

## **U.S. Internal Revenue Service Form 8937, Report of Organizational Actions Affecting Basis of Securities – Creditors' Scheme**

### **Form 8937, Part II**

Any capitalized terms not otherwise defined herein have the meaning specified in the Creditors' Scheme Circular (the "Scheme Circular") and available at <http://www.co-operativebank.co.uk/assets/pdf/bank/investorrelations/Creditors-Scheme-Circular.pdf>.

The information contained herein is provided pursuant to the requirements of Section 6045B of the U.S. Internal Revenue Code of 1986, as amended, and includes a general discussion of certain U.S. federal income tax considerations relating to the acquisition of A Shares pursuant to the Creditors' Scheme and the ownership and disposition of the A Shares, as more fully set forth in the Scheme Circular under, Part 13 – Taxation, Section 2 – U.S. Taxation. The information contained herein does not constitute tax advice, and does not purport to be a complete analysis of all U.S. federal income tax consequences that may be relevant to former holders of the Subordinated Notes. The discussion below is subject to the limitations, qualifications and assumptions contained in the Scheme Circular under, Part 13 – Taxation, Section 2 – U.S. Taxation. Former holders of Subordinated Notes are encouraged to consult their tax advisor as to the specific tax consequences to them of the Creditors' Scheme under applicable tax laws, and should read the Scheme Circular.

#### ***Question 14: Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action.***

On July 14 2017, the Bank announced the launch of the Creditors' Scheme and the Members' Scheme through the publication of the Practice Statement Letter. Under these schemes, certain holders of Ordinary