

The Co-operative Bank p.l.c.
1 Balloon Street, Manchester, M60 4EP
(Registered in England and Wales under company number 00990937)

4 December 2013

To: Scheme Creditors

Dear Sir/Madam

Amendment Letter to the Explanatory Statement dated 18 November 2013 (the Explanatory Statement)

Save as defined in this Amendment Letter, words and expressions defined in the Explanatory Statement have the same meanings in this Amendment Letter.

THIS AMENDMENT LETTER CONTAINS MATTERS RELATING TO THE SCHEME WHICH MAY AFFECT YOUR RIGHTS AND ENTITLEMENTS. YOU ARE THEREFORE ADVISED TO READ THE CONTENTS OF THIS AMENDMENT LETTER CAREFULLY AND, IF APPROPRIATE, TAKE LEGAL ADVICE AS TO ITS CONTENTS.

1. INTRODUCTION

- (a) On 18 November 2013, The Co-operative Bank p.l.c. (the **Company**) sought directions from the Court in relation to the convening of the Scheme Meeting to enable Scheme Creditors to consider and, if thought fit, approve the Scheme. As set out in the Explanatory Statement, the Scheme forms part of the Liability Management Exercise which is expected to contribute at least £1 billion Common Equity Tier 1 Capital by the end of 2013.
- (b) By the order of Mr Justice Hildyard dated 18 November 2013 (the **Convening Order**), the Company was granted permission to convene a Scheme Meeting of a single class of Noteholders, being the beneficial owners of and/or owners of the ultimate beneficial interest in the Dated Notes, to be held at the Holiday Inn London (Bloomsbury), Coram Street, London WC1N 1HT on 11 December 2013 commencing at 10 a.m. (London time). **Scheme Creditors should note that, as set out in the Notice of Scheme Meeting (as defined in the Modified Explanatory Statement (as defined below)) dated 4 December 2013, the Scheme Meeting for the purposes of considering and, if thought fit, approving the Modified Scheme will take place at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD at 10 a.m. on 16 December 2013 and not at the Holiday Inn London (Bloomsbury) as set out in the Convening Order.**

2. BACKGROUND TO THE AMENDMENTS TO THE EXPLANATORY STATEMENT

- (a) Following the Convening Order, the Notice of Scheme Meeting was notified to the Scheme Creditors in accordance with the Convening Order and the Explanatory Statement was made available to Scheme Creditors on the Scheme Website. Following the notification of the Scheme Creditors and the publication of the Explanatory Statement, certain Noteholders have raised concerns with the Company and its advisers regarding the allocation mechanism for the allocation of Additional New Ordinary Shares under the Additional New Ordinary Shares Offer as described in the Explanatory Statement at pages 49 to 54.

