restructuring and Recapitalisation:

- Shareholders' existing ownership of the Bank Group will have been diluted as a result of the Members' Scheme, but they will retain an equity interest in the Bank Group;
- Scheme Creditors will have received A Shares in Holdco as a result of the Creditors' Scheme;
- Retail Noteholders will have received the Retail Cash Consideration and Retail Accrued Interest in cash as a result of the Consent Solicitation; and
- Qualifying Shareholders and Qualifying Scheme Creditors will have been given the opportunity to subscribe for further A Shares pursuant to the Members' Equity Subscription and the Creditors' Equity Subscription, respectively, or if such A Shares are not so subscribed they will be subscribed for by the Backstop Providers.

There is currently no public trading market for the A Shares and there can be no certainty as to the development or liquidity of any market for the A Shares. Shareholders and Scheme Creditors should therefore determine for themselves the value to be ascribed by them to the A Shares.

10. CONCLUSION

For the reasons set out in this Section B the Bank believes that, if the Restructuring and Recapitalisation is not successfully implemented, the most likely outcome is that the Ordinary Shares and the Subordinated Notes will be subjected to mandatory write-down, either as a preliminary step to, or in the course of the Bank's entry into, Special Resolution. In such a scenario, the Bank believes that Shareholders will receive no recovery in respect of the Ordinary Shares that they hold, and that Subordinated Noteholders will receive no recovery in respect of the Subordinated Notes that they hold. As a result, the Bank believes that a successful Restructuring and Recapitalisation is a substantially more beneficial outcome for Shareholders and Subordinated Noteholders than a Special Resolution of the Bank.

PART 5

CONSENT SOLICITATION

The Issuer is inviting Holders to approve, by Extraordinary Resolution, the Proposals as set out in the Notice of Meeting. The Consent Solicitation is made on the terms and subject to the conditions contained in this Consent Solicitation Memorandum.

The Consent Solicitation commences on the date of this Consent Solicitation Memorandum. The deadline for receipt by the Registrar of Consent Instructions from Holders wishing to vote in respect of the Extraordinary Resolutions is 5.00 p.m. (London Time) on 18 August 2017 (the "**Expiration Deadline**").

Before making a decision on whether to participate in the Consent Solicitation or otherwise participate at the Meeting, Holders should carefully consider all of the information in this Consent Solicitation Memorandum and, in particular, the considerations described in "Part 6: Risk Factors Relating to the Consent Solicitation Memorandum" on pages 83 to 86, "Annex II Part 3: Risk Factors" on pages 127 – 215 and "Part 4: Section A: Letter from the Chairman of the Bank".

Proposals in respect of the 2023 Notes

The purpose of the Consent Solicitation is to invite Eligible Holders to consider and, if thought fit, approve the Proposals to:

(i) assent to and sanction the modification to the Conditions of the 2023 Notes to insert a mandatory cancellation condition pursuant to which the 2023 Notes held by Retail Holders shall (subject to PRA Consent) be irrevocably cancelled and the rights, liabilities and obligations thereunder released in consideration of the payment of the Retail Cash Consideration to those Retail Holders (subject (in aggregate) to the Maximum Cash Amount) (see Question 9 "*What is the Retail Cash Consideration?*" for more information);

(ii) waive any and all Events of Default, Potential Events of Default and any other breach of the Conditions of the 2023 Notes or the Trust Deed (in each case, if any) that have been, are or may be, triggered by or in connection with the Restructuring and Recapitalisation;

(iii) assent to and sanction the extension of the powers of a meeting of Holders under the Trust Deed in order to allow for the assent and sanction of the releases and waivers referred to in (iv) below; and

(iv) assent to and sanction, to the fullest extent permitted by law:

    (a) subject to certain conditions, the irrevocable and unconditional, full and final waiver and release and forever discharge from the Settlement Date of (x) all Note Claims; and (y) any and all actions, proceedings, claims, damages, counterclaims, complaints, liabilities, liens, rights, demands and set-offs, whether in this jurisdiction or any other, of whatsoever nature and howsoever arising, whether in law or in equity, in contract (including but not limited to breaches or non-performances of contract), statute or in tort (including but not limited to negligence and misrepresentation), breaches of statutory duty, for contribution, or for interest and/or costs and/or disbursements, whether filed or unfiled, whether or not presently known to the parties or to the law, all claims that each Holder ever had, may have or hereafter can, shall or may have against any Relevant Person in relation to or arising out of or in connection with:

        (i) the preparation, negotiation or implementation of the Consent Solicitation and the Creditors' Scheme (including, but not limited to, the Restructuring Deed and Restructuring Implementation Documents); and/or

        (ii) the preparation, negotiation or implementation of the Restructuring and Recapitalisation; and/or

(iii) any event or circumstance arising in the period from 1 January 2016 to the Completion Time which caused or, contributed to, directly or indirectly the requirement for the Restructuring and Recapitalisation;

(b) that Relevant Persons may enforce the agreement of each Holder to release liabilities and waive its rights and entitlements, as described in (a) above, subject to and in accordance with the provisions of the Contracts (Rights of Third Parties) Act 1999; and

(c) the modification, abrogation, compromise or arrangement in respect of its rights against the Relevant Persons necessary to give effect to the foregoing provisions of this paragraph (iv);

all as more fully set out in the "*Form of Notice of Meeting*" in Annex 1 hereto.

The Issuer is proposing two Extraordinary Resolutions at the Meeting of Holders: (i) the First Extraordinary Resolution, to extend the powers of the Meeting as described in (c) above; and (ii) the Second Extraordinary Resolution, in respect of the other Proposals (together, the First Extraordinary Resolution and the Second Extraordinary Resolution, the "**Extraordinary Resolutions**"). The Second Extraordinary Resolution to be proposed at the Meeting shall be conditional on the passing and implementation of the First Extraordinary Resolution proposed at such Meeting.

Consent Conditions

The Consent Solicitation will be completed on the Mandatory Cancellation of the 2023 Notes of Retail Holders, which is conditional on the following conditions (the "**Consent Conditions**") being satisfied:

(a) the passing of both Extraordinary Resolutions in respect of the 2023 Notes by the Holders of the 2023 Notes, and the satisfaction of the Eligibility Condition relating to the Second Extraordinary Resolution in respect of the 2023 Notes;

(b) (A) the Creditors' Scheme being approved by the requisite majority of the Scheme Creditors at the Creditors' Scheme Court Meeting and sanctioned by the Court; (B) an office copy of the sanction order being lodged with the Registrar of Companies at Companies House; and (C) the Creditors' Scheme becoming unconditional in accordance with its terms;

(c) (A) the Members' Scheme being approved by the requisite majority of the Members at the Members' Scheme Court Meeting and sanctioned by the Court; (B) an office copy of the sanction order being lodged with the Registrar of Companies at Companies House; and (C) the Members' Scheme becoming unconditional in accordance with its terms;

(d) the Equity Subscriptions being completed; and

(e) the passing of the Resolutions at the General Meeting.

The Issuer will announce the results of the Meeting as soon as reasonably practicable after the Meeting (and in any event no later than 14 days after the Meeting).

It is expected that the Issuer and the Trustee will execute (i) the First Supplemental Trust Deed following the passing of the First Extraordinary Resolution at the Meeting; and (ii) the Second Supplemental Trust Deed after the Consent Conditions have been satisfied and prior to the Settlement Date.

Mandatory Cancellation

If the Consent Conditions are satisfied and the PRA consent is obtained, the Mandatory Cancellation will occur on the Settlement Date. The Mandatory Cancellation will occur at "Restructuring Step 8" as set out in the Restructuring Deed following the capitalisation of the Bank.

Upon Mandatory Cancellation, the 2023 Notes held by Retail Holders will be irrevocably cancelled and the rights, liabilities and obligations thereunder will be released in consideration of the payment of the Retail Cash Consideration to those Retail Holders (subject (in aggregate) to the Maximum Cash Amount).

The 2023 Notes of Non-Retail Holders are not subject to the Mandatory Cancellation and are instead subject to the Creditors' Scheme. See paragraph 5 in "*Part 4, Section A: Letter from the Chairman of the Bank*".

Retail Cash Consideration

The Retail Cash Consideration is the cash amount, subject (in aggregate) to the Maximum Cash Amount, that is payable by the Issuer on the Settlement Date to Retail Holders of the 2023 Notes only, pursuant to the Mandatory Cancellation.

The Retail Cash Consideration is subject (in aggregate) to the Maximum Cash Amount and, accordingly, shall be the lesser of:

(i) £4.50 per £10 in principal amount of the 2023 Notes; and

(ii) the amount (rounded to the nearest £0.01) per £10 in principal amount of 2023 Notes calculated by (a) dividing the Maximum Cash Amount by the aggregate principal amount of 2023 Notes that will be subject to the Mandatory Cancellation, and (b) multiplying the resultant figure by 10.

The Retail Cash Consideration to be paid to each Retail Holder in respect of its 2023 Notes will be calculated by the Registrar.

Eligibility for Retail Cash Consideration

To be eligible to receive the Retail Cash Consideration, a Holder must be a Retail Holder of the 2023 Notes.

A "**Retail Holde**r" is a Holder:

(A) who as at 5.00 p.m. (London Time) on the Retail Record Date satisfied and as at 6.00 p.m. (London Time), on the Entitlements Record Date will continue to satisfy, the following conditions:

  (i) it is an individual person;

  (ii) it is the Beneficial Owner of less than £100,000 in aggregate principal amount of 2023 Notes;

  (iii) (a) if it is resident in the United States, it is not an Accredited Investor, or (b) if it is not resident in the United States, it is not a "qualified investor" as defined in the Prospectus Directive;

  (iv) it is not a Sanctions Restricted Person; and

(B) who (i) has validly confirmed the matters set out in paragraph (A) above in accordance with the procedures set out in this Consent Solicitation Memorandum; or (ii) has been assessed, on reasonable enquiry, by the Bank to satisfy the criteria set out in paragraph (A) above (which assessment shall be conclusive and binding) on or prior to the Retail Confirmation Deadline.

The Retail Cash Consideration is only payable to a Retail Holder that:

(a) has submitted (and not subsequently revoked in the limited circumstances in which such revocation is permitted) a Consent Instruction (i) that includes a valid confirmation of the relevant Holder's status as a Retail Holder, and (ii) that is received by the Registrar on or prior to the Expiration Deadline;

(b) has submitted a valid Retail Confirmation that includes a valid confirmation of the relevant Holder's status as a Retail Holder, which is received by the Registrar on or prior to the Retail Confirmation Deadline; or

(c) the Bank has assessed, on reasonable enquiry, to be a Retail Holder (which assessment shall be conclusive and binding) on or prior to the Retail Confirmation Deadline.

The Bank is allowing Holders to submit Retail Confirmations up to and including the Retail Confirmation Deadline (which is later than the Expiration Deadline and after the Meeting) in order to give Holders who may be eligible for the Retail Cash Consideration as much time as practicable to identify themselves as Retail Holders. Holders who (i) fail to validly confirm their status as Retail Holders, or (ii) are not otherwise determined by the Bank to be Retail Holders, in each case, on or before the Retail Confirmation Deadline will be deemed to be Non-Retail Holders and will be subject to the Creditors' Scheme and will not be eligible to receive the Retail Cash Consideration and Accrued Interest in cash.

Each Consent Instruction or Retail Confirmation, as applicable, must be submitted in respect of the entire principal amount of 2023 Notes beneficially owned by a Retail Holder and must include the Holder's name,

address and telephone number and custodian's name (if applicable), in order for it to constitute a valid confirmation as to such Holder's retail status. Any Beneficial Owner which is submitting, or instructing any intermediary that will submit on its behalf to submit, a Consent Instruction, will submit or will instruct such intermediary to submit only one Consent Instruction in respect of the entire aggregate principal amount of 2023 Notes in respect of which it is the Beneficial Owner or, if it is acting as an intermediary it is submitting only one Consent Instruction per Beneficial Owner.

The Issuer reserves the right to request evidence from a Holder to support a Holder's confirmation as to Retail Holder status. All determinations, including any determination that a Holder is or is not a Retail Holder by the Issuer, and all calculations performed by the Registrar in connection with the Mandatory Cancellation will, in the absence of manifest error, be conclusive and binding on Holders.

Any Holder who considers that he or she is a Retail Holder or is unsure as to whether or not he or she is a Retail Holder should contact Lucid Issuer Services Limited as Information Agent using the contact details on the last page of this Consent Solicitation Memorandum. Only Holders that have validly confirmed their status as Retail Holders or who have otherwise been assessed on reasonable enquiry by the Bank to be a Retail Holder (in each case by no later than the Retail Confirmation Deadline) will receive the Retail Cash Consideration and Accrued Interest in cash in respect of their 2023 Notes. All other Holders will be deemed to be Non-Retail Holders and their holdings of 2023 Notes will be subject to the Creditors' Scheme.

In respect of 2023 Notes held in uncertificated form in the Clearing Systems, the aggregate amounts of the Retail Cash Consideration to be paid on Mandatory Cancellation in respect of the relevant 2023 Notes in each Clearing System will be paid, in immediately available funds, on the Settlement Date to such Clearing System for payment to the cash accounts of the relevant Retail Holders in the Clearing System. The payment of such aggregate amounts to the Clearing Systems will discharge the obligation of the Issuer to all Retail Holders holding 2023 Notes in the Clearing Systems in respect of the payment of the Retail Cash Consideration. In respect of 2023 Notes in certificated form, the Retail Cash Consideration will be paid either in immediately available funds on the Settlement Date to the relevant Retail Holder's bank account as notified to the Registrar or, if no such bank account has been notified to the Registrar, by cheque mailed to the relevant address of such Holder. See "*Part 8: Procedures for Participating in the Consent Solicitation*" for further information.

Accrued Interest

On the Settlement Date, the Issuer will pay Accrued Interest in respect of the 2023 Notes cancelled pursuant to the Mandatory Cancellation, from (and including) 20 June 2017 to (but excluding) 31 July 2017 amounting to £0.1226 per £10 in principal amount of the 2023 Notes which will be paid in cash and rounded to the nearest £0.01. For the avoidance of doubt, the payment of Accrued Interest is not subject to the Maximum Cash Amount.

Settlement Date

If the Proposals are approved, the Supplemental Trust Deeds are executed and the other Consent Conditions are satisfied, the Mandatory Cancellation will occur on the Settlement Date, which is expected to be 1 September 2017 and is expected to be the same day as the settlement of each of the Creditors' Scheme, the Members' Scheme and Equity Subscriptions. Retail Holders that are eligible to receive the Retail Cash Consideration will receive payment of this amount on the Settlement Date. In addition, the payment of Accrued Interest will also be made on the Settlement Date.

Payment of Retail Cash Consideration and Accrued Interest

The manner of payment of the Retail Cash Consideration, together with the applicable Accrued Interest, to a Retail Holder will depend upon whether the Holder holds such 2023 Notes (i) in CREST, (ii) in Euroclear or Clearstream, Luxembourg or (iii) in certificated form.

(a) ***2023 Notes held in CREST***

If a Holder holds 2023 Notes in CREST, the Retail Cash Consideration, together with the applicable Accrued Interest will be paid to the same account in CREST into which it receives interest payments on its 2023 Notes, unless it has notified the Registrar of a different account to which payment of the Retail Cash Consideration should be made.

Provided the Issuer makes, or has made on its behalf, full payment of the Retail Cash Consideration and the applicable Accrued Interest payable in respect of the relevant 2023 Notes to the Registrar on or before the Settlement Date, under no circumstances will any additional interest be payable to a Retail Holder because of any delay in the transmission of funds from the Registrar or any other intermediary with respect to the relevant Notes of that Retail Holder.

(b) ***2023 Notes held in certificated form***

If a Holder holds 2023 Notes in certificated form outside CREST, the Retail Cash Consideration, together with the applicable Accrued Interest will be paid to the same bank account into which it receives interest payments on its 2023 Notes, unless it has notified the Registrar of a different bank account to which payment should be made, such notification to be received by the Registrar by 5.00 p.m. on 30 August 2017. Holders who do not specify a bank account or who receive interest payments in respect of their 2023 Notes by cheque shall receive the Retail Cash Consideration and the applicable Accrued Interest by cheque which will be mailed to their respective addresses in the register of Holders maintained by the Registrar.

Provided the Issuer makes, or has made on its behalf, full payment of the Retail Cash Consideration and the applicable Accrued Interest payable in respect of the relevant 2023 Notes to Holders (by payment to a specific bank account or by mailing a cheque in respect of such amount) on or before the Settlement Date, under no circumstances will any additional interest be payable to a Retail Holder because of any delay in the transmission of funds from an intermediary or delay in receipt of the cheque with respect to the relevant Notes of that Retail Holder.

(c) ***2023 Notes held in Euroclear or Clearstream, Luxembourg***

If a Holder holds 2023 Notes in Euroclear or Clearstream, Luxembourg the Retail Cash Consideration and Accrued Interest to be paid in settlement of the Mandatory Cancellation will be paid to such Holder in the same Euroclear or Clearstream, Luxembourg account in which they hold their 2023 Notes.

Provided the Issuer makes, or has made on its behalf, full payment of the Retail Cash Consideration and Accrued Interest payable in respect of the relevant 2023 Notes to the Clearing Systems on or before the Settlement Date, under no circumstances will any additional interest be payable to a Holder because of any delay in the transmission of funds from the Clearing Systems or from an intermediary with respect to the relevant Notes of that Holder.

No assurance that the Proposals will be implemented

There can be no assurance that the Proposals will be implemented as planned and whether or not the Extraordinary Resolutions will be passed. In particular, subject to applicable law, the Issuer may extend, amend or terminate the Consent Solicitation at any time, as described in "*Part 9: Amendment and Termination*" herein.

Inter-conditionality

The Consent Solicitation, the Creditors' Scheme, the Members' Scheme, the Equity Subscriptions and the passing of the necessary Resolutions at the General Meeting together constitute the Restructuring and Recapitalisation. The implementation of the Proposals in respect of the 2023 Notes, the implementation of the Creditors' Scheme, the implementation of the Members' Scheme, the completion of the Equity Subscriptions and the passing of the Resolutions of the General Meeting are inter-conditional. The implementation of these inter-conditional steps of the Restructuring and Recapitalisation will take place in

accordance with the Restructuring Deed. The Mandatory Cancellation will occur at "Restructuring Step 8" as set out in the Restructuring Deed following the capitalisation of the Bank.

One or more of the meetings held in connection with the Restructuring and Recapitalisation may be adjourned, which will affect the overall timetable of the Restructuring and Recapitalisation. Notwithstanding any changes to the timetable, the Consent Solicitation, the Creditors' Scheme, the Members' Scheme, the Equity Subscriptions and the implementation of the necessary Resolutions of the General Meeting will remain inter-conditional (and this will not be capable of amendment) and the Issuer will only effect the Mandatory Cancellation of the 2023 Notes held by Retail Holders if it also completes the Creditors' Scheme, the Members' Scheme, the Equity Subscriptions and the Resolutions are passed at the General Meeting and vice versa.

Representations, Warranties, Acknowledgements, Agreements and Undertakings

Holders submitting (or having submitted on their behalf) Consent Instructions will be required to make and give, and will be deemed to have made and given, the representations, warranties, acknowledgements, agreements and undertakings set out in "*Part 8: Procedures for Participating in the Consent Solicitation*" and the Notice of Meeting, the form of which is set out in Annex I (*Form of Notice of Meeting*). Holders who have concerns about making or giving any such representations, warranties, acknowledgements, agreements and/or undertakings should contact the Information Agent, the Registrar or the Solicitation Agents immediately.

Release and Waiver

By submitting a Consent Instruction, and also on the passing of the Second Extraordinary Resolution, each Holder will, in respect of its 2023 Notes, be deemed to have agreed to and sanctioned, to the fullest extent permitted by law and to the extent it has not already done so:

(a) subject to certain conditions, the irrevocable and unconditional, full and final waiver and release and forever discharge from the Settlement Date (x) all Note Claims; and (y) any and all actions, proceedings, claims, damages, counterclaims, complaints, liabilities, liens, rights, demands and set-offs, whether in this jurisdiction or any other, of whatsoever nature and howsoever arising, whether in law or in equity, in contract (including but not limited to breaches or non-performances of contract), statute or in tort (including but not limited to negligence and misrepresentation), breaches of statutory duty, for contribution, or for interest and/or costs and/or disbursements, whether filed or unfiled, whether or not presently known to the parties or to the law, all claims that each Holder ever had, may have or hereafter can, shall or may have against any Relevant Person in relation to or arising out of or in connection with:

  (i) the preparation, negotiation or implementation of the Consent Solicitation and the Creditors' Scheme (including, but not limited to, the Restructuring Deed and Restructuring Implementation Documents); and/or

  (ii) the preparation, negotiation or implementation of the Restructuring and Recapitalisation; and/or

  (iii) any event or circumstance arising in the period from 1 January 2016 to the Completion Time which caused or, contributed to, directly or indirectly the requirement for the Restructuring and Recapitalisation;

(b) that Relevant Persons may enforce the agreement of each Holder to release liabilities and waive its rights and entitlements, as described in (a) above, subject to and in accordance with the provisions of the Contracts (Rights of Third Parties) Act 1999; and

(c) the modification, abrogation, compromise or arrangement in respect of its rights against the Relevant Persons necessary to give effect to the foregoing provisions of this section.

Further, a Deed Poll will be executed by the Trustee if the Proposals are implemented, in respect of the waivers and releases referred to in the Extraordinary Resolutions set out in the Notice of Meeting.

Meeting

Notice (the "**Notice**") convening the Meeting in respect of the 2023 Notes to be held at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ on 21 August 2017 has been given to Holders in accordance with the Conditions on the date of this Consent Solicitation Memorandum. The Meeting will commence at 10.00 a.m. (London Time) (or as soon thereafter as the Creditors' Meeting shall have concluded or been adjourned). At the Meeting, Holders will be invited to consider and, if thought fit, vote in favour of the Extraordinary Resolutions relating to the 2023 Notes, all as more fully described in the Notice of Meeting. See Annex I (*Form of Notice of Meeting*).

The Issuer is proposing two Extraordinary Resolutions at the Meeting: (a) the First Extraordinary Resolution, to extend the powers of the Meeting to allow for the assent and sanction of the releases and waivers referred to in "*Release and Waiver*" above; and (b) the Second Extraordinary Resolution, in respect of the other Proposals. The Second Extraordinary Resolution shall be conditional on the passing and implementation of the First Extraordinary Resolution.

The quorum required to consider the Extraordinary Resolutions at the Meeting is as follows:

(a) *First Extraordinary Resolution*: one or more persons present and holding or representing a clear majority of the principal amount of the 2023 Notes for the time being outstanding, and at any Adjourned Meeting, one or more persons (whatever the principal amount of 2023 Notes represented or held by them); and

(b) *Second Extraordinary Resolution*: one or more persons present and holding or representing in aggregate not less than two-thirds of the principal amount of the 2023 Notes for the time being outstanding, and at any Adjourned Meeting, one or more persons present and holding or representing in aggregate not less than one-third of the principal amount of the 2023 Notes for the time being outstanding.

To be passed at the Meeting, an Extraordinary Resolution requires a majority in favour consisting of not less than three quarters of votes cast. If passed, an Extraordinary Resolution shall be binding on all Holders, whether present or not at the Meeting and whether or not voting.

The implementation of the Proposals by way of execution of the Supplemental Trust Deeds is conditional on satisfaction of the Consent Conditions including, in respect of the Second Extraordinary Resolution, the Eligibility Condition.

If the Second Extraordinary Resolution is passed but the Eligibility Condition is not satisfied, it is a term of the Second Extraordinary Resolution that the Meeting shall be adjourned on the same basis as for a Meeting where the necessary quorum is not obtained. In such event, the Second Extraordinary Resolution shall be proposed again to Holders at such Adjourned Meeting for the purposes of determining whether it can be passed irrespective of the participation by Ineligible Holders at such Adjourned Meeting (and would also have been so passed if any Ineligible Holders who provided confirmation of their status as Ineligible Holders and waived their right to attend and vote (or be represented) at the Meeting had actually participated at the Meeting) and, if so, the Eligibility Condition will be satisfied on such subsequent passing of the Second Extraordinary Resolution. The quorum at any such Adjourned Meeting will be one or more persons present and holding or representing in aggregate not less than one-third of the principal amount of the 2023 Notes for the time being outstanding. To be passed at the Adjourned Meeting, the Second Extraordinary Resolution requires a majority in favour consisting of not less than three quarters of votes cast.

In accordance with the procedures for participating in the Consent Solicitation, each Holder will be requested to confirm whether or not it is a Retail Holder in order to participate in the Consent Solicitation.

Holders should refer to Annex I (*Form of Notice of Meeting*) and "*Part 8: Procedures for Participating in the Consent Solicitation*" for full details of how to participate in the Consent Solicitation and the procedures in relation to the Meeting.

Adjourned Meetings

In the event the necessary quorum for an Extraordinary Resolution for any reason is not obtained, the Meeting will be adjourned for not less than 14 days and not more than 42 days. The holding of any Adjourned Meeting will be subject to the Issuer giving at least 10 clear days' notice in accordance with the Conditions and Meeting Provisions of the Trust Deed that such Adjourned Meeting is to be held. The quorum at any such Adjourned Meeting is as described under "*Meeting*" above.

If, in respect of the Meeting, the quorum required to consider the First Extraordinary Resolution is satisfied, but the quorum required to consider the Second Extraordinary Resolution is not satisfied, the Meeting shall proceed on the basis that the First Extraordinary Resolution only shall be proposed thereat and voted upon by Holders present or represented at the Meeting in accordance with the Trust Deed. In such circumstances, the Meeting shall stand adjourned in respect of the Second Extraordinary Resolution only in accordance with the provisions of the Notice of Meeting and the Trust Deed.

Consent Instructions and Retail Confirmations

By submitting a Consent Instruction which is received by the Registrar on or prior to the Expiration Deadline, a Holder will instruct the Registrar to appoint one or more representatives of the Registrar, as its proxy to attend the Meeting (and any adjourned such Meeting) and vote in favour of or against both of the Extraordinary Resolutions to be proposed at such Meeting. It will not be possible to submit a Consent Instruction without at the same time giving such instructions to the Registrar. The valid submission of a Consent Instruction will also include a confirmation by a Holder as to its status as either a Retail Holder or Non-Retail Holder and the Holder's name, address and telephone number and custodian's name (if applicable).

Holders that do not participate in the Consent Solicitation by submitting a Consent Instruction may submit a Retail Confirmation in order to confirm their Retail Holder status.

In order to be eligible to receive the Retail Cash Consideration, Retail Holders must have:

(a) submitted (and not subsequently revoked in the limited circumstances in which such revocation is permitted) a Consent Instruction (i) that includes a valid confirmation of the relevant Holder's status as a Retail Holder, and (ii) that is received by the Registrar on or prior to the Expiration Deadline; or

(b) submitted a valid Retail Confirmation that includes a valid confirmation of the relevant Holder's status as a Retail Holder, which is received by the Registrar on or prior to the Retail Confirmation Deadline.

Each Consent Instruction or Retail Confirmation, as applicable, must be submitted in respect of the entire principal amount of 2023 Notes beneficially owned by a Retail Holder in order for it to be valid and must include the Holder's name, address and telephone number and custodian's name (if applicable). If any Holder of 2023 Notes fails to comply with the procedures described herein for confirmation of status as a Retail Holder, or is not otherwise determined by the Bank to be a Retail Holder, the Holder will be subject to the Creditors' Scheme.

Nothing in this Consent Solicitation Memorandum affects the rights of Holders to attend and vote at the Meeting in person or to make other arrangements to be represented or to vote at the Meeting in accordance with the Meeting Provisions. Holders voting at the Meeting or making such arrangements may vote in favour or against one or both of the Extraordinary Resolutions being proposed at such Meeting. However, such Retail Holders will not be eligible for the Retail Cash Consideration if they attend and vote at any such Meeting or make other arrangements (other than voting via a Consent Instruction which includes a valid confirmation as to Retail Holder status) to be represented or to vote at the Meeting in accordance with the Meeting Provisions, or if they refrain from voting, unless they have also confirmed their status as a Retail Holder by submitting a valid Retail Confirmation.

Restrictions in respect of participation in the Consent Solicitation also apply (see "*Solicitation Restrictions*").

Announcements

Unless stated otherwise (and subject to the requirements of the Trust Deed), announcements in connection with the Consent Solicitation will be made by via RNS. Such announcements may also be (i) by delivery of a notice to the Clearing Systems for communication to Direct Participants and/or (ii) made by the issue of a press release to a Notifying News Service. With respect to the Notice of Meeting, the Issuer will also procure that such notice is mailed to the Holders of the 2023 Notes at their respective addresses in the register of Holders maintained by the Registrar. Copies of all announcements, notices and press releases can also be obtained from the Information Agent, the contact details for which appear on the last page of this Consent Solicitation Memorandum. Significant delays may be experienced where notices are delivered to the Clearing Systems and Holders are urged to contact the Information Agent for the relevant announcements during the course of the Consent Solicitation.

General

It is a term of the Consent Solicitation that once submitted, Consent Instructions shall be irrevocable (save in certain limited circumstances as provided in "*Part 9: Amendment and Termination*").

The above provisions relating to Consent Instructions do not affect the rights of Holders to attend and vote at the Meeting in person or to make other arrangements to be represented or to vote at the Meeting in accordance with the Meeting Provisions. However, Retail Holders will not be eligible to receive the Retail Cash Consideration pursuant to the Mandatory Cancellation unless they:

(a) submit a valid Consent Instruction that includes a valid confirmation of the relevant Holder's status as a Retail Holder that is received by the Registrar on or prior to the Expiration Deadline; or

(b) submit a valid Retail Confirmation, which is received by the Registrar on or prior to the Retail Confirmation Deadline.

The Issuer may, at its option and in its sole discretion, extend, or waive the conditions of, the Consent Solicitation at any time and may amend or terminate the Consent Solicitation at any time (subject in each case to applicable law and the Meeting Provisions and as provided in this Consent Solicitation Memorandum, and provided that no amendment may be made to the terms of the Extraordinary Resolutions). Details of any such extension, waiver, amendment or termination will be announced as provided in this Consent Solicitation Memorandum as promptly as practicable after the relevant decision is made. See "*Part 9: Amendment and Termination*".

Holders are advised to check with any bank, securities broker or other intermediary through which they hold their 2023 Notes when such intermediary would need to receive instructions from a Holder in order for such Holder to participate in, or (where permitted) to validly revoke their instruction to participate in, the Consent Solicitation by the deadlines specified in this Consent Solicitation Memorandum. ***The deadlines set by any such intermediary and each Clearing System for the submission and (where permitted) revocation of Consent Instructions or Retail Confirmations will be earlier than the relevant deadlines specified in this Consent Solicitation Memorandum****. See "Part 8: Procedures for Participating in the Consent Solicitation".*

Questions and requests for assistance in connection with (i) the Consent Solicitation may be directed to the Solicitation Agents and (ii) the delivery of Consent Instructions and Retail Confirmations may be directed to the Information Agent and the Registrar, the contact details for which are on the last page of this Consent Solicitation Memorandum.

The Issuer expressly reserves the right, in its sole discretion, to refuse to accept, or to delay acceptance of, Consent Instructions pursuant to the Consent Solicitation or Retail Confirmations in order to comply with applicable laws. In all cases, a Consent Instruction or Retail Confirmation will only be deemed to have been validly submitted once submitted in accordance with the procedures described in "*Part 8 Procedures for Participating in the Consent Solicitation*", which include the blocking, transfer or immobilisation of the relevant Notes in the relevant account in the Clearing Systems, as described in "*Part 6: Risk Factors Relating to the Consent Solicitation – Blocking, Transfer or Immobilisation of Notes and Restrictions on Transfer*" herein.

The Issuer may reject Consent Instructions or Retail Confirmations which it considers in its reasonable judgment not to have been validly submitted. **For example, Consent Instructions or Retail Confirmations may be rejected and not accepted and may be treated as not having been validly submitted if any such instruction does not comply with the requirements of a particular jurisdiction.**

The failure of any eligible person to receive a copy of this Consent Solicitation Memorandum, the Notice of Meeting or any other notice issued by the Issuer or any other person in connection with the Consent Solicitation and/or the Meeting shall not invalidate any aspect of the Consent Solicitation or Meeting. No acknowledgement of receipt of any Consent Instruction, Retail Confirmation and/or any other documents will be given by the Issuer, the Solicitation Agents, the Trustee, the Paying Agent or the Registrar.

Governing law

The Consent Solicitation, each Consent Instruction and Retail Confirmation and any non-contractual obligations or matters arising from or connected with any of the foregoing, shall be governed by the laws of England.

By submitting a Consent Instruction or Retail Confirmation the relevant Holder will unconditionally and irrevocably agree for the benefit of the Issuer, the Solicitation Agents, the Information Agent, the Paying Agent, the Trustee and the Registrar that the courts of England are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Consent Solicitation, the Meetings and such Consent Instruction or Retail Confirmation and that accordingly any suit, action or proceedings arising out of or in connection with the foregoing may be brought in such courts.

PART 6

RISK FACTORS RELATING TO THE CONSENT SOLICITATION

Risks and other considerations relating to the Consent Solicitation

The 2023 Notes held by Retail Holders are subject to Mandatory Cancellation

Upon the occurrence of the Mandatory Cancellation all rights, obligations and liabilities under the 2023 Notes held by Retail Holders shall (subject to PRA Consent) be irrevocably cancelled and released in consideration of the Issuer's payment of the Retail Cash Consideration (subject (in aggregate) to the Maximum Cash Amount) to those Retail Holders. From this time, such Retail Holders will have no rights to the repayment of the principal amount of the 2023 Notes or the payment of interest on the 2023 Notes.

The 2023 Notes of Non-Retail Holders are not subject to the Mandatory Cancellation and are instead subject to the Creditors' Scheme as described in the Creditors' Scheme Circular.

The Retail Cash Consideration is not fixed and is subject to downward adjustment

The Retail Cash Consideration that will be paid by the Bank to a Retail Holder is not fixed at the date of this Consent Solicitation Memorandum and is subject to downward adjustment as described in the definition of "Retail Cash Consideration". As the amount of cash that will be paid in aggregate to Retail Holders is subject to the Maximum Cash Amount, the greater the principal amount of 2023 Notes held by Retail Holders, the lower the amount of cash each Retail Holder will receive, subject to a minimum amount. The actual cash amount to be paid in respect of the Retail Cash Consideration will only be announced after the Retail Confirmation Deadline has passed. Retail Holders should note that the Retail Cash Consideration could be considerably less than £4.50 per £10 in principal amount of 2023 Notes.

Failure to confirm status as a Retail Holder

The 2023 Notes held by a Holder that does not confirm its status as a Retail Holder by the Retail Confirmation Deadline in accordance with the procedures set out herein, or who is not otherwise determined by the Bank to be a Retail Holder, will not be subject to the Mandatory Cancellation. Accordingly, such a Holder will not be entitled to the Retail Cash Consideration or Accrued Interest and instead its 2023 Notes will be subject to the Creditors' Scheme.

The Issuer reserves the right to request evidence from a Holder to support a Holder's confirmation as to Retail Holder status. All determinations, including any determination that a Holder is or is not a Retail Holder by the Issuer, and all calculations performed by the Registrar in connection with the Mandatory Cancellation will, in the absence of manifest error, be conclusive and binding on Holders.

Any Holder who considers that he or she is a Retail Holder or is unsure as to whether or not he or she is a Retail Holder should contact Lucid Issuer Services Limited as Information Agent using the contact details on the last page of this Consent Solicitation Memorandum. Only Holders that have validly confirmed their status as Retail Holders or who have otherwise been assessed on reasonable enquiry by the Bank to be a Retail Holder (in each case by no later than the Retail Confirmation Deadline) will receive the Retail Cash Consideration and Accrued Interest in cash in respect of their 2023 Notes. All other Holders will be deemed to be Non-Retail Holders and their holdings of 2023 Notes will be subject to the Creditors' Scheme.

Holders are responsible for complying with the procedures for participating in the Consent Solicitation or submitting Retail Confirmations

Holders are responsible for complying with all of the procedures for participating in the Consent Solicitation or submitting Retail Confirmations as set out in "*Part 8: Procedures for Participating in the Consent Solicitation*". None of the Issuer, the Solicitation Agents, the Information Agent, the Trustee, the Paying Agent or the Registrar assume any responsibility for informing Holders of irregularities with respect to any Consent Instruction, Retail Confirmation or compliance with such procedures.

Holders are advised to check with any Clearing System, bank, securities broker or other intermediary through which they hold 2023 Notes when such Clearing System or intermediary would need to receive instructions from a Holder in order for that Holder (where permitted) to revoke their Retail Confirmation or Consent Instruction by the deadlines specified in this Consent Solicitation Memorandum.

In relation to the delivery or revocation of Consent Instructions or Retail Confirmations, or obtaining forms of proxy or otherwise making arrangements for the giving of voting instructions, in each case through the Clearing Systems, Holders should note the particular practice and policy of the relevant Clearing System, including any earlier deadlines set by such Clearing System.

Holders are responsible for notifying the Registrar regarding the manner in which payment of the Retail Cash Consideration and applicable Accrued Interest should be made

If a Holder holds 2023 Notes in CREST, the Retail Cash Consideration, together with the applicable Accrued Interest will be paid to the same account in CREST into which it receives interest payments on its 2023 Notes, unless it has notified the Registrar of a different account to which payment of the Retail Cash Consideration should be made.

If a Holder holds 2023 Notes in certificated form outside CREST, the Retail Cash Consideration, together with the applicable Accrued Interest will be paid to the same bank account into which it receives interest payments on its 2023 Notes, unless it has notified the Registrar of a different bank account to which payment should be made, such notification to be received by the Registrar by 5.00 p.m. on 30 August 2017. Holders who do not specify a bank account or who receive interest payments in respect of their 2023 Notes by cheque shall receive the Retail Cash Consideration and the applicable Accrued Interest by cheque which will be mailed to their respective addresses in the register of Holders maintained by the Registrar.

Provided the Issuer makes, or has made on its behalf, full payment of the Retail Cash Consideration and the applicable Accrued Interest payable in respect of the relevant 2023 Notes to (i) the Registrar in the case of 2023 Notes held in CREST; and (ii) Holders (by payment to a specific bank account or by mailing a cheque in respect of such amount) in the case of 2023 Notes in certificated form outside CREST, on or before the Settlement Date, under no circumstances will any additional interest be payable to a Retail Holder because of any delay in the transmission of funds from the Registrar or other intermediary or delay in receipt of the cheque with respect to the relevant Notes of that Retail Holder.

Sanctions Restricted Persons may not participate in the Consent Solicitation

Certain laws restrict the Bank's ability to allow participation by a Holder who is a Sanctions Restricted Person (as defined herein) in the Consent Solicitation. Holders who are Sanctions Restricted Persons should consult their professional advisers to resolve these legal issues before submitting a Consent Instruction or Retail Confirmation.

Consent Instructions are irrevocable

Holders should note that upon submission, each Consent Instruction will be irrevocable except in the limited circumstances described in "*Part 9: Amendment and Termination*". For the avoidance of doubt, a Holder submitting a Retail Confirmation may revoke such Retail Confirmation up to the Retail Confirmation Deadline.

Transfer restrictins on the 2023 Notes will apply from the time of submission of a Consent Instruction or Retail Confirmation

When considering whether to participate in the Consent Solicitation, Holders should take into account that, where applicable, restrictions on the transfer of the 2023 Notes will apply from the time of submission of Consent Instructions or Retail Confirmations, as applicable. A Holder will, on submitting a Consent Instruction or Retail Confirmation, as applicable, agree that its 2023 Notes will be blocked in the relevant account in the relevant Clearing System, transferred to an escrow account in CREST, or immobilised on surrender of their note certificate to the Registrar, as applicable, from the date the relevant Consent Instruction or Retail Confirmation, as applicable, is submitted, until the earlier of (i) the date on which the relevant Consent Instruction or Retail Confirmation, as applicable, is validly revoked (in the limited circumstances in which such revocation is permitted), including their automatic revocation on the

termination of the Consent Solicitation, in accordance with the terms of the Consent Solicitation, and (ii) the Settlement Date.

No assurance that the Extraordinary Resolutions will be implemented

There can be no assurance given by the Issuer that the Extraordinary Resolutions will be passed or the Proposals or the Restructuring and Recapitalisation will be implemented. The implementation of the Restructuring and Recapitalisation is subject to the Consent Conditions being satisfied.

Although the Bank has entered into the Lock-Up Agreement with the Principal Investors in order to facilitate the implementation of the Restructuring and Recapitalisation and in which Principal Investors have undertaken to support the Proposals (including by voting or procuring that their 2023 Notes are voted in favour of the Proposals), the Creditors' Scheme, the Members' Scheme and the Resolutions to be proposed at the General Meeting, this undertaking is subject to certain conditions being satisfied or waived, including satisfaction of limited confirmatory due diligence, final investment committee approvals, and applicable regulatory consents and approvals.

In addition, the Lock-Up Agreement contains a number of termination provisions. These include if the Bank enters insolvency or resolution proceedings or if the Restructuring and Recapitalisation is not completed before a "Long Stop Date". The Long Stop Date is currently 18 September 2017 and any extension requires the agreement of the Bank and Principal Investors holding more than 50 per cent. of the aggregated principal amount of the 2023 Notes and 2025 Notes.

There can be no assurance that the conditions in the Lock-Up Agreement will be satisfied or waived or that it will not be terminated in accordance with its terms.

Subject to applicable law, the Issuer may extend, amend or terminate the Consent Solicitation (other than the terms of the Extraordinary Resolutions or the Meetings) at any time, as described in "*Part 9: Amendment and Termination*" below.

All Holders will be bound by the Extraordinary Resolutions

Holders should note that if the Extraordinary Resolutions are passed they will be binding on all Holders, whether or not they chose to participate in the Consent Solicitation or whether or not they otherwise vote at the Meeting. As at 25 July 2017, being the latest practicable date prior to the publication of this Consent Solicitation Memorandum, the Consenting Holders represented 78 per cent. in aggregate principal amount of the 2023 Notes and, accordingly, the Extraordinary Resolutions are expected to be passed at the initial Meeting.

Completion, Termination and Amendment

Until each Extraordinary Resolution is passed and the other Consent Conditions are satisfied, no assurance can be given that the Proposals will be implemented. In addition, if one or both Extraordinary Resolutions are not passed at the Meeting, and the Meeting is adjourned, the implementation of the Proposals could be delayed or the Proposals may not be implemented at all. Subject to applicable law and as provided in this Consent Solicitation Memorandum, the Issuer may, in its sole and absolute discretion, extend, re-open, withdraw or terminate the Proposals and amend or waive any of the terms and conditions of the Proposals (other than the terms and conditions of the Extraordinary Resolutions) at any time before such announcement and may, in its sole and absolute discretion, waive any of the Consent Conditions (to the extent such waiver is possible) either before or after such announcement.

If any Meeting is adjourned the Issuer may choose, in its sole and absolute discretion and without limiting its right to otherwise extend, re-open, withdraw or terminate the Proposals, amend or waive any of the terms and conditions of the Proposals as provided in this Consent Solicitation Memorandum. See "*Part 9: Amendment and Termination*".

Holders are responsible for their own appraisals and should consult with their own advisers

Each Holder is solely responsible for making its own independent appraisal of all matters as such Holder deems appropriate (including those relating to the Consent Solicitation and the Extraordinary Resolutions)

and each Holder must make its own decision whether to participate in the Consent Solicitation or otherwise participate at the Meeting.

Holders should consult their own tax, accounting, financial and legal advisers regarding the suitability to themselves of the tax, accounting or other consequences of participating in the Consent Solicitation and regarding the impact on them of the implementation of the Extraordinary Resolutions.

None of the Bank, the Solicitation Agents, the Information Agent, the Trustee, the Paying Agent, the Registrar or any director, officer, employee, representative, agent or affiliate of any such person are acting for any Holder, or will be responsible to any Holder for providing any protections which would be afforded to its clients or for providing advice in relation to the Consent Solicitation or Extraordinary Resolutions, and accordingly none of the Bank, the Solicitation Agents, the Information Agent, the Trustee, the Paying Agent, the Registrar or any director, officer, employee, representative, agent or affiliate of any such person (other than the Board), make any recommendation as to whether or not or how Holders should participate in the Consent Solicitation or otherwise participate at the Meeting.

Holders are responsible for ensuring their compliance with the Solicitation Restrictions

Holders are referred to the offer and distribution restrictions in "*Solicitation Restrictions*" and the acknowledgements, representations, warranties and undertakings in "*Part 18: Procedures for Participating in the Consent Solicitation*", which Holders will be deemed to make on submitting Consent Instructions. Non-compliance with these could result in, among other things, the unwinding of trades and/or heavy penalties.

PART 7

TAX CONSEQUENCES

CERTAIN UNITED KINGDOM TAXATION CONSIDERATIONS

The information regarding United Kingdom taxation set out below is intended as a general summary for Retail Holders of certain United Kingdom tax considerations and does not purport to be a complete analysis of all potential UK tax consequences for Holders arising from the Consent Solicitation. It is based on current UK tax law and what is understood to be the published practice of HM Revenue & Customs ("**HMRC**") as at the date of this Consent Solicitation Memorandum, both of which are subject to change, possibly with retrospective effect. The information is intended to apply only to Holders who are resident in the UK for UK tax purposes, who hold their 2023 Notes as investments (other than under an individual savings account) and who are the Beneficial Owners of their 2023 Notes. The statements may not apply to certain classes of Holders such as dealers in securities. The information below is not exhaustive, nor is it tailored to any specific investor.

The information below does not constitute tax advice. Holders who are in any doubt as to their tax position are urged to consult their own professional advisers regarding the possible tax consequences under the laws of the jurisdictions that apply to them.

United Kingdom Resident Individuals

The 2023 Notes should constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. As such, and subject to the comments which follow, the disposal of the 2023 Notes by an individual in consideration for cash pursuant to the Retail Cash Consideration should not give rise to a chargeable gain or allowable loss for the purposes of the UK taxation of chargeable gains.

If at the time the 2023 Notes were acquired by the individual Holder a gain or loss was "held over" into the 2023 Notes, then that gain or loss would be treated as arising on the disposal of the 2023 Notes in consideration for cash pursuant to the Retail Cash Consideration.

The payment of Accrued Interest will be chargeable to tax as income in the normal way.

United Kingdom Withholding Tax

There should be no requirement to deduct or withhold amounts for or on account of United Kingdom tax in relation to the payment of cash pursuant to the Retail Cash Consideration or the payment of Accrued Interest.

Stamp duty and Stamp Duty Reserve Tax

No United Kingdom stamp duty or stamp duty reserve tax should be payable by a Holder as a result of the transactions contemplated by the Consent Solicitation.

CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES

The following summary is a general discussion of certain U.S. federal income tax considerations to U.S. Retail Holders (as defined below) of the Mandatory Cancellation and receipt of the Retail Cash Consideration and Accrued Interest. A summary of certain U.S. federal income tax considerations that may be applicable to Non-Retail Noteholders that are participating in the Notes Exchange can be found under Part 13: Tax Consequences—U.S. Taxation in the Creditors' Circular.

The following summary applies only to U.S. Retail Holders that receive the Retail Cash Consideration and Accrued Interest pursuant to the terms described in this Consent Solicitation Memorandum, hold 2023 Notes as capital assets for U.S. federal income tax purposes (generally, assets held for investment), are not also Shareholders, and are not residents of, or ordinarily resident in, the United Kingdom for U.S. federal income tax purposes. The following summary is not a complete analysis of all U.S. federal income tax consequences that may be relevant to a U.S. Retail Holder's receipt of the Retail Cash Consideration and Accrued Interest as described in this Consent Solicitation Memorandum, including, in particular, U.S. federal income tax

consequences that apply to U.S. Retail Holders subject to special tax rules, including, among others, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, dealers or traders in securities or currencies, tax-exempt entities, U.S. Retail Holders that hold 2023 Notes as part of an "integrated", "hedging" or "conversion" transaction or as a position in a "straddle" for U.S. federal income tax purposes, grantor trusts, U.S. Retail Holders that have a "functional currency" other than the U.S. dollar and certain U.S. expatriates. This summary also does not discuss the Medicare tax, U.S. estate or gift taxes, or the tax laws of any U.S. state or locality or non-U.S. jurisdiction.

The following summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), the U.S. Treasury regulations thereunder, published rulings of the U.S. Internal Revenue Service (the "**IRS**"), the income tax treaty between the United States and the United Kingdom (the "**U.S.-UK Treaty**") and judicial and administrative interpretations thereof, in each case as in effect and available on the date of this Consent Solicitation Memorandum. Changes to any of the foregoing, or changes in how any of these authorities are interpreted, may affect the tax consequences set out below, possibly retroactively. No ruling will be sought from the IRS with respect to any statement or conclusion in this discussion, and no assurances can be given that the IRS will not challenge such statement or conclusion in the following discussion or, if challenged, a court will uphold such statement or conclusion.

For purposes of the following summary, a "**U.S. Retail Holder**" is a beneficial owner of the 2023 Notes that is for U.S. federal income tax purposes: (i) a citizen or resident alien of the United States, (ii) a corporation or other entity treated as a corporation for U.S. federal income tax purposes created or organised in or under the laws of the United States or any state thereof (including the District of Columbia), (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source or (iv) a trust the administration of which is subject to the primary supervision of a court within the United States and which has one or more United States persons (as defined in the Code) that have the authority to control all substantial decisions of such trust.

If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds 2023 Notes, the U.S. federal income tax consequences to the partners of such partnership will depend on the activities of the partnership and the status of the partners. Such a partnership, and the partners in such a partnership, should consult their own tax advisors about the consequences to them of the transactions described in this Consent Solicitation Memorandum.

U.S. Retail Holders should consult their own tax advisors with respect to the U.S. federal, state, local and non-U.S. tax consequences to them in their particular circumstances of the Mandatory Cancellation and receipt of the Retail Cash Consideration and Accrued Interest.

The discussion below assumes that the 2023 Notes are treated as "indebtedness" for U.S. federal income tax purposes. Whether the 2023 Notes are treated as indebtedness for U.S. federal income tax purposes depends on a number of characteristics of the 2023 Notes and facts and circumstances that existed at the time the 2023 Notes were issued (or if the Subordinate Notes were significantly modified thereafter, at the time the 2023 Notes were significantly modified). If the 2023 Notes are not treated as "indebtedness" for U.S. federal income tax purposes, consequences different from those described below would apply to U.S. Retail Holders. U.S. Retail Holders are urged to consult their own tax advisors regarding the proper U.S. federal income tax classification of the 2023 Notes.

Payment of the Retail Cash Consideration and Accrued Interest

A U.S. Retail Holder generally will recognise gain or loss on the receipt of the Retail Cash Consideration and Accrued Interest equal to the difference between the USD value of the Retail Cash Consideration and Accrued Interest (not including any amounts received that are attributable to accrued unpaid interest on the Subordinated Note, which will be treated as a payment of interest), and the U.S. Retail Holder's tax basis in the Subordinated Note. Gain or loss will be capital gain or loss and will be long-term capital gain or loss if the Subordinated Note was held for more than one year at the time of the disposition, except to the extent of any market discount or foreign currency exchange gain or loss, as described below. Gain or loss attributable to fluctuations in foreign currency exchange rates, or an amount of gain equal to accrued market discount, will generally be treated as ordinary gain or loss. Any foreign currency exchange gain or loss, and any gain

attributable to accrued market discount, may be recognised only to the extent of overall gain or loss realised by the U.S. Retail Holder. Gain or loss recognised by a U.S. Retail Holder generally will be treated as U.S. source gain or loss. U.S. Retail Holders are urged to consult their own tax advisors regarding the possibility of recognising foreign currency gain or loss and accrued market discount as a result of the transaction described in the Consent Solicitation Memorandum.

U.S. Retail Holders' eligibility to recognise losses as a result of the transaction described in the Consent Solicitation Memorandum may be subject to additional limitations not described herein, which U.S. Retail Holders should discuss with their tax advisors.

Any portion of the Retail Cash Consideration and Accrued Interest that is attributable to accrued unpaid interest on the 2023 Notes should be included in the income of a U.S. Retail Holder to the extent not previously included for U.S. federal income tax purposes. In such a case, the U.S. Retail Holder should recognise interest income equal to the USD value of the accrued and unpaid interest at the time the interest is received. This interest income should generally be foreign-source income.

Backup Withholding and Information Reporting Requirements

U.S. federal backup withholding and information reporting requirements may apply to the payment of the Retail Cash Consideration and Accrued Interest. A portion of any such payment may be withheld as a backup withholding against such U.S. Retail Holder's potential U.S. federal income tax liability if such U.S. Retail Holder fails to establish it is exempt from these rules, furnish its correct taxpayer identification number or otherwise fails to comply with such information reporting requirements. Any amounts withheld under the backup withholding rules from a payment to a U.S. Retail Holder will be credited against such U.S. Retail Holder's federal income tax liability, if any, or refunded if the amount withheld exceeds such tax liability provided the required information is furnished to the IRS.

The above summary is not intended to constitute a complete analysis of all U.S. federal income tax consequences to a U.S. Retail Holder of the Mandatory Cancellation and receipt of the Retail Cash Consideration and Accrued Interest. Each U.S. Retail Holder should consult its own tax advisor with respect to the U.S. federal, state, local and non-U.S. consequences of the Mandatory Cancellation and receipt of the Retail Cash Consideration and Accrued Interest.

Holders are liable for their own taxes and have no recourse to the Issuer, the Solicitation Agents, the Information Agent, the Trustee, the Paying Agent, the Registrar or any other entity or person named in this Consent Solicitation Memorandum, with respect to taxes arising in connection with the Consent Solicitation.

PART 8

PROCEDURES FOR PARTICIPATING IN THE CONSENT SOLICITATION

Holders who need assistance with respect to the procedures for participating in the Consent Solicitation should contact Computershare, the contact details for which are on the last page of this Consent Solicitation Memorandum.

Summary of action to be taken

In order to be eligible to participate in the Consent Solicitation, a Holder must submit a Consent Instruction, which shall include a vote in favour of both, or against both, the First Extraordinary Resolution and the Second Extraordinary Resolution to be proposed at the Meeting. It is not possible to submit a Consent Instruction in favour of only the First Extraordinary Resolution or the Second Extraordinary Resolution if a Holder wishes to be eligible to participate in the Consent Solicitation. If a Holder wishes to vote against only one Extraordinary Resolution, it should contact the Registrar or the Information Agent, as applicable, for information on how to do so and/or refer to the voting procedures set out in the Notice of Meeting.

Holders may only participate in the Consent Solicitation in accordance with the procedures set out in this section "*Part 8: Procedures for Participating in the Consent Solicitation*".

If a Holder believes that they are not an Eligible Holder and wishes to vote in respect of the Proposals, they should contact the Information Agent. Holders not participating in the Consent Solicitation, including Ineligible Holders, may submit Retail Confirmations to confirm their status as Retail Holders, if applicable. The procedure for submitting a Retail Confirmation is the same as that for submitting a Consent Instruction as set out below. Holders that have any questions about the submission of Retail Confirmations should contact the Information Agent or the Registrar, the contact details for which are on the last page of this Consent Solicitation Memorandum.

Holders are advised to check with any bank, securities broker or other intermediary through which they hold their 2023 Notes when such intermediary would need to receive instructions from a Holder in order for such Holder to participate in, or (where permitted) to validly revoke their instruction to participate in, the Consent Solicitation or submit a Retail Confirmation by the deadlines specified in this Consent Solicitation Memorandum. ***The deadlines set by any such intermediary and each Clearing System for the submission and (where permitted) revocation of Consent Instructions or Retail Confirmations will be earlier than the relevant deadlines in this Consent Solicitation Memorandum.***

Consent Instructions

The 2023 Notes are either in certificated form or uncertificated form in CREST. A registered holding of 2023 Notes in certificated form will be represented by a certificate (each a "**Note Certificate**"). The only Holders for the purposes of 2023 Notes held in uncertificated form through CREST, Euroclear or Clearstream, Luxembourg (each a "**Clearing System**") are direct or indirect CREST Participants appearing on the register of 2023 Notes (each such participant, together with each other registered Holder of the 2023 Notes appearing on such register, a "**Registered Holder**"). Each person (a "**Beneficial Owner**") who is the beneficial owner of a particular principal amount of the 2023 Notes through a Clearing System or its respective Direct Participant (in the case of Euroclear or Clearstream, Luxembourg) should note that such person is not considered to be a Holder for the purposes of 2023 Notes and will only be entitled to attend and vote at the Meeting or to appoint a proxy to do so in accordance with the procedures set out below.

Any reference herein to a Beneficial Owner sending voting instructions to the relevant CREST Participant or arranging for a Corporate Letter of Representation (as defined below) to be issued to it by the relevant CREST Participant (together the "**Corporate Actions**") shall mean:

(i) where the Beneficial Owner holds through a broker, dealer, commercial bank, trust company, custodian, nominee or intermediary in CREST, procuring that such party carries out such Corporate Actions on its behalf; and

(ii) where the Beneficial Owner holds through a Direct Participant or other broker, dealer, commercial bank, trust company, custodian, nominee or intermediary in Euroclear or Clearstream, Luxembourg, procuring that such Direct Participant or other party carries out such Corporate Actions (by issuing instructions in a form acceptable to such clearing Systems) through such Clearing Systems and before any deadlines specified by such Clearing Systems.

Where Corporate Actions are provided by a Direct Participant on behalf of a Beneficial Owner, the 2023 Notes held by that Beneficial Owner shall be blocked in accordance with the usual procedures of Euroclear and Clearstream, Luxembourg and the relevant Consent Instruction shall be sent directly to the Information Agent by the relevant Clearing System.

The submission of a Consent Instruction by any of the methods set out below will be required to include a confirmation by a Holder as to its status as a Retail Holder or Non-Retail Holder.

Notes in certificated form

A Registered Holder wishing to attend and vote at the Meeting in person must produce at such Meeting either, in the case of an individual Holder, a Note Certificate or, in the case of a corporate holder, a duly approved resolution of the directors or other governing body of such corporation authorising such person to act as the corporation's representative (a "**representative**") at the Meeting (a "**Corporate Letter of Representation**") together, in each case, with satisfactory evidence of identity.

A Registered Holder not wishing to attend and vote at the Meeting in person may by instrument in writing in the English language (a "**form of proxy**") in the form available from the Registrar, signed by the Registered Holder or, in the case of a corporation, executed under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation and delivered to the specified office of the Registrar not less than 48 hours before the time fixed for the meeting, appoint a representative of the Registrar (the "**proxy**") to act on his or its behalf in connection with the Meeting (or any such Adjourned Meeting).

Each Registered Holder appointing a proxy to vote on its behalf in respect of the Extraordinary Resolutions must deliver to the Registrar, not later than 18 August 2017 a duly completed Certificated Holding Consent Instruction, together with the Note Certificate evidencing ownership of the 2023 Notes which are the subject of the Certificated Holding Consent Instruction.

A proxy or representative so appointed shall so long as such appointment remains in force be deemed, for all purposes in connection with the Meeting (or any such Adjourned Meeting), to be the Holder of the 2023 Notes to which such appointment relates and the Holder of the 2023 Notes shall be deemed for such purposes not to be the Holder.

The form of Certificated Holding Consent Instruction for the 2023 Notes will contain appropriate boxes for the Registered Holder to specify that (i) it is voting in favour of or against the First Extraordinary Resolution and the Second Extraordinary Resolution; and (ii) it is a Retail Holder or it is a Non-Retail Holder, and in either case to provide its name, address and telephone number and custodian's name (if applicable). The appropriate form of Certificated Holding Consent Instruction will be mailed on or around 28 July 2017 to the relevant Holders of the 2023 Notes at the address of each Holder appearing on the register of the 2023 Notes as at 28 July 2017. If a Holder of the 2023 Notes has not received a Certificated Holding Consent Instruction within five working days of 28 July 2017, or if it requires an additional copy of a Certificated Holding Consent Instruction, it should contact the Registrar without delay.

Registered Holders who have lost their Note Certificates should notify the Registrar by telephone as soon as possible, and in any event at least two Business Days in advance of the Expiration Deadline to obtain a declaration and indemnity for return to the Registrar by not later than the Expiration Deadline. Indemnities will only be accepted in lieu of Note Certificates at the discretion of the Issuer.

A Consent Instruction in the form of a Certificated Holding Consent Instruction from Registered Holders will not be valid unless accompanied by either (i) the Note Certificate, or (ii) a duly completed declaration and indemnity accepted by the Issuer.

The Registrar's address for the delivery of Certificated Holding Consent Instructions and related Note Certificates is:

Computershare Investor Services PLC
Corporate Actions Projects
Bristol BS99 6AH
United Kingdom

Registered Holders must ensure that the Certificated Holding Consent Instruction is received by the Registrar on or prior to the Expiration Deadline in order to validly participate in the Consent Solicitation.

Certificated Holding Consent Instructions will be required to specify, amongst other information:

(a) the name and address of the relevant Holder and a telephone number;

(b) confirmation that such Holder is an Eligible Holder;

(c) whether it is a Retail Holder or a Non-Retail Holder;

(d) if it is a Retail Holder, confirmation that it was the Beneficial Owner of the relevant 2023 Notes at 5.00 p.m. (London Time) on the Retail Record Date and it will continue to be the Beneficial Owner at 6.00 p.m. (London Time) on the Entitlements Record Date;

(e) the principal amount of the 2023 Notes which are subject to the Certificated Holding Consent Instruction; and

(f) the bank account to which the Retail Cash Consideration and Accrued Interest is to be paid (if such bank account is different to that currently used to receive interest payments in respect of the 2023 Notes).

Holders who do not specify a bank account pursuant to (f) above, will receive the payment of the Retail Cash Consideration to the same bank account in which they receive interest payments on their 2023 Notes or if they receive interest payments in respect of the 2023 Notes by cheque, they shall receive payment of the of the Retail Cash Consideration by cheque mailed to the relevant address of such Holder.

Notes in uncertificated form in CREST

Each CREST Participant that is a Registered Holder should, if it is not the Beneficial Owner of the 2023 Notes, seek instructions from the Beneficial Owner(s) in accordance with its usual procedures. A CREST sponsored member wishing to vote on the Extraordinary Resolutions or revoke (in the limited circumstances in which such revocation is permitted) any such vote should instruct its CREST sponsor to issue a TTE Instruction to the Registrar (or if a revocation, an ESA Instruction) with the details set out below.

Each CREST Participant that is a Registered Holder, if it is the Beneficial Owner of the 2023 Notes, can vote in favour of or against the Extraordinary Resolutions by issuing a TTE Instruction with the details set out below, revoke by issuing an ESA Instruction with the details set out in "*Irrevocability*" on page 100, vote against either or both Extraordinary Resolutions by filling out the paper voting instruction referred to below, and attend the Meeting by bringing a Corporate Letter of Representation.

A Beneficial Owner wishing to ATTEND the Meeting must arrange for its CREST Participant to issue a Corporate Letter of Representation to it. Any such Letter of Representation should be on the headed paper of such participant, should detail the person attending and the principal amount of the 2023 Notes held by such person, and be signed by the CREST Participant.

A Beneficial Owner wishing to vote IN FAVOUR OF or AGAINST the Extraordinary Resolutions must send the voting instructions to its CREST Participant in accordance with such participant's usual procedures requesting that such participant issues a TTE Instruction. Any voting instruction must be received by the CREST Participant by their specified deadline. A CREST Participant submitting on behalf of multiple Holders may submit one TTE Instruction representing the instructions of all of its Holders, if it is accompanied by a spreadsheet setting out the name, address and telephone number of those Holders. A TTE Instruction must comply with the paragraph below.

Each TTE Instruction should specify Computershare (in its capacity as a CREST Participant under its participant ID referred to below) as the escrow agent to whom the 2023 Notes should be transferred. A TTE Instruction will not be valid unless and until it has settled and Computershare will not take any action in respect of any TTE Instruction until such time. The TTE Instruction must be properly authenticated in accordance with EUI's specifications and must contain, in addition to the other information which is required for a TTE Instruction to settle in CREST, the following details:

(a) the principal amount of the 2023 Notes to be transferred to an escrow balance;

(b) the CREST Participant's member account ID;

(c) the CREST Participant's participant ID;

(d) the relevant corporate action ISIN number, being: GB00BFXW0853;

(e) Computershare's participant ID, being: 8RA19;

(f) the relevant CREST member account ID of Computershare (in its capacity as a CREST receiving agent) from the table set out after sub-paragraph (i) below, corresponding to the option which the CREST Participant wishes to select and in accordance with any voting instructions provided by any Beneficial Owner;

(g) the corporate action number for the Consent Solicitation. This is allocated by EUI and can be found by viewing the relevant corporate action details in CREST;

(h) the standard TTE instruction of priority 80; and

(i) a name, address and contact telephone contact number, to be inserted in the shared note field.

For the purposes of sub-paragraph (g) above, the relevant CREST member IDs of Computershare relevant to a Holder of the 2023 Notes are set out in the table below. **A Beneficial Owner should elect the ID which corresponds to such Beneficial Owner's preferred option:**

Option	CREST Member ID
Option 1: *Retail Holders of the 2023 Notes:* Vote **IN FAVOUR** of the First Extraordinary Resolution and the Second Extraordinary Resolution at the Meeting by appointing a representative of the Registrar as your proxy to vote all of your 2023 Notes in favour of both Extraordinary Resolutions, **and confirm status as a Retail Holder**. YOU MUST SUBMIT THE RELEVANT STOCK TO RECORD YOUR VOTE CORRECTLY.	**COBVTE01**
Option 2 *Retail Holders of the 2023 Notes:* Vote **AGAINST** the First Extraordinary Resolution and the Second Extraordinary Resolution at the Meeting by appointing a representative of the Registrar as your proxy to vote all of your 2023 Notes against both Extraordinary Resolutions, **and confirm status as a Retail Holder**. YOU MUST SUBMIT THE RELEVANT STOCK TO RECORD YOUR VOTE CORRECTLY.	**COBVTE02**
Option 3 *Retail Holders of the 2023 Notes:* **ABSTAIN** from voting at the Meeting, **and confirm status as a Retail Holder**. YOU MUST SUBMIT THE RELEVANT STOCK TO RECORD YOUR VOTE CORRECTLY.	**COBVTE03**

Option	CREST Member ID
Option 4: *Retail Holders of the 2023 Notes:* **CONFIRM** status as a Retail Holder only. YOU MUST SUBMIT THE RELEVANT STOCK TO RECORD YOUR STATUS CORRECTLY.	**COBRET04**
Option 5: *Holders of the 2023 Notes who are not Retail Holders:* (A) Vote **IN FAVOUR** of the First Extraordinary Resolution and the Second Extraordinary Resolution at the Meeting by appointing a representative of the Registrar as your proxy to vote all of your 2023 Notes in favour of both Extraordinary Resolutions, **and confirm status as a Non-Retail Holder**; and (B) Instruct to participate in the Creditors' Scheme (for further information see below). YOU MUST SUBMIT THE RELEVANT STOCK TO RECORD YOUR VOTE CORRECTLY.	**COBVTE05**
Option 6: *Holders of the 2023 Notes who are not Retail Holders:* (A) Vote **AGAINST** the First Extraordinary Resolution and the Second Extraordinary Resolution at the Meeting by appointing a representative of the Registrar as your proxy to vote all of your 2023 Notes against both Extraordinary Resolutions, **and confirm status as a Non-Retail Holder;** and (B) Instruct to participate in the Creditors' Scheme (for further information see below). YOU MUST SUBMIT THE RELEVANT STOCK TO RECORD YOUR VOTE CORRECTLY.	**COBVTE06**
Option 7: *Holders of the 2023 Notes who are not Retail Holders:* (A) **ABSTAIN** from voting at the Meeting, **and confirm status as a Non-Retail Holder**; and (B) Instruct to participate in the Creditors' Scheme (for further information see below). YOU MUST SUBMIT THE RELEVANT STOCK TO RECORD YOUR VOTE CORRECTLY.	**COBVTE07**

Option	CREST Member ID
Option 8: *Holders of the 2023 Notes who are not Retail Holders:* (A) **CONFIRM** status as **a Non-Retail Holder** only. (B) Instruct to participate in the Creditors' Scheme (for further information see below). YOU MUST SUBMIT THE RELEVANT STOCK TO RECORD YOUR STATUS CORRECTLY.	**COBNON08**

A Non-Retail Holder may be able to participate in the Equity Subscriptions pursuant to the Creditors' Scheme. The options available to a Non-Retail Holder are described in the Creditors' Scheme Circular and will need to be communicated separately by a Non-Retail Holder and in addition to any instructions submitted in respect of the above options. Non-Retail Holders should refer to the Creditors' Scheme Circular before making any decision as to how to vote in respect of the Creditors' Scheme.

Note: to vote differently in respect of each of the Extraordinary Resolutions proposed at the Meeting, please contact the Information Agent.

Any vote in favour of the Extraordinary Resolutions pursuant to a TTE Instruction as provided herein will automatically appoint the Chairman of the Meeting as the relevant CREST Participant's proxy to vote the 2023 Notes referred in such TTE Instruction in such way.

Submission of Consent Instructions

The submission of a Certificated Holding Consent Instruction or a TTE Instruction, as the case may be, will be deemed to have occurred upon receipt by the Registrar of a valid voting instruction submitted in accordance with the requirements described herein.

Any Beneficial Owner which is submitting, or instructing any intermediary that will submit on its behalf to submit, a Consent Instruction, will be required to submit or will instruct such intermediary to submit only one Consent Instruction in respect of the entire aggregate principal amount of Notes in respect of which it is the Beneficial Owner. An intermediary will submit only one Consent Instruction per Beneficial Owner.

The submission of a valid Certificated Holding Consent Instruction or TTE Instruction, as the case may be, will result in the 2023 Notes which are the subject of such Certificated Holding Consent Instruction or TTE Instruction being immobilised from the time of such submission such that no transfers may be effected in relation to such 2023 Notes at any time after the date of submission of the relevant Certificated Holding Consent Instruction or TTE Instruction (unless such instruction is revoked, in the limited circumstances in which such revocation is permitted). The manner in which such immobilisation is effected will depend upon how the relevant 2023 Notes are held:

(a) *Notes in certificated form*: immobilisation will be effected by the surrender of such Holder's Note Certificate(s) evidencing the holding of those 2023 Notes to the Registrar and the Registrar will not register the transfer of such 2023 Notes in the register it maintains in respect of the 2023 Notes represented by a Certificated Holding Consent Instruction.

(b) *Notes in uncertificated form in CREST*: immobilisation will be effected by the mandatory transfer of the relevant 2023 Notes to one or more escrow accounts in CREST set up by the Registrar in connection with the Proposals.

By submitting a Certificated Holding Consent Instruction or a TTE Instruction, as the case may be, each Holder will be deemed to consent to have the Registrar provide details concerning such Holder's identity to

the Information Agent (and for the Information Agent to provide such details to the Issuer, the Solicitation Agents and their respective legal advisors).

Agreements, acknowledgements, representations, warranties and undertakings

By submitting a Consent Instruction in accordance with the procedures of such Clearing System or as set out herein, each relevant Holder whose 2023 Notes are the subject of such Consent Instruction shall, and any Direct Participant submitting such Consent Instruction on behalf of such Holder(s) shall in respect of itself and each such Holder, be deemed to agree, and acknowledge, represent, warrant and undertake, to the Issuer, the Information Agent, the Trustee, the Paying Agent, the Registrar and the Solicitation Agents the following (i) at the time of submission of such Consent Instruction, (ii) at the Expiration Deadline, (iii) at the time of the Meeting and the time of any such Adjourned Meeting, and (iv) on the Settlement Date (and if a Holder or Direct Participant on behalf of any Holder is unable to make any such agreement or acknowledgement or give any such representation, warranty or undertaking, such Holder or Direct Participant should contact the Information Agent immediately):

(a) it has received this Consent Solicitation Memorandum, and has reviewed, agrees to be bound by and accepts the terms, conditions and other considerations of the Consent Solicitation, all as described in this Consent Solicitation Memorandum;

(b) it is assuming all the risks inherent in participating in the Consent Solicitation and has undertaken all the appropriate analyses of the implications of the Consent Solicitation without reliance on the Issuer, the Solicitation Agents, the Trustee, the Paying Agent, the Registrar or the Information Agent;

(c) it has full power and authority to vote in the Meeting (or any Adjourned Meeting);

(d) each Consent Instruction is made on the terms and conditions set out in this Consent Solicitation Memorandum;

(e) if its Consent Instruction includes a confirmation that it is a Retail Holder, it confirms that it is a Holder who as at 5.00 p.m. (London Time) on the Retail Record Date satisfied and, at 6.00 p.m. (London Time) on the Entitlements Record Date will continue to satisfy, the following conditions: (i) it is an individual person; (ii) it is the Beneficial Owner of less than £100,000 in aggregate principal amount of 2023 Notes; (iii) (a) if it is resident in the United States, it is not an Accredited Investor, or (b) if it is not resident in the United States, it is not a "qualified investor" as defined in the Prospectus Directive; and (iv) it is not a Sanctions Restricted Person;

(f) it is submitting, or it is instructing any intermediary that will submit on its behalf to submit, only one Consent Instruction in respect of the entire aggregate principal amount of 2023 Notes in respect of which it is the Beneficial Owner or, if it is acting as an intermediary it is submitting only one Consent Instruction per Beneficial Owner (other than in the circumstances in which it has received an explicit confirmation from the Information Agent that it may submit more than one Consent Instruction);

(g) by arranging for the blocking, transfer to escrow or immobilisation (as applicable) of the relevant 2023 Notes in the manner described in "*Part 8: Procedures for Participating in the Consent Solicitation*", each Holder consents to details concerning such Holder's identity being provided to the Information Agent or the Registrar (as applicable) (and for the Information Agent or the Registrar (as applicable) to provide such details to the Issuer, the Solicitation Agents, the Trustee and their respective legal advisors);

(h) it gives instructions for the appointment of one or more representatives of the Registrar as its proxy to vote in favour or against both the First Extraordinary Resolution and the Second Extraordinary Resolution at the Meeting and any adjourned such Meeting in the manner specified in the Consent Instruction in respect of all of the 2023 Notes specified in such Consent Instruction;

(i) with respect to the Accrued Interest and the Retail Cash Consideration to be paid in respect of its 2023 Notes, a Retail Holder acknowledges and agrees that it will: (a) receive the Accrued Interest and the Retail Cash Consideration to be paid in respect of its 2023 Notes in the same account as is used to receive interest payments in respect of its 2023 Notes; or (b) at the time of submitting its Consent Instruction, advise the Registrar of an alternative account in which it would like to receive the Accrued

Interest or the Retail Cash Consideration (if such account is different to that currently used to receive interest payments in respect of its 2023 Notes); or (c) if it receives interest payments in respect of the 2023 Notes by cheque and has not notified the Registrar of a specified account, it will receive the aggregate amounts of the Retail Cash Consideration and the Accrued Interest to be paid in respect of its 2023 Notes by cheque, mailed to the relevant address of such Retail Holder;

(j) all authority conferred or agreed to be conferred pursuant to its acknowledgements, agreements, representations, warranties and undertakings, and all of its obligations, shall be binding upon its successors, assigns, heirs, executors, trustees in bankruptcy and legal representatives, and shall not be affected by, and shall survive, its death or incapacity;

(k) none of the Issuer, the Solicitation Agents, the Trustee, the Registrar or the Information Agent have given it any information with respect to the Consent Solicitation or Extraordinary Resolutions save as expressly set out in this Consent Solicitation Memorandum and the Notice of Meeting nor has any of them expressed any opinion about the terms or the merits of the Consent Solicitation or Extraordinary Resolutions (or the impact thereof on particular Holders) or made any recommendation to it as to whether it should participate in the Consent Solicitation or otherwise participate at the Meeting or whether to vote in favour of or against (or how to vote in respect of) the Extraordinary Resolutions and it has made its own decision with regard to participating in the Consent Solicitation based on financial, tax or legal advice it has deemed necessary to seek and is assuming all the risks inherent in participating in the Consent Solicitation;

(l) save as described in this Consent Solicitation Memorandum, no information has been provided to it by the Issuer, the Solicitation Agents, the Trustee, the Paying Agent, the Registrar or the Information Agent (or, in each case, any of their respective agents, affiliates, directors, members, employees or representatives), with regard to the tax consequences for Holders arising from the participation in the Consent Solicitation, the implementation of the Extraordinary Resolutions or the receipt by it of the Retail Cash Consideration (where applicable) or the Accrued Interest, and it acknowledges that it is solely liable for any taxes and similar or related payments imposed on it under the laws of any applicable jurisdiction as a result of its participation in the Consent Solicitation, and agrees that it will not and does not have any right of recourse (whether by way of reimbursement, indemnity or otherwise) against the Issuer, the Solicitation Agents, the Information Agent, the Trustee, the Paying Agent, the Registrar (or, in each case, any of their respective agents, affiliates, directors, members, employees or representatives), or any other person in respect of such taxes and payments;

(m) it is not a U.S. person or, if it is a U.S. person it is otherwise an Eligible Holder;

(n) each Consent Instruction is being submitted in compliance with the applicable laws or regulations of the jurisdiction in which the Direct Participant or Beneficial Owner of 2023 Notes is located or in which it is resident, it is otherwise a person to whom the Consent Solicitation can be lawfully made and that may lawfully participate in the Consent Solicitation and it has not taken or omitted to take any action in breach of the representations or which will or may result in the Issuer, the Solicitation Agents, the Information Agent, the Trustee, the Paying Agent, the Registrar or any other person acting in breach of the legal or regulatory requirements of any such jurisdiction in connection with any votes in favour of or votes against the Extraordinary Resolutions;

(o) it is an Eligible Holder and it is not a Sanctions Restricted Person;

(p) it agrees to ratify and confirm each and every act or thing that may be done or effected by the Issuer, the Trustee, (or, in each case, any of their respective agents, affiliates, directors, members, employees or representatives), or any person nominated by the Issuer in the proper exercise of his or her powers and/or authority hereunder;

(q) it agrees to do all such acts and things as shall be necessary and execute any additional documents deemed by the Issuer to be desirable, in each case, to perfect any of the authorities expressed to be given hereunder and also appoints the Registrar, as its authorised attorney to do so on its behalf;

(r) it will, upon request, execute and deliver any additional documents and/or do such other things deemed by the Issuer to be necessary or desirable to effect delivery of the Consent Instructions related to such Notes or to evidence such power and authority;

(s) the information given by or on behalf of such Holder in the Consent Instruction is in all respects true, accurate and not misleading and will in all respects be true, accurate and not misleading at the time of the Meeting or on the Settlement Date;

(t) it

(A) subject to certain conditions, irrevocably and unconditionally, fully and finally waives and releases and forever discharges from the Settlement Date (x) all Note Claims; and (y) any and all actions, proceedings, claims, damages, counterclaims, complaints, liabilities, liens, rights, demands and set-offs, whether in this jurisdiction or any other, of whatsoever nature and howsoever arising, whether in law or in equity, in contract (including but not limited to breaches or non-performances of contract), statute or in tort (including but not limited to negligence and misrepresentation), breaches of statutory duty, for contribution, or for interest and/or costs and/or disbursements, whether filed or unfiled, whether or not presently known to the parties or to the law, all claims that each Holder ever had, may have or hereafter can, shall or may have against any Relevant Person in relation to or arising out of or in connection with:

(i) the preparation, negotiation or implementation of the Consent Solicitation and the Creditors' Scheme (including, but not limited to, the Restructuring Deed and Restructuring Implementation Documents); and/or

(ii) the preparation, negotiation or implementation of the Restructuring and Recapitalisation; and/or

(iii) any event or circumstance arising in the period from 1 January 2016 to the Completion Time which caused or, contributed to, directly or indirectly the requirement for the Restructuring and Recapitalisation;

(B) assents to and sanctions that Relevant Persons may enforce the agreement of each Holder to release liabilities and waive its rights and entitlements, as described in (A) above, subject to and in accordance with the provisions of the Contracts (Rights of Third Parties) Act 1999; and

(C) assents to and sanctions the modification, abrogation, compromise or arrangement in respect of its rights against the Relevant Persons necessary to give effect to the foregoing provisions of this paragraph (t); and

(u) the Issuer, the Solicitation Agents, the Information Agent, the Paying Agent, the Trustee and the Registrar will rely on the truth and accuracy of the foregoing acknowledgements, agreements, representations, warranties and undertakings and it shall indemnify the Issuer, the Solicitation Agents, the Information Agent, the Paying Agent, the Trustee and the Registrar against all and any losses, costs, claims, liabilities, expenses, charges, actions or demands which any of them may incur or which may be made against any of them as a result of any breach of any of the terms of, or any of the agreements, representations, warranties and/or undertakings given in connection with the Consent Solicitation;

(v) until the earlier of (i) the date on which its Consent Instruction is validly revoked, in the limited circumstances in which such revocation is permitted (including the automatic revocation of such Consent Instruction on the termination of the Consent Solicitation), in accordance with the terms of the Consent Solicitation, (ii) the Settlement Date and (iii) the announcement of the termination of the Consent Solicitation by the Issuer, it holds, or will hold, the relevant 2023 Notes blocked in the relevant Clearing System, its Notes are held, or will be held, in an escrow account by the Registrar, or its Note Certificate has been surrendered to the Registrar in order to immobilise its 2023 Notes, as applicable, and, in accordance with the requirements of, and by the deadline required by, the relevant Clearing System (or the Registrar in the case of 2023 Notes in certificated form), it has submitted, or has caused to be submitted, a Consent Instruction to the relevant Clearing System to authorise the

blocking or transfer to the escrow account (as applicable) of such 2023 Notes or it has submitted its Note Certificate to the Registrar with its Consent Instruction (in the case of 2023 Notes in certificated form) with effect on and from the date of such submission so that no further transfers of such 2023 Notes may be effected until the occurrence of any of the events listed in (i) – (iii) above;

(w) represents and warrants to the Bank that it is not, nor is it applying as, nominee or agent for, a person who is or may be liable to notify and account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in section 93 (depository receipts) or section 96 (clearance services) of the Finance Act 1986; and

(x) it unconditionally and irrevocably agrees that the Consent Solicitation, the Meetings, each Consent Instruction and any non-contractual obligations or matters arising from or connected with any of the foregoing, shall be governed by the laws of England and that the courts of England are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Consent Solicitation, the Meeting and any Consent Instruction and that accordingly any suit, action or proceedings arising out of or in connection with the foregoing may be brought in such courts.

The Issuer reserves the right to request evidence from a Holder to support a Holder's confirmation as to Retail Holder status. All determinations, including any determination that a Holder is or is not a Retail Holder by the Issuer, and all calculations performed by the Registrar in connection with the Mandatory Cancellation will, in the absence of manifest error, be conclusive and binding on Holders.

Any Holder who considers that he or she is a Retail Holder or is unsure as to whether or not he or she is a Retail Holder should contact Lucid Issuer Services Limited as Information Agent using the contact details set out herein. Where it is not possible to ascertain if a Holder is a Retail Holder, the holdings of 2023 Notes of such Holder will be subject to the Creditors' Scheme. Those Holders will be deemed to be Non-Retail Holders and will therefore not receive the Retail Cash Consideration but will instead receive a pro rata share of the A Shares to be distributed in accordance with the Creditors' Scheme. Only Holders that have validly confirmed their status as Retail Holders or who are otherwise determined by the Bank to be Retail Holders (in each case on or before the Retail Confirmation Deadline) will receive the Retail Cash Consideration and Accrued Interest in cash in respect of their 2023 Notes.

A Non-Retail Holder may be able to participate in the Equity Subscriptions pursuant to the Creditors' Scheme. The options available to a Non-Retail Holder are described in the Creditors' Scheme Circular and any request to so participate will need to be communicated separately by a Non-Retail Holder and in addition to any instructions submitted in respect of the above options. Non-Retail Holders should refer to the Creditors' Scheme Circular before making any decision as to how to vote in respect of the Creditors' Scheme.

Consent Instructions other than in accordance with the procedures set out in this section will not be accepted

Holders may only participate in the Consent Solicitation by way of the submission of valid Consent Instructions with a vote in favour of or against both the First Extraordinary Resolution and the Second Extraordinary Resolution in accordance with the procedures set out in this section "*Part 8: Procedures for Participating in the Consent Solicitation*". Holders should not send Consent Instructions to the Issuer or the Solicitation Agents.

A Holder should not make any direct arrangements with or give any form of instructions directly to the Paying Agent in connection with the Consent Solicitation and/or the Meeting.

Appointment of Registrar as proxy

By submitting a valid Consent Instruction, Holders will give instructions to the Paying Agent to appoint one or more representatives of the Registrar as their proxy to vote in favour of or against both the First Extraordinary Resolution and the Second Extraordinary Resolution at the Meeting and at any Adjourned Meeting.

Irrevocability

It is a term of the Consent Solicitation that each Consent Instruction submitted in accordance with the procedures set out in "*Part 8: Procedures for Participating in the Consent Solicitation*", is irrevocable except in the limited circumstances described in "*Part 9: Amendment and Termination*". For the avoidance of doubt, a Retail Confirmation may be revoked up to the Retail Confirmation Deadline. Retail Confirmations and, in the limited circumstances in which revocation is permitted, Consent Instructions may be revoked by a Holder, or the relevant Direct Participant on its behalf, by following the procedures set out below.

2023 Notes in certificated form

Certificated Holding Consent Instructions or Retail Confirmations relating to the 2023 Notes may be revoked only in the limited circumstances in which revocation is permitted. A Registered Holder must deliver to the Registrar, a written revocation instruction in such form as the Registrar deems appropriate and shall make available to Holders in the event that a revocation right arises.

The Registered Holder will be required to specify in the revocation instruction, amongst other information:

(a) the name and address of the relevant Registered Holder and a telephone number; and

(b) the principal amount of the 2023 Notes for which the Certificated Holding Consent Instruction is being revoked.

Any Registered Holder who does not, within the applicable timeframe, exercise its right of revocation in the manner specified above, shall be deemed to have waived such right of revocation and its original Certificated Holding Consent Instruction shall remain effective.

2023 Notes in uncertificated form in CREST

Consent Instructions or Retail Confirmations relating to the 2023 Notes may be revoked (where permitted) by a Holder by sending voting instructions to its CREST Participant in accordance with such participants usual procedures requesting that such participant issues an ESA Instruction to settle in CREST. Any such ESA Instruction must contain the following details:

(a) the principal amount of the 2023 Notes to be withdrawn;

(b) the CREST Participant's member account ID;

(c) the CREST Participant's participant ID;

(d) the relevant corporate action ISIN number, being: GB00BFXW0853;

(e) Computershare's participant ID, being: 8RA19;

(f) the relevant CREST member account ID of Computershare (in its capacity as a CREST receiving agent) from the table set out above;

(g) the intended settlement date for the withdrawal;

(h) the transaction reference number of the Consent Instruction or Retail Confirmation to be withdrawn;

(i) the corporate action number for the Consent Solicitation. This is allocated by EUI and can be found by viewing the relevant corporate action details in CREST;

(j) the standard TTE instruction of priority 80; and

(k) a name, address and contact telephone contact number, to be inserted in the shared note field.

Any such revocation of a TTE Instruction will be conditional upon Computershare verifying that the revocation is validly made. Accordingly, Computershare will, on behalf of the Bank, reject or accept the revocation by transmitting in CREST a receiving agent reject (AEAD) or receiving agent accept (AEAN) message.

Irregularities

All questions as to the validity, form, eligibility and (where permitted) valid revocation (including times of receipt) of any Consent Instruction or Retail Confirmation will be determined by the Issuer in its sole discretion, which determination shall be final and binding.

The Issuer reserves the absolute right to reject any and all Consent Instructions, Retail Confirmations or revocation instructions not in proper form or the acceptance of which would, in the opinion of the Issuer and its legal advisers, be unlawful. The Issuer also reserves the absolute right to waive any defects, irregularities or delay in the submission of any or all Consent Instructions, Retail Confirmations or revocation instructions. The Issuer also reserves the absolute right to waive any such defect, irregularity or delay in respect of a particular Consent Instruction whether or not the Issuer elects to waive similar defects, irregularities or any delay in respect of other 2023 Notes.

Any defect, irregularity or delay must be cured within such time as the Issuer determines, unless waived by it. Consent Instructions and Retail Confirmations will be deemed not to have been made until such defects, irregularities or delays have been cured or waived. None of the Issuer, the Solicitation Agents, the Trustee, the Paying Agent, the Registrar and the Information Agent shall be under any duty to give notice to a Holder of any defects, irregularities or delays in any Consent Instruction, Retail Confirmation or revocation instruction, nor shall any of them incur any liability for failure to give such notice.

PART 9

AMENDMENT AND TERMINATION

Amendment and Termination

Notwithstanding any other provision of the Consent Solicitation, the Issuer may, subject to applicable laws and the Meeting Provisions, at its option and in its sole discretion:

(a) amend the Maximum Cash Amount and/or extend the Expiration Deadline in respect of the Consent Solicitation for any purpose, including to permit the satisfaction or, where possible, waiver of the Consent Conditions (in which case all references to the Maximum Cash Amount and/or extension of the Expiration Deadline in this Consent Solicitation Memorandum are to such terms as so amended or extended, as the case may be);

(b) terminate the Consent Solicitation at any time (including with respect to Consent Instructions and Retail Confirmations received by the Registrar in respect of the Consent Solicitation before the time of such termination) and/or not implement the Proposals; and

(c) otherwise amend or modify at any time the terms of the Consent Solicitation (other than the terms of the Extraordinary Resolutions or the Meeting) in any respect (including, but not limited to, by waiving, where possible, any Consent Conditions).

The Issuer will promptly give oral or written notice (with any oral notice to be promptly confirmed in writing) of any extension, amendment, termination or waiver to the Information Agent, followed by an announcement thereof as promptly as practicable, to the extent required by this Consent Solicitation Memorandum or by law. See "*Part 5: Consent Solicitation – Announcements*".

In the event the Consent Solicitation is terminated, if not already held, the Meetings will still be held and, as specified in the paragraph below, the Extraordinary Resolutions will still be considered and voted on at the Meeting but will not be implemented. However, notwithstanding the irrevocability of all Consent Instructions, on such termination of the Consent Solicitation, all such Consent Instructions relating to that Consent Solicitation will be deemed to be revoked automatically.

In the event the Consent Solicitation is terminated, the 2023 Notes in respect of which Consent Instructions and Retail Confirmations had been submitted prior to the time of such termination will be unblocked promptly in the relevant account in the Clearing Systems, transferred back to Holders from the escrow account or, in the case of 2023 Notes in certificated form, the Registrar will return Note Certificates to the relevant Holder.

Revocation Rights

If the Issuer amends the Consent Solicitation or otherwise supplements this Consent Solicitation Memorandum (other than the terms of the Extraordinary Resolutions or the Meeting, which may not be amended) in any way that, in the opinion of the Issuer (in consultation with the Solicitation Agents), is materially prejudicial to the interests of Holders that have already submitted Consent Instructions in respect of the Consent Solicitation before the announcement of such amendment, (subject to no such materially prejudicial amendment being permissible at any time after 10.00 a.m. (London Time) on the second Business Day immediately preceding the Expiration Deadline) then such Consent Instructions may be revoked at any time from the date and time of such announcement until no earlier than 10.00 a.m. (London Time) on the second Business Day immediately following such announcement (subject to the earlier deadlines required by the Clearing Systems and any intermediary through which Holders hold their 2023 Notes).

For the avoidance of doubt, any extension or re-opening of the Consent Solicitation (or any deadline thereof) in accordance with the terms of the Consent Solicitation as described in this section "*Part 9: Amendment and Termination*" (whether or not in connection with the convening of an Adjourned Meeting) shall not be considered to be so materially prejudicial.

Holders wishing to exercise any such rights of revocation should do so in accordance with the procedures set out in "*Part 8: Procedures for Participating in the Consent Solicitation*". Beneficial Owners of 2023 Notes that are held through an intermediary are advised to check with such entity when it would need to receive instructions to revoke a Consent Instruction in order to meet the above deadlines. For the avoidance of doubt, any Holder who does not exercise any such right of revocation in the circumstances and in the manner specified above shall be deemed to have waived such right of revocation and its original Consent Instruction will remain effective.

The exercise of any such right of revocation in respect of a Consent Instruction will be effective for the purposes of revoking the instruction given by the relevant Holder for the appointment of one or more representatives of the Registrar as the relevant Holder's proxy to vote at the Meeting on such Holder's behalf only if a valid revocation instruction is received by Registrar no later than the Expiration Deadline or (if applicable) 24 hours before any Adjourned Meeting.

Retail Confirmations may be revoked up to the Retail Confirmation Deadline using the same procedures as those specified for the revocation of Consent Instructions in "*Part 8: Procedures for Participating in the Consent Solicitation*".

PART 10

SOLICITATION AGENTS AND TABULATION AND INFORMATION AGENT

Solicitation Agents

Merrill Lynch International and UBS Limited have been appointed by the Issuer as Solicitation Agents for the Consent Solicitation. The Issuer has entered into a Solicitation Agency Agreement with the Solicitation Agents which contains certain provisions regarding payment of fees, expense reimbursement and indemnity arrangements relating to the Consent Solicitation and the Proposals.

Each of the Solicitation Agents and their respective affiliates may, in the ordinary course of its business, make markets in or vote in respect of, or act as principal in any transactions in, or relating to, or otherwise act in relation to any manner it deems appropriate, debt securities of the Issuer, including the 2023 Notes, for its own account and for the accounts of its customers. As a result, from time to time, the Solicitation Agents may own certain securities, including the 2023 Notes.

Each of the Solicitation Agents and their respective affiliates may (i) submit Consent Instructions for its own account and (ii) submit Consent Instructions or attend and vote at the Meeting in person or make other arrangements to be represented or to vote at the Meeting on behalf of other Holders.

Each of the Solicitation Agents and their respective affiliates have provided and continue to provide certain investment banking services to the Issuer for which it has received and will receive compensation that is customary for services of such nature.

Information Agent

The Issuer has retained Lucid Issuer Services Limited to act as Information Agent for the Consent Solicitation. The Information Agent will assist Holders that require assistance in connection with the Consent Solicitation. The Issuer has agreed to pay the Information Agent a customary fee for its services in connection with the Consent Solicitation, and has also agreed to reimburse the Information Agent for certain expenses relating to the Consent Solicitation.

The Information Agent is the agent of the Issuer and owes no duty to any Holder.

General

The Solicitation Agents and the Information Agent, and their respective affiliates, may contact Holders regarding the Consent Solicitation and may request brokerage houses, custodians, nominees, fiduciaries and others to forward this Consent Solicitation Memorandum, the Notice of Meeting and related materials to Beneficial Owners of the 2023 Notes.

None of the Solicitation Agents, the Trustee, the Paying Agent, the Registrar, the Information Agent or any of their respective directors, employees and affiliates assume any responsibility for the accuracy or completeness of the information concerning the Consent Solicitation, the Extraordinary Resolutions, Issuer or any of their affiliates or the 2023 Notes in this Consent Solicitation Memorandum or for any failure by any of them to disclose events that may have occurred and may affect the significance or accuracy of such information and the terms of any amendment to the Consent Solicitation.

None of the Issuer, the Solicitation Agents, the Information Agent, the Trustee, the Paying Agent, the Registrar or any director, officer, employee, agent or affiliate of any such persons are acting for any Holder, or will be responsible to any Holder for providing any protections which would be afforded to its clients or for providing advice in relation to the Consent Solicitation or the Extraordinary Resolutions, and accordingly none of the Issuer, the Solicitation Agents, the Information Agent, the Trustee, the Paying Agent, the Registrar or any director, officer, employee, agent or affiliate of any such persons, make any recommendation whether Holders should participate in the Consent Solicitation or otherwise participate at the Meeting and none of the Issuer, the Solicitation Agents, the Information Agent, the Trustee, the Paying Agent, the Registrar or any director, officer, employee, agent or affiliate of any such persons, make any representation whatsoever regarding the Consent Solicitation or the Proposals.

ANNEX I

FORM OF NOTICE OF THE MEETING

THIS NOTICE IS IMPORTANT AND REQUIRES THE IMMEDIATE ATTENTION OF HOLDERS. IF HOLDERS ARE IN ANY DOUBT AS TO THE ACTION THEY SHOULD TAKE, THEY SHOULD SEEK THEIR OWN FINANCIAL AND LEGAL ADVICE, INCLUDING IN RESPECT OF ANY TAX CONSEQUENCES, IMMEDIATELY FROM THEIR BROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER INDEPENDENT FINANCIAL, TAX OR LEGAL ADVISER.

The Co-operative Bank p.l.c.

(incorporated in England and Wales with registered number 990937)

(the "**Issuer**")

NOTICE OF MEETING

to holders of its outstanding Notes listed in the table below
(the "**2023 Notes**" or "**Notes**")

Description	ISIN	Outstanding principal amount
£206,000,000 11% Subordinated Notes due 2023	GB00BFXW0853	£206,000,000

NOTICE IS HEREBY GIVEN that a meeting (the "**Meeting**") of the holders of the Notes (the "**Holders**") convened by the Issuer will be held at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ at 10.00 a.m. (London Time) (or as soon thereafter as the Creditors' Scheme Court Meeting (as defined below) shall have concluded or been adjourned) on 21 August 2017 for the purpose of considering and, if thought fit, passing the resolutions set out below, which will be proposed as Extraordinary Resolutions at the Meeting in accordance with the provisions of the conditions and the trust deed dated 20 December 2013 made between the Issuer and Law Debenture Trustees Limited as trustee (the "**Trustee**") (the "**Trust Deed**") in accordance with the following agenda:

1. the First Extraordinary Resolution shall be proposed and, if passed, the First Supplemental Trust Deed (as defined below) shall be immediately executed by the Issuer and the Trustee and prior to the Second Extraordinary Resolution being proposed to the Meeting; and

2. the Second Extraordinary Resolution shall be proposed.

Unless the context otherwise requires, capitalised terms used but not defined in this Notice shall have the meaning given in the Trust Deed, the terms and conditions of the Notes (the "**Conditions**") or the Extraordinary Resolution, as applicable.

FIRST EXTRAORDINARY RESOLUTION

"THAT this Meeting of the Holders of the £206,000,000 11% Subordinated Notes due 2023 (ISIN: GB00BFXW0853) of The Co-operative Bank p.l.c. presently outstanding (the "2**023 Notes**" and the "**Issuer**" respectively) constituted by the Trust Deed dated 20 December 2013 (the "**Trust Deed**") made between the Issuer and Law Debenture Trustees Limited (the "**Trustee**") as trustee for the holders of the 2023 Notes (the "**Holders**" or "**Noteholders**") hereby:

1. assents to and sanctions the modification of the provisions for meetings of the Noteholders as set out in Schedule 3 to the Trust Deed by the insertion of the following new paragraph 18(k):

   "(k) Power to sanction any proposal:

   (i) subject to certain conditions, for the irrevocable and unconditional, full and final waiver and release and forever discharge from the Settlement Date of (x) all Note Claims; and (y) any and all actions, proceedings, claims, damages, counterclaims, complaints, liabilities, liens, rights, demands and set-offs, whether in this jurisdiction or any other, of whatsoever nature and howsoever arising, whether in

law or in equity, in contract (including but not limited to breaches or non-performances of contract), statute or in tort (including but not limited to negligence and misrepresentation), breaches of statutory duty, for contribution, or for interest and/or costs and/or disbursements, whether filed or unfiled, whether or not presently known to the parties or to the law, all claims that each Noteholder ever had, may have or hereafter can, shall or may have against any Relevant Person in relation to or arising out of or in connection with:

(i) the preparation, negotiation or implementation of the Consent Solicitation and the Creditors' Scheme (including, but not limited to, the Restructuring Deed and Restructuring Implementation Documents); and/or

(ii) the preparation, negotiation or implementation of the Restructuring and Recapitalisation; and/or

(iii) any event or circumstance arising in the period from 1 January 2016 to the Completion Time which caused or, contributed to, directly or indirectly the requirement for the Restructuring and Recapitalisation;

(ii) that Relevant Persons may enforce the agreement of Holders to release liabilities and waive rights and entitlements, as described in (i) above, subject to and in accordance with the provisions of the Contracts (Rights of Third Parties) Act 1999; and

(iii) for the modification, abrogation, compromise or arrangement in respect of the rights of all Noteholders against Relevant Persons necessary to give effect to the foregoing provisions of this paragraph (k)".

All capitalised terms used but not defined in paragraph (k) above shall have the meanings given to such terms in (i) the notice of Meeting dated 28 July 2017 given by the Issuer to the Noteholders convening a meeting of the Noteholders to consider and, if thought fit, pass Extraordinary Resolutions sanctioning, *inter alia*, the Mandatory Cancellation (the "**Notice of Meeting**") and (ii) the Trust Deed, as amended from time to time;

2. sanctions every abrogation, modification, compromise or arrangement in respect of the rights of the Holders appertaining to the 2023 Notes against the Issuer, whether or not such rights arise under the Trust Deed, involved in or resulting from or to be effected by, the modifications referred to in paragraph 1 of this Extraordinary Resolution and their implementation;

3. authorises, empowers and directs the Trustee to concur in the modifications referred to in paragraph 1 of this Extraordinary Resolution and, in order to give effect to and to implement the modifications referred to in paragraph 1, forthwith to execute a supplemental Trust Deed (the "**First Supplemental Trust Deed**") in the form of the draft produced to this Meeting and for the purpose of identification signed by the Chairman thereof with such amendments (if any) thereto as the Trustee shall require and to concur in, and to execute and do, all such other deeds, instruments, acts and things as may be necessary or appropriate to carry out and give effect to this Extraordinary Resolution and the implementation of the modifications referred to in paragraph 1 of this Extraordinary Resolution; and

4. discharges and exonerates the Trustee from all liability for which it may have become or may become responsible under the 2023 Notes or the Trust Deed relating to the 2023 Notes in respect of any act or omission in connection with the modifications referred to in paragraph 1 of this Extraordinary Resolution, their implementation, or this Extraordinary Resolution."

SECOND EXTRAORDINARY RESOLUTION

"THAT this Meeting of the Holders of the £206,000,000 11% Subordinated Notes due 2023 (ISIN: GB00BFXW0853) of The Co-operative Bank p.l.c. presently outstanding (the "**2023 Notes**" and the "**Issuer**" respectively) constituted by the Trust Deed dated 20 December 2013, as amended from time to time, (the "**Trust Deed**") made between the Issuer and Law Debenture Trustees Limited (the "**Trustee**") as trustee for the holders of the 2023 Notes (the "**Holders**" or "**Noteholders**"), if the First Extraordinary Resolution of even date herewith is duly passed and implemented, hereby:

1. assents to and sanctions the modification of the Conditions of the 2023 Notes as endorsed on the form of certificated note in Schedule 1 to the Trust Deed by the insertion of the following new Condition 6.7:

"**6.7 MANDATORY CANCELLATION**

(i) Subject to satisfaction of the Consent Conditions and the PRA Consent having been obtained, on the Settlement Date (such date and the satisfaction of the Consent Conditions having been notified to Noteholders) all of the Notes held by Retail Noteholders shall be cancelled, all of the rights of those Retail Noteholders under their Notes and the related rights under the Trust Deed, and all of the Issuer's liabilities and obligations to those Retail Noteholders under their Notes and related rights under the Trust Deed, shall be irrevocably cancelled and released, in each case in consideration of the payment of the Retail Cash Consideration to such Retail Noteholders on the terms set out in this Condition 6.7 (the "**Mandatory Cancellation**"). The Notes of Non-Retail Noteholders are not subject to the Mandatory Cancellation and are instead subject to the Creditors' Scheme.

(ii) In addition, on the Settlement Date, each Retail Noteholder whose Notes are subject to the Mandatory Cancellation will be entitled to receive accrued interest on the aggregate principal amount of its Notes for the period from (and including) 20 June 2017 to (but excluding) 31 July 2017, and amounting to £0.1226 per £10 in principal amount of Notes which will be paid in cash and rounded to the nearest £0.01, (the "**Accrued Interest**").

(iii) The Retail Cash Consideration and Accrued Interest to be paid to each Retail Noteholder in respect of its Notes will be calculated by the Registrar. All determinations, including any determination that a Noteholder is or is not a Retail Noteholder by the Issuer, and all calculations performed by the Registrar in connection with the Mandatory Cancellation will, in the absence of manifest error, be conclusive and binding on Noteholders.

(iv) Notwithstanding Condition 12 and any other provision in the Conditions as regards the giving of notices, any notice given in connection with this Condition 6.7 shall be validly given upon the publication of such notice on the Regulatory News Service operated by the London Stock Exchange plc, and shall be deemed to have been given on the date of such publication.

(v) This Condition 6.7 shall apply notwithstanding any other contrary provision of the Conditions. In the event of any inconsistency between this Condition 6.7 and any other provision of the Conditions, this Condition 6.7 shall prevail.

(vi) All capitalised terms used but not defined in this Condition 6.7 shall have the meanings given to such terms in (i) the notice of Meeting dated 28 July 2017 given by the Issuer to the Noteholders convening a meeting of the Noteholders to consider and pass Extraordinary Resolutions sanctioning, *inter alia*, the Mandatory Cancellation (the "**Notice of Meeting**") and (ii) the Trust Deed, as amended from time to time;

2. waives any and all Events of Default, Potential Events of Default and any other breach of the Conditions of the 2023 Notes or the Trust Deed that have been, are or may be, triggered by or in connection with the Restructuring and Recapitalisation;

3. assents to and sanctions in respect of all Noteholders of 2023 Notes:

(a) subject to certain conditions, to irrevocably and unconditionally, fully and finally waive and release and forever discharge from the Settlement Date (x) all Note Claims; and (y) any and all actions, proceedings, claims, damages, counterclaims, complaints, liabilities, liens, rights, demands and set-offs, whether in this jurisdiction or any other, of whatsoever nature and howsoever arising, whether in law or in equity, in contract (including but not limited to breaches or non-performances of contract), statute or in tort (including but not limited to negligence and misrepresentation), breaches of statutory duty, for contribution, or for interest and/or costs and/or disbursements, whether filed or unfiled, whether or not presently known to

the parties or to the law, all claims that each Noteholder ever had, may have or hereafter can, shall or may have against any Relevant Person in relation to or arising out of or in connection with:

(i) the preparation, negotiation or implementation of the Consent Solicitation and the Creditors' Scheme (including, but not limited to, the Restructuring Deed and Restructuring Implementation Documents); and/or

(ii) the preparation, negotiation or implementation of the Restructuring and Recapitalisation; and/or

(iii) any event or circumstance arising in the period from 1 January 2016 to the Completion Time which caused or, contributed to, directly or indirectly the requirement for the Restructuring and Recapitalisation

(b) that Relevant Persons may enforce the agreement of Holders to release liabilities and waive rights and entitlements, as described in (a) above, subject to and in accordance with the provisions of the Contracts (Rights of Third Parties) Act 1999; and

(c) the modification, abrogation, compromise or arrangement in respect of the rights of all Noteholders of 2023 Notes against the Relevant Persons necessary to give effect to the foregoing provisions of this paragraph 3;

4. sanctions every abrogation, modification, compromise or arrangement in respect of the rights of the Noteholders appertaining to the 2023 Notes against the Issuer, whether or not such rights arise under the Trust Deed, involved in or resulting from or to be effected by, the modifications and other arrangements referred to in paragraphs 1 to 3 of this Extraordinary Resolution and their implementation;

5. authorises, empowers and directs the Trustee to concur in the modifications and other arrangements referred to in paragraphs 1 to 4 of this Extraordinary Resolution and, in order to give effect to and to implement (i) the modifications referred to in paragraph 1, forthwith to execute a supplemental Trust Deed (the "**Second Supplemental Trust Deed**") and (ii) the releases and waivers referred to in paragraph 3, forthwith to execute a deed poll (the "**Deed Poll**"), in each case in the form of the drafts produced to this Meeting and for the purpose of identification signed by the Chairman thereof with such amendments (if any) thereto as the Trustee shall require and to concur in, and to execute and do, all such other deeds, instruments, acts and things as may be necessary or appropriate to carry out and give effect to this Extraordinary Resolution and the implementation of the modifications and other arrangements referred to in paragraphs 1 to 4 of this Extraordinary Resolution;

6. authorises, empowers and directs the Issuer and the registrar in respect of the 2023 Notes (the "**Registrar**") (i) to execute, including on behalf of the Holders of the 2023 Notes, all such deeds, instruments, forms of transfer and other documents of any nature, (ii) to make any such entries in the register maintained in respect of the 2023 Notes and (iii) to do any and all acts and things, which in each case may be necessary or appropriate to give effect to (A) this Extraordinary Resolution and/or (B) the Mandatory Cancellation of the 2023 Notes referred to above;

7. authorises the Registrar on behalf of the Issuer to arrange for any 2023 Notes not previously immobilised or blocked, to be immobilised or blocked in the Clearing Systems or on the records of the Registrar, from the Retail Confirmation Deadline, to facilitate the settlement of the Mandatory Cancellation on the Settlement Date. Any transfers of 2023 Notes in certificated form will not be reflected in the Register during such time;

8. discharges and exonerates the Trustee and the Registrar from all liability for which either of them may have become or may become responsible under the 2023 Notes, the Trust Deed or the Registrar's agreement relating to the 2023 Notes in respect of any act or omission in connection with the modifications and other arrangements referred to in paragraphs 1 to 4 of this Extraordinary Resolution, their implementation, or this Extraordinary Resolution or the giving effect to the Mandatory Cancellation of the 2023 Notes referred to above; and

9. declares that the implementation of this Extraordinary Resolution shall be conditional on:

   (a) the passing of this Extraordinary Resolution;

   (b) the quorum required for, and the requisite majority of votes cast at, this Meeting being reached (in the determination of the Issuer) by Eligible Holders, irrespective of any participation at this Meeting by Ineligible Holders (and would also have been so reached if any Ineligible Holders who provide confirmation of their status as Ineligible Holders and waive their right to attend and vote (or be represented) at this Meeting had actually participated, at the Meeting) and further resolves that, in the event the Extraordinary Resolution is passed at the Meeting but this condition is not satisfied, the Chairman of this Meeting is hereby authorised, directed, requested and empowered to adjourn the Meeting on the same basis (including quorum) as for an adjournment of the Meeting where the necessary quorum is not obtained, for the purpose of reconsidering resolutions 1 to 8 of this Extraordinary Resolution (with the exception of paragraph 9(b) of this Extraordinary Resolution) at the Adjourned Meeting, and in place of the foregoing provisions of paragraph 9(b) of this Extraordinary Resolution the relevant condition will be satisfied if the quorum required for, and the requisite majority of votes cast at, the Adjourned Meeting are reached by Eligible Holders irrespective of any participation at the Adjourned Meeting by Ineligible Holders (and would also have been satisfied if Ineligible Holders who provide confirmation of their status as Ineligible Holders and waive their rights to attend and vote (or be represented) at the Meeting had actually participated at the Meeting) (the "**Eligibility Condition**").

In this Extraordinary Resolution:

"**Advisers**" means:

(a) Clifford Chance LLP;

(b) Paul Hasting (Europe) LLP and any other adviser retained to advise the Principal Investors via Paul Hastings (Europe) LLP;

(c) Houlihan Lokey EMEA, LLP;

(d) PJT Partners Inc;

(e) UBS Limited;

(f) Merrill Lynch International;

(g) Linklaters LLP; and

(h) Grant Thornton UK LLP,

and any of their directors, partners, employees and Affiliates;

"**Affiliates**" means, in respect of any other person or entity: (a) a Subsidiary of that person or entity or a Holding Company of that person or entity or any other Subsidiary of such a Holding Company; and (b) any Affiliated Entities of any of the persons or entities referred to in sub-paragraph (a) above;

"**Affiliated Entities**" means (a) in relation to a fund (the "**first fund**"), (i) a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, (ii) if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an associate of the investment manager or investment adviser of the first fund or which is a co-investment vehicle under common control with the first fund; and (b) in relation to any other person, a fund which is managed or advised by such person or any of its associates;

"**Beneficial Owner**" means a person who is the owner of (i) an interest in a particular principal amount of 2023 Notes held in a Clearing System, as shown in the records of the relevant Clearing System or its Direct Participants, or (ii) a 2023 Note in certificated form held outside the Clearing Systems;

"**Clearing Systems**" means Euroclear Bank S.A./N.V., Clearstream Banking S.A. and CREST;

“**Completion Time**” is as defined in the Restructuring Deed;

“**Consent Conditions**” means the conditions that must be satisfied in order for the Mandatory Cancellation of the 2023 Notes of Retail Noteholders to occur being:

(i) the passing of both Extraordinary Resolutions and the satisfaction of the Eligibility Condition relating to the Second Extraordinary Resolution;

(ii) (A) the Creditors’ Scheme being approved by the requisite majority of the scheme creditors at the meeting convened in connection with the Creditors’ Scheme and sanctioned by the Court; (B) an office copy of the sanction order being lodged with the Registrar of Companies at Companies House; and (C) the Creditors’ Scheme becoming unconditional in accordance with its terms;

(iii) (A) the Members’ Scheme being approved by the requisite majority of the members at the meeting convened in connection with the Members’ Scheme and sanctioned by the Court; (B) an office copy of the sanction order being lodged with the Registrar of Companies at Companies House; and (C) the Members’ Scheme becoming unconditional in accordance with its terms;

(iv) completion of the Equity Subscriptions; and

(v) the passing of the Resolutions;

“**Consent Instruction**” means an instruction by which an Eligible Holder may participate in the Consent Solicitation on the terms set out in the Notice of Meeting;

“**Consent Solicitation**” means the invitation by the Issuer to Eligible Holders to consent to the passing of the Extraordinary Resolutions on the terms described in the Consent Solicitation Memorandum dated 28 July 2017;

“**Creditors’ Scheme**” means the scheme of arrangement under Part 26 of the Companies Act 2006 between the Issuer and holders of the Issuer’s £250,000,000 Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2025 and Non-Retail Noteholders dated on or around the date hereof;

“**CREST**” means the relevant system (as defined in the CREST Regulations) in respect of which Euroclear UK & Ireland Limited (previously CRESTCo Limited) is the operator (as defined in the CREST Regulations);

“**CREST Regulations**” means the Companies Act 1996 (Uncertificated Securities) Regulations 1996 (S.I. No 68/1996) and the UK Uncertificated Securities Regulations 2001 (SI 2001 No. 2001/3755), including any modifications thereof or any regulations in substitution therefor and for the time being in force;

“**Direct Participant**” means each person who is shown in the records of Euroclear Bank S.A./N.V. or Clearstream Banking S.A. as a Holder of an interest in the 2023 Notes, or a person who is, in relation to CREST, a system-participant (as defined in the CREST Regulations) as the context requires;

“**Eligible Holder**” means a Noteholder that is eligible to participate in the Consent Solicitation in accordance with the Solicitation Restrictions;

“**Entitlement Record Date**” means the date of the General Meeting, expected to be 21 August 2017 (or, if later, any date to which it is adjourned);

“**Equity Subscriptions**” means the equity subscription by qualifying shareholders of the Issuer and qualifying creditors of the Issuer pursuant to the Members’ Scheme and Creditors’ Scheme, respectively;

“**Holdco**” means Balloon Street Holdings Limited, a company incorporated in England and Wales (registered number 10865342), whose registered office is at P.O. Box 101, 1 Balloon Street, Manchester M60 4EP, which at completion of the Restructuring and Recapitalisation will be the new holding company of the Issuer;

“**Holding Company**” means in relation to a person or entity, any other person or entity in respect of which it is a Subsidiary;

"**Ineligible Holder**" means a holder of the 2023 Notes that is not eligible to participate in the Consent Solicitation on the basis that such holder is a person who is restricted from participating in the Consent Solicitation as a result of the Solicitation Restrictions, details of which can be obtained from the Information Agent (such Noteholder may still vote at the Meeting in accordance with its rights under the Conditions of the 2023 Notes and the Trust Deed);

"**Information Agent**" means Lucid Issuer Services Limited in its capacity as information agent appointed by the Issuer in connection with the Consent Solicitation;

"**Launch Date**" means dated 28 July 2017;

"**Maximum Cash Amount**" means the cap of £13,500,000 on the aggregate cash amount to be paid in respect of the Retail Cash Consideration to all Retail Holders;

"**Members' Scheme**" means the scheme of arrangement under Part 26 of the Companies Act 2006 between the Issuer and shareholders of the Issuer dated on or around the date hereof;

"**Non-Retail Noteholder**" means a Noteholder that is not a Retail Noteholder;

"**Note Claims**" means all the rights, title and interest to and claims against the Issuer or the Trustee arising out of or in connection with the 2023 Notes;

"**Ordinary Shares**" means an ordinary share in the capital of the Issuer (with a nominal value of £0.05 each);

"**PRA Consent**" means the Prudential Regulation Authority's consent under Articles 77 and 78(1) of the Capital Requirements Regulation (Regulation (EU) 575/2013) for the Issuer to cancel the 2023 Notes;

"**Relevant Persons**" means each of the Issuer and each of its Affiliates (together, the "**Bank Group**"), Holdco, any director, officer or employee of the Issuer, Holdco or any member of the Bank Group (in each case, (A) in respect of an employee, who is, at the Settlement Date, employed; or (B) in respect of an officer or director, who is, as at the date hereof, employed or holding office or was at any time, during the period from (and including) 13 February 2017 to the date hereof, employed or held office), the Co-operative Group Limited, each of its current directors, officers, employees and advisers and each of its Affiliates, Lucid Issuer Services Limited, PACE Trustees Limited, (trustee of the Co-operative Bank Pension Scheme), the Trustee, Computershare Investor Services PLC, the Advisers, the members of the Ad-Hoc Committee, the Initial Backstop Providers or any of their Affiliates;

"**Restructuring and Recapitalisation**" means the corporate and financial restructuring and recapitalisation of the Bank as defined in the Consent Solicitation Memorandum in the section entitled "*Part 4, Section A: Letter from the Chairman of the Bank*";

"**Restructuring Deed**" means the restructuring deed in the form appended to, and which forms a part of, each of the Creditors' Scheme and the Members Scheme;

"**Restructuring Implementation Documents**" means the documents listed in Schedule 1 of the Restructuring Deed;

"**Retail Cash Consideration**" means the cash amount that is payable on the Settlement Date pursuant to the Mandatory Cancellation to Retail Noteholders in respect of their 2023 Notes, such cash amount being subject (in aggregate) to the Maximum Cash Amount and, accordingly, shall be the lesser of:

(i) £4.50 per £10 in principal amount of 2023 Notes; and

(ii) the amount (rounded to the nearest £0.01) per £10 in principal amount of 2023 Notes calculated by (a) dividing the Maximum Cash Amount by the aggregate principal amount of 2023 Notes that will be subject to the Mandatory Cancellation, and (b) multiplying the resultant figure by 10.

"**Retail Confirmation**" means an instruction by which a Noteholder may confirm its status as a Retail Noteholder on the terms set out in the Notice of Meeting;

"**Retail Confirmation Deadline**" is expected to be 10.00 a.m. (London Time) on 30 August 2017, or, only if later, on the third Business Day following the date on which the sanction order in respect of the Creditors' Scheme is delivered to the Registrar of Companies (subject to the right of the Bank to amend such date upon notice to Holders);

"**Retail Noteholder**" means a Noteholder (A) who as at 5.00 p.m. (London Time) on the Retail Record Date satisfied and, at 6.00 p.m. (London Time) on the Entitlements Record Date will continue to satisfy, the following conditions: (i) it is an individual person; (ii) it is the Beneficial Owner of less than £100,000 in aggregate principal amount of 2023 Notes; (iii) (a) if it is resident in the United States, it is not an "accredited investor" as defined in Regulation D of the United States Securities Act of 1933, as amended, or (b) if it is not resident in the United States, it is not a "qualified investor" as defined in Directive 2003/71/EC (as amended); (iv) it is not a Sanctions Restricted Person; and (B) who (i) has validly confirmed the matters set out in paragraph (A) above in accordance with the procedures set out in the Notice of Meeting and the Consent Solicitation Memorandum; or (ii) has been assessed, on reasonable enquiry, by the Issuer to satisfy the criteria set out in paragraph (A) above (which assessment shall be conclusive and binding), on or prior to the Retail Confirmation Deadline;

"**Retail Record Date**" means 27 June 2017;

"**Settlement Date**" means the date on which the Restructuring and Recapitalisation is completed, as determined in accordance with the Restructuring Deed;

"**Solicitation Restrictions**" means the solicitation restrictions applicable to the Consent Solicitation, including with respect to the United States and United Kingdom, as more fully set out in the Consent Solicitation Memorandum, further details of which can be obtained from the Information Agent; and

"**Subsidiary**" has the meaning given to that term in section 1159 of the Companies Act 2006."

The Directors of the Issuer have no interests in the 2023 Notes described in this Notice.

Set out below are the market values (as a percentage of their principal amount) of the 2023 Notes on or around the first dealing day in each of the six months prior to the date of this Notice (and 26 July 2017, which is the latest date for which information was available prior to the publication of this Notice):

Date	*Market Value* (%)*
1 February 2017	65.20
1 March 2017	58.49
3 April 2017	31.56
2 May 2017	39.93
1 June 2017	36.57
3 July 2017	46.68
26 July 2017	49.42

* Source: Bloomberg (mid level composite prices where available; otherwise, prices sourced to the extent available)

BACKGROUND TO THE CONSENT SOLICITATION

The Consent Solicitation is part of the corporate and financial restructuring and recapitalisation of the Bank as defined in the Consent Solicitation Memorandum in the section entitled *"Part 4, Section A: Letter from the Chairman of the Bank"* ("**Restructuring and Recapitalisation**") by the Issuer, and is being carried out concurrently with the Creditors' Scheme, the Members' Scheme, the Equity Subscriptions and a General Meeting to pass the Resolutions (each as defined in the Consent Solicitation Memorandum). The Consent Solicitation consists of an invitation by the Issuer to Eligible Holders (as defined below) to approve the Proposals (as defined below) on the terms described in the Consent Solicitation Memorandum dated 28 July 2017 (the "**Consent Solicitation Memorandum**").

The Consent Solicitation is only being made to Holders that are eligible to participate in the Consent Solicitation in accordance with the Solicitation Restrictions (an "**Eligible Holder**"). Holders not participating in the Consent Solicitation, including Holders that are not Eligible Holders ("**Ineligible Holders**"), may submit Retail Confirmations to confirm their status as Retail Noteholders, if applicable. The

procedure for submitting a Retail Confirmation is the same as that for submitting a Consent Instruction as set out in this Notice.

Holders may obtain, from the date of this Notice, a copy of the Consent Solicitation Memorandum from the Information Agent, the contact details for which are set out below. In order to receive a copy of the Consent Solicitation Memorandum, a Holder will be required to provide confirmation as to his or her status as a Holder of the 2023 Notes (as defined below).

Detailed information regarding the Restructuring and Recapitalisation, the Issuer and the 2023 Notes is contained in a Consent Solicitation Memorandum dated 28 July 2017 prepared by the Issuer. The Consent Solicitation Memorandum, the Supplemental Trust Deeds, the Deed Poll, the Lock-Up Agreement and the Restructuring Deed will be made available to Holders on the Issuer's website and can be accessed by Holders at www.co-operativebank.co.uk/retailnoteholders.

Holders who are unable to access the documents at that web link should contact the Registrar at the details below.

CONSENT SOLICITATION

The purpose of the Consent Solicitation is to consider and, if thought fit, approve the Extraordinary Resolutions set out herein in respect of the £206,000,000 11% Subordinated Notes due 2023 (the "**2023 Notes**") (the "**Proposals**"). The Consent Solicitation expires at 5.00 p.m. (London Time) on 18 August 2017 (as the same may be extended, the "**Expiration Deadline**"). All capitalised terms used but not defined herein regarding the Consent Solicitation have the meanings ascribed to those terms in the Consent Solicitation Memorandum.

Consent Conditions

The Consent Solicitation will be completed on the Mandatory Cancellation of the 2023 Notes, which is conditional on the following conditions (the "**Consent Conditions**") being satisfied:

(a) the passing of both Extraordinary Resolutions in respect of the 2023 Notes by the Holders of the 2023 Notes, and the satisfaction of the Eligibility Condition relating to the Second Extraordinary Resolution in respect of the 2023 Notes;

(b) (A) the Creditors' Scheme being approved by the requisite majority of the Scheme Creditors at the Creditors' Scheme Court Meeting and sanctioned by the Court; (B) an office copy of the sanction order being lodged with the Registrar of Companies at Companies House; and (C) the Creditors' Scheme becoming unconditional in accordance with its terms;

(c) (A) the Members' Scheme being approved by the requisite majority of the Members at the Members' Scheme Court Meeting and sanctioned by the Court; (B) an office copy of the sanction order being lodged with the Registrar of Companies at Companies House; and (C) the Members' Scheme becoming unconditional in accordance with its terms;

(d) the Equity Subscriptions being completed; and

(e) the passing of the Resolutions at the General Meeting.

The Issuer will announce the results of the Meeting in respect of the 2023 Notes as soon as reasonably practicable after the Meeting and in any event no later than 14 days after the Meeting.

It is expected that the Issuer and the Trustee will execute (a) the First Supplemental Trust Deed following the passing of the First Extraordinary Resolution at the Meeting; and (b) the Second Supplemental Trust Deed after the Consent Conditions have been satisfied and prior to the Settlement Date. The Second Extraordinary Resolution to be proposed at the Meeting shall be conditional on the passing and implementation of the First Extraordinary Resolution proposed at the Meeting.

The implementation of the Proposals in respect of the 2023 Notes and the implementation of the proposals set out in the Creditors' Scheme, the Members' Scheme and the Resolutions, and the completion of the Equity Subscriptions, are inter-conditional and, accordingly, the Issuer will only effect the Mandatory

Cancellation of the 2023 Notes held by Retail Noteholders if each of the Creditors' Scheme and the Members' Scheme are approved, sanctioned and become unconditional in accordance with their terms, the Resolutions are passed at the General Meeting and the Equity Subscriptions are completed as set out in paragraphs (b), (c), (d) and (e) above. The implementation of these inter-conditional steps of the Restructuring and Recapitalisation will take place in accordance with the Restructuring Deed. The Mandatory Cancellation will occur at "Restructuring Step 8" as set out in the Restructuring Deed following the capitalisation of the Bank.

Mandatory Cancellation

If the Consent Conditions are satisfied and the PRA consent is obtained, the Mandatory Cancellation will occur on the Settlement Date. The Mandatory Cancellation will occur at "Restructuring Step 8" as set out in the Restructuring Deed following the capitalisation of the Bank.

Upon Mandatory Cancellation, the 2023 Notes held by Retail Noteholders will be irrevocably cancelled and the rights, liabilities and obligations thereunder released in consideration of the payment of the Retail Cash Consideration to those Retail Noteholders (subject (in aggregate) to the Maximum Cash Amount).

The 2023 Notes of Non-Retail Noteholders are not subject to the Mandatory Cancellation and are instead subject to the Creditors' Scheme.

Retail Cash Consideration

The Retail Cash Consideration is the cash amount that is payable on the Settlement Date to Retail Noteholders in respect of the 2023 Notes pursuant to the Mandatory Cancellation.

The Retail Cash Consideration is subject (in aggregate) to the Maximum Cash Amount and, accordingly, shall be the lesser of:

(i) £4.50 per £10 in principal amount of 2023 Notes; and

(ii) the amount (rounded to the nearest £0.01) per £10 in principal amount of 2023 Notes calculated by (a) dividing the Maximum Cash Amount by the aggregate principal amount of 2023 Notes that will be subject to the Mandatory Cancellation, and (b) multiplying the resultant figure by 10.

The Retail Cash Consideration to be paid to each Retail Noteholder in respect of its 2023 Notes will be calculated by the Registrar.

Eligibility for Retail Cash Consideration

To be eligible to receive the Retail Cash Consideration, a Holder must be a Retail Noteholder of the 2023 Notes.

A "**Retail Noteholder**" is a Noteholder (A) who as at 5.00 p.m. (London Time) on the Retail Record Date satisfied and, at 6.00 p.m. (London Time) on the Entitlements Record Date will continue to satisfy, the following conditions: (i) it is an individual person; (ii) it is the Beneficial Owner of less than £100,000 in aggregate principal amount of 2023 Notes; (iii) (a) if it is resident in the United States, it is not an "accredited investor" as defined in Regulation D of the United States Securities Act of 1933, as amended, or (b) if it is not resident in the United States, it is not a "qualified investor" as defined in Directive 2003/71/EC (as amended); (iv) it is not a Sanctions Restricted Person; and (B) who (i) has validly confirmed the matters set out in paragraph (A) above in accordance with the procedures set out in the Notice of Meeting and the Consent Solicitation Memorandum; or (ii) has been assessed, on reasonable enquiry, by the Issuer to satisfy the criteria set out in paragraph (A) above (which assessment shall be conclusive and binding), on or prior to the Retail Confirmation Deadline.

The Retail Cash Consideration is only payable to a Retail Noteholder of the 2023 Notes that:

(a) has submitted (and not subsequently revoked in the limited circumstances in which such revocation is permitted) a Consent Instruction (i) that includes a valid confirmation of the relevant Holder's status as a Retail Noteholder, and (ii) that is received by the Registrar on or prior to the Expiration Deadline;

(b) has submitted a valid Retail Confirmation that includes a valid confirmation of the relevant Holder's status as a Retail Noteholder, which is received by the Registrar on or prior to the Retail Confirmation Deadline; or

(c) the Issuer has determined, on reasonable enquiry, to be a Retail Noteholder (which determination shall be conclusive and binding) on or prior to the Retail Confirmation Deadline.

The Issuer is allowing Holders to submit Retail Confirmations up to and including the Retail Confirmation Deadline (which is later than the Expiration Deadline and after the Meeting) in order to give Holders who may be eligible for the Retail Cash Consideration as much time as practicable to identify themselves as Retail Noteholders. Holders who (i) fail to confirm their status as Retail Noteholders, or (ii) are not otherwise determined by the Issuer to be Retail Noteholders, in each case, on or before the Retail Confirmation Deadline will be deemed to be Non-Retail Noteholders and will be subject to the Creditors' Scheme and will not be eligible to receive the Retail Cash Consideration and Accrued Interest in cash.

Each Consent Instruction or Retail Confirmation, as applicable, must be submitted in respect of the entire principal amount of 2023 Notes beneficially owned by a Retail Noteholder and must include the Holder's name, address and telephone number and custodian's name (if applicable), in order for it to constitute a valid confirmation as to such Holder's retail status. Any Beneficial Owner which is submitting, or instructing any intermediary that will submit on its behalf to submit, a Consent Instruction, will submit or will instruct such intermediary to submit only one Consent Instruction in respect of the entire aggregate principal amount of 2023 Notes in respect of which it is the Beneficial Owner or, if it is acting as an intermediary it is submitting only one Consent Instruction per Beneficial Owner.

The Issuer reserves the right to request evidence from a Holder to support a Holder's confirmation as to Retail Noteholder status. All determinations, including any determination that a Holder is or is not a Retail Noteholder by the Issuer, and all calculations performed by the Registrar in connection with the Mandatory Cancellation will, in the absence of manifest error, be conclusive and binding on Holders.

Any Holder who considers that he or she is a Retail Noteholder or is unsure as to whether or not he or she is a Retail Noteholder should contact the Information Agent. Only Holders that have validly confirmed their status as Retail Noteholders or who have otherwise been assessed on reasonable enquiry by the Issuer to be a Retail Noteholder (in each case by no later than the Retail Confirmation Deadline) will receive the Retail Cash Consideration and Accrued Interest in cash in respect of their 2023 Notes. All other Holders will be deemed to be Non-Retail Noteholders and their holdings of 2023 Notes will be subject to the Creditors' Scheme.

In respect of 2023 Notes held in uncertificated form in the Clearing Systems, the aggregate amounts of the Retail Cash Consideration to be paid on Mandatory Cancellation in respect of the relevant 2023 Notes in each Clearing System will be paid, in immediately available funds, on the Settlement Date to such Clearing System for payment to the cash accounts of the relevant Retail Noteholders in the Clearing System. The payment of such aggregate amounts to the Clearing Systems will discharge the obligation of the Issuer to all Retail Noteholders holding 2023 Notes in the Clearing Systems in respect of the payment of the Retail Cash Consideration. In respect of 2023 Notes in certificated form, the Retail Cash Consideration will be paid either in immediately available funds on the Settlement Date to the relevant Retail Noteholder's bank account as notified to the Registrar or, if no such bank account has been notified to the Registrar, by cheque mailed to the relevant address of such Holder.

Accrued Interest

On the Settlement Date, the Issuer will pay Accrued Interest in respect of the 2023 Notes cancelled pursuant to the Mandatory Cancellation, from (and including) 20 June 2017 to (but excluding) 31 July 2017 and amounting to £0.1226 per £10 in principal amount of the 2023 Notes which will be paid in cash and rounded to the nearest £0.01. For the avoidance of doubt, the payment of Accrued Interest is not subject to the Maximum Cash Amount.

Settlement Date

If the Proposals are approved, the Supplemental Trust Deeds are executed and the other Consent Conditions are satisfied, the Mandatory Cancellation will occur on the Settlement Date which is expected to be 1 September 2017 and is expected to be the same day as the settlement of each of the Creditors' Scheme, the Members' Scheme and Equity Subscriptions. Retail Noteholders whose 2023 Notes are cancelled pursuant to the Mandatory Cancellation will receive payment of the Retail Cash Consideration and Accrued Interest on the Settlement Date.

GENERAL

Holders may obtain, from the date of this Notice, a copy of the Consent Solicitation Memorandum from the Information Agent, the contact details for which are set out below. Copies of (i) the Trust Deed; and (ii) the current draft of each of the First Supplemental Trust Deed and the Second Supplemental Trust Deed and the Deed Poll as referred to in the Extraordinary Resolutions set out above are also available for inspection by Holders (a) on and from the date of this Notice up to and including the date of the Meeting, at the specified offices of the Information Agent during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) up to and including the date of the Meeting and (b) at the Meeting and at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ for 15 minutes before the Meeting. Any revised version of the draft First Supplemental Trust Deed, the Second Supplemental Trust Deed and the draft Deed Poll will be made available as described above and marked to indicate changes to the draft made available on the date of this Notice, and will supersede the previous draft of the relevant document and Holders will be deemed to have notice of any such changes.

In accordance with normal practice, the Trustee expresses no opinion as to the merits of the Proposals or any Extraordinary Resolution (which it was not involved in negotiating) or the impact of the Proposals or any Extraordinary Resolution on particular Holders. It has, however, authorised it to be stated that, on the basis of the information set out in this Notice, (which it recommends Holders to read carefully), it has no objection to each Extraordinary Resolution being submitted to the Holders for their consideration. The Trustee has, however, not been involved in formulating the Proposals or the Extraordinary Resolutions and makes no representation that all relevant information has been disclosed to Holders in this Notice. Accordingly, the Trustee urges Holders who are in any doubt as to the impact of the implementation of the Proposal and the Extraordinary Resolutions to seek their own financial, legal and other advice as they consider appropriate.

The attention of Holders is particularly drawn to the procedures for voting, quorum and other requirements for the passing of the Extraordinary Resolutions at the Meeting or any meeting held following any adjournment of any Meeting, which are set out in "Voting and Quorum" below. Having regard to such requirements, Holders should either attend the Meeting or take steps to be represented at the Meeting (including by way of submitting Consent Instructions) as soon as possible.

VOTING AND QUORUM

*Holders who have submitted and not revoked (in the limited circumstances in which revocation is permitted) a valid Consent Instruction in respect of the Extraordinary Resolutions by 5.00 p.m. (London Time) on 18 August 2017 (the "**Expiration Deadline**"), by which they will have given instructions for the appointment of one or more representatives of the Registrar as their proxy to vote in favour of or against the Extraordinary Resolutions at the Meeting (or any adjourned such Meeting), or abstain from voting (as the case may be), need take no further action to be represented at the Meeting (or any such adjourned such Meeting)[29]. If a Holder believes that they are not an Eligible Holder and wishes to vote in respect of the Proposals, they should contact the Information Agent.*

Holders who have not submitted or have submitted and subsequently revoked (in the limited circumstances in which such revocation is permitted) a Consent Instruction in respect of the Extraordinary Resolutions should take note of the provisions set out below detailing how such Holders can attend or take steps to be represented at the Meeting (references to which, for the purpose of such provisions, include, unless the context otherwise requires, any adjourned such Meeting).

[29] In accordance with certain securities law requirements, Holders may continue to submit Consent Instructions up to 6 p.m. (New York Time) on 25 August 2017 but their votes will not be counted towards the quorum and voting thresholds of the Meeting.

1. The 2023 Notes are either in certificated form or uncertificated form in CREST. A registered holding of 2023 Notes in certificated form will be represented by a certificate (each a "**Note Certificate**"). The only Holders for the purposes of 2023 Notes held in uncertificated form through CREST, Euroclear or Clearstream, Luxembourg (each a "**Clearing System**") are CREST Participants appearing on the register of 2023 Notes (each such participant, together with each other registered Holder of the Notes appearing on such register, a "**Registered Holder**"). Each person (a "**Beneficial Owner**") who is the owner of a particular principal amount of the 2023 Notes through a Clearing System or its respective Direct Participant (in the case of Euroclear or Clearstream, Luxembourg) should note that such person is not considered to be a Holder for the purposes of 2023 Notes and will only be entitled to attend and vote at the Meeting or to appoint a proxy to do so in accordance with the procedures set out below.

2. Any reference herein to a Beneficial Owner sending voting instructions to the relevant CREST Participant or arranging for a Corporate Letter of Representation (as defined below) to be issued to it by the relevant CREST Participant (together the "**Corporate Actions**") shall mean:

   (i) where the Beneficial Owner holds through a broker, dealer, commercial bank, trust company, custodian, nominee or intermediary in CREST, procuring that such party carries out such Corporate Actions on its behalf; and

   (ii) where the Beneficial Owner holds through a Direct Participant or other broker, dealer, commercial bank, trust company, custodian, nominee or intermediary in Euroclear or Clearstream, Luxembourg, procuring that such Direct Participant or other party carries out such Corporate Actions (by issuing instructions in a form acceptable to such clearing Systems) through such Clearing Systems and before any deadlines specified by such Clearing Systems.

3. Where Corporate Actions are provided by a Direct Participant on behalf of a Beneficial Owner, the 2023 Notes held by that Beneficial Owner shall be blocked in accordance with the usual procedures of Euroclear and Clearstream, Luxembourg and the relevant Consent Instruction shall be sent directly to the Information Agent by the relevant Clearing System.

Notes in certificated form

1. A Registered Holder wishing to attend and vote at the Meeting in person must produce at such Meeting either, in the case of an individual Holder, a Note Certificate or, in the case of a corporate holder, a duly approved resolution of the directors or other governing body of such corporation authorising such person to act as the corporation's representative (a "**representative**") at the Meeting (a "**Corporate Letter of Representation**") together, in each case, with satisfactory evidence of identity.

2. A Registered Holder not wishing to attend and vote at the Meeting in person may by instrument in writing in the English language (a "**form of proxy**") in the form available from the Registrar, signed by the Registered Holder or, in the case of a corporation, executed under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation and delivered to the specified office of the Registrar not less than 48 hours before the time fixed for the meeting, appoint the Chairman of the Meeting (the "**proxy**") to act on his or its behalf in connection with the Meeting (or any adjourned such Meeting).

3. Each Registered Holder appointing a proxy to vote on its behalf on the Extraordinary Resolutions must deliver to the Registrar, not later than 18 August 2017 a duly completed form of Consent Instruction to be submitted by Eligible Holders who hold 2023 Notes in certificated form outside the Clearing Systems and who wish to vote on the Proposals (a "**Certificated Holding Consent Instruction**") together with the Note Certificate evidencing ownership of the 2023 Notes which are the subject of the Certificated Holding Consent Instruction.

4. A proxy or representative so appointed shall so long as such appointment remains in force be deemed, for all purposes in connection with the Meeting (or any adjourned such Meeting), to be the Holder of the 2023 Notes to which such appointment relates and the Holder of the 2023 Notes shall be deemed for such purposes not to be the Holder.

Notes in uncertificated form in CREST

1. Each person who is, in relation to CREST, a system-participant (as defined in the Companies Act 1996 (Uncertificated Securities) Regulations 1996 (S.I. No 68/1996) and the UK Uncertificated Securities Regulations 2001 (SI 2001 No. 2001/3755), including any modifications thereof or any regulations in substitution therefor and for the time being in force.) (a "**CREST Participant**") that is a Registered Holder should, if it is not the Beneficial Owner of the 2023 Notes, seek instructions from the Beneficial Owner(s) in accordance with its usual procedures. A CREST sponsored member wishing to vote in favour of or against the Extraordinary Resolutions or revoke (in the limited circumstances in which such revocation is permitted) any such vote should instruct its CREST sponsor to issue a "transfer to escrow" instruction pursuant to which CREST Participants may submit instructions in respect of 2023 Notes held in CREST pursuant to the terms of the Consent Solicitation (a "**TTE Instruction**" to the Registrar (or if a revocation, an "escrow account adjustment input" (AESN), transaction type "ESA", an "**ESA Instruction**") with the details set out below.

2. Each CREST Participant that is a Registered Holder, if it is the Beneficial Owner of the 2023 Notes, can vote in favour of or against the Extraordinary Resolutions by issuing a TTE Instruction with the details set out below, revoke by issuing an ESA Instruction with the details set out below, vote against either or both Extraordinary Resolutions by filling out the paper voting instruction referred to below, and attend the Meeting by bringing a Corporate Letter of Representation.

3. A Beneficial Owner wishing to ATTEND the Meeting must arrange for its CREST Participant to issue a Corporate Letter of Representation to it. Any such Letter of Representation should be on the headed paper of such participant, should detail the person attending and the principal amount of the 2023 Notes held by such person, and be signed by the CREST Participant. A CREST Participant submitting on behalf of multiple Holders may submit one TTE Instruction representing the instructions of all of its Holders, if it is accompanied by a spreadsheet setting out the name, address and telephone number of those Holders. A TTE Instruction must comply with paragraph 5 below.

4. A Beneficial Owner wishing to vote IN FAVOUR OF or AGAINST the Extraordinary Resolutions must send the voting instructions to its CREST Participant in accordance with such participant's usual procedures requesting that such participant issues a TTE Instruction. Any voting instruction must be received by the CREST Participant by their specified deadline. A TTE Instruction must comply with paragraph 5 below.

5. Each TTE Instruction should specify Computershare (in its capacity as a CREST Participant under its participant ID referred to below) as the escrow agent to whom the 2023 Notes should be transferred. A TTE Instruction will not be valid unless and until it has settled and Computershare will not take any action in respect of any TTE Instruction until such time. The TTE Instruction must be properly authenticated in accordance with EUI's specifications and must contain, in addition to the other information which is required for a TTE Instruction to settle in CREST, the following details:

   (a) the principal amount of the 2023 Notes to be transferred to an escrow balance;

   (b) the CREST Participant's member account ID;

   (c) the CREST Participant's participant ID;

   (d) the relevant corporate action ISIN number, being: GB00BFXW0853;

   (e) Computershare's participant ID, being: 8RA19;

   (f) the relevant CREST member account ID of Computershare (in its capacity as a CREST receiving agent) from the table set out after sub-paragraph (i) below, corresponding to the option which the CREST Participant wishes to select and in accordance with any voting instructions provided by any Beneficial Owner;

   (g) the corporate action number for the Consent Solicitation. This is allocated by EUI and can be found by viewing the relevant corporate action details in CREST;

   (h) the standard TTE instruction of priority 80; and

(i) a name, address and telephone number, to be inserted in the shared note field.

