THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in doubt as to the action you should take in connection with this document or the proposals contained in it, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000, if you are taking advice in the United Kingdom, or from another appropriately authorised independent financial adviser if you are taking advice in a jurisdiction outside the United Kingdom.

SUPPLEMENT DATED 4 DECEMBER 2013 TO THE PROSPECTUS DATED 4 NOVEMBER 2013

The co-operative bank

The Co-operative Bank p.l.c.

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

11 per cent. Subordinated Notes due 2023

This Supplement (the **Supplement**) to the Prospectus (the **Prospectus**) dated 4 November 2013 prepared by The Co-operative Bank p.l.c. (the **Issuer**) constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 (the **FSMA**). Terms defined in the Prospectus have the same meaning when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Prospectus and any other supplements to the Prospectus issued by the Issuer.

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

Purpose of the Supplement

This Supplement has been prepared:

(i) because the Scheme has been modified with the effect that the pricing and, as a result, the allocation of the new ordinary shares by the Bank to be delivered pursuant to the Scheme has been amended, together with amendments to the timetable, as set out on pages 2 to 7 of this Supplement;

(ii) to include a new risk factor titled "*The Bank is facing an independent investigation by HM Treasury into events at the Bank and the circumstances surrounding them and may in the future face additional enforcement investigations by the PRA and the FCA or formal investigation by the Financial Reporting Council*" which contains certain information in relation to (a) the independent investigation announced by the Chancellor of the Exchequer on 22 November 2013 and the responses of the PRA and the FCA to such announcement, (b) the possibility of additional enforcement investigations from the PRA and/or the FCA and (c) the potential for formal investigations by the Financial Reporting Council, as set out on pages 7 to 8 of this Supplement;

(iii) to supplement the paragraph titled "*Litigation and Arbitration*" in Section 20 (*Additional Information*) with certain information in relation to the independent investigation announced by the

Chancellor of the Exchequer on 22 November 2013 and the responses of the PRA and the FCA to such announcement, as set out on pages 8 to 9 of this Supplement;

(iv) to reflect the downgrade to the ratings assigned to the Issuer by Fitch Ratings Ltd. (**Fitch**), following the announcement by Fitch on 14 November 2013 of revisions to those ratings, as set out on page 9 of this Supplement; and

(v) to update the Summary with respect to the modification of the terms of the Scheme and the amendments to the timetable, to update the "*Key risks specific to the Issuer*" in the Summary and the ratings downgrade to the ratings assigned to the Issuer by Fitch in the Summary, all as set out below.

(i) Modification to the terms of the Scheme

Holders of the Dated Notes were invited to consider, and if thought fit, approve the Scheme (as described in the explanatory statement dated 18 November 2013). If the Scheme was approved by the requisite statutory majorities and sanctioned by the High Court of Justice of England and Wales (the **Court**), and if the Scheme became unconditional, it would have resulted in all of the Dated Notes (plus accrued and unpaid interest on those Dated Notes up to a specified record date) being exchanged for a combination of Bank T2 Notes and New Ordinary Shares.

The holders of the Dated Notes were also entitled to subscribe for 62,500,000 additional new ordinary shares in the Bank at a price of £2.00 per new ordinary share representing 25 per cent. of the total issued share capital of the Bank following completion of the Liability Management Exercise, for an aggregate consideration equal to £125 million, pursuant to, and on the terms of, the Scheme with such subscription being underwritten by certain persons who were holders of Dated Notes as at 4 November 2013. The Scheme also provided that any holder of Dated Notes was entitled to elect to subscribe for between a minimum election of 50,000 (for an aggregate subscription price of £100,000) and a maximum election of 62,500,000 additional new ordinary shares in the Bank pursuant to, and on the terms of, the Scheme.

Pursuant to the modification to the Scheme requested by certain members of an ad hoc group of holders of the Dated Notes (the **Ad Hoc Group**) which was approved by the Court following a Court hearing and adjourned hearing on 3 December 2013, on 4 December 2013 (the Scheme, as modified by the requested modification, the **Modified Scheme**), if the Modified Scheme is approved by the requisite statutory majorities and sanctioned by the Court, and if the Modified Scheme becomes unconditional, all of the Dated Notes (plus accrued and unpaid interest on those Dated Notes up to a specified record date) will be exchanged for a combination of:

- £100 million of Bank T2 Notes; and
- 141,666,666 new ordinary shares in the Bank representing 56.67 per cent. of the total issued share capital of the Bank following completion of the Liability Management Exercise.

The holders of the Dated Notes will also be entitled to subscribe for 33,333,334 additional new ordinary shares in the Bank at a subscription price of £3.75 per new ordinary share representing 13.33 per cent. of the total issued share capital of the Bank following completion of the Liability Management Exercise, for an aggregate consideration of £125 million[1], pursuant to, and on the terms of, the Modified Scheme. This subscription will be underwritten by, amongst others, the Ad Hoc Group. The Modified Scheme provides that any holder of Dated Notes will be entitled to elect to subscribe for between a minimum election of

[1] See note 2(iii) to the table below

26,667 (for an aggregate subscription price of £100,001.25) and a maximum election of 33,333,334 additional new ordinary shares pursuant to, and on the terms of, the Modified Scheme. The allocation mechanism for the allocation of additional new ordinary shares described in the explanatory statement dated 18 November 2013 relating to the Scheme is otherwise unchanged.

The total number of new ordinary shares in the Bank issued to holders of Dated Notes as a class under the Modified Scheme will be the same as the number to be issued under the Scheme.

The table below shows the Scheme Consideration to which holders of the Dated Notes will be entitled under the terms of the Scheme and the Modified Scheme:

Existing Securities	**ISIN**	**Consideration Amount** (per £1,000 of Scheme Claim[3])				**New Ordinary Shares Conversion Price**	
		Bank T2 Notes[1]		**New Ordinary Shares[2]**			
		Scheme	Modified Scheme	Scheme	Modified Scheme	Scheme	Modified Scheme
Floating Rate Callable Step-up Dated Subordinated Notes due 2016	XS0254625998	£102.63	£102.57	£897.37	£897.43	£7.7718276 per share	£6.17566631 per share
5.875% Subordinated Callable Notes due 2019	XS0189539942	£102.63	£102.57	£897.37	£897.43		
9.25% Subordinated Notes due 28 April 2021	XS0620315902	£102.63	£102.57	£897.37	£897.43		
Fixed/Floating Rate Subordinated Notes due November 2021	XS0274155984	£102.63	£102.57	£897.37	£897.43		
7.875% Subordinated Notes due 19 December 2022	XS0864253868	£102.63	£102.57	£897.37	£897.43		
5.75% Dated Callable Step-up Subordinated Notes due 2024	XS0188218183	£102.63	£102.57	£897.37	£897.43		
5.875% Subordinated Notes due 2033	XS0145065602	£102.63	£102.57	£897.37	£897.43		

Notes:

1 New sterling-denominated 11 per cent. Subordinated Notes due 2023 (ISIN: GB00BFXW0853) to be issued by the Bank.

2 New ordinary shares to be issued by the Bank. If the Liability Management Exercise is successfully completed, Co-operative Group's existing equity stake in the Bank will be converted into deferred shares and effectively reduced to nil and a total of 250,000,000 new ordinary shares will be issued at that time, of which:

(i) 75,000,000 (representing 30 per cent. of the total) will be issued to Co-operative Group in consideration for its fresh injection of capital into the Bank through the Liability Management Exercise and the 2014 Commitment (representing an effective subscription price of £6.16 per share);

(ii) 141,666,666 (representing 56.67 per cent. of the total) will be issued to holders of the Dated Notes in the Scheme in exchange for their Dated Notes, to be distributed in the Modified Scheme *pro rata* amongst such holders based on their respective Scheme Claims (representing, based on the total value of Scheme Claims and the number of New Ordinary Shares issued in the Modified Scheme to holders of Dated Notes, an implied subscription price equal to the New Ordinary Shares Conversion Price). The New Ordinary Shares referred to in the table above are these 141,666,666 new ordinary shares; and

(iii) 33,333,334 (representing the balance of 13.33 per cent. of the total) will be available for subscription by holders of Dated Notes pursuant to, and on the terms of, the Modified Scheme for an aggregate consideration equal to £125,000,002.50 (representing an effective subscription price of £3.75 per share).

[3] A Holder's claim in the Modified Scheme (its **Scheme Claim**) will be equal to the sum of (i) the aggregate principal amount outstanding of such Holder's Dated Notes and (ii) the accrued and unpaid interest on such Dated Notes up to (and including) the Scheme Record Date (13 December 2013), provided that a Holder's Scheme Claim in respect of Floating Rate Callable Step-up Dated Subordinated Notes due 2016 (ISIN: XS0254625998) (which are denominated in euro) shall be the Sterling-Equivalent of such sum, calculated on the basis of an exchange rate of £0.85644 per €1.00.

All references to the terms of the Scheme (including, without limitation, the Additional New Ordinary Shares Offer and the Scheme Consideration) appearing in the Prospectus (including the Offer Memorandum) and appearing below in this Supplement should be read accordingly and all references to the Scheme and the Liability Management Exercise appearing in the Prospectus (including the Offer Memorandum) and appearing below in this Supplement should be read as references to the Scheme and the Liability Management Exercise as so amended.

As a result of the above amendment to the terms of the Scheme, the remainder of the timetable for the Liability Management Exercise is now expected to be as follows:

Scheme Events	**Dates and Times (all times are London time)**	**Offer Events**
	4.30 p.m. on 6 December 2013	**Expiration Deadline**
		Deadline for receipt of all Exchange Instructions from Eligible Holders in respect of Preference Shares, 13% Bonds and 5.5555% Bonds.
	11 December 2013	**Meetings**
		Meetings of the Holders of the Preference Shares, 13% Bonds and 5.5555% Bonds held to consider the Extraordinary Resolutions pursuant to the Proposals.
		1.00 p.m. in respect of the Preference Shares.
		2.00 p.m. in respect of the 13% Bonds.
		3.00 p.m. in respect of the 5.5555% Bonds.

	11 December 2013	**Offer Record Date** The record date for the purposes of ceasing trading in the Preference Shares, 13% Bonds and 5.5555% Bonds, and for determining entitlement to receive the relevant Group Notes, Bank T2 Notes, Accrued Dividends, Accrued Interest and other amounts payable under the terms of the Liability Management Exercise (if successfully completed).
Voting Instructions Deadline Deadline for receipt of all Account Holder Letters containing voting instructions in order for Holders to vote on the Scheme, elections to subscribe for Additional New Ordinary Shares pursuant to the Additional New Ordinary Shares Offer in the Scheme, elections to participate in the Sub-purchase Offer and confirming eligibility to receive Scheme Consideration under the Scheme on the Scheme Settlement Date.	**4.30 p.m. on 13 December 2013**	
Scheme Record Date Only those Holders who are Scheme Creditors as at the Scheme Record Date are entitled to attend and vote at the Scheme Meeting (unless the Bank, in its sole discretion, elects to recognise, for the purposes of the Scheme, a transfer of Dated Notes after the Scheme Record Date such that the transferee becomes a	**13 December 2013**	

Scheme Creditor).		
Scheme Meeting	**16 December 2013**	
Meeting of the Scheme Creditors to vote on the Scheme. The Court has ordered the Bank to convene the Scheme Meeting on 16 December 2013.		
Notification of allocation of Additional New Ordinary Shares and Sub-purchasing Commitments	**On or around 16 December 2013**	
Results Announcement	**On or around 16 December 2013**	**Results Announcement**
Announcement of the results of the Liability Management Exercise		Announcement of the results of the Liability Management Exercise.
Scheme Sanction Hearing	**18 December 2013**	
Second Court hearing for sanction of the Scheme by the Court. The Bank will announce as soon as reasonably practicable after the Scheme Sanction Hearing whether or not the Scheme is sanctioned.		
Filing of sanction order	**The date of the Scheme Sanction Hearing or the following business day**	
Sanction order (if granted) delivered to the Registrar of Companies. Scheme becomes effective in accordance with its terms.		
Settlement Date /Scheme Settlement Date	**20 December 2013**	**Settlement Date/ Scheme Settlement Date**
Expected settlement of the Scheme (subject to satisfaction of the Settlement Condition), including issue and delivery of New Ordinary Shares, Bank T2		Expected settlement of the Offers (subject to satisfaction of the Settlement Condition), including issue and

Notes and Additional New Ordinary Shares.	delivery of Bank T2 Notes and Group Notes and payment of Accrued Dividends, Accrued Interest and other relevant amounts.