- (b) The concerns were raised by both Noteholders who were members of the LT2 Group and had entered into Lock-up Agreements with the Company to vote in favour of the Scheme, and Noteholders who were not members of the LT2 Group (and had not entered into Lock-up Agreements with the Company). A summary of the concerns raised by the Noteholders is set out in paragraphs (c) to (f) below.
- (c) The Additional New Ordinary Shares Offer requires Noteholders wishing to participate in the offer to elect to participate in a minimum amount of 50,000 Additional New Ordinary Shares (at a cost of £100,000) and a maximum amount of 62,500,000 Additional New Ordinary Shares. The minimum election amount was included in order for the Company to rely on an exemption from the requirement to publish a prospectus in connection with the Additional New Ordinary Shares Offer. In the event that the aggregate elections of all Subscribing Noteholders as at the Voting Instruction Deadline exceed 62,500,000 Additional New Ordinary Shares, paragraphs 2.29 and 2.30 of Part B (*Overview of the Scheme*) of the Explanatory Statement set out the mechanism to allocate the 62,500,000 Additional New Ordinary Shares amongst the Noteholders who have elected to participate. Subscribing Noteholders can elect to participate in the Additional New Ordinary Shares Offer by submitting a valid Account Holder Letter to the Information Agent by no later than 4.30 p.m. (London time) on 10 December 2013.
- (d) The allocation mechanism includes the First Round Exception (as defined in paragraph 2.30 of Part B (*Overview of the Scheme*) of the Explanatory Statement). The First Round Exception provides that if the aggregate Minimum Elections (being elections equal to 50,000 Additional New Ordinary Shares) exceed 62,500,000 Additional New Ordinary Shares, then the first 1,250 Subscribing Noteholders to elect to participate in the Additional New Ordinary Shares Offer will be allocated 50,000 Additional New Ordinary Shares each (irrespective of the size of their Subscription Amounts). In such circumstances, the first 1,250 Subscribing Noteholders would receive 50,000 Additional New Ordinary Shares irrespective of the size of their Scheme Consideration Calculation Amount (being the aggregate principal amount of Dated Notes plus interest accrued up to and including the Record Date).
- (e) Noteholders holding large amounts of Dated Notes (including some Noteholders with in excess of 5 per cent. of the principal amount outstanding of the Dated Notes) informed the Company that they were concerned that, because of the operation of the First Round Exception in the allocation mechanism, there was a significant risk that they could receive materially less than the allocation of Additional New Ordinary Shares they would have received had the allocation been done on a *pro rata* basis based on the proportion of their Scheme Consideration Calculation Amount to the aggregate Scheme Consideration Calculation Amounts of Noteholders electing to participate in the Additional New Ordinary Shares Offer (and without adjustments to take into account allocations of the Minimum Election of 50,000 Additional New Ordinary Shares in the First Round Exception). Certain Noteholders indicated that such a result, if it materialised, would not meet their commercial expectations as holders of Dated Notes issued by the Company for an equity issue of this nature in these circumstances.
- (f) As set out in the RNS number 1501U dated 28 November 2013, certain members of the LT2 Group and certain other Noteholders (the **Ad Hoc Group**) holding approximately 48 per cent. of the principal amount outstanding of the Dated Notes requested an amendment to the Scheme and the Explanatory Statement to address the concerns highlighted above (the **Modified Scheme Request**).
- (g) Having considered the Modified Scheme Request, and having had due and particular regard to the feedback received from other Noteholders in addition to certain members of the LT2 Group (including the Ad Hoc Group), the Company believes that the amendments to the

Scheme and the Explanatory Statement set out in the Modified Scheme Request are reasonable and appropriate and would assist in mitigating the concerns raised by Noteholders.

- (h) The Modified Scheme Request requires certain modifications to the Explanatory Statement and the Scheme as set out in more detail in paragraph 3 below.