For the purposes of sub-paragraph (g) above, the relevant CREST member IDs of Computershare relevant to a Holder of the 2023 Notes are set out in the table below. **A Beneficial Owner should elect the ID which corresponds to such Beneficial Owner's preferred option:**

Option	CREST Member ID
Option 1: *Retail Noteholders of the 2023 Notes:* Vote **IN FAVOUR** of the First Extraordinary Resolution and the Second Extraordinary Resolution at the Meeting by appointing a representative of the Registrar as your proxy to vote all of your 2023 Notes in favour of both Extraordinary Resolutions, **and confirm status as a Retail Noteholder**. YOU MUST SUBMIT THE RELEVANT STOCK TO RECORD YOUR VOTE CORRECTLY.	**COBCAS01**
Option 2 *Retail Holders of the 2023 Notes:* Vote **AGAINST** the First Extraordinary Resolution and the Second Extraordinary Resolution at the Meeting by appointing a representative of the Registrar as your proxy to vote all of your 2023 Notes against both Extraordinary Resolutions, **and confirm status as a Retail Holder**. YOU MUST SUBMIT THE RELEVANT STOCK TO RECORD YOUR VOTE CORRECTLY.	**COBVTE02**
Option 3 *Retail Noteholders of the 2023 Notes:* **ABSTAIN** from voting at the Meeting, **and confirm status as a Retail Noteholder**. YOU MUST SUBMIT THE RELEVANT STOCK TO RECORD YOUR VOTE CORRECTLY.	**COBVTE03**
Option 4: *Retail Noteholders of the 2023 Notes:* **CONFIRM** status as a Retail Noteholder only. YOU MUST SUBMIT THE RELEVANT STOCK TO RECORD YOUR STATUS CORRECTLY.	**COBRET04**
Option 5: *Holders of the 2023 Notes who are not Retail Noteholders:* (A) Vote **IN FAVOUR** of the First Extraordinary Resolution and the Second Extraordinary Resolution at the Meeting by appointing a representative of the Registrar as your proxy to vote all of your 2023 Notes in favour of both Extraordinary Resolutions, **and confirm status as a Non-Retail Noteholder**; and (B) Instruct to participate in the Creditors' Scheme (for further information see below). YOU MUST SUBMIT THE RELEVANT STOCK TO RECORD YOUR VOTE CORRECTLY.	**COBVTE05**

Option	CREST Member ID
Option 6: *Holders of the 2023 Notes who are not Retail Noteholders:* (A) Vote **AGAINST** the First Extraordinary Resolution and the Second Extraordinary Resolution at the Meeting by appointing a representative of the Registrar as your proxy to vote all of your 2023 Notes against both Extraordinary Resolutions, **and confirm status as a Non-Retail Noteholder;** and (B) Instruct to participate in the Creditors' Scheme (for further information see below). YOU MUST SUBMIT THE RELEVANT STOCK TO RECORD YOUR VOTE CORRECTLY.	**COBVTE06**
Option 7: *Holders of the 2023 Notes who are not Retail Noteholders:* (A) **ABSTAIN** from voting at the Meeting, **and confirm status as a Non-Retail Noteholder;** and (B) Instruct to participate in the Creditors' Scheme (for further information see below). YOU MUST SUBMIT THE RELEVANT STOCK TO RECORD YOUR VOTE CORRECTLY.	**COBVTE07**
Option 8: *Holders of the 2023 Notes who are not Retail Noteholders:* (A) **CONFIRM** status as **a Non-Retail Noteholder** only. (B) Instruct to participate in the Creditors' Scheme (for further information see below). YOU MUST SUBMIT THE RELEVANT STOCK TO RECORD YOUR STATUS CORRECTLY.	**COBNON08**
A Non-Retail Noteholder may be able to participate in the Equity Subscriptions pursuant to the Creditors' Scheme. The options available to a Non-Retail Noteholder are described in the Creditors' Scheme Circular and will need to be communicated separately by a Non-Retail Noteholder and in addition to any instructions submitted in respect of the above options. Non-Retail Noteholders should refer to the Creditors' Scheme Circular before making any decision as to how to vote in respect of the Creditors' Scheme.	

Note: to vote differently in respect of each of the Extraordinary Resolutions proposed at the Meeting, please contact the Information Agent.

Any vote in favour of the Extraordinary Resolutions pursuant to a TTE Instruction as provided herein will automatically appoint the Chairman of the Meeting as the relevant CREST Participant's proxy to vote the 2023 Notes referred in such TTE Instruction in such way.

6. If the Issuer amends the Consent Solicitation or otherwise supplements the Consent Solicitation Memorandum (other than the terms of the Extraordinary Resolutions or the Meeting, which may not be amended) in any way that, in the opinion of the Issuer (in consultation with the Solicitation Agents), is materially prejudicial to the interests of Holders that have already submitted Consent Instructions before the announcement of such amendment, (subject to no such materially prejudicial

amendment being permissible at any time after 10.00 a.m. (London Time) on the second Business Day immediately preceding the Expiration Deadline) then such Consent Instructions may be revoked at any time from the date and time of such announcement until no earlier than 10.00 a.m. (London Time) on the second Business Day immediately following such announcement (subject to the earlier deadlines required by the Clearing Systems and any intermediary through which Holders hold their 2023 Notes).

7. Certificated Holding Consent Instructions relating to the 2023 Notes may be revoked only in the limited circumstances in which revocation is permitted. A Registered Holder must deliver to the Registrar, a written revocation instruction in such form as the Registrar deems appropriate and shall make available to Holders in the event that a revocation right arises.

   The Registered Holder will be required to specify in the revocation instruction, amongst other information:

   (a) the name and address of the relevant Registered Holder and a telephone number; and

   (b) the principal amount of the 2023 Notes for which the Certificated Holding Consent Instruction is being revoked.

8. Any Registered Holder who does not, exercise its right of revocation in the manner and time period specified above, shall be deemed to have waived such right of revocation and its original Certificated Holding Consent Instruction shall remain effective.

9. Consent Instructions relating to the 2023 Notes may be revoked (in the limited circumstances in which such revocation is permitted) by a Holder by sending voting instructions to its CREST Participant in accordance with such participants usual procedures requesting that such participant issues an ESA Instruction to settle in CREST. Any such ESA Instruction must contain the following details:

   (a) the principal amount of the 2023 Notes to be withdrawn;

   (b) the CREST Participant's member account ID;

   (c) the CREST Participant's participant ID;

   (d) the relevant corporate action ISIN number, being: GB00BFXW0853;

   (e) Computershare's participant ID, being: 8RA19;

   (f) the relevant CREST member account ID of Computershare (in its capacity as a CREST receiving agent) from the table set out above;

   (g) the intended settlement date for the withdrawal;

   (h) the transaction reference number of the Consent Instruction to be withdrawn;

   (i) the corporate action number for the Consent Solicitation. This is allocated by EUI and can be found by viewing the relevant corporate action details in CREST;

   (j) the standard TTE instruction of priority 80; and

   (k) a name, address and telephone number, to be inserted in the shared note field.

10. Any such revocation of a TTE Instruction will be conditional upon Computershare verifying that the revocation is validly made. Accordingly, Computershare will, on behalf of the Issuer, reject or accept the revocation by transmitting in CREST a receiving agent reject (AEAD) or receiving agent accept (AEAN) message.

11. Holders not participating in the Consent Solicitation, including Ineligible Holders, may submit Retail Confirmations to confirm their status as Retail Noteholders, if applicable. A valid Retail Confirmation must include a confirmation from a Noteholder that it was at 5.00 p.m. (London Time) on the Retail Record Date and is at the time of the submission of the Retail Confirmation (i) an individual person; (ii) the Beneficial Owner of less than £100,000 in aggregate principal amount of 2023 Notes;

(iii) (a) if it is resident in the United States, not an "accredited investor" as defined in Regulation D of the United States Securities Act of 1933, as amended, or (b) if it is not resident in the United States, not a "qualified investor" as defined in in Directive 2003/71/EC (as amended); and (iv) not a Sanctions Restricted Person (as defined in the Consent Solicitation Memorandum). The procedure for submitting and revoking a Retail Confirmation is the same as that for submitting a Consent Instruction as set out above. Noteholders that have any questions about the submission of Retail Confirmations should contact the Information Agent or the Registrar, the contact details for which are on the last page of this Consent Solicitation Memorandum.

12. The quorum required to consider the Extraordinary Resolutions at the Meeting is as follows:

    (a) *First Extraordinary Resolution*: one or more persons present and holding or representing a clear majority of the principal amount of the 2023 Notes for the time being outstanding, and at any Adjourned Meeting, one or more persons (whatever the principal amount of Notes represented or held by them); and

    (b) *Second Extraordinary Resolution*: one or more persons present and holding or representing in aggregate not less than two-thirds of the principal amount of the 2023 Notes for the time being outstanding, and at any Adjourned Meeting, one or more persons present and holding or representing in aggregate not less than one-third of the principal amount of the 2023 Notes for the time being outstanding.

    To be passed at the Meeting or any adjourned such Meeting, each Extraordinary Resolution requires a majority in favour consisting of not less than three quarters of votes cast.

    The Second Extraordinary Resolution is conditional on the passing and implementation of the First Extraordinary Resolution.

    If, in respect of a Meeting, the quorum required to consider the First Extraordinary Resolution is satisfied, but the quorum required to consider the Second Extraordinary Resolution is not satisfied, that Meeting shall proceed on the basis that the First Extraordinary Resolution only shall be proposed thereat and voted upon by Holders present or represented at that Meeting in accordance with the procedures set out in this Notice and the Trust Deed. In such circumstances, the Meeting shall stand adjourned in respect of the Second Extraordinary Resolution only and the provisions of paragraph 2 shall apply *mutatis mutandis*.

13. If within 15 minutes (or such longer period not exceeding 30 minutes as the Chairman of the Meeting may decide) after the time appointed for such Meeting a quorum is not present in respect of the First Extraordinary Resolution and/or Second Extraordinary Resolution then the Meeting, in respect of the Extraordinary Resolution or both Extraordinary Resolutions (as the case may be), shall stand adjourned for such period, being not less than 14 clear days nor more than 42 clear days. Consent Instructions and forms of proxies which are submitted in accordance with the procedures set out herein and which have not been subsequently revoked (in the limited circumstances in which such revocation is permitted) shall remain valid for such relevant Adjourned Meeting. The holding of any Adjourned Meeting will be subject to the Issuer giving at least 10 clear days' notice in accordance with the Conditions and the Trust Deed that such Adjourned Meeting is to be held.

14. The implementation of the Second Extraordinary Resolution is conditional on the passing and implementation of the First Extraordinary Resolution and on the quorum required for, and the requisite majority of votes cast at, the Meeting being reached by Eligible Holders, irrespective of any participation at the Meeting by Ineligible Holders (and would also have been passed if any Ineligible Holders who provide confirmation of their status as Ineligible Holders and waive their right to attend and vote (or be represented at) the Meeting had actually participated at the Meeting).

15. Every question submitted to the Meeting shall be decided in the first instance by a show of hands. Unless a poll is (before or on the declaration of the result of the show of hands) demanded by the Chairman, the Issuer, the Trustee or by one or more persons present being proxies or representatives or holding Notes and representing or holding in the aggregate not less than one-fiftieth of the principal amount of the 2023 Notes then outstanding a declaration by the Chairman that a resolution has been

carried or carried by a particular majority or lost or not carried by a particular majority shall be conclusive evidence of the fact that without proof of the number or proportion of the votes recorded in favour of or against such resolution.

16. At the Meeting (a) on a show of hands every person who is present in person and is a proxy or a representative or produces a Note Certificate shall have one vote; and (b) on a poll every person who is so present shall have one vote in respect of each £10 principal amount of the 2023 Notes in respect of which he is a proxy or representative or in respect of each £10 principal amount of the 2023 Notes represented by the Note Certificate so produced.

17. If passed, an Extraordinary Resolution will be binding on all Holders, whether or not present at the Meeting and whether or not voting.

18. The Issuer shall give notice of the passing of the Extraordinary Resolutions to Holders within 14 days but failure to do shall not invalidate the Extraordinary Resolutions.

This Notice is given by The Co-operative Bank p.l.c. Holders should contact the following for further information:

The Solicitation Agents

Merrill Lynch International	2 King Edward Street London EC1A 1HQ United Kingdom
Telephone: Attention: Email:	+44 (0) 20 7996 5420 Liability Management Group DG.LM_EMEA@baml.com
UBS Limited	5 Broadgate London EC2M 2QS United Kingdom
Telephone: Attention: Email:	+44 (0) 20 7568 2133 EMEA Liability Management Group ol-liabilitymanagement-eu@ubs.com

Trustee

Law Debenture Trustees Limited	Fifth Floor 100 Wood Street London EC2V 7EX
Telephone: Attention: Email:	+44 (0) 20 7606 5451 The Manager, Commercial Trust Trust.Management@lawdeb.com

Information Agent

Lucid Issuer Services Limited	Tankerton Works 12 Argyle Walk London WC1H 8HA United Kingdom
Telephone: Attention: Email:	+44 20 7704 0880/0300 303 3491 David Shilson/Sunjeeve Patel co-op@lucid-is.com
	The "0300" line is open from 8.30 a.m. to 5.30 p.m. (London Time) Monday to Friday (except UK public holidays). Calls may be recorded and randomly monitored for security and training purposes. Please note that the telephone operators cannot provide advice on the merits of the Consent Solicitation or any part of it, nor can they give financial, tax, investment or legal advice.

Registrar

Computershare Investor Services PLC	Bridgwater Road Bristol BS99 6ZZ United Kingdom
Telephone:	0370 889 3293

Dated: 28 July 2017

ANNEX II:

EXTRACTS FROM THE SHAREHOLDER CIRCULAR

This Annex II contains the extracts listed below which have been extracted from the Shareholder Circular and set out information about the Bank and Holdco.

Capitalised terms found in this Annex II are defined and explained in the Definitions section of the Shareholder Circular that is set out in this Annex II Part 19.

Section		*Page*
PART 3	RISK FACTORS	126
PART 4	INFORMATION ON THE BANK	215
PART 5	DIRECTORS, SENIOR MANAGERS AND CORPORATE GOVERNANCE	251
	SECTION A: HOLDCO	251
	SECTION B: BANK	253
PART 6	THE BANK'S HISTORICAL FINANCIAL INFORMATION	261
PART 7	OPERATING AND FINANCIAL REVIEW	263
PART 8	UNAUDITED PRO FORMA FINANCIAL INFORMATION OF HOLDCO	314
PART 9	CAPITAL ADEQUACY	317
PART 10	RISK MANAGEMENT	326
PART 11	REGULATORY OVERVIEW	327
PART 15	INFORMATION ON HOLDCO	345
PART 16	ADDITIONAL INFORMATION	364
PART 19	DEFINITIONS	424

PART 3

RISK FACTORS

Shareholders should carefully consider the factors and risks associated with the Restructuring and Recapitalisation, the Bank's business and strategy and the financial services industry in the United Kingdom in which the Bank operates, together with all the other information contained in this Circular and all information referred to in this Circular, including, in particular, the risks and uncertainties described below. Subordinated Noteholders wishing to understand the risks associated with the Consent Solicitation should refer to the Consent Solicitation Memorandum which describes those risks. Scheme Creditors wishing to understand the risks associated with the Creditors' Scheme should refer to the Creditors' Scheme Circular.

This section describes the risk factors which are considered by the Bank to be material to it and the decision of the Shareholders as to how to vote in relation to the Resolutions and the Members' Scheme and/or whether to make any investment in the A Shares pursuant to the Members' Equity Subscription. However, these risk factors should not be regarded as a complete and exhaustive statement or explanation of all potential risks and uncertainties which Shareholders may face when making a decision with respect to how to vote in relation to the Resolutions and the Members' Scheme and/or whether to make any investment in the A Shares pursuant to the Members' Equity Subscription and should be used as guidance only. There may be other risks and uncertainties which are currently not known to the Bank or which the Bank currently does not consider to be material. Should any of the risks described below, or any other risks or uncertainties occur, this could, individually or cumulatively, have a material adverse effect on the Bank's or, following completion of the Restructuring and Recapitalisation, Holdco's business, operating results, financial condition and/or prospects, including its ability to meet regulatory threshold conditions which, in turn, would be likely to cause the price of the Ordinary Shares or, following completion of the Restructuring and Recapitalisation, the A Shares to decline and, as a result, a Shareholder could lose some or all of the value of its investment. Shareholders should consider the Resolutions and the terms of the Members' Scheme carefully and whether or not to vote in favour of them in light of the information contained in this Circular, and their personal circumstances.

This section of the Circular is divided into three main sections: "Risks relating to the Restructuring and Recapitalisation"; "Risks relating to the Bank and its Business"; and "Risks relating to the A Shares and the B Shares".

Risks relating to the Restructuring and Recapitalisation

1. ***The implementation of the Restructuring and Recapitalisation faces a number of significant risks and relies on the Members' Scheme (including the Members' Equity Subscription) and the Creditors' Scheme (including the Scheme Creditors' Equity Subscription) and the Consent Solicitation being executed successfully and the Resolutions being passed. If the Restructuring and Recapitalisation does not succeed, the Bank believes the most likely outcome is that the Ordinary Shares and the Subordinated Notes will be subjected to a mandatory write-down, either as a preliminary step to, or in the course of the Bank's entry into, Special Resolution. In such a scenario, the Bank believes that Shareholders will receive no recovery in respect of the Ordinary Shares that they hold, and that Subordinated Noteholders will receive no recovery in respect of the Subordinated Notes that they hold.***

   The Bank's going concern status

   The auditor's reports contained in the Bank's financial statements for the three years ended 31 December 2014, 2015 and 2016 each contain an "emphasis of matter" in relation to the Bank's ability to continue as a "going concern", indicating that there are material uncertainties which may cast significant doubt on the Bank's ability to continue as a going concern. The going concern status of the Bank depends on the Bank successfully implementing the Plan and, where applicable, the May 2017 Outlook on the Plan, including the implementation of the Restructuring and Recapitalisation, which remains subject to the risks described in this Part 3, and may be subject to any enforcement

action the Authorities may take in relation to any inability of the Bank to meet regulatory requirements relating to its credit risk modelling under the CRR, its ICG, its Combined Buffer, its PRA Buffer and its MREL. There is a risk that the Authorities may exercise their discretion and take enforcement action against the Bank at any time. In accordance with CRD IV, the Authorities must require the Bank to take the neccessary measures at an early stage to address relevant problems where the Bank does not meet the requirements of CRD IV or the Authorities have evidence that the Bank is likely to breach the requirements of CRD IV within the following 12 months. If the Bank were to be unable to continue as a going concern, it is likely that the conditions for implementation of the Special Resolution Regime in respect of the Bank, which include, amongst other things, the condition that the Bank is "failing or likely to fail", would be met and that the Bank of England or HM Treasury would exercise their powers under the Banking Act to resolve the Bank. See the section entitled "*Resolution procedure under the Banking Act*" below for further information.

See paragraph 4 of Section A of Part 1 of this Circular for a description of the background to the Restructuring and Recapitalisation.

Overview of the principal risks to the implementation of the Restructuring and Recapitalisation

Implementation of the Restructuring and Recapitalisation in full relies on the Members' Scheme (including the Members' Equity Subscription), the Creditors' Scheme (including the Scheme Creditors' Equity Subscription) and the Consent Solicitation being executed successfully in accordance with their respective terms. Furthermore, the Restructuring and Recapitalisation is conditional on the passing of the Resolutions. The principal risks to the successful implementation of the Restructuring and Recapitalisation are the risks of:

(a) a failure of any Consenting Holder to fulfil its obligations under the Lock-Up Agreement to vote in favour of (where applicable): (i) the Resolutions; (ii) the Members' Scheme; (iii) the Creditors' Scheme; and (iv) the 2023 Noteholder Extraordinary Resolutions;

(b) the Lock-Up Agreement terminating in accordance with its terms or being terminated by one or more of the parties thereto pursuant to a Lock-Up Termination Event (as defined in Part 19 of this Circular) in each case prior to Completion. See paragraph 17.13 of Part 16 of this Circular for a description of the Lock-Up Agreement and the Lock-Up Termination Events;

(c) a failure of any Backstop Provider to fulfil its obligations under the Backstop Agreement to subscribe and pay for any Subscription Shares not subscribed and paid for pursuant to the Equity Subscriptions in the proportion of their Final Backstop Commitments;

(d) the Backstop Agreement terminating in accordance with its terms. See paragraph 17.19 of Part 16 of this Circular for a description of the Backstop Agreement;

(e) the Members' Scheme not being approved by a majority in number, representing not less than 75 per cent. in value, of those Shareholders present and voting, either in person or by proxy, at the Members' Scheme Court Meeting;

(f) the Creditors' Scheme not being approved by a majority in number, representing not less than 75 per cent. in value, of those Scheme Creditors present and voting, either in person or by proxy, at the Creditors' Scheme Court Meeting;

(g) the Members' Scheme not being sanctioned by the Court;

(h) the Creditors' Scheme not being sanctioned by the Court;

(i) the Resolutions (or any of them) not being passed by the Shareholders at the General Meeting;

(j) the 2023 Noteholder Extraordinary Resolutions not being passed by Eligible 2023 Noteholders at the 2023 Noteholder Meeting;

(k) not obtaining approval by either or both the PRA or FCA (if required) pursuant to Part XIII of FSMA for the Principal Investors (as applicable) and Holdco to become controllers of the Bank;

(l) a rejection by the PRA of a request for approval pursuant to Article 26(3) of the CRR for Holdco to classify the A Shares as CET1 instruments;

(m) a rejection by the PRA of a request for permission under article 77 of the CRR to permit the cancellation by Holdco of the Subordinated Notes held by Holdco following the Notes Exchange; and

(n) the Bank becoming involved in disputes and legal proceedings in respect of the Restructuring and Recapitalisation. Such disputes or proceedings could be brought or raised during the implementation of the Restructuring and Recapitalisation with the objective of preventing the implementation of all or part of the Restructuring and Recapitalisation and/or could be brought after the Restructuring and Recapitalisation has been implemented with the objective of seeking a declaration that all or part of the Restructuring and Recapitalisation was unlawful and invalid. Further information on the risk of litigation is contained in the risk factor entitled "*Litigation seeking to challenge the implementation of the Restructuring and Recapitalisation or certain aspects of it could materially impact or prevent the successful implementation of the Restructuring and Recapitalisation or result in all or part of the Restructuring and Recapitalisation being declared to be unlawful and invalid retrospectively*" below.

There is a risk that the requisite conditions of the Restructuring and Recapitalisation will not be satisfied in the expected time frame or at all. For instance, implementation of the Members' Scheme and the Creditors' Scheme are each conditional upon, amongst other things, sanction by the Court. It is possible that such sanction will be given only subject to conditions or could be refused. There is also a risk that the timetable for implementing the Restructuring and Recapitalisation may be delayed for a variety of reasons, including decisions of the Court, the need to give Shareholders and Subordinated Noteholders appropriate time to consider any significant new information that may be announced by the Bank after the date of this Circular (whether as a result of the publication of the Bank's interim results for the six months ended 30 June 2017, or unexpected intervening events or developments), regulatory or third party intervention.

Delay in completing the Restructuring and Recapitalisation for whatever reason: (i) will prolong the period of uncertainty for the Bank and may result in the accrual of additional costs (for example, there may be an increase in costs in relation to the preparation and issue of documentation, or other elements of the planning and implementation of the Restructuring and Recapitalisation) without any of the potential benefits of the Restructuring and Recapitalisation having been achieved; or (ii) may result in the failure of the Restructuring and Recapitalisation as a result of the Authorities taking enforcement action against the Bank as a result of its non-compliance with certain capital and regulatory requirements or the failure to satisfy a condition to the Restructuring and Recapitalisation or otherwise. Consequences of a failure of the Restructuring and Recapitalisation are detailed below.

Consequences of a failure of the Restructuring and Recapitalisation

Having concluded the FSP, the Bank does not currently believe that there is any realistic alternative to raising the required additional capital if the Restructuring and Recapitalisation is unsuccessful. The failure of the Restructuring and Recapitalisation would have a direct and material adverse effect on the Bank's ability to comply with its current and future regulatory capital requirements, loss-absorbing capacity and liquidity requirements.

If the Restructuring and Recapitalisation is not implemented, the Bank would expect to hold urgent discussions with the PRA and the Bank of England. It is not possible to be certain what the outcome of those discussions may be, nor the extent to which the Authorities would impose on the Bank requirements in respect of the Bank's non-compliance with requirements relating to its credit risk modelling under the CRR, its ICG, its Combined Buffer, its PRA Buffer and its MREL. It is not

possible to be certain as to what actions the Bank of England and/or other Authorities would take in these circumstances, as they are afforded a wide degree of discretion.

The Authorities (between them) would have a wide range of measures available to them, including:

- agreeing a revised plan, or requiring the Bank to take other specified actions;
- varying or restricting the Bank's permissions or business;
- as a precursor to placing the Bank within the Special Resolution Regime, or as a standalone tool, using the mandatory write-down tool to write-down, cancel, or transfer some or all of the Bank's capital instruments, which could include the Ordinary Shares and the Subordinated Notes; and
- placing the Bank into the Special Resolution Regime under the Banking Act.

The Bank is aware that the Bank of England has already commenced preparatory steps in order to enable it to use the mandatory write-down tool, and if thought fit, subsequently or at the same time, to resolve the Bank pursuant to the Special Resolution Regime, shortly following a failure successfully to implement the Restructuring and Recapitalisation. If the Bank of England exercises its powers under the Banking Act or there is continuing press and/or market speculation regarding the occurrence of such an event, it is highly probable that the Bank would be materially adversely affected.

The Bank believes that, if the Restructuring and Recapitalisation is not successfully implemented, the most likely outcome is that the Ordinary Shares and the Subordinated Notes will be subjected to a mandatory write-down, either as a preliminary step to, or in the course of the Bank's entry into, Special Resolution. In such a scenario, the Bank believes that Shareholders will receive no recovery in respect of the Ordinary Shares that they hold, and that Subordinated Noteholders will receive no recovery in respect of the Subordinated Notes that they hold.

Additionally, absent the successful implementation of the Restructuring and Recapitalisation, in a Working Capital Stress Scenario, the Bank would not have enough CET1 capital to meet its minimum Pillar 1 regulatory capital requirements over the Working Capital Period (as defined in Part 19 of this Circular). Were these events to occur, the Bank believes the above described outcome and consequences would arise for Shareholders and Subordinated Noteholders. See paragraph 2.16 of Part 7 of this Circular for a description of the Working Capital Stress Scenario and the Bank's working capital position over the Working Capital Period.

For further information on the consequences for Shareholders and Subordinated Noteholders of a resolution of the Bank, see Section B of Part 1 of this Circular.

Resolution procedure under the Banking Act

The Banking Act empowers the Resolution Authorities, where certain conditions are met (the threshold condition being that the Bank is "failing or is likely to fail" – see paragraph 4 of Section B of Part 1 of this Circular, and paragraph 2.8 of Part 11 of this Circular) to impose the special resolution regime ("**Special Resolution Regime**") on the Bank. As described in further detail in Part 11 of this Circular, the Special Resolution Regime consists of both Stabilisation Powers and modified insolvency proceedings, which could be imposed on the Bank.

If the Bank becomes subject to the Special Resolution Regime, Shareholders are likely to experience a cancellation of their holdings and Subordinated Noteholders are likely to experience the entire loss of their investment. The Banking Act requires the Bank of England permanently to write-down, or convert into equity, Tier 1 capital instruments and Tier 2 capital instruments at the point of non-viability of the Bank and before, or together with, the exercise of any stabilisation option (except in the case where the bail-in tool is to be utilised for other liabilities, in which case such capital instrument would be written down or converted into equity pursuant to the exercise of the general bail-in tool, as described above, rather than the mandatory write-down tool and conversion power

applicable only to capital instruments) (the "**mandatory write-down**"). For the purposes of the application of such mandatory write-down and conversion power, the point of non-viability is the point at which the PRA determines that the bank is "failing or likely to fail" and the Bank of England determines that the Bank meets the conditions for resolution (but no resolution action has yet been taken), or that the relevant entity will no longer be viable unless the relevant capital instruments are written down or converted, or the Bank requires extraordinary public support without which the Bank of England determines the Bank would no longer be viable. An exercise of the mandatory write-down would be effected by the Bank of England as resolution authority with no need for Court approval, and a bail-in order cannot be challenged in Court (although it may be capable of challenge by judicial review if certain conditions are met). The Bank anticipates that any claims that Shareholders or Subordinated Noteholders may have which survive an exercise of the mandatory write-down would receive no recovery from the applicable Special Resolution procedure.

Certain of the Bank's creditors are entitled to protection from the FSCS. However, FSCS protection does not extend to the Subordinated Notes or the Ordinary Shares. For more information see paragraph 2.16 of Part 11 of this Circular.

For further information on the consequences for Shareholders and Subordinated Noteholders of a resolution of the Bank, see Section B of Part 1 of this Circular.

2. ***Litigation seeking to challenge the implementation of the Restructuring and Recapitalisation or certain aspects of it could materially impact or prevent the successful implementation of the Restructuring and Recapitalisation or result in all or part of the Restructuring and Recapitalisation being declared to be unlawful and invalid retrospectively.***

Litigation seeking to challenge the implementation of the Restructuring and Recapitalisation

Previous liability management exercises and recapitalisations by other institutions in distress have demonstrated that there are people who may seek to bring claims or raise arguments in Court to stop or delay the Restructuring and Recapitalisation or challenge its legitimacy or fairness. There is, therefore, a risk that the Bank may become involved in disputes and legal proceedings in connection with the Restructuring and Recapitalisation and the likelihood of their occurrence or their outcome, cannot be predicted in advance with any certainty. It is possible that Shareholders, Noteholders or other parties may seek to bring claims or raise arguments in Court with the objective of preventing or delaying the implementation of all or part of the Restructuring and Recapitalisation.

In particular, it is possible that Shareholders, Subordinated Noteholders or other parties may advance arguments seeking to challenge aspects of the Restructuring and Recapitalisation. The making of any of these types of arguments or claims could delay the implementation of the Restructuring and Recapitalisation (whether or not such arguments or claims have merit) which could result in the failure of the Restructuring and Recapitalisation.

Claims determined after the implementation of the Restructuring and Recapitalisation

Claims challenging elements of the Restructuring and Recapitalisation, or certain aspects thereof, may be brought after the Restructuring and Recapitalisation has been implemented. Other claims brought before such implementation may not be determined until after such implementation.

The success of these claims could result in all or part of the Restructuring and Recapitalisation being declared to be unlawful and invalid retrospectively. The consequences of such a finding would largely depend on the scope of the claims and the legal basis of the finding. Such finding could result in the reversal or invalidity of the Restructuring and Recapitalisation (or a part thereof) and the Bank failing to achieve a critical component of its strategy, the Plan and the May 2017 Outlook on the Plan. It is not known, in such circumstances, what steps the Bank or the Authorities would take, but there is a risk that the Bank could be the subject of a Special Resolution procedure under the Banking Act. If such a resolution procedure were to occur, the Directors believe that Shareholders and Subordinated Noteholders would receive no recovery in respect of the Ordinary Shares and Subordinated Notes that they respectively hold.

Other potential consequences of proceedings

The Bank may incur significant expense in connection with any such proceedings (whether seeking to challenge the implementation of the Restructuring and Recapitalisation or determined after the implementation of the Restructuring and Recapitalisation) even if such proceedings are ultimately concluded in favour of the Bank. The costs of pursuing or defending one or more proceedings, and the outcome of any such proceedings, could also expose the Bank to substantial monetary damage, other penalties and injunctive relief and/or have a negative effect on the Bank's reputation, any of which could reduce the CET1 capital generated by the Restructuring and Recapitalisation and could have an adverse impact on the Bank's ability to deliver its strategy, the Plan and, where applicable, the May 2017 Outlook on the Plan and on its operations, financial condition and prospects. An adverse decision in any one matter could lead to further claims against the Bank.

Risks relating to the Bank and its Business

Following completion of the Restructuring and Recapitalisation, Holdco and the Holdco Group will be exposed to the impact of any material adverse change in the business, results of operations, financial condition, or prospects of the Bank whether as a result of any of the risks relating to the Bank described below or otherwise. Furthermore, the risks below may equally apply directly to Holdco following completion of the Restructuring and Recapitalisation.

3. ***A failure successfully to implement or a delay in implementing the Plan and, where applicable, the May 2017 Outlook on the Plan, may adversely impact the Bank's business, operating results, financial condition and prospects, its regulatory capital resources and its ability to comply with its regulatory capital requirements.***

The Bank required a £1.5 billion recapitalisation in December 2013 and a capital raise of £400 million in May 2014, enabling the commencement of a turnaround plan. Although the Bank believes it has made significant progress in implementing its turnaround plan, the Bank's capacity to build its capital and meet the current and longer-term regulatory capital requirements and MREL required of all UK banks has been constrained by: (i) the impact of interest rates that are and have been lower than previously forecast, reducing the Bank's ability to generate income; and (ii) higher than anticipated transformation and conduct redress and remediation costs. To address these issues, as part of the Bank's annual review process relating to the 2016 financial year, and concluding its annual planning process, the Bank finalised the Plan to help it implement its strategy.

The Plan anticipates various important management actions, including, as an alternative to a sale of the Bank, implementing a liability management exercise and equity capital raise to generate £700 million to £750 million of incremental CET1 capital for the Bank to raise sufficient CET1 capital to increase the CET1 component of the Bank's headroom above its minimum Pillar 1 regulatory capital requirements. The Plan was based on a number of key assumptions, forecasts and targets relating to a variety of factors within and outside of the control of the Bank and the Bank's prospects of implementing its strategy are sensitive to those factors. Accordingly, it became necessary to reassess the achievability of the Plan, and to adjust its implementation, to reflect the Bank's view of the impact on the Plan of trading through the first five months of 2017, the prevailing business environment, the differences between the capital raising contemplated in the Plan and the Restructuring and Recapitalisation the Bank is now seeking to implement and discussions that the Bank has had with its regulators since the Plan was adopted (the result being the May 2017 Outlook on the Plan). On 27 June 2017, the PRA confirmed its acceptance of the May 2017 Outlook on the Plan, including the terms of the Restructuring and Recapitalisation. The PRA may, however, withdraw its acceptance of the Plan and/or the May 2017 Outlook on the Plan at any time, whether or not the Restructuring and Recapitalisation is successful. The PRA has notified the Bank that it intends to monitor closely the Bank's performance against the Plan and consequently, where applicable, the May 2017 Outlook on the Plan. There is a risk that the Bank will not successfully deliver all or part of the May 2017 Outlook on the Plan when planned or as targeted. Failure to successfully implement, or a delay in implementing, the May 2017 Outlook on the Plan may adversely affect the Bank's business, operating

results, financial condition, prospects, regulatory capital resources and its ability to comply with its regulatory capital requirements.

Through the Restructuring and Recapitalisation, the Bank is seeking to generate approximately £700 million of incremental CET1 capital (depending on the actual amount of Retail Cash Consideration paid out by the Bank pursuant to the Mandatory Cancellation and excluding costs and expenses incurred by the Bank). Against the assumed liability management exercise and equity capital raise provided for in the Plan, the outcome of this change will be a net reduction in the amount of CET1 capital generated (assuming that the Restructuring and Recapitalisation is successfully completed) as the Plan assumed that the Bank would implement a liability management exercise and equity capital raise which would generate between £700 million and £750 million of incremental CET1 capital for the Bank.

The Plan, which relates to the period 2017 – 2021, is in the very early stages of implementation. Its performance and effectiveness are not yet proven and, as components of the Plan are implemented and executed, the Plan may require amendments or adaptations to reflect any necessary or consequential changes to its targets and precise scope to reflect more appropriate structures for achieving the aims and targets of the Plan. Indeed, since the Plan was approved by the Bank on 13 February 2017, there have been a number of developments affecting the Plan's forecasts and outlook (see paragraph 8.2 of Part 7 of this Circular for a description of the May 2017 Outlook on the Plan). Whilst the May 2017 Outlook on the Plan reflects these recent developments, the modelled impacts of such events and developments on the Plan may prove to be incorrect or inaccurate, particularly given that the governance around such modelling (including the level of testing and sensitivity analysis performed in relation to the impact of the May 2017 Outlook on the Plan) has not been as extensive as the annual strategic planning process which the Bank followed in preparing and approving the Plan, which could necessitate or result in further adjustments being made to the Plan and, where applicable, the May 2017 Outlook on the Plan in the future and/or resulting in the Bank not achieving the Bank's plans, targets, estimates or expectations contained in the Plan and/or the May 2017 Outlook on the Plan including those described in paragraph 9 of Part 7 of this Circular. Whether or not the Restructuring and Recapitalisation is successful, there is a risk that delivery by the Bank of the Plan and, where applicable, the May 2017 Outlook on the Plan, may be insufficient to address the Bank's requirements or deliver the projected benefits either because of factors beyond its control or internal factors relating to the Bank. The successful execution of the Bank's strategy, the Plan and, where applicable, the May 2017 Outlook on the Plan requires the simultaneous execution of a number of business strategies including increasing mortgage sales, preserving the Bank's market share in retail and SME banking, implementing significant cost reduction initiatives, management of capital resources and loss-absorbing capacity and the other risks and uncertainties faced by the Bank. Historically, including since its 2013 recapitalisation, the Bank's track record of successfully executing change and cost reduction initiatives as contemplated by its business plans is inconsistent and implementation of said plans have not always delivered certain of the planned benefits. Based on historical performance, there remains a significant risk that the Bank will be unable to meet its transformation, change and cost reduction initiatives as outlined in the Plan and, where applicable, the May 2017 Outlook on the Plan.

Whether or not the Restructuring and Recapitalisation is successful, any failure to implement successfully or a delay in implementing the Plan and, where applicable, the May 2017 Outlook on the Plan could have a material adverse effect on the Bank's business, operating results, financial condition and prospects, its regulatory capital position and its ability to comply with its regulatory capital requirements, which could also result in the Authorities taking enforcement action against the Bank in relation to any inability of the Bank to comply with its requirements under CRR in relation to credit risk modelling, its ICG, its Combined Buffer, its PRA Buffer and its MREL. For further information, see the risk factor entitled "*Irrespective of the successful implementation of the Restructuring and Recapitalisation, the Bank will not be compliant with its regulatory capital and loss-absorbing capacity requirements and will be subject to any enforcement action the Authorities may take in respect of such non-compliance.*".

4. ***The Bank's ability to deliver its strategy and achieve the targets in the Plan and, where applicable, the May 2017 Outlook on the Plan is based on underlying assumptions that are subject to significant risks and uncertainties.***

The Plan and the May 2017 Outlook on the Plan each include key assumptions on which the proposed actions and targets contained therein are premised. If actual operating results differ from those targeted or the assumptions underlying the Plan and/or the May 2017 Outlook on the Plan prove to be incorrect or require change throughout the life of the Plan, the Bank may be unable to take management actions to address these differences effectively. There is a risk that the Bank will be unable to implement the Plan and, where applicable, the May 2017 Outlook on the Plan as described therein or as assumed or expected or at all. For example, since the Plan was approved on 13 February 2017, there have been significant developments that have affected the Bank's outlook for its business and the prospects of achieving some of the key components of the Plan (or the timing of when they are expected to be achieved). Accordingly, it became necessary to reassess the achievability of the Plan, and to adjust its implementation, to reflect the Bank's view of the impact on the Plan of trading through the first five months of 2017, the prevailing business environment, the differences between the capital raising contemplated in the Plan and the Restructuring and Recapitalisation the Bank is now seeking to implement and discussions that the Bank has had with its regulators since the Plan was adopted (the result being the May 2017 Outlook on the Plan). See paragraph 8.2 of Part 7 of this Circular for a description of the May 2017 Outlook on the Plan.

The forward-looking actions and targets in the Plan and the May 2017 Outlook on the Plan are not statements of historical fact nor are they guarantees of future performance. Rather, they are based on current management views and assumptions that involve known and unknown risks, uncertainties and other factors that are subject to change and which may cause the actual results, performance, achievements or developments of the Bank or the industry in which it operates to differ materially from any targeted future results, performance, achievements or developments expressed or implied from the forward-looking targets. The forward-looking targets of the Plan and the May 2017 Outlook on the Plan have not been subject to an audit by the Bank's accountants or any other professional advisers.

Risks relating to the Bank's ability to implement its strategy include:

- *The Bank's net interest margin target is predicated on assumed interest rate increases that are beyond the control of the Bank and the Bank's response to those increases in assets and liabilities pricing materialising as planned* – the Plan targets increases in the Bank's net interest margin of up to 10 basis points per annum, in line with the 10-day moving average of the market forward-looking implied rates to 22 November 2016 which assumed a Bank of England base rate increase to 0.5 per cent. in May 2018, a further increase to 0.75 per cent. in June 2019, a rise to 1.0 per cent. in August 2020 and a final rise to 1.25 per cent. in November 2021. These targets are most susceptible to interest rate changes and competitive pressures. "Lower for longer" interest rates (including the Bank of England base rate) will restrict the Bank's ability to increase net interest margin and, consequently, restrict organic capital generation and profitability, as well as improvement in the Bank's cost:income ratio (see the risk factor entitled "*The Bank's earnings, net interest margins and credit losses have been adversely affected by factors such as the low Bank of England base rate, and may continue to be adversely affected for so long as one or more of these factors persist*." for further details regarding factors affecting the Bank of England base rate). See paragraph 8.2 of Part 7 of this Circular for a description of how the more recent adverse base rate outlook impacts the Plan's forecasts and the base rate profile now assumed in the May 2017 Outlook on the Plan as a consequence. There is also a risk that base rates may not increase as soon or as much as the Bank has assumed, that competitive pressures, and the need to maintain market share to maintain viable market volumes, could reduce the Bank's market share or that regulatory pressures constrain the anticipated growth in the Bank's business volumes. The Plan assumes asset pricing increases across the market generally as a result of the "lower for longer" interest rate environment generating fewer available options for retail banks to deliver improved net

interest margin. If, and to the extent that, these increases are not forthcoming as assumed in the Plan, the Bank's actual net interest margin trajectory could be significantly lower than targeted. Furthermore, there is a risk that a "lower for longer" base rate environment would lead to stagnant or decreasing yields on intra-bank swaps, which would not allow for increases in the Bank's net interest margins across fixed rate products as contemplated in the Plan.

- *The Bank may be unable to preserve its market share in new business mortgage assets or other products through the life of the Plan as assumed in the Plan* – the Plan assumes that the Bank's market share in new business mortgage assets is preserved, allowing the Bank to increase prime residential mortgage asset volumes, particularly in Platform over the life of the Plan, and that unsecured loan and credit card balances decrease from 2017. The personal financial services industry is mature, so growth often requires taking market share from competitors. The Bank risks losing market share to other banks, building societies, insurance company competitors and new "fin-tech" entrants, which may impact the Bank's plans to increase Bank profitability based on preserving its market share of new mortgage origination and other products over the life of the Plan. The Plan also assumes that mortgage margin improvements are driven by the Bank entering new markets or products or increasing the Bank's market share of certain types of products or services, an increase in customers with higher loan-to-income ("**LTI**") ratios, improvements in service offering, an uplift in the number of brokers used, the Bank starting to provide mortgages with up to 95 per cent. loan-to-value, an increase in new build market share through participation in the Government's Help to Buy Equity Loan scheme and the inclusion of personal income when assessing buy-to-let customers. The Plan assumes that the Bank will be able to improve its margin on variable rate savings products as the Bank of England base rate rises due to its assumed interest rate pass-back strategy. There is a risk that, if market forces determine that the timing and proportion of interest rates to be passed back to its customers is not feasible, the Bank may not be able to widen its net interest margin to the extent it has projected or at all. Furthermore, the pricing strategies of the Bank's competitors could directly impact the pricing of the Bank's products. Any resulting downward pricing pressure could result in the Bank not achieving its net interest margin growth targets. These risks may be increased if the Bank's cost saving initiatives result in a lack of ability of the Bank to make the investments necessary in its people, products or systems to preserve and improve its competitive position in an increasingly competitive market within prudent and appropriate risk appetites that do not expose the Bank to additional or new categories of conduct and legal risks.

- *The Bank may be unable to increase its mortgage assets* – the Plan targets growing the Bank's net core customer assets by approximately £1 billion in each year of the Plan from 2018, primarily driven by the Bank's Platform business. The Bank's ability to achieve these targets depends on improvements in its customer proposition and on the success of a limited number of intermediaries who also sell mortgages of the Bank's competitors. There is a risk that the Bank will not be adequately resourced or will not have sufficient expertise to deal with increased business volumes as a result of cost reduction initiatives or an inability to retain and/or attract employees necessary for the implementation of the Bank's strategy. There is also a risk that the growth of these assets will be significantly less than planned, and that mortgage retention and/or new mortgage origination may be significantly less than expected due to any number of internal or external factors. These factors include, for example, a possible contraction of the UK mortgage market, and/or the risk of the Bank being unable to support the underwriting process by improving its existing predictive credit modelling capability, and/or the risk that the Bank's relationships with one or more intermediaries may deteriorate for a variety of reasons, including competitive factors, and/or that the pressure to achieve the targeted increases may create new conduct, legal and regulatory risks.

- *The Bank may be unable to access liquidity and funding and/or adequately manage its liquidity position* – there is a risk that the Bank may be unable to maintain access at an appropriate cost to liquidity and funding to fund the requisite level of asset origination targeted in the Plan, including a risk that the Bank may be unable to gain access or unable to gain access on terms commercially acceptable to the Bank to current or future central bank funding facilities and

initiatives which could impact the Bank's ability to implement its strategy. Insufficient funding may prevent the Bank from, for example, implementing product initiatives (including the launch of online mortgage switching functionality) and/or transformation programmes required to deliver its strategy. The Plan assumes certain retention and acquisition levels of core customer assets and liabilities, including anticipated wholesale funding issuances, all of which support the Bank's liquidity position. If the Bank cannot successfully attract or retain business, there is a risk that the Bank may suffer a constraint on liquidity and/or breach its regulatory minimum liquidity requirement. This risk could manifest itself as a result of the wholesale markets being inaccessible to the Bank, or as a deviation in its ability to originate and retain asset and liability balances consistent with the Plan. Whilst the Bank undertakes strategic transactions, such as the Restructuring and Recapitalisation, or during times of continued adverse press attention and speculation, the Bank's liquidity risk may significantly increase as a result of the difficulty in accurately modelling expected customer behaviour in these circumstances. Adverse and unexpected customer behaviour that the Bank is unable to manage could result in the withdrawal of material amounts of customer deposits which would adversely impact the Bank's liquidity position. See paragraph 8.2 of Part 7 of this Circular for a description of customer liabilities balance attrition over and above that expected in the Plan over the five months ended 31 May 2017 and its impact on the Plan's forecasts and outlook, as reflected in the May 2017 Outlook on the Plan. Furthermore, whilst the Bank may be able to manage its liquidity position in such circumstances to avoid a breach of regulatory minimum liquidity requirements through any or a combination of options, or by increasing wholesale funding activity, significant levels of customer withdrawals would be likely to adversely affect its net interest income and/or balance sheet growth and, ultimately, the Bank's ability to deliver its strategy.

- *Actual losses on asset sales may be greater than assumed in the May 2017 Outlook on the Plan* – the Plan assumes reduced losses on the sales and de-leverage of the Bank's non-core corporate assets (these assets are inconsistent with the Bank's current business strategy and risk appetite (known as the "**Legacy Portfolio**")) in 2017 and no further material losses on other asset sales. The May 2017 Outlook on the Plan assumes a further reduction in the Bank's RWAs resulting from an expected reduction in Optimum assets through securitisations and/or whole-loan sales. See paragraph 8.2 of Part 7 of this Circular for a description of such transaction's estimated impact on the Plan's forecasts and outlook, as reflected in the May 2017 Outlook on the Plan, if it is completed on acceptable terms when proposed. There is a risk that this anticipated de-leverage of the Optimum portfolio and any remaining asset disposals or securitisations of the Legacy Portfolio may not be completed on acceptable terms, or at all, or may result in unprovided losses or lower de-leverage than planned.

- *Non-interest income may continue to decrease* – the Bank's non-interest income has decreased in recent years to £66.7 million in the year ended 31 December 2016, principally as a result of the reduction in the Bank's ATM network and lower rates on merchant interchange. The May 2017 Outlook on the Plan assumes a decrease in non-interest income to approximately £50 million for 2017, following which it assumes non-interest income remaining broadly stable at approximately £40 million per annum over the life of the Plan. These targets are based in part on assumed increases in fees relating to transactions on business and commercial banking ("**BaCB**") current accounts and increased non-interest income, primarily from the commission from general insurance referrals. Changes in the fees charged to BaCB customers could result in higher than anticipated outflows of customer deposits and the need for the Bank to replace these outflows with more expensive funding sources, further decreasing net interest income more than assumed in the Plan and/or resulting in lower than expected overall non-interest income. Furthermore, any increases made to the fees the Bank charges could expose the Bank to greater competition risks if similar products are offered at lower fees by the Bank's competitors and any proposed regulatory changes; for example, the Second Payment Services Directive ("**PSD2**") could result in a reduction in interchange income the Bank receives. There is also a risk that, if the Bank does not deliver the required number of general insurance

referrals, it may not receive the level of commission it has forecast, which could impact the Bank's ability to achieve its non-interest income targets. Following the launch of the ability for customers to opt-into "Everyday Rewards" (being the Bank's scheme which rewards customers for everyday banking) via online banking at the start of April 2017, there is also a risk that a greater number of customers than assumed in the Plan will opt-into this scheme, which could adversely impact the Bank's non-interest income.

- *Transformation programmes may cost more than expected, take longer, or deliver less benefit than planned* – the May 2017 Outlook on the Plan assumes the Bank is able to deliver the remaining transformation programme without material deviation from planned timescales and cost. The May 2017 Outlook on the Plan also assumes no other or new significant strategic or remediation transformation programmes are needed in the remaining years of the Plan. The Bank is targeting a reduction in project costs to approximately £100 million for the year ending 31 December 2017 (year ended 31 December 2016: £310 million), and an increase to approximately £120 million of project costs in 2018, and thereafter project costs of approximately £50 million per annum over the remaining life of the Plan, which represents a significant reduction compared to the Bank's project costs of recent years. See paragraph 8.2 of Part 7 of this Circular for a description of the May 2017 Outlook on the Plan's re-phasing of project costs between 2017, 2018 and 2019. Historically, the Bank has experienced significant cost overruns when implementing complex large-scale transformation projects, and some projects have not delivered the planned benefits or the benefits delivered have been reduced in scope or delayed. Any deficiencies in project scoping, appropriate governance and related programme management processes to assist with the satisfactory delivery of these activities would have an adverse effect on the Bank's operating results and financial condition compared with those targeted in the May 2017 Outlook on the Plan. There are risks that the Bank may be unable to complete its transformation programmes when planned, that there may be a requirement to upgrade the Bank's systems, infrastructure, processes and controls, and that the programmes as a whole may cost significantly more than targeted or have a reduced scope for the same targeted costs, or deliver less benefit than planned, thereby impacting associated cost reductions or income-generation plans assumed in the May 2017 Outlook on the Plan. The Bank has a number of initiatives in the May 2017 Outlook on the Plan for 2017 to 2019 that support regulatory and mandatory requirements. The majority of these are still in their infancy and more detailed plans and costs are being developed. As the costs are better understood, there is a risk that the restricted budgets that have been agreed are not sufficient to complete these initiatives. In addition, known issues requiring remediation or new transformation programmes may require substantially greater resources than anticipated and new issues requiring remediation or transformation programmes may require substantial resources not anticipated in the May 2017 Outlook on the Plan.

- *Reducing cost base and impact on the Bank's cost:income ratio* – the Bank's high cost:income ratio as at 31 December 2016 inhibits the Bank's profitability and may hinder its ability to generate new capital and may be commercially unsustainable. The Plan, therefore, targets a reduction in operating costs from £445 million in the year ended 31 December 2016 to approximately £410 million in the year ending 31 December 2017, further reducing to a long-term target annual operating costs run rate of approximately £350 million per annum from the end of 2018 onwards (which corresponds to an approximately 21 per cent. reduction from the Bank's operating costs in 2016). These operating cost reduction targets assume that the Bank successfully implements significant cost reduction initiatives in the near-term, and that operating expenditure and operating project costs are significantly lower from 2019 onwards to the end of the life of the Plan than in recent years. The PRA has stated that, as a condition of the PRA's acceptance of the May 2017 Outlook on the Plan, the PRA expects, by the time of the Bank adopting its next five-year strategic plan, that the Bank will provide to the PRA a detailed cost:income strategy setting out how the Bank will achieve in the medium-term a competitive cost:income ratio in line with the Bank's peer group. Furthermore, the PRA has also stated its view that such a cost:income strategy will be critical to ensuring the success of

the Plan and the future of the Bank. There is a risk that if the Bank does not deliver its cost reduction initiatives and/or does not grow its net interest margin in line with its targets, its costs relative to income will not decrease, which will continue to negatively impact its profitability and capital position. Furthermore, the implementation of significant cost reduction initiatives, for example branch closures, reductions in full time equivalent ("**FTE**") numbers, changes to third-party supplier arrangements, the reorientation of the Bank's distribution channels and simplification of the Bank's product offering, may not achieve the targeted cost savings and, instead, may impede the Bank from preserving its market share and expose the Bank to competitive pressure from competitors investing in their product offerings and/or expose the Bank to additional or new conduct and legal risks and furthermore may limit the Bank's ability to deliver growth in its core customer asset base and mortgage asset volumes as assumed in the Plan.

- *Conduct and legal risk provisions may need to be increased* – in the three years ended 31 December 2016, the Bank incurred total new conduct risk charges of £319 million. This takes the total level of provision since the start of the Bank's remediation programme in 2011 to just under £1 billion. Since 2011, approximately £800 million of this provision has been utilised, leaving remaining provisions of £169.3 million at the end of 2016. The Plan assumes: (i) no new categories of conduct and legal risk provisions; and (ii) no material increases in provisions for existing categories of conduct and legal risk, charged during the life of the Plan. Conduct and legal risk provisions as at 31 December 2016 did not take into account any issues incurred but not yet identified ("**IBNI**"), for which the Bank held a separate provision of £8.1 million as at 31 December 2016. There is a risk that the Bank becomes exposed to significant new conduct or legal risks, either as a result of the Bank discovering new categories of conduct and legal risk issues (for example, from the Bank's legacy or new systems and controls, product design and implementation, mis-selling mortgages and other products, or from increasing certain types of products or lending, or the pressures to increase the Bank's new customer assets to meet the Bank's targets, or from regulatory changes imposed on banks generally or on the Bank specifically). Furthermore, there is a risk that the current level of provision held for both redress amounts and associated costs is not deemed adequate in the future. Conduct provisions for payment protection insurance ("**PPI**") and other known issues, as well as new categories of conduct and legal risk issues that may emerge during the life of the Plan, including as a result of ongoing remediation work which could lead to the identification of new conduct issues, and related remediation and project costs, may be much higher than expected over the life of the Plan. Each element of the conduct and legal risk provision is reviewed regularly and will continue to be on an ongoing basis over the life of the Plan. As a result of such a review, the Bank assumed in the May 2017 Outlook on the Plan a potential net incremental additional conduct risk charge of approximately £5 million in 2017 (subject to further external and internal review and approval) driven by an increase of £9 million relating to PPI and the requirements of the FCA's policy statement 17/3 offset in part by small provision releases from other conduct risk categories. For further information, see paragraph 8.2 of Part 7 of this Circular.

- *The Bank may not achieve its assumed level of RWAs which could result in the Bank having greater minimum Pillar 1 regulatory capital requirements than anticipated* – the May 2017 Outlook on the Plan assumes RWAs falling to approximately £5.5 billion by the end of 2017 and thereafter RWAs reducing to between approximately £5.0 billion and £5.5 billion in the final years of the Plan. The Bank currently holds IRB status for its RWA modelling, but is presently undertaking a remediation plan to deal with its non-compliance with CRR relating to its credit risk modelling. A failure to address CRR non-compliance by the end of 2017 (or at all) could potentially result in further regulatory action such that the Bank's permission to use an IRB Approach could be removed, resulting in the Bank being required to use a standardised approach to modelling credit risk. This could, among other consequences, expose the Bank to a material increase in the calculation of RWAs which could lead to the Bank not achieving its assumed level of RWAs and requiring the Bank to hold additional regulatory capital. RWAs

may be significantly greater than assumed due to deteriorating economic conditions (for example, higher unemployment and lower property prices could result in higher levels of impairments) and any material increases in RWAs will significantly increase the Bank's minimum Pillar 1 regulatory capital requirements beyond those planned for. The Bank's RWAs assumptions are predicated on further de-leverage of the Legacy Portfolio resulting in the losses assumed in the May 2017 Outlook on the Plan. If this de-leverage of the Legacy Portfolio is unsuccessful, RWAs could remain higher than those assumed in the May 2017 Outlook on the Plan, resulting in greater regulatory capital requirements than anticipated and lower CET1 capital ratios than targeted. Furthermore, there remain continued challenges and uncertainty for the UK economy, rising levels of personal debt and the impacts of rising interest rates on customers' abilities to meet their repayments. These pressures could lead to an increase in arrears in the Bank's residential lending portfolios, including Optimum, and an associated increase in retail impairment provisions. See paragraph 8.2 of Part 7 of this Circular for a description of the May 2017 Outlook on the Plan's assumed reduction in the Bank's RWAs resulting from an expected reduction in Optimum assets through securitisations and/or whole-loan sales and the regulatory call of Calico and their estimated impact on the Plan's forecasts and outlook, as reflected in the May 2017 Outlook on the Plan, if completed on acceptable terms when contemplated.

- *The Bank may be unable to complete other capital markets issuances required to meet regulatory capital requirements and MREL compliance (in addition to the Restructuring and Recapitalisation)* – a critical component of the Bank's strategy and the PRA's acceptance of the May 2017 Outlook on the Plan, including the Restructuring and Recapitalisation, is further capital issuances starting with an approximately £250 million Tier 2 debt issuance in 2018. In addition, the May 2017 Outlook on the Plan assumes that the Bank will complete further MREL-qualifying debt issuances in 2020 and 2021, of £200 million and £300 million, respectively so as to meet its ongoing MREL. There are risks that the Bank will be unable to raise the required capital and MREL-qualifying debt on acceptable terms, when planned or at all, and that the Bank will be unable to meet its full ICG when planned, or at all. The Bank's strategy aims to build an efficient, financially-sustainable and capital-resilient UK bank focused on retail and SME customers, differentiated by an ethically-led brand and a customer-centric proposition, and is designed to achieve a surplus to the Bank's PRA Buffer later in 2019 (based on the Bank's own internal assessment of future minimum Pillar 2a and 2b regulatory capital requirements and subject to future SREP). To the extent that the Bank does not perform in line with its strategy, the Plan and, where applicable, the May 2017 Outlook on the Plan or regulatory requirements are increased for any reason, additional CET1 capital may be required over and above that assumed in the May 2017 Outlook on the Plan. Any failure to raise such further capital could have a material adverse effect on the Bank's regulatory capital position, including its ability to maintain adequate loss-absorbing capacity. A failure by the Bank to meet some of its regulatory capital and loss-absorbing capacity requirements (including its ICG), will impact the actions that management are able to take to implement the Plan and, where applicable, the May 2017 Outlook on the Plan and may lead to the Authorities exercising some or all of their powers over the Bank, including, among other things, powers of intervention, the power to mandatorily write-down the Bank's capital instruments and the power to place the Bank within the Special Resolution Regime if they consider the Bank would otherwise be likely to fail.

- *The Bank will remain subject to any enforcement action the Authorities may take against it, which they may do at any time* – the Plan assumes that the Authorities will continue to not take enforcement action against the Bank in relation to the Bank's inability to meet certain regulatory requirements. These are meeting its ICG, Combined Buffer, PRA Buffer, MREL and CRR requirements (relating to the use of an IRB Approach to modelling its credit risk capital requirements). Irrespective of the successful implementation of the Restructuring and Recapitalisation, there is a risk that the Authorities may exercise their discretion and take enforcement action against the Bank at any time in relation to such non-compliance.

- *There is a risk of significant additional pension funding requirements* – the May 2017 Outlook on the Plan includes contributions of £12.5 million per annum for the period from 2018 to 2022. There is a risk that the Bank may be required to pay significantly more than assumed in the May 2017 Outlook on the Plan as a result of: (i) its "last-man standing" risk in Pace, should one or more participating employers fail; (ii) the outcome of contribution negotiations in the absence of the Pace Pensions Sectionalisation (for example, in the context of the 5 April 2016 Pace valuation currently underway); (iii) future actuarial valuations of Pace which may require renegotiation of deficit recovery schedules; and (iv) the implementation of the Pace Pensions Sectionalisation. Implementation of the Pace Pensions Sectionalisation on the terms set out in the Pace Heads of Terms would result in a recovery plan being put in place for the Bank Section immediately after Pace Pensions Sectionalisation which would require the Bank to make deficit payments (in advance) of £12.5 million per annum in respect of each of the calendar years 2018 to 2022 inclusive and £7.5 million per annum in respect of each of the calendar years 2023 to 2027 inclusive (and which will be subject to revision at future actuarial valuations in accordance with scheme funding legislation). There is, therefore, uncertainty as to future levels of Pace contributions payable by the Bank. Furthermore, the Bank may be required to fund an increased level of deficit in connection with the Britannia Scheme depending on the outcome of the next triennial actuarial valuation, which is currently underway or of any future actuarial valuation. An increase in contributions could have a material adverse effect on the Bank's business, operating results, financial condition, prospects and regulatory capital position.

- *The Bank's targeted reductions to its capital requirements may not materialise* – the Bank's current minimum Pillar 2a regulatory capital requirement is elevated relative to its peers. The Bank holds Pillar 2a regulatory capital requirements for operational, pension, model and transformation risks. The May 2017 Outlook on the Plan assumes that if the Restructuring and Recapitalisation is successful and the Bank remedies its credit risk modelling deficiencies, completes the remaining parts of its transformation, remediation and change programme on time and within budget and reduces its operational and pension risks, the Bank's Pillar 2a regulatory capital requirements will reduce over time. If these assumptions do not materialise, or otherwise the PRA does not agree with the Bank's internal assessment of its capital needs or does not agree to reduce the Bank's Pillar 2a regulatory capital requirement, there is a risk that the Bank may require more equity and other forms of loss-absorbing capacity beyond that contemplated by the May 2017 Outlook on the Plan. In relation to the Bank's modelling risk, there is a risk that the Bank could lose its IRB status which would result in consequential increases to its RWAs and capital requirements. See the risk factor entitled "*The Bank's business, operating results, financial condition and prospects and/or its ability to implement its strategy have been and could be adversely impacted by it not maintaining adequate regulatory capital and loss-absorbing capacity. The Bank's targeted reductions in capital requirements may not materialise.*" for further detail. See paragraph 8.2 of Part 7 of this Circular for a description of the net reduction in the Bank's Pillar 2a requirement assumed in the May 2017 Outlook on the Plan as a consequence of the submission by it of its 2016 Internal Capital Adequacy Assessment Process to the PRA.

- *Even if the Bank becomes profitable, there are restrictions on its ability to pay dividends to Shareholders* – the Bank does not expect to pay dividends in the near future, although the Bank believes that if it successfully implements its strategy, the Plan and, where applicable, the May 2017 Outlook on the Plan, there may be potential for a dividend payment in 2021. The Bank's ability to pay any dividends at any time in the future is subject to the Bank's compliance with regulatory capital and loss-absorbing capacity requirements, including the Combined Buffer (currently comprised only of its capital conservation buffer and set at 1.25 per cent. of total RWAs met entirely by CET1 capital. The capital conservation buffer is set to rise to 2.5 per cent. of total RWAs met entirely by CET1 capital in 2019 with a rise of 0.625 per cent. in both 2018 and 2019. In addition to the capital conservation buffer, the counter-cyclical capital buffer will rise from the current requirement of zero per cent. to 0.5 per cent. of total RWAs in June 2018 and is expected to rise to 1 per cent. of total RWAs by the end of 2018, which would result

in an aggregate Combined Buffer requirement of 3.5 per cent. of total RWAs in 2019), which dictate the Maximum Distributable Amount available for distribution by way of dividends pursuant to the restrictions under CRD. Furthermore, distribution by way of dividend or variable remuneration will be dependent on the availability of distributable reserves, PRA approval and compliance by the Bank with provisions concerning dividends contained in its Articles of Association (for further information see paragraph 4 of Part 16 of this Circular). In addition, the availability of distributable reserves is expected to be reliant on a shareholder and court-approved reduction of share capital. There is no certainty that any such approvals will be forthcoming if and when such approvals are sought in the future. Furthermore, following completion of the Restructuring and Recapitalisation, the payment of dividends to A Shareholders in Holdco will be subject to, among other things, the availability of distributable reserves in Holdco and otherwise there being no impediment to passing on any dividends paid by the Bank so that they may ultimately be received by A Shareholders of Holdco. There can be no certainty that either of these matters will be satisfied in the future.

- *The Bank may be unable to recognise significant deferred tax assets assumed in the May 2017 Outlook on the Plan* – the May 2017 Outlook on the Plan assumes that the Bank recognises significant deferred tax assets during the life of the Plan. This recognition is dependent on a number of key criteria being achieved, including profitability or a high level of confidence by the Bank in future profitability, the Bank demonstrating a track record of delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan, targets which minimises execution risk of the Plan and, where applicable, the May 2017 Outlook on the Plan, remaining above minimum Pillar 1 regulatory capital requirements in the Bank's Pillar 2b assessment, the Bank meeting its ICG removing the threat of resolution and the removal of the risk of the Authorities taking enforcement action against the Bank in relation to its non-compliance with certain regulatory capital and loss-absorbing capacity requirements, or confidence that this is a realistic near-term proposition, the Bank being in compliance with the Threshold Conditions (as defined below) and no change occurring in the relevant legal and regulatory framework. If the Bank does not deliver on the key elements of its strategy, the Plan and, where applicable, the May 2017 Outlook on the Plan, the expected quantum of deferred tax recognition or recognition itself may not materialise or may be delayed, which would increase the risk of a delay as to when the Bank expects to generate a post-tax profit in the future.

- *RoE targets may not be achieved* – the May 2017 Outlook on the Plan's targeted RoE relies on the Bank's ability to successfully mitigate the risks outlined above, particularly the Bank's ability to widen its net interest margin and develop its interest income and deliver the anticipated cost reductions and resulting improvements to its cost:income ratio. If any of the risks in this Part 3 do materialise, this may result in lower future returns and a lower than targeted RoE. See paragraph 9 of Part 7 of this Circular for the Bank's revised longer-term RoE target.

While the PRA accepted the Plan on 13 February 2017, the PRA stated that it intends to monitor closely the Bank's performance against it. On 27 June 2017, the PRA confirmed its acceptance of the May 2017 Outlook on the Plan, including the terms of the Restructuring and Recapitalisation. The PRA may withdraw its acceptance and/or approval of the Plan and/or the May 2017 Outlook on the Plan at any time, whether or not the Restructuring and Recapitalisation is successful.

The Bank's ability to deliver its strategy, the Plan and/or the May 2017 Outlook on the Plan, is also heavily influenced by external factors which may mean that the underpinning internal assumptions of the Bank may be incorrect and negatively impact the Bank's performance. Many of these factors are similar to those faced by other financial institutions and are described further below in this Part 3. For example, in preparing the Plan, the Bank used the market's forward implied view for market interest rates of base rate, swap rates, LIBOR rates and gilts, using a 10-day moving average on the market interest rates to smooth over any daily volatility. The 10-day moving average of the market forward-looking implied SONIA rates to 22 November 2016 were used (rounded to the nearest increment of 25 basis points), and these assumed a Bank of England base rate increase to 0.5 per cent. in May 2018,

a further increase to 0.75 per cent. in June 2019, a rise to 1.0 per cent. in August 2020 and a final rise to 1.25 per cent. in November 2021. The Bank used a third-party model to forecast certain macroeconomic variables, such as inflation, unemployment, GDP and HPI, as at August 2016. The Bank's base rate outlook has been adversely impacted since the forward-looking market implied SONIA rates to 22 November 2016 used in the Plan. See paragraph 8.2 of Part 7 of this Circular for a description of the May 2017 Outlook on the Plan which reflects the more recent adverse base rate outlook. If the Bank's assumptions prove to be incorrect, there is a risk that this would impact the Bank's business, operating results, financial condition, prospects and its ability to achieve the targets set out in the Plan and, where applicable, the May 2017 Outlook on the Plan. Despite the steps taken toward compliance with regulatory requirements and complex transformation changes undertaken by the Bank, there remain a number of further actions that the Bank needs to undertake in order to be able to deliver its strategy, the Plan and/or the May 2017 Outlook on the Plan. The successful development and implementation of the Bank's strategy requires difficult, subjective and complex judgements including those relating to a range of factors which are not within the Bank's control or influence, for example, forecasts of economic conditions. In addition, unanticipated events may adversely affect the Bank's actual results of operations in future periods whether or not the assumptions in its strategy, the Plan and/or the May 2017 Outlook on the Plan otherwise prove to be correct. Historically, the Bank has experienced material variances to internal forecasts and budgets, particularly for significant one-off items including conduct risk, project costs, losses on asset sale de-leveraging, accelerated redundancy and severance costs, the sale of holdings in Unity Trust Bank and in Visa Europe and historical base rate decreases. In addition, the tax receivable balance from the Co-operative Group may vary from internal forecasts and budgets. There is, therefore, a risk that the Bank's actual results of operations could differ from those expressed or implied by any forward-looking statements or targets as a result of many factors, many of which may be outside of the Bank's control, including significant business, operational and economic risks and the risks described in this Part 3 and in the section of this Circular entitled "Forward-Looking Statements", and these differences could be material. Such forward-looking statements and targets should, therefore, be read in this context and construed accordingly, and investors should not place undue reliance on them. If the Bank fails to implement its strategy, the Plan and/or the May 2017 Outlook on the Plan, or if the estimated and expected future financial and operational performance is not achieved, the Bank's businesses, operating results, financial condition and prospects may be materially adversely affected.

5. ***The B Shareholders may seek to influence the governance and oversight of the Bank and change the Bank's current strategy. It is uncertain what if any changes will be made to the Bank's current strategy and whether or not any such changes would be successfully implemented.***

If the Restructuring and Recapitalisation is successfully implemented, there are several important changes that will be made to the governance, oversight and management of the Bank. It remains to be seen to what extent these changes will affect the Bank's current strategy, the Plan and, where applicable, the May 2017 Outlook on the Plan, or the Bank's implementation of that strategy. These changes include:

- the establishment of a new holding company for the Bank with a different governance structure to the existing governance of the Bank that is intended by the Principal Investors to allow B Shareholders greater influence on the governance and oversight of the Bank, although both the Bank and Holdco will have boards with a majority of independent non-executive directors with the same directors serving on both boards;
- providing that the B Shareholders in Holdco – those institutional shareholders that own 10 per cent. or more of the A shares of Holdco and satisfy certain other qualifying conditions – carry all the voting rights except in limited circumstances and have the benefit of certain shareholder approval and notification and other rights;
- up to two B Shareholder Nominee Directors of each of Holdco and, via Holdco's ownership of the Bank, the Bank may be appointed by the B Shareholders. If the B Shareholder Nominee Directors perform any executive function then they shall report to the Bank's and Holdco's CEO (who shall be the same person); and

- a Chief Restructuring Officer (who may, but is not required to, be a B Shareholder Nominee Director) may be appointed by the B Shareholders and report to the Bank's and Holdco's CEO (who shall be the same person).

The Bank expects that any changes in the short-term to its strategy are likely to focus on exploring a number of potential actions that may enable it to achieve enhanced financial performance over that assumed in the Plan, likely to be through a combination of: (i) incremental income growth, resulting from further plans to accelerate, re-launch or digitise asset growth and product sales; (ii) further cost reductions, including an assessment of options to structurally reduce costs by a significant proportion; (iii) active pursuit of funding from the potential RBS fund for business banking investment; and (iv) a review of the Plan to create a more efficient total capital position, including options to lower total capital requirements.

Examples of these actions may include: (i) a significantly enhanced credit risk capability to facilitate asset growth; (ii) a digitised and straight-through-processing approach to customer acquisition, driving income and cost reduction; (iii) further de-leverage of legacy assets; or (iv) investment to rationalise operations and systems, to structurally reduce the Bank's cost base.

The delivery of these potential management actions would require careful planning, phasing and investment choices and may not be possible without further capital. The successful development and implementation of any such new strategy requires difficult, subjective and complex judgements including those relating to a range of factors which are not within the Bank's control or influence, for example, forecasts of economic conditions. In addition, unanticipated events may adversely affect the Bank's actual results of operations in future periods whether or not the assumptions in its strategy otherwise prove to be correct. Such actions have yet to be subject to any detailed planning or investment review, or formal governance process. No assurance can be given that the Bank will decide to implement any or all of such potential management actions and whether or not they would achieve further asset growth and cost savings above those assumed in the Plan and, consequently, these potential management actions do not form part of the Bank's current strategy.

Any such change in strategy may lead to the Bank's actual results of operations materially differing from those expressed or implied by any forward-looking statements or targets contained in this Circular as a result of many factors, many of which may be outside of the Bank's control or influence, including significant business, operational and economic risks and the risks described in this Part 3 and in the section of this Circular entitled "Forward-Looking Statements", and these differences could be material and adverse.

The Bank expects that any changes resulting from the new governance and management arrangements as a consequence of the Restructuring and Recapitalisation will need to be made within the following parameters:

- the Bank's Values & Ethics being incorporated into the Holdco Articles of Association and remaining part of the Bank's Articles of Association;
- the PRA's assessment of the proposed Restructuring and Recapitalisation having been premised on its acceptance of both the proposed Restructuring and Recapitalisation and the May 2017 Outlook on the Plan, which took into account certain proposed management actions described in paragraph 8.2 of Part 7 of this Circular;
- any material changes to the May 2017 Outlook on the Plan or the Plan more generally requiring PRA review and acceptance; and
- the PRA having notified the Bank that it expects that by the time of publication of the Bank's next five-year operating plan, the Bank will provide to the PRA a detailed cost:income strategy setting out how the Bank will achieve in the medium-term a competitive cost:income ratio, in line with the Bank's peer group.

The B Shareholders may seek to influence the governance and oversight of the Bank and change the Bank's current strategy and it is uncertain what if any changes will be made to the Bank's current strategy. In the event that the Bank is unable to implement any chosen additional management actions, or otherwise implement any revised strategy, as expected or planned or at all, this could have a material adverse effect on the Bank's business, financial condition, operating results and prospects.

6. ***Irrespective of the successful implementation of the Restructuring and Recapitalisation, the Bank will not be compliant with its regulatory capital and loss-absorbing capacity requirements and will be subject to any enforcement action the Authorities may take in respect of such non-compliance.***

The Bank is currently non-compliant with respect to certain regulatory capital requirements and loss-absorbing capacity requirements. In summary, these areas of non-compliance comprise:

- the Bank's ICG;
- the Bank's Combined Buffer requirement under the CRD (currently comprised only of its capital conservation buffer and set at 1.25 per cent. of total RWAs met entirely by CET1 capital. The capital conservation buffer is set to rise to 2.5 per cent. of total RWAs met entirely by CET1 capital in 2019 with a rise of 0.625 per cent. in both 2018 and 2019. In addition to the capital conservation buffer, the counter-cyclical capital buffer will rise from the current requirement of zero per cent. to 0.5 per cent. of total RWAs in June 2018 and is expected to rise to 1 per cent. of total RWAs by the end of 2018, which would result in an aggregate Combined Buffer requirement of 3.5 per cent. of total RWAs in 2019);
- the Bank's PRA Buffer (currently set by the PRA at a level in order to withstand prudential stress test scenarios and comprised exclusively of CET1 capital); and
- the Bank's MREL.

The Bank's strategy assumes that the Authorities will continue to not take enforcement action against the Bank in relation to its inability to meet the regulatory requirements described above. There is a risk that the Authorities may exercise their discretion and take enforcement action against the Bank at any time.

In accordance with CRD IV, the Authorities must require the Bank to take the necessary measures at an early stage to address relevant problems where the Bank does not meet the requirements of CRD IV or the Authorities have evidence that the Bank is likely to breach the requirements of CRD IV within the following 12 months. While the PRA has accepted the Plan and the May 2017 Outlook on the Plan, the PRA has stated that it intends to monitor closely the Bank's performance against the Plan and consequently, where applicable, the May 2017 Outlook on the Plan, and the Bank has been subject to a heightened degree of regulatory supervision since 2013.

The PRA may withdraw that acceptance at any time, even if the Restructuring and Recapitalisation is successful. The PRA and, where applicable, the Bank of England, have the discretion to revisit the Bank's capital requirements, loss-absorbing capacity, and other regulatory obligations and any non-compliance by the Bank with its ICG, Combined Buffer, PRA Buffer, MREL and CRR provisions relating to credit modelling. The PRA and, where applicable, the Bank of England, may do this at any time and, if the PRA and, where applicable, the Bank of England does so, the nature or extent of any possible changes to the Bank's ICG requirement, Combined Buffer, PRA Buffer and MREL or other regulatory obligations may significantly increase or expedite the Bank's need to raise additional capital or loss-absorbing capacity. If the Bank fails to meet its ICG, Combined Buffer, PRA Buffer and MREL or other regulatory obligations or its plan to comply with its ICG, Combined Buffer, PRA Buffer and MREL or other regulatory obligations, it is not possible to predict how the PRA would react. The PRA may, in any such circumstances, at its discretion elect to exercise one or more of its various powers over the Bank. This could include, among other things, a variation or withdrawal of the Bank's permissions or restricting the Bank's business. If the PRA concludes that the Bank is "failing or likely to fail", the Bank of England could impose a mandatory write-down of the Bank's regulatory capital instruments (which could include the Ordinary Shares and the Subordinated Notes)

and the Bank of England and/or HM Treasury could exercise their powers to resolve the Bank under the Special Resolution Regime, as further described in paragraph 2.8 of Part 11 of this Circular.

Furthermore, there is a risk that the Bank's regulatory capital and loss-absorbing capacity requirements, or PRA expectations and approach with respect to such regulatory capital and loss-absorbing capacity requirements, may increase beyond those currently planned for by the Bank.

7. ***Irrespective of the successful implementation of the Restructuring and Recapitalisation, the Bank will not be compliant with certain other PRA and FCA regulatory requirements and the Bank will be subject to any enforcement action the Authorities may take in respect of such non-compliance.***

The Bank's deficiencies against regulatory requirements and expectations have existed for some time and will continue for some years to come while the Bank implements its strategy, and the Bank has been subject to a heightened degree of regulatory supervision since 2013. The successful implementation of the Bank's strategy depends on the Authorities not taking enforcement action against the Bank regarding any continuing and intervening deficiencies to required regulatory standards.

The Threshold Conditions for which the PRA and FCA are responsible in relation to the Bank, which set out the minimum standards to be met relating to financial and non-financial resources, including capital, risk management, liquidity, and technology, are set out in the FSMA (the "**Threshold Conditions**"). The PRA's and FCA's general policy is not to communicate their assessment of their position in relation to the Threshold Conditions. The FCA did, however, in March 2017, confirm to the Bank that the various IT remediation activities undertaken by the Bank in 2015 and 2016 had brought the Bank back into compliance with the FCA's Threshold Conditions requirements for non-financial resources. The PRA has not communicated to the Bank its assessment of the Bank's position in relation to the Threshold Conditions.

Risks relating to the Bank's credit risk capital modelling requirements

The Bank is not fully compliant with the CRR provisions related to the use of an IRB Approach to modelling its credit risk capital requirements.

A review by the PRA in 2015 identified areas of non-compliance and inadequate procedures relating to use of the IRB Approach requiring improvement and remediation to rectify such non-compliance under supervisory guidance. This involved a re-design of the Bank's model risk policy, redevelopments of some of the Bank's IRB models and the strengthening of the Bank's overall control environment. In March 2016, the Bank received a communication from the PRA levying a CRR-related Pillar 2a regulatory capital requirement in the form of a fixed requirement in order to cover these risks. It is the Bank's objective, subject to successful completion of the remediation plan, to seek and obtain PRA approval of such remediation by the end of 2017 and to have this fixed requirement removed from its ICG during the first quarter of 2018. Irrespective of the success of the Restructuring and Recapitalisation, there is a risk that this objective will not be met within that timeframe or at all.

There is a risk that any failure to address CRR IRB non-compliance by the end of 2017 (or at all) could potentially result in further regulatory action such that the Bank's permission to use an IRB Approach could be removed, resulting in the use of a standardised approach to modelling credit risk. This could, among other consequences, expose the Bank to a material increase in the calculation of its minimum Pillar 1 regulatory capital requirements and, given that many of the Bank's regulatory capital requirements are calculated by reference to the Bank's RWAs, there may be a consequential requirement to hold additional regulatory capital, the creation of an additional ICG deficit and/or a reduction in the Bank's CET1 capital ratio and an impact on the Bank's ability to meet its CET1 capital requirements, its ICG, its Combined Buffer, its PRA Buffer or its MREL.

Accordingly, if the Bank is required to cease using an IRB Approach to its credit risk modelling, there is a risk that the Bank would require more equity and other forms of loss-absorbing capacity beyond that contemplated by the Plan and that any such additional equity or loss-absorbing capacity would not be available when needed, on acceptable terms, or at all.

Deposit Guarantee Scheme Directive and FCA cash savings requirements

The Bank has not met the 2016 regulatory deadlines for the "single customer view" set by the PRA as a result of the Deposit Guarantee Scheme Directive (Directive 2009/14/EC) (the "**DGSD**") and the rules and guidance in the FCA's Banking Conduct of Business Sourcebook introduced following the FCA's market study into competition in the cash savings sector (the "**FCA cash savings requirements**"). The Bank has been in dialogue with the PRA and FCA concerning implementation of the "single customer view" requirement by the end of 2017 and commencement of implementation of the FCA cash savings requirements by June 2017. Any breach of these requirements could result in sanctions against the Bank being imposed, which could range from undertakings being given in relation to future compliance and/or enforcement action taken against the Bank.

8. ***The Bank's business, operating results, financial condition and prospects and/or its ability to implement its strategy have been and could be adversely impacted by it not maintaining adequate regulatory capital and loss-absorbing capacity. The Bank's targeted reductions in capital requirements may not materialise.***

The Bank's current minimum Pillar 2a regulatory capital requirement is elevated relative to the Bank's peers principally due to the Bank's operational, pension, model and transformation risks. The Bank anticipates that if the Restructuring and Recapitalisation is successful and the Bank completes its credit risk modelling deficiencies (part of its model risk) remediation programme, completes the remaining parts of its strategic and remediation projects on time and within budget and reduces its operational and pension risks, and the Bank otherwise delivers the Plan and, where applicable, the May 2017 Outlook on the Plan, these actions will reduce the Bank's minimum Pillar 2a regulatory capital requirement (with a targeted end-state, at the end of the life of the Plan (substantially progressed by the end of 2019) of approximately 8.5 per cent. of RWAs, including the targeted reduction to the Pillar 2a pension risk resulting from the implementation of the Pace Pensions Sectionalisation, the assumed RWAs reduction driven from the expected de-leverage of approximately £2 billion in Optimum assets during the fourth quarter of 2017, alongside other Pillar 2a developments driven from the Bank's 2016 Internal Capital Adequacy Assessment Process (subject to PRA approval and subject to the outcome of future SREP)). The Bank's targeted Pillar 2a reduction as described above, together with the delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan, are expected by the Bank to result in the Bank achieving its target of meeting full ICG during 2018, irrespective of whether the issuance of approximately £250 million Tier 2 debt targeted in the Plan for 2018 takes place (albeit that such Tier 2 debt issuance is required for the purposes of the Bank meeting its regulatory capital and loss absorbing capacity requirements at the end of the life of the Plan). This reduction in the Bank's minimum Pillar 2a regulatory capital requirement and targeted return to meeting its ICG is based on the Bank's internal view of how its ICG will evolve over time and there is a risk that a future SREP may set a requirement different to that which the Bank assumes as part of the May 2017 Outlook on the Plan, including any Pillar 2a pension risk component specific to the Pace Pensions Sectionalisation. Furthermore, following completion of the Restructuring and Recapitalisation, the Bank is also targeting compliance with its Combined Buffer in 2018. The Bank expects that these requirements will also, following Completion, be met at the Holdco consolidated level. See paragraph 8.2 of Part 7 of this Circular for a description of the May 2017 Outlook on the Plan's assumed net reduction in the Bank's Pillar 2a requirement as a consequence of the submission by the Bank of its 2016 Internal Capital Adequacy Assessment Process to the PRA (subject to future SREP).

The Bank must raise and maintain significant amounts of loss-absorbing capacity to comply with the MREL Statement of Policy. The Bank has received a binding MREL requirement for the year ending 31 December 2017 from the Bank of England requiring, in line with other UK banks, MREL which is equivalent to the Bank's ICG requirement. The Bank is not expecting to meet its full ICG until 2018 (assuming the successful implementation of the Restructuring and Recapitalisation, subject to delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan, based on the Bank's own internal assessment of future minimum Pillar 2a regulatory capital requirements and subject to future SREP) and, therefore, the Bank is not expecting to meet its MREL for 2017. The MREL

Statement of Policy includes a transitional requirement for the period up to 1 January 2020 which is equivalent to the Bank's ICG requirement, followed by an interim requirement from 1 January 2020 up to 1 January 2022, which is equivalent to 18 per cent. of its RWAs. End-state MREL, from 1 January 2022, will be set on a case-by-case basis for all UK banks depending on the agreed resolution strategy for that bank. These requirements are currently expected to be either two times ICG or a lower amount determined by the Bank of England based on the Bank's resolution strategy set by the Bank of England, of which the Bank's current planning assumption is the latter of these two options.

As set out in the MREL Statement of Policy, the Bank of England can provide institutions with a non-binding indication of any MREL which the Bank of England expects institutions to meet in future years. The Bank of England's current intention is to set MREL in excess of regulatory capital requirements in 2020 for all institutions for which the preferred resolution strategy is not a bank insolvency procedure. In addition, the Bank of England can provide particular institutions with a non-binding indication of its intention to set a higher or earlier future MREL, or set higher or earlier required MREL levels. As set out in the MREL Statement of Policy, the Bank of England will do so where action is needed to enhance an institution's resolvability and this is necessary to meet the Bank of England's objectives as resolution authority. The Bank of England has chosen to do so for the Bank, in line with the Bank of England having identified a shortage of loss-absorbing capacity as a substantive impediment to the Bank's resolvability.

As such, the Bank of England has provided the Bank with a non-binding indication that its current intention is to set the Bank's MREL for 2018 in an amount which strongly indicated that the Bank would need to issue MREL-qualifying debt earlier than assumed in the Plan (which assumes issuances in 2020 and 2021, following a Tier 2 debt issuance in 2018 (with such same timing assumptions also made in the May 2017 Outlook on the Plan)), possibly as early as before the end of 2017. The Bank does not believe its current capital position, in the absence of the successful implementation of the Restructuring and Recapitalisation, would be sufficient to enable it in the future to issue MREL-qualifying debt on acceptable terms in such amount as would be required. The Bank of England indicated to the Bank that it would review this intention as part of the process for setting the Bank's MREL for 2018, which will include a consideration of any revisions in the Bank's business plan and strategy. Furthermore, the Bank of England has publically stated (as part of its publication of indicative MREL data on 5 May 2017) that "*The Co-operative Bank has been excluded from the calculation of the average because the firm is currently seeking a sale, which has the potential to significantly affect The Co-operative Bank's balance sheet. Therefore an indicative MREL based on The Co-operative Bank's balance sheet today may not be a useful guide to the eventual requirement*". The Bank believes that the Restructuring and Recapitalisation would significantly affect the Bank's balance sheet and, accordingly, the Bank assumes that, if a liability management exercise and capital raising such as the Capital Raising is successfully implemented, the Bank's MREL will be reviewed by the Bank of England to take into account the completed Restructuring and Recapitalisation and subsequently revised to be brought in line with the MREL Statement of Policy. As a result, the May 2017 Outlook on the Plan assumes compliance with the transitional MREL set out in the MREL Statement of Policy during the course of 2018 (for the avoidance of doubt, excluding PRA Buffer – meaning that the Bank meets its MREL by including CET1 capital counted towards its PRA Buffer), when the Bank is targeting to meet its ICG, with such MREL compliance maintained thereafter supported by the targeted MREL-qualifying debt issuances in 2020 and 2021. The above-mentioned MREL issuances may not be completed when planned, on acceptable terms, or at all. The Bank is expected by its regulator to meet its Combined Buffer and PRA Buffer in addition to both its transitional, interim and end-state MREL.

Even if the Restructuring and Recapitalisation is successful, the Bank's ability to complete its targeted Tier 2 capital and MREL-qualifying debt issuances may depend on an improvement in the Bank's credit rating from its current sub-investment grade credit rating and conducive capital markets prevailing at the time. There is, therefore, a risk that the Bank may be unable to complete these issuances when contemplated under the May 2017 Outlook on the Plan or when required, on acceptable terms, in the amounts required, or at all.

The Bank is not currently subject to the PRA's leverage ratio framework which requires firms within it to have a 3 per cent. minimum leverage ratio requirement (in June 2017 the Bank of England's Financial Policy Committee ("**FPC**") and the PRA launched consultations on changes to the UK leverage ratio framework relating to the treatment of claims on central banks (CP 11/17), which include a proposed increase in the minimum requirement from 3 per cent. to 3.25 per cent.). The Bank is not currently within the framework, as it has retail deposit levels below £50 billion (being the threshold at which this becomes a binding requirement). As at 31 December 2016, the Bank's leverage ratio was 2.6 per cent. (3.8 per cent. as at 31 December 2015). Assuming the successful implementation of the Restructuring and Recapitalisation, the Bank expects that its leverage ratio would improve to levels in excess of 3.25 per cent. However, if the Restructuring and Recapitalisation is not implemented successfully, or if it is but the Bank's leverage ratio otherwise falls below the minimum leverage ratio requirement and the Bank is required to comply with the minimum leverage ratio requirement, the Bank would need to take action to improve its leverage ratio, which may have a material adverse effect on the Bank's businesses, operating results, financial condition and prospects. A failure in those circumstances to take actions to avoid a breach of the PRA's requirements could lead to the PRA taking enforcement action and could have a material adverse effect on the Bank's businesses, operating results, financial condition and prospects.

9. ***The Bank's business, operating results, financial condition and prospects and/or its ability to implement its strategy may be adversely impacted by future changes to its regulatory capital requirements driven by regulatory stress-testing results.***

In December 2014, the PRA announced the results of the Bank of England concurrent stress tests and confirmed that the Bank's capital resources were projected to be exhausted in the Bank of England's hypothetical stress scenario and therefore the Bank did not hold sufficient capital resources to meet its PRA Buffer. As a result, the Bank was required to submit a revised business plan to deliver capital resilience against the stress scenario (the "**2014 Plan**"). The 2014 Plan aimed to build a sustainable bank and was designed to create a sustainable surplus to the PRA Buffer in 2019 which theoretically could withstand a severe stress scenario equivalent to the 2014 Bank of England stress test.

Following the 2014 Bank of England concurrent stress tests, the Bank was not included in the 2015 or 2016 Bank of England concurrent stress tests, as these tests were designed to assess resilience to a deterioration in global economic conditions. The Bank was not included as a result of the size of the Bank's balance sheet, which is significantly smaller than the other firms that were included in the concurrent stress test; therefore, the resilience of the Bank is unlikely to affect the resilience of the financial system as a whole. The Bank is not currently a member of the UK concurrent stress-testing regime. However, as part of its annual planning process, the Bank undertakes an appropriate Pillar 2b assessment and the results are discussed with the PRA as part of the Internal Capital Adequacy Assessment Process submission.

The Bank considers that the Plan and the May 2017 Outlook on the Plan are designed to withstand, the H1 2016 PRA stress test, along with other idiosyncratic stress events. The H1 2016 PRA stress test includes a reduction in interest rates from the half year ended June 2017 to zero per cent. across the life of the Plan, a sharp reduction in the house price index ("**HPI**") and commercial real estate ("**CRE**"), a recession in 2017 before GDP recovers, and an increase in unemployment and inflation.

It is not possible for the Bank to predict whether or not it will be required to participate in future stress tests or what form and magnitude of future stress tests may be applied to it and, if required to do so, what balance sheet or other actions may be required to mitigate any assumed stress impacts. There is a risk that the Bank would be subject to increased Pillar 2a and Pillar 2b regulatory capital requirements and be required to raise additional capital if the Bank became subject to the Bank of England's stress-testing regime.

10. ***The Bank anticipates giving formal notice to exercise its right to terminate the Calico Finance Number One synthetic securitisation through a regulatory call, which the Bank will be unable to undertake if, amongst other things, the occurrence of a regulatory event is successfully challenged by investors. This would mean that the Bank would not benefit from the assumed annual interest***

savings expected to result from exercising such call and would mean that the viability of contemplated further reductions of Optimum assets that include Calico referenced assets may be jeopardised, which could adversely impact the Bank's business, operating results, financial condition and prospects, its regulatory capital position and its ability to comply with its regulatory capital requirements.

In 2013, the Bank (as credit protection buyer) entered into a synthetic securitisation transaction to obtain credit protection through a credit default swap with Calico Finance Number One ("**Calico**") relating to the mezzanine risk in a proportion of Optimum residential mortgages. Calico, as the credit default swap protection seller, issued £116.5 million of credit-linked notes to investors at an expense to the Bank of approximately £15 million per annum. The Bank also retained other regulatory capital benefits to capital resources due to the impact on expected loss shortfall regulatory deductions. The Plan assumed Calico would remain outstanding until its legal maturity in March 2021.

Following notice from the PRA dated 23 June 2017 that, in their provisional assessment, Calico no longer met "significant risk transfer" requirements within the meaning of the CRR and EBA technical standards ("**SRT**"), the Bank plans to give formal notice to exercise its right to terminate Calico in September 2017 based upon the occurrence of a "Regulatory Event" (as defined in the documents governing the transaction) as a consequence of the change in SRT status of Calico. As at 31 December 2016, the impact of Calico not meeting SRT requirements would have seen a reduction in the Bank's CET1 ratio of 0.8 per cent., with such impact reducing over time (in accordance with the mismatch rule prescribed by CRR) as Calico approaches its legal maturity in March 2021. A regulatory call, as permitted by the transaction documentation, would allow the Bank to terminate the credit default swap between the Bank and Calico, and repay Calico investors the principal amount of their notes at par plus accrued interest. The May 2017 Outlook on the Plan assumes the successful exercise of this right and redemption of the notes in 2017.

The Bank's exercise of this right is subject to certain uncertainties. In particular, these include a risk that the investors in the Calico notes may seek to challenge or litigate the Bank's exercise of the regulatory call event and associated termination of the credit default swap, which could adversely impact the Bank's business, operating results, financial condition (including its net interest margin) and prospects. The May 2017 Outlook on the Plan assumes an annual benefit to the Bank's income statement from the regulatory call of approximately £15 million per annum up until maturity due to the removal of the interest expense relating to Calico. Should the Bank be unable to complete a regulatory call or otherwise exit Calico on acceptable terms, the Bank would not benefit from the assumed annual interest savings expected to result from exercising such call and this would mean that the viability of contemplated further reductions of Optimum assets that include Calico referenced assets may be jeopardised, which could adversely impact the Bank's business, operating results, financial condition and prospects, its regulatory capital position and its ability to comply with its regulatory capital requirements.

11. ***The Bank anticipates making a further reduction of Optimum assets through whole-loan disposals and/or securitisations. There is a risk that the Bank will be unable to de-leverage its Optimum assets in a capital efficient manner, or may incur greater than expected costs or experience delays in relation to such de-leveraging, which could adversely impact the Bank's business, operating results, financial condition and prospects, its regulatory capital position and its ability to comply with its regulatory capital requirements.***

A key component of the Bank's management actions assumed as part of the May 2017 Outlook on the Plan is the further reduction of Optimum assets through whole-loan disposals and/or securitisations, in a manner that seeks to ensure that any anticipated future losses (through forgone income and any possible loss on sale) from such de-leveraging actions do not materially exceed the capital released from the reduction in capital requirements of the portfolio. The Bank anticipates reducing its Optimum assets by approximately £2 billion during the fourth quarter of 2017 (subject to market conditions, including as to market capacity and available pricing, timing and terms being subject to PRA approval), of which the Bank expects to retain a significant proportion of AAA-rated notes to be issued if the Optimum de-leveraging strategy is achieved through securitisations. The size of this contemplated transaction is deemed by the Bank to be viable on the assumption that the regulatory

call of Calico discussed in the risk factor above proceeds. Although the Bank completed two Warwick securitisations in 2015, it is uncertain whether the securitisation markets will absorb further securitisations or that alternative whole-loan portfolio de-leverage exits for Optimum assets will be available at the capacity and economics assumed as part of the May 2017 Outlook on the Plan. In particular, the Bank's Optimum de-leveraging strategy may be adversely impacted by draft EU securitisation regulation that, if implemented would prohibit the securitisation of self-certified mortgage assets from 1 January 2019. A significant proportion of Optimum assets are self-certified. Further, the pricing and size of future securitisation transactions by the Bank are dependent on the prevailing conditions in the securitisation markets or the "whole-loan" residential mortgage portfolio sale market, which may be impacted by macro-economic factors beyond the control of the Bank.

Accordingly, there is a risk that any disposal and/or securitisation of the Bank's Optimum assets may not occur, when planned, be carried out in a capital efficient manner, or at all. Assuming the successful completion of such a de-leveraging transaction, the Bank would expect a significant reduction in RWAs and other non-Pillar 1 capital requirements to result, these impacts are expected to offset the income forgone on the disposed assets. This impact, facilitated by the RWA reduction and other Pillar 2a and Pillar 2b (subject to future SREP) reduction benefits from the regulatory call and termination of Calico (assuming that the Bank proceeds with, and is successful, in making, such a call), are expected to result in a favourable impact to ICG including PRA Buffer over the life of the Plan (subject to further SREP). There is a risk, however, that the benefits assumed may not materialise in the quantum expected or at all. Any failure by the Bank to further de-leverage its Optimum assets in accordance with the May 2017 Outlook on the Plan and/or any failure to carry out such de-leveraging in a capital efficient manner or in a way that does not give rise to greater than expected costs being incurred could negatively impact the Bank's business, operating results, financial condition (including its net interest margin) and prospects as well as its ability to comply with its regulatory capital requirements. For a description of the risk associated with the Bank accessing the wholesale funding market and the volatility of such market see the risk factor entitled "*The Bank faces risks associated with wholesale market access and volatility*".

12. ***If the Restructuring and Recapitalisation is unsuccessful, there is an increased risk that the Bank will fail to comply with its minimum Pillar 1 regulatory capital requirement on a solo-consolidated basis ahead of any breach in the Bank Group's consolidated position.***

The Bank has regulatory approval on an individual basis to operate under a solo-consolidation permission. In March 2016, the Bank was granted a new permission to operate under a solo-consolidation, though with respect to a smaller number of subsidiaries than it previously held in its permission in both 2014, and 2015. The revision mainly comprised the removal of FCA-regulated entities. The Bank's solo-consolidated CET1 capital ratio is lower than its consolidated CET1 capital ratio. Accordingly, there is lower projected headroom above the Bank's solo-consolidated minimum Pillar 1 regulatory capital requirement on a solo-consolidated position as compared to a consolidated position. Consequently, there is a strong likelihood that any possible future breach of the Bank's regulatory capital minimum requirements would occur on a solo-consolidated basis prior to any breach in the Bank Group's consolidated position albeit that the Bank expects to continue to meet its minimum Pillar 1 regulatory capital requirements (based on the Bank's own economic assumptions in both cases). If the Restructuring and Recapitalisation is not successful, there is a risk that this may adversely impact the Bank's ability to comply with its minimum Pillar 1 regulatory capital requirement on a solo-consolidated basis before any breach in the Bank Group's consolidation position. In the event of any such future breach, the Authorities may not be able to accept such non-compliance by the Bank with its minimum Pillar 1 regulatory capital requirement.

13. ***Further capital and loss-absorbing capacity may be required as a result of regulatory requirements or guidance or as a result of further costs or losses exceeding the Bank's estimates and assumptions underlying the Plan and/or the May 2017 Outlook on the Plan.***

The Bank may need to raise further equity, regulatory capital, MREL-qualifying debt, and/or take other management actions not otherwise anticipated by its strategy, the Plan and/or the May 2017

Outlook on the Plan, as a result of regulatory requirements or guidance or as a result of further costs or losses or shortfall in revenues exceeding the Bank's estimates.

If the Bank does not perform in line with its strategy, the Plan and/or the May 2017 Outlook on the Plan or regulatory requirements are increased for any reason, additional CET1 or other regulatory or loss-absorbing capital may be required over and above that included in the Plan and the May 2017 Outlook on the Plan and/or the Bank's RWAs could be reduced by the Bank taking action. Furthermore, absent the successful implementation of the Restructuring and Recapitalisation, in a Working Capital Stress Scenario (as described in paragraph 2.16 of Part 7 of this Circular), the Bank would not have enough CET1 capital to meet its minimum Pillar 1 regulatory capital requirements over the Working Capital Period. Any further or additional CET1 or other MREL or other loss-absorbing capacity may not be available when needed or planned, or on acceptable terms, or at all. Any failure to raise such further capital could have a material adverse effect on the Bank's regulatory capital position, including its ability to maintain adequate loss-absorbing capacity. Furthermore, if the Bank is unable to raise all or part of such additional capital, there is a risk that the Authorities could require further or other actions to be taken by the Bank. If other management actions required by the Authorities to be taken were unable to be taken by the Bank, the Bank of England and/or HM Treasury would be able to take further actions under the range of options available to them, including Special Resolution under the Special Resolution Regime. Whether the Bank is able to meet its ICG and/or Combined Buffer and/or PRA Buffer and/or MREL during the life of the Plan will depend on a number of factors, both within and outside the control of the Bank, including the Bank's ability to implement the Plan and, where applicable, the May 2017 Outlook on the Plan (including the implementation of the Restructuring and Recapitalisation) and changes in regulatory risk appetite and economic and market conditions generally in the UK.

The Bank may be unable to raise any additional capital or loss-absorbing capacity when needed on favourable terms, or at all (for example, as an unlisted entity, the Bank has limited access to the equity capital markets). In such cases, the Bank may as a result be in breach of its approved regulatory requirements or expectations and, there may be a risk of the PRA exercising any of its wide-ranging powers over the Bank. If the PRA concludes that the Bank is "failing or likely to fail", the Bank of England could impose a mandatory write-down of the Bank's capital instruments (which could include the Ordinary Shares and the Subordinated Notes), and the Bank of England and/or HM Treasury could exercise their powers under the Special Resolution Regime to resolve the Bank. See the risk factor entitled "*Shareholders will experience significant dilution to their ownership interests following completion of the Restructuring and Recapitalisation*" for further information.

14. ***Rating downgrades and/or negative market sentiment with respect to the Bank may have an adverse effect on the Bank's ability to implement its strategy, the Plan and/or, where applicable, the May 2017 Outlook on the Plan and on its business. The Bank's ability to raise the capital and debt it needs, including the Tier 2 and MREL-qualifying debt it is targeting under its strategy, when needed, on acceptable terms, or at all, may depend on the Bank improving its credit rating.***

In 2013, Fitch and Moody's downgraded the Bank's senior debt ratings from investment grade to sub-investment grade. The 2013 credit rating downgrades have:

- led to sub-investment grade ratings on the Bank's senior debt, leading to a significant reduction in the demand for these types of instruments and ratings-sensitive customer deposits;
- negatively impacted the Bank's ability to access short-term unsecured wholesale funding; and
- increased the Bank's collateral requirements used in the clearing and payment systems.

On 15 February 2017, Moody's announced that it had downgraded the Bank's long-term senior unsecured rating to Ca from Caa2 with a developing outlook. On 21 February 2017, Fitch downgraded the Bank's long-term issuer default rating to B- from B with an evolving outlook. The Bank is currently rated:

- B- (long-term and evolving outlook) and B (short-term) by Fitch; and

- Ca (long-term senior unsecured rating with a developing outlook) and NP (short-term) by Moody's.

Following the Bank's announcement on 28 June 2017 describing the outline of the Restructuring and Recapitalisation, Moody's subsequently announced on 30 June 2017 that it had placed the Bank's senior unsecured debt rating and the Bank's Ca standalone baseline credit assessment on review for an upgrade. This review reflects Moody's opinion that the probability of the Bank being placed into resolution was reduced. On 30 June 2017, Fitch maintained the Bank's long-term issuer default rating at B- but downgraded the Bank's viability rating from CC to C reflecting its methodology which classifies the proposed exchange of subordinated debt (being a component of the Restructuring and Recapitalisation) as a "distressed debt exchange".

Credit rating downgrades affect the Bank's funding profile and the cost to the Bank of raising new funding. The impact on access to funding and increased cost of funding may, therefore, over the long-term have an adverse effect on the Bank's business, operating results, financial condition and prospects and/or adversely affect the Bank's ability to deliver the Plan and, where applicable, the May 2017 Outlook on the Plan.

The Bank raises the majority of its funding through accepting retail and corporate deposits. The Bank has also issued funding from a range of programmes (including medium-term note, securitisation and covered bond programmes) targeting wholesale investors.

The continuation of the Bank's current rating or any further downgrade in the Bank's credit ratings could:

- increase its borrowing costs;
- undermine confidence in the Bank and/or result in an outflow of deposits from the Bank;
- further limit its access to the capital markets or limit the range of counterparties willing to enter into transactions with the Bank, as many institutions require their counterparties to satisfy minimum ratings requirements; and/or
- result in suppliers requesting special terms (which could include, for example, onerous payment terms) to supply services to the Bank.

Furthermore, any further downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur could depress consumer confidence (which could result in withdrawals of customer deposits), restrict the availability, and increase the cost, of funding for the Bank and/or its customers, further depress economic activity, or inhibit any recovery, increase unemployment and reduce asset prices, destabilise the markets, impact the Bank's own rating and borrowing costs and have a material adverse effect on the Bank's operating results and financial condition.

There is also a risk that the implementation of the Plan and, where applicable, the May 2017 Outlook on the Plan or other actions taken by the Bank may not improve the Bank's credit rating. Further negative change in sentiment to the Bank as a result of continued adverse publicity and market or other conditions could result in the Bank's credit rating remaining below investment grade and/or being reduced further, which may impact the ability of the Bank to raise additional capital or loss-absorbing capacity in the future, when needed, on acceptable terms, or at all. Any future declines in those aspects of the Bank identified by the rating agencies as significant business or a failure by the Bank to achieve its strategic objectives could also adversely affect the rating agencies' perception of the Bank's credit and cause them to take further negative ratings actions.

15. ***The Bank has a significant holding of available-for-sale investment securities, including Warwick Finance One and Two securitisation notes. Negative changes in the carrying value of investment securities could have a material adverse effect on the Bank's business, operating results, financial***

condition and prospects, as well as its ability to achieve the Plan and, where applicable, the May 2017 Outlook on the Plan.

As at 31 December 2016, the Bank's portfolio of listed available-for-sale investment securities had a fair value of £3.5 billion, equal to 12.82 per cent. of its total assets at the same date. The Bank's available-for-sale investment securities are valued on each balance sheet date and any gains and losses arising on the sale of available-for-sale investment securities are recognised in the Bank's income statement and any cumulative fair value gain or loss previously recognised in other comprehensive income, which is re-classified to the income statement at the same date.

There is a risk that valuations of the Bank's investment securities in future periods may result in losses or impairments via valuation reserves, which could have a material impact on the Bank's CET1 capital. In addition, the value that the Bank ultimately realises for its investment securities may be lower than their current carrying value, resulting in losses being recorded in the Bank's income statement, which could be material. Any of these factors could have a material adverse effect on the Bank's business, operating results, financial condition, prospects and its ability to implement the Plan and, where applicable, the May 2017 Outlook on the Plan.

The Bank's available-for-sale investment securities portfolio qualifying as primary liquidity comprises highly rated debt instruments issued by UK and EU governments and supranational bodies. The Bank's investment securities portfolio also includes residential mortgage-backed securities ("**RMBS**") holdings (including Warwick Finance One and Two Class A RMBS), which are classified as other liquid assets. As described in paragraph 8.2 of Part 7 of this Circular, the Bank is currently expecting a further reduction of Optimum Assets through securitisations and/or whole-loan sales and, if such transactions are effected in the future by way of securitisation, the Bank expects that it will retain a significant proportion of the AAA-rated notes to be issued in connection therewith, which will consequently also form part of the Bank's investment security portfolio. Additionally under IFRS 9, the Bank's investment security portfolio may be classified and measured differently to the current fair valuation basis resulting in a gain or loss on day 1 implementation of IFRS 9 on 1 January 2018. The parallel run by the Bank of the requirements of IFRS 9, which is planned to take place in the second half of 2017, is expected to provide reliable quantitative impact information which will be disclosed in the Bank's 2017 annual report and accounts. Until such a reliable estimate is available, there is a risk that IFRS 9 could have a material adverse effect on the Bank's financial condition, operating results and prospects.

As at 31 December 2016, 100 per cent. of the Bank's £3.5 billion investment security portfolio had a rating of AA+ or higher. The Bank is subject to the additional risk that adverse economic and market conditions could reduce its ability to raise adequate liquidity from the portfolio to meet its liabilities when they are expected to fall due, which could in turn have a material adverse effect on its business, operating results, financial condition, prospects and its ability to implement the Plan and, where applicable, the May 2017 Outlook on the Plan.

16. ***The Bank has a high cost:income ratio relative to other UK banks that may be commercially unsustainable. A failure by the Bank to implement its cost reduction initiatives and achieve a competitive cost:income ratio in the medium-term is likely to have a material adverse effect on the Bank's ability to deliver its strategy, its results of operations, financial condition and operating results, and the Bank's ability to return to profitability.***

Although the Bank reduced its operating costs by 22 per cent. in the three years ended 31 December 2016, the Bank continues to have a high cost:income ratio in absolute terms and relative to other UK banks, which inhibits the Bank's profitability and hinders the Bank's ability to generate capital organically and be commercially sustainable. The Plan, therefore, targets a reduction in operating costs from £445 million in the year ended 31 December 2016 to approximately £410 million in the year ending 31 December 2017, further reducing to a long-term target annual operating costs run rate of approximately £350 million per annum from the end of 2018 onwards. These operating cost reduction targets assume that the Bank successfully delivers significant cost reductions during 2017 and 2018. In addition, the PRA has stated that, as a condition of the PRA's acceptance of the May

2017 Outlook on the Plan, the PRA expects, by the time of the Bank adopting its next five-year strategic plan, that the Bank will provide to the PRA a detailed cost:income strategy setting out how the Bank will achieve in the medium-term a competitive cost:income ratio in line with the Bank's peer group. The PRA has also stated its view that such a cost:income strategy will be critical to ensuring the success of the Plan and the future of the Bank.

The Bank's targeted cost reduction initiatives are focussed on the following cost categories: people; third-party suppliers; premises; and IT. The Bank intends to make significant cost reductions in 2017 and 2018 to be delivered through:

- the planned removal of permanent, temporary and contractor roles;
- the renegotiation of third-party contracts, demand suppression and/or a change in the scope or standard of service provided by third-party suppliers;
- the rationalisation of the Bank's major occupancies as well as the closure of a further 10 branches, bringing the number of branches to 95 by the end of July 2017; and
- the simplification and rationalisation of the Bank's IT systems, applications and its supporting service model.

There is also a risk that, even if the Bank is successful in implementing the cost reduction initiatives in the Plan, the Bank's cost:income ratio will be reduced but may still be higher than its competitors.

There is a risk that these further cost reduction measures may not be sustainable or may not be achieved. Cost reductions necessary to achieve the Bank's strategy may increase the risk profile of the Bank, exposing it to legal or regulatory risk, and/or negatively impact core operations and service levels, which are critical to preserving the Bank's market share and increasing the Bank's income and net interest margin in line with the Bank's strategy.

There are therefore risks that if the Bank does not deliver its cost reduction initiatives targeted in its strategy and/or the Plan, it will fail to deliver its strategy, the Plan and/or, where applicable, the May 2017 Outlook on the Plan or that, even if it achieves its targeted cost reductions, the Bank does not grow its income and net interest margin in line with its targets, its costs relative to income will therefore not decrease and its cost:income ratios will not improve as planned and expected by the PRA and will continue to negatively impact its results of operation, financial condition and capital position and inhibit its targeted return to profitability.

17. ***Transformation project costs have been significantly higher than expected in the last three years. As the Bank has previously failed to meet its project cost targets, there is a risk that the Bank's project costs will be much higher than those targeted in the May 2017 Outlook on the Plan.***

The May 2017 Outlook on the Plan assumes the Bank will be able to deliver the remaining transformation programmes without material deviation from planned timescales and costs. The Bank is targeting a reduction in project costs to approximately £100 million for the year ending 31 December 2017 (year ended 31 December 2016: £310 million), and an increase to approximately £120 million of project costs for the year ending 31 December 2018, and thereafter project costs of approximately £50 million per annum over the remaining life of the Plan, which represents a significant reduction from the Bank's project costs of recent years. The Bank has experienced significant cost overruns when implementing complex large-scale transformation projects in the past. In addition, certain projects have not delivered the planned benefits. In the year ended 31 December 2016, the Bank's project costs included £81.9 million associated with the programme of work to transform its mortgage outsourcing service, which is no longer being progressed.

Furthermore, the Bank has a number of projects in the May 2017 Outlook on the Plan for 2017 and 2018 that are still in their infancy and more detailed plans and costs for such initiatives are being developed. As the Bank better understands the required scope of work and costs involved, there is a risk that the budgets that have been agreed and included in the May 2017 Outlook on the Plan will not

be sufficient to complete these initiatives. In addition, known transformation programmes or new transformation programmes may require substantially greater resources than anticipated in the May 2017 Outlook on the Plan.

In addition, there are risks that the Bank may be unable to complete its transformation programmes when planned and that the programmes as a whole may cost significantly more than targeted, have a reduced scope for the same targeted costs, or deliver less benefits than planned. Failure to deliver any remaining or future transformation programmes to planned timelines and in line with the assumed cost could have a material adverse impact on the Bank's ability to implement its strategy and return to profitability, and have a material adverse effect on the Bank's business, financial condition, operating results and prospects. See paragraph 8.2 of Part 7 of this Circular for a description of the May 2017 Outlook on the Plan's re-phasing of project costs between 2017, 2018 and 2019.

18. ***The Bank is targeting sustainable profitability in the medium-term. The Bank has a history of statutory and operating losses. There are significant risks that the Bank may not return to profitability within that timeframe, or at all.***

The Bank has a history of incurring statutory and operating losses in each year since 2012. The Bank's statutory loss after tax for the year ended 31 December 2016 was £418.7 million. Although this loss is considerably less than the Bank's statutory loss after tax of £622.8 million for the year ended 31 December 2015, the loss remains significant. Furthermore, the Bank forecasts that it will make a statutory loss after tax of between £225 million and £250 million for the year ending 31 December 2017 (excluding the one-off transactional income statement impact of the Restructuring and Recapitalisation explained in the illustrative *pro forma* balance sheet set out in Part 8 of this Circular). The Bank is, however, targeting sustainable profitability in the medium-term. This target is neither a forecast nor a guarantee that the Bank will return to profitability in the medium-term, or at all. This target is premised upon various assumptions in the Plan and, where applicable, the May 2017 Outlook on the Plan regarding matters beyond and within the Bank's control and the Bank achieving the other targets in the Plan and, where applicable, the May 2017 Outlook on the Plan. There are a number of risks and uncertainties, including those set out in this Part 3, as to whether what will happen will correspond to those assumptions and that may cause the Bank's actual results of operations to differ significantly from those targeted and result in the Bank not returning to profitability when targeted, or at all. The most significant of these risks and uncertainties include, but are not limited to:

- whether the Bank meets its project cost targets by delivering the remaining transformation, remediation and change programmes already underway;
- whether the Bank meets its targets to reduce operating costs by implementing proposed cost reduction initiatives without material deviation from planned timescales and targeted cost reductions and meets its targets to reduce its cost base and improve its cost:income ratio;
- whether the Bank's operating costs continue to exceed its income;
- whether the Bank meets its increased income and net interest margin targets (for example, if base rates do not increase as soon or as much as forecast and assumed by the Bank in the May 2017 Outlook on the Plan) and whether competitive pressures reduce the Bank's market share in new business mortgage assets or other products (when the Bank has assumed in the Plan that its market share will be preserved) or do not enable the Bank's margins to increase as planned or regulatory pressures constrain the anticipated growth in business volumes;
- whether the Bank meets its targets in new business mortgage assets or other products as it risks losing market share to other banks, building societies, insurance company competitors and new "fin-tech" entrants;
- whether the Bank executes, as part of the Plan, an increase in its mortgage assets, which depends on improvements in its customer proposition and on the success of a limited number of intermediaries who also sell mortgages of the Bank's competitors;

- whether the Bank maintains access, at an appropriate cost, to liquidity and funding to fund the requisite level of asset origination targeted in the Plan;
- whether the Bank reverses decreases in its non-interest income through assumed increases in fees relating to transactions on BaCB current accounts and increased non-interest income, primarily from the commission received from general insurance referrals;
- whether the Bank may incur conduct or legal risk costs beyond its IBNI provisions or may be required to incur new costs as a result of regulatory change;
- whether the Bank may be required to make substantial additional pensions contributions beyond those currently expected;
- whether the Bank is able to retain current deposits and attract new deposits;
- whether the Bank is able to issue its targeted £250 million of Tier 2 debt on the assumed price provided for in the Plan and/or on acceptable terms;
- whether the Bank will be able to meet all regulatory capital and loss-absorbing requirements when planned and whether its assessment of any such future requirements will be accurate;
- whether the Bank can recognise significant deferred tax assets in the quantum or timeframe targeted; and
- whether there is a deterioration in general economic conditions and the UK housing market and/or whether the Bank faces systemic capital markets volatility.

The successful development and implementation of the Bank's strategy requires difficult, subjective and complex judgements, including those relating to a range of factors which are not within the Bank's control or influence, for example, forecasts of economic conditions. In addition, unanticipated events may adversely affect the Bank's profitability in future periods whether or not the assumptions in the Plan and, where applicable, the May 2017 Outlook on the Plan otherwise prove to be correct. There is, therefore, a risk that the timing or feasibility of the Bank's return to profitability could differ from those expressed or implied by any forward-looking statements or targets as a result of many factors and these differences could be material.

Accordingly, the Bank may not return to profitability when or in the amount targeted in the May 2017 Outlook on the Plan, or at all.

For further information see the risk factor entitled "*No dividends to be paid in respect of the A Shares in the near future*.", paragraphs 6 and 9 of Part 7 of this Circular for the Bank's 2017 Adjusted Loss Forecast and the Bank's outlook and longer-term targets as provided for in the Plan and, where applicable, the May 2017 Outlook on the Plan, respectively, including the principal assumptions upon which the Adjusted Loss Forecast and the Bank's target of sustainable profitability in the medium-term is made, and "*Forward-looking Statements*".

19. ***The Bank's earnings, net interest margins and credit losses have been adversely affected by factors such as the low Bank of England base rate, and may continue to be adversely affected for so long as one or more of these factors persist.***

The Bank's net interest margin and, consequentially, earnings are affected by the pricing on the lending products it offers to its customers and the cost of funding. The Bank's net interest margin has been adversely impacted by a number of factors which have negatively impacted the pricing of its lending products and the cost of its funds.

The very low level of the Bank of England base rate since March 2009 has contributed to a decline in the Bank's net interest margin, as funding costs rose relative to the base rate. The Bank of England base rate remained at 0.5 per cent. until August 2016 before dropping to 0.25 per cent. following the result of the UK's referendum to leave the European Union. The Bank's earnings and net interest

margins have been adversely affected over this period due to a number of factors, including a prolonged period of low Bank of England base rates and competition in retail funding and lending markets, which constrain the ability of the Bank to generate capital organically, and may continue to be adversely affected for so long as one or more of these factors persist. A further impact of the low level of the Bank of England base rate for such a prolonged period of time is the unknown impact that this could have on credit losses. Rising interest rates would put pressure on existing and new borrowers whose loans are linked to the Bank of England base rate or LIBOR or the Bank's variable rates and who may have become accustomed to the current low interest rate environment. A significant portion of the Bank's outstanding residential mortgage loan products are potentially subject to changes in interest rates and there is limited relevant previous experience to assist in understanding how the market would react to a significant increase in interest rates and the subsequent uplift in repayments.

The Bank is targeting a widening of, and steady increase in, its net interest margin over the medium-term of the Plan, with increments of 10 basis points targeted per annum from 2018 onwards in line with forecast interest rate increases assumed to begin in 2018. A rise in the Bank of England base rate is the key enabler for this growth. Accordingly, if movements in the base rate do not follow those assumed by the Bank in the May 2017 Outlook on the Plan, it is likely that this will impact the future trajectory of the Bank's net interest margin. A failure to grow its net interest margin as planned could have a material adverse effect on the Bank's financial condition, operating results and prospects.

In preparing the Plan, the Bank used the market's forward implied view for market interest rates of base rate, swap rates, LIBOR rates and gilts, using a 10-day moving average on the market interest rates to smooth over any daily volatility. The 10-day moving average of the forward-looking market implied SONIA rates to 22 November 2016 were used (rounded to the nearest increment of 25 basis points), and these assumed a Bank of England base rate increase to 0.5 per cent. in May 2018, a further increase to 0.75 per cent. in June 2019, a rise to 1.0 per cent. in August 2020 and final rise to 1.25 per cent. in November 2021. The Bank used a third-party model to forecast certain macroeconomic variables, such as inflation, unemployment, GDP and HPI, as at August 2016. GDP is forecast at 1.4 per cent. for 2017 with recovery in outer years. Unemployment is assumed in the Plan to rise to 5.3 per cent. in 2017 before gradually declining from 2020 onwards. CPI is modelled in the Plan as rising to 2.9 per cent. in Q2 2017, and reducing to around 2 per cent. on average between 2018 and 2021. The Bank's base rate outlook has been adversely impacted since the November 2016 10-day average forward market implied rates used in the Plan. See paragraph 8.2 of Part 7 of this Circular for a description of the May 2017 Outlook on the Plan which reflects the more recent adverse base rate outlook. If the Bank's assumptions prove to be incorrect, there is a risk that this would impact the Bank's business, operating results, financial condition, prospects and its ability to achieve the targets set out in the Plan and/or the May 2017 Outlook on the Plan.

20. ***The Bank's ability to achieve its net interest margin targets assumes that the Bank preserves its market share over the life of the Plan. The Bank faces competition in all of the core markets in which it operates. There is a risk that the Bank may lose market share to its competition and be unable to achieve its net interest margin and new mortgage business origination targets, which could have a material adverse effect on the Bank's business, operating results, financial condition and prospects.***

Competition in the UK personal financial services market may adversely affect the Bank's operations. The Bank competes mainly with other providers of personal financial services, including other banks, building societies and insurance companies and, increasingly, new "fin-tech" entrants to the market, and operates in an increasingly competitive UK personal financial services market. Each of the main personal financial services markets in which the Bank operates is mature and slow-growing, such that growth requires taking market share from competitors. This places elevated focus on price and service as the key differentiators, each of which carries a cost to the provider. The quality of the Bank's products and systems, including distribution and IT, in turn impact price and service. If the Bank is unable to match its competitors in these respects it risks losing customers to its competitors, which may adversely affect its business and prospects and consequently its ability to meet its business plan

in the intended four to five-year timescale. The Bank's heavy reliance on mortgage revenues to drive income may increase its susceptibility to competitive risks.

Competition could result in the Bank losing existing and potential new customers and, therefore, not preserving its market share as assumed in the Plan in a number of situations, particularly where:

- the Bank is not successful in strengthening its core proposition and brand positioning with retail and SME customers;
- the Bank is unable to match its competitors, for example, in the quality or scope of its product offering and customer service and the provision of additional services such as mobile banking, and in keeping up with consumer demand, regulatory and technological changes;
- the Bank's customer service levels were perceived to be negatively impacted by the implementation of its strategy, including the impact of the Bank's cost reduction measures on service delivery levels, customer service and satisfaction, or were perceived by the market to be only in line with, or materially below, those of the Bank's competitors;
- reputational risk arises in respect of the Bank;
- a loss of customers, or deteriorating customer relationships, as a result of these or other factors, could result in the Bank losing customers' liability/asset balances to competitors, which may in turn have an adverse effect on revenue;
- there remains significant competition for market share across the Bank's retail product lines, and there is a risk that a failure to develop the core proposition and other differentiating factors will result in growth plans reliant on pricing to win market share, which will impact margins;
- given the Bank's cost reduction targets, there is a risk that insufficient investments in its systems (including, in particular, its credit risk systems) will be made relative to regulatory requirements and/or its competitors' level of investment, which will impact its ability to increase market share;
- there is a risk that levels of marketing investment (required to grow customer awareness and consideration) are insufficient;
- there are similar or increased levels of investment from the Bank's competitors;
- as the Bank is seeking to reduce its exposure to commercial real estate lending, but does conduct some lending with SMEs, there is a risk that its competitive position will be damaged in this particular market segment;
- other institutions having greater access to the Government's Term Funding Scheme (the "**Term Funding Scheme**") funds that the Bank does not enjoy (on commercially attractive terms) or other similar initiatives in the future, the result being that the Bank might not be able to economically match the pricing of those competitors in the mortgage market;
- competition for the highest quality mortgages is intense, putting downward pressure on returns available for the lowest risk-weighted mortgage assets;
- risk of competition from a new bank competitor (including, increasingly, new "fin-tech" entrants), which could, for example, offer more innovative and more customer- or user-experience focused services;
- any failure to attract new, or retain existing, customers or to maintain the Bank's market share may result in the loss of the Bank's customer asset and liabilities balance to its competitors, which may in turn impact the Bank's ability to deliver its strategy. See the risk factor entitled "*Reputational risk could cause harm to the Bank, its business, operating results, capital position, financial condition, prospects and ability to meet targets, including a return to*

profitability, and question the Bank's commitment to co-operative values and ethics" for further information; and

- the occurrence of any of the above situations could materially adversely affect the Bank's business, operating results, financial condition and prospects.

Further impacts on the retail savings market are expected from the Term Funding Scheme, where retail banks have access to lower-priced sources of funding in order to support increased lending.

The Bank is eligible to participate in the Term Funding Scheme, but not on commercially attractive terms. The Bank could, therefore, face pricing pressure on its products from competitors who are able to pass on the benefit of access to the scheme. These factors are expected to continue over the medium-term, whilst margin widening across the industry is expected if the Bank of England base rate increases as assumed in the Plan (driven by the 10-day moving average of the market forward-looking implied SONIA rates to 22 November 2016) (rounded to the nearest increment of 25 basis points) and yield curves steepen across the life of the Plan. The Bank's base rate outlook has been adversely impacted since the November 2016 10-day average forward market implied rates used in the Plan. See paragraph 8.2 of Part 7 of this Circular for a description of the May 2017 Outlook on the Plan which reflects the more recent adverse base rate outlook. If the Bank's net interest margin were to remain flat or materially deviate from the Plan, this could have a material adverse effect on the Bank's financial condition, operating results and prospects.

21. ***The Bank is exposed to a number of conduct and legal risks. The Plan assumes no new categories of conduct and legal risk provisions and no material increases in conduct and legal risk provisions charged during the life of the Plan. There is a risk that the Bank's conduct and legal risk provisions will be significantly higher than assumed in the Plan, which could have an adverse effect on the Bank's operating results, financial condition and prospects and the Bank's ability to deliver its strategy.***

The Bank is exposed to many forms of legal and regulatory risk. The Bank is exposed to the inherent risks relating to the mis-selling of financial products, acting in breach of regulatory principles or requirements and giving negligent advice or other conduct determined by the Bank or the Authorities to be inappropriate, unfair or non-compliant with applicable law or regulations. As part of its turnaround strategy to identify and resolve outstanding liability issues, the Bank commenced a structured risk-based assessment of its products of which the primary focus was the discovery and remediation of existing and new conduct and legal issues (the "**Structured Risk-based Remediation Programme**"). Although the Bank has substantially completed this review and the legacy conduct issues identified as part of that structured risk-based assessment have been substantially remediated and/or appropriate provisions raised, there is a risk that further or new issues or breaches will be identified or emerge resulting in new provisions being raised. In addition, in the ordinary course, the Bank may identify conduct issues resulting from systems and process weaknesses which could result in an adverse impact on the Bank's reputation, brand, customers and, if perceived as a systemic or pervasive issue, could result in further investigations or enquires by the Bank's regulators and furthermore could have a material adverse impact on the Bank's business, operating results, financial condition and prospects.

Since 2011, the Bank has provided almost £1 billion for conduct risk issues and, as at 31 December 2016, the Bank had utilised approximately £800 million of this provision with £169 million remaining. The overall conduct risk provision is split between PPI (including *Plevin* – see below) and other issues.

The Bank has made provision for a total of £460 million for PPI to date, and utilisation of the provision has reduced each year since 2012, with a £90 million provision remaining as at 31 December 2016. Of the approximately £510 million relating to other conduct and legal issues, £430 million has been utilised as at 31 December 2016, with a significant majority of such utilisation having occurred in the year ended 31 December 2015 and in the year ended 31 December 2016, as the Bank focused on redressing customers for breaches of the Consumer Credit Act 1974, as amended

("**CCA**"). The £169 million of remaining provisions (which includes the £90 million remaining PPI provision) represents the Bank's best view of the remaining redress due to, and the costs required to remediate customers for known conduct risk issues. The risk exists that the actual provision requirements from known conduct risk issues exceed those currently provided for by the Bank if any of the assumptions currently employed by the Bank change adversely in the future.

The Bank, since 2014, has conducted an annual product review which focuses on retail and business banking products and services, and related terms and conditions and customer marketing material. This product review has, to date, excluded certain products including those within the Optimum portfolio.

As a result, there is a risk that unidentified issues requiring rectification or remediation may emerge. In addition, the Bank's operational structure and processes may lead to limitations in available information and may hinder a complete or adequate view of product risk and, accordingly, hinder the identification of potential conduct issues.

In addition, there is a risk that products have not been implemented and/or are not operating as customers have been led to expect. Those areas which have specifically not been fully covered by the Bank's annual product review are: (i) interest calculation in accordance with the Bank's terms and conditions; (ii) customer correspondence; (iii) documentation issued that has not been reviewed; (iv) the application of limits and eligibility criteria in respect of certain product features; and (v) charges applied to customers' accounts in accordance with the Bank's tariffs. Furthermore, certain savings and mortgages terms and conditions have not been updated for a number of years and a review of these is currently underway. The oversight model in relation to customer correspondence is unclear and this may result in inaccurate communications with customers resulting in further conduct risk. The terms and conditions of mortgages were last reviewed in 2014 and covered those relating to on-sale mortgages under the Britannia and Platform brands. The next review of mortgage terms and conditions commenced in July 2017. This will again cover the current terms and conditions applying to on-sale mortgages under the Britannia and Platform brands but will extend also to those used for transactions by existing borrowers (who port their mortgage to a new property and transfers of equity) on the Bank brand and Optimum back-book mortgage portfolios.

Examples of conduct and legal risk faced by the Bank include:

Mis-selling and unauthorised transactions

- There are a number of areas where the Bank has previously sustained financial and reputational damage due to conduct-related matters and where consequences may endure longer than anticipated in the Plan. There is a possibility that the Bank may face financial and reputational damage in these areas in the future or where new matters may subsequently emerge, such conduct-related matters may have an impact on the Bank. Past conduct-related matters include (amongst others): (i) the alleged mis-selling of financial products (including PPI), including as a result of having sales practices and/or reward structures in place that are determined to have been inappropriate; (ii) early repayment charges ("**ERC**"); (iii) the processing of first payments on certain mortgages; (iv) the mis-selling of interest rate swaps; (v) interest rate changes made without proper legal and/or commercial justification; and (vi) the alleged mis-selling of packaged current accounts. Any such conduct-related matters may have an adverse effect on the Bank, including: (i) disciplinary action (including significant fines); (ii) requirements to amend sales processes, withdraw products or provide restitution to affected customers; and (iii) an adverse impact on future revenues from affected products, all or any of which could result in the incurrence of significant costs, may require provisions to be recorded in the Bank's financial statements, and could adversely impact future revenues from affected products.

- For a number of years, the Bank did not have a centralised document production facility, accordingly, there is a risk that historical commercial lending documentation may be defective and covenants may, therefore, be potentially unenforceable and certain breaches under such documentation not actionable.

- For a number of years, the Bank, along with many other financial services providers, sold PPI alongside mortgage and non-mortgage credit products. The Bank stopped selling unsecured loan PPI in January 2009, credit card PPI in November 2009 and mortgage PPI in March 2012. However, products still exist within the Bank which will include an element of PPI from historical sales. In line with industry practice, provisions have been made in respect of potential customer compensation claims relating to historical mis-selling of PPI. Claims are investigated on an individual basis and, where it is found that the Bank mis-sold PPI to customers (based on the FCA's policy statement 10/12 dated August 2010, which detailed how the FCA expects banks to investigate PPI complaints), compensation is paid to customers.

- In November 2014, the Supreme Court handed down a decision in *Plevin v Paragon Personal Finance Ltd [2014] UKSC 61*. The decision concerns the disclosure of commission amounts received in respect of sales of single premium PPI. The decision has a potential impact on the number of the Bank's customers who may have a claim for PPI redress and the treatment of prior rejected complaints.

- In March 2017 the FCA announced (in its policy statement 17/3) that PPI claims will be time barred after 29 August 2019. The FCA has also announced that it will require firms pro-actively to contact customers whose PPI complaints had previously been rejected by the Bank to advise them of the existence of the *Plevin* judgment referred to above. The Bank took the proposed time-bar into account within the provision raised in the Bank's Annual Report and Accounts 2016, alongside industry claims experience, and the published views and requirements of the FCA (which, for the avoidance of doubt, are not specific to the Bank), the aforementioned requirement to contact customers whose PPI complaints had previously been rejected is a new requirement that was not known and therefore not included. Total PPI provisions of £459.8 million have been taken as at 31 December 2016 (£423.8 million as at 31 December 2015). As at 31 December 2016, the Bank had an unutilised provision of £90.4 million (31 December 2015: £87.0 million) in respect of potential customer redress and costs relating to past sales of PPI. Forecast future complaint volumes are difficult to predict; however, the Bank has seen an increase in complaints between February and April 2017 which has since reduced and is now running at approximately 10 per cent. above the 2016 average. The Bank currently estimates a potential net incremental conduct risk charge of approximately £5 million in 2017 (subject to further external and internal review and approval) driven by an increase of approximately £9 million relating to PPI and the requirements of the FCA's policy statement 17/3, offset in part by small provision releases from other conduct risk categories. This may continue to increase, remain constant or decline more steadily. In particular, the impact of the FCA's communications campaign on future complaint volumes is unknown and, whilst the Bank has utilised information provided by the FCA in June to review its forecasts of future complaint volumes and has increased operational resources to provide additional resilience to deal with higher than forecast volumes of complaints during the key media activity of the campaign, the Bank cannot be certain that complaint volumes will not exceed forecasts. The recent introduction of the new online PPI complaint system will also make it easier for consumers to contact the Bank. A claims management company has recently issued judicial review proceedings challenging the FCA's proposed time-bar. It is not possible to assess at present whether this will be successful. Any change in the FCA's current approach, including as a result of this or other judicial reviews, such as any further extension of the period covered by the time-bar or further requirements for proactive contact with customers, could have a material impact on the financial condition of the Bank, and there is a risk of greater scrutiny and/or regulatory action from the FCA.

- As well as PPI, the Bank continues to monitor developments in product-related areas that attract increased focus from regulators, the courts and the Financial Ombudsman Service (the "**FOS**"), such as ERCs in both commercial and secured lending and variation of certain product terms and conditions. To date, the Bank has seen a small number of complaints at the FOS in some of these areas. Changes in the approach to any of these issues in the market and/or increased complaints volumes could adversely affect the Bank.

Mortgages

- The Bank, in selling regulated mortgages, must adhere to specific guidelines, principles and regulations. The Bank outsources its mortgage origination system and servicing operations but remains liable for the mortgages originated through such outsourcing model.

- Following the Structured Risk-based Remediation Programme, the Bank has identified further issues and defects in certain of its historical mortgage documentation which raise legal and conduct risks. As at 31 December 2016, the Bank held a provision of approximately £20.1 million for conduct issues in relation to miscalculation of monthly mortgage payments resulting from the misconfiguration of mortgage systems affecting certain mortgage books largely acquired at the time of the merger with Britannia, as well as in relation to unauthorised consent to lets on the Optimum portfolio. There is a risk that such provisioning may prove inadequate if the actual costs of remediation and redress, and any additional costs of enforcing affected mortgages, are higher than currently estimated or that the assessment of the impact of such defects proves to be incorrect or incomplete. Since 31 December 2016, further issues have been identified which arise from incidences where customer terms and conditions have either not been issued or where the Bank's mortgage systems do not correctly operate in accordance with customer terms and conditions.

- The FCA issued its finalised guidance on 24 April 2017 regarding "The fair treatment of mortgage customers in payment shortfall: impact of automatic capitalisations" ("**FG 17/4**"). FG 17/4 sets out a possible framework firms can use when providing customer remediation relating to correcting the effects of automatic capitalisation of payment shortfalls and, where appropriate, paying any compensation that is due to the customer. The Bank holds a provision of £6 million with regards to remediation and is working to conclude its remediation programme by 30 June 2018 (as required by the FCA). There is a risk that remediation costs, including the cost of paying any compensation to customers, may exceed the £6 million provision.

- The Bank initiated a redress programme in respect of various breaches of mortgage conduct of business rules and is the subject of a skilled persons review into potential detriment to its mortgage customers arising from poor arrears handling. The Bank has substantially completed the recommendations from this review and has implemented enhanced policies and processes which are designed to deliver improved customer outcomes. The outcome of the final review is not yet finalised but, whilst the risk of further enforcement action by the FCA is considered to be largely mitigated, there is a risk that this will not be the case, and there remains a risk that the Bank or the FCA may identify further issues.

- Mortgages bulk redress and mortgages rectification programmes have sought to address issues relating to: (i) arrears fees and charges; (ii) incorrect application of terms and conditions; (iii) early repayment charges; (iv) discount rate expiry; (v) Platform first payments; (vi) issues arising in relation to FG17/4 and the auto capitalisation of arrears; and (vii) CCA further advances. Furthermore, mortgage monthly repayment miscalculations continue to be remediated. The Bank has taken provisions totalling £127.5 million for issues (i) to (vii) and mortgage monthly repayment miscalculations described above of which £28.2 million remained unutilised as at 31 December 2016, this includes anticipated costs pursuant to redress and its delivery, arising in connection with FG17/4. There is a risk that the costs in rectifying issues (i) to (vii) above as well as in relation to mortgage monthly repayment miscalculations may exceed the £127.5 million provision.

- The Plan targets growing the Bank's net core customer assets by approximately £1 billion in each year of the Plan, primarily driven by the Bank's Platform brand, including the introduction of retention capability together with other initiatives aimed at maintaining market share. In order to achieve the increased targets, the Bank will require investment and remediation of its mortgage systems. There is a risk that the pressure to achieve the targeted increases without an adequate level of investment in its mortgage systems infrastructure may create new conduct,

legal and regulatory risks. Should the Bank not comply with applicable requirements in relation to mortgage selling in the future and the FCA were to take enforcement action, it could be required to cease this activity until such time as it can demonstrate compliance with the relevant rules and guidance.

CCA

- In the event that the highly technical requirements of the CCA are not precisely complied with, the Bank is exposed to the risk that its agreements with customers are not enforceable without the benefit of a court order and/or that during a period of non-compliance the Bank's customers are not liable to pay interest or default charges. The Bank has identified that it has breached certain provisions of the CCA and has therefore been subject to these risks. The Bank has recognised provisions totalling £259.5 million in respect of the total expected cost to the Bank of potential customer redress relating to the above alleged failings, following near-completion of the programme £16.7 million remained unutilised as at 31 December 2016, with the remainder of the provision required to continue to work to develop a solution to address and avoid accounts becoming non-compliant again. As at 31 December 2016, the Bank had a provision of £16.7 million (31 December 2015: £123.1 million) in respect of breaches of the technical requirements of the CCA.
- The Bank has largely completed the remediation of historical breaches of the CCA, including the payment of appropriate redress to customers. Significant work continues to be undertaken on the underlying issues which led to such historical CCA breaches. If this work is not fully completed or if other breaches of the CCA emerge, then there is a risk of further or continued breaches of the technical requirements of the CCA. In certain circumstances, the Bank may be unable to rectify the underlying issues accurately or at all, which may lead to continuing non-compliance with the CCA.

Given the high level of scrutiny regarding financial institutions' treatment of customers and business conduct from regulatory bodies, there is a risk that aspects of the Bank's current or historical business may be determined by the PRA, the FCA, HM Treasury, the FOS, the CMA or other regulatory bodies or the courts as not being conducted in accordance with applicable laws or regulations (or, in the case of the FOS, in accordance with what is fair and reasonable in the opinion of the FOS). If the Bank fails to comply with any relevant laws or regulations, there is a risk of an adverse impact on its business due to sanctions, fines or other actions imposed by these regulatory authorities. There is also a risk of greater scrutiny and/or intervention from regulators, further regulatory action and/or litigation.

The Bank's conduct and legal risk provisions as at 31 December 2016 include £8.1 million relating to IBNI. There is a risk that the Bank becomes exposed to significant new conduct or legal risks which will require additional provisions in excess of this amount. As described in paragraph 8.2 of Part 7 of this Circular, the Bank is currently estimating a potential net incremental additional conduct risk charge of approximately £5 million in 2017 (subject to further external and internal review and approval) driven by an increase of £9 million relating to PPI and the requirements of the FCA's policy statement 17/3 described above offset in part by small provision releases from other conduct risk categories. While progress has been made in resolving conduct issues, there is a risk that the Bank's provisions – whether in aggregate, specific or IBNI – are insufficient, or that already identified issues or further issues may require significant further or new provisioning and/or significant redress and remediation costs, which could have a material adverse effect on the Bank's business, operating results, financial condition and prospects and inhibit its targeted return to profitability.

22. ***The Bank may have to recognise significant additional pension liabilities in its accounts, deduct accounting deficits from its CET1 capital and increase Pillar 2a requirements where accounting deficits arise which may have a material adverse effect on its business, financial condition, operating results and prospects.***

The Bank participates in Pace (whose principal employer is the Co-operative Group), which provides benefits on both defined contribution and defined benefit bases. The Pace defined benefit section is closed to accrual (albeit with certain benefits maintaining a salary link). The Bank is the sole substantive sponsor of the Britannia Scheme. The Britannia Scheme is a scheme providing defined benefits which is closed to accrual. For further details about Pace and the Britannia Scheme, see paragraphs 14.1 and 14.2 of Part 16 of this Circular.

Pension costs in respect of the Britannia Scheme are accounted for on a defined benefit basis such that any accounting surplus or deficit remains on the Bank's balance sheet. The Bank currently accounts for its pension costs in respect of the defined benefit section of Pace on a defined contribution basis (as there is insufficient information available to consistently and reliably identify the Bank's share of Pace liabilities) such that the Bank's contributions to Pace are recognised as an expense on the Bank's income statement as incurred. The Bank would have to account for defined benefits in the Bank Section on a defined benefit basis following implementation of the Pace Pensions Sectionalisation. The Bank would also have to account for a share of Pace defined benefits on a defined benefit basis in the absence of the Pace Pensions Sectionalisation if sufficient information becomes available to consistently and reliably identify the Bank's share of Pace defined benefit liabilities. In addition, in the absence of the Pace Pensions Sectionalisation and if the Bank is required to account for defined benefits in the Bank Section on a defined benefit basis, the Bank would not have an unconditional right to a refund of surplus upon wind-up of Pace (unless the Pace rules were to be amended with the agreement of Group and the Pace Trustee to give such a right), which would result in the Bank not being able to recognise a share of any Pace accounting surplus on its balance sheet and any committed schedule of deficit recovery payments payable by the Bank being an upfront deduction from the Bank's CET1 capital.