All references to the dates of such Scheme Events or Offer Events in the Prospectus shall be amended accordingly.

The times and dates referred to above are indicative only and are subject to the right of the Bank and/or Co-operative Group to extend, re-open, amend and/or terminate the Exchange Offers or any of them at any time and the right of the Bank (if required or permitted by the Court) to amend and/or withdraw the Scheme at any time. Accordingly, the actual timetable may differ significantly from the expected timetable set out above.

If any of the above times and/or dates change, the revised time(s) and/or date(s) will be announced by the Bank and/or Co-operative Group as soon as reasonably practicable by publication of a supplement to the Prospectus.

(ii) Risk Factors

A new risk factor titled "*The Bank is facing an independent investigation by HM Treasury into events at the Bank and the circumstances surrounding them and may in the future face additional enforcement investigations by the PRA and the FCA or formal investigation by the Financial Reporting Council*", is hereby included in the Prospectus:

"On 22 November 2013 the Chancellor of the Exchequer ordered an independent investigation into events at the Bank and the circumstances surrounding them to take place under section 77 of the Financial Services Act 2012. The investigation has been jointly agreed with the PRA and the FCA, both of whom agree that there is a public interest in a statutory investigation. It will be led by an independent person appointed by the FCA and the PRA, with the approval of the Treasury.[2] Separately, the FCA and the PRA each announced on 22 November 2013 that they are considering whether they should also launch their own formal enforcement investigations.[3] The precise scope and timing of these investigations is yet to be determined.

In November 2013, it was reported that the Financial Reporting Council has announced in a statement that it is making enquiries into the Bank's financial reporting in accordance with its normal procedures and if it commences a formal investigation, it will announce this via a press announcement.[4]

The events which led to the announcements of the investigations (or potential investigations) and the related negative publicity have caused, and the investigations and their findings may cause, further reputational damage to the Bank and its brand. The investigations may lead to greater scrutiny and/or intervention from regulators, further regulatory and/or legislative actions and litigation.

The outcome of these investigations or any other future legal, regulatory or other enquiries, investigations or proceedings, including any legal, regulatory or other enquiries, investigations or proceedings arising out of any other allegations made against the Bank, is difficult to predict. However, the Bank may incur significant

2 Source: https://www.gov.uk/government/news/chancellor-confirms-independent-inquiry-into-events-at-co-op-bank

3 Source: http://www.fca.org.uk/news/statements/fca-statement-regarding-cooperative-bank and http://www.bankofengland.co.uk/publications/Pages/news/2013/154.aspx

4 Source: as reported in the Guardian (5 November 2013) (http://www.theguardian.com) and Reuters (22 November 2013) (http://uk.reuters.com)

expenses in connection with these investigations and they may expose the Bank to any of the following: substantial monetary damages and fines; other penalties and injunctive relief; potential for additional civil or private litigation; potential for criminal prosecution in certain circumstances; potential regulatory restrictions on the Bank's business; and/or a negative effect on the Bank's reputation.

Any adverse findings of the investigations may therefore reduce – directly or indirectly – the attractiveness of the Bank to stakeholders and may lead to customer attrition, reduced workforce morale and difficulties in recruiting and retaining talent. Sustained damage arising from any adverse findings of the investigations could therefore lead to loss of revenue for the Bank and could have a materially negative impact on the Bank's operations, financial results, financial condition and prospects.

The regulatory and other investigations that have been recently announced are likely to subject the Bank to greater scrutiny from regulators, will take management time and result in the Bank incurring costs not currently included in its business plan which cannot be quantified at this time, thereby potentially taking a significant amount of resources away from the implementation of the Bank's strategy. Recent events may have caused some brand and reputational damage, but it is too early to form a definitive view as to the extent of such damage. These recent events, together with the competitive landscape in which the Bank operates, the introduction of seven day account switching and the associated increased competitor marketing activity at a time when the Bank has been constrained in its ability to undertake its own marketing activity, may be a contributing factor to an increase the Bank has seen in the switching out of current accounts. However, the Bank's retail deposit base remains broadly stable and it is too early to identify any significant trends at this point. Further, the Bank's liquidity position remains stable. Overall, the Bank's performance has been consistent with or, in the case of costs, slightly better than, management's expectations."

(iii) Litigation and Arbitration

The paragraph titled "*Litigation and Arbitration*" in Section 20 (*Additional Information*) appearing in the Prospectus, is hereby supplemented with the following:

"On 22 November 2013, a statement from HM Treasury confirmed that:

"*The Chancellor of the Exchequer is to use the powers he has brought in under the Financial Services Act 2012 to order an independent investigation into events at the Co-op Bank and the circumstances surrounding them.*

The investigation has been jointly agreed with the two regulators – the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) – who agree there is a public interest in a statutory investigation.

It will be led by an independent person appointed by the regulators, with the approval of the Treasury.

Separately, the FCA and PRA have today announced they are both considering whether they should also launch formal enforcement investigations.

The independent investigation under the Financial Services Act will therefore not start until it is clear it will not prejudice any actions the relevant authorities may take, including the potential FCA and PRA enforcement investigations.

The detailed direction that will order the independent investigation and set out its terms will take into account any issues arising, including from this potential FCA and PRA enforcement investigations and be *determined in consultation with the independent person appointed to lead it. It will cover the actions of relevant authorities (regulators and government) and the institution itself, including prudential issues, governance (including the appointment of senior staff) and acquisitions. The period that the investigation will review will start from at least 2008 and run to at least the present time.*

The direction and the investigation's report will be laid before Parliament.

The government is determined to create a stronger and safer banking system. A key part of this is reforming the regulatory regime for senior managers. That is why the government's Banking Reform Bill, which is currently passing through the House of Lords, will introduce a new senior managers' regime, subjecting decision makers in banks to higher standards that means if they fail in their duties they will be held to account.[5]"

The outcome of these investigations, the Kelly Review or any other future legal, regulatory or other enquiries, investigations or proceedings, including any legal, regulatory or other enquiries, investigations or proceedings arising out of any other allegations made against the Bank, are difficult to predict. However, investors are referred to the risk factor titled "*The Bank is facing an independent investigation by HM Treasury into events at the Bank and the circumstances surrounding them and may in the future face additional enforcement investigations by the FCA and the PRA or formal investigation by the Financial Reporting Council*" for an analysis of the potential risks of such investigations."

(iv) Ratings

On 14 November 2013, the issuer ratings for the Issuer provided by Fitch were downgraded to the following:

B (long-term) (Rating Watch Negative); and

B (short-term) (Rating Watch Negative).

Fitch is established in the European Union and is registered under the CRA Regulation. As such Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at *http://www.esma.europa.eu/page/List-registered-and-certified-CRAs*) in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

(v) Update of the Summary

The Summary included in the Prospectus is updated in the Appendix to this Supplementary Prospectus.

General Information

Copies of this Supplement, the Prospectus and the documents incorporated by reference in the Prospectus are available free of charge from the Issuer's registered office at 1 Balloon Street, Manchester M60 4EP and from http://www.morningstar.co.uk/uk/NSM.

To the extent that there is any inconsistency between (a) any statement in this Supplement and (b) any other statement in or incorporated by reference in the Prospectus, the statements in (a) above will prevail.

5 See footnotes 2 and 3 above

Save as disclosed in this Supplement, there has been no other significant new factor, material mistake or inaccuracy relating to information included in the Prospectus since the publication of the Prospectus.

In accordance with section 87Q(4) - (6) FSMA, Holders who have submitted Exchange Instructions before this Supplement is published have the right, exercisable before the end of the period of two working days beginning with the working day after the date on which this Supplement was published, to withdraw their Exchange Instructions. This right to withdraw shall expire at close of business on 6 December 2013. Holders can exercise their right to withdraw their Exchange Instructions by following the revocation procedures set out in the Consent and Exchange Offer Memorandum appended to the Prospectus. Holders who are in any doubt as to these procedures should contact the person to whom such Exchange Instruction was originally submitted before the above deadline.

APPENDIX

SUMMARY OF THE NOTES

Summaries are made up of disclosure requirements known as "Elements". These elements are numbered in Sections A-E (A.1 – E.7).

This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of security and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of "not applicable".

Section A – Introduction and warnings		
Element	**Title**	
A.1	**Warning**	This summary should be read as an introduction to the Prospectus. Any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2	**Consent for Financial Intermediaries**	Not Applicable. The Bank has not consented to the use of the Prospectus for any subsequent resale or final placement of securities by financial intermediaries.

Section B – Issuer		
Element	**Title**	
B.1	**Legal and commercial name of the Issuer**	The Co-operative Bank p.l.c. (the **Bank**)
B.2	**Domicile/legal form/ legislation/country of**	The Bank is a public limited company, incorporated and domiciled in the UK with its registered office situated in England and Wales. The

	incorporation	Bank operates under the Companies Act 2006 and is registered by the UK Prudential Regulation Authority (the **PRA**) and the UK Financial Conduct Authority (the **FCA**). The Bank's Firm Reference Number is 121885.
B.4b	**A description of any known trends affecting the Issuer and the industry in which the Issuer operates**	***The Bank*** The Bank is currently facing a number of financial pressures which, following a review of the financial position of the Bank, led the boards of the Bank and Co-operative Group Limited (**Co-operative Group**) to announce on 17 June 2013 that the Bank required an additional £1.5 billion of common equity tier 1 capital, as assessed by the PRA. To meet the capital shortfall, on 4 November 2013 Co-operative Group and the Bank announced details of their comprehensive recapitalisation plan (the **Recapitalisation Plan**) to strengthen the Bank's capital base, which is expected to result in an increase in the common equity tier 1 capital of the Bank of £1.5 billion by the end of 2014. The capital shortfall is a result of continuing losses incurred by the Bank predominantly driven by impairment charges to the carrying value of the Bank's loans, in particular corporate loans acquired as part of the merger with Britannia Building Society (**Britannia**) in 2009. Impairment charges for the six months ended 30 June 2013 were £496.0 million. The Bank also has a high cost base relative to its revenue when compared with its peers. The Bank has an ageing IT platform that has suffered from under-investment in recent years and has failed to integrate Britannia into the Bank's operations, resulting in significant cost duplications in front, middle and back office functions and a significant overlap in the branch network. In addition, the Bank's revenues are impacted by it not having achieved sufficient penetration of its current account customer base and historically pricing certain of its products on terms more generous to customers than the market. In response, the Bank has recently strengthened its management team and has adopted a comprehensive new business strategy that is targeted at addressing the issues identified above, reducing the overall risk profile of the Bank and restoring the Bank to health. Whilst the Bank has already taken a number of actions to try to address the challenges it faces, it is clear that it is in the early stages of turning itself around and that the legacy issues identified above will continue to have an impact on the Bank for some time.
B.5	**Description of Co-operative Group and the Issuer's position within Co-operative Group**	Co-operative Group is the UK's largest mutual business, owned by over 7 million consumer members. It is the UK's fifth biggest food retailer, a leading farmer and a major financial services provider. Among its other businesses are a funeral services provider, a pharmacy chain and a legal services provider.