3. AMENDMENTS TO THE EXPLANATORY STATEMENT

3.1 Additional New Ordinary Shares Offer

- (a) The Additional New Ordinary Shares Offer will be amended so that:
 - (i) the Additional New Ordinary Shares Offer will be an offer of 33,333,334 ordinary shares in the Company with a nominal price per share of £0.05 and a subscription price per share of £3.75 raising, in aggregate, £125,000,002.50; and
 - (ii) Noteholders wishing to participate in the Additional New Ordinary Shares Offer will be entitled to elect to subscribe for between 26,667 (at a cost of £100,001.25) and 33,333,334 Additional New Ordinary Shares.
- (b) The First Round Exception will be amended so that if the aggregate Minimum Elections made by all Subscribing Noteholders exceeds 33,333,334 Additional New Ordinary Shares, the Additional New Ordinary Shares will be allocated to the first 1,249 Subscribing Noteholders (for the avoidance of doubt, irrespective of whether they have elected the Minimum Election or some larger Subscription Amount) who validly elected to subscribe for Additional New Ordinary Shares (the **Early Subscribing Noteholders**), with the remaining 26,251 Additional New Ordinary Shares being allocated amongst all Early Subscribing Noteholders that have elected to subscribe for an amount of Additional New Ordinary Shares in excess of the Minimum Election (the **Unfilled Subscribing Noteholders**) *pro rata* based on the proportion that an Unfilled Subscribing Noteholder's Scheme Consideration Calculation Amount bears to the aggregate Scheme Consideration Calculation Amounts of all Unfilled Subscribing Noteholders subject to a maximum allocation of Additional New Ordinary Shares equal to the Subscription Amount of that Unfilled Subscribing Noteholder. For the avoidance of doubt, an Unfilled Subscribing Noteholder who, through this process, receives its Subscription Amount, will no longer be an Unfilled Subscribing Noteholder and will cease to be allocated further Additional New Ordinary Shares
- (c) Paragraphs 2.22 to 2.30 of Part B (*Overview of the Scheme*) of the Explanatory Statement and the definition of Additional New Ordinary Shares will be amended accordingly. Other than the amendments to the figures described in paragraph 3.1(a) and the amendment described in paragraph 3.1(b) above, the allocation mechanism for the allocation of Additional New Ordinary Shares described in the Explanatory Statement will remain the same.
- (d) A revised illustrative allocation model will be included in Appendix 6 (*Illustrative Additional New Ordinary Shares Allocation Model*) of the Modified Explanatory Statement (as defined below).
- (e) The ordinary shares offered pursuant to the Additional New Ordinary Shares Offer (modified as set out in paragraph 3.1(a) and 3.1(b) above), will represent 13.33 per cent. of the total issued share capital of the Company following completion of the Liability Management Exercise.
- (f) The allocation of Sub-purchasing Shares in the Sub-purchasing Offer will be amended so that if the aggregate minimum allocations exceeds the aggregate number of Sub-purchasing

Shares, the obligation to subscribe for Sub-purchasing Shares will be allocated to Sub-purchasers in the order that their Account Holder Letters were received by the Information Agent (Account Holder Letters will be date and time stamped upon receipt by the Information Agent for this purpose).

- (g) Paragraph 2.41 of Part B (*Overview of the Scheme*) of the Explanatory Statement will be amended accordingly.

3.2 Consequential and related amendments

- (a) The number of New Ordinary Shares to be issued as Scheme Consideration will be amended to 141,666,666 ordinary shares in the Company resulting in the New Ordinary Shares Conversion Price being amended to £6.17566631 per share (having also taken into account the amended Record Date as set out in paragraph 3.2(e) below). The definition of New Ordinary Shares and New Ordinary Shares Conversion Price in the Explanatory Statement and the Scheme will be amended accordingly.
- (b) The Company has entered into a new agreement (the **Modified Scheme Purchase Agreement**) with certain Noteholders (the **Modified Scheme Purchasers**) to replace the Purchase Agreement. The Modified Scheme Purchase Agreement provides that the Modified Scheme Purchasers agree to back-stop the purchase of the Additional New Ordinary Shares pursuant to the Additional New Ordinary Shares Offer as set out in the Modified Scheme. Paragraphs 2.31 and 2.32 of Part B (*Overview of the Scheme*) of the Explanatory Statement will be amended accordingly.
- (c) The New Ordinary Shares to be distributed as Scheme Consideration (modified as set out in paragraph 3.2(a) above), will represent 56.67 per cent. of the total issued share capital of the Company following completion of the Liability Management Exercise.
- (d) The Scheme, if implemented, would have resulted in the Noteholders holding 70 per cent. of the total issued share capital of the Company. Following implementation of the Modified Scheme (as defined below), Noteholders will still own 70 per cent. of the total issued share capital of the Company.
- (e) The Expected Timetable of principal events as set out in the Explanatory Statement will be amended as follows:

Event	Expected Time and date in Explanatory Statement	Expected Time and Date in Modified Explanatory Statement
Custody Instruction Deadline	5 p.m. (local time in the place of the relevant Clearing System) on 9 December 2013	5 p.m. (local time in the place of the relevant Clearing System) on 12 December 2013
Record Date	4.30 p.m. on 10 December 2013	4.30 p.m. on 13 December 2013
Voting Instruction Deadline	4.30 p.m. on 10 December 2013	4.30 p.m. on 13 December 2013