Currently, both the Britannia Scheme and Pace have an IAS19 surplus (and such surplus does not increase CET1 regulatory capital); however, should the IAS19 valuation of the Britannia Scheme or, if and when the Bank accounts for Pace on a defined benefit basis, of Pace/the Bank Section deteriorate and move into an IAS19 accounting deficit, the Bank would be required to deduct the IAS19 deficit from its CET1 capital. As such, there is a risk that the Bank will have to recognise significant additional liabilities and CET1 regulatory capital deductions in respect of the Britannia Scheme and/or Pace in its accounts. In addition, the Bank is required to make a Pillar 2a assessment for pension risk, including consideration of the stressed IAS19 position. An IAS19 deficit would become an increased deficit under an IAS19 stress, potentially increasing the Bank's Pillar 2a requirement. In addition, there is a risk that in the future amendments will be required to the Britannia Scheme and, if the Pace Pensions Sectionalisation is implemented, the Bank Section rules to support an analysis that the Bank has an unconditional right to a refund of surplus upon wind-up of the Britannia Scheme or the Bank Section and failure to secure the Britannia Trustee's or the Pace Trustee's agreement to such amendments would result in the Bank not being able to recognise a share of any Britannia Scheme or Bank Section accounting surplus on its balance sheet and any committed schedule of deficit recovery payments being an upfront deduction from the Bank's CET1 capital.

These potential accounting and CET1 and Pillar 2a capital implications could have a material adverse effect on the Bank's business, operating results, financial condition, prospects and regulatory capital position.

23. ***The Bank may become obliged to provide additional security in respect of, or make large one-off or ongoing payments to its pension schemes, or pension schemes to which it is connected and/or associated which may have a material adverse effect on its business, financial condition, operating results, prospects and regulatory capital position.***

Funding/security risks relating to the Britannia Scheme

There is a risk that following the next triennial valuation of the Britannia Scheme (to be undertaken as at 5 April 2017) or following another future valuation the Bank will be required to pay higher contributions and/or offer additional security (beyond the security already provided for in the form of £165.1 million AAA rated retained Warwick Finance Two securitisation notes, with a 17 per cent. haircut) as a result of any deterioration in the Britannia Scheme's funding position. A deterioration in a pension scheme's funding position might arise from a higher assessment of the scheme's liabilities (for example a pension scheme trustee might seek to use more conservative assumptions to value liabilities in a future valuation and the assessment of liabilities is highly sensitive to assumptions, *inter alia*, on life expectancy, inflation, discount rates and expenses, including the Pension Protection Fund levy) and/or as a result of the investment performance of a pension scheme's assets (which may be impacted by any changes made to the investment strategy of such assets from time to time by a pension scheme's trustee). Where the value of the security assets is less than the Britannia Trustee's maximum potential claim pursuant to the security, the Bank will be obliged to top-up the security assets in the charged accounts accordingly. The security will become enforceable in its entirety when there is an event of default, which includes insolvency events as defined in section 121 of the Pensions Act 2004, bank insolvency, bank administration, the Bank ceasing to carry on business, un-remedied breaches by the Bank of the security arrangement, un-remedied misrepresentations under the security arrangement by the Bank, and events which make the security arrangement ineffective (for example where the Bank's obligations in relation to the security arrangement become unlawful or are repudiated).

The valuation basis, deficit funding and security arrangements agreed in respect of Pace might also prompt the Britannia Trustee to seek a revised approach to its own valuations, deficit funding and security arrangements.

There is a risk that the Bank may not have sufficient capital to make significant cash contributions and may not have enough acceptable securities available to support the security. There is a risk that following the next or any future actuarial valuation, the Bank will be required to pay higher contributions and/or offer additional security as a result of any deterioration in the scheme funding position. There is a risk that an event of default will occur, resulting in the security becoming enforceable in its entirety.

Funding risks relating to Pace if the Pace Pensions Sectionalisation is not implemented on the terms of or when proposed in the Pace Heads of Terms or at all

If the Pace Pensions Sectionalisation is not implemented on the terms of or when proposed in the Pace Heads of Terms or at all, there is a risk that, following the triennial actuarial valuation of Pace as at 5 April 2016 or a future actuarial valuation, and as a result of any deterioration in the scheme funding position, the aggregate rate of deficit contributions that the sponsoring employers are required to make to Pace could increase, which could result in the Bank paying higher deficit contributions. There is also a risk that the proportion of employer deficit contributions to Pace paid by the Bank while it continues to participate in Pace on a non-sectionalised basis could increase. The Pace Trustee might also seek security from the Bank.

Pace is currently operated as a "last-man standing" scheme and, accordingly, whilst the Bank participates in Pace as a non-segregated scheme (i.e. prior to implementation of the Pace Pensions Sectionalisation), the Bank could become solely responsible for funding Pace if all employers other than the Bank (including the Co-operative Group) exit Pace or become insolvent. The level of the ongoing funding burden for the Bank in such circumstances would depend on the funding position of Pace at that time, including the extent to which the other employers have paid their section 75 debts arising on exit/insolvency.

There is also a risk that the wind-up of Pace could occur in circumstances where the Bank has no ability to prevent such wind-up, for example in the event that the Co-operative Group goes into liquidation and the Pace Trustee does not agree to the Bank taking over the role of principal employer in relation to Pace in place of the Co-operative Group. In the event of Pace winding-up a section 75 debt would become payable by the Bank. Such liability is calculated by reference to the cost of buying out Pace's liabilities in the insurance market, which commonly results in a much greater liability than the ongoing deficit contributions payable by an employer. The Bank's section 75 debt in respect of the Pace Pension Scheme would currently be expected to be several hundred million pounds (and could increase significantly if other employers become insolvent and are unable to pay their section 75 debts in full). A section 75 debt liability for the Bank could therefore have a material adverse effect on the Bank's business, operating results, financial condition, prospects and regulatory capital position.

A section 75 debt would also arise in respect of the Bank if the Bank ceases to employ active members of Pace (in circumstances where the Pace Pensions Sectionalisation has not been implemented) whilst other employers continue to employ active members of Pace. However, the Co-operative Group has agreed with the Bank not to require the Bank to cease to participate in Pace without the Bank's prior written approval except: (i) where the Bank is in breach of the rules of Pace and does not remedy the breach within a reasonable time (to be agreed between the Co-operative Group and the Bank and not to be less than 90 days) of being notified of the breach, (ii) where required by law or (iii) following the Co-operative Group giving the Bank at least 6 months' prior written notice where all other employers cease participation at the same time so that such cessation does not trigger a section 75 debt payable by the Bank. A section 75 debt could also arise in respect of the Bank on the occurrence of an "insolvency event" as defined in section 121 of the Pensions Act 2004 in relation to the Bank.

Funding/security risks relating to Pace if the Pace Pensions Sectionalisation is implemented

If the Pace Pensions Sectionalisation is implemented, the Bank will be solely responsible for funding the Bank Section of Pace. The Pace Heads of Terms provides that the recovery plan put in place for the Bank Section immediately after the Pace Pensions Sectionalisation will require the Bank to make deficit payments of £12.5 million per annum payable in advance in respect of each of the calendar years 2018 to 2022 inclusive and £7.5 million per annum payable in advance in respect of each of the calendar years 2023 to 2027 inclusive (and which will be subject to revision at future actuarial valuations in accordance with scheme funding legislation). The recovery plan will be backed by a security arrangement pursuant to which the Bank will charge in favour of the Pace Trustee (unless cash or gilts are used as the security assets) certain AAA rated debt securities which will be subject to haircuts described more fully in the description of how an "asset value" will be calculated in paragraph 14.1 of Part 16 of this Circular. The Pace Trustee's maximum claim in the event the security becomes enforceable will initially be at a level of £216 million (being the indicative deficit for the Bank Section on the agreed "low risk target basis" had the Pace Pensions Sectionalisation taken place as at 31 March 2017), and will reduce in line with deficit payments made by the Bank (but subject to upward revision up to a maximum of £216 million before 1 January 2028 and a maximum of £250 million on or after 1 January 2028 in the event of increased deficit contributions becoming payable which exceed the then maximum claim following later valuations). If the Co-operative Group still has potential "last-man standing" risk for the Bank Section on 1 January 2028, the Pace Trustee's maximum claim will increase to £250 million, reducing in line with deficit payments made by the Bank from 1 January 2028. Where the value of the security assets is less than the Pace Trustee's maximum potential claim pursuant to the security, the Bank will be obliged to top-up the security assets in the charged accounts. The security is enforceable if the Bank fails to pay a contribution to the Pace Pension Scheme, but only to the extent required to discharge the unpaid amounts. The security will become enforceable in its entirety where there is an event of default, which will include insolvency events in relation to the Bank (which includes an "insolvency event" as defined in s121 of the Pensions Act 2004, bank insolvency, bank administration, where the Bank is unable to pay its debts as and when they fall due or fails or admits in writing its inability generally to pay its debts as they become due, certain insolvency proceedings in respect of the Bank or where the Bank makes a general assignment, arrangement or composition with or for the benefit of its creditors), the Bank ceasing to carry on business, un-remedied breaches by the Bank of the security arrangement,

unremedied misrepresentations by the Bank under the security arrangement, and events which make the security arrangement ineffective (e.g. the Bank's obligations in relation to the security arrangement become unlawful or are repudiated).

There is a risk that the Bank may not have sufficient capital to make significant cash contributions and may not have enough acceptable securities available to support the security. There is a risk that following the next or any future actuarial valuation of the Bank Section, the Bank will be required to pay higher contributions and/or offer additional security as a result of any deterioration in the scheme funding position. There is a risk that an event of default described above will occur, resulting in the security becoming enforceable in its entirety.

Risk of intervention by the Pensions Regulator

The Pensions Regulator has the power to require an employer of a defined benefit scheme or a person connected or associated with such employer to make a contribution to or provide financial support for that scheme in certain circumstances. The Pensions Regulator also has the ability to initiate the process for exercising such "moral hazard" powers for up to six years after a targeted entity has ceased to be connected or associated with such an employer. If the Pensions Regulator exercised its powers against the Bank in relation to Pace (including in relation to the Bank Section and/or the Co-operative Group Section if Pace Pensions Sectionalisation is implemented), the Britannia Scheme or any defined benefit pension scheme within the Co-operative Group, obligations imposed by the Pensions Regulator could have a material adverse effect on the Bank's business, operating results, financial condition, prospects and regulatory capital position. Formal clearance has been obtained from the Pensions Regulator in relation to the transactions expected to be implemented pursuant to the Pace Heads of Terms (and on the basis of completion of the Restructuring and Recapitalisation before 19 October 2017), which substantially mitigates the risk of the Pensions Regulator exercising its "moral hazard" powers against the Bank in relation to the Co-operative Group Section following Pace Pensions Sectionalisation.

Trustees of defined benefit schemes are subject to a legal requirement to carry out formal funding valuations at least every three years and details of each valuation need to be submitted to the Pensions Regulator. The Pensions Regulator also has the power to intervene in valuations if it wishes, including determining a scheme's deficit and deficit contributions payable. In May 2017, the Pensions Regulator announced it intends to take a tougher approach where trustees and employers, as part of its drive to raise governance standards, fail to agree a valuation and schemes do not without reasonable cause submit their valuations on time. The Pensions Regulator announced it will take enforcement action where necessary and will consider the range of powers available to it, including issuing orders to improve behaviour, appointing independent trustees, and issuing penalties for non-compliance.

The Pensions Regulator has the power to direct that a pension scheme be wound up if satisfied that, *inter alia*, wind-up is necessary in order to protect the interests of the generality of members of the pension scheme. Section 75 debts become payable where a pension scheme winds up. As at 31 December 2016, the Bank's combined section 75 debts in respect of Pace and the Britannia Scheme were estimated to be approximately £1.1 billion net of the Britannia Trustee's maximum claim of £137 million pursuant to the security arrangement in place for the Britannia Scheme (although this figure is an estimate, based on an independent valuation prepared for the Bank at 31 December 2016 and, therefore, could materially change).

Risks where increased contributions and/or security as outlined above are required

There is a risk that the Bank may not have sufficient acceptable securities available to provide increased security, or that by pledging additional acceptable securities the Bank removes a potential source of liquidity since the securities cannot then be sold to generate liquidity. If the Bank cannot provide increased security, the pension scheme trustee is likely to seek to address more quickly the increased deficit through cash contributions.

Increased cash contributions would erode the Bank's CET1 capital, and the effect on profits and distributable reserves could have a negative credit rating impact and a negative impact on the Bank's ability to attract future capital.

The provision of additional security and/or any increase to the level of the Bank's pension deficit contributions could have a material adverse effect on the Bank's business, financial condition, operating results, prospects and regulatory capital position.

24. ***The Bank's agreement with the Co-operative Group and the Pace Trustee on the Pace Pensions Sectionalisation is subject to a number of risks and may not be implemented on the terms currently envisaged or at all.***

The only condition left to be satisfied for implementation of the Pace Pensions Sectionalisation is completion of the Restructuring and Recapitalisation. If this condition is not met, the Pace Pensions Sectionalisation will not be implemented. The Pace Heads of Terms will also terminate (such that the Pace Pensions Sectionalisation will not be implemented) in the event of, prior to the Pace Pensions Sectionalisation taking place, Bank insolvency, Bank resolution or the occurrence of a corporate transaction as an alternative to the Restructuring and Recapitalisation.

See the paragraph entitled "*Funding risks relating to Pace if the Pace Pensions Sectionalisation is not implemented on the terms of or when proposed in the Pace Heads of Terms or at all*" of the risk factor entitled "*The Bank may become obliged to provide additional security in respect of, or make large one-off or ongoing payments to its pension schemes, or pension schemes to which it is connected and/or associated which may have a material adverse effect on its business, financial condition, operating results, prospects and regulatory capital position.*" in this Part 3. See also the risk factor entitled "*The implementation of the Restructuring and Recapitalisation faces a number of significant risks and relies on the Members' Scheme (including the Members' Equity Subscription) and the Creditors' Scheme (including the Scheme Creditors' Equity Subscription) and the Consent Solicitation being executed successfully and the Resolutions being passed. If the Restructuring and Recapitalisation does not succeed, the Bank believes the most likely outcome is that the Ordinary Shares and the Subordinated Notes will be subjected to a mandatory write-down, either as a preliminary step to, or in the course of the Bank's entry into, Special Resolution. In such a scenario, the Bank believes that Shareholders will receive no recovery in respect of the Ordinary Shares that they hold, and that Subordinated Noteholders will receive no recovery in respect of the Subordinated Notes that they hold.*" in this Part 3.

Risks relating to the implementation agreement and to timing

Although the Sectionalisation Parties have agreed to enter into an implementation agreement by 31 December 2017 setting out more detailed terms of the Pace Pensions Sectionalisation (where the Sectionalisation Parties agree further detail is appropriate or necessary) which must be consistent with the Pace Heads of Terms, there is a risk that the Sectionalisation Parties fail to enter into an implementation agreement by 31 December 2017 or at all and this could delay or even prevent implementation of the Pace Pensions Sectionalisation. There is also a risk that the detailed provisions agreed in an implementation agreement result in the Bank Section (when formed) having materially different assets and/or liabilities and/or having a materially lower funding level on the "technical provisions basis" and the "low risk target basis" from what is currently envisaged/estimated. The "technical provisions basis" and "low risk target basis" are bases that have been agreed in the Pace Heads of Terms. A key feature of the "technical provisions basis" is that the discount rate is set at gilts plus 0.5 per cent. per annum for the period until 31 December 2027 and then at gilts plus 0.25 per cent. per annum thereafter. The discount rate for the "low risk target basis" is set at gilts plus 0.25 per cent. per annum at the outset. The margin in the mortality assumption also differs between the two bases, with the margin in respect of the "technical provisions basis" incrementally increasing from zero for the purposes of the 5 April 2016 valuation by 0.83 per cent. at each of the next 3 triennial valuations (as at 5 April 2019, 5 April 2022 and 5 April 2025) so that the margin is 2.5 per cent. by 5 April 2025. The margin in the mortality assumption in respect of the "low risk target basis" is set at 2.5 per cent. at the outset. The "technical provisions basis" and the "low risk target basis" are in all

other respects the same, and the "technical provisions basis" will equal the "low risk target basis" by 31 December 2027.

The Sectionalisation Parties have agreed to use their best endeavours to implement the Pace Pensions Sectionalisation by 30 June 2018, but there is a risk that this timetable will not be met. The longer the period is to implement the Pace Pensions Sectionalisation, the greater the risk that the Bank Section (when formed) contains materially different assets and/or liabilities and/or has a materially different funding level on the envisaged "technical provisions basis" and the "low risk target basis" from what is currently envisaged/estimated. This could adversely impact future contribution and security requirements in respect of the Bank Section.

Risks relating to proportion of Pace assets and liabilities forming the Bank Section on the Pace Pensions Sectionalisation

There is uncertainty as to the quantum of Pace benefit liabilities for which the Bank will take responsibility on the Pace Pensions Sectionalisation. It is estimated that the division of assets (estimated to be £11,128 million as at 31 March 2017) and liabilities (as assessed on the "low risk target basis") of Pace will be broadly 20.55 per cent. for the Bank and 79.45 per cent. for the Co-operative Group (and other employers). However, these estimated proportions were calculated as at 5 April 2016 (and if the Pace Pensions Sectionalisation had been implemented on 31 March 2017 using these proportions, it was estimated that the deficit in the Bank Section on the "low risk target basis" would have been £216 million) and there is uncertainty as to whether they will have changed by the time the Pace Pensions Sectionalisation is implemented, for example because further analysis by the Pace Trustee means that the Pace liabilities which relate to Bank (that is, the benefits of current and former Bank employees) needs to be revised, or because the allocation of the Pace benefit liabilities that do not relate to any current employer participating in Pace, and which the Sectionalisation Parties in the Pace Heads of Terms envisage will be allocated on a *pro rata* basis between the Pace employers ("**Orphans**") and therefore between the Bank Section and the Co-operative Group Section, is re-visited due to circumstances which subsequently come to light , or because the quantum of liabilities for any members is re-assessed (for example as a result of the investigation of historical benefit equalisation issues as between male and female members, including any decision to equalise guaranteed minimum pensions which, in common with many schemes, have not to date been equalised), or because of routine membership movements over the intervening period, or because of changes to long-term market implied interest rates and/or market implied inflation rates, which underpin the "low risk target basis". There is a risk that the Bank Section (when formed) contains materially different liabilities from what is currently envisaged/estimated, and this could adversely impact future contribution and security requirements in respect of the Bank Section.

Risks relating to asset allocation

The choice of assets to be allocated to the Bank Section will be determined by the Pace Trustee following consultation with the Bank and the Co-operative Group. There is therefore uncertainty as to what assets will be allocated by the Pace Trustee to the Bank Section upon the Pace Pensions Sectionalisation, and whether they will need to be changed once the Bank Section has been formed to reflect the anticipated investment strategy for the Bank Section. There is a risk that where assets allocated to the Bank Section do not reflect the investment strategy for the Bank Section, costs will be incurred making changes to the assets forming the Bank Section and the investment performance of the assets before changes are implemented could result in the Bank Section having a materially different funding level on the "technical provisions basis" and the "low risk target basis" from what is currently envisaged/estimated. This could adversely impact future contribution and security requirements in respect of the Bank Section.

Risks relating to investment strategy

The Pace Heads of Terms provide that, if the Pace Pensions Sectionalisation is implemented, the investment strategy for the Bank Section is expected to be low risk, consistent with the "low risk target basis". This is expected to involve substantial investment in bonds and similar assets. The Pace Heads

of Terms also provide that the Pace Trustee will consult with the Bank and the Co-operative Group on the investment strategy for the Bank Section to be implemented immediately upon the Pace Pensions Sectionalisation and in the future. However, as is the case for all UK pension schemes, the Pace Trustee has the power to set the investment strategy in consultation with the sponsoring employer and having taken appropriate investment advice. There is therefore a risk that the Pace Trustee may change the investment strategy. Further, investment on this basis may only occur after the implementation of the Pace Pensions Sectionalisation. There will therefore be a (potentially lengthy) period until the Pace Pensions Sectionalisation where the assets to be allocated to the Bank Section may be invested on a different basis and may change. There is a risk that the investment approach applied prior to the Pace Pensions Sectionalisation, given the lead in time, will mean that the actual deficit for the Bank Section on the "technical provisions basis" and the "low risk target basis" is significantly different by the time the Pace Pensions Sectionalisation is implemented from the estimated deficits on these bases (which was £216 million in the case of the "low risk target basis") had the Bank Section existed as at 31 March 2017; for example this could arise as a result of changes to long term market implied interest rates and/or market implied inflation rates. This could adversely impact future contribution and security requirements in respect of the Bank Section.

Reputational risks relating to desectionalisation

In the event of the Bank's insolvency (which means the occurrence of an "**insolvency event**" as defined in section 121 of the Pensions Act 2004, bank insolvency or bank administration), the Bank Section of Pace may revert to operating in the way that it did prior to the Pace Pensions Sectionalisation (i.e. with all assets of Pace held on a non-segregated basis, and from which all benefits are payable). This may result in the Bank Section members being disadvantaged compared to the position they may have been in had the Bank Section been wound-up, and there is therefore a risk of adverse publicity for the Bank and its investors. For example, the combination of the Bank Section targeting full funding on a "low risk target basis" by 31 December 2027, the security arrangements to be put in place and the level of recovery achieved by the Pace Trustee on Bank insolvency might mean that the Bank Section benefits could be secured with an insurance company with little or no reduction, but such funding position might be materially diluted if desectionalisation occurs such that the assets of both sections are available to pay all Pace benefits.

Risks relating to bulk transfer

If the Pace Pensions Sectionalisation is implemented, the Pace Heads of Terms provides that if the Bank Section reaches 100 per cent. funding on the "low risk target basis" and in the Pace Trustee's opinion (having obtained covenant advice) the Bank's covenant is strong or the Pace Trustee otherwise decides in its discretion that the Bank's covenant is sufficient to provide adequate support to the Bank's liabilities, the Pace Trustee has agreed that there will no longer be any reversion to Pace operating as a non-segregated scheme as it was prior to the Pace Pensions Sectionalisation and, as a result, the Co-operative Group will no longer have any "last-man standing" risk in respect of the Bank Section. The Pace Trustee has also agreed that it may, in such circumstances, if the Bank so requests, at its discretion implement a bulk transfer of all of the Bank Section assets and liabilities to another of the Bank's pension schemes (of the Bank's choosing) with mirror image benefits. The Pace Trustee may also, at its discretion, decide to terminate "last-man standing" risk for the Co-operative Group and/or implement such a bulk transfer in other circumstances. A bulk transfer may be viewed by the Bank as preferable to continuing to participate in Pace (for example because the constitution of the Pace Trustee includes a number of individuals appointed by the Co-operative Group or members of the Co-operative Group Section, and the Bank may prefer a trustee constituted wholly or mainly of Bank Section members and Bank appointees). There is a risk that any transfer into a current Bank pension scheme may not be possible as the trustees (of each scheme) would need to explicitly approve the transfer. There is an additional risk that, should the trustee of an existing Bank pension scheme reject the bulk transfer, the Bank would need to create a new scheme which would result in additional costs to the Bank and may be subject to regulatory constraints.

25. ***The Bank's business is subject to inherent risks concerning liquidity, particularly if the availability of traditional sources of funding such as retail deposits becomes limited and/or becomes more expensive, and this may have an adverse effect on the Bank's business, profitability and ability to meet its liabilities as they fall due.***

The Bank is subject to liquidity risk as an inherent part of its business. Liquidity risk is the risk that an institution may not have sufficient funds at any point in time to make full payment in respect of liabilities falling due, or can only do so at excessive cost. This may result in an inability to operate in the ordinary course and/or a failure to meet liquidity or regulatory capital requirements, and/or may adversely impact the Bank's business and/or the implementation of its strategy.

The Bank raises the majority of its funding through accepting retail and commercial deposits. As at 31 December 2016, retail and commercial customer deposits amounted to £22.4 billion compared to £22.8 billion as at 31 December 2015, representing 84.3 per cent. and 82.4 per cent. respectively of total liabilities at these year-end dates. Whilst the Bank undertakes strategic transactions, such as the Restructuring and Recapitalisation, or during times of continued adverse press attention and speculation, the Bank's liquidity risk may significantly increase as a result of the difficulty in accurately modelling expected customer behaviour in these circumstances. Adverse and unexpected customer behaviour that the Bank is unable to manage could result in the withdrawal of material amounts of customer deposits which would adversely impact the Bank's liquidity position. Over the three months ended 31 March 2017, customer liabilities (being retail and commercial customer deposits and current accounts) reduced by £1.2 billion. See paragraph 8.2 of Part 7 of this Circular for a description of management actions taken or proposed to address the impact of customer liabilities balance attrition over this period and its impact on the Plan's forecasts and outlook, as reflected in the May 2017 Outlook on the Plan. See also paragraph 2.15 of Part 7 of this Circular for further details regarding the Bank's liquidity.

The Bank uses a combination of asset pools to manage its liquidity. Primary liquidity consists of liquid assets that are eligible under European Banking Authority regulations (high quality liquid assets). Secondary liquidity comprises liquid unencumbered investment securities not included as part of primary liquidity, as well as other forms of contingent liquidity sources.

The Bank's liquidity resources, as at 31 December 2016, amounted to £8.2 billion compared to £10.2 billion as at 31 December 2015. As at 31 December 2016, the Bank's liquid asset ratio was 13.8 per cent. (31 December 2015: 15.6 per cent.).

As part of its liquidity risk management approach, the Bank runs a series of liquidity stresses against its forecast balance sheet. The applicable stress selected by the Board determines the amount of liquidity the Bank holds in order to maintain compliance with regulatory liquidity requirements at the end of the applicable stress period. The Bank assumes within this stress that it is able to undertake liquidity management actions. To the extent that any stress of funding is greater than the applicable stress selected by the Bank, and that management actions under-deliver against the assumed actions, there is a risk that the Bank may breach its minimum regulatory liquidity requirements.

Notwithstanding the level of liquidity the Bank holds, and its compliance with regulatory minimum expectations, given the reliance by the Bank on its customer deposits to provide funding, any severe decline in customer confidence in the Bank could lead to unanticipated deposit withdrawals in a short space of time or over a sustained period. Should the Bank experience an unusually high level of withdrawals which exceed the Bank's ability to manage its liquidity, this may have an adverse effect on the Bank's day-to-day operations and its ability to maintain the Bank's planned lending. This in turn may have an adverse effect on the Bank's business, operating results and financial condition and could, in extreme circumstances, prevent the Bank from meeting its financial obligations as they fall due, meeting its regulatory minimum liquidity requirements or fulfilling its commitments to lend, thereby impacting the Bank in its ability to deliver its strategy. In such circumstances, the relevant Authorities may exercise any of their wide-ranging powers over the Bank, including imposing a resolution procedure under the Banking Act.

The Bank's ability to access retail and wholesale funding sources on satisfactory economic terms or at all is subject to a variety of factors, some of which are outside the control of the Bank. Factors which apply generally include: general economic conditions (including interest rates) and market volatility, market dislocation, confidence in the UK banking system and the economy in general and the financial services industry specifically, regulatory requirements and major disasters. These risks can also be exacerbated or driven by institution-specific factors also, such as over-reliance on a particular source of funding, perceived credit risk of institutions, and any inability to access central bank liquidity facilities at all or on commercially acceptable terms. There is also a risk that the funding structure employed by the Bank may prove to be inefficient, giving rise to a level of funding cost that is not sustainable in the long term for the Bank to grow its business.

The Bank is a participant in the Bank of England's sterling monetary framework and, as such, is subject to certain eligibility criteria at the Bank of England's discretion (as detailed in Chapter VIII of the Bank of England's Red Book). The Bank may be granted access to the Bank of England's Discount Window Facility (the "**DWF**"). This is a bilateral facility which offers liquidity insurance for idiosyncratic and system-wide shocks and is designed in order to address short-term liquidity shocks without disturbing the Bank of England's incentives for prudent liquidity management. At the Bank of England's discretion, eligible banks may, therefore, borrow gilts or cash for 30 days, against a wide range of collateral in return for a fee. Eligible banks can apply to roll DWF drawings in order to achieve an effectively longer term of drawing. In the event that the Bank was not granted access to the DWF and the Bank at such time was dependent on the contingent or actual provision of liquidity from the DWF, the absence of such liquidity may have an adverse effect on the Bank's business, results and financial condition, and could, in extreme circumstances, prevent the Bank from meeting its financial obligations as they fall due, from meeting its minimum liquidity requirements or from fulfilling its commitment to lend. Furthermore, the Bank is eligible to participate in the Term Funding Scheme but not on commercially attractive terms, and is thereby deprived of a source of low-priced wholesale funds. See the risk factor entitled "*The Bank's ability to achieve its net interest margin targets assumes that the Bank preserves its market share over the life of the Plan. The Bank faces competition in all of the core markets in which it operates. There is a risk that the Bank may lose market share to its competition and be unable to achieve its net interest margin and new mortgage business origination targets, which could have a material adverse effect on the Bank's business, operating results, financial condition and prospects.*" for further information.

While the Bank has managed its retail offering in order to mitigate against the risk of depositors withdrawing funds, a failure by the Bank to achieve the objectives of its strategy, a deterioration in the Bank's operating results or financial condition, any actions taken by the Authorities in relation to the Bank, or the continued press attention and speculation to which the Bank is subject may result in a severe decline in customer confidence which could result in the withdrawal of retail deposits. This could have a material adverse effect on the Bank's liquidity, which in turn could adversely affect the Bank's business, profitability and ability to meet liabilities as they fall due.

26. ***The Bank faces risks associated with wholesale market access and volatility.***

The Bank supplements its retail funding base by accessing debt capital markets to raise wholesale funding. The Bank's wholesale funding capability includes securitisation and repurchase agreements and the Bank is targeting an issuance of approximately £250 million Tier 2 debt in 2018 and is also targeting MREL-qualifying debt issuances in 2020 and 2021, of approximately £200 and £300 million respectively. The Bank is also expecting to undertake a further reduction of Optimum assets of approximately £2 billion through securitisations and/or whole-loan sales, for further information see the risk factor entitled "*The Bank anticipates making a further reduction of Optimum assets through whole-loan disposals and/or securitisations. There is a risk that the Bank will be unable to de-leverage its Optimum assets in a capital efficient manner, or may incur greater than expected costs or experience delays in relation to such de-leveraging, which could adversely impact the Bank's business, operating results, financial condition and prospects, its regulatory capital position and its ability to comply with its regulatory capital requirements.*" Whilst the Bank does not rely heavily on wholesale funding, periodic access may be required to supplement its retail fundraising activities, and

there is a risk that such wholesale funding is not available to the Bank or is only available using certain debt capital instruments, such as securitisations or repurchase agreements.

Secured and unsecured wholesale markets are impacted by factors outside of the Bank's control, including the fiscal and monetary policies of governments and central banks (including interest rate setting), the UK and international political and economic environment, and specific wholesale funding product market conditions. Market volatility in isolation, or combined with the markets' assessment of the Bank's credit strength may adversely affect the Bank's ability to access wholesale markets on commercially favourable terms, or at all, which could result in a significant increase in its cost of funding or result in other material adverse effects on its business, operating results, financial condition, prospects and its ability to achieve its strategy.

27. ***The Bank could be negatively affected by a deterioration or a perceived deterioration in the soundness of other financial institutions and counterparties.***

There is a high level of interdependence between financial institutions as a result of their credit, trading, clearing and other relationships. The Bank routinely executes a large number of transactions with counterparties in the financial services industry, resulting in large daily settlement amounts and significant credit exposure. As a result, the Bank is, and will continue to be, subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of other financial services institutions and the Bank faces concentration risk with respect to specific counterparties and customers. Within the financial services industry, the default of any one institution could lead to defaults by other institutions. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by the Bank or by other institutions. This systemic risk could have a material adverse effect on the Bank's ability to raise new funding and on its business, financial condition, operating results, liquidity and/or prospects.

28. ***The Bank is currently involved in litigation and may in the future become involved in further litigation. The outcome of any legal proceedings is difficult to predict.***

The Bank is engaged in various legal proceedings in the United Kingdom, involving claims both by and against it, which arise in the ordinary course of business, including (but not limited to) debt collection, mortgage enforcement, consumer claims and contractual disputes. Whilst the Bank does not expect the ultimate resolution of any of these known legal proceedings to which the Bank is party to have a material adverse effect on the operating results, cash flows or its financial condition, and whilst provisions have been recognised for those cases where the Bank is able reliably to estimate the probable loss where the probable loss is not *de minimis*, the outcome of litigation is difficult to predict and there is a risk that such provisions will not be sufficient to cover the costs associated with such litigation. The outcome of any such litigation could adversely impact the Bank's reputation and brand, could result in additional similar claims being brought and/or, if perceived as a systemic or pervasive conduct issue, could result in further investigations or enquiries by the Bank's regulators. The costs of pursuing or defending legal proceedings, and the outcome of any such proceedings, could have a material adverse impact on the financial condition of the Bank.

In addition, the Bank is exposed to future litigation claims as a result of any future regulatory investigations, enforcement actions and remediation programmes. Furthermore, there is a risk that Shareholders, Subordinated Noteholders or other parties may seek to bring claims or raise arguments in Court with respect to historical events or matters or with the objective of preventing or delaying the implementation of all or part of the Restructuring and Recapitalisation. See the risk factor entitled "*Litigation seeking to challenge the implementation of the Restructuring and Recapitalisation or certain aspects of it could materially impact or prevent the successful implementation of the Restructuring and Recapitalisation or result in all or part of the Restructuring and Recapitalisation being declared to be unlawful and invalid retrospectively*" for further information. The costs of defending any such legal proceedings, and the outcome of any such proceedings, could have a material adverse impact on the financial condition of the Bank.

In addition, the Bank is exposed to the inherent risks relating to the mis-selling of financial products, and giving negligent advice or other conduct determined by the Bank or the Authorities to be inappropriate, unfair or non-compliant with applicable law or regulations (including regulatory principles or guidance). Any failure to manage these risks adequately could lead to further litigation leading in turn to significant provisions, costs and liabilities and/or reputational damage.

The Bank also faces legal, financial and reputational risk where legal or regulatory proceedings are brought against it, including as a result of the Bank's day-to-day business activity or encouraged by adverse findings of various investigations into events and activities at the Bank.

There are a number of regulatory and other investigations and enquiries into events at the Bank and circumstances surrounding them. These include:

- the Treasury announced by press release on 22 November 2013 that it intends to conduct an independent investigation into events at the Bank and the circumstances surrounding them from 2009. The investigation will review the conduct of relevant authorities (regulatory and government) and the Bank itself but is not anticipated to commence until it is clear that the investigation will not prejudice the outcome of any FCA and PRA enforcement investigations (which have now concluded in relation to the Bank itself, but not in relation to individuals). The Bank is not aware of the status of this investigation and has received no communication in respect of its status. The Bank has co-operated, and will continue to co-operate with the investigating authorities as and when requested to do so; and
- the Financial Reporting Council ("**FRC**") has launched an investigation under its accountancy scheme into the preparation, approval and audit of the Bank's accounts up to and including its 2012 annual accounts, which focuses on the role of the previous auditors and individual accountants. The FRC concluded its investigations into the former Chief Executive Officer of the Bank during 2016 and the investigation in relation to previous auditors and the audit of the 2012 and prior financial statements of the Bank is ongoing.

It is not possible to conclude if there may be any further investigations into the Bank arising as result of the above.

The Bank may also face legal, financial and reputational risk if proceedings brought by it against customers or third parties, or third-party proceedings or enforcement actions involving other financial institutions, are determined adversely to the interests of financial institutions generally or the Bank. Any adverse determinations, for example, concerning the enforcement of mortgages and/or other products or the impact on enforceability of operational practices or documentary deficiencies by the Bank or financial institutions in general such as a failure to provide all appropriate documentation, or the impact more generally of operational practices or documentary deficiencies, may have an adverse effect on the Bank's assets, funding facilities, operating results and financial condition. Furthermore, liability for damages may be incurred by third parties harmed by the conduct of the Bank's business. See the risk factor entitled "*Reputational risk could cause harm to the Bank, its business, operating results, capital position, financial condition, prospects and ability to meet targets, including return to profitability, and question the Bank's commitment to co-operative values and ethics.*" for further information.

29. ***The financial services industry continues to be the focus of significant legislative and regulatory change which has imposed, and could continue to impose, operational restrictions on the Bank, increase the Bank's costs and/or capital requirements and/or otherwise materially adversely affect its business, operating results, financial condition and prospects.***

Future changes in regulation, fiscal or other policies are unpredictable, beyond the Bank's control and could materially adversely affect its business or operations. Regulators and other bodies in the UK and worldwide have implemented and continue to consider a range of legislative and regulatory changes which could impose operational restrictions on the Bank, cause or require the Bank to raise further

capital, increase the Bank's expenses and/or otherwise adversely affect its business, operating results, financial condition and prospects. These include, amongst others:

- in common with other regulated UK deposit takers, the Bank is responsible for contributing to compensation schemes such as the FSCS. By virtue of the Bank holding deposits under the FSCS, the Bank has an obligation to pay levies in respect of the outstanding borrowings that the FSCS has borrowed from HM Treasury. The Bank provided £6.6 million during the year ended 31 December 2016 (31 December 2015: £10.8 million) for its share of the levies raised by the FSCS. Further provisions in respect of these costs are likely to be necessary in the future. The ultimate cost to the Bank and the industry, which will also include the cost of any compensation payments made by the FSCS and, if necessary, the cost to the Bank of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain but may be significant;
- there are likely to be further changes to MREL to reflect the BRRD II (as described in paragraph 2.11 in Part 11 of this Circular). There is a risk that future changes to MREL could require the Bank to raise additional capital or adjust its current capital levels beyond those contemplated by its strategy, which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects;
- Member States are required to transpose PSD2 into national law by 13 January 2018. PSD2 broadens the geographical scope of the Payment Services Directive (2007/64/EC) ("**PSD1**"), extends provisions on transparency and information requirements to all currencies, not just EU currencies, broadens the definition of payment services to include payment initiation services and account information services, and amends exemptions and conduct-of-business rules. Whilst primarily impacting current accounts, PSD2 will also impact credit cards, business accounts and certain savings accounts. Financial and other impacts as a result of these additional products are not yet clear, but are likely to be high. PSD2 includes a requirement to share access to account information with third parties with the consent of the client. This is likely to impact the Bank, as customer payments trends may change, as well as reducing interchange fees, as payments may circumvent traditional card schemes by using third parties, or raise costs for the Bank, which may not be passed on to customers in full. The Bank, in common with the rest of the payment services industry, has to achieve compliance with PSD2 by January 2018. Regulatory clarification is awaited on certain aspects before the industry can move forward with final implementation plans, particularly in relation to data access issues and related systems changes;
- the General Data Protection Regulation (Regulation (EU) 2016/679) ("**GDPR**") will apply in the UK from 25 May 2018 and will increase the obligations and responsibilities of both Data Processors and Data Controllers of which the Bank is both. There is a risk that the Bank may not be able to implement in whole or in part the full requirements of the GDPR which may lead to the potential of regulatory censure and/or fines;
- on 9 August 2016, the Competition and Markets Authority (the "**CMA**") published its final report on its retail banking investigation. The CMA decided, amongst other things, to implement open banking to accelerate technological change in the UK banking sector by early 2018. Open banking will enable personal customers and small businesses to share their data securely with other banks and with third parties, enabling them to manage their accounts with multiple providers, to take more control of their funds (for example, to avoid overdraft charges and manage cash-flow) and to compare products on the basis of their own requirements. Banks, including the Bank, are required to publish information on quality of service, and to issue suitable periodic and event-based prompts such as increase in charges or closure of branches. Within the May 2017 Outlook on the Plan, the Bank's only funded project in respect of open banking is to deliver certain mandatory elements that enable limited exchange of data. Open banking is likely to create substantial challenges in relation to implementation, particularly in respect of technological and IT changes, which could prove to be substantially more expensive

for the Bank than anticipated or, if not delivered on time, or at all, lead to regulatory and reputational risks which could have a material adverse effect on the Bank's business, financial condition and operating results. Open banking will also likely reduce the level of visibility and control the Bank has over customer data and account usage (for example, through the implementation of overdraft alerts), which could reduce the Bank's ability to generate income and may, in turn, have a material adverse effect on the Bank's business, financial condition and operating results. The Bank is currently in dialogue with the CMA concerning its ability to comply with certain implementation deadlines set for August 2017 and February 2018, and applicable to all firms, in relation to the CMA-required remedies, following its investigation into the retail banking market. Dispensation can only be given by the CMA in certain circumstances in respect of these requirements and, accordingly, any breach of these requirements could result in sanctions against the Bank being imposed, which could range from undertakings being given in relation to future compliance and/or enforcement action taken against the Bank;

- as part of its 2017/2018 business plan, the FCA announced a strategic review of retail banking business models, expanding upon the CMA's market investigation. The FCA has stated that, as the CMA investigation did not look holistically at market outcomes in the retail banking sector, its strategic review will focus on the links between different parts of retail banking businesses and their relative profitability. The date for publication of the strategic review has not yet been decided, but any regulatory change could have a material adverse affect on the Bank's business, financial condition and operating results;

- Directive 2014/65/EU and its associated regulation (Regulation 600/2014) on markets in financial instruments (together, "**MiFID II**") will apply within Member States from 3 January 2018. MiFID II introduces a number of new measures which are designed to overhaul existing rules for market infrastructures. These new requirements may increase regulatory compliance costs for the Bank. MiFID II may also increase the cost of distributing financial products to both retail and wholesale clients and increase the risk of non-compliance. Due to the Bank's current business model this is not expected to have a material effect on the Bank's business, financial condition, results of operations and prospects, but it could impact the profitability of any future strategic decisions, by making compliant implementation and ongoing operations for any relevant products, services or related activities more costly, which could have a material effect on the Bank's business, financial condition, results of operations and prospects;

- on 12 December 2016, the FCA published the terms of reference for its mortgages market study (MS16/2) ("**MMS**"). The MMS will consider: (i) the effectiveness of the tools available to consumers at each stage of the consumer's journey in making decisions; and (ii) whether the commercial arrangements between lenders, brokers and other players lead to conflicts of interest or misaligned incentives to the detriment of consumers. The FCA aims to publish its interim report in summer 2017, setting out its analysis, preliminary conclusions and, where practicable, appropriate proposed solutions to address any concerns identified. Stakeholders will then have an opportunity to provide comments prior to publication of the final report in early 2018. The risks arising from the MMS will be the same for all UK banks. Depending upon the outcome of the MMS, the Bank may have to make changes to its operating model, which could have a material adverse effect on the Bank's business, financial condition and operating results. Any material changes to the mortgages market could lead to a review of the Bank's business model which could impact the Bank's mortgage volumes and margins and the Bank's ability to meet the growth targets assumed by the Plan and/or the May 2017 Outlook on the Plan;

- the Financial Services (Banking Reform) Act 2013 introduces a number of measures which could adversely affect the business of the Bank (summarised in paragraph 2.10 of Part 11 of this Circular), including a ring-fence around retail deposits held by UK banks to separate certain core banking services critical to individuals and SMEs from wholesale and investment banking services. At present, given the size of the Bank's retail deposits and its focus on retail

and SMEs, it has not reached the threshold at which point ring-fencing will be required. However, if the Bank increases over time the size of its retail deposits held, it may reach the threshold for deposits at which it will be required to implement ring-fencing (£25 billion of retail deposits, excluding deposits from financial institutions, and high net worth individuals that "opt out") and separate its business on the basis described above. Effecting a reorganisation or introducing new policies and procedures to comply with ring-fencing requirements is likely to give rise to implementation costs and may have a material adverse effect on the Bank's business, operating results, financial condition and prospects;

- on 27 June 2017, the FPC increased the UK counter-cyclical capital buffer rate to 0.5 per cent. from 0 per cent. Absent a material change in the outlook, and consistent with its stated policy for a standard risk environment and of moving gradually, the FPC expects to increase the ratio to 1 per cent. at its November 2018 meeting. Furthermore, in June 2017 the FPC and the PRA launched consultations on changes to the UK leverage ratio framework relating to the treatment of claims on central banks (CP 11/17). The FPC's consultation relates to its proposed recommendation to the PRA to exclude claims on central banks from the leverage exposure measure in the UK leverage ratio framework and compensate for the resulting reduction in capital needed to meet the leverage ratio minimum requirement and leverage ratio buffers by increasing the minimum requirement from 3 per cent. to 3.25 per cent. The PRA's consultation paper sets out the PRA's proposals for implementing the FPC's proposed recommendation should it be adopted by the FPC. CP 11/17 is relevant to PRA-regulated banks and building societies with retail deposits equal to or greater than £50 billion on an individual or a consolidated basis (which is not the case of the Bank). The Bank is not currently within the leverage ratio framework, as it has retail deposit levels below £50 billion (being the threshold at which this becomes a binding requirement). However, if the Restructuring and Recapitalisation is not implemented successfully, or if it is but the Bank's leverage ratio otherwise falls to below 3.25 per cent. and the Bank is required to comply with such increased minimum leverage ratio requirement in due course, the Bank would need to take action to improve its leverage ratio, which may have a material adverse effect on the Bank's businesses, operating results, financial condition and prospects;

- the European Commission published its proposal to amend and supplement CRD IV through CRD V and CRR II. CRR II introduces a binding 3 per cent. leverage ratio, a binding detailed net stable funding ratio and an overhaul of the regulatory capital framework for market risk. CRD V introduces measures to clarify aspects related to minimum Pillar 2 regulatory capital requirements, the stacking order for regulatory capital requirements and a clarification of the relationship between Pillar 2 and the Maximum Distributable Amount triggers for the purpose of clarifying the circumstances in which certain distributions must be cancelled or reduced. CRD V also introduces a requirement that where an institution fails to meet the Combined Buffer preference must be given to AT1 distributions over other distributions in the Maximum Distributable Amount framework (such as distributions on CET1 capital or discretionary employee bonus or pension payments) (see paragraph 2.7 of Part 11 of this Circular for a description of the restrictions on distributions under CRD). These proposals could have a material impact on the Bank's regulatory capital requirements and could require the Bank to raise additional capital or adjust its current capital levels beyond those contemplated in the Plan and, where applicable, the May 2017 Outlook on the Plan, which could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects; and

- On 11 July 2017, the text of the new EU Securitisation Regulation and an associated regulation to amend the CRR (together, the "**Securitisation Regulations**") became substantially finalised, following its approval on behalf of the European Parliament and the Council of the European Union. The Securitisation Regulations aim to update and streamline existing regulatory requirements surrounding securitisation. The regulatory requirements updated include the risk retention and transparency requirements imposed variously on the issuer, originator, sponsor and/or original lender of a securitisation and the due diligence requirement imposed on certain institutional investors in securitisation. In general, the requirements imposed under the

Securitisation Regulations are more onerous and have a wider scope than those imposed under current legislation. In particular, the risk weights attached to securitisation exposures for credit institutions and investment firms will in general increase substantially under the new securitisation framework implemented under the Securitisation Regulations. The provisionally approved text of the Securitisation Regulations imposes a ban on securitising "any loan that is marketed and underwritten on the premise that the loan applicant or, where applicable, intermediaries were made aware that the information provided by the loan applicant might not be verified by the lender" ("**Affected Loans**"). This ban, if adopted is expected to apply from 1 January 2019. Such a ban, if, implemented, may restrict the potential financing and Optimum de-leveraging opportunities available to the Bank for such Affected Loans both from and before this date, as re-financing opportunities for Affected Loans, whether through securitisations or whole loan sales, may be adversely impacted. Any increased risk of the Warwick 1 and 2 Notes not being called will likely have an adverse impact on secondary pricing and the carrying value of the Warwick 1 and 2 class A Notes held by the Bank. Either of these risks, should they materialise, may have an adverse effect on the Bank's business, financial condition, results of operations and prospects. For further information see the risk factors entitled "*The Bank anticipates making a further reduction of Optimum assets through whole-loan disposals and/or securitisations. There is a risk that the Bank will be unable to de-leverage its Optimum assets in a capital efficient manner, or may incur greater than expected costs or experience delays in relation to such de-leveraging, which could adversely impact the Bank's business, operating results, financial condition and prospects, its regulatory capital position and its ability to comply with its regulatory capital requirements.*" and "*The Bank has a significant holding of available-for-sale investment securities, including Warwick Finance One and Two securitisation notes. Negative changes in the carrying value of investment securities could have a material adverse effect on the Bank's business, operating results, financial condition and prospects, as well as its ability to achieve the Plan and, where applicable, the May 2017 Outlook on the Plan*".

It is not possible to predict with any certainty the effect that any of the proposed changes in the list above will have on the Bank or how any of the proposals discussed above will be implemented and whether the Bank will be able to implement the proposed changes in accordance with regulatory deadlines and regulatory required outcomes in light of these changes to the regulatory environment. These proposed changes could require new transformation programmes beyond those anticipated by the Bank or require the scope of existing programmes to be expanded and/or could result in the Bank incurring greater than anticipated or budgeted costs. Depending on the specific nature of the requirements and how they are enforced, these changes could have a material adverse effect on the Bank's business, balance sheet composition, operations, profitability, financial condition, structure, strategy, costs and/or capital requirements.

The Bank has carried out an initial assessment of the implications arising from the UK's decision to leave the EU and continues to monitor developments. As a UK-centric bank, key areas where the Bank expects to be affected by such developments are expected to relate to customer service requirements for EU based customers, payment services and internal treasury counterparty transactions.

The Bank is also exposed to the risk that changes in regulation and enforcement policy may give rise to further conduct issues. There is a risk that further conduct and legal risk issues may arise, that any such further or already identified issues may require new or further provision, and that changes in regulation may give rise to further conduct risks emerging. The occurrence of any of these could have an adverse effect on the Bank's ability to reach its cost:income ratio target in accordance with the Plan and therefore require further capital and could have a material adverse effect on the Bank's business, operating results, financial condition and prospects.

30. ***In common with other banks and financial institutions, the Bank is under intense regulatory scrutiny and expects that environment to continue. The Bank may be the subject of regulatory and other investigations and subject to legal and/or regulatory proceedings.***

As a financial services firm, the Bank is subject to extensive and comprehensive regulation under the laws of the jurisdictions in which it does business. These laws and regulations significantly affect the way that the Bank does business, and can restrict the scope of its existing businesses and limit its ability to expand its product offerings, or can make its products and services more expensive for clients and customers. There has also been an increased focus on regulation and procedures for the protection of customers and clients of financial services firms. This has resulted in increased willingness on the part of regulators to investigate past practices of financial services firms, both on an industry-wide basis and focusing on particular firms.

The Bank is exposed to many forms of legal and regulatory risks, including that:

- its business may not be, or may not have been, conducted in accordance with its products' or other terms and conditions, or applicable laws and regulations (including competition law), and financial and other penalties may result, as well as potential liabilities to customers by way of redress for prior breaches;
- its contractual obligations with customers, suppliers or other third parties may either not operate or be enforceable as intended or may be enforced in a way adverse to the Bank or the Bank may fail to comply with its contractual obligations;
- the Bank's assets, such as intellectual property, may not be adequately protected and the Bank may use intellectual property which infringes, or is alleged to infringe, the rights of third parties; and
- litigation by or against the Bank may not be appropriately managed to protect the Bank's reputation and achieve the best outcome, and that liability for damages may be incurred to third parties harmed by the conduct of the Bank's business.

The nature of any future disputes and/or legal, regulatory or other enquiries, investigations or proceedings cannot be predicted in advance. Furthermore, the outcome of any disputes and/or legal, regulatory or other investigations or proceedings arising out of any allegations made against the Bank, or members of its current or former management (including in each case with respect to prior public disclosure relating to financial or other information concerning the Bank), is difficult to predict. There is a risk that any such disputes and/or legal, regulatory or other investigations or proceedings will involve the Bank incurring significant expense in investigating and, where applicable, defending such claims as well as experiencing possible related negative publicity.

Consequently, the Bank could be exposed to:

- substantial monetary damages and fines;
- other penalties and injunctive relief;
- potential for additional civil or private litigation (including as a result of the Consumer Rights Act 2015);
- potential for criminal prosecution in certain circumstances;
- public reprimand and/or regulatory censure;
- potential regulatory restrictions on the Bank's business;
- greater scrutiny and/or investigation from regulators;
- regulatory or legislative actions;
- a reduction in the attractiveness of the Bank to stakeholders;

- a negative effect on the Bank's reputation and its brand and its ability to recruit and retain personnel and customers; and/or
- questions as to the Bank's commitment to co-operative values and ethics arising from any association, action or inaction which is perceived by stakeholders to be inappropriate or unethical.

Any of these risks, should they materialise, could have an adverse impact on the Bank's ability to implement its strategy, achieve its near-term and long-term cost:income ratio targets, its operating cost, project cost and other expenditure targets, meet its conduct and legal risk provision targets as provided for in the Plan and, where applicable, the May 2017 Outlook on the Plan, its business, operating results, financial condition and prospects, its regulatory capital resources or its ability to comply with regulatory capital requirements, as well as taking up a significant amount of management time and resources away from management of the Bank's business, including execution of the Bank's business plan.

Any adverse findings of any legal, regulatory or other enquiries, investigations or proceedings may cause reputational damage to the Bank's brand and question the Bank's commitment to co-operative values and ethics arising from any association, action or inaction which is perceived by stakeholders to be inappropriate or unethical. There is also a risk that the outcome of such investigations or proceedings may give rise to changes in law or regulation as part of a wider response by relevant lawmakers and regulators. Furthermore, an adverse decision in one matter, either against the Bank or another financial institution facing similar claims, could lead to further claims against the Bank. Sustained damage arising from any adverse findings and/or conduct and reputation risks could have a materially negative impact on the Bank's business, operating results, financial condition and prospects.

31. ***The Bank's business and financial performance has been and may continue to be affected by general economic conditions in the UK, and adverse developments in the UK or global financial markets could cause the Bank's earnings and profitability to decline and result in the Bank not meeting its net interest margin, regulatory capital requirements and RoE longer-term targets.***

The Bank is directly and indirectly subject to inherent risks arising from general economic conditions in the UK and other economies and the state of the global financial markets both generally and as they specifically affect financial institutions. Since mid-2008, the global economy and the global financial system have experienced a period of significant turbulence and uncertainty. The severe dislocation of the financial markets around the world that began in August 2007 and significantly worsened in mid-2008 triggered widespread problems at many commercial banks, investment banks and other financial and related institutions in the UK and around the world. The dislocation severely impacted general levels of liquidity, the availability of credit and the terms on which credit is available. This crisis in the financial markets led the Government and other governments to inject liquidity into the financial system and take other forms of action relating to financial institutions, including bank recapitalisations and the provision of government guarantees for certain types of funding, aimed at both supporting the sector and providing confidence to the market. This support may not be provided in the future, and, if provided, such support is likely to be on more punitive terms for financial institutions than in the past.

These market dislocations were also accompanied by recessionary conditions and trends in the UK and many economies around the world. The widespread deterioration in these economies affected, among other things, consumer confidence, levels of unemployment, the housing market, the commercial real estate sector, bond markets, equity markets, counterparty risk, inflation, the availability and cost of credit, transaction volumes in wholesale and retail markets, the liquidity of the global financial markets and market interest rates, which in turn had, and continues to have, in a number of respects, a material adverse effect on the Bank's business, operating results, financial condition and prospects.

A sovereign debt crisis in Europe led to an increase in the cost of funding. The initial impact of this increase was felt in the wholesale markets, and there was a consequential increase in the cost of retail funding, with greater competition in the market for savings. A number of policy interventions have helped to ease these funding pressures. However, if there was to be a re-emergence of a European sovereign debt crisis, the cost of funding could increase again. There remain continued challenges and uncertainty for the UK economy, including the combined economic prospects of the Eurozone, which presents a risk of a slowdown in economic activity in the UK's principal export markets, the impact of any future Government austerity measures, and the continued squeeze on household incomes. As discussed below, there is also considerable uncertainty as to the UK's proposed exit from the EU on the general economic conditions in the UK, the EU, the financial services industry and the legal and regulatory environment. Such volatility and uncertainty may persist or worsen throughout the process of negotiation that may be required to determine the future terms of the UK's relationship with the EU.

Whilst there have recently been improvements in UK GDP and the commercial and residential property markets, macroeconomic risk remains. In particular, macroeconomic instability may arise as a result of political conditions in Europe (including the recent elections in the UK and France and the forthcoming elections in certain other EU Member States, including Germany) and the United States (including the impact of the new U.S. presidential administration). There is also uncertainty surrounding the UK banks' reaction to the Bank of England's stimulus package (including in relation to its base rate, its gilt purchases and its Term Funding Scheme). Should a reversal of the improvements occur or the improvements of other factors lead to increased interest rates, these could have a potential impact on the credit performance of the Bank's assets leading to increased impairments. See the risk factor entitled "*Worsening economic and market conditions and/or increasing interest rates and/or a fall in house prices and/or commercial property prices could result in increased residential mortgage, commercial lending and unsecured loan losses which would adversely impact the Bank's financial and operational performance*." for further information.

The continued effect of margin compression and exposure to both retail and commercial loan impairment charges, resulting from the impact of general economic conditions, means that the results of the Bank's operations and financial condition may continue to be adversely impacted by such factors, and there remains the possibility of further downward pressure on its operating results and financial condition, prospects and growth depending on a number of external influences, such as the consequences of a more austere economic environment.

Any adverse developments in the UK or global financial markets could cause the Bank's earnings and profitability to decline and result in the Bank not meeting its net interest margin, regulatory capital requirements and RoE longer-term targets, which could in turn have a material adverse effect on the Bank's business, financial condition, operating results and prospects.

32. ***The Bank is exposed to risks relating to the supply and affordability of residential property in the UK.***

The Bank's owner-occupied and buy-to-let mortgage lending is dependent on a number of factors related to the supply and affordability of property in the UK.

In October 2014, the PRA issued rules and the FCA issued guidance to limit the volume of new mortgage lending for owner-occupied housing for loans with a loan-to-income ratio of over 4.5 times to no more than 15 per cent. of new loans, implementing a recommendation made in June 2014 by the FPC, a Bank of England committee responsible for ensuring financial stability. For the Bank to maintain and grow its mortgage portfolio, the prices of new and existing properties must be at levels, relative to the income of purchasers, to allow them to borrow within the parameters of these regulatory restrictions on lending. If house prices are at too high a multiple of customer income, whether as a result of rising house prices and/or low customer income growth, potential customers will be unable to borrow and the supply of mortgages will decrease.

The Bank's owner-occupied mortgage lending requires a supply of newly-built or developed property coming to the market that relies on mortgage lending for financing, as well as transaction volumes within the market for existing property being at a sufficiently high level to support a profitable level of owner-occupied mortgage lending and income from mortgage fees. A decrease in housing transaction volumes could lead to a reduction in demand for owner-occupied mortgages and a fall in related mortgage fees, which could have a material adverse effect on the Bank's business, financial condition, operating results and prospects.

33. ***Worsening economic and market conditions and/or increasing interest rates and/or a fall in house prices and/or commercial property prices could result in increased residential mortgage, commercial lending and unsecured loan losses which would adversely impact the Bank's financial and operational performance.***

The personal borrowing sector in the UK remains heavily indebted and vulnerable to increases in unemployment, rising interest rates and/or falling house prices.

Increased unemployment could lead to higher levels of arrears in the Bank's mortgage loan, unsecured consumer loan, and commercial lending portfolios which, in turn, would lead to an increase in the Bank's impairment charges in respect of these portfolios and increase the Bank's RWAs. This may, therefore, increase capital requirements and adversely impact capital adequacy ratios. Increased unemployment could also result in less demand for the Bank's products, reducing the Bank's ability to meet its targets of increasing Bank customer assets and net interest margin, which could in turn have a material adverse effect on the Bank's business, financial condition, operating results and prospects.

Rising interest rates would put pressure on existing and new borrowers whose loans are linked to the Bank of England base rate or LIBOR or the Bank's variable rates and who may have become accustomed to the historically low interest rate environment, such as the Bank's residential mortgage loan, credit card and current account products. A significant portion of the Bank's outstanding residential mortgage loan products are potentially subject to changes in interest rates. In particular, Optimum, being a portfolio of predominantly interest-only intermediary and mortgage book assets (as at 31 December 2016, £2.6 billion), may be particularly sensitive to changes in interest rates as they impact affordability, particularly in stressed economic scenario forecasting. In an increasing interest rate environment, borrowers seeking to mitigate increased monthly payments caused by interest rate increases by refinancing their mortgage loans may not be able to find available replacement loans at comparably low interest rates and this could lead to an increase in arrears in the Bank's secured lending portfolios, as well as an increase in the Bank's secured loan impairment charges. The majority of the Bank's unsecured loan portfolio is on fixed rates.

If UK house prices and/or UK commercial property prices were to fall generally or in particular regions to which the Bank has significant exposure, this would likely result in an increase in the Bank's secured loan impairment charges as the value of the security underlying its mortgage loans and/or commercial property loans was eroded. In addition, a key assumption in the judgement of estimated future credit losses is the Bank's estimate of future house price index and commercial property price movements. Optimum, which had an average loan-to-value ratio of 63.8 per cent. as at 31 December 2016, is more exposed than the retail mortgage portfolio to movements in house prices. The combined non-retail customer portfolios of the Bank (Legacy Portfolio and business and BaCB) are both exposed to falling commercial property prices. This is particularly relevant to the non-performing portfolio and the impact falling prices will have on impairment levels.

The Bank is also exposed to the risk of customers who have interest-only owner-occupied mortgage loans being unable to repay their loans in full at maturity. As at 31 December 2016, of the £16.8 billion of total outstanding mortgage balances, 67.5 per cent., or £11.3 billion, are capital repayment mortgages and 32.5 per cent., or £5.5 billion, are interest-only loans. In respect of the Bank's £3.5 billion of residential owner occupied interest-only mortgage customers, assessments of capital repayment plans may be incomplete or out-of-date and, consequently, the Bank may lack information to accurately evaluate the related repayment risk. As a result, the Bank may have reduced visibility of

future repayment issues in respect of its interest-only residential mortgages, which could limit the Bank's ability to estimate and establish provisions to cover exposures resulting from these mortgages.

Where the terms of certain mortgages extend past the retirement age of customers which are potentially unable to service or repay their loans, there is a risk that the Bank may not have adequately assessed the affordability of such loans for these customers and anticipated life events (such as retirement) at the outset to ensure that such customers would be able to meet their monthly payments for the term of the mortgage.

In addition, increasing interest rates could trigger unforeseen movements in the Bank's existing mortgage portfolio, in particular in relation to accelerated run-off of demand savings balances or standard variable rate mortgage balances, as customers perceive that there is greater incentive to review their finances. This could adversely affect the Bank's ability to meet its financial targets and operational and financial performance.

34. ***The Bank is a supplier of credit to the buy-to-let sector in the UK. Many borrowers in the sector have yet to operate through an entire economic cycle, and any weakness in their credit quality may impact the financial and operational performance of the Bank.***

The buy-to-let market in the UK has expanded rapidly in recent years and the Bank is a supplier of credit to this market. As at 31 December 2016, 12.9 per cent., or £2.2 billion, of the Bank's outstanding mortgage balances were buy-to-let loans and 91.9 per cent., or £2.0 billion, of such buy-to-let loans were on an interest-only basis. Borrowers of buy-to-let mortgages have benefitted in recent years from a combination of low interest rates, rising house prices and increasing rents, as first time buyers have struggled to raise the required deposit to allow them to purchase their own homes. The Finance (No. 2) Act 2015 introduced provisions to limit the income tax relief on mortgage interest expense available on residential property to buy-to-let landlords from 6 April 2017. These factors, and the introduction of a 3 per cent. stamp duty surcharge on purchases of buy-to-let and second homes which has applied generally to sales completed on or after 1 April 2016 and any other adverse tax changes for buy-to-let investors, could make the purchase of buy-to-let properties a less viable investment opportunity and reduce the demand for buy-to-let mortgages. If rental rates were to decrease or remain stagnant, interest rates were to increase, further tax changes were to reduce the post-tax return on buy-to-let investments and/or the economy were to weaken and place pressure on employment, consumer incomes and/or house prices, the credit performance of the Bank's buy-to-let mortgage book could deteriorate, which in turn could have a material adverse effect on the Bank's business, financial condition, operating results and prospects.

35. ***The Bank is exposed to a number of political, social and macroeconomic risks relating to the UK's pending exit from the EU.***

The pending exit of the UK from the EU and related political events in the UK and Europe could result in prolonged periods of uncertainty or significant macroeconomic deterioration, including, but not limited to, decreased GDP in the UK, increased foreign exchange volatility, in particular a further weakening of the pound sterling as against the euro and other leading currencies, decreases in global stock exchange indices and a downgrade of the UK's sovereign credit rating. Additionally, as a result of uncertainty following the referendum, the pound sterling experienced sharp depreciation against a range of currencies, including the euro and dollar. There are concerns that economic and political uncertainty relating to the pending exit of the UK from the EU could push the UK into an economic recession.

Because a significant proportion of the regulatory regime applicable to the Bank is derived from EU directives and regulations, the UK's exit from the EU could materially change the regulatory framework applicable to the Bank's operations. The directives and regulations cover a range of the Bank's operations and activities and have a broader impact on the financial services industry and the legal and regulatory environment in the UK.

The Bank has carried out an initial assessment of the implications arising from the UK's decision to leave the EU and continues to monitor developments. As a UK-centric bank, key areas where the Bank expects to be affected by such developments are expected to relate to customer service requirements for EU based customers, payment services and internal treasury counterparty transactions.

The exit of the UK from the EU could result in changes in the position of UK banks in respect of participation in European payment schemes such as the Single European Payments Area, which in turn could create additional operational costs and/or costs associated with making alterations to the Bank's payments systems and processes.

If a recession were to occur in the UK, sterling were to further depreciate materially, or the Bank's regulatory environment were to change dramatically, it could have a material adverse effect on the Bank's business, operating results, financial condition and prospects.

36. ***The Bank's business and financial performance would be adversely affected by a break-up of the single European currency.***

A number of countries in Europe, such as Greece, Italy, Ireland, Portugal and Spain, together with Cyprus, have been particularly affected by the difficult financial and economic conditions since 2008 and are struggling with large sovereign debts and/or public budget deficits. This has raised concerns about the contagion effect a potential sovereign default would have on other EU economies, as well as the ongoing viability of the euro currency and the Economic and Monetary Union ("**EMU**").

The effectiveness of actions aimed at stabilising European economies and reducing debt burdens is not assured and the possibility remains that the euro could be abandoned as a currency by countries that have already adopted its use or, in an extreme scenario, abandonment of the euro could result in the dissolution of the EMU. This would lead to the re-introduction of individual currencies in one or more EMU member states. The effects on the European and global economies of the potential dissolution of the EMU, exit of one or more EU member states from the EMU and the redenomination of financial instruments from euro to a different currency, are impossible to predict fully.

However, if any such events were to occur, they would likely result in significant market dislocation and heightened counterparty risk, and affect adversely the management of market risk, including asset and liability management due, in part, to redenomination of financial assets and liabilities.

The Bank anticipates that the occurrence of any of the events described above would be likely to adversely impact the cost and availability of wholesale funding, thereby increasing competition for retail funds and adversely impacting the Bank's net interest margin, which could in turn have a material adverse effect on the Bank's business, financial condition, operating results and prospects.

37. ***The Bank is dependent on certain key management and personnel, the loss of whom, or the failure to recruit and retain key management and personnel, may have an adverse effect on the Bank's business, operating results, financial condition and prospects and its ability to achieve its strategy.***

The Bank depends on the continued contributions of its Directors, Senior Managers and other key personnel with the experience, knowledge and skills in banking necessary for its success. Furthermore, in connection with the Restructuring and Recapitalisation, certain corporate governance changes are being proposed which will lead to changes to the Bank's Board. Following such changes, there is a risk that these changes, or the uncertainty created as a result of the change in ownership of the Bank, may have an adverse impact on the Board's proper functioning, the performance of its role and its cohesiveness. See Section A of Part 5 of this Circular for further details about Holdco's corporate governance arrangements, including the rights of B Shareholders to appoint the B Shareholder Nominee Directors to the Holdco Board and, via Holdco's ownership of the Bank, the Board.

Whilst the Directors and Senior Managers have extensive relevant experience of working within the financial services industry, a certain number have worked for the Bank for a relatively short period or are in their first roles at their current level of seniority, with significant and wide-ranging

responsibilities. In addition, the Bank's recent announcements have increased the demands and competing priorities on Directors and Senior Managers and may divert management attention away from business as usual activities. Should the Bank lose one or more members of its executive team without finding suitable replacements or having appropriate succession plans in place, the Bank may struggle to replace them with appropriate and sufficiently experienced and/or skilled candidates in a timely fashion, exposing the Bank to operational disruption and potential delay in essential activities necessary for the Bank's strategy to be successfully delivered. Following changes amongst the Bank's executive leadership in January 2017, a renewal of succession-planning coverage for senior roles is required. Failure to adequately improve the Bank's succession planning could negatively impact the effective governance and oversight of the Bank. The requirements of CRD IV constrain the Bank's ability to award variable pay until capital compliance and profitability are restored, which may impact recruitment and retention of staff until the Bank is compliant with its ICG and Combined Buffer, which in the case of ICG is targeted for 2018 (based on the Bank's own internal assessment of future Pillar 2a and 2b regulatory capital requirements and subject to future SREP).

Retention and recruitment of key Bank personnel remains a significant risk for the Bank and is currently heightened by the Bank's inability to use variable pay to reward performance, budgetary constraints limiting changes to fixed pay, as well as requiring headcount reductions and rationalisation of premises that form part of the Bank's implementation of its strategy. Furthermore, the Bank has experienced increasing challenges in recruitment for certain roles with potential candidates expressing concerns about the future of the Bank. There is a risk that the loss of key Bank personnel could require permanent replacement of such personnel or the deployment of contractor resources to cover key activities at an incremental cost to the Bank, which could result in higher than forecast operating costs.

Whilst employee engagement levels remained relatively stable over the course of 2016, employee confidence in the future of the business declined. Following the Bank's announcement on 13 February 2017, the Bank's ability to recruit personnel has become more challenging, with fewer applications being received per vacancy than the Bank would normally receive. Additionally, following the announcement, response rates for pro-actively sourced roles through LinkedIn fell from approximately 65 per cent. to 35 per cent. Furthermore, the Bank is aware that certain skilled colleagues are being pro-actively targeted by businesses who are actively looking to capitalise on any prevailing concern amongst colleagues as to their position and prospects at the Bank. The recent announcements relating to the FSP and Restructuring and Recapitalisation, and the adverse press and market speculation in relation to the Bank and its prospects and subsequent media speculation, may unsettle staff, impacting engagement levels and are also likely to heighten retention risk. Any significant reduction in staff engagement may have a consequential impact on the Bank's service delivery, customer service and, potentially, its brand.

The regulatory requirements of the Senior Manager Regime impact the responsibilities and potential personal liability of Directors and members of senior management, and may make it more difficult to recruit in the banking industry in general. This could have a greater negative effect on attracting people to work in financial services which may be perceived as a more difficult and constrained regulatory environment in which to work, including remuneration regulations that impact the way variable remuneration is paid and, therefore, the effectiveness of traditional reward mechanisms.

The Bank also remains reliant, to a limited extent, on other personnel employed by members of the Co-operative Group to support separation activities in the short term. The recent announcements made by the Bank in relation to the FSP and Restructuring and Recapitalisation has posed further challenges to attracting and retaining appropriately skilled and experienced individuals, which may result in a loss of subject-matter expertise and institutional knowledge. In addition, and more generally, competition for personnel with specialist skills, particularly those with financial, banking, IT and specialist control competencies such as risk, legal and finance, is intense among financial institutions. This creates an additional challenge in the northwest region where there is a shortage of specialist banking skills and the Bank may be required to pay higher wages compared to its competitors to attract specialist personnel.

Examples of risks associated with the recruitment, employment and management of individuals within the Bank include the following:

- the Bank is dependent on a small number of individuals working on a large number of initiatives. Resources are stretched and there is a risk that a sufficient number of skilled employees might not be retained or recruited to alleviate the resource issues;
- the risk that the Bank does not have the personnel to support its strategy and/or that individuals are not directly engaged by the Bank, are on short-term contracts or are not fully aware of the scope or accountability of their role;
- the risk that the Bank, employee and trade union relationships deteriorate, leading to industrial action, resulting in operational losses and reputational damage; and
- the risk that continued high levels of change have a detrimental impact on colleague engagement and performance.

There is a risk that the Bank will be unable to retain, attract or recruit a sufficient number of appropriately skilled and experienced employees critical to the implementation of the Bank's strategy, and a failure to do so may impact the Bank's ability to implement the Bank's strategy, which, in turn, may adversely impact its business, operating results, financial condition, prospects and competitive position.

Furthermore, the Bank's Non-Executive Directors are all new to the Bank since the 2013 Liability Management Exercise took place. A number of the Bank's Non-Executive Directors joined the Bank anticipating they would serve one term of three years and are reaching a point in time at which they may stand down in the next 12 months. There is a risk that the Bank may not be able to replace any departing Non-Executive Directors with suitably-skilled and experienced candidates, particularly in the case of chairs of key committees, in the timescale required.

38. ***Union representation subjects the Bank's business to the risk of interruptions through strikes or delays resulting from any restructuring of the Bank or in renegotiating labour contracts.***

The Bank collectively recognises two trade unions: Britannia Staff Union and Unite. While the Bank has not experienced any significant business interruption as a result of labour disputes at any of its businesses since September 2005, and the Bank considers its relations with employees to be good, the Bank believes that it does have a significant number of staff who are members of a trade union. Union representation subjects the Bank's business to increased risk of interruptions through strikes or delays resulting from any restructuring of the Bank or in renegotiating labour contracts.

The Bank's strategy includes significant ongoing cost-cutting, which includes continuing to reduce the number of the Bank's employees. The Bank has recently successfully consulted on a number of business change activities that include significant organisational change, a change of pension scheme and renegotiation of a number of terms and conditions. Given this recent volume of activity, further change activity could increase tension in the trade union relationship. The terms and conditions for the majority of the Bank's staff are negotiated through collective bargaining with the unions. There is a risk that the Bank may be unsuccessful in concluding any negotiations with unions or reaching an agreement with the unions, including in relation to planned organisational changes impacting redundancies. A failure to conclude negotiations and reach agreement, or any protracted negotiations, or any breach of an agreement with the unions may result in interruptions to the Bank's business through strikes or delays, a diversion of management time from running the Bank's business and implementing the Bank's strategy and, in particular, achieving the Bank's cost reduction targets, a deterioration in employee relationships, an adverse impact on the Bank's reputation and/or an adverse impact on the Bank's customer relationships. Such interruptions may, in turn, impact the Bank's business, operating results, financial condition and its ability to implement its strategy.

39. ***The Bank's operations are highly dependent on the proper functioning of IT and communication systems which comprise a complex array of legacy systems and some newer in-house and third-party IT systems. Any significant failure of the Bank to remedy the existing IT estate and operate its legacy and new IT systems to meet the requirements of its strategy may adversely affect the future operational and financial performance of the Bank's business.***

The Bank relies extensively on IT and communication systems to conduct its business, including the pricing and sale of its products, payment processing, data collection, assessing acceptable levels of risk exposure, financial reporting (including reporting of capital) and maintaining customer service (including the delivery of key regulatory documents and other customer correspondence) and accurate records and security. The Bank's complex IT landscape has arisen from the Bank's past acquisitions and mergers that have not been fully integrated and rationalised.

Although a large proportion of the Bank's critical services are now supported by technology that was migrated to new hardware in an IBM environment in the first quarter of 2017, a proportion of the Bank's systems and technology remain on extended support arrangements or are nearing end-of-life (meaning that there is limited or no support provided by the vendor or specialist third-party supplier) including the Bank's telephony and desktop systems. While the Bank has such systems in its IT estate, it remains exposed to potential service disruptions, security weaknesses and operational inefficiencies. Those aspects of the IT estate requiring further remediation include, but are not limited to, the desktop IT environment and the Bank's telephony systems.

There is duplication of systems in some critical areas of the Bank including mortgages, savings and general ledgers. Some of the Bank's IT applications remain particularly complex and are poorly documented and rely on significant subject-matter expert knowledge to maintain and are, therefore, susceptible to operational interruptions and inefficiencies. There is a risk that obsolescence will cause a greater number of service interruptions. Furthermore, the time required to fix these incidents may be greater than the time normally needed, given that mainstream support is no longer available.

Even after any remediation, there remains a risk that the processes and systems may not operate as expected, may not fulfil their intended purposes, or may be damaged or interrupted by disruptive events. Any outage of the Bank's IT systems and infrastructure could result in increased demand within the Bank's contact centres as customers seek assistance and redress during such outage period, resulting in the Bank incurring additional costs beyond those anticipated in the May 2017 Outlook on the Plan. Any failure of the IT and communications systems and/or infrastructure on which the Bank relies could lead to significant costs and disruptions that could adversely affect the overall operational or financial performance of the Bank's business, as well as harm the Bank's reputation and could cause the Bank to breach its obligations as a regulated entity and/or attract increased regulatory scrutiny.

Following the Restructuring and Recapitalisation, the addition of a new parent company, Holdco, and, in due course, an expected intermediate issuance parent company to the Bank, Issuerco, may lead to additional unplanned IT expenditure in order to implement the increased financial (including regulatory) reporting requirements to meet appropriate time, efficiency or control standards.

The complexity of systems and the end-of-life position described above may also lead to increased delivery risk in relation to the planned transformation agenda because change is inherently more difficult to deliver in such an environment, leading to an increased risk that projected delivery costs are exceeded and that projected delivery timetables are missed.

Even after the planned remediation activities are completed, any subsequent failure in systems as a result of not remediating the IT risks properly, or in the period leading up to such remediation being completed, could adversely affect the Bank's ability to conduct its business and could lead to the PRA and/or the FCA imposing additional requirements on the Bank or subjecting the Bank to additional regulatory scrutiny. Further, the actual act of working on and changing the legacy IT systems increases the risk of systems failure.

40. ***The Bank has chosen to use third-party service providers to support aspects of its IT and operations, notably providers of IT hosting and management services, systems, software, data and other assets for its critical infrastructure and operational capabilities. These third-party service providers, some of which supply their services under long-term contracts, may be expensive or difficult to replace.***

The Bank is dependent on a number of third-party outsourcing contracts and partners for its critical infrastructure and operational capability, often at significant expense. These include long-term contracts that the Bank has entered into with the Co-operative Group (including CFS Management Services Limited ("**CFSMS**")), IBM, Sopra Steria, Western Mortgage Services Limited (a subsidiary of Capita PLC) ("**Capita**") and other suppliers and third parties (including in relation to UK and international payment schemes such as CHAPS, BACS, Cheque and Credit Clearing, SWIFT and Faster Payments).

There is a risk that third-party providers could fail to supply services, IT, software, data or other assets that they have agreed to provide, either adequately or at all. If third-party providers, including IBM and Capita, fail to provide or procure the services that they have contracted to provide, or to provide them in a timely manner or to agreed levels, or the arrangements with those providers are terminated for whatever reason, such a failure or termination could have a material adverse effect on the Bank's ability to conduct its business, which could have a material adverse effect on the Bank's business, operating results, financial condition and prospects. Significant failures by either side could lead to either party invoking the relevant dispute resolution procedures within the relevant agreements which could, at worst, lead to disputes, litigation and/or a loss of customer confidence. Some of these services are supplied under long-term contracts which may be expensive or difficult to replace. The Bank may be unable to source an alternative provider for the services, IT, software, data or other assets on a timely basis, on equivalent terms, or without significant expense, within the short time required, or at all. The additional costs and expenses incurred in procuring alternative supply arrangements may have a material adverse effect on the Bank's cost base and, therefore, on the Bank's business, operating results, financial condition and prospects.

There is a risk that contracts with third-party providers on which the Bank relies may be or may have been poorly negotiated and/or poorly managed and/or a product of a poor commercial bargaining position. The Bank's dependence on third-party suppliers increases reliance on the Bank's internal procurement and supplier management function. The Bank is exposed to the risk that any outsourcing arrangements are not properly scoped by the Bank. The Bank has encountered challenges in this area, for example, in the need to extend the scope and cost of the IBM contract. The Bank is also exposed to a risk that a supplier may default on or otherwise seek to avoid its contractual requirements and obligations, or that an outsourcing is not properly managed by the Bank or delivered upon as expected by the outsourced provider on an ongoing basis.

IBM is a key supplier to the Bank, providing IT infrastructure-hosting and related IT services for the majority of the Bank's IT estate. Capita is a key supplier to the Bank providing outsourced mortgage application processing mortgage administration and arrears management across the Bank's entire mortgage portfolio, aside from some limited activities retained by the Bank (see paragraph 17.6 of Part 16 of this Circular for more detail). The Bank also has substantial reliance on Sopra Steria for application development and support and, due to the length of the relationship with Sopra Steria, knowledge of many of the Bank's applications rest with Sopra Steria. In addition, the Bank has a number of other suppliers that the Bank regards as critical to the operation of the Bank. See paragraph 17 of Part 16 of this Circular for further information on the contracts with these suppliers. In addition, if any of the Bank's key outsourcing partners of critical services cannot, or will not, continue to provide the outsourced functions and services for a sufficient time and without provision of adequate assistance to enable transfer to an alternative provider, then the Bank may face significant disruption to its services and functions, reputational damage and possible regulatory scrutiny, which could have a material adverse effect on the Bank's business, operating results, financial condition and prospects.

The Bank has recently settled a legal dispute with its exclusive mortgage process outsourcer, whom the Bank depends on to service all of its retail secured lending portfolios. As a part of this settlement, the Bank renegotiated the commercial terms and reduced the duration of the contract. In addition, the settlement involved cessation of the contracted transformation activity with the mortgage process outsourcer. The project costs in the Bank's Annual Report and Accounts 2016 included £81.9 million associated with the programme of work to transform the mortgage outsource service, which is no longer being progressed. This amount included: expenses and fee payments associated with cessation of the transformation contract with the outsourced mortgage provider (£11.0 million); a write-off of assets no longer expected to be in use (£48.5 million); and other programme costs (£22.4 million). If this outsourcer were unable or unwilling to provide the contracted services in the future, the Bank would be unlikely to have sufficient time to enable it to transfer to an alternative service provider without seeing a significant disruption to its mortgage processing. Any such disruptions could adversely affect the overall operational or financial performance of the Bank's business, as well as harm the Bank's reputation, and could cause the Bank to breach its obligations as a regulated entity and/or attract increased regulatory scrutiny.

Any reduction in third-party service or product quality, which may be an indirect or unintended consequence of the Bank's cost reduction initiatives for third-party suppliers, or any failure by a third-party to comply with the Bank's licensing or regulatory requirements, including requirements with respect to the handling of customer data, could cause a material disruption to or adverse financial and/or reputational impact on the Bank's business. In addition, there is a risk that suppliers may not wish to contract, or only agree to contract on terms providing for the protection of their payments, with the Bank, or otherwise seek to introduce terms that that are less favourable for the Bank, whilst there is uncertainty about the Bank's future direction. Any of these events could have a material adverse effect on the Bank's business, operating results, financial condition and prospects.

Reliance on third parties for key services accentuates the need for the Bank to implement strong supplier management capability. In the event that the Bank is unable to create or maintain this capability, services provided by these third parties may deteriorate or fail, costs may escalate and the Bank may fail to meet its obligations to ensure operational continuity, which could have a material adverse effect on the Bank's business, operating results, financial condition and prospects.

See paragraphs 17.6, 17.7, 17.8, 17.9, 17.11 and 17.12 of Part 16 of this Circular for a description of the key terms of the Bank's contracts with the Co-operative Group, Capita, Sopra Steria and IBM.

41. ***Risks associated with the Bank's digital platform.***

Following the Bank's 2015 digital transformation programme, the Bank has made significant progress with, and investments in, its digital offering, having delivered a scalable online banking platform which was launched in May 2016, an update of its mobile banking app made available in September 2016 and the launch of Apple Pay in October 2016. The Bank intends to continue to make further improvements to its digital banking proposition. If the Bank fails to improve its digital platform to the same extent as its competitors, the Bank's business, operating results, financial condition and prospects could be materially adversely affected. Furthermore, failure to invest in the Bank's digital platform, could also materially adversely impact the Bank's business, operating results, financial condition and prospects. Any perception that the Bank's digital offering is not of the same quality as that of its competitors could adversely impact the Bank's ability to attract and retain new and existing customers, which could have an adverse effect on the Bank's business and prospects.

The Bank may also be required to make further expenditure or investments, such as marketing, customer incentives or pricing changes, to achieve the Bank's strategic targets. Further innovation by competitors, for example through "digital disruption" of existing product or service markets causing changes in consumer demands and behaviours, or other changes in consumer behaviour, may require the Bank to adapt its plans and/or revise its strategy, causing delays in its implementation or resulting in additional costs. The Bank is also subject to the risk of not appropriately responding to innovation in financial technologies and the industry-wide risk of traditional banking information technology infrastructure and digital technologies becoming obsolete yet difficult and/or costly to replace. Failure

to keep pace with industry changes could result in a reduction in the retention of the Bank's prime current account customer base and/or have a material adverse effect on the Bank's business, operating results, financial condition and prospects.

42. ***The Bank's strategy to grow its new mortgage business volumes principally through mortgage intermediaries is exposed to risks relating to its relationships with such intermediaries.***

In maintaining and growing its mortgage portfolio, the Bank relies on a number of intermediaries in the mortgage lending market, which exposes it to the risk of deterioration of the commercial, financial or operational soundness of those organisations. The Bank is also exposed to the risk that its relationships with one or more intermediaries may deteriorate for a variety of reasons, including the inability to process mortgages in a timely manner relative to its competitors or other competitive factors or a loss of confidence in the continuation of the Bank. As the Bank seeks actively to grow the volume of mortgages introduced by intermediaries, its exposure to those risks increases. Future changes in regulation, fiscal or other policies are unpredictable, beyond the Bank's control and could materially adversely affect its business or operations. See the risk factor entitled "*The financial services industry continues to be the focus of significant legislative and regulatory change which has imposed, and could continue to impose, operational restrictions on the Bank, increase the Bank's costs and/or capital requirements and/or otherwise materially adversely affect its business, operating results, financial condition and prospects*." for further information relating to the FCA's mortgages market study and the risk posed to the Bank.

The Bank has relationships with a network of approximately 4,658 intermediaries who actively submitted business to the Bank in the year ended 31 December 2016, with approximately 73 per cent. of business originating from the top five clubs and networks. In the year ended 31 December 2016, £2.8 billion of the Bank's gross new mortgage lending was originated through intermediaries, which represented 91 per cent. of total gross new mortgage lending. If a major intermediary were to cease operations or switch allegiance to other lenders in the market, there could be a negative effect on the Bank's mortgage lending volumes. The Bank pays intermediaries structured fees and commissions for introducing new customers and retaining existing customers to it at rates that the Bank believes are consistent with the wider mortgage market. Were competitors to increase remuneration or other payments to intermediaries with whom the Bank does business, the Bank could be forced to increase its fees and commissions or risk a reduction in the amount of new business referred, which, in either case, could have an adverse impact on demand for its mortgages.

In addition, the Bank is exposed to many of the risks inherent in intermediaries dealing with its prospective customers. For example, the Bank has limited oversight of the intermediaries' interactions with prospective customers and, consequently, the Bank faces risks related to the conduct of the intermediaries with which it does relevant business. If intermediaries are found to have violated applicable conduct regulations or standards in the sale of the Bank's mortgage products, the Bank's brand and/or reputation could be harmed as a result. In addition, the structure of the intermediary mortgage market is also subject to change. For example, there may be a change in customer sentiment or regulation that results in customers dealing with financial institutions directly, which would reduce the flow of business from intermediaries and thus could have a material adverse effect on the Bank if this business was not replaced through other channels. Also, there could be consolidation in the intermediary mortgage market which may change the behaviour of intermediaries in ways which may have a material adverse effect on the Bank. Any of these factors could have a material adverse effect on the Bank's ability to meet its strategic objectives for mortgage asset growth, including its net interest margin and core customer asset growth targets and, consequently, its business, financial condition, operating results and prospects.

43. ***The Bank's Platform business is highly dependent upon its embedded relationship management team and its ability to deliver technological improvements.***

With the reduction of the Bank's branch network since 2013, distribution of mortgages through intermediaries has become an important distribution channel for the Bank's strategy, and for the year ended 31 December 2016, Platform originated 88 per cent. of the Bank's new mortgage lending by

value. To support the Platform business, the Bank distributes intermediary mortgage products through a limited number of corporate partners. Relationships and panel management of the corporate partners and their associated members are managed by a relatively small team. One of the key strategies of the Bank is to continue to focus on growing its core mortgage portfolio acquired predominantly through Platform. Consequently, any loss of all or a part of the Platform relationship management team without adequate replacement would adversely affect the Bank's existing relationships with, and offering provided to, intermediaries which could materially adversely impact the level of new business driven from Platform, which could result in the Bank not achieving its target growth in net core customer assets as assumed in the Plan. Furthermore, if the Bank were to lose all or a part of the Platform relationship management team, there is a risk that it may be unable to find adequate replacements on a timely basis or at all.

The delivery of service levels for Platform is led by the Bank's outsourced partners. The Bank has determined that technology improvements are required to ensure the delivery of market driven service levels. Any failure by the Bank to make the identified technological improvements as planned, in a timely manner, or at all, could result in the Bank's removal from certain intermediary networks and clubs upon which its business is dependent, which could in turn materially adversely impact the Bank's origination of new mortgage business and its ability to achieve its targets for mortgage growth. A failure to remediate legacy systems could also result in an increase in conduct and legal risk.

44. ***Pursuant to its obligations to Visa International under a loss sharing agreement, the Bank has exposure to potential litigation in relation to merchant interchange.***

The Bank was previously a shareholder in Visa Europe, a payment services provider, holding one EUR 10 share in Visa Europe. As a former shareholder of Visa Europe, the Bank was liable for certain claims made against Visa Europe relating to merchant interchange under an indemnity clause included in the terms of its membership. Visa International acquired 100 per cent. of the shareholding in Visa Europe on 21 June 2016. The terms of the acquisition included the conversion of the existing indemnity to a loss sharing agreement ("**LSA**") between the 11 banks that were former shareholders of Visa Europe. Specific losses were allocated among these former members, including a specific indemnity for UK and Europe-wide merchant interchange claims. In return for the sale of its share in Visa Europe and its commitments under the LSA, the Bank received consideration which it discounted to account for any potential litigation for which the Bank could be liable for claims under the LSA. Currently, in the UK, various retailers and corporate businesses which paid merchant interchange fees are pursuing actions, including class actions, in the English courts claiming that the levels of merchant interchange fees charged by Visa Europe in the past were excessive. There is a risk that, should these actions be successful, the Bank may be responsible for a proportion of these claims or any settlements, in a quantum that may be greater than anticipated by the Bank. There is also a risk that any successful action could result in a large number of claims or a class action being pursued. Any such outcomes could have a material adverse effect on the Bank's business, operating results, financial condition and prospects. As a result of the Visa Europe sale, the Bank booked a total gain of £58.1 million in June 2016. There is a risk that should the Bank incur losses over and above the discount applied to the consideration referred to above, the Bank's CET1 capital position could be materially impacted by fair value adjustments required to be made to the value of the preference shares on the Bank's balance sheet. There is also a further risk that should the Bank incur losses over and above the gross value of the preference shares, then any additional loss would erode the CET1 capital of the Bank via a loss to the income statement and ultimately retained earnings. The potential value of any such additional loss is unknown owing to the unlimited indemnity put in place as part of the transaction.

45. ***There are numerous risks associated with the changes in the Bank's relationship with the Co-operative Group. The Bank's relationship with the Co-operative Group will be materially affected by the Restructuring and Recapitalisation, the termination and run-off of the Relationship Agreement and the termination of the Co-Existence Principles, as well as the Co-operative Group's reducing influence over and co-operation with the Bank.***

As at 25 July 2017, being the latest practicable date prior to publication of this Circular, the Co-operative Group owned 20.16 per cent. of the issued ordinary share capital of the Bank through CBG. Following completion of the Restructuring and Recapitalisation, the Co-operative Group's ownership interest in the Bank will be significantly reduced, reflecting its approximate one per cent. holding of A Shares in Holdco (assuming that the Co-operative Group does not participate in the Members' Equity Subscription). At this level of holding in the A Shares, the Co-operative Group will have no right to subscribe for B Shares and, accordingly, will have no right to vote except in limited circumstances.

The interests of the Co-operative Group could conflict with those of the Bank or other Shareholders. The existing concentration of ownership in the Co-operative Group has risked having the effect of delaying, deferring or preventing the Bank's ability to effect certain types of transactions that require approval by the Co-operative Group. To manage these risks, in 2013 the Bank entered into the Relationship Agreement with the Co-operative Group which regulates (in part) the relationship between the Co-operative Group and its subsidiaries. With the reduction of the Co-operative Group's shareholding, following the Restructuring and Recapitalisation, the Relationship Agreement itself will terminate, though certain provisions will continue in effect (as discussed below). In addition, the Co-operative Group will lose its right to appoint and remove a director to the Board in accordance with the terms of the Variation and Director Appointment Deed.

The Relationship Agreement includes certain obligations on the Co-operative Group to use the Bank's services, to promote the Bank's business and support the enhancement and rejuvenation of the Co-operative brand and franchise. Upon completion of the Restructuring and Recapitalisation, these obligations will continue until 20 December 2020, when they expire in accordance with the terms of the Relationship Agreement.

The Relationship Agreement also includes certain non-compete obligations on the Co-operative Group not to operate a business which principally involves the provision of banking and other services in the UK that were provided by the Bank at the date of the Relationship Agreement or in the 12 months prior to it (excluding any business activities carried on by the Co-operative Group as at 20 December 2013). These obligations will continue until three years after the termination of the Relationship Agreement.

Accordingly, upon expiry of these provisions, and in view of the Co-operative Group's diminished influence over the Bank, there is a risk that the Co-operative Group may decide to terminate its use and promotion of, and support for, the Bank's business and brand and to offer competing banking services. As of 31 December 2016, approximately 1.6 million of the Bank's approximately 4 million customers were also members of the Co-operative Group's membership scheme and approximately 600,000 customers actively traded with both the Bank and the Co-operative Group. There is a risk that some of these customers may cease to be customers of the Bank as a result of the Relationship Agreement and Co-existence Principles terminating and the Relationship Agreement going into run-off, particularly if the Bank's participation in the Co-operative Group's membership scheme terminates for whatever reason. Whether and to what extent the Bank will experience customer attrition is uncertain and will depend on a variety of factors, including the relative loyalties of customers to the respective brands of the Co-operative Group and the Bank. There is a risk that any significant customer attrition following the termination of the Relationship Agreement and Co-existence Principles and run-off of the Relationship Agreement, whether or not in conjunction with the termination of the Bank's participation in the Co-operative Group's membership scheme,

may have a material adverse impact on the Bank's results of operations, financial condition and prospects.

See paragraphs 17.3 and 17.4 of Part 16 of this Circular for a further description of the terms of the Relationship Agreement and the Variation and Director Appointment Deed. See paragraph 4 of Part 16 of this Circular for a description of the terms of the Articles of Association of the Bank.

46. ***There are numerous risks associated with the changes in the Bank's relationship with the Co-operative Group. The Bank continues to be operationally dependent on the Co-operative Group and its affiliates to provide a number of services including critical IT services and on-supply certain services and has significant counterparty exposure to the Co-operative Group.***

The Bank is dependent upon the Co-operative Group which was, until December 2013, the Bank's ultimate parent undertaking and single largest shareholder, taking a number of actions or decisions in a variety of different capacities, including as a shareholder, debtor, customer, supplier, landlord and tenant, and in relation to any joint liabilities to third parties such as, for example, the pension trustees under Pace. A number of these actions or decisions could require the approval of the Co-operative Group's board and/or, the Bank understands, the consent of its banking syndicate.

The principal risks that the Bank faces given its continuing dependence on, and arising from its relationship and arrangements with, the Co-operative Group and its affiliates, include:

- *Pensions* – the risks and uncertainties relating to the Bank's obligations to Pace and, specifically, the last-man standing and orphan liabilities issues discussed under "*The Bank may become obliged to provide additional security in respect of, or make large one-off or ongoing payments to its pension schemes, or pension schemes to which it is connected and/or associated which may have a material adverse effect on its business, financial condition, operating results, prospects and regulatory capital position*." above and the risks and uncertainties relating to the implementation of sectionalisation of Pace described in "*The Bank's agreement with the Co-operative Group and the Pace Trustee on the Pace Pensions Sectionalisation is subject to a number of risks and may not be implemented on the terms currently envisaged or at all*." above;

- *Co-operative status and name (including trademark and membership issues)* – the risk that the Co-operative Group may cease to support the Bank's continued use of the term "co-operative", may not agree to the Bank's continued participation in the Co-operative Group membership scheme (which may require a re-appraisal of the Matrix required by its Compliance Statement (both as defined below) with Co-operatives UK Limited ("**Co-operatives UK**"), which could result in a loss of support from Co-operatives UK for the Bank's continued use of the term "co-operative") and has objected to the Bank's application to register "the Co-op Bank" and "Co-op Bank" as trademarks, each as discussed under "*The Bank's differentiated customer proposition depends in part on its continued use of the "Co-operative" name*." below;

- *Risks relating to the termination of the Relationship Agreement with the Co-operative Group, and its diminished influence relative to other shareholders, as a result of the Restructuring and Recapitalisation* – risks relating to the Co-operative Group ceasing to be the Bank's largest shareholder and termination of the Relationship Agreement and the Variation and Director Appointment Deed and the Co-Existence Principles, including the ability of the Co-operative Group to offer competing services as discussed under "*There are numerous risks associated with the changes in the Bank's relationship with the Co-operative Group. The Bank's relationship with the Co-operative Group will be materially affected by the Restructuring and Recapitalisation, the termination and run-off of the Relationship Agreement and the termination of the Co-Existence Principles, as well as the Co-operative Group's reducing influence over and co-operation with the Bank.*" above;

- *Supply of services* – the risk that the Co-operative Group may cease to continue to supply or provide critical IT services including the management of shared data centres, or cease to on-supply certain other services, including data, licences and assets, from third-party suppliers, as further discussed below;

- *Ongoing dependency on services provided to the Bank on contractual terms or arrangements that may be inadequate* – the Bank is exposed to the limitations of the 2006 Agreement, and other agreements and arrangements with the Co-operative Group or its affiliates which may be inadequate by customary "arms-length" service standards, and as required under Chapter 8 of the outsourcing rules set out in the FCA Handbook ("**SYSC8**"). The 2006 Agreement did not envisage, and, therefore, may not be appropriate for, the Bank operating independently from the Co-operative Group. In addition, the ITSA (for IT services) and the PSMSA (for non-IT services) were not negotiated as customary third party "arm's-length" agreements and do not contain all of the obligations, commitments and protections that might be expected of such agreements. It also included an unlimited indemnity in favour of CFSMS for all liabilities under the 2006 Agreement. As a result, the Bank may not have adequate contractual recourse against the Co-operative Group and may be exposed to the risk of onerous terms and conditions or regulatory intervention relating to non-compliance with SYSC 8 requirements. Furthermore, the 2006 Agreement, ITSA and PSMSA include rights for the Co-operative Group to terminate the provision of services by giving six (in the case of the 2006 Agreement) or 12 (in the case of the ITSA and PSMSA) months' notice. This notice period may not provide the Bank with sufficient time to make arrangements for alternative supply on acceptable terms, or at all. As of the date of this Circular, discussions are ongoing between the Bank and the Co-operative Group to seek to secure a longer period of service continuity under the ITSA but there is a risk that these discussions may not conclude successfully;

- *Cost of replacing assets and services provided through the Co-operative Group* – the Bank is currently dependent on members of the Co-operative Group (notably CFSMS) to provide key assets and to on-supply certain services, data and assets supplied by third-party providers. If the contractual arrangements with the Co-operative Group are terminated, the staff providing the services may not transfer to the Bank and/or the Bank may not find an alternative outsource provider or supplier for the services, on a timely basis, on equivalent or acceptable terms, without expense above that contemplated by the Plan, or at all;

- *Third-party service provision is not a core focus of the Co-operative Group's business* – the Co-operative Group has limited experience of providing services to a third-party, such as the Bank, and such provision of services is not in line with their business strategy. Consequently, there is an enhanced risk of failure of those services or that those services may not be provided as they would by a third-party supplier on customary arm's-length terms. Any failure by CFSMS or another Co-operative Group entity to provide or procure those assets, services or personnel in a timely manner or to agreed levels could have a material adverse effect on the Bank's business, operating results, financial condition and prospects;

- *Benefit of the Loss Sharing Deed* – in 2015 the Bank and the Co-operative Group entered into the Loss Sharing Deed which related to the surrender of group relief from entities in the Bank's tax group to entities in the Co-operative Group tax group. The Loss Sharing Deed addresses, amongst other things, the terms on which the Co-operative Group will pay the Bank for certain tax losses surrendered historically. As part of the Restructuring and Recapitalisation, on 14 July 2017, the Bank and the Co-operative Group entered into the Tax Deed of Amendment (further described in paragraph 17.17 of Part 6 of this Circular) to amend the Loss Sharing Deed to clarify that: (a) the Co-operative Group will not take any action the principal purpose of which is to avoid making or reducing a payment to the Bank under the Loss Sharing Deed; (b) the Co-operative Group will provide such information consistent with past practice that the Bank reasonably requires to enable the Bank to calculate what payments are or may become due under the Loss Sharing Deed; and (c) the Co-operative Group shall not be required to pay the next £4 million after the implementation of the Restructuring and Recapitalisation which would otherwise be due. The Bank's Annual Report and Accounts 2016 include a group relief debtor of £84.1 million (31 December 2015: £60.1 million). In summary, the Bank will receive payment from the Co-operative Group under the Loss Sharing Deed when the Co-operative Group realises the benefit of the losses surrendered and at the corporation tax rate at which the benefit is realised. The group relief balance of £84.1 million assumes a period of recovery to

2048 and is discounted on the Bank's balance sheet. The balance may vary as a result of changes to the discount rate or other changes to valuation methodology required as a result of IFRS 9. The balance will reduce as a result of the amendment to the Loss Sharing Deed under which the Co-operative Group shall not be required to pay the next £4 million after the implementation of the Restructuring and Recapitalisation which would otherwise be due. Under the Loss Sharing Deed, the Bank is exposed to the credit risk of the Co-operative Group with respect to the remaining balance. There is also a risk that the group relief debtor on the Bank's balance sheet may be reduced or lost if there is a reduction in the Co-operative Group's capacity to claim tax losses, there is a decrease in the rate of corporation tax, the Co-operative Group has other reliefs available to it or the Co-operative Group does not have sufficient taxable profits in the future as a result of underlying profitability, management of its tax affairs, corporate restructuring or any other reason to realise the benefit of the losses. A loss or material reduction in the amount of the Bank's group relief debtor may, in turn, have a material adverse impact on the Bank's financial and capital condition;

- *Counterparty exposure to the Co-operative Group* – the Bank has counterparty risk exposures to the Co-operative Group as customer of the Bank and through the banking services it provides the Co-operative Group. The risks presented by the Bank's banking exposure to the Co-operative Group involve the provision of a £55 million multi option facility comprising overdraft facilities of approximately £52 million along with approximately £3 million of facilities for foreign exchange, Visa, bonds and guarantees, as well as significant intraday credit exposure to the Co-operative Group, which the Bank monitors and manages in line with the risk mitigation techniques used across the Bank's other business customers. The Bank will, therefore, continue to be subject to the risk of deterioration of the commercial and financial soundness or perceived soundness of the Co-operative Group. Additionally, the Bank has counterparty exposure to the Co-operative Group as set out under the "*Benefit of the Loss Sharing Deed*" set out immediately above; and

- *Reputation* – there may be reputational risks arising from termination of the Relationship Agreement and how the run-off of the Relationship Agreement is managed and communicated. See the risk factor entitled "*The Bank's differentiated customer proposition depends in part on its continued use of the "Co-operative" name."* below for further information.

These multiple dependencies expose the Bank to the risk that the Co-operative Group could have a material impact on the Bank if, for whatever reason, it were to cease to supply services, IT, software, data or other assets that it has agreed to provide, either adequately, on the agreed terms or at all, or to terminate the above-mentioned agreements and arrangements. Accordingly, the Bank's multiple dependencies on, and exposures to, the Co-operative Group could result in events and uncertainties that may have a material adverse effect on the Bank's ability to conduct its business, which could have a material adverse effect on the Bank's business, operating results, financial condition and prospects.

To-date, the Bank has benefited from collaborative and responsive working arrangements with the Co-operative Group in relation to the delivery of IT services and projects. There is a risk that existing working relationships may deteriorate if the Bank and the Co-operative Group's overall business objectives start to diverge, giving rise to an increased risk of delays in the Bank's transformation and change activities, and potential earlier termination of IT agreements with the Co-operative Group than currently envisaged in Bank's plans.

In addition, the Bank faces several risks relating to any inability to separate itself from the Co-operative Group as discussed as discussed under "*The Bank faces risks arising from any inability to separate its business and operations from the Co-operative Group*." below.

47. ***The Bank's differentiated customer proposition depends in part on its continued use of the "Co-operative" name.***

The Bank's differentiated customer proposition depends in part on its continued use of the "The Co-operative Bank" name (the trademark for which is owned by the Bank) and its ethical values and

reputation with customers and potential customers of the Bank. The term “Co-operative” included in its name (as used by the Co-operative Group and other co-operative societies) does not belong exclusively to the Bank (certain trademarks incorporating the word “Co-operative” and “Co-op” are owned by the Co-operative Group). By using the term “Co-operative”, the Bank is exposed to the risk that the Bank, the Co-operative Group or other co-operatives that use that term in their branding, fail to act or are speculated to act in a way such as to bring the Bank’s brand into disrepute. This could include litigation, employee misconduct or the misconduct (including criminal activity) of anyone associated with the Co-operative movement or brand (whether through the Co-operative Group, the Bank or otherwise), operational failures, accidents, the outcome of regulatory investigations, press speculation and negative publicity, disclosure of confidential customer information, inadequate products and services, amongst other factors, and could negatively impact the brand and reputation of the Co-operative movement, the Bank or the Co-operative Group. If, as a result of matters relating to the Co-operative movement, the Bank or the Co-operative Group, the Bank’s brand, levels of customer satisfaction or the Co-operative movement more generally are damaged, this could have a negative effect on the Bank’s business, operating results, financial condition and prospects and negatively impact the ability of the Bank to achieve its strategy.

The “The Co-operative Bank” trademark is owned by the Bank, which the Co-operative Group acknowledged in the Group Implementation Deed, described in paragraph 17.15 of Part 16 of this Circular. However, there is a risk that the Bank’s right to use the term “co-operative” could be challenged or removed. The Secretary of State for Business, Energy and Industrial strategy may direct the Bank to change its registered name if, in his or her opinion, it gives so misleading an indication of the nature of its activities as to be likely to cause harm to the public. Furthermore, the FCA has the power to prevent the use of the term “co-operative”, or to take other actions regarding the Bank’s branding, if the FCA considers this desirable to protect consumers or to protect the integrity of the UK financial system. A loss of support from key stakeholders (such as the Co-operative Group, Co-operatives UK or other influential commentators) for the Bank’s continued use of the term “co-operative” may result in a risk that the FCA and The Secretary of State for Business, Energy and Industrial strategy could look to exercise their powers, which could have a negative effect on the Bank’s business, operating results, financial condition and prospects and negatively impact the ability of the Bank to achieve its strategy.

The Bank maintains a non-legally binding agreement in the form of a “compliance statement” with Co-operatives UK, the national representative body for co-operatives in the UK (the “**Compliance Statement**”). In consultation with the International Co-operative Alliance, Co-operatives UK has determined that it is appropriate for the Bank to use the term co-operative provided that the following criteria are met: the Bank must: (i) exist in order to promote co-operative activity and be recognised by the co-operative movement in relation to this role; (ii) operate in line with co-operative values, and not discredit the co-operative business model; and (iii) not use the term in ways that serve to mislead others as to whether the organisation itself is in fact a co-operative. To protect the integrity of this determination, Co-operatives UK reviews areas of the Bank’s business, governance, operations and practice against the first two criteria listed above. In relation to the third criteria, the Bank confirms and commits not to use the term co-operative in ways that serve to mislead as to whether the organisation is in fact a co-operative. The Compliance Statement includes a process detailing that a matrix identifying the above criteria shall be drawn up by the Bank in conjunction with Co-operatives UK. The matrix includes details of the Bank’s ethical policy, values and culture, governance framework, products and services, including its participation in the Co-operative Group’s membership scheme, and the Bank’s vision (the “**Matrix**”). The content of the Compliance Statement and Matrix are to be reviewed by Co-operatives UK on an ongoing basis when significant changes are planned to the Bank’s business, governance, operations and practice, which might require the content of the Matrix and Compliance Statement to be amended. The contents of the Matrix and Compliance Statement were last updated following review by the V&E Committee in November 2016. Should Co-operatives UK not be content with changes in the foregoing, including as a result of the Restructuring and Recapitalisation, there is a risk of a loss of support from Co-operatives UK for the Bank’s continued use of the term “co-operative”, which in turn could result in an increased risk that

The Secretary of State for Business, Energy and Industrial Strategy or the FCA could look to exercise their respective powers detailed above.

In 2013 the Bank and the Co-operative Group agreed non-legally binding branding co-existence principles (the "**Co-existence Principles**"). See paragraph 17.8 of Part 16 of this Circular for a further description of the Co-existence Principles. Subsequently the parties sought to finalise, though did not sign, a more detailed co-existence agreement, to provide for the means by which the Bank could use the "Co-op" and "Co-operative" names to allocate trademarks and domain names into appropriate ownership, and to govern the future use by each party of trademarks such as "Co-op" or "Co-operative", to prevent any likelihood of confusion between the parties' use of such trademarks and to avoid any disputes in the future. The Group Implementation Deed terminated the Co-existence Principles from 22 July 2017. The Group Implementation Deed also imposes obligations on the Bank (without reciprocal contractual obligation on the part of the Co-operative Group) to: (i) ensure that all the Bank's brands are distinguishable from the brands of the Co-operative Group; and (ii) use all reasonable endeavours to avoid confusion on the part of the public into believing that the Bank or any of its subsidiaries are part of the Co-operative Group of companies or otherwise associated with the Co-operative Group. The Bank owns the registrations for the trading names that it uses (such as "The Co-operative Bank" and "smile"). Some trademarks used by the Co-operative Group are owned by the Bank and *vice versa*. Without a co-existence agreement or the Co-Existence Principles, there is a risk of disagreements about the use of certain similar brands or names, such as, the "Co-op" and "Co-operative" names, "The Co-op Bank" and "Co-op Bank" as to the specifications of goods/services for which each party's trademarks are used and registered.

Further, the Bank has applied to register "The Co-op Bank" and "Co-op Bank" trademarks. The Co-operative Group has objected to those applications for registration. The Co-operative Group has also applied for a number of trademarks against which the Bank has raised objections. These objections form one of the matters on which the Bank continues to liaise with the Co-operative Group. The cross-objections by the Co-operative Group and the Bank are all currently stayed (with the first scheduled to be dealt with by the Trademarks Registry in September 2017). If consensual outcomes in respect of these trademark and intellectual property matters are not agreed, this could lead to potential legal, financial and reputational risk to the Bank. The risk of not achieving consensual outcomes may increase with the proposed reduction in the Co-operative Group's shareholding and the run-off of the Relationship Agreement, the Bank's obligations in the Group Implementation Deed, or any changes to the Bank's governance and management (including amendments to or removal of the Values & Ethics in its Articles of Association) following the Restructuring and Recapitalisation or future changes and evolution of the brands of the Bank and the Co-operative Group. As a result of any of these factors, there is a risk that the Co-operative Group may also decide to object to the Bank's continued use of the terms "co-op" or "co-operative", which in turn could result in an increased risk that The Secretary of State for Business, Energy and Industrial Strategy or the FCA could look to exercise the powers detailed below.

Many of the Bank's customers participate in the Co-operative Group's membership scheme and are currently able to record "spend" or "points" by virtue of their trade with the Bank. The Bank's broader participation in the Co-operative Group's re-launched membership scheme has been under discussion with the Co-operative Group. These discussions have been put on hold by the Co-operative Group while it awaits further clarity on the future ownership of the Bank and the parties discuss funding of the membership scheme. Following implementation of the Restructuring and Recapitalisation, the Bank plans to re-commence negotiations with the Co-operative Group in relation to its participation in the Co-operative Group's membership scheme. Should these discussions not resume or, should the Bank for whatever reason, cease to participate in, the Co-operative Group's membership scheme, this may increase the risk of the Co-operative Group objecting to the Bank's continued use of the terms "co-op" and "co-operative" and, in turn, may require a re-appraisal of the Matrix with Co-operatives UK, which could result in a loss of support from Co-operatives UK for the Bank's continued use of the term "co-operative", either of which could result in an increased risk that The Secretary of State for Business, Energy and Industrial Strategy or the FCA could look to exercise their powers detailed above. There is also a risk that the Bank ceasing to participate in the Co-operative Group's

membership scheme could lead to customer attrition, see the risk factor entitled "*There are numerous risks associated with the changes in the Bank's relationship with the Co-operative Group. The Bank's relationship with the Co-operative Group will be materially affected by the Restructuring and Recapitalisation, the termination and run-off of the Relationship Agreement and the termination of the Co-Existence Principles, as well as the Co-operative Group's reducing influence over and co-operation with the Bank*." below.

The Bank has entrenched Values & Ethics into its Articles of Association and the Principal Investors have agreed that those provisions will continue following the Restructuring and Recapitalisation. These will also be incorporated into the Holdco Articles of Association and the articles of association of Issuerco (if and when it is interposed between Bank and Holdco). If the Shareholders of the Bank decide to remove those entrenched provisions, there is a risk that the Bank may be compelled by the Co-operative Group, The Secretary of State for Business, Energy and Industrial Strategy or the FCA to cease the conduct of any business under a brand that combines the words "Co-operative" or "Co-op" and "Bank", which could have a negative effect on the Bank's business, operating results, financial condition and prospects and negatively impact the ability of the Bank to achieve its strategy.

48. ***The Bank faces risks arising from any inability to separate its business and operations from the Co-operative Group.***

Since December 2013, when the Bank ceased to be wholly owned by CBG, the Bank has been working on operational separation from its former parent, CBG, its ultimate former parent, the Co-operative Group, and its former sister companies, CFSMS and CISGIL. The separation process has been, and continues to be, complex and time-consuming, with progress much slower, and costs higher, than initially foreseen. Whilst substantial elements of separation have been completed, notably for day-to-day operations and technology supporting many of the Bank's core business processes, significant dependencies remain. The risks associated with the remaining process of separation and the inability of the Bank to separate its business and operations from the Co-operative Group include:

- *Co-operative Group's parallel exit of shared IT infrastructure* – due to inter-dependencies between the Bank's exiting of the IT infrastructure shared with the Co-operative Group and the Co-operative Group's General Insurance business' parallel exit from the same shared IT infrastructure, there is a greater risk of delay to the successful completion of the Bank's IT programmes that relate to the Bank's exit from the shared IT infrastructure and any such delay may result in additional costs above those contemplated in the Plan;

- *Costs of separation* – the costs of separation have already been significant and further significant costs may be incurred in excess of those contemplated by the Bank in the Plan and adversely impact the Bank's ability to meet its project cost targets;

- *Indemnification obligations* – the Co-operative Group has generally been insistent upon indemnification in relation to transition assistance provided, which may increase the Bank's contingent liabilities;

- *Co-mingling of data following separation* – there is a continuing mix of customer, employee and financial data between the Bank and members of the Co-operative Group on the shared IT infrastructure, which creates a risk that the Bank or the Co-operative Group may breach applicable data protection legislation. See the risk factor entitled "*The Bank and the Co-operative Group continue to share and co-mingle data and access to data, creating an increased risk of breaches of data protection and privacy laws sanctions and/or fines from regulators*." below for further information;

- *Separation programme interdependencies* – the various activities that need to occur to achieve complete separation have multiple interdependencies, such as the Bank's desktop programmes, telephony, and data centre migrations, which need to be completed contemporaneously to achieve overall IT separation from the Co-operative Group, including separation from the shared network and exit from the shared data centres. These interdependencies increase the risk to separation completing in a timely or cost-effective manner;

- *Separation plans remain subject to change* – as the Bank and the Co-operative Group jointly and individually plan and execute the separation activities, unforeseen factors may arise which necessitate adjustments to the plans, including adjustments which extend the period of service dependency which may in turn lead to an extended period where operating costs and/or complexities are above those envisaged by the Plan;

- *Requirements for assistance in connection with an exit in part from the ITSA and PSMSA* – the Co-operative Group is required to provide significant transition and delivery support and assistance to achieve separation under several agreements between the Co-operative Group and the Bank and relevant affiliates (for example, ITSA, the PSMSA, the Transitional Services Agreement and the Reverse Shadowing Letter (each as defined in Part 20 of this Circular)). If the Co-operative Group does not provide this support and assistance, the Bank will not be able to deliver its programme of change, achieve its anticipated business outcomes, and complete its separation from the Co-operative Group;

- *Complexity of IT operating model* – the complexity of the current transitional IT service arrangements across the Co-operative Group and the Bank's replacement suppliers creates risks that the Bank will experience a greater number of service interruptions. Furthermore, the time required to address these interruptions may be greater than the time typically needed given the complex interim service model and the possibility of multiple parties needing to be involved in remedying issues, resulting in additional costs and expenses to the Bank not contemplated by the Plan;

- *Supporting the Separation Cost Share Agreement* – the Bank and the Co-operative Group agreed governance arrangements and funding levels to support IT separation in the Separation Cost Share Agreement. If the approach to separation, overall timetables or activities assumed within the Agreement are not followed, there is a risk that the Separation Cost Share Agreement is no longer appropriate or is breached, giving rise to unplanned liabilities and expenditure;

- *Property occupation and estates issues* – there are formal leases in place for St Paul's House and Miller Street, where the Bank is tenant and the Co-operative Group is the Bank's landlord, along with Balloon Street and Olympic House, where the Co-operative Group is tenant and the Bank is landlord. However, the Co-operative Group does not have formal rights of access to the shared data centres leased or owned by the Bank (in the Olympic House, Tytherington and Delf House premises), raising uncertainties and potential disagreements on responsibilities and liabilities. Discussions are ongoing between the Bank and the Co-operative Group to seek to address this issue of rights of occupation, although as of the date of this Circular no agreement has been concluded. There is also a risk that the Co-operative Group's activities in those data centres may adversely disrupt or impact the Bank's operations until those properties may be disposed of;

- *IT software licensing* – the Bank currently benefits from a number of IT licences procured by the Co-operative Group for its own and the Bank's benefit. The Bank will need to ensure that it procures all the IT licences required to support and run the Bank's IT systems independently from the Co-operative Group, and that those licenses adequately address the Bank's needs. Due to the complexity of separation and the legacy of the Bank's IT estate, there is a risk that a number of additional licences will need to be acquired to ensure licensing compliance. Furthermore, where suppliers to the Bank identify that their products may no longer be required post-separation, they may attempt to levy additional or penal licence fees on the Bank; and

- *Separation governance* – although the majority of planned separation activities are part of broader formally managed change programmes governed by steering committees, there is no overall Bank governance committee overseeing separation. Further, separation is not managed by a central separation team in the Bank and some separation work is being delivered by personnel that are not subject to Bank project change governance. There is a risk that separation costs may not be managed or reported on in a timely manner or may continue to be greater than

targeted in the Plan and, where applicable, the May 2017 Outlook on the Plan, particularly if completion of separation is delayed, or does not occur.

49. ***Reputational risk could cause harm to the Bank, its business, operating results, capital position, financial condition, prospects and ability to meet targets, including a return to profitability, and question the Bank's commitment to co-operative values and ethics.***

The Bank's reputation is one of its most important assets. Its ability to attract and retain customers and deposits and to conduct business with its counterparties could be adversely affected to the extent that its reputation or its brand is damaged. The act of addressing or failing to address, or appearing to fail to address, issues that could give rise to reputational risk is likely to cause harm to the Bank, its business and its prospects. The Bank's reputation could be impacted by both known issues and issues not yet identified (some of which could only have an ancillary connection to the Bank). For example, litigation, or the misconduct of employees or other persons (including criminal activity) at any time associated with the Co-operative brand or the "The Co-operative Bank" brand, operational failures, accidents, the outcome of regulatory investigations, media speculation and negative publicity, breaches of data protection or other laws, products considered to be inappropriate and sub-standard customer service, amongst other factors, could impact the Bank's reputation. Reputational damage could arise from, without limitation, any of the following (along with media speculation regarding the same where relevant):

- the reputational damage arising from downgrades to the Bank's credit ratings and the implementation of the Bank's strategy, including the Restructuring and Recapitalisation;
- litigation or objections, including from creditors in connection with the Restructuring and Recapitalisation and interest groups and associated media coverage;
- a requirement to raise further capital in the future, which could affect, or be perceived to affect, confidence in the Bank;
- a failure to implement and execute the Bank's strategy, the Plan and/or the May 2017 Outlook on the Plan in whole or in part;
- any perception that the Bank is vulnerable to market conditions and other factors over which the Bank has limited or no control, such as the interest rate environment;
- a perception that the Bank has moved away from its co-operative Values & Ethics or that there are breaches of the Bank's Values & Ethics policy by the Bank or its employees;
- a reduction in the Bank's customer service levels mainly as a result of cost reductions and outsourcing;
- a conflict between the mutual and ethical reputation of the Co-operative brand with the value maximisation objective of other Shareholders of the Bank and the duties of the Board to such Shareholders, and more generally the Bank's association with the Co-operative brand, including any actions or omissions or speculation by or about the Co-operative Group. See the risk factor entitled "*The Bank's differentiated customer proposition depends in part on its continued use of the "Co-operative" name*." for further information;
- any potential impact to the Bank's brand or reputation as result of the reduction in the shareholding of the Co-operative Group upon Completion;
- a material or major failure of or inability to promptly recover key services, recover IT capability, or other infrastructure, particularly where this disrupts the Bank's ability to service customer transactions for a prolonged period;
- the risk that The Secretary of State for Business, Energy and Industrial Strategy may direct the Bank to change its registered name, or that the FCA or a third-party may prevent the use of the "Co-operative" name, or take other action regarding the Bank's branding;

- matters relating to the Co-operative Group or its governance or to its current or former officers, employees or management, including their professional or personal misconduct, which adversely impact the Bank's brand;

- adverse findings following from any legal or regulatory investigation into the Bank's conduct or investigations connected to the Bank; see the risk factor entitled "*In common with other banks and financial institutions, the Bank is under intense regulatory scrutiny and expects that environment to continue. The Bank may be the subject of regulatory and other investigations and subject to legal and/or regulatory proceedings*.";

- failing appropriately to address potential conflicts of interest;

- breaching or facing allegations of having breached legal and regulatory requirements, including those relating to AML sanctions, anti-bribery and corruption requirements and a subsequent enforcement action or regulatory investigation;

- acting or facing allegations of having acted unethically (including having adopted inappropriate sales and trading practices);

- failing or facing allegations of having failed to maintain appropriate standards of customer privacy, customer service and record-keeping;

- internal or external fraud;

- failing properly to identify legal, regulatory, reputational, credit, liquidity and market risks inherent in products offered;

- failure to adhere to the Bank's Values & Ethics or ethical policies;

- cyber or denial of service attacks; and

- resignation of the Bank's auditors.

A failure to address these or any other relevant issues appropriately could make significant numbers of customers, depositors and investors unwilling to do business with the Bank. For example, if the negative news flow continues for a significant period of time, there is the risk that the Bank will lose a material number of customers and liability/asset balances to competitors. This could materially adversely affect the Bank's business, operating results, financial condition and prospects and could damage its relationships with its regulators. The Bank cannot provide any assurance that it will be successful in avoiding damage to its business from reputational risk.

50. ***The Bank's policies and processes for risk management may prove inadequate for the risks faced by its business and could lead to exposures outside the Bank's risk appetite, and unforeseen losses. Any failure properly to manage the risks which it faces could cause harm to the Bank and its business prospects.***

Historically, the Bank's risk-management framework ("**RMF**") has been weak and there have been failings in a number of areas in the past.

Whilst the Bank has taken steps to enhance its RMF, further work is required to fully embed the RMF to a consistent standard across the Bank, which may lead to the identification of further risks and control failings which could potentially impact the business, operating results, financial condition and prospects of the Bank.

The Authorities will continue closely to review the Bank's progress throughout 2017 and on an ongoing basis. A failure to implement an RMF that addresses any remaining material deficiencies could potentially result in the Authorities taking further action and operational risks arising from any continuing deficiencies that may have a material adverse effect on the Bank's ability to implement its strategy.

The Bank has a range of tools designed to measure and manage the various risks which it faces. These methods may prove to be inadequate for predicting risk exposure, which may prove to be significantly greater than is predicted. Methods for risk management are based on evaluation of information regarding markets or customers or other information that is publicly known or otherwise available to the Bank. Such information may not always be correct, updated or correctly evaluated. In addition, even though the Bank constantly measures and monitors its exposures, there is a risk that its risk management methods will be ineffective, particularly in unusual or extreme market conditions. It is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Bank's financial performance and business operations.

51. ***Many of the Bank's business, operational, reporting and financial processes rely on significant manual processes and intervention, which is inefficient and significantly increases the risk of errors in the Bank's operational processes, including customer-facing processes, data and financial reporting, by comparison with automated processes.***

The Bank's auditors have classified the weaknesses in the Bank's control environment as a "pervasive risk to the audit" and "in excess of what would be considered normal in the banking industry".

Key business and operational processes, including processes supporting payments and financial reporting (including, *inter alia*, statutory, regulatory and management reporting, which incorporates management reporting of actual results, planning, forecasting and stress testing reporting), rely on manual process steps and on manipulation of data using spreadsheets and other end-user tools, some of which are not subject to the same controls as the Bank's core systems. Data validation in some cases relies on manual checks where automated checks might be expected, leading to a heightened risk of processing errors and hence to the possibility of financial loss, adverse customer impact, compliance breaches and reputational harm to the Bank. The Bank periodically experiences actual and near-miss risk events, including where manual errors cause incorrect payments to be made or nearly made. Where such payment is retrieved from a customer, this is termed a "near-miss". Where such payment is not recovered, this constitutes an actual operational loss event.

The Bank's financial reporting processes are complex, reflecting reliance on legacy systems which have not been fully integrated following the merger of the Bank and Britannia. The Bank relies on manual processes to consolidate the Bank's financial results and other data, and there is a significant use of spreadsheets, manual controls and adjustments and other end user computing systems, as opposed to fully automated consolidation and reporting processes. The retained evidence supporting the operation and review of these manual controls and substantiation of balances is frequently inadequate and is the subject of controls remediation. The manual nature of the processes increases the risk of a material misstatement in financial reporting.

There is a significant risk that the Bank's financial statements or related financial disclosures and other reporting or financial planning, including the accuracy of the Bank's targets and assumptions, may contain material errors or need to be restated which could lead to actual exposures outside the Bank's risk appetite, unanticipated losses and regulatory censure.

As a result of the Restructuring and Recapitalisation, the Bank's legal entity structure and financial reporting will increase in complexity, with amongst other things, the introduction of Holdco as the ultimate parent company of the Bank, resulting in the requirement for consolidated financial and regulatory group reporting for Holdco and Issuerco (if and when it is interposed between Bank and Holdco). The increased volume of reporting that will be required as a result of the Restructuring and Recapitalisation will, in addition to the existing complex and manual processes described above, further increase such risks. Should any of these risks materialise, they could have a material adverse effect on the Bank's business, operating results, financial condition and ability to achieve its targets.

52. ***The Bank and its customers are exposed to risks associated with cyber crime and fraud.***

As with other financial institutions, reflecting the increased use of technology in financial services, the Bank and its customers are at risk of actual or attempted cyber attacks from parties with criminal

or malicious intent, including attacks designed to overload the Bank's systems. These risks are accentuated as the Bank increasingly digitalises its products, services, key functions and distribution channels and as cyber attacks become more sophisticated and prevalent. The Bank is subject to the risk that any cyber attack may result in temporary loss of operational availability of the Bank's systems to its employees and/or customers which could have a material adverse effect on the Bank's business, financial condition, operating results and prospects.

There is a risk that the Bank may not continue to invest sufficiently in its information security controls in response to emerging threats, such as cyber crime and fraud, and to seek to ensure that controls for known threats remain robust. The risks associated with cyber attacks, where an individual or group seeks to exploit vulnerabilities in IT systems for financial gain or to disrupt services, are a material risk to the Bank and the UK financial system, which has a high degree of interconnectedness between market participants, centralised market infrastructure and in some cases complex legacy IT systems. There is a known vulnerability to cyber-attacks inherent in older technologies, especially with older operating systems. The Bank has some exposure to such systems. There is a risk that the Bank's infrastructure and controls may be seen to be ineffective or have material weaknesses or significant deficiencies and any failure of the controls to anticipate, prevent or mitigate a network failure or disruption could entail a temporary loss of operational availability to employees and/or customers and could result in significant financial losses and a material adverse effect on the Bank's operational performance and reputation.

Furthermore, any breach in security of the Bank's systems, for example from increasingly sophisticated attacks by cyber crime groups or fraudulent activity in connection with customer accounts, could disrupt its business, result in the disclosure of confidential information, create significant financial and/or legal exposure and damage the Bank's reputation and/or brand.

Additionally, the Bank and its customers are exposed to increased levels of card, account, identity, internal and other frauds, some of which are more sophisticated, organised and technology-led. This growth and increased sophistication increases the fraud risks to which the Bank is exposed and the Bank's systems based preventative measures may be less developed than those of other banks, may not prove effective in all circumstances to prevent fraud and, without further investment, may be increasingly exposed to fraud risk from increasingly sophisticated attacks by cyber crime groups or fraudulent activity. This may mean that the Bank is potentially exposed to greater levels of attack and resultant losses than other institutions. There is increased focus by Government, regulatory bodies, law enforcement and consumer protection groups in respect of bank-related fraud. This could result in changes to regulation or regulatory expectations in terms of the level of fraud for which the Bank, as opposed to its customers, is held liable, thus increasing the impact of even the present levels of fraud on the Bank's losses.

Any of these activities may be difficult to prevent or detect, and the Bank's internal policies to mitigate these risks may be inadequate or ineffective. The Bank may not be able to recover the losses caused by these activities or events, and it could suffer reputational harm as a result of them, either of which could have a material adverse effect on its business, financial condition, operating results or prospects.

53. ***The Bank may suffer loss as a result of fraud or theft.***

As a financial institution, the Bank is subject to a heightened risk that it will be the target of criminal activity, including fraud or theft. Due to the nature of the Bank's business, it has exposure to many different customers and third-party service providers. The Bank's selection and screening processes with respect to its third-party service providers and lending customers, as well as its internal relationship management processes, may be ineffective if the Bank's customers or third-party service providers engage in fraudulent activity.

For example, the Bank is exposed to potential losses resulting from customers or third-party service providers providing the Bank with falsified or fictitious information in order to secure financing or receive sales commissions. Such fraudulent activity could have a material adverse effect on the Bank's

business, financial condition, operating results or prospects. The Bank is also reliant on the accuracy and completeness of information it receives from its third-party service providers, credit reference agencies and customers. If the Bank receives inaccurate or misleading financial statements, credit reports or other financial information relating to its borrowers, such borrowers may be more likely to default on their obligations to the Bank, which could have a material adverse effect on the Bank's business, financial condition, operating results or prospects.

In addition, losses arising from staff misconduct may result from, amongst other things, failure to document transactions properly or obtain proper internal authorisation in an attempt to defraud the Bank, or from theft by staff of customer data or physical theft at the Bank's premises. Such behaviour may be difficult to prevent or detect, and the Bank's internal policies to mitigate these risks may be inadequate or ineffective. The Bank may not be able to recover the losses caused by these activities, and it could suffer reputational harm as a result, each of which could have a material adverse effect on its business, financial condition, operating results or prospects.

54. ***Anti-money laundering ("AML"), anti-bribery, sanctions and other compliance risks.***

Combating money laundering, bribery and terrorist financing and compliance with economic sanctions has been a major focus of government policy relating to financial institutions in recent years (most notably in the UK and the EU). UK and EU law and regulations impose obligations on the Bank to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. Failure by the Bank to implement and maintain adequate policies, procedures and controls to combat money laundering, bribery and terrorist financing or to ensure economic sanction compliance could have serious legal and reputational consequences for the institution, including exposure to fines, public censure, penalties and damages. In 2013 and 2014, the Bank identified a number of significant control weaknesses with respect to its AML sanctions and terrorist financing controls and consequently there may be instances in which obligations imposed by UK and EU law with respect to AML, sanctions and terrorist financing controls have not been met. There is a risk of the FCA exercising its powers over the Bank (including imposing fines) in respect of any remaining control weaknesses that are in the process of being remediated. The Bank has remediated the majority of its high-risk customers for AML regulations and attestation was submitted to the FCA in Q1 2017 confirming the remediation actions taken in relation to such customers. However, any weaknesses in the Bank's AML, sanctions and terrorist financing controls and/or failure to remediate them could have a significant adverse effect on the Bank's business, operating results, financial condition and/or prospects.

55. ***There are weaknesses in the Bank's framework for managing data, including adequate business and IT infrastructure, documented standards on ownership and quality of data (relating to Bank customers and employees as well as Bank proprietary data), as well as clear, documented standards and policies about the use of data. Failure to adequately maintain corporate records or to adequately maintain and protect customer and employee information could have a material adverse effect on the Bank.***

Weaknesses in the Bank's data governance and data ownership framework have led to sub-optimal data management practices being adopted. These practices have resulted in difficulties in verifying the quality and usage of data across the Bank. As a result, there are risks of inaccurate or incomplete financial and other reporting as well as the risk of inappropriate decision-making due to errors in underlying data.

There is a risk that the retained records may not be adequate for the current purposes of the Bank and the Bank may not have adequate accessibility to required records. This may lead to, amongst other things, the Bank being unable to access sufficient information to ascertain the sequence of past events and defend itself against litigation or, in the course of regulatory or other enquiries, may potentially lead to adverse reputational impact, financial costs, regulatory censure and fines.

The Bank processes personal data (including name, address, date of birth, bank and credit card details and other personal data) of its customers, third-party claimants, business contacts and employees as

part of the operation of its business. It must, therefore, comply with data protection and privacy laws and industry standards in the UK and the EU. Such compliance may also be contractually required. Those laws and standards impose certain requirements on the Bank in respect of the collection, use, storage and destruction of such personal data. For example, under UK and EU data protection laws, when processing personal data, certain information must be provided to the individual whose data is being processed. This information includes the identity of the data controller, the purposes for which the data is being processed and any other relevant information relating to the processing. There is a risk that the processing of data by the Bank and its appointed third parties is not conducted in accordance with notifications made to, or obligations imposed by, regulators, the rights of data subjects, or applicable law. Failure to operate effective data protection controls could potentially lead to regulatory censure, fines, reputational and financial costs, increased card handling fees, on the withdrawal of payment processing services in the future, as well as result in potentially inaccurate rating of risks or overpayment of claims.

The GDPR was published in the Official Journal of the EU on 4 May 2016 and is due to come into force on 25 May 2018. The GDPR is likely to increase the regulatory burden on the Bank in processing personal customer, employee and other data in the conduct of its business and acting as data processor in respect of the Co-operative Group's data. The GDPR includes significant financial penalties of up to 4 per cent. of the annual worldwide turnover of company groups. The Bank has a funded plan for GDPR compliance; however, there is a risk that this will not be sufficient, that completion of such plan is delayed or that the final requirements will differ from those for which the Bank has planned.

There is a risk that certain types of data governance breaches could subject the Bank to liability and/or damage the Bank's brands and reputation. For example, the Bank's systems, processes and controls with respect to the use of marketing data present certain deficiencies, including with respect to recording and applying customer marketing preferences. Such weaknesses could lead to the Bank contacting customers or sharing customer details where customers had not provided the relevant permissions. This could result in the Bank losing customers and liability/asset balances to competitors, which may have an adverse impact on cross sales.

The Bank is exposed to the risk that the personal data processed for its purposes could be accessed and/or used without authorisation, whether by employees or other third parties, or otherwise lost or disclosed in breach of data protection laws. If the Bank or any of the third-party service providers on which it relies (including the Co-operative Group) fail to process such personal data in a secure manner or if any such theft or loss of personal data were otherwise to occur, the Bank could face action under data protection laws. This could also result in damage to the Bank's brands and reputation, as well as the loss of new or repeat business, any of which could have a material adverse effect on the Bank's business, operating results, financial condition and/or prospects.

Capita staff who administer Bank mortgage business do so via IT platforms shared with some of the Bank's savings business, which provides them with access to data that does not relate directly to their business activities. If Capita or other third-party staff do not act in accordance with established controls and procedures, there is a risk personal data could be accessed and/or used without authorisation, or otherwise lost or disclosed in breach of data protection laws.

In certain circumstances, the Bank's systems testing activities make use of copies of real customer data. Although these activities are controlled, there remains the possibility that failure of these controls could lead to personal data being accessed and/or used without authorisation, or otherwise lost or disclosed in breach of data protection laws.

56. ***The Bank and the Co-operative Group continue to share and co-mingle data and access to data, creating an increased risk of breaches of data protection and privacy laws sanctions and/or fines from regulators.***

The Bank and the Co-operative Group continue to share physical and digital information assets and access to them, notwithstanding that they are no longer part of the same group, thereby creating an

increased risk of breaches of data protection and privacy laws and/or industry standards, entailing sanctions and/or fines from regulators in relation to personal data). An adverse finding from a regulator could have an adverse effect on the Bank's reputation and on the Bank's business, operations, financial condition or ability to achieve its targets.

As the Bank has not completed the separation of its systems from the Co-operative Group, the Co-operative Group has the ability to access the Bank's customer and employee information. The Bank is unable, therefore, to comply across its entire operation with the seventh principle of the Data Protection Act 1998, which requires that personal data must be kept secure against loss or disclosure, as certain personal data will be held on shared assets. The Bank has advised the relevant authority of this fact and of the data risks associated with the separation process and the relevant authority has noted that it is comfortable with the measures which the Bank is putting in place to reduce the risk. There is a risk that the relevant authority will change its approach to the Bank's breach or any other potential or actual breach of data protection and privacy laws and industry standards and the Bank remains at risk of potential enforcement action by the relevant authority.

The Bank is seeking to mitigate the risks of breach of data protection and privacy laws and industry standards by seeking to implement certain separation projects (including separation of digital information assets stored in shared technologies and separation of physical information assets) and has put in place a data processing agreement and manual data exporting agreements with the Co-operative Group for the separation period. An enduring data agreement to govern treatment of co-mingled data was entered into on 3 July 2017. However, there are risks to the successful implementation of these separation projects as these projects are highly complex and face significant challenges This could, for example, mean that during separation the Bank is exposed to poor control by the Co-operative Group of the Bank's data, that the Bank has no audit rights over the Co-operative Group and that the Bank may not be able to share the cost of data separation; the Bank is relying on the Co-operative Group's resources to provide access to those assets which the Bank uses in a timely manner; the separation projects could encounter delays during negotiations and planning, including, due to the Co-operative Group's complex governance arrangements, different working practices and absence of understanding of the Bank's regulated environment; information could be lost during the separation process; lack of an information asset register within the business could impact the ability to separate such assets; there is a risk of increased key person dependencies and the possibility of increased staff turnover owing to the increased workload arising from separation; the technology environment relies in part on archaic technology that increases the degree of difficulty required in separating the data environments (potentially increasing the time and cost of data separation); physical records may not be adequately stored or able to be reached easily, requiring extra time and investment to appropriately separate; and the Bank may not be legally compliant in its business with respect to data processing arrangements. Post-separation, the Bank will have a copy of all Bank data and previously co-mingled Co-operative Group data, and accordingly will not be reliant on the Co-operative Group providing access to Bank data in a timely manner.

Further, there is an increased risk of loss, theft or disclosure of the Bank's commercial information (or a third-party's confidential information) as a result of historical sharing of systems, including data storage systems, between the Bank and the Co-operative Group. Upon eventual completion of systems separation between the Bank and the Co-operative Group each party will retain historical copies of certain data related to the other party that is uneconomical to separate. Areas of concern include legacy IT infrastructure (e.g. shared network drives and/or email systems and voice data recordings), finance systems and marketing systems. The Bank and the Co-operative Group entered into an enduring data sharing agreement dated 3 July 2017 to govern this data. If either party fails to hold the other party's data in accordance with this agreement, this could give rise to data access and/or use without authorisation, whether by employees or other third parties, and/or data loss or disclosure in breach of data protection laws. This in turn could give rise to litigation, regulatory action, fines, censures, claims for redress and reputational damage, and could have a material adverse effect on the Bank's business, financial condition, operating results and prospects.

57. ***The Bank's accounting policies and methods are critical to how it reports its financial condition and operating results. They require the Bank to make estimates about matters that are uncertain.***

The preparation of financial statements in accordance with the international financial reporting standards issued by the International Accounting Standards Board (the "**IASB**") as adopted by the European Commission for use in the EU ("**IFRS**") requires the use of estimates. It also requires management to exercise significant judgment in applying relevant accounting policies so that they comply with IFRS.

In the Bank's financial statements, the basis of preparation and accounting policies disclosures have identified certain accounting policies in respect of which significant judgment is required in determining appropriate assumptions and estimates when valuing assets, liabilities, commitments, provisions and contingencies. Significant judgement is also used in developing targets, forecasts and assumptions and, accordingly, there is a risk that if the judgement exercised or the estimates or assumptions used subsequently turn out to be incorrect, then this could result in significant loss to the Bank, beyond that anticipated or provided for, which could have an adverse impact on the Bank's financial condition, operating results and prospects.

These critical judgements and estimates relate to, *inter alia*, the assumptions used in the determination of loan impairment provisions, conduct risk and legal provisions, group relief receivable from the Co-operative Group, deferred tax, pension schemes, the provision relating to the Bank's separation from the Co-operative Group and effective interest rate and fair value adjustments and the accounting treatment of the Restructuring and Recapitalisation, particularly the determination that the Restructuring and Recapitalisation is not a business combination under IFRS 3 (Business Combinations).

The Bank has established policies and control procedures that are intended to ensure that these judgements (and the associated assumptions and estimates) that are applied in its financial statements are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing accounting policies and methodologies moves forward in an appropriate manner. The Bank cannot guarantee that it will not be required to make (potentially material) changes in accounting policies, methodologies or estimates or restate prior period financial statements in the future.

There is also a risk the Bank's accounting policies and related judgements, estimates and determinations are challenged by regulatory bodies, including the Financial Reporting Council. This or any of the above potential challenges to the Bank's accounting policies or managements' judgements estimates and determinations, and any associated restatements of previously published financial statements and any related litigation against the Bank arising from any such restatements could have a material adverse effect on the Bank's financial condition, operating results or prospects.

58. ***Changes in the Bank's accounting policies or in accounting standards could materially affect how it reports its financial condition and operating results.***

From time to time, the IASB and/or the EU change the IFRS, which govern the preparation of the Bank's financial statements. These changes can be difficult to predict and could materially impact how the Bank records and reports its financial condition and operating results. In some cases, the Bank could be required to apply a new or revised standard retrospectively, resulting in restating prior period financial statements.