		The Bank is currently a subsidiary of Co-operative Banking Group Limited (**Banking Group**) which is itself a subsidiary of Co-operative Group. Co-operative Group is the ultimate holding entity of Banking Group and its subsidiaries.
B.8	**Selected key pro forma financial information**	The unaudited pro forma balance sheet as at 30 June 2013 has been prepared to show the pro forma impact of the liability management exercise being conducted by the Bank and Co-operative Group (the **Liability Management Exercise**), on assets, liabilities, equity and certain capital and leverage ratios, as if it had taken place as at 30 June 2013. It has been prepared for illustrative purposes only in accordance with Annex II of the Prospectus Directive (Directive 2003/71/EC as amended) 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 Bank's actual financial position as at 30 June 2013, nor is it indicative of the results that may or may not be expected to be achieved in the future. The successful completion of the Liability Management Exercise is expected to be earnings enhancing as a result of interest savings on Existing Securities (as defined below) surrendered in the Liability Management Exercise, net of coupon payments on New Securities issued in the Liability Management Exercise.

Balance sheet as at 30 June 2013

		Adjustments			
	As at 30 June 2013[(1)]	*Liability Manage-ment Exercise[(2)]*	*Additional New Ordinary Share Offer[(3)]*	*Expenses of the Exchange Offers[(4)]*	*Unaudited pro forma*
			(£ millions)		
Cash and balances at central banks	5,402.1	–	125.0	(43.0)	5,484.1
Other assets	41,230.2	–	–	–	41,230.2
Total assets	46,632.3	–	125.0	(43.0)	46,714.3
Liabilities					
Other borrowed funds	1,248.1	(1,042.1)	–	–	206.0
Other liabilities	44,369.5	–	–	–	44,369.5
Total liabilities	45,617.6	(1,042.1)	–	–	44,575.5
Total equity	1,014.7	1,042.1	125.0	(43.0)	2,138.8
Total liabilities and equity	46,632.3	–	125.0	(43.0)	46,714.3

Notes:

(1) The accounting policies adopted in preparing the pro forma balance sheet as at 30 June 2013 are consistent with the accounting policies adopted in preparing the Interim Financial Information. No account has been taken of actual changes in the trading or financial position of the Bank since 30 June 2013.

(2) The Liability Management Exercise is assumed to generate £1,042.1 million of capital on the basis of full participation in the Liability Management Exercise.

		(3) £125,000,002.50 of Additional New Ordinary Shares will be issued as a result of the Additional New Ordinary Shares Offer. (4) The expenses of the Liability Management Exercise to be borne by the Bank are estimated at approximately £51.0 million (inclusive of VAT), of which approximately £8.0 million was recorded in the six months ended 30 June 2013. The remaining balance of approximately £43.0 million will be paid by the Bank out of cash resources. A portion of these expenses may be allocated to the Bank Tier 2 Notes rather than wholly against total equity. This allocation has not yet been determined. (5) No adjustment has been made to reflect the legally binding and irrevocable commitment, provided to Bank by Banking Group on 4 November 2013, conditional only upon the successful completion of the Liability Management Exercise, to contribute up to £333.0 million of capital to the Bank during 2014.
B.9	**Profit forecast or estimate**	On 29 August 2013, the Bank published its interim results for the six months ended 30 June 2013. The interim results contained the following statement: "*Clearly there are lessons to be learned from the last few years but it is vital that the new management team focuses on navigating the short-term issues and building the strategy that is targeted at returning the business to health in the future. We have already taken a number of actions but it is clear that we are in the early stages of turning the Bank around. Indeed, we do not expect to be profitable for some years and legacy issues will continue to have an impact on the Bank for some time*." The statement above regarding profitability represents a profit forecast under the prospectus rules published by the FCA under Part VI of the Financial Services and Markets Act 2000, as amended (the **Prospectus Rules**). The Directors have considered the above statement and continue to believe that it is valid based on the assumptions below as the Bank will not be profitable in 2013 and 2014 and can give no assurance that the Bank will generate a profit for some years thereafter. **Basis of preparation and principal assumptions** This profit forecast is based on the interim results for the six months ended 30 June 2013, the unaudited management accounts for the eight months ended 31 August 2013, management's forecast for the remaining four months ending 31 December 2013 and management's latest available projections for the financial years ending 31 December 2013 and 2014. The principal assumptions on which the profit forecast is based comprise: (a) assumptions that are within management's control including:

		• deleveraging of non-core business will be underwritten in such a manner that the anticipated future losses from deleveraging do not materially exceed the capital released from the reduction in risk-weighted assets; and • there will be no material variation to the assumed level of cost reductions and to the assumption that the cost-to-income ratio for the core business, of not less than 60 per cent., is only achieved in the longer term. (b) assumptions that are not within management's control including: • there will be no material change in legislation or regulatory capital and liquidity requirements impacting the Bank's operations; • there will be no material change in the accounting standards applicable to the Bank; • there will be no material change in interest rates affecting the Bank from those currently applicable to the Bank; • there will be no material improvement in the economic and general trading environment currently prevailing in the UK; and • there will be no material change to the competitive environment which impacts on consumer preferences. The profit forecast has been properly compiled on the basis of the stated assumptions and using accounting policies which are in accordance with International Financial Reporting Standards and consistent with those used by the Bank in the six months ended 30 June 2013 and which will be applicable for the financial years ending 31 December 2013 and 2014.
B.10	**Audit report qualifications**	The Accountant's Report on the Bank's audited Interim Financial Information for the six months ended 30 June 2013 of KPMG Audit Plc contains an "emphasis of matter" statement relating to going concern. In the opinion of KPMG Audit Plc, the risks associated with the successful execution of the Recapitalisation Plan, the main cornerstone of which is the Liability Management Exercise, indicate the existence of a material uncertainty which may cause significant doubt on the Bank's ability to continue as a going concern. There are no qualifications in the audit reports for the other periods covered by the historical financial information.

B.12	**Selected historical key financial information/significant change/no material adverse change**	The following table sets out the consolidated income statement of the Bank and its subsidiaries for the financial years ended 31 December 2012, 2011 and 2010 and for the six months ended 30 June 2013 and 2012.

	Financial year ended 31 December			*Six months ended 30 June (Unaudited)*	
	2012	*2011*	*2010*	*2013*	*2012*
		(£millions)		*(£millions)*	
Income	771.2	817.6	821.8	355.8	385.1
Operating costs – steady state	(568.2)	(548.2)	(555.5)	(303.1)	(282.8)
Operating costs – strategic initiatives	(14.8)	(13.4)	(26.0)	(14.3)	(9.2)
	188.2	256.0	240.3	38.4	93.1
Impairment losses	(468.7)	(114.9)	(95.8)	(496.0)	(91.9)
Operating results	(280.5)	141.1	144.5	(457.6)	1.2
Significant items	(85.1)	(53.3)	(55.5)	(34.6)	(39.3)
Intangible asset impairment	(150.0)	–	–	(148.4)	–
Customer redress (including PPI)	(149.7)	(90.0)	(4.3)	(163.0)	(40.0)
Share of post-tax profits from joint venture	1.2	0.2	0.7	0.3	0.6
Financial Services Compensation Scheme levies	(24.8)	(14.5)	(11.5)	0.1	(0.8)
Fair value amortisation	15.2	86.3	(14.2)	(8.2)	19.7
Profit (loss) before taxation and distributions	(673.7)	69.8	59.7	(811.4)	(58.6)
Profit-based payments to members of Co-operative Group	–	(15.6)	(10.8)	–	–
Profit (loss) before taxation	(673.7)	54.2	48.9	(811.4)	(58.6)

The following table sets out the consolidated balance sheet of the Bank and its subsidiaries for the financial years ended 31 December 2012, 2011 and 2010 and for the six months ended 30 June 2013.

	As at		*As at 31 December*	
	30 June 2013	*2012**	*2011*	*2010*
	(£ millions)		*(£ millions)*	
Assets				
Loans and advances to customers	32,932.9	33,693.7	34,132.3	35,144.1
Cash and balances at central banks	5,402.1	5,433.0	6,696.6	1,735.6
Loans and advances to banks	1,737.5	1,904.1	2,006.5	2,394.1
Investment securities	5,082.6	6,889.8	4,571.0	4,903.1
Derivative financial instruments	804.3	818.8	975.8	975.6
Other assets	672.9	834.0	573.4	428.8
Total assets	46,632.3	49,573.4	48,955.6	45,581.3

	As at		*As at 31 December*	
	30 June 2013	*2012**	*2011*	*2010*
	(£ millions)		*(£ millions)*	
Liabilities				
Amounts owed to customers	34,922.3	36,772.5	36,420.4	34,114.7
Wholesale liabilities	3,517.8	3,612.0	3,302.7	2,938.6
Debt securities in issue	4,610.0	4,713.7	4,164.8	4,212.2

Derivative financial instruments	662.7	967.6	1,087.9	702.4
Other liabilities	656.7	398.8	447.9	564.9
Other borrowed funds	1,248.1	1,258.6	1,258.8	975.4
Total liabilities	45,617.6	47,723.2	46.682.5	43,508.2
Total equity	1,014.7	1,850.2	2,273.1	2,073.1
Total liabilities and equity	46,632.3	49,573.4	48,955.6	45,581.3

Note:

* On 29 August 2013, the Bank published its interim financial report for 2013. The 2012 balance sheet comparatives contained in the interim financial report were represented to reflect that certain deferred tax liabilities cannot be offset against the deferred tax assets. As a result, the 'Other assets', 'Total assets', 'Other liabilities', 'Total liabilities' and 'Total liabilities and equity' each increased by £121.4 million.

The following table sets out the consolidated cash flow statement of the Bank and its subsidiaries for the financial years ended 31 December 2012, 2011 and 2010 and for the six months ended 30 June 2013 and 2012.

	Financial year ended 31 December			*Six months ended 30 June*	
	2012	*2011*	*2010*	*2013*	*2012*
		(£ millions)		*(£ millions)*	
Net cash flows from operating activities	805.2	3,470.2	(1,333.5)	(1,978.9)	(1,654.5)
Net cash flows from investing activities	(2,344.7)	831.9	2,220.6	1,842.2	(194.2)
Net cash flows from financing activities	(34.7)	183.1	128.8	(47.2)	(51.2)
(Decrease) increase in cash and cash equivalents	(1,574.2)	4,485.2	1,015.9	(183.9)	(1,899.9)
Cash and cash equivalents at the beginning of the period	7,888.4	3,403.2	2,387.3	6,314.2	7,888.4
Cash and cash equivalents at the end of the period	6,314.2	7,888.4	3,403.2	6,130.3	5,988.5

The following table sets out selected consolidated financial information which is unaudited but which has been derived from the Bank's consolidated financial statements for the financial years ended 31 December 2012, 2011 and 2010, and the Bank's interim financial information for the six months ended 30 June 2013 and 2012.

	Financial year ended 31 December			*Six months ended 30 June*	
	2012	*2011*	*2010*	*2013*	*2012*
		(percentages)		*(percentages)*	
Core Tier 1 ratio	8.8	9.6	9.6	4.9	9.6
Loans to deposit ratio	91.6	93.9	102.5	94.3	100.5

Set out below is a description of significant changes to the Bank's financial condition and operating results during each of the periods covered in the tables above. The Bank has experienced challenging market conditions in each of the financial years ended 31 December 2010 (**FY 2010**), 31 December 2011 (**FY 2011**) and 31 December 2012 (**FY 2012**), with the UK economy failing to recover at the speed expected.