Scheme Meeting		10 a.m. on 11 December 2013	10 a.m. on 16 December 2013
Scheme Sanction Hearing		16 December 2013	18 December 2013
Anticipated Effective Date	Scheme	17 December 2013	18 December 2013
Anticipated Settlement Date	Scheme	18 December 2013	20 December 2013

Full details of the Expected Timetable of Principal Events can be found on pages 16 and 17 of the Modified Explanatory Statement.

- (f) The amendment to the Record Date set out in paragraph 3.2(e) above will result in an additional three days' of interest accruing on each series of Dated Notes for the purposes of the calculation of entitlements of Noteholders to Scheme Consideration. Accordingly, the Consideration Amount per £1,000 of Scheme Consideration Calculation Amount will be amended so that for every £1,000 of Scheme Consideration Calculation Amount a Scheme Creditor has, it will receive:
- (i) £102.57 of Bank T2 Notes; and
 - (ii) £897.43 of New Ordinary Shares.

Paragraph 2.3 of Part C (*Overview of the Liability Management Exercise*) of the Explanatory Statement and clause 14 of the Scheme will be amended accordingly.

- (g) The Modified Scheme Purchasers have agreed to meet certain costs and liabilities of the Company and certain related parties incurred in connection with the application by the Company to the Court on 2 December 2013 to amend the Explanatory Statement from the form published on or around 18 November 2013 and the amendments to the Explanatory Statement made as a result of such application as set out on page 90 of the Modified Explanatory Statement (as defined below).

3.3 Scheme documentation

- (a) The Explanatory Statement (including the Scheme) and the Account Holder Letter will be amended to reflect the amendments described in paragraphs 3.1 and 3.2 above.
- (b) A blackline of changes (including consequential and definitional changes) to the Explanatory Statement, the Scheme and the Account Holder Letter as a result of the amendments described in paragraphs 3.1 and 3.2 above can be found at Schedule 1 to this Amendment Letter.
- (c) The following amended documents are available to Scheme Creditors on the Scheme Website (www.cooperative.coop/bondholders):
- (i) an amended version of the Explanatory Statement incorporating the amendments set out in the blackline referred to in paragraph 3.3(b) above (the **Modified Explanatory Statement**) including an amended version of the Scheme incorporating the amendments set out in the blackline referred to in paragraph 3.3(b) above (the **Modified Scheme**); and

- (ii) an amended Account Holder Letter incorporating the amendments set out in the blackline referred to in paragraph 3.3(b) above (the **Modified Account Holder Letter**).