For example, International Financial Reporting Standard 9 (Financial Instruments: Recognition and Measurement) ("**IFRS 9**"), which is due to become effective in relation to the Bank's financial reporting after 1 January 2018, includes new requirements for the classification and measurement of financial assets and liabilities, hedge accounting and the implementation of an expected credit loss (rather than incurred loss) basis for measuring impairment of financial assets. The parallel run of the requirements of IFRS 9, which is planned to take place in the second half of 2017, is expected to provide reliable quantitative impact information which will be disclosed in the Bank's 2017 annual

report and accounts. Until such a reliable estimate is available, there is a risk that IFRS 9 could have a material adverse effect on the Bank's financial condition, operating results and prospects.

Other new accounting standards that have been issued by the IASB that do not yet need to be applied by the Bank include IFRS 15 (Revenue from Contracts with Customers (2014)), amendments to IFRS 10 (Consolidated financial statements) and IAS 28 (Investments in associates and joint ventures (2014)), amendments to IAS 7 (Statement of Cash Flows), IFRS 16 (Leases), amendments to IAS 12 (Income taxes) and amendments to IFRS 2 (Share based payments). The Bank has not yet finalised its estimation of the financial impact of all of these new accounting standards and there is therefore a risk that any of these new standards could materially affect the Bank's current and future financial condition and results of operations. The IASB may make other changes to financial accounting and reporting standards that govern the preparation of the Bank's financial statements, which the Bank may adopt, or which the Bank may adopt prior to the date on which such changes become mandatory if determined to be appropriate by the Bank, or which the Bank may be required to adopt. Any such change in the Bank's accounting policies or accounting standards could materially affect its reported financial condition and operating results.

59. ***Following implementation of the Restructuring and Recapitalisation, there is a risk that the analysis undertaken in relation to accounting, regulatory or taxation treatments may have to be revised.***

The Bank has undertaken a detailed accounting, taxation and regulatory capital analysis to determine, amongst other things, the accounting, regulatory and taxation treatments which will be required following the changes to the Bank Group's organisational structure as a result of the Restructuring and Recapitalisation.

In the preparation of such analysis, significant judgement is required in various instances (for examples of the judgement required, albeit specifically with regards to accounting policies, see the risk factors entitled "*The Bank's accounting policies and methods are critical to how it reports its financial condition and operating results. They require the Bank to make estimates about matters that are uncertain*" and "*Changes in the Bank's accounting policies or in accounting standards could materially affect how it reports its financial condition and operating results.*"). Should the judgment exercised or the estimates or assumptions used by the Bank subsequently turn out to be incorrect or external auditor, adviser or statutory authority opinions change following the Restructuring and Recapitalisation, there is a risk that the pro forma financial information set out in Part 8 of this Circular may not be appropriately stated and, accordingly, may require negative adjustments to regulatory capital, accounting valuations and/or the value of tax losses available to the Bank in the future; each of which could have a material adverse effect on the Bank's financial condition, operating results or prospects.

60. ***The Bank is exposed to a number of tax risks including risk of changes in tax legislation and its interpretation and a change in the rate of corporate and other taxes.***

The Bank's activities are conducted principally in the UK and it is, therefore, subject to a range of UK taxes at various rates. Future actions by the Government to change tax rates or to impose additional taxes could reduce the Bank's profitability. Additional or revised tax legislation or changes to its interpretation might also affect the Bank's financial condition in the future, including an impact on the Bank's tax costs and the utilisation of tax losses. In addition, the Bank is subject to tax audits and enquiries by HMRC which could result in additional tax charges, including interest and penalties relating to past periods of up to six years. Any such charges could be material, which might also affect the Bank's financial condition in the future.

There is risk that the Bank could suffer losses due to additional tax charges (including interest and penalties), other financial costs or reputational damage due to: failure to comply with, or correctly assess the application of, relevant tax laws; failure to deal with tax authorities in a timely, transparent and effective manner (including in relation to historical transactions); incorrect calculation of tax estimates for reported and forecast tax numbers; or provision of incorrect tax advice. Such charges,

or conducting any challenge to a relevant tax authority, could lead to adverse publicity, reputational damage and costs materially exceeding current provisions, in each case to an extent which could have an adverse effect on the Bank's operations, financial condition and prospects.

The May 2017 Outlook on the Plan assumes recognition of deferred tax assets during the life of the Plan based on a certain set of criteria (as set out in paragraph 9.2(e) in Part 7 of this Circular). There is a risk that one or more of these criteria will not be satisfied and that the Bank will be unable to recognise its deferred tax assets in the quantum expected or at all, which would increase the risk of a delay as to when the Bank expects to generate a post-tax profit in the future.

61. ***There is a risk that the Bank's insurance cover may be inadequate, that it will be difficult for the Bank to obtain insurance and that those insurance policies which the Bank has in place might become void or voidable.***

The Bank has a number of insurance policies in place with respect to its business, assets and liabilities. Any insurance that the Bank may obtain may be subject to exclusions, limitations, minimum claim amounts and excess amounts and other terms that mean that the Bank may have uninsured claims and losses. There is a risk that the terms of the Bank's insurance policies will not cover the Bank's liabilities in all situations and that the Bank may therefore have uninsured exposure. There is also a risk that the level of premium payable by the Bank may rise, to reflect the insurance market's view of the Bank's financial condition.

Any insurance cover that the Bank has in place could become void or voidable in the event of a fundamental non-disclosure of information by the Bank.

As part of the process of separating from the Co-operative Group, the Bank has prepared a list of property assets and valuations. There remain certain property assets for which ownership is unclear and no further work is being undertaken by the Bank to identify ownership of such property assets. Accordingly, there is a risk that the insured values do not fully match the rebuild/reinstatement values of the Bank's assets and therefore do not comply with certain provisions in its property insurance policies.

Any failure of the Bank to retain adequate insurance coverage in respect of any liabilities could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

62. ***Risks relating to the Bank's freehold and leasehold interests.***

As at 31 December 2016, the Bank operated 105 branches (which the Bank is aiming to reduce to 95 by the end of July 2017) and the Bank operates 10 major sites (being head office, call centre and data centre locations utilised for banking operations) and holds 108 onerous interests (being former branch and corporate banking centres not utilised by the Bank for its operations but to which it still retains liability through title ownership). These are held on a mixture of leasehold and freehold interests and, whilst the majority relate to property which is registered at the Land Registry, there are some properties (in respect of which the Bank's interest has been held for a number of years) which comprise unregistered land. Accordingly, there is a risk this lack of registration could result in potential disputes or challenges to ownership or title.

The Bank also owns personal property and there is a risk that any real or personal property is not held with title absolute (for example, some real property leases may comprise good leasehold title) or that they are not, without a full title investigation, free and clear of all liens, encumbrances, restrictions, cautions, notices or inhibitions and defects such that they do not individually or in aggregate materially affect the value of, or interfere with the use made (or proposed to be made) by the Bank or any of its subsidiaries.

Additionally there is a risk, in the absence of a current investigation, that leases to any real property and buildings are not subsisting and enforceable and contain exceptions which could materially interfere with the use made and/or proposed to be made of such property and buildings or would

individually, or in aggregate, result in a material change to the day to day business operations of the Bank, which could have an adverse impact on the Bank's operations, financial results and condition.

63. ***Risks relating to health and safety.***

The Bank has historically failed to manage many aspects of its health and safety obligations effectively, and as a result is in breach of a number of technical areas of health and safety, and fire safety legislation, with further improvements needed (for example, in respect of fire risk assessments and proactive asbestos management plans). Although the risk of personal injury or illness to employees, customers and those who visit the Bank's premises is considered by the Bank to be low given the hazard profile of the environment in which the Bank operates, until these known shortcomings in health and safety management are remediated, there is a higher risk of the Bank being unable to successfully defend an action should an incident arise. Furthermore, until such remediation is complete the Bank may have some exposure to risk of enforcement action from the Health and Safety Executive, Fire and Rescue Service(s), which could have an adverse effect on the Bank's business, financial condition, operating results and prospects.

Risks relating to the A Shares and the B Shares

64. ***The A Shares will not carry any voting rights save where there are no B Shares in issue and in certain other limited circumstances. Consequently, following completion of the Restructuring and Recapitalisation, unless a holder of A Shares, together with its affiliates, holds 10 per cent. or more of the A Shares (and fulfils other criteria) entitling such holder to receive B Shares (which carry voting rights and other benefits and rights) in proportion to their respective holding of A Shares, A Shareholders will not have any voting interests in Holdco and Holdco will be controlled by the B Shareholders. Furthermore, the B Shares will entitle their holders to different rights than those conferred by ownership of the A Shares and the interests of the B Shareholders may conflict with those of A Shareholders.***

The share capital of Holdco will comprise two classes: (i) A Shares; and (ii) B Shares. The A Shares bear the primary economic interest in Holdco. The A Shares entitle holders to participate in distributions but do not carry any voting rights except on matters at a general meeting affecting the rights of A Shareholders as a class and certain other matters (as further described in paragraph 4.3 of Part 15 of this Circular). Furthermore, if at any time: (a) there are no B Shares in issue or all B Shares in issue are subject to a notice from the Holdco Board that they will be redeemed or bought back; or (b) Holdco ceases to own (directly or indirectly) more than 50 per cent. of the shares of the Bank as a result of a mandatory write-down or bail-in or the automatic conversion of securities by reason of the Bank failing to meet certain regulatory thresholds in respect of any security issued by Issuerco or the Bank, the voting rights provided under the B Shares will vest in the A Shares (save that in circumstances where an A Shareholder owns 10 per cent. or more of the A Shares, such A Shareholder will only be able to exercise the votes attaching to those A Shares if it has been approved by the PRA and the FCA as a "controller" for the purposes of Part 12 of FSMA).

The B Shares carry all of the voting rights at a general meeting of Holdco and also provide certain governance, notification and approval rights with respect to the Holdco Group, but do not entitle holders to participate in distributions. Furthermore, B Shareholders are entitled to the Exit Premium, as further described in paragraph 4.4 of Part 15 of this Circular.

Holders of A Shares are only eligible to receive B Shares if they hold (together with their affiliates) at least 10 per cent. of the A Shares (and fulfil certain other criteria). Consequently, save in the limited circumstances described above, holders of less than 10 per cent. of the A Shares will not have any voting interests in Holdco. As a result of the dilution that holders of Ordinary Shares will suffer under the Share Transfer upon implementation of the Members' Scheme, a holder of Ordinary Shares will not, unless such holder is also a Subordinated Noteholder who receives A Shares pursuant to the Notes Exchange and/or subscribes for additional A Shares pursuant to the Scheme Creditors' Equity Subscription or the Backstop Arrangements in such numbers as are sufficient to result in that holder

holding 10 per cent. or more of the A Shares, and will not, therefore, have any voting rights in Holdco (and accordingly no indirect voting interests in the Bank).

See paragraphs 4.3 and 4.4 of Part 15 for further details on the rights attaching to each of the A Shares and the B Shares.

As the B Shares, save in the limited circumstances described above, hold all the voting rights, the B Shareholders collectively will have the ability to control the outcome of all matters requiring Holdco shareholder approval, including: (a) the election of directors; (b) the approval of certain business decisions, including significant corporate transactions; (c) amending the Holdco Articles of Association; (d) disapplying pre-emption rights; and (e) requesting court approved capital reductions. They will also be able to, among other things, prevent, delay or deter any future change of control of Holdco, which could deprive Shareholders of an opportunity to earn a premium for the resale of their A Shares over the then prevailing market price.

The Bank has been informed that, based on their commitments under the Lock-Up Agreement, their holdings of Ordinary Shares and Subordinated Notes, as applicable, as at 25 July 2017 (being the latest practicable date prior to the date of this Circular), and assuming each of them have been issued and subscribes for (as the case may be) their full entitlement of (where applicable): (i) A Shares pursuant to the Share Transfer (including the Early Bird Members' Premium); (ii) A Shares pursuant to the Notes Exchange; (iii) A Shares pursuant to the Equity Subscriptions; and (iv) their pro rata share of the Backstop Consideration Shares, and taking into account their holdings of Incorporation Shares (where applicable), and further assuming that: (a) no other Qualifying Scheme Creditors have acceded to the Backstop Arrangements following 25 July 2017 (being the latest practicable date prior to the date of this Circular); (b) no other Shareholder has become entitled to share in the Early Bird Members' Premium following 25 July 2017 (being the latest practicable date prior to the date of this Circular); (c) the Subscription Shares have been subscribed for in full by the Qualifying Shareholders and Qualifying Scheme Creditors, as applicable; and (d) £30 million in principal amount of 2023 Notes are subject to the Mandatory Cancellation, upon Completion:

- Silver Point Capital will hold approximately 28 per cent. of the expected initial issued B Shares;
- Goldentree will hold approximately 25 per cent. of the expected initial issued B Shares;
- Anchorage Capital Group will hold approximately 16 per cent. of the expected initial issued B Shares;
- Invesco will hold approximately 16 per cent. of the expected initial issued B Shares; and
- Cyrus Capital Partners will hold approximately 15 per cent. of the expected initial issued B Shares.

Consequently, by virtue of the level of their voting power described above, each of Silver Point Capital, GoldenTree, Anchorage Capital Group, Invesco and Cyrus Capital Partners will possess sufficient voting power to have a significant influence over all matters requiring B Shareholder approval. In particular, Silver Point Capital will have, and in practice GoldenTree is expected to have, sufficient voting power to: (a) block matters requiring the approval of B Shareholders by special resolution without the support of any other B Shareholders, such as amending the Holdco Articles of Association, disapplying pre-emption rights, and requesting court approved capital reductions, the election of directors and approval of certain business decisions, including significant corporate transactions; and (b) influence significantly the outcome of certain matters requiring the approval of B Shareholders by ordinary resolution either by blocking (with the need for the support of other B Shareholders) or by exercising substantial influence over any such ordinary resolutions, such as those relating to the election of directors and approval of certain business decisions, including significant corporate transactions.

In addition to having voting control, the B Shareholders together also have the right to nominate up to two Holdco Directors to the Holdco Board and, via Holdco's ownership of the Bank, the Board (the "**B Shareholder Nominee Directors**"). To the extent that such B Shareholder Nominee Directors are executive directors, such B Shareholder Nominee Directors will be involved in the day-to-day management of the Holdco Group, including at the Bank, and consequently in such circumstances, through their entitlement to appoint the B Shareholder Nominee Directors, the B Shareholders would be able to exert significant influence (notwithstanding that the B Shareholder Nominee Directors will owe a fiduciary duty to Holdco and the Bank, as the case may be, and must act in good faith in a manner they reasonably believe to be in the best interests of Holdco or the Bank, as the case may be, as a whole) on the day-to-day operations of the Holdco Group, including at the Bank, which could include, among other things, shaping the strategic direction of the Bank and the Holdco Group. It is possible that the interests of Holdco will differ from those of its shareholders, or any class of them.

It is possible that the interests of the A Shareholders and the B Shareholders will differ, whether as a result of the differing class rights or otherwise. For example, the B Shareholders have preferred rights on the return of capital on a winding-up of Holdco and the A Shareholders may not transfer their A Shares to a Commercial Competitor of the Bank without the sanction of a special resolution of Holdco. There could also be a conflict between the interests of the B Shareholders, or those of the Principal Investors, and the interests of Holdco's other shareholders with respect to, for instance, any future dividend policy that Holdco may propose. There can be no assurance that the interests of the B Shareholders, or those of the Principal Investors, will coincide with the interests of Holdco's other shareholders or that the B Shareholders, including the Principal Investors, will act in a manner that is in the best interests of Holdco.

Furthermore, pursuant to the terms of the Holdco Articles of Association, if any person (or group) acquires more than 75 per cent. of the A Shares, then they shall be entitled to require the remaining A Shareholders to sell them their A Shares on the best terms given by the acquirer in the previous 12 months provided they make a payment to each B shareholder equal to that it would have triggered if such transaction were an exit for the purposes of triggering an Exit Premium by Holdco (the "**Drag Along Rights**"). Consequently, any A Shareholder whose A Shares are acquired pursuant to the exercise of the Drag Along Rights may not receive the value for their A Shares that they had ascribed to them and, provided such acquirer complies with the terms of the Drag Along Rights, will otherwise be unable to prevent the sale of such A Shares to such acquirer.

65. ***Shareholders will experience significant dilution to their ownership interests following completion of the Restructuring and Recapitalisation.***

Pursuant to the Share Transfer under the terms of the Members' Scheme, Shareholders will transfer their Ordinary Shares to Holdco in exchange for A Shares representing in aggregate approximately 5 per cent. of the total number of fully-diluted issued A Shares of Holdco immediately following Completion (including the Early Bird Members' Premium). Consequently, upon implementation of the Members' Scheme, a holder of Ordinary Shares will experience significant dilution with respect to its relative ownership interests in the Bank prior to completion of the Restructuring and Recapitalisation as compared to their ownership interests in Holdco following completion of implementation of the Restructuring and Recapitalisation.

The precise level of absolute dilution a holder of Ordinary Shares will suffer (assuming that such Shareholder is not also a Subordinated Noteholder who receives A Shares pursuant to the Notes Exchange and/or subscribes for additional A Shares pursuant to the Scheme Creditors' Equity Subscription or the Backstop Arrangements) as a consequence of the Restructuring and Recapitalisation will depend upon the precise number of A Shares that are issued upon completion of the Restructuring and Recapitalisation and whether such holder of Ordinary Shares is a Qualifying Shareholder who subscribes for additional A Shares under the terms of the Members' Equity Subscription and whether such holder of Ordinary Shares is entitled to receive the Early Bird Members' Premium.

Upon completion of the Restructuring and Recapitalisation, assuming that a holder of Ordinary Shares:

(a) does not, or is not permitted under the terms and conditions of the Members' Equity Subscription to, subscribe for additional A Shares pursuant to the Members' Equity Subscription and is not entitled to receive the Early Bird Members' Premium, such Shareholder will suffer a dilution of 95.25 per cent. to their existing interests; and

(b) is permitted under the terms and conditions of the Members' Equity Subscription to subscribe for additional A Shares pursuant to the Members' Equity Subscription and elects to subscribe for the maximum number of additional A Shares such Shareholder is entitled to subscribe for under the terms of the Members' Equity Subscription and is entitled to receive the Early Bird Members' Premium, such Shareholder will suffer a dilution of 91.6 per cent. to their existing interests assuming all Shareholders under the Members' Scheme receive the Early Bird Premium;

in each case assuming that such Shareholder is otherwise not also a Subordinated Noteholder who receives A Shares pursuant to the Notes Exchange and/or subscribes for additional A Shares pursuant to the Scheme Creditors' Equity Subscription or the Backstop Arrangements.

For further information, see paragraph 14 of Section A of Part 1 of this Circular, which sets out the dilutive impact of the components of the Restructuring and Recapitalisation.

66. ***No dividends to be paid in respect of the A Shares in the near future.***

Following completion of the Restructuring and Recapitalisation, Holdco will be the holding company of the Bank and will be dependent on the payment of dividends, distributions, loans or advances by its subsidiaries, including the Bank, to produce distributable reserves. Holdco's ability to pay dividends on the A Shares and effect certain returns of capital will be dependent upon, amongst other things, it having sufficient cash resources and, where necessary, sufficient distributable reserves out of which any proposed dividend may be paid. Any payment of dividends, distributions, loans or advances to Holdco by its subsidiaries, including the Bank, will be dependent upon the business and financial condition, earnings and cash flow position and other factors affecting such subsidiaries, including in particular those matters described below affecting the ability and timing of any dividend to be paid by the Bank.

Furthermore, the Bank does not expect to pay dividends in the near future, and is only targeting potential dividends from 2021 in the May 2017 Outlook on the Plan. The Bank's ability to pay any dividends at any time in the future is subject to the Bank's compliance with regulatory capital and loss-absorbing capacity requirements, including the Combined Buffer (currently comprised only of its capital conservation buffer and set at 1.25 per cent. of total RWAs met entirely by CET1 capital. The capital conservation buffer is set to rise to 2.5 per cent. of total RWAs met entirely by CET1 capital in 2019 with a rise of 0.625 per cent. in both 2018 and 2019. In addition to the capital conservation buffer, the counter-cyclical capital buffer will rise from the current requirement of zero per cent. to 0.5 per cent. of total RWAs in June 2018 and is expected to rise to 1 per cent. of total RWAs by the end of 2018, which would result in an aggregate Combined Buffer requirement of 3.5 per cent. of total RWAs in 2019), which dictates the Maximum Distributable Amount available for distribution by way of dividends pursuant to the restrictions imposed under CRD. Furthermore, distribution by way of dividend will be dependent on the availability of distributable reserves, PRA approval and compliance by the Bank with provisions concerning dividends contained in its Articles of Association (for further information see paragraph 4 of Part 16 of this Circular). In addition, the availability of distributable reserves is expected to be reliant on a shareholder and court-approved reduction of share capital. There is no certainty that any such approvals will be forthcoming if and when such approvals are sought in the future.

The Bank can give no assurance that neither it nor, following completion of the Restructuring and Recapitalisation, Holdco, will pay any dividends in the future, nor, if a dividend is paid, what the

amount of such dividend will be. Furthermore, until the Bank meets full ICG and compliance with its Combined Buffer and its MREL, the Bank may be prevented from making discretionary payments, including dividends to Holdco.

67. ***A Shareholders may not be able to realise returns on their investment in A Shares.***

The A Shares are not listed on the Official List, nor are they admitted to the London Stock Exchange. They are, therefore, expected to be illiquid, as there will be a limited number of A Shareholders and there is no public market for the A Shares. It is likely that a liquid market in the shares will never develop and, consequently, A Shareholders may not be able to realise their investment in the A Shares. In addition, A Shares will lack voting rights (save for in limited circumstances) which may impact their value. Furthermore, upon completion of the Restructuring and Recapitalisation, there will be a number of new shareholders in Holdco who were formerly Subordinated Noteholders. Such new shareholders may ascribe a different value to the A Shares than the current Shareholders, which could exacerbate the risk of such Shareholders not being able to realise their investment in the A Shares.

68. ***The ability of Overseas Shareholders to bring actions or enforce judgments against the Bank, Holdco or the Bank's and/or Holdco's directors may be limited.***

The ability of an Overseas Shareholder to bring an action against the Bank or Holdco may be limited under relevant laws. The Bank is a public limited company incorporated in England and Holdco is a limited liability company incorporated in England. The rights of Shareholders are governed by the laws of England and Wales and by the Articles of Association of the Bank. The rights of shareholders in Holdco will be governed by the laws of England and Wales and by the Holdco Articles of Association and the B Shareholders' Agreement. These rights differ from the rights of shareholders in typical U.S. corporations and some other non-UK corporations. In particular, the laws of England and Wales significantly limit the circumstances under which shareholders of companies may bring derivative actions. Under such laws, generally only a company can be the proper claimant in proceedings in respect of wrongful acts committed against it. In addition, it may be difficult for an Overseas Shareholder to prevail in a claim against the Bank or Holdco under, or to enforce liabilities predicated upon, non-UK securities laws.

Furthermore, pursuant to paragraph 10 of Part 12 of this Circular, it is a term and condition of the Members' Equity Subscription that any subscriber irrevocably and unconditionally assents to and sanctions, to the fullest extent permitted by law, the waiver of all rights and entitlements that it has or acquires to bring, participate in or enforce legal proceedings of any nature against the Bank and/or Holdco in connection with the Subscription Shares and/or the Members' Equity Subscription other than in the English and Welsh courts.

An Overseas Shareholder may not be able to enforce a judgment against some or all of the directors of the Bank and/or Holdco. It may not be possible for an Overseas Shareholder to effect service of process upon the Bank's and/or Holdco's directors and executive officers within the Overseas Shareholder's country of residence or to enforce against the Bank's and/or Holdco's directors and executive officers judgments of courts of the Overseas Shareholder's country of residence based on civil liabilities under that country's securities laws. There is a risk that an Overseas Shareholder will not be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the UK against the Bank's and/or Holdco's directors or executive officers who are residents of the UK or countries other than those in which judgment is made. In addition, English or other courts may not impose civil liabilities on the Bank's and/or Holdco's directors or executive officers in any original action based solely on foreign securities laws brought against the Bank or Holdco or the Bank's and/or Holdco's directors in a court of competent jurisdiction in England or other countries.

69. ***Shareholders outside the UK may be subject to exchange rate risk.***

The A Shares and any dividends to be paid in respect of them, will be, denominated in pounds sterling. A holding of A Shares by an investor whose principal currency is not sterling exposes that investor to

foreign currency exchange rate risk. Any depreciation of sterling in relation to such foreign currency will reduce the value of the investment in the A Shares or any dividends in foreign currency terms, and any appreciation of sterling will increase the value in foreign currency terms. Government and monetary authorities may impose (as some have done in the past) exchange rate controls that could adversely affect an applicable exchange rate.

70. ***The Bank may apply the proceeds of the Holdco Subscriptions to uses that Shareholders may not agree with or in ways that do not increase the Bank's and/or Holdco's profits or share value.***

The Bank will have considerable discretion in the application of the net proceeds of the Holdco Subscriptions received by the Bank and potential investors must rely on the judgment of the Directors regarding the application of such proceeds. The net proceeds may be used for corporate purposes that do not increase the Bank's and/or Holdco's profitability or increase Holdco's share value. Furthermore, they may be placed in investments that fail to produce income or that lose value.

71. ***The ability to participate in the Members' Equity Subscription will not be available to any person: (i) with a registered address in the United States (save for Shareholders who the Bank reasonably believes are either QIBs or Accredited Investors); (ii) in the EEA who is not a Qualified Investor; or (iii) in any of the other Excluded Territories, and as a result Shareholders who are not permitted to participate will experience significant dilution of ownership in the Bank.***

The ability to participate in the Members' Equity Subscription will not be available to any person with a registered address in, or who is resident or located in, the United States (save for Shareholders who the Bank reasonably believes are either QIBs or Accredited Investors), in the EEA who are not Qualified Investors or any of the Excluded Territories and possibly other overseas jurisdictions, unless an exemption is available. Accordingly, subject to certain exemptions, Shareholders with a registered address in the United States (save for Shareholders who the Bank reasonably believes are either QIBs or Accredited Investors) or any of the Excluded Territories or any other such overseas jurisdictions will be unable to take up their Members' Equity Subscription Entitlement. The proportionate economic and voting interests of such Shareholders will, therefore, be diluted (in addition to the dilution that they will suffer as consequence of the implementation of the Notes Exchange, the Members' Scheme and the Scheme Creditors' Equity Subscription).

72. ***Failure to comply with the procedures of the Members' Equity Subscription may result in Shareholders being unable to participate successfully in the Members' Equity Subscription. Shareholders are responsible for complying with all of the procedures for participating in the Members' Equity Subscription which are set out in the relevant paragraphs of Part 13 of this Circular.***

There are certain restrictions imposed on the participants in the Members' Equity Subscription (including as to their status as QIB or Accredited Investor, or as a Qualified Investor, if they are resident or located in the U.S. or the EEA, respectively). Furthermore, Shareholders will be deemed to make a number of acknowledgements, representations, warranties and undertakings on submission of an Application Form or CREST acceptance. Failure to comply with such restrictions or any such acknowledgements, representations, warranties and undertakings could result in, among other things, such Shareholder not being permitted to participate in the Members' Equity Subscription.

PART 4

INFORMATION ON THE BANK

The following information should be read in conjunction with the more detailed information contained in this Circular elsewhere, including the financial and other information appearing in Part 6, Part 7, Part 8 and Part 9 of this Circular.

The financial information included in this Part 4 has been extracted without material adjustment from the information referred to in Part 6 and Part 7 of this Circular which have been incorporated into this Circular by reference or from the accounting records of the Bank, which formed the underlying basis of the financial information referred to in Part 6 and Part 7 of this Circular, which have been incorporated into this Circular by reference.

1. OVERVIEW

The Bank is one of the oldest banks in the UK, with a history that dates back to 1872 as the Loans and Deposit department of Co-operative Wholesale Society Limited. Since then, the Bank has sought to provide an ethical alternative to larger competitors.

The Bank's strategy is to become an efficient, financially-sustainable and capital-resilient UK bank focused on retail and SME customers, differentiated by an ethically-led brand and a customer-centric proposition. These positive attributes are underpinned by a customer-led ethical policy which has been developed over 25 years and is unique within the UK banking market. As at 31 December 2016, the Bank had approximately 4.0 million customers; operating through a network of 105 (which has subsequently reduced to 95 branches at the date of this Circular) branches, four corporate banking centres, four contact centres, 123 ATMs and internet and digital channels.

The Bank had total assets of £27,588.3 million as at 31 December 2016 (£29,028.3 million as at 31 December 2015).

From 2013 until 31 December 2016, the Bank had two business areas: the "Core Business" and the "Non-core Business" – with the aim of focusing its Core Business on retail banking and SME customers, where the Bank considered it had strong existing market credentials, customer relationships and expertise. Those assets which were not consistent with the Bank's Core Business strategy were classified as part of the Non-core Business. However, recognising the need for the Bank to work as one business, with effect from 1 January 2017, the Bank is now structured into five business units: (i) retail banking; (ii) BaCB; (iii) a closed book of intermediary-originated and acquired residential mortgage assets which are predominantly interest only ("**Optimum**"); (iv) Legacy Portfolio; and (v) Treasury and Other (as defined below). The Bank's financial statements for the three years ended 31 December 2016, which are incorporated by reference into this Circular pursuant to Part 6, use the "Core Business"/"Non-core Business" classification (the "**Bank's Historical Business Classification**"). However, the remainder of the description of the Bank's business contained in this Part 4 (except for this overview) uses the current categories consistent with the Bank's future financial reporting.

The Bank's overarching Core Business strategy has been to simplify its Core Business offering and make commercial returns through a strong and differentiated brand and high levels of customer satisfaction, whilst the Non-core Business strategy has been actively to de-leverage the Bank's Non-core Assets to achieve the most appropriate value on an individual asset or portfolio basis.

The Core Business (which as at 31 December 2016 had total segment assets of £23,171.4 million and RWAs of £3.9 billion) included the Bank's core retail and banking businesses, treasury and certain other businesses. The Bank's core retail and business banking product offering consisted of a range of current accounts and money transmission services, lending (mortgages and unsecured), savings products and insurance referral model, while the Bank's core corporate banking business provided services to SME businesses.

The Non-core Business had total segment assets of £4,309.8 million and credit RWAs of £2,040 million as at 31 December 2016. Those assets, which sat within the Non-core Business contained a significant part of the Bank's credit impairment risk. This risk has significantly reduced due to proactive de-leveraging by the Bank which has led to a reduction in these assets of £8.5 billion since 31 December 2013. The Non-core Business included Optimum and non-core corporate banking assets.

2. HISTORY AND DEVELOPMENT

1872: the Bank formed as the banking department of the Co-operative Wholesale Society Limited ("**CWS**")

1970: incorporated as a separate legal entity, The Co-operative Bank Limited

1973: transfer of the business of the banking department of the former Scottish Co-operative Wholesale Society to the Bank

1975: obtained clearing bank status

1981: re-registered under the Companies Act 1980 as a public company

1993: the Bank re-registered in its present name

2001: CWS changed its name to Co-operative Group (CWS) Limited

2007: Co-operative Group (CWS) Limited changed its name to Co-operative Group Limited following the merger with United Co-operatives Limited

2009: the Bank merged with Britannia. The retail residential lending and savings franchise transferred from Britannia and the pre-Merger businesses of the Bank continue to trade as separate businesses under the "Britannia", "The Co-operative Bank" and "smile" brand names respectively.

2013:

To meet a £1.5 billion CET1 capital shortfall in 2013, the Co-operative Group and the Bank completed a recapitalisation plan (the "**2013 Recapitalisation Plan**"), originally announced on 17 June 2013, which included: the 2013 Liability Management Exercise; CET1 capital contributions from CBG; and interest savings on securities surrendered in the 2013 Liability Management Exercise.

2014:

During 2014, the Bank improved its capital position by successfully raising an additional £400 million of CET1 capital in May 2014.

2015-2016:

The Bank carried out a £250 million Tier 2 subordinated capital issuance in July 2015. Further, the Bank implemented a number of turnaround measures, including: (i) significant Non-core Business de-leveraging; (ii) reductions in the Bank's operating base; (iii) addressing legacy conduct issues; and (iv) successfully remediating a breach of FCA Threshold Conditions (relating to non-compliance in relation to the Bank's IT systems recoverability) confirmed by the FCA in 2017.

Developments in 2017 and Background to the Restructuring and Recapitalisation:

On 26 January 2017, the Bank announced that it expected its CET1 capital ratio (in the absence of any management actions) to fall and remain below 10 per cent. over the medium-term and an expectation that it was unlikely to meet its ICG, over the then applicable planning period (to the year ended 31 December 2020).

Having concluded its annual planning review and approval of the Plan, the Bank announced the commencement of the FSP, inviting offers for all of the Bank's issued ordinary share capital, and that it was considering, as an alternative to the FSP, ways of raising equity capital from existing and new capital providers and a potential liability management exercise on its outstanding public debt.

On 13 February 2017, the Bank started an offer period under the Takeover Code as a result of the announcement of the FSP. Prior to the commencement of the offer period, the Bank's long-term senior unsecured rating with Moody's was Ca, and the Bank's long-term issuer default rating with Fitch was B. On 15 February 2017, Moody's announced that it had downgraded the Bank's long-term senior unsecured rating to Ca from Caa2 with a developing outlook, reflecting its view that senior unsecured bondholders could experience losses in case of a bank failure or as part of a standalone liability management exercise. On 21 February 2017, Fitch downgraded the Bank's long-term issuer default rating to B- from B with an evolving outlook, reflecting their view that the risks to senior bondholders had increased due to the need to raise capital and the potential that this could include a liability management exercise. The Bank is currently rated:

- B- (long-term and evolving outlook) and B (short-term) by Fitch; and
- Ca (long-term senior unsecured rating with a developing outlook) and NP (short-term) by Moody's.

These ratings are below investment grade and remain under review by both rating agencies.

On 26 June 2017, the Bank announced that in light of the advanced nature of the discussions with a group of existing investors (being the Principal Investors) regarding a prospective equity capital raise and recapitalisation, with a majority of the key commercial aspects of such transaction substantially agreed, the Bank had decided to discontinue the FSP (and the offer period under the Takeover Code accordingly ended). On 28 June 2017, as an update to its announcement dated 26 June 2017, the Bank announced that the Board had decided to support an equity capital raise and recapitalisation proposal (being the outline of the Restructuring and Recapitalisation) from the Principal Investors and had entered into the Lock-Up Agreement whereby the Principal Investors and the Bank have committed to take certain steps to implement the Restructuring and Recapitalisation.

Following the Bank's announcement on 28 June 2017 describing the outline of the Restructuring and Recapitalisation, Moody's subsequently announced on 30 June 2017 that it had placed the Bank's senior unsecured debt rating and the Bank's Ca standalone baseline credit assessment on review for an upgrade. This review reflects Moody's opinion that the probability of the Bank being placed into resolution was reduced. On 30 June 2017, Fitch maintained the Bank's long-term issuer default rating at B- but downgraded the Bank's viability rating from Cc to C reflecting its methodology which classifies the proposed exchange of subordinated debt (being a component of the Restructuring and Recapitalisation) as a "distressed debt exchange".

On 14 July 2017, the Bank announced the detailed terms of the Restructuring and Recapitalisation, including those relating to the Capital Raising.

For a detailed description of the background to the Restructuring and Recapitalisation, including as to the Bank's "going concern" status and the consequences of the Restructuring and Recapitalisation not being successfully implemented, see Section B of Part 1 of this Circular.

3. KEY STRENGTHS

The Bank believes that its key strengths are:

Differentiated proposition and loyal customer base

The Bank has a history that dates back to 1872 as the Loans and Deposit department of Co-operative Wholesale Society Limited. Since then, the Bank has evolved to provide an alternative to larger competitors in UK retail and business banking.

As at 31 December 2016, the Bank had approximately 4.0 million customers across its brand portfolio: (i) The Co-operative Bank, with 2.1 million customers; (ii) Britannia, with 1.8 million customers; (iii) "smile", with 0.3 million customers; and (iv) Platform, with 0.1 million customers, with some customers having a relationship with multiple brands. The Bank owns the trademarks to all four brands.

The Bank benefits from a differentiated values and ethics proposition which is central to the way it operates and sets it apart from competitors. The Bank is the only UK high street bank with a clear customer-led ethical policy.

According to the Bank's "brand tracking survey", as at December 2016, the Bank led its nine main competitors (being other banks and building societies in the UK) in ethical perceptions, with 62 per cent. of its customers and 31 per cent. of non-customers surveyed perceiving it to be an ethical bank.

The Bank ranked number three in the UK current account net promoter scores (being an index ranging from -100 to 100 that measures the willingness of customers to recommend the Bank's products or services to others) ("**NPS**") at the end of March 2017 which emphasises the strong service levels being delivered in contact centres and branches alongside continued improvement in digital channels. The Bank's progress in this area is also evidenced by YouGov recognising the Bank as the UK's most improved banking brand in 2015, and the Institute of Customer Service ranking it as a top 50 organisation for customer service in 2016. The Bank's Financial Support Team won "Team of the Year" at the CCA Excellence Awards in 2016, following the creation of a partnership with Citizens Advice Manchester to help customers in financial difficulty.

The Bank's loyal customer base is reflected in the increase in its current account balances of £4.2 billion as at 31 March 2017 from £3.5 billion as at 31 December 2014. This has been achieved despite the financial difficulties that the Bank has experienced since 2013. The Bank believes that the loyalty of its customers has allowed the Bank to maintain a loan-to-deposit ratio of below 100 per cent. The Bank has substantially reduced its proportion of term deposits and the average retail deposit rate paid has decreased from 1.54 per cent. in H1 2014 to 0.78 per cent. in H2 2016. For further information regarding the Bank's current trading see paragraph 7 of Part 7 of this Circular.

The Bank continues to be focused on refreshing and rebuilding its ethical brand with renewed brand advertising, including a recent TV advertising campaign and strapline "It's good to be different" which highlights its ethical brand difference.

Choice of distribution channels

The Bank has aligned its distribution and service to changing customer demand. It provides its customers with everyday banking through their channel of choice, whether digital, telephony or branch.

Although the Bank's branch network has been reduced substantially (from 339 branches in 2012 to 95 branches at the date of this Circular) it remains a key distribution channel for the Bank and handled approximately 5.4 million transactions in 2016. The Bank's branch network is well dispersed across England and Wales, with 31 per cent. located in Northern England, 30 per cent. located in the Midlands & East Anglia, 19 per cent. located in London & South-east England, 18 per cent. located in Wales & South-west England and 2 per cent. located in Scotland. Also, despite the reduction in strategic investment, the branch network continues to deliver outstanding customer service, with a customer experience score of 92 per cent. (based on the Bank's own real time feedback which is based on questions sent to customers after an in-branch interaction for which customers score the Bank's service from 1 to 10). Additionally, the Bank's telephone banking service handled over 4 million calls and is benchmarked second across the industry for complaints-handling.

With the reduction of the Bank's branch network, distribution of retail and intermediary mortgages through the Bank's brand of residential mortgage loans sold through mortgage intermediaries ("**Platform**") has also become an important distribution channel for the Bank's strategy. In the year ended 31 December 2016, Platform originated approximately 88 per cent. of the Bank's new mortgage completions (equivalent to £3.1 billion gross lending) and was voted Intermediary Lender of the Year for the second year running, at the 2015 and 2016 Your Mortgage awards.

Significant progress and investments have also been made in the Bank's digital platform and offering over the last two years: a new internet banking platform was launched in May 2016; the Bank's mobile banking app was updated in September 2016 and Apple Pay was launched in October 2016. These investments are believed to have resulted in improved customer service and enhanced NPS scores based on the Bank's own

NPS survey. The improving score reflects the increased functionality and improved customer journeys that have been delivered since the launch of the Bank's new website.

As part of its strategy, the Bank continues to monitor customer behaviour and keep its distribution channels, including branch and ATM network, under review in line with customer demand and behaviour.

Customer-centric product range

The Bank has a long established franchise position mainly centred on current accounts, savings accounts and mortgages. The Bank focuses on offering simple, clear, fair and transparent products to meet customer needs. As at 31 December 2016, the Bank served approximately 4.0 million customers, who are primarily retail customers, with approximately 0.1 million being business banking customers. The Bank's strong retail banking franchise offering is mainly centred on current accounts, savings accounts and mortgages, with certain ancillary products including unsecured and business banking products and insurance referrals. For savings accounts, the Bank has a range of products to meet customers' needs, with both instant access products, such as Select Access Saver and fixed term deposits. For current accounts, the Bank has launched "Everyday Rewards", being the Bank's scheme which rewards customers for everyday banking.

The Bank's Retail mortgage balances grew by 5 per cent. in the year ended 31 December 2016 to £14.1 billion (31 December 2015: £13.4 billion), representing a 1.1 per cent. market share. Mortgage originations continued to increase with completions totalling £3.1 billion for the year ended 31 December 2016 (31 December 2015: £2.8 billion), whilst redemptions (excluding contractual repayments) fell to £1.7 billion (31 December 2015: £2.3 billion). The Bank is targeting a doubling of Platform-originated mortgage assets over the next five years. The Bank's trusted brand creates potential to expand product offerings further and explore strategic partnerships.

The Bank has increased its current account balances in 2016 to £4.2 billion as at 31 December 2016 (as at 31 December 2015: £3.8 billion; as at 31 December 2014: £3.5 billion). Due to the success of Everyday Rewards and a new digital proposition (new and improved online banking platform and an upgraded mobile banking app), there has been a net increase of over 8,000 primary current account holders in 2016.

Robust asset quality across its Retail and SME business areas and addressing legacy conduct issues

The Bank believes it has a robust asset quality across its Retail and SME business areas with improving asset quality across the Legacy Portfolio and Optimum.

The Bank has a seasoned mortgage portfolio with low levels of impairment. For the year ended 31 December 2016, the Bank had a Retail mortgage book impairment charge of £3.7 million against mortgage balances of £14.1 billion. The average LTV for Retail Mortgages was 51.1 per cent. (balance weighted).

Since 2013, the Bank believes that it has significantly improved its overall risk profile, driven by a reshaping of its loan book, de-leveraging of legacy corporate and Optimum assets with an approximate 74 per cent. reduction in legacy loans since 31 December 2013, embedding a disciplined credit underwriting process. The Bank has reduced its non-core credit RWAs with an approximate 77 per cent. reduction in the period from 31 December 2014 to 31 December 2016. The Bank's de-leverage activity in Legacy Portfolio and Optimum has reduced the amount of impaired loans since 2013. See paragraph 8.2 of Part 7 of this Circular for a description of the expected reduction in the Bank's RWAs resulting from an expected reduction in Optimum assets through securitisations and/or whole-loan sales and its estimated impact on the Plan's forecasts and outlook, as reflected in the May 2017 Outlook on the Plan, if it is completed on acceptable terms when proposed.

The Bank has substantially addressed legacy conduct issues, which include PPI and CCA remediation. The Bank has unutilised conduct risk provisions totalling £169.3 million as at 31 December 2016. The Plan assumes no new categories of conduct and legal risk provisions (other than as may be accommodated by an IBNI provision), as the Bank's conduct remediation programme for previously-identified breaches of conduct has substantially completed. Each element of the conduct and legal risk provision is reviewed regularly and will continue to be on an ongoing basis over the life of the Plan. As a result of such a review, the Bank assumed in the May 2017 Outlook on the Plan a potential net incremental additional conduct risk

charge of approximately £5 million in 2017 (subject to further external and internal review and approval) driven by an increase of £9 million relating to PPI and the requirements of the FCA's policy statement 17/3 offset in part by small provision releases from other conduct risk categories. For further information, see paragraph 8.2 of Part 7 of this Circular.

Experienced leadership team

On 1 January 2017, Liam Coleman was appointed Chief Executive Officer of the Bank. Liam had been Deputy Chief Executive Officer of the Bank since 3 May 2016 having joined the Bank in June 2013 as Treasurer and subsequently being appointed Director of the Retail & Commercial Bank on 1 September 2014. Liam has 25 years' experience in the financial services industry. The Board believes that his experience in the 2013 recapitalisation of the Bank, and having been part of the Bank for the last four years, make Liam well suited to the role.

John Worth joined the Bank on 1 September 2016 and became Chief Financial Officer on 11 October 2016. John has over 30 years' experience in the financial services industry in finance, IT and risk management roles. John most recently worked as the Chief Financial Officer of two publicly listed insurers, Hiscox and Aspen Insurance Holdings. Prior to that, John was Group Financial Controller at Barclays and also held senior roles at Ernst & Young LLP, Prudential and Price Waterhouse.

The Board believes that its experienced executive team, led by Liam and John, is qualified to lead and manage a Bank that is an efficient, financially-sustainable and capital-resilient UK bank focused on retail and SME customers in the long-term and operates according to the values and the ethics on which the Bank was founded.

Following the Restructuring and Recapitalisation, the B Shareholders will have the right to nominate up to two directors to the Holdco Board. See paragraph 4.4 of Part 15 of this Circular for a description of the rights attaching to the B Shares and the risk factor entitled "*The A Shares will not carry any voting rights save where there are no B Shares in issue and in certain other limited circumstances. Consequently, following completion of the Restructuring and Recapitalisation, unless a holder of A Shares, together with its affiliates, holds 10 per cent. or more of the A Shares (and fulfils other criteria) entitling such holder to receive B Shares (which carry voting rights and other benefits and rights) in proportion to their respective holding of A Shares, A Shareholders will not have any voting interests in Holdco and Holdco will be controlled by the B Shareholders. Furthermore, the B Shares will entitle their holders to different rights than those conferred by ownership of the A Shares and the interests of the B Shareholders may conflict with those of A Shareholders*."

4. THE BANK'S STRATEGY

The Bank's strategy is to become an efficient, financially-sustainable and capital-resilient UK bank focused on retail and SME customers, differentiated by an ethically-led brand and a customer-centric proposition. These positive attributes are underpinned by a customer-led ethical policy which has been developed over 25 years and is unique within the UK banking market. The Bank's strategy is focused on four key pillars underpinned by regulatory capital resilience and compliance:

1. ***Offer a differentiated proposition, serving a loyal customer base***

   The Bank aims to serve retail and SME customers with propositions differentiated through its values and ethics (which are reflected in the Bank's customer-led ethical policy, which governs how the Bank runs its business and is based on five pillars, being: (i) ethical banking; (ii) ethical products and services; (iii) ethical business; (iv) ethical workplace and culture; and (v) ethical campaigning) ("**Values & Ethics**").

2. ***Offer a choice of distribution channels***

   The Bank aims to offer distribution channels and services aligned to customer demand.

   As part of its strategy, the Bank aims to continue gradually to reduce the number of its branches in line with customer behaviour. The Bank's ATM network will be managed in line with this.

A significant portion of the Bank's mortgage book will be offered through Platform, the Bank's intermediary channel, which remains a key area for growth.

3. ***Offer a customer-centric product range***

The Bank's strategy includes keeping product offerings simple, clear, fair and transparent, co-created with customers.

The Bank will seek to achieve this by simplifying its personal and business banking offerings. The core focus will be to increase prime current account relationships and continue to develop the Bank's savings and mortgages propositions.

The Bank will seek to differentiate its product offering through its commitment to Values & Ethics by developing products which reflect the Bank's Values & Ethics.

4. ***Deliver a reduced operating cost base***

Since the launch of its cost reduction programme in 2014, the Bank's operating costs have reduced by 22 per cent. from 1 January 2014 to 31 December 2016.

The Bank's Plan aims to reduce costs within a challenging macro environment.

Key cost reduction actions targeted by the Plan include further FTE reductions over the next two years, alignment of the branch network to meet customer demand, limited transformation project expenditure, and a review of third-party suppliers/IT estate and premises spend.

See paragraph 2 of Section A of Part 1 of this Circular for a description of the key pillars of the Plan and the key capital and operational components of the Plan.

The Plan, which was adopted on 13 February 2017 as part of the Bank's annual planning review, reflects the Bank's strategy. The Plan was based on a number of key assumptions, forecasts and targets relating to a variety of factors within and outside of the control of the Bank and the Bank's prospects of implementing its strategy are sensitive to those factors.

Since 13 February 2017, there have been significant developments that have affected the Bank's outlook for its business and the prospects of achieving some of the key components of the Plan (or the timing of when they are expected to be achieved). Accordingly, it became necessary to reassess the achievability of the Plan, and to adjust its implementation, to reflect the Bank's view of the impact on the Plan of trading through the first five months of 2017, the prevailing business environment, the differences between the capital raising contemplated in the Plan and the Restructuring and Recapitalisation the Bank is now seeking to implement and discussions that the Bank has had with its regulators since the Plan was adopted (the result being the May 2017 Outlook on the Plan). See paragraph 8.2 of Part 7 of this Circular for a description of the May 2017 Outlook on the Plan.

If the Restructuring and Recapitalisation is successfully implemented, there are several important changes that will be made to the governance, oversight and management of the Bank. It remains to be seen to what extent these changes will affect the Bank's current strategy, the Plan and, where applicable, the May 2017 Outlook on the Plan, or the Bank's implementation of that strategy. These changes include:

- the establishment of a new holding company for the Bank with a different governance structure to the existing governance of the Bank that is intended by the Principal Investors to allow B Shareholders greater influence on the governance and oversight of the Bank, although both the Bank and Holdco will have boards with a majority of independent non-executive directors with the same directors serving on both boards;
- providing that the B Shareholders in Holdco – those institutional shareholders that own 10 per cent. or more of the A Shares of Holdco and satisfy certain other qualifying conditions – carry all the voting rights except in limited circumstances and have the benefit of certain shareholder approval and notification and other rights;

- up to two B Shareholder Nominee Directors of each of Holdco and, via Holdco's ownership of the Bank, the Bank may be appointed by the B Shareholders. If the B Shareholder Nominee Directors perform any executive function then they shall report to the Bank and Holdco's CEO (who shall be the same person); and
- a Chief Restructuring Officer (who may, but is not required to, be a B Shareholder Nominee Director) may be appointed by the B Shareholders and report to the Bank and Holdco's CEO (who shall be the same person).

The Bank expects that any changes in the short-term to its strategy are likely to focus on exploring a number of potential actions that may enable it to achieve enhanced financial performance over that assumed in the Plan, likely to be through a combination of: (i) incremental income growth, resulting from further plans to accelerate, re-launch or digitise asset growth and product sales; (ii) further cost reductions, including an assessment of options to structurally reduce costs by a significant proportion; (iii) active pursuit of funding from the potential RBS fund for business banking investment; and (iv) a review of the Plan to create a more efficient total capital position, including options to lower total capital requirements.

Examples of these actions may include: (i) a significantly enhanced credit risk capability to facilitate asset growth; (ii) a digitised and straight-through-processing approach to customer acquisition, driving income and cost reduction; (iii) further de-leverage of legacy assets; or (iv) investment to rationalise operations and systems, to structurally reduce the Bank's cost base.

The delivery of these potential management actions would require careful planning, phasing and investment choices and may not be possible without further capital. Actions have yet to be subject to any detailed planning or investment review, or formal governance process.

The Bank expects that any changes resulting from the new governance and management arrangements as a consequence of the Restructuring and Recapitalisation will need to be made within the following parameters:

- the Bank's Values & Ethics being incorporated into the Holdco Articles of Association and remaining part of the Bank's Articles of Association;
- the PRA's assessment of the proposed Restructuring and Recapitalisation having been premised on its acceptance of both the proposed Restructuring and Recapitalisation and the May 2017 Outlook on the Plan, which took into account certain proposed management actions described in paragraph 8.2 of Part 7 of this Circular;
- any material changes to the May 2017 Outlook on the Plan or the Plan more generally requiring PRA review and acceptance; and
- the PRA having notified the Bank that it expects that by the time of publication of the Bank's next five-year operating plan, the Bank will provide to the PRA a detailed cost:income strategy setting out how the Bank will achieve in the medium-term a competitive cost:income ratio, in line with the Bank's peer group.

5. BUSINESS OVERVIEW

Bank Business Structure

The diagram below shows the business activities of the business divisions of the Bank as at 1 January 2017.

Current name	Former name (under the Bank's Historical Business Classification)	Business Activity	Segment Assets (£m)	Segment Liabilities (£m)
Retail Banking.........	Core Business: Retail	Deposits and current accounts Credits and lending to retail Banking and payments	14,844.6	19,405.1
BaCB	Core Business: BaCB	Lending to SME sector Deposits and current accounts Payments	434.9	2,719.3
Treasury and Other...................	Core Business: Treasury and Other	Cash flow and liquidity management, FX	7,891.9[1]	3,992.3
Legacy Portfolio and Optimum.......	Non-core Businesses: Corporate CoAM and Optimum	Historical corporate loans Closed residential mortgage book	4,309.8	61.3

1 *This reflects a combination of loans and advances to banks, investment securities and derivative financial instruments as per the Bank's 2016 historical financial statements.*

The Bank's business areas comprise:

- its Core Retail Banking business, which trades as "The Co-operative Bank", "Britannia" and "smile", together with the Bank's intermediary mortgage brand, Platform, and includes retail secured and unsecured lending, deposits and current accounts ("**Retail Banking**");
- BaCB, which focuses on offering simple solutions to meet the needs of business banking and smaller SME customers, mainly focused around savings and current accounts;
- Treasury, which aims to ensure a strong and stable liquidity base for the Bank, provide diverse sources of wholesale funding to the Bank, manage market risk within risk appetite and deliver a strong financial performance on the Bank's investment portfolio ("**Treasury**"), and other ("**Other**"), which includes any activities that cannot be directly attributed to one of the Bank's reportable business segments;
- Legacy Portfolio, which comprises of non-core corporate assets (inconsistent with the Bank's strategy and risk appetite); and
- Optimum, which comprises a closed book of predominantly interest-only, intermediary and acquired mortgage book assets.

Each of Retail Banking, BaCB and Treasury and Other were formerly included in the Bank's "Core-Business" segment under the Bank's Historical Business Classification. These segments represent lines of business that are consistent with the Bank's strategy and risk appetite, concentrating on supporting individual and SME customers, where the Bank has strong market credentials, customer relationships and expertise.

Each of Legacy Portfolio and Optimum were formerly included in the Bank's "Non-core-Business" segment under the Bank's Historical Business Classification. These segments consist of asset classes which are not consistent with the Bank's business strategy, are managed to achieve the most appropriate value on an individual asset or portfolio basis, or are targeted for run down or exit, and contain a significant part of the Bank's credit impairment risk. These asset classes include the Legacy Portfolio or Non-core corporate assets, Optimum and the Unity Trust Bank shareholding. Each of these assets is described in further detail below.

Each of the above business areas is summarised below.

A. Retail Banking (formerly part of the "Core Business" segment under the Bank's Historical Business Classification)

Retail Banking offers a range of financial products and services throughout the UK, trading as "The Co-operative Bank", "Britannia" and "smile", together with the Bank's intermediary mortgage brand, Platform.

As at 31 December 2016, the Bank had approximately 3.9 million Retail Banking customers and is a clearing bank operating across multiple delivery channels with current accounts, mortgages, personal loans, credit cards and savings products. The Bank distributes its retail products through branches, call centres and the Bank's website and the Bank's mobile banking app. See paragraph entitled "*Retail and Business Banking*" below for further details on the distribution of products.

As part of its strategy, the Bank intends to continue to maintain both its existing products and develop new products that are simple, transparent and fairly priced.

(a) ***Retail Banking Products***

Retail Mortgage lending

As at 31 December 2016, the Bank had a total outstanding mortgage portfolio of £8.0 billion issued under the Co-operative Bank brand and the Britannia brand and a total outstanding mortgage portfolio of £6.1 billion issued under the Platform brand. As at 31 December 2016, the Bank's total issued Retail Mortgage lending secured on residential property (excluding buy-to-let) was £12.9 billion and the total buy-to-let mortgage portfolio was £1.3 billion. The Bank's total mortgage lending of £16.8 billion represented an estimated 1.25 per cent. of total UK mortgage balances as at 31 December 2016.

During the twelve months ended 31 December 2016, the Bank's total new mortgage completions amounted to £3.1 billion and total Retail Mortgage balances increased from £13.4 billion to £14.1 billion.

The Bank's Retail Mortgage lending can take the form of either:

- prime residential lending (where the borrower is the owner and occupier of the mortgaged property and meets the Bank's credit requirements for prime lending); or
- buy-to-let lending (which are loans advanced to borrowers who intend to let the mortgaged property).

In addition, the Bank also has a relatively small stock of historical residential mortgage loans that were advanced to borrowers who self-certified their income and to other borrowers who do not meet the Bank's prime borrower credit requirements. Since 2010, the Bank has ceased to originate mortgages from these self certified, almost prime or non-conforming borrowers.

The table below shows a gross customer balance breakdown of the Bank's outstanding Retail Mortgage portfolio analysed by asset class as at 31 December 2014, 31 December 2015 and 31 December 2016.

	As at 31 December (unaudited)					
	2016		2015		2014	
	£m	*%*	*£m*	*%*	*£m*	*%*
Product Type						
Prime	12,802.8	90.5	12,241.4	91.6	12,658.4	93.3
Buy-to-let	1,254.3	8.9	1,034.7	7.7	797.2	5.9
Self-certified	52.7	0.4	61.2	0.5	71.7	0.5
Almost prime	26.5	0.2	32.4	0.2	42.1	0.3
Non-conforming	1.2	0.0	1.3	0.0	1.6	0.0
Total	**14,137.5**	**100**	**13,371.0**	**100**	**13,571.0**	**100**

The following table sets out the geographical distribution of the Bank's Retail Mortgage loans on a gross basis as at 31 December 2014, 31 December 2015 and 31 December 2016.

	As at 31 December (unaudited)					
	2016		2015		2014	
	£m	*%*	*£m*	*%*	*£m*	*%*
Region						
London & South-east	6,173.4	43.7	5,514.3	41.2	5,098.0	37.6
Northern England	2,750.8	19.5	2,744.2	20.5	2,962.0	21.8
Midlands & East Anglia	2,866.3	20.3	2,842.1	21.3	3,060.0	22.6
Wales & South-west	1,657.6	11.7	1,611.6	12.1	1,741.0	12.8
Other	689.4	4.9	658.8	4.9	710.0	5.2
Total	**14,137.5**	**100**	**13,371.0**	**100**	**13,571.0**	**100**

The Bank's Retail Mortgage loans are currently generally granted for an average term of 23.1 years. However, the typical life (being the average time a customer will stay with the Bank on their selected product) of the Bank's Retail Mortgage lending (for a customer's initial mortgage with the Bank) is approximately 3.0 years after drawdown as a result of the volume of customer redemptions, with such volume being a characteristic of the UK residential mortgage market affecting UK mainstream residential mortgage lenders, together with the relative characteristics of the Bank's product mix, the volume of new mortgage lending by the Bank and general customer retention patterns. All of these factors influence the average life of the Bank's residential mortgage lending.

The Bank currently offers fixed rate and variable rate mortgages. Fixed rate mortgages have a set rate for an initial set period, after which the rate either reverts to the Bank's standard variable rate (which is set at the Bank's discretion), or a rate linked to the Bank of England base rate.

The Bank's fixed rate mortgages currently offer a term of two, three or five years, with the fixed rate charged determined by the loan-to-value ratio and fixed rate duration of the mortgage in question.

Variable rate mortgages have interest rates that can vary from one monthly payment period to the next, typically mirroring changes in an underlying reference rate such as the Bank of England base rate. The Bank's variable rate mortgage products include 'tracker' products – which typically charge a rate which is a set amount above either Libor or the Bank of England base rate – as well as the Bank's Standard Variable Rate ("**SVR**"), which is set by the Bank and has no direct link to the Bank of England base rate. The Bank has in the past also offered 'discount' products, which track the Bank's SVR, as well as 'capped' rates which have an interest rate ceiling or floor beyond which a customer's payment rate cannot rise or fall; the Bank no longer offers these products.

To reduce the potential costs associated with early repayment of mortgages, in line with its competitors, the Bank imposes early repayment charges on some of its mortgage products. The early

repayment charges apply for repayment (either full repayment of the loan or overpayments made in excess of the agreed overpayment allowance) made prior to the expiration of the fixed or initial tracker rate for the particular product.

The following table sets out the breakdown of the Bank's Retail Mortgage portfolio by interest rate product on a gross basis as at 31 December 2016.

	As at 31 December (unaudited)	
	2016	
	£m	*%*
Products		
Fixed rate mortgages	9,531.0	67.4
Variable rate mortgages (SVR)	1,207.2	8.7
Variable rate mortgages (Tracker)	3,399.2	23.8
Total	**14,137.4**	**100**

The Bank utilises an automated credit scoring system to assist in minimising credit risk on mortgage lending. The Bank's credit procedures for mortgage lending take into account the applicant's credit history, loan-to-value ("**LTV**") ratio criteria, income multiples and an affordability calculation that tests the applicant's ability to service the loan at higher interest rates. The average LTV ratio of new Retail Mortgage lending during the year ended 31 December 2016 was 67.4 per cent. The indexed LTV ratio for the Bank's Retail mortgage portfolio was 51.1 per cent. as at 31 December 2016 (based on an indexation of the latest property valuations available at such time). Only 0.1 per cent. of the Bank's total Retail mortgage book had an indexed LTV ratio in excess of 100 per cent. as at 31 December 2016.

As at 31 December 2016, the Bank's Retail buy-to-let mortgage portfolio was £1.3 billion or 8.9 per cent. of the Bank's total outstanding Retail Mortgage portfolio. The majority of the Bank's buy-to-let mortgages (89.8 per cent. as at 31 December 2016) comprised interest-only mortgages. Other than in the case of buy-to-let mortgages, the Bank does not offer new customers interest-only mortgages. Rather, the Bank will typically require that new mortgages are repayment mortgages, where customers are required to repay the interest and parts of the capital outstanding during the term of the loan such that the capital balance is fully repaid at maturity. As at 31 December 2016, the proportion of interest-only mortgages in the Bank's Retail Mortgage portfolio was 22.6 per cent. or £3.2 billion out of £14.1 billion of outstanding Retail Mortgage balances. As at 31 December 2016, the Bank's Retail Mortgage portfolio contained £52.1 million of interest only mortgages that have passed their legal term end date. See the risk factor entitled "*Worsening economic and market conditions and/or increasing interest rates and/or a fall in house prices and/or commercial property prices could result in increased residential mortgage, commercial lending and unsecured loan losses which would adversely impact the Bank's financial and operational performance*." for further information.

The following table sets out the LTV ratio information of the Bank's Retail Mortgage portfolio broken down by indexed LTV ratio (being the current aggregate mortgage balance divided by the latest property valuation (of the mortgaged property), indexed using the Halifax non-seasonally adjusted regional house price indices dated as at the end of Q3 2016 ("**indexed LTV Ratio**")) as at 31 December 2014, 31 December 2015 and 31 December 2016.

	As at 31 December (audited)		
	2016	2015	2014
	£m	£m	£m
Retail Secured LTV ratio %			
Less than 50%	6,414.3	6,397.3	6,276.1
50% to 60%	2,436.9	2,358.4	2,473.7
60% to 70%	2,522.9	2,287.2	2,463.0
70% to 80%	1,759.4	1,428.8	1,661.3
80% to 90%	887.5	755.6	506.5
90% to 100%	104.7	126.0	137.0
Greater than 100%	11.8	17.7	53.4
Total	**14,137.5**	**13,371.0**	**13,571.0**

The proportion of the Bank's Retail Banking mortgage accounts with greater than 2.5 per cent. in arrears was 0.39 per cent. as at 31 December 2016, as compared with the Council of Mortgage Lenders industry average of 0.85 per cent. as at 31 December 2016.

As part of the Bank's strategy, the Bank intends to continue to offer a simple range of mortgage products without complex features and consistent with its risk appetite and market conditions. Intermediary lending is expected to be the Bank's dominant Retail Mortgage origination channel, with a diversified product offering and service improvements delivering net lending growth. Mortgage processing efficiencies to shorten application to offer timings for prospective mortgage borrowers are expected alongside the development and implementation of a Platform retention product solution in 2017.

The Bank aims to grow its mortgage book while gradually reducing dependency on competitive pricing. The Bank recognises the importance of pricing given the Bank's limited scale. This is targeted to be achieved through offering a broader product range and an improved service proposition. Service improvements are targeted to be driven from the benefits of the Capita outsourced servicing model, process changes (increased use of automated valuation models to reduce time from application to offer), the launch of Platform's mortgage retention (product switch for reversionary rate mortgage customers) solution and increased digitisation (through the Bank's on-line "Mortgage in Principle" service).

Unsecured lending

The unsecured lending products offered by the Bank consist of personal unsecured loans, credit cards and overdraft facilities (as detailed below).

The following table sets out the Bank's Retail Banking unsecured lending balances on a gross basis, being chargeable balances and undrawn commitments, split by product type, as at 31 December 2014, 31 December 2015 and 31 December 2016.

	As at 31 December (unaudited)		
	2016	2015	2014
	£m	£m	£m
Product Type			
Loans	180.6	288.0	393.8
Professional and career development loans	65.0	79.3	84.8
Credit cards	1,790.6	1,981.8	2,248.6
Overdrafts	282.7	297.9	310.9
Total unsecured lending balances	**2,318.9**	**2,647.0**	**3,038.1**

Loans

The loan portfolio across the Bank and "smile" is composed of: personal loans (relationship/current account customer), direct loans (non-relationship), flexible loans (non-relationship but with the ability to top up throughout the term), debt consolidation loans and professional and career development loans. Professional and career development loans are provided under a Government-sponsored initiative, offering lending to those looking at furthering career aspirations through additional training. The Government offers a capped impairment guarantee and pays for up to three years of interest (whilst the customer is in training).

As at 31 December 2016, the majority of the Bank's loan acquisition was to customers holding a current account with the Bank (personal loans), focusing on meeting inherent demand and servicing the needs of those customers. As at 31 December 2016, the Bank had approximately 1.4 million current accounts, of which 26,267 held a personal loan with the Bank, which is approximately 1.88 per cent. The Bank no longer acquires loans on a direct or flexible basis. Debt consolidation is used to assist those customers in financial difficulty. The Bank is in the process of closing the flexible loan back book. The Bank no longer pursues an active growth strategy in relation to its loan portfolio, however it continues to focus on meeting the needs of its existing customers.

As at 31 December 2016, the Bank's total personal unsecured loans portfolio comprised approximately 54,049 customer accounts.

The Bank uses an automated credit scoring system that is designed to evaluate a borrower's ability to repay the loan and imposes a maximum limit on the size of loans based on the assessed level of risk. Risk-based pricing is also used in certain circumstances.

Credit cards

As at 31 December 2016, the Bank had approximately 404,102 credit card accounts of which 307,744 were active during the month of December 2016 (in that the relevant account recording a debit or a credit during that month constituted activity for these purposes).

As at 31 December 2016, the Bank's credit card portfolio contained receivables of £385.4 million, with the proportion of such balances bearing interest being 65.5 per cent.

The current characteristics of the Bank's current credit card product range are as follows:

(a) the Three Year Fixed Rate credit card targeted at customers who value a fixed interest rate on purchases and balance transfers for a three-year period;

(b) the Balance Transfer credit card targeted at customers who are seeking 0 per cent. interest on balance transfers for a defined period, currently 24 months. It also currently offers 0 per cent. interest on purchases for four months from account opening;

(c) the Members' credit card currently offers cash-back to Co-operative Group members at a rate of 1 pence for every £2 spent in Co-operative food stores and 1 pence for every £3.33 spent;

(d) the Affinity Charity Card is targeted at customers who wish to support charities, the bank currently offers cards for five charities and makes charitable donations to the charity partner based on customer spend levels. These cards will be removed from sale on 31 July 2017;

(e) the Smile classic card is targeted at existing Smile current account holders, who are seeking cashback on purchases. 0.25 per cent. cashback is paid on all purchases made; and

(f) the Smile Gold Card is targeted at customers who want a guaranteed headline purchase rate on acceptance of a customer's application.

The majority of the new credit cards issued by the Bank are the Three Year Fixed Rate credit card.

The table below sets out the drawn balances of the Bank's Retail Banking credit card portfolio, by product type, as at 31 December 2016.

	As at 31 December 2016 (unaudited)	
	(£millions)	*(percentages)*
Product type		
Affinity	36.8	9.6%
Ex Affinity	20.3	5.3%
Classic (incl. 3yr Fixed and Balance Transfer cards)	59.7	15.5%
Clear Card	39.7	10.3%
Gold	28.6	7.4%
Members	46.5	12.1%
Northern Rock	34.1	8.9%
Platinum	60.2	15.5%
Smile	42.0	10.9%
Think	5.0	1.3%
Travel	12.3	3.2%
Total	**385.2**	**100.0**

The Bank markets and processes credit card applications itself (using its credit scoring system), and credit card holders receive differing credit limits, depending on their credit score. Credit limits are regularly reviewed in line with customer need and risk appetite.

Most of the debit activity on the Bank's credit card portfolio arises as a result of spending at merchants, with small elements of cash advance and balance transfer.

As with loans, the Bank's current credit card strategy is to focus on meeting existing customer needs rather than pursuing an active growth strategy.

Overdrafts

Overdrafts are offered to customers with Bank current accounts. In line with peers in the market, the Bank offers two types of overdraft: formal overdrafts and informal overdrafts. Formal overdrafts are where an overdraft is requested by the customer and agreed to in advance by the Bank. Informal overdrafts are where a customer, although not having formally requested an overdraft, may pay or withdraw money from their account. Formal overdraft facilities are reviewed each year. The Bank's overdraft proposition is being amended in 2017 to introduce a monthly maximum charge on informal overdraft charges to comply with the requirements of the CMA's Retail Banking Market Investigation Order 2017. The Bank also plans to introduce an overall monthly cap on all overdraft charges to make the cost of an overdraft more transparent and simple to understand.

As at 31 December 2016, the Bank had formal and informal overdraft chargeable balances (excluding undrawn commitments and accounting adjustments) of approximately £37.6 million.

Savings and current accounts

As at 31 December 2016, the Bank had 664,268 primary current accounts (being accounts that on average turnover £800 or more per month) and £19.4 billion of retail customer deposit balances, representing an estimated 1.5 per cent. of total UK retail savings balances. The Bank's primary current account base has grown, from 651,214 as at 31 December 2014 to 664,268 as at 31 December 2016, with growth of 0.7 per cent. in the year ended 31 December 2015 and 1.3 per cent. in the year ended 31 December 2016.

The Bank offers a standard Current Account which can include "Everyday Rewards" where customers receive a monthly financial reward based on usage. In addition, the Bank also offers a basic current account called Cashminder, directed at simple, in-credit banking, and the Bank also maintains a book of historical packaged/fee-paying current accounts which are not presently part of the Bank's on-sale

product range. Building on the "Everyday Rewards" current account product and overdraft proposition, the Bank has developed a new packaged Current Account called "Everyday Extra" which launched on 26 April 2017, to seek to increase the number of prime current accounts.

The Bank's savings strategy is to offer a range of simple products to meet the liquidity requirements of the Bank underpinned by its Values & Ethics. Since 2013, the Bank has re-oriented its savings product balances from expensive fixed-term deposits to variable rate deposits. The Bank's average deposit rate has decreased from 1.54 per cent. as at 30 June 2014 to 0.78 per cent. as at 31 December 2016. The Bank intends to continue with a variable rate access products bias in its savings product strategy during the life of the Plan.

The Bank offers a range of savings products including term, limited access and easy access products, with or without an individual savings account ("**ISA**") wrapper. The Bank's fixed rate savings accounts earn a fixed rate of interest for a chosen term and funds therein cannot be withdrawn until maturity (without incurring interest rate penalties), except in exceptional circumstances.

The Bank of England's Term Funding Scheme is expected to create a less competitive savings market, as providers utilise the availability of low cost funding as a partial substitute to customer deposits. The Bank is projecting that this less competitive market will enable the Bank to acquire lower cost retail deposits than it otherwise might. For further information regarding the Term Funding Scheme please see the paragraph entitled "*Certain financial information in respect of BaCB*" in this Part 4.

New issuances of limited access products have been introduced into the Plan to lower the Bank's reliance on the re-acquisition and retention of term deposits. The introduction of the SAS and Select Access ISA fills a previous gap in the customer range between instant access and fixed term products for the Bank.

The table below sets out the Bank's deposits within the Retail Banking segment, broken down by deposit type, as at 31 December 2014, 31 December 2015 and 31 December 2016.

	As at 31 December (unaudited)					
	2016	**2016**	**2015**	**2015**	**2014**	**2014**
	£m	*%*	*£m*	*%*	*£m*	*%*
Retail Deposits						
Current accounts	4,229.2	21.8	3,808.3	19.3	3,479.3	13.6
Instant access accounts	6,384.0	32.9	6,580.6	33.3	7,936.9	31.0
Term deposits	3,947.7	20.3	4,277.3	21.7	7,675.6	30.0
ISAs	4,843.2	25.0	4,978.5	25.2	6,303.3	24.7
Other including accounting adjustments	1.0	0.0	110.1	0.6	167.2	0.7
Retail segment liabilities	**19,405.1**	**100**	**19,754.8**	**100**	**25,562.3**	**100**

(b) ***Certain financial information in respect of the Retail Banking Segment***

Set out below is certain key financial information in respect of the Bank's Retail Banking segment.

Operating Results and Assets and Liabilities of the Retail Banking Segment

The following table sets out the operating results of the Bank's Retail Banking segment for the years ended 31 December 2014, 31 December 2015 and 31 December 2016.

	For the year ended 31 December (audited)		
	2016	2015	2014
	£m	£m	£m
Retail Banking			
Net interest income	344.8	401.7	396.3
Non-interest income	28.0	43.2	105.2
Net income	**372.8**	**444.9**	**501.5**
Direct costs	(114.1)	(116.0)	(154.8)
Impairment gains/(losses) on loans and advances	(0.6)	(3.7)	1.8
Contribution result	**258.1**	**325.2**	**348.5**

The following table sets out total assets, liabilities and Credit Risk RWAs of the Bank's Retail Banking segment as at 31 December 2014, 31 December 2015 and 31 December 2016.

	As at 31 December (unaudited)		
	2016	2015	2014
	£m	£m	£m
Retail Banking			
Segment assets	14,844.6	14,123.2	14,611.4
Segment liabilities	19,405.1	19,754.8	25,562.3
Total Credit Risk RWAs	1,919.9	1,810.9	1,866.6

Key Performance Indicators of Retail Banking Segment

The following table provides a breakdown of key performance indicators for the Bank's Retail Banking segment as at and for the year ended 31 December 2016.

	As at and for the year ended 31 December 2016 (unaudited)
Retail Banking	
Non-performing loans ratio[1]	1.7%
Non-performing loans coverage[2]	23.9%

(1) The non-performing loans ratio is calculated by dividing impaired customer balances by gross customer balances.

(2) The non-performing loans coverage ratio is calculated by dividing total credit provisions by impaired customer balances.

(c) ***Overview of Distribution Channels***

The Bank offers a multi-channel proposition to customers, covering branch, online, mobile, intermediary/broker (through Platform) and telephony. The amalgamation of the Bank's former distribution and operations functions brings together all front and back office customer activity to seek to enhance customer experience and colleague engagement.

Branches

Branches remain important to the Bank's customers, and a branch presence is currently considered by the Bank to be a significant factor in maintaining the level of the Bank's brand awareness, consideration and advocacy with both the Bank's current customers and potential customers. In addition, branches are responsible for the acquisition of a proportion of the Bank's new current accounts and broader deposit-taking activity (approximately 38 per cent. of current accounts (excluding Cashminder) acquisition was branch sourced in 2016).

With the exception of certain customers the Bank determines to be vulnerable, face-to-face mortgage advice is not available within branches. However, customers can use branch facilities to obtain mortgage advice from the call centres.

As at 31 December 2016, there were 105 branches operating under the Co-operative Bank brand that processed approximately 5.4 million transactions in 2016 (a 26 per cent. reduction on 2015). This transaction level is expected to reduce in the future as part of a general migration to digital. The Bank's branch network has significantly reduced in size since 2015 (117 branch closures). However, it remains a part of the Plan as a gateway to direct channels for customers.

The branch footprint rationalisation has coincided with the emergence and delivery of the Bank's digital strategy. The branch rationalisation has been achieved by removing site duplication, closing certain, non-profitable branches, and the full integration of former Britannia branded branches. The Bank has reduced the number of branches to a total of 95 branches at the date of this Circular, resulting in an average distance for the population of England and Wales to a branch of approximately 13.5 miles. Of the 95 branches, 94 are located in England and Wales, with a broadly even geographical spread with a focus in northern and central England.

In addition, the Bank's customers can make banking transactions in the Royal Mail Post Office network of approximately 11,800 access points across the UK as at February 2017. Approximately 4.5 million customer transactions were carried out using the Post Office Network in 2016 by the Bank's customers.

ATMs

As at 31 December 2016, the Bank owned 123 ATMs (reducing to 112 by the end of July 2017). These are located within the branch network or, in the case of 27, within remote sites. The Bank has access to the full LINK network.

Platform

Customer mortgages may be originated via direct means: through branch or telephony channels or through an authorised broker/intermediary.

Intermediary mortgage lending is an important channel for the Bank. Approximately 91 per cent. (£2.8 billion out of £3.1 billion) of the Bank's mortgage completions in 2016 was sourced through brokers/intermediaries, via the Bank's Platform brand. In the market as a whole, intermediated lending accounted for 70 per cent. of regulated mortgage lending in 2016.

Platform is one of the few lenders operating a dedicated brand within the UK intermediary market. Platform has historically achieved an estimated 1.7 per cent. share (from 2015 to 2016) of total intermediary regulated new business completions. The market competitiveness of the Bank's interest rates allows the Bank to drive new business volumes as required.

Launched in February 2003, Platform was created from the merger of Platform Home Loans and Verso, both former subsidiaries of Britannia. Platform is focused on prime residential mortgages and buy-to-let lending. This offers flexibility to the Bank in terms of market participation, product and pricing and, given the specialist nature of the broker market, this approach enables the Bank to access segments of the mortgage market that would be harder to reach through the Co-operative Bank brand alone. Intermediaries range from large UK companies (including Legal & General and Openwork) to small independent mortgage advisers. Through Platform, the Bank holds extensive relationships with intermediaries across the UK.

Platform was voted Intermediary Lender of the Year for the second year running at the 2015 and 2016 Your Mortgage awards.

Digital

The Bank provides internet banking through the Co-operative Bank-branded and "smile"-branded websites and mobile banking apps. The Co-operative Bank-branded site is part of the Bank's multi-channel offering. Between May and December 2016 approximately 600,000 active users have been migrated to the new online banking platform launched in May 2016. There have been 2.1 million unique visits to the new site in the three months from October 2016 to December 2016 inclusive.

For the year ended 31 December 2016, 58 per cent. of new current account acquisition (by volume) were sourced through digital channels (representing 38,318 individual current account openings). The Bank's mobile banking app was updated in 2016, with 354,792 active users in the three months since its launch in October 2016 to December 2016 and in October 2016 the Bank launched Apple Pay. These investments are believed to have resulted in improved customer service and enhanced NPS scores which moved from -25 in 2016 to +20 in March 2017 based on the Bank's own NPS. The improving score reflects the increased functionality and improved customer journeys that have been delivered since the launch of the Bank's new website.

Current accounts, unsecured loans, credit cards, mortgages and savings products are all available under the Co-operative Bank brand internet banking platform and mobile banking app.

In 1999, "smile" was launched, as the UK's first full internet bank and as at 31 December 2016 had approximately 256,000 customers. Current accounts, saving products, unsecured loans, credit cards, and mortgages are all available under the "smile" brand internet banking and mobile banking app.

The Bank's digital offering significantly increased current account applications in 2016, delivering 58 per cent. of all current account applications (growing to 38,000 in 2016 compared to 19,000 in 2015 as a result of a market-leading current account switching campaign and significant presence on aggregator sites). Online presence and reach is projected to grow through enhanced search engine optimisation and social media capability and subsequently to reduce the cost of traditional marketing.

Call centres

The Bank has four primary call centre locations, all based in the UK, in Leek, Manchester, Stockport and Skelmersdale which, combined, serviced more than 4 million calls in 2016. The call centres of the Bank are open from 6 am to 10 pm seven days a week to service customers, manage simple transaction requests and address customer needs across the full product range. The Bank's telephony sales team (which sold non-mortgage products) was closed in December 2016 as a consequence of the Bank pursuing its digitally focused sales strategy. The Bank is benchmarked second across the industry for complaints handling with commendations from both the BBA and the Customer Contact Association.

Customer processing

The Customer Processing department provide back-office support for all Retail and Business customers. The team is responsible for all account-opening and closing processes in addition to the general maintenance of customer accounts. Activity includes, account switching, customer administration, power of attorney, document processing and bereavement.

The Fraud and AML team undertakes more complex account-processing activity, providing a proactive and reactive fraud prevention service to Retail and Business customers. This includes detailed fraud investigations across all products.

Retail and Business Banking strategy

Whilst branches remain important to the Bank's customers, increasingly the value of other distribution routes – notably digital – is being observed in the UK market. Since 2013, the Bank's strategy has been to move to a more digital focused offering which facilitates broader customer self-service options for the Bank's customers' everyday transactional needs, at the same time retaining the Bank's branch proposition to support important transactional milestones for customers with complex needs. Furthermore, branches alongside call centres allow the Bank's specialist staff to provide in branch support to vulnerable customers. In this model:

- the remote channels (internet and digital) have become the primary point of contact for the Bank's customers looking for information on their accounts, simple product queries, simple transactions and simple sales;

- the Bank's call centres primarily support the remote channels (via call-back facilities and appointment booking) and will cater for more complex queries (such as complaints) and emergency support. The Bank's call centres also provide simple transaction services and information to customers for whom digital is not an option;
- the Bank's branch network provides face-to-face support for customers at critical moments, for example, during complex transactional decisions, when the Bank has made a mistake, when a life event causes financial problems or in emergencies. The branches also help customers use the Bank's digital services and provide simple transaction services and information to customers for whom digital is not an option; and
- the Bank's Platform brand remains a key channel to access the increasingly dominant intermediary UK mortgage market.

B. BaCB (formerly part of the "Core Business" segment under the Bank's Historical Business Classification)

BaCB targets and services SMEs which will typically:

- have a turnover of less than £25 million;
- have borrowing requirements of less than £5 million; and
- otherwise meet the Bank's risk appetite.

In line with the Bank's strategy, BaCB has a particular focus on being a fair, responsible and trusted relationship bank and, hence, will continue to offer services on commercial terms to charities, social businesses and co-operatives.

BaCB does not offer banking services to certain sectors, customers and in respect of assets which: (i) cannot be supported by the Bank's retail platform; (ii) fail to deliver a positive net interest margin for the Bank; or (iii) are non-performing or defaulting.

(a) ***BaCB segments***

BaCB is divided into the following sub-segments:

- business banking ("**Business Banking**"); and
- relationship-managed banking ("**Relationship-managed Banking**").

As at 31 December 2016, the BaCB segment is deposit rich in that BaCB customer deposits are materially higher than BaCB customer loans. The two sub-segments of BaCB are described in further detail below.

Business Banking

The Business Banking sub-segment of BaCB offers banking services to small business customers and primarily targets businesses that align with the Bank's Values & Ethics. The service it offers includes access to branches, four corporate banking centres, telephone banking and online services. Customers within this sub-segment do not, however, have a relationship manager. Products that are available to these customers include: (i) current accounts; (ii) savings accounts; (iii) commercial charge cards; (iv) business overdrafts; and (v) small ticket term-lending of up to £250,000. The Business Banking sub-segment has approximately 93,600 customers.

The Bank's key initiatives to support delivery of the Bank's strategy in relation to Business Banking are:

- reduction in interest rates on deposit products and withdrawal from sale of fixed rate deposit accounts;

- introduction of standard tariffs across the commercial banking base replacing historical bespoke arrangements;
- withdrawing from commercial lending whilst continuing to support Business Banking and charities/co-operative sectors;
- continuation of operating model simplification activity, encouraging customers to move to self-serve first;
- upgrade the online banking platform, to provide stability and improved customer experience; and
- strategic reviews of the product suite giving focus to reducing risk and improving overall cost-to-serve.

Relationship-managed Banking

The Relationship-managed Banking sub-segment of BaCB offers the following additional products to its customers: (i) larger secured and unsecured lending (including simple term unsecured financing, structured financing and products linked to government schemes); and (ii) deposit accounts for larger amounts.

One of the primary differences between the Business Banking and Relationship-managed Banking sub-segments is that Relationship-managed Banking customers are provided with a relationship manager. The Relationship-managed BaCB Banking sub-segment has approximately 1,300 customers.

The table below shows BaCB segmental liabilities as at 31 December 2014, 31 December 2015 and 31 December 2016.

	As at 31 December (unaudited)		
	2016	**2015**	**2014**
	£m	*£m*	*£m*
BaCB Deposits			
Business Banking	1,796.7	1,556.4	1,328.6
Relationship-managed Banking	898.9	1,125.6	1,508.4
Other including accounting adjustments	23.7	7.2	–
BaCB segment liabilities	**2,719.3**	**2,689.2**	**2,837.0**

The table below shows BaCB segment assets as at 31 December 2014, 31 December 2015 and 31 December 2016.

	As at 31 December (unaudited)		
	2016	**2015**	**2014**
	£m	*£m*	*£m*
BaCB Loan portfolio			
Business Banking	38.8	26.7	27.1
Relationship-managed Banking	396.8	494.3	593.0
Other including accounting adjustments	(0.7)	43.2	(0.1)
BaCB segment assets	**434.9**	**564.2**	**620.0**

(b) ***Certain financial information in respect of BaCB***

Set out below is certain key financial information in respect of the Bank's BaCB segment.

Operating Results and Assets and Liabilities of BaCB

The following table sets out the operating results of the Bank's BaCB segment for the years ended 31 December 2014, 31 December 2015 and 31 December 2016.

	For the year ended 31 December (unaudited)		
	2016	**2015**	**2014**
	£m	*£m*	*£m*
BaCB			
Net interest income	50.6	41.9	46.1
Non-interest income	12.7	11.6	14.9
Net income	**63.3**	**53.5**	**61.0**
Direct costs	(6.1)	(9.3)	(14.6)
Impairment gains/(losses) on loans and advances	0.3	1.3	1.6
Contribution result	**57.5**	**45.5**	**48.0**

The following table sets out the total assets, liabilities and Credit Risk RWAs of the Bank's BaCB segment as at 31 December 2014, 31 December 2015 and 31 December 2016.

	As at 31 December (unaudited)		
	2016	**2015**	**2014**
	£m	*£m*	*£m*
BaCB			
Segment assets	434.9	564.2	620.0
Segment liabilities	2,719.3	2,689.2	2,837.0
Total Credit Risk RWAs	485.3	496.8	760.0

Key Performance Indicators of BaCB

The following table provides a breakdown of key performance indicators for the Bank's BaCB segment as at and for the year ended 31 December 2016.

	As at and for the year ended 31 December 2016 (audited)
BaCB	
Non-performing loans ratio[1]	5.9%
Non-performing loans coverage[2]	3.4%

(1) The non-performing loans ratio is calculated by dividing impaired customer balances by gross customer balances.

(2) The non-performing loans coverage ratio is calculated by dividing total credit provisions by impaired customer balances.

C. Treasury and Other (formerly part of the "Core Business" segment under the Bank's Historical Business Classification)

The core responsibilities for the Bank's Treasury department are to ensure a strong and stable liquidity base, provide and manage diverse sources of wholesale funding to the Bank, manage market risk within risk appetite and to manage the Bank's treasury asset investment portfolio. Since 2013, the Bank has actively managed a reduction in liquidity, consistent with broader balance sheet de-leveraging activity over the period.

"Other" includes balance sheet and income statement items that are not attributable to a specific business area, such as fixed assets and group impacts of prior period subsidiary adjustments.

The following table sets out the operating results of the Bank's Treasury and Other segment for the years ended 31 December 2014, 31 December 2015 and 31 December 2016.

	For the year ended 31 December (audited)		
	2016	2015	2014
	£m	£m	£m
Treasury and Other			
Net interest income	17.3	17.0	2.4
Losses on asset sales	0.5	(0.8)	(2.1)
Non-interest income	16.5	(2.4)	(29.7)
Net income	**34.3**	**13.8**	**(29.4)**
Direct costs	(6.2)	(17.8)	(19.2)
Impairment gains/(losses) on loans and advances	0.2	2.1	0.1
Contribution result	**28.3**	**(1.9)**	**(48.5)**

The following table sets out the total assets, liabilities and Credit Risk RWAs of the Bank's Treasury and Other segment as at 31 December 2014, 31 December 2015 and 31 December 2016.

	As at 31 December (unaudited)		
	2016	2015	2014
	£m	£m	£m
Treasury and Other			
Segment assets	7,891.9	8,628.8	10,244.8
Segment liabilities	3,992.3	4,137.9	4,991.7
Total Credit Risk RWAs	1,498.4	1,440.8	1,723.8

As at 31 December 2016, the Bank had a low reliance on wholesale funding. The funding position of the Bank was below 100 per cent. loan to deposit ratio (86.7 per cent.) as at 31 December 2016. The majority of its funding is retail, supplemented by wholesale activity with a low Wholesale Funding Ratio of 11.5 per cent. relative to balance sheet size. The Bank currently has an ability to structure and access public and private secured funding. The Bank plans to access secured and unsecured markets in the medium-term subject to market conditions and appetite. The Bank has no borrowings outstanding under the Funding for Lending Scheme or Term Funding Scheme, and is not able to access the open Term Funding Scheme on commercially attractive terms.

Certain aggregated financial information in respect of the Bank's Retail Banking, BaCB and Treasury and Other Business Segments (the aggregation of which was formerly the "Core Business" segment under the Bank's Historical Business Classification)

Set out below is certain aggregated key financial information in respect of the Bank's Retail Banking, BaCB and Treasury and Other business segments as a whole.

(a) ***Operating Results and Assets and Liabilities of the Bank's Retail Banking, BaCB and Treasury and Other business segments as a whole***

The following table sets out the operating results of the Bank's Retail Banking, BaCB and Treasury and Other business segments as a whole for the years ended 31 December 2014, 31 December 2015 and 31 December 2016.

	For the year ended 31 December (audited)		
	2016	2015	2014
	£m	*£m*	*£m*
Retail Banking, BaCB and Treasury and Other business segments as a whole			
Net interest income	412.7	460.6	444.8
Losses on asset sales	0.5	(0.8)	(2.1)
Non-interest income	57.2	52.4	90.4
Net income	**470.4**	**512.2**	**533.1**
Direct costs	(126.4)	(143.1)	(188.6)
Impairment gains/(losses) on loans and advances	(0.1)	(0.3)	3.5
Contribution result	**343.9**	**368.8**	**348.0**
Head Office overheads	(309.0)	(334.0)	(355.6)
Operation projects	(33.9)	(49.7)	(71)
Operating result	**1.0**	**(14.9)**	**(78.6)**

The following table sets out the total assets, liabilities and Credit Risk RWAs of the Bank's Retail Banking, BaCB and Treasury and Other business segments as a whole as at 31 December 2014, 31 December 2015 and 31 December 2016.

	As at 31 December (unaudited)		
	2016	2015	2014
	£m	*£m*	*£m*
Retail Banking, BaCB and Treasury and Other business segments as a whole			
Assets	23,171.4	23,316.2	25,476.2
Liabilities	26,116.7	26,581.9	33,391.0
Total Credit Risk RWAs	3,903.6	3,748.5	4,350.4

(b) ***Key Performance Indicators of the Retail Banking, BaCB and Treasury and Other business segments as a whole***

The following table sets out the operating results of the Bank's Retail Banking, BaCB and Treasury and Other Business Segments as a whole for the years ended 31 December 2014, 31 December 2015 and 31 December 2016.

	As at, and for the year ended, 31 December 2016 (unaudited)
Core Business	
Net interest margin bps[(1)]	178
Non-interest income/Total income[(2)]	12.2%
Cost of risk bps[(3)]	–
Non-performing loans ratio[(4)]	1.9%
Non-performing loans coverage[(5)]	21.8%

(1) The net interest margin is calculated by dividing annualised net interest income by average segment assets.

(2) Total income is defined as net interest income and non-interest income

(3) The cost of risk is calculated by dividing the annualised impairment charge by average assets.

(4) The non-performing loans ratio is calculated by dividing impaired customer balances by gross customer balances.

(5) The non-performing loans coverage ratio is calculated by dividing total credit provision by impaired customer balances.

D. ***The Legacy Portfolio and Optimum portfolio (formerly comprising the Non-core Business segments under the Bank's Historical Business Classification)***

The Legacy Portfolio and Optimum portfolio comprise asset classes within the Bank that are not consistent with the Bank's strategy. In July 2013, Co-operative Asset Management ("**CoAM**") was established by the Bank to oversee proactive management, disposal and run-off of these Non-core Asset classes in accordance with CoAM's strategic objective ("**Legacy Portfolio and Optimum Assets**").

Non-core corporate and Optimum customer assets were £12.6 billion at 31 December 2013. Since then these assets have reduced by £8.5 billion to £4.1 billion as at 31 December 2016. At this time the Non-core corporate assets were renamed as the Legacy Portfolio, with Optimum assets retaining the same name. The Legacy Portfolio customer assets represented £1.5 billion of the £4.1 billion Non-core customer assets as at December 2016. The Optimum portfolio represented £2.6 billion as at 31 December 2016. See paragraph 8.2 of Part 7 of this Circular for a description of the expected reduction in the Bank's RWAs resulting from an expected reduction of approximately £2 billion in Optimum assets through securitisations and/or whole-loan sales and its estimated impact on the Plan's forecasts and outlook, as reflected in the May 2017 Outlook on the Plan, if it is completed on acceptable terms when proposed.

Despite the significant de-risking of the Bank since 2013, the Legacy Portfolio and Optimum assets comprising the Non-core Business still contain a significant part of the Bank's credit impairment risk. As at 31 December 2016, impaired balances in the Legacy Portfolio and Optimum portfolio were £433.7 million, representing 60.3 per cent. of total impaired exposures and 10.4 per cent. of total Legacy Portfolio and Optimum gross loans and advances.

Objectives, asset management and funding

(a) ***Strategic objectives of the Legacy Portfolio and Optimum portfolio***

The Bank's principal objective for the Legacy Portfolio and Optimum is to optimise the realisation of the Legacy Portfolio and Optimum Assets over the medium-term, with the Legacy Portfolio and Optimum Assets being managed to achieve the most appropriate asset value recovery on an individual or portfolio basis, or targeted for run down or exit.

In attempting to achieve this objective, the Legacy Portfolio and Optimum aim to:

- achieve an exit from Legacy Portfolio and Optimum Assets over the medium-term, depending on the tenor, margin, associated derivative positions and nature of each particular class of Legacy Portfolio and Optimum Assets;
- meet its capital usage targets for each year;
- avoid negative impacts on the Bank's strategy;
- minimise impact on the Bank's customers; and
- maintain the Bank's wider reputation as being a fair, responsible and trusted bank and manage conduct risk issues accordingly.

(b) ***Asset management strategy of the Legacy Portfolio and Optimum portfolio***

The Legacy Portfolio and Optimum portfolio have established specific management plans for each asset class. The Legacy Portfolio and Optimum portfolio, have used and intend to use the following set of asset management options, including (but not limited to): (i) single loan and portfolio sales or securitisations; (ii) optimisation of funding structures utilising wholesale markets, central banks and capital markets; (iii) establishing joint ventures to share risk; (iv) appointing third parties to work out certain types of assets; and (v) natural amortisation/redemption seek to ensure that its objectives are achieved in the most efficient manner for the Bank.

(c) ***Funding***

The Legacy Portfolio and Optimum segments are funded by a combination of deposits of the Legacy Portfolio and the Retail Banking, BaCB and Treasury and Other business. The Legacy Portfolio has segmental liabilities of £61.3 million as at 31 December 2016.

Legacy Portfolio and Optimum Assets

The Legacy Portfolio and Optimum assets are identified on the basis of the following criteria:

- assets which cannot be supported by the Bank's Retail Banking platform. These include assets which are: (i) lending assets which are not aligned with the BaCB strategy and SME focus going forward; (ii) corporate assets where the borrower typically has a turnover in excess of £25 million and the loan is greater than £5 million; (iii) customers that require more complex banking support for transactions (for example, guarantees or letters of credit); (iv) lending assets with a loan to value ratio of greater than 80 per cent.; or (v) lending on a fixed rate loan basis or with associated derivative instruments;
- assets long dated in nature that were historically originated at low margins and remain below current market yields, generating a low return on capital; and
- non-performing or defaulting assets. All business (including BaCB) loans that default are transferred to the Legacy Portfolio non-performing category and managed as Legacy Portfolio assets for optimal realisation.

The Legacy Portfolio and Optimum assets comprise seven asset classes (6 of which comprise the Legacy Portfolio and the Optimum portfolio being a class in itself). As at 31 December 2016, these seven asset classes have gross customer loan balances of £4.1 billion with a net carrying value of £4.1 billion and fair value of £3.7 billion.

The table below sets out gross customer balances (excluding credit commitments) of the Legacy Portfolio and Optimum business units as at 31 December 2014, 31 December 2015 and 31 December 2016.

	As at 31 December (audited)		
	2016	**2015**	**2014**
	£m	*£m*	*£m*
Total Legacy Portfolio	**1,509.2**	**2,152.2**	**4,421.3**
Total Optimum	**2,635.4**	**2,886.7**	**6,450.1**
Total Non-Core Business	**4,144.6**	**5,038.9**	**10,871.4**

The table below sets out a breakdown of the Legacy Portfolio's gross customer balances (excluding credit commitments) on a gross basis as at 31 December 2016.

	As at 31 December 2016 (unaudited)	
	£m	*%*
Legacy Portfolio		
Housing Associations	564.0	37.4
PFI	501.8	33.2
Property and Construction (CRE)	259.9	17.2
Renewable Energy (REAF)	81.3	5.4
Corporates	99.8	6.6
Local Authorities	2.4	0.2
Total Legacy Portfolio	**1,509.2**	**100**

Legacy Portfolio also has credit commitments (including derivatives and contingent liabilities) of £217.3 million. These include PFI and REAF ancillary debt service reserve and change of law facilities. The contingent liabilities relate to the decommissioning bonds with regards to the wind turbines in the REAF portfolio (as further described below).

In the period from 31 December 2015 to 31 December 2016, £0.84 billion of the Bank's Non-core Assets were de-leveraged, through a combination of asset sales, run-off and managed repayments (net of new drawdowns).

Legacy Portfolio Asset Classes

(a) ***Legacy Portfolio: Corporates***

As at 31 December 2016, this portfolio had gross loans of £100 million made up of leveraged, syndicated and bilateral loans.

The strategy for this part of the portfolio remains to identify and execute exit options on a case-by-case basis by means of, for example, refinancing, repayment, restructuring, enforcement or via both consensual and non-consensual debt sales.

(b) ***Legacy Portfolio: CRE***

As at 31 December 2016, this portfolio had gross loans of £260 million made up of bilateral, syndicated and non-performing loans.

The strategy for this part of the portfolio remains to identify and execute exit options on a case-by-case basis by means of, for example, refinancing, repayment, restructuring, enforcement or via both consensual and non-consensual debt sales.

(c) ***Legacy Portfolio: Private Finance Initiatives and Project Finance***

As at 31 December 2016, this portfolio had gross loans of £502 million of predominantly low margin, long-dated loans to finance public private partnership, project finance initiatives ("**PFI**"), such as schools, universities, hospitals and transport.

Returns on this portfolio are generally lower than market rates, and this, together with associated derivative positions, make these assets challenging to dispose of on a capital-accretive basis and as such are predominantly expected to be held until maturity. However, where possible the Bank will explore sale opportunities and consensual and, occasionally, incentivised repayments that are capital-accretive.

(d) ***Legacy Portfolio: Housing Association***

As at 31 December 2016, this portfolio had gross loans of £564 million across long-dated, predominantly low margin and high credit quality assets.

These long-dated, low yielding assets are planned to be held to maturity to reflect the likely adverse capital impact of any disposal. However, where possible, the Bank will explore sale opportunities and consensual and, occasionally, incentivised repayments that are capital-accretive.

(e) ***Legacy Portfolio: Renewable Energy Asset Finance ("REAF")***

As at 31 December 2016, this portfolio had gross loans of £81 million comprising specialised energy lending, mainly relating to wind farms, as well as combined heat and power and hydro.

The REAF portfolio is priced in line with current market expectations. The associated derivative positions and restrictions on transfer make these assets challenging to dispose of on a capital-accretive basis and as such are predominantly expected to be held until maturity. However, where possible the Bank will explore sale opportunities that are capital-accretive.

Certain financial information in respect of the Legacy Portfolio Business unit

Set out below is certain key financial information in respect of the Bank's Legacy Portfolio business segment.

(a) ***Operating Results and Assets and Liabilities of the Legacy Portfolio Business unit***

The following table sets out operating results of the Bank's Legacy Portfolio for the years ended 31 December 2014, 31 December 2015 and 31 December 2016.

	For the year ended 31 December (audited)		
	2016	**2015**	**2014**
	£m	*£m*	*£m*
Legacy Portfolio			
Net interest income	(1.1)	1.6	9.3
Losses on asset sales	(14.0)	(67.5)	(11.1)
Non-interest income	8.4	14.0	17.2
Net income	(6.7)	(51.9)	15.4
Direct costs	(6.9)	(9.9)	(17.1)
Impairment gains on loans and advances	(1.1)	(37.9)	152.6
Contribution result	(14.7)	(23.9)	150.9

The following table sets out the total assets, liabilities and Credit Risk RWAs of the Bank's Legacy Portfolio as at 31 December 2014, 31 December 2015 and 31 December 2016.

	As at 31 December (unaudited)		
	2016	**2015**	**2014**
	£m	*£m*	*£m*
Legacy Portfolio			
Segmental assets	1,471.4	2,034.3	3,930.1
Segmental liabilities	61.3	282.7	557.4
Total Credit Risk RWAs	1,140.6	1,793.1	3,624.0

(b) ***Key Performance Indicators of the Legacy Portfolio***

The following table sets out the key performance indicators for the Bank's Legacy Portfolio as at and for the year ended 31 December 2016.

	As at and for the year ended 31 December 2016 (unaudited)
Legacy Portfolio	
Non-performing loans ratio[1]	8.9%
Non-performing loans coverage[2]	34.9%

(1) The non-performing loans ratio is calculated by dividing impaired customer balances by gross customer balances.

(2) The non-performing loans coverage ratio is calculated by dividing total credit provision by impaired customer balances.

Optimum

The Optimum portfolio is comprised of assets assumed from the merger with Britannia in 2009 and is a closed book of non-prime intermediary and acquired mortgage book assets including non-prime residential mortgages (both income verified and self-certified), buy-to-let and other non-conforming mortgages. The Optimum gross customer balances as at 31 December 2016 were £2.6 billion.

As at 31 December 2016:

- the Optimum portfolio comprised 34 per cent. buy-to-let mortgages, 14 per cent. non-conforming, 29 per cent. self-certified, 16 per cent. almost prime and 7 per cent. prime residential at origination;
- 1.67 per cent. of the Optimum portfolio by value had an indexed loan-to-value ratio (being the current aggregate mortgage balance divided by the latest property valuation (of the mortgaged property), indexed using the Halifax non-seasonally adjusted regional house price indices dated as at the end of Q3 2016) of greater than 100 per cent.;
- 2,618 accounts (equivalent to £297.5 million) of the portfolio and 11.36 per cent. of the portfolio was in arrears (by any amount), which is a greater level relative to the 1.29 per cent. for the Retail Banking Retail mortgage portfolio;
- 11.4 per cent. of the Optimum portfolio was three months (or more) in arrears and the three months (or more) in arrears impaired loan coverage ratio was 4.2 per cent. and Credit Risk RWAs were £0.9 billion; and
- 21 per cent. of the Optimum portfolio was encumbered; a position that the Bank is targeting to reduce further in 2017.

Calico (a credit risk transfer where the Bank obtains mortgage asset RWA relief) is a credit protection trade on approximately 53 per cent. of the total Optimum book. This transaction provides credit protection and capital relief. Of the initial £1.8 billion of loans included in the transaction, cumulative credit losses of between 2.0 per cent. and 8.5 per cent. of the original portfolio size (£116.5 million) are under a credit default swap arrangement where they are effectively insured for the life of the transaction which is expected to mature in March 2021. The Bank is planning to give formal notice to exercise its right to terminate Calico in September 2017 upon the occurrence of a Regulatory Event (as defined in the documents governing the transaction). See paragraph 8.2 of Part 7 of this Circular for further information about this planned termination and its impact on the Plan's forecasts and outlook, as reflected in the May 2017 Outlook on the Plan.

The Optimum portfolio is strongly-seasoned (meaning that it has been on the Bank's balance sheet for a considerable period of time). The weighted average seasoning as at 31 December 2016 was 10.6 years.

The run-off profile of the Optimum portfolio is typical for a residential mortgage book of its kind. The Bank is expecting further reductions of Optimum assets through securitisations and/or whole-loan sales, in a manner that seeks to ensure that any anticipated future losses (through forgone income and any possible loss on sale) from such de-leveraging actions do not materially exceed the capital benefit from the reduction in capital requirements of the portfolio. See paragraph 8.2 of Part 7 of this Circular for further information about this expected further de-leverage of Optimum assets and its impact on the Plan's forecasts and outlook, as reflected in the May 2017 Outlook on the Plan. Should the expected reductions of Optimum assets through securitisations and/or whole-loan sales not proceed, the Bank's strategy with regard to the Optimum book is otherwise based upon a natural amortisation of the book following the two whole structure securitisation transactions that de-leveraged £3.1 billion of assets in 2015.

The Optimum portfolio is predominantly an interest-only mortgage book (as at 31 December 2016, 86 per cent. of the Optimum portfolio was comprised of interest-only mortgages) with a weighted average maturity date of February 2029 (weighted average remaining term of 12.2 years) as at 31 December 2016. As a consequence, the Optimum portfolio is heavily dependent on the Bank-wide project for the management of interest-only customers (both when in term and at end of term) which includes systems and operational changes. This is planned for delivery in 2017 and will enhance the process for interest-only mortgage customers approaching, or at, maturity.

Many remaining customers may be reluctant to redeem their residential mortgages because the interest-only repayment type basis enjoyed is favourable versus a capital repayment type. New

interest-only repayment type lending is limited across the market following mortgage market changes in 2014. In addition, as at 31 December 2016, 97 per cent. of the Optimum portfolio comprised variable rate mortgages which track the Bank of England's base rate or LIBOR. This, therefore, prevents the Bank from passing any increases in its cost of funding to these customers.

The Optimum portfolio may present a relatively higher credit risk to the Bank if there is a single risk macro-economic shock factor (such as an interest rate rise) or if there are multiple macro-economic stress factors given its interest-only, credit type and higher LTV (versus the Bank's Retail Mortgage portfolio) risk characteristics. See the risk factor entitled "*Worsening economic and market conditions and/or increasing interest rates and/or a fall in house prices and/or commercial property prices could result in increased residential mortgage, commercial lending and unsecured loan losses which would adversely impact the Bank's financial and operational performance*." in Part 3 of this Circular.

The Bank's ultimate objective is to exit the Optimum portfolio. However, if the expected reductions of Optimum assets through securitisations and/or whole-loan sales do not occur in the timeframe or quantum contemplated, the Bank expects to have to hold a significant proportion of the Optimum portfolio for many years in run-off, with natural amortisation of the portfolio taking place as opposed to executing proactive de-leveraging transactions as well as benefiting from early redemptions and natural maturities.

The table below sets out a breakdown of the Optimum gross customer balance loan portfolio as at 31 December 2014, 31 December 2015 and 31 December 2016.

	As at 31 December (unaudited)		
	2016	**2015**	**2014**
	£m	*£m*	*£m*
Product Type (at origination)			
Prime	172.1	190.8	566.2
Buy-to-let	903.7	984.2	1,893.1
Self-certified	759.7	830.6	1,701.2
Almost prime	422.6	464.1	770.4
Non-conforming	377.3	417.0	1,519.2
Total	**2,635.4**	**2,886.7**	**6,450.1**

The following table sets out the geographical distribution of the Optimum portfolio as at 31 December 2014, 31 December 2015 and 31 December 2016.

	As at 31 December (audited)		
	2016	**2015**	**2014**
	£m	*£m*	*£m*
Region			
London & South East	1,182.8	1,311.7	2,860.6
Northern England	590.4	633.0	1,365.9
Midlands & East Anglia	423.8	465.2	1,113.1
Wales & South West	262.3	285.7	749.7
Other	176.1	191.1	360.8
Total	**2,635.4**	**2,886.7**	**6,450.1**

The following table sets out the indexed LTV ratios of the Optimum portfolio, broken down by type as at 31 December 2014, 31 December 2015 and 31 December 2016.

	As at 31 December (audited)		
	2016	2015	2014
	£m	*£m*	*£m*
Optimum LTV Ratio%			
Less than 50%	566.6	454.5	768.7
50% to 60%	542.1	467.2	764.2
60% to 70%	545.8	605.0	1,190.6
70% to 80%	476.5	633.8	1,311.0
80% to 90%	321.3	441.4	1,211.8
90% to 100%	139.1	209.8	773.7
Greater than 100%	44.0	75.0	430.1
Total	**2,635.4**	**2,886.7**	**6,450.1**

(c) ***Operating Results and Assets and Liabilities of the Optimum portfolio***

The following table sets out operating results of the Bank's Optimum portfolio for the years ended 31 December 2014, 31 December 2015 and 31 December 2016.

	For the year ended 31 December (audited)		
	2016	2015	2014
	£m	*£m*	*£m*
Optimum			
Net interest income	(16.8)	9.3	43.2
Losses on asset sales	–	(53.1)	–
Non-interest income	1.1	3.5	4.7
Net income	(15.7)	(40.3)	47.9
Direct costs	(2.5)	(4.9)	(2.9)
Impairment gains on loans and advances	(1.1)	11.0	15.6
Contribution result	(19.3)	(34.2)	60.6

The following table sets out the total assets, liabilities and Credit Risk RWAs of the Bank's Optimum portfolio as at 31 December 2014, 31 December 2015 and 31 December 2016.

	As at 31 December (unaudited)		
	2016	2015	2014
	£m	*£m*	*£m*
Optimum			
Assets	2,838.4	3,109.8	6,822.9
Liabilities	–	–	–
Total Credit Risk RWAs	899.8	976.0	3,526.0

(d) ***Key Performance Indicators of the Optimum portfolio***

The following table sets out key performance indicators for the Bank's Optimum portfolio as at and for the year ended 31 December 2016.

	As at and for the year ended 31 December 2016 (unaudited)
Optimum portfolio	
Non-performing loans ratio[1]	11.4%
Non-performing loans coverage[2]	4.2%

(1) The non-performing loans ratio is calculated by dividing impaired customer balances by gross customer balances.

(2) The non-performing loans coverage ratio is calculated by dividing total credit provision by impaired customer balances.

6. CHIEF OPERATING OFFICE ("COO")

The Bank's COO function comprises Banking Operations, Information Technology and Transformation and Change. These COO functions are supported by a COO Risk and control function, within which are specialist teams addressing IT risks, cyber risks, data and information risk, risks arising from Banking Operations and from transformation and change.

Banking Operations

The Bank's Banking Operations delivers back-office processing for all Bank customer segments and products.

The Banking Operations department delivers operational services to support payments, treasury activity, mortgage origination and administration, customer redress and remediation, and business process improvement services. The payment operations unit processes all payment transactions and payment scheme management. The treasury operations unit administers back-office processing for all Treasury transactions. The mortgage operations unit manages and oversees the outsourced mortgage operation run by Capita. The redress and remediation unit handle the Bank's conduct redress programmes, whilst the business improvement team seeks to deliver operational efficiency benefits through identifying bank-wide end-to-end process improvements and applying "Lean" techniques.

Information Technology ("IT")

IT operating model overview

The Bank's operating model for IT comprises three functions: (i) IT service delivery (IT incident management, IT change management, IT security administration and defect resolution); (ii) Chief Technology Officer (IT architecture, solutions design, IT strategy and systems development); and (iii) IT change delivery (responsible for IT components of all Bank projects). These functions deliver all of the Bank's IT needs, leveraging a range of third-party contractual relationships, notably with IBM (for IT systems management), Sopra (for software applications maintenance and development) and Cognizant (for systems testing services).

IT systems overview

The Bank's IT architecture supports the end-to-end activities of a full-service Retail and Business clearing bank.

The Bank relies on approximately 450 IT applications to support its range of retail and business financial products, customer services and the related business and operational support functions. These applications are hosted on IT infrastructure located in four strategic IBM data centres and five legacy data centres managed on behalf of the Bank by the Co-operative Group. The Bank's core systems consist of proprietary customer, account and payment solutions based on an IBM mainframe platform. This forms the basis of the Bank's IT architecture to which key vendor-supplied banking product and service platforms are connected to deliver regulatory-compliant banking functionality. This includes the Sopra Banking platform to support the Bank's branded mortgage products, First Data's card processing platform, ATM provision by Wincor Nixdorf and integration with VocaLink's payments platform. A certain amount of duplication of functionality remains within the Bank's IT applications estate, where the IT acquired with the Britannia merger in August 2009 still runs alongside the equivalent Bank applications. The most notable examples of this are the platforms that support mortgage and savings products. Elimination of this duplication represents a rationalisation and simplification opportunity for the Bank but the full scope of these opportunities is not embedded within the Plan.

During 2016, the Bank enhanced its IT architecture by introducing a new retail digital platform, built upon a "real-time" integration capability that enables services to be shared across channels, and performance to be optimised for different channel behaviour. The new platform has been implemented in both Co-operative Bank and "smile" branding to replace the two previous digital platforms. This new online banking platform is built on a modern, scalable infrastructure hosted by IBM under a managed service contract. The platform is a proprietary platform utilising the Kony development tool-set. (Kony Inc. is a specialist software vendor

of mobile and digital banking technologies). Whilst the new platform is designed to be deployable as a mobile banking application, it presently runs as an online banking platform and the Bank continues to use the Monitise third-party platform for mobile banking services, under a contract where notice has been served and the notice period is scheduled to expire in December 2017. The Bank is discussing with Monetise an extension of the contract (although an extension may not be agreed on acceptable terms, or at all). A consolidation of digital and mobile services onto a single technology platform is being considered for 2018.

The Bank monitors and measures the availability of each of its "Priority Business Services" ("**PBS**"), these being the set of core services (e.g. ATMs, contact centres, online banking and payment services) that are needed to deliver Bank products and services to customers. The availability targets for the IT components are set in accordance with the criticality of the PBS that they support. In 2016, the Bank achieved an overall average service availability of 99.85 per cent. against a target of 99.00 per cent.

The Bank has invested in building a process automation capability based on BluePrism, a robotic process automation software package which allows business processing rules to be codified to automate repetitive tasks. Using this tool, the Bank has automated over 170 business processes and removed unnecessary manual processing. The Bank believes that this capability continues to deliver significant cost savings across the Bank's operations.

From a data management perspective, the Bank uses a diverse range of data technologies, such as CA Datacom (high-volume and fault-tolerant capabilities), supporting the Bank's core mainframe systems, with DB2 (a data product from IBM), Oracle (a multinational computer technology corporation specialising primarily in developing and marketing database software and technology, cloud engineered systems and enterprise software products) and SQL (a relationship database management system developed by Microsoft), supporting the majority of mid-range systems. The Bank makes extensive use of the SAS software suite (developed by the SAS institute for advanced analytics and business intelligence). The Bank utilises third-party IT-outsourced services for some "back-office" services (including, HR, payroll and procurement), with an Oracle-based enterprise solution used by the Bank's finance function.

During the first three months of 2017, the Bank completed major IT migrations, moving its core banking applications on to new IT infrastructure hosted in IBM data centres in Warwick and Birmingham. In 2016 the Bank had previously moved the hosting of its front-end digital platform to modern, cloud-enabled infrastructure located within IBM data centres in Portsmouth and Germany. Within the limits of the related banking applications, these migrations were used to update the underlying hardware and operating system components, establish improved resilience and recoverability capability, and provide greater options for future expansion. The Bank continues to operate certain systems from the legacy data centres managed by the Co-operative Group. Plans are either in place or under development progressively to exit these legacy data centres, either by further migration activity, by transitioning services to new suppliers or by implementing replacement services, which will allow systems to be decommissioned.

The Bank's data centre strategy is based on a primary/secondary approach with the disaster recovery capabilities being provided at a secondary data centre with recovery time objectives being aligned to the criticality of the services. There is a schedule of service continuity testing that proves this capability. There is also a dedicated business resilience team, providing incident management capabilities and appropriate crisis management processes. The Bank has made contingencies to accommodate for disasters that render their offices unavailable and the Bank has three work area recovery sites for this eventuality. These work area recovery sites are tested on an annual basis to ensure that they are fit for purpose and the last testing took place in Q4 2016.

The next phase of the Bank's IT infrastructure plans are laid out in the Plan, and cover updating its distributed infrastructure components, replacing the legacy XP desktop with a Windows 10 solution, updating the legacy telephony platform and confirming the optimal strategy for the remaining steps in eliminating IT service dependencies on the Co-operative Group.

IT Security

After a 2013 review of the Bank's IT resilience, the Bank commissioned the IT remediation programme to improve the Bank's disaster recovery capability, service stability and IT security capabilities. The IT remediation work is now largely complete with delivery of the remaining remediation work planned to complete before the end of 2017.

The Bank has a data centre network security architecture with multiple layers of physical networking and firewalls. A number of security solutions are used including Oracle Identity and Access Management, IBM QRadar Security Event Monitoring, hardware cryptography and content inspection. Further improvements to the security of the Bank's end user devices (laptops, PCs, etc) are planned to be undertaken in conjunction with the Bank's wider desktop replacement strategy, including remote colleague virtual private network access, and anti-malware solutions.

The Bank operates an IT risk management framework conformed to the principles of the widely recognised COBIT standard (Control Objectives for Information Technology) for the management of systems availability, security and effectiveness. Significant investment has been made in IT risk reduction since 2014, which has resulted in material improvement to the Bank's position against its IT risk appetite. Information security risks are managed as part of a wider IT risk portfolio, with a formal IT risk committee convening monthly to track and support risk management. The Bank believes that this focus on IT Risk has strengthened the IT Risk and Security capability within the Bank.

Transformation and Change

Since early 2014, the Bank has tackled a large portfolio of remediation and change programmes, addressing historical vulnerabilities and defects in its bank systems and processes, catch-up investments in areas such as digital banking, and certain regulatory/mandatory projects. In 2016, the Bank expensed approximately £310 million across a broad range of change programmes. The Bank's transformation programme to date has delivered significant advances across its digital platform with a new, secure internet banking site served from a modern, scalable infrastructure hosted by IBM. The new internet banking site was redesigned based upon customer usability and works across any device. Further new functions have also been added, such as paperless statements, transaction search, secure messaging, online Mortgage in Principle capability, term deposit maturity processes and mobile one-time payments. The Bank's transformation programme has also completed the outsourcing of the Bank's mortgage operations, has delivered extensive IT resilience improvements and significant progress to operational separation from the Co-operative Group via the migration of core banking and finance platform management to IBM, which the Bank believes is the most complex element of the separation of its IT systems from the Co-operative Group.

The Bank is targeting a reduction in project costs to approximately £100 million for the year ending 31 December 2017 (year ended 31 December 2016: £310 million), and an increase to approximately £120 million of project costs in 2018, and thereafter project costs of approximately £50 million per annum over the remaining life of the Plan as a consequence of a number of the major programmes having either been completed or substantially completed (and closed) and as the Bank expects to enter into a steady phase of change from 2019 in accordance with the Plan.

The Bank's transformation activity is now focused on three areas:

- further IT separation from the Co-operative Group, notably via the delivery of new telephony platforms and desktop technology, plus the progressive exiting of service arrangements supporting legacy data centre equipment;
- ongoing regulatory compliance, for example:
  - cheque imaging, which requires all banks to speed up cheque clearing times through the use of digital images;
  - developments to comply with CMA directives and with PSD2 in relation to Open Banking;
  - the extended data protection requirements of the GDPR; and

- upgrades to the Bank's channels and product platforms including mobile banking application, business online application and mortgage platform.

The Bank has a control framework to govern transformation programme delivery. The major component programmes of the Bank's transformation programme are tracked and reported via a central transformation and change function to the Executive Committee and the Board.

7. SEPARATION

The Bank and CISGIL jointly relied on a centralised, shared services company, CFSMS, for the provision of most of their employees, assets and third-party contracts and on the Co-operative Group itself for a number of corporate functions which were shared with the Co-operative Group and CFSMS. Since 2014, a significant degree of separation from the Co-operative Group has been achieved: all Bank staff are located in Bank locations, all non-IT TUPE transfers have been completed, all Bank-only assets have been transferred to Bank with the exception of some bespoke software developed for the Bank's use under the historical agreement between the Co-operative Group and Sopra Steria Limited ("**Sopra**"). For further information, see paragraph 17.7 of Part 16 of this Circular for description of the Bank's agreement with Sopra. These software assets are the subject of IP assignment and license agreements dated 9 June 2017, between the Bank and the Co-operative Group to provide the Bank with the necessary rights in perpetuity. Central services have been separated from CBG. The remaining separation activities are limited to shared IT services including desktop, telephony and networks, shared data centres, some limited non-IT services, data, the resolution of Pace (see the paragraph entitled "**Pensions**" in paragraph 2.3 of Part 7 of this Circular), the agreement on future participation in the Co-operative Group's membership scheme, discussions relating to the Bank and the Co-operative Group's other trademarks and the banking and other arrangements in the light of the termination and run-off of the Relationship Agreement.

The Bank has been working with the Co-operative Group, CFSMS and CISGIL to separate from the legacy shared IT infrastructure and to transition services from the Co-operative Group to the Bank's chosen service providers. Following successful migration of the Bank's core business applications to its strategic outsourced data centres managed by IBM, the Bank is planning the continued phased migration of legacy IT services from the Co-operative Group to alternative service models through 2018 and beyond.

The Bank continues to liaise with the Co-operative Group regarding use of trademarks and intellectual property relating to branding where some trademarks used by the Co-operative Group are owned by the Bank and *vice versa*. See the risk. factor entitled "*The Bank's differentiated customer proposition depends in part on its continued use of the "Co-operative*" name" for further details.

Discussions with the Co-operative Group about the Bank's ongoing participation in the Group's membership scheme have been put on hold by the Co-operative Group since the Bank's announcement of the FSP while it awaited further clarity on the future ownership of the Bank and the funding of the membership scheme. Following implementation of the Restructuring and Recapitalisation, the Bank plans to re-commence negotiations with the Co-operative Group in relation to its participation in the Co-operative Group's membership scheme. Should these discussions not resume or, should the Bank for whatever reason, cease to participate in, the Co-operative Group's membership scheme, this may increase the risk of a loss of support from the Co-operative Group for the Bank's continued use of the term "co-operative" and, in turn, may require a re-appraisal of the Matrix with Co-operatives UK, which could result in a loss of support from Co-operatives UK for the Bank's continued use of the term "co-operative", either of which could result in an increased risk that The Secretary of State for Business, Energy and Industrial Strategy or the FCA could look to exercise their powers detailed above. There is also a risk that the Bank ceasing to participate in the Co-operative Group's membership scheme could lead to customer attrition, see the risk factor entitled "*There are numerous risks associated with the changes in the Bank's relationship with the Co-operative Group. The Bank's relationship with the Co-operative Group will be materially affected by the Restructuring and Recapitalisation, the termination and run-off of the Relationship Agreement and the termination of the Co-Existence Principles, as well as the Co-operative Group's reducing influence over the Bank*." and the risk factor entitled "*The Bank's differentiated customer proposition depends in part on its continued use of the "Co-operative" name*." in Part 3 of this Circular for further details regarding the membership scheme.

8. PENSIONS

For details of the Bank's pension arrangements see paragraph 14 of Part 16 of this Circular.

9. EMPLOYEES

For details of the Bank's employee arrangements see paragraph 11 of Part 16 of this Circular.

PART 5

DIRECTORS, SENIOR MANAGERS AND CORPORATE GOVERNANCE

SECTION A: HOLDCO

1. HOLDCO DIRECTORS

1.1 *Initial Holdco Directors*

On incorporation, and as at the date of this Circular, the following individuals are directors of Holdco:

Name	Position	Date appointed to the Holdco Board
Liam Coleman	Director	13 July 2017
Tom Wood	Director	13 July 2017

The business address of each of the Liam Coleman and Tom Wood is CIS Tower, Miller Street, Manchester M60 0AL, United Kingdom.

The management expertise and experience of Liam Coleman is set out at paragraph 1.1 of Section B of this Part 5.

The management expertise and experience of Tom Wood is set out below:

Tom Wood *(Director)*

Tom Wood joined the Bank as the Chief Restructuring Officer Designate, subject to regulatory approvals, in July 2017, and was appointed to the Holdco Board on 13 July 2017.

Tom is the former Interim Chief Executive Officer and Chief Financial Officer of Shawbrook Group plc, Tom played an integral role leading the business through its successful IPO and entry into the FTSE 250. Prior to joining the Shawbrook Group, Tom was CFO for NBNK Investment plc and Group CFO of Skipton Group.

He began his career in Financial Services with Barclays plc, where he held a number of senior roles in Corporate Development, Finance and Risk. He was subsequently Group CFO of Derbyshire Building Society where he played a key role in its merger with Nationwide Building Society and played a leading role in the restructure of Northern Rock in 2009.

1.2 *Holdco Directors as at the Settlement Date*

As at the Settlement Date, the Holdco Board will comprise up to ten members including up to two B Shareholder Nominee Directors, six independent non-executive directors, the Chief Executive Officer and the Chief Financial Officer. It is expected that Dennis Holt (as Chairman), Liam Coleman (as Chief Executive Officer), John Worth (as Chief Financial Officer) and Aidan Birkett (as Senior Independent Director) will each be appointed as directors of Holdco with effect from the Settlement Date.

The Principal Investors are currently undertaking a process to confirm the identity of the B Shareholder Nominee Directors and this process is ongoing. The remaining Holdco Board members will be current non-executive Directors of the Bank that are not standing down at Completion. To the extent an appointment relates to an individual who carries out senior management functions, such appointment shall be subject to the approval of the PRA and FCA pursuant to SMR.

The business address of each of the Holdco Directors at the Settlement Date will be CIS Tower, Miller Street, Manchester M60 0AL, United Kingdom.

The management expertise and experience of the Holdco Directors is set out at paragraph 1.1 of Section A of this Part 5 and paragraph 1.1 of Section B of this Part 5.

1.3 ***Relationship to the Bank's Board***

It is expected that, as of the Settlement Date, and going forward, the membership of and governance arrangements of the Holdco Board will be the same as those of the Board.

2. CORPORATE GOVERNANCE

The Holdco Directors support high standards of corporate governance and Holdco, as the holding company, from the Settlement Date, of the Bank, will be subject to the governance requirements imposed by the PRA, which apply to the Bank. As a private limited company however, Holdco will not be subject to the UK Corporate Governance Code.

Holdco has incorporated the principles of Values & Ethics into its incorporation articles as they relate to oversight of the Bank and the Holdco Articles of Association (as summarised at paragraph 4 of Part 15) to be adopted as of the Settlement Date contain additional provisions relating to Values & Ethics.

Holdco, as a private limited company, is not required to comply, nor will it voluntarily comply with the Listing Rules, save in as much as they apply to any listed debt securities issued by it.

2.1 ***Holdco incorporation articles and corporate governance prior to the Settlement Date***

Holdco has been incorporated by the Initial Holdco Shareholders using a form of articles based on the model articles for private companies limited by shares. These articles contain the base provisions required to operate Holdco (including provisions in relation to Values & Ethics) until the Settlement Date when the Holdco Articles of Association will be adopted.

As at the date of this Circular, Holdco has not established any board committees and does not intend to do so in advance of the Settlement Date.

2.2 ***Roles and responsibilities of the Holdco Board***

As of the Settlement Date, the Holdco Board will promote and oversee conduct of the Holdco Group business, in a manner informed by the established values of the co-operative movement having regard to the highest standards of ethical principles and with the aim of being recognised as a good corporate citizen and contributing to building a stronger and sustainable society. The Holdco Board sets the Holdco Group values and standards and ensures that its obligations to its shareholders and others are understood and met.

The Holdco Board approves plans presented by management for the achievement of the Holdco Group's strategic objectives. The Holdco Board has full power and responsibility to conduct the business and affairs of Holdco and oversight of the Holdco Group.

Certain matters, as more fully described at paragraph 4 of Part 15 are reserved for the B Shareholders and include decisions on capital expenditure, material contracts, appointments of directors to the Holdco Board and changes to corporate governance arrangements.

2.3 ***Holdco Board Committees***

As of the Settlement Date, the Holdco Board will establish the following committees: (i) remuneration; (ii) nomination; (iii) audit; (iv) risk; and (v) values & ethics. Each committee will have formally delegated duties and responsibilities with written terms of reference to complement the Holdco Board's activities and to ensure Holdco follows best practice in corporate governance matters.

All of these committees will also exist at the Bank level.

2.4 ***Relationship with major Shareholders***

On or prior to the Settlement Date, Holdco and the B Shareholders will enter into a shareholders' agreement which will set out the principles in relation to the Exit Premium to be paid on a Bank Exit.

SECTION B: BANK

1. DIRECTORS

1.1 *Current Directors*

As at the date of this Circular, the following individuals are directors of the Bank:

Name	Position	Date appointed to the Board
Dennis Holt	Chairman	3 February 2014
Liam Coleman	Executive Director, Chief Executive Officer	11 July 2016
John Worth............................	Executive Director, Chief Financial Officer	11 October 2016
Alistair Asher(1)......................	Non-Executive Director (non-independent)	12 September 2016
Aidan Birkett	Senior Independent Director	1 July 2015
Charles Bralver.....................	Non-Executive Director (non-independent)	23 April 2015
Laura Carstensen	Non-Executive Director	27 May 2014
William Gennydd Thomas	Non-Executive Director	28 October 2013
Maureen Laurie(2)	Non-Executive Director	30 June 2014
Glyn Smith	Non-Executive Director	10 October 2016
Derek Weir............................	Non-Executive Director	25 July 2014

(1) Alistair Asher will step down from the Board with effect from the Settlement Date.

(2) Maureen Laurie will step down from the Board with effect from the Settlement Date.

The business address of each of the Directors is CIS Tower, Miller Street, Manchester M60 0AL, United Kingdom.

The management expertise and experience of each of the Directors is set out below:

Executive Directors

Liam Coleman *(Chief Executive Officer)*

Liam Coleman joined the Board in July 2016. Liam was appointed as Deputy Chief Executive Officer on 3 May 2016 having joined the Bank in June 2013 as the Treasurer and subsequently Director of the Retail & Commercial Bank on 1 September 2014. Liam has 25 years of experience in the industry and was Deputy Group Treasurer and Group Head of Capital Management at RBS from February 2011 to June 2013 and worked at Nationwide Building Society from 1996 to 2011, ultimately as Group Director, Treasury, where he had responsibility for all the treasury activities of the society. Earlier in his career, Liam worked at NatWest in corporate banking and at Hambros and Bank of Tokyo-Mitsubishi in corporate and structured finance. Liam is a former Non-Executive Director of Great Western Hospitals NHS Foundation Trust. On 1 January 2017, Liam became Chief Executive Officer of the Bank.

John Worth *(Chief Financial Officer)*

John Worth joined the Bank in September 2016 and became Chief Financial Officer in October 2016. He has over 30 years of experience in the financial services industry in Finance, IT and Risk Management roles. He most recently worked as the Chief Financial Officer of two publicly listed insurers, Hiscox and Aspen Insurance Holdings. Before that, John was Group Financial Controller at Barclays and has also held senior roles at Ernst & Young LLP, Prudential and Price Waterhouse, where he worked for the London, Tokyo and Grand Cayman offices. Since 2002, John has worked extensively in a fundraising and a finance-advisory capacity for the NSPCC. He is a Trustee Director and Honorary Treasurer of the NSPCC and a member of the NSPCC Great British Chefs Dinner Committee.

Non-Executive Directors

Dennis Holt ***(Chairman)***

Dennis Holt joined the Board in February 2014 as Senior Independent Director. He was appointed as Chairman in October 2014. Dennis has over 45 years of experience in banking and insurance, which includes a period as Main Board Executive Director at Lloyds TSB responsible for the Retail Bank. He has held several Non-Executive posts, including Deputy Chairman of Bank of Ireland plc, Chairman of Bank of Ireland UK and Chairman of Liverpool Victoria. He is currently Non-Executive Chairman of Beazley plc and its subsidiary, Beazley Furlonge Limited.

Alistair Asher ***(Non-Executive Director)***

Alistair Asher joined the Board in September 2016. Alistair is a solicitor and was appointed as General Counsel of the Co-operative Group in July 2013. Prior to this, Alistair was a Partner at Allen & Overy LLP and was Global Head of the Financial Institutions Group. Alistair is currently a Non-Executive Director and Chair of Co-operative Legal Services Limited and Non-Executive Director of its subsidiary, The Co-operative Bank Trust Corporation Limited. He is also a Non-Executive Director of CIS General Insurance Limited, the Federal Retail & Trading Services Limited, NOMA Estate Management Limited and NOMA (GP) Limited.

Aidan Birkett ***(Senior Independent Director)***

Aidan Birkett joined the Board in July 2015 and was appointed as Senior Independent Director in October 2015. He built his career within the professional services sector over more than 30 years with PwC and Deloitte. He was the head of Deloitte's Corporate Finance business and a member of the firm's executive committee. He has led a number of high profile strategic and commercial reviews of businesses in varying turnaround situations, in the UK and overseas. This has provided him with significant experience in the wholesale finance sector and an understanding of the retail customer segment across a number of non-financial sectors. Aidan has served as a consultant, director and advisor in various capacities and has held various Non-Executive Director roles. He is currently a Non-Executive Director with the Dubai Group.

Charles Bralver ***(Non-Executive Director)***

Charles Bralver joined the Board in April 2015. Charles was a founding partner of Oliver Wyman & Company where, from 1984 through to 2007, he held several positions, including Vice Chairman, Head of Europe, Head of North America, and Head of the Global Capital Markets Practice. He has over 30 years of financial services experience, including two years as a Strategic Advisor on Financial Services at Warburg Pincus LLC. He is the former Senior Associate Dean for International Business and Finance at the Fletcher School of Law and Diplomacy at Tufts University in Boston, USA. He is currently a member of Oliver Wyman's Senior Advisory Board and a Non-Executive Director of Canaccord Genuity Group Inc. and NewStar Financial Inc. and a member of the Investment Committee at Ultra Capital Partners. He also acts as a Senior Advisor on Financial Services to Silver Point Capital, advisor to Fintech to MassInsight, and is a member of Chatham House, London.

Laura Carstensen ***(Non-Executive Director)***

Laura Carstensen was appointed to the Board in May 2014. Laura is a former partner at the City law firm, Slaughter and May LLP. Laura is a former Member and Deputy Chair of The Competition Commission (now The Competition and Markets Authority). She is currently a Non-Executive Director and Chair of Park Group plc. She is an advisory group member of Vote 100, a patron and member of development committee for Manchester International Festival and a Non-Executive Director of NHS Improvement.

William Gennydd Thomas ***(Non-Executive Director)***

William Gennydd Thomas joined the Board in October 2013. He is a former Senior Vice President of Hewlett Packard and was on the Executive Committee of EDS plc as Executive Vice President. He has

IT expertise and is an experienced leader and general manager with a track record in leading major change in large organisations. He has extensive commercial and operational experience, working domestically and internationally with both public and private sector organisations. William is a member of the Council and President of the Alumni Association at Cranfield University School of Management and is on the management and Board of Leeds University Business School. William serves as the Chair of the Royal Navy and Royal Marines Charity and Non-Executive Chair of Spirent Communications plc. Additionally, he is a Director on the Advisory Board of Fire Eye Inc. and a partner in Hopton Estates and The Invicta Film Partnership LLP.

Maureen Laurie ***(Non-Executive Director)***

Maureen Laurie joined the Board in June 2014. She brings over 30 years of experience in senior human resources (HR) roles spanning global HR strategy, policy and transformation in the financial and public sectors, including the British Council, NYSE EURONEXT, LIFFE, Barclays, Standard Chartered Bank, EBRD and Reuters. Maureen holds professional qualifications from the Chartered Institute of Personnel and Development and was appointed a Fellow of the CIPD in 1992. She is also a Pensions Management Institute qualified Trustee. From 2010 until 2015, Maureen was a Non-Executive Director, Independent Governor and Trustee of London Metropolitan University and is currently a Non-Executive Director and Trustee of Reuters Pension Fund.

Glyn Smith ***(Non-Executive Director)***

Glyn Smith joined the Board in October 2016, becoming Chairman of the Audit Committee in October 2016. Glyn has over 35 years of experience in the financial services sector, most notably in a number of senior executive roles in Barclays Bank PLC and as Group Finance Director of the Portman Building Society. Since 2003, he has held numerous non-executive directorships and chaired the audit committees of organisations across both the public and private sectors. These have included Coventry Building Society, Domestic and General Group and Stroud & Swindon Building Society in the financial services sector. Glyn is a graduate of Cambridge University and a Chartered Accountant. He is a former member of the examinations team of the Institute of Chartered Accountants in England and Wales. He is currently a Non-Executive Director and Chairman of the Audit and Risk Committees of FCO Services and The Reclaim Fund Ltd.

Derek Weir ***(Non-Executive Director)***

Derek Weir joined the Board in July 2014 and was appointed Chair of the Risk Committee in January 2016. He has over 25 years of financial services experience, holding a range of senior positions in corporate and commercial banking. During this time he held posts, both in the UK and internationally, at Barclays Bank PLC and Royal Bank of Scotland plc, including being the Managing Director responsible for Commercial Banking in the UK for Royal Bank of Scotland plc. Derek is currently a Non-Executive Director of Motherwell Football Club Community Trust and a Director of Kerrach Limited. Derek is also Non-Executive Director of Macklin Enterprise Partnerships Consultancy Limited and Macklin Enterprise Partnerships Limited.

1.2 ***Directors as at the Settlement Date:***

As at the Settlement Date, the Board will comprise up to ten members including up to two B Shareholder Nominee Directors, six independent non-executive directors, the Chief Executive Officer and the Chief Financial Officer. It is expected that Dennis Holt (as Chairman), Liam Coleman (as Chief Executive Officer), John Worth (as Chief Financial Officer) and Aidan Birkett (as Senior Independent Director) will each be appointed as Directors of the Bank with effect from the Settlement Date. The Principal Investors are currently undertaking a process to confirm the identity of the B Shareholder Nominee Directors and this process is ongoing. Alistair Asher and Maureen Laurie will step down from the Board with effect from the Settlement Date and it is expected that the remaining members of the Board will be current non-executive Directors of the Bank.

To the extent an appointment relates to an individual who carries out senior management functions, such appointment shall be subject to the approval of the PRA and FCA pursuant to SMR.

As at the settlement date the composition of the boards of Holdco and the Bank are required to be identical. The business address of each of the Directors is CIS Tower, Miller Street, Manchester M60 0AL, United Kingdom.

The management expertise and experience of each of the Directors is set out above at paragraph 1 of Section A of this Part 5 and paragraph 1.1 of Section B of this Part 5.

2. SENIOR MANAGEMENT

2.1 *Senior Managers*

The following table lists the names and positions of the Bank's Senior Managers, a Senior Manager being any senior manager who is relevant to establishing that the Bank has the appropriate expertise and experience for the management of the Bank's business:

Name	Position
Ashley Lillie	Treasurer
Heather Lauder	Director of Retail & Business Banking
Matthew Carter	Product and Communications Director
Steve Friedlos	Chief Operating Officer
Tracey Kneller	HR Director
Brona McKeown[3]	General Counsel & Company Secretary
Steven Pickering	Chief Risk Officer
David Bagley	Regulatory Risk Director
Chris Greenway	Director of Internal Audit

In addition, Tom Wood joined the Bank as Chief Restructuring Officer Designate, subject to regulatory approvals, in July 2017 and was appointed to the Holdco Board on 13 July 2017.

The management expertise and experience of each of the Senior Managers is set out below (save for Tom Wood, whose expertise and experience is set out at paragraph 1.1 of Section A of this Part 5).

2.2 *Management expertise and experience of Senior Managers*

The management expertise and experience of each of the Senior Managers is set out below:

Ashley Lillie ***(Treasurer)***

Ashley Lillie joined the Bank as Deputy Treasurer in June 2013 and was appointed Treasurer in September 2014. He was appointed to the Executive Committee in July 2016. Prior to joining the Bank, Ashley was Head of Treasury Markets at Nationwide, responsible for Nationwide's wholesale asset and wholesale funding portfolios. Ashley has over 30 years of banking experience, including 18 years of treasury experience within retail banking. Ashley was also previously employed at Skipton Building Society and J.H Schroder & Wagg (Merchant Bank).

Heather Lauder ***(Director of Retail & Business Banking)***

Heather Lauder joined the Bank in November 2012 and was appointed to the Executive Committee in July 2016. Heather has 30 years of experience in financial services in operational, strategic and transformational change, HR, distribution and customer strategy, across RBS, Natwest, Tesco and Northern Rock with significant executive experience. These roles have included the design and set up of retail challenger banks, large scale retail and business bank turnarounds at senior and executive level, leading global distribution businesses, covering digital, customer contact centres, branch networks, operations and specialist areas. Alongside working with the Bank, Heather currently sits on the Board of Trustees of National Museums Liverpool (a group of nine museums and art galleries

3 Note: Brona McKeown is not a senior manager for the purpose of the Senior Manager Regime under FSMA.

within the North West) and chairs the Audit & Remuneration Committees. Heather was appointed to the Northern Powerhouse, Power Women Top 50 list for 2017.

Matthew Carter ***(Product and Communications Director)***

Matthew Carter joined the Bank in February 2015 as Director for Product and Marketing. He was appointed to the Executive Committee in January 2017 as Director for Product and Communications. Matthew began his career in product marketing at Bristol and West Building Society after graduating from Exeter University. Following achievement of his CIM qualifications, he joined Nationwide and his roles included Head of Customer Insight, Head of Product Marketing and Director for the Mortgage and Savings business. Matthew was also Commercial Director at Tesco Bank and has experience at Barclays Bank, firstly as a Managing Director of Business Development in Barclays Retail and then as a Managing Director for Barclays Insurance.

Steve Friedlos ***(Chief Operating Officer)***

Steve Friedlos joined the Bank in October 2014 as Chief Information Officer, taking overall responsibility for IT strategy and the delivery of all IT services needed to run the Bank. Steve was appointed to the Executive Committee in March 2015, and was appointed as Chief Operating Officer in January 2017, retaining responsibility for Bank IT but additionally responsible for Banking Operations and for management of the Bank Transformation and Change portfolio. Steve has held senior IT roles at various financial services firms, including investment banks, brokers, asset management firms and insurance businesses.

Tracey Kneller ***(HR Director)***

Tracey Kneller joined the Bank in November 2015 as Head of Reward Performance and Employee Relations. Tracey was appointed HR Director and appointed to the Executive Committee in January 2017, and was appointed HR Director in January 2017. Tracey has more than 25 years of experience in senior HR roles covering reward, talent development and cultural programmes across multiple sectors, including retail, leisure, technology and financial services. Tracey has worked for a variety of international organisations, as well as in consultancy, and has significant experience in UK and international strategic HR and also has executive experience.