		The Bank incurred losses of £673.7 million in FY 2012, compared with a profit-before-tax of £54.2 million earned in FY 2011. These losses reflect the continuing economic downturn and prolonged low interest rates which have put pressure on the Bank's margins. In addition, and in line with the rest of the banking industry, the Bank saw an increase in the volume of Payment Protection Insurance (**PPI**) complaints in FY 2012 which resulted in an increased provision for PPI. Significant items of £85.1 million were also incurred in FY 2012, notably more than in FY 2011 (£53.3 million) and FY 2010 (£55.5 million): of these significant items costs, a significant amount was incurred in relation to the bid for the Lloyds Banking Group branches, with the remainder primarily associated with investment in the Bank's transformation and integration programmes. While the non-core business (being those business activities no longer congruent with the Bank's strategy) generated an operating loss in FY 2012, the core business delivered an operating profit, reflecting the strategy and risk appetite of the Bank. Credit impairments in FY 2012 of £468.7 million were £353.8 million higher than the £114.9 million recorded in FY 2011. This increase relates principally to credit impairment on non-core assets following a reassessment of the carrying value of the customer loan portfolios of the Bank in light of the continued and persistent weakness in the economy. In FY 2012, total income was £771.2 million, down from £817.6 million in FY 2011, a reduction of £46.4 million. This reduction reflects the cost of retained and incremental funding raised during FY 2012 in challenging market conditions and arose principally in the non-core business. In FY 2011, profit-before-tax was £54.2 million, an increase of £5.3 million over the £48.9 million recorded in FY 2010. Strategic initiative operating costs decreased by £12.6 million between FY 2010 and FY 2011 following significant strategic investment in the Bank's business in FY 2010. Income in FY 2011 was broadly stable at £817.6 million following the generation of £821.8 million of income in FY 2010. The Bank incurred significant losses of £811.4 million for the six months ended 30 June 2013, compared to losses of £58.6 million for the six months ended 30 June 2012. These losses have arisen primarily from significant additional impairment charges, intangible asset impairment and customer redress (including PPI) provisions. The Bank has announced a regulatory capital shortfall of £1.5 billion which it plans to address through the implementation of the Recapitalisation Plan comprising the Liability Management Exercise and a contribution from Banking Group (supported by Co-operative Group). The Bank's impairment charge on loans and advances for the six

		months ended 30 June 2013 was £496.0 million, up from £91.9 million for the six months ended 30 June 2012. These credit impairments, made up of £165.5 million in the core business and £330.5 million in the non-core business, are the reason for the level of operating loss for the six months ended 30 June 2013. The increase in the overall credit impairment charge is due to various factors, including the Bank's strategy of targeting non-core assets for run down and exit, improvements in the Bank's credit risk management approach and impairments incurred in the ordinary course of business due to changes in customer circumstances. In addition, the losses incurred in the six months ended 30 June 2013 were also driven by a number of significant items including a £148.4 million write-down of IT assets, £163.0 million of additional customer redress provisions and £10 million of costs incurred in connection with the aborted bid for the Lloyds Banking Group branch network. Save as set out in "*Recent events impacting the Issuer's solvency*" below (other than the first paragraph) there has been no significant change in the financial or trading position of the Bank or its subsidiaries since 30 June 2013, the date to which the last historical audited consolidated financial information of the Bank was prepared. Save as set out in "*Recent events impacting the Issuer's solvency*" below (other than the first paragraph) there has been no material adverse change in the prospects of the Bank or its subsidiaries since 30 June 2013.
B.13	**Recent events impacting the Issuer's solvency**	The Accountant's Report to the Bank's audited Interim Financial Information for the six months ended 30 June 2013 of KPMG Audit Plc contains an "emphasis of matter" statement relating to going concern. In their opinion, the risks associated with the successful execution of the Recapitalisation Plan, the main cornerstone of which is the Liability Management Exercise, indicate the existence of a material uncertainty which may cause significant doubt on the Bank's ability to continue as a going concern. The Bank believes that the failure of the Liability Management Exercise will result in the Bank ceasing to be a going concern. ***Current trading*** Consistent with the Bank's unaudited interim results for the period ended 30 June 2013, which were announced on 29 August 2013, the short term outlook for the Bank continues to be challenging. Monthly revenue and cost trends since 30 June 2013 have remained consistent with those observed in the first half of the year. The average monthly level of impairment charges in July and August has fallen as compared to average monthly levels for the first half of the year. In the period from 30 June 2013 to 30 September 2013, £0.6 billion of Non-core Assets (consisting of Non-core Business loans) were deleveraged,

		through a combination of asset sales, run-off and managed repayments, net of new drawdowns and the Bank raised £1.5 billion of secured wholesale funding. As at 30 September 2013, the encumbrance ratio was 29.8 per cent. The Bank's capital position has not materially changed since 30 June 2013 and the Bank remains dependent on the successful completion of the Liability Management Exercise.
B.14	**Dependence upon other entities in Co-operative Group**	The Bank is dependent on Co-operative Group for the provision of certain administrative services (such as finance, marketing, human resources, some risk functions and, in particular, IT) although the extent of this reliance is expected to be reduced following completion of the Liability Management Exercise as services are likely to be repatriated to the Bank. These arrangements may need to be renegotiated as a result of the successful implementation of the Liability Management Exercise. In addition the Bank is dependent on the strength of the wider Co-operative brand and its reputation with customers and potential customers of the Bank.
B.15	**A description of the Issuer's principal activities**	The Bank's core business (which as at 30 June 2013 had total segment assets of £30,021.8 million) includes the core retail and corporate banking businesses, treasury and certain other businesses. The core retail banking business product offering consists of a range of current accounts and money transmission services, lending and savings products, to individuals, households and certain small businesses in the UK, while the core corporate banking business targets small- and medium-sized businesses. The Bank's strategy is to become a retail and commercial bank focused on retail and small- and medium-sized enterprises and franchise businesses in the UK, built around the Bank's existing brand and franchise strength. The Bank had total assets of £46,632.3 million as at 30 June 2013 (£49,694.8 million as at 31 December 2012). These assets include non-core business asset classes which are not consistent with the Bank's business strategy, are being targeted for run-down or exit, and include non-performing commercial and residential real estate exposures, including non-prime residential mortgages (both income verified and self-certified), buy-to-let and other non-conforming mortgages. The Bank has approximately 4.7 million customers, and operates through a network of branches, call centres, ATMs, the internet and digital channels.
B.16	**Controlling shareholders**	The Bank is currently a wholly-owned subsidiary of Banking Group. Co-operative Group is the ultimate holding entity of Banking Group and its subsidiaries.

		Successful completion of the Liability Management Exercise will involve the issue by the Bank of ordinary shares to a number of existing investors in the Bank, being the holders of the Bank's existing lower tier 2 securities. Upon successful completion of the Liability Management Exercise, Co-operative Group will continue to own (through Banking Group) 30 per cent. of the issued shares of the Bank with the remaining 70 per cent. of the issued shares of the Bank being held by holders of the Bank's existing lower tier 2 securities. The Bank does not anticipate that, following completion of the Liability Management Exercise, any of the holders of the Bank's Dated Notes shall acquire a controlling interest in the Bank simply by participating in the Liability Management Exercise.
B.17	**Solicited credit ratings**	The Bank is rated B (long-term) (Rating Watch Negative) and B (short-term) (Rating Watch Negative) by Fitch Ratings Ltd. (**Fitch**) and Caal (long-term) and NP (short-term) by Moody's Investors Service Limited (**Moody's**). The Notes will not be rated.

Section C – Securities		
Element	**Title**	
C.1	**Description of Notes**	11 per cent. Subordinated Notes due 2023 (the **Notes**). The International Securities Identification Number (**ISIN**) for the Notes is: GB00BFXW0853.
C.2	**Currency**	British pounds Sterling.
C.5	**Transferability**	Not Applicable. There are no restrictions on the free transferability of the Notes provided that no Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that Note.
C.8	**A description of rights attached to the Notes including ranking and limitations to those rights**	The Notes are issued upon terms and conditions (the **Conditions**) which set out the obligations of the Bank and the rights of the Noteholders. ***Status of the Notes*** The Notes will be unsecured and, in accordance with the paragraph below describing rights on a winding-up of the Bank, subordinated obligations of the Bank and will rank equally without any preference among themselves. ***Rights on a winding-up of the Bank***

		On a winding-up of the Bank, the Trustee (on behalf of the Noteholders) will have a claim for the principal amount of the Notes together with accrued and unpaid interest which will rank at least equally with all claims of holders of all other subordinated obligations of the Bank which constitute tier 2 capital of the Bank (or are expressed to rank equally with such instruments). That claim will, however, be subordinated to the claims of depositors and other unsubordinated creditors of the Bank. Accordingly, the Noteholders will only recover any amounts under their claims if there are assets remaining once senior-ranking creditors have been paid in full. If the Bank's assets are sufficient to repay senior creditors in full, but are insufficient to repay fully the Noteholders and other creditors whose claims rank alongside the Noteholders' claims, then the Noteholders will lose some of their investment in the Notes. ***Rights of enforcement upon default*** The Notes will contain the following events of default: (a) non-payment of principal when due in respect of any of the Notes for a period of seven days; (b) non-payment of interest when due in respect of any of the Notes for a period of fifteen days; or (c) the winding-up of the Bank. In the event of a payment default, Law Debenture Trustees Limited as trustee for the Noteholders (the **Trustee**) may elect to institute proceedings for the winding-up of the Bank. The Trustee may also prove in a winding-up of the Bank on behalf of the Noteholders. If directed in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding or by an Extraordinary Resolution of the Noteholders, the Trustee shall be obliged to institute such proceedings and/or prove in a winding-up, provided it is indemnified and/or secured and/or pre-funded to its satisfaction (which means it receives assurance that it will receive the funds or be entitled or able to receive the funds to cover any costs that the Trustee incurs). Noteholders will be unable to take the above enforcement action directly unless the Trustee has become bound to act and fails to do so. Further, no other remedy (including any right of set-off in respect of any amounts owed to the Bank by a Noteholder) is available to the Trustee or the Noteholders. Accordingly, the Noteholders' rights of enforcement available are limited to the above. ***Taxation***

		All payments in respect of Notes will be made without withholding or deduction for or on account of taxes imposed by the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In the event that any such deduction is made, the Bank will, save in certain limited circumstances, be required to pay additional amounts to cover the amounts so deducted. ***Meetings of Noteholders*** The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions will permit defined majorities of the holders present and voting at the relevant meeting to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The powers afforded to majorities to bind minorities are significant, and could result in material changes to the terms of the Notes, including potentially reducing the amounts of interest and/or principal payable by the Bank, changing the maturity of the Notes, including extending the time to maturity of the Notes, the timing of payments of interest and/or principal in respect of the Notes, mandatory substitution of the Notes with other securities and, in the extreme, the complete abrogation (i.e. annulment) of all rights of the holders under the Notes. ***Governing law*** English law.
C.9	**Interest, redemption, yield and representative**	***Interest*** Interest will accrue from (and including) the date of issue of the Notes at a fixed rate of 11 per cent. per year and will be payable quarterly in arrear every three-month anniversary of the issue date up to and including the date of redemption of the Notes. ***Redemption*** Unless redeemed or purchased and cancelled earlier, the Bank will be required to repay the Notes on the tenth anniversary of the issue date at their principal amount. The Bank will also have the option (subject to PRA approval) to repay the Notes before their final maturity date if there is a change in law or regulation which results in certain adverse tax consequences for the Bank or in the Notes ceasing to be eligible to qualify as regulatory capital of the Bank at an amount equal to 101 per cent. of their principal amount.

		Indication of yield The Notes will be issued at 100 per cent. of their principal amount and will pay a fixed rate of interest of 11 per cent. per year to maturity. Accordingly, the yield to an investor who initially subscribes the Notes and holds them to maturity will be 11 per cent. per annum. The yield above is stated as at the issue date on the basis of the issue price and is not an indication of future yield. ***Representative of the Noteholders*** Law Debenture Trustees Limited will be trustee (the **Trustee**) for the Noteholders. As well as taking enforcement action on behalf of the Noteholders as described above, the Trustee may (without the consent of the Noteholders) agree to certain formal, technical or minor modifications to the Notes, to any modification to correct a manifest error or which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders and to waivers of breaches or proposed breaches under the Notes which it considers not to be materially prejudicial to the interests of the Noteholders.
C.10	**Derivative component in the interest payment**	Not Applicable. The Notes will not have a derivative component in the interest provisions.
C.11	**Listing/admission to trading**	Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the London Stock Exchange's regulated market upon issue.