4. Account Holder Letters

- (a) As at 1 p.m. on 29 November 2013:
 - (i) 257 Account Holder Letters had been received by the Company from Scheme Creditors holding an aggregate amount of £61,686,940 of Dated Notes and an aggregate of approximately £64,450,294 of Scheme Claims;
 - (ii) 248 Account Holder Letters from Scheme Creditors holding an aggregate amount of £63,395,861 of Scheme Claims (and approximately £60,000,000 of Dated Notes) contained elections to participate in the Additional New Ordinary Shares Offer;
 - (iii) subscriptions for a total of 61,569,537 Additional New Ordinary Shares have been received and 223 of the 248 Account Holder Letters which included elections to participate in the Additional New Ordinary Shares Offer have contained an election to participate in the Additional New Ordinary Shares Offer equal to the Minimum Election; and
 - (iv) 183 of the Account Holder Letters received have been received from Scheme Creditors with a holding of £1,000 or thereabouts in aggregate principal amount outstanding of the Dated Notes.
- (b) Subject to paragraph 4(e) below, all Account Holder Letters delivered pursuant to the terms of the Scheme (whether received before or after the date of the Modified Explanatory Statement) have no force or effect.
- (c) The form of Modified Account Holder Letter will replace the form of Account Holder Letter for the purposes of participating in the Scheme or any part of it.
- (d) **As set out in more detail in the section entitled “Summary of actions to be taken by Scheme Creditors and any person with an interest in the Dated Notes” of the Modified Explanatory Statement, Scheme Creditors are invited to vote at the Scheme Meeting, elect to subscribe for Additional New Ordinary Shares in accordance with the terms of the Additional New Ordinary Shares Offer, elect to participate in the Sub-purchasing Offer in accordance with its terms, vote for or against the appointment of any Nominated Directors (if applicable) and confirm their eligibility to receive Scheme Consideration and, if applicable, Additional New Ordinary Shares by directing their Account Holder to complete and deliver to the Information Agent the Modified Account Holder Letter in the form attached to this Amendment Letter on or before 4.30 p.m. (London time) on 13 December 2013.**
- (e) For the purposes of determining priorities in the First Round Exception (for the purposes of both the Additional New Ordinary Shares Offer and Sub-purchasing Offer (as defined in the Modified Explanatory Statement)), Modified Account Holder Letters delivered by Noteholders on whose behalf Account Holder Letters were delivered to and received by the Information Agent pursuant to the terms of the Scheme (whether received before or after the date of the Modified Explanatory Statement) will be deemed to have been received on the date and at the time that the Account Holder Letter was received.

- (f) The definition of Account Holder Letter will be amended to allow for a different form of account holder letter to be used solely to facilitate the participation by Noteholders who hold their interests in the Dated Notes in Crest in the Modified Scheme.

5. Lock-up Agreements

The Ad Hoc Group and certain other Noteholders together holding approximately 55 per cent. of the principal amount outstanding of the Dated Notes in aggregate (with the principal amount outstanding of the 2016 Notes for the purposes of this calculation notionally converted from Euro into Sterling at the Scheme FX Rate) have entered into lock-up agreements with the Company and Co-operative Group on 1 December 2013 (in a similar form to the lock-up agreements entered into on 4 November 2013 by certain Noteholders) pursuant to which they have agreed, among other things and subject to certain exceptions, to vote their Scheme Claims in favour of the Modified Scheme.

6. Notification of amendments to Scheme Creditors

- (a) This Amendment Letter will be:
- (i) where email addresses have been provided, sent by e-mail to Scheme Creditors who have submitted Account Holder Letters prior to the date of this Amendment Letter;
 - (ii) made available to Scheme Creditors on the Scheme Website (www.co-operative.coop/bondholders);
 - (iii) published via the Regulatory News service operated by the London Stock Exchange; and
 - (iv) delivered to Euroclear and Clearstream, Luxembourg for communication to the Scheme Creditors.
- (b) Copies of this Amendment Letter, the Modified Explanatory Statement (including the Modified Scheme) and the Modified Account Holder Letter are also available to any of the Scheme Creditors on request to the Information Agent by contacting Sunjeev Patel or Yves Theis at Lucid Issuer Services Limited, Leroy House, 436 Essex Road, London N1 3QP on +44 (0) 20 7704 0880 or by email to co-op@lucid-is.com.

SCHEME CREDITORS ARE ADVISED TO REVIEW THE AMENDMENTS TO THE EXPLANATORY STATEMENT, SCHEME AND ACCOUNT HOLDER LETTER REFERRED TO IN THIS AMENDMENT LETTER CAREFULLY AND, WHEN CONSIDERING WHETHER OR NOT TO VOTE IN FAVOUR OF THE SCHEME AT THE SCHEME MEETING, SHOULD REVIEW AND CONSIDER THE MODIFIED EXPLANATORY STATEMENT, MODIFIED SCHEME AND MODIFIED ACCOUNT HOLDER LETTER.

Yours faithfully

For and on behalf of

The Co-operative Bank p.l.c.