Brona McKeown ***(General Counsel and Company Secretary)***

Brona McKeown joined the Bank as General Counsel and Company Secretary and was appointed to the Executive Committee in December 2013. She has more than 20 years of experience advising on legal matters in financial services. Brona trained and qualified in the City law firm, CMS Cameron McKenna LLP, before joining Barclays Bank PLC's in-house legal team in 1998. She held a variety of roles at Barclays, culminating in being global general counsel of Barclays Corporate, a division of Barclays Bank PLC. Brona left Barclays Bank PLC in 2011. Before joining the Bank, Brona was interim general counsel and secretary at the Coventry Building Society.

Steven Pickering ***(Chief Risk Officer)***

Steven Pickering joined the Bank in November 2015 as the Risk Management Director, and became interim Chief Risk Officer in March 2016. Following PRA approval, Steven became the permanent Chief Risk Officer and was appointed to the Executive Committee in July 2016. Prior to joining the Co-operative Bank Steven worked for GE Capital in increasingly more senior risk roles based in Australia, New Zealand, Ireland and the UK.

David Bagley ***(Regulatory Risk Director)***

David Bagley joined the Bank in January 2014 as Director of Regulatory Risk, with responsibility for compliance, AML and fraud. David is a qualified solicitor in both the United Kingdom and Hong Kong, with over 30 years post qualification experience and has previously worked in private practice, a United Kingdom building society and for over 25 years both as a lawyer and a compliance officer in the banking industry. His career has included time in Hong Kong, Middle East and New York, including over 10 years as Head of Group Compliance at the HSBC Group. He acted as Chairman and Co-Chairman of the Wolfsberg Group of Banks for 5 years.

Chris Greenway ***(Director of Internal Audit)***

Chris Greenway joined the Bank in November 2013 and was appointed the interim Director of Internal Audit in June 2014, and following regulatory approval, Chris became the permanent Director of Internal Audit in January 2015. Chris has 20 years' internal audit experience in financial services. Before joining the Bank, Chris held a variety of leadership roles in internal audit, most recently as Head of Audit at the Universities Superannuation Scheme (USS). Prior to that Chris spent four years in a variety of leadership roles in the audit team of Barclays Bank PLC, including oversight of the legal and regulatory compliance, Barclaycard and UK retail banking audit teams. Before Barclays, Chris worked for Bank of America, Ernst and Young and Aviva.

3. CORPORATE GOVERNANCE

3.1 *Current corporate governance*

The Directors support high standards of corporate governance. As at the date of this Circular, the Bank's Articles of Association require it to: (i) use all reasonable endeavours to comply with the UK Corporate Governance Code, published by the Financial Reporting Council in April 2016 (the "**UK Corporate Governance Code**"); and (ii) comply with the provisions of LR 9.8.6R(5) and LR 9.8.6R(6) (annual financial report) of the Listing Rules as if they applied to the Bank, in each case, as if the Bank were in the FTSE 350. The Articles also currently require the Bank, for as long as its ordinary shares are not listed, to adopt and follow policies to comply with the rules in Chapter 10 (significant transactions), Chapter 11 (related party transactions), Chapter 12 (dealing in own securities and treasury shares) and Chapter 13 (contents of circulars) of the Listing Rules to the extent reasonably practicable and in accordance with the spirit of such chapters of the Listing Rules.

As at the date of this Circular, the Bank is in full compliance with the UK Corporate Governance Code, which sets out standards of good practice in relation to Board leadership and effectiveness, remuneration, accountability and relations with Shareholders. The UK Corporate Governance Code recommends that at least half the Board of directors (excluding the Chairman) should comprise "independent" non-executive directors. The UK Corporate Governance Code states that the Board should determine whether a director is independent in character and judgement and whether there are any relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement.

The Bank's Board of Directors currently comprises two Executive Directors (including the Chief Executive Officer) and nine Non-Executive Directors (including the Chairman). The Bank regards William Thomas, Laura Carstensen, Maureen Laurie, Derek Weir, Glyn Smith and Aidan Birkett as Independent Non-Executive Directors. Dennis Holt is regarded as an Independent Non-Executive Director, within the meaning of "independent" as defined in the UK Corporate Governance Code and on his appointment as Chairman on 27 October 2014.

The UK Corporate Governance Code also recommends that the Board should appoint one of the Independent Non-Executive Directors as senior independent director and Aiden Birkett has been appointed to fill this role. The senior independent director should be available to Shareholders if they have concerns which contact through the normal channels of the Chairman, the Chief Executive Officer or the Chief Financial Officer has failed to resolve or for which such contact is inappropriate.

Charles Bralver was appointed to the Board following nomination by SP Coop Investment, Ltd. (Cayman), an affiliate of Silver Point Capital, under the terms of the 2014 Shareholder Rights Agreement and accordingly, for the purposes of the UK Corporate Governance Code, Charles Bralver is not considered to be independent. Alistair Asher was appointed to the Board following nomination by the Co-operative Group under the terms of the Relationship Agreement and accordingly, for the purposes of the UK Corporate Governance Code, Alistair Asher is not considered to be independent.

3.2 *Corporate Governance as at the Settlement Date*

As part of the Restructuring and Recapitalisation, and in order to reflect the fact that the Bank will be a wholly-owned subsidiary of Holdco, the Bank will simplify its Articles of Association, to remove

the requirement that the Bank adopt policies and procedures to comply with Chapters 10 to 13 of the Listing Rules and the UK Corporate Governance Code. These requirements were introduced at the time of the Bank's 2013 recapitalisation when a possible initial public offering was in contemplation in order to facilitate the Bank's transition to a listed company. The Directors consider that following the Restructuring and Recapitalisation, such requirements will no longer be suitable for the Bank. However, the Bank's commitment to Values & Ethics remains unchanged and its Articles of Association will continue to contain the existing entrenched co-operative values and ethics provisions, although these will be updated in order to preserve them notwithstanding that the Co-operative Group will no longer hold Ordinary Shares in the Bank following Completion.

The Articles of Association will also be amended to introduce the power for the Board to suspend the Ordinary Shares in order to ensure that those Shareholders on the register of members at the Entitlements Record Time, when entitlements to participate in the Members' Equity Subscription are calculated, remain Scheme Shareholders when the Member's Scheme is sanctioned and made effective. The Board will exercise this power to suspend the ability to transfer an Ordinary Share in the period from the General Meeting until the Settlement Date.

Following completion of the Restructuring and Recapitalisation, the Bank will not be required to, nor will it voluntarily oblige itself to, comply with the Listing Rules save in so far as they apply to any listed debt securities issued by it. The Bank will not be subject to the UK Corporate Governance Code. The Bank will be subject to governance requirements imposed by the PRA.

3.3 ***Roles and responsibilities of the Board***

The Board has collective responsibility for the long-term success of the Bank. Its role is to provide leadership of the Bank within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Bank's values and standards and ensures that its obligations to its shareholders and others are understood and met.

The Board sets the Bank's strategy and approves plans presented by management for the achievement of the strategic objectives it has set. It determines the nature and extent of the significant risks it is willing to take in achieving its strategic objectives and is responsible for ensuring maintenance of sound risk management and internal control systems.

Implementation of the strategy set by the Board and the management and day-to-day running of the Bank is delegated to the Chief Executive Officer with the exception of the matters reserved to the Board. Such reserved matters include decisions on strategic and long-term objectives, the approval of published financial statements, major acquisitions and disposals, significant investments and other capital expenditure and risk management policies.

3.4 ***Board Committees***

(a) *Current Board Committees*

In addition to those matters reserved to the Board, the Board has established audit, remuneration, nomination and risk committees each with formally delegated duties and responsibilities with written terms of reference to complement the Board's activities and to ensure the Bank follows best practice in corporate governance matters, including compliance with the UK Corporate Governance Code. All committees are compliant with the UK Corporate Governance Code.

A further Board committee was established in connection with the 2013 Recapitalisation Plan, namely the Values and Ethics Committee (the "**V&E Committee**"). The Articles of Association of the Bank set out the purpose and composition of the committee and it will play an important role in relation to the Bank's commitment (as set out in the Articles of Association) to promote and conduct its business to the extent practicable in a manner informed by the established values of the co-operative movement, having regard to the highest standards of ethical principles and with the idea of being recognised as a good corporate citizen and

contributing to building a stronger and sustainable society. The Bank will promote and conduct its business in such manner in relation to:

(i) how it relates to, communicates with, balances the interests of and otherwise deals with, its stakeholders; and

(ii) how it applies the profits of the Bank, in accordance with the dividend policy set out in its Articles of Association.

(b) *Board Committees as at the Settlement Date*

As at the Settlement, it is expected that the Bank will have the following board committees: (i) remuneration; (ii) nomination; (iii) audit; (iv) V&E Committee; and (v) risk. Each committee will have formally delegated duties and responsibilities with written terms of reference to complement the Board's activities and to ensure the Bank follows best practice in corporate governance matters.

3.5 ***Relationship with major Shareholders***

For information about the Bank's relationship with the Co-operative Group and CBG see paragraphs 17.3 and 17.4 of Part 16 of this Circular. For information about the Bank's relationship with Silver Point and Perry Capital UK LLP see paragraph 17.5 of Part 16 of this Circular.

PART 6

THE BANK'S HISTORICAL FINANCIAL INFORMATION

Historical financial information

The following documents, which have been filed with the FCA and are available for inspection on the Bank's website at www.co-operativebank.co.uk/investorrelations and are available for inspection in accordance with paragraph 22 of Part 16 of this Circular, contain financial statements, the notes relating to those financial statements and the related accountant reports which are incorporated by reference into this Circular as set out below:

- The Bank's Annual Report and Accounts 2016 (which includes the Bank's audited consolidated financial statements for the year ended 31 December 2016) ("**the Bank's Annual Report and Accounts 2016**");
- The Bank's Annual Report and Accounts 2015 (which includes the Bank's audited consolidated financial statements for the year ended 31 December 2015) ("**the Bank's Annual Report and Accounts 2015**"); and
- The Bank's Annual Report and Accounts 2014 (which includes the Bank's audited consolidated financial statements for the year ended 31 December 2014) ("**the Bank's Annual Report and Accounts 2014**").

Information incorporated by reference

The tables below set out the financial statements, the notes relating to those financial statements and the related accountant reports which are incorporated by reference into, and form part of, this Circular from the above-mentioned documents so as to provide certain financial information, and only the parts of the documents identified in the tables below and elsewhere are incorporated into, and form part of, this Circular. The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this Circular. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this Circular.

For the year ended 31 December 2016

Information incorporated by reference into this Circular	Reference document	Page number in reference document
Independent Auditor's Report to the members of the Co-operative Bank p.l.c.	The Bank's Annual Report and Accounts 2016	137 – 144
Consolidated Income Statement	The Bank's Annual Report and Accounts 2016	145
Consolidated Statement of Comprehensive Income	The Bank's Annual Report and Accounts 2016	146
Consolidated Balance Sheet	The Bank's Annual Report and Accounts 2016	147
Consolidated Statement of Cash Flows	The Bank's Annual Report and Accounts 2016	148 – 149
Consolidated Statement of Changes in Equity	The Bank's Annual Report and Accounts 2016	150
Notes to the Consolidated Financial Statements	The Bank's Annual Report and Accounts 2016	151 – 220

For the year ended 31 December 2015

Information incorporated by reference into this Circular	Reference document	number in reference document
Independent Auditor's Report to the members of the Co-operative Bank p.l.c.	The Bank's Annual Report and Accounts 2015	146 – 157
Consolidated Income Statement	The Bank's Annual Report and Accounts 2015	160
Consolidated Statement of Comprehensive Income	The Bank's Annual Report and Accounts 2015	161
Consolidated Balance Sheet	The Bank's Annual Report and Accounts 2015	162
Consolidated Statement of Cash Flows	The Bank's Annual Report and Accounts 2015	163 – 164
Consolidated Statement of Changes in Equity	The Bank's Annual Report and Accounts 2015	165
Notes to the Consolidated Financial Statements	The Bank's Annual Report and Accounts 2015	166 – 242

For the year ended 31 December 2014

Information incorporated by reference into this Circular	Reference document	number in reference document
Independent Auditor's Report to the members of the Co-operative Bank p.l.c.	The Bank's Annual Report and Accounts 2014	140 – 146
Consolidated Income Statement	The Bank's Annual Report and Accounts 2014	148
Consolidated Statement of Comprehensive Income	The Bank's Annual Report and Accounts 2014	149
Consolidated Balance Sheet	The Bank's Annual Report and Accounts 2014	150
Consolidated Statement of Cash Flows	The Bank's Annual Report and Accounts 2014	151 – 152
Consolidated Statement of Changes in Equity	The Bank's Annual Report and Accounts 2014	153
Notes to the Consolidated Financial Statements	The Bank's Annual Report and Accounts 2014	154 – 239

The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this Circular. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this Circular. In the event of any inconsistencies between any information incorporated by reference, and the information contained in this Circular, the information contained in this Circular will take precedence and supersede any information incorporated by reference into this Circular.

PART 7

OPERATING AND FINANCIAL REVIEW

This Part 7 should be read in conjunction with "Important Information", Part 4 and Part 6 of this Circular. The financial information included and incorporated by reference into this Part 7 has been extracted without material adjustment from the financial information referred to in Part 4 of this Circular (which has been incorporated by reference into, and forms part of, this Circular) or has been extracted without material adjustment from the Bank's accounting records which formed the underlying basis of the financial information referred to in Part 6 of this Circular (which has been incorporated by reference into, and forms part of, this Circular).

Some of the information contained in this Part 7, including information in respect of the Bank's strategy and expected sources of finance, contains certain forward-looking statements that reflect the Bank's plans, targets, estimates and belief and which, although based on assumptions that the Bank's management considers to be reasonable, involve risks and uncertainties that could cause actual events or conditions to differ materially from those expressed or implied in this Part 7. Factors that could cause or contribute to such risks, uncertainties and/or differences include, but are not limited to, those discussed below and elsewhere in this Circular, including in Part 3 (in particular the Risk Factor entitled "The Bank's ability to deliver its strategy and achieve the targets in the Plan and, where applicable, the May 2017 Outlook on the Plan is based on underlying assumptions that are subject to significant risks and uncertainties.") and "Important Information". In addition, certain regulatory issues also affect the Bank's results of operations and are described in Part 11 of this Circular. All statements other than statements of historical fact, such as statements regarding the Bank's future financial position and risks and uncertainties related to the Bank's business, plans and objectives for future operations, are forward-looking statements.

1. OVERVIEW

The Bank's strategy is to become an efficient, financially-sustainable and capital-resilient UK bank focused on retail and SME customers, differentiated by an ethically-led brand and a customer-centric proposition. These positive attributes are underpinned by a customer-led ethical policy which has been developed over 25 years and is unique within the UK banking market. As at 31 December 2016, the Bank had approximately 4.0 million customers, operating through a network of 105 branches (which has subsequently reduced to 95 as at the date of this Circular), four corporate banking centres and four primary call centres, the internet and other digital channels. The Bank had total assets of £27.6 billion as at 31 December 2016 (31 December 2015: £29.0 billion).

Until 31 December 2016, the Bank was managed through, and the Bank presented its financial statements and other financial information on the basis of, two distinct divisions:

- **Core** – The Bank's "Core" Business represented lines of activity that were consistent with the Bank's strategy and risk appetite, and included the core retail and banking businesses, treasury and certain other businesses. The core retail and business banking product offering consisted of a range of current accounts and money transmission services, lending (mortgages and unsecured) and savings products, while the core corporate banking business provided services, specifically current accounts, notice accounts and fixed rate deposits to SME businesses; and
- **Non-core** – The Bank's "Non-core" Business lines consisted of those corporate and residential mortgage asset classes not consistent with the Bank's Core Business strategy, which were therefore targeted for run-down or exit. These Non-core Business lines contained a significant part of the Bank's credit impairment risk although this risk has reduced since 2013 due to proactive de-leveraging by the Bank, and predominately included the Corporate Non-core Business (now referred to as the Legacy Portfolio and Optimum (a closed book of predominantly interest-only, intermediary and acquired mortgage book assets)). The Bank has been through a de-leverage strategy for its Non-core Business over the past three years, with significant de-leverage across both the Legacy Portfolio and Optimum. This de-leveraging activity is now largely complete save that the Bank is currently

expecting a further reduction of Optimum assets through securitisations and/or whole-loan sales in the fourth quarter of 2017 (subject to market conditions, including as to market capacity and available pricing, timing and terms being subject to PRA approval). See paragraph 8.2 of Part 7 of this Circular for further information.

With effect from 1 January 2017, the Bank no longer uses the "Core Business" and "Non-core Business" categories that the Bank used in its financial statements for the three years ended 31 December 2016 (incorporated by reference into this Circular pursuant to Part 6 of this Circular) as, following the Bank's significant de-leverage of the Non-core Business since 2013, the Bank does not regard maintaining these distinctions as helpful for investors to understand its business activities. Recognising the need for the Bank to work as one business, with effect from 1 January 2017, the Bank is structured into five business units:

- **Retail Banking** – as at 31 December 2016, this business unit included £14.8 billion assets with a contribution to income for the year ended 31 December 2016 of £258.1 million;
- **BaCB** – as at 31 December 2016, this business unit included £0.4 billion assets with a contribution to income for the year ended 31 December 2016 of £57.5 million;
- **Optimum** – as at 31 December 2016, this business unit included £2.8 billion assets with a contribution loss to income for the year ended 31 December 2016 of £19.3 million;
- **Legacy Portfolio** – as at 31 December 2016, this business unit included £1.5 billion assets with a contribution to income for the year ended 31 December 2016 of £14.7 million; and
- **Treasury and Other** – as at 31 December 2016, this business unit included £7.9 billion of assets with a contribution to income for the year ended 31 December 2016 of £28.3 million.

However, for the purposes of the description of the Bank's operating and financial review contained in this Part 7, the pre-1 January 2017 Core and Non-core Business categorisation is maintained and used, consistent with the Bank's historical financial statements for the three years ended 31 December 2016 which are incorporated by reference into this Circular pursuant to Part 6 of this Circular.

2. KEY FACTORS AFFECTING RESULTS OF OPERATIONS

The Bank has incurred significant losses for the three years ended 31 December 2016. The Bank's 2016 financial results reflect the continued progress against the areas of strategic focus for the Bank, the cost of ongoing legacy issues with regard to fair value unwind, the impact of a smaller customer asset base and continued competitive pricing on customer assets. In addition, the historically low interest rate environment has impacted the Bank's operating results and financial condition for the three years ended 31 December 2016.

The Bank's historical financial statements for the three years ended 31 December 2016, included an "emphasis of matter" as to the Bank's ability to continue as a going concern (contained, for the year ended 31 December 2016, in note 1 to the Bank's 2016 historical financial statements, which are incorporated by reference into this Circular pursuant to Part 6 of this Circular). The going concern status of the Bank is dependent on the Bank successfully delivering its strategy, including the implementation of the Restructuring and Recapitalisation.

On 26 January 2017, the Bank announced that it expected its CET1 capital ratio (in the absence of any management actions) to fall and remain below 10 per cent. over the medium-term and an expectation that the Bank was unlikely to meet its ICG, over the then applicable planning period (to the year ended 31 December 2020). The Bank's ICG requirement is the aggregate of its minimum Pillar 1 and Pillar 2a regulatory capital requirements. In addition, the Bank reported that it continued to expect to meet its minimum Pillar 1 regulatory capital requirements and to maintain sufficient liquidity to meet its obligations.

On 13 February 2017, the Bank announced that although it met all of its minimum Pillar 1 regulatory capital requirements and expected to continue to do so (based on the Bank's own economic assumptions), it needed to build its capital and meet the longer-term regulatory capital requirements required of all UK banks. The Bank noted that its capacity to build capital organically had been constrained by: (i) the impact of interest

rates that are and have been lower than previously forecast, reducing the Bank's ability to generate income; and (ii) higher than anticipated transformation and conduct redress and remediation costs. The announcement also noted that the Bank needed to consider its requirements relating to enhanced regulatory capital and MREL.

As a result, and having concluded its annual planning review, the Bank announced the commencement of the FSP, inviting offers for all of its issued ordinary share capital, and that it was considering, as an alternative to the FSP, ways of raising equity capital from existing and new capital providers and a potential liability management exercise of its outstanding public debt.

On 26 June 2017, the Bank announced that in light of the advanced nature of the discussions with a group of existing investors (being the Principal Investors) regarding a prospective equity capital raise and recapitalisation, with a majority of the key commercial aspects of such transaction substantially agreed, the Bank had decided to discontinue the FSP. On 28 June 2017, as an update to its announcement dated 26 June 2017, the Bank announced that the Board had decided to support an equity capital raise and recapitalisation proposal (being the outline of the Restructuring and Recapitalisation) from the Principal Investors and had entered into the Lock-Up Agreement whereby the Principal Investors and the Bank have committed to take certain steps to implement the Restructuring and Recapitalisation. On 14 July 2017, the Bank announced the detailed terms of the Restructuring and Recapitalisation, including those relating to the Capital Raising.

The Restructuring and Recapitalisation is described in paragraph 5 of Section A of Part 1 of this Circular. See paragraph 2 of Section A of Part 1 of this Circular for a description of the key components of the Plan and of the Bank's strategy, and paragraph 8.2 of this Part 7 of this Circular for a description of the May 2017 Outlook on the Plan.

2.1 ***Likely impact of the Restructuring and Recapitalisation***

The Bank has been subject to a heightened degree of regulatory supervision since 2013 and does not currently comply with or meet certain regulatory capital and loss-absorbing capacity requirements. These are:

- the CRR provisions relating to its use of an IRB Approach to modelling its credit risk capital requirements. This non-compliance resulted in the PRA levying a CRR-related Pillar 2a regulatory capital requirement in the form of a fixed requirement to cover the associated risks and, will not, for the avoidance of doubt, be resolved by implementing the Restructuring and Recapitalisation. It is the Bank's objective, subject to successful completion of a remediation plan, to seek and obtain PRA approval of such remediation by the end of 2017 and to have this fixed requirement removed from its ICG during the first quarter of 2018;
- the Bank's ICG;
- the Bank's Combined Buffer requirement under the CRD (currently comprised only of its capital conservation buffer and set at 1.25 per cent. of total RWAs met entirely by CET1 capital. The capital conservation buffer is set to rise to 2.5 per cent. of total RWAs met entirely by CET1 capital in 2019 with a rise of 0.625 per cent. in both 2018 and 2019. In addition to the capital conservation buffer, the counter-cyclical capital buffer will rise from the current requirement of zero per cent. to 0.5 per cent. of total RWAs in June 2018 and is expected to rise to 1 per cent. of total RWAs by the end of 2018, which would result in an aggregate Combined Buffer requirement of 3.5 per cent. of total RWAs in 2019);
- the Bank's PRA Buffer (currently set by the PRA at a level in order to withstand prudential stress test scenarios and comprised exclusively of CET1 capital); and
- the Bank's MREL.

Irrespective of whether the Restructuring and Recapitalisation is successfully implemented, the Bank will remain subject to any enforcement action the Authorities may take in relation to any inability of

the Bank to meet regulatory requirements relating to its credit risk modelling under the CRR, its ICG, its Combined Buffer, its PRA Buffer and its MREL.

However, the Bank believes that a successful Restructuring and Recapitalisation would be an important step to the Bank delivering compliance with regulatory capital and loss absorbing capacity requirements over the life of the Plan and implementing its strategy to become an efficient, financially-sustainable and capital-resilient UK bank focused on retail and SME customers, differentiated by an ethically-led brand and a customer-centric proposition, and to return to profitability.

The actual amount of CET1 capital generated by the Restructuring and Recapitalisation will depend on the actual amount of Retail Cash Consideration paid out by the Bank pursuant to the Mandatory Cancellation and the actual amount of costs and expenses incurred by the Bank. See Part 8 of this Circular for further information in relation to the costs and expenses incurred by the Bank. Assuming that the Restructuring and Recapitalisation is successfully implemented (and assuming that the maximum aggregate amount of Retail Cash Consideration is paid out by the Bank pursuant to the Mandatory Cancellation), the incremental CET1 capital expected to be generated upon completion of the Restructuring and Recapitalisation is approximately 10 per cent. of RWAs. The Bank is targeting, as a key pillar of the May 2017 Outlook on the Plan, a CET1 capital ratio of approximately 22 to 23 per cent. as at 31 December 2017 (taking into account the Bank's forecast loss post-tax for the year ending 31 December 2017, the CET1 capital contribution made by the Restructuring and Recapitalisation and assuming the reduction in RWAs expected as a result of the de-leverage of approximately £2 billion in Optimum assets during the fourth quarter of 2017) at both the Bank and the Holdco consolidated level. The Restructuring and Recapitalisation will enable the Bank to strengthen its CET1 capital position and help the Bank meet its regulatory capital and loss-absorbing capacity requirements in the future.

If successful, the Restructuring and Recapitalisation is expected to generate approximately £700 million of incremental CET1 capital (depending on the actual amount of Retail Cash Consideration paid out by the Bank under the Consent Solicitation and excluding costs and expenses incurred by the Bank). A successful Restructuring and Recapitalisation will, therefore, increase the CET1 component of the Bank's headroom above its minimum Pillar 1 regulatory capital requirements (on both a solo-consolidated and consolidated basis). This is expected to help the Bank achieve its target of meeting the Tier 1 component of its ICG in 2017 subject to delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan. Successful implementation of the Restructuring and Recapitalisation will also generate interest expense savings of approximately £45 million per annum for the Bank by cancelling the Subordinated Notes, which bear interest at rates substantially higher than those the Bank's peers are paying on similar subordinated capital securities.

The Bank's current minimum Pillar 2a regulatory capital requirement is elevated relative to the Bank's peers principally due to the Bank's operational, pension, model and transformation risks. For more information on each of these risks, see Part 3 of this Circular. The Bank anticipates that if the Restructuring and Recapitalisation is successful and the Bank completes its credit risk modelling deficiencies (part of its model risk) remediation programme, completes the remaining parts of its strategic and remediation projects on time and within budget and reduces its operational and pension risks, and the Bank otherwise delivers the Plan and, where applicable, the May 2017 Outlook on the Plan, these actions will reduce the Bank's minimum Pillar 2a regulatory capital requirement (with a targeted end-state, at the end of the life of the Plan (substantially progressed by the end of 2019) of approximately 8.5 per cent. of RWAs, including the targeted reduction to the Pillar 2a pension risk resulting from the implementation of the Pace Pensions Sectionalisation, the assumed RWAs reduction driven from the expected de-leverage of approximately £2 billion in Optimum assets during the fourth quarter of 2017, alongside other Pillar 2a developments driven from the Bank's 2016 Internal Capital Adequacy Assessment Process (subject to PRA approval and subject to the outcome of future SREP)).

The Bank's targeted Pillar 2a reduction as described above, together with the delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan, are expected by the Bank to result in the Bank

achieving its target of meeting full ICG during 2018, irrespective of whether the issuance of approximately £250 million Tier 2 debt targeted in the Plan for 2018 takes place (albeit that such Tier 2 debt issuance is required for the purposes of the Bank meeting its regulatory capital and loss absorbing capacity requirements at the end of the life of the Plan). This reduction in the Bank's minimum Pillar 2a regulatory capital requirement and targeted return to meeting its ICG is based on the Bank's internal view of how its ICG will evolve over time and there is a risk that a future SREP may set a requirement different to that which the Bank assumes for the purposes of delivering the May 2017 Outlook on the Plan, including any Pillar 2a pension risk component specific to the Pace Pensions Sectionalisation. Furthermore, following completion of the Restructuring and Recapitalisation, the Bank is also targeting compliance with its Combined Buffer in 2018. The Bank expects that these requirements will also be met at the Holdco consolidated level.

Assuming the Bank delivers the Plan and, where applicable, the May 2017 Outlook on the Plan (the key components of which are described in paragraph 2 of Section A of Part 1 of this Circular and in paragraph 8.1 of this Part 7), the Bank expects that during 2019 it will be able to meet, and build a surplus to, its PRA Buffer and its MREL (inclusive of its PRA Buffer, meaning that the Bank meets its MREL without including CET1 capital counted towards its PRA Buffer).

The Bank's strategy is to build an efficient, financially-sustainable and capital-resilient UK bank focused on retail and SME customers, differentiated by an ethically-led brand and a customer-centric proposition, and is designed to achieve a surplus to the Bank's PRA Buffer later in 2019 (based on the Bank's own internal assessment of future minimum Pillar 2a and 2b regulatory capital requirements and subject to future SREP). In addition to the issuance of approximately £250 million of Tier 2 debt targeted for 2018, the May 2017 Outlook on the Plan also assumes that the Bank will complete further MREL-qualifying debt issuances in 2020 and 2021, of £200 million and £300 million respectively, so as to meet the Bank's assessment of its ongoing MREL. Furthermore, delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan, including the successful implementation of the Restructuring and Recapitalisation, is expected to improve the Bank's leverage ratio to levels in excess of 3.25 per cent. over the life of the Plan.

See paragraph 17 of Section A of Part 1 of this Circular for a description of the consequences of the Restructuring and Recapitalisation not being successfully implemented. See also paragraph 2.16 of this Part 7 for a description of the consequences of the Restructuring and Recapitalisation not being successfully implemented and were a Working Capital Stress Scenario to occur during the Working Capital Period.

2.2 ***Customer Asset Balance Sheet Growth Supported by Current Account and Savings Balances***

The Bank's customer asset balance sheet remained largely stable between 2016 and 2015, but saw a steady decline from its 2014 position due to significant de-leverage of the Optimum and CoAM portfolios during 2015 (£26.3 billion for the year ended 31 December 2014; £19.8 billion for the year ended 31 December 2015 and £19.4 billion for the year ended 31 December 2016). There were movements in the year ended 31 December 2016 relating to a fall in Treasury and Other assets of £0.7 billion and £0.1 billion in BaCB which were offset by a £0.7 billion increase in the Bank's Retail Mortgage asset book. Customer deposits decreased from £29.9 billion as at 31 December 2014 to £22.8 billion as at 31 December 2015 and to £22.4 billion as at 31 December 2016.

Retail customer assets balances increased by £0.7 billion for the year ended 31 December 2016, primarily due to an increase in mortgage originations. For the year ended 31 December 2015 there was a net customer asset reduction of £0.4 billion to £14.2 billion, which was a further reduction against the position for the year ended 31 December 2014 of £14.6 billion. Mortgage originations of £3.2 billion for the year ended 31 December 2016 represented an increase of £0.4 billion compared to the year ended 31 December 2015 (£2.8 billion) and £2.0 billion higher than for the year ended 31 December 2014 (£1.2 billion). These increases in mortgage originations were principally driven through the Platform brand channel for which the Bank won the "Intermediary Lender of the Year" at the Your Mortgage awards in both 2015 and 2016. Buy-to-let originations increased against levels for the year ended 31 December 2014 (£0.2 billion) in both the year ended 31 December 2015

(£0.5 billion) and the year ended 31 December 2016 (£0.4 billion) following a reduction in total mortgage lending in 2014. 2016 levels of buy-to-let mortgages reduced comparatively to 2015, driven by the changes announced in the UK's 2016 Budget and regulatory changes in the buy-to-let affordability calculations that were required to be implemented by the end of 2016. Redemptions were also lower in the year ended 31 December 2016 at £1.7 billion (31 December 2015: £2.3 billion), which was partially due to a reduction in the value of accounts maturing from their initial fixed period.

Retail customer liabilities declined by £0.3 billion in the year ended 31 December 2016, principally driven by the run off of large volume of maturing term deposits raised in 2013. Current account balances saw a continued increase during the year ended 31 December 2016 of £0.4 billion (31 December 2015: £0.3 billion). This was driven by customers holding higher balances, which is likely in the Bank's view due to the continued low base rate environment. Retail savings saw a managed reduction in balances in the year ended 31 December 2016 of £0.8 billion, down significantly from the £6.0 billion reduction in the year ended 31 December 2015. The total reduction of retail savings in the year ended 31 December 2016 from £19.8 billion in the year ended 31 December 2015 reflected a stabilisation in the Bank's balance sheet against the larger reduction in the year ended 31 December 2014 (£25.6 billion).

As at 31 December 2016, in BaCB, customer liabilities remained constant at £2.7 billion, with low levels of current account organic growth offsetting outflows of fixed rate deposits. Customer assets decreased from £0.6 billion as at 31 December 2015 to £0.4 billion as at 31 December 2016 as customer repayments were greater than new business inflows.

Over the three months ended 31 March 2017, customer liabilities (being retail and commercial customer deposits and current accounts) reduced by £1.2 billion. See paragraph 8.2 of Part 7 for a description of management actions taken or proposed to address the impact of customer liabilities balance attrition over this period and its impact on the Plan's forecasts and outlook, as reflected in the May 2017 Outlook on the Plan.

Assuming the successful implementation of the Restructuring and Recapitalisation, the Bank is targeting the aggregate balance of its Retail Banking and BaCB customer assets to remain broadly flat across 2017 with targeted net growth in Retail Banking and BaCB customer assets of approximately £1 billion per annum over the life of the Plan. An increase in the level of retention from mortgage customers reaching the term end of their current product is supported by the introduction of functionality to offer a new product to Platform customers approaching the end of their current deal from 2017. In addition, there will be the introduction of an online switching capability, which will make it easier for customers to select a new mortgage product once these products reach the product term end date, which also supports balance sheet growth.

This targeted growth is expected to be driven predominantly through mortgage originations through Platform along with an assumed improved level of retention of mortgage customers as described below, supported by increases in both current account and savings balances. This targeted growth is expected to be offset in part by a reduction in both the Bank's unsecured lending portfolio and BaCB assets as the Bank focuses its front book lending on prime mortgages.

Assuming the successful implementation of the Restructuring and Recapitalisation, the Bank is targeting improvements in its net interest margin ("**NIM**") over the next five years assuming that the Bank of England base rate will rise over this period of time as the Bank expects, allowing NIM to increase from and including 2018 at around 0.1 per cent. per annum (year ended 31 December 2016: 1.39 per cent., year ended 31 December 2015: 1.42 per cent., year ended 31 December 2014: 1.22 per cent.), primarily as a function of the assumed rising base rate environment. Since the Plan was approved on 13 February 2017, the Bank is expecting a reduction in income of approximately £60 million over the life of the Plan reflecting a more adverse base rate outlook assumption following trends experienced since the November 2016 10-day average forward-looking market implied rates used in the Plan. If the base rate profile were to remain flat or materially deviate from the May 2017 Outlook on the Plan over the life of the Plan, this could have a material adverse effect on the Bank's net interest income and its CET1 capital position, which could have a material adverse effect on the

Bank's financial condition, operating results and prospects. See paragraph 8.2 of Part 7 of this Circular for a description of the impact of the more adverse base rate outlook has on the Plan's forecasts and outlook, as reflected in the May 2017 Outlook on the Plan.

See the risk factors entitled "*The Bank is targeting sustainable profitability in the medium-term. The Bank has a history of statutory and operating losses. There are significant risks that the Bank may not return to profitability within that timeframe, or at all*." and "*The Bank's earnings, net interest margins and credit losses have been adversely affected by factors such as the low Bank of England base rate, and may continue to be adversely affected for so long as one or more of these factors persist*." set out in Part 3 of this Circular for further information on the risks that may arise if the base rate profile were to remain flat over the life of the Plan or materially deviate from the Plan and/or the May 2017 Outlook on the Plan.

The Plan assumes that Legacy Portfolio and Optimum balances amortise naturally over the longer-term with active de-leverage of these balances ceasing from 2018 onwards. Other non-customer assets, including Treasury, are expected to remain broadly flat from 2017 onwards. See paragraph 8.2 of Part 7 of this Circular for a description of the expected reduction in the Bank's RWAs resulting from an expected reduction in Optimum assets through securitisations and/or whole-loan sales and its estimated impact on the Plan's forecasts and outlook, as reflected in the May 2017 Outlook on the Plan, if it is completed on acceptable terms when proposed.

2.3 ***Pensions***

As discussed further under paragraph 14 of Part 16 of this Circular, the Bank participates in two pension schemes: (i) Pace; and (ii) the Britannia Scheme. A brief summary of these pension schemes is provided below:

- ***Pace*** – Following separation of the Bank from the wider Co-operative Group as a result of the 2013 Liability Management Exercise, the Bank remained a participating employer in Pace. Pace is a hybrid scheme consisting of a defined benefit section and a defined contribution section. Pace is considered to be a multi-employer scheme under IAS 19 Employee benefits (revised in 2011) with the Co-operative Group being the principal employer and with, *inter alia*, several employers owned by the Co-operative Group also participating. In October 2015, the defined benefit section closed to future benefit accrual (albeit with certain benefits maintaining a salary link). Defined benefits built up in Pace have been preserved and remain in Pace with annual increases being applied in line with the Pace rules.

  The employers participating in Pace make aggregate contributions to the deficit as agreed between the Co-operative Group and the Pace Trustee; the Co-operative Group has undertaken to agree with the Bank its proportion of the employer contributions to Pace (and, if not agreed, the matter may be referred to, and decided by, an independent actuary). These contributions are reviewed by the Pace Trustee and the Co-operative Group following each actuarial valuation, and the agreed aggregate employer contributions are allocated by the Co-operative Group among the participating employees. The time by which the Pace Trustee and the Co-operative Group are required, under pensions legislation, to agree contributions is 15 months after the effective date of the valuation. A triennial actuarial valuation with an effective date of 5 April 2016 is currently being prepared and discussions between the Pace Trustee and the Co-operative Group are ongoing.

  The most recently completed actuarial valuation of Pace was carried out as at 5 April 2013. This valuation reported assets at a value of £7,728 million and liabilities of £8,328 million and a funding deficit of £600 million. The most recent actuarial report update as at 5 April 2015 indicated that the funding deficit had decreased to £304 million on a valuation basis consistent with that used for the 5 April 2013 actuarial valuation. While Pace has a funding deficit, it has a significant IAS 19 surplus of £1,784 million as at 31 December 2016. Under the schedule of contributions agreed following the 2013 actuarial valuation, the principal employer in Pace agreed to pay aggregate deficit reduction contributions of £25 million a year, from 1 July 2014

until 30 June 2019 inclusive, to repay the £104 million funding deficit calculated on an approximate basis as at 31 May 2014. In the financial year ended 31 December 2016, the Bank contributed £5 million out of £25 million. If the Pace Pensions Sectionalisation is not implemented as described below, there is a risk that the Bank's contribution to Pace in its current unsectionalised form could increase in the future, depending on the level of deficit and agreement reached with the Co-operative Group, which could have an adverse impact on the Bank's CET1 capital resources.

A risk for the Bank arising from its continued participation in Pace is that Pace is a "last-man standing" scheme. This means that whilst the Bank continues to participate in Pace (in its current unsectionalised form), there is a risk that all employers other than the Bank (including the Co-operative Group) exit Pace or become insolvent without satisfying their liabilities to Pace, with the effect that the Bank becomes solely responsible for funding Pace (that is, the Bank becomes the "last-man standing"). See the paragraph entitled "*Funding risks relating to Pace if the Pace Pensions Sectionalisation is not implemented on the terms of or when proposed in the Pace Heads of Terms or at all*" of the risk factor entitled "*The Bank may become obliged to provide additional security in respect of, or make large one-off or ongoing payments to its pension schemes, or pension schemes to which it is connected and/or associated which may have a material adverse effect on its business, financial condition, operating results, prospects and regulatory capital position*." in Part 3 of this Circular for further information.

However, the Sectionalisation Parties have entered into the Pace Heads of Terms which sets out the approach to be taken to divide Pace into two legally separate sections such that the Bank will be responsible only for the Bank Section and the Co-operative Group will be responsible for the Co-operative Group Section. It is estimated that the Pace Pensions Sectionalisation will result in a division of assets (estimated to be £11,128 million as at 31 March 2017) and liabilities measured on the "low risk target basis" of Pace of broadly 20.55 per cent. for the Bank and 79.45 per cent. for the Co-operative Group (and other employers), although these estimated proportions were calculated as at 5 April 2016 and different proportions may be calculated when the actual Pace Pensions Sectionalisation process is undertaken. The "low risk target basis" is a basis that has been agreed in the Pace Heads of Terms, two key features of which is that it uses a discount rate of gilts plus 0.25 per cent. per annum, and includes a margin in the mortality assumption of 2.5 per cent. This contrasts with the "technical provisions basis" which has also been agreed in the Pace Heads of Terms where the discount rate is set at gilts plus 0.5 per cent. per annum for the period until 31 December 2027 and then at gilts plus 0.25 per cent. per annum thereafter, and where the margin in the mortality assumption incrementally increases from zero for the purposes of the 5 April 2016 valuation by 0.83 per cent. at each of the next 3 triennial valuations (as at 5 April 2019, 5 April 2022 and 5 April 2025) so that the margin is 2.5 per cent. by 5 April 2025. The "technical provisions basis" and the "low risk target basis" are in all other respects the same, and the "technical provisions basis" and/or the "low risk target basis" by 31 December 2027. The agreed "technical provisions basis" will be used as the initial basis for calculating the technical provisions in formal scheme valuations for the Bank Section, as the starting point for calculating technical provisions at future valuations of the Bank Section and as a reference point (along with the agreed "low risk target basis") for funding discussions at future valuations of the Bank Section over the period to 31 December 2027. The Bank and the Pace Trustee have agreed that the funding target for the Bank Section will be to aim to be fully funded on the "low risk target basis" by 31 December 2027. The Bank, the Co-operative Group and the Pace Trustee have agreed to enter into an implementation agreement in respect of the Pace Pensions Sectionalisation by 31 December 2017 and to use their best endeavours to implement the Pace Pensions Sectionalisation by 30 June 2018.

Assuming a successful implementation of the Restructuring and Recapitalisation, the Bank estimates that the key financial impacts of the Pace Pensions Sectionalisation will be:

- deficit payments to Pace of £12.5 million per annum payable in advance in respect of each of the calendar years 2018 to 2022 inclusive and £7.5 million per annum payable in advance in respect of each of the calendar years 2023 to 2027 inclusive (subject to review at future valuations in accordance with scheme funding legislation, and noting that the Bank and the Pace Trustee have agreed that the funding target for the Bank Section will be to aim to be fully funded on the "low risk target basis" by 31 December 2027). The May 2017 Outlook on the Plan currently includes contributions of £12.5 million per annum for the period from 2018 to 2022;

- accounting for the Bank's share of the IAS 19 surplus on its balance sheet (the total IAS 19 surplus in respect of Pace was £1,784 million as at 31 December 2016);

- the additional contributions and reporting on balance sheet will lead to an estimated £5 million per annum benefit to the Bank's income statement; however this will be more than offset by an estimated £12.5 million deduction to CET1 capital resources (£7.5 million per annum net impact to CET1 capital resources) from and including 2018 to 2022;

- £216 million (being the indicative deficit for the Bank Section on the agreed "low risk target basis" had the Pace Pensions Sectionalisation taken place as at 31 March 2017) of security given by way of a first fixed charge, in favour of the Pace Trustee, over certain AAA rated debt securities, reducing down in line with deficit payments made by the Bank (but subject to upward revision up to a maximum of £216 million before 1 January 2028 and a maximum of £250 million on or after 1 January 2028 in the event of increased deficit contributions being agreed which exceed the then maximum claim at later valuations). If the Co-operative Group still has potential "last-man standing" risk for the Bank Section on 1 January 2028, the Pace Trustee's maximum claim will increase to £250 million, reducing in line with deficit payments made by the Bank from 1 January 2028. See paragraph 14 of Part 16 of this circular for more details;

- removal of "last-man standing" risk for the Bank in respect of the Co-operative Group Section (that is, the Bank will have no liability for the Co-operative Group Section, unless the Pensions Regulator exercises its statutory "moral hazard" powers to impose such liability. Formal clearance has been obtained from the Pensions Regulator in relation to the transactions expected to be implemented pursuant to the Pace Heads of Terms (and on the basis of completion of the Restructuring and Recapitalisation before 19 October 2017), which substantially mitigates the risk of the Pensions Regulator exercising its "moral hazard" powers against the Bank in relation to the Co-operative Group Section following Pace Pensions Sectionalisation); and

- contributing to a targeted reduction to the Bank's minimum Pillar 2a regulatory capital requirement so as to achieve a targeted end-state, at the end of the life of the Plan, of approximately 8.5 per cent. of RWAs.

Implementation of the Pace Pensions Sectionalisation is subject to the completion of the Restructuring and Recapitalisation.

The Pace Heads of Terms will also terminate in the event of, prior to the Pace Pensions Sectionalisation taking place, Bank insolvency, Bank resolution or the occurrence of a corporate transaction as an alternative to the Restructuring and Recapitalisation.

There is a risk that the Pace Pensions Sectionalisation may not be implemented by 30 June 2018, or at all, or may be implemented on terms not contemplated by the Pace Heads of Terms. See the risk factor entitled "*The Bank's agreement with the Co-operative Group and the Pace Trustee on the Pace*

Pensions Sectionalisation is subject to a number of risks and may not be implemented on the terms currently envisaged or at all." set out in Part 3 of this Circular.

Britannia Pension Scheme – The Britannia Scheme is a defined benefit scheme. The Bank is the sole substantive sponsor of the Britannia Scheme. Britannia Pension Trustees Limited is the Britannia Trustee.

The most recently completed actuarial valuation of the Britannia Scheme was carried out as at 5 April 2014. This valuation reported that there was a deficit on the funding basis of £41.2 million. The Britannia Trustee and the Bank agreed that contributions would be paid totalling £50 million over a period to 31 July 2022.

A security arrangement has also been put in place pursuant to which the Bank has charged in favour of the Britannia Trustee certain mortgaged-backed notes (which had a principal amount of £165.1 million when the security was put in place in 2016, and with a 17 per cent. haircut having been applied to this security value). The Britannia Trustee's maximum claim in the event the security becomes enforceable is £137 million. The Britannia Scheme actuary estimated that the Britannia Scheme deficit had increased to £137 million as at 31 March 2016. The security is enforceable if the Bank fails to pay a contribution to the Britannia Scheme, but only to the extent required to discharge the unpaid amounts. The security is also enforceable (in its entirety) on an "Event of Default". Events of Default include insolvency events as defined in section 121 of the Pensions Act 2004, bank insolvency, bank administration, the Bank ceasing to carry on business, un-remedied breaches by the Bank of the security arrangement and events which make the security arrangement ineffective (for example where the Bank's obligations in relation to the security arrangement become unlawful or are repudiated).

The Britannia Scheme actuary estimated that the funding deficit had increased to £144.7 million as at 5 April 2016. A triennial actuarial valuation with an effective date of 5 April 2017 is currently underway, with a statutory deadline for completion of 5 July 2018. Increased contributions could have an impact on the Bank's CET1 capital resources.

While the Britannia Scheme operates with an actuarial deficit, it still had an IAS 19 surplus with £20 million recognised as at 31 December 2016.

2.4 ***Cost Management, Operating Efficiencies and Investment Expenditure***

The Bank has a high cost:income ratio in absolute terms and also relative to other financial institutions. For the year ended 31 December 2016, its cost:income ratio was 103.7 per cent., a 3.7 per cent. increase on the year ended 31 December 2015 (100.0 per cent.) (31 December 2014: 105.1 per cent.). Total operating expenditure reduced by £47.1 million from £491.9 million in the year ended 31 December 2015 to £444.8 million for the year ended 31 December 2016 (2014: £568.4 million), reflecting the continued work to reduce the Bank's cost base. Management actions delivered £55 million of cost reduction for the year ended 31 December 2016, with £30 million attributable to staff cost savings and the remaining £25 million relating to other initiatives. The staff cost savings reflect the 35 per cent. drop in FTE across 2014 to 2016, reducing from 5,968 in the year ended 31 December 2014, to 4,704 in the year ended 31 December 2015 to 3,895 in the year ended 31 December 2016.

The Bank's high cost base and operational inefficiencies continue to impact its profitability and reducing the Bank's cost base is, and will continue to be, a priority following the completion of the Restructuring and Recapitalisation. In particular, the Bank plans to achieve substantial cost savings across 2017 with a full year 2017 operating cost target of approximately £410 million, and a further target reduction to a long-term target annual operating costs run rate of approximately £350 million per annum from the end of 2018 onwards. For more information relating to targeted future cost savings please refer to paragraph 9.2(c) of this Part 7.

The PRA has stated that, as a condition of the PRA's acceptance of the May 2017 Outlook on the Plan, the PRA expects, by the time of the Bank adopting its next five-year strategic plan, that the Bank will provide to the PRA a detailed cost:income strategy setting out how the Bank will achieve in the

medium-term a competitive cost:income ratio in line with the Bank's peer group. Furthermore, the PRA has also stated its view that such a cost:income strategy will be critical to ensuring the success of the Plan and the future of the Bank. For further details, see the risk factor entitled "*The Bank has a high cost:income ratio relative to other UK banks that may be commercially unsustainable. A failure by the Bank to implement its cost reduction initiatives and achieve a competitive cost:income ratio in the medium-term is likely to have a material adverse effect on the Bank's ability to deliver its strategy, its results of operations, financial condition and operating results, and the Bank's ability to return to profitability.*"

The Bank's investment expenditure or projects costs are divided into three key categories:

- Operational Projects – these relate to changes in the regulatory environment and smaller business-led initiatives, including process improvements ("**Operational Projects**");
- Remediation Projects – these relate to IT remediation, integration and resiliency, as well as activity associated with the Bank's separation from the Co-operative Group ("**Remediation Projects**"); and
- Strategic Projects – these relate to those projects that are transformational in nature and are intended to deliver cost or income benefits to the Bank's business ("**Strategic Projects**").

The Bank has increased its investment expenditure over the three years ended 31 December 2016, primarily as a result of increased expenditure relating to both Strategic Projects and Remediation Projects. It is expected that the majority of investment expenditure related to Strategic Projects and Remediation Projects will be completed over 2017 and 2018. Following the completion of the planned major Strategic Projects and Remediation Projects in 2018 and under the May 2017 Outlook on the Plan, the Bank is only expecting to incur new expenditure on Operational Projects from 2019 onwards. See paragraph 9.2(d) of this Part 7 for more information relating to the Bank's targets in respect of project costs.

Operational Project expenditure, including depreciation, has reduced by 52 per cent. from 2014 to 2016, with £71.0 million of expenditure in the year ended 31 December 2014, £49.7 million in the year ended 31 December 2015 and £33.9 million in the year ended 31 December 2016. Key Operational Projects related to cheque imaging, customer complaints handling and reporting and the EU Payment Account Directive (in 2016); legal entity simplification (in 2015); and process improvement, values and ethics, MMR, Mortgage Business Review, ICAAP and regulatory reporting (in 2014).

Remediation Project expenditure, including depreciation, has remained the most significant category of overall expenditure for the three years ended 31 December 2016. Remediation Project expenditure of £145.6 million in the year ended 31 December 2014 reduced to £124.5 million in the year ended 31 December 2015, but increased to £141.3 million in year ended 31 December 2016. Key Remediation Projects included the Bank's Enterprise Services outsourcing and separation from Co-operative Group (£89.1 million in 2016), core IT (£14.7 million in 2016), data and reporting (£10.6 million in 2016) and other smaller remediation projects. This represents an increase of 14 per cent. on 2015 expenditure and depreciation.

Strategic Project expenditure, including depreciation, was £47.8 million in the year ended 31 December 2014 increasing to £91.7 million in the year ended 31 December 2015, with a further increase to £134.3 million in the year ended 31 December 2016. A significant proportion of this expenditure relates to the programme to transform the Bank's mortgage outsource service (£82 million in the year ended 31 December 2016), the Bank's digital programme (£19 million in the year ended 31 December 2016) and branch transformation programme (£11 million in the year ended 31 December 2016). This represents a 46 per cent. increase on 2015 expenditure and depreciation.

The Bank's total project costs (being the aggregate of its Operational Project, Remediation Project and Strategic Project expenditure and depreciation) increased in 2016, up from £265.9 million in the year ended 31 December 2015 to £309.5 million in the year ended 31 December 2016 (year ended

31 December 2014: £264.4 million). These periods reflect the highest level of project costs expected by the Bank over the coming years, with the Bank targeting approximately £100 million of expenditure and associated depreciation in 2017, increasing to approximately £120 million in 2018 and reducing to an approximate £50 million run rate per annum from 2018. See paragraph 8.2 of this Part 7 for more information on the re-phasing of the Bank's targeted project costs in the May 2017 Outlook of the Plan.

In 2016 the Bank separated out costs relating to severance. The costs relating to severance for the year ended 31 December 216 were £21.5 million (31 December 2015: £8.0 million), reflecting accelerated implementation of the Bank's target operating model. Planned further FTE reductions will result in further severance costs predominantly in 2017, but these are not expected to reach the level experienced in 2016.

2.5 ***Continued De-leveraging of the Non-core Business***

The Non-core Business consists of those asset classes which are not consistent with the Bank's Core Business strategy and which are managed to achieve the most appropriate asset value on an individual portfolio basis or are targeted for run down or exit. There has been a £8.3 billion reduction in the Non-core Assets from 2013 to 2016. Non-core total assets decreased from £5.1 billion as at 31 December 2015 to £4.3 billion as at 31 December 2016, representing 14.9 per cent. of the Bank's balance sheet. This is a significant reduction on the 2014 Non-core Business net balance sheet position of £10.3 billion, reflecting the significant de-leverage activity between 2014 and 2015. The level of de-leverage of Non-core assets year on year from 2015 to 2016 has reduced significantly, as the Bank did not undertake any further securitisation or whole-loan sales of the Optimum portfolio in 2016.

The Bank did, however, continue to dispose of Non-core Assets in 2016, but is expecting lower levels of asset run-off and losses on asset sales from 2018 onwards. Opportunities to dispose of assets in a manner that aligns to the Bank's strategy are continually explored and will be reviewed if the opportunity becomes available at a price that is complementary to the Bank's strategy. The Bank is expecting further reductions of Optimum assets through securitisations and/or whole-loan sales, in a manner that seeks to ensure that any anticipated future losses (through forgone income and any possible loss on sale) from such de-leveraging actions do not materially exceed the capital released from the reduction in capital requirements of the portfolio. If this expected de-leveraging proceeds, it would adversely impact the Bank's income primarily as a result of the ongoing loss of income throughout the life of the Plan, although from a capital perspective it would be partly offset by a reduction in RWAs held against the assets disposed of. See paragraph 8.2 of this Part 7 for further information about this proposed further de-leverage of Optimum assets and its impact on the Plan's forecasts and outlook, as reflected in the May 2017 Outlook on the Plan.

Should the proposed reductions of Optimum assets described above not proceed, the Bank's strategy with regard to the Optimum book is otherwise based upon a natural amortisation of the book following the two whole structure securitisation transactions that de-leveraged £3.1 billion of assets in 2015.

Approximately 64 per cent. of the Bank's Non-core gross customer assets (Optimum and Legacy Portfolio assets) as at 31 December 2016 related to Optimum (£2.6 billion), which was a marginal increase in concentration compared to as at 31 December 2015 (£2.9 billion, 57 per cent.) and the position as at 31 December 2014 (£6.5 billion, 59 per cent.) Optimum is a closed book of predominately interest-only intermediary and acquired mortgage book assets. Optimum, being a portfolio of predominantly interest-only residential mortgages, is sensitive to changes in interest rates.

In addition to the two securitisations of the Optimum portfolio that were completed in 2015, the book has also seen improvements in the UK house price index, which in turn makes the portfolio more resilient in a stress environment. As discussed above, the Bank is currently expecting a reduction in Optimum assets through securitisations and/or whole-loan sales.

Non-core customer liabilities have reduced from £282.7 million as at 31 December 2015 to £61.3 million as at 31 December 2016. As the Bank continues its Legacy Portfolio de-leveraging strategy, these impacted customers have continued to migrate to other financial institutions.

2.6 *Impairment losses on loans and advances to customers*

The Bank's impairment charge on loans and advances for the year ended 31 December 2016 was £2.3 million up from a £48.6 million net write-back for the year ended 31 December 2015 (2014: £171.7 million net write-back). This impairment charge was made up of £0.1 million in the Bank's Core Business (principally Retail Banking (£0.6 million charge) and BaCB (£0.3 million write-back)) and £2.2 million write-back in the Non-core Business. 2014 and 2015 saw significant net impairment write-backs driven by assets being disposed of or re-valued above previous book value. Lower levels of de-leverage in the period coupled with cases moving into default significantly reduced these benefits in 2016. Based on the low levels of impairment experienced in the three years ended 31 December 2016, significant de-leverage of Legacy Portfolio and Optimum assets and the favourable credit quality of new mortgage business, the Bank believes it currently has predominantly low risk assets from a credit perspective, particularly in its prime mortgage book.

Given the above position, the Bank has a relatively low impairment risk outlook, assuming a stable macro-economic environment. This assessment is based on the Bank's forward-looking assumptions relating to HPI, unemployment, GDP, CRE, interest rates and consumer price index ("**CPI**").

The Plan, and the May 2017 Outlook on the Plan, in accordance with PRA guidelines for stress-testing, do not include an estimate of the impact of IFRS 9 on the Bank's operating results, financial and capital position. See paragraph 9.4 of this Part 7 for more information relating to IFRS 9.

2.7 *Conduct and Legal provisions*

During the three years ended 31 December 2016, the Bank has had significant charges for conduct and legal risk, as it has sought to identify and redress legacy conduct and legal issues arising from, amongst other things, its merger with Britannia and legacy systems, processes and controls.

Charges relating to conduct and legal risk for the year ended 31 December 2016 were £24.9 million (31 December 2015: £193.7 million, 31 December 2014: £101.2 million). The reduction in the year ended 31 December 2016 was driven by the significant progress made by the Bank as a result of its risk management annual product reviews.

As at 31 December 2016, the Bank had substantially progressed its CCA proactive remediation programme. The Bank provisioned £62.8 million in the year ended 31 December 2014 for CCA remediation, a further £98.7 million in the year ended 31 December 2015 and released £10.0 million in the year ended 31 December 2016, leaving a provision balance of £16.7 million as at 31 December 2016 which is required to continue work to develop a solution to deliver forward fixes and address accounts becoming non-compliant again. This work is expected to be completed in H2 2017. Overall, conduct charges relating to mortgages were £10.4 million in the year ended 31 December 2016. A new conduct issue relating to legacy systems was identified in 2016, resulting in the creation of the Mortgage Rectification Programme. This issue predominantly relates to incorrect customer monthly mortgage payment calculations, resulting in the under- or over-payment of interest or capital. The scope and initial view of redress requirements were defined and calculated as at 31 December 2016 resulting in an additional £20.1 million provision. Throughout 2016, pre-existing mortgage remediation activities were substantially completed and resulted in a £9.7 million release for the year ended 31 December 2016 which was offset against the £20.1 million provision raised for the Bank's Mortgage Rectification Programme. Only £0.6 million of charges were booked in relation to mortgages in the year ended 31 December 2015, which was a substantial reduction compared to the charge of £17.2 million for the year ended 31 December 2014.

The Bank's total conduct/legal (excluding PPI) provision balance has decreased steadily over the three years ended 31 December 2016 from £362.5 million for the year ended 31 December 2014, to

£268.7 million for the year ended 31 December 2015, and to £78.9 million for the year ended 31 December 2016. The provision balance relating to PPI reduced from £133.8 million at the start of 2014 to £73.6 million at the end of 2014. The balance of provision relating to PPI claims then increased to £87.0 million at the end of 2015, with £71.8 million of provision charged in the year. The provision balance at the end of 2016 was £90.4 million with £36.0 million charged in the year. The Bank reviews its conduct and legal provisions on a periodic basis to assess adequacy. The provision charge for PPI in the year ended 31 December 2016 was £36.0 million, reflecting the Bank's year-end estimates of the impact of the FCA Consultation Paper CP16/20 (Rules and guidance on payment protection insurance complaints: feedback on CP15/39 and further consultation) and minor changes to the Bank's complaints handling policy. The Plan assumes no significant conduct or legal provisions or issues emerge during the life of the Plan beyond those already provided for, but does hold an £8.1 million provision for IBNI as at 31 December 2016. As set out in paragraph 8.2 of this Part 7, the Bank is currently estimating a potential net incremental conduct risk charge of approximately £5 million in 2017 (subject to further external and internal review and approval) driven by an increase of £9 million relating to PPI and the requirements of the FCA's policy statement 17/3 (which are described in the risk factor entitled "*The Bank is exposed to a number of conduct and legal risks. The Plan assumes no new categories of conduct and legal risk provisions and no material increases in conduct and legal risk provisions charged during the life of the Plan. There is a risk that the Bank's conduct and legal risk provisions will be significantly higher than assumed in the Plan, which could have an adverse effect on the Bank's operating results, financial condition and prospects and the bank's ability to deliver its strategy*." in Part 3 of this Circular), offset in part by small provision releases from other conduct and legal risk categories. There is a risk that new or different conduct and legal issues may emerge during the life of the Plan, or that the current level of provisions is later deemed insufficient. See the risk factor entitled "*The financial services industry continues to be the focus of significant legislative and regulatory change which has imposed, and could continue to impose, operational restrictions on the Bank, increase the Bank's costs and/or capital requirements and/or otherwise materially adversely affect its business, operating results, financial condition and prospects*." contained in Part 3 of this Circular.

2.8 ***Robust asset quality across the Bank's Retail and SME business areas***

Since 2013, the Bank has taken considerable action to improve the overall quality of the assets that it holds.

The Bank has de-leveraged a significant proportion of its Non-core asset portfolio over the past three years, reducing it from £12.5 billion as at 31 December 2013 to £4.1 billion as at 31 December 2016 (31 December 2014: £10.3 billion, 31 December 2015: £4.9 billion). This has also resulted in a significant reduction in Non-core RWAs, reducing from £7.2 billion as at 31 December 2014 to £2.0 billion as at 31 December 2016 (31 December 2015: £2.8 billion). As a consequence of this action, the Bank's non-performing loan ratio has reduced from 12.3 per cent. as at 30 June 2013 to 3.7 per cent. as at 31 December 2016 (31 December 2014: 9.2 per cent., 31 December 2015: 4.8 per cent.).

Assuming no deterioration in the macro-economic outlook, the Bank expects a robust asset quality across its Retail and SME business areas with improving asset quality across non-core businesses over the life of the Plan. This is expected to be further supported by growth in prime retail customer assets. The Bank is expecting further reductions of Optimum assets through securitisations and/or whole-loan sales in the fourth quarter of 2017 (subject to market conditions, including as to market capacity and available pricing, timing and terms being subject to PRA approval), in a manner that seeks to ensure that any anticipated future losses (through forgone income and any possible loss on sale) from such de-leveraging actions do not materially exceed the capital released from the reduction in capital requirements of the portfolio. If this expected de-leveraging proceeds, it would adversely impact the Bank's income primarily as a result of the ongoing loss of income throughout the life of the Plan, although from a capital perspective it would be partly offset by a reduction in RWAs held against the assets disposed of. See paragraph 8.2 of this Part 7 for further information about this proposed further de-leverage of Optimum assets and its impact on the Plan's forecasts and outlook, as reflected in the May 2017 Outlook on the Plan.

2.9 ***Capital and Loss-Absorbing Capacity***

The Bank has been subject to a heightened degree of regulatory supervision since 2013 and is subject to any enforcement action the Authorities may take as a consequence of the Bank not complying with certain regulatory capital and loss-absorbing capacity requirements. See "*Likely Impact of the Restructuring and Recapitalisation*" in paragraph 2.1 of this Part 7 for a description of these areas of non-compliance and the likely impact of the Restructuring and Recapitalisation.

The Bank must raise and maintain significant amounts of loss-absorbing capacity to comply with the MREL Statement of Policy. The Bank has received a binding MREL requirement for the year ending 31 December 2017 from the Bank of England requiring, in line with other UK banks, MREL which is equivalent to the Bank's ICG requirement. The Bank is not expecting to meet its full ICG until 2018 (assuming the successful implementation of the Restructuring and Recapitalisation, subject to delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan, based on the Bank's own internal assessment of future minimum Pillar 2a regulatory capital requirements and subject to future SREP) and, therefore, the Bank is not expecting to meet its MREL for 2017. The MREL Statement of Policy includes a transitional requirement for the period up to 1 January 2020 which is equivalent to the Bank's ICG requirement, followed by an interim requirement from 1 January 2020 up to 1 January 2022, which is equivalent to 18 per cent. of its RWAs. End-state MREL, from 1 January 2022, will be set on a case-by-case basis for all UK banks depending on the agreed resolution strategy for that bank. These requirements are currently expected to be either two times ICG or a lower amount determined by the Bank of England based on the Bank's resolution strategy set by the Bank of England, of which the Bank's current planning assumption is the latter of these two options.

As set out in the MREL Statement of Policy, the Bank of England can provide institutions with a non-binding indication of any MREL which the Bank of England expects institutions to meet in future years. The Bank of England's current intention is to set MREL in excess of regulatory capital requirements in 2020 for all institutions for which the preferred resolution strategy is not a bank insolvency procedure. In addition, the Bank of England can provide particular institutions with a non-binding indication of its intention to set a higher or earlier future MREL, or set higher or earlier required MREL levels. As set out in the MREL Statement of Policy, the Bank of England will do so where action is needed to enhance an institution's resolvability and this is necessary to meet the Bank of England's objectives as resolution authority. The Bank of England has chosen to do so for the Bank, in line with the Bank of England having identified a shortage of loss-absorbing capacity as a substantive impediment to the Bank's resolvability.

As such, the Bank of England has provided the Bank with a non-binding indication that its current intention is to set the Bank's MREL for 2018 in an amount which strongly indicated that the Bank would need to issue MREL-qualifying debt earlier than assumed in the Plan (which assumes issuances in 2020 and 2021, following a Tier 2 debt issuance in 2018 (with such same timing assumptions also made in the May 2017 Outlook on the Plan)), possibly as early as before the end of 2017. The Bank does not believe its current capital position, in the absence of the successful implementation of the Restructuring and Recapitalisation, would be sufficient to enable it in the future to issue MREL-qualifying debt on acceptable terms in such amount as would be required. The Bank of England indicated to the Bank that it would review this intention as part of the process for setting the Bank's MREL for 2018, which will include a consideration of any revisions in the Bank's business plan and strategy. Furthermore, the Bank of England has publically stated (as part of its publication of indicative MREL data on 5 May 2017) that "*The Co-operative Bank has been excluded from the calculation of the average because the firm is currently seeking a sale, which has the potential to significantly affect The Co-operative Bank's balance sheet. Therefore an indicative MREL based on The Co-operative Bank's balance sheet today may not be a useful guide to the eventual requirement*". The Bank believes that the Restructuring and Recapitalisation would significantly affect the Bank's balance sheet and, accordingly, the Bank assumes that, if the Restructuring and Recapitalisation is successfully implemented, the Bank's MREL will be reviewed by the Bank of England to take into account the completed Restructuring and Recapitalisation and subsequently revised to be brought in

line with the MREL Statement of Policy. As a result, the May 2017 Outlook on the Plan assumes compliance with the transitional MREL set out in the MREL Statement of Policy during the course of 2018 (for the avoidance of doubt, exclusive of the Bank's PRA Buffer, meaning that the Bank would only meet its MREL by including CET1 capital counted towards its PRA Buffer), when the Bank is targeting to meet its ICG, with such MREL compliance maintained thereafter supported by the targeted MREL-qualifying debt issuances in 2020 and 2021. The above-mentioned MREL issuances may not be completed when planned, on acceptable terms, or at all. See the risk factor entitled "*Rating downgrades and/or negative market sentiment with respect to the Bank may have an adverse effect on the Bank's ability to implement its strategy, the Plan and/or, where applicable, the May 2017 Outlook on the Plan. and on its business. The Bank's ability to raise the capital and debt it needs, including the Tier 2 and MREL-qualifying debt it is targeting under its strategy, when needed, on acceptable terms, or at all, may depend on the Bank improving its credit rating*." in Part 3 of this Circular for further information. The Bank is expected by its regulator to meet its Combined Buffer and PRA Buffer in addition to both its transitional, interim and end-state MREL.

The Bank's minimum Pillar 1 regulatory capital requirement was, as at 31 December 2016, and remains, 8 per cent. of RWAs, of which a maximum of 2 per cent. could be met with Tier 2 capital, a maximum of 3.5 per cent. could be met with AT1 capital and a minimum of 4.5 per cent. had to be met with CET1 capital. As at 31 December 2016, the Bank had no AT1 capital (as at the date of this Circular, the Bank still has no AT1 capital) and was, therefore, and is still, required to meet its Tier 1 capital requirement of 6 per cent. of RWAs with CET1 capital.

As at 31 March 2017, the Bank's capital ratios were: 18.7 per cent. total capital ratio (compared to 17.7 per cent, as at 31 December 2016), 11.5 per cent. Tier 1 Capital Ratio (compared to 11.0 per cent. as at 31 December 2016) and 11.5 per cent. CET1 capital ratio (compared to 11.0 per cent. as at 31 December 2016).

In addition to its minimum Pillar 1 regulatory capital requirements, the Bank is required to hold capital against its minimum Pillar 2a regulatory capital requirements. The Bank's minimum Pillar 2a regulatory capital requirement was, as at 31 March 2017, 15.09 per cent. of total RWAs (compared to 14.49 per cent. as at 31 December 2016), of which (i) a maximum of 3.77 per cent. (compared to 3.62 per cent. as at 31 December 2016) could be met with Tier 2 capital (this proportion could also be met with ATI capital or CET1 capital), (ii) a maximum of 6.64 per cent. (compared to 6.38 per cent. as at 31 December 2016) could be met with AT1 capital (including the Tier 2 capital element) and (iii) a minimum of 8.45 per cent. (compared to 8.12 per cent. as at 31 December 2016) had to be met with CET1 capital. As at 31 March 2017, the Bank had no AT1 capital (as the date of this Circular, the Bank still has no AT1 capital), and was, therefore, and is still, required to meet the proportion set out above of RWAs (which could be met with CET1 or AT1 capital) with CET1 capital. In addition to these requirements, the Bank will need to meet its Combined Buffer and its PRA Buffer with CET1 capital only.

As at 31 March 2017, the Bank had ICG capital resources (composed of Tier 1 capital post-regulatory deductions and allowable Tier 2 capital) of £1,079.7 million (compared to £1,112.3 million as at 31 December 2016) against an ICG requirement of £1,442.0 million (Pillar 1 of £499.6 million, being 8 per cent. of total RWAs and Pillar 2a of £942.4 million, compared to £1,501.5 million, with Pillar 1 of £534.1 million, being 8 per cent. of total RWAs and Pillar 2a of £967.4 million, each as at 31 December 2016) resulting in a deficit of £362.3 million (compared to £389.2 million as at 31 December 2016). The additional Combined Buffer requirement of 1.25 per cent. of total RWAs equated to a further £78.1 million (compared to £41.7 million, or a requirement of 0.625 per cent. of RWAs, as at 31 December 2016), against which the Bank had a capital deficit of £440.4 million (compared to £431.0 million as at 31 December 2016).

CRR regulatory capital requirements apply to the Bank on both a consolidated basis and on an individual entity basis. Under CRR, a bank may apply for permission to include subsidiaries that meet certain criteria within its individual position, referred to as "solo-consolidation". The Bank's permission does not cover all of the Bank's subsidiaries (those excluded are referred to as "non-solo

entities"). The Bank's solo consolidated CET1 capital ratio is lower than its consolidated CET1 capital ratio. Accordingly, there is lower projected headroom above the Bank's solo-consolidated minimum Pillar 1 regulatory capital requirement as compared to the Bank's consolidated position and, consequently, there is a strong likelihood that any possible future breach of the Bank's regulatory capital minimum requirements would occur on a solo-consolidated basis prior to any breach in the Bank's consolidated position albeit that the Bank expects to continue to meet its minimum Pillar 1 regulatory capital requirements (based on the Bank's own economic assumptions in both cases).

The Bank is not currently part of the UK leverage ratio framework due to the size of its balance sheet being below the minimum requirements set forth by such framework, but the Bank's leverage ratio did fall below the 3 per cent. minimum in 2016.and the Bank expects it to remain below 3 per cent. (absent the successful implementation of the Restructuring and Recapitalisation). In June 2017, the Bank of England's Financial Policy Committee ("**FPC**") and the PRA launched consultations on changes to the UK leverage ratio framework relating to the treatment of claims on central banks (CP 11/17), which include recommendations for: (i) the alignment of the UK leverage ratio framework with modifications already granted to firms for the exclusion of claims on central banks from the calculation of the total leverage exposure measure, where they are matched by deposits accepted by the firm that are denominated in the same currency and of identical or longer maturity; (ii) a recalibration of the minimum leverage ratio requirement from 3 per cent. to 3.25 per cent. of total exposure to adjust for the impact of excluding central bank reserves from the exposure measure; and (iii) alignment of the UK leverage ratio reporting requirements included in Supervisory Statement SS46/15 (UK leverage ratio: instructions for completing data items FSA083 and FSA084). Assuming the successful implementation of the Restructuring and Recapitalisation, subject to delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan, the Bank expects that its leverage ratio would improve to levels in excess of 3.25 per cent. following the Restructuring and Recapitalisation and plans for it to remain so over the life of the Plan.

Until the Bank achieves its target of meeting full ICG and achieves compliance with regulatory capital and loss-absorbing capacity requirements, including its Combined Buffer, the Bank may be prevented from making discretionary payments, including dividends. Furthermore, even when the Bank becomes so compliant, any payment of dividends will be subject to the restrictions imposed under the CRD relating to Maximum Distributable Amount, the availability of distributable reserves (which is expected to be reliant on a shareholder and court-approved reduction of share capital), PRA approval and compliance by the Bank with certain provisions contained in its Articles of Association. Following completion of the Restructuring and Recapitalisation, Holdco will be the ultimate holding company of the Bank and will be dependent on the payment of dividends, distributions, loans or advances by its subsidiaries, including the Bank, to produce distributable reserves. Holdco's ability to pay dividends on the A Shares and effect certain returns of capital will be dependent upon, amongst other things, it having sufficient cash resources and, where necessary, sufficient distributable reserves out of which any proposed dividend may be paid. Any payment of dividends, distributions, loans or advances to Holdco by its subsidiaries, including the Bank, will be dependent upon the business and financial condition, earnings and cash flow position and other factors affecting such subsidiaries.

2.10 ***Fair values***

The Bank has incurred significant income statement charges relating to merger fair value unwinds during the three years ended 31 December 2014, 2015 and 2016. These merger fair value unwinds principally relate to the merger with Britannia, with remaining unwinds at 31 December 2016 relating primarily to Leek 19 (a securitisation of the Optimum portfolio). The quantum of these income statement charges has increased over the past three years ended 31 December 2014, 2015 and 2016, with £83.9 million in the year ended 31 December 2014, £120.4 million in the year ended 31 December 2015 and £180.5 million in the year ended 31 December 2016. The Bank expects the merger fair value unwinds and resulting charges to the income statement to materially cease from July 2017 following the redemption of Leek 19.

Separate to the merger fair value adjustments, the Bank calculates an estimate of the fair value of its financial assets and financial liabilities which are held at amortised cost at each reporting period. There was a decrease in the estimated fair value of the Bank's customer assets from £19.4 billion for the year ended 31 December 2015 to £18.9 billion for the year ended 31 December 2016.

The following key considerations and judgements need to be made by the Bank in the calculation of estimated fair values of financial assets:

- *Loans and advances to banks/deposits by banks*

  The amortised cost value of all loans and advances to banks are deemed to be a close approximation of their fair value due to their short maturity. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

- *Loans and advances to customers*

  The fair value of loans and advances to customers in total is 97 per cent. of their carrying value as at 31 December 2016 (31 December 2015: 98 per cent.). This decrease was partially as a result of a change in estimation technique used to measure the fair value of the Bank's loans and advances to customers. The overall fair value is less than par, primarily due to two main factors for Non-core loans, in particular:

  - customer interest rates are below the Bank's estimates of the market rate for the period until expected maturity or the re-pricing date, if earlier; and

  - credit risk adjustments due to incurred and expected future credit losses.

  Fixed rate loans and advances to customers are re-valued to fair value based on future interest cash flows (at funding rates) and principal cash flows discounted using an appropriate market rate. The market rate applied in the calculation is the average market rate for new originations of loans with similar characteristics to the book of loans being valued, and reflects the current low interest rate environment. This rate is assumed to encompass the time value of money, plus a risk premium to account for the inherent uncertainty in the timing and amount of future cash flows arising from a book of loan assets.

  Forecast principal repayments are based on redemption at the earlier of maturity or the re-pricing date of a loan/advance to a customer with some overlay for historical behavioural experience where relevant. The eventual timing of future cash flows may be different from the forecast due to unpredictable customer behaviour. It is assumed that there would be no other factors which market participants would take into account when assessing the fair value of the loan assets. It is assumed that there is no fair value adjustment required in respect of interest rate movement on standard variable rate loan assets, as the interest rate being charged is assumed to be equal to the market rate for those loan assets.

  Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

- *Investment securities*

  Fair value is based on available market prices. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

- *Customer accounts*

  The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on future

interest cash flows (at funding rates) and principal cash flows, discounted using an appropriate market rate.

- *Debt securities in issue and other borrowed funds*

  The aggregate fair values calculated are based on available market prices. For those securities for which quoted market prices are not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. Quoted prices may be from inactive markets.

  The fair value of debt securities in issue is significantly above the carrying value as a result of the carrying value being net of merger fair value adjustments. The carrying values of debt securities in issue are expected to increase as the merger fair value adjustments continue to unwind.

2.11 ***Impact of general economic conditions in the UK and elsewhere***

Since 2014, volatility in the global financial system and the Eurozone has subsided, while political risk has been a key driver of instability. A period of low inflation, helped by low oil prices, ample spare manufacturing capacity and secular trends such as increased savings and weak investment have weighed down on global long-term real interest rates. The challenging economic environment and slow pace of recovery following the financial crisis has encouraged central banks to keep monetary policy as loose as possible, lowering interest rates and injecting liquidity in the system via quantitative and credit-easing measures.

While economic growth and inflation is starting to pick up in the UK's major trading partners, the United States and the Eurozone, political developments in the UK have contributed to significant changes in the country's economic outlook, which are likely to lead to a divergence in the path of UK and U.S. interest rates over the longer-term. The UK's referendum on membership of the EU resulted in a vote to leave the EU, leading to a period of significant volatility and the sterling-dollar exchange rate reaching its lowest level in thirty years in the day following the vote. In August 2016, concerns over stability both in the financial markets and the wider economy prompted action by the FPC to lower the counter-cyclical capital buffer from 0.5 per cent. to 0 per cent. (On 27 June 2017, the FPC announced its intention to increase the counter-cyclical capital buffer from zero to 0.5 per cent. with effect from June 2018), and the Monetary Policy Committee to cut the base rate to the historical low rate of 0.25 per cent., and add an additional £70 billion of investment in corporate and sovereign debt and a new Term Funding Scheme, incentivising pass-through of lower rates to UK households and businesses.

While the expansionary actions have helped to shore up the UK economy, the uncertainty associated with the UK's future trading relationships with the EU and the rest of the world has led to significant volatility in the market persisting, with sterling and gilt yields having been impacted as a result of scepticism around the UK's strategy to leave the EU and the implications of a second possible Scottish independence referendum.

The UK economy has shown surprisingly strong resilience since the vote to leave the EU in June 2016. Nevertheless, it is clear that the consumer sector is slowing due to low-to-negative real wage growth impacting spending and lower positive wealth effects from a slowing housing market. However, there are early signs of a recovery in business investment, inventory build and net export growth to counter the slowdown in household expenditure, albeit these remain fragile. In the light of this, it is important that both business and investor confidence is maintained with the support of the government. To that end, the impact of the negotiations with the EU over the UK's departure from the EU will be a key factor in determining the UK's economic outlook and level of confidence, as will government policies on tax and regulation.

Inflation is expected to remain above target in the short-term due to the rise in imported goods prices resulting from the fall in the value of Sterling over the past year. The Bank of England continues to closely monitor the balance between growth and inflation and has noted that the removal of monetary

stimulus may become necessary. The Bank of England will take its next detailed look at GDP and inflation in August 2017. It is anticipated that by then inflation will be much higher than the Bank was forecasting in May 2017 and the risk of some loosening in fiscal policy may also need to be factored in.

Among other factors:

- house prices have risen fairly steadily since 2014, increasing the amount of collateral in the impaired residential mortgage loan portfolio. According to the seasonally adjusted Halifax House Price Index, average house prices in the UK rose from £177,725 in Q1 2014 to £219,618 in Q1 2017, supported by the low interest rate environment and supply shortages. The rate of portfolio repossessions has fallen from 0.08 per cent. in Q4 2014 to 0.03 per cent. in Q1 2017, due to favourable debt servicing conditions;
- MSCI's IPD (Investment Property Databank) commercial property capital growth index rose from 119.6 in Q1 2014 to 143.7 in Q1 2017. Steady increases from Q1 2014 to Q4 2015 reflected post-crisis recovery in economic growth, with growth flattening somewhat over 2016, reflecting pre- and post-referendum business uncertainty; and
- the Bank earns non-interest income on its Treasury investment portfolio which is held for liquidity and longer-term purposes. This income is sensitive to interest rates and bond yields.

2.12 *Net interest income and NIM*

The Bank's net interest income is affected by the size and mix of its lending portfolio, the pricing on its loans and the costs and sources of its funding, including the re-pricing and maturity profile of the Bank's interest-earning assets and liabilities, net of any interest rate hedging applied.

The Bank's net interest income has been negatively impacted by the historically low base rate profile. The Bank of England base rate dropped to 0.5 per cent. in March 2009 and remained at this level until August 2016, when action was taken to reduce the base rate further, to 0.25 per cent. Despite a year-on-year reduction in the Bank's average cost of funding, total net interest income has fallen as a result of a lower asset base following continued Non-core asset de-leverage, increased competition on new business mortgage pricing and the reduction in the Bank of England base rate. Unity Trust Bank is now regarded as an investment rather than fully consolidated, following a 20.0 per cent. reduction in the Bank's shareholding in 2015. The result of this accounted for £8.3 million of the reduction in net interest income in the year ended 31 December 2016.

Net interest income is the largest component of the Bank's total income, representing 85.5 per cent. of total income (net interest income plus non-interest income) for the year ended 31 December 2016 (31 December 2015: 87.1 per cent., 31 December 2014: 81.1 per cent.). NIM for the Bank fell to 1.39 per cent. as at 31 December 2016 from 1.42 per cent. as at 31 December 2015, but was a significant increase on 1.22 per cent. as at 31 December 2014, primarily reflecting improvement in costs of funding.

The Bank is targeting improvements to its NIM over the life of the Plan, as it is expected that the Bank of England base rate will rise over this period of time. NIM is targeted to increase from and including 2018 up to 0.1 per cent. per annum over the life of the Plan. See paragraph 9.2(a) of this Part 7 for further information in relation to the Bank's NIM targets.

The Bank's targeted improvement in NIM over the life of the Plan is largely dependent on the Bank widening its margins on customer balances assuming a rising Bank of England base rate profile. If this profile were to change, it will likely impact the quantum of future growth depending on the market's reaction to any economic change. More specifically, the Bank's ability to grow NIM is dependent on its ability to reprice both mortgage and savings products in line with the Plan. See the risk factor entitled "*The Bank's ability to deliver its strategy and achieve the targets in the Plan and, where applicable, the May 2017 Outlook on the Plan is based on underlying assumptions that are subject to significant risks and uncertainties.*" set out in Part 3 of this Circular for a description of

risks associated with this. See paragraph 8.2 of this Part 7 for a description of how the more recent adverse base rate outlook impacts the Plan's forecasts and outlook, as reflected in the May 2017 Outlook on the Plan.

2.13 ***Non-interest income***

Non-interest income reduced slightly for the year ended 31 December 2016 to £66.7 million from £69.9 million for the year ended 31 December 2015. This was a significant reduction from £115.1 million for the year ended 31 December 2014, reflecting a significant reduction in LINK interchange income following the disposal of the majority of the Bank's ATM estate, industry-wide reductions in merchant interchange fees following the introduction of multilateral interchange fee regulation and lower overdraft fees following the launch of the Bank's new overdraft proposition in April 2015 and more recently the launch of the Everyday Rewards current account with the associated payment costs. The key product drivers of the Bank's non-interest income are BaCB (transaction based fees), current accounts (merchant interchange fees and packaged current account fees offset by LINK commission fees and Everyday Reward account costs), credit cards (merchant interchange fees), overdrafts, insurance referral income and retail mortgages, specifically commission relating to CISGIL product sales.

Due to non-recurring one-off gains in 2017 relating to the sale of treasury assets, non-interest income is expected to be approximately £50 million in 2017 before reducing to approximately £40 million per annum thereafter for the life of the Plan. This position is expected to remain stable as a reduction in current account non-interest income (driven by an increase in the number of Everyday Rewards accounts) is offset by an increase in fee income across the BaCB product portfolio. Paragraph 9.2(b) of this Part 7 sets out the Bank's outlook and its longer-term targets in relation to non-interest income.

2.14 ***Profitability***

The Bank reported a loss after tax of £418.7 million for the year ended 31 December 2016, an improvement against a loss after tax of £622.8 million for the year ended 31 December 2015 (31 December 2014: £225.2 million loss after tax).

The Bank is forecasting the Adjusted Loss Forecast, that is, a loss after tax of between £225 million and £250 million for the year ending 31 December 2017. Paragraph 6 of this Part 7 sets out the Bank's Adjusted Loss Forecast and the principal assumptions upon which the Adjusted Loss Forecast is made. The Bank is also targeting sustainable profitability in the medium-term, assuming the Bank delivers the Plan and, where applicable, the May 2017 Outlook on the Plan. This target is not, nor should be construed as, a profit forecast or any guarantee that the Bank will return to profitability when planned or at all. Paragraph 9.2(e) of this Part 7 sets out the principal assumptions and risks in relation to this target.

See also Part 3 of this Circular, and in particular the risk factor entitled "*The Bank has a high cost:income ratio relative to other UK banks that may be commercially unsustainable. A failure by the Bank to implement its cost reduction initiatives and achieve a competitive cost:income ratio in the medium-term is likely to have a material adverse effect on the Bank's ability to deliver its strategy, its results of operations, financial condition and operating results, and the Bank's ability to return to profitability.*" for a description of the risks that may impact the Bank's ability to achieve the Adjusted Loss Forecast and its targeted return to profitability.

The key drivers of the Bank targeting sustainable profitability in the medium-term are: (i) widening its NIM, based primarily on Bank of England base rate rises; (ii) ceasing the Bank's proactive de-leveraging activity; (iii) the reduction in operating costs and project costs; and (iv) the conclusion of the fair value unwind relating to Leek 19.

2.15 ***Liquidity Requirements***

The Bank is subject to, and is compliant with, regulatory liquidity requirements. The Bank manages liquidity risk by maintaining sufficient liquid assets to cover financial obligations as they fall due.

Effective management of the Bank's liquidity position is critical to the delivery of its strategy. The liquidity coverage ratio ("**LCR**") ensures banks hold sufficient high quality liquid assets ("**HQLA**") to meet 100 per cent. of stressed outflows over a 30-day period. The Bank's LCR (HQLA divided by net stressed outflows) was 214 per cent. as at 31 December 2016, representing a surplus to regulatory requirements. For further details of the UK liquidity regulatory requirements and proposed changes in legislation, see Part 11 of this Circular. In addition to regulatory requirements, the Bank imposes internal liquidity limits, including limits based on stress and scenario testing.

A number of factors may impact the Bank's regulatory liquidity position which need to be carefully managed. Such factors relate to both planned and unplanned balance sheet movements in customer assets and liabilities, liquid assets (cash and highly liquid securities), wholesale funding and capital. The Bank is predominantly retail funded, as such customer asset and liability movements have the greatest influence on the Bank's liquidity levels.

The Bank's liquid asset ratio (calculated as primary liquidity divided by total assets) reduced from 17.4 per cent. as at 31 December 2014 to 13.8 per cent. as at 31 December 2016, as the Bank actively managed customer liabilities and repaid term wholesale funding to offset significant Non-core Asset de-leveraging. The Bank's liquid asset ratio is expected to modestly reduce further before stabilising (subject to intra-period cashflow and funding volatility) in line with peers throughout the life of the Plan as the Bank's proactive de-leverage activity has largely ended.

The Bank's liquidity has been adversely impacted by the reduction in customer liabilities experienced by the Bank in the three months to 31 March 2017. This reduction has been partly offset by treasury asset sales and repurchases and customer deposit repricing actions which have adversely affected income against levels assumed in the Plan. These changes are expected to reduce the Bank's income and NIM in the short-term, although they are not currently expected to materially impact on the Bank's targeted return to profitability or its NIM growth projections as assumed by the Plan and, where applicable, the May 2017 Outlook on the Plan. See paragraph 8.2 of this Part 7 for further information in relation to this reduction.

See Part 3 of this Circular for a description of the risks associated with the Bank's liquidity position and requirements.

2.16 ***Working capital***

The Bank is of the opinion that it does not have sufficient working capital, for its present requirements, that is for at least the next 12 months following the date of this Circular.

The Bank's working capital analysis assesses both the Bank's capital and liquidity positions. The Bank continues to maintain sufficient liquidity in excess of regulatory minimums.

Irrespective of the success of the Restructuring and Recapitalisation and based on the Bank's view of the macroeconomic outlook as at the date of this Circular, the Bank expects to continue to comply with its minimum Pillar 1 regulatory capital requirements. However, the Bank is subject to any enforcement action the Authorities may take against it as a consequence of the Bank not complying with or not meeting certain other regulatory capital and loss-absorbing capacity requirements, being:

- the CRR provisions relating to its use of an IRB Approach to modelling its credit risk capital requirements. This non-compliance resulted in the PRA levying a CRR-related Pillar 2a regulatory capital requirement in the form of a fixed requirement to cover the associated risks and, will not, for the avoidance of doubt, be resolved by implementing the Restructuring and Recapitalisation;
- the Bank's ICG;
- the Bank's Combined Buffer requirement under the CRD (currently comprised only of its capital conservation buffer and set at 1.25 per cent. of total RWAs met entirely by CET1 capital. The capital conservation buffer is set to rise to 2.5 per cent. of total RWAs met entirely by

CET1 capital in 2019 with a rise of 0.625 per cent. in both 2018 and 2019. In addition to the capital conservation buffer, the counter-cyclical capital buffer will rise from the current requirement of zero per cent. to 0.5 per cent. of total RWAs in June 2018 and is expected to rise to 1 per cent. of total RWAs by the end of 2018, which would result in an aggregate Combined Buffer requirement of 3.5 per cent. of total RWAs in 2019);

- the Bank's PRA Buffer (currently set by the PRA at a level in order to withstand prudential stress test scenarios and comprised exclusively of CET1 capital); and
- the Bank's MREL. The Bank has received a binding MREL requirement for the year ending 31 December 2017 from the Bank of England requiring, in line with other UK banks, MREL which is equivalent to the Bank's ICG requirement. The Bank is not expecting to meet its full ICG until 2018 (assuming the successful implementation of the Restructuring and Recapitalisation, subject to delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan, based on the Bank's own internal assessment of future minimum Pillar 2a regulatory capital requirements and subject to future SREP) and, therefore, the Bank is not expecting to meet its MREL for 2017. The MREL Statement of Policy includes a transitional requirement for the period up to 1 January 2020 which is equivalent to the Bank's ICG requirement. The Bank of England has provided the Bank with a non-binding indication that its current intention is to set the Bank's MREL for 2018 in an amount which strongly indicated that the Bank would need to issue MREL-qualifying debt earlier than assumed in the Plan (which assumes issuances in 2020 and 2021, following a Tier 2 debt issuance in 2018 (with such same timing assumptions also made in the May 2017 Outlook on the Plan)), possibly as early as before the end of 2017. The Bank does not believe its current capital position, in the absence of the successful implementation of the Restructuring and Recapitalisation, would be sufficient to enable it in the future to issue MREL-qualifying debt on acceptable terms in such amount as would be required.

Furthermore, the Bank's working capital has been considered using an adverse scenario, which includes both a macro-economic recession stress and idiosyncratic stress events, which is akin to the scenario considered by the Bank as part of its stress testing of the Plan (and is, consequently, not a scenario assumed to take place under the Plan or a regulatory measure prescribed by the Authorities) (the "**Working Capital Stress Scenario**"). The macro-economic stress includes a base rate reduction to zero per cent. from Q2 2017 onwards, a 31 per cent. reduction in the house price index from its highest point in the Plan, a 42 per cent. reduction in commercial real estate pricing from its highest point in the Plan and unemployment reaching a high point of 9.5 per cent. (all akin to the PRA H1 2016 stress test). The idiosyncratic stress events include an unexpected one-off operational loss event of £100 million and additional expenditure of approximately £50 million, within the working capital period, that is the 12 months following the date of this Circular (the "**Working Capital Period**"). Under the Working Capital Stress Scenario, and excluding the impact of a successful Restructuring and Recapitalisation, the Bank would not have enough CET1 capital to meet its minimum Pillar 1 regulatory capital requirements over the Working Capital Period.

As at 31 March 2017, the Bank's CET1 capital ratio and Tier 1 Capital Ratio was 11.5 per cent. (compared to 11.0 per cent. as at 31 December 2016). The Bank had ICG capital resources (composed of Tier 1 capital post-regulatory deductions and allowable Tier 2 capital) of £1,079.7 million (compared to £1,112.3 million as at 31 December 2016) against ICG of £1,442.0 million (Pillar 1 of £499.6 million, being 8 per cent. of total RWAs and Pillar 2a of £942.4 million, compared to £1,501.5 million, with Pillar 1 of £534.1 million, being 8 per cent. of total RWAs and Pillar 2a of £967.4 million, each as at 31 December 2016) resulting in a deficit of £362.3 million (compared to £389.2 million as at 31 December 2016). The additional Combined Buffer requirement of 1.25 per cent. of total RWAs equated to a further £78.1 million (compared to £41.7 million, or a requirement of 0.625 per cent. of RWAs, as at 31 December 2016), against which the Bank had a capital deficit of £440.4 million (compared to £431.0 million as at 31 December 2016).

The Restructuring and Recapitalisation is an important step to the Bank: (i) delivering compliance over the life of the Plan with the regulatory capital and loss-absorbing capacity requirements described above; and (ii) implementing the Plan which the PRA accepted on 13 February 2017 and, where applicable, implementing the May 2017 Outlook on the Plan which the PRA accepted on 27 June 2017. The PRA may withdraw such acceptance at any time, whether or not the Restructuring and Recapitalisation is successful.

A successful Restructuring and Recapitalisation will increase the CET1 component of the Bank's headroom above its minimum Pillar 1 regulatory capital requirements (on both a solo-consolidated and consolidated basis). This is expected to contribute towards the Bank achieving its target of meeting the Tier 1 component of its ICG in 2017, subject to delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan.

The Bank anticipates that if the Restructuring and Recapitalisation is successful and the Bank completes its credit risk modelling deficiencies (part of its model risk) remediation programme, completes the remaining parts of its strategic and remediation projects on time and within budget and reduces its operational and pension risks, and the Bank otherwise delivers the Plan and, where applicable, the May 2017 Outlook on the Plan, these actions will reduce the Bank's minimum Pillar 2a regulatory capital requirement. The Bank's targeted Pillar 2a reduction as described above, together with the delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan, are expected by the Bank to result in the Bank achieving its target of meeting full ICG during 2018, irrespective of whether the issuance of approximately £250 million Tier 2 debt targeted in the Plan for 2018 takes place (albeit that such Tier 2 debt issuance is required for the purposes of the Bank meeting its regulatory capital and loss absorbing capacity requirements at the end of the life of the Plan). This reduction in the Bank's minimum Pillar 2a regulatory capital requirement and targeted return to meeting its ICG is based on the Bank's internal view of how its ICG will evolve over time and there is a risk that a future SREP may set a requirement different to that which the Bank assumes as part of the May 2017 Outlook on the Plan, including any Pillar 2a pension risk component specific to the Pace Pensions Sectionalisation. Furthermore, following completion of the Restructuring and Recapitalisation, the Bank is also targeting compliance with its Combined Buffer in 2018.

The Bank's compliance with its PRA Buffer and its MREL (inclusive of its PRA Buffer, meaning that the Bank meets its MREL without including CET1 capital counted towards its PRA Buffer) is targeted to be outside the Working Capital Period.

Whilst the Directors have approved the Plan and the May 2017 Outlook on the Plan and taken necessary steps to implement the Restructuring and Recapitalisation, there are a number of factors outside of their control that may or may not influence the successful execution of the Restructuring and Recapitalisation, or the other steps and targeted actions of the Plan and the May 2017 Outlook on the Plan.

The Bank believes that, if the Restructuring and Recapitalisation is not successfully implemented, the most likely outcome is that the Ordinary Shares and the Subordinated Notes will be subjected to a mandatory write-down either as a preliminary step to, or in the course of the Bank's entry into, Special Resolution. In such a scenario, the Bank believes that Shareholders will receive no recovery in respect of the Ordinary Shares that they hold, and that Subordinated Noteholders will receive no recovery in respect of the Subordinated Notes that they hold. Furthermore, in a Working Capital Stress Scenario, absent the successful implementation of the Restructuring and Recapitalisation, the Bank would not have enough CET1 capital to meet its minimum Pillar 1 regulatory capital requirements over the Working Capital Period. Were these events to occur, the Bank believes the above described outcome and consequences would arise for Shareholders and Subordinated Noteholders. The successful implementation of the Restructuring and Recapitalisation would mean that if a Working Capital Stress Scenario were to occur within the Working Capital Period, the Bank would continue to meet its minimum Pillar 1 regulatory capital requirements.

3. RESULTS OF OPERATIONS

The tables below set out the sections of the Bank's Annual Report and Accounts 2016 and the Bank's Annual Report and Accounts 2015 which contain information in respect of the Bank's operating and financial review and which are incorporated by reference into, and form part of, this Circular. The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this Circular. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this Circular. In the event of any inconsistencies between any information incorporated by reference, and the information contained in this Circular, the information contained in this Circular will take precedence and supersede any information incorporated by reference into this Circular.

Results of operations for the year ended 31 December 2016 against the year ended 31 December 2015

Topic		Information incorporated by reference into this Circular	Reference document	Page number in reference document
Operating Results	(i)	Detailed Financial Review	The Bank's Annual Report and Accounts 2016	14 – 31
	(ii)	Note 3 – Segmental Information		172 – 175
Liquidity, Capital Resources and Funding	(i)	All text and tables under the heading "*Liquidity*" until the heading "*Basis of preparation*"	The Bank's Annual Report and Accounts 2016	15 – 17
	(ii)	All text under the heading "*Liquidity*"		156
	(iii)	All text and tables under the heading "*Liquid asset portfolios – Unaudited*"		122
	(iv)	All text and tables under the heading "*Wholesale funding – Unaudited*"		123
	(v)	All text and tables under the heading "*Liquidity gap – Audited*"		124 – 125
	(vi)	All text and tables under the heading "*Encumbrance*"		125
	(vi)	The table under the heading "*Capital resources CRD IV – Unaudited*"		132
	(viii)	The table and text under the heading "*Capital ratios and Risk Weighted Assets – Unaudited*"		133
	(ix)	Note 27 – Debt securities in issue		188
Contractual Commitments		Note 34 – Contingent liabilities	The Bank's Annual Report and Accounts 2016	198 – 200
Accounting Policies		Note 1 – Basis of preparation and significant accounting policies	The Bank's Annual Report and Accounts 2016	151 – 167
		Note 2 – Critical judgements and estimates	The Bank's Annual Report and Accounts 2016	168 – 171

Results of operations for the year ended 31 December 2015 against the year ended 31 December 2014

Topic		Information incorporated by reference into this Circular	Reference document	Page number in reference document
Operating Results	(i)	Detailed Financial Review	The Bank's Annual Report and Accounts 2015	16 – 28
	(ii)	Note 3 – Segmental information		186 – 189
Liquidity, Capital Resources and Funding	(i)	All text and tables under the heading "*Liquidity*" until the heading "*Deleveraging the Non-core Optimum business*"	The Bank's Annual Report and Accounts 2015	16 – 18
	(ii)	All text and tables under the heading "*Liquid asset portfolios*"		128
	(iii)	All text and tables under the heading "*Wholesale funding*"		129
	(iv)	All text and tables under the heading "*Liquidity gap*"		130 – 131
	(v)	All text and tables under the heading "*Encumbrance Unaudited*		131
	(vi)	The table under the heading "*Capital resources*"		141
	(vii)	The table and text under the heading "*Capital ratios and risk weighted assets*"		142
	(viii)	Note 28 – Debt securities in issue		206
Contractual Commitments		Note 35 – Contingent liabilities	The Bank's Annual Report and Accounts 2015	218 – 220
Accounting Policies		Note 1 – Basis of preparation and significant accounting policies	The Bank's Annual Report and Accounts 2015	166 – 180
		Note 2 – Critical judgements and estimates	The Bank's Annual Report and Accounts 2015	180 – 185

4. OFF-BALANCE SHEET ARRANGEMENTS

The Bank issues letters of credit as part of its normal course of business. Letters of credit are common documents used in trade that are issued by the Bank and that guarantee payment to a third-party, provided certain documents have been presented to the Bank. The letter of credit serves as a guarantee to the seller that it will be paid by the Bank regardless of whether the Bank's customer ultimately fails to pay. The credit risk associated with these guarantees is considered within the Bank's usual credit monitoring and provisioning processes.

Other off-balance sheet exposures include: (i) the undrawn portion of a loan commitment or credit cards; (ii) assets pledged as collateral under Treasury repurchase agreements with other banks; and (iii) commitments under operating leases.

In addition, the Bank has provided guarantees in respect of:

- ***The Britannia Scheme*** – following the Merger, the Britannia Scheme transferred to CFSMS. Under the terms of this transfer, the Bank entered into a deed of guarantee to provide assurance to the trustee of the Britannia Scheme to support CFSMS in meeting its funding obligations to the Britannia Scheme should CFSMS be unable to meet its obligations as they fall due.

- ***Intra-group guarantee*** – the Bank has an indemnification agreement, accounted for as a guarantee, with CFSMS in which the Bank has agreed to indemnify CFSMS against all and any liability, loss, damage, costs and expenses arising from that agreement.

Save as described in this paragraph 4, the Bank did not have any material off-balance sheet transactions during the year ended 31 December 2016.

5. CAPITALISATION AND INDEBTEDNESS

5.1 *Capitalisation*

The following table sets out a summary of the Bank's capitalisation as at 31 December 2016. The figures have been extracted without material adjustment from the Bank's Annual Report and Accounts 2016.

	As at 31 December 2016 (audited)
	(£ millions)
Shareholders' equity	
Share capital	22.6
Share premium account	1,736.9
Other reserves	514.3
Retained earnings	(1,315.1)
Total capitalisation	**958.5**

There has been no material change to the Bank's capitalisation since 31 December 2016.

5.2 *Indebtedness*

The following table sets out the Bank's net indebtedness as at 31 May 2017. The figures have been extracted from the Bank's unaudited management accounts.

	As at 31 May 2017 (unaudited)
	(£ millions)
Cash and balances with central banks	2,122.1
Loans and advances to banks	457.5
Trading securities	–
Liquidity	2,579.6
Current Financial Receivable	–
Current – deposits by banks	(969.3)
Current – customer accounts and capital bonds	(18,707.8)
Current – debt securities in issue	(939.0)
Current – other borrowed funds	–
Current – amounts owed to other Bank undertakings	–
Current Financial Debt	(20,616.1)
Net Current Financial Indebtedness	(18,036.5)
Non-current – deposits by banks	–
Non-current – customer accounts and capital bonds	(2,081.1)
Non-current – debt securities in issue	(729.6)
Non-current – other borrowed funds	(485.9)
Non-Current Financial Indebtedness	(3,296.6)
Net Financial Indebtedness	**(21,333.0)**
Indirect and Contingent Indebtedness:	
Guarantees and irrevocable letters of credit	12.1

6. THE BANK'S 2017 ADJUSTED LOSS FORECAST

6.1 *Post-Tax Adjusted Loss Forecast for the year ending 31 December 2017*

The Bank forecasts an adjusted post-tax loss of between £225 million and £250 million for the year ending 31 December 2017 (2016: £(419) million), which excludes the expected net gain (after expenses) on the Restructuring and Recapitalisation recorded through the income statement (the one-off income statement transactional impact) (the "**Adjusted Loss Forecast**"). In accordance with the Bank's IFRS accounting policies, the one-off income statement transactional impact of the Restructuring and Recapitalisation will be reported as part of the pre-tax loss in the Bank's 2017 financial statements.

6.2 *Basis of preparation and principal assumptions of the Adjusted Loss Forecast*

The Adjusted Loss Forecast is based on the Bank's unaudited management accounts for the three months ended 31 March 2017 and management's forecasts for the remaining nine months ending 31 December 2017.

The Adjusted Loss Forecast has been compiled on the basis of the stated assumptions below and using accounting policies which are in accordance with IFRS and consistent with those used by the Bank in the year ended 31 December 2016 and which will be applicable for the year ending 31 December 2017.

The Adjusted Loss Forecast has been prepared based on the successful implementation of the Restructuring and Recapitalisation and, therefore, includes the expected saving on the coupon payments relating to the Subordinated Notes which is estimated to amount to approximately £18 million in 2017. Furthermore, it assumes the Authorities not taking enforcement action against the Bank in relation to the Bank's non-compliance with certain regulatory requirements.

The Adjusted Loss Forecast assumptions that are considered within management's control include:

- there will be no material variation to the assumed level of operating cost expenditure, nor the delivery of associated cost reduction initiatives that underpin it;
- there will be no material variation to the level of project costs anticipated, nor the delivery of any benefits associated with the project costs;
- the anticipated level of Platform customer retention is achieved;
- new business asset and liability volumes and margins are delivered as expected; and
- the planned regulatory call of Calico and the expected reduction in Optimum assets of approximately £2 billion through whole-loan sales and/or securitisations is achieved as expected.

The Adjusted Loss Forecast assumptions that are considered not to be within management's control include:

- there will be no material deviation from the direction assumed by the Bank in interest rates affecting the Bank from those assumed in the May 2017 Outlook on the Plan;
- there will be no material change in the economic and general trading environment currently prevailing in the UK, including the market pricing available on any assets the Bank is looking to de-leverage in 2017;
- there will be no new material change to the competitive environment which impacts on consumer preferences, and the Bank's ability to sell assets or raise liabilities;
- there will be no material change in legislation or regulatory capital and liquidity requirements impacting the Bank's operations;

- no new material conduct and legal risk provisions are required and the level of provision held as at 31 December 2016, save for a potential incremental net conduct risk charge of approximately £5 million estimated for 2017, for both conduct and legal risk redress amounts and associated costs is adequate to appropriately cover material future losses in respect of such items;
- there will be no adverse event that will have an impact on the Bank's financial performance which is material in the context of the Adjusted Loss Forecast; and
- there are no significant impairment write-downs.

Based on the principal assumptions upon which the Adjusted Loss Forecast is based the Bank expects to experience the following:

- broadly flat balances across retail and business banking customer assets for the year ending 31 December 2017 (31 December 2016: £15.3 billion);
- a decrease in other assets (Optimum, Legacy, Treasury and other non-customer assets) to approximately £10 billion for the year ending 31 December 2017 (31 December 2016: £12.3 billion);
- a net interest margin of between 1.35 and 1.40 per cent. for the year ending 31 December 2017 (31 December 2016: 1.39 per cent.);
- a decrease in non-interest income to approximately £50 million for the year ending 31 December 2017 (31 December 2016: £67 million);
- lower operating costs of approximately £410 million for the year ending 31 December 2017 (31 December 2016: £445 million);
- a reduction in project costs to approximately £100 million for the year ending 31 December 2017 (31 December 2016: £310 million);
- losses on fair value unwinds of approximately £50 million for the year ending 31 December 2017 (31 December 2016: £(181) million); and
- a reduction in RWAs to approximately £5.5 billion by the end of 2017 (31 December 2016: £6.7 billion).

The risk factors associated with each of the above assumptions are described below in paragraph 9 of this Part 7.

7. CURRENT TRADING

In the five months ended 31 May 2017, the Bank continued to trade broadly in line with expectations and as at the date of this Circular there is no change to the Bank's outlook for 2017 other than as disclosed in this Circular. The current trading information presented below is for the three months ended 31 March 2017. The Bank is expecting to announce its interim results for the six months ended 30 June 2017 on or around 10 August 2017.

7.1 *Bank performance*

As at 31 March 2017, the Bank's total Retail and business banking customer loans net of impairments increased to £15.4 billion from £15.3 billion as at 31 December 2016, as an increase in retail mortgage and business balances exceeded lower unsecured balances. Mortgage origination during the first quarter contracted slightly with completions for the three months ended 31 March 2017 totalling £0.6 billion (£0.7 billion for the three months ended 31 March 2016) and redemptions (excluding contractual repayments) totalled £0.5 billion during the same period (£0.4 billion for the three months ended 31 March 2016). The Bank continues to see new business pricing under pressure due to the strong competition in the UK mortgage market.

On the income side, the Bank recorded a positive operating result of £5.1 million for the three months ended 31 March 2017 (£2.2 million negative operating result for the three months ended 31 March 2016), driven by total income net of impairment of £108.6 million, operating costs of £100.1 million and operating project costs of £3.5 million. The Bank's NIM in the three months ended 31 March 2017 was in line with that reported for 2016 at 1.39 per cent.

From a current account perspective, in the three months ended 31 March 2017, current account numbers reduced slightly by 0.6 per cent. to 1,426,000 accounts, of which 652,000 were prime accounts (1,435,000 and approximately 664,000 respectively as at 31 December 2016). The Bank's current account NPS increased to 20 at the end of March 2017 from 17 at the end of December 2016. This meant that the Bank was once again ranked third in the UK current account market versus its peers, a position held for much of 2016. This emphasises the consistently strong service levels being delivered in contact centres and branches alongside continued improvement in digital channels.

7.2 ***Cost reduction and projects***

The Bank's cost reduction and project implementation programmes continue with momentum. Operating and project costs remain an area of focus and are in line with the Plan. Total operating costs for the first quarter of 2017 were 9.3 per cent. lower than the same period in 2016 and 17.5 per cent. lower quarter on quarter, including anticipated reductions in staff costs. The Bank's cost:income ratio in the first quarter of 2017 was 91.2 per cent. (103.7 per cent. for the year ended 31 December 2016 and 95.3 per cent. in the first quarter of 2016), benefitting mainly from several one-off, non-recurring non-interest income gains.

In relation to projects, the Bank successfully completed the migration of its mainframe-based core banking systems to IBM during February 2017, resulting in the remediation of non-compliance with an FCA Threshold Condition in relation to the recoverability of the Bank's IT systems. Reflecting this and progress made across other initiatives, project expenditure during the first quarter of 2017 reduced to £32.2 million (£77.3 million for the same period in 2016). As previously announced, the Bank has reprioritised the rest of the project portfolio and the focus is on projects that are essential for regulatory reasons and on those which the Bank believes will provide greatest value to the Bank. In April 2017, the Bank announced the implementation of Platform's mortgage retention (product switch for reversionary rate mortgage customers) solution. This is an important development for intermediary customers and a key mortgage asset growth enabler going forward.

7.3 ***Legacy matters***

There were no increases in provisions with regards to PPI or any other conduct issue for the three months ended 31 March 2017. The Bank continues to work through a remediation plan relating to its IRB models and remains in close and continuous dialogue with the PRA. See paragraph 8.2 of this Part 7 for a description of the recent developments affecting the Plan assumptions, including in relation to conduct and legal risk provisions.

7.4 ***Capital and liquidity***

The Bank's CET1 capital ratio was 11.5 per cent. as at 31 March 2017 (11.0 per cent. as at 31 December 2016). Total RWAs reduced to £6.2 billion as at 31 March 2017 from £6.7 billion as at 31 December 2016 mainly driven by the removal of the Optimum temporary model adjustment from the Bank's RWA position.

The Bank's Pillar 2a regulatory capital requirement increased to 15.09 per cent. of RWAs as at 31 March 2017 (14.49 per cent. as at 31 December 2016) as RWAs reduced and the fixed element of Pillar 2a proportionally increased. As previously noted, the Bank continues to expect to meet its minimum Pillar 1 regulatory capital requirements. Absent a successful Restructuring and Recapitalisation, the Bank continues to expect its standalone CET1 capital ratio to fall and remain below 10 per cent. over the medium-term. For further information, see the risk factor in Part 3 of this Circular entitled "*A failure successfully to implement or a delay in implementing the Plan and, where applicable, the May 2017 Outlook on the Plan, may adversely impact the Bank's business, operating*

results, financial condition and prospects, its regulatory capital resources and its ability to comply with its regulatory capital requirements." See also paragraph 2.16 of this Part 7 for a description of the Bank's working capital position.

Customer liabilities were £21.0 billion as at 31 March 2017 compared to £22.2 billion as at December 31 2016. While the reduction in customer liabilities was greater than anticipated in the Plan, it represented a decrease of one per cent. in the number of savings customers across the period. As a result of this decrease in customer liabilities, the Bank has taken certain management actions, for further information on these see paragraph 8.2 of this Part 7. The Bank continues to maintain sufficient liquidity in excess of regulatory minimums.

8. THE PLAN

8.1 *The Plan adopted in February 2017*

As part of its annual planning review, the Bank adopted the Plan on 13 February 2017, being a five-year strategic business plan covering the period from 2017 to 2021, which aims to give effect to the Bank's vision of becoming an efficient, financially-sustainable and capital-resilient UK bank focused on retail and SME customers differentiated by an ethically-led brand and a customer-centric proposition.

The key financial pillars of the Plan, as adopted, included: (i) returning the Bank to profitability; (ii) increasing the Bank's CET1 capital ratio to meet the Tier 1 component of its ICG by 31 December 2017; (iii) meeting its ICG in 2018; (iv) delivering MREL compliance (based on the Bank's own internal assessment), starting in 2018 (excluding PRA Buffer, meaning that the Bank meets its MREL by including CET1 capital counted towards its PRA Buffer) and 2019 (inclusive of its PRA Buffer, meaning that the Bank meets its MREL without including CET1 capital counted towards its PRA Buffer); and (v) meeting, and building a surplus to, its PRA Buffer in 2019.

The key capital and operational components of the Plan, as adopted, included:

- implementing a liability management exercise and equity capital raise to generate between £700 million and £750 million of incremental CET1 capital for the Bank;
- completing a targeted Tier 2 debt issuance of approximately £250 million during 2018;
- completing two targeted further MREL-qualifying debt issuances in 2020 and 2021;
- improving the Bank's net interest margin in line with market implied forecast base rate increases (assumed by the Bank based on the market forward-looking implied SONIA rate averaged over the 10-day period to 22 November 2016), assumed by the Bank to begin in 2018;
- increasing the Bank's mortgage assets;
- reducing the Bank's cost base, thereby improving the Bank's cost:income ratio, by implementing cost reduction initiatives to deliver targeted cost savings and significant reductions in operating expenditure;
- delivery of the Bank's remaining remediation projects, strategic projects and operational projects (as described in paragraph 2.4 of this Part 7), including in relation to the Bank's IT systems and infrastructure, on time and to budget; and
- reducing the Bank's minimum Pillar 2a regulatory capital requirements.

The Plan was based on a number of key assumptions, forecasts and targets relating to a variety of factors within and outside of the control of the Bank and the Bank's prospects of implementing its strategy are sensitive to those factors.

Accordingly, it became necessary to reassess the achievability of the Plan, and to adjust its implementation, to reflect the Bank's view of the impact on the Plan of trading through the first five

months of 2017, the prevailing business environment, the differences between the capital raising contemplated in the Plan and the Restructuring and Recapitalisation the Bank is now seeking to implement and discussions that the Bank has had with its regulators since the Plan was adopted (the result being the May 2017 Outlook on the Plan). See paragraph 8.2 of this Part 7 for a description of the May 2017 Outlook on the Plan. The PRA accepted the Plan on 13 February 2017.

For further details on the targets of, and assumptions and risks relating to, the Plan and/or the May 2017 Outlook on the Plan, see paragraph 9 of this Part 7. See also Part 3 of this Circular for a discussion of the risks relating to the implementation of, and the targets provided for in, the Plan and the May 2017 Outlook on the Plan.

8.2 ***May 2017 Outlook on the Plan***

Since the Plan was adopted by the Bank on 13 February 2017, there have been significant developments that have affected the Bank's outlook for its business and the prospects of achieving some of the key components of the Plan (or the timing of when they are expected to be achieved).

Since 13 February 2017, the following developments or management actions have occurred, been taken or are contemplated, as the case may be, by the Bank:

- On 26 June 2017, the Bank announced that the Bank had decided to discontinue the FSP in light of the advanced nature of the discussions with a group of existing investors (being the Principal Investors) regarding a prospective equity capital raise and recapitalisation, with a majority of the key commercial aspects of such transaction substantially agreed. On 28 June 2017, as an update to its announcement dated 26 June 2017, the Bank announced that the Board had decided to support an equity capital raise and recapitalisation proposal (being the outline of the Restructuring and Recapitalisation) from the Principal Investors and had entered into the Lock-Up Agreement whereby the Principal Investors and the Bank have committed to take certain steps to implement the Restructuring and Recapitalisation. On 14 July 2017, the Bank announced the detailed terms of the Restructuring and Recapitalisation, including those relating to the Capital Raising. The Restructuring and Recapitalisation is described in paragraph 2 of Section A of Part 1 of this Circular. Through the Restructuring and Recapitalisation, the Bank is seeking to generate approximately £700 million of incremental CET1 capital (depending on the actual amount of Retail Cash Consideration paid out by the Bank pursuant to the Mandatory Cancellation and excluding costs and expenses incurred by the Bank). Against the assumed liability management exercise and equity capital raise provided for in the Plan, the outcome of this change will be a net reduction in the amount of CET1 capital generated (assuming that the Restructuring and Recapitalisation is successfully completed) as the Plan assumed that the Bank would implement a liability management exercise and equity capital raise which would generate between £700 million and £750 million of incremental CET1 capital for the Bank;

- the Bank is planning to give formal notice to exercise its right to terminate the Calico Finance Number One synthetic securitisation transaction in September 2017 upon the occurrence of a Regulatory Event (as defined in the documents governing the transaction). As at 31 December 2016, the impact of Calico not meeting SRT requirements would have seen a reduction in the Bank's CET1 ratio of 0.8 per cent., with such impact reducing over time (in accordance with the mismatch rule prescribed by CRR) as Calico approaches its legal maturity in March 2021. A regulatory call would allow the Bank to terminate the credit default swap and repay Calico investors the principal amount of their notes at par. This is assumed by the Bank to result in interest expense savings relating to Calico of approximately £15 million per annum up until maturity in March 2021;

- the Bank is expecting a further reduction of Optimum assets through securitisations and/or whole-loan sales, in a manner that seeks to ensure that any anticipated future losses (through forgone income and any possible loss on sale) from such de-leveraging actions do not materially exceed the capital released from the reduction in capital requirements of the portfolio resulting from any such de-leveraging. The Bank is currently expecting such

reduction in Optimum assets to amount to approximately £2 billion, of which the Bank expects to retain a significant proportion of AAA-rated notes to be issued if the Optimum de-leveraging strategy is achieved through securitisations. The size of this expected transaction is deemed by the Bank to be viable on the assumption that the regulatory call of Calico discussed in the paragraph above proceeds. The de-leverage of these assets is expected to improve the stress resiliency of the Bank, and, consequently a reduction in the Bank's PRA Buffer has been assumed following completion of the transaction, proportionate to the Bank's internal assessment of Optimum's impact on its PRA Buffer (subject to future SREP and regulatory approval). The expected outcome of the transaction (assuming that it completes on the terms currently assumed by the Bank and the May 2017 Outlook on the Plan) is a significant reduction in RWAs (initially of approximately £1 billion, with an end-state reduction in RWAs of approximately £0.8 billion) and a reduced PRA Buffer requirement, which is partially offset by the loss on sale incurred and a reduction in income generated from such assets of approximately £100 million over the life of the Plan (including the impact of the aforementioned termination of Calico), and, if the transaction is achieved through securitisation, an increase in risk to earnings or capital arising from movement of interest rates (known as interest rate risk in the banking book, "**IRRBB**") due to the retention of the issued notes. This expected de-leveraging transaction, if it were to take place, would be likely to close in the fourth quarter of 2017 (subject to market conditions, including as to market capacity and available pricing, timing and terms being subject to PRA approval) and would impact the Bank's outlook and some of its longer-term targets or assumptions, such as that relating to RWAs, given the significant reduction in RWAs expected as a consequence of the transaction, but is expected to help support certain key pillars of the Plan, such as the Bank meeting its full ICG in 2018 and achieving a surplus to its PRA Buffer in 2019;

- the Bank re-submitted its internal Pillar 2b assessment to the PRA on 3 February 2017, outlining the total Pillar 2b requirement that the Plan is predicated upon. In a letter dated 23 June 2017, the PRA notified the Bank that it had set the Bank's Pillar 2b requirement in an amount which is higher than that assumed in the Plan. This Pillar 2b assessment factored in a rise in the Bank's counter-cyclical capital buffer to 1 per cent. of RWAs by the end of 2018 (consistent with the announcement by the Bank of England on 27 June 2017 of the increase of the counter-cyclical capital buffer to 0.5 per cent. effective from June 2018 and of its intention to increase the counter-cyclical capital buffer to 1 per cent. by the end of 2018). This change in Pillar 2b requirement is expected to adversely affect the anticipated amount of the Bank's, and following Completion, the Holdco Group's surplus to its PRA Buffer in 2019, although a surplus is still targeted to be achieved in 2019;

- customer liability balance attrition over and above that expected in the Plan (customer liabilities reduced by £1.2 billion more than expected over the three months ended 31 March 2017). The Bank's management has taken or is proposing certain actions to maintain a liquidity outlook aligned to the Plan, including both retail (pricing changes to enhance both fixed rate ISA and fixed term deposit acquisition and price changes to instant access savings products) and wholesale (further RMBS asset sales and repurchases and sales of Warwick Notes) actions. These changes are expected to reduce the Bank's income and NIM in the short-term representing a reduction in income of approximately £50 million over the life of the Plan;

- the beneficial sale of approximately £1.38 billion (by current balance) of residential mortgage loans to Silk Road Finance Number Four PLC and the corresponding purchase of 100 per cent. of residential mortgage-backed securities issued by Silk Road Finance Number Four PLC as part of a retained securitisation transaction in June 2017. It is anticipated that the Bank may seek to use all or some of the securities issued as collateral in bi-lateral funding transactions, pension scheme contingent asset arrangements or central bank liquidity schemes such as the DWF pre-positioning facility from time to time;

- the Bank has reached an in-principle agreement on the Pace Heads of Terms regarding the proposed Pace Pensions Sectionalisation which, if successfully implemented, will increase the Bank's contributions to Pace (assumed to be an increase of £12.5 million per annum in respect

of each of the calendar years 2018 to 2022 inclusive and £7.5 million per annum in respect of each of the calendar years 2023 to 2027 inclusive), and which will likely reduce the Bank's Pillar 2a pension risk requirement following sectionalisation (subject to a future SREP). The Bank is expecting to incur £8 million of costs and expenses associated with the Pace Pensions Sectionalisation. The Bank anticipates that if the Restructuring and Recapitalisation is successful and the Bank completes its credit risk modelling deficiencies (part of its model risk) remediation programme, completes the remaining parts of its strategic and remediation projects on time and within budget and reduces its operational and pension risks, and the Bank otherwise delivers the Plan and, where applicable, the May 2017 Outlook on the Plan, these actions will reduce the Bank's minimum Pillar 2a regulatory capital requirement (with a targeted end-state, at the end of the life of the Plan (substantially progressed by the end of 2019) of approximately 8.5 per cent. of RWAs, including the targeted reduction to the Pillar 2a pension risk resulting from the implementation of the Pace Pensions Sectionalisation, the assumed RWAs reduction driven from the expected de-leverage of approximately £2 billion in Optimum assets during the fourth quarter of 2017, alongside other Pillar 2a developments driven from the Bank's 2016 Internal Capital Adequacy Assessment Process (subject to PRA approval and subject to the outcome of future SREP)). This expected reduction in Pillar 2a supports the Bank's target of generating a surplus to its PRA Buffer in 2019 and is expected to mitigate other income statement risks across 2017, 2018 and 2019 discussed above;

- a reduction in income of approximately £60 million over the life of the Plan reflecting a more adverse base rate outlook assumption following trends experienced since the November 2016 10-day average forward-looking market implied rates used in the Plan. Due to the volatility in the base rate outlook experienced over the first half of 2017, which is expected to continue into the second half of 2017, the Bank has taken a six-month average of the base rate profile which features the following trajectory (based on the six-month moving average of the forward-looking market implied SONIA rate from 22 November 2016 to 31 May 2017): 0.5 per cent. in August 2018 (May 2018 in the Plan), 0.75 per cent. in February 2020 (June 2019 in the Plan), and 1 per cent. in June 2021 (August 2020 in the Plan, with a further increase to 1.25 per cent. in November 2021 assumed in the Plan). This updated outlook did not include a remodelling of other economic variables, such as GDP, CPI, HPI, CRE and/or unemployment, and did not factor in any potential business changes that could occur in a flatter base rate environment compared to the Plan. This impact on income is weighted to the latter years of the Plan and thus does not impact on the Bank's targeted return to profitability, and although there is an impact on NIM, the Bank is still expecting to see growth per annum over the life of the Plan;

- the Bank submitted its 2016 Internal Capital Adequacy Assessment Process to the PRA at the end of June 2017. As part of this process, the Bank revised its dynamic ICG forecast to reflect a reduction to pension risk due to underlying scheme performance (not linked to the Pace Pensions Sectionalisation), although there are some expected off-setting movements across other Pillar 2a risks such as operational risk, concentration risk and IRRBB. The net outcome of the proposed change in Pillar 2a is a reduction in the level of the requirement, although this represents the Bank's dynamic view of future Pillar 2a requirements that is subject to PRA review and future SREP;

- an updated phasing of project costs and reductions to the scope of some projects, noting that there is no increase to total Project costs targeted over the Plan. Project costs have reduced by approximately £50 million in 2017 with approximately £40 million moving into 2018 and approximately £10 million moving into 2019. The main projects that have been deferred from 2017 are the migration of remaining applications to IBM data centres and progress towards a new IT platform for mortgages. This updated phasing of costs does not have an impact on the Bank's target of sustainable profitability in the medium-term and mitigates other emerging 2017 income statement risks. In order to manage the total project costs to within the expectations set out in the Plan, a preliminary exercise has taken place to reduce project costs across certain elements of the portfolio. Although this has an impact on the Bank's cost

reduction initiatives, the Bank believes it can mitigate these risks and deliver the cost reduction profile set out in the Plan;

- an estimated potential net incremental conduct risk charge of approximately £5 million in 2017 (subject to further external and internal review and approval) driven by an increase of £9 million relating to PPI and the requirements of the FCA's policy statement 17/3, offset in part by small provision releases from other conduct risk categories. These estimates are still in the early stages of formalisation and are subject to review and governance but are not expected to impact the Adjusted Loss Forecast materially. No new categories of conduct and legal risk provisions have been charged by the Bank as at the date of this Circular, but each area of conduct risk will continue to be assessed for provision cover adequacy; and

- the Bank is expecting to incur further costs and expenses associated with the FSP and the Restructuring and Recapitalisation. As set out in Part 8 of this Circular, the current estimate is that these costs and expenses will amount to an estimated £63 million compared to £30 million included in the Plan. To the extent these costs and expenses are accounted for through the income statement, this impacts the Adjusted Loss Forecast but is mitigated by the re-phasing of project costs. For further information on the costs and expenses of the Restructuring and Recapitalisation, see the illustrative pro forma balance sheet of Holdco in Part 8 of this Circular.

9. THE BANK'S OUTLOOK AND LONGER TERM TARGETS AND EXPECTATIONS

This section contains forward-looking statements that reflect the Bank's plans, targets, estimates, expectations and belief and which, although based on assumptions that the Bank's management considers to be reasonable, involve risks and uncertainties that could cause actual events, results or conditions to differ materially from those expressed or implied. These forward-looking targets and expectations are not statements of historical fact nor are they guarantees of future performance. Rather, they are based on management views and assumptions, current as at the date of this Circular, that involve known and unknown risks, uncertainties and other factors that are subject to change and may cause the actual results, performance, achievements or developments of the Bank or the industry in which it operates to differ materially from any targeted or expected future results, performance, achievements or developments expressed or implied from the forward-looking statements. The forward-looking targets and expectations have not been subject to an audit or any form of review by the Bank's accountants or other professional advisers.

Shareholders and prospective investors are particularly advised to read Part 3 of this Circular for more information about the risk factors that may affect the Bank's future performance and in particular its ability to implement its strategy, the Plan and/or the May 2017 Outlook on the Plan. This section should also be read in conjunction with "*Important Information*" and "*Forward-looking Statements*".

Assuming the successful implementation of the Restructuring and Recapitalisation, and that the Bank is also otherwise able to implement its strategy as expected, the Bank is targeting or expecting, as the case may be, the following:

9.1 *Balance sheet*

(a) *Retail and business banking customer assets*

The Bank is targeting broadly flat retail and business banking customer assets for the year ending 31 December 2017 (2016: £15.3 billion). From and including 2018, the Bank is targeting net growth in retail and business banking customer assets of approximately £1 billion per annum over the remainder of the life of the Plan primarily driven by the Bank's Platform brand.

Principal assumptions and risks

The 2017 target and longer-term targets may be subject to timing variances, and changes in retail and business banking customer assets may be greater or less than £1 billion per annum or may result in a net decrease year on year.

The Plan assumes annual new business mortgage asset volumes increasing by £0.8 billion to £3.9 billion by 2021, based on the assumption that: (i) the Bank maintains an estimated 1.4 per cent. market share; (ii) margins are assumed to widen in the latter years of the Plan on the assumption market participants move to address historically low margins as interest rates are assumed to rise; and (iii) unsecured loan and credit card new business sales reduce from July 2017 onwards resulting in balance sheet reductions as the back book runs off without replacement. Overdraft balances are assumed to decline, driven in part by the removal of the Bank's student product. BaCB volumes are assumed significantly to reduce on prior years due to the significant reduction in new corporate lending. The Plan assumes that the Bank's market share in new business mortgage assets is preserved, allowing the Bank to increase prime residential mortgage asset volumes over the life of the Plan, and that unsecured loan and credit card balances decrease from 2017. Market share is assumed to be preserved by the Bank accessing new sections of the market (95 per cent. LTV, higher LTI customers, uplift in brokers used, increase in new build market share via participation in Help to Buy equity loans and inclusion of personal income when assessing buy-to-let customers) along with improvements to its service offering. Over the life of the Plan, the Bank's digital offering is assumed to deliver 50 per cent. of all current accounts online. Furthermore, the Retail Telephony Mortgage Team (based in Stockport) are assumed to deliver £300 million of new lending in 2017, rising to approximately £450 million by the end of the life of the Plan.

The total level of mortgage retention is expected to improve over the life of the Plan following the implementation of online switching capabilities and the functionality to retain Platform customers. The concentration of buy-to-let lending is expected to remain largely constant over the life of the Plan, increasing in totality as the market size is expected to increase.

Growth in retail customer assets is supported by managed growth in customer liabilities. In the three months ended 31 March 2017, the Bank's customer liabilities have reduced by £1.2 billion. Limited access products have been introduced into the Plan to support the growth of the demand book, and offset the planned reduction of fixed term balances. Acquiring a smaller market share of fixed term deposits, allows the Bank to improve its margin driven by increasing swap rates throughout the life of the Plan. The level of retention is expected to increase between 2017 and 2021 as the Bank manages down its proportion of fixed savings in the earlier years of the Plan. Variable rate savings products projections reflect current trends and include various pass-back assumptions on base rate moves. Over the life of the Plan, approximately 50 per cent. of the increase to the base rate is returned to customers. Growth in current account balances is expected following the reintroduction of the packaged account and increases in average balances driven by the low rate environment.

Expected growth in retail customer assets is expected to be partially offset by a reduction in BaCB due to the simplification of the BaCB product offering and pricing changes. As mentioned in paragraph 7.4 of this Part 7, customer liabilities have reduced by £1.2 billion in the three months ended 31 March 2017. As a result of this decrease in customer liabilities, the Bank has taken certain management actions. For further information on these management actions see paragraph 8.2 of this Part 7.

The Plan assumes that the Bank is compliant with all LCR requirements at all times throughout the life of the Plan at both the Bank and, following Completion, the Bank expects to also be compliant at the Holdco level. This is supported by RMBS issuances in line with funding requirements with the liquid asset portfolio maintained to support funding of £2.4 billion across the life of the Plan. The Warwick Notes are assumed by the Plan to be redeemed in full in 2020. The Bank has sold approximately £350 million in aggregate of Warwick Notes in 2017 to partly support the Bank's liquidity position following a reduction in customer liabilities in the year to date.

There is a risk that the growth of customer assets may be significantly less than planned, that new mortgage origination or mortgage retention may be significantly less than expected due to

any number of internal or external factors, for example a possible contraction of the UK mortgage market, or that mortgage origination may be disrupted if the Bank's mortgage process outsourcer is unable or unwilling to perform its services and/or that the pressure to achieve the targeted increases may create new conduct, legal and regulatory risks. There is also a risk that the Bank may be unable to maintain access to liquidity at an appropriate cost to fund the requisite level of asset origination targeted in the Plan and, where applicable, the May 2017 Outlook on the Plan, including a risk that the Bank may be unable to gain access to current or future central bank funding facilities and initiatives. The personal financial services industry is mature, so growth often requires taking market share from competitors. The Bank faces the risk of losing market share to other banks, building societies, insurance company competitors and new "fin-tech" entrants, which, if it were to occur, would impact the Bank's ability to grow its assets and in turn its plans to improve the Bank's profitability and share of new mortgage origination and other products over the life of the Plan.

See the risk factor in Part 3 of this Circular entitled "*The Bank's ability to achieve its net interest margin targets assumes that the Bank preserves its market share over the life of the Plan. The Bank faces competition in all of the core markets in which it operates. There is a risk that the Bank may lose market share to its competition and be unable to achieve its net interest margin and new mortgage business origination targets, which could have a material adverse effect on the Bank's business, operating results, financial condition and prospects.*"

(b) ***Other assets***

The Bank assumes a decrease in other assets (Optimum, Legacy Portfolio, Treasury and other non-customer assets) to approximately £10 billion for the year ending 31 December 2017 (year ended 31 December 2016: £12.3 billion). The Legacy portfolio will continue to run-off. The Optimum portfolio is assumed to de-lever further as a result of reductions in assets through securitisations and/or whole-loan disposals.

Principal assumptions and risks

The Plan assumed reduced losses on the sales and de-leverage of the Legacy Portfolio in 2017 and no further material losses on other assets sales. There is a risk that any further asset sales may not be completed on acceptable terms, or at all, or may result in unprovided losses than planned (or be delayed), each of which could impact the likelihood of the Bank achieving these stated targets. The Bank may accelerate asset sales if they are beneficial to the Bank's overall capital and liquidity position.

The Bank is expecting a further reduction of Optimum assets through securitisations and/or whole-loan sales, in a manner that seeks to ensure that any anticipated future losses (through forgone income and any possible loss on sale) from such de-leveraging actions do not materially exceed the capital released from the reduction in capital requirements of the portfolio. The Bank expects to reduce its Optimum assets by approximately £2 billion, of which the Bank expects to retain a significant proportion of AAA-rated notes to be issued if the Optimum de-leveraging strategy is achieved through securitisations (leading to an expected initial reduction in RWAs of approximately £1 billion with an end-state reduction in RWAs of approximately £0.8 billion). The size of this expected transaction is deemed by the Bank to be viable on the assumption that the termination of Calico discussed in paragraph 8.2 of this Part 7 above proceeds. This contemplated transaction, if it were to take place, would be likely to close in the fourth quarter of 2017 (subject to market conditions, including as to market capacity and available pricing, timing and terms being subject to PRA approval). See paragraph 8.2 of this Part 7 for further information about this expected reduction in Optimum assets, as reflected in the May 2017 Outlook on the Plan.

There is a risk that any whole-loan disposal and/or securitisation of the Bank's Optimum assets may not occur when planned, be carried out in a capital efficient manner, or at all. Assuming the successful completion of such a de-leveraging transaction, the Bank would expect a significant reduction in RWAs and other non-Pillar 1 capital requirements to result. These

impacts are expected to offset the income forgone on the disposed assets. This impact, facilitated by the RWA reduction and other Pillar 2a and Pillar 2b (subject to future SREP) reduction benefits expected from the regulatory call and termination of Calico (assuming that the Bank successfully makes such a call), are expected to result in a favourable impact to ICG including PRA Buffer over the life of the Plan (subject to further SREP). There is a risk, however, that the benefits assumed may not materialise in the quantum expected or at all. Any failure by the Bank to further de-leverage its Optimum assets in accordance with the May 2017 Outlook on the Plan and/or any failure to carry out such de-leveraging in a capital efficient manner or in a way that does not give rise to greater than expected costs being incurred could negatively impact the Bank's business, operating results, financial condition (including its net interest margin) and prospects as well as its ability to comply with its regulatory capital requirements.

See the risk factor in Part 3 of this Circular entitled "*The Bank's ability to deliver its strategy and achieve the targets in the Plan and, where applicable, the May 2017 Outlook on the Plan is based on underlying assumptions that are subject to significant risks and uncertainties — Actual losses on asset sales may be greater than assumed in the Plan.*"

9.2 ***Income Statement***

(a) ***Net interest margin***

The Bank is expecting a NIM of between 1.35 and 1.40 per cent. for the year ending 31 December 2017 (year ended 31 December 2016: 1.39 per cent.), following which it targets increases in NIM, supported by interest rate increases assumed by the Bank in the May 2017 Outlook on the Plan (driven from a six-month average of market forward implied view for market interest rates from 22 November 2016 to 31 May 2017) to begin in 2018, of up to 10 basis points per annum for the duration of the life of the Plan. See paragraph 8.2 of this Part 7 for a description of the customer liabilities attrition experienced by the Bank since the Plan was adopted over and above that expected in the Plan and the associated management actions as a consequence of such attrition.

Principal assumptions and risks

The Plan targets an increase in NIM over the life of the Plan as the Bank widens its margin on customer balances as base interest rates are assumed to rise approximately 10 basis points per annum from and including 2018 onwards. These increases are likely to be driven primarily by assumed improvements in margin on the variable rate savings portfolio where it is assumed a certain level of each base rate rise is passed on to customer rates, with the remaining element of the base rate improving the margin of the product. NIM is assumed to improve on mortgages due to an assumed market response to the low base rate environment, improved service offerings and the benefit from the Bank accessing or increasing access to products or credit lending practices that the Bank currently does not address, such as increased high LTI (being greater than 4.5 times income) lending, 95 per cent. LTV lending and increasing the number of brokers used.

A combination of improvements to net interest and margin and an assumed increase in the Bank of England base rate result in an assumed steady increase in product interest rates across most asset and liability classes over the life of the Plan. These targets are most susceptible to interest rate changes and competitive pressures. Lower for longer interest rates will restrict the Bank's ability to increase net interest margin and, consequently, restrict organic capital generation and profitability, as well as improvement in cost:income ratios.

The Bank's base rate outlook has changed since the November 2016 10-day average forward market implied rates used in the Plan. The May 2017 Outlook on the Plan's more adverse base rate outlook (when compared to that included in the Plan) includes the following base rate profile (based on the six-month moving average of the forward-looking market implied SONIA rate from 22 November 2016 to 31 May 2017): 0.5 per cent. in August 2018 (May 2018 in the

Plan), 0.75 per cent. in February 2020 (June 2019 in the Plan), and 1 per cent. in June 2021 (August 2020 in the Plan, with a further increase to 1.25 per cent. in November 2021 assumed in the Plan). This update did not include a remodelling of other economic variables, such as GDP, CPI, HPI, CRE and unemployment, and did not factor any potential business changes that could occur in a flatter base rate environment compared to the Plan. The Bank ran a base rate sensitivity assuming only two base rate rises of 0.25 per cent. (one in 2019 and one in 2021) over the life of the Plan resulting in an aggregate impact of £130 million on net income (excluding management actions to mitigate that risk) by the end of 2021 (assuming management took no actions successfully to mitigate that risk). See paragraph 8.2 of this Part 7 for a description of how the more recent adverse base rate outlook impacts the Plan's forecasts and outlook, as reflected in the May 2017 Outlook on the Plan.

The Plan also assumes the Bank's market share in new business mortgage assets is preserved, allowing the Bank to significantly increase prime residential mortgage asset volumes in Retail and Platform over the life of the Plan, and that unsecured loan and credit card balances decrease from 2017. Market share is expected to be preserved by the Bank accessing new sections of the market (95 per cent. LTV, higher LTI customers, uplift in brokers used, increase in new build market share via participation in Help to Buy equity loans and inclusion of personal income when assessing buy-to-let customers) along with improvements to its service offering, such as improvements in the time between application and mortgage offer and the introduction of a new scorecard which will improve the underwriting process. The personal financial services industry is mature, so growth often requires taking market share from competitors. The Bank faces risk of losing market share to other banks, building societies, insurance company competitors and new "fin-tech" entrants, which may impact the Bank's plans to increase Bank profitability based on preserving its market share of new mortgage origination and other products over the life of the Plan. There is also a risk that base rates may not increase as soon or as much as forecast, that competitive pressures reduce the Bank's market share or do not enable the Bank's margins to increase as planned or that regulatory pressures constrain the anticipated growth in volumes. The Plan assumes asset pricing increases across the market generally as a result of the lower for longer interest rate environment, generating fewer available options for retail banks to deliver improved net interest margin. If, and to the extent that, these increases are not forthcoming as assumed in the Plan, the Bank's actual NIM trajectory could be significantly lower than targeted. Furthermore, the Bank expects to improve its new business mortgage NIM due to the improvements in service offering and accessing new market segments. If any of these initiatives are not delivered, it may impact on the quantum of net interest margin growth. The Plan assumes that the Bank will be able to improve its margin on variable rate savings products as the Bank of England base rate rises due to its assumed interest rate pass-back strategy. There is a risk that, if market forces determine that this interest rate pass-back strategy is not feasible, the Bank may not be able to widen its net interest margin to the extent it is targeting, or at all, and that the Bank's actual NIM may, therefore, be significantly lower than the Bank's targets. The Bank primarily originates fixed rate products, meaning that the residential book is weighted more to fixed rate products as opposed to variable rate tracker products.

The Bank is expecting further reductions of Optimum assets through securitisations and/or whole-loan sales, in a manner that seeks to ensure that any anticipated future losses (through forgone income and any possible loss on sale) from such de-leveraging actions do not materially exceed the capital released from the reduction in capital requirements of the portfolio. If this expected de-leveraging proceeds, it would adversely impact the Bank's income primarily as a result of the ongoing loss of income throughout the life of the Plan, although from a capital perspective it would be partly offset by a reduction in RWAs held against the assets disposed of. See paragraph 8.2 of this Part 7 for further information about this proposed further de-leverage of Optimum assets and its impact on the Plan's forecasts and outlook, as reflected in the May 2017 Outlook on the Plan.

For further information, see the paragraph entitled "*The Bank's net interest margin target is predicated on assumed interest rate increases that are beyond the control of the Bank and the Bank's response to those increases in assets and liabilities pricing materialising as planned*" of the risk factor entitled "*The Bank's ability to deliver its strategy and achieve the targets in the Plan and, where applicable, the May 2017 Outlook on the Plan is based on underlying assumptions that are subject to significant risks and uncertainties — The Bank's net interest margin target is predicated on assumed interest rate increases that are beyond the control of the Bank and the Bank's response to those increases in assets and liabilities pricing materialising as planned*" in Part 3 of this Circular.

(b) ***Non-interest income***

The Bank is assuming a decrease in non-interest income to approximately £50 million for the year ending 31 December 2017 (year ended 31 December 2016: £67 million), following which it assumes non-interest income remaining broadly stable at approximately £40 million per annum over the life of the Plan.