Section D – Risks		
Element	**Title**	
D.2	**Key risks specific to the Issuer**	***Risks relating to the Liability Management Exercise*** • Following a review of the capital position of the Bank and discussions with the PRA, it was determined and announced on 17 June 2013 that the Bank requires additional aggregate common equity tier 1 capital of £1.5 billion. Co-operative Group and the Bank have developed the Recapitalisation Plan which is intended to address this capital shortfall. The Recapitalisation Plan includes, amongst other things, the implementation of the Liability Management Exercise. At least £1 billion of this capital requirement is intended to be contributed pursuant to the Liability Management Exercise in 2013. Conditional on completion of the Liability Management Exercise, £333 million of the capital requirement is intended to be contributed by Banking Group

		during 2014 of which £170 million is to be contributed by 30 June 2014 (with £70 million of this contribution to be paid before 31 January 2014) and the remaining £163 million by 31 December 2014. The remainder of the common equity tier 1 capital is intended to be generated pursuant to an offer to subscribe for between a minimum election of 26,667 (for an aggregate subscription price of £100,001.25) and a maximum election of 33,333,334 Additional New Ordinary Shares for an aggregate consideration of £125,000,002.50 to Holders of the Dated Notes in accordance with the Scheme (as defined below) and the capital created through interest savings on the Existing Securities exchanged pursuant to in the Liability Management Exercise. Given that the success of the Liability Management Exercise is dependent on the participation of holders of Existing Securities, there is a risk that holders of the Existing Securities will fail to participate in the Liability Management Exercise in sufficient numbers such that the Liability Management Exercise fails. The Liability Management Exercise will only successfully complete if the entire principal amount of all Existing Securities is exchanged or sold pursuant to the Liability Management Exercise. In addition, there is the risk that, notwithstanding the fact that the PRA reconfirmed its assessment on 29 August 2013 and on 21 October 2013 that the Bank needed to generate an additional £1.5 billion in common equity tier 1 capital, the PRA concludes that the aggregate £1.5 billion of common equity tier 1 capital to be contributed pursuant to the Recapitalisation Plan is inadequate, which may result in either the Bank deciding not to proceed with the Liability Management Exercise or holders of the existing securities electing not to participate in the Liability Management Exercise. Whilst in the event that the Liability Management Exercise is not successfully implemented, with the result that the Bank would fail to raise sufficient common equity tier 1 capital by 31 December 2013, the Bank would take immediate action to try to address the Bank's capital shortfall, the Bank believes that, in such circumstances, the failure of the Liability Management Exercise would result in the Bank becoming subject to a resolution procedure under the Banking Act 2009 (**Banking Act**). In the event that the authorities exercise their powers under the Banking Act or there is market speculation regarding the occurrence of any such event, it is highly probable that the Bank would be materially adversely affected, and the market price of existing securities (if they remain outstanding in such circumstances) would be materially adversely affected. The Bank considers that there are fundamental uncertainties as to whether the Bank could be successfully resolved such that the Bank remains a going concern without the active participation of Co-operative Group and a substantial amount of additional capital. The Bank believes that if the Bank were to be resolved and go into an insolvency proceeding as a result of that resolution,

		Holders of existing securities would receive no recovery in respect of their existing securities. As a result, the Bank believes that the outcome of a successful Liability Management Exercise is a substantially more favourable outcome to Holders of any class of existing securities than a resolution of the Bank. • The Bank is exposed to the risk that litigation seeking to challenge the implementation of the Liability Management Exercise could materially impact or prevent the success of the Liability Management Exercise or result in all or part of the Liability Management Exercise being declared unlawful or invalid retrospectively. The success of any such arguments or claims or delay to the implementation of the Liability Management Exercise arising out of any such arguments or claims could result in the failure of the Liability Management Exercise or, if such claims were successful following the implementation of the Liability Management Exercise, could result in the Bank no longer meeting the PRA's requirement that the Bank raise an additional £1.5 billion common equity tier 1 capital. • As a result of the Bank's capital position and its dependency on the success of the Liability Management Exercise, along with other matters and uncertainties, the audit report in respect of the Bank's Interim Financial Information contains an "emphasis of matter" statement to the effect that there is material uncertainty which casts significant doubt on the ability of the Bank to continue as a going concern. Therefore the Bank believes that the failure of the Liability Management Exercise will result in the Bank ceasing to be a going concern. ***Risks relating to the Bank and its business*** 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. Weakness or deterioration in general economic conditions or political instability in the UK or other economies could have a material adverse effect on the Bank's operations, financial condition and prospects. • ***Risks associated with implementation of the Bank's strategy:*** The difficult situation currently faced by the Bank is unprecedented for the Bank. To improve its financial and operational performance and capital position the Bank has recently adopted a new four to five year business plan. The Bank's newly adopted strategy was developed in a relatively short time-frame, has yet to be implemented and its performance and effectiveness is not yet proven. It is possible that the Bank's

strategy may not sufficiently address the Bank's problems or deliver the expected benefits. In addition, the successful implementation of the Bank's strategy requires the simultaneous execution of a number of complex and overlapping changes in a manner that seeks not to negatively impact on the Bank's brand, reputation and customer satisfaction or its relationship with, and ability to retain, its employees. The Bank also does not have a track record of successfully implementing large-scale changes. In addition, notwithstanding the recent strengthening of the board and senior management team, including the appointment of Richard Pym as Chairman of the board and Niall Booker as Chief Executive Officer (amongst others), a number of further appointments are still required. Following completion of the Liability Management Exercise, the Bank intends to appoint a finance director to the Bank's board and to appoint a new Chief Operating Officer with business transformation experience. Grahame McGirr is currently both head of Co-operative Asset Management and Chief Risk Officer; following completion of the Liability Management Exercise the expectation is that a new Chief Risk Officer will be appointed allowing Grahame McGirr to focus solely on Co-operative Asset Management. In addition, Rodney Bulmer, the current Deputy Chief Executive Officer of the Bank and the Executive Director responsible for the Bank's core business has given notice to terminate his contract and is expected to leave the Bank in March 2014. A replacement will need to be found for Rodney Bulmer. The failure to recruit, or a delay in recruiting, suitable members of the senior management team or the loss of one or more members of senior management without finding suitable replacements may delay or impact on the ability of the Bank to successfully implement its strategy, notwithstanding the appointment of additional non-executive directors following completion of the Liability Management Exercise. The Bank is also reliant on the commitment and ability of persons employed by or seconded to the Bank to deliver the strategy and effectively and appropriately implement and support the numerous changes required by the strategy at the same time that significant changes, cost reductions and redundancies are being implemented. As a result, there can be no assurance that the Bank will, over the longer term, be able to successfully implement all or parts of its strategy or implement it when expected or targeted.

- In addition, the implementation of the Bank's strategy has a number of specific risks:

  - The Bank's strategy includes leveraging the Bank's strong and differentiated brand and leading levels of customer satisfaction. The implementation of significant cost reductions, branch closures, redundancies and the reorientation of the

		Bank's distribution network may have a negative impact on the Bank's brand and levels of customer satisfaction which may, in turn, result in customer attrition. The Bank may also be unsuccessful in achieving the required shift in customer behaviour towards self-service and digital banking such that the Bank will fail to meet its cost saving objectives. Actions taken by the Bank in the implementation of its strategy may inadvertently be, or may be perceived, to be contrary to the principles of the co-operative movement which could negatively impact on the Bank's brand and its relationship with Co-operative Group. • The Bank's strategy also includes improving revenue in its core business in the medium-term through improved pricing of its products, appropriate re-pricing of existing products towards market rates, growing primary account customers in the Bank's key market segments, cross-selling products and growing the volume of higher margin unsecured lending. The Bank's ability to improve revenue in its core business is dependent upon a number of factors, including prevailing macroeconomic conditions (including the level of interest rates), the Bank's relative position versus its competitors and the ability of persons working for the Bank to appropriately cross sell products. • There is also a risk that the recent credit rating downgrades, the Bank's capital shortfall and/or the Bank's disappointing financial results for the six months ended 30 June 2013, continuing press reporting and public scrutiny of the same and of the Recapitalisation Plan and/or actions by the holders of the Bank's Existing Securities may, individually or cumulatively, over the longer term have a negative impact on the Bank's brand and reputation. • The Bank's high cost-to-income ratio continues to impact on its profitability and its capital position, and reducing its cost base remains a priority for the Bank. This cost reduction will be delivered through a number of management actions and there is no guarantee that these actions will achieve the intended cost benefits and will be successful or that they will otherwise be delivered on time or when expected. In addition, the reorientation of the Bank's distribution model and its cost reduction programme may negatively impact the Bank's customer service, which may result in customer attrition. • The Bank needs and intends to significantly improve and re-engineer its existing IT platform. This re-engineering of its IT platform is significant, both in terms of scale and cost, and involves a number of risks.

		• The inability of the Bank to deleverage its non-core assets in a controlled and capital efficient manner may have a negative impact on the Bank's operating results and financial position (in particular, its net interest margin) and its regulatory capital position. In addition, any greater than expected costs or delays in deleveraging the non-core assets may divert funding from and adversely impact the longer term development and growth of the core business. • A failure or delay in implementing the Bank's strategy or a failure by the Bank to achieve its targets may adversely affect the Bank's business, results of operation, financial position and/or prospects and, in the longer term, its ability to comply with its regulatory capital requirements. • ***Risks associated with implementation of the Bank's non-core business strategy:*** A failure by the Bank to deleverage its non-core assets in a controlled manner in accordance with its strategy may (for example, through greater than currently expected losses from the run-off or sale of non-core assets) negatively impact on the Bank's operating results and financial position (in particular, its net interest margin) and, in the longer term, its ability to comply with its regulatory capital requirements. The failure of the non-core business to deleverage its assets in a controlled manner may also hinder or restrict the longer term development and growth of the core business' business, and divert management attention from the core business. For example, it may restrict the ability of the core business to grow its existing loan portfolios or to expand its growth of other products, such as unsecured lending. In addition, notwithstanding the significant impairments already made to the non-core assets, the non-core business also has significant additional impairment risk given the underlying assets, which includes Optimum, a book of predominantly interest-only intermediary and acquired mortgage book assets (as at 30 June 2013, £7.3 billion). Worsening economic and market conditions and/or increasing interest rates and/or a fall in house prices could result in the non-core assets suffering from more than expected impairments which would adversely impact on the Bank's operating results and financial position (in particular, its net interest margin) and, in the longer term, its ability to comply with its regulatory capital requirements. The non-core business' corporate asset book is also relatively concentrated, with the result that a small number of borrowers account for a large proportion of the total loans outstanding. A significant impairment of any of these borrowers would result in a disproportionate impact on the Bank's operating results and financial position.

		• ***Risks associated with the 2014 Commitment:*** The commitment of Banking Group to contribute £333 million of common equity tier 1 capital during 2014 (the **2014 Commitment**), in addition to being conditional upon the successful completion of the Liability Management Exercise, is subject to the ability of Banking Group to fund the commitment (supported by Co-operative Group), which is dependent on certain actions which are partially outside the control of Banking Group. In the event that Banking Group is unable to meet its obligations under the 2014 Commitment and is also unable to draw down on its support from Co-operative Group, Banking Group will be in breach of its obligations under the 2014 Commitment with the consequence that the Bank may have insufficient common equity tier 1 capital by 2014 to meet the PRA's requirements. • ***Risks associated with the Bank's requirement to maintain adequate regulatory capital, and with future changes to its regulatory capital requirements:*** The Bank is required to maintain adequate regulatory capital and capital ratios at all times. The Bank may require further capital and liquidity to meet new international capital and liquidity requirements (such reforms being commonly referred to as Basel III) as implemented in the EU through the introduction of the Prudential Requirements Regulation (the **PRR**) and a further iteration of the Capital Requirements Directive (the **PRD** and together with the PRR, **CRD IV**) beyond the level that the Bank has currently forecast and taken account of as part of the development of the Recapitalisation Plan and/or the implementation of (i) ring-fencing in the UK as currently proposed in the Financial Services (Banking Reform) Bill (the **Banking Reform Bill**) and (ii) the minimum requirement for eligible liabilities under the provisions of the European Commission's legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the **RRD**) could also potentially impact the capital position of the Bank and require additional regulatory capital to be raised by the Bank. The actual impact of CRD IV on the Bank's capital requirements is also dependent on the European Banking Authority's technical standards, a large number of which are yet to be finalised. Based on its current understanding of how CRD IV will be implemented in the UK, the Bank believes it will, following the completion of the Recapitalisation Plan, be in compliance with the requirements of CRD IV upon their implementation. However, the risk that the final content of these technical standards may differ materially from current expectations cannot be excluded. There is also a risk of the introduction by the PRA of higher regulatory capital requirements on major UK banks. These risks that the final content of these

		technical standards may differ from the Bank's current expectations and/or that the PRA introduces higher regulatory capital requirements on the Bank than currently anticipated are not currently quantifiable and so have not been accounted for by the Bank. As a result, the Bank may become subject to regulatory capital requirements not currently anticipated or provided for. In addition, the regulatory position of the Bank may, in the future, be adversely affected by a currently unanticipated adverse economic and market environment and/or increasing interest rates in the UK or elsewhere, which may: (i) result in a deterioration in the quality of the Bank's assets; (ii) adversely impact the Bank's access to funding and capital, and (iii) negatively impact on unemployment, house prices and other factors, each of which may lead to lower than anticipated profits and higher than anticipated impairments. • The Bank is not compliant with its Individual Capital Guidance (**ICG**), although the Bank does meet its Pillar 1 requirements. The Bank has discussed, and agreed, with the PRA the Bank's recently adopted four to five year business plan which contemplates that the Bank will meet its ICG by the end of the plan period. The Bank's business plan envisages that the Bank will raise approximately £400 million by way of additional tier 2 capital during the business plan period. • Effective management of the Bank's capital is critical to its ability to operate and grow its business and to pursue its strategy. Any change that limits the Bank's ability to manage effectively its balance sheet and capital resources could have a material adverse impact on its business, financial condition, results of operations, liquidity and/or prospects. In the event that the impact of any of the new Basel III regulatory capital and liquidity requirements is greater than is currently anticipated by management, and if the Bank, as a consequence, were to suffer a shortage of regulatory capital, the Bank would expect to enter into discussions with the PRA and consider what actions to take in light of such circumstances, taking into account the regulatory capital position and requirements of the Bank at that time. Any such discussions with the PRA could take some time before agreement is reached. Any such actions, or any delay in implementing such actions or in agreeing them with the PRA, may have a material adverse effect on the Bank and its business. Possible actions might include accelerating the non-core business's asset disposal plan. Failure by the Bank to maintain adequate regulatory capital could lead to an inability of the Bank to support its business operations and implement its strategy, meet regulatory requirements, implement its investment plans, raise (in the medium term) further capital, make distributions, and could result in further changes to its credit ratings. Such consequences could, in turn, have a material adverse effect on the Bank's business, operating results, financial

		condition and prospects. A regulatory capital shortfall may result in the Bank being subject to a resolution procedure under the Banking Act. • ***Liquidity risk:*** The Bank's business is subject to inherent risks concerning liquidity, particularly if the availability of traditional sources of funding such as retail and corporate deposits and, to a lesser extent, unsecured wholesale funding (these being the principal sources of the Bank's funding) become limited and/or more expensive. This may result in an inability to operate in the ordinary course, and/or a failure to meet liquidity requirements, and/or may adversely impact the Bank's business and/or the implementation of its strategy. Given that the Bank's main source of funds is deposits, the Bank faces the risk of not being able to replace funds when they are withdrawn or, should a significant number of depositors seek to withdraw their funds, of not being able to meet its obligations to fund such withdrawals, repay lenders in accordance with its financing arrangements or fulfil commitments to lend. However, notwithstanding the steps that the Bank has taken to maintain its levels of total liquidity, given the reliance by the Bank on its customer deposits to provide funding for the Bank, any severe decline in customer confidence in the Bank could increase the amount of deposit withdrawals in a short space of time or over a sustained period. Given the relative size of the Bank's deposit base as compared with its other sources of funding, the Bank is particularly exposed to any serious loss of confidence by its depositors. Should the Bank experience an unusually high level of withdrawals which exceed the Bank's ability to manage through the application of its liquidity controls and contingency planning, this may have an adverse effect on the Bank's day-to-day operations, maintain the Bank's planned lending which may have an adverse effect on the Bank's business, results and financial position 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. In such circumstances, the Bank may be subject to a resolution procedure under the Banking Act. The credit rating downgrade experienced by the Bank has: (i) led to sub-investment grade ratings on the Bank's senior debt leading to a significant reduction in the demand for these types of instrument; (ii) negatively impacted the Bank's ability to access short-term unsecured wholesale funding; and (iii) increased the Bank's collateral requirements used in the clearing systems. In addition, the total amount of the Bank's corporate deposits also fell by approximately £1.4 billion in the first half of 2013, probably caused by the credit rating downgrade. To a lesser extent, the Bank's regulatory capital shortfall, its disappointing

		results for the six months ended 30 June 2013, and the continued press attention and speculation to which the Bank is subject have also affected the Bank's funding profile and the cost to the Bank of raising new funding. This continued impact on access to funding and increased cost of funding may, over the longer term, have adverse effects on the Bank's business, financial performance or future prospects and/or adversely affect the Bank's ability to achieve its strategic objectives. • In addition, whilst the Bank's retail deposit base has remained broadly stable (in appropriate circumstances, the Bank has managed its retail offering to mitigate against the risk of depositors withdrawing funds), a failure by the Bank to achieve its strategy, a deterioration in the Bank's operating results or financial position, or the continued press attention and speculation to which the Bank is subject may in extreme circumstances result in a severe decline in customer confidence which could result in the withdrawal of retail funds. Recent events may have caused some brand and reputational damage, but it is too early to form a definitive view as to the extent of such damage. These recent events, together with the competitive landscape in which the Bank operates, the introduction of seven day account switching and the associated increased competitor marketing activity at a time when the Bank has been constrained in its ability to undertake its own marketing activity, may be a contributing factor to an increase the Bank has seen in the switching out of current accounts. • ***Credit risk:*** 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. These risks have been enhanced by the period of significant turbulence and uncertainty affecting the global economy and the global financial system, and the Eurozone in particular (including the risk of a break-up of the single European currency). The Bank continues to be exposed to these risks and their consequences, including lower consumer confidence, high levels of unemployment, interest rate volatility and increased cost of credit, which may result in significantly lower revenues and/or greater than expected losses which could have a material adverse effect on the Bank's operations, financial condition and prospects. • ***Changes in laws and regulations and regulatory risk:*** The Bank is subject to wide-ranging legal and regulatory (including liquidity and capital) requirements and supervision. There is a risk that changes to the legal and regulatory environment may result in additional compliance costs (including the raising of further capital and/or liquidity) and diversion of management time and resources, which may adversely affect the Bank's business,

		strategy and prospects. In addition, failure to comply with such requirements may result in investigations, disciplinary action, fines, reputational damage and the revocation of the Bank's licences, permissions or authorisations which could have a material adverse effect on the Bank's operations, financial condition and prospects. Known future changes in legislation include the new capital regime commonly known as Basel III which will be implemented in the UK pursuant to CRD IV (as described above) and which will be effective from 1 January 2014. • ***Risk of litigation against the Bank:*** The Bank faces the risk that the past, current or future actions of the Bank (including in respect of the implementation of the Recapitalisation Plan, and the Liability Management Exercise of which it is a part) may result in litigation. The Bank is currently co-operating with enquiries received from the Conduct Committee of the Financial Reporting Council relating to the Bank's disclosures in its 2012 annual report and the accounts of the Bank's regulatory capital position, amongst other matters, and the FCA with respect to the Bank's compliance with the FCA's Disclosure and Transparency Rules. In addition, on 12 July 2013, Co-operative Group and the Bank announced the launch of an independent review, to be chaired by Sir Christopher Kelly, into the events that led to the recent announcement of the Recapitalisation Plan to address the Bank's £1.5 billion capital shortfall, the decision to merge the Bank with Britannia in 2009 and the proposed acquisition of the Lloyds TSB branches (the **Kelly Review**). The Kelly Review will include an analysis of strategic decision-making, management structures, culture, governance and accounting practices and aspects of the role of the Bank's auditors. The intention is to present the findings of the Kelly Review to Co-operative Group's members at its annual general meeting in May 2014. The Bank may face additional investigations or proceedings arising out of the Kelly Review. On 22 November 2013 the Chancellor of the Exchequer ordered an independent investigation into events at the Bank and the circumstances surrounding them. Separately, the FCA and the PRA each announced on 22 November 2013 that they are considering whether they should also launch their own formal enforcement investigations. Any of these risks, should they materialise, could have an adverse impact on the Bank's operations, financial results, condition and prospects, and the confidence of the Bank's customers in the Bank, as well as taking a significant amount of management time and resources away from the implementation of the Bank's strategy. • ***Conduct risk:*** The Bank is exposed to risks relating to the mis-selling of financial products, acting in breach of legal or regulatory principles or requirements and giving negligent advice.

		Any failure to manage these risks adequately could lead to significant liabilities and/or reputational damage. In addition, the Bank faces both financial and reputational risk where legal or regulatory proceedings are brought against it or members of its industry generally, or where complaints are made against it or members of the industry generally to the Financial Ombudsman Service or another relevant body. Sustained conduct reputational damage could affect the Bank's operations, financial condition and prospects. • ***Pensions:*** The main Co-operative Group pension scheme is The Co-operative Pension Scheme (Pace) (**Pace**), in which the Bank participates. At present there is an actuarial deficit in Pace: the most recent actuarial report indicated that there was a funding deficit of £715 million as at 5 April 2013. Contributions towards the deficit are agreed between the Co-operative Group and the scheme trustee following the advice of the independent scheme actuary. However, Co-operative Group has undertaken to agree with the Bank its proportion of the employer contributions in Pace (if not agreed, the matter will be referred to an independent third party). CFSMS is the employer in relation to the Britannia Scheme and charges the Bank for any payments due to the scheme in respect of members employed by CFSMS and working for the Bank. In addition, the Bank has provided guarantees in respect of the Britannia Scheme under which the Bank may become liable to contribute towards that scheme. However, Co-operative Group has undertaken to procure that if CFSMS is not controlled by the Bank, CFSMS will not take or omit to take any action without the Bank's prior agreement if the result would be to increase the Bank's liabilities or contributions in respect of the Britannia Scheme. The most recent actuarial report indicated that the funding deficit in the Britannia Scheme as at 5 April 2013 was £61 million. There are risks associated with the pension schemes due to the value of the asset portfolios and returns from them being less than expected and because there may be greater than expected increases in the estimated value of the schemes' liabilities. In addition, Pace is a non-segregated, hybrid pension scheme in which several Co-operative Group companies participate, including the Bank. On an on-going basis, each employer is responsible for funding a proportion of the Pace liabilities. In addition, an exit debt is payable where an employer exits Pace and this liability is a material risk for the Bank if it exits Pace following the LME. However Co-operative Group has undertaken not to exercise its powers without the Bank's prior written approval except (i) where the Bank is in breach of the rules of Pace, (ii) where required by law or (iii) where all other employers cease participation at the same time so that a liability of this type does not arise. There are other circumstances in which funding from an employer may be required for liabilities relating