Principal assumptions and risks

The Plan assumes that the primary drivers for non-interest income will be current accounts, credit cards, retail mortgages, overdrafts and BaCB. Net current account income will be driven by merchant interchange and packaged account fees that are offset by costs associated to the Everyday Rewards account and link commission fees. The Plan assumes that the key driver of non-interest income in BaCB is fees relating to transactions on its current accounts. Packaged account fee income is assumed to increase over the life of the Plan, which is offset by the assumed increased costs in the Plan relating to Everyday Rewards. Retail mortgage non-interest income includes commission relating to general insurance sales which are assumed to begin in 2017. Non-interest income was driven by the non-recurrence of one-off gains from treasury asset sales in 2017.

The Bank assumes non-interest income of approximately £40 million per annum from and including 2018 onwards for the life of the Plan which is based in part on assumed increases in fees for certain liability products. Changes in the fees could result in higher than anticipated out-flows of customer deposits and the need for the Bank to replace these out-flows with more expensive funding sources, further decreasing net interest income more than assumed in the Plan and/or lower than expected overall non-interest income. Furthermore, any increases made to the fees the Bank charges could expose the Bank to greater competition risks if similar products are offered with lower fees by the Bank's competitors.

For further information, see the paragraph entitled "*Non-interest income may continue to decrease"* in the risk factor entitled *"The Bank's ability to deliver its strategy and achieve the targets in the Plan, and, where applicable, the May 2017 Outlook on the Plan is based on underlying assumptions that are subject to significant risks and uncertainties*" in Part 3 of this Circular.

(c) ***Operating costs***

The Bank is targeting lower operating costs of approximately £410 million for the year ending 31 December 2017 (2016: £445 million) further reducing to a long-term target annual operating costs run rate of approximately £350 million per annum from the end of 2018 onwards. The substantial majority of the Bank's targeted operating costs reductions are planned to be delivered by the end of 2018. Current operating costs targets for 2019 to 2020 are based on the realisation of benefits from cost reduction initiatives that are planned before 2019, being the run-rate of 2018 cost reduction initiatives and further delivery of the premises transformation programme. The Bank has not planned cost reduction initiatives for 2019 to 2021.

Principal assumptions and risks

Operating costs are assumed to reduce from £445 million in 2016 to approximately £410 million in 2017. The Plan assumes operating costs reduce further to an annual operating costs run rate of approximately £350 million per annum from the end of 2018 onwards supporting a significantly reduced cost:income ratio by the end of the life of the Plan. These targeted future cost-savings are intended to be delivered through: (i) necessary reductions in FTE in 2017; (ii) rationalisation of premises; (iii) IT and process rationalisation; and (iv) active management of third-party costs. This reduction is expected to be delivered through approximately 80 initiatives that will be tracked through the Bank's cost reduction programme.

People savings are delivered through agreed employee redundancies and temporary/contractor staff exits. Further embedded initiatives for FTE reduction include 10 further branch closures from 105 to 95 by the end of July 2017. FTE numbers are expected to remain broadly unchanged from 2018 onwards.

Premises savings are assumed to be delivered in 2018 as part of the Bank's strategy to rationalise its major occupancy including the substantial exit of Miller Street and the move into Balloon Street, amongst other premises strategies.

IT savings including infrastructure rationalisation, Group master services agreement reductions, licence rationalisation, hardware maintenance, infrastructure outsourcing price and volume related savings.

Third-party savings including marketing spend reductions in both traditional and digital media, further supplier level targets savings from rate, proposition and demands and group recharge reductions.

The Bank anticipates spending approximately 36 per cent. of its costs in 2017 on people, 33 per cent. on non-IT third-party suppliers, 21 per cent. on IT and 10 per cent. on premises. This proportion is expected to remain largely the same over the life of the Plan.

These operating cost reduction targets assume that the Bank successfully effects significant cost reduction initiatives in the near term and that operating expenditure and project costs, including remediation, integration and resiliency projects, are significantly lower during the remaining years of the Plan than in recent years. There is a risk that the Bank may be unable to achieve these intended cost reductions, when planned, or at all. Operating costs may be higher than expected, which could result in these targets not being achieved, driving a negative impact on the Bank's profitability and capital position. Furthermore, the implementation of significant cost reductions, for example, through branch closures, redundancies and the reorientation of the Bank's distribution channels and simplification of the Bank's product offering, may not achieve the targeted cost savings.

For further information, see the risk factor in Part 3 of this Circular entitled "*The Bank has a high cost:income ratio relative to other UK banks that may be commercially unsustainable. A failure by the Bank to implement its cost reduction initiatives and achieve a competitive cost:income ratio in the medium-term is likely to have a material adverse effect on the Bank's ability to deliver its strategy, its results of operations, financial condition and operating results, and the Bank's ability to return to profitability.*"

(d) ***Project costs***

The Bank is targeting a reduction in project costs to approximately £100 million for the year ending 31 December 2017 (year ended 31 December 2016: £310 million), and an increase to approximately £120 million of project costs in 2018, and targets project costs of approximately £50 million per annum over the remaining life of the Plan.

Principal assumptions and risks

These project costs targets assume the phasing of projects in certain periods which are subject to changes in timing and scope. These targets include expenditure expensed in the year and depreciation and amortisation of projects that have been capitalised. The Bank is assuming no new expenditure on either Remediation Projects or Strategic Projects from 2019 onwards, with £25 million of cash expenditure per annum included for Operational Projects. This reflects the Bank's anticipation that key transformation projects, such as Branch Transformation (closure of branches and customer business centres) and Core IT (covering various improvements and separation from the Co-operative Group initiatives), have completed before the end of 2018, with normalised operating project expenditure expected in the outer years of the Plan assumed to be consistent with the above mentioned target. In 2017, the Bank assumes that the highest proportion of future project cost occurs in remediation projects, as was the case in 2016, the full year expense is expected to reduce significantly compared to full year 2016. 2017 full year Operational Projects and Strategic Projects costs are both assumed to reduce significantly compared to 2016. From and including 2019 onwards, the mix of expenditure is directed to Operational Projects, with no new significant cash expenditure expected in Remediation and Strategic Project categories, with only depreciation associated costs reflected in these project categories from this point on.

Historically, the Bank has experienced significant cost overruns when implementing complex large-scale change projects, and some projects have not delivered the planned benefits. Any deficiencies in project scoping, appropriate governance and related programme management processes to assist with the satisfactory delivery of these activities would have an adverse effect on the Bank's operating results and financial condition compared with those targeted in the Plan and, where applicable, the May 2017 Outlook on the Plan. There are risks that the Bank may be unable to complete its projects when planned, and that these may cost significantly more than targeted or have a reduced scope for the same targeted costs, or deliver less benefits than planned, thereby impacting the Bank's ability to meet its targets and in turn impacting associated cost reductions or income generation assumptions. There is also a risk that future projects that are not yet known to the Bank could be required.

For further information, see the paragraph entitled "*Transformation programmes may cost more than expected, take longer, or deliver less benefits than planned*" in the risk factor entitled "*The Bank's ability to deliver its strategy and achieve the targets in the Plan and, where applicable, the May 2017 Outlook on the Plan, is based on underlying assumptions that are subject to significant risks and uncertainties.*" in Part 3 of this Circular.

(e) *Sustainable profitability in the medium-term*

The factors set out in paragraph 8.2 of this Part 7 will impact the Bank's profitability profile over the life of the Plan, nevertheless, the Bank is targeting sustainable profitability in the medium-term.

This target is not, nor should be construed as, a profit forecast or any guarantee that the Bank will return to profitability when targeted or at all.

Principal assumptions and risks relating to this target

This target assumes that the Bank achieves the other targets described in this paragraph 9, which are subject to the various assumptions and risks described elsewhere in this paragraph 9.

In addition, these targets are based on the following assumptions:

- there will be no material variation to the assumed level of operating cost expenditure, nor the delivery of associated cost reduction initiatives that underpin it;
- there will be no material variation to the level of project costs anticipated, nor the delivery of any benefits associated with the project costs;

- new business and retention volumes of assets and liabilities and associated margins are delivered as expected;
- de-leveraging of the Bank's Non-core Business will be undertaken in such a manner that the Bank does not experience losses on asset sales in excess of those anticipated;
- impairments will remain relatively low and, although the total impact of IFRS 9 is unknown, it is not expected by the Bank to be material to CET1;
- there will be no material change in the accounting standards applicable to the Bank;
- there will be no material deviation in interest rates affecting the Bank from those assumed in the May 2017 Outlook on the Plan;
- there will be no material improvement or deterioration in the economic and general trading environment currently prevailing in the UK;
- there will be no, new and not currently anticipated, material change to the competitive environment which impacts on consumer preferences, and the Bank's ability to sell assets or raise liabilities;
- there will be no material change in legislation or regulatory capital and liquidity requirements at Bank or, following Completion, Holdco level impacting the Bank's operations;
- the Restructuring and Recapitalisation is implemented successfully as anticipated;
- the Authorities not taking enforcement action against the Bank in relation to the Bank's non-compliance with certain regulatory requirements continues to be forthcoming, nor are any further regulations imposed on the Bank;
- the expected reduction in Optimum assets of approximately £2 billion through securitisations and/or whole-loan sales is achieved as expected;
- successful implementation of the Pace Pensions Sectionalisation; and
- the Bank is not subject to any significant new conduct risk issues.

The Bank's profitability targets and assumptions in the Plan and the May 2017 Outlook on the Plan assume recognition of a significant amount of deferred tax assets in the medium-term on the assumption that:

- the Bank has demonstrated profitability or a high-level of confidence in future profitability;
- the Bank has a track record of delivery which minimises execution risk in the Plan and, where applicable, the May 2017 Outlook on the Plan;
- the Bank is above minimum Pillar 1 regulatory capital requirements in the Bank's stress test results;
- the Bank meeting its ICG which removes the threat of resolution and the removal of the Bank's dependence on the Authorities not taking enforcement action against it in relation to its non-compliance with certain regulatory capital and loss-absorbing capacity requirements, or confidence that this is a realistic near-term proposition;
- the Bank is in compliance with the Threshold Conditions; and
- there is no change in the relevant legal and regulatory framework.

There is a risk that one or more of the above assumptions will not be satisfied and that the Bank will be unable to recognise a significant amount of its deferred tax assets as expected or at all.

It is assumed the corporation tax rate will start at 19 per cent. in 2018 and decrease to 17 per cent. by 2021 and that the banking surcharge tax will be 8 per cent. over the life of the Plan. The Bank is assumed to reduce its corporation and bank surcharge tax liability by utilising its brought forward tax losses.

The Plan assumes that the Britannia Scheme is in an IAS 19 surplus across the life of the Plan following the December 2016 valuation. The Plan assumes the Bank makes contributions of £32.5 million to the Britannia Scheme over the life of the Plan and holds a contingent asset over the same time period. The May 2017 Outlook on the Plan assumes the Bank pays (in advance) £12.5 million per annum deficit contributions in respect of each of the calendar years 2018 to 2022 inclusive and £7.5 million per annum deficit contributions in respect of each of the calendar years 2023 to 2027 inclusive (and which will be subject to revision at future actuarial valuations in accordance with scheme funding legislation). This £100 million recovery plan is intended to support an indicative £100 million deficit for the Bank Section on an agreed "low risk funding basis" had the Pace Pensions Sectionalisation taken place as at 31 March 2017 (the value of Pace assets as at 31 March 2017 was estimated to be £11,128 million). For further information, see the paragraph entitled "*There is a risk of significant additional pension funding requirements*" in the risk factor entitled "*The Bank's ability to deliver its strategy and achieve the targets in the Plan and, where applicable, the May 2017 Outlook on the Plan, is based on underlying assumptions that are subject to significant risks and uncertainties.*" in Part 3 of this Circular.

The Plan assumes no further significant material conduct provisions post 2016, with the 31 December 2016 provision sitting at £169.5 million across all conduct streams. Each element of the conduct provision is reviewed periodically and will continue to be on an ongoing basis over the life of the Plan. As a result of such a review, the Bank assumed in the May 2017 Outlook on the Plan a potential net incremental conduct risk charge of approximately £5 million in 2017 (subject to further external and internal review and approval) driven by an increase of £9 million relating to PPI and the requirements of the FCA's policy statement 17/3, offset in part by small provision releases from other conduct and legal risk categories. For further information, see paragraph 8.2 of this Part 7.

9.3 ***Capital***

(a) ***RWAs***

The Bank assumes a reduction in RWAs to approximately £5.5 billion by the end of 2017 (2016: £6.7 billion), following which the Bank assumes RWAs to reduce to between approximately £5.0 billion and £5.5 billion in the final years of the Plan.

As set out in paragraph 7.4 of this Part 7, RWAs decreased by £0.5 billion in the three months ended 31 March 2017.

Principal assumptions and risks

There are expected to be benefits in RWAs in 2017 from the recalibration of the risk weighting of certain assets. The May 2017 Outlook on the Plan assumes that RWAs reduce to between approximately £5.0 billion and £5.5 billion in the final years of the Plan, although the mix of these RWAs changes over this period to 2021. This mix change reflects the assumed increases in Platform balances over the Plan horizon, which is offset by a reduction in all other RWA-intensive assets, such as BaCB, unsecured lending, Legacy Portfolio and Optimum. Such a decrease in RWAs, if it is achieved, would result in the Bank's CET1 Ratio being more susceptible to fluctuations in relative terms, resulting in an increased risk that an adverse change in the Bank's CET1 resources, even if such change were limited in absolute terms, may result in increased volatility in CET1 expectations over the life of the Plan.

The Bank assumes a further reduction of Optimum assets through securitisations and/or whole-loan sales, in a manner that seeks to ensure that any anticipated future losses (through

forgone income and any possible loss on sale) from such de-leveraging actions do not materially exceed the capital released from the reduction in capital requirements of the portfolio. A reduction in Optimum assets of approximately £2 billion is assumed, of which the Bank will retain a significant proportion of the AAA-rated notes to be issued if the Optimum de-leveraging strategy is achieved through securitisations (leading to an expected initial reduction in RWAs of approximately £1 billion with an end-state reduction in RWAs of approximately £0.8 billion). The size of this contemplated transaction is deemed by the Bank to be viable on the assumption that the regulatory call of Calico discussed in paragraph 8.2 of this Part 7 above proceeds. This contemplated transaction, if it were to take place, would be likely to close in the fourth quarter of 2017 (subject to market conditions, including as to market capacity and available pricing, timing and terms being subject to PRA approval). This transaction would impact some of the Bank's targets and assumptions, such as RWAs, given the significant reduction expected, but will help to support key pillars of the Plan, such as the Bank meeting its full ICG in 2018 and achieving a surplus to its PRA Buffer in 2019. See paragraph 8.2 of this Part 7 above for further information about this expected reduction in Optimum assets.

RWAs may be significantly greater than assumed due to worsening economic conditions (for example, higher unemployment and lower property prices could result in higher levels of impairments) and any material increases in RWAs will significantly increase the Bank's capital requirements beyond those planned for. The RWA assumptions include further de-leverage of the Legacy Portfolio resulting in the losses assumed in the Plan. If this de-leveraging is unsuccessful, RWAs could remain higher than those assumed in the Plan, resulting in greater capital requirements than anticipated and adverse key capital metric outcomes than targeted. Furthermore, there remain continued challenges and uncertainty for the UK economy and the continued squeeze on household incomes. These pressures on households may, if combined with an increase in interest rates, lead to an increase in arrears in the Bank's residential lending portfolios, including Optimum and an associated increase in retail impairment provisions. Furthermore, regulators and other bodies in the UK and worldwide have implemented and continue to consider a range of legislative and regulatory changes which could impose further capital requirements on the Bank.

For further information, see the paragraph entitled "*The Bank may not achieve its assumed level of RWAs which could result in the Bank having greater minimum Pillar 1 regulatory capital requirements than anticipated.*" in the risk factor entitled "*The Bank's ability to deliver its strategy and achieve the targets in the Plan and, where applicable, the May 2017 Outlook on the Plan is based on underlying assumptions that are subject to significant risks and uncertainties.*" and the risk factor entitled "*The financial services industry continues to be the focus of significant legislative and regulatory change which has imposed, and could continue to impose, operational restrictions on the Bank, increase the Bank's costs and/or capital requirements and/or otherwise materially adversely affect its business, operating results, financial condition and prospects.*" in Part 3 of this Circular.

(b) ***CET1 capital ratio***

Assuming that the Restructuring and Recapitalisation is successfully completed, the May 2017 Outlook on the Plan targets a CET1 capital ratio of between approximately 22 per cent. and 23 per cent. by the year ending 31 December 2017 (31 December 2016: 11 per cent.) both for the Bank and for the Holdco Group, increasing to a target end-state of approximately 25 per cent. by the end of the life of the Plan, and the Bank, therefore, expects to continue to meet its minimum Pillar 1 regulatory capital requirements. Assuming a successful implementation of the Restructuring and Recapitalisation, the Bank still expects to have a difference between its solo-consolidated and consolidated capital position, but this difference will be immaterial against the consolidated capital position given the quantum of CET1 capital resources following a successful implementation of the Restructuring and Recapitalisation.

This guidance updates and supersedes the forward-looking guidance that the Bank disclosed on 9 March 2017 in relation to its end-state CET1 capital ratio. The guidance has been updated by the Bank predominantly as a consequence of the planned termination of Calico and the expected further de-leverage of Optimum assets which is expected to drive an initial reduction in RWAs of approximately £1 billion, with an expected end-state reduction in RWAs of approximately £0.8 billion.

Principal assumptions and risks

To the extent that the Bank does not perform in line with the Plan and, where applicable, the May 2017 Outlook on the Plan, or regulatory capital requirements are increased for any reason, additional CET1 capital may be required over and above that included in the Plan. Any failure to raise such further regulatory capital could have a material adverse effect on the Bank's regulatory capital position, including its ability to maintain adequate loss-absorbing capacity. In a Working Capital Stress Scenario (as described in paragraph 2.16 of this Part 7) and excluding the impact of the successful implementation of the Restructuring and Recapitalisation, the Bank would not meet its minimum Pillar 1 regulatory capital requirements during the Working Capital Period. A failure by the Bank to meet some of its regulatory capital requirements (including its ICG) would impact the actions that management are able to take to implement the Bank's strategy and may lead to the PRA exercising some or all of its powers over the Bank, including powers of intervention, and, in severe circumstances, the UK resolution authorities could elect to exercise powers to write-down or bail-in capital securities and to implement resolution procedures if they consider the Bank would otherwise be likely to fail.

Such a decrease in RWAs, if it is achieved, would result in the Bank's CET1 Ratio being more susceptible to fluctuations in relative terms, resulting in an increased risk that an adverse change in the Bank's CET1 resources , even if such change were limited in absolute terms, may result in increased volatility in CET1 expectations over the life of the Plan. The above targets assume the inclusion of the Bank's share of the Pace IAS 19 surplus on its balance sheet along with the other financial impacts of Pace Pensions Sectionalisation outlined in paragraph 2.3 of this Part 7.

For further information, see the risk factor in Part 3 of this Circular entitled "*Irrespective of the successful implementation of the Restructuring and Recapitalisation, the Bank will not be compliant with its regulatory capital and loss-absorbing capacity requirements and will be subject to any enforcement action the Authorities may take in respect of such non-compliance.*"

(c) *Pillar 2a and ICG*

Assuming that the Restructuring and Recapitalisation is successfully completed, the Bank is targeting to meet the Tier 1 component of its ICG[4] in 2017. The Plan targets meeting full ICG from 2018 onwards, based on the Bank's own internal assessment of future Pillar 2a and 2b regulatory capital requirements and subject to future SREP.

The Bank anticipates that if the Restructuring and Recapitalisation is successful and the Bank completes its credit risk modelling deficiencies (part of its model risk) remediation programme, completes the remaining parts of its strategic and remediation projects on time and within budget and reduces its operational and pension risks, the Bank otherwise delivers the Plan and, where applicable, the May 2017 Outlook on the Plan, these actions will reduce the Bank's minimum Pillar 2a regulatory capital requirement (with a targeted end-state, at the end of the life of the Plan (substantially progressed by the end of 2019) of approximately 8.5 per cent. of RWAs, including the targeted reduction to the Pillar 2a pension risk resulting from the implementation of the Pace Pensions Sectionalisation, the assumed RWAs reduction driven from the expected de-leverage of approximately £2 billion in Optimum assets during the fourth

4 Equivalent to 75 per cent. ICG (75 per cent. is equal to Tier 1 requirements, made up of not less than 56 per cent. CET1 capital and maximum 19 per cent. AT1 capital.) To be met with CET1 capital as the Bank has no AT1 capital. (2016: 14.5 per cent.).

quarter of 2017, alongside other Pillar 2a developments driven from the Bank's 2016 Internal Capital Adequacy Assessment Process (subject to PRA approval and subject to the outcome of future SREP)).

Principal assumptions and risks

Following a successful Restructuring and Recapitalisation, it is assumed in the Plan that the Bank issues £250 million of Tier 2 debt in 2018.

The Bank's targeted Pillar 2a reduction as described above, together with the delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan, are expected by the Bank to result in the Bank achieving its target of meeting full ICG during 2018, irrespective of whether the issuance of approximately £250 million Tier 2 debt targeted in the Plan for 2018 takes place (albeit that such Tier 2 debt issuance is required for the purposes of the Bank meeting its regulatory capital and loss absorbing capacity requirements at the end of the life of the Plan). The Plan and the May 2017 Outlook on the Plan include assumptions that reflect the Bank's view of how its minimum Pillar 2a regulatory capital requirements are likely to evolve over the life of the Plan. These includes assumed reductions of the Bank's assessment of model risk, operational risk and transformation risk requirements over the life of the Plan. The Bank has assumed that, subject to SREP, following implementation of the Pace Pensions Sectionalisation, the pension risk component of its minimum Pillar 2a regulatory capital requirements will reduce significantly. The Bank's Pillar 2a regulatory capital requirements are subject to further SREP in the future. The Plan and the May 2017 Outlook on the Plan assume that the Bank's minimum Pillar 2a regulatory capital requirement will reduce over time as a result of reductions in model risk, transformation risk and operational risk. If these reductions and changes do not materialise, or otherwise the PRA does not agree with the Bank's internal assessment of its capital needs, there is a risk that the Bank may require more equity and other forms of loss-absorbing capacity beyond that contemplated by the Plan and, where applicable, the May 2017 Outlook on the Plan.

As part of the 2016 Internal Capital Adequacy Assessment Process, the Bank revised its dynamic ICG forecast to reflect a reduction to pension risk due to underlying scheme performance (not linked to the Pace Pensions Sectionalisation), although there are some expected off-setting movements across other Pillar 2a risks such as operational risk, concentration risk and IRRBB. The net outcome of the proposed change in Pillar 2a is a reduction in the level of the requirement, although this represents the Bank's dynamic view of future Pillar 2a requirements that is subject to PRA review and future SREP. See paragraph 8.2 of this Part 7 for further information.

For further information, see the risk factors in Part 3 of this Circular entitled "*Irrespective of the successful implementation of the Restructuring and Recapitalisation, the Bank will not be compliant with its regulatory capital and loss-absorbing capacity requirements and will be subject to any enforcement action the Authorities may take in respect of such non-compliance.*"

(d) ***Excess capital***

The Bank is not expecting to have excess capital in 2017, similar to 2016. Assuming that the Restructuring and Recapitalisation is successfully completed and following an approximate £250 million Tier 2 debt issuance in 2018, the Bank targets PRA Buffer compliance[5] and a surplus thereto in 2019, with the potential for a dividend in 2021.

Principal assumptions and risks

Following completion of the Restructuring and Recapitalisation, Holdco will be the holding company of the Bank and will be dependent on the payment of dividends, distributions, loans or advances by its subsidiaries, including the Bank, to produce distributable reserves. Holdco's

5 Based on the Bank's internal assessment of future Pillar 2a and 2B requirements. Subject to future SREP.

ability to pay dividends on the A Shares and effect certain returns of capital will be dependent upon, amongst other things, it having sufficient cash resources and, where necessary, sufficient distributable reserves out of which any proposed dividend may be paid. Any payment of dividends, distributions, loans or advances to Holdco by its subsidiaries, including the Bank, will be dependent upon the business and financial condition, earnings and cash flow position and other factors affecting such subsidiaries, including in particular those matters described below affecting the ability and timing of any dividend to be paid by the Bank.

The Bank's ability to pay any dividends at any time in the future is subject to the Bank's compliance with regulatory capital and loss-absorbing capacity requirements, including the Combined Buffer (currently comprised only of its capital conservation buffer and set at 1.25 per cent. of total RWAs met entirely by CET1 capital. The capital conservation buffer is set to rise to 2.5 per cent. of total RWAs met entirely by CET1 capital in 2019 with a rise of 0.625 per cent. in both 2018 and 2019. In addition to the capital conservation buffer, the counter-cyclical capital buffer will rise from the current requirement of zero per cent. to 0.5 per cent. of total RWAs in June 2018 and is expected to rise to 1 per cent. of total RWAs by the end of 2018, which would result in an aggregate Combined Buffer requirement of 3.5 per cent. of total RWAs in 2019) which dictate the Maximum Distributable Amount available for distribution and therefore dictate the Maximum Distributable Amount restrictions on dividends, distributions and variable remuneration, PRA approval and the availability of distributable reserves. In addition, the availability of distributable reserves is expected to require a shareholder and court approved reduction of share capital. The Plan and the May 2017 Outlook on the Plan have assumed Combined Buffer and PRA Buffer capital requirements based on the Bank's internal assessment of future Pillar 2a and 2b regulatory capital requirements, assuming the Bank's assessment if the Pillar 2a pension risk requirement change following a successful implementation of the Pace Pensions Sectionalisation. In a letter dated 23 June 2017, the PRA set the Bank's Pillar 2b requirement in an amount which is higher than that assumed in the Plan. See paragraph 8.2 of this Part 7 for further information.

If the PRA does not agree with the Bank's internal assessment of its capital needs, there is a risk that the Bank may be required to hold more CET1 capital beyond that contemplated by the Plan and the May 2017 Outlook on the Plan to cover its Combined Buffer and PRA Buffer as prescribed by the PRA.

For further information, see the risk factor in Part 3 of this Circular entitled "*No dividends to be paid in respect of the A Shares in the near future*"

(e) ***MREL***

Following a successful Restructuring and Recapitalisation, the May 2017 Outlook on the Plan assumes further capital issuances starting with a targeted approximate £250 million Tier 2 debt issuance in 2018 and MREL-qualifying debt issuances in both 2020 and 2021 of £200 million and £300 million respectively.

Principal assumptions and risks

It is assumed that targeted issuances of Tier 2 debt and MREL-qualifying debt by the Bank would, following completion of the Restructuring and Recapitalisation, be carried out by Isserco. The Bank of England has provided the Bank with a non-binding indication that its current intention is to set the Bank's MREL for 2018 in an amount which strongly indicated that the Bank would need to issue MREL-qualifying debt earlier than assumed in the Plan (which assumes issuances in 2020 and 2021, following a Tier 2 debt issuance in 2018 (with such same timing assumptions also made in the May 2017 Outlook on the Plan)), possibly as early as before the end of 2017. There are risks that the Bank will be unable to raise the required capital on acceptable terms, when planned, or at all, and that the Bank will be unable to meet its ICG when planned, or at all. If all of these measures are implemented, the Plan assumes the Bank meets full ICG from 2018 and that the Bank will meet its assessment of its

MREL (for the avoidance of doubt, excluding the Bank's of PRA Buffer, meaning that the Bank would only meet its MREL by including CET1 capital counted towards its PRA Buffer) in 2018. The Plan aims to build an efficient, financially-sustainable and capital-resilient UK bank focused on retail and SME customers, differentiated by an ethically-led brand and a customer-centric proposition, and is designed to achieve a surplus to its PRA Buffer later in 2019, based on the Bank's own internal assessment of future Pillar 2a and 2b regulatory capital requirements and subject to future SREP. To the extent that the Bank does not perform in line with the Plan and, where applicable, the May 2017 Outlook on the Plan or regulatory capital requirements are increased for any reason, additional CET1 capital may be required over and above that included in the Plan and, where applicable, the May 2017 Outlook on the Plan. Any failure to raise such further capital could have a material adverse effect on the Bank's regulatory capital position, including its ability to maintain adequate loss-absorbing capacity.

For further information, see the risk factor in Part 3 of this Circular entitled "*Irrespective of the successful implementation of the Restructuring and Recapitalisation, the Bank will not be compliant with its regulatory capital and loss-absorbing capacity requirements and will be subject to any enforcement action the Authorities may take in respect of such non-compliance.*"

(f) ***Return on equity***

Profit after tax over average total equity is considered non-material in 2017 (2016: non-material). The May 2017 Outlook on the Plan targets, on the assumption that the Bank's capital position meets all capital requirements and loss-absorbing requirements, mid-single digit RoE in 2021 with material progress assumed by 2019.

Principal assumptions and risks

This target assumes that the Bank achieves the other targets and guidance described in paragraph 9.2 of this Part 7, which are subject to the various assumptions and risks described elsewhere in paragraph 9.2. In particular, the targeted RoE relies on the Restructuring and Recapitalisation to be completed alongside delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan and for the Bank to successfully mitigate the risks outlined in Part 3 of this Circular, particularly the Bank's ability to widen NIM and develop its interest income and deliver the anticipated cost reduction and resulting cost:income ratio. If any of these risks do materialise, this may result in lower future returns and a lower than targeted RoE.

9.4 ***General assumptions in relation to the Plan's and, where applicable, the May 2017 Outlook on the Plan's targets***

A failure or delay in implementing parts of the Plan and, where applicable, the May 2017 Outlook on the Plan may adversely affect the Bank's business, operating results, financial position and prospects and its regulatory capital position and ability to comply with its regulatory capital requirements.

The Bank's ability to deliver its strategy and consequently meet the targets set out above is heavily influenced by external factors which may mean that the underpinning internal assumptions may be incorrect and negatively impact the Bank's performance. Many of these are similar to those faced by other financial institutions, for example:

- lower interest rates that remain lower for longer than forecast;
- whether assets can be sold on acceptable terms, or at all;
- whether liabilities can be raised and/or replaced on acceptable terms, or at all;
- deterioration in general economic conditions;
- instability of global financial markets, including the effect of macro political conditions in Europe (including recent and forthcoming elections in certain EU member states and the

unresolved Euro sovereign debt issues) and the United States (including the impact of the new U.S. presidential administration);

- the UK's impending departure from the EU, which may occur as early as April 2019;
- possible contraction of the UK mortgage market negatively impacting loan book growth;
- systemic capital markets volatility;
- UK banks' reaction to the Bank of England stimulus package (base rate, gilt purchases and Term Funding Scheme);
- higher unemployment and lower property prices increasing impairments;
- further clarity around future regulatory requirements, including expectations regarding MREL;
- the level of credit risk, interest rate risk, currency risk and market risk and the management thereof;
- risks stemming from regulatory change;
- the tax receivable balance from the Co-operative Group may vary from internal forecasts and budgets;
- the Bank is not required to take any additional liquidity or other management actions impacting the Adjusted Loss Forecast over and above those anticipated in paragraph 8.2 of this Part 7;
- increasing regulatory enforcement and an increasingly litigious environment; and
- the impact on the Bank's operating results, financial and capital position of the implementation of accounting standards and interpretations, including, with effect from 1 January 2018, IFRS 9 on the Bank's accounting of financial assets and liabilities, impairment of financial assets and hedge accounting, as discussed below.

In preparing the Plan, the Bank used the market's forward implied view for market interest rates of base rate, swap rates, LIBOR rates and gilts, using a 10-day moving average on the market interest rates to smooth over any daily volatility. The 10-day moving average of the market forward-looking implied SONIA rates to 22 November 2016 were used (rounded to the nearest increment of 25 basis points), and these implied rates assumed a Bank of England base rate increase to 0.5 per cent. in May 2018, a further increase to 0.75 per cent. in June 2019, a rise to 1.0 per cent. in August 2020 and final rise to 1.25 per cent. in November 2021. The Bank used a third party model to forecast certain macro-economic variables, such as inflation, unemployment, GDP and HPI as at August 2016. GDP is forecast at 1.4 per cent. for 2017 with steady increases in 2018 and beyond. Unemployment is assumed to rise to 5.3 per cent. in 2017 before gradually declining from 2020 onwards. CPI is modelled as rising to 2.9 per cent. in Q2 2017 but reducing to around 2 per cent. on average between 2018 and 2021. These assumptions have a significant influence on, amongst other factors, the NIM widening assumptions, forecasted credit losses and RWAs and product market assumptions. Due to the volatility in the base rate outlook experienced over the first half of 2017, which is expected to continue into the second half of 2017, the Bank has taken a six-month average of the base rate profile which features the following trajectory (based on the six-month moving average of the forward-looking market implied SONIA rate from 22 November 2016 to 31 May 2017): 0.5 per cent. in August 2018 (May 2018 in the Plan), 0.75 per cent. in February 2020 (June 2019 in the Plan), and 1 per cent. in June 2021 (August 2020 in the Plan, with a further increase to 1.25 per cent. in November 2021 assumed in the Plan). This updated outlook did not include a remodelling of other economic variables, such as GDP, CPI, HPI, CRE and/or unemployment, and did not factor in any potential business changes that could occur in a flatter base rate environment compared to the Plan. See paragraph 8.2 of this Part 7 for a description of how this recent adverse base rate outlook impacts the Plan's forecasts and outlook, as reflected in the May 2017 Outlook on the Plan.

Impairments are assumed to remain relatively low over the life of the Plan (excluding any impact of IFRS 9), reflecting the low risk assets remaining on the Bank's balance sheet, particularly in the Retail mortgage portfolio. The Plan also assumes the provisions for credit losses to reduce over the life of the Plan. The Plan and the May 2017 Outlook on the Plan do not include any potential impact of IFRS 9 as per formal PRA guidelines and the Bank does not yet know the impact on the Bank's operating results, financial and capital position of the implementation of accounting standards and interpretations, including, with effect from 1 January 2018, of IFRS 9 on the Bank's accounting of financial assets and liabilities, impairment of financial assets and hedge accounting. The Bank has performed an indicative assessment of IFRS9 based on industry data that is not specific to the Bank's assets and although the Bank's models will not be completed until later in 2017, the indicative outcome suggested an increase in impairments in 2018, offset in part by expected benefits from reductions in regulatory capital deductions without overall material impact to the Bank's CET1 capital position. There is a risk that once the Bank has completed its model build and completes a formal assessment of the impacts of IFRS9, that the outcome is worse that the indicative scenario model than expected and could impact on the Bank's profitability and capital forecasts.

Historically, the Bank has experienced material variances to internal forecasts and budgets, particularly for significant one-off items including, *inter alia*, conduct risk, one-off project costs, losses on asset sale de-leveraging, accelerated redundancy and severance costs, the sale of holdings in Unity Trust Bank and in Visa Europe and historical base rate decreases. The Plan and, where applicable, the May 2017 Outlook on the Plan assumptions do not include any allowance for significant unknown one-off items which may result in a positive or negative variance to the Plan and, where applicable, the May 2017 Outlook on the Plan and a higher or lower Adjusted Loss Forecast.

The successful development and implementation of the Bank's strategy requires difficult, subjective and complex judgements, including those relating to a range of factors which are not within the Bank's control, for example, forecasts of economic conditions. If the Bank fails to implement its strategy, it may be unable to meet the targets set out above.

PART 8

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF HOLDCO GROUP

The unaudited pro forma balance sheet of the Holdco Group as at 31 December 2016 has been prepared to show the pro forma impact of the Restructuring and Recapitalisation on the Bank and Holdco Group's assets, liabilities and total equity as if Holdco had been in existence and the Restructuring and Recapitalisation had taken place as at 31 December 2016. It has been prepared for illustrative purposes only and should be read in conjunction with the notes set out below. Because of its nature, it addresses a hypothetical situation and therefore does not represent the Holdco Group's actual financial position as at 31 December 2016, in particular as Holdco was not in existence at 31 December 2016, nor is it indicative of the results that may be expected to be achieved in the future.

The unaudited illustrative pro forma balance sheet of the Holdco Group and associated notes set out below are prepared on the basis of continuation accounting which means that the Bank's current balance sheet is adopted by Holdco and, accordingly, is consolidated without any adjustments to current carrying values, with the result that the introduction of Holdco as the ultimate parent company of the Bank has no impact on the total equity of the Bank Group.

Restructuring and Recapitalisation

The Restructuring and Recapitalisation, if successfully implemented, would result in an increase in the Bank and Holdco Group's total equity (and CET1 capital) of approximately £700 million based on the Bank's balance sheet as at 31 December 2016. This amount is stated: (i) before deduction of costs and expenses; and (ii) after the actual amount of Retail Cash Consideration paid out by the Bank pursuant to the Mandatory Cancellation, which are each presented separately in the pro forma balance sheet below.

The Restructuring and Recapitalisation includes the following key relevant steps:

- the transfer of all the Ordinary Shares to Holdco in exchange for A Shares to be implemented by way of the Members' Scheme. As a result of the Restructuring and Recapitalisation, Holdco will own 100 per cent. of the Bank Group and would then produce consolidated Holdco financial statements and consolidated regulatory returns;
- the exchange of all Subordinated Notes held by Subordinated Noteholders (other than the 2023 Notes held by Retail Noteholders) for A Shares and the Mandatory Cancellation of the 2023 Notes held by Retail Noteholders (the Mandatory Cancellation to be proposed pursuant to the Consent Solicitation as an amendment to the terms of the 2023 Notes) pursuant to which all of the rights, liabilities and obligations under the 2023 Notes of Retail Noteholders shall be irrevocably cancelled and released in consideration of the payment by the Bank of the Retail Cash Consideration and Retail Accrued Interest from (and including) 20 June 2017 to (but excluding) 31 July 2017 to such Retail Noteholders; and
- the subscription of an aggregate £250 million of A Shares, the proceeds of which, together with the Subordinated Notes, will be used by Holdco to subscribe for Ordinary Shares in the Bank, in aggregate resulting in the cancellation of subordinated debt of the Bank with a carrying value of £461.9 million (excluding accrued interest) in return for Ordinary Shares issued to Holdco by Bank and up to an aggregate of £13.5 million of cash payable under the Retail Cash Consideration and Retail Accrued Interest from (and including) 20 June 2017 to (but excluding) 31 July 2017 to such Retail Noteholders.

The overall net gain (after costs and expenses) on the Restructuring and Recapitalisation will be recorded partly through the income statement (the one-off income statement transactional impact) and partly through equity, in accordance with IFRS and the Companies Act.

Taxation

The gains arising on the Restructuring and Recapitalisation are not expected to give rise to an additional tax liability on the basis that these are either non-taxable or are sheltered by current year losses, which, in the absence of the above transactional steps, would not be recognised for deferred tax purposes. Accordingly, the pro forma balance sheet below excludes any taxation impacts.

The detailed pro forma impact of the Restructuring and Recapitalisation is set out below.

Illustrative Balance Sheet as at 31 December 2016

		Restructuring and Recapitalisation Adjustments				
	Bank Group as at 31 December 2016[1]	Incorporation of Holdco[2]	Notes Exchange and Consent Solicitation[3]	Equity Subscriptions[4]	Expenses of the Restructuring and Recapitalisation[5]	Unaudited pro forma of Holdco Group
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Cash and balances at central banks	2,848.2	0.3	(13.9)	250.0	(63.3)	3,021.3
Other assets	24,740.1	–	–	–	–	24,740.1
Total assets	**27,588.3**	0.3	(13.9)	250.0	(63.3)	**27,761.4**
Liabilities						
Other borrowed funds	472.6	–	(466.2)	–	–	6.4
Other liabilities[8]	26,157.2	–	–	–	–	26,157.2
Total liabilities	**26,629.8**	–	(466.2)	–	–	**26,163.6**
Total equity[6,7]	958.5	0.3	452.3	250.0	(63.3)	1,597.8
Total liabilities and equity	**27,588.3**	0.3	(13.9)	250.0	(63.3)	**27,761.4**

(1) The financial information as at 31 December 2016 has been extracted, without adjustment, from the Bank's financial statements for the year ended 31 December 2016 which have been incorporated by reference into this Circular pursuant to Part 6 of this Circular. No account has been taken of actual changes in the trading or financial position of the Bank since 31 December 2016 or of the Adjusted Loss Forecast.

(2) On incorporation of Holdco (which took place on 13 July 2017), there is an incremental £0.3 million of equity which is not injected into the Bank in [(3)] or [(4)] below.

(3) The Restructuring and Recapitalisation, if successfully implemented, would generate a £452.3 million gain in the Holdco Group's total equity, before costs and expenses related to the Restructuring and Recapitalisation[(5)], and after:

- £13.5 million cash being paid out by the Bank, being the maximum amount payable by the Bank as Retail Cash Consideration pursuant to the Mandatory Cancellation and approximately £0.4 million of Retail Accrued Interest from (and including) 20 June 2017 to (but excluding) 31 July 2017 to such Retail Noteholders; and
- an estimated £3.9 million of accrued interest would be capitalised into equity.

(4) The Equity Subscriptions are assumed to generate £250 million of equity, before costs and expenses related to the Restructuring and Recapitalisation.[(5)]

(5) Estimated expenses of the Restructuring and Recapitalisation comprise adviser costs and Restructuring and Recapitalisation expenses of £63.3 million which are stated inclusive of irrecoverable VAT and would reduce total equity by £63.3 million.

- A proportion of these expenses will be recorded as expenses in the income statement and a proportion will be accounted for by a direct deduction to the equity issued. The CET1 impact of either accounting treatment of expenses (through equity or directly through the income statement) is equivalent.
- Should the Restructuring and Recapitalisation not proceed, a significant proportion of the estimated costs would still be incurred and would be recorded as an expense in the income statement.
- The Restructuring and Recapitalisation includes costs directly identifiable to the Restructuring and Recapitalisation and in addition a significant amount of related and interconnected costs. These related and interconnected costs include, *inter alia*, adviser costs in reaching agreement with the Co-operative Group and the Pace Trustee, regulatory related costs, costs associated with the advisers of the Principal Investors and costs associated with the FSP which did not proceed.

(6) The Bank has Preference Shares held by the Co-operative Group which are not recognised on the balance sheet of the Bank as all rights to receive dividends and capital have been waived. As part of the Restructuring and Recapitalisation, these instruments will be cancelled with no corresponding adjustment required in the pro forma.

(7) As part of the Restructuring and Recapitalisation there are Backstop expenses, being fees and equity granted as part of the initial capitalisation of Holdco, which are settled in equity and represent 10 per cent. of the total number of fully-diluted issued A Shares of Holdco (5 per cent. being granted on incorporation and a further 5 per cent. on Completion).

(8) The B Shares are recognised as a financial liability of Holdco at their notional value which is a *de minimis* amount. Additionally there are earn out rights associated with the B Shares for which a contingency exists up to a value of £25 million. No value is attributed to the financial liability in relation to the earn out as it is reliant on a future transaction. Accordingly, there are no entries recorded in the above proforma balance sheet in relation to the B Shares.

PART 9

CAPITAL ADEQUACY

1. BASIS OF PRESENTATION

UK banks must comply with regulatory capital requirements on both a solo and a consolidated basis. This means that where a bank has a parent company in the EU which is not itself a bank or regulated firm, the bank itself is responsible for ensuring that the holding company has sufficient capital to meet requirements that would be imposed on it if its consolidated accounts were the accounts of a single regulated bank. If the holding company does not have sufficient capital, the relevant regulator may require it to cease to be a controller of such bank.

The Bank currently reports both on a solo-consolidated basis and on a consolidated basis in respect of the Bank and its subsidiaries and subsidiary undertakings (being the Bank Group). The Bank has permission from the PRA to report on a solo-consolidated basis (being Bank consolidated with a subset of the Bank's subsidiaries which the Bank has PRA permission to include within its solo consolidation) rather than solo (Bank only) basis. References to the Bank's regulatory position in this Circular are to the consolidated returns of the Bank Group unless otherwise stated.

The Restructuring and Recapitalisation will involve the creation of a new UK incorporated entity, Holdco, which will hold all of the share capital of the Bank. Holdco will, therefore, become the parent of a new consolidation group whose sole members will be the Bank and its subsidiaries and subsidiary undertakings. The Bank is expected to remain the principal regulated entity being the deposit taking institution conducting the majority of the banking operational activity and is expected to continue to report on a solo-consolidated basis. The Holdco Group is expected to be required to prepare consolidated regulatory reporting (though Holdco itself is not expected to be regulated, the consolidated Holdco regulatory ratios will be subject to regulatory oversight by the PRA). Although Holdco is unregulated, the PRA does have a power to give it directions under section 192C of FSMA, and one of the instances which the PRA gives of circumstances in which it might use this power is where "group-wide risk management or governance arrangements do not meet the bank's and/or internationally agreed standards; and/or systems and controls to manage group risks do not meet the standards expected by the bank".

The Bank will cease to be subject to regulatory capital requirements at the Bank consolidated level when Holdco is put in place and holds the Bank's share capital. The requirements which would previously have been applied at the Bank consolidated level will, from then on, be applied at the Holdco consolidated level. However, since Holdco is expected to own minimal assets other than shares in the Bank, the Holdco consolidated balance sheet will be substantially similar to the Bank consolidated balance sheet, and the capital requirements calculation in respect of the Holdco consolidated balance sheet will be substantially the same as that which would have applied had the Bank continued to calculate a Bank consolidated balance sheet. Thus, the minimum Pillar 1 and Pillar 2 regulatory capital requirements at the Holdco consolidated level (including applicable buffers) are expected to apply in the same way and substantially the same amounts as are currently applied at the Bank consolidated level. The main difference between the two would be that the CET1 required to meet the Bank's consolidated capital requirement would have been the equity issued by the Bank, whereas the equity required to meet the consolidated capital requirement at the Holdco level will be the equity issued by Holdco to its shareholders. Following the implementation of the Restructuring and Recapitalisation, as Holdco will have substantially the same CET1 and Tier 2 capital as the Bank, Holdco's consolidated regulatory capital will broadly mirror that of the Bank. It is, therefore, expected that the introduction of Holdco will result in no material change to the consolidated capital requirements applicable to the Bank as compared with the position if Holdco had not been inserted as the Bank's parent and the Bank had continued to report on a Bank consolidated basis.

Since it is the business, assets and risk exposures of the Bank Group which give rise to the minimum capital requirement, this Circular presents regulatory capital requirements in respect of the Bank Group, referring to Holdco only where necessary to avoid ambiguity. Thus, references to the Bank and its consolidated group

are references to the Bank Group and, accordingly, the financial results, forecasts and regulatory capital position of the Bank Group can be taken as being substantially the same as those of the expected Holdco Group.

Following the Restructuring and Recapitalisation, any inter-company asset balances in Bank with Holdco will need to be considered for risk weight asset and regulatory capital treatment on a solo-consolidated basis.

2. OVERVIEW OF BANK'S CAPITAL POLICY

Capital is held by the Bank to cover its inherent risks, to provide a cushion for unexpected losses and to support the development of the business. The Bank's objective, through its strategy, is to achieve a capital base in excess of regulatory requirements.

The legislative package consisting of Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, as the same may be amended or replaced from time to time, and the CRR (together, "**CRD IV**") came into force on 1 January 2014, and implemented the Basel III Agreement in the EU. In the UK, implementation of CRD IV has been through rules introduced by the PRA. The Bank is required to manage its capital in accordance with prudential rules issued by the PRA, and since 1 January 2014, the Bank has been subject to rules which implement CRD IV. The Bank has permission from the PRA to use the IRB Approach to credit risk. This allows the Bank to calculate capital requirements for some of its Retail, Corporate and Treasury assets classes using internally-developed models that reflect the credit quality of the assets. The Bank is in discussions with the PRA to remediate areas of non-compliance related to the use of IRB Approaches. Please refer to paragraph 2.11 of Part 11 of this Circular for more information on both currently-applicable and proposed legislation in respect of capital adequacy and the risk factor entitled "*Irrespective of the successful implementation of the Restructuring and Recapitalisation, the Bank will not be compliant with its regulatory capital and loss-absorbing capacity requirements and will be subject to any enforcement action the Authorities may take in respect of such non-compliance.*" in Part 3 of this Circular for further information.

Basel III was implemented in the UK from 1 January 2014, through CRD IV and through the PRA's policy statement PS7/13.

The Bank's CRD IV regulatory capital is categorised into two tiers:

Tier 1 Capital:

Consisting of Common Equity Tier 1 and AT1 capital resources, CET1 capital resources includes share capital and share premium, retained earnings and all other reserves. The Bank does not currently have in issue any securities that count to AT1 capital resources.

Tier 2 Capital:

Tier 2 Capital includes subordinated debt issues that meet the criteria set out in CRD IV/CRR. The rights of payment to the holders of this debt are subordinated to the claims of depositors and other creditors of the Bank. The Bank's subordinated debt comprises:

(a) fixed rate subordinated notes due 2025 – these subordinated notes were issued on 1 July 2015 and have a call date on 1 July 2020. These notes carry an annual interest rate of 8.5 per cent. to maturity and interest is payable annually in arrear. The principal amount outstanding under these notes was £250 million as at 25 July 2017, being the latest practicable date prior to the date of this Circular; and

(b) fixed rate subordinated notes due 2023 – these subordinated notes were issued on 20 December 2013 and mature on 20 December 2023. These notes carry an annual interest rate of 11 per cent. to maturity and interest is payable quarterly in arrear. The principal amount outstanding under these notes was £206 million as at 25 July 2017, being the latest practicable date prior to the date of this Circular.

Both of these series of subordinated notes are admitted to trading on the regulated market of the London Stock Exchange, are Tier 2 capital and are unsecured obligations of the Bank.

Regulatory adjustments

Intangible assets are deducted from CET1 capital. Under the IRB Approach presently provided for in Title II Chapter 3 of Part 3 of the CRR a deduction is made for expected losses in excess of impairment. Further adjustments are explained within the appropriate footnote in "*Table 2: CRD IV capital resources*" below.

3. THE RESTRUCTURING AND RECAPITALISATION, THE PLAN AND THE MAY 2017 OUTLOOK ON THE PLAN

On 26 January 2017, the Bank announced that it expected its CET1 capital ratio (in the absence of any management actions) to fall and remain below 10 per cent. over the medium-term and an expectation that the Bank was unlikely to meet its ICG, over the then applicable planning period (to year-end 2020). The Bank's ICG requirement is the aggregate of its minimum Pillar 1 and Pillar 2a regulatory capital requirements. In addition, the Bank reported that it continued to expect to meet its minimum Pillar 1 regulatory capital requirements and to maintain sufficient liquidity to meet its obligations. The Bank's minimum Pillar 1 regulatory capital requirement was, as at 31 December 2016, and remains at, 8 per cent. of RWAs, of which a maximum of 2 per cent. could be met with Tier 2 capital, a maximum of 3.5 per cent. could be met with AT1 capital and a minimum of 4.5 per cent. had to be met with CET1 capital. As at 31 December 2016, the Bank had no AT1 capital (and as at the date of this Circular, the Bank still has no AT1 capital) and was, therefore, and is still, required to meet its Tier 1 capital requirement of 6 per cent. of RWAs with CET1 capital.

As at 31 March 2017, the Bank's capital ratios were: 18.7 per cent. total capital ratio (compared to 17.7 per cent. as at 31 December 2016), 11.5 per cent. Tier 1 Capital Ratio (compared to 11.0 per cent. as at 31 December 2016) and 11.5 per cent. CET1 capital ratio (compared to 11.0 per cent. as at 31 December 2016).

In addition to its minimum Pillar 1 regulatory capital requirements, the Bank is required to hold capital against its minimum Pillar 2a regulatory capital requirements. The Bank's minimum Pillar 2a regulatory capital requirement, as at 31 March 2017, was 15.09 per cent. of total RWAs (compared to 14.49 per cent. as at 31 December 2016), of which (i) a maximum of 3.77 per cent. (compared to 3.62 per cent. as at 31 December 2016) could be met with Tier 2 capital (this proportion could also be met with AT1 capital or CET1 capital), (ii) a maximum of 6.64 per cent. (compared to 6.38 per cent. as at 31 December 2016) could be met with AT1 capital (including the Tier 2 capital element) and (iii) a minimum of 8.45 per cent. (compared to 8.12 per cent. as at 31 December 2016) had to be met with CET1 capital. As at 31 March 2017, the Bank had no AT1 capital (as the date of this Circular, the Bank still has no AT1 capital), and was, therefore, and is still, required to meet the proportion set out above of RWAs (which could be met with CET1 or AT1 capital) with CET1 capital. In addition to these requirements, the Bank will need to meet its Combined Buffer and its PRA Buffer with CET1 capital only.

As at 31 March 2017, the Bank had ICG capital resources (composed of Tier 1 capital post-regulatory deductions and allowable Tier 2 capital) of £1,079.7 million (compared to £1,112.3 million as at 31 December 2016) against an ICG requirement of £1,442.0 million (Pillar 1 of £499.6 million, being 8 per cent. of total RWAs and Pillar 2a of £942.4 million, compared to £1,501.5 million, with Pillar 1 of £534.1 million, being 8 per cent. of total RWAs and Pillar 2a of £967.4 million, each as at 31 December 2016) resulting in a deficit of £362.3 million (compared to £389.2 million as at 31 December 2016). The additional Combined Buffer requirement of 1.25 per cent. of total RWAs equated to a further £78.1 million (compared to £41.7 million, or a requirement of 0.625 per cent. of RWAs, as at 31 December 2016), against which the Bank had a capital deficit of £440.4 million (compared to £431.0 million as at 31 December 2016).

On 13 February 2017, the Bank announced that although it met all of its minimum Pillar 1 regulatory capital requirements and expected to continue to do so, it needed to build its capital and meet the longer-term regulatory capital requirements required of all UK banks. The Bank noted that its capacity to build capital organically had been constrained by: (i) the impact of interest rates that are lower than previously forecast, reducing the Bank's ability to generate income; and (ii) higher than anticipated transformation and conduct

redress and remediation costs. The Bank does not currently comply with or meet certain regulatory capital and loss-absorbing capacity requirements. These are:

- the CRR provisions relating to its use of an IRB Approach to modelling its credit risk capital requirements. This non-compliance resulted in the PRA levying a CRR-related Pillar 2a regulatory capital requirement in the form of a fixed requirement to cover the associated risks and, will not, for the avoidance of doubt, be resolved by implementing the Restructuring and Recapitalisation. It is the Bank's objective, subject to successful completion of a remediation plan by the end of 2017, to seek and obtain PRA approval of such remediation by the end of 2017 and to have this fixed requirement removed from its ICG during the first quarter of 2018;
- the Bank's ICG;
- the Bank's Combined Buffer requirement under the CRD (currently comprised only of its capital conservation buffer and set at 1.25 per cent. of total RWAs met entirely by CET1 capital. The capital conservation buffer is set to rise to 2.5 per cent. of total RWAs met entirely by CET1 capital in 2019 with a rise of 0.625 per cent. in both 2018 and 2019. In addition to the capital conservation buffer, the counter-cyclical capital buffer will rise from the current requirement of zero per cent. to 0.5 per cent. of total RWAs in June 2018 and is expected to rise to 1 per cent. of total RWAs by the end of 2018, which would result in an aggregate Combined Buffer requirement of 3.5 per cent. of total RWAs in 2019);
- the Bank's PRA Buffer (currently set by the PRA at a level in order to withstand prudential stress test scenarios and comprised exclusively of CET1 capital); and
- the Bank's MREL The Bank must raise and maintain significant amounts of loss-absorbing capacity to comply with the MREL Statement of Policy. The Bank has received a binding MREL requirement for the year ending 31 December 2017 from the Bank of England requiring, in line with other UK banks, MREL which is equivalent to the Bank's ICG requirement.

The Bank is not expecting to meet its full ICG until 2018 (assuming the successful implementation of the Restructuring and Recapitalisation, subject to delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan, based on the Bank's own internal assessment of future minimum Pillar 2a regulatory capital requirements and subject to future SREP) and, therefore, the Bank is not expecting to meet its MREL for 2017. The MREL Statement of Policy includes a transitional requirement for the period up to 1 January 2020 which is equivalent to the Bank's ICG requirement, followed by an interim requirement from 1 January 2020 up to 1 January 2022, which is equivalent to 18 per cent. of its RWAs. End-state MREL, from 1 January 2022, will be set on a case-by-case basis for all UK banks depending on the agreed resolution strategy for that bank. These requirements are currently expected to be either two times ICG or a lower amount determined by the Bank of England based on the Bank's resolution strategy set by the Bank of England, of which the Bank's current planning assumption is the latter of these two options.

As set out in the MREL Statement of Policy, the Bank of England can provide institutions with a non-binding indication of any MREL which the Bank of England expects institutions to meet in future years. The Bank of England's current intention is to set MREL in excess of regulatory capital requirements in 2020 for all institutions for which the preferred resolution strategy is not a bank insolvency procedure. In addition, the Bank of England can provide particular institutions with a non-binding indication of its intention to set a higher or earlier future MREL, or set higher or earlier required MREL levels. As set out in the MREL Statement of Policy, the Bank of England will do so where action is needed to enhance an institution's resolvability and this is necessary to meet the Bank of England's objectives as resolution authority. The Bank of England has chosen to do so for the Bank, in line with the Bank of England having identified a shortage of loss-absorbing capacity as a substantive impediment to the Bank's resolvability.

As such, the Bank of England has provided the Bank with a non-binding indication that its current intention is to set the Bank's MREL for 2018 in an amount which strongly indicated that the Bank would need to issue MREL-qualifying debt earlier than assumed in the Plan (which assumes issuances in 2020 and 2021, following a Tier 2 debt issuance in 2018 (with such same timing assumptions also made in the May 2017

Outlook on the Plan)), possibly as early as before the end of 2017. The Bank does not believe its current capital position, in the absence of the successful implementation of the Restructuring and Recapitalisation, would be sufficient to enable it in the future to issue MREL-qualifying debt on acceptable terms in such amount as would be required. The Bank of England indicated to the Bank that it would review this intention as part of the process for setting the Bank's MREL for 2018, which will include a consideration of any revisions in the Bank's business plan and strategy. Furthermore, the Bank of England has publically stated (as part of its publication of indicative MREL data on 5 May 2017) that "*The Co-operative Bank has been excluded from the calculation of the average because the firm is currently seeking a sale, which has the potential to significantly affect The Co-operative Bank's balance sheet. Therefore an indicative MREL based on The Co-operative Bank's balance sheet today may not be a useful guide to the eventual requirement*". The Bank believes that the Restructuring and Recapitalisation would significantly affect the Bank's balance sheet and, accordingly, the Bank assumes that, if the Restructuring and Recapitalisation is successfully implemented, the Bank's MREL will be reviewed by the Bank of England to take into account the completed Restructuring and Recapitalisation and subsequently revised to be brought in line with the MREL Statement of Policy. As a result, the Plan assumes compliance with the transitional MREL set out in the MREL Statement of Policy during the course of 2018 (for the avoidance of doubt, excluding the Bank's PRA Buffer, meaning that the Bank would only meet its MREL by including CET1 capital counted towards its PRA Buffer), when the Bank is targeting to meet its ICG, with such MREL compliance maintained thereafter supported by the targeted MREL-qualifying debt issuances in 2020 and 2021. The above-mentioned MREL issuances may not be completed when planned, on acceptable terms, or at all. See the risk factor entitled "*Rating downgrades and/or negative market sentiment with respect to the Bank may have an adverse effect on the Bank's ability to implement its strategy, the Plan and/or, where applicable, the May 2017 Outlook on the Plan. and on its business. The Bank's ability to raise the capital and debt it needs, including the Tier 2 and MREL-qualifying debt it is targeting under its strategy, when needed, on acceptable terms, or at all, may depend on the Bank improving its credit rating.*" in Part 3 of this Circular for further information. The Bank is expected by its regulator to meet its Combined Buffer and PRA Buffer in addition to both its transitional, interim and end-state MREL.

Furthermore, the auditor's reports contained in the Bank's financial statements for the three years ended 31 December 2014, 2015 and 2016 each contain an "emphasis of matter" in relation to the Bank's ability to continue as a "going concern", indicating that there are material uncertainties which may cast significant doubt on the Bank's ability to continue as a going concern. The going concern status of the Bank is dependent on the Bank successfully implementing its strategy, including the implementation of the Restructuring and Recapitalisation.

The actual amount of CET1 capital generated by the Restructuring and Recapitalisation will depend on the actual amount of Retail Cash Consideration paid out by the Bank pursuant to the Mandatory Cancellation and the actual amount of costs and expenses incurred by the Bank. See Part 8 of this Circular for further information in relation to the costs and expenses incurred by the Bank. Assuming that the Restructuring and Recapitalisation is successfully implemented (and assuming that the maximum aggregate amount of Retail Cash Consideration is paid out by the Bank pursuant to the Mandatory Cancellation), the incremental CET1 capital expected to be generated upon completion of the Restructuring and Recapitalisation is approximately 10 per cent. of RWAs. The Bank is targeting, as a key pillar of the May 2017 Outlook on the Plan, a CET1 capital ratio of approximately 22 to 23 per cent. as at 31 December 2017 (taking into account the Bank's forecast loss post-tax for the year ending 31 December 2017, the CET1 capital contribution made by the Restructuring and Recapitalisation and assuming the reduction in RWAs expected as a result of the de-leverage of approximately £2 billion in Optimum assets during the fourth quarter of 2017) at both the Bank and, following Completion, the Holdco consolidated level. The Restructuring and Recapitalisation will enable the Bank to strengthen its CET1 capital position and help the Bank meet its regulatory capital and loss-absorbing capacity requirements in the future.

If successful, the Restructuring and Recapitalisation is expected to generate approximately £700 million of incremental CET1 capital (depending on the actual amount of Retail Cash Consideration paid out by the Bank pursuant to the Mandatory Cancellation and excluding costs and expenses incurred by the Bank). A successful Restructuring and Recapitalisation will, therefore, increase the CET1 component of the Bank's headroom above its minimum Pillar 1 regulatory capital requirements (on both a solo-consolidated and

consolidated basis). This is expected to help the Bank achieve its target of meeting the Tier 1 component of its ICG in 2017 subject to delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan. Successful implementation of the Restructuring and Recapitalisation will also generate interest expense savings of approximately £45 million per annum for the Bank by cancelling the Subordinated Notes, which bear interest at rates substantially higher than those the Bank's peers are paying on similar subordinated capital securities. The Bank's current minimum Pillar 2a regulatory capital requirement is elevated relative to the Bank's peers principally due to the Bank's operational, pension, model and transformation risks. For more information on each of these risks, see Part 3 of this Circular. The Bank anticipates that if the Restructuring and Recapitalisation is successful and the Bank completes its credit risk modelling deficiencies (part of its model risk) remediation programme, completes the remaining parts of its strategic and remediation projects on time and within budget and reduces its operational and pension risks, and the Bank otherwise delivers the Plan and, where applicable, the May 2017 Outlook on the Plan, these actions will reduce the Bank's minimum Pillar 2a regulatory capital requirement (with a targeted end-state, at the end of the life of the Plan (substantially progressed by the end of 2019) of approximately 8.5 per cent. of RWAs, including the targeted reduction to the Pillar 2a pension risk resulting from the implementation of the Pace Pensions Sectionalisation, the assumed RWAs reduction driven from the expected de-leverage of approximately £2 billion in Optimum assets during the fourth quarter of 2017, alongside other Pillar 2a developments driven from the Bank's 2016 Internal Capital Adequacy Assessment Process (subject to PRA approval and subject to the outcome of future SREP)). The Bank's targeted Pillar 2a reduction as described above, together with the delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan, are expected by the Bank to result in the Bank achieving its target of meeting full ICG during 2018, irrespective of whether the issuance of approximately £250 million Tier 2 debt targeted in the Plan for 2018 takes place (albeit that such Tier 2 debt issuance is required for the purposes of the Bank meeting its regulatory capital and loss absorbing capacity requirements at the end of the life of the Plan). This reduction in the Bank's minimum Pillar 2a regulatory capital requirement and targeted return to meeting its ICG is based on the Bank's internal view of how its ICG will evolve over time and there is a risk that a future SREP may set a requirement different to that which the Bank assumes as part of the May 2017 Outlook on the Plan, including any Pillar 2a pension risk component specific to the Pace Pensions Sectionalisation. Furthermore, following completion of the Restructuring and Recapitalisation, the Bank is also targeting compliance with its Combined Buffer in 2018. The Bank expects that these requirements will also be met at the Holdco consolidated level.

The Bank's strategy aims to build an efficient, financially-sustainable and capital-resilient UK bank focused on retail and SME customers, differentiated by an ethically-led brand and a customer-centric proposition, and is designed to achieve a surplus to the Bank's PRA Buffer later in 2019 (based on the Bank's own internal assessment of future minimum Pillar 2a and 2b regulatory capital requirements and subject to future SREP). In addition to the issuance of approximately £250 million of Tier 2 debt targeted for 2018, the May 2017 Outlook on the Plan also assumes that the Bank will complete further MREL-qualifying debt issuances in 2020 and 2021, of £200 million and £300 million respectively, so as to meet the Bank's assessment of its ongoing MREL. Furthermore, delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan, including the successful implementation of the Restructuring and Recapitalisation, is expected to improve the Bank's leverage ratio to levels in excess of 3.25 per cent. over the life of the Plan.

Irrespective of whether the Restructuring and Recapitalisation is successfully implemented, the Bank will remain subject to any enforcement action the Authorities may take in relation to any inability of the Bank to meet regulatory requirements relating to its credit risk modelling under the CRR, its ICG, its Combined Buffer, its PRA Buffer and its MREL.

However, the Bank believes that a successful Restructuring and Recapitalisation would be an important step to the Bank delivering compliance with regulatory capital and loss absorbing capacity requirements over the life of the Plan and implementing its strategy to become an efficient, financially-sustainable and capital-resilient UK bank focused on retail and SME customers, differentiated by an ethically-led brand and a customer-centric proposition, and to return to profitability.

4. OVERVIEW OF THE BANK'S CAPITAL RESOURCES UNDER CRD IV

Table 1 – CRD IV capital ratios and RWAs

	As at 31 December (unaudited)		
	2016	2015	2014
	(£ millions, except for percentages)		
Capital ratios			
Common Equity Tier 1 Capital ratio	11.0%	15.5%	13.0%
Tier 1 Capital ratio	11.0%	15.5%	13.0%
Total capital ratio	17.7%	21.6%	15.0%
RWAs			
Credit risk	5,944.0	6,517.6	11,500.4
Market and counterparty risk	0	0	0
Operational risk	732.1	905.3	1,131.8
Total RWAs	**6,676.1**	**7,422.9**	**12,632.2**
Segmental analysis of credit risk RWAs			
Core			
Retail	1,919,0	1,810.9	1,866.6
BaCB	485.3	496.8	760.0
Treasury/other	1,498.4	1,440.8	1,723.8
	3,903.6	**3,748.5**	**4,350.4**
Non-core			
Legacy Portfolio	1,140.6	1,793.1	3,624.0
Optimum	899.8	976.0	3,526.0
	2,040.4	**2,769.1**	**7,150.0**
Total credit risk RWAs	**5,944.0**	**6,517.6**	**11,500.4**

Table 1 provides the RWAs of the Core Business, subdivided into its various businesses as at 31 December 2016. The measure of the Bank's total RWAs is used in determining the Bank's capital requirements.

The Bank's CET1 capital ratio at 31 December 2016 was 11.0 per cent., a decrease of 4.5 per cent. from 15.5 per cent. as at 31 December 2015. This was primarily due to a decrease of approximately £0.4 billion in CET1 capital as a result of the Bank's £418.7 million statutory loss after tax for the year ended 31 December 2016.

The reduction in RWAs for the year ended 31 December 2016 was primarily due to a decline in Non-core Business RWAs from £2.8 billion to £2.0 billion as a result of a continuation of the de-leverage activity in the Legacy Portfolio and the natural run-off within the Optimum portfolio.

Core credit risk RWAs increased by £0.2 billion, primarily driven by an overall increase in the mortgage portfolio. Operational risk RWAs have decreased by £0.2 billion following the annual recalculation of the Pillar 1 operational risk requirement subsequent to the Bank's 2015 year end results.

Table 2 – CRD IV capital resources

	As at 31 December (unaudited)		
	2016	2015	2014
		(£ millions)	
Common Equity Tier 1 (CET1) Capital: instruments and reserves			
Permanent share capital and the related share premium account	1,759.5	1,759.5	1,759.5
Retained earnings	(896.4)	(273.1)	(36.7)
Available for sale and cash flow hedge reserves	94.6	90.2	83.6
Defined Benefit Pension Reserve	9.5	–	10.6
Other reserves	410.0	410.0	410.0
CET1 capital before regulatory adjustments	**1,377.2**	**1,986.6**	**2,227.0**
CET1 capital: regulatory adjustments			
Prudential valuation	(5.4)	(0.8)	(0.4)
Intangible assets (net of related tax liability)	(100.1)	(142.8)	(103.7)
Defined Benefit Pensions	(15.3)	–	–
Deferred tax assets not arising from temporary differences	–	(4.0)	–
Cash flow hedges	(56.4)	(34.6)	(59.0)
Expected loss shortfalls	(44.4)	(30.0)	(191.5)
Losses for the year	(418.7)	(623.3)	(236.4)
Total regulatory adjustments to CET1	**(640.3)**	**(835.5)**	**(591.0)**
CET1 capital	736.9	1,151.1	1,636.0
Additional Tier 1 (AT1) capital: instruments	–	–	2.3
Total Tier 1 capital (T1 = CET1 + AT1)	**736.9**	**1,151.1**	**1,638.3**
Tier 2 (T2) capital: instruments and provisions			
Capital instruments	447.0	448.4	196.4
Minority interests	–	–	3.0
Credit risk adjustments	–	–	52.2
Tier 2 capital before regulatory adjustments	447.0	448.4	251.6
Total Capital (TC = T1 + T2)	**1,183.9**	**1,599.5**	**1,889.9**

Notes:

(1) Other reserves include the capital redemption reserve created as a result of the Bank's 2013 Liability Management Exercise.

(2) Deferred tax assets that rely on future profitability would also be a deduction from CET1 Capital.

Table 3 – CRD IV capital resources movement between 31 December 2015 and 31 December 2016

	(unaudited)
	(£ millions)
Common Equity Tier 1 Capital after regulatory adjustments as at 31 December 2015	1,151.1
Losses for the period	(418.7)
Defined Benefit Pension Reserve	(5.8)
Deferred tax assets not arising from temporary differences	4.0
Intangible assets	42.7
Available for sale reserve	(17.4)
Expected loss shortfall	(14.4)
Prudent Valuation	(4.6)
Common Equity Tier 1 Capital after regulatory adjustments as at 31 December 2016	**736.9**
Tier 2 Capital after regulatory adjustments as at 31 December 2015	448.4
Paid up capital instruments and subordinated loans	(1.4)
Tier 2 Capital after regulatory adjustments as at 31 December 2016	447.0
Total capital resources as at 31 December 2016	**1,183.9**

Total capital resources decreased by £415.6 million over the period from £1,599.5 million as at 31 December 2015 to £1,183.9 million as at 31 December 2016. CET1 capital fell by £414.2 million, primarily due to the Bank's regulatory loss of £477.1 million before tax and £418.7 million after tax for the year ended 31 December 2016.

Intangible assets reduced by £42.7 million as a result of the write-off of assets relating to the mortgage outsourcing arrangement no longer expected to be used and ongoing amortisation of the intangible assets on the balance sheet.

5. LEVERAGE RATIO

The Bank's leverage ratio as at 31 December 2016 was 2.6 per cent., based on an adjusted balance sheet exposure of £28,399.7 million and Tier 1 capital of £736.9 million. The Bank is not part of the PRA's leverage ratio framework; which requires firms within it to have a 3 per cent. minimum leverage ratio. In June 2017, the FPC and the PRA launched consultations on changes to the UK leverage ratio framework relating to the treatment of claims on central banks (CP 11/17), which include recommendations for; (i) the alignment of the UK leverage ratio framework with modifications already granted to firms for the exclusion of claims on central banks from the calculation of the total leverage exposure measure, where they are matched by deposits accepted by the firm that are denominated in the same currency and of identical or longer maturity; (ii) a recalibration of the minimum leverage ratio requirement from 3 per cent. to 3.25 per cent. of total exposure to adjust for the impact of excluding central bank reserves from the exposure measure; and (iii) alignment of the UK leverage ratio reporting requirements included in Supervisory Statement SS46/15 (UK leverage ratio: instructions for completing data items FSA083 and FSA084). Assuming the successful implementation of the Restructuring and Recapitalisation, subject to delivery of the Plan and, where applicable, the May 2017 Outlook on the Plan, the Bank expects that its leverage ratio would improve to levels in excess of 3.25 per cent. following the Restructuring and Recapitalisation and plans for it to remain so over the life of the Plan.

PART 10

RISK MANAGEMENT

The table below sets out the sections of the Bank's Annual Report and Accounts 2016 that contain information in respect of the Bank's risk management policies which are incorporated by reference into, and form part of, this Circular. The parts of the Bank's Annual Report and Accounts 2016 which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this Circular. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this Circular. In the event of any inconsistencies between any information incorporated by reference, and the information contained in this Circular, the information contained in this Circular will take precedence and supersede any information incorporated by reference into this Circular.

Topic	Information incorporated by reference into this Circular	Reference document	Page number in reference document
Risk Management.......................	(i) Risk management objectives and policies	The Bank's Annual Report and Accounts 2016	103 – 106
	(ii) Credit risk	The Bank's Annual Report and Accounts 2016	107 – 120
	(iii) Liquidity and funding risk	The Bank's Annual Report and Accounts 2016	121 – 125
	(iv) Market risk	The Bank's Annual Report and Accounts 2016	126 – 127
	(v) Pension risk	The Bank's Annual Report and Accounts 2016	128 – 129
	(vi) Regulatory risk	The Bank's Annual Report and Accounts 2016	129
	(vii) Conduct risk	The Bank's Annual Report and Accounts 2016	129
	(viii) Capital management	The Bank's Annual Report and Accounts 2016	130

PART 11

REGULATORY OVERVIEW

1. UK REGULATORS

Under the Financial Services Act 2012 (the "**FS Act 2012**"), a range of structural reforms to UK financial regulatory bodies were implemented, with the Financial Services Authority (the "**FSA**") being replaced from 1 April 2013 by the following bodies:

- the PRA;
- the FCA; and
- the FPC.

The PRA has responsibility for micro-prudential regulation of financial institutions that manage significant risks on their balance sheets, including banks, insurers and some large investment firms.

Pursuant to the Bank of England and Financial Services Act 2016, on 1 March 2017 the Prudential Regulation Committee (the "**PRC**") assumed the role of the governing body of the PRA (replacing the PRA Board) and the PRA was brought within the single legal entity of the Bank of England (thereby ending the PRA's status as a subsidiary company). As of 1 March 2017, the PRA's most important supervisory and policy decisions will be made by the PRC. There are no changes to the PRA's objectives or functions.

The FCA has responsibility for conduct of business regulation in relation to all authorised firms and the prudential regulation of firms not regulated by the PRA. The FCA has also inherited the majority of the FSA's market regulatory functions, and it represents the UK's interests in markets regulation at the European Securities and Markets Authority. The Bank is regulated by both the PRA and the FCA.

This Part uses the terms "**Relevant Regulator**" and "**Relevant Regulators**" to refer, as the context requires, to one or both of the PRA or the FCA.

The FPC was established as an independent committee that sits within the Bank of England. The FPC has two objectives: a primary objective of identifying, monitoring and taking action to remove or reduce systemic risks, with a view to protecting and enhancing the resilience of the UK financial system; and a secondary objective of supporting the economic policy of the Government.

The PRA's objectives

The PRA is responsible for the prudential regulation and supervision of approximately 1,700 banks, building societies, credit unions, insurers and major investment firms. The PRA has three statutory objectives:

1. a general objective to promote the safety and soundness of the firms it regulates;
2. an objective specific to insurance firms, to contribute to the securing of an appropriate degree of protection for those who are or may become insurance policyholders; and
3. a secondary objective to facilitate effective competition.

The FCA's objectives

When discharging its general functions under FSMA, which include rule-making, preparing and issuing codes, giving general guidance or determining the general policy and principles (by reference to which it performs functions under FSMA), the FCA must, so far as is reasonably possible, act in a way which is compatible with its overarching strategic objective of ensuring that "relevant markets" (as defined in section 1F FSMA) function well. The FCA also has the statutory duty to advance its operational objectives of:

- securing an appropriate degree of protection for consumers (the consumer protection objective) (section 1C FSMA);

- protecting and enhancing the integrity of the UK financial system (the integrity objective) (section 1D FSMA); and
- promoting effective competition in the interests of consumers in financial markets (the competition objective) (section 1E FSMA).

So far as it is compatible with its consumer protection and integrity objectives, the FCA must discharge its general functions in a way which promotes competition.

2. UK REGULATION

2.1 *Overview of UK financial services legislation*

Financial Services and Markets Act 2000

The cornerstone of the regulatory regime in the UK is FSMA, which came into force on 1 December 2001. However, the framework for supervision and regulation of banking and financial services in the UK has been, and continues to be, heavily influenced by EU legislation.

FSMA prohibits any person from carrying on a "regulated activity" by way of business in the UK unless that person is authorised or exempt under FSMA. Regulated activities include: deposit-taking, mortgage activities (such as entering into, administering, or advising or arranging in respect of, the provision of regulated mortgage contracts), effecting and carrying out contracts of insurance as well as insurance mediation, and investment activities (such as dealing in investments as principal or as agent, arranging deals in investments and managing investments).

FSMA also prohibits financial promotions in the UK unless the promotion is issued or approved by an authorised person or exempt from such requirements.

The Relevant Regulators are responsible for the authorisation and supervision of institutions that carry on regulated activities including the provision of regulated financial products and services in the UK. The Bank is authorised with permission to undertake, among other things, deposit-taking, mortgage and certain investment activities. As an authorised person under FSMA, the Bank is permitted to make financial promotions in the UK.

Authorised firms must at all times meet specified "threshold conditions", which were modified to reflect the regulatory structure under the FS Act 2012. Dual-regulated firms, such as the Bank, need to meet both the PRA's and the FCA's threshold conditions. At a high level, these threshold conditions require: (i) a firm's head office, and in particular its mind and management, to be in the UK if it is incorporated in the UK; (ii) a firm's business to be conducted in a prudent manner, and in particular that the firm maintains appropriate financial and non-financial resources; (iii) the firm itself to be fit and proper and appropriately staffed; and (iv) the firm and its group to be capable of being effectively supervised.

Financial Services Handbooks

FSMA (as amended by, amongst other legislation, the FS Act 2012) imposes an ongoing system of regulation and control on banks. The detailed rules and prudential standards set by the Relevant Regulators are contained in the FCA and PRA's rule making instruments, which are set out in accessible form online in various parts of their respective handbooks (the "**FCA Handbook**" and the "**PRA Rulebook**" and together the "**Financial Services Handbooks**").

Once authorised, and in addition to continuing to meet the threshold conditions for authorisation, firms are obliged to comply with the FCA's "Principles for Businesses" and the PRA's "Fundamental Rules", which include maintenance of adequate systems and controls, treating customers fairly and communicating with customers in a manner that is clear, fair and not misleading. The FCA's 11 Principles for Businesses and the PRA's Fundamental Rules are set out in the Financial Services Handbooks.

Sections of the FCA Handbook which are of particular relevance to banks include the Systems and Controls sourcebook and the Conduct of Business sourcebook. The PRA also has many important provisions in its Banking and Investment Rules for CRR firms which apply to the Bank.

2.2 *Supervision and enforcement*

Supervision

Each of the Relevant Regulators has wide powers, where relevant, to supervise and intervene in the affairs of a firm authorised and regulated under, or pursuant to, FSMA. These powers were extended under the FS Act 2012.

The nature and extent of a Relevant Regulator's supervisory relationship with a firm depends on how much of a risk the Relevant Regulator considers that firm could pose to its statutory objectives. The PRA's supervisory interventions will focus on reducing the likelihood of a PRA-authorised firm failing and on ensuring that, if it does fail, it does so in an orderly manner. The PRA has introduced the "Proactive Intervention Framework" to support early identification of risks to a firm's viability and enable appropriate supervisory actions to be taken to respond to such risks.

When taking actions the Relevant Regulator can, for instance, require firms to provide particular information or documents to it, require the production of a report by a "skilled person" appointed by either the authorised person or the Relevant Regulator, or formally investigate a firm. Where it will advance its objectives, the PRA has a broad power of direction over qualifying unregulated parent undertakings.

Enforcement

The Relevant Regulators have the power to take a range of enforcement actions, including the ability to sanction firms and individuals carrying out functions within them. Most notably, enforcement actions may include restrictions on undertaking new business, public censure, restitution, fines and, ultimately, revocation of permission to carry on regulated activities or of an approved person's status. The Relevant Regulators can also vary or revoke the permissions of an authorised firm that has not engaged in regulated activities for 12 months or fails to meet the threshold conditions.

On 1 February 2017, the Relevant Regulators published final changes in a policy statement aimed at strengthening the transparency and effectiveness of their enforcement decision-making processes. The FCA is also introducing a process for partly contested cases. This will allow a person under investigation to agree certain elements of a case (whether penalty, facts, liability or a combination of these issues) and contest the other elements before the Regulatory Decisions Committee. In addition, the FCA is providing a mechanism for those under investigation to proceed more directly and quickly to the Upper Tribunal, providing external adjudication that is wholly independent of the FCA. The PRA is implementing follow-up work on the 2016 consultation on an Enforcement Decision-Making Committee; production of a short guide to PRA enforcement procedures, including referral criteria; and a review of the PRA's approach to settlement.

Challenging the PRA and FCA

If the Bank wanted to challenge the decisions of the PRA or FCA then, in many cases, it could make formal representations and also bring a case to tribunal (the "**Tribunal**"). The amendments made to FSMA which introduced the PRA and the FCA made a number of amendments to the appeal process, which have broadly reduced the powers of the Tribunal. Although the grounds of making a reference have remained unchanged, the courses of action available to the Tribunal in the event that it disagrees with the regulator have been reduced. Under the previous system, the Tribunal had the power to make its own decision in place of one made by a regulator with which it disagrees. That remains the position for a disciplinary reference or a reference in connection with specific third-party rights, but the Tribunal no longer has the power to substitute its own decision for that of the regulator in a supervisory context.

2.3 ***Controller regime (including Shareholders)***

Under section 178 of FSMA, if a person decides to acquire or increase "control" over a UK authorised person (which includes the Bank), it must first notify the appropriate regulator (in the case of the Bank, this is the PRA). The PRA must then (after consulting with the FCA) decide whether to approve the acquisition or increase of control within 60 working days of receipt of that notice (assuming it has been provided with a complete application). The PRA will not approve any new controller or any increase of control if it has reasonable grounds to believe that the controller is not financially sound and suitable to be a controller of, or acquire increased control of, the UK authorised person. Acquiring control for the purposes of FSMA includes where a person holds 10 per cent. or more of the shares or voting power in an authorised person or its parent undertaking or shares or voting power in the authorised firm or its parent undertaking as a result of which that person is able to exercise a significant influence over the management of the authorised firm. A person will be treated as increasing his or her control over a UK authorised person, and therefore require further approval from the Relevant Regulator, if either the percentage of his or her shareholding or voting power increases from a holding below certain thresholds to a holding above them or the person becomes a parent undertaking of the UK authorised person. The thresholds are from less than 20 per cent. to 20 per cent. or more, from less than 30 per cent. to 30 per cent. or more and from less than 50 per cent. to 50 per cent. or more of shares or voting power in the UK authorised person (or its parent undertaking).

When determining a person's level of control, that person's holding of shares or entitlement to voting power will be aggregated with the holdings or entitlements of any person with whom he or she is "acting in concert".

Acquisition or increase of control without the approval of the Relevant Regulator is a criminal offence.

2.4 ***Senior Managers Regime ("SMR"), certification regime and conduct rules***

SMR

The SMR entered into force on 7 March 2016 and focuses on the most senior individuals in firms who hold key roles or have overall responsibility for business areas of relevant firms. Firms must:

- ensure that each senior manager has a statement of responsibilities setting out the areas for which they are personally accountable;
- produce a firm "Responsibilities Map" that knits these together; and
- ensure that all senior managers are pre-approved by the regulators before carrying out their roles.

Certification regime

The certification regime applies to employees of relevant firms who could pose a risk of significant harm to the firm or its customers. Such individuals must be certified by their firm to be fit and proper for their roles both at the outset and on a continuing basis.

Conduct rules

The FCA conduct rules applied to all employees of relevant firms within the scope of the SMR and the certification regime from March 2016, and applied to everyone else from March 2017. These conduct rules apply to most employees of firms based in the UK or who deal with customers in the UK. The PRA Conduct Rules apply to, in summary, persons approved under section 59 of FSMA to perform a senior management function, persons performing certification functions (as defined in the Certification Part of the PRA Rulebook) and Conduct Rules non-executive directors (as defined in the Conduct Rules Part of the PRA Rulebook).

2.5 *Capital adequacy*

The Bank is subject to the capital adequacy guidelines for banks adopted by the PRA as per the PRA Rulebook, which provide for, among other things, a minimum ratio of total capital to RWAs expressed as a percentage. They broadly implement EU directives on capital adequacy, a high level summary of the background to which is as follows.

European regulatory landscape

The Basel III reforms were agreed in December 2010 and introduced a series of reforms to the international prudential framework for capital requirements. In Basel III, the Basel Committee on Banking Supervision ("**Basel Committee**") approved significant changes to the Basel II framework (as agreed by the Basel Committee between 2011 and 2013) (such changes being commonly referred to as "**Basel III**"), including new capital and liquidity requirements intended to reinforce capital standards with heightened requirements for global, systemically important banks and to establish minimum liquidity standards for credit institutions. In particular, the changes refer to, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (referred to as the "**Liquidity Coverage Ratio**" and the "**Net Stable Funding Ratio**", respectively).

It is intended that member countries will implement the new capital standards and the new Liquidity Coverage Ratio as soon as possible (with provisions for phased implementation, meaning that the measures will not apply in full until January 2019), and the Net Stable Funding Ratio from January 2018. The Basel III framework requires banks to meet a total capital ratio of 8 per cent. of its RWAs. The base requirement for common equity will increase from 2 per cent. to 4.5 per cent., whilst the requirement for Tier 1 capital will increase from 4.5 per cent. to 6 per cent. Additionally, buffers for global systemically important banks and for capital conservation will be introduced. As such, the regulatory minimum for common equity will increase for all banks. The Basel III requirements are discussed in greater detail in the risk factor entitled *"The Bank's business, operating results, financial condition and prospects and/or its ability to implement its strategy have been and could be adversely impacted by it not maintaining adequate regulatory capital and loss-absorbing capacity. The Bank's targeted reductions in capital requirements may not materialise."* in Part 3 of this Circular.

The European Commission implemented Basel III through replacing the existing Capital Requirements Directive with CRD IV. The CRR entered into force on 28 June 2013 and the CRD was required to be transposed by Member States by 31 December 2013. In 2012, the Basel Committee initiated a comprehensive review of the framework aimed at finalising the Basel III reform package and ensuring its consistent implementation. Since then, the Basel Committee has proposed among other things, new standards for capital requirements for market risk and interest rate risk; the use of the standardised approach for credit risk; and withdrawing use of internal modelling when calculating operational risks. In March 2016, the Basel Committee published a consultative document to constrain banks' flexibility in calculating RWAs through internal models in order to reduce the high RWA-variation across banks. A synthesis of these proposals (coined by some as "Basel IV" because of their anticipated magnitude) had originally been expected for end of 2016. In view of the ongoing and comprehensive review of the Basel III framework initiated by the Basel Committee in 2012, on 23 November 2016 the European Parliament adopted a resolution on the finalisation of Basel III. The European Parliament stressed that the revisions should respect the principle of not significantly increasing overall capital requirements and underlined the need to consider carefully the impact of the proposed reforms. On 3 January 2017, the Basel Committee issued a press release stating that a meeting by the Group of Central Banks and Heads of Supervision on finalising Basel III reforms had been postponed in order to finalise proposals on the reforms.

2.6 *UK implementation of CRD IV*

The CRR entered into force on 28 June 2013, with the exception of certain provisions relating to the application of liquidity requirements, leverage ratio and stable funding. The FCA and PRA are

required by UK law to regulate in accordance with CRD IV in respect of those firms which they prudentially regulate which are within its scope: for banks (including the Bank), building societies and designated investment firms, the PRA; and for other investment firms within the scope of CRD IV, the FCA.

For details on the UK's implementation of CRD IV, see the risk factor entitled "*The Bank's business, operating results, financial condition and prospects and/or its ability to implement its strategy have been and could be adversely impacted by it not maintaining adequate regulatory capital and loss-absorbing capacity. The Bank's targeted reductions in capital requirements may not materialise.*" in Part 3 of this Circular.

On 27 June 2017, the FPC increased the UK counter-cyclical capital buffer rate to 0.5 per cent. from 0 per cent. Absent a material change in the outlook, and consistent with its stated policy for a standard risk environment and of moving gradually, the FPC expects to increase the ratio to 1 per cent. at its November 2017 meeting. Furthermore, in June 2017, the FPC and the PRA launched consultations on changes to the UK leverage ratio framework relating to the treatment of claims on central banks (CP 11/17), which include recommendations for: (i) the alignment of the UK leverage ratio framework with modifications already granted to firms for the exclusion of claims on central banks from the calculation of the total leverage exposure measure, where they are matched by deposits accepted by the firm that are denominated in the same currency and of identical or longer maturity; (ii) a recalibration of the minimum leverage ratio requirement from 3 per cent. to 3.25 per cent. of total exposure to adjust for the impact of excluding central bank reserves from the exposure measure; and (iii) alignment of the UK leverage ratio reporting requirements included in Supervisory Statement SS46/15 (UK leverage ratio: instructions for completing data items FSA083 and FSA084). CP 11/17 is relevant to PRA-regulated banks and building societies with retail deposits equal to or greater than £50 billion on an individual or a consolidated basis. The Bank is not currently within the leverage ratio framework as it has retail deposits below £50 billion. Although it is not subject to the leverage ratio requirement if the Bank's leverage ratio were to fall below the level which would be applied if it were above the entry threshold of £50 billion there is a risk that the PRA may require it to take remedial action.

2.7 ***Restrictions on distributions under the CRD***

Article 141 of the CRD imposes certain restrictions on distributions that result in a reduction of CET1 capital or in a reduction of profits (and where a suspension of payment or failure to pay does not constitute an event of default or a condition for the commencement of insolvency proceedings under the insolvency regime applicable to the institution). These restrictions are set out below:

- Article 141(1) of the CRD prevents institutions that meet the Combined Buffer from making distributions in connection with CET1 capital to an extent that would decrease their CET1 capital to a level where the Combined Buffer is no longer met.
- Article 141(2) to (6) of the CRD require institutions that fail to meet the Combined Buffer are required to calculate the maximum distributable amount ("**MDA**") and are prohibited, before the calculation of the MDA, from: (i) making a distribution in connection with CET1 capital; (ii) creating an obligation to pay variable remuneration or discretionary pension benefits or pay variable remuneration if the obligation to pay was created at a time when the institution failed to meet the combined buffer requirements; and (iii) making payments on AT1 instruments.
- In particular, Article 141(4) of the CRD provides that MDA is calculated by multiplying the sum of interim year-end profits not yet included in CET1 capital, calculated in accordance with Article 141(5), by the factor (0, 0.2, 0.4 or 0.6) determined in accordance with Article 141(6). The factor is determined by a quartile of the Combined Buffer, considering the CET1 capital of the credit institution that is not used to meet "the own funds requirements" under Article 92(1)(c) of the CRR (that is, the minimum Pillar 1 regulatory capital requirements). The effect of Article 141(5) is that, when the sum of interim or year-end profits not yet included in CET1 capital is zero, any breach of the Combined Buffer will entail an MDA of zero no matter

how much CET1 capital the institution holds in excess of its minimum Pillar 1 regulatory capital requirement. Where an institution fails to meet in full its Combined Buffer, it should be subject to measures designed to ensure that it restores its levels of own funds in a timely manner.

As a consequence, in the event of a breach of the Combined Buffer requirement, it may be necessary for an institution to reduce distributions.

As clarified in an opinion of the European Banking Authority on the interaction of Pillar 1, Pillar 2 and Combined Buffer requirements and restrictions, the stacking order of own funds requirements to be considered for the purposes of determining the trigger for MDA restrictions and MDA calculation in accordance with Article 141 of CRD is:

- Minimum own funds requirements set in accordance with Article 92 of CRR;
- Additional own funds requirements set in accordance with Article 104(1)(a) of CRD based on the outcomes of SREP carried out in accordance with Article 97 of CRD and European banking Authority guidelines on common procedures and methodologies for SREP; and
- Combined Buffer requirements set in accordance with Chapter 4 of Title VII of CRD.

In November 2016, the European Commission published its banking reform package proposing amendments to CRD IV (through CRD V and CRR II) and to BRRD (through BRRD II) (see the risk factor entitled "*The financial services industry continues to be the focus of significant legislative and regulatory change which has imposed, and could continue to impose, operational restrictions on the Bank, increase the Bank's costs and/or capital requirements and/or otherwise materially adversely affect its business, operating results, financial condition and prospects.*" of Part 3 of this Circular). The combined proposals under BRRD II and CRD V/CRR II may impact the provisions on restrictions on distributions. In order to ensure compliance with MREL requirements, and in line with the Financial Stability Board's standard on TLAC, the combined proposals require that in a case where a bank does not have a sufficient amount of eligible liabilities to comply with its MREL, the resultant shortfall is automatically filled up with CET1 capital that, until that moment, was counted towards meeting the Combined Buffer requirement. In turn, this may lead to a breach of the Combined Buffer, triggering a limit (in order to conserve capital) or discretionary payments to the holders of regulatory capital instruments and employees. Breaches of the Combined Buffer (while still complying with its minimum Pillar 1 and Pillar 2 regulatory capital requirements) may be due to a temporary inability to issue new eligible debt for MREL. For these situations, the proposal envisages a six month grace period before restrictions to discretionary payments to the holders of regulatory capital instruments and employees kick in. During the grace period, authorities will be able to exercise other powers available to them that are appropriate in view of the financial situation in a bank.

Article 141(a) of CRD V proposes that an institution shall be deemed to fail to meet its Combined Buffer where it does not have own funds and eligible liabilities in an amount and quality to meet all of the following:

- the Combined Buffer;
- a CET1 Ratio of 4.5 per cent. Pillar 1 and Pillar 2a Capital Add-on;
- a Tier 1 Capital Ratio of 6 per cent. and Pillar 2 Capital Add-on;
- a total capital ratio of 8 per cent. and Pillar 2 Capital Add-on; and
- MREL/TLAC (subject to a six-month grace period as described above).

2.8 ***Recovery and resolution regime***

Legislation

In light of the crisis in the financial markets, the Banking Act received Royal Assent in February 2009 and certain provisions, including those relating to the Special Resolution Regime (as defined in Part 19 of this Circular), came into force at that time. The Banking Act has been amended a number of times since then, with the most recent amendments becoming effective on 1 January 2015.

Special resolution regime

Under the Banking Act, the Bank of England has three types of "stabilisation power" which can be used to resolve a UK bank:

- transfer ownership of all or part of the bank to a private sector purchaser – which could be effected by way of a share transfer (i.e. Shareholders' Ordinary Shares would be transferred to a purchaser) or by way of an asset transfer (i.e. some or all of the Bank's assets would be transferred to a purchaser);
- transfer ownership of all or part of the bank to a company owned by the Bank of England – which may be a "bridge bank" or an "asset management vehicle" (which again could be effected by way of a share or asset transfer); or
- impose a bail-in on the institution, having the effect of writing down the capital and relevant liabilities of the bank.

HM Treasury also has the power, as a last resort, to take the bank into temporary public ownership. These powers collectively are referred to as the "**Stabilisation Powers**".

The Bank of England may also apply to the court for the bank to be placed into bank administration or bank insolvency, which are modified forms of insolvent administration and liquidation respectively. These modified insolvency procedures, together with the Stabilisation Powers, constitute the Special Resolution Regime.

The Special Resolution Regime powers were designed to help ensure that the shareholders and unsecured creditors of a failed institution (rather than taxpayers) meet the costs of an institution's failure.

Ability to use the Special Resolution Regime powers

The Bank of England and HM Treasury may use their Special Resolution Regime powers only if the following conditions are met:

- the failure condition, which requires that a firm is in the view of the PRA "failing or likely to fail";
- the no alternative condition, which requires that a firm has no other reasonable prospect (apart from the resolution action) that could be taken to prevent it from failing in a reasonable time period;
- the public interest condition, which requires that a resolution action is necessary for the achievement of, and is proportionate to, one or more of the special resolution objectives;[6] and
- the winding up condition, which requires that one or more of the special resolution objectives would not be met to the same extent by the winding up of the Bank.

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6 There are seven objectives, which are in summary: (1) to ensure the continuity of banking services in the United Kingdom and of critical functions; (2) to protect and enhance the stability of the financial system of the United Kingdom; (3) to protect and enhance public confidence in the stability of the financial system of the United Kingdom; (4) to protect public funds, including by minimising reliance on extraordinary public financial support; (5) to protect certain protected categories of investors and depositors; (6) to protect client assets; (7) to avoid interfering with property rights in contravention of the Human Rights Act 1998. These objectives are to be balanced as appropriate in each case.

For the purposes of the Banking Act, a bank is failing (or likely to fail) if:

(a) it is failing, or is likely to fail, to satisfy the "threshold conditions", as defined in subsection (1) of section 55B of the Financial Services and Markets Act 2000, in circumstances where that failure would justify the variation or cancellation by the PRA under section 55J of the Financial Services and Markets Act 2000 of the bank's permission under Part 4A of that Act to carry on one or more regulated activities;

(b) the value of the assets of the bank is less than the amount of its liabilities;

(c) the bank is unable to pay its debts or other liabilities as they fall due;

(d) paragraph (b) or (c) (or both) will, in the near future, apply to the bank; or

(e) extraordinary public financial support is required in respect of the bank (subject to certain limitations).

Requirement to use the mandatory write-down tool

The Banking Act requires the Bank of England permanently to write-down, or convert into equity, Tier 1 capital instruments and Tier 2 capital instruments at the point of non-viability of the Bank and before, or together with, the exercise of any stabilisation option (except in the case where the bail-in tool is to be utilised for other liabilities, in which case such capital instrument would be written down or converted into equity pursuant to the exercise of the general bail-in tool, as described above, rather than the mandatory write-down tool and conversion power applicable only to capital instruments). For the purposes of the application of such mandatory write-down and conversion power, the point of non-viability is the point at which the PRA determines that the Bank is "failing or likely to fail", and the Bank of England determines that the Bank meets the conditions for resolution (but no resolution action has yet been taken) or that the relevant entity will no longer be viable unless the relevant capital instruments are written down or converted or the Bank requires extraordinary public support without which, the Bank of England determines that Bank would no longer be viable.

Compensation regime

The Banking Act provides for compensation to be paid to shareholders and/or creditors and/or the bank itself in certain circumstances following the exercise of Stabilisation Powers. The type of compensation scheme that may be put in place varies depending on the nature of the Stabilisation Power exercised.

- On a sale to a private sector purchaser, a "compensation scheme order" must be made to determine whether transferors should be paid compensation for the compulsory transfer of their property and, if so, to make such payments. HM Treasury's *Special Resolution Regime Code of Conduct* (at page 69) indicates that the amount of compensation is "normally required to be an amount reasonably related to the market value of the property in question." That is to say, if property is transferred for less than market value, compensation may be due.

- On a transfer to a company owned by the Bank of England, a "resolution fund order" must be made under which transferors become entitled to the proceeds of the disposal of the things transferred in specified circumstances and to a specified extent.

- On a bail-in, a "bail-in compensation order" must be made to determine whether transferors or others should be paid compensation. Secondary legislation makes clear that a bail-in compensation order is intended to ensure that creditors are not left worse off by a bail-in than they would have been had the bank been wound-up (the "**No Creditor Worse Off**" principle).

- On a transfer into temporary public ownership, a compensation scheme order or a resolution fund order may be made, as HM Treasury may determine.

- In any case, if there is a partial transfer of the Bank's property, a "third-party compensation order" must be made to provide compensation to persons other than transferors who are affected by the resolution. HM Treasury has a discretion to make such an order in relation to other stabilisation powers. In either case, secondary legislation provides that the purpose of such an order is to comply with the No Creditor Worse Off principle.

Although the Bank of England has wide discretionary powers and although the Bank is not waiving or abrogating any right to claim compensation as a transferor in the event of its resolution, the Bank is not aware of any circumstances which would lead it to believe that it would be able to recover compensation following its resolution either at all or of an amount which would result in an indirect return to Shareholders or Subordinated Noteholders (see paragraph 6 of Section B of Part 1 of this Circular for a description of the likelihood that the Bank will be entitled to compensation as a result of resolution).

Potential approaches

The Authorities have a broad discretion as to whether or when to exercise Special Resolution Regime powers. It is therefore not possible to say for certain which power(s) would be exercised or under what circumstances. However, regulatory policy is that if a bank is no longer able to survive as a going concern, the bank should be allowed to fail.[7]

The Special Resolution Regime provides the Authorities with options in relation to a failing UK financial institution, including:

- The transfer of all or part of the failing bank's business (its shares or property, i.e. assets and liabilities) to a third-party private sector purchaser. In this case, the Bank may be transferred as a single entity (together with all of its property, including its subsidiaries) or it may be split into a "good bank" and a "bad bank" (the latter of which would most likely be placed into administration). In either circumstance, for reasons described in Section B of Part 1 of this Circular, the Bank believes that the Ordinary Shares and the Subordinated Notes will be deemed to have no value and the Bank therefore expects that Shareholders and Subordinated Noteholders would receive no compensation under the compensation regime that HM Treasury would establish (as described above);
- The transfer of all or part of the failing bank's business to a "bridge bank" established and wholly owned and controlled by the Bank of England (this is likely to be a temporary option pending a future sale). The business of such a bank may be split into a "good bank" and a "bad bank" (which would most likely be placed into administration) with the assets of the "good bank" being transferred to the bridge bank for continued operation of the business. Were this to be applied to the Bank, for reasons described in Section B of Part 1 of this Circular, the Bank believes that the Ordinary Shares and the Subordinated Notes would be deemed to have no value and the Bank therefore expects that Shareholders and Subordinated Noteholders would receive no compensation under the compensation regime that HM Treasury would establish (as described above);
- The transfer of the assets, rights and liabilities of the relevant bank entity to an asset management vehicle created and part-owned by the Bank of England. In principle Shareholders and Subordinated Noteholders could be entitled to third-party compensation in such circumstances, as described above. However, the Bank expects that Shareholders or Subordinated Noteholders would not be entitled to any third-party compensation, because it anticipates (for reasons described in Section B of Part 1 of this Circular) that they would make no recovery in the event of a hypothetical insolvency of the Bank;
- Temporary public ownership (nationalisation) of the failing bank or its UK-incorporated holding company. In the case of the Bank, this would be achieved by a share transfer order which would transfer the shares from Shareholders to a nominee of HM Treasury, such as a

7 See, for example, Bank of England, *The Bank of England's approach to resolution,* foreword and p.7.

company wholly owned and controlled by HM Treasury. The option to transfer a failing bank to temporary public ownership is understood to be the option of last resort. For reasons described in Section B of Part 1 of this Circular, the Bank does not believe that Shareholders or Subordinated Noteholders would be entitled to any compensation in such circumstances in accordance with the No Creditor Worse Off principle, on the basis that they would make no recovery in the event of a hypothetical insolvency of the Bank; and

- A bail-in power allowing the Authorities to write-down (including to zero) the claims of shareholders and unsecured creditors of a failing institution and to convert certain unsecured debt claims to equity. Again, on the basis that Shareholders and Subordinated Noteholders would receive no recovery in an insolvency of the Bank (for reasons described in Section B of Part 1 of this Circular), the Bank expects that Shareholders or Subordinated Noteholders would not be entitled to any compensation under the No Creditor Worse Off principle.

In each case, the Authorities have been granted wide powers under the Banking Act including powers to modify contractual arrangements in certain circumstances and powers for HM Treasury to disapply or modify laws (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively. Use of any such powers in the case of a resolution of the Bank could impact on the holders' on-going holding of any shares they have in the Bank or other instruments issued by the Bank.

2.9 ***MREL***

The BRRD also introduced MREL, which will be equal to a percentage of total liabilities and own funds to be set by the Bank of England. The Bank of England requires MREL resources for institutions subject to bail-in to be subordinated (unless the resolution strategy for the institution will itself effect such subordination, for example institutions subject to partial transfer will not be required to achieve subordination where the resolution strategy envisages transferring preferred deposits only). MREL is designed to ensure sufficient loss-absorbing capacity and ensure continuity of critical functions without recourse to public funds. If a firm is in breach of MREL, the PRA will investigate whether the firm is failing, or likely to fail, to satisfy the PRA's threshold conditions that must be met by a firm at authorisation and on an ongoing basis (as provided for under Part 4A and Schedule 6 of FSMA) with a view to the PRA taking further action as necessary. A breach or likely breach of MREL will be treated as seriously as a breach or likely breach of the minimum regulatory capital requirements (which are summarised above in paragraphs 2.5 and 2.6). A breach of MREL will not automatically mean that the PRA will consider the firm is failing, or likely to fail, to satisfy the threshold conditions.

The Bank of England has determined that the modified insolvency resolution strategy would not be an appropriate strategy for firms that provide more than 40,000 to 80,000 transactional bank accounts. Institutions subject to BRRD must also comply with the Regulatory Technical Standards outlined in the Commission Delegated Regulation ((EU) 2016/1450).The Bank has received binding MREL guidance for the year ending 31 December 2017 and non-binding guidance for 2018 from the Bank of England in accordance with the MREL Statement of Policy. See Paragraph 4 in Section A of Part 1 of this Circular for more information on the Bank's MREL.

In addition the Bank is required to comply with further obligations on firms in resolution, which include, amongst other things; (i) final rules on operational continuity set out in the Bank of England's Policy Statement (PS21/16: Ensuring operational continuity in resolution); (ii) continuity of access rules set out in the Depositor Protection Part of the PRA Rulebook; and (iii) the requirement for the Bank to maintain detailed records of financial contracts under Commission Delegated Regulation (EU) No. 2016/1712.

2.10 ***Bank Structural Reform***

The Financial Services (Banking Reform) Act 2013 introduced several reforms relating to the UK banking sector, including in relation to:

- ring-fencing certain core banking services critical to individuals and SMEs from wholesale and investment banking services with the aim of protecting retail deposits;
- primary loss-absorbing capacity (summarised above at 2.9);
- the FSCS (summarised below at 2.16);
- depositor preference, which provides that deposits eligible for protection under the FSCS are preferential debts, ranking ahead of unsecured creditors and floating charge holders;
- a bail-in stabilisation option for the Special Resolution Regime (summarised above at 2.8);
- the SMR for key individuals in the banking sector (summarised above at 2.4);
- the Relevant Regulators meetings with auditors, power over holding companies and other competition-related reforms; and
- a criminal offence for reckless misconduct for senior bankers, which will be limited to individuals covered by the SMR (summarised above at 2.4) and will carry a maximum sentence of seven years in prison and/or an unlimited fine.

The Financial Services (Banking Reform) Act 2013 was phased in through several pieces of secondary legislation from 2014 to 2016.

2.11 ***Proposed legislation: structural and other reforms***

In November 2016, as part of a broader package of banking reforms, the European Commission adopted four legislative proposals, which will be considered by the European Parliament and Council of the EU during 2017:

- CRR II and CRD V: CRR II contains, amongst other requirements, a binding leverage requirement of 3 per cent. of tier 1 capital that firms must meet in relation to own funds and restrictions on distributions. The European Commission intends for the provisions in CRR II relating to total loss-absorbing capacity to apply from 1 January 2019. Both CRR II and CRD V contain provisions relating to the findings of the European Commission in respect of the impact of CRD IV on banks financing of the EU economy. CRD V must be implemented into national law within one year of the date on which it comes into force.
- BRRD II: The European Commission intends for member states to transpose the amendments made by the BRRD II into national law and regulation within 12 months from the entry into force of the BRRD II. The amendments include implementing the Financial Stability Board's total loss-absorbing capacity ("**TLAC**") standard, aligning the MREL regime with the TLAC standard and revising the ranking of unsecured debt instruments for the purposes of insolvency hierarchy to reflect the TLAC subordination requirement. The European Commission expects firms to comply with the amended rules within six months from the date of transposition. Given the close relationship between total loss-absorbing capacity and minimum requirements for own funds and eligible liabilities, the provisions in the BRRD II relating to minimum requirements for own funds and eligible liabilities are likely to apply from 1 January 2019 at the latest.

2.12 ***The Government***

The Government has no operational responsibility for the activities of the PRA, the FCA or the Bank of England. However, there are a variety of circumstances where the PRA, the FCA and the Bank of England will need to alert HM Treasury (the representative of the Government) about possible problems, for example, where there may be a need for a support operation or a problem arises which could cause wider economic disruption.

2.13 ***Consumer credit regulation***

Regulatory framework

This consists of the FSMA and secondary legislation and the CCA and secondary legislation, together with the FCA Handbook including the Consumer Credit Sourcebook. A "regulated credit agreement" is defined in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the "**RAO**") as follows:

For agreements entered into on or after 1 April 2014, a regulated credit agreement is an agreement among: (i) an individual; (ii) a partnership consisting of two or three persons not all of whom are bodies corporate; or (iii) an unincorporated body of persons which does not consist entirely of bodies corporate and is not a partnership between ("A") and any other person ("B") under which B provides A with credit of any amount, and which is not an exempt agreement within the RAO.

For agreements entered into before 1 April 2014, a credit agreement which was regulated within the CCA, excluding those agreements which would now be regulated mortgage contracts or regulated home purchase plans under the RAO.

If requirements as to entering into and documenting a regulated credit agreement are not or have not been met, then the agreement is unenforceable against the borrower without a court order or (for agreements entered into before 6 April 2007) is totally unenforceable, depending on the circumstances. S.77A CCA requires a creditor to provide annual statements in relation to fixed-sum credit agreements and the consequences of not doing so are that during the period of non-compliance, the creditor will not be entitled to enforce the agreement and the borrower will not be liable to pay any interest or default charges. The same consequences flow from a failure to provide notices of sums in arrears for fixed-sum credit agreements in accordance with section 86B CCA or for running account credit agreements in accordance with section 86C. Under sections 75 and 75A of the CCA, in certain circumstances a lender is liable to a customer in relation to misrepresentation and breach of contract by a supplier in a transaction financed by a credit agreement regulated by the CCA or treated as such, and the lender has a statutory indemnity from the supplier against liability under section 75, subject to any agreement between the lender and the supplier.

The Office of Fair Trading

The FS Act 2012 contains provisions enabling the transfer of consumer credit regulation (which includes new and existing second charge mortgages) from the OFT to the FCA. Consumer credit regulation was transferred to the FCA on 1 April 2014. The related secondary legislation was enacted in July 2013. Under FSMA, as amended by the FS Act 2012, the FCA may make rules under which and from dates to be specified: (a) carrying on certain credit-related regulated activities (including in relation to servicing credit agreements) otherwise than in accordance with permission from the FCA will render the credit agreement unenforceable without FCA approval; and (b) the FCA has power to render unenforceable contracts made in contravention of its rules on cost and duration of credit agreements or in contravention of its product intervention rules. The FS Act 2012 also provides for formalised co-operation between the FCA and the FOS, particularly where identified issues potentially have wider implications, with a view to the FCA requiring firms to operate consumer redress schemes.

Consumer Rights Act 2015 and Unfair Terms in Consumer Contracts Regulations 1999

The Consumer Rights Act 2015 ("**CRA**") entered into force on 1 October 2015 and involves the creation of a single regime out of the Unfair Contract Terms Act 1977 (which essentially deals with attempts to limit liability for breach of contract) and the Unfair Terms in Consumer Contracts Regulations 1999 ("**UTCCR**"). The CRA revoked the UTCCR, making only minor changes to that regime. Agreements entered into before the CRA came into force on 1 October 2015 continue to be subject to the UTCCR.

Like the UTCCR, if a term of a consumer contract is found to be "unfair" it will not bind the consumer. However, the remainder of the contract will, so far as practicable, continue to have effect

in every other respect. Where a term in a consumer contract is susceptible of multiple different meanings, the meaning most favourable to the consumer will prevail. It is the duty of the court to consider the fairness of any given term. This area of law continues to develop and further regulatory guidance and case law will follow.

2.14 ***Mortgage lending***

FSMA regulates mortgage credit within the definition of "regulated mortgage contract" and also regulates certain other types of home finance. A credit agreement is a regulated mortgage contract if it is entered into on or after 31 October 2004 and, at the time it is entered into: (a) the credit agreement is one under which the lender provides credit to an individual or to trustees; (b) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage on land (other than timeshare accommodation) in the UK; and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling, by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

If prohibitions under FSMA as to authorisation or financial promotions are contravened, then the affected regulated mortgage contract (and, in the case of financial promotions, other credit secured on land) is unenforceable against the borrower without a court order. The FCA's Mortgages and Home Finance: Conduct of Business sourcebook ("**MCOB**") sets out rules in respect of regulated mortgage contracts and certain other types of home finance. Under MCOB rules, an authorised firm (such as the Bank) is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed, which can include the extension of the term of the mortgage, product type changes and deferral of interest payments.

Any credit agreement intended to be a regulated mortgage contract or unregulated may instead be wholly or partly regulated by the CCA or treated as such. Any credit agreement intended to be regulated by the CCA or treated as such or unregulated may instead be a regulated mortgage contract.

This is because of technical rules on determining whether the credit agreement or any part of it falls within the definition of "regulated mortgage contract" under FSMA, or within the definition of "regulated agreement" under the CCA, and technical rules on changes to credit agreements.

However, following FCA-generated changes to the future regulatory treatment of CCA regulated mortgages: (i) from 21 March 2016, secured second charge mortgages regulated by the CCA; and (ii) from 21 March 2017, pre-2004 first charge CCA regulated mortgages, all became regulated by the FCA's MCOB rules; as such, the CCA no longer applies to these loans.

Mortgage Market Review

In October 2012, the FCA published a policy statement and final rules that entered into force on 26 April 2014. These rules require, among other things, an assessment of affordability in accordance with detailed requirements, with transitional arrangements where the borrower does not take on additional borrowing except for essential repairs or maintenance work, and ban self-certificated loans. These rules permit interest-only loans only where there is a clearly understood and credible strategy for repaying the capital (evidence of which the lender must obtain before making the loan and check at least once during the term of the loan) and the cost of the repayment strategy must be part of the affordability assessment.

The reforms introduced under the FCA's Mortgage Market Review ("**MMR**") in April 2014 meant that many of the requirements of the MCD were already met as the FCA was able to anticipate some of the emerging EU proposals through the MMR changes. However, there were a number of areas in which the FCA needed to make adjustments to the rules in order for the UK to meet its MCD obligations. Key changes related to matters including:

- widening the scope of UK mortgage regulation under the RAO to include, for example, certain buy-to-let mortgages and second charge lending (before 21 March 2016, this was part of the FCA's consumer credit regime);

- the introduction of a new product disclosure document for all mortgages, the European Standardised Information Sheet, which firms must provide to customers (subject to the right of lenders to use transitional customer documentation up to 21 March 2019); and
- new requirements on firms to calculate the annual percentage rate of charge using the method set out in the MCD and to provide a second annual percentage rate of charge where borrowing is on a variable rate.

In April 2017, the FCA issued its finalised guidance on "The fair treatment of mortgage customers in payment shortfall: impact of automatic capitalisations". FG 17/4 sets out a possible framework firms can use when providing customer remediation relating to correcting the effects of automatic capitalisation of payment shortfalls and, where appropriate, paying any compensation that is due to the customer.

2.15 ***Insurance***

The Bank is also authorised to carry out insurance mediation, specifically assisting in the administration and performance of a contract of insurance. The FCA's Insurance: Conduct of Business sourcebook sets out rules in respect of non-investment insurance.

2.16 ***Financial Services Compensation Scheme***

FSMA established the FSCS, which pays compensation to eligible customers of authorised financial services firms that are unable, or are likely to be unable, to pay claims against them. The levels of compensation are, for example for claims against firms declared in default on or after 30 January 2017:

- for deposits, 100 per cent. of the first GBP 85,000;
- for investments, 100 per cent. of the first GBP 50,000;
- for mortgage advice and arranging, 100 per cent. of the first GBP 50,000; and
- for insurance, 90 per cent. of the claim with no upper limit (except compulsory insurance, professional insurance and certain claims for injury, sickness or infirmity, which are protected in full).

The FSCS only pays compensation for financial loss. Compensation limits are per person, per firm and per type of claim. The DGSD, amending Directive 94/19/EC on deposit guarantee schemes as regards the coverage level and payout delay, requires Member States to set the minimum level of compensation for deposits, for firms declared in default on or after 1 January 2011, at EUR 100,000.

Amendments to the EU Deposit Guarantee Scheme Directive

The deadline for the implementation of DGSD was 3 July 2015. The DGSD:

- requires banks and other credit institutions to participate in a home state deposit guarantee scheme ("**DGS**"), with their branches in other Member States also covered by the home state DGS;
- sets out the rights of depositors to compensation if deposits held by a credit institution become unavailable. The DGSD ensures compensation rights for eligible depositors (typically consumers) based on their aggregate deposits with a credit institution up to a certain level. Currently the coverage level is EUR 100,000;
- sets out the circumstances in which a repayment by a DGS should be made and the procedures a DGS should follow when making repayments;
- places obligations on credit institutions, in particular requirements to provide specified information to depositors (and potential depositors) on their rights to compensation under the DGS; and

- sets out provisions on the financing of DGSs, including target levels for their funding and the amounts that credit institutions should pay to them as contributions.

2.17 ***Financial Ombudsman Service***

FSMA established the FOS, which determines complaints by eligible complainants in relation to authorised financial services firms, consumer credit licensees and certain other businesses, in respect of activities and transactions under its jurisdiction. The FOS determines complaints on the basis of what, in its opinion, is fair and reasonable in all the circumstances of the case. The maximum level of money awarded by the FOS is GBP 150,000 for complaints received by the FOS on or after 1 January 2012 (GBP 100,000 for earlier complaints) plus interest and costs. The FOS may also make directions awards, which direct the business to take steps, as the FOS considers just and appropriate.

2.18 ***Money Laundering Regulations***

The UK Money Laundering Regulations 2007 (the "**MLRs**") place a requirement on the Bank to verify the identity and address of customers opening accounts with it and to keep records to help prevent money laundering and fraud.

Guidance in respect of the MLRs is contained in the Guidance Notes of the Joint Money Laundering Steering Group, including in respect of the identification of new clients, record keeping and otherwise. Directive 2005/60/EC, which underpins the MLRs, was reviewed by the European Commission between 2010 and 2012 and subsequently amended.

On 5 June 2015, MLD4 was published in the Official Journal of the EU. Member States are required to transpose MLD4 by 26 June 2017, the date on which MLD3 will be repealed. MLD4 extends the scope of MLD3 by, amongst others:

- lowering the threshold for persons dealing in goods for cash payments from EUR 15,000 to EUR 10,000;
- widening the categories of individuals who are included within the definition of "politically exposed person";
- introducing a requirement for member states to identify, assess, understand and mitigate the risks they face, and to keep their assessments up to date. The national assessments are supplemented by risk-assessment work carried out by the European Commission at a supranational level. Member States are required to make the results of their assessments available, on request, to other Member States, the European Commission and the European Supervisory Authorities;
- tightening rules on simplified due diligence and strengthens rules on enhanced due diligence;
- strengthening the sanctioning powers of national competent authorities by introducing a set of minimum principles-based rules; and
- introducing a new requirement clarifying that branches and subsidiaries situated in member states other than a firm's head office member state are to apply host state AML and CTF rules. It also reinforces cooperation arrangements between home and host state national competent authorities.

2.19 ***Other***

The Data Protection Act 1998 ("DPA")

The DPA regulates the processing of data relating to individual customers, including the retention and use of such data. The Office of the Information Commissioner is responsible for overseeing the data protection regime in the UK. The DPA is due to be replaced, with effect from 25 May 2018, by the GDPR. The GDPR is likely to increase the regulatory burden on the Bank in processing personal customer, employee and other data in the conduct of its business and may also increase the potential sanctions for breach.

Given the recent UK referendum deciding that the UK should leave the European Union, the GDPR will take effect before the UK leaves the European Union, but will cease to apply in the UK when the UK leaves the European Union. As such, the UK may replace or make changes to the DPA so as to implement a similar data protection regime in the UK.

Dormant Bank and Building Society Accounts Act 2008

The Bank participates in the unclaimed assets scheme established under the Dormant Bank and Building Society Accounts Act 2008 for dormant Britannia accounts only. The purpose of this scheme is to enable money in dormant bank and building society accounts (i.e. balances in accounts that have been inactive or dormant for 15 years or more) to be distributed for the benefit of the community, while protecting the rights of customers to reclaim their money.

Payment Services

On 1 November 2009, the Payment Services Regulations (SI 2009/09) ("**PSRs**") came into force. The PSRs implement PSD1, which harmonised the regulation of payment services in the EU, in the UK. PSD2 was published in the Official Journal of the EU on 23 December 2015 and came into force on 12 January 2016. Member States are required to transpose PSD2 into national law by 13 January 2018. PSD2 broadens the geographical scope of PSD1; extends provisions on transparency and information requirements to all currencies not just EU currencies; broadens definition of payment services to include payment initiation services and account information services; and amends exemptions and conduct of business rules.

On 19 May 2015, the Regulation on Interchange Fees for Card-based Payment Transactions ((EU) 2015/751) (the "**IFR**") was published in the Official Journal of the EU. The IFR came into force on 8 June 2015, with the exception of rules relating to the capping of interchange fees for consumer debit and credit card transactions, which came into force on 9 December 2015. The combined effect of PSD2 and the IFR is to introduce maximum levels of interchange fees for transactions based on consumer debit and credit cards and ban surcharges on these types of cards.

The Lending Code (now The Standards of Lending Practice)

On 1 November 2009, the British Bankers' Association, the Building Societies Association and The UK Cards Association launched the Lending Code, a voluntary code on unsecured lending to personal and small business customers, which is monitored and enforced by the Lending Standards Board ("**LSB**").

On 14 October 2014, the LSB published a revised version of the Lending Code, which updated several provisions, including in relation to the creation of the FCA and its role as consumer credit regulator.

On 30 September 2015, the LSB published a revised version of the Lending Code to reflect the decision of the Building Societies Association to withdraw from the Lending Code.

The Lending Code for personal customers was replaced by the Standards of Lending Practice in July 2016. Protection for customers is being maintained and enhanced through the new standards. The Standards of Lending Practice for businesses were published on 28 March 2017 and will apply from 1 July 2017, with the existing Lending Code remaining in force until this date.

The Fair and Effective Markets Review ("FEMR")

The influence of the Fixed Income, Currency and Commodities ("**FICC**") markets are fundamental to the global economy. Their influence reaches beyond the financial markets to governments, companies and consumers. The FEMR was launched by the Chancellor of the Exchequer and the Governor of the Bank of England in June 2014 to reinforce confidence in the wholesale FICC markets and to influence the international debate on trading practices. FEMR focused on those wholesale markets, both regulated and unregulated, where most of the recent concerns about misconduct have arisen.

FEMR aimed to establish a common understanding of what "fair and effective" means for FICC markets and to identify areas where the markets remain deficient. FEMR highlighted four near-term actions:

- raise standards, professionalism and accountability of individuals;
- improve the quality, clarity and market wide understanding of FICC trading practices;
- strengthen regulation of FICC markets in the United Kingdom; and
- launch international action to raise standards in global FICC markets.

It also set out two principles to guide a more forward-looking approach to FICC markets by promoting fairer FICC market structures and enhancing effectiveness as well as forward-looking conduct risk identification and mitigation.

Competition Regulation

On 9 August 2016, the CMA released its final report on its Retail Banking Market Investigation. The findings consist of four elements:

- *Foundation measures* – Certain banks (not including the Bank) are required to develop and adopt an application programming interface ("**API**") banking standard to share information on a specified timescale. The API banking standard enables intermediaries to access information about bank services, prices and service quality.
- *Current account switching* – The CMA focused on improving the current account switching service ("**CASS**") to provide, amongst others, customer access to transaction history, extended redirection of payments following switching and better governance of the guaranteed switching service, with the aim of improving customer awareness and confidence in CASS.
- *Personal Current Account overdraft* – The CMA proposed several measures including overdraft alerts with grace periods (to come into effect Q1 2018), monthly maximum charges for unarranged overdraft facilities (to come into effect Q3 2017) and improved account opening and switching process in relation to CASS providers.
- *SME banking* – The CMA has decided to target specific problems in SME banking by making it easier for SMEs to compare banking services available to them, increasing transparency of loan rates, loan prices and eligibility indicators (to come into effect by Q3 2017), as well as introducing soft searches for loans to enable SMEs to determine their eligibility for loans from providers without negatively impacting credit rating, standard account opening information and improving the role of professional advisers to SMEs.

Strategic review of Retail Banking

In May 2017, the FCA announced a strategic review of retail banking business models to increase its understanding of the state of competition and conduct in the retail banking markets at a time of significant economic, technological and regulatory change plus and the impact of such changes on retail banking business models and the implications for the FCA's objectives to protect consumers and promote effective competition. The scope of the review will cover all retail banking products including current accounts, savings and consumer lending. The review will take place in two phases with the first phase focused on the FCA enhancing its understanding of existing retail banking business models. A key area of this first phase is an investigation of how free-if-in-credit banking is paid for, in particular whether it leads to any cross-subsidies between different consumer groups. The second phase will include an evaluation that will look at how the impacts of changes in economic, technological, social and regulatory factors could impact on retail banking business models. The FCA has stated that it will engage with firms in advance of issuing an information request to firms, with a view to publishing preliminary analysis and conclusions from the first phase of its review, expected to be in Q2 2018.

PART 15

INFORMATION ON HOLDCO

1. INCORPORATION AND REGISTERED OFFICE

Holdco was incorporated and registered in England and Wales as a private limited company under the name of Balloon Street Holdings Limited on 13 July 2017, with company number 10865342. It is intended that, with effect from the Settlement Date, and subject to obtaining appropriate approvals, Holdco will change its name to The Co-operative Bank Holdings Limited.

The principal legislation under which Holdco operates is the Companies Act and regulations made thereunder. The principal legislation under which the Incorporation Shares have been created and the A Shares and the B Shares will be created is the Companies Act and regulations made thereunder.

Holdco is domiciled in the UK and its registered and head office as at the Settlement Date will be PO Box 101, 1 Balloon Street, Manchester, M60 4EP (telephone number: +44 161 832 3456).

2. EXTERNAL REPORTING REQUIREMENTS OF THE HOLDCO GROUP

With the introduction of Holdco as the ultimate parent company of the Bank, there is a new requirement for consolidated financial group reporting for the Holdco Group. Any future intermediate holding companies that are put in place for the purpose of issuing listed debt securities would also require consolidated financial statements to be produced. As the Bank has listed debt securities, the requirement to prepare consolidated Bank financial statements will continue for so long as these are in existence.

The Bank will cease to be subject to regulatory capital requirements at the Bank consolidated level when Holdco is put in place and holds the Bank's share capital. The requirements which would previously have been applied at the Bank consolidated level will, from then on, be applied at the Holdco consolidated level. See paragraph 1 of Part 9 of this Circular for further information.

3. SUMMARY OF SHARE CAPITAL AND RESOLUTIONS

3.1 *Summary of share capital*

(a) **Holdco initial share capital**

On incorporation, Holdco's share capital was £250,107.18 divided into 451,457 ordinary shares of £0.10 each. The Incorporation Shares were issued, fully paid, to the Initial Holdco Shareholders on incorporation.

Accordingly, as at 25 July 2017, being the latest practicable date prior to publication of this Circular, the issued share capital of Holdco was made up as follows:

	Issued		
Class of shares	**Number**	**Nominal value (£)**	**Fully paid**
Ordinary shares of £0.10 each	451,457	0.10	Yes

As at 25 July 2017, being the latest practicable date prior to publication of this Circular, Holdco held no treasury shares and the Incorporation Shares were neither admitted to the Official List of the UK Listing Authority nor admitted to trading on any regulated market.

(b) **Holdco share capital on the Settlement Date**

On the Settlement Date, it is envisaged that Holdco's share capital will be made up as follows:

	Issued		
Class of shares	**Number**	**Nominal value (£)**	**Fully Paid**
A Shares of £0.0001 each	9,029,130,200(1)	902,913.02	Yes
B Shares of £0.01 each	Up to 100(2)	Up to £1.00	Yes

Note (1):

451,457,000 of the above A Shares will result from the sub-division and re-designation of each Incorporation Share into 1,000 A Shares.

451,456,510 of the above A Shares will be issued to Scheme Shareholders (including Early Bird Consenting Members) pursuant to the Share Transfer.

1,573,776,904 of the above A Shares will be issued to Scheme Creditors pursuant to the Notes Exchange.

6,100,983,276 of the above A Shares will be issued to Qualifying Shareholders, Qualifying Scheme Creditors or Backstop Providers pursuant to the Equity Subscriptions and/or the Backstop Arrangements.

451,456,510 of the above A Shares will be issued to the Backstop Providers in settlement of the premium to which they are entitled pursuant to the Backstop Arrangements.

Note (2):

It is not possible to specify with precision the number of B Shares that will be issued as this will depend on relative holdings of A Shares following the Restructuring and Recapitalisation, which is influenced by levels of participation in the Equity Subscriptions, the Backstop Arrangements and the Early Bird Arrangements, and the holders of A Shares satisfying the other criteria to become a B Shareholder (as summarised in paragraph 4.6 of this Part 15). Nevertheless, on the basis of existing holdings of Ordinary Shares and Subordinated Notes, further details on the holdings of B Shares are set out in paragraph 9 of this Part 15.

3.2 ***Summary of Resolutions***

On 27 July 2017, the Initial Holdco Shareholders passed resolutions of Holdco to do the following in connection with the implementation of the Restructuring and Recapitalisation:

(a) with effect from the Settlement Date, approve and adopt the Holdco Articles of Association (as described in paragraph 4 of this Part 15);

(b) with effect from the Settlement Date, sub-divide and redesignate each Incorporation Share into 1,000 A Shares having the rights and being subject to the conditions set out in the Holdco Articles of Association as adopted pursuant to resolution (a) above;

(c) with effect from the Settlement Date, authorise the Holdco Directors for the purposes of section 551 of the Companies Act to allot and issue the A Shares and the B Shares required for the purposes of the Restructuring and Recapitalisation;

(d) with effect from the Settlement Date, authorise the Holdco Directors to allot the A Shares for cash pursuant to the authority conferred by resolution (c) above as if section 561 of the Companies Act did not apply to any such allotment or sale;

(e) with effect from the Settlement Date and subject to receipt of all necessary approvals having been received prior to that date, approve the change of name of Holdco to The Co-operative Bank Holdings Limited;

(f) with effect from the Settlement Date, change Holdco's accounting reference date from 31 July to 31 December; and

(g) with effect from the Settlement Date, change Holdco's registered office to that of the Bank.

It is expected that the Initial Holdco Shareholders will pass further resolutions of Holdco prior to the Settlement Date to elect the individuals proposed to be directors of Holdco as at the Settlement Date.

4. SUMMARY OF HOLDCO'S ARTICLES OF ASSOCIATION

The Holdco Articles of Association to be adopted on the Settlement Date pursuant to the resolution described in paragraph 3.2 of this Part 15, will include provisions with the effect as described below.

4.1 *Objects*

The objects of Holdco, in accordance with section 31(1) of the Companies Act, are unrestricted. Holdco shall (to the extent consistent with the Companies Act and other applicable laws and regulations) promote and oversee conduct of the Holdco Group's business in a manner informed by the established values of the co-operative movement having, regard to the highest standards of ethical principles and with the aim of being recognised as a good corporate citizen and contributing to building a stronger and sustainable society.

Among the factors to which the Holdco Board must have regard in exercising its duties are:

(a) the promotion of co-operative values and ethical policies as approved and adopted by the Holdco Board from time to time after recommendation by the value and ethics committee of Holdco; and

(b) the oversight of the Bank's business with respect to ethical standards and the interests of the customers, suppliers, employees and other stakeholders of the Bank in a manner consistent with the values and ethical policies as referred to in paragraph 4.1(a) above.

4.2 *Limited liability*

The liability of the members is limited to the amount, if any, unpaid on the Holdco Shares respectively held by them.

4.3 *Rights and restrictions attaching to A Shares*

(a) ***Dividends*** – the A Shareholders shall be entitled to dividends to be paid out of the profits of Holdco available and permitted to be distributed in accordance with applicable laws and regulations and the Holdco Articles of Association. All dividends declared in respect of the A Shares shall be distributed among the A Shareholders in proportion to the number of A Shares held by them respectively.

(b) ***Return of capital*** – if surplus assets are available for distribution following an exit which results in Holdco ceasing to be the Bank's direct or indirect holding company or ceasing to hold substantially all of the assets of the Bank (a "**Bank Exit**"), and, for so long as Holdco is subject to the PRA's regulatory powers, the PRA has provided any consent required to make such distribution, Holdco may distribute, after payment of its liabilities and after applying such sums to B Shares as described in paragraph 4.4(b), the balance remaining (if any) of such surplus assets to the A Shareholders in proportion to the number of A Shares they hold.

(c) ***Voting rights of A Shareholders*** – subject to the occurrence of an A Share Governance Event (as defined below) the A Shareholders will only be entitled to attend or vote at a general meeting of Holdco where a resolution is to be proposed at such meeting:

(i) abrogating or varying any of the respective rights or privileges attaching to the A Shares, including by way of amendment to the provisions of Holdco's Articles of Association;

(ii) for the winding-up or dissolution of Holdco;

(iii) in respect of the purchase or redemption (save for the redemption of the B Shares in accordance with the Holdco Articles of Association) of any share capital by Holdco; or

(iv) in respect of a Bank Exit or an IPO Exit.

(d) ***Transfer restrictions*** – subject to pre-emption rights and compliance with all applicable regulatory requirements, A Shares may be freely transferred, save that they may not be transferred to a commercial competitor of the Bank without the sanction of a special resolution of Holdco. A commercial competitor means (i) any person as determined by the Holdco Board acting reasonably to be a material competitor of the Bank in the UK; or an existing A Shareholder whose holding in such commercial competitor is equal to or exceeds 10 per cent. (a "**Commercial Competitor**").

(e) ***A Share Governance Event*** – if at any time (i) there are no B Shares in issue or all B Shares in issue are subject to a notice from the Holdco Board that they will be redeemed or bought back; or (ii) if Holdco ceases to own (directly or indirectly) more than 50 per cent. of the shares of the Bank as a result of a mandatory write down or bail-in or the automatic conversion of securities by reason of the Bank or any parent undertaking of the Bank failing to meet certain regulatory thresholds in respect of any security issued by the Bank or a parent undertaking of the Bank (the occurrence of that being the "**A Share Governance Event**") then the voting rights will vest in the A Shares and following the A Share Governance Event, the A Shares will carry all rights to receive notice, attend and vote (either in person or by proxy) at a general meeting of Holdco. If, on the date of the A Share Governance Event an A Shareholder is required to be approved as a controller, such A Shareholder will not be able to exercise the voting rights as described in this paragraph until they are so approved. Following an A Share Governance Event, and to the extent relevant, all B Shares in issue shall be redeemed by Holdco as soon as Holdco is permitted by law.

(f) ***Mandatory offer*** – to the extent that drag along rights (described below at (g) below) have not been exercised, if any person (together with those persons acting in concert with it) acquires more than 50 per cent. of the A Shares, then that person will be required to make an offer to all A Shareholders to buy their shares on the best terms given by the acquirer in the previous 12 months, and to make a payment to each B Shareholder equal to the Exit Premium which would have been payable to B Shareholders by Holdco if such transaction constituted a Bank Exit.

(g) ***Drag along rights*** – (i) A Shareholders holding at least 75 per cent. of the A Shares enter into an agreement to dispose of not less than all of the A Shares; or (ii) an A Shareholder (and its affiliates) by way of allotment, transfer or series of transfers acquire or unconditionally contract to acquire at least 75 per cent. of the A Shares, then they shall have the right to require the remaining A Shareholders to sell to the acquirer or the A Shareholder (as the case may be) their A Shares on the best terms given by the acquirer or the A Shareholder provided they make a payment to each B Shareholder equal to the Exit Premium which would have been payable to B Shareholders by Holdco if such transaction constituted a Bank Exit.

4.4 ***Rights and restrictions attaching to B Shares***

(a) ***Dividends*** – the B Shareholders are not entitled to participate in the profits of Holdco except as contemplated below in paragraphs 4.4(b) and 4.4(c).

(b) ***Exit Premium*** – if surplus assets are available for distribution following a Bank Exit, and, for so long as Holdco is subject to the PRA's regulatory powers, the PRA has provided any consent required to make such distribution, Holdco may distribute, after payment of its liabilities, such surplus assets in accordance with the below:

(i) firstly, an amount equal to the nominal value of each B Share they hold (and if such proceeds are insufficient, allocated between them *pro rata* to the aggregate amount due to each); and

(ii) secondly, provided that the valuation of the Bank on a Bank Exit is equal to or greater than 0.4x of the tangible book value of the Bank as at the date of the Bank Exit, an aggregate of £25 million to the B Shareholders, solely in accordance with the Exit Premium principles set out in the B Shareholders' Agreement (the "**Exit Premium**").

(c) ***IPO Exit Premium*** – on the effective admission of the A Shares to: (i) listing on the Official List of the Financial Conduct Authority and to trading on the Main Market of the London Stock Exchange plc; (ii) trading on AIM, a market operated by the London Stock Exchange plc; or (iii) trading on any other securities exchange (together, the "**IPO Exit**") Holdco shall allot and issue to each of the B Shareholders A Shares equivalent to the value of the Exit Premium which they would have received upon a Bank Exit provided that the valuation of the Bank on such an exit is equal to or greater than 0.4x of the tangible book value of the Bank as at the date of the IPO Exit.

(d) ***Return of capital*** – if Holdco is in liquidation, dissolution or winding-up (whether voluntary or involuntary) or there is a return or reduction of capital of Holdco (other than a redemption of B Shares), the B Shareholders are entitled to an amount equal to the nominal value of each B Share they hold (and if proceeds are insufficient to achieve that amount, an amount distributed among the B Shareholders in proportion to the number of B Shares they hold).

(e) ***Voting rights of B Shareholders*** – the B Shareholders have the right to be notified of, attend and vote at all general meetings.

(f) ***Transfer restrictions*** – subject to the Holdco Articles of Association, no B Shares or any interest or right therein may be transferred (whether directly or indirectly, by sale, exchange, assignment, transfer or otherwise) other than: (i) to an affiliate of the relevant B Shareholder; or (ii) with the unanimous consent of all A Shareholders and the Holdco Board, provided always that such transferee meets the qualifying conditions set out in paragraph 4.6(a) below.

(g) ***B Shareholder Notification Matters*** – the Holdco Board is required to inform the B Shareholders prior to making a decision on the matters listed in this sub-paragraph (g) (the "**Notification Matters**") where the amounts involved at any time exceed

(i) from the date of adoption of the Holdco Articles of Association and up to the date of publication of the Bank's consolidated balance sheet for the financial year ending 31 December 2017, 10 per cent. of the CET1 of the Bank referable to the Bank's consolidated balance sheet for the financial year ended 31 December 2016; and

(ii) following publication of the Holdco Group's consolidated balance sheet for the year ending 31 December 2017, a sum exceeding 5 per cent. of the CET1 of the Holdco Group, referable to the Holdco Group's most recently published year end consolidated balance sheet (the "**Notification Threshold**").

The Notification Matters are any matters which the Bank has notified to Holdco as "Notification Matters" and as listed below:

(i) a capital expenditure or programme of capital expenditure involving commitments or expenditure in excess of the Notification Threshold;

(ii) the acquisition or disposal of an asset or series of connected assets, with a proposed value or consideration in excess of the Notification Threshold;

(iii) the entry into of a material contract, agreement or arrangement or implementation of a corporate action which involves a commitment or the assumption of obligations or liabilities by the Bank in respect of any one matter in excess of the Notification Threshold; and

(iv) any matter, which in the reasonable opinion of the B Shareholder Nominee Directors, validates a notification to the member.

Holdco will notify each B Shareholder of any Notification Matter notified to Holdco by the board of the Bank, as soon as is practicable and in any event within three business days of Holdco's receipt of notice of the relevant Notification Matter.

(h) ***B Shareholder Information Rights*** – Each B Shareholder Nominee Director is irrevocably authorised by Holdco to disclose to any B Shareholder, on a confidential basis and without need for the Holdco Board's consent, information belonging to or concerning Holdco, its affiliates or its or their business and assets, which shall include:

(i) all Holdco Board related documents and other materials relevant to and presented in a board meeting;

(ii) financial, accounting, taxation and other information and records of, or confirmations relating thereto, from Holdco;

(iii) audit documents and papers of Holdco's auditors;

(iv) information relating to personnel of Holdco; and

(v) matters which have been notified to Holdco by the board of the Bank pursuant to the Bank's Articles of Association.

Holdco shall also provide each B Shareholder with prompt access to and (where reasonable) copies of information listed above which includes information on the Bank.

Prior to Holdco or any B Shareholder Nominee Director granting access to such information, the Holdco Board must be notified of what information is being disclosed. The Holdco Board must assess: (i) if the information constitutes inside information; (ii) if Holdco is permitted to disclose the information under applicable law and regulation (including considering issues of privilege and confidentiality undertakings); and (iii) if any inside information is identified, can it be cleansed.

Nothing in the Holdco Articles of Association is intended to require the Holdco Board to cleanse inside information or to disclose information which is subject to confidentiality obligations or restrictions on disclosure which would breach any applicable laws, regulations or directions from and requests as to confidentiality from regulators.

The Articles of Association of the Bank provide similar rights in favour of Holdco.

(i) ***B Shareholder matters*** – none of the actions listed below shall be taken by the Holdco Board or approved for implementation at Bank level without the prior written approval of holders of more than 50 per cent. of the B Shares in issue disregarding any B Shares which are subject to a notice from Holdco stating that they will be redeemed or bought back:

(i) implementation of a Notification Matter, the subject of which has an estimated value that exceeds twice the Notification Threshold;

(ii) the appointment, approval of the terms and conditions of employment, transfer and discharge of the Holdco chief executive officer;

(iii) the appointment, approval of the terms and conditions of employment, transfer and discharge of the Holdco chief financial officer;

(iv) the approval of any Bank resolution in relation to appointment, the terms and conditions of employment, transfer and discharge of the Bank's chief restructuring officer; and

(v) approval of any change in the corporate status of Holdco or amendment to the Holdco Articles of Association.

4.5 ***Rights attaching to all shares in Holdco***

(a) ***Voting rights of members*** – subject to the Holdco Articles of Association and to any special rights or restrictions as to voting for the time being attached to any shares, the provisions of the Companies Act apply in relation to voting rights. On a show of hands, every member or authorised corporate representative present has one vote and every proxy present has one vote,

except if the proxy has been duly appointed by more than one member and has been instructed by (or exercises his discretion given by) one or more of those members to vote for the resolution and has been instructed by (or exercises his discretion given by) one or more other of those members to vote against it, in which case a proxy has one vote for and one vote against the resolution. On a poll, every member present in person or by proxy has one vote for every share of which he is a holder. In the case of joint holders, the vote of the person whose name stands first in the register of members and who tenders a vote is accepted to the exclusion of any votes tendered by any other joint holders.