		to members' service with another employer. In particular, where other employers in Co-operative Group have ceased to participate in the pension scheme without satisfying their liabilities (for example due to insolvency) the Bank's share of the deficit could include liabilities relating to those other employers, up to the level of the entire buy-out deficit in the scheme. These additional liabilities could have an adverse impact on the Bank's operations, financial condition and prospects. • ***Information technology:*** The Bank needs and intends to progressively re-engineer its existing IT platform. This re-engineering of its IT platform is significant, both in terms of scale and cost, and involves a number of risks. Any failure in systems as a result of not mitigating the IT risks, or in the period prior to such remediation being completed, could adversely affect the Bank's ability to conduct its business and lead to regulatory focus on the Bank, which may impact on the Bank's operations, financial condition and prospects. The Bank is also, and will continue to be, dependent on the use of third-party IT, software, data and service providers, including Co-operative Group. A failure on the part of either Co-operative Group or a third party to provide the agreed services could have an adverse impact on the Bank's operations, financial condition and prospects.
D.3	**Key risks regarding the Notes**	• ***The Notes are not protected by the Financial Services Compensation Scheme (FSCS):*** Unlike a bank deposit, the Notes will not be protected by the FSCS. As a result, if the Bank does go out of business or becomes insolvent, or if the United Kingdom authorities take action under the Banking Act (or similar future legislation) to preserve or restore the viability of the Bank, the FSCS will not pay compensation to an investor. Accordingly, in such circumstances, an investor in the Notes may lose some, or the entire amount, of its investment in the Notes. • ***The Notes are subordinated obligations of the Bank:*** The Notes will constitute unsecured and subordinated obligations of the Bank. On a winding-up or dissolution of the Bank, claims in respect of the Notes would rank behind the claims of all depositors and other unsubordinated creditors of the Bank. In a winding-up, the assets of the Bank would be applied first in satisfying all senior ranking claims in full, and payments would be made to holders of the Notes, proportionately with payments made to holders of any other equally ranking instruments (if any), only if and to the extent that there were any assets remaining after satisfaction in full of all such senior ranking claims. • ***The Notes may become subject to provisions enabling the UK authorities to convert the Notes to equity or write-down or write-off the principal amount of the Notes, and/or the UK authorities***

		may exercise existing powers under the Banking Act: There are current proposals both in the European Union (through the RRD) and in the United Kingdom (such proposals were announced by HM Treasury on 1 October 2013) which, if implemented in the United Kingdom, will enable the UK authorities to convert an instrument issued by the bank from one form or class to another (for example, a debt instrument into equity), to write down or write off instruments such as the Notes in certain circumstances relating to preserving or restoring the stability of the financial systems in the UK, the protection and enhancement of public confidence in the stability of the banking systems of the UK and/or the protection of depositors. If implemented in the United Kingdom, the use of any such powers could result in Noteholders losing some, or potentially all, of their investment in the Notes, even if the Bank does not become insolvent. In addition, the UK authorities already have considerable powers under the Banking Act to resolve a bank which is failing (or likely to fail) the threshold conditions for its authorisation to conduct banking business. These powers include, but are not limited to, the power to modify or annul the effect of an instrument or to convert securities from one form or class to another through the making of a share transfer instrument or order in respect of a bank. If the United Kingdom authorities take action under the Banking Act, Noteholders may also lose some or potentially all of their investment in the Notes. • ***Rights of enforcement in respect of the Notes are limited:*** The only events of default under the terms of the Notes are failure to pay interest or principal when due and the winding-up of the Bank. Further, the Noteholders will have limited rights to enforce default, and will only have direct rights of enforcement in the event that the Trustee representing the Noteholders fails to act having become bound to do so. • ***The conditions of the Notes contain provisions which may permit their modification without the consent of all investors:*** The terms of the Notes provide for the calling of meetings of Noteholders at which, subject to certain requirements regarding the conduct of the meeting, a specified majority of the holders present and voting may approve amendments to the terms of the Notes in a manner which will bind all holders (whether or not present at the meeting and/or voting in favour) and such amendments could have a material adverse effect on the Notes and/or the rights of Noteholders under the Notes. • ***There can be no assurance that a secondary market in the Notes will develop:*** The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. The market price of Notes can

		go down as well as up, and Noteholders may be unable to sell their Notes, or may only be able to sell them at a loss.

Section E - Offer		
Element	**Title**	
E.2b	**Reasons for the Offer and use of proceeds when different from making profit and/or hedging certain risks**	The offer of the Notes forms part of the Liability Management Exercise, which is being conducted in order to raise at least £1 billion of common equity tier 1 capital for the Bank as part of its wider Recapitalisation Plan to generate £1.5 billion of common equity tier 1 capital. The Recapitalisation Plan is being implemented to ensure that the Bank has sufficient common equity tier 1 capital to meet its regulatory obligations, to minimise the risk of being resolved under the Banking Act and to ensure it can continue as a going concern. Common equity tier 1 capital is a form of capital which banks and other financial institutions are required to maintain to help absorb losses. As a direct result of the recent global financial crisis, the PRA, in line with banking regulators around the world, is requiring UK banks to bolster their capital resources so that the banks, and the UK banking system generally, is better able to withstand future losses and financial shocks. As the Notes are being offered in connection with an exchange for the Dated Notes of the Bank and 5.5555% Bonds of the Bank, the issue of the Notes will not generate cash proceeds. However, the Notes are being offered in exchange for the Dated Notes of the Bank and the 5.5555% Bonds of the Bank at a discount to the Bank's book value for those securities, which will generate common equity tier 1 capital to the extent that the liability is reduced to less than such book value.
E.3	**Terms and conditions of the offer**	The offer of the Notes (also referred to in this section as the **Bank T2 Notes**) is part of the Liability Management Exercise. The Notes will be issued at the issue price (which is 100% of the principal amount of the Notes) only upon successful completion of the Liability Management Exercise, and no Notes will be issued if the Liability Management Exercise does not successfully complete. If the Liability Management Exercise is successful and settles on 20 December 2013, the maximum principal amount of Notes which may be issued is expected to be £206,000,000. The final principal amount of Notes to be issued (if any) will be announced by the Bank via the Regulatory News Service (**RNS**) operated by the London Stock Exchange, which announcement is currently expected to be made on or around 16 December 2013 or, in the event that any meeting pursuant to the Proposals (as defined below)

		is adjourned, is currently expected to be made on or around 30 December 2013. ***Introduction*** The Liability Management Exercise is being conducted in respect of the Preference Shares, the 13% Bonds, the 5.5555% Bonds and the Dated Notes (each as defined below) (together, the **Existing Securities**). Holders who are eligible to participate in the Exchange Offers for the Preference Shares, 13% Bonds and 5.5555% Bonds in accordance with applicable securities laws are referred to below as **Eligible Holders**. The Liability Management Exercise consists of the Exchange Offers, the Proposals and the Scheme described below. The **Exchange Offers** consist of: • an invitation to Eligible Holders of the Bank's outstanding 9.25 per cent. Non-Cumulative Irredeemable Preference Shares (ISIN: GB0002224516) (the **Preference Shares**) and 13 per cent. Perpetual Subordinated Bonds (ISIN: GB00B3VH4201) (the **13% Bonds**) to either: (a) offer to exchange their Preference Shares and 13% Bonds for new 11 per cent. Final Repayment Subordinated Notes due 2025 (the **Final Repayment Notes**) to be issued by Co-operative Group and guaranteed (on a subordinated basis) by certain subsidiaries of Co-operative Group; or (b) offer to sell their Preference Shares and 13% Bonds to Co-operative Group for cash consideration payable in twelve equal instalments over twelve years and represented by new Instalment Repayment Subordinated Notes (the **Instalment Repayment Notes** and, together with the Final Repayment Notes, the **Group Notes**) to be issued by Co-operative Group and guaranteed (on a subordinated basis) by certain subsidiaries of Co-operative Group; and • an invitation to Eligible Holders of the Bank's outstanding 5.5555 per cent. Perpetual Subordinated Bonds (ISIN: GB00B3VMBW45) (the **5.5555% Bonds**) to offer to exchange their 5.5555% Bonds for Bank T2 Notes. The **Proposals** consist of the convening of meetings of the holders of the Preference Shares, 13% Bonds and 5.5555% Bonds to vote on resolutions which, if passed, will, amongst other things (i) enable the Bank to mandatorily effect the exchange (or transfer to Co-operative Group), of any remaining Preference Shares, 13% Bonds and 5.5555% Bonds (as applicable) on the same economic terms as the terms of the

		relevant Exchange Offer(s) and (ii) result in holders agreeing to certain waivers and releases in favour of the Bank, Co-operative Group, their respective directors and certain other persons. In addition, the holders of the Preference Shares will be asked to vote on a resolution which, if passed, will enable the Bank to purchase and cancel any share capital of the Bank (which would include Preference Shares) from time-to-time without any further consent of such holders being needed. It is a term of the Exchange Offers that any holder who offers to exchange (or sell to Co-operative Group) its Preference Shares, 13% Bonds or 5.5555% Bonds in the Exchange Offers will also vote in favour of the resolutions proposed at the relevant meeting. If such resolutions are passed and implemented by the Bank they will bind all holders of the relevant Existing Securities, including those who did not vote in favour of the Proposals. The **Scheme** is a scheme of arrangement under Part 26 of the Companies Act 2006. Pursuant to the Scheme, the holders of seven series of lower tier 2 subordinated bonds of the Bank (the **Dated Notes**) will vote on proposals which, if approved by the requisite statutory majorities and sanctioned by the court and if the Settlement Condition is satisfied, will result in all of the Dated Notes (and accrued but unpaid interest on the Dated Notes up to a specified record date) being exchanged for a combination of £100 million of Bank T2 Notes and 141,666,666 new ordinary shares in the Bank representing 56.67 per cent. of the total issued share capital of the Bank following completion of the Liability Management Exercise (**New Ordinary Shares**). The holders of the Dated Notes will also be entitled to elect to subscribe for 33,333,334 additional new ordinary shares in the Bank at a price of £3.75 per additional new ordinary share representing 13.33 per cent. of the total issued share capital of the Bank following completion of the Liability Management Exercise (**Additional New Ordinary Shares**), for an aggregate consideration of £125,000,002.50, pursuant to, and on the terms of, the Scheme and, to the extent any such Additional New Ordinary Shares are not subscribed, certain holders of Dated Notes have agreed to purchase them. Holders of Dated Notes are entitled to elect to subscribe for between a minimum election of 26,667 (for an aggregate subscription price of £100,001.25) and a maximum election of 33,333,334 Additional New Ordinary Shares. ***Conditionality of the Liability Management Exercise*** The Liability Management Exercise will only be successfully completed if the entire principal amount of all Existing Securities is exchanged or sold pursuant to the Liability Management Exercise. The last date on which the Liability Management Exercise may successfully complete is 31 December 2013. In order for the entire principal amount of all Existing Securities to be exchanged or sold pursuant to the Liability Management Exercise (i)

		each of the Proposals in respect of the Preference Shares, 13% Bonds and 5.5555% Bonds must be approved by the Holders thereof at meetings convened for the purposes of voting on such Proposals (and, in the case of the Preference Shares, a resolution in similar terms must also be approved at a general meeting of the shareholders of the Bank) and the Proposals must be capable of being implemented in accordance with their terms, and (ii) the Scheme must be approved by the requisite majority of the Holders of the Dated Notes at the Scheme meeting and sanctioned by the Court, an office copy of the sanction order must be delivered to the Registrar of Companies at Companies House and the Scheme must become unconditional in accordance with its terms (subject only to satisfaction of the Settlement Condition) (together referred to as the **Settlement Condition**). ***Offer period*** The offer period for the Liability Management Exercise is expected to commence on 4 November 2013 and end at 4.30 p.m. (London time) on 6 December 2013 (or such later date and time to which the Bank and Co-operative Group may extend the offer period by publication of a supplement to the Prospectus). However, in order to incentivise holders of the Preference Shares, 13% Bonds and 5.5555% Bonds to participate in the Liability Management Exercise early, if the Early Participation Threshold is achieved by 4.30 p.m. (London time) on 29 November 2013 (the **Early Participation Deadline**), all such holders will (if the Liability Management Exercise settles) receive more Bank T2 Notes or Group Notes on the exchange (or sale) of their Preference Shares, 13% Bonds and 5.5555% Bonds than if the Early Participation Threshold is not achieved by the Early Participation Deadline. The **Early Participation Threshold** will be achieved by the Early Participation Deadline only if, by that time, at least 75 per cent. of the aggregate nominal amount outstanding of each of the Preference Shares, the 13% Bonds and the 5.5555% Bonds has been validly offered for exchange (or sale) and/or otherwise validly voted in favour of the Proposals (and not revoked). Settlement of the Liability Management Exercise (the date on which, if the Settlement Condition is satisfied, Existing Securities will be exchanged or sold) is currently expected to be on 20 December 2013. The Bank and Co-Operative Group are entitled to amend the timetable at their discretion (subject where relevant to the approval of the Court in relation to the Scheme), and will announce any amendments by publication of a supplement to the Prospectus. ***Offer Terms***