(b) ***Shareholder Calls*** – Holdco shall, in accordance with its financial reporting calendar, host a teleconference call for all shareholders, to report on its most recent balance sheet, income statement, cashflow statement and management commentary on such financial statements for the period. Notice of every call shall be given to all shareholders on no less than 14 clear days' notice.

(c) ***Capitalisation of reserves*** – the Holdco Board may, with the authority of an ordinary resolution of Holdco, resolve to capitalise any sum standing to the credit of any reserve account of Holdco (including share premium account and capital redemption reserve), or any sum standing to the credit of the profit and loss account which is not required for the payment of any preferential dividend. Holdco may appropriate that sum as capital to the holders of the shares in proportion to the nominal amount of the share capital they hold, and apply that sum on the shareholders' behalf in paying up in full any shares or debentures of Holdco of a nominal amount equal to that sum and allot the shares or debentures credited as fully paid to those shareholders, or as they may direct, in those proportions or in paying up the whole or part of any amounts which are unpaid in respect of any issued shares in Holdco held by them respectively, or otherwise deal with such sum as directed by the resolution provided that the share premium account, the capital redemption reserve, any redenomination reserve and any sum not available for distribution in accordance with the relevant statutory provisions may only be applied in paying up shares to be allotted credited as fully paid up.

4.6 ***Ownership of B Shares***

(a) ***Qualifying conditions*** – in order to hold B Shares, the holder, together with its affiliates, must:

(i) at all times be the registered holder of at least 10 per cent. of the A Shares;

(ii) have been and be approved by the PRA as a "controller" of Holdco; and

(iii) have executed a deed of adherence to the B Shareholders' Agreement.

(b) ***Entitlement to B shares*** – Holdco shall have the power to allot and issue to an A Shareholder who fulfils the qualifying conditions one B Share for every one per cent. held of the A Shares then in issue.

Holdco may refuse to issue the B Shares if the Holdco Board considers the A Shareholder to be (i) a Commercial Competitor of the Bank or; (ii) an unaffiliated group (being an entity formed or otherwise incorporated by persons who are not affiliates for the purpose of aggregating A Shares in or to obtain B Shares), unless a majority of the B Shareholders approve such issue.

If a B Shareholder increases the number of A Shares that it holds such that it is entitled to hold more B Shares, then Holdco shall issue to it at par that number of B Shares which takes its total holding of B Shares up to its full entitlement for its level of holding of A Shares at such time.

If a B Shareholder decreases the number of A shares it holds such that it holds more B Shares than its holding of A Shares entitles it to hold, then any excess B Shares may be redeemed or bought back, and cancelled. Upon the Holdco Board issuing a notice that it intends to redeem or buyback certain B Shares, no rights attaching to those B Shares shall be capable of being

exercised by the holder of those shares other than the right to receive those shares' nominal value.

4.7 ***Transfer of shares***

(a) Subject to the restrictions in the Holdco Articles of Association and to any special rights or restrictions as to transfers for the time being attached to any shares, a member may transfer their shares by means of an instrument of transfer in any usual form approved by the Holdco Board. Holdco shall maintain a record of uncertificated shares in accordance with the relevant statutory provisions.

(b) A member may transfer all or any of his certificated shares by an instrument of transfer in any usual form approved by the Holdco Board. The instrument of transfer should be executed by or on behalf of the transferor and, except in the case of a fully paid share, by or on behalf of the transferee.

(c) The Holdco Board may, in its absolute discretion, refuse to register any instrument of transfer of any certificated share which is not fully paid up or on which Holdco has a lien. The Holdco Board may also refuse to register any instrument of transfer of a certificated share unless it is lodged at the registered office, or such other place as the Holdco Board have appointed, accompanied by the certificate for the shares to be transferred and such other evidence (if any) as the Holdco Board may reasonably require to prove title of the intending transferor or their right to transfer shares, and it is in respect of only one class of shares. The registration of transfers of shares or transfers of any class of shares may be suspended at such times and for such periods (not exceeding thirty days in any year) as the Holdco Board may determine. If the Holdco Board refuses to register a transfer of a certificated share, save during the period where the Holdco Board has suspended registration of transfers, it shall as soon as practicable and in any event within two months after the date on which the instrument of transfer was lodged, give to the transferee notice of the refusal together with its reasons for refusal. The Holdco Board must provide the transferee with such further information about the reasons for the refusal as the transferee may reasonably request.

(d) Unless otherwise agreed by the Holdco Board in any particular case, the maximum number of persons who may be entered on the register as joint holders of a share is four.

4.8 ***Alteration of share capital***

Holdco may exercise the powers conferred by the applicable statutory provisions to:

(a) increase its share capital by allotting new shares;

(b) reduce its share capital, any capital redemption reserve and any share premium account in any way;

(c) subdivide or consolidate and divide all or any of its share capital;

(d) redenominate all or any of its shares and reduce its share capital in connection with such redenomination;

(e) issue redeemable shares; and

(f) purchase all or any of its own shares including any redeemable shares.

4.9 ***Disapplication of pre-emption rights***

Holdco may from time to time resolve, by special resolution, that the Holdco Board be given power to allot equity securities for cash as if section 561 of the Companies Act did not apply to the allotment, but that power shall be limited: (i) to the allotment of equity securities in connection with a rights issue; and (ii) to the allotment (other than in connection with a rights issue) of equity securities having a nominal amount not exceeding in aggregate the sum specified in the special resolution.

4.10 ***Variation of rights***

Whenever the share capital of Holdco is divided into different classes of shares, the special rights for the time being attached to a class may be varied or abrogated either while Holdco is a going concern or during or in contemplation of a winding-up, either with the consent in writing of the holders of 75 per cent. of the issued shares of that class, or with the sanction of a special resolution passed at a separate class meeting of the holders of the shares of the class, but not otherwise.

4.11 ***Creation or issue of further shares***

The special rights conferred upon the holders of any class of shares issued with preferred or other special rights shall be deemed to be varied by the reduction of the capital paid up on such shares but shall not (unless otherwise expressly provided by the Holdco Articles of Association or by the conditions of issue of such shares) be deemed to be varied by the creation or issue of further shares ranking in some or all respects *pari passu* therewith or subsequent thereto.

4.12 ***Uncertificated shares – general powers***

In relation to any uncertificated share, Holdco may utilise the relevant system in which the uncertificated share is held to the fullest extent available from time to time in the exercise of any of its powers or functions under any applicable statutory provision or the Holdco Articles of Association or otherwise in effecting any action. Any provision in the Holdco Articles of Association in relation to uncertificated shares which is inconsistent with any applicable statutory provision shall not apply. Holdco may, by notice to the holder of an uncertificated share, require the holder to change the form of that share to certificated form within such period as may be specified in the notice. For the purpose of effecting any action by Holdco, the Holdco Board may determine that shares held by a person in uncertificated form and in certificated form shall be treated as separate holdings but they shall not be treated as separate classes of shares.

4.13 ***Holdco Directors***

(a) The number of directors (other than alternate directors) shall, unless otherwise determined by an ordinary resolution of Holdco, comprise a maximum of ten.

(b) Membership of the Holdco Board shall at all times comprise of:

(i) up to two B Shareholder Nominee Directors;

(ii) a majority of independent non-executive Holdco Directors (including the Chairman) (the "**Independent Directors**"); and

(iii) the chief executive officer and the chief financial officer of Holdco from time to time.

(c) The chairman of the Holdco Board shall be one of the Independent Directors.

(d) Holdco may by ordinary resolution elect and remove the Holdco Directors. The Holdco Board shall have no power to appoint or remove any of the Holdco Directors, save that the Holdco Board may appoint any person who is willing to act to be a director to fill a casual vacancy. Prior to any Holdco Director being elected (or appointed as the case may be), Holdco must have obtained or received all relevant regulatory approvals in respect of the proposed director.

(e) A Holdco Director need not be a member of Holdco.

(f) Any change to the Holdco Board shall, to the extent practicable, be notified to the Bank or any parent undertaking of the Bank, in advance of such election, retirement or removal.

(g) The quorum necessary for the transaction of the business of the Holdco Board shall be three and must include at least one B Shareholder Nominee Director, and a majority of those directors counted in the quorum must be Independent Directors.

(h) The Holdco Directors shall retire from office at each annual general meeting. A retiring Holdco Director shall be eligible for re-election, and a Holdco Director who is re-elected will be treated as continuing in office without a break. A retiring Holdco Director who is not re-elected shall retain office until the close of the meeting at which he retires. If Holdco, at any meeting at which a Holdco Director retires in accordance with the Holdco Articles of Association, does not fill the office vacated by such Holdco Director, the retiring Holdco Director, if willing to act, shall be deemed to be re-elected, unless at the meeting a resolution is passed not to fill the vacancy or to elect another person in his place or unless the resolution to re-elect him is put to the meeting and lost.

(i) The remuneration of a Holdco Director appointed to any executive office or any B Shareholder Nominee Director shall, without prejudice to any existing contractual arrangements and subject to applicable regulatory conditions, be recommended to the Holdco Board and the B Shareholders by the remuneration committee and approved in writing by a majority of the B Shareholders. Such remuneration may be by way of salary, commission, participation in profits, provision for retirement or insurance benefit or otherwise and either in addition to or inclusive of his remuneration as a Holdco Director.

(j) The Independent Directors shall be paid such fees per annum as the remuneration committee may recommend and as shall be approved by an ordinary resolution of Holdco.

(k) The Holdco Board may grant special remuneration to any Holdco Director who performs any special or extra services to or at the request of Holdco, provided such remuneration is granted in accordance with applicable regulatory restrictions. Such special remuneration may be paid by way of lump sum, salary, commission, participation in profits, provision for retirement or insurance benefit or otherwise as the Holdco Board may decide in addition to his ordinary remuneration (if any) as a Holdco Director.

(l) The Holdco Directors shall also be paid, out of the funds of Holdco, all expenses properly incurred by them in and about the discharge of their duties, including their expenses of travelling to and from the Holdco Board meetings, committee meetings and general meetings.

(m) The Holdco Board may exercise all the powers of Holdco to:

(i) pay, provide, arrange or procure the grant of pensions or other retirement benefits, and death, disability or sickness benefits, health, accident and other insurances or other such benefits, allowances, gratuities or insurances, including in relation to the termination of employment, to or for the benefit of any person who is or has been at any time a Holdco Director or in the employment or service of Holdco or of any undertaking which is or was associated with Holdco or of the predecessors in business of Holdco or any such associated undertaking or the relatives or dependants of any such person. For that purpose the Holdco Board may procure the establishment and maintenance of, or participation in, or contribution to, any pension fund, scheme or arrangement or the payment of any insurance premiums;

(ii) establish, maintain, adopt and enable participation in any profit-sharing or incentive scheme including shares, share options or cash or any similar schemes for the benefit of any Holdco Director or employee of Holdco or of any associated undertaking, and to lend money to any such Holdco Director or employee or to trustees on their behalf to enable any such schemes to be established, maintained or adopted; and

(iii) support and subscribe to any institution or association which may be for the benefit of Holdco or of any associated undertaking or any directors or employees of Holdco or associated undertaking or their relatives or dependants or connected with any town or place where Holdco or an associated undertaking carries on business, and to support and subscribe to any charitable or public object whatsoever.

(n) If a situation (a "**Relevant Situation**") arises in which a Holdco Director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of Holdco but which does not arise in relation to a transaction or arrangement with Holdco, the Holdco Director must declare the nature and extent of his interest to the other Holdco Directors and the Holdco Directors (other than the Holdco Director, and any other Holdco Director with a similar interest, who shall not be counted in the quorum at the meeting and shall not vote on the resolution) may: (i) if the Relevant Situation arises from the appointment or proposed appointment of a person as a Holdco Director, resolve to authorise the appointment of the Holdco Director and the Relevant Situation on such terms as they may determine; and (ii) if the Relevant Situation arises in other circumstances, resolve to authorise the Relevant Situation and the continuing performance by the Holdco Director of his duties on such terms as they may determine.

(o) Any terms of such authorisation may be imposed at the time of the authorisation or may be imposed or varied subsequently and may include (without limitation):

  (i) whether the interested Holdco Directors may vote (or be counted in the quorum at a meeting) in relation to any resolution relating to the Relevant Situation;

  (ii) the exclusion of the interested Holdco Directors from all information and discussion by Holdco of the Relevant Situation; and

  (iii) (without prejudice to the general obligations of confidentiality) the application to the interested Holdco Directors of a strict duty of confidentiality to Holdco for any confidential information of Holdco in relation to the Relevant Situation.

(p) Any authorisation of a Relevant Situation may provide that, where the interested Holdco Director obtains (other than through his position as a director of Holdco) information that is confidential to a third-party, he will not be obliged to disclose it to Holdco or to use it in relation to Holdco's affairs in circumstances where to do so would amount to a breach of that confidence.

(q) If a Holdco Director is in any way, directly or indirectly, interested in a proposed or an existing transaction or arrangement with Holdco, he must usually declare the nature and extent of that interest to the other Holdco Directors.

(r) Subject to any applicable statutory provisions and to having declared his interest to the other Holdco Directors, a Holdco Director may:

  (i) enter into or be interested in any transaction or arrangement with Holdco, either with regard to his tenure of any office or position in the management, administration or conduct of the business of Holdco, or as vendor, purchaser or otherwise;

  (ii) hold and be remunerated in respect of any other office or place of profit with Holdco (except that of auditor) in conjunction with his office of director;

  (iii) act by himself or his firm in a professional capacity for Holdco (except as auditor) and be entitled to remuneration for professional services as if he were not a Holdco Director;

  (iv) be or become a member or director of, or hold any other office or place of profit under, or otherwise be interested in, any parent undertaking or subsidiary undertaking of that parent undertaking or any undertaking in which Holdco may be interested; and

  (v) be or become a director of any other undertaking in which Holdco does not have an interest if that cannot reasonably be regarded as likely to give rise to a conflict of interest at the time of his appointment as a Holdco Director of that other undertaking.

(s) A Holdco Director shall not vote (or be counted in the quorum at a meeting) in respect of any resolution concerning his own appointment (including fixing and varying its terms), or the

termination of his own appointment, as the holder of any office or place of profit with Holdco or any other undertaking in which Holdco is interested but, where proposals are under consideration concerning the appointment (including fixing or varying its terms), or the termination of the appointment, of two or more Holdco Directors to offices or places of profit with Holdco or any other undertaking in which Holdco is interested, those proposals may be divided and considered in relation to each Holdco Director separately; and in such case each of the Holdco Directors concerned (if not otherwise debarred from voting under the Holdco Articles of Association) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment or the termination of his own appointment.

(t) A Holdco Director shall not vote (or be counted in the quorum at a meeting) in respect of any resolution relating to any transaction or arrangement with Holdco in which he has an interest which may reasonably be regarded as likely to give rise to a conflict of interest. Notwithstanding the above, a Holdco Director may vote (and be counted in the quorum) on: (i) any transaction or arrangement in which he is interested by virtue of an interest in shares, debentures or other securities of Holdco or otherwise in or through Holdco; (ii) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of, or for the benefit of, Holdco or any of its subsidiary undertakings; or a debt or obligation of Holdco or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part (either alone or jointly with others) under a guarantee or indemnity or by the giving of security; (iii) indemnification (including loans made in connection with it) by Holdco in relation to the performance of his duties on behalf of Holdco or of any of its subsidiary undertakings; (iv) any issue or offer of shares, debentures or other securities of Holdco or any of its subsidiary undertakings in respect of which he is or may be entitled to participate in his capacity as holder of any such securities or as an underwriter or sub-underwriter; (v) any transaction or arrangement concerning any other company in which he does not hold, directly or indirectly as shareholder, or through his direct or indirect holdings of financial instruments (within the meaning of Chapter 5 of the Disclosure and Transparency Rules) voting rights representing 1 per cent. or more of any class of shares in the capital of such company; (vi) any arrangement for the benefit of employees of Holdco or any of its subsidiary undertakings which does not accord to him any privilege or benefit not generally accorded to the employees to whom the arrangement relates; and (vii) the purchase or maintenance of insurance for the benefit of Holdco Directors or for the benefit of persons including Holdco Directors.

4.14 ***B Shareholder Nominee Directors***

The B Shareholders shall be entitled to appoint up to two natural persons as directors (and, to the extent such directors are removed or resign, appoint replacements) by giving notice to Holdco and designate such persons as B Shareholder Nominee Directors.

The B Shareholders may also remove a B Shareholder Nominee Director at any time by giving notice in writing to Holdco.

4.15 ***Key committees of the Holdco Board***

(a) The following committees shall comprise the key committees of the board: (i) audit committee; (ii) nomination committee; (iii) remuneration committee; (iv) risk committee; and (iv) values and ethics committee ("**Holdco V&E Committee**"). Each committee shall propose terms of reference to be approved by ordinary resolution of Holdco which shall at minimum describe the purpose, scope and authority of the relevant committee.

(b) The Holdco V&E Committee shall recommend to the Holdco Board for its approval and adoption the co-operative values and ethical policies of Holdco and shall represent, monitor, and advise the Holdco Board on matters concerning the interests of all stakeholders in their dealings with Holdco in line with the objects of Holdco having regard to: (i) the legal and regulatory requirements applicable to Holdco and the Holdco Directors; (ii) the need for

Holdco's operations to be commercially sustainable and profitable; and (iii) the desirability of maintaining and enhancing the public reputation and image of Holdco.

(c) Each committee shall provide information to the Holdco Board for the purposes of Holdco's annual reporting obligations, save for the Holdco V&E Committee, who shall prepare and present to the Holdco Board for its approval at least annually a report on its activities and on its assessment as to the Holdco's performance (having regard to its terms of reference). All such information and annual reports shall be included in Holdco's annual report and accounts in a form approved by the Holdco Board.

(d) The members of each committee shall be appointed by the Holdco Board and, save for the Holdco V&E Committee, shall be comprised of a minimum of three and a maximum of five non-executive directors.

(e) The Holdco V&E Committee shall be comprised of a minimum of two and a maximum of four persons, of whom: (i) the majority shall be Independent Directors; and (ii) at least two shall be Holdco Directors. The Holdco V&E Committee may contain up to two members who are not Holdco Directors, one or both of whom must be senior executives of Holdco and one of whom may be an individual who is not a senior executive of Holdco provided that the individual has credentials appropriate for the role.

(f) Save for the chairman of the nomination committee, whom shall be the chairman of the Holdco Board, the chairman of each key committee shall be an Independent Director specifically appointed to act as chairman.

(g) The B Shareholder Nominee Directors shall be given notice of all committee meetings and shall, subject to the terms of reference of the relevant committee and any inside information framework in place from time to time, be entitled to attend as each sees fit.

4.16 ***General meetings***

Annual general meetings shall be held in accordance with the applicable statutory provisions. Other general meetings shall be held whenever the Holdco Board thinks fit or on the requisition of Holdco Shareholders in accordance with the Companies Act.

Subject to the applicable statutory provisions, any general meeting, including an annual general meeting, shall be called by not less than 14 clear days' notice or by not less than such minimum notice period as is permitted by applicable statutory provisions.

Subject to the applicable statutory provisions, two qualifying B Shareholders entitled to vote and representing or acting as proxies for different members shall constitute a quorum. A qualifying person is an individual who is a member of Holdco, a corporate representative or a proxy. In the event that a sole qualifying B Shareholder holds the entirety of the B Shares in issue, then for so long as no other A Shareholder meets the qualifying conditions set out above, such B Shareholder shall constitute the requisite quorum.

Quorum for a meeting of A Shareholders or a general meeting of both A Shareholders and B Shareholders shall be the holders of 50% of the A Shares then in issue, unless such quorum is not achieved the quorum at an adjourned meeting shall be 30% of the A Shares then issue and at any subsequently adjourned meeting 10% of the A Shares in issue.

4.17 ***Borrowing powers***

The Holdco Board may exercise all the powers of Holdco to borrow money and to mortgage or charge its undertaking, property, assets and uncalled capital, and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of Holdco or of any third party.

4.18 ***Change of name***

The Holdco Board may change the name of Holdco.

4.19 ***Dividends***

(a) ***Declaration of dividends*** – Holdco may, by ordinary resolution, declare a dividend to be paid to the A Shareholders only, according to their respective rights and interests in the profits, and may fix the time for payment of such dividend, but no dividend shall exceed the amount recommended by the Holdco Board. Without prejudice to the payment of the Exit Premium, no B Shareholder shall be entitled to receive a dividend.

(b) When considering any dividend, the Holdco Board shall take into account Holdco's capital and financial position, cash requirements and liquidity and profits available as well as Holdco's regulatory outlook, capital position, investment needs and principal relevant risk factors subsisting at the time. In addition, the Holdco Board shall consider the need to balance the division of profits between:

(i) distributions to its A Shareholders;

(ii) investment in products and services;

(iii) retaining earnings for future development; and

(iv) support for social and/or environmental objectives.

(c) ***Fixed and interim dividends*** – the Holdco Board may pay such interim dividends as appear to the Holdco Board to be justified by the financial position of Holdco and may also pay any dividend payable at a fixed rate at intervals settled by the Holdco Board whenever the financial position of Holdco, in the opinion of the Holdco Board, justifies its payment. If the Holdco Board acts in good faith, none of the Holdco Directors shall incur any liability to the holders of shares conferring preferred rights for any loss such holders may suffer in consequence of the payment of an interim dividend on any shares having non-preferred or deferred rights.

(d) ***Calculation and currency of dividends*** – except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide: (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated as paid up on the share; (ii) all dividends shall be apportioned and paid *pro rata* according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid; and (iii) dividends may be declared or paid in any currency and the Holdco Board may agree with any member that dividends which may at any time or from time to time be declared or become due on his shares in one currency shall be paid or satisfied in another, and may agree the basis of conversion to be applied and how and when the amount to be paid in the other currency shall be calculated and paid and for Holdco or any other person to bear any costs involved.

(e) ***Dividends not to bear interest*** – no dividend or other moneys payable by Holdco on or in respect of any share shall bear interest as against Holdco unless otherwise provided by the rights attached to the share.

(f) ***Calls or debts may be deducted from dividends*** – the Holdco Board may deduct from any dividend or other moneys payable to any person (either alone or jointly with another) on or in respect of a share all such sums as may be due from him (either alone or jointly with another) to Holdco on account of calls or otherwise in relation to shares of Holdco.

(g) ***Dividends in specie*** – with the authority of an ordinary resolution of Holdco and on the recommendation of the Holdco Board, payment of any dividend may be satisfied wholly or in part by the distribution of specific assets and in particular of paid up shares or debentures of any other company.

(h) ***Scrip dividends*** – the Holdco Board may, with the authority of an ordinary resolution of Holdco, offer any holders of A Shares the right to elect to receive further A Shares by way of scrip dividend instead of cash in respect of all (or some part) of any dividend specified by the ordinary resolution.

(i) ***Unclaimed dividends*** – all unclaimed dividends, interest or other sums payable may be invested or otherwise made use of by the Holdco Board for the benefit of Holdco until claimed. Any dividend unclaimed for a period of 12 years after having been declared shall be forfeited and cease to remain owing by Holdco.

Please see the risk factor entitled "*No dividends to be paid in respect of the A Shares in the near future.*" in Part 3 of this Circular for further details regarding the payment of dividends.

4.20 ***Forfeiture of shares***

(a) If the whole, or any part of, any call or instalment remains unpaid on any share after the due date for payment, the Holdco Board may give a notice to the holder requiring him to pay so much of the call or instalment as remains unpaid, together with any accrued interest.

(b) If the requirements of a notice are not complied with, any share in respect of which it was given may (before the payment required by the notice is made) be forfeited by a resolution of the Holdco Board. The forfeiture shall include all dividends declared and other moneys payable in respect of the forfeited share and not actually paid before the forfeiture.

(c) Every share which is forfeited or surrendered shall become the property of Holdco and (subject to the applicable statutory provisions) may be sold, re-allotted or otherwise disposed of, upon such terms and in such manner as the Holdco Board shall decide either to the person who was before the forfeiture the holder of the share or to any other person and whether with or without all or any part of the amount previously paid up on the share being credited as so paid up.

4.21 ***Communications by Holdco***

(a) A document or information may be sent or supplied in hard copy form by Holdco to any member either personally or by sending or supplying it by post addressed to the member concerned at his registered address or by leaving it at that address.

(b) Subject to the applicable statutory provisions, a document or information may be sent or supplied by Holdco to any member in electronic form to such address as may from time to time be authorised by the member concerned or by making it available on a website and notifying the member concerned (in accordance with the applicable statutory provisions) of the presence of a document or information on the website. A member shall be deemed to have agreed that Holdco may send or supply a document or information by means of a website if the applicable statutory provisions have been satisfied.

4.22 ***Holdco Directors' indemnity, insurance and defence***

As far as the applicable statutory provisions allow, Holdco may:

(a) indemnify any director of Holdco (or of an associated body corporate) against any liability;

(b) indemnify a Holdco Director of a company that is a trustee of an occupational pension scheme for employees (or former employees) of Holdco (or of an associated body corporate) against liability incurred in connection with Holdco's activities as trustee of the scheme;

(c) purchase and maintain insurance against any liability for any director referred to in paragraph (a) or paragraph (b) above; and

(d) provide any director referred to in paragraph (a) or paragraph (b) above with funds (whether by loan or otherwise) to meet expenditure incurred or to be incurred by him in defending any

criminal, regulatory or civil proceedings or in connection with an application for relief (or to enable any such director to avoid incurring such expenditure).

4.23 ***Corporate Governance***

Holdco is not required, nor does it voluntarily oblige itself to comply, with the Listing Rules save in so far as they apply to any listed debt securities issued by it.

Holdco will not be subject to the UK Corporate Governance Code.

Holdco will be subject to governance requirements imposed by the PRA.

5. HOLDCO DIRECTORS' INTERESTS

5.1 Save disclosed in this paragraph 5.1, none of the Holdco Directors has any potential conflict of interest between their duties to Holdco and their private interests and/or their duties to third parties. The Holdco Board recognises that, by virtue of being statutory directors as well as individuals who receive remuneration (in the form of directors' fees for Non-Executive Holdco Directors and salary, bonus, pensions or long term incentive plans for Executive Holdco Directors) with respect to their roles as Holdco Directors, whether separately pursuant to arrangements with Holdco or as part of their total remuneration as directors of both the Bank and Holdco, they have an inherent personal interest in the financial performance, capital management and overall health of the financial status of Holdco. Under the Holdco Articles of Association, the B Shareholders have the right to nominate up to two directors for appointment to the Holdco Board. As of 25 July 2017, being the latest practicable date prior to the publication of this Circular, the proposed B Directors were yet to be determined and the selection process is ongoing. Tom Wood was proposed by the Principal Investors as a Holdco Director from the incorporation of Holdco.

5.2 No Holdco Director will have any interest in the share capital of Holdco on completion of the Restructuring and Recapitalisation and there is no person to whom any capital of any member of Holdco or any of its subsidiaries is under award or option or agreed unconditionally to be put under award or option.

5.3 None of the Holdco Directors has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business which was effected by Holdco or any of its subsidiaries during the current or immediately preceding financial year, or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

5.4 None of the Holdco Directors has or had a beneficial interest in any contract to which Holdco or any of its subsidiaries was a party during the current or immediately preceding financial year.

5.5 Save as disclosed in this paragraph 5.5, no Holdco Director was selected to act in such capacity pursuant to any arrangement or understanding with any Shareholder, customer, supplier or any other person having a business connection with Holdco or any of its subsidiaries. Under the Holdco Articles of Association, the B Shareholders have the right to nominate up to two directors for appointment to the Holdco Board. As of 25 July 2017, being the latest practicable date prior to the publication of this Circular, the proposed B Directors were yet to be determined and the selection process is ongoing. Tom Wood was proposed by the Principal Investors as a Holdco Director, from the incorporation of Holdco, and as the Bank's Chief Restructuring Officer Designate, subject to regulatory approval. The Chief Restructuring Officer of the Bank may or may not also be nominated as a B Shareholder Nominee Director.

5.6 There are no family relationships between any of the Holdco Directors.

6. DIRECTORSHIPS OF HOLDCO DIRECTORS AND SENIOR MANAGERS

6.1 The biographies of the Holdco Directors are set out in paragraph 1.1 of Section A of Part 5 and paragraph 1.1 of Section B of Part 5 of this Circular.

6.2 In addition to their directorships of Holdco and, in the case of Liam Coleman, the Bank and its subsidiaries, the Holdco Directors hold, or have held, the following directorships and are or were members of the following partnerships, within the past five years:

Name	Current directorships/ partnerships	Past directorships/ partnerships
Holdco Directors		
Liam Coleman.............................	–	–
Tom Wood...................................	AGHOCO 1430 Limited Duchy Associates Limited	Centric Commercial Finance Ltd. Centric Group Finance Ltd. Centric Group Finance 2 Ltd. Centric Group Holdings Ltd. Centric SPV 1 Ltd. Centric SPV 2 Ltd. Resource Partners SPV Limited Shawbrook Bank Limited

Save as disclosed below, as at the date of this Circular none of the Holdco Directors has at any time within at least the past five years:

(a) had any convictions in relation to fraudulent offences (whether spent or unspent); or

(b) been adjudged bankrupt or entered into an individual voluntary arrangement; or

(c) been a director of any company at the time of, or within 12 months preceding, any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors; or

(d) been a partner in a partnership at the time of, or within 12 months preceding, any compulsory liquidation, administration or partnership voluntary arrangement of such partnership; or

(e) had their assets form the subject of any receivership or been a partner of a partnership at the time of, or within 12 months preceding, any assets thereof being the subject of a receivership; or

(f) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including any designated professional body); or

(g) ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

Holdco has put in place qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act) for the benefit of the Holdco Directors.

7. DESCRIPTION OF DIRECTORS' SERVICE CONTRACTS/LETTERS OF APPOINTMENT

There are no current service agreements for Holdco Directors in place with Holdco. Service agreements for Holdco Directors are proposed to be incorporated with the service agreements for Bank Directors as the boards of Bank and Holdco are required to be identical.

8. REMUNERATION

8.1 ***Remuneration Policy***

The Independent Holdco Directors will receive a fixed remuneration set at a sufficiently high level to attract the best qualified candidates.

The executive Holdco Directors, including the B Shareholder Nominee Directors, will be entitled to salary, bonus, pensions and participate in long term incentive plans that will comply with all applicable regulatory requirements.

9. MAJOR SHAREHOLDERS IN HOLDCO

As at 25 July 2017 (being the latest practicable date prior to the date of this Circular), so far as is known to the Bank, the name of each person (other than any director) who, directly or indirectly, is interested in three per cent. or more of Holdco's ordinary share capital, and the amount of such person's interest is/would be as follows:

Name	Number of shares as at 25 July 2017	Share type	Per cent. as at 25 July 2017
SP Coop Investment, Ltd.[(1)]	137,243	ordinary	30.40
Anchorage Illiquid Opportunities Offshore V.L.P.	90,291	ordinary	20.00
Goldentree Asset Management Lux, S.a.r.l.	83,024	ordinary	18.39
Cyrus Opportunities Master Fund II, Ltd.	47,602	ordinary	10.54
Blue Mountain Credit Alternatives Master Fund L.P.	31,700	ordinary	7.02
CRS Master Fund, L.P.	14,678	ordinary	3.25
Crescent 1, L.P.	14,335	ordinary	3.17

(1) An affiliate of Silver Point Capital.

Immediately following completion of the Restructuring and Recapitalisation (and based on the assumptions included in Note (1) to the table set out in paragraph 3.1(b) of this Part 15, and in Note (1) to this table, so far as is known to the Bank, the name of each person (other than any director) who, directly or indirectly, is expected to be interested in three per cent. or more of Holdco's B Shares:

Name	Approximate per cent. of B Shares immediately following completion of the Restructuring and Recapitalisation 2017
Silver Point Capital	28
GoldenTree	25
Anchorage Capital Group	16
Invesco	16
Cyrus Capital Partners	15

Note (1):

The holdings of the entities set out in the table have been provided to the Bank and have been calculated based on their commitments under the Lock-Up Agreement, their holdings of Ordinary Shares and Subordinated Notes, as applicable, as at 25 July 2017 (being the latest practicable date prior to the date of this Circular), and assuming each of them have been issued and subscribes for (as the case may be) their full entitlement of (where applicable): (i) A Shares pursuant to the Share Transfer (including the Early Bird Members' Premium); (ii) A Shares pursuant to the Notes Exchange; (iii) A Shares pursuant to the Equity Subscriptions; and (iv) their pro rata share of the Backstop Consideration Shares, and taking into account their holdings of Incorporation Shares (where applicable), and further assuming that: (a) no other Qualifying Scheme Creditors have acceded to the Backstop Arrangements following 25 July 2017 (being the latest practicable date prior to the date of this Circular); (b) no other Shareholder has become entitled to share in the Early Bird Members' Premium following 25 July 2017 (being the latest practicable date prior to the date of this Circular); (c) the Subscription Shares have been subscribed for in full by the Qualifying Shareholders and Qualifying Scheme Creditors, as applicable; and (d) £30 million in principal amount of 2023 Notes are subject to the Mandatory Cancellation.

10. HOLDCO INCENTIVE PLANS

Holdco does not have any share incentive plans. For a description of the Bank's share plans, see paragraphs 12 and 13 of Part 16 of this Circular.

11. MATERIAL CONTRACTS

The following is a summary of contracts (not being entered into in the ordinary course of business) which have been entered into by Holdco or its subsidiaries (i) within the two years immediately preceding the date of this Circular and which are material; or (ii) which contain any provision under which Holdco or its subsidiaries has any obligation or entitlement which is material to Holdco as at the date of this document.

11.1 ***B Shareholders' Agreement***

The B Shareholders' Agreement between the B Shareholders (from time to time) and Holdco describes how the Exit Premium will vest over a three year period as between the B Shareholders.

PART 16

ADDITIONAL INFORMATION

1. RESPONSIBILITY

The Bank and its Directors, whose names appear on page 202 of this Circular, accept responsibility for the information contained in this Circular. To the best of their knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained in this Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. INCORPORATION AND REGISTERED OFFICE

2.1 The Bank was incorporated and registered in England and Wales under the name of the Co-operative Bank Limited on 5 October 1970, with company number 00990937. On 21 May 1981, the Bank was re-registered as a public company and changed its name to the Co-operative Bank Public Limited Company. On 10 January 1993, the Bank changed its name to The Co-operative Bank p.l.c.

2.2 Following the Restructuring and Recapitalisation, it is intended that the Bank be converted in due course to a private limited company.

2.3 The registered and head office of the Bank is at P.O. Box 101, 1 Balloon Street, Manchester M60 4EP (telephone number: +44 161 832 3456).

2.4 The principal legislation under which the Bank operates, and under which New Ordinary Shares will be created, is the Companies Act.

3. SUMMARY OF SHARE CAPITAL AND RESOLUTIONS

3.1 ***Share capital summary***

(a) On incorporation, the Bank's share capital was £100 divided into 100 shares of £1 each.

(b) As part of the recapitalisation of the Bank, on 20 December 2013 all of the Bank's ordinary shares were re-designated as deferred shares, cancelled and new ordinary shares of 5 pence each were issued. In addition the Co-operative Group acquired the entire issued amount of the Bank's preference shares and signed a deed of waiver waiving any rights to income and capital in respect of the preference shares. Accordingly, there is no longer a present obligation on the Bank to pay dividends or capital on the preference shares.

(c) On 1 January 2014, being the beginning of the period covered by the historical financial information in this Circular, the issued share capital of the Bank was made up as follows:

	Issued		
Class of the Bank's shares	**Number**	**Amount (£)**	**Fully Paid**
Ordinary Shares of 5p each	250,000,000	12,500,000	Yes
Preference Shares of £1 each	63,700,000	63,700,000	Yes

(d) Between 1 January 2014 and 31 December 2014, as a result of a capital raising, the Bank issued 200,000,000 new Ordinary Shares and as a result of a related bonus issue, the Bank issued 1,456,510 new Ordinary Shares, after which the issued share capital of the Bank was made up as follows:

	Issued		
Class of the Bank's shares	**Number**	**Amount (£)**	**Fully Paid**
Ordinary Shares of 5p each	451,456,510	22,572,825.50	Yes
Preference Shares of £1 each	63,700,000	63,700,000	Yes

(e) Between 1 January 2015 and 31 December 2015, there was no change in the Bank's issued share capital.

(f) Between 1 January 2016 and 31 December 2016, there was no change in the Bank's issued share capital.

(g) As at 25 July 2017, being the latest practicable date prior to publication of this Circular, the issued share capital of the Bank was made up as follows:

Class of the Bank's shares	Issued		Fully Paid
	Number	Amount (£)	
Ordinary Shares of 5p each	451,456,510	22,572,825.50	Yes
Preference Shares of £1 each	63,700,000	63,700,000	Yes

(h) As at 25 July 2017, being the latest practicable date prior to publication of this Circular, the Bank held no treasury shares and the Ordinary Shares were neither admitted to the Official List of the UK Listing Authority nor admitted to trading on any regulated market.

3.2 ***Summary of Resolutions***

(a) The Restructuring and Recapitalisation will be conditional on the following Resolutions being approved by the Shareholders (in the cases of Resolutions 4, 5 and 6 by Independent Shareholders only) at the General Meeting.

(b) Resolution 1, a special resolution that, subject to and conditional upon the passing of Resolutions 2 to 7 (inclusive) (A) the Articles of Association be amended to include a new article as Article 21(e) which grants authority to the Board to suspend the registration of transfers of shares or of transfers of any class of shares at such times and for such periods (not exceeding thirty days in any year) as the Board may determine; and to include another new article as Article 135 which provides that Ordinary Shares issued after the adoption of the amended Articles of Association but before the Entitlements Record Date will be subject to the terms of the Members' Scheme and Ordinary Shares issued after the Entitlements Record Date and up to the Settlement Date will be transferred to Holdco and/or its nominee; and (B) with effect from the Settlement Date, the draft articles of association which will be produced to the General Meeting marked "A" and signed by the Chairman of the General Meeting for identification purposes be approved and adopted as the articles of association of the Bank in substitution for, and to the exclusion of, all existing articles of association of the Bank.

(c) Resolution 2, an ordinary resolution that, subject to and conditional upon the passing of Resolution 1 and Resolutions 3 to 7 (inclusive), in addition to any existing authorities, the Directors be unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Bank to allot New Ordinary Shares in the Bank to Holdco for the purposes of the Holdco Subscriptions, up to an aggregate nominal amount of £3,000,000, such authority to expire (unless previously revoked, varied or renewed) on the fifth anniversary of this resolution, save that the Bank may make offers and enter into agreements before the authority expires which would, or might, require New Ordinary Shares to be allotted or rights to subscribe for or to convert any security into shares after the authority expires and the Directors may allot New Ordinary Shares or grant such rights under any such offer or agreement as if the authority had not expired.

(d) Resolution 3, a special resolution, that, subject to and conditional upon the passing of Resolutions 1 and 2 and Resolutions 4 to 7 (inclusive), the directors be generally empowered pursuant to section 571 of the Act to allot equity securities (as defined in section 560(1) of the Companies Act) for cash pursuant to the authority granted by Resolution 2, free of the restriction in section 561 of the Companies Act, such power to expire (unless previously revoked, varied or renewed) on the fifth anniversary of this resolution, but in each case, so that the Company may make offers and enter into agreements before the power expires which would, or might, require equity securities to be allotted after the power expires and the directors may allot the New Ordinary Shares under any such offer or agreement as if the authority had not expired.

(e) Resolution 4, an ordinary resolution that, subject to and conditional upon the passing of Resolutions 1 to 3 (inclusive) and Resolutions 5 to 7 (inclusive), the entering into and/or completion of the Group Related Party Transaction, and any other agreement or arrangement incidental or ancillary to the agreements to which the Bank is a party in connection with the Group Related Party Transaction, be approved and that the Directors of the Bank be generally and unconditionally authorised to take all such steps as may be necessary or desirable in relation to the Group Related Party Transaction and any other arrangements and matters provided therein or related thereto, to be completed, including, at their discretion, the variation or extension of any terms of any agreement or document connected with the Group Related Party Transaction.

(f) Resolution 5, an ordinary resolution that, subject to and conditional upon the passing of Resolutions 1 to 4 (inclusive), and Resolution 6 and 7, the entering into and/or completion of the GoldenTree Related Party Transaction, and any other agreement or arrangement incidental or ancillary to the agreements to which the Bank is a party in connection with the GoldenTree Related Party Transaction, be approved and that the Directors of the Bank be generally and unconditionally authorised to take all such steps as may be necessary or desirable in relation to the GoldenTree Related Party Transaction and any other arrangements and matters provided therein or related thereto, to be completed, including, at their discretion, the variation or extension of any terms of any agreement or document connected with the GoldenTree Related Party Transaction.

(g) Resolution 6, an ordinary resolution that, subject to and conditional upon the passing of Resolutions 1 to 5 (inclusive) and Resolution 7, the entering into and/or completion of the Silver Point Capital Related Party Transaction, and any other agreement or arrangement incidental or ancillary to the agreements to which the Bank is a party in connection with the Silver Point Capital Related Party Transaction, be approved and that the Directors of the Bank be generally and unconditionally authorised to take all such steps as may be necessary or desirable in relation to the Silver Point Capital Related Party Transaction and any other arrangements and matters provided therein or related thereto, to be completed, including, at their discretion, the variation or extension of any terms of any agreement or document connected with the Silver Point Capital Related Party Transaction.

(h) Resolution 7, a special resolution that, subject to and conditional upon the passing of Resolutions 1 to 6 (inclusive), for the purpose of giving effect to the Members' Scheme, a print of which will be produced to the General Meeting marked "B" and for the purposes of identification signed by the Chairman of the General Meeting, in its original form or subject to such modification, addition or condition made or introduced in accordance with its terms, the Directors be generally authorised to take all such action as they may consider necessary or appropriate for carrying the Members' Scheme into effect.

4. SUMMARY OF THE BANK'S EXISTING ARTICLES OF ASSOCIATION

The Articles of Association of the Bank, amended by special resolution on 15 November 2013, include provisions with the effect as described below.

4.1 *Objects*

The objects of the Bank, in accordance with section 31(1) of the Companies Act, are unrestricted. The Bank shall promote and conduct its business to the extent practicable in a manner informed by the established values of the co-operative movement having regard to the highest standards of ethical principles and with the aim of being recognised as a good corporate citizen and contributing to building a stronger and sustainable society. The Bank shall promote and conduct its business in this manner in relation to:

(a) how it relates to, communicates with, balances the interests of, and otherwise deals with, its stakeholders; and

(b) how it applies the profits of the Bank, in accordance with the dividend policy.

Among the factors to which the directors must have regard in exercising their duties are: (i) the promotion of co-operative values and ethical policies as approved and adopted by the Board from time to time after recommendation by the V&E Committee, (ii) the promotion of the desirability of customers of the Bank continuing to be able to participate in membership of the Co-operative Group (for so long as the Co-operative Group remains a *bona fide* co-operative society and directly or indirectly holds 20 per cent. or more of the Bank's ordinary shares) and (iii) the conduct of the Bank's business with respect to ethical standards and the interests of the customers, suppliers, employees and other stakeholders of the Bank in a manner consistent with the values and ethical policies approved and adopted by the Board.

4.2 ***Limited liability***

The liability of the members is limited to the amount, if any, unpaid on the shares in the Bank respectively held by them.

4.3 ***Preference Shares***[8]

(a) ***Dividends*** – the Preference Shares carry the right to a fixed, non-cumulative preferential dividend on the capital for the time being paid up thereon at the rate of 9.25 per cent. per annum, exclusive of any associated tax credit. Such dividends are payable half-yearly on 31 May and 30 November in each year. Such dividends are payable out of the profits of the Bank available for distribution and resolved to be distributed. The holders of the Preference Shares are entitled to payment of such dividend in priority to any payment of dividend to the holders of any other class of shares in the capital of the Bank. If any instalment of the dividend cannot be paid because the distributable profits and reserves of the Bank are insufficient to enable payment in full or if in the judgement of the directors the payment of such instalment would breach or cause a breach of the Bank of England's capital adequacy requirements currently applicable to the Bank, each Preference Shareholder eligible for payment of such dividend shall (subject to the following sentence) be allotted, credited as fully paid, such additional nominal amount of further Preference Shares equal to the cash amount of such dividend multiplied by four-thirds. Such allotment will only be made if the amount standing to the credit of the profit and loss account, reserves, share premium account or capital redemption reserve fund of the Bank are sufficient to enable the allotments of additional preference stock in full.

(b) ***Capital*** – a return of capital on a winding-up or other return of capital (other than on redemption of any class of redeemable share capital), the assets of the Bank shall be applied in priority to any payments to the holders of any other class of shares in the capital of the Bank in repaying to the holders of the Preference Shares a sum equal to: (i) the greater of (1) the capital paid up or credited as paid up on the Preference Shares and (2) a sum equal to the average of the middle market quotations (as derived from the Daily Official List of The London Stock Exchange) during the three months immediately preceding the date of the notice convening the meeting to consider the resolution to approve the winding-up or other return of capital and (ii) the amount that would have been properly payable by way of dividend at the annual rate thereof, calculated on an annual *pro rata* basis by reference to the actual number of days elapsed on and from whichever of 1 June or 1 December shall have last occurred, up to and including the date of the commencement of such winding-up or other return of capital.

(c) ***Voting and General Meetings*** – the holders of the Preference Shares 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 in arrears for six months or more after any date fixed for payment thereof, or if a resolution is

8 As part of the recapitalisation of the Bank, on 20 December 2013 the Co-operative Group acquired the entire issued amount of the Bank's preference shares and signed a deed of waiver waiving any rights to income and capital in respect of the preference shares.

to be proposed at such meeting abrogating or varying any of the respective rights or privileges attaching to their shareholding or the winding up of the company or other return of capital and then on such resolution only.

(d) ***Modification of Rights*** – rights attaching to Preference Shares can only be varied by consent of the holders of three-fourths of the Preference Shares. This consent is required in accordance with the Articles of Association for:

(i) issue by the Bank of any share capital or the grant by the Bank of any rights to subscribe for or to convert shares or other securities into share capital ranking in priority to or *pari passu* with the Preference Shares as regards participation in the profits or assets of the Bank or being capable of being redeemed whilst any of the Preference Shares are in issue or the variation of the rights of any class of shares so as to fall within the foregoing;

(ii) the repayment or (otherwise than in accordance with these rights and conditions) the reduction of all or any part of the capital paid up on any shares in the capital of the Bank for the time being in issue (other than a repayment in the course of a winding- up of the Bank) including share premium account and capital redemption reserve fund or the acquisition by the Bank or any of its subsidiaries of any share capital of the Bank; and

(iii) the capitalisation for appropriation to the holders of the Ordinary Shares of any part of the sums standing to the credit of the profit and loss account or to the credit of any reserve accounts of the Bank available for distribution if after such capitalisation the aggregate of the sums standing to the credit of the profit and loss account and to the credit of the Bank's reserves available for distribution would be a sum less than five times the aggregate amount of the annual preferential dividend (exclusive of any associated tax credit) payable on the new Preference Shares.

4.4 ***Rights attaching to all shares in the Bank***

(a) ***Voting rights of members*** – subject to the Articles of Association and to any special rights or restrictions as to voting for the time being attached to any shares, the provisions of the Companies Act apply in relation to voting rights. On a show of hands, every member or authorised corporate representative present has one vote and every proxy present has one vote, except if the proxy has been duly appointed by more than one member and has been instructed by (or exercises his discretion given by) one or more of those members to vote for the resolution and has been instructed by (or exercises his discretion given by) one or more other of those members to vote against it, in which case a proxy has one vote for and one vote against the resolution. On a poll, every member present in person or by proxy has one vote for every share of which he is a holder. In the case of joint holders, the vote of the person whose name stands first in the register of members and who tenders a vote is accepted to the exclusion of any votes tendered by any other joint holders.

(b) ***Dividends*** – subject to the rights attached to any shares issued on any special terms and conditions, dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls should be treated for these purposes as paid up on the share.

(c) ***Return of capital*** – if the Bank is in liquidation, the liquidator may, with the sanction of extraordinary resolution of the Bank and any other authority required by any applicable statutory provision: (i) divide among the members *in specie* the whole or any part of the assets of the Bank; or (ii) vest the whole or any part of the assets in trustees on such trusts for the benefit of members as the liquidator shall think fit, but no member shall be compelled to accept any assets upon which there is any liability.

(d) ***Capitalisation of reserves*** – the Board may, with the authority of an ordinary resolution of the Bank: (i) resolve to capitalise any sum standing to the credit of any reserve account of the Bank (including share premium account and capital redemption reserve) or any sum standing to the

credit of profit and loss account not required for the payment of any preferential dividend (whether or not it is available for distribution); and (ii) appropriate that sum as capital to the holders of shares in proportion to the nominal amount of the share capital held by them respectively and apply that sum on their behalf in paying up in full any shares or debentures of the Bank of a nominal amount equal to that sum and allot the shares or debentures credited as fully paid to those members, or as they may direct, in those proportions or in paying up the whole or part of any amounts which are unpaid in respect of any issued shares in the Bank held by them respectively, or otherwise deal with such sum as directed by the resolution **provided that**, the share premium account and the capital redemption reserve, any redenomination reserve and any sum not available for distribution in accordance with the Companies Act may only be applied in paying up shares to be allotted credited as fully paid up.

4.5 ***Transfer of shares***

A member may transfer all or any of his shares in any manner which is permitted by applicable statutory provisions and is from time to time approved by the Board. The Bank shall maintain a record of uncertificated shares in accordance with the relevant statutory provisions.

A member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in such other form as the Board may approve. The instrument of transfer should be signed by or on behalf of the transferor and, except in the case of a fully paid share, by or on behalf of the transferee. The Board may, in its absolute discretion, refuse to register any instrument of transfer of any certificated share which is not fully paid up (but not so as to prevent dealings in listed shares from taking place on an open and proper basis) or on which the Bank has a lien. The Board may also refuse to register any instrument of transfer of a certificated share unless it is left at the registered office, or such other place as the Board may decide, for registration, accompanied by the certificate for the shares to be transferred and such other evidence (if any) as the Board may reasonably require to prove title of the intending transferor or his right to transfer shares; and it is in respect of only one class of shares. If the Board refuses to register a transfer of a certificated share it shall, as soon as practicable and in any event within two months after the date on which the instrument of transfer was lodged, give to the transferee notice of the refusal together with its reasons for refusal. The Board must provide the transferee with such further information about the reasons for the refusal as the transferee may reasonably request. Unless otherwise agreed by the Board in any particular case, the maximum number of persons who may be entered on the register as joint holders of a share is four.

4.6 ***Alteration of share capital***

The Bank may exercise the powers conferred by the applicable statutory provisions to:

(a) increase its share capital by allotting new shares;

(b) reduce its share capital, any capital redemption reserve and any share premium account in any way;

(c) subdivide or consolidate and divide all or any of its share capital;

(d) redenominate all or any of its shares and reduce its share capital in connection with such redenomination;

(e) issue redeemable shares; and

(f) purchase all or any of its own shares including any redeemable shares.

4.7 ***Authority to allot shares and grant rights and disapplication of pre-emption rights***

The Bank may from time to time pass an ordinary resolution authorising, in accordance with section 551 of the Companies Act, the Board to exercise all the powers of the Bank to allot shares in the Bank or to grant rights to subscribe for or to convert any security into shares in the Bank up to the maximum

nominal amount specified in the resolution. The authority shall expire on the day specified in the resolution (being not more than five years from the date on which the resolution is passed).

Subject (other than in relation to the sale of treasury shares) to the Board being generally authorised to allot shares and grant rights to subscribe for or to convert any security into shares in the Bank in accordance with section 551 of the Companies Act, the Bank may from time to time resolve, by special resolution, that the Board be given power to allot equity securities for cash as if section 561 of the Companies Act did not apply to the allotment, but that power shall be limited: (i) to the allotment of equity securities in connection with a rights issue; and (ii) to the allotment (other than in connection with a rights issue) of equity securities having a nominal amount not exceeding in aggregate the sum specified in the special resolution.

4.8 ***Variation of rights***

Whenever the share capital of the Bank is divided into different classes of shares, the special rights for the time being attached to any class of shares in issue may be varied or abrogated either whilst the Bank is a going concern or during or in contemplation of a winding-up, either with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate class meeting of the holders of the shares of the class, but not otherwise. At any separate class meeting, the quorum is two members present in person or proxy holding at least one-third in nominal amount of the issued shares of the class in question (but at any adjourned meeting, the quorum is one member present in person or by proxy holding shares of the class) and the holders of shares of the class shall, on a poll, have one vote in respect of every share of the class held by them respectively.

4.9 ***Creation or issue of further shares***

The special rights conferred upon the holders of any class of shares issued with preferred or other special rights shall be deemed to be varied by the reduction of the capital paid up on such shares but shall not (unless otherwise expressly provided by the Articles of Association of the Bank or by the conditions of issue of such shares) be deemed to be varied by the creation or issue of further shares ranking in some or all respects *pari passu* therewith or subsequent thereto.

4.10 ***Disclosure of interests in shares***

If the holder of, or any person appearing to be interested in, any share has been given a notice requiring any of the information mentioned in section 793 of the Companies Act (section 793 notice) and, in respect of that share (a default share), has been in default for a period of 14 days after the section 793 notice has been given in supplying to the Bank the information required by the section 793 notice, the following restrictions shall apply: (i) if the default shares in which any one person is interested or appears to the Bank to be interested represent less than 0.25 per cent. of the issued shares of the class, the holders of the default shares shall not be entitled, in respect of those shares, to attend or to vote, either personally or by proxy, at any general meeting of the Bank; or (ii) if the default shares in which any one person is interested or appears to the Bank to be interested represent at least 0.25 per cent. of the issued shares of the class, the holders of the default shares shall not be entitled, in respect of those shares:

(a) to attend or to vote, either personally or by proxy, at any general meeting of the Bank; or

(b) to receive any dividend or other distribution; or

(c) to transfer or agree to transfer any of those shares or any rights in them.

4.11 ***Uncertificated shares – general powers***

In relation to any uncertificated share, the Bank may utilise the relevant system in which it is held to the fullest extent available from time to time in the exercise of any of its powers or functions under any applicable statutory provision or the Articles of Association or otherwise in effecting any action. Any provision in the Articles of Association in relation to uncertificated shares which is inconsistent

with any applicable statutory provision shall not apply. The Bank may, by notice to the holder of an uncertificated share, require the holder to change the form of that share to certificated form within such period as may be specified in the notice. For the purpose of effecting any action by the Bank, the Board may determine that shares held by a person in uncertificated form and in certificated form shall be treated as separate holdings but they shall not be treated as separate classes of shares.

4.12 ***Directors***

(a) The Directors (other than alternate directors) shall not, unless otherwise determined by an ordinary resolution of the Bank, be less than two.

(b) A Director need not be a member of the Bank.

(c) The Directors shall retire from office at each annual general meeting. A retiring Director shall be eligible for re-election, and a Director who is re-elected will be treated as continuing in office without a break. A retiring Director who is not re-elected shall retain office until the close of the meeting at which he retires. If the Bank, at any meeting at which a Director retires in accordance with the Articles of Association, does not fill the office vacated by such Director, the retiring Director, if willing to act, shall be deemed to be re-elected, unless at the meeting a resolution is passed not to fill the vacancy or to elect another person in his place or unless the resolution to re-elect him is put to the meeting and lost.

(d) The non-executive Directors shall be paid such fees not exceeding in aggregate £1.5 million per annum (or such larger sum as the Bank may, by ordinary resolution, determine) as the Directors may decide to be divided among them in such proportion and manner as they may agree, or failing agreement, equally.

(e) The Board may grant special remuneration to any Director who performs any special or extra services to or at the request of the Bank. Such special remuneration may be paid by way of lump sum, salary, commission, participation in profits, provision for retirement or insurance benefit or otherwise as the Board may decide in addition to his ordinary remuneration (if any) as a Director.

(f) The Directors shall also be paid, out of the funds of the Bank, all expenses properly incurred by them in and about the discharge of their duties, including their expenses of travelling to and from the Board meetings, committee meetings and general meetings.

(g) The Board may exercise all the powers of the Bank to:

(i) pay, provide, arrange or procure the grant of pensions or other retirement benefits, and death, disability or sickness benefits, health, accident and other insurances or other such benefits, allowances, gratuities or insurances, including in relation to the termination of employment, to or for the benefit of any person who is or has been at any time a Director of the Bank or in the employment or service of the Bank or of any undertaking which is or was associated with the Bank or of the predecessors in business of the Bank or any such associated undertaking or the relatives or dependants of any such person. For that purpose the Board may procure the establishment and maintenance of, or participation in, or contribution to, any pension fund, scheme of arrangement or the payment of any insurance premiums;

(ii) establish, maintain, adopt and enable participation in any profit-sharing or incentive scheme including shares, share options or cash or any similar schemes for the benefit of any Director or employee of the Bank or of any associated undertaking, and to lend money to any such Director or employee or to trustees on their behalf to enable any such schemes to be established, maintained or adopted; and

(iii) support and subscribe to any institution or association which may be for the benefit of the Bank or of any associated undertaking or any directors or employees of the Bank or

associated undertaking or their relatives or dependants or connected with any town or place where the Bank or an associated undertaking carries on business, and to support and subscribe to any charitable or public object whatsoever.

(h) If a situation (a "**Relevant Situation**") arises in which a Director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Bank but which does not arise in relation to a transaction or arrangement with the Bank, the Director must declare the nature and extent of his interest to the other Directors and the Directors (other than the Director, and any other Director with a similar interest, who shall not be counted in the quorum at the meeting and shall not vote on the resolution) may: (i) if the Relevant Situation arises from the appointment or proposed appointment of a person as a Director of the Bank, resolve to authorise the appointment of the Director and the Relevant Situation on such terms as they may determine and (ii) if the Relevant Situation arises in other circumstances, resolve to authorise the Relevant Situation and the continuing performance by the Director of his duties on such terms as they may determine. Any terms of such authorisation may be imposed at the time of the authorisation or may be imposed or varied subsequently and may include (without limitation):

(i) whether the interested Directors may vote (or be counted in the quorum at a meeting) in relation to any resolution relating to the Relevant Situation;

(ii) the exclusion of the interested Directors from all information and discussion by the Bank of the Relevant Situation; and

(iii) (without prejudice to the general obligations of confidentiality) the application to the interested Directors of a strict duty of confidentiality to the Bank for any confidential information of the Bank in relation to the Relevant Situation.

(i) Any authorisation of a Relevant Situation may provide that, where the interested Director obtains (other than through his position as a director of the Bank) information that is confidential to a third-party, he will not be obliged to disclose it to the Bank or to use it in relation to the Bank's affairs in circumstances where to do so would amount to a breach of that confidence.

(j) If a Director is in any way, directly or indirectly, interested in a proposed or an existing transaction or arrangement with the Bank, he must usually declare the nature and extent of that interest to the other Directors.

(k) Subject to any applicable statutory provisions and to having declared his interest to the other Directors, a Director may:

(i) enter into or be interested in any transaction or arrangement with the Bank, either with regard to his tenure of any office or position in the management, administration or conduct of the business of the Bank, or as vendor, purchaser or otherwise;

(ii) hold and be remunerated in respect of any other office or place of profit with the Bank (except that of auditor) in conjunction with his office of director;

(iii) act by himself or his firm in a professional capacity for the Bank (except as auditor) and be entitled to remuneration for professional services as if he were not a Director;

(iv) be or become a member or Director of, or hold any other office or place of profit under, or otherwise be interested in, any parent undertaking or subsidiary undertaking of that parent undertaking or any undertaking in which the Bank may be interested; and

(v) be or become a Director of any other undertaking in which the Bank does not have an interest if that cannot reasonably be regarded as likely to give rise to a conflict of interest at the time of his appointment as a Director of that other undertaking.

(l) A Director shall not vote (or be counted in the quorum at a meeting) in respect of any resolution concerning his own appointment (including fixing and varying its terms), or the termination of his own appointment, as the holder of any office or place of profit with the Bank or any other undertaking in which the Bank is interested but, where proposals are under consideration concerning the appointment (including fixing or varying its terms), or the termination of the appointment, of two or more Directors to offices or places of profit with the Bank or any other undertaking in which the Bank is interested, those proposals may be divided and considered in relation to each Director separately; and in such case each of the Directors concerned (if not otherwise debarred from voting under the Articles of Association) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment or the termination of his own appointment.

(m) A Director shall not vote (or be counted in the quorum at a meeting) in respect of any resolution relating to any transaction or arrangement with the Bank in which he has an interest which may reasonably be regarded as likely to give rise to a conflict of interest. Notwithstanding the above, a Director may vote (and be counted in the quorum) on: (i) any transaction or arrangement in which he is interested by virtue of an interest in shares, debentures or other securities of the Bank or otherwise in or through the Bank; (ii) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of, or for the benefit of, the Bank or any of its subsidiary undertakings; or a debt or obligation of the Bank or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part (either alone or jointly with others) under a guarantee or indemnity or by the giving of security; (iii) indemnification (including loans made in connection with it) by the Bank in relation to the performance of his duties on behalf of the Bank or of any of its subsidiary undertakings; (iv) any issue or offer of shares, debentures or other securities of the Bank or any of its subsidiary undertakings in respect of which he is or may be entitled to participate in his capacity as holder of any such securities or as an underwriter or sub-underwriter; (v) any transaction or arrangement concerning any other company in which he does not hold, directly or indirectly as shareholder, or through his direct or indirect holdings of financial instruments (within the meaning of Chapter 5 of the Disclosure and Transparency Rules) voting rights representing 1 per cent. or more of any class of shares in the capital of such company; (vi) any arrangement for the benefit of employees of the Bank or any of its subsidiary undertakings which does not accord to him any privilege or benefit not generally accorded to the employees to whom the arrangement relates; and (vii) the purchase or maintenance of insurance for the benefit of Directors or for the benefit of persons including Directors.

4.13 ***General meetings***

An annual general meeting shall be held in accordance with the applicable statutory provisions at such place as may be determined by the Board. Other general meetings shall be held whenever the Board thinks fit or on the requisition of Shareholders in accordance with the Companies Act.

Subject to the applicable statutory provisions, an annual general meeting shall be called by not less than 21 clear days' notice and all other general meetings shall be called by not less than 14 clear days' notice or by not less than such minimum notice period as is permitted by the applicable statutory provisions.

The requisite quorum for general meetings of the Bank shall be two qualifying persons, representing different members and entitled to vote on the business to be transacted at the meeting. A qualifying person is an individual who is a member of the Bank, a corporate representative or a proxy.

4.14 ***Borrowing powers***

There is no requirement on the Directors to restrict the borrowing of the Bank or any of its subsidiary undertakings.

4.15 ***Change of name***

The Board may change the name of the Bank.

4.16 ***V&E Committee***

(a) The V&E Committee is a committee of the Board and recommends to the Board for its approval and adoption the co-operative values and ethical policies of the Bank and represents, monitors, and advises the Board on matters concerning the interests of all stakeholders in their dealings with the Bank in line with the objects of the Bank, whilst having regard to: (i) the legal and regulatory requirements applicable to the Bank and the Directors; (ii) the need for the Bank's operations to be commercially sustainable and profitable; and (iii) the desirability of maintaining and enhancing the public reputation and image of the Bank. The V&E Committee has the right to engage with any of the Directors or senior management of the Bank upon matters of relevance to its purpose and authority.

(b) The V&E Committee shall at least annually prepare and present to the Board for its approval a report on its activities and on its assessment as to the Bank's performance having regard to its values and ethical policies, and the report (in a form approved by the Board) shall be included in the Bank's annual report and accounts in a form approved by the Board. The Shareholders shall be entitled to raise questions on the work of the V&E Committee and the report at the annual general meeting.

(c) The V&E Committee shall be comprised of a minimum of five and a maximum of seven members, of whom: (i) the majority shall be independent directors of the Bank; and (ii) at least five shall be Directors. The V&E Committee may contain up to two members who are not Directors of the Bank, one or both of whom must be senior executives of the Bank and one of whom may be an individual who is not a senior executive of the Bank provided that the individual has credentials appropriate for the role. The chairman of the V&E Committee shall be an independent Director of the Bank specifically appointed to act as chairman.

(d) For so long as the Co-operative Group directly or indirectly holds 20 per cent. or more of the Bank's Ordinary Shares, it shall have the right to appoint one of the Directors as a member of the V&E Committee, and may at any time remove such Director as a member of the V&E Committee by appointing another Director in his or her place.

(e) For so long as the Co-operative Group directly or indirectly holds 20 per cent. or more of the Bank's Ordinary Shares, all provisions contained in the Articles of Association relating to the V&E Committee, the provisions relating to co-operative values and ethical principles, the Co-operative Group's nominee directors and the dividend policy may be amended or repealed only with the prior written consent of the Co-operative Group in addition to the passing of a special resolution approving such changes. This provision shall cease to apply upon the earlier to occur of: (i) the Co-operative Group ceasing to hold directly or indirectly 20 per cent. or more of the Bank's Ordinary Shares; and (ii) the Co-operative Group ceasing to be a *bona fide* co-operative society.

4.17 ***Co-operative Group Limited Nominee Directors***

For so long as the Co-operative Group remains a *bona fide* co-operative society and directly or indirectly controls:

(a) 25 per cent. or more of the voting rights exercisable at general meetings of the Bank, it shall be entitled to appoint, remove and replace up to two natural persons as Directors; or

(b) 20 per cent. or more (but less than 25 per cent.) of the voting rights exercisable at general meetings of the Bank, it shall be entitled to appoint, remove and replace one natural person as a Director,

(any such Director, or his/her replacement, being a "**Co-operative Group Nominee Director**"), by giving notice in writing to the Bank. The Co-operative Group may remove a Co-operative Group Nominee Director at any time by giving notice in writing to the Bank. The Articles of Association also contain details as to the mechanism for such appointments and replacements. The appointment of any Co-operative Group Nominee Director is subject to prior consultation with the Nomination Committee of the Bank. For further information on the voting rights of the Co-operative Group please see paragraph 17.3 of this Part 16.

4.18 ***Dividends***

(a) ***Declaration of dividends*** – the Bank may, by ordinary resolution, declare a dividend to be paid to the members, according to their respective rights and interests in the profits, and may fix the time for payment of such dividend, but no dividend shall exceed the amount recommended by the Board.

When considering any dividend, the Board shall take into account the Bank's capital and financial position, cash requirements and liquidity and profits available as well as the Bank's regulatory outlook, capital position, investment needs and principal relevant risk factors subsisting at the time. In addition, the Board shall consider the need to balance the division of profits between:

(i) distributions to its Shareholders;

(ii) investment in products and services;

(iii) retaining earnings for future development; and

(iv) support for social and/or environmental objectives.

(b) ***Fixed and interim dividends*** – the Board may pay such interim dividends as appear to the Board to be justified by the financial position of the Bank and may also pay any dividend payable at a fixed rate at intervals settled by the Board whenever the financial position of the Bank, in the opinion of the Board, justifies its payment. If the Board acts in good faith, none of the Directors shall incur any liability to the holders of shares conferring preferred rights for any loss such holders may suffer in consequence of the payment of an interim dividend on any shares having non-preferred or deferred rights.

(c) ***Calculation and currency of dividends*** – except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide: (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated as paid up on the share; (ii) all dividends shall be apportioned and paid *pro rata* according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid; and (iii) dividends may be declared or paid in any currency and the Board may agree with any member that dividends which may at any time or from time to time be declared or become due on his shares in one currency shall be paid or satisfied in another, and may agree the basis of conversion to be applied and how and when the amount to be paid in the other currency shall be calculated and paid and for the Bank or any other person to bear any costs involved.

(d) ***Dividends not to bear interest*** – no dividend or other moneys payable by the Bank on or in respect of any share shall bear interest as against the Bank unless otherwise provided by the rights attached to the share.

(e) ***Calls or debts may be deducted from dividends*** – the Board may deduct from any dividend or other moneys payable to any person (either alone or jointly with another) on or in respect of a share all such sums as may be due from him (either alone or jointly with another) to the Bank on account of calls or otherwise in relation to shares of the Bank.

(f) ***Dividends in specie*** – with the authority of an ordinary resolution of the Bank and on the recommendation of the Board, payment of any dividend may be satisfied wholly or in part by the distribution of specific assets and in particular of paid up shares or debentures of any other company.

(g) ***Scrip dividends*** – the Board may, with the authority of an ordinary resolution of the Bank, offer any holders of shares the right to elect to receive further shares by way of scrip dividend instead of cash in respect of all (or some part) of any dividend specified by the ordinary resolution.

(h) ***Unclaimed dividends*** – any dividend unclaimed for a period of 12 years after having been declared shall be forfeited and cease to remain owing by the Bank.

Please see the risk factor entitled "*No dividends to be paid in respect of the A Shares in the near future*." in Part 3 of this Circular for further details regarding the payment of dividends.

4.19 ***Forfeiture of shares***

If the whole, or any part of, any call or instalment remains unpaid on any share after the due date for payment, the Board may give a notice to the holder requiring him to pay so much of the call or instalment as remains unpaid, together with any accrued interest.

If the requirements of a notice are not complied with, any share in respect of which it was given may (before the payment required by the notice is made) be forfeited by a resolution of the Board. The forfeiture shall include all dividends declared and other moneys payable in respect of the forfeited share and not actually paid before the forfeiture.

Every share which is forfeited or surrendered shall become the property of the Bank and (subject to the applicable statutory provisions) may be sold, re-allotted or otherwise disposed of, upon such terms and in such manner as the Board shall decide either to the person who was before the forfeiture the holder of the share or to any other person and whether with or without all or any part of the amount previously paid up on the share being credited as so paid up.

4.20 ***Communications by the Bank***

Subject to the applicable statutory provisions, a document or information may be sent or supplied by the Bank to any member in electronic form to such address as may from time to time be authorised by the member concerned or by making it available on a website and notifying the member concerned (in accordance with the applicable statutory provisions) of the presence of a document or information on the website. A member shall be deemed to have agreed that the Bank may send or supply a document or information by means of a website if the applicable statutory provisions have been satisfied.

4.21 ***Directors' indemnity, insurance and defence***

As far as the applicable statutory provisions allow, the Bank may:

(a) indemnify any Director of the Bank (or of an associated body corporate) against any liability;

(b) indemnify a Director of a company that is a trustee of an occupational pension scheme for employees (or former employees) of the Bank (or of an associated body corporate) against liability incurred in connection with the company's activities as trustee of the scheme;

(c) purchase and maintain insurance against any liability for any Director referred to in paragraph (a) or paragraph (b) above; and

(d) provide any Director referred to in paragraph (a) or paragraph (b) above with funds (whether by loan or otherwise) to meet expenditure incurred or to be incurred by him in defending any criminal, regulatory or civil proceedings or in connection with an application for relief (or to enable any such Director to avoid incurring such expenditure).

4.22 ***Corporate Governance***

For so long as the Ordinary Shares are not admitted to the premium listing segment of the Official List (and there can be no guarantee that the Bank will be able to satisfy the necessary eligibility criteria in order to do so), the Bank shall: (i) use all reasonable endeavours to comply with the UK Corporate Governance Code; and (ii) comply with the provisions of LR 9.8.6R(5) and LR 9.8.6R(6) of the Listing Rules as if they applied to the Bank, in each case, as if the Bank were in the FTSE 350.

4.23 ***Significant Transactions, Related Party Transactions, Circulars etc.***

Following, and for the duration of, any admission of the Ordinary Shares to the standard segment of the Official List, the Bank shall adopt and follow policies requiring the Bank to comply with the rules in Chapter 10 (significant transactions), Chapter 11 (related party transactions), Chapter 12 (dealing in own securities and treasury shares) and Chapter 13 (contents of circulars) of the Listing Rules, on a voluntary basis, as if the Bank were listed on the premium segment of the Official List.

For so long as the Ordinary Shares are not admitted to either the standard segment or premium segment of the Official List (and there can be no guarantee that the Bank will be able to satisfy the necessary eligibility criteria in order to do so), the Bank shall adopt and follow policies to comply with the rules in Chapter 10 (significant transactions), Chapter 11 (related party transactions), Chapter 12 (dealing in own securities and treasury shares) and Chapter 13 (contents of circulars) of the Listing Rules to the extent reasonably practicable and in accordance with the spirit of such Chapters of the Listing Rules.

5. SUMMARY OF THE BANK'S AMENDED ARTICLES OF ASSOCIATION

5.1 ***Amendments to existing Articles of Association***

If approved at the General Meeting pursuant to Resolution 1(A), the Bank's Articles of Association will be amended as follows:

By including the following new article as Article 21(e):

"The registration of transfers of shares or of transfers of any class of shares may be suspended at such times and for such periods (not exceeding thirty days in any year) as the board may determine."

This amendment is being made to ensure that those Shareholders on the register of members at the Scheme Record Time, when entitlements to participate in the Members' Equity Subscription are calculated, remain Scheme Shareholders when the Member's Scheme is sanctioned and made effective. The Board will exercise this power to suspend the ability to transfer an Ordinary Share in the period from the General Meeting until the Settlement Date.

By including the following new article as Article 135, in order to give effect to the scheme of arrangement dated 28 July 2017 between the Bank and the Scheme Shareholders:

"135. Scheme of arrangement

(a) In this article 135 references to the "**Scheme**" are to the scheme of arrangement between the Company and its Scheme Shareholders dated 28 July 2017 as it may be modified or added to in accordance with its terms, and expressions defined in the Scheme shall have the same meaning when used in this article 135.

(b) Notwithstanding any other provision in these articles, if any Ordinary Shares are allotted and issued to any person (a "**New Member**") other than Balloon Street Holdings Limited ("**Holdco**") and/or its nominee(s) after the adoption of this article 135 and on or before the Entitlements Record Time (other than any Ordinary Shares issued to Holdco or its nominees or any member of its group), such Ordinary Shares shall be allotted and issued subject to the terms of the Scheme and shall accordingly constitute Scheme Shares for the purposes thereof, and any New Members, and any subsequent holder other than Holdco and/or its nominee(s), shall be bound by the terms of the Scheme.

(c) Subject to the Scheme taking effect, if any Ordinary Shares shall be issued after the Entitlements Record Time and on or before the Settlement Date to any New Member, such Ordinary Shares shall be allotted and issued on terms that, immediately upon their allotment or issue or, if later, immediately after the Settlement Date, they shall be transferred to Holdco and/or its nominee(s).

(d) The consideration for any transfer provided for in article 135(c) of this article 135 shall be the allotment and issue by Holdco to the New Member of such number of A Shares in Holdco as the New Member would have been entitled to had each Ordinary Share so transferred been a Scheme Share (excluding, for the avoidance of doubt, any Early Bird Members' Premium or any entitlement pursuant to the Members' Equity Subscription). The A Shares allotted and issued in consideration of such transfer shall be credited as fully paid and shall rank pari passu in all respects with all other A Shares in issue at that time (other than as regards any dividend or distribution payable by reference to a record date preceding the date of allotment).

(e) The number of Ordinary Shares to be issued or transferred to the New Member under this article 135 may be adjusted by the directors of the Company following any variation in the share capital of either the Company or Holdco or such other event as the directors of the Company considers fair and reasonable on such adjusted terms as the directors of the Company may determine provided that no such adjustment may be made unless the auditors have confirmed in writing to the directors of the Company that, in their opinion, such adjustment is fair and reasonable, and provided always that any fractions of A Shares shall be disregarded and shall be aggregated and sold for the benefit of the Company or as Company may direct.

(f) In order to give effect to any transfer required by this article 135, the company secretary or any person appointed by him or her may execute and deliver on behalf of the New Member or subsequent holder of Ordinary Shares a form of transfer in favour of Holdco, and agree for and on behalf of such person to become a member holding A Shares. Pending the registration of Holdco as holder of any share to be transferred pursuant to this article 135, Holdco shall be empowered to appoint a person nominated by the directors to act as attorney on behalf of any holder of such share in accordance with such directions as Holdco may give in relation to any dealing with or demerger of such share (or any interest therein), exercising any rights attached thereto or receiving any distribution or other benefit accruing or payable in respect thereof and any holder of such shares shall exercise all rights attached thereto in accordance with the directions of Holdco but not otherwise.

(g) If the Scheme shall not have become effective by the Long Stop Date, this article 135 shall be of no effect."

The new article is being introduced to the Articles of Association to complement the Share Transfer part of the Members' Scheme. This will ensure that any Ordinary Shares allotted and issued to any person other than Holdco and/or its nominee(s) after the adoption of the new article but on or before the Entitlements Record Time will be allotted and issued subject to the terms of the Members' Scheme and will accordingly constitute Scheme Shares. Further, subject to the Members' Scheme becoming effective, any Ordinary Shares issued after the Entitlements Record Time and up to the Settlement Date to any person other than Holdco and/or its nominee(s) will be allotted and issued on terms that they will, immediately upon their allotment or issue or, if later, immediately after the Settlement Date, be transferred to Holdco and/or its nominee(s) in exchange for A Shares in Holdco.

Otherwise, the summary of the Articles of Association set out in paragraph 4 above will continue to apply with respect to the amended articles of association.

5.2 ***New articles of association***

If approved at the General Meeting and conditional on Resolution 1B becoming effective, the Bank will adopt new articles of association, as at the Settlement Date, to reflect its status as a wholly owned subsidiary of Holdco and certain updated governance rights.

Set out below is a summary of the key changes being made to the existing articles of association and adopted in the articles of association to be adopted:

1. removal of the requirement to voluntarily comply with Listing Rules 10, 11, 12 and 13 as well as the UK Corporate Governance Code and Listing Rules 9.8.6R(5) and 9.8.6R(6). This reflects the Bank's new status as a wholly owned entity;

2. removal of the provisions relating to Co-operative Group Limited's rights to appoint directors and certain other entrenched provisions (as further described in paragraph 4 above. These provisions fall away on the Settlement Date and are being removed for good order;

3. removal of the provisions relating to the Preference Shares. As a result of the Preference Share Cancellation, these provisions will no longer be required and are being removed for good order;

4. the adoption of a new governance structure which reflects that being adopted by Holdco. The Bank's Board going forward will comprise of up to 10 members including, the chief executive officer, the chief financial officer, up to two B Directors and a majority of independent non-executive directors. The quorum for board meetings will be three including at least one B Director and a majority of Independent Non-Executive Directors. Appointments and removals from the Board will be by way of resolution of the Bank only, save for appointments by the Board to fill casual vacancies. Certain provisions in relation to the committees of the Board will be set out in the Bank's Articles of Association as well;

5. Holdco, as a shareholder in Bank, will be entitled to be notified of certain non-ordinary course transactions and corporate actions which exceed a specified threshold amount. If the proposed transaction or corporate action exceeds twice the threshold amount, it will require the consent of Holdco;

6. each of the Bank and the B Directors will be empowered to disclose certain information on the Bank (subject to applicable legal and regulatory considerations) with Holdco; and

7. certain other relatively small amendments are also being made to the Bank's Articles of Association to bring them up to date (for example, updating references to the Disclosure and Transparency Rules to Disclosure Guidance and Transparency Rules).

A blackline of the changes to the Bank's Articles of Association is being put on display as set out in paragraph 22 of this Part 16 and will be made available on the Bank's website.

Otherwise, the summary of the Articles of Association set out in paragraph 4 above will continue to apply with respect to the articles of association to be adopted on the Settlement Date.

6. DIRECTORS AND SENIOR MANAGERS' INTERESTS

6.1 Save as disclosed in this paragraph 6.1, none of the Directors or Senior Managers has any potential conflict of interest between their duties to the Bank and their private interests and/or their duties to third parties. The Board recognises that, by virtue of being statutory directors as well as individuals who receive remuneration (in the form of directors' fees for Non-Executive Directors and salary, bonus, pensions and awards under the Bank Incentive Plans for Executive Directors) from the Bank, they have an inherent personal interest in the financial performance, capital management and overall health of the financial status of the Bank.

Pursuant to the Articles of Association of the Bank, and as referred to in the Relationship Agreement, the Co-operative Group has a right to nominate up to two directors to the Board as long as it directly or indirectly controls 25 per cent. or more of the voting rights exercisable at general meetings of the Bank, and one director to the Board as long as it directly or indirectly controls more than 20 per cent. (but less than 25 per cent.) of the voting rights exercisable at general meetings of the Bank. The Co-operative Group has a right, pursuant to the Variation and Director Appointment Deed, to appoint one Director to the Board for so long as it directly or indirectly controls 15 per cent. or more of the voting rights exercisable at general meetings of the Bank. This right takes effect when the percentage

of voting rights controlled directly or indirectly by the Co-operative Group fall below 20 per cent. (as such the rights under the Articles of Association of the Bank, and as referred to in the Relationship Agreement, would cease to apply), so that when the Co-operative Group directly or indirectly controls between 15 per cent. and 20 per cent. of such voting rights, it shall be entitled to appoint one Director pursuant to the Variation and Director Appointment Deed. The Co-operative Group acknowledges that its nominee director(s) shall not be able to vote at Board meetings of the Bank on any matter where there is a conflict of interests or potential conflict of interests between the Bank or any of its subsidiaries (on the one hand) and the Co-operative Group or any of its subsidiaries (on the other hand). Alistair Asher was appointed to the Board following nomination by the Co-operative Group and will step down at Completion when the Relationship Agreement terminates at which time the entitlement of the Co-operative Group to appoint a Director to the Board (as described in paragraph 4.17 above) will be removed from the Articles of Association.

Each of Silver Point and Perry Capital UK LLP ("**Perry Capital**") have the right to nominate a director for appointment to the Board for so long as Silver Point and Perry Capital, as the case may be, directly or indirectly controls 5 per cent. or more of the voting rights exercisable at general meetings of the Bank pursuant to the terms of the 2014 Shareholder Rights Agreement. These rights are in addition to those contained in the Relationship Agreement pursuant to which the purchasers under the Purchase Agreement were granted the right to appoint up to two Directors. Charles Bralver was appointed to the Board following nomination by Silver Point. It is expected that these arrangements will be superseded following Completion by the new governance arrangements described in Part 5 of this Circular.

6.2 No Director or Senior Manager will have any interest in the share capital of the Bank on completion of the Restructuring and Recapitalisation and there is no person to whom any capital of any member of the Bank or any of its subsidiaries is under award or option or agreed unconditionally to be put under award or option.

6.3 Save as disclosed in this paragraph 6.3, none of the Directors or Senior Managers has any potential conflict of interest between their duties to the Bank and their private interests and/or their duties to third parties. Pursuant to the terms of the Relationship Agreement, Alistair Asher was appointed to the Board following nomination by the Co-operative Group. Pursuant to the terms of the 2014 Shareholder Rights Agreement, Charles Bralver was appointed to the Board following nomination by Silver Point. As at 25 July 2017 (being the last practicable date prior to the date of this Circular) Glyn Smith's spouse held 130,000 notes issued by the Co-operative Group in 2013 issued at £0.12 with an annual capital repayment of £0.01 per note, due for redemption in 2025.

6.4 None of the Directors or Senior Managers has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business which was effected by the Bank or any of its subsidiaries during the current or immediately preceding financial year, or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

6.5 None of the Directors or Senior Managers has or had a beneficial interest in any contract to which the Bank or any of its subsidiaries was a party during the current or immediately preceding financial year.

6.6 Save as disclosed in this paragraph 6.6, no Director or Senior Manager was selected to act in such capacity pursuant to any arrangement or understanding with any Shareholder, customer, supplier or any other person having a business connection with the Bank or any of its subsidiaries:

(a) Pursuant to the Articles of Association of the Bank, and as referred to in the Relationship Agreement, the Co-operative Group have the right to nominate up to two persons to be members of the Board for so long as certain circumstances continue to exist. The Co-operative Group has a right, pursuant to the Variation and Director Appointment Deed, to appoint one Director to the Board for so long as it directly or indirectly controls 15 per cent. or more of the voting rights exercisable at general meetings of the Bank. This right takes effect when the percentage of voting rights controlled directly or indirectly by the Co-operative Group fall below 20 per cent. so that when the Co-operative Group directly or indirectly controls between

15 per cent. and 20 per cent. of such voting rights, it shall be entitled to appoint one Director. As at the date of this Circular, Alistair Asher is the Co-operative Group's nominated director and he will step down at Completion when the Relationship Agreement terminates and any right to appoint a Director to the Board will cease. Please refer to paragraph 17.3 of this Part 16 for further information about the Relationship Agreement and paragraph 17.4 of this Part 16 for further information about the Variation and Director Appointment Deed.

(b) Each of Silver Point and Perry Capital have the right, pursuant to the terms of the 2014 Shareholder Rights Agreement, to nominate a director for appointment to the Board for so long as Silver Point and Perry Capital, as the case may be, directly or indirectly controls 5 per cent. or more of the voting rights exercisable at general meetings of the Bank. Such rights will automatically transfer and be exercisable by another 2014 Institutional Shareholder if Silver Point or Perry Capital ceases to control such level of voting rights in the Bank, provided that such other 2014 Institutional Shareholder itself directly or indirectly controls 5 per cent. or more of such voting rights. Each of Silver Point, Perry Capital and the other 2014 Institutional Shareholders acknowledge that any such nominee director shall owe the same fiduciary and other duties as are owed by the other Directors, which will include statutory and other obligations on such nominee directors regarding conflicts of interest. These rights are in addition to those contained in the Relationship Agreement pursuant to which the purchasers under the Purchase Agreement were granted the right to appoint up to two Directors. As at the date of this Circular, Charles Bralver is Silver Point's nominated director. It is expected that these arrangements will be superseded following Completion by the new governance arrangements described in Part 5 of this Circular.

6.7 There are no family relationships between any of the Directors or Senior Managers.

7. DIRECTORSHIPS OF DIRECTORS AND SENIOR MANAGERS

7.1 The biographies of the Directors and Senior Managers are set out in Section B of Part 5 of this Circular.

7.2 In addition to their directorships of the Bank and its subsidiaries, the Directors and Senior Managers hold, or have held, the following directorships and are or were members of the following partnerships, within the past five years:

Name	Current directorships/partnerships	Past directorships/partnerships
Directors		
Dennis Holt	Beazley plc Beazley Furlonge Limited	Bank of Ireland (UK) Plc Bank of Ireland plc Liverpool Victoria
Liam Coleman	Holdco	–
John Worth	NSPCC	–
Alistair Asher	Co-operative Legal Services Limited CIS General Insurance Limited The Co-operative Trust Corporation Limited Federal Retail and Trading Services Limited NOMA (GP) Limited Noma Estate Management Limited	CFS Management Services Limited Allen & Overy LLP
Aidan Birkett	Dubai Group 2024 Limited Dubai International Capital LLC Doncasters Group Limited	Almatis GMBH K&A Merger Limited Castle 1 Limited Lakeside 1 Limited Cygnet Midco Limited Cygnet Topco Limited
Charles Bralver	Canaccord Genuity Group Inc. New Star Financial Inc.	–

Name	Current directorships/partnerships	Past directorships/partnerships
Laura Carstensen	Bryn Yorkin Manor Estate LLP Park Group plc	Blue Banyan Limited 62 Savernake Road, NW3 Limited Meditation Designs Limited NML Trading Limited MLEX Limited
William Gennydd Thomas	The Royal Navy and Royal Marines Charity Spirent Communications plc Node4 Limited Hopton Estates	Balfour Beatty PLC XChanging Limited LogicNowHolding S.a.r.l. The Invicta Film Partnership LLP
Maureen Laurie	Reuters Pension Fund Limited	London Metropolitan University Altaia Partners LLP
Glyn Smith	Reclaim Fund Ltd FCO Services	Covent Garden Market Authority Coventry Building Society Bournemouth & Poole PCT Dorset PCT
Derek Weir	Kerrach Limited Macklin Enterprise Partnerships Consultancy Limited Macklin Enterprise Partnerships Limited Motherwell Football Club Community Trust	Motherwell Football and Athletic Club Limited (THE) Shelfco 1234 Limited The Scottish Professional Football League Limited Tiger Advisers Limited
Senior Managers		
Ashley Lillie	Second Roodhill Leasing Limited Third Roodhill Leasing Limited Fourth Roodhill Leasing Limited Mortgage Agency Services Number One Limited Mortgage Agency Services Number Two Limited Mortgage Agency Services Number Four Limited Mortgage Agency Services Number Five Limited Mortgage Agency Services Number Six Limited Platform Funding Limited Platform Home Loans Limited Co-operative Commercial Limited	Moulton Finance Overseas B.V.
Heather Lauder	NML Foundation	NML Trading Limited
Matthew Carter	Payments UK Management Limited	Gresham Insurance Company Limited Barclays Insurance Services Company Limited
Steve Friedlos	Business Science Limited	GNI Limited GNI Holdings Limited King & Shaxton Limited Global Edge Technology (Pty) Limited Old Mutual Financial Services Limited
Tracey Kneller	The Co-operative Bank Pension Trust Limited BPS Principal Employer Limited Kneller Human Capital Limited	
Brona McKeown	Brona McKeown Consultancy Services Limited	

Name	Current directorships/partnerships	Past directorships/partnerships
Steven Pickering............	–	BD (Harrow) Limited FN 1 Limited FN Secretary LTD BG Holdings Limited Nandina Limited FN 13 Limited Burton Financial Services Limited Almancil Limited GE Home Lending Introductions Limited First National Group Limited Lease Management Services Limited FN 10 LTD Woodchester Business Finance Limited Malvern House Acquisition Limited FN 2 Limited Nationwide Credit Corporation Limited Creditcharge (U.K) Limited IGroup Limited FNCB Limited GE Money Two CMR Loans Servicing Limited Maes Finance Limited IGroup2 Limited GE Money Servicing Limited GE Money Financial Services Limited IGroup UK Loans Limited Maes ECP No.1 Limited GE Money Home Lending Investments Limited First National Management Services Limited GE Money Home Finance Limited First National Financial Services Limited FN Mortgages Limited GE Money Home Lending Finance Limited First National Mortgage Corporation Limited IGroup3 Limited GE Money Secured Loans Limited GE Mail Services Limited First National Finance Corporation Limited GE Money Mortgages Limited Household Mortgage Corporation Limited IGroup 8 Limited IGroup BDA Limited First Personal Insurance Services Limited GE Money Lending Solutions Limited GE Money Home Lending Holdings Limited GE Money Home Lending Limited

Name	Current directorships/partnerships	Past directorships/partnerships
Steven Pickering (*continued*)		Woodchester Credit Limited Woodchester Finance Limited Langhope Rig Wind Farm Limited FNCB Limited Creditcharge (U.K.) Limited IGroup Limited BD (Harrow) Limited Malvern House Acquisition Limited FN 2 Limited FN 1 Limited FN Secretary LTD Nationwide Credit Corporation Limited BG Holdings Limited FN 13 Limited Burton Financial Services Limited Nandina Limited Almancil Limited First National Trust Limited FN 7 LTD
David Bagley	Uttlesford Citizens Advice Bureau Z H-M Consulting Limited	–
Chris Greenway	–	–

Save as disclosed below, as at the date of this Circular none of the Directors or Senior Managers has at any time within at least the past five years:

(a) had any convictions in relation to fraudulent offences (whether spent or unspent); or

(b) been adjudged bankrupt or entered into an individual voluntary arrangement; or

(c) been a director of any company at the time of, or within 12 months preceding, any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors; or

(d) been a partner in a partnership at the time of, or within 12 months preceding, any compulsory liquidation, administration or partnership voluntary arrangement of such partnership; or

(e) had his assets form the subject of any receivership or been a partner of a partnership at the time of, or within 12 months preceding, any assets thereof being the subject of a receivership; or

(f) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including any designated professional body); or

(g) ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

The Bank has put in place qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act) for the benefit of the Directors and is in the process of putting in place such indemnities in favour of its Senior Managers and other officers as it considers appropriate in relation to losses and liabilities which they may incur in connection with their appointments.

8. DESCRIPTION OF DIRECTORS' SERVICE CONTRACTS/LETTERS OF APPOINTMENT

8.1 Each Executive Director has entered into a service agreement with the Bank as follows:

Liam Coleman

Liam Coleman entered into a service agreement with the Bank on 24 June 2014, as amended in December 2016, to act as Chief Executive Officer, which continues until terminated by either party,

requiring 12 months notice from the Bank and 6 months notice from Liam. The Bank has the discretion to terminate Liam's employment with immediate effect by paying him his salary (including any role based allowance element) in lieu of his notice period or any remainder of his notice period. Liam's service agreement contains a 'garden leave' clause providing for the Bank to ask Liam to cease performing his duties and to stay away from work during any or all of his notice period. Liam Coleman's agreement provides for an annual salary of £900,000, an annual role based allowance of £450,000, a taxable pension allowance of £80,000 per annum, a taxable car allowance of £16,000 per annum, life insurance of four times annual salary, family membership of a private medical plan, permanent health insurance, a discretionary bonus scheme and inclusion in the LTIP. Liam's service agreement contains various post-termination covenants that are customary in agreements of this nature to protect the interests of the Bank.

John Worth

John Worth entered into a service agreement with the Bank on 12 July 2016, to act as Chief Financial Officer, which continues until terminated by either party, requiring 12 months notice from the Bank and 6 months notice from John. The Bank has the discretion to terminate John's employment with immediate effect by paying him his salary (including any role based allowance) in lieu of his notice period or any remainder of his notice period. John's service agreement contains a 'garden leave' clause providing for the Bank to ask John to cease performing his duties and to stay away from work during any or all of his notice period. The agreement provides for an annual salary of £800,000, an annual role based allowance of £400,000, a taxable pension allowance of £80,000 per annum, a taxable car allowance of £16,000 per annum, life insurance of four times annual salary, family membership of a private medical plan, permanent health insurance, a discretionary bonus scheme and inclusion in the LTIP. The service agreement contains various post-termination covenants that are customary in agreements of this nature to protect the interests of the Bank.

8.2 Each Non-Executive Director has entered into letters of appointment with the Bank as follows:

Dennis Holt

Dennis Holt was appointed as a Non-Executive Director of the Bank under a letter of appointment dated 6 February 2014 and a subsequent letter of extension of term of office dated 12 April 2017. The letter of appointment is terminable upon either party providing three months notice. Dennis receives an annual fee of £300,000 as Chairman. Dennis Holt is not entitled to receive any payments upon termination of the letter of appointment other than accrued unpaid directors' fees up to and including the period of notice, payment of fee in lieu of notice and any reasonably incurred expenses.

Aidan Birkett

Aidan Birkett was appointed as a Non-Executive Director of the Bank under a letter of appointment dated 1 July 2015. The letter of appointment is terminable upon either party providing three months notice. Aidan receives an annual fee of £125,000 as Senior Independent Director (including committee fees). Aidan is not entitled to receive any payments on termination of the letter of appointment other than accrued unpaid directors' fees up to and including the period of notice, payment of fee in lieu of notice and any reasonably incurred expenses.

Derek Weir

Derek Weir was appointed as a Non-Executive Director of the Bank under a letter of appointment dated 24 April 2014 and a subsequent letter of extension of term of office dated 11 May 2017 up to the AGM in 2018. The letter of appointment is terminable upon either party providing three months notice. Derek receives an annual fee of £150,000 as a Non-Executive Director (effective from 1 July 2017, including his role as chair of the risk committee and committee fees). Derek is not entitled to receive any payments on termination of the letter of appointment other than accrued unpaid directors' fees up to and including the period of notice, payment of fee in lieu of notice and any reasonably incurred expenses.

Glyn Smith

Glyn Smith was appointed as a Non-Executive Director of the Bank under a letter of appointment dated 27 June 2016. The letter of appointment is terminable upon either party providing six months notice in the first two years and three months notice thereafter. Glyn receives an annual fee of £150,000 as a Non Executive Director (including his role as chair of the audit committee and committee fees). Glyn is not entitled to receive any payments on termination of the letter of appointment other than accrued unpaid directors' fees up to and including the period of notice, payment of fee in lieu of notice and any reasonably incurred expenses.

Maureen Laurie

Maureen Laurie was appointed as a Non-Executive Director of the Bank under a letter of appointment dated 25 April 2014 and a subsequent letter of extension of term of office for three years dated 12 April 2017. The letter of appointment is terminable upon either party providing three months notice. Maureen receives an annual fee of £110,000 as a Non-Executive Director (including her role as chair of the remuneration committee and committee fees). Maureen is not entitled to receive any payments on termination of the letter of appointment other than accrued unpaid directors' fees up to and including the period of notice, payment of fee in lieu of notice and any reasonably incurred expenses.

Laura Carstensen

Laura Carstensen was appointed as a Non-Executive Director of the Bank under a letter of appointment dated 24 March 2014 and a subsequent letter of extension of term of office for three years dated 12 April 2017. The letter of appointment is terminable upon either party providing three months notice. Laura receives an annual fee of £115,000 as a Non-Executive Director (including her role as chair of the values & ethics committee and committee fees). Laura is not entitled to receive any payments on termination of the letter of appointment other than accrued unpaid directors' fees up to and including the period of notice, payment of fee in lieu of notice and any reasonably incurred expenses.

William Thomas

William Thomas was appointed as a Non-Executive Director of the Bank under a letter of appointment dated 1 November 2013 and a subsequent letter of extension of office for three years dated 5 April 2017. The letter of appointment is terminable upon either party providing three months notice. William receives an annual fee of £90,000 as a Non-Executive Director (including committee fees). William is not entitled to receive any payments on termination of the letter of appointment other than accrued unpaid directors' fees up to and including the period of notice, payment of fee in lieu of notice and any reasonably incurred expenses.

Charles Bralver

Charles Bralver was appointed as a Non-Executive Director of the Bank under a letter of appointment dated 21 April 2015. The letter of appointment is terminable upon either party providing three months notice. Charles receives an annual fee of £75,000 as a Non-Executive Director (including committee fees). Charles is not entitled to receive any payments on termination of the letter of appointment other than accrued unpaid directors' fees up to and including the period of notice, payment of fee in lieu of notice and any reasonably incurred expenses.

Alistair Asher

Alistair Asher was appointed as a Non-Executive Director of the Bank under a letter of appointment dated 12 September 2016. The letter of appointment is terminable upon either party providing three months notice. In addition and in accordance with the Articles of Association, the appointment will also be terminated in the event that the Co-operative Group removes Alistair as its appointed Director at any time by giving notice in writing to the Bank; the Co-operative Group ceases to be a *bona fide* co-operative society; or the percentage of voting rights in the Bank falls below the level required (currently 15 per cent.), as set out in the Articles of Association and the Variation and Director Appointment Deed.

Alistair Asher receives an annual fee of £75,000 as a Non-Executive Director (including committee fees) which is payable directly to the Co-operative Group. Alistair Asher is not entitled to receive any payments on termination of the letter of appointment other than accrued unpaid directors' fees up to and including the period of notice, and any reasonably incurred expenses.

8.3 Save as set out in this Part 16, there are no existing or proposed service agreements between any Director and any member of the Group, including any providing for benefits upon termination of employment.

9. REMUNERATION

9.1 *Remuneration Policy*

The Bank has in place a remuneration policy, which was approved by Shareholders at the AGM on 17 June 2015 and re-approved at the AGM on 21 June 2016 with an amendment to the operation of role-based allowances to clarify they will be kept under ongoing review with regard to regulatory changes and to enable them to be delivered in shares or share-like instruments as well as cash. The aim of the remuneration policy is to align the interests of Directors with those of Shareholders, consistent with the Bank's risk appetite and regulatory environment, paying due regard to the Plan and the Bank's ethical policy.

The Bank's remuneration policy is composed of the following elements:

- Fixed remuneration, which is set against three criteria of the employee's role, being: (i) scope of responsibilities; (ii) experience; and (iii) internal and external benchmarks;
- Variable remuneration, which is aimed at rewarding individual and collective performance achieved within the Bank's values and the Bank's risk appetite; and
- Benefits, which are provided to a number of employees and include core benefits, flexible benefits, voluntary benefits and a Bank pension scheme.

It is intended that approval of the remuneration policy will be sought at three year intervals.

9.2 *Additional remuneration arrangements for senior employees*

Alongside the remuneration paid by the Bank to all employees, there are a number of remuneration arrangements in place for certain senior staff, in line with regulatory requirements and market practice. These are:

- Fixed remuneration arrangements (role based allowances) – a role-based allowance may be awarded to Executive Directors, Executive Committee members and certain other senior employees, to ensure that fixed remuneration remains sufficient to attract and retain employees with the necessary key skills and capabilities required for senior roles; and
- Variable remuneration arrangements awards are made to material risk takers and employees in certain other specialist roles under the Bank Incentive Plans. The Remuneration Committee may at its discretion invite any employee of the Bank, including any Executive Director, to participate in the Bank Incentive Plans. The Bank Incentive Plans are designed to retain the Bank's most senior managers and link their remuneration to the long-term interests of the Bank and its Shareholders. See paragraph 13 of this Part 16 for further information on variable remuneration arrangements.

9.3 *Directors' and Senior Managers' Remuneration and Benefits*

For the financial year ended 31 December 2016, the aggregate total remuneration paid by the Bank (including contingent or deferred compensation) and benefits in kind granted (under any description whatsoever) to each of the Directors and the Senior Managers by members of the Co-operative Group was approximately £7.9 million. Of this amount, approximately £3.0 million was paid to the Directors

and approximately £4.8 million was paid to the Senior Managers. The table below sets out the Directors' remuneration for the year ending 31 December 2016:

Name	Position	Annual salary	Role based allowance	Pension	Other benefits[1,2,3,4]	LTIP award	Total
				(£000)			
Directors							
Dennis Holt	Chairman/Non-Executive Director	300	–	–	–		300
Liam Coleman[5]	Chief Executive Officer/Executive Director	311	53	50	10	600	1,024
John Worth[6]	Chief Financial Officer/Executive Director	185	33	18	6	800	1,042
Alistair Asher[7]	Non-Executive Director	15	–	–	4		19
Aidan Birkett	Senior Independent Director	60	–	–	50		110
Charles Bralver	Non-Executive Director	60	–	–	15		75
Laura Carstensen	Non-Executive Director	60	–	–	47		107
William Gennydd Thomas	Non-Executive Director	60	–	–	22		82
Maureen Laurie	Non-Executive Director	60	–	–	45		105
Glyn Smith[8]	Non-Executive Director	13	–	–	9		22
Derek Weir[9]	Non-Executive Director	60	–	–	43		103

1 Committee Chairman fee increased from £25,000 to £35,000 effective 1 July 2016. All the fees shown above are calculated on a pro-rated basis to reflect this. The fees are payable only once even if multiple committees are chaired.

2 Senior Independent Director (SID) fee increased from £25,000 to £35,000 per annum effective from 1 July 2016. The SID fee paid to Aidan Birkett above is calculated on a pro-rated basis.

3 Committee membership fees are payable for membership of up two Committees even if more than two Committees are attended.

4 A Non-Executive Director can be a member of various Committees such as Audit, Remuneration, Nomination, IPO, V&E and Risk.

5 Liam Coleman was appointed as an Executive Director on 11 July 2016. Figures set out in the table above relate to his part year qualifying service as an Executive Director.

6 John Worth was appointed as an Executive Director on 11 October 2016. Figures set out in the table above relate to his part year qualifying service as an Executive Director.

7 Alistair Asher was appointed as a Non-Executive Director and a member of the V&E Committee from 12 September 2016. Mr. Asher's Director's fees are paid to the Co-operative Group.

8 Glyn Smith was appointed as a Non-Executive Director from 10 October 2016 and as Chairman of the Audit Committee with effect from 26 October 2016.

9 Derek Weir was appointed Chair of the Risk Committee with effect from 26 January 2016.

10. MAJOR SHAREHOLDERS IN THE BANK

As at 25 July 2017 (being the latest practicable date prior to the date of this Circular), so far as is known to the Bank, the name of each person (other than any director) who, directly or indirectly, is interested in three per cent. or more of the Bank's ordinary share capital, and the amount of such person's interest is be as follows:

Name	Number of Shares as at 25 July 2017	Share type	Per cent. as at 25 July 2017	Number of Ordinary Shares immediately following completion of the Restructuring and Recapitalisation	Per cent. immediately following completion of the Restructuring and Recapitalisation
The Co-operative Banking Group Limited	90,994,303	Ordinary	20.16		
SP COOP Investment Limited[(1)]	64,425,461	Ordinary	14.27		
GoldenTree Asset Management L.P.	60,786,703	Ordinary	13.46		
Perry Capital	40,998,709	Ordinary	9.08		
York Capital Management	39,128,863	Ordinary	8.67		
Invesco Perpetual Asset Management	32,507,103	Ordinary	7.20		
Strategic Value Partners[(2)]	23,844,208	Ordinary	5.28		
Cyrus Capital Partners	17,166,091	Ordinary	3.80		
Knighthead Capital Management	16,428,854	Ordinary	3.64		
Holdco	–	Ordinary	–	511,456,510	100

(1) Is an affiliate of Silver Point Capital.

(2) Based on the Company's most recent analysis of its register pursuant to s.793 Companies Act 2006, dated 30 June 2017.

CBG will abstain, and has undertaken to take all reasonable steps to ensure that its associates will abstain, from voting on Resolution 4 relating to the Group Related Party Transaction at the General Meeting.

GoldenTree will abstain, and has undertaken to take all reasonable steps to ensure that its associates will abstain, from voting on Resolution 5 relating to the GoldenTree Related Party Transaction at the General Meeting.

Silver Point Capital will abstain, and has undertaken to take all reasonable steps to ensure that its associates will abstain, from voting on Resolution 6 relating to the Silver Point Capital Related Party Transaction at the General Meeting.

Immediately following completion of the Restructuring and Recapitalisation, the Bank will be a wholly owned subsidiary of Holdco, and the name of each person (other than any director) who, directly or indirectly, is interested in three per cent. or more of Holdco's B Shares, and the amount of such person's interest is as set out in paragraph 9 of Part 15 of this Circular.

11. EMPLOYEES

The average number of employees employed by the Bank for the three years ended 31 December 2016, 31 December 2015 and 31 December 2014 is set out below:

	Average number of employees	
Year-ended	Full Time	Part Time
31 December 2016	3,748	1,018
31 December 2015	4,463	1,251
31 December 2014	4,772	1,630

12. EMPLOYEE SHARE PLANS

The Bank operates the Bank Incentive Plans under which awards related to the value of Ordinary Shares are granted to selected employees.

13. LTIP

Following recommendations from the Remuneration Committee, LTIP awards were granted in 2016 to 32 key executives, with an extended five-year term, thus maintaining alignment with Shareholders.

Under the LTIP, grants are made as a proportion of an employee's salary and denominated in notional Ordinary Shares using the Bank's grey market share price. They are cash settled with performance based vesting conditions over a period of three years and a further two year holding period, with other non-vesting conditions applying. Awards are subject to malus and clawback in accordance with regulatory requirements. As cash settled share based payment arrangements, the services acquired and the liability incurred are measured at the fair value of the liability and recognised as employees render services, as required by IFRS 2. Until settlement, the fair value of the liability is re-measured over the vesting period.

For the 2016 LTIP awards, the performance measures are as follows:

Performance measures	Weighting	Threshold	On-target	Maximum vesting
Cost:Income Ratio.......	25%	25% of award vests for cost:income ratio of 67.6%	60% of award vests for cost:income ratio of 60.8%	100% of award vests for cost:income ratio of 55.3%
Absolute TSR per share	25%	25% of award vests for absolute TSR per share of 8% p.a.	60% of award vests for absolute TSR per share of 12% p.a.	100% of award vests for absolute TSR per share of 20% p.a.
Total Bank Profitability	20%	25% of award vests for 'Profit before Tax' of £86.3 million	60% of award vests for 'Profit before Tax' of £95.9 million	100% of award vests for 'Profit before Tax' of £105.4 million
Total Financial measures.....................	**70%**			
Risk and Control	10%	Performance against strategic measures will be assessed by the Remuneration Committee using individual scorecard ratings ranging from 1-10 with 50% of the award vesting at the threshold rating of 5. The detailed targets within each measure are not disclosed as these are deemed to be commercially sensitive. Retrospective disclosure will be provided in the 2019 Directors' Remuneration report, subject to commercial sensitivity no longer remaining.		
People..........................	10%			
Customer	10%			
Total Strategic Measures	**30%**			
Total............................	**100%**			

13.1 *2016 LTIP awards to Executive Directors*

In compliance with the Bank's approved remuneration policy, its Remuneration Committee granted a 2016 LTIP award to the former Chief Executive Officer (Niall Booker) equivalent to 200 per cent. of salary, subject to pro-rating in respect of his service during the performance term. As such, the base value of Niall Booker's LTIP award was 66.67 per cent. of salary before performance measurement against the 2016 LTIP metrics and testing for capital compliance.

The Remuneration Committee also granted a 2016 LTIP to the former Chief Financial Officer (John Baines) equivalent to 100 per cent. of salary, subject to similar pro-rating in respect of service during the performance term. As such, the base value of John Baines' LTIP award was 27.87 per cent. of salary before performance measurement against the 2016 LTIP metrics and testing for capital compliance.

Both Liam Coleman and John Worth were granted awards of 100 per cent. of their base salaries under the 2016 LTIP.

In addition to being conditional on achieving the relevant performance conditions, vesting and pay out of all LTIP awards granted by the Bank from 2014 onwards has also been subject to maintenance of the Bank's CET1 capital ratio at a level equal to or greater than the regulatory minimum. Awards remain subject to close monitoring, by the Remuneration Committee, against performance metrics, CRD IV compliance and profitability forecasts.

No LTIP awards vested during 2016.

Following recommendations from the Remuneration Committee, it is intended that LTIP awards be granted in 2017 to 43 key executives, with performance conditions applying over a 3 year term, with a further minimum 2 year holding period. These awards would be consistent with the LTIP design and measures as approved by shareholders in 2015 and therefore continue to maintain alignment to the Plan. Liam Coleman has waived his inclusion in the 2017 LTIP award as announced in the Directors Remuneration Section of the Bank's Annual Report and Accounts 2016. It is intended that these awards will be made when the Restructuring and Recapitalisation has completed and the ownership structure of the Bank is clear.

13.2 ***DBP***

The DBP provides for the deferral of part of an employee's annual bonus into an award over cash and shares/share-like instruments to meet the requirements of the PRA's remuneration code.

A minimum of 50 per cent. of the awards made under the DBP are in shares/share-like instruments.

All deferral terms are kept under review to ensure that these continue to be applied in line with regulatory requirements and best practice guidance. The remuneration Committee retains the flexibility to alter these terms for successive awards to reflect changes in those requirements or guidance. The Remuneration Committee will not alter terms for awards already conferred except for regulatory compliance.

Awards are subject to malus and clawback in accordance with regulatory requirements.

13.3 ***TDAP***

The TDAP provides for the grant of phantom share awards, which are deferred for four years and subject to performance conditions.

13.4 ***Treatment of the Bank Incentive Plan awards***

The Remuneration Committee intends to adjust outstanding awards granted under the Bank Incentive Plans in accordance with the rules of the relevant Bank Incentive Plan for any effect the Restructuring and Recapitalisation may have on those awards. Participants in the Bank Incentive Plans will be contacted separately with further information on their rights and how their awards will be affected by the Restructuring and Recapitalisation.

14. PENSION SCHEMES

Summary of UK pension benefits

14.1 ***The Co-operative Bank Pension Scheme (Pace)***

Scheme information

The Bank, the Co-operative Group and, *inter alia*, several employers owned by the Group participate in Pace. The Co-operative Group is the principal employer in Pace. The assets of Pace are held and managed by a trustee (PACE Trustees Limited) separate from the Bank's (and other employers') assets. Pace is a non-segregated hybrid scheme providing defined contribution benefits; and providing defined benefits based on a member's average career salary and length of contributory membership of the defined benefit section (as well as salary related defined benefits for pensionable service prior to 6 April 2006). The defined benefit section was closed to future benefit accrual in October 2015, with those accruing benefits in the defined benefit section becoming defined contribution section members

on the closure. The Bank employees who became defined contribution section members on the closure are treated as having left the Bank's service so far as their defined benefits section entitlements are concerned. The rate of employer contributions to the defined contribution section depends on the rate of contributions the member chooses to pay; the Bank's contribution being double that of the employee up until the maximum rate of the Bank's contributions (being 10 per cent. of pensionable earnings where the member pays 5 per cent. (or more)). In addition to benefits funded by the member's defined contribution account, a lump sum is payable if death occurs in service.

Where an executive member may be impacted by the Annual Allowance or Lifetime Allowance, they have the facility of opting out of Pace in favour of a pension allowance of 16 per cent. of base salary.

Supplementary life cover is provided to executive Directors in order to provide for total life cover of 4 x salary when aggregated with benefits from Pace, as appropriate.

As at 5 April 2016, Pace had a total of 9,644 closure members, 41,393 deferred members and 38,381 pensioners in the defined benefit section. In addition, there were 46,763 active members and 7,817 deferred members in the defined contribution section as at 5 April 2016.

The employers participating in Pace make aggregate contributions to the deficit in respect of the defined benefit section as agreed between the Co-operative Group and the Pace Trustee; the Co-operative Group has undertaken to agree with the Bank its proportion of the employer contributions to Pace (and, if not agreed, the matter may be referred to, and decided by, an independent actuary). These contributions are reviewed by the Pace Trustee and the Co-operative Group following each triennial actuarial valuation, and the agreed aggregate employer contributions are allocated by the Co-operative Group among the participating employees. The time by which the Pace Trustee and the Co-operative Group are required, under pensions legislation, to agree contributions is 15 months after the effective date of the valuation. A triennial actuarial valuation with an effective date of 5 April 2016 is currently being prepared and discussions between the Pace Trustee and the Co-operative Group are ongoing.

The most recently completed actuarial valuation of Pace was carried out as at 5 April 2013. This valuation reported assets at a value of £7,728 million and liabilities of £8,328 million and a funding deficit of £600 million. The most recent actuarial report update as of 5 April 2015 indicated that the funding deficit had decreased to £304 million on a valuation basis consistent with that used for the 5 April 2013 actuarial valuation. While Pace has an actuarial deficit, it has a significant IAS 19 surplus of £1,784 million as at 31 December 2016. Under the schedule of contributions agreed following the 2013 actuarial valuation, the principal employer in Pace agreed to pay deficit reduction contributions of £25 million a year, from 1 July 2014 until 30 June 2019 inclusive to repay the £104 million funding deficit calculated on an approximate basis as at 31 May 2014. Although there is no formal allocation of defined benefit liabilities or contributions between the participating employers in Pace, in the financial year ended 31 December 2016, the Bank contributed £5 million out of £25 million (via reimbursement of the Co-operative Group).

Pace is currently operated as a "last-man standing" scheme and, accordingly, whilst the Bank participates in Pace as a non-segregated scheme (i.e. prior to implementation of the Pace Pensions Sectionalisation), the Bank could become solely responsible for funding Pace if all employers other than the Bank (including the Co-operative Group) exit Pace or become insolvent. The level of the ongoing funding burden for the Bank in such circumstances would depend on the funding position of Pace at that time, including the extent to which the other employers have paid their section 75 debts arising on exit/insolvency. Similarly the Co-operative Group has "last-man standing" risk if the Bank exits Pace or becomes insolvent without satisfying its liabilities to Pace.

There is also a risk that the wind-up of Pace could occur in circumstances where the Bank has no ability to prevent such wind-up, for example in the event that the Co-operative Group goes into liquidation and the Pace Trustee does not agree to the Bank taking over the role of principal employer in relation to Pace in place of the Co-operative Group. In the event of Pace winding-up a section 75 debt would become payable by the Bank. Such liability is calculated by reference to the cost of buying

out Pace's liabilities in the insurance market, which commonly results in a much greater liability than the ongoing deficit contributions payable by an employer. The Bank's section 75 debt in respect of the Pace Pension Scheme would currently be expected to be several hundred million pounds (and could increase significantly if other employers become insolvent and are unable to pay their section 75 debts in full)

A section 75 debt would also arise in respect of the Bank if the Bank ceases to employ active members of Pace (in circumstances where the Pace Pensions Sectionalisation has not been implemented) whilst other employers continue to employ active members of Pace. A section 75 debt could also arise in respect of the Bank on the occurrence of an "insolvency event" as defined in section 121 of the Pensions Act 2004 in relation to the Bank.

The "last-man standing" risk for the Bank would be addressed if the Pace Pensions Sectionalisation is implemented, such that the Bank becomes responsible for its own legally separate section of Pace only, and no longer has "last-man standing" risk for the rest of Pace (see below).

Pace Pensions Sectionalisation

On 4 November 2013, the Co-operative Group and the Bank entered into an agreement (the "**Undertaking**") pursuant to which the Co-operative Group agreed with the Bank not to require the Bank to cease to participate in Pace in connection with the 2013 Liability Management Exercise or any subsequent reduction in the Co-operative Group's shareholding in the Bank (including to nil) without the Bank's prior written approval except (i) where the Bank is in breach of the rules of Pace and does not remedy the breach within a reasonable time (to be agreed between the Co-operative Group and the Bank and not to be less than 90 days) of being notified of the breach, (ii) where required by law or (iii) following the Co-operative Group giving the Bank at least 6 months' prior written notice where all other employers cease participation at the same time so that such cessation does not trigger a section 75 debt payable by the Bank. The Undertaking also provides that should either the Co-operative Group or the Bank so request, the parties would enter into good faith discussions to agree on the separation of Pace, so that the Pace liabilities properly attributable to the Bank and an equivalent proportion of Pace's assets would be transferred to a separate tax registered pension arrangement or a legally separate section of Pace. Neither the Co-operative Group nor the Bank is under an obligation to agree to any separation of Pace that would result in a requirement to make material payments to or in respect of Pace.

On 14 July 2017, the Sectionalisation Parties entered into the Pace Heads of Terms, which set out the approach to be taken to divide Pace into two legally separate sections, such that the Bank will be responsible only for the liabilities in Pace allocated to the Bank Section and the Co-operative Group (and the other employers) will be responsible for the liabilities in Pace allocated to the Co-operative Group Section. It is estimated that the Pace Pensions Sectionalisation will result in a division of assets (estimated to be £11,128 million as at 31 March 2017) and liabilities (measured on the "low risk target basis") of Pace of broadly 20.55 per cent. for the Bank and 79.45 per cent. for the Co-operative Group (and other employers), although these estimated proportions were calculated as at 5 April 2016 and different proportions may be calculated when the actual Pace Pensions Sectionalisation process is undertaken. The "low risk target basis" is a basis that has been agreed in the Pace Heads of Terms, two key features of which is that it currently uses a discount rate of gilts plus 0.25 per cent. per annum and the margin in the mortality assumption is currently set at 2.5 per cent. The Bank's share of Orphan liabilities which are to be pro-rated is currently estimated at 20.81 per cent. measured on the "low risk target basis", but a different proportion may be calculated when the actual Pace Pensions Sectionalisation process is undertaken. As legally separate sections, the two sections will under pensions legislation be operated as though they are separate schemes (with the exception of the fact they share a common trustee), with the Bank taking on the role of sole sponsor under the rules of Pace and under pensions legislation in relation to the Bank Section.

The Bank, the Co-operative Group and the Pace Trustee have agreed to enter into an implementation agreement in respect of the Pace Pensions Sectionalisation by 31 December 2017 and to use their best endeavours to implement the Pace Pensions Sectionalisation by 30 June 2018. If implemented, such

Pace Pensions Sectionalisation will remove "last-man standing" risk for the Bank (i.e. the Bank will have no liability for the Co-operative Group Section, absent the exercise of the Pensions Regulator's "moral hazard" powers to impose financial support directions and/or contribution notices pursuant to sections 38 to 51 of the Pensions Act 2004. Formal clearance has been obtained from the Pensions Regulator in relation to the transactions expected to be implemented pursuant to the Pace Heads of Terms (and on the basis of completion of the Restructuring and Recapitalisation before 19 October 2017), which substantially mitigates the risk of the Pensions Regulator exercising its "moral hazard" powers against the Bank in relation to the Co-operative Group Section following Pace Pensions Sectionalisation). The Pace Heads of Terms will, however, terminate such that the Pace Pensions Sectionalisation will not be implemented in the event of, prior to the Pace Pensions Sectionalisation taking place, Bank insolvency (which means the occurrence of an "insolvency event" as defined in s121 of the Pensions Act 2004, including bank insolvency or bank administration), Bank resolution (which means the exercise of one or more of the stabilisation powers as defined in section 1(4) or the powers contained in sections 6B to 6D of the Banking Act 2009 in relation to the Bank) or the occurrence of a corporate transaction as an alternative to the Restructuring and Recapitalisation.

Conditions

The only condition left to be satisfied for implementation of the Pace Pensions Sectionalisation is completion of the Restructuring and Recapitalisation.

Terms of the Pace Pensions Sectionalisation and related funding, investments and security for the Bank Section

The Bank, the Co-operative Group and the Pace Trustee have agreed that the rules of Pace will be amended to include provisions which provide for the constitution of two legally separate sections: the Bank Section, in which the Bank will be the sole sponsoring employer, and one for the rest of Pace (the Co-operative Group Section), in which the sponsoring employers will be the Co-operative Group and all other entities that participate in Pace (with the exception of the Bank). The Bank will only be responsible for the funding of the Bank Section and will have no liability to the Co-operative Group Section (absent the exercise of the Pensions Regulator's "moral hazard" powers to impose financial support directions and/or contribution notices pursuant to sections 38 to 51 of the Pensions Act 2004).

The Pace Trustee will allocate the Pace benefits it determines to be liabilities which are attributable to the Bank to the Bank Section. The liabilities which are attributable to the Co-operative Group and other Pace employers will be allocated to the Co-operative Group Section. It is envisaged that the Pace Trustee will also allocate the Orphans *pro-rata* between the Bank and Co-operative Group Sections, with the Bank's share of these liabilities being X divided by Y where X is the value (assessed on a "low risk target basis") of all of the Pace benefit liabilities which relate to the Bank (that is, the benefits of current and former Bank employees) and Y is the value (assessed on a "low risk target basis") of all of the benefit liabilities in Pace which relate to all current employers participating in Pace.

It is envisaged that allocation of the Orphan liabilities will be carried out on a random allocation basis designed to enable the Pace actuary and Pace Trustee to allocate the correct amount of liability to each section. Such random allocation is, however, subject to any Sectionalisation Party becoming aware of any information prior to the Pace Pensions Sectionalisation which, in that Sectionalisation Party's view, makes it reasonable to revisit the method for the allocation of Orphans. In this case, if the Pace Trustee is advised by a leading Queens Counsel that it would be unreasonable or is in breach of trust to make the *pro-rata* allocation as envisaged by the Pace Heads of Terms the Sectionalisation Parties shall enter into good faith discussions and agree an alternative method (which could include an allocation other than *pro-rata*). Any such alternative agreed method will be used by the Pace Trustee to allocate the Orphans between the Co-operative Group Section and the Bank Section on the Pace Pensions Sectionalisation.

The assets to be allocated to each section will be identical in proportion to the liabilities being allocated (on a "low risk target basis") and will be determined by the Pace Trustee after consulting

with the Bank and the Co-operative Group. All contributions paid by the Bank, or by employees of the Bank, on or after the date of the Pace Pensions Sectionalisation will be allocated only to the Bank Section and all other contributions paid to Pace shall be allocated to the Co-operative Group Section. Absent desectionalisation (see below), there will be no cross-subsidy between the two sections; the Bank Section assets will only be used to meet the Bank Section liabilities and the Co-operative Group Section assets will only be used to meet the Co-operative Group Section liabilities.

An agreed "technical provisions basis" will be used as the initial technical provisions basis pursuant to Part 3 of the Pensions Act 2004 for the Bank Section, as the starting point for calculating technical provisions at future valuations of the Bank Section and the reference point (along with the "low risk target basis") for funding discussions at future valuations of the Bank Section over the period to 31 December 2027. The "technical provisions basis" has been agreed in the Pace Heads of Terms and differs from the "low risk target basis" in two respects. A key feature of the "technical provisions basis" is that the discount rate is set at gilts plus 0.5 per cent. per annum for the period until 31 December 2027 and then at gilts plus 0.25 per cent. per annum thereafter (in contrast to the discount rate for the "low risk target basis" which is set at gilts plus 0.25 per cent. per annum at the outset). The margin in the mortality assumption also differs between the two bases, with the margin in respect of the "technical provisions basis" incrementally increasing from zero for the purposes of the 5 April 2016 valuation by 0.83 per cent. at each of the next 3 triennial valuations (as at 5 April 2019, 5 April 2022 and 5 April 2025) so that the margin is 2.5 per cent. by 5 April 2025. The margin in the mortality assumption in respect of the "low risk target basis" is set at 2.5 per cent. at the outset. The "technical provisions basis" and the "low risk target basis" are in all other respects the same, and the "technical provisions basis" will equal the "low risk target basis" by 31 December 2027. The indicative deficits for the Bank Section on the agreed "low risk target basis" had the Pace Pensions Sectionalisation taken place as at 31 March 2017 was £216 million (the value of Pace assets as at 31 March 2017 was estimated to be £11,128 million).

The Bank has agreed that the initial recovery plan and schedule of contributions for the Bank Section which will be effective following the Pace Pensions Sectionalisation will require deficit payments (in advance) of £12.5 million per annum in respect of each of the calendar years 2018 to 2022 inclusive and £7.5 million per annum in respect of each of the calendar years 2023 to 2027 inclusive (and this initial recovery plan and schedule of contributions is subject to review at future valuations in accordance with scheme funding legislation). The Bank and the Pace Trustee have agreed that the funding target for the Bank Section will need to aim to be fully funded on the "low risk target basis" by 31 December 2027. Until the Pace Pensions Sectionalisation is implemented, the Bank will continue to make £5 million per annum contributions to Pace (via reimbursement of the Co-operative Group) on an annual basis and catch up contributions will be made on the Pace Pensions Sectionalisation for any shortfall against this initial recovery plan. The Pace Trustee has confirmed in the Pace Heads of Terms that its current intention is that recovery plans for the Bank Section agreed at future valuations will continue to target full funding on the "low risk target basis" by 31 December 2027. If at any triennial valuation date, experience shows that full funding on the "low risk target basis" will not be achieved by 31 December 2027, then the Bank and the Pace Trustee will enter into good faith discussions to reconsider the schedule of contributions to seek to achieve full funding on the "low risk target basis" by 31 December 2027.

The investment strategy for the Bank Section is expected to be low risk, consistent with the "low risk target basis" to be adopted for funding. This is expected to involve substantial investment in bonds and similar assets. If in the future the Pace Trustee wishes to implement any changes to this investment strategy, it will consult with the Bank and the Co-operative Group about those changes.

The recovery plan will be backed by a security arrangement pursuant to which the Bank will charge in favour of the Pace Trustee (unless cash or gilts are used as the security assets) certain AAA-rated debt securities which will be subject to haircuts described more fully below in relation to the calculation of an "asset value". The Pace Trustee's maximum claim in the event the security becomes enforceable will initially be at a level of £216 million (being the indicative deficit for the Bank Section on the agreed "low risk target basis" had the Pace Pensions Sectionalisation taken place as at

31 March 2017), and will reduce in line with deficit payments made by the Bank (but subject to upward revision up to a maximum of £216 million before 1 January 2028 and a maximum of £250 million on or after 1 January 2028 in the event deficit contributions become payable which exceed the then maximum claim following later valuations). If the Co-operative Group still has potential "last-man standing" risk for the Bank Section on 1 January 2028, the Pace Trustee's maximum claim will increase to £250 million, reducing in line with deficit payments made by the Bank from 1 January 2028. The security documentation is expected to comprise the following terms:

- The security assets will comprise Warwick Two Notes (Class A mortgage backed floating rate notes due September 2049 bearing ISIN XS1255425495 and Common Code 125542549, issued by Warwick Finance Residential Mortgages Number Two PLC, a public limited liability company incorporated in England and Wales with registered number 9548685) to the extent the Bank determines, acting reasonably, that it is able to provide such Warwick Two Notes, and provided such Warwick Two Notes satisfy the Acceptable Security Asset definition when provided as security. Acceptable Security Assets will also include gilt-edged securities issued by the government of the United Kingdom, any debt or equity security that is rated AAA by Standard & Poor's Rating Services or AAA by Fitch Ratings Ltd. or Aaa by Moody's Investors Service Limited and is listed and freely tradable or cash denominated in pounds sterling.

- The obligations secured by the security (the "**Secured Obligations**") will be amounts due and payable at that time from the Bank to the Bank Section under the schedule of contributions in force from time to time and, subject to limited exceptions, all other present and future obligations and liabilities which are or become due and payable from time to time by the Bank to Pace, up to a maximum amount. Such maximum amount will, at any time, prior to 1 January 2028, be the higher of "A" and "B" and at any time after 31 December 2027 be the higher of "B" and "C". "A" is £216 million reducing pound for pound as the Bank makes deficit payments into Pace (and also to the extent of any Non-Payment Event (see below) where enforcement action has been taken). "B" is the aggregate total of deficit contributions agreed at a future triennial valuation subject to a cap of £216 million prior to 1 January 2028 and £250 million thereafter, reducing pound for pound as the Bank makes deficit payments into Pace from the date of such triennial valuation (and also to the extent of any Non-Payment Event (see below) where enforcement action has been taken). "C" is zero if prior to 1 January 2028 the Co-operative Group's potential "last-man standing" risk for the Bank Section has terminated, but otherwise is £250 million from 1 January 2028 reducing pound for pound as the Bank makes deficit payments into Pace on or after 1 January 2028 (and also to the extent of any Non-Payment Event (see below) where enforcement action has been taken).

- The security assets must have a minimum asset value ("**MAV**") prior to 1 January 2028 of the higher of "A" and "B" and at any time after 31 December 2027 of the higher of "B" and "C", all as outlined above, and as the MAV will reduce as deficit payments are made, there will be a mechanism to release security assets from the charged accounts to reflect this. The collateral will remain in place until at least 31 December 2027, even if full funding on the "low risk target basis" is achieved, unless the Pace Trustee, in its discretion, decides otherwise.

- The security arrangements will end on the date when no Secured Obligations are outstanding or capable of being outstanding.

- The security will be enforceable on a Non-Payment Event, only to the extent required to discharge the unpaid amounts. A Non-Payment Event is a failure by the Bank to pay any Secured Obligations within 5 business days of the Pace Trustee notifying it of a failure to make such a payment when due.

- The security will also be enforceable (in its entirety) on an Event of Default. Events of Default will include insolvency events in relation to the Bank (which includes an "insolvency event" as defined in s121 of the Pensions Act 2004, bank insolvency, bank administration, where the Bank is unable to pay its debts as and when they fall due or fails or admits in writing its inability generally to pay its debts as they become due, certain insolvency proceedings in

respect of the Bank or where the Bank makes a general assignment, arrangement or composition with or for the benefit of its creditors), the Bank ceasing to carry on business, un-remedied breaches by the Bank of the security arrangement, unremedied misrepresentations by the Bank under the security arrangement, and events which make the security arrangement ineffective (e.g. the Bank's obligations in relation to the security arrangement become unlawful or are repudiated).

- The security assets will be valued monthly, usually with regard to an "asset value" by applying a haircut to the principal amount, but in some circumstances a "market value" assessment will be carried out.
- Where an "asset value" is calculated, such value shall be determined by reference to the nominal value of the security assets subject to a haircut to be determined by reference to the haircuts used in the Bank of England's Sterling Monetary Framework, having regard to (i) the 5 per cent. additional haircut applied therein to own-name RMBS (which would include the Warwick Two Notes), and any other RMBS notes where a simple majority of the underlying exposures consist of mortgages originated by and/or sold to the issuer by the Bank (or one of its subsidiaries or a special purpose vehicle established as part of the Bank's funding arrangements and (ii) the further 5 per cent. additional haircut applied therein to collateral for which no market price is observable (and for the purposes of the security, no market price will be deemed to be observable in respect of a class of RMBS notes where the Bank (or one of its subsidiaries or a special purpose vehicle established as part of the Bank's funding arrangements) holds more than 80 per cent. of the outstanding principal amount of that class).
- Where the Pace Trustee elects to calculate a "market value" (which it may do where it has reasonable grounds to believe that the market value of the securities may have been adversely affected), such market value shall be determined (i) initially, by the Pace Trustee itself or with the assistance of a professional adviser such as an accountancy firm or investment bank of international standing, and (ii) where the Bank disputes such valuation, by way of a process under a which a dealer is appointed to attract firm bids for the relevant securities and by reference to the arithmetic average of the bids received thereunder.
- If the "market value" of security assets rated below (not including) A2 by Moody's Investors Service Limited, A by Standard & Poor's Rating Services and A by Fitch Ratings Ltd. ("**Downgraded Security Assets**") would account for more than 20 per cent. of the total "market value" of all security assets, then for the purposes of the calculation, the total "market value" of all security assets will not include the "market value" accounted for by Downgraded Security Assets in excess of 20 per cent. of the total "market value" of all security assets. The Pace Trustee shall consent to the removal of the Downgraded Security Assets from the security assets provided they are substituted by Acceptable Security Assets and such substitution would not (taking into account the above-mentioned cap) have an adverse effect on the total "market value" of all security assets. Credit ratings must be maintained for all securities that are posted as collateral.
- If on any valuation date the assessed "asset value" is less than the MAV, the Bank will be obliged to top-up the security assets in the charged accounts accordingly within 20 days of the relevant valuation date. If the "market value" of the security assets is less than 90 per cent. of their nominal value the Pace Trustee can elect to have the security assets in the charged accounts topped-up by reference to the "market value" (after applying haircuts thereto by reference to the Bank of England's Sterling Monetary Framework) rather than the "asset value".
- Following the occurrence of an Event of Default, the Pace Trustee may demand that the Bank shall pay to the Pace Trustee the lesser amount of (i) the pre-haircut value of the security assets and (ii) the amount of the Secured Obligations at the time.

- Income distributions arising out of security assets will be credited to a charged cash account and only released to the Bank to the extent there is an excess of post-haircut value of posted collateral over the MAV insofar as required to achieve the control required for the purposes of creating a security financial collateral security arrangement.

Desectionalisation

The Pace Heads of Terms also provides for the rules of Pace to be amended such that, in the event of the Bank's insolvency (which means the occurrence of an "insolvency event" as defined in s121 of the Pensions Act 2004, bank insolvency or bank administration), the Bank Section of Pace will automatically commence winding up. A section 75 debt will become due and payable from the Bank on Bank insolvency and the commencement of wind-up of the Bank Section either by operation of law, or by virtue of an equivalent debt which will arise under contract. In addition, on commencement of the wind-up of the Bank Section on Bank insolvency Pace will automatically revert to operating in the way that it did prior to the Pace Pensions Sectionalisation (i.e. with all assets of Pace held on a non-segregated basis, and from which all benefits are payable) unless the Pace Trustee has notified the Bank and the Co-operative Group in writing prior to Bank insolvency that such automatic reversion will not occur. If such automatic reversion does not occur because of such notification from the Pace Trustee, during wind-up of the Bank Section the Pace Trustee will have a discretionary power to cease to operate the Bank Section as a legally separate section, such that Pace reverts to operating in the way that it did prior to the Pace Pensions Sectionalisation (i.e. with all assets of Pace held on a non-segregated basis, and from which all benefits are payable). The Co-operative Group therefore has continued "last-man standing" risk for the whole of Pace until its "last-man standing" risk terminates as described below. However, there is no "last-man standing" risk for the Bank as Pace will be operated at all times as two legally separate sections (with the Bank's liability limited to the Bank Section) absent Bank insolvency.

Termination of "last-man standing" risk for the Co-operative Group

The Sectionalisation Parties have also agreed in the Pace Heads of Terms that following the Pace Pensions Sectionalisation, the Pace Trustee will monitor the funding of the Bank Section. If the Bank Section reaches 100 per cent. funding on the "low risk target basis" and in the Pace Trustee's opinion (having obtained covenant advice) the Bank's covenant is strong or the Pace Trustee otherwise decides in its discretion that the Bank's covenant is sufficient to provide adequate support to the Bank's liabilities, the Pace Trustee has agreed that there will no longer be any reversion to Pace operating as a non-segregated scheme as it was prior to the Pace Pensions Sectionalisation and as a result the Co-operative Group will no longer have any "last-man standing" risk in respect of the Bank Section. The Pace Trustee has also agreed that it will, in such circumstances, if the Bank so requests, at its discretion implement a bulk transfer of all the Bank Section's assets and liabilities to another Bank pension scheme of the Bank's choosing with mirror image benefits. The Pace Trustee may also at its discretion, where it decides the Bank's covenant is sufficient, decide that there will no longer be any reversion to Pace operating as a non-segregated scheme as it was prior to the Pace Pensions Sectionalisation and as a result the Co-operative Group will no longer have any "last-man standing" risk in respect of the Bank Section and/or implement a bulk transfer of all Bank Section assets and liabilities to another Bank pension scheme of the Bank's choosing with mirror image benefits, even if the Bank Section is not 100 per cent. funded on the "low risk target basis". Such bulk transfer will also end the Co-operative Group's "last-man standing" risk.

Assuming a successful implementation of the Restructuring and Recapitalisation, the Pace Pensions Sectionalisation is expected to contribute to a targeted reduction in the Bank's minimum Pillar 2a regulatory capital requirement so as to achieve a targeted end-state, at the end of the life of the Plan, of approximately 8.5 per cent. of RWAs.

14.2 ***Britannia Scheme***

The Bank is the sole substantive sponsor of the Britannia Scheme (its wholly owned subsidiary Britannia International Limited also participates in the Britannia Scheme but contributions are

currently paid solely by the Bank). The assets of the Britannia Scheme are held and managed by a trustee separate from the Bank's assets. The Britannia Scheme was a hybrid scheme providing defined benefit and defined contribution benefits, but the defined contribution section has now been wound-up. The Britannia Scheme closed to future accrual from 6 October 2012 (on closure active members of the Britannia Scheme were invited to join Pace). Defined benefits built up to this date continued to be linked to final pensionable salary at a member's date of leaving or retirement until 30 September 2015, when the salary link was terminated. As at 5 April 2016, the Britannia Scheme had 3,414 deferred members and 1,392 pensioners.

The most recently completed actuarial valuation of the Britannia Scheme was as at 5 April 2014. This valuation reported a deficit on the funding basis of £41.2 million. The Britannia Scheme actuary estimated that the funding basis shortfall had increased to £144.7 million as at 5 April 2016. While the Britannia Scheme operates with an actuarial deficit, it still has an IAS 19 surplus with £20 million recognised as at 31 December 2016. A triennial actuarial valuation with an effective date of 5 April 2017 is currently underway, with the outcome of this valuation not expected to be known until at least Q3 2017, and with a statutory deadline for completion of 5 July 2018.

The Bank has agreed to pay deficit contributions totalling £50 million over a 7 year period to 31 July 2022. A security arrangement has also been put in place pursuant to which the Bank has charged, in favour of the Britannia Trustee, Warwick Two Notes (which had a principal outstanding amount of £165.1 million when the security was put in place in 2016, and with a 17 per cent. haircut applied to this security value). The Britannia Trustee's maximum claim in the event the security becomes enforceable is £137 million. The security is enforceable if the Bank fails to pay a contribution to the Britannia Scheme, but only to the extent required to discharge the unpaid amounts. The security is also enforceable (in its entirety) on an Event of Default. Events of Default include insolvency events as defined in s121 of the Pensions Act 2004, bank insolvency, bank administration, the Bank ceasing to carry on business, unremedied breaches by the Bank of the security arrangement, un-remedied misrepresentations under the security arrangement by the Bank, and events which make the security arrangement ineffective (e.g. the Bank's obligations in relation to the security arrangement become unlawful or are repudiated).

The security assets will be valued quarterly and in some circumstances more frequently, usually with regard to an "asset value" by applying a haircut to the principal amount, but in some circumstances a "market value" assessment will be carried out.

Where an "asset value" is calculated, such value shall be determined by reference to the nominal value of the security assets subject to a haircut to be determined by reference to the haircuts used in the Bank of England's Sterling Monetary Framework. Where the Britannia Trustee elects to calculate a "market value" (which it may do where it has reasonable grounds to believe that the market value of the securities may have been adversely affected), such market value shall be determined (i) initially, by the Britannia Trustee itself or with the assistance of a professional adviser such as an accountancy firm or investment bank of international standing, and (ii) where the Bank disputes such valuation, by way of a process under a which a dealer is appointed to attract firm bids for the relevant securities and by reference to the arithmetic average of the bids received thereunder.

If on any valuation date the assessed asset value is less than the Britannia Trustee's maximum potential claim pursuant to the security, the Bank will be obliged to top-up the security assets in the charged accounts accordingly. If the market value of the security assets is less than 90 per cent. of their nominal value the Britannia Trustee can elect to have the security assets in the charged accounts topped-up by reference to the market value (after applying haircuts thereto by reference to the Bank of England's Sterling Monetary Framework) rather than the asset value.

Some of the risk posed to the Bank's capital resilience by the Britannia Scheme was mitigated in H1 2016 as, with the agreement of the Britannia Trustee, a number of changes were made to the scheme rules whereby the Bank is now deemed to have a right to a refund over any surplus that might arise at the end of the scheme's natural life assuming gradual settlement of scheme liabilities over time until

no beneficiaries remain. This has the effect that the Bank is not currently required to recognise a liability for any deficit contributions it has committed to.

14.3 ***Other pension schemes***

The Bank is connected and/or associated with employers in the Co-operative Group that participate in other Co-operative Group defined benefit pension schemes, all of which are closed to new entrants and future accrual (other than a final salary link for past service). The Bank does not however participate in or guarantee the liabilities of these schemes.

14.4 ***Unfunded arrangements***

The Bank operates two small unfunded unregistered retirement benefit arrangements. The most recent actuarial valuation of these arrangements indicated that the Bank's unfunded pension liabilities amounted to £8.9 million as at 31 December 2016.

14.5 ***Summary of overseas pension benefits***

Britannia International Limited, a wholly owned subsidiary of the Bank, contributes to a group personal pension plan called the Britannia International Group Personal Pension Plan. This is a defined contribution arrangement in the Isle of Man.

15. PROPERTY, PLANT AND EQUIPMENT

15.1 The following are the principal establishments and assets of the Bank and its subsidiaries:

Location	Notes	Type of facility/asset	Tenure
CIS Building Miller Street Manchester M60 0AL	1	Office and Data Centre	Leasehold
Britannia House Cheadle Road Leek Staffordshire ST13 5RG	2	Office	Leasehold
Newton House Leek ST13 5RG	3	Data Centre & Vacant Office	Freehold
1 Balloon Street Manchester M60 4EP	4	Office	Leasehold
Olympic House 6 Olympic Court Montford Street Salford Greater Manchester M5 2QP	5	Data Centre	Freehold
Delf House Southway Skelmersdale Lancashire WN8 6NY	6	Office and Data Centre	Leasehold
The Pyramid Kings Valley Office Park Yew Street Stockport Cheshire SK4 2JN	7	Office	Freehold
Sandalwood Court Springwood Way Tytherington Business Park Macclesfield SK10 2XR		Data Centre	Leasehold
St Paul's House 8-12 Warwick Lane London EC4M 7BP	8	Office	Leasehold

(1) The Co-operative Group have a leasehold interest in this property. The Bank occupies by way of a number of leases of individual floors.

(2) The Bank sold the freehold interest in this property to Capita and retains the ground floor on 2 sub leases.

(3) The property is subject to a licence to Capita for use of a deeds store in the premises.

(4) The Co-operative Group have a lease of part of the ground floor for use as a food store.

(5) The Bank entered into a 15-year lease of part of this property in September 2013 on arm's length commercial terms with the Co-operative Group to allow the Co-operative Group's continued use of part of the data centre. The lease grants the Co-operative Group a right to renew its occupation of the property for a further 15 years on expiry of the initial term.

(6) The Bank are currently in negotiation with the landlord over the terms of a new lease expiring October 2026.

(7) The freehold interest is owned by the Bank. The Bank has granted a long lease to one of its wholly owned subsidiaries. The Bank is in the process of re-structuring the title to remove the historical long leasehold interest of the wholly owned subsidiary interest.