		Preference Shares Eligible Holders of Preference Shares are being invited either: • to offer to transfer their Preference Shares to Co-operative Group in exchange for Final Repayment Notes. Holders electing this option will receive, per £1,000 in nominal amount of Preference Shares exchanged, (i) £601 in principal amount of Final Repayment Notes if the Early Participation Threshold is achieved by the Early Participation Deadline; or (ii) £551 in principal amount of Final Repayment Notes if the Early Participation Threshold is not achieved by the Early Participation Deadline (in each case subject to rounding); or • to offer to sell their Preference Shares to Co-operative Group in consideration for a cash amount which will be paid in twelve equal instalments over twelve years up to (and including) 2025 and which will be represented by Instalment Repayment Notes. Holders electing this option will receive, per £1,000 in nominal amount of Preference Shares sold to Co-operative Group, (i) £1,110 in principal amount of Instalment Repayment Notes if the Early Participation Threshold is achieved by the Early Participation Deadline; or (ii) £1,060 in principal amount of Instalment Repayment Notes if the Early Participation Threshold is not achieved by the Early Participation Deadline (in each case subject to rounding). Such holders will also receive a cash amount equal to accrued but unpaid dividends on their Preference Shares from 30 November 2013, up to the Settlement Date. The next instalment of the Preference Share dividend is, under the terms of the Preference Shares, scheduled to be paid on 30 November 2013 (which is during the offer period for the Liability Management Exercise). Under the terms of the Preference Shares, the Bank will not be permitted to pay the dividend in cash, but will instead be required to allot additional Preference Shares to each holder in lieu of cash payment (**Additional Preference Shares**). The Bank expects to allot such Additional Preference Shares on 29 November 2013 (since 30 November is a Saturday). However, if the Liability Management Exercise successfully completes, then upon transfer to Co-operative Group of those Additional Preference Shares, the relevant holders will not receive Final Repayment Notes or Instalment Repayment Notes in respect thereof but rather will receive an amount in cash (in pounds sterling) equal to the cash dividend which the

Bank would have paid on 29 November 2013 had it been able to do so under the terms of the Preference Shares.

The references above to an exchange (or sale) of £1,000 in nominal amount of Preference Shares are for illustrative purposes only. Holders of Preference Shares will be able to offer to exchange (or sell) Preference Shares in any whole multiple of £1, subject to a minimum of £2 if such holder elects the Final Repayment Notes option. There is no minimum offer amount for the Instalment Repayment Notes option.

13% Bonds

Eligible Holders of 13% Bonds are being invited either:

- to offer to transfer their 13% Bonds to Co-operative Group in exchange for Final Repayment Notes. Holders electing this option will receive, per £1,000 in nominal amount of 13% Bonds exchanged, (i) £844 in principal amount of Final Repayment Notes if the Early Participation Threshold is achieved by the Early Participation Deadline; or (ii) £794 in principal amount of Final Repayment Notes if the Early Participation Threshold is not achieved by the Early Participation Deadline (in each case subject to rounding); or

- to offer to sell their 13% Bonds to Co-operative Group in consideration for a cash amount which will be paid in twelve equal instalments over twelve years up to (and including) 2025 and which will be represented by Instalment Repayment Notes. Holders electing this option will receive, per £1,000 in nominal amount of 13% Bonds sold to Co-operative Group, (i) £1,560 in principal amount of Instalment Repayment Notes if the Early Participation Threshold is achieved by the Early Participation Deadline; or (ii) £1,510 in principal amount of Instalment Repayment Notes if the Early Participation Threshold is not achieved by the Early Participation Deadline (in each case subject to rounding).

Such holders will also receive a cash amount equal to accrued but unpaid interest on their 13% Bonds from 31 July 2013 up to the Settlement Date.

Upon successful completion of the Liability Management Exercise the Bank will also pay to all holders of the 13% Bonds the deferred interest payment originally scheduled for 31 July 2013.

The specified denomination of each 13% Bond is £1,000. Accordingly, 13% Bonds must be offered for exchange (or sale) in principal amounts equal to £1,000 or a whole multiple of £1,000.

5.5555% Bonds

		Eligible Holders of the 5.5555% Bonds will be invited to offer to exchange their 5.5555% Bonds for Bank T2 Notes at the following exchange ratios: • if the Early Participation Threshold is achieved by the Early Participation Deadline, £530 in principal amount of Bank T2 Notes for every £1,000 in principal amount of 5.5555% Bonds exchanged; or • if the Early Participation Threshold is not achieved by the Early Participation Deadline, £480 in principal amount of Bank T2 Notes for every £1,000 in principal amount of 5.5555% Bonds exchanged. Such holders will also receive a cash amount equal to accrued but unpaid interest on their 5.5555% Bonds from (and including) 14 December 2013 to (but excluding) the Settlement Date. The next scheduled interest payment date for the 5.5555% Bonds is 14 December 2013. The Bank intends to defer that interest payment (which it is entitled to do under the terms of the 5.5555% Bonds). If the Liability Management Exercise subsequently successfully completes, the Bank will (in addition to the accrued interest referred to in the paragraph above) pay the deferred interest payment originally scheduled for 14 December 2013. *The specified denomination of each 5.5555% Bond is £1,000. Accordingly, 5.5555% Bonds must be offered for exchange in principal amounts equal to £1,000 or a whole multiple of £1,000.* *Dated Notes* Holders of the Dated Notes will, if the Scheme is sanctioned and implemented, be entitled to receive Bank T2 Notes and New Ordinary Shares in exchange for their Scheme Claim at approximately the following exchange ratio: • £102.57 in principal amount of Bank T2 Notes and 145 New Ordinary Shares for every £1,000 of its Scheme Claim. A holder's claim in the Scheme (its **Scheme Claim**) will be equal to the sum of (i) the aggregate principal amount outstanding of such holder's Dated Notes and (ii) the accrued and unpaid interest on such Dated Notes up to (and including) the Scheme Record Date; provided that a Holder's Scheme Claim in respect of any Floating Rate Callable Step-up Dated Subordinated Notes due 2016 (ISIN: XS0254625998) (which are denominated in euro) shall be the sterling equivalent of such sum, calculated on the basis of an exchange rate of £0.85644 per €1.00.

		The Scheme will provide that any interest that accrues or falls due for payment after the Scheme Record Date will be irrevocably cancelled. The Scheme Record Date (the **Scheme Record Date**) is currently expected to be 13 December 2013. The principal amount of Bank T2 Notes and the number of New Ordinary Shares which such holder will receive will be the same irrespective of whether or not the Early Participation Threshold is achieved by the Early Participation Deadline. The holders of the Dated Notes will also be entitled to elect to subscribe for between a minimum election of 26,667 (for an aggregate subscription price of £100,001.25) and a maximum election of 33,333,334 Additional New Ordinary Shares pursuant to, and on the terms of, the Scheme. ***Delivery of Bank T2 Notes, Group Notes and New Ordinary Shares*** The Bank T2 Notes, Group Notes and New Ordinary Shares will be capable of being held and traded (i) in uncertificated form in CREST; (ii) in uncertificated form in Euroclear and Clearstream, Luxembourg (via CREST); and (iii) in certificated form outside the clearing systems. Eligible Holders of Preference Shares, 13% Bonds and 5.5555% Bonds and holders of Dated Notes who offer to exchange or sell their securities in Euroclear, Clearstream, Luxembourg or CREST will (subject as provided under "*Holding Period in respect of Dated Notes*" below) receive interests in their new Bank T2 Notes, Group Notes and/or New Ordinary Shares (as the case may be) in the same securities account as that in which they currently hold their Preference Shares, 13% Bonds, 5.5555% Bonds or Dated Notes (as applicable). Where holders currently hold Preference Shares, 13% Bonds or 5.5555% Bonds in certificated form outside Euroclear, Clearstream, Luxembourg and CREST, any Bank T2 Notes and Group Notes (as applicable) to be delivered to them will be delivered in certificated form outside Euroclear, Clearstream, Luxembourg and CREST. ***Holding Period in respect of Dated Notes*** If any holder of Dated Notes fails to comply with certain procedures in connection with the Scheme, the Bank T2 Notes and New Ordinary Shares to which such holder would become entitled pursuant to the Scheme will be transferred to Lucid Issuer Services Limited in its capacity as holding period trustee (the **Holding Period Trustee**). The relevant Bank T2 Notes and New Ordinary Shares will be held on trust by the Holding Period Trustee pending:

		(a) confirmation for or on behalf of the relevant holder of the Dated Notes that it or its Designated Recipient is eligible to receive the Bank T2 Notes and New Ordinary Shares, at which time the Holding Period Trustee will transfer the relevant Bank T2 Notes and New Ordinary Shares to the relevant holder of the Dated Notes or its Designated Recipient; (b) confirmation for or on behalf of the relevant holder of the Dated Notes that it is not eligible to receive the Bank T2 Notes and the New Ordinary Shares, at which time the relevant Bank T2 Notes and New Ordinary Shares will be sold by or on behalf of the Holding Period Trustee and the net proceeds of such sale (after deduction of all applicable taxes and expenses) will be distributed to the relevant holder of the Dated Notes; and (c) the date falling 36 months following the Scheme Settlement Date, at which time the Holding Period Trustee will sell or procure the sale of the Bank T2 Notes and New Ordinary Shares not already distributed or sold as described in paragraphs (a) and (b) above and the net proceeds of such sale (after deduction of all applicable taxes and expenses) will be distributed to the Bank. **Designated Recipient** means a person nominated by a holder of Dated Notes to receive the New Ordinary Shares and Bank T2 Notes which such holder is entitled to receive pursuant to the terms of the Scheme.
E.4	**Material Interests to the Offer, including conflicting Interests**	The Bank is as, at the date of this Prospectus, a subsidiary of Banking Group. Following completion of the Liability Management Exercise, Banking Group is expected to have a 30 per cent. holding in the Bank's ordinary shares. As a result, Banking Group and, indirectly, Co-operative Group, are expected to continue to be able to exercise influence over matters requiring shareholder approval. HSBC Bank plc (**HSBC**) has been appointed as a dealer manager and adviser to the Bank, and UBS Limited (**UBS**) has been appointed as a dealer manager, to facilitate the Liability Management Exercise. HSBC will be paid fees and expenses by the Bank in connection with the Liability Management Exercise. Each of UBS and HSBC and their respective affiliates may also have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Bank and its affiliates in the ordinary course of business.
E.7	**Estimated expenses charged to the investor by the Issuer**	Not applicable. There are no expenses to be charged to the investor (being the Existing Holders) by the Bank.