(8) The Co-operative Group owns the interest in the head-lease to this property. The Bank has 4 floors held on lease. The Bank vacated 2 of the floors in March 2017 and has the floors on the market to sub-let.

15.2 The Bank is part way through a premises transformation project. Key parts of the project include: refurbishing 1 Balloon Street, Manchester (which will be retained, with completion of refurbishment January 2018); extending the current lease for Delf House, Skelmersdale, beyond expiry in 2018 (Delf House was refurbished in 2016 as part of the project); downsizing to 2 floors from 4 floors at St Paul's House (completed in March 2017); options are being considered around The Pyramid; retaining Britannia House; substantially vacating Miller Street, Manchester; and exiting all data centres in-line with the Bank's IT transformation plans.

15.3 No single tangible fixed asset (including property, plant and equipment) accounts for more than 10 per cent. of the Bank's net turnover or production. Within the Bank's property portfolio of 237 locations as at January 2017, the Bank is targeting to reduce this number to 148 locations by the end of 2017, which will leave a further 84 short-term leases remaining which are due to expire or have a break option pre-2020.

16. SIGNIFICANT SUBSIDIARIES

16.1 The following table shows details of the Bank's significant subsidiaries, all of which are in a net asset position except where indicated below:

Name	Owner	Percentage Ownership	Country of incorporation/ residence	Principal activity
Co-operative Commercial Limited	Bank	100	England	Investment company
Roodhill Leasing Limited	Bank	100	England	Leasing
First Roodhill Leasing Limited	Bank	100	England	Leasing
Second Roodhill Leasing Limited	Bank	100	England	Leasing
Third Roodhill Leasing Limited	Bank	100	England	Leasing
Fourth Roodhill Leasing Limited	Bank	100	England	Leasing
Britannia Asset Management Limited	Bank	100	Scotland	Earning interest on intercompany balances
Britannia Estate Agents Limited	Bank	100	England	Former letting agent
Britannia Development and Management Company Limited	Bank	100	England	Property investment
Second Pioneers Leasing Limited	Bank	100	England	Leasing
Britannia International Limited	Bank	100	Isle of Man	Deposit taking
Britannia Life Direct Limited	Limited[1]	100	Scotland	intercompany balances
Mortgage Agency Services Number One Limited	Bank	100	England	Mortgage and syndicated lending
Mortgage Agency Services				

Name	Owner	Percentage Ownership	Country of incorporation/ residence	Principal activity
Number Two Limited	Britannia LAS Direct Bank	100	England	Earning interest on Mortgage lending
Mortgage Agency Services Number Four Limited	Bank	100	England	Mortgage lending
Mortgage Agency Services Number Five Limited	Bank	100	England	Mortgage lending
Platform Funding Limited	Bank	100	England	Mortgage lending
Platform Home Loans Limited	Bank	100	England	Historically Mortgage origination agent and related services
Mortgage Agency Services Number Six Limited	Bank	100	England	Mortgage lending
BPS Principal Employer Limited	Bank	100	England	Holding company
Britannia Pension Trustees Limited	BPS Principal Employer Limited	100	England	Pension scheme participant
Britannia Treasury Services Limited	Bank	100	England	Holding company
Platform Group Holdings Limited	Britannia Treasury Services Limited	100	England	Holding Company
Platform Consumer Services Limited	Platform Group Holdings Limited	100	England	Holding company

Notes:

(1) Britannia LAS Direct Limited was incorporated in Scotland and is a wholly-owned subsidiary of the Bank.

16.2 The results of the principal securitisation and covered bond vehicles listed below are consolidated into the results of the Bank under IFRS 10 (Consolidated Financial Statements). All vehicles are registered in England and operate in the UK.

Name	Principal activity
Leek Finance Number Nineteen plc	Securitisation company
Calico Finance Number One Limited	Securitisation company
Silk Road Finance Number Four plc	Securitisation company
Moorland Covered Bonds LLP[(1)]	Mortgage acquisition and guarantor of covered bonds

Notes:

(1) At 31 December 2016 Moorland Covered Bonds LLP had a net liability position, primarily due to the hedge ineffectiveness of interest rate swaps in a hedge accounting arrangement. These swaps will revert to nil and reverse the associated net liability position at maturity

16.3 The following table shows details of joint ventures in which the Bank participates:

Name	Percentage Ownership
Britannia Personal Lending Limited	49
Britannia New Homes (Scotland) Limited (Dormant)	50

17. MATERIAL CONTRACTS

The following is a summary of contracts (not being entered into in the ordinary course of business) which have been entered into by the Bank or its subsidiaries (i) within the two years immediately preceding the date of this Circular and which are material; or (ii) which contain any provision under which the Bank or its subsidiaries has any obligation or entitlement which is material to the Co-operative Group as at the date of this document.

17.1 ***Solicitation Agency Agreement***

The Bank, Merrill Lynch International and UBS Limited have entered into the Solicitation Agency Agreement on the date of this Circular. Pursuant to the terms of the Solicitation Agency Agreement, Merrill Lynch International and UBS Limited have been appointed as solicitation agents (the "**Solicitation Agents**") in respect of the Consent Solicitation and the Creditors' Scheme. The Solicitation Agents were appointed on a several and not joint basis. Each Solicitation Agent is required to perform certain services including:

(a) identifying and contacting Subordinated Noteholders and presenting the Consent Solicitation and the Creditors' Scheme to them on behalf of the Bank;

(b) making available employees to answer queries from, and provide additional information to Subordinated Noteholders in connection with the Consent Solicitation and the Creditors' Scheme;

(c) providing assistance as and when requested by the Bank in relation to any decision to re-open, amend, terminate, shorten or extend the Consent Solicitation and the Creditors' Scheme;

(d) making or arranging for the making of such announcements as are agreed between the parties on behalf of the Bank in connection with the Consent Solicitation and the Creditors' Scheme; and

(e) providing such other assistance and undertaking such other services as are agreed in writing between the parties to the Solicitation Agency Agreement from time to time.

The Bank has given certain representations, warranties and undertakings to the Solicitation Agents. The Solicitation Agency Agreement also contains certain indemnities given by the Bank in favour of the Solicitation Agents in respect of, *inter alia*, claims made against or losses suffered or incurred by the Solicitation Agents in connection with the services provided under the Solicitation Agency Agreement.

The obligations of the Solicitation Agents under the Solicitation Agency Agreement are subject to applicable law and certain conditions and the Solicitation Agents may, in their absolute discretion and upon such terms as they think fit, waive any of the conditions. In addition, the Solicitation Agents have the right to terminate the Solicitation Agency Agreement, exercisable in certain circumstances.

17.2 ***2006 Agreement, the ITSA and any amendments thereto, the IT Separation Costs Agreement (as amended) and the Data Protection Agreement***

On 16 February 2006, the Bank and CFSMS entered into an agreement in relation to the provision of shared IT assets and the on-supply of certain third-party services by CSFMS (the "**2006 Agreement**"). This is a cost-based agreement terminable by CFSMS on six months' notice with a 12-month run-off period. The Bank has no right to terminate unless CFSMS is subject to a change of control. The Bank provides CFSMS with an unlimited indemnity for all liabilities, losses, damages, costs and expenses

of any nature as a result of CFSMS entering into and performing the agreement in respect of the assets, services and personnel provided to the Bank.

On 5 July 2012 the Bank, CFSMS and the Co-operative Group entered into an agreement to govern the supply of IT services by the Co-operative Group to the Bank (the "**ITSA**"). As part of the separation process, the Bank and members of the Co-operative Group entered into an agreement amending the ITSA on 5 September 2016 to reflect the current services covered by the agreement and entered into a further agreement amending the ITSA on 21 December 2016 to permit the ITSA agreement to be terminated in part. The Bank and the Co-operative Group have also agreed a working framework document with requests for the exit in part of certain services under the ITSA.

The Bank and the Co-operative Group entered into an IT separation costs agreement on 22 January 2015 (as amended by a letter of agreement on 20 June 2016) (the "**IT Separation Costs Agreement**"), which set out which of the 2006 Agreement or the ITSA was the relevant governing agreement for the existing services and allocated costs for IT separation. This then allowed the Bank to enter into an IT outsourcing agreement with IBM for enterprise computing services (which it entered into on 23 January 2015). Under the IT Separation Costs Agreement, both the Co-operative Group and CFSMS undertake to support activities for the separation of the Bank's IT infrastructure from the wider Co-operative Group's IT infrastructure, to enable the smooth transition to other service providers including IBM. Further, the Co-operative Group undertakes that any notice to terminate the existing ITSA under which IT services are provided to the Bank and CFSMS undertakes that any notice to terminate the 2006 Agreement would not take effect prior to 31 December 2017. The IT Separation Costs Agreement also allocated the contributions to be made to the Co-operative Group's own costs of keeping the wider Co-operative Group's existing IT infrastructure stable and operable during and following the Bank's separation of its IT infrastructure; to this end CBG (as the parent of CFSMS) undertook to contribute a maximum of £95 million to such Co-operative Group costs, with the Bank to make a contribution of up to £25 million, based on a formula in the event that the total cost of this Co-operative Group project falls between £76 million and £120 million.

The Bank and the Co-operative Group entered into a data processing agreement on 13 April 2015 (the "**Data Protection Agreement**"), which has three purposes:

(i) To create a legal obligation on both Bank and Co-operative Group to provide to each other, and to each other's subcontractors, the data that is necessary to complete Bank and Co-operative Group IT separation programmes. This includes all data held by each of the parties' group members, which for the Co-operative Group includes CFSMS and CIS General Insurance Limited;

(ii) To establish an appropriate data protection and security framework for the disclosure of data that is co-mingled in order to facilitate the completion of the separation programmes; and

(iii) To provide an appropriate data protection and security framework for all other co-mingled data that is taking place between the Co-operative Group and the Bank, and their group members, in relation to which no written agreement containing adequate data protection provisions currently exists.

The Bank and the Co-operative Group have entered into mutual data exporting data agreements permitting each other to export the data they hold, belonging to the other party, to their respective outsourced provider (each of the Bank and CISGIL have independent outsourcing contracts with IBM). In addition, an enduring data sharing agreement dated 3 July 2017 between the Bank, CFSMS and CL allows data to be held by other parties where it is too complex or uneconomic to separate, as well as a data processing agreement dated 18 June 2015 covering transfer of data outside of the EEA.

17.3 ***Relationship Agreement***

The Bank entered into the Relationship Agreement with the Co-operative Group and CBG on 4 November 2013, to regulate the basis of their ongoing relationship.

The principal terms of the Relationship Agreement will continue for so long as the Co-operative Group (or any member of its group) remains a significant shareholder (defined in the Relationship Agreement as any person who is entitled to exercise or control (directly or indirectly) the exercise of 20 per cent. or more the voting rights at general meetings of the Bank) of the Bank. The Relationship Agreement records that, pursuant to the Articles of Association, the Co-operative Group has the right to appoint and, once appointed, remove persons to the Board of the Bank. The Co-operative Group's current shareholding allows it to appoint one director; this position is currently held by Alistair Asher.

Under the Relationship Agreement, the Co-operative Group undertakes that it will conduct transactions with the Bank on arm's length terms and not seek to influence the day-to-day running of the Bank. Amendments to existing contracts and arrangements in place between the Co-operative Group and the Bank will require the approval of a majority of independent directors. The Relationship Agreement contains provisions on conflicts and related party transactions. The Relationship Agreement also imposed a five-year lock-up restriction on a disposal of Ordinary Shares by the Co-operative Group. However, pursuant to an amendment made under the Variation and Director Appointment Deed, this lock-up restriction ceased to have effect on 30 September 2014.

The Co-operative Group also undertook that neither it, nor any member of its group, shall without the prior written consent of the Bank: (i) operate, establish or acquire any undertaking which constitutes a competing business for a period ending on the later of 20 December 2016 (being the third anniversary of the 2013 Liability Management Exercise becoming unconditional) and three years from the date of termination of the Relationship Agreement (although the Co-operative Group is permitted to carry on business activities carried on at 20 December 2013, being the date when the 2013 Liability Management Exercise became unconditional) or (ii) solicit for employment any of the directors (or their respective direct reports) or senior managers of the Bank for the same time period as applies in (i) above. The Relationship Agreement will terminate immediately (but without prejudice to accrued rights and obligations) if the Co-operative Group ceases to be a significant shareholder of the Bank (as defined above). The Relationship Agreement will terminate upon completion of the Restructuring and Recapitalisation and such non-compete and non-solicitation obligations will, on that basis expire in September 2020.

For a period of two years after termination of the Relationship Agreement or seven years after the 2013 Liability Management Exercise became unconditional (being 20 December 2020), whichever is the later, the Co-operative Group agreed to: (i) continue to use the Bank as exclusive financial services provider in respect of clearing and certain other services (excluding lending) that were provided at the date of the execution of the Relationship Agreement by the Bank to the Co-operative Group on an exclusive basis (in the last twelve months certain minor banking services have been transferred by the Group with the agreement of the Bank where either the Bank has generally ceased to provide the services or the Bank has agreed to the change in the ordinary course of business); (ii) use the Bank as principal financial services provider in respect of certain services (excluding lending) that have been provided by Bank to the Co-operative Group at any time during the 12-month period prior to the date of the Relationship Agreement to the extent the Bank has the capacity to provide such services; (iii) promote the Bank's banking business and facilitate and encourage the Co-operative Group's customers and members to hold bank accounts with, and otherwise use the services of, the Bank; and (iv) support (which, for the avoidance of doubt, shall not include any obligation on the Co-operative Group to make any financial contribution to the Bank and its subsidiary undertakings in this regard) the enhancement and rejuvenation of the Co-operative brand and franchise. Following termination of the Relationship Agreement upon completion of the Restructuring and Recapitalisation, the obligations of the Co-operative Group referred to in (i) to (iv) above (the "support obligations") will expire in December 2020.

The Bank has a V&E Committee which is responsible for recommending to the Board for approval and adoption the co-operative and ethical policies of the Bank and for representing, monitoring and advising the Board concerning the interests of customers, suppliers, employees and other stakeholders in their dealings with the Bank. The terms of reference of the V&E Committee are set out in the Relationship Agreement. The V&E Committee is responsible for preparing an annual report on its

activities which, subject to approval by the Board, shall be included in the annual report and accounts of the Bank and Shareholders will be able to question the V&E Committee at the annual general meetings of the Bank.

In recognition of the mutual benefits derived by the Co-operative Group and the Bank from ensuring an appropriate alignment of their respective business strategies, the Bank has included in its Articles of Association a requirement to promote and conduct its business to the extent practicable in a manner informed by the established values of the co-operative movement having regard to:

(a) how it relates to, communicates with, balances the interests of, and otherwise deals with its stakeholders; and

(b) how it applies the profits of the Bank, in accordance with the dividend policy set out in its Articles of Association.

The Relationship Agreement provides that for so long as it remains a *bona fide* co-operative society, the Articles of Association of the Bank provide the Co-operative Group with the right to appoint and, once appointed, remove (i) up to two persons to the Board, as non-executive directors after having been identified for such purpose by the purchasers listed in the Purchase Agreement and nominated by such purchasers or subject to approval by the Shareholders at the effective date of the 2013 Liability Management Exercise, other than the Co-operative Group or CBG (and for these purposes, a person is 'approved' if less than 25 per cent. of relevant votes disapprove of the relevant person within a specified timeframe), provided that the Co-operative Group controls directly or indirectly 25 per cent. or more of the voting rights exercisable at a general meeting of the Bank; or (ii) one person to the Board provided that the Co-operative Group controls directly or indirectly 20 per cent. or more, but less than 25 per cent., of the voting rights exercisable at a general meeting of the Bank. However, pursuant to the Variation and Director Appointment Deed the Co-operative Group has a right (as referred to in paragraph 17.4 below) to appoint one Director to the Board for so long as it directly or indirectly controls 15 per cent. or more of the voting rights exercisable at general meetings of the Bank. This right takes effect when the percentage of voting rights controlled directly or indirectly by the Co-operative Group fall below 20 per cent, but will itself terminate upon completion of the Restructuring and Recapitalisation.

For as long as the Ordinary Shares are not admitted to the premium listing segment of the Official List, the Bank has agreed to (i) use its reasonable endeavours to procure, and CBG and the Co-operative Group have agreed to exercise all of their respective powers of control to procure, that the Bank shall comply with the UK Corporate Governance Code as if it were in the FTSE 350 (as well as comply with the related provisions of LR 9.8.6R(5) and LR 9.8.6R(6) of the FCA's Listing Rules, as if they applied to the Bank). In addition, for as long as the Ordinary Shares are not admitted to either the standard segment or the premium listing segment of the Official List, the Bank has agreed to adopt and follow policies to comply with the rules in *Chapter 10: (Significant Transactions), Chapter 11: (Related Party Transactions), Chapter 12: (Dealing in own securities and treasury shares) and Chapter 13: (Contents of Circulars)* of the Listing Rules ("**10-13 LR**"), to the extent reasonably practicable and in accordance with the spirit of 10-13 LR. Analogous provisions are also contained in the Bank's Articles of Association. These obligations will cease upon completion of the Restructuring and Recapitalisation and will be removed from the Bank's Articles of Association at the same time.

Other than as described above with respect to the non-compete and non-solicitation obligations and the support obligations, all the rights and obligations of the Co-operative Group referred to above will cease upon completion of the Restructuring and Recapitalisation.

17.4 ***Variation and Director Appointment Deed***

The Bank, the Co-operative Group Limited and CBG entered into a Variation and Director Appointment Deed ("**VDAD**") on 9 May 2014. The Director appointment rights under the VDAD would only apply if the Co-operative Group ceases to exercise, or to control, directly or indirectly, the

exercise of 20 per cent. or more of the rights to vote at general meetings of the Bank and the nominee Director appointment rights of the Co-operative Group under the Relationship Agreement therefore ceased to apply. Until that point, the existing Director appointment rights of the Co-operative Group under the Relationship Agreement would continue to apply.

If the Director appointment rights in the VDAD were to apply in those circumstances, the Co-operative Group would have a right, for so long as it remains a *bona fide* co-operative society and directly or indirectly controls 15 per cent. or more of the voting rights exercisable at general meetings of the Bank, to appoint and remove (and to the extent such Directors are removed or resign, appoint replacements for) one Director to the Board.

The terms of the VDAD are consistent with the existing terms of the Relationship Agreement and the requirements of the Bank's Articles of Association regarding the Co-operative Group Nominee Directors. In particular, the VDAD provides that no notice to appoint a Director under the VDAD shall be valid unless and until, among other things, the Co-operative Group has had prior consultation with the Bank's nomination committee in relation to that proposed appointment and the Bank has obtained all relevant regulatory approvals in respect of the proposed nominee Director.

In the event that the Co-operative Group ceases to be a *bona fide* co-operative society or the Co-operative Group ceases to directly or indirectly control 15 per cent. or more of the voting rights exercisable at general meetings of the Bank, the VDAD provides that the Co-operative Group's nominee Director would be automatically removed as a Director of the Bank.

The Bank may remove a nominee Director appointed under the VDAD with immediate effect in certain circumstances, including on a material breach of his obligations under his letter of appointment or if the nominee Director ceases to be an approved person for the purposes of FSMA. The Co-operative Group would, under the VDAD, indemnify the Bank against losses and liabilities arising out of the removal of a nominee Director.

The VDAD provides that, in the event that a Director appointed under the VDAD is not re-elected at the relevant annual general meeting, the Co-operative Group may nominate a replacement nominee Director.

Under the VDAD, the Co-operative Group acknowledges that any Directors appointed under the VDAD shall not be able to, and agrees to procure that those Directors will not, vote at Board meetings on any matter where there is a conflict of interests between the Co-operative Group and the Bank.

The VDAD also makes certain amendments to the Relationship Agreement. The Relationship Agreement previously imposed lock-up restrictions on the Co-operative Group disposing of its Ordinary Shares in the Bank for five years from the effective date of the 2013 Liability Management Exercise. The VDAD provided that the five-year lock-up restriction on the Co-operative Group disposing of its Ordinary Shares ceased to apply with effect from 30 September 2014.

The right of the Co-operative Group to appoint a director to the Board will terminate upon completion of the Restructuring and Recapitalisation.

17.5 *2014 Shareholder Rights Agreement*

The Bank entered into the 2014 Shareholder Rights Agreement with the 2014 Institutional Shareholders and the Co-operative Group on 9 May 2014. Pursuant to the 2014 Shareholder Rights Agreement, the Bank granted certain rights to the 2014 Institutional Shareholders and the Co-operative Group. These rights are in addition to those contained in the Relationship Agreement entered into in connection with the Bank's recapitalisation and 2013 Liability Management Exercise in 2013, and made between the Bank, the Co-operative Group and CBG, under which certain rights to nominate Directors to the Board were also granted to certain former bondholders who were purchasers under the Purchase Agreement.

As at the time of entering into the 2014 Shareholder Rights Agreement, two of the Bank's largest Shareholders were Silver Point and Perry Capital. Under the 2014 Shareholder Rights Agreement, the Bank granted to each of Silver Point and Perry Capital the right to nominate a Director for appointment to the Board for so long as Silver Point and Perry Capital, as the case may be, directly or indirectly controls 5 per cent. or more of the voting rights exercisable at general meetings of the Bank. Such rights are not transferable, save that they will automatically transfer and be exercisable by another 2014 Institutional Shareholder if Silver Point or Perry Capital ceases to control such level of voting rights in the Bank, provided that such other 2014 Institutional Shareholder itself directly or indirectly controls 5 per cent. or more of such voting rights.

No person may be appointed as a Director under the 2014 Shareholder Rights Agreement unless that person has been approved by the Bank's nomination committee (including consideration of references and standard background checks), such approval not to be unreasonably withheld. A Director under the 2014 Shareholder Rights Agreement will also not be appointed until all required regulatory approvals of that individual have been obtained. Each person appointed as a Director under the 2014 Shareholder Rights Agreement shall owe the same fiduciary and other duties as are owed by the other Directors. Any such directors so nominated may, but are not required to, satisfy the criteria to be independent pursuant to the UK Corporate Governance Code.

The 2014 Shareholder Rights Agreement does not affect the existing Director appointment rights under the Relationship Agreement but the parties to the 2014 Shareholder Rights Agreement agreed to seek the consent of the purchasers under the Purchase Agreement (two of which are Silver Point and Perry Capital) to vary certain provisions of the Relationship Agreement, including such that only persons that can be properly considered by the Board on appointment to be independent Directors may be appointed by former bondholders under the Relationship Agreement, to extend the time period during which such Directors can be appointed by former bondholders and to ensure that such Director appointment rights continue beyond termination of the Relationship Agreement. The 2014 Institutional Shareholders agreed not to take or omit to take certain actions which may affect the independence of those Directors.

The Directors appointed under the 2014 Shareholder Rights Agreement may be, but are not required to be, independent. The Board has discretion to determine whether any Director is independent for these purposes by reference to the UK Corporate Governance Code.

Only Directors appointed under the 2014 Shareholder Rights Agreement who have been determined by the Board to be independent may be appointed to the Board's audit and remuneration committees. If no Director appointed under the 2014 Shareholder Rights Agreement is determined by the Board to be independent, at least one of the Directors appointed under the Relationship Agreement (if they are independent) shall serve on the audit committee and the remuneration committee. Those Directors may only serve on the audit committee if they are considered by the Audit Committee, acting reasonably, to be financially literate.

The 2014 Shareholder Rights Agreement provides that at least one Director appointed under the 2014 Shareholder Rights Agreement will serve on each of the risk committee and the nomination committee (the appointing 2014 Institutional Shareholder(s) have the right to determine which Director appointed under the 2014 Shareholder Rights Agreement will serve on which committee but, in the absence of agreement between them, the Board will decide). This is subject to an overriding requirement that a majority of the members on those committees must at all times be independent Directors.

Pursuant to the 2014 Shareholder Rights Agreement, the Bank has agreed to establish a sub-committee of the Board that will assess the feasibility of the Bank listing its ordinary shares on the Official List, the IPO Committee, and make recommendations to the Board by the end of each calendar quarter with regards to the timing of such a listing. That sub-committee is comprised of four Directors, being one Director appointed pursuant to the Relationship Agreement, one Director appointed pursuant to the 2014 Shareholder Rights Agreement, one executive Director and one

Independent Non-Executive Director who is not a Director appointed pursuant to the Relationship Agreement or the 2014 Shareholder Rights Agreement.

In addition, any of the 2014 Institutional Shareholders and the Co-operative Group who together hold 25 per cent. or more of the Bank's issued Ordinary Share capital, have the right to require the Bank to assist in the launch of a secondary offering of Ordinary Shares, provided that the exercising Shareholders have committed to sell Ordinary Shares valued at not less than £100 million. The 2014 Institutional Shareholders may only exercise this right once in any 12 month period and three times in total. Upon exercise of this right, the Bank would then be required to co-operate with the relevant 2014 Institutional Shareholders and the Co-operative Group (if applicable) to consummate such a secondary offering, but the launch of any secondary offering would be subject to Board approval of the documentation and certain other specified matters relating to that secondary offering. All fees and costs of any secondary offering must be pre-approved by the 25 per cent. Shareholders and will be paid by the selling Shareholders participating in any such offering out of the proceeds of the secondary offering.

The rights of each 2014 Institutional Shareholder, and the rights of the Co-operative Group, under the 2014 Shareholder Rights Agreement will terminate when it no longer controls, directly or indirectly, the exercise of, in aggregate, 5 per cent. or more of the rights to vote exercisable at a general meeting of the Bank.

It is expected that these arrangements will be superseded by the new governance arrangements described in Part 5.

17.6 ***Capita Agreement***

The Bank and Capita entered into a master services agreement on 1 August 2015 (the "**Capita Agreement**"). Under the Capita Agreement the Bank outsourced mortgage processing of its entire mortgage portfolio to Capita (including mortgage operations, contact centre and arrears but excluding the areas detailed below). Approximately 700 of the Bank's staff transferred to Capita as part of the transaction. The Bank also transferred the share capital of Western Mortgage Services Limited ("**WMS**") to Capita under a sale and purchase agreement dated 1 August 2015, which resulted in the administration system used to support mortgages secured through the Bank's broker network transferring as part of the assets owned by WMS. The Bank retained a number of more sophisticated operational activities, including retail sales (which are advised sales), manual underwriting, buy-to-let mortgage applications, unresolved complaints and administration and arrears in relation to sensitive and vulnerable customers. The Capita Agreement includes a mix of fixed and variable charges for Capita's servicing of the Bank's mortgages, with different charges applicable to new business activities (such as mortgage origination, further advances and variations) and mortgage servicing (arrears and non-arrears). The contract was originally worth up to £325 million over 10 years starting 1 August 2015.

On 10 February 2017, the term of the Capita Agreement was shortened to 31 December 2020. It was agreed that Capita would continue to use the three existing mortgage systems through to the end of the shortened term. It was also agreed that the Bank would retain the financial risk of maintaining the regulatory compliance of the Capita managed IT platform used to support mortgages secured through the Bank's broker network (approximately 90 per cent. of new mortgage business); those three systems would originally have been replaced by a new single system. The Bank shall retain maintenance and compliance risk of its two retail mortgage systems throughout. At current volumes, in aggregate, the actual spend incurred to date for 2017 under the Capita Agreement plus expected spend over the period from 2017 to expiry in 2020 is £135 million.

17.7 ***Sopra Steria Agreement***

The Bank has received application and maintenance services as a service recipient under an agreement between Sopra and CFSMS (the "**CFSMS Agreement**") since 30 March 2007. As part of its separation arrangements from CFSMS, the Bank directly entered into a new master services

agreement with Sopra on 31 March 2017 (the "**New Direct Agreement**") to procure application development and maintenance services directly from Sopra, which took effect from 1 April 2017. As a result, the CFSMS Agreement has been amended to remove the services which are now provided under the New Direct Agreement from the CFSMS Agreement. There are a number of residual shared services that are still provided under the CFSMS Agreement to the Bank; however, these will be removed as the separation process continued. In connection with this, on 9 June 2017, the Bank and CFSMS entered into an Intellectual Property Licence Agreement to licence certain IP rights pursuant to the CFSMS Agreement and an Intellectual Property Assignment pursuant to which CFSMS assigns certain IP rights to the Bank in respect of materials created under the CFSMS Agreement.

The New Direct Agreement terminates in January 2019, and has an approximate value of £22 million over a 22 month term (in aggregate). The agreement includes a committed value for exclusive support services on legacy applications and a minimum commitment for non-exclusive discretionary development activity and services.

17.8 ***The Co-existence Principles***

The Bank and the Co-operative Group agreed the Co-existence Principles, to be expressed in the Proposed Co-existence Agreement. The Co-existence Principles governed the use of trademarks containing "Co-operative" or "Co-op" and other associated trademarks owned by both parties as well as restrictions on the operation of financial services businesses by the Co-operative Group.

Pursuant to the Group Implementation Deed, described in paragraph 17.14 below, the Co-existence Principles terminated on the date of the Group Implementation Deed.

17.9 ***IT Security Services Agreement***

The Bank currently provides a number of IT security services to CISGIL, via a Transitional Services Agreement (the "**TSA**") dated 28 November 2014. Under the TSA the Bank provides security services (required to be to the same level as was effective prior to separation) to CISGIL.

The costs of running the services provided under the TSA are shared between the Bank and CISGIL, with the Bank paying 77 per cent. of actual costs and CISGIL paying 23 per cent. of actual costs. The cost allocation may be renegotiated, subject to agreement by both parties. To date the cost allocation has not changed from the current ratio, which pre-dates the separation activities in 2013.

Both the Bank and CISGIL have the right to terminate the services provided under the TSA, either in full or to terminate individual service elements on 3 months' notice once that service element is no longer shared.

17.10 ***Loss Sharing Deed***

As part of the negotiations relating to the separation of the Bank from the Co-operative Group, the Bank and the Co-operative Group entered into a loss sharing deed on 26 January 2015 (the "**Loss Sharing Deed**") relating to the surrender of group relief between the entities in the Bank's tax group and entities in the Co-operative Group tax group. This Loss Sharing Deed sets out the basis of the agreement by the Co-operative Group to take steps to allow it to claim tax losses from the Bank for the accounting periods to 31 December 2012 and 2013. The Loss Sharing Deed also addresses the terms of the payment by the Co-operative Group to the Bank for those tax losses. The Bank's Annual Report and Accounts 2016, which include a group relief debtor of £84.1 million as at 31 December 2016 (as at 31 December 2015: £60.1 million), have been prepared on a basis consistent with the deed. The Bank receives payment from the Co-operative Group when the Co-operative Group realises the benefit of the losses surrendered and at the corporation tax rate at which the benefit is realised. On 14 July 2017, the Bank and the Co-operative Group entered into the Tax Deed of Amendment (amending the Loss Sharing Deed relating to the surrender of Group relief between the banking group and the trading group (further described in paragraph 17.17 of this Part 16) which sets out certain arrangements with respect to the future sharing of tax benefits realised by the Co-operative Group from tax losses surrendered to it historically by the Bank Group.

17.11 ***CFSMS-Bank 2006 Agreement, Transitional Services Agreement and Reverse Shadowing Letter***

On 16 February 2006, the Bank and CFSMS entered into the CFSMS-Bank 2006 Agreement pursuant to which CFSMS provides assets such as office equipment, materials and office space, other facilities and services, and consultants who act as secondees to the Bank. There has been a progressive separation of employees, assets and third-party services shared with CISGIL undertaken since 2014. However, the Bank continues to use infrastructure shared with CISGIL under this agreement; this use of infrastructure is planned to end on completion of IT separation from the Co-operative Group (planned for mid 2018). The Bank provides CFSMS with an unlimited indemnity for all liabilities, losses, damages, costs and expenses of any nature as a result of CFSMS entering into and performing the agreement in respect of the assets, services and personnel provided to the Bank. Further, CFSMS undertakes that any notice to terminate the existing CFSMS-Bank 2006 Agreement would not take effect prior to 31 December 2017 to give the Bank sufficient time to separate the Bank's IT infrastructure.

The Bank and CFSMS entered into a transitional services letter agreement on 21 December 2016 and a reverse shadowing letter on 9 January 2017, which relate to certain services to still be provided by CFSMS relating to assistance to be provided by CFSMS to the Bank for the change to IBM systems (as described below), and the supervision of IBM during their performance of tasks relating to bank batching on live Co-operative Group systems. These services will be provided on the same terms as under the CFSMS-Bank 2006 Agreement.

17.12 ***IBM Outsourcing Agreement***

On 23 January 2015, the Bank announced it had entered into a contract with IBM to migrate its enterprise IT infrastructure from the Co-operative Group into IBM managed data centres and receive a full suite of managed services, enabling:

(a) improved IT infrastructure and resilience, including the provision of demonstrable disaster recovery capability; and

(b) significant progress in separating IT from the Co-operative Group;

At the time of signing, the contract anticipated that the Bank would pay IBM £93 million to lead and implement the transition of these services to IBM data centres. At the same time the Bank also entered into a ten-year managed service contract at a predicted total cost of £275 million with options to terminate throughout the life of the contract. The scope of this agreement has changed over time, and formally commenced in February 2017. Monthly run charges consist of a fixed cost element (management, main frame batch and data centre local area network), variable "price x quantity" charges (mainframe components and mid-range servers) and commissioning/decommissioning charges.

17.13 ***Lock-Up Agreement***

On 28 June 2017, the Bank and the Principal Investors (who between themselves represented 47 per cent. of the Subordinated Notes and 32 per cent. of the Ordinary Shares as at the date of the Lock-Up Agreement) entered into the lock-up and support agreement (the "**Lock-Up Agreement**"). The Lock-Up Agreement appends term sheets setting out the proposed terms of the Restructuring and Recapitalisation. As at 25 July 2017, the Consenting Holders (as defined in paragraph 6 of Section A of Part 1 of this Circular) have entered into, or acceded to, the Lock-Up Agreement.

Pursuant to the terms of the Lock-Up Agreement (amongst other things):

(a) the Consenting Holders agreed not to, and agreed not to instruct the relevant trustee under the Trust Deeds or support, instruct or encourage any holders of Subordinated Notes or persons to (and agreed not to vote in favour of a resolution of Subordinated Noteholders to instruct the relevant trustee to) take any action or step towards:

 (i) enforcing the terms of the Trust Deeds or any of the Subordinated Notes;

(ii) declaring any or all of the Subordinated Notes due and payable or otherwise demanding the payment of any principal or interest amounts due under the Subordinated Notes; or

(iii) petitioning or applying for an insolvency proceeding in respect of the Bank (subject to certain exceptions, such as the Schemes),

provided that the payments of interest due under the Subordinated Notes in July 2017 were paid on the relevant payment dates;

(b) the Bank and the Consenting Holders (including the Initial Backstop Providers)[10] undertook to use their best efforts and to take such reasonable and necessary actions in furtherance of the implementation and consummation of the Restructuring and Recapitalisation (as contemplated in the term sheets attached thereto);

(c) the Consenting Holders agreed to vote (or procure that a vote was cast on its behalf) in favour of the Creditors' Scheme, the Members' Scheme, the 2023 Noteholder Extraordinary Resolutions and the Resolutions (as applicable);

(d) the Bank agreed to convene all of the meetings of the shareholders and/or creditors of the Bank which were required to consider any resolutions or decisions in relation to the Restructuring and Recapitalisation;

(e) the Bank and the Principal Investors (in their capacities as members of an informal ad-hoc committee of holders of the Subordinated Notes and Initial Backstop Providers) agreed to negotiate in good faith:

(i) to agree the operative provisions of the documents required to implement the Restructuring;

(ii) with the PRA to obtain the necessary consents, approvals and co-operation in connection with the Restructuring;

(iii) with the Pace Trustee and the Co-operative Group to agree the Pace Heads of Terms; and

(iv) with the Co-operative Group to agree documents required to implement the term sheet appended to the Lock-Up Agreement relating to the Bank's relationship with the Co-operative Group.

Each party to the Lock-Up Agreement has given certain representations to each of the other parties.

The Lock-Up Agreement may be terminated upon the occurrence of one or more of the following ("**Lock-Up Termination Events**"):

(a) Completion;

(b) automatically on 18 September 2017 or such later date as may be agreed (the "**Long Stop Date**") by the Bank and Consenting Holders holding in aggregate greater than 50 per cent. of the aggregate principal amount of the Subordinated Notes held by Consenting Holders at the relevant time (the "**Majority Consenting Holders**");

(c) by the Bank or the Majority Consenting Holders if any court of competent jurisdiction or other competent governmental or regulatory authority issues an order making illegal or otherwise restricting, preventing or prohibiting the Restructuring and Recapitalisation or any material part of the Restructuring and Recapitalisation in a manner that cannot reasonably be remedied by the Bank or the Majority Consenting Holders;

(d) by the Initial Backstop Providers if the PRA notifies the Bank of its intention to make, any adverse change in the regulatory capital requirements applicable to the Bank (by reference to

10 GoldenTree and Silver Point Capital have agreed to abstain, and have undertaken to take all reasonable steps to ensure their associates will abstain, from voting on Resolutions 5 and 6, respectively.

its own circumstances) from such requirements applicable at the date of the Lock-Up Agreement, for any reason (including but not limited to a change in markets, market conditions, or economic circumstances), provided that Consenting Holders holding in aggregate at least two-thirds of the aggregated principal amount of the Subordinated Notes at the relevant time determine that any such adverse change is material in their reasonable and good faith judgement;

(e) by the Initial Backstop Providers if any regulatory approval or confirmation specified in the commercial transaction term sheet, is not obtained by the applicable date (if any) specified in the commercial transaction term sheet or otherwise by a date sufficiently early to ensure that Completion occurs before the Long Stop Date;

(f) by the Bank or the Majority Consenting Holders if the Bank of England exercises, or formally notifies the Bank in writing that it has unconditionally determined to exercise, any of the Stabilisation Powers granted to it by the Banking Act 2009;

(g) the occurrence of a material breach by any of the parties to the Lock-Up Agreement of any of their respective obligations, representations, warranties, covenants or commitments under the Lock-Up Agreement, and to the extent any such breach is remediable it is not cured within ten (10) business days after receipt of written notice: (I) from the Majority Consenting Holders, in the case of a breach by the Bank, or (II) from the Bank, in the case of a material breach by a Consenting Holder, in each case, that would (or could reasonably be expected to) prevent the implementation of the Restructuring and Recapitalisation prior to the Long Stop Date; or

(h) by the Majority Consenting Holders after receipt of written notice from the Majority Consenting Holders if: (I) the Bank fails to have satisfied certain conditions by the relevant dates, and no agreement to amend the relevant date is reached with the Principal Investors; (II) insolvency proceedings in relation to the Bank are commenced and, if it involves a petition for winding up, it is not dismissed or discharged within fifteen business days; or (III) the Bank terminates or breaches any obligation under its engagement letters and fee arrangements with the Principal Investors' advisers.

A copy of the Lock-Up Agreement is available for inspection, as detailed in paragraph 22 of this Part 16.

17.14 ***Group Agreement***

On 28 June 2017, the Bank and the Co-operative Group entered into the Group Agreement (appending the Lock-Up Agreement) (the "**Group Agreement**"). Pursuant to the terms of the Group Agreement (amongst other things):

(a) the Bank and the Co-operative Group undertook to use their best efforts and to take such reasonable and necessary actions as may be available to them in furtherance of the implementation and consummation of the Restructuring and Recapitalisation;

(b) the Bank and the Co-operative Group agreed to negotiate in good faith with each other (and the Principal Investors in the case of the commercial transaction term sheet and the governance and structure term sheet) to agree and enter into documentation giving effect to the term sheets (see below the Group Implementation Deed, the Deed of Gift and the Amended Tax Deed);

(c) the Co-operative Group agreed to attend (or procure that CBG attended) any meeting of Bank convened to consider any resolutions or decisions in relation to the Restructuring and Recapitalisation;

(d) the Bank and the Co-operative Group agreed to not take any action (or refrain from taking any action) or instruct any third party, delegate, nominee, or agent to take (or refrain from taking any action), that, directly or indirectly, would in any material respect interfere with, delay,

impede, or postpone the implementation and consummation of the Restructuring and Recapitalisation or that is otherwise inconsistent with the Restructuring and Recapitalisation;

(e) the Bank agreed to convene all of the meetings of the shareholders and/or creditors of the Bank which were required to consider any resolutions or decisions in relation to the Restructuring and Recapitalisation; and

(f) the Bank agreed to share copies (including drafts) of certain documents relating to the Restructuring and Recapitalisation with the Co-operative Group and to keep the Co-operative Group updated as to the implementation of the Restructuring and Recapitalisation;

The Bank and the Co-operative Group have each given certain representations to the other under the Group Agreement.

17.15 ***Group Implementation Deed***

On 24 July 2017, the Bank, the Co-operative Group and CBG entered into the Group Implementation Deed, which, together with certain other agreements, is intended to give effect to the commercial arrangements reached between the Co-operative Group and the Bank in connection with the Restructuring and Recapitalisation. Amongst other things, the Group Implementation Deed records that:

(a) as the Co-operative Group will cease to be a significant shareholder (as defined in the Relationship Agreement) upon completion of the Restructuring and Recapitalisation, the Relationship Agreement will terminate, save for provisions which are expressed to survive termination, certain of which will expire in accordance with their terms (as described in (a) to (d) below). These include existing arrangements between the Co-operative Group and the Bank, with respect to the Co-operative Group's obligations entered into for the benefit of the Bank under the Relationship Agreement, including: (a) to use the Bank as its primary financial services provider (as described in paragraph 17.3 above), (b) to promote the Bank's business to its members and encourage them to use the services of the Bank, (c) not to operate, establish or acquire any undertaking which constitutes a competing business and (d) not to solicit for employment senior employees of the Bank (in each case subject to certain exceptions). On that basis, the obligations of the Co-operative Group referred to in (a) and (b) above will expire, in accordance with the terms of the Relationship Agreement, in December 2020 and, those in (c) and (d) will expire in accordance with the terms of the Relationship Agreement, in September 2020, each as further described in paragraph 17.3 of Part 16 of this Circular);

(b) as the Co-operative Group will cease to control the exercise of five per cent. or more of the voting rights exercisable at general meetings of the Bank upon completion of the Restructuring and Recapitalisation, the 2014 Shareholder Rights Agreement will terminate, as between the Co-operative Group, CBG and the Bank, save for provisions which are expressed to survive termination (as further described in paragraph 17.5 of Part 1 of this Circular); and

(c) as the Co-operative Group will cease to control the exercise of 15 per cent. or more of the voting rights exercisable at general meetings of the Bank upon completion of the Restructuring and Recapitalisation, the Co-operative Group's right to appoint a director under the VDAD and described in paragraph 17.4 of Part 1 of this Circular will terminate.

In addition, in the Group Implementation Deed, the parties agree:

(a) that the Co-operative Group will enter into the Deed of Gift, pursuant to which the Co-operative Group will transfer the Preference Shares it owns to the Bank (as further described in paragraph 17.16 of this Part 16 of this Circular);

(b) that the Co-existence Principles (further described in paragraph 17.8 of this Part 16) of this Circular will no longer be applicable and shall immediately cease to have any effect;

(c) not to make any announcement in connection with the Restructuring up to the Settlement Date without the prior written approval of the other parties;

(d) in order to protect the legitimate business interests of the parties, to mutual anti-disparagement provisions for a period of two years from the Settlement Date whereby each party agrees not to make critical comments about one another in any official statements or press releases or press briefings; and

(e) to a mutual waiver of claims whereby the parties each irrevocably and unconditionally waive, release and discharge fully and absolutely, to the fullest extent permitted by law, all liabilities of the other party and its advisers, directors, senior managers, employees and affiliates to it in relation to or in connection with or in any way arising out of the preparation, negotiation or implementation of the Restructuring and Recapitalisation.

Further, in the Group Implementation Deed, the Bank agrees:

(a) that it will at all times: (i) ensures that all its brands are distinguishable from the brands of the Co-operative Group; and (ii) use all reasonable endeavours to avoid confusion on the part of the public into believing that the Bank or any of its subsidiaries are part of the Co-operative Group of companies or otherwise associated with the Co-operative Group; and

(b) that the Bank shall reimburse the Co-operative Group for up to £6 million of its advisers' fees incurred by it prior to the Settlement Date arising out of or in connection with the preparation, negotiation and implementation of the Restructuring and Recapitalisation.

Finally, in the Group Implementation Deed, the Co-operative Group acknowledges the Bank's ownership of the trademark "The Co-operative Bank".

17.16 ***Deed of Gift***

On 26 July 2017, the Co-operative Group entered into the Deed of Gift in favour of the Bank obliging the Group to transfer all 63,700,000 Preference Shares it owned to the Bank by way of gift. The Transfer is expected to be implemented on the Settlement Date pursuant to the Restructuring Deed.

17.17 ***Amended Tax Deed***

On 14 July 2017, the Bank and the Co-operative Group entered into the Tax Deed of Amendment (amending the Loss Sharing Deed relating to the surrender of Group relief between the banking group and the trading group (further described in paragraph 17.10 of Part 1 of this Circular)) which amends the Loss Sharing Deed to clarify that (i) the Co-operative Group will not take any action the principal purpose of which is to avoid making or reducing a payment to the Bank under the Loss Sharing Deed; (ii) the Co-operative Group will provide such information consistent with past practice that the Bank reasonably requires to enable the Bank to calculate what payments are or may become due under the Loss Sharing Deed; and (iii) the Co-operative Group shall not be required to pay the next £4 million after the implementation of the Restructuring and Recapitalisation which would otherwise be due.

17.18 ***Pensions Deed***

On 28 June 2017, the Bank, the Co-operative Group and the Pensions Trustee entered into the Pensions Deed (appending the pensions term sheet and the draft Pace Heads of Terms) (the "**Pensions Deed**"). Pursuant to the terms of the Pensions Deed (amongst other things):

(a) the Bank, the Co-operative Group, and the Pace Trustee agreed to put into effect a legally binding Pace Heads of Terms agreement (the Pace Heads of Terms agreement was subsequently entered into on 14 July 2017; and

(b) the Bank agreed to keep the Co-operative Group and the Pace Trustee updated as to the implementation of the Restructuring and Recapitalisation, and agreed to share copies (including drafts) of certain documents relating to the Restructuring and Recapitalisation with the Co-operative Group and the Pace Trustee.

Each party to the Pensions Deed has given certain representations to each of the other parties.

17.19 ***Backstop Agreement***

On 14 July 2017, the Principal Investors, the Bank, Holdco and the Information Agent entered into the Backstop Agreement pursuant to which the Principal Investors committed severally, in proportion to their respective entitlements to subscribe for the Initial Backstop Commitment, to subscribe and pay for any Subscription Shares that are not subscribed and paid for under the Equity Subscriptions (the "**Backstop Arrangements**").

The Principal Investors shall, as their several obligation, in proportion to their holdings of Subordinated Notes on the date of execution of the Lock-up, make an initial subscription in cash at par for A Shares in Holdco. The aggregate number of A Shares issued under this initial subscription shall be equal to five per cent. of the total number of fully-diluted issued A Shares of Holdco immediately following Completion.

Prior to 4.00 p.m. on 28 July 2017, Qualifying Scheme Creditors also have the Backstop Accession Right, to assume on a several basis a share of the obligation under the Backstop Arrangements to subscribe for any Subscription Shares not applied and paid for under the Equity Subscriptions, in proportion to their holding of Subordinated Notes (the "**Backstop Commitment**"), with the Backstop Commitment of each other Backstop Provider being adjusted to take account of each new Backstop Provider.

Consequently, any Subscription Shares that are not so applied and paid for under the Equity Subscriptions will be acquired and paid for by the Backstop Providers pursuant to the Backstop Arrangements under the terms of the Backstop Agreement in the proportion of their Final Backstop Commitments.

Pursuant to the Backstop Agreement, the Bank will give certain limited representations and warranties to the Backstop Providers in connection with the Equity Subscriptions. The obligations of the parties to the Backstop Agreement will be subject to certain closing conditions (the "**Closing Conditions**") and regulatory conditions, such Closing Conditions to be deemed satisfied unless, prior to the Scheme Effective Date, the Majority Backstop Providers, acting reasonably and in good faith, give notice to the Bank that one or more of the Closing Conditions has not been satisfied. The regulatory conditions to be satisfied are: (i) the granting of consent by the PRA, and the FCA (if required), to all applications for a change in controller submitted in respect of each member of the Principal Investors (as applicable) and Holdco pursuant to Part XII of FSMA; (ii) the granting of permission by the PRA to the Holdco's issuance of A Shares (pursuant to the terms agreed by the parties) pursuant to Article 26(3) of Regulation 575/2013 of the European Parliament and of the Council of 26th June 2013 on prudential requirements for credit institutions and investment firms (the "**CRR**"); and (iii) the granting of permission by the PRA to reduce, repurchase, call or redeem the Tier 2 capital held by the Bank (pursuant to the terms agreed by the parties) pursuant to Articles 77 and 78 of the CRR.

Each Backstop Provider (including the Principal Investors) will be entitled to receive a premium in respect of their commitment to take up any shortfall on the Subscription. The premium will be satisfied by the issue of 451,456,510 A Shares (fully paid), which shall equate to five per cent. of the fully diluted shares of Holdco, following the adoption by Holdco of new articles of association on or prior to the Settlement Date and the conversion and subdivision of Holdco's existing ordinary shares into A Shares, to the Backstop Providers, divided between them in proportion to their Final Backstop Commitments.

Under the Backstop Agreement, from the date of the Backstop Agreement until 10 Business Days after the date of publication of the practice statement letter relating to the Schemes (such date being 28 July 2017), the Backstop Providers shall not dispose of any Subordinated Notes to any person other than a Backstop Provider.

The Backstop Agreement shall terminate with immediate effect upon the termination of the Lock-up Agreement in accordance with its terms.

A copy of the Backstop Agreement is available for inspection, as detailed in paragraph 22 of this Part 16.

17.20 ***Escrow Deed***

On 28 July 2017, Bank, Holdco, Lucid Issuer Services Limited (in its capacity as both Information Agent and the Escrow Agent) and the Registrar entered into an Escrow Deed. Pursuant to the terms of the Escrow Deed, the Escrow Agent agreed to hold on trust all such monies paid into its escrow account pursuant to any Equity Subscriptions or in satisfaction of any Backstop Commitments (the "**Escrow Monies**").

The Escrow Monies are agreed to be held on trust initially for Scheme Shareholders and Scheme Creditors taking up an Equity Subscription, and the Backstop Providers (as applicable), and, following the implementation of certain restructuring steps on the Settlement Date as described below, are then agreed to be held on trust for Holdco and Bank.

The Escrow Deed provides that prior to the Settlement Date, the Escrow Agent shall notify Holdco and the Bank whether it has received in Escrow Monies an amount equal to the Subscription Proceeds. On the Settlement Date, at the time of the issuance by Holdco of the Subscription Shares, the Bank, for and on behalf the parties taking an Equity Subscription and the Backstop Providers (as applicable), shall provide written notice to the Escrow Agent that the Subscription Proceeds should be held on trust for Holdco. Following this step, at the time of the issuance by the Bank of New Ordinary Shares pursuant to the Holdco Subscriptions, Holdco shall provide written notice to the Escrow Agent that the Subscription Proceeds should be held on trust for the Bank, after which the funds will be immediately paid to the Bank.

A copy of the Escrow Deed is available for inspection, as detailed in paragraph 22 of this Part 16.

18. LITIGATION AND ARBITRATION

Save as so disclosed in this paragraph 18, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened or of which the Bank is aware) during the 12 months preceding the date of this Circular which may have, or have had, a significant effect on the financial position or profitability of the Bank and/or the Bank and its subsidiaries.

18.1 ***CCA***

In compliance with the CCA, the Bank is obliged to send loan account customers annual statements and, where accounts are in default, notices of sums in arrears. Those documents must be sent at specific times and must also comply with the information requirements for such documents which are contained within the CCA's associated regulations. The Bank failed to comply with some of its obligations under the CCA (in relation to both its secured and unsecured books).

The consequence of the Bank failing to comply with those obligations is that impacted customers are not liable to pay interest and default fees from a date specified by the CCA until (a) the account closes; or (b) the failure to comply with the obligations under the CCA is remedied (if the account is open).

The Bank has engaged in the process of a redress and remediation programme to ensure that all impacted (and open) customer accounts are remedied in accordance with the provisions of the CCA and all customers whose accounts are now closed receive sufficient financial redress. As at 31 December 2016, the Bank has predominantly completed its CCA proactive redress programme.

The Bank has recognised provisions totalling £259.5 million as at 31 December 2016 in respect of the total expected cost to the Bank for potential customer redress relating to the above alleged failings, following near-completion of the programme, of which £16.7 million (31 December 2015: £123.1 million) remained unutilised as at 31 December 2016 with the remainder of the provision required to continue to work to develop a solution to address accounts becoming non-compliant again. Each element of the conduct provision is reviewed periodically and will continue to be on an ongoing basis over the life of the Plan. As a result of such a review, the Bank assumed in the May 2017 Outlook on the Plan a potential net incremental conduct and legal risk charge of approximately £5 million in 2017 (subject to further external and internal review and approval) driven by an increase of £9 million

relating to PPI and the requirements of the FCA's policy statement 17/3, offset in part by small provision releases from other conduct and legal risk categories.

As at the date of this Circular it is not possible for the Bank to confirm that additional CCA breaches will not be uncovered moving forward which could impact the financial condition of the Bank. As impacted customers are not liable to pay interest and default fees, income on these loans will continue to not accrue until the accounts are remediated.

18.2 ***PPI***

For a number of years, the Bank, along with many other financial services providers, sold PPI alongside mortgage and non-mortgage credit products. The Bank stopped selling unsecured loan PPI in January 2009, credit card PPI in November 2009 and mortgage PPI in March 2012. However, products still exist within the Bank which will include an element of PPI from historical sales.

In line with industry practice, provisions have been made in respect of potential customer compensation claims relating to historical mis-selling of PPI. Claims are investigated on an individual basis and, where it is found that the Bank mis-sold PPI to customers (based on the FCA's policy statement 10/12 dated August 2010, which detailed how the FCA expects banks to investigate PPI complaints), compensation is paid to customers.

In November 2014, the Supreme Court handed down a decision in *Plevin v Paragon Personal Finance Ltd [2014] UKSC 61*. The decision concerns the disclosure of commission amounts received in respect of sales of PPI. The decision has a potential impact on the number of the Bank's customers who may have a claim for PPI redress and the treatment of prior rejected complaints.

In March 2017, the FCA announced that a time-bar on PPI claims will become effective on 29 August 2019. The FCA has also announced that it will require firms to pro-actively contact customers whose PPI complaints had previously been rejected by the Bank to advise them of the existence of the Plevin judgment referred to above. The Bank took the proposed time-bar into account within the provision raised in the Bank's Annual Report and Accounts 2016, alongside industry claims experience, and the published views and requirements of the FCA (which, for the avoidance of doubt, are not specific to the Bank), the aforementioned requirement to contact customers whose PPI complaints had previously been rejected is a new requirement that was not known and therefore not included.

Total PPI provisions of £459.8 million have been taken as at 31 December 2016 (£423.8 million as at 31 December 2015). As at 31 December 2016, the Bank had an unutilised provision of £90.4 million (31 December 2015: £87.0 million) in respect of potential customer redress and costs relating to past sales of PPI. Each element of the conduct provision is reviewed periodically and will continue to be on an ongoing basis over the life of the Plan. As a result of such a review, the Bank assumed in the May 2017 Outlook on the Plan a potential net incremental conduct risk charge of approximately £5 million in 2017 (subject to further external and internal review and approval) driven by an increase of £9 million relating to PPI and the requirements of the FCA's policy statement 17/3, offset in part by small provision releases from other conduct and legal risk categories. For further information, see paragraph 8.2 of Part 7 of this Circular.

Forecast future complaint and litigation claim volumes are difficult to predict, however the Bank has seen an increase in complaints during the first quarter of 2017. This may continue to increase, remain constant or decline more steadily. In particular, the impact of the FCA's communications campaign on future complaint volumes is unknown and, whilst the Bank has utilised information provided by the FCA in June to review its forecasts of future complaint volumes and has increased operational resources to provide additional resilience to deal with higher than forecast volumes of complaints during the key media activity of the campaign, the Bank cannot be certain that complaint volumes will not exceed forecasts. The recent introduction of the new online PPI complaint system will also make it easier for consumers to contact the Bank. A claims management company has recently issued judicial review proceedings challenging the FCA's proposed time-bar. It is not possible to assess at present whether this will be successful. Any change in the FCA's current approach, including as a

result of this or other judicial reviews, such as any further extension of the period covered by the requirement for proactive contact with customers, could have a material adverse impact on the financial condition of the Bank and there is a risk of greater scrutiny and/or further regulatory action from the FCA.

18.3 ***Mortgages***

The Bank, in selling regulated mortgages, must adhere to specific guidelines, principles and regulations. The Bank outsources its mortgage origination system and servicing operations but remains liable for the mortgages originated through such outsourcing model.

The Bank has identified a number of issues and defects in certain of its historical mortgage documentation which raise legal and conduct risks. As at 31 December 2016, the Bank made a provision of approximately £20.1 million for conduct issues in relation to miscalculation of monthly mortgage payments resulting from the misconfiguration of mortgage systems affecting certain mortgage books largely acquired at the time of the merger with Britannia, as well as arising from incidences of non-issue of customer terms and conditions and systems non-adherence with terms and conditions. There is a risk that such provisioning may prove inadequate if the actual costs of remediation and redress, and any additional costs of enforcing affected mortgages are higher than currently estimated or that the assessment of the impact of such defects proves to be incorrect or incomplete.

The Bank initiated a redress programme in respect of various breaches of mortgage conduct of business rules and is the subject of a skilled persons review into potential detriment to its mortgage customers arising from poor arrears handling. The Bank has substantially completed the recommendations from this review and has implemented enhanced policies and processes which are designed to deliver improved customer outcomes. The outcome of the final review is not yet finalised but, whilst the risk of further enforcement action by the FCA is considered to be largely mitigated, there is a risk that this will not be the case, and there remains a risk that the Bank or the FCA may identify further issues.

Mortgages bulk redress and mortgages rectification programmes have sought to address issues relating to: (i) arrears fees and charges; (ii) incorrect application of terms and conditions; (iii) early repayment charges; (iv) discount rate expiry; (v) Platform first payments; (vi) issues arising in relation to FG17/4 and the auto capitalisation of arrears; and (vii) CCA further advances. Furthermore, mortgage monthly repayment miscalculations continue to be remediated. The Bank has taken provisions totalling £127.5 million for issues (i) to (vii) and mortgage monthly repayment miscalculations described above of which £28.2 million remained unutilised as at 31 December 2016, this includes anticipated costs pursuant to redress and its delivery, arising in connection with FG17/4.

In April 2017, the FCA issued FG 17/4, which sets out a possible framework firms can use when providing customer remediation relating to correcting the effects of automatic capitalisation of payment shortfalls and, where appropriate, paying any compensation that is due to the customer. The Bank holds a provision of £6 million with regards to remediation and is working to conclude its remediation programme by 30 June 2018 (as required by the FCA).

18.4 ***Regulatory and other investigations***

There are a number of regulatory and other investigations and enquiries into events at the Bank and circumstances surrounding them. These include:

- the Treasury announced by press release on 22 November 2013 that it intends to conduct an independent investigation into events at the Bank and the circumstances surrounding them from 2009. The investigation will review the conduct of relevant authorities (regulatory and government) and the Bank itself but is not anticipated to commence until it is clear that it will not prejudice the outcome of FCA and PRA enforcement investigations being the enforcement investigation in relation to the Bank announced by the PRA on 6 January 2014 and the enforcement investigation in relation to events at the Bank (up to June 2013) announced by the

FCA on 6 January 2014. The Bank is not aware of the status of this investigation and has received no communication in respect of its status. The Bank has co-operated, and will continue to co-operate with the investigating authorities as and when requested to do so; and

- the FRC has launched in investigation under its accountancy scheme into the preparation, approval and audit of the Bank's accounts up to and including its 2012 annual accounts, which focuses on the role of the previous auditors and individual accountants. The FRC concluded its investigations into the former Chief Executive Officer of the Bank during 2016 and the investigation in relation to previous auditors and the audit of the 2012 and prior financial statements of the Bank is ongoing.

It is not possible to estimate the financial impact upon the Bank should any adverse findings be made.

18.5 ***Contractual dispute with mortgage process outsourcer***

The Bank has recently settled a legal dispute with its exclusive mortgage process outsourcer, whom the Bank depends on to service all of its retail secured lending portfolios. As a part of this settlement, the Bank renegotiated the commercial terms and reduced the duration of the contract. In addition, the settlement involved cessation of the contracted transformation activity with the mortgage process outsourcer. The project costs in the Bank's Annual Report and Accounts 2016 included £81.9 million associated with the programme of work to transform the mortgage outsource service, which is no longer being progressed. This amount included: expenses and fee payments associated with cessation of the transformation contract with the outsourced mortgage provider (£11.0 million), a write-off of assets no longer expected to be in use (£48.5 million), and other programme costs (£22.4 million).

19. RELATED PARTY TRANSACTIONS

Save for the related party transactions set out in note 36 of the Bank's Annual Report and Accounts 2016, note 36 of the Bank's Annual Report and Accounts 2015 and note 38 of the Bank's Annual Report and Accounts 2014, each of which is incorporated into this Circular by reference pursuant to Part 6 of this Circular, the Bank did not enter into any related party transactions from 1 January 2014 to 31 December 2016. Save for a number of non-material amendments to related party transactions agreed with the Co-operative Group in the normal course of business which have been reflected in paragraphs 17.2 to 17.5 and paragraphs 17.9 to 17.11 above, and save as set out in paragraph 18.17 below, the Bank has not entered any related party transactions from the period 1 January 2017 to 31 May 2017 (being the latest practicable date in respect of such information prior to the publication of this Circular). The related party transaction disclosure set out in paragraph 18.17 below is prepared on an IFRS basis (IAS 24 (Related Party Disclosures)), for the period 1 January 2017 to 31 May 2017.

19.1 ***Balances with other Co-operative Group undertakings***

The tables below provide an analysis of balances with the Co-operative Group and its undertakings at 31 May 2017 and their location within the Bank's balance sheet.

	31 May 2017 (unaudited)			
	Loans & advances to customers	**Other assets**	**Customer accounts**	**Other liabilities**
		£m		
The Co-operative Group Limited and its subsidiaries	5.9	61.1	(6.3)	(3.3)
The Co-operative Banking Group Limited and its subsidiaries	–	1.8	(0.2)	(0.2)
	5.9	**62.9**	**(6.5)**	**(3.5)**

The following tables show the value of transactions with Bank undertakings during the period.

31 May 2017 (unaudited)	Interest and fees paid to Bank	Interest and fees received from Bank	Staff recharges paid to Bank	Rent received from Bank	Administration recharge paid to Bank
			£m		
Transactions with Co-operative Bank subsidiaries (excluding special purpose entities (“**SPEs**”))	11.8	15.7	–	0.4	–

19.2 ***Balances with other Bank undertakings***

The following tables show the value of transactions with the Bank undertakings during the period. Bank undertakings are related parties as they are members of the same group.

	31 May 2017
	£m *(unaudited)*
Amounts owed by Bank undertakings	
Amounts owed by Bank subsidiaries (excluding SPEs)	1,285.8
Amounts owed by Bank subsidiaries – SPEs	208.8
	1,494.6

	31 May 2017
	£m *(unaudited)*
Amounts owed to Co-operative Bank undertakings	
Amounts owed to Co-operative Bank subsidiaries (excluding SPEs)	1,793.8
Amounts owed to Co-operative Bank subsidiaries – SPEs	586.7
	2,380.5
Derivative liabilities to Co-operative Bank subsidiaries (excluding SPEs)	48.7
Derivative liabilities to Co-operative Bank subsidiaries – SPEs	17.5
Cash balances deposited with the Bank by the Bank’s subsidiaries (excluding SPEs)	(7.0)
	2,439.7

In addition to the above balances with SPEs, the Bank holds floating rate notes in Leek Finance Number Nineteen plc of £20.7 million (2016: £21.0 million; 2015: £22.8 million; 2014: £27.3 million) included within investment securities – available for sale.

The loans owed to the SPEs comprise cash balances deposited with the Bank. There are no formal repayment terms with subsidiary companies.

19.3 ***Transactions with other related parties***

Key management personnel, as defined by IAS 24 (Related Party Disclosures), are considered to be the Board of the Bank, and Board members of the Bank's immediate and ultimate holding organisations. The volume of related party transactions with key management is provided below:

Directors, key management personnel and close family members

	31 May 2017
	£m *(unaudited)*
Loans outstanding at the beginning of the year	–
Net movement	–
Loans outstanding at the end of the year	–
Deposits and investments at the beginning of the year	1.2
Net movement	(1.1)
Deposits and investments at the end of the year	0.1

Directors' loans

	31 May 2017 (unaudited)		
	Mortgages	**Personal loans**	**Credit cards**
Number of directors with loan type	–	–	1
Total value of director loans	–	–	–

Key management compensation

	31 May 2017
	£m *(unaudited)*
Salaries and short-term benefits	1.1
Termination benefits	–
	1.1

20. NO SIGNIFICANT CHANGE

There have been no significant changes in the financial or trading position of the Bank and its subsidiaries since 31 December 2016, the date to which the last audited historical consolidated annual financial statements of the Bank were prepared.

21. CONSENTS

Merrill Lynch International has given and has not withdrawn its written consent to the inclusion in this Circular of its name in the form and context in which it appears.

UBS Limited has given and has not withdrawn its written consent to the inclusion in this Circular of its name in the form and context in which it appears.

22. DOCUMENTS ON DISPLAY

Copies of the following documents will be available for inspection, subject to any restrictions relating to persons resident in certain jurisdictions, at www.co-operativebank.co.uk/investorrelations and, during the normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Bank at P.O. Box 101, 1 Balloon Street, Manchester M60 4EP and at the offices of Clifford Chance LLP, the Bank's solicitors, at 10 Upper Bank Street, Canary Wharf, London E14 5JJ up to and including the date on which the Restructuring and Recapitalisation is complete:

(a) the existing Articles of Association;

(b) the new articles of association of the Bank proposed to be adopted with effect from the Settlement Date pursuant to Resolution 1(B) (together with a comparison against the existing Articles of Association);

(c) the Holdco Articles of Association;

(d) the Restructuring Deed;

(e) the Lock-Up Agreement;

(f) the Backstop Agreement;

(g) the Escrow Deed;

(h) the Holding Period Trust Deed;

(i) the consent letters referred to in paragraph 21 of this Part 16;

(j) the Bank's Annual Report and Accounts 2016, the Bank's Annual Report and Accounts 2015 and the Bank's Annual Report and Accounts 2014;

(k) the Consent Solicitation Memorandum;

(l) the Creditors' Scheme Circular; and

(m) this Circular.

Date: 28 July 2017

PART 19

DEFINITIONS

"**10-13 LR**"	*Chapter 10: (Significant Transactions), Chapter 11: (Related Party Transactions), Chapter 12: (Dealing in own securities and treasury shares)* and Chapter 13: *(Contents of Circulars) o*f the Listing Rules
"**2006 Agreement**"	the agreement dated 16 February 2006 entered into by the Bank and CFSMS in relation to the provision of shared IT assets and the on-supply of certain third-party services by CFSMS
"**2010 PD Amending Directive**"	Directive 2010/73/EU
"**2013 Liability Management Exercise**"	the consent solicitation and scheme of arrangement of the Bank and the Co-operative Group to raise £1.2 billion of capital in 2013, announced on 4 November 2013 and completed on 20 December 2013 consisting of the transfer of certain preference shares and the extinguishment of multiple subordinated liabilities, followed by the recognition of a single tranche of subordinated debt, undertaken as part of the 2013 Recapitalisation Plan
"**2013 Recapitalisation Plan**"	the Co-operative Group and the Bank completed a recapitalisation plan, originally announced on 17 June 2013, to meet a £1.5 billion CET1 capital shortfall in 2013 which included: the 2013 Liability Management Exercise; CET1 capital contributions from CBG; and interest savings on securities surrendered in the 2013 Liability Management Exercise
"**2014 Institutional Shareholder(s)**"	each of Silver Point Capital, Perry Capital, Invesco Asset Management Limited and York Capital Management Europe (UK) Advisers LLP
"**2014 Plan**"	has the meaning given to it in Part 3 of this Circular
"**2014 Shareholder Rights Agreement**"	the agreement between the Co-operative Group, CBG, the 2014 Institutional Shareholders and the Bank dated 9 May 2014, as described in paragraph 17.5 of Part 16 of this Circular
"**2023 Noteholder Extraordinary Resolutions**"	the 2023 Notes First Extraordinary Resolution and 2023 Notes Second Extraordinary Resolution, individually or taken together, as the context requires, in each case to be proposed at the 2023 Noteholder Meeting as set out in the relevant notice convening each 2023 Noteholder Meeting, The 2023 Notes Second Extraordinary Resolution shall be conditional on the passing and implementation of the 2023 Notes First Extraordinary Resolution
"**2023 Noteholders**"	the holders of the 2023 Notes
"**2023 Noteholder Meeting**"	the meeting convened, in connection with the Consent Solicitation, for the holders of the 2023 Notes to vote on the 2023 Noteholder Extraordinary Resolutions proposed at such meeting (and if such meeting is adjourned, shall include the adjourned meeting)
"**2023 Notes**"	the Bank's £206,000,000 11% Subordinated Notes due 2023 (ISIN: GB00BFXW0853)

"**2023 Notes First Extraordinary Resolution**"	the first extraordinary resolution proposed at the 2023 Noteholder Meeting, as set out in the notice to such meeting
"**2023 Notes Retail Confirmation Deadline**"	10.00 a.m. on the third Business Day following, but not including, the Members' Scheme Effective Date
"**2023 Notes Second Extraordinary Resolution**"	the second extraordinary resolution proposed at the 2023 Noteholder Meeting, as set out in the notice of such meeting
"**2023 Trust Deed**"	the trust deed constituting the 2023 Notes dated 20 December 2013 made between the Bank and Law Debenture Trustees Limited
"**2025 Notes**"	the £250,000,000 Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2025 (ISIN: XS1249403541)
"**A Share**"	a class A ordinary share of £0.0001 in the capital of Holdco
"**A Shareholders**"	the holders of A Shares from time to time
"**A Share Governance Event**"	has the meaning given to it in paragraph 4.3 of Part 15 of this Circular
"**Acceptable Security Asset**"	an acceptable security asset being either: (i) gilt-edged securities issued by the government of the United Kingdom; (ii) any debt or equity security that is listed and freely tradable and is rated either: (a) AAA by Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc.; (b) AAA by Fitch Ratings Ltd.; or (c) Aaa by Moody's Investors Service Limited, or, in each case, any successor to or transferee of the ratings business of such party; or (iii) cash denominated in pounds sterling.
"**Accredited Investor**"	an "accredited investor" (as defined in Regulation D of the U.S. Securities Act of 1933)
"**Additional Backstop Provider**"	has the meaning given to it in paragraph 6 of Section A of Part 1 of this Circular
"**Additional Tier 1**" or "**AT1**"	means Additional Tier 1 capital as defined in the CRR
"**Ad-Hoc Committee**"	the informal committee of Subordinated Noteholders formed for the purpose of negotiating the terms of the Restructuring and Recapitalisation with the Bank.
"**Adjusted Loss Forecast**"	has the meaning given to it in paragraph 6.1 of Part 7 of this Circular
"**Advanced Internal Ratings Based Approach**" or "**IRB Approach**"	advanced internal ratings based approach stipulated within CRR allows a more sophisticated and risk sensitive approach to calculate credit risk. It is more advanced than Foundation Internal Ratings Based approach as probability of default, loss given default and exposure at default parameters are derived by the Bank

“**Advisers**”	(a) Clifford Chance LLP; (b) Paul Hastings (Europe) LLP and any other adviser retained to advise the Principal Investors via Paul Hastings (Europe) LLP; (c) Houlihan Lokey EMEA, LLP; (d) PJT Partners Inc; (e) UBS Limited; (f) Merrill Lynch International; (g) Linklaters LLP; (h) Lansons Communications LLP; and (i) Grant Thornton UK LLP, and any of their directors, partners, employees and Affiliates;
“**Affiliates**”	in respect of a person or entity: (a) a subsidiary of that person or entity or a holding company of that person or entity or any other subsidiary of such a holding company; and (b) any Affiliated Entities of any of the persons or entities referred to in sub-paragraph (a) above
“**Affiliated Entities**”	means (a) in relation to a fund (the “**first fund**”), (i) a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, (ii) if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an associate of the investment manager or investment adviser of the first fund or which is a coinvestment vehicle under common control with the first fund; and (b) in relation to any other person, a fund which is managed or advised by such person or any of its associates
“**AGM”**	an annual general meeting of the Bank
“**Alternative Performance Measures**” or “**APMS**”	alternative performance measures (as defined in the ESMA Guidelines on Alternative Performance Measures)
“**AML**”	anti-money laundering
“**Anchorage Capital Group**”	funds managed and/or advised by Anchorage Capital Group, LLC
“**Annual Allowance**”	the “annual allowance” as defined in section 228 of the Finance Act 2004
“**API**”	application programming interface
“**applicant**”	has the meaning given to it in paragraph 3.3 of Part 12 of this Circular
“**Application Form**”	the personalised application form on the basis of which Provisional Qualifying Non-CREST Shareholders may apply for their pro rata share of the Subscription Shares under the Members’ Equity Subscription

"**Articles of Association**"	the articles of association of the Bank adopted on 15 November 2013
"**Audit Committee**"	the audit committee of the Board
"**Authorities**"......................................	HM Treasury, the Bank of England, the FCA and/or the PRA
"**B Share**"	a class B redeemable preference share of £0.01 in the capital of Holdco
"**B Shareholder Nominee Directors**"	has the meaning given to it in paragraph 10 of Part 2 of this Circular
"**B Shareholders**"	the holders of B Shares from time to time
"**B Shareholders' Agreement**"	means the shareholders' agreement to be entered into between the B Shareholders and Holdco on or around the Settlement Date
"**B Shares Subscription**"	has the meaning given to it in paragraph 5 of Section A of Part 1 of this Circular
"**BaCB**"	business and commercial banking
"**Backstop Accession right**".............	has the meaning given to it in paragraph 6 of Section A of Part 1 of this Circular
"**Backstop Agreement**".....................	a backstop agreement between the Principal Investors, the Bank, Holdco and the Information Agent dated 14 July 2017 in respect of the Backstop Arrangements
"**Backstop Arrangements**"	has the meaning given to it in paragraph 6 of Section A of Part 1 of this Circular
"**Backstop Commitment**"................	has the meaning given to it in paragraph 6 of Part 2 of this Circular
"**Backstop Consideration Shares**"...	has the meaning given to it in paragraph 5 of Section A of Part 1 of this Circular
"**Backstop Providers**"	has the meaning given to it in paragraph 6 of Section A of Part 1 of this Circular
"**Bank**"..	The Co-operative Bank p.l.c., a company incorporated in England and Wales (registered number 00990937), whose registered office is at P.O. Box 101, 1 Balloon Street, Manchester M60 4EP
"**Bank Incentive Plans**"	means the LTIP, the DBP and TDAP
"**Bank Exit**"	has the meaning given to it in Part 16 of this Circular
"**Bank Group**"	the Bank and its subsidiaries and subsidiary undertakings from time to time
"**Bank Section**"..................................	the section of Pace for which the Bank is responsible
"**Banking Act**"	the Banking Act 2009, as amended
"**Bank's Historical Business Classification**"	the historical "Core Business"/"Non-core Business" classification as further described in Part 4 of this Circular
"**Basel 2.5**"	the first stage of the strengthening of requirements laid out in Basel II, with changes focussing on trading book and securitisations. Basel 2.5 was implemented in the UK via the FSA Handbook

"**Basel II**"	a statement of best practice issued by the Basel Committee, that defines the methods by which firms should calculate their regulatory capital requirements to retain enough capital to protect the financial system against unexpected losses. Basel II became law in the EU Capital Requirements Directive, and was implemented in the UK via the FSA Handbook. References to Basel II in this Circular are made in accordance with Basel 2.5
"**Basel III**"...	the second stage of the strengthening of, and a supplement to, the requirements laid out in Basel II. Basel III is a broader review of every aspect of the international prudential framework for capital requirements, developed by the Basel Committee on Banking Supervision
"**Basel IV**"	the Basel III framework
"**Basel Committee**"............................	Basel Committee on Banking Supervision
"**BBA**"..	the British Banker's Association
"**Beneficial Owner**"	a person who is the owner of (i) an interest in a particular principal or principal amount of 2023 Notes held in a Clearing System, as shown in the records of the relevant Clearing System or its Direct Participants, or (ii) a Note in certificated form held outside the Clearing Systems.
"**Blocking Instructions**"....................	(a) with respect to non-CREST Notes, custody instructions delivered to the relevant clearing system, which will block such non-CREST Notes from trading, and pursuant to which non-CREST Scheme Creditors may (among other things) issue electronic instructions to participate in the Creditors' Equity Subscription and the Backstop Arrangements; and (b) with respect to CREST Notes, a TTE Instruction
"**Bluemountain Capital Management**"...................................	funds managed and/or advised by Bluemountain Capital Management LLC
"**Board**"	the Board of directors from time to time of the Bank
"**Board Committee**"	a committee of the Board
"**Britannia**"	Britannia Building Society
"**Britannia Scheme**"	the Britannia pension scheme
"**Britannia Trustee**"	the trustee of the Britannia Scheme
"**BRRD**"	the EU Bank Recovery and Resolution Directive (2014/59/EU)
"**Business Banking**"	the business banking sub-segment of the BaCB
"**Business Day**"	a day other than a Saturday or Sunday or public holiday in England and Wales
"**Calico**"...	Calico Finance Number One Limited
"**Capita**"	Western Mortgage Services Limited (a subsidiary of Capita PLC)

"**Capita Agreement**"	the agreement between the Bank and Capita entered into on 1 August 2015, as described in paragraph 17.6 of Part 16 of this Circular
"**capital conservation buffer**"	CET1 capital equal to 2.5 per cent. of an institution's total risk exposure amount (subject to transitional provisions to 2019)
"**Capital Raising**"	(a) the Equity Subscriptions; and (b) the Notes Exchange
"**CASS**"	current account switching service
"**CBG**"	the Co-operative Banking Group Limited
"**CCA**"	Consumer Credit Act 1974, as amended
"**Certificated Holding Consent Instruction**"	the form of Consent Instruction to be submitted by Eligible 2023 Noteholders who hold 2023 Notes in certificated form outside the Clearing Systems and who wish to vote in favour of the Proposals
"**CFSMS**"	CFS Management Services Limited
"**CFSMS Agreement**"	the agreement between the Bank and CFSMS entered into on 30 March 2007, as described in paragraph 17.7 of Part 16 of this Circular
"**CFSMS-Bank 2006 Agreement**"	the agreement dated 16 February 2006 in relation to the provision of assets and personnel to the Bank by CFSMS
"**Chairman**"	the chairman of the Board from time to time
"**Chief Executive Officer**"	the chief executive officer of the Bank from time to time
"**Chief Financial Officer**"	the chief financial officer of the Bank from time to time
"**Chief Risk Officer**"	the chief risk officer of the Bank from time to time
"**Circular**"	this document
"**Circular Date**"	the date on which this Circular is posted to Shareholders
"**CISGIL**"	CIS General Insurance Limited
"**CMA**"	Competition and Markets Authority
"**Co-existence Principles**"	the co-existence principles agreed in 2013 between the Bank and the Co-operative Group
"**CoAM**"	Co-operative Asset Management
"**Code**"	the City Code on Takeovers and Mergers
"**Combined Buffer**"	means, broadly, the combination of the capital conservation buffer, the institution-specific counter-cyclical buffer and the higher of (depending on the institution) the systemic risk buffer, the global systemically important institutions buffer and the other systemically important institution buffer, in each case as applicable to the institution. The system risk buffer does not currently apply to the Bank and is not expected to apply over the life of the Plan. The capital conservation buffer will increase by 0.625 per cent. of RWAs each year until it reaches the applicable limit of 2.5 per cent. (which will be reached in 2019). The counter-cyclical capital buffer is currently set at zero but will increase to 0.5 per cent. of RWAs in

June 2018 and is expected to rise to 1.0 per cent. of RWAs by the end of 2018

“**Commercial Competitor**”............... has the meaning given to it in paragraph 4.3(d) of Part 5 of this Circular

“**Common Equity Tier 1**” or “**CET1**” .... as defined in accordance with the CRR

“**Companies Act**”............................... the Companies Act 2006, including any statutory modification or re-enactment thereof

“**Completion**”.................................... the completion of the Restructuring and Recapitalisation in accordance with the terms of the Restructuring Deed

“**Completion Time**”........................... has the meaning given to it in the Restructuring Deed set out in Annex 1 to Part 13 of this Circular

“**Compliance Statement**”................. the non-legally binding agreement between the Bank and Co-operatives UK

“**Consent Instructions**”..................... an instruction by which a Noteholder may participate in the Consent Solicitation in accordance with its terms

“**Consent Solicitation**” .... the invitation by the Bank to Eligible 2023 Noteholders to consent to the approval of the 2023 Noteholder Extraordinary Resolutions in respect of the Proposals on the terms described in the Consent Solicitation Memorandum

“**Consent Solicitation Conditions**” .. the following conditions which must be satisfied in order for the Mandatory Cancellation of the 2023 Notes to occur:

(i) the passing of both of the 2023 Notes First Extraordinary Resolution and the 2023 Notes Second Extraordinary Resolution in respect of the 2023 Notes by the relevant Noteholders, and the satisfaction of the Eligibility Condition relating to the 2023 Notes Second Extraordinary Resolution;

(ii) (A) the Creditors’ Scheme being approved by the requisite majority of the Scheme Creditors at the Creditors’ Scheme Court Meeting and sanctioned by the Court; (B) an office copy of the sanction order must be delivered to the Registrar of Companies at Companies House; and (C) the Creditors’ Scheme becoming unconditional in accordance with its terms;

(iii) (A) the Members’ Scheme being approved by the requisite majority of the Scheme Shareholders at the Members’ Scheme Court Meeting and sanctioned by the Court; (B) an office copy of the sanction order must be delivered to the Registrar of Companies at Companies House; and (C) the Members’ Scheme becoming unconditional in accordance with its terms:

(iv) the successful completion of the Equity Subscriptions; and

(v) the passing of the Resolutions at the General Meeting

“**Consent Solicitation Expiration Deadline**”.. 10.00 a.m. on 18 August 2017 (subject to the right of the Bank to amend such date upon notice to Subordinated Noteholders)

"**Consent Solicitation Memorandum**" — the consent solicitation memorandum dated the date of this Circular circulated to 2023 Noteholders with respect to the Consent Solicitation

"**Consenting Holders**" — has the meaning given to it in paragraph 6 of Section A of Part 1 of this Circular

"**Co-operative Group**" — Co-operative Group Limited or Co-operative Group Limited and its subsidiary undertakings, as the context requires

"**Co-operative Group Nominee Director**" — a director appointed by the Co-operative Group to the Board, as described in paragraph 4.17 of Part 16 of this Circular

"**Co-operative Group Section**" — the section of Pace for which the Co-operative Group is responsible

"**Co-operatives UK**" — Co-operatives UK Limited

"**Core Business**" — lines of business that are consistent with the Bank's strategy and risk appetite. This historical classification is no longer used by the Bank following 31 December 2016

"**Counter-cyclical capital buffer**" — CET1 capital equal to the weighted average of the buffers in effect in the jurisdictions to which an institution has a credit exposure relative to an institution's total risk exposure amount. The UK rate is currently set by the Bank of England's Financial Policy Committee at zero per cent. On 27 June 2017, the FPC announced an increase of the counter-cyclical capital buffer to 0.5 per cent. of RWAs (effective from June 2018). Absent a material change in the FPC's outlook, and consistent with its stated policy for a standard risk environment, the FPC also announced that it expects to further increase the rate to 1 per cent. of RWAs at its November 2017 meeting (with such requirement taking effect 12 months later).

"**Court**" — the High Court of Justice of England and Wales

"**CPI**" — consumer price index

"**CRA**" — Consumer Rights Act 2015

"**CRD**" — the EU Capital Requirements Directive (Directive 2013/36/EU)

"**CRD IV**" — means the legislative package consisting of CRD and CRR

"**CRD V**" — the proposed CRD V Directive (proposed by the European Commission in November 2016), which will amend CRD IV

"**CRE**" — commercial real estate

"**Credit Risk RWAs**" — the amount of exposure deemed "at risk" according to PRA prescribed calculations for Pillar 1 capital requirements that relates to earnings and capital arising from a borrower's failure to meet the terms of any contract with the Bank or their failure to perform as agreed

"**Creditors' Scheme**" — the scheme of arrangement pursuant to Part 26 of the Companies Act and to be made between the Bank and the Scheme Creditors in connection with the Restructuring and Recapitalisation, and with any modification or addition or condition made or introduced in accordance with its terms

"**Creditors' Scheme Circular**"	the circular relating to the Creditors' Scheme required to be provided to the Scheme Creditors pursuant to Part 26 of the Companies Act and dated the same date as this Circular
"**Creditors' Scheme Court Meeting**"	the meeting of Scheme Creditors to be held at 9.45 a.m. on 21 August 2017 at 10 Upper Bank Street, Canary Wharf, London E14 5JJ (and any adjournment thereof) convened at the direction of the Court pursuant to Part 26 of the Companies Act at which a resolution will be proposed to approve the Creditors' Scheme
"**Creditors' Scheme Sanction Order**"	has the meaning given to it in paragraph 5 of Section A of Part 1 of this Circular
"**CREST**"	the relevant system, as defined in the Uncertificated Securities Regulations 2001 (SI 2001 No. 2001/3755) in respect of which Euroclear UK & Ireland Limited (previously CREST Co Limited) is the operator (as defined in the CREST Regulations)
"**CREST Courier and Sorting Service**"	the courier and sorting service offered by CREST
"**CREST Manual**"	the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedure and CREST Glossary of Terms (all as defined in the CREST Glossary of Terms)
"**CREST Regulations**"	the Companies Act 1996 (Uncertificated Securities), Regulations 1996 (S.I. No. 68/1996) and the UK Uncertificated Securities Regulations 2001 (SI 2001 No. 2001/3755), including any modifications thereof or any regulations in substitution therefore and for the time being in force
"**CRR**"	the Capital Requirements Regulation (Regulation (EU) 575/2013)
"**CRR II**"	the proposed CRR II Regulation (proposed by the European Commission in November 2016), which will amend CRR
"**CTF**"	counter terrorist financing
"**Customer**"	has the meaning set out in the regulatory rules of the U.S. Commodities Futures and Trading Commission as in force from time to time
"**CWS**"	the Co-operative Bank Wholesale Society Limited
"**Cyrus Capital Partners**"	funds managed and/or advised by Cyrus Capital Partners, L.P.
"**Data Protection Agreement**"	the data processing agreement entered into between the Bank and the Co-operative Group on 13 April 2015
"**DBP**"	means the Co-operative Bank p.l.c. Deferred Bonus Plan
"**DGS**"	Deposit Guarantee Scheme
"**DGSD**"	Directive 2009/14/EC
"**Director**"	a director of the Bank from time to time

"**Direct Participant**"	has the meaning given to it in the Restructuring Deed set out in Part 13 of this Circular
"**Disclosure Guidance and Transparency Rules**"	the disclosure guidance and transparency rules made by the FCA under section 73A of FSMA
"**Downgraded Security Assets**"	has the meaning given in paragraph 14.1 of Part 16 of this Circular
"**DPA**"	Data Protection Act 1998
"**DWF**"	the Bank of England's Discount Window Facility
"**Early Bird Members' Arrangements**"	refers to the arrangements described in Para 6, Section A, Part 1 of this Circular
"**Early Bird Consenting Members**"	means a Scheme Shareholder that has signed the Lock-up Agreement, executed an appropriate deed poll as provided at www.co-operativebank.co.uk/investorrelations pursuant to which it has agreed to adhere to and be bound by certain provisions of the Lock-up Agreement or otherwise has undertaken in writing to support the implementation of the Restructuring and Recapitalisation on the terms acceptable to the Bank by 28 July 2017 in respect of some or all of its Scheme Shares
"**Early Bird Members' Premium**"	has the meaning given in paragraph 6 of Section A of Part 1 of this Circular
"**EEA**"	European Economic Area
"**Eligibility Condition**"	the quorum required for, and the requisite majority of votes cast at, the relevant 2023 Noteholder Meeting in respect of the 2023 Notes Second Extraordinary Resolution being reached by 2023 Noteholders eligible to participate in the Consent Solicitation (in accordance with any restrictions thereto), irrespective of any participation at the 2023 Noteholder Meeting by Ineligible 2023 Noteholders (and which would also have been so reached if any Ineligible 2023 Noteholders who provided confirmation of their status as Ineligible 2023 Noteholders and waived their right to attend and vote (or be represented) at the 2023 Noteholder Meeting had actually participated at the 2023 Noteholder Meeting) including (if applicable) the satisfaction of such condition at an adjourned 2023 Noteholder Meeting
"**Eligible 2023 Noteholders**"	A Subordinated Noteholder that is eligible to participate in the Consent Solicitation on the basis that such Subordinated Noteholder (a) is not a U.S. person or (b) is a person to whom the Consent Solicitation can otherwise be lawfully made and that may lawfully participate in the Consent Solicitation. In its absolute discretion at any time prior to the Expiration Deadline, the Bank may extend the definition of Eligible 2023 Noteholder to also include any U.S. person that (i) is in a category of investors that has been approved to participate by the Bank in its absolute discretion; and (ii) has submitted or will submit a validly executed U.S. Investor Letter prior to the Expiration Deadline; and (iii) is a person to whom the Consent Solicitation can otherwise be made and that may lawfully participate in the Consent Solicitation including under U.S. securities laws

"**EMU**"	Economic and Monetary Union
"**Entitlements Record Date**"	the date of the General Meeting (or, if later, any date to which it is adjourned)
"**Entitlements Record Time**"	6.00 p.m. on the Entitlements Record Date
"**ERC**"	early repayment charges
"**Escrow Agent**"	Lucid Issuer Services Limited
"**Escrow Monies**"	has the meaning given to it in paragraph 17.20 of Part 16 of this Circular
"**ESMA**"	European Securities and Markets Authority has the meaning given to it in paragraph 3 of Section B of Part 1 of this Circular
"**Estimated Outcome Analysis**"	has the meaning given to it in paragraph 3 of Section B of Part 1 of this Circular
"**EU**"	the European Union
"**Euroclear UK**"	Euroclear UK and Ireland Limited, the operator of CREST
"**Eurozone**"	those Member States which have adopted the euro
"**Equity Subscriptions**"	the Members' Equity Subscription and the Scheme Creditors' Equity Subscription
"**Excluded Territories**"	Australia, Canada, Hong Kong, Japan, New Zealand, South Africa, Switzerland and any other jurisdiction where the delivery of the Circular into, or to a Shareholder resident in, such jurisdiction would breach any applicable law or regulation, and "**Excluded Territory**" shall mean any of them
"**Excluded Territories Shareholders**"	Shareholders with a registered address, or who are resident or located in, an Excluded Territory on the Circular Date or the at Entitlements Record Time as the context requires
"**Executive Committee**"	the executive committee of the Bank
"**Exit Premium**"	has the meaning given to it in paragraph 10 of Part 2 of this Circular
"**FCA**"	Financial Conduct Authority
"**FCA cash savings requirements**"	the rules and guidance in the FCA's Banking Conduct of Business Sourcebook introduced following the FCA's market study into competition in the cash savings sector
"**FCA Handbook**"	the FCA's handbook containing detailed rules and prudential standards set by the FCA
"**FEMR**"	the Fair and Effective Markets Review, launched by the Chancellor of the Exchequer and the Governor of the Bank of England in June 2014
"**FG 17/4**"	the finalised guidance issued by the FCA on 24 April 2017 regarding "The fair treatment of mortgage customers in payment shortfall: impact of automatic capitalisations"
"**FICC**"	Fixed Income, Currency and Commodities

"**Final Backstop Commitment**"	has the meaning given to it in paragraph 6 of Section A of Part 1 of this Circular
"**Financial Services Authority**" or "**FSA**"	an independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000, which regulated the financial services industry. It was replaced as the UK's financial regulator on 1 April 2013 by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA)
"**Financial Services Handbooks**"	the FCA Handbook and PRA Rulebook
"**First instruction**"	has the meaning given to it in paragraph 2.2 of Part 12 of this Circular
"**Fitch**"	Fitch Ratings Limited
"**Floating rate notes**"	investments with a variable interest rate. The adjustments to the interest rate are usually made every three to six months and are tied (or float) to a certain money market index
"**Forms of Proxy**"	the form of proxy with respect to each of the Members' Scheme Court Meeting and the General Meeting, being in the case of (a) the Members' Scheme Court Meeting, the blue Form of Proxy (b) the General Meeting, the pink Form of Proxy; and
"**FOS**"	Financial Ombudsman Service
"**Foundation Internal Ratings Based**"	Foundation Internal Ratings Based approach uses standard LGD and EAD parameters but PD is estimated by the Bank
"**FPC**"	the Bank of England's Financial Policy Committee
"**FRC**"	Financial Reporting Council
"**FS Act 2012**"	the Financial Services Act 2012
"**FSCS**"	the Financial Services Compensation Scheme
"**FSMA**"	the Financial Services and Markets Act 2000, as amended
"**FSP**"	formal sale process
"**FTE**"	full time equivalent
"**Funding For Lending Scheme**"	the Bank of England's funding for lending scheme
"**GDP**"	gross domestic product
"**GDPR**"	the General Data Protection Regulation (Regulation (EU) 2016/679)
"**general bail-in tool**"	the general bail-in provision under the Special Resolution Regime which could be imposed on the Bank
"**General Meeting**"	the general meeting of the Bank scheduled to take place at 9.30 a.m. on 21 August 2017 at 10 Upper Bank Street, Canary Wharf, London E14 5JJ (and any adjournment thereof) called by the Bank for the purposes of considering and, if thought fit, passing the Resolutions (set out in Part 18 of this Circular)
"**Group Agreement**"	the agreement to implement the Term Sheets dated 28 June 2017 between the Bank and Co-operative Group

"**GoldenTree**"	funds and/or accounts managed and/or advised by GoldenTree Asset Management L.P
"**GoldenTree Related Party Transaction**"	the arrangements with GoldenTree described in paragraph 11 of Section A of Part 1 of this Circular
"**Government**"	the government of the United Kingdom
"**Group Related Party Transaction**"	the arrangements with the Co-operative Group described in paragraph 11 of Section A of Part 1 of this Circular
"**GT**"	Grant Thornton UK LLP
"**HM Treasury**"	the Government's economic and finance ministry
"**HMRC**"	HM Revenue & Customs
"**Holdco**"	Balloon Street Holdings Limited, a company incorporated in England and Wales (registered number 10865342), whose registered office is at c/o Paul Hastings (Europe) LLP, 10 Bishops Square, Eighth Floor, London, E1 6EG
"**Holdco Articles of Association**"	the articles of association of Holdco to be adopted on the Settlement Date
"**Holdco Board**"	the board of directors of Holdco
"**Holdco Director**"	a director of Holdco from time to time
"**Holdco Group**"	Holdco and its subsidiaries and subsidiary undertakings from time to time, which, following the Reorganisation and Recapitalisation, will include the Bank
"**Holdco Senior Managers**"	those persons listed as senior managers in Section A of Part 5 of this Circular
"**Holdco Shares**"	A Shares and B Shares
"**Holdco SID**"	Holdco Senior Independent Director
"**Holdco Subscriptions**"	has the meaning given to it in paragraph 5 of Section A of Part 1 of this Circular
"**Holding Period Trustee**"	Lucid Issuer Services Limited
"**Holding Period Trust Deed**"	has the meaning given to it in the Restructuring Deed set out in Annex 1 to Part 13 of this Circular
"**HPI**"	house price index
"**HQLA**"	high quality liquid assets
"**HR Director**"	human resources director of the Bank from time to time
"**IAS 19**"	International Accounting Standard 19
"**IAS 24**"	International Accounting Standard 24
"**IAS 37**"	International Accounting Standard 37
"**IASB**"	the International Accounting Standards Board

"**IBNI**"	issues incurred but not yet identified by the Bank in relation to conduct
"**ICG**"	individual capital guidance, being the PRA's guidance as to the regulatory capital it expects the Bank to hold
"**IFR**"	Regulation on Interchange Fees for Card-based Payment Transactions ((EU) 2015/751)
"**IFRS**"	the international financial reporting standards issued by the IASB, as adopted by the European Commission for use in the EU
"**IFRS 2**"	International Financial Reporting Standard 2 (Share-based Payments)
"**IFRS 9**"	International Financial Reporting Standard 9 (Financial Instruments: Recognition and Measurement)
"**IGAs**"	intergovernmental agreements between the United States and other jurisdictions to implement FATCA, which modify the way in which FATCA applies in their jurisdictions
"**Incorporation Shares**"	the 451,457 ordinary shares of £0.10 each in the capital of Holdco at incorporation
"**Independent Non-Executive Director**"	each of William Thomas, Laura Carstensen, Maureen Laurie, Derek Weir, Glyn Smith and Aidan Birkett
"**Independent Shareholder**"	all Shareholders with the exception of, GoldenTree in the case of the GoldenTree Related Party Transaction, Silver Point Capital in the case of the Silver Point Capital Related Party Transaction and CBG in the case of the Group Related Party Transaction
"**indexed LTV ratio**"	being the current aggregate mortgage balance divided by the latest property valuation (of the mortgaged property), indexed using the Halifax non-seasonally adjusted regional house price indices dated as at the end of Q3 2016)
"**Ineligible 2023 Noteholders**"	a Subordinated Noteholder that is not eligible to participate in the Consent Solicitation on the basis that such Subordinated Noteholder is not an Eligible 2023 Noteholder
"**Information Agent**"	Lucid Issuer Services Limited
"**Initial Backstop Providers**"	the Principal Investors in the context of the Backstop Arrangements
"**Initial Holdco Shareholders**"	each of Canary SC Master Fund, L.P., Cyrus Opportunities Master Fund II, Ltd., Crescent 1, L.P., CRS Master Fund, L.P., Cyrus Select Opportunities Master Fund, Ltd., Cyrus Special Strategies Master Fund, L.P., Goldentree Asset Management Lux, S.à.r.l., GT NM L.P., The San Bernardino County Employees' Retirement Association, Gold Coast Capital Subsidiary X Limited, Bluemountain Kicking Horse Fund L.P., Bluemountain Montenvers Master Fund SCA SICAV – SIF, Bluemountain Logan Opportunities Master Fund L.P., Bluemountain Foinaven Master Fund L.P., Blue Mountain Credit Alternatives Master Fund L.P., SP Coop Investment, Ltd. and Anchorage Illiquid Opportunities Offshore V.L.P.

"**Internal Capital Adequacy Assessment Process**" or "**ICAAP**"	the Bank's own assessment, as part of Basel II requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events
"**Invesco**"	Invesco Asset Management Limited for and on behalf of funds it advises and/or manages
"**Investment Bank**"	each of Merrill Lynch International and UBS Limited and together, the "**Investment Banks**"
"**Investor Presentation**"	the investor presentation given to investors by the Bank on 9 March 2017 and prepared in conjunction with the announcement of the Bank's 2016 results
"**Investor Related Party Transactions**"	the GoldenTree Related Party Transaction and the Silver Point Capital Related Party Transaction
"**IPO**"	initial public offering
"**IRB**"	Internal Ratings Based
"**IRRBB**"	interest rate risk in the banking book
"**IRS**"	U.S. Internal Revenue Service
"**ISA**"	individual savings account
"**ISIN**"	International Securities Identification Number
"**Issuerco**"	an entity to be incorporated as a public limited company and inserted within the Holdco Group between the Bank and Holdco in due course following completion of the Restructuring and Recapitalisation
"**IT**"	information technology
"**IT Separation Costs Agreement**"	the agreement entered into on 22 January 2015, between the Bank and the Co-operative Group, which allowed the Bank to then enter into an IT outsourcing agreement with IBM for enterprise computing services
"**ITSA**"	the agreement, dated 5 July 2012 (as amended and restated from time to time), entered into by the Bank, CFSMS, and the Co-operative Group as further described in paragraph 17.2 of Part 16 of this Circular
"**Latest Practicable Date**"	25 July 2017, being the latest practicable date before the posting of this Circular and the Application Forms
"**Legacy Portfolio**"	portfolio of non-core corporate assets (inconsistent with the Bank's strategy and risk appetite)
"**Legacy Portfolio and Optimum Assets**"	has the meaning given to it in Part 4 of this Circular
"**Liability Management Exercise**"	the Notes Exchange and the Consent Solicitation
"**LIBOR**"	London Interbank Offered Rate – the interest rate participating banks offer to other banks for loans on the London market

"**Lifetime Allowance**"	means the "lifetime allowance" as defined in, and calculated in accordance with, section 218 of the Finance Act 2004 as modified by Schedule 26 to the said Act
"**Liquidity Coverage Ratio**" or "**LCR**"	a liquidity metric that aims to ensure that a bank has an adequate stock of unencumbered high quality liquid assets to meet its liquidity needs for a 30 calendar day liquidity stress scenario
"**Listing Rules**"	the listing rules of the FCA relating to admission to the Official List made in accordance with section 73A(2) of FSMA
"**LMS**"	last-man standing
"**Lock-Up Agreement**"	the lock-up and support agreement dated 28 June 2017 between the Bank and the Principal Investors
"**Lock-Up Termination Events**"	has the meaning given to it in paragraph 17.13 of Part 16 of this Circular
"**Long Stop Date**"	the later of: (a) 18 September 2017; (b) such later date falling prior to 31 December 2017 as may be agreed as the "Long Stop Date" for the purposes of the Lock-Up Agreement; and (c) such later date as the Bank and Holdco may agree and the Court may allow
"**Loss Given Default**" or "**LGD**"	Loss Given Default is a Pillar 1 parameter and represents an estimate of the actual loss that would occur in the event of default expressed as a percentage of the EAD
"**LSA**"	loss sharing agreement
"**LSB**"	Lending Standards Board
"**LTI**"	loan-to-income
"**LTIP**"	The Co-operative Bank PLC Long Term Incentive Plan as approved by Shareholders on 17 June 2015 and as amended from time to time
"**LTV**"	loan-to-value
"**Majority Consenting Holders**"	the Bank and Consenting Holders holding in aggregate greater than 50 per cent. of the aggregate principal amount of the Subordinated Notes held by Consenting Holders at the relevant time
"**Mandatory Cancellation**"	the mandatory cancellation of the 2023 Notes of Retail Noteholders pursuant to the new Condition 6.7 to be inserted into the terms and conditions of the 2023 Notes, as set out in the 2023 Notes Second Extraordinary Resolution, in consideration of which the Retail Cash Consideration (up to the Maximum Cash Amount) will be paid to Retail Noteholders
"**mandatory write-down**"	has the meaning given to it in the risk factor entitled *"The implementation of the Restructuring and Recapitalisation faces a number of significant risks and relies on the Members' Scheme (including the Members' Equity Subscription), the Creditors' Scheme (including the Scheme Creditors' Equity Subscription) and the Consent Solicitation being executed successfully and the Resolutions being passed. If the Restructuring and Recapitalisation does not succeed, the Bank believes the most likely outcome is that the Ordinary Shares and the Subordinated Notes will be subjected to a mandatory write-down, either as a preliminary step to, or in the*

	course of the Bank's entry into, Special Resolution. In such a scenario, the Bank believes that Shareholders will receive no recovery in respect of the Ordinary Shares that they hold, and that Subordinated Noteholders will receive no recovery in respect of the Subordinated Notes that they hold" in Part 3 of this Circular
"**mandatory write-down tool**"..........	the mandatory provision under the Banking Act that requires loss-absorbing capacity instruments are written down or converted before or at the same time as any of the stabilisation options are implemented
"**Market Abuse Regulation**"............	the Market Abuse Regulation (2014/596/EU)
"**Matrix**"...	the matrix drawn up by the Bank as required under the Compliance Statement, as further described in the risk factor entitled "*The Bank's differentiated customer propositions depends in part on its continued use of the "Co-operative" name*" in Part 3 of this Circular
"**MAV**"...	minimum asset value
"**Maximum Cash Amount**"	the cap of £13,500,000 on the aggregate cash amount to be paid in respect of the Retail Cash Consideration to all Retail Noteholders in respect of their 2023 Notes pursuant to the Mandatory Cancellation
"**Maximum Distributable Amount**"	Maximum Distributable Amount is calculated in accordance with Article 141 of CRD. An institution is prohibited from making a distribution in connection with CET1 to an extent that would reduce its CET1 capital to a level where the Combined Buffer requirement is not met. An institution that fails to meet the Combined Buffer shall be prohibited from undertaking any or all of the actions set out below before it has calculated the Maximum Distributable Amount and shall not distribute more than the Maximum Distributable Amount by undertaking any of the actions set out below: (a) make a distribution in connection with CET1 capital; (b) create an obligation to pay variable remuneration or discretionary pension benefits or pay variable remuneration if the obligation to pay was created at a time when the institution failed to meet the Combined Buffer requirements; and (c) make payments on Additional Tier 1 instruments
"**May 2017 Outlook on the Plan**"....	has the meaning given to it in paragraph 2 of Section A of Part 1 of this Circular
"**MCD**"...	the EU Mortgage Credit Directive (2014/17/EU, published on 28 February 2014 and which came into force on 21 March 2014)
"**MCOB**"	FCA's Mortgages and Home Finance: Conduct of Business sourcebook
"**MDA**"	has the meaning given to it in paragraph 2.7 of Part 11 of this Circular
"**Member State**"	a member state of the EU
"**Members' A Share Entitlement**"...	has the meaning given to it in paragraph 3 of Part 2 of this Circular

"**Members' Equity Subscription**"....	the entitlement of Qualifying Shareholders to subscribe in aggregate for such number of Subscription Shares as represent 3.3785 per cent. of the total number of fully-diluted issued A Shares as at Completion for an aggregate net cash consideration of approximately £12.5 million
"**Members' Equity Subscription Entitlement**"......................................	has the meaning given to it in paragraph 3 of Part 2 of this Circular
"**Members' Scheme**".........................	the scheme of arrangement pursuant to Part 26 of the Companies Act and to be made between the Bank and the Scheme Shareholders in connection with the Restructuring and Recapitalisation, as set out in Part 13 of this Circular with or subject to such modification, addition or condition made or introduced in accordance with its terms
"**Members' Scheme Court Meeting**"	the meeting of Scheme Shareholders to be held at 9.15 a.m. on 21 August 2017 at 10 Upper Bank Street, Canary Wharf, London E14 5JJ (and any adjournment thereof) convened at the direction of the Court pursuant to Part 26 of the Companies Act at which a resolution will be proposed to approve the Members' Scheme
"**Members' Scheme Effective Date**"	the date on which the Members' Scheme becomes effective, which is expected to be 24 August 2017
"**Members' Scheme Sanction Order**"...	has the meaning given to it in paragraph 5 of Section A of Part 1 of this Circular
"**Merger**"...	any combination of two or more business enterprises into a single enterprise. In the Bank, this specifically refers to the merger of the Bank with Britannia Building Society on 1 August 2009
"**MiFID II**"..	Directive 2014/65/EU and associated Regulation 600/2014 adopted on 15 May 2014 by the European Parliament and European Council on markets in financial instruments, which repeal and recast the existing Directive 2004/39/EC on markets in financial instruments
"**MLD3**"	the third EU Money Laundering Directive (2005/60/EC)
"**MLD4**"	the fourth EU Money Laundering Directive (EU 2015/849)
"**MLR**"	the UK Money Laundering Regulations 2007
"**MMR**"	FCA's Mortgage Market Review
"**MMS**"..	the FCA's terms of reference for its mortgage market study (MS16/2) published on 12 December 2016
"**Money Laundering Regulations**" ..	the Money Laundering Regulations 2007 as amended from time to time
"**Moody's**"...	Moody's Investors Service Limited
"**Mortgage Rectification Programme**".....................................	the Mortgage Rectification Programme relates to legacy system issues. This predominantly relates to the incorrect monthly mortgage payment calculation resulting in the under or over payment of interest and capital
"**MREL**"..	minimum requirement for own funds and eligible liabilities as prescribed by BRRD

"**MREL Statement of Policy**"	the Bank of England's statement of policy of November 2016 titled "The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)"
"**Net Stable Funding Ratio**" or "**NSFR**"	Net Stable Funding Ratio is a liquidity ratio introduced under CRD IV, measuring the proportion of long term assets which are funded by long term or stable funding
"**New Direct Agreement**"	the agreement between the Bank and Sopra entered into on 31 March 2017, as described in paragraph 17.7 of Part 16 of this Circular
"**New Ordinary Share**"	a new Ordinary Share to be issued by the Bank to Holdco pursuant to the Holdco Subscriptions
"**No Creditor Worse Off**"	has the meaning given in paragraph 2.8 of Part 11 of this Circular
"**Nomination Committee**"	the nomination committee of the Board
"**Non-core Assets**"	the asset classes of the Non-core Business of the Bank
"**Non-core Business**"	non-core business lines include activities not consistent with the strategy of the Bank, are managed for value and are targeted for run down or exit. These non-core lines contain the majority of the impairment risk for the Bank, and predominantly include the Legacy Portfolio (corporate non-core) and Optimum (the closed book of intermediary and acquired loan book assets). This historical classification is no longer used by the Bank following 31 December 2016
"**Non-Responding Scheme Creditors**"	has the meaning given to it in paragraph 4 of Part 2 of this Circular
"**Note Claims**"	all the rights, title and interest to and claims against the Bank or Law Debentures Trustees Limited arising out of or in connection with the 2023 Notes.
"**Notes Exchange**"	the exchange of all Subordinated Notes held by Subordinated Noteholders (other than the 2023 Notes held by Retail Noteholders which shall be subject to the Mandatory Cancellation), in consideration for A Shares in Holdco (representing in aggregate 17.42999 per cent. of the total number of fully-diluted issued A Shares of Holdco immediately following Completion), to be implemented pursuant to the Creditors' Scheme
"**Notes Exchange Entitlement**"	has the meaning given to it in paragraph 4 of Part 2 of this Circular
"**Notification Matters**"	has the meaning given to it in paragraph 4.4 of Part 15 of this Circular
"**Notification Threshold**"	has the meaning given to it in paragraph 4.4 of Part 15 of this Circular
"**NPS**"	net promoter scores, being an index ranging from -100 to 100 that measures the willingness of customers to recommend the Bank's products or services to others
"**Official List**"	the Official List maintained by the Financial Conduct Authority
"**OFT**"	Office of Fair Trading

"**Operational Projects**"	the category of the Bank's investment expenditure which relates to changes in the regulatory environment and smaller business-led initiatives, including process improvements
"**operational risk**"	the risk of loss resulting from inadequate and failed processes, people or systems within the Bank or from external events. The Bank holds capital for each of the seven Basel categories of operational risk against which a regulated entity has to assess its operational Risk capital requirements, these are internal fraud, external fraud, employment practices and workplace safety, clients, products, and business practice, damage to physical assets, business disruption and systems failures, execution, delivery, and process management
"**Optimum**"	the Optimum closed book mortgage portfolio, as further described in Part 4 of this Circular
"**Ordinary Share**"	means an ordinary share in the capital of the Bank (with a nominal value of £0.05)
"**Orphans**"	has the meaning given in the risk factor entitled *"Risks relating to the proportion of Pace assets and liabilities forming the Bank Section on the Pace Pensions Sectionalisation* " in Part 3 of this Circular
"**Other**"	any activities that cannot be directly attributed to one of the Bank's reportable business segments
"**Overseas Shareholders**"	Shareholders who have registered addresses outside the United Kingdom
"**Pace**"	The pension scheme entitled The Co-operative Bank Pension Scheme (Pace)
"**Pace Heads of Terms**"	the agreement dated 14 July 2017 between the Bank, the Co-operative Group and the Pace Trustee
"**Pace Pensions Sectionalisation**"	has the meaning given in paragraph 11 of Section A of Part 1 in this Circular
"**Pace Trustee**"	the trustee of Pace
"**Panel**"	the Takeover Panel
"**PBS**"	priority business services
"**Pensions Deed**"	the deed dated 28 June 2017 between the Bank, Co-operative Group, and the Pace Trustee
"**Pensions Regulator**"	the UK regulator of work-based pension schemes, as established under the Pensions Act 2004
"**Perry Capital**"	Perry Capital UK LLP
"**PFI**"	project finance initiatives
"**Pillar 1**"	Pillar 1 capital is a prescribed measure of capital required by a bank representing the minimum capital requirements. The Pillar 1 capital ratio is calculated using regulatory capital and RWA. The total capital ratio must be no lower than 8 per cent.

"**Pillar 2**"	Pillar 2a plus Pillar 2b
"**Pillar 2 Capital Add-on**"	the proposal under BRRD II for additional own funds requirements in addition to the minimum Pillar 1 regulatory capital requirements and the Combined Buffers requirements that may be imposed on institution by competent authorities
"**Pillar 2a**"	Pillar 2a is additional capital that the Bank is required to hold above Pillar 1, for risks not captured within Pillar 1. The Bank's internal capital adequacy assessment process is an input into this process, but the Bank's Pillar 2a requirement is ultimately set by the PRA
"**Pillar 2b**"..	Pillar 2b is the capital that must be held by the Bank so that in a severe but plausible stress it can continue to meet its Pillar 1 plus Pillar 2a requirements
"**Plan**"	has the meaning given it to in paragraph 2 of Section A of Part 1 of this Circular
"**Platform**"	the Bank's brand of residential mortgage loans sold through mortgage intermediaries
"**PPI**"	payment protection insurance
"**PRA**"	Prudential Regulation Authority
"**PRA Buffer**"	capital that should be held by a bank over and above the level of capital recommended as its ICG and over and above the Combined Buffer required of the bank, set by the PRA as part of its firm-specific supervisory assessment process, which should be of a sufficient amount to allow the bank to continue to meet its regulatory obligations even in adverse circumstances, after allowing for realistic management actions that a bank could, and would, take in a stress scenario.
"**PRA Rulebook**"...............................	the PRA's rulebook containing detailed rules and prudential standards set by the PRA
"**PRC**"	Prudential Regulation Committee
"**Preference Share**"	means a 9.25 per cent. noncumulative irredeemable preference share of £1.00 issued by the Bank
"**Preference Shareholder**"	a holder of a Preference Share
"**Preference Shares Cancellation**" ...	the cancellation of the Preference Shares held by the Co-operative Group in the Bank
"**Principal Investors**"	funds managed and/or advised by Anchorage Capital Group L.L.C, BlueMountain Capital Management, LLC, Cyrus Capital Partners L.P., GoldenTree Asset Management L.P. and Silver Point Capital, L.P. who executed the Backstop Agreement as Initial Backstop Providers
"**Probability of default**" or "**PD**"	the likelihood that a loan will not be repaid and will fall into default. PD may be calculated for each customer who has a loan (normally applicable to wholesale customers) or for a portfolio of customers with similar attributes (normally applicable to retail customers). To calculate PD, the Bank assesses the credit quality of borrowers and other counterparties and assigns them an internal risk rating. Bonds with no maturity date that do not require the issuer to redeem

"**Proposals**" .... the proposals that the Bank is inviting Eligible 2023 Noteholders to approve by way of 2023 Noteholder Extraordinary Resolutions at the 2023 Noteholder Meeting, including to

(i) assent to and sanction the modification to the terms and conditions of the 2023 Notes to insert a mandatory cancellation condition pursuant to which 2023 Notes held by Retail Noteholders shall be irrevocably cancelled and the rights, liabilities and obligations thereunder released in consideration of the payment of the Retail Cash Consideration to those Retail Noteholders (subject (in aggregate) to the Maximum Cash Amount);

(ii) waive any and all events of default, potential events of default and any other breach of the terms and conditions of the 2023 Notes or the 2023 Trust Deed (in each case, if any) that have been, are or may be, triggered by or in connection with the Restructuring;

(iii) assent to and sanction the extension of the powers of a meeting of Subordinated Noteholders under the 2023 Trust Deed in order to allow for the assent and sanction of the releases and waivers referred to in (iv) below; and

(iv) assent to and sanction, to the fullest extent permitted by law:

(A) subject to certain conditions, the irrevocable and unconditional, full and final waiver and release and forever discharge from the Settlement Date of (x) all Note Claims; and (y) any and all actions, proceedings, claims, damages, counterclaims, complaints, liabilities, liens, rights, demands and set-offs, whether in this jurisdiction or any other, of whatsoever nature and howsoever arising, whether in law or in equity, in contract (including but not limited to breaches or non-performances of contract), statute or in tort (including but not limited to negligence and misrepresentation), breaches of statutory duty, for contribution, or for interest and/or costs and/or disbursements, whether filed or unfiled, whether or not presently known to the parties or to the law, all claims that each 2023 Noteholder ever had, may have or hereafter can, shall or may have against any Relevant Person in relation to or arising out of or in connection with:

(i) the preparation, negotiation or implementation of the Consent Solicitation and the Creditors' Scheme (including, but not limited to, the Restructuring Deed and Restructuring Implementation Documents); and/or

(ii) the preparation, negotiation or implementation of the Restructuring and Recapitalisation; and/or

(iii) any event or circumstance arising in the period from 1 January 2016 to the Completion Time

(as defined in the Restructuring Deed) which caused or, contributed to, directly or indirectly the requirement for the Restructuring and Recapitalisation;

(B) that Relevant Persons may enforce the agreement of each 2023 Noteholder to release liabilities and waive its rights and entitlements, as described in (A) above, subject to and in accordance with the provisions of the Contracts (Rights of Third Parties) Act 1999; and

(C) the modification, abrogation, compromise or arrangement in respect of its rights against the Relevant Persons necessary to give effect to the foregoing provisions of this paragraph (iv)

"**Proposed Co-existence Agreement**" .... the co-existence agreement that was being negotiated by the Bank and the Co-operative Group as further described in the risk factor entitled "*The Bank's differentiated customer proposition depends in part on its continued use of the "Co-operative" name.*" of Part 3 of this Circular

"**Prospectus Directive**"...................... Directive 2003/71/EC (and any amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State

"**Provisional Allocation Date**".......... 25 July 2017, being the date on which a Shareholder must be a holder of Ordinary Shares on the shareholder register of the Bank to be a Provisional Qualifying Shareholder

"**Provisional Qualifying CREST Shareholder**" .... a Provisional Qualifying Shareholder holding Ordinary Shares in uncertificated form

"**Provisional Qualifying Non-CREST Shareholder**"...................... a Provisional Qualifying Shareholder holding Ordinary Shares in certificated form

"**Provisional Qualifying Shareholder**" .... a holder of Ordinary Shares on the shareholder register of the Bank at 6.00 p.m. on the Provisional Allocation Date (except for any holder which the Bank believes to be: (i) a Shareholder in the EEA who is not a Qualified Investor; and (ii) a Shareholder who is a U.S. person and who is not a QIB or an Accredited Investor; and (iii) any Excluded Territories Shareholder)

"**Provisional Subscription Allocation**".. the maximum number of Subscription Shares for which a Provisional Qualifying Shareholder may apply to subscribe under the Members' Equity Subscription (as shown on a Provisional Qualifying Non-CREST Shareholder's Application Form, or as credited to the CREST stock account of a Provisional CREST Shareholder assuming the Provisional Qualifying Shareholder does not sell or transfer any of his holding of Ordinary Shares prior to the Entitlements Record Time

"**PSD1**" .... Payment Services Directive (2007/64/EC)

"**PSD2**" .... the second payment services directive

"**PSMSA**" .... the revised professional services master service agreement entered into between the Bank and the Co-operative Group

"**PSR**"	the Payment Services Regulations, (SI/2009/09, which came into force on 1 November 2009)
"**Purchase Agreement**"	the purchase agreement dated 4 November 2013 between the Bank and certain holders of the Bank's debt securities listed in such agreement
"**QIB**"	a "qualified institutional buyer" as defined in Rule 144A under the Securities Act
"**Qualified Investor**"	a person or entity that is a "qualified investor" as defined under the Prospectus Directive
"**Qualifying CREST Shareholder**"	Qualifying Shareholders holding Ordinary Shares in uncertificated form
"**Qualifying Non-CREST Shareholders**"	Qualifying Shareholders holding Ordinary Shares in certificated form
"**Qualifying Scheme Creditors**"	Scheme Creditors except for: (i) any Scheme Creditor in the EEA who is not a Qualified Investor; (ii) any Scheme Creditor who is a U.S. person and who is not a QIB or an Accredited Investor; and (iii) Scheme Creditors with a registered address, or who are resident or located in, an Excluded Territory at the Entitlements Record Time
"**Qualifying Shareholders**"	Scheme Shareholders (except for: (i) any Shareholder in the EEA who is not a Qualified Investor; (ii) any Shareholder who is a U.S. person, who is not a QIB or an Accredited Investor; and (iii) any Excluded Territories Shareholder) who are registered as a member of the Bank at the Entitlements Record Time
"**RAO**"	the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001
"**Ravensworth**"	funds managed and/or advised by Ravensworth (International) Limited
"**REAF**"	renewable energy and asset finance
"**Receiving Agent**"	Computershare Investor Services PLC
"**Registrar**"	Computershare Investor Services PLC
"**Registrar of Companies**"	the registrar of companies of England and Wales
"**Regulation S**"	Regulation S of the United States Securities Act 1933, as amended
"**Related Party Transaction(s)**"	the Group Related Party Transaction and the Investor Related Party Transactions
"**Relationship Agreement**"	the agreement between the Bank, the Co-operative Group and CBG, dated 4 November 2013, which regulates the basis for the relationship between the parties thereto
"**Relationship-managed Banking**"	the relationship-managed banking sub-segment of the BaCB
"**Released Parties**"	the Bank and each of its Affiliates (together, the "**Wider Bank Group**"), Holdco, any director, officer or employee of the Bank, Holdco or any member of the Wider Bank Group (in each case, (A) in respect of an employee, who is, as at the date hereof,

	employed; or (B) in respect of an officer or director, who is, as at the date hereof, employed or holding office or was at any time, during the period from (and including) 13 February 2017 to the date hereof, employed or held office), the Co-operative Group, each of its current directors, officers, employees and advisers and each of its Affiliates, Lucid Issuer Services Limited, PACE Trustees Limited (trustee of the Co-operative Bank Pension Scheme), the Law Debenture Trustee Limited, Computershare Investor Services PLC, the Advisers, the Principal Investors, the Initial Backstop Providers or any of their Affiliates
"**Relevant Member State**"	each Member State of the EEA which has implemented the Prospectus Directive
"**Relevant Persons**"	The Wider Bank Group, Holdco, any director, officer or employee of the Bank, Holdco or any member of the Wider Bank Group (in each case, (A) in respect of an employee, who is, as at the Settlement Date, employed; or (B) in respect of an officer or director, who is, as at the date hereof, employed or holding office or was at any time, during the period from (and including) 13 February 2017 to the date hereof, employed or held office) the Co-operative Group Limited, each of its current directors, officers, employees and advisers and each of its Affiliates, Lucid Issuer Services Limited, PACE Trustees Limited, (trustee of the Co-operative Bank Pension Scheme), Law Debenture Trustees Limited, Computershare Investor Services PLC, the Advisers, the Principle Investors, the Initial Backstop Providers or any of their Affiliates
"**Relevant Regulator(s)**"	one or both of the PRA and/or the FCA as the context requires
"**Relevant Situation**"	a situation which occurs as described in paragraph 4.13 of Part 15 of this Circular
"**Remediation Projects**"	the category of the Bank's investment expenditure which relates to IT remediation, integration and resilience as well as activity associated with the Bank's separation from Co-operative Group
"**Remuneration Committee**"	the remuneration committee of the Board
"**Resolutions**"	the resolutions to be proposed at the General Meeting as set out in Part 18 of this Circular
"**Restructuring and Recapitalisation**"	has the meaning given to it in paragraph 5 of Section A of Part 1
"**Restructuring Deed**"	the restructuring deed to be entered into between the Bank, Holdco, the Scheme Shareholders, the Scheme Creditors, the Escrow Agent and the Holding Period Trustee substantially in the form attached at Annex 1 of Part 13 of this Circular (or otherwise in the form modified in accordance with the terms of the Schemes)
"**Restructuring Implementation Documents**"	the documents to which the Scheme Shareholders, or any of them, are named as a party and which are listed and scheduled as such in the Restructuring Deed
"**Retail**"	the segment that comprises customer focused products and services for individuals, sole traders and small partnerships. This includes mortgages, credit cards, consumer loans, current accounts and savings products

“**Retail Accrued Interest**”................ interest accrued on the aggregate principal amount of the 2023 Notes that are subject to the Mandatory Cancellation, for the period from (and including) 20 June 2017 to (but excluding) 31 July 2017 which will be paid in cash and rounded to the nearest £0.01

“**Retail Banking**”.............................. the Bank’s core retail banking business, which trades as “The Co-operative Bank”, “Britannia” and “smile”, together with the Bank’s intermediary mortgage brand, Platform, and includes retail secured and unsecured lending, deposits and current accounts

“**Retail Cash Consideration**” .... the cash amount that is payable on the Settlement Date (separate to the Retail Accrued Interest payment) pursuant to the Mandatory Cancellation to Retail Noteholders in respect of their 2023 Notes, such cash amount being subject (in aggregate) to the Maximum Cash Amount and, accordingly, shall be the lesser of:

(i) £4.50 per £10 in principal amount of 2023 Notes; and

(ii) the amount (rounded to the nearest £0.01) per £10 in principal amount of 2023 Notes calculated by (a) dividing the Maximum Cash Amount by the aggregate principal amount of 2023 Notes that will be subject to the Mandatory Cancellation, and (b) multiplying the resultant figure by 10.

The amount to be paid to each Retail Noteholder in respect thereof shall be calculated by the Registrar as further described in the Consent Solicitation Memorandum

“**Retail Confirmation**”..................... an instruction by which a 2023 Noteholder may confirm its status as a Retail Noteholder, which must be made by submission of:

(i) in respect of 2023 Notes held through Euroclear and Clearstream, Luxembourg, the electronic instruction to be submitted by a Direct Participant to the Information Agent through such Clearing System, in the form described in the relevant notice that has been delivered through the Clearing System;

(ii) in respect of 2023 Notes held through CREST, the submission of a TTE Instruction in respect of the Holder’s 2023 Notes, specifying the Registrar as escrow agent; or

(iii) in respect of 2023 Notes held in certificated form outside the Clearing Systems, the Certificated Holding Consent Instruction or Retail Confirmation

“**Retail Confirmation Deadline**”...... 10.00 a.m. on the third Business Day following, but not including, the Members’ Scheme Effective Date

“**Retail Noteholder**” .... a Retail Noteholder is:

(A) a Subordinated Noteholder who as at 5.00 p.m. on the Retail Record Date satisfied and, at the Entitlements Record Time will continue to satisfy, the following conditions:

(i) it is an individual person;

(ii) it is the Beneficial Owner of less than £100,000 in aggregate principal amount of 2023 Notes;

(iii) (a) if it is resident in the United States, it is not an Accredited Investor, or (b) if it is not resident in the United States, it is not a "qualified investor" as defined in the Prospectus Directive; and

(iv) it is not a Sanctions Restricted Person,

(B) who (i) has validly confirmed the matters set out in paragraph (A) above in accordance with the procedures set out in the notice of meeting in respect of the 2023 Noteholder Meeting and the Consent Solicitation Memorandum; or (ii) has been assessed, on reasonable enquiry, by the Bank to satisfy the criteria set out in paragraph (A) above, (which assessment shall be conclusive and binding) on or prior to the Retail Confirmation Deadline

"**Retail Record Date**"........................ 27 June 2017

"**Return on Equity**" or "**RoE**".......... the ratio of profit for the year (after tax) to Shareholders equity, expressed as a percentage

"**Reverse Shadowing Letter**" .... the reverse shadowing letter entered into between the Bank and CFSMS on 9 January 2017

"**Risk Committee**"............................ means the risk committee of the Bank

"**RMBS**".. residential mortgage-backed securities

"**RMF**".. the Bank's risk management framework

"**RWAs**"... means risk weighted assets

"**SAS**".. select access saver

"**Sanctions Authority**"...................... means:

(i) the United States government;

(ii) the United Nations;

(iii) the European Union (or any of its member states including, without limitation, the United Kingdom);

(iv) any other equivalent governmental or regulatory authority, institution or agency which administers economic, financial or trade sanctions; or

(v) the respective governmental institutions and agencies of any of the foregoing including, without limitation, the Office of Foreign Assets Control of the U.S. Department of the Treasury, the United States Department of State, the United States Department of Commerce and Her Majesty's Treasury.

"**Sanctions Restricted Person**"......... each Person or entity (a "**Person**"):

(i) that is, or is directly or indirectly owned or controlled by a Person that is, described or designated in (a) the most current "Specially Designated Nationals and Blocked Persons" list (which as of the date hereof can be found at: https://www.treasury.gov/ofac/downloads/sdnlist.pdf) or (b) the most current "Foreign Sanctions Evaders List" (which as of the date hereof can be found at https://www.treasury.gov/ofac/downloads/fse/fselist.pdf) or

(c) the most current "Consolidated list of persons, groups and entities subject to EU financial sanctions" (which as of the date hereof can be found at: https://data.europa.eu/euodp/en/data/dataset/consolidated-list-of-persons-groups-and-entities-subject-to-eu-financial-sanctions); or

(ii) that is otherwise the subject of any sanctions administered or enforced by any Sanctions Authority, other than solely by virtue of their inclusion in: (a) the most current "Sectoral Sanctions Identifications" list (which as of the date hereof can be found at https://www.treasury.gov/ofac/downloads/ssi/ssilist.pdf) (the "**SSI List**"), (b) Annexes 3, 4, 5 and 6 of Council Regulation No. 833/2014, as amended by Council Regulation No. 960/2014 (the "**EU Annexes**") or (c) any other list maintained by a Sanctions Authority, with similar effect to the SSI List or the EU Annexes.

"**Scheme**" — the Members' Scheme or the Creditors' Scheme

"**Scheme Claim**" — has the meaning given to it in paragraph 4 of Part 2 of this Circular

"**Scheme Court Hearing**" — the hearing of the Court to sanction the Members' Scheme

"**Scheme Creditor**" — a person who is the beneficial owner of and/or the owner of the ultimate economic interest in any of the Subordinated Notes, whose interests in the Subordinated Notes are held either through records maintained in book entry form by all or any of Euroclear, Clearstream and CREST, each of their respective nominees and successors, and any other system designed for similar or analogous purposes, as appropriate or in certificated form

"**Scheme Creditors' A Share Entitlement**" — has the meaning given to it in paragraph 4 of Part 2 of this Circular

"**Scheme Creditors' Equity Subscription**" — the subscription in aggregate for such number of Subscription Shares as represent 64.1915 per cent. of the total number of fully-diluted A Shares for an aggregate cash consideration of £237.5 million

"**Scheme Creditors' Equity Subscription Entitlement**" — has the meaning given to it in paragraph 4 of Part 2 of this Circular

"**Scheme Sanction Order**" — the order of the Court sanctioning the Members' Scheme pursuant to section 889 of the Companies Act

"**Scheme Shareholder**" — a holder of Scheme Shares

"**Scheme Shares**" — Ordinary Shares: (i) in issue at the date of this Circular; (ii) (if any) issued after the date of this Circular but before the Scheme Voting Record Time; and (iii) (if any) issued at or after the Scheme Voting Record Time and at or prior to the Entitlements Record Time on terms that the holders will be bound by the Scheme

"**Scheme Voting Record Time**" — 5.00 p.m. on 17 August 2017 or, if the Members' Scheme Court Meeting is adjourned, 5.00 p.m. on the date which is two Business Days before the date fixed for the adjourned meeting

"**section 75 debt**"	a debt pursuant to section 75 of the Pensions Act 1995
"**Sectionalisation Parties**"	the Bank, the Co-operative Group and the Pace Trustee
"**Secured Obligations**"	has the meaning given to it in Part 16 of this Circular
"**Securities Act**"	United States Securities Act 1933, as amended
"**Senior Independent Director**"	a senior independent director of the Bank from time to time
"**Senior Managers**"	those persons listed as senior managers in Section B of Part 5 of this Circular
"**Senior Notes**"	the £400,000,000 5.125 per cent. Notes due 20 September 2017 issued by The Co-operative Bank p.l.c. pursuant to its £3,000,000,000 Euro Note Programme
"**Separation Cost Share Agreement**"	the agreement entered into between the Bank and the Co-operative Group (amongst others) on 22 January 2015
"**Serengeti Asset Management**"	funds managed and/or advised by Serengeti Asset Management LLP
"**Settlement Date**"	the date on which the Restructuring and the Recapitalisation is completed, as determined in accordance with the Restructuring Deed
"**Share Transfer**"	the transfer of all the Ordinary Shares to Holdco in exchange for A Shares to be implemented on the Settlement Date by way of the Members' Scheme
"**Shareholder**"	a holder of an Ordinary Share
"**Silver Point**"	SP Coop Investment, Ltd. (Cayman)
"**Silver Point Capital**"	Silver Point Capital L.P.
"**Silver Point Capital Related Party Transaction**"	the arrangements with Silver Point Capital described in paragraph 11 of Section A of Part 1 of this Circular
"**Small and Medium Enterprises customers**" or "**SME customers**"	small and medium-sized businesses engaging with the Bank as customers
"**SME**"	small and medium-sized enterprises
"**SMR**"	the senior managers regime under FSMA
"**Solicitation Agency Agreement**"	the Solicitation Agency Agreement dated 28 July 2017 as further described in paragraph 17.1 of Part 16 of this Circular
"**Solicitation Agents**"	Merrill Lynch International and UBS Limited in their capacity as solicitation agents in connection with the Consent Solicitation
"**Sopra**"	Sopra Steria Limited
"**Special Resolution**"	a bank is in Special Resolution where it is subject to procedures under the Special Resolution Regime
"**Special Resolution Regime**"	the special resolution regime introduced by the Banking Act, see paragraph 2.8 of Part 11 of this Circular for a summary
"**SPEs**"	special purpose entities

"**SRT**"	has the meaning given to it in of Part 3 of this Circular
"**Stabilisation Powers**"	has the meaning given to it in paragraph 2.8 of Part 11 of this Circular
"**Sterling Over Night Index**" or "**SONIA**"	yield curves used by the Bank for swap arrangements. These are based on overnight indexed rates
"**Stichting Value Partners**"	funds managed and/or advised by Stichting Value Partners
"**Strategic Projects**"	the category of the Bank's investment expenditure which relates to those projects that are transformational in nature and deliver cost or income benefits to the Bank's business
"**Structured Risk-based Remediation Programme**"	the Bank's structured risk-based assessment of products and provisions of which the primary focus was the discovery and remediation of existing and new conduct and legal issues
"**Subordinated Noteholders**"	a person who is the beneficial owner of and/or the owner of the ultimate economic interest in any of the Subordinated Notes, whose interests in the Subordinated Notes are held either through records maintained in book entry form by a clearing system or in certificated form
"**Subordinated Notes**"	the 2023 Notes and 2025 Notes
"**Subscription Deadline**"	3.00 p.m. on the Business Day after the Entitlements Record Date, which is expected to be 22 August 2017
"**Subscription Price**"	£0.040977 per A Share
"**Subscription Proceeds**"	the subscription of an aggregate £250 million of A Shares in Holdco by Qualifying Scheme Creditors and Qualifying Shareholders, to be implemented pursuant to the Scheme Creditors' Equity Subscription and the Members' Equity Subscription, or, to the extent such amount is not so subscribed by Qualifying Scheme Creditors and Qualifying Shareholders the subscription of such A shares, by the Backstop Providers pursuant to the Backstop Arrangements under the Backstop Agreement
"**Subscription Shares**"	the A Shares in Holdco to be subscribed by Qualifying Shareholders and Qualifying Scheme Creditors pursuant to the Equity Subscription, representing in aggregate 67.57 per cent. of the total number of fully-diluted issued A Shares of Holdco immediately following Completion, for an aggregate of £250 million, to be implemented pursuant to the Members' Scheme and the Creditors' Scheme, respectively
"**subsidiary**"	a subsidiary as defined by section 1159 of the Companies Act
"**Supplemental Trust Deeds**"	together (i) the first supplement to the 2023 Trust Deed to be executed if the 2023 Notes First Extraordinary Resolution is passed at the relevant Meeting; (ii) the second supplement to the 2023 Trust Deed to be executed if the Consent Solicitation Conditions are satisfied
"**SVR**"	the Bank's Standard Variable Rate
"**SYSC**"	the outsourcing rules set out in the FCA Handbook

"**systemic risk buffer**"......................	not currently applicable. The systemic risk buffer is expected to be introduced and applied to individual institutions by the PRA from 2019
"**Tabulation Agent**"	Lucid Issuer Services Limited in its capacity as tabulation agent in respect of the 2025 Notes, in connection with the Liability Management Exercise
"**TDAP**"..	means the Co-operative Bank p.l.c. Transitional Deferral Awards Plan
"**Term Funding Scheme**".................	the Government's Term Funding Scheme
"**The Bank's Annual Report and Accounts 2014**"	the annual report and accounts of the Bank for the financial year ended 31 December 2014, issued on 27 March 2015
"**The Bank's Annual Report and Accounts 2015**"	the annual report and accounts of the Bank for the financial year ended 31 December 2015, issued on 1 April 2016
"**The Bank's Annual Report and Accounts 2016**"	the annual report and accounts of the Bank for the financial year ended 31 December 2016, issued on 9 March 2017
"**Threshold Conditions**"	the Threshold Conditions for which the PRA and FCA are responsible in relation to the Bank, which set out the minimum standards to be met relating to financial and non-financial resources, including capital, risk management, liquidity, and technology, are set out in the FSMA
"**Tier 1**"	means Tier 1 capital as defined in the CRR
"**Tier 1 Capital Ratio**".....................	Tier 1 capital divided by RWAs
"**Tier 2**"	means Tier 2 capital as defined in the CRR
"**TLAC**"...	total loss-absorbing capacity as proposed by the Financial Stability Board's November 2015 "term sheet" for TLAC
"**Transferred Shares**".......................	has the meaning given to it in paragraph 1 of Part 12 of this Circular
"**Transitional Services Agreement**"	the transitional services letter agreement entered into between the Bank and CFSMS on 21 December 2016
"**Treasury**"	the Bank's treasury business, which forms a part of its Core Business
"**Tribunal**"...	the tribunal where challenges to decisions of the PRA or FCA are heard
"**Trust Deed(s)**"	the 2023 Trust Deed and the 2025 Trust Deed each a Trust Deed as the context requires and together the Trust Deeds
"**TSA**"..	the transitional services agreement entered into on 28 November 2014 between the Bank and CISGIL
"**TTE Instruction**"	the "transfer to escrow" instruction pursuant to which CREST Participants may (among other things): (i) submit Consent Instructions in respect of Subordinated Notes held in CREST pursuant to the terms of the Consent Solicitation; and (ii) issue electronic instructions to participate in the Creditors' Equity Subscription and the Backstop Arrangements

"**TUPE**"	Transfer of Undertakings (Protection of Employment) Regulations 1981
"**UK**" or "**United Kingdom**"	the United Kingdom of Great Britain and Northern Ireland
"**UK Corporate Governance Code**"	the UK Corporate Governance Code published by the Financial Reporting Council
"**Undertaking**"	the agreement entered into on 4 November 2013 between the Co-operative Group and the Bank
"**Unrelated Directors**"	the Directors other than Alistair Asher and Charles Bralver
"**U.S.**" or "**United States**"	the United States of America, its territories and possessions, including without limitation any state of the United States and the District of Columbia
"**USE**"	Unmatched Stock Event
"**U.S. Investor Letter**"	a letter furnished to the Bank by an Eligible 2023 Noteholder who is a U.S. Person in connection with their submission of a Consent Instruction containing certain representations and warranties, including representations and warranties required under U.S. securities laws
"**U.S. Person**"	a "U.S. person" as defined in Regulation S under the Securities Act
"**U.S.-UK Treaty**"	has the meaning given to it in paragraph 2 of Part 14 of this Circular
"**UTCCR**"	the Unfair Terms in Consumer Contracts Regulations 1999
"**V&E Committee**"	means the values and ethics committee of the Bank
"**Values & Ethics**"	has the meaning given to it in Part 4 of this Circular
"**Values & Ethics Report**"	the value and ethics report prepared by the Bank and launched in June 2016
"**Variation and Director Appointment Deed**" or "**VDAD**"	the deed summarised at paragraph 16.7 of Part 16 of this Circular
"**VAT**"	(a) any tax imposed in compliance with the council directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112) (including, in relation to the United Kingdom, value-added tax imposed by VATA); and (b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in (a), or elsewhere
"**VATA**"	in the United Kingdom, the Value Added Tax Act 1994 and legislation and regulations supplemental thereto and, elsewhere, legislation and regulations of a similar nature
"**VocaLink**"	VocaLink Holdings Limited
"**Warwick Finance One**"	Warwick Finance Residential Mortgages Number One plc
"**Warwick Finance Two**"	Warwick Finance Residential Mortgages Number Two plc
"**Warwick Notes**"	the Warwick One Notes and the Warwick Two Notes

“**Warwick One Notes**”	the securitisation of approximately £1.5 billion comprising part of the Optimum portfolio through Warwick Finance One in May 2015
“**Warwick Two Notes**”	the £1.65 billion securitisation transaction through Warwick Finance Two in September 2015
“**Wider Bank Group**”	the Bank and each of its Affiliates
“**Wholesale Funding Ratio**”	total wholesale funding divided by total liabilities
“**WMS**”...	Western Mortgage Services Limited
“**Working Capital Period**”	the 12 months following the date of this Circular
“**Working Capital Stress Scenario**”	has the meaning given to it in paragraph 2.16 of Part 7 of this Circular
“**York Capital**”	York Capital Management Europe (UK) Advisers LLP

ALTERNATIVE PERFORMANCE MEASURES

In this Circular, the Bank uses the following financial measures in the analysis of its business and financial condition, which the Bank considers to constitute Alternative Performance Measures for the purposes of the ESMA Guidelines on Alternative Performance Measures. Such financial measures are not calculated in accordance with IFRS. Accordingly, they should not be considered as alternatives to 'results from operating activities' or 'profits' as indicators of the Bank's performance. However, the Bank believes that such financial measures are commonly used by investors and as such useful for disclosure. The presentation of these financial measures may not be comparable to similarly titled measures reported by other companies due to differences in the ways the measures are calculated.

Terminology	Definition
"**CET1 capital ratio**"	Capital ratios express the Bank's capital as a percentage of its RWAs as defined by the PRA. CET1 is broadly equivalent to tangible shareholders' funds less certain capital deductions.
"**cost:income ratio**"	The proportion of the Bank's revenue which is used to fund its operating costs calculated by dividing operating costs plus operational projects (including the associated depreciation) by operating income excluding losses on asset sales.
"**leverage ratio**"	A ratio calculated by reference to CRD IV Tier 1 capital (after deductions) divided by adjusted balance sheet exposure.
"**Net interest margin**" or "**NIM**"	Net interest margin (the difference between interest received from loans/other assets and interest paid out on deposits/other liabilities) divided by average total assets (being the average of the opening and closing asset balances for the period).
"**SREP**"	Supervisory review and evaluation process.
"**total capital ratio**"	The ratio of total capital resources to the Bank's total RWAs.
"**Total RWAs**"	RWAs are required to be calculated for the Bank to provide for three types of risk: (i) Credit risk; (ii) Market risk; and (iii) Operational risk. The Bank considers market risk within credit risk. The Bank's capital ratios are calculated from the sum of the three RWA categories.

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Holders of the 2023 Notes who are Retail Holders or are not Registered Holders should contact Lucid on the following telephone number:

0300 303 3491

REGISTRAR

In respect of the 2023 Notes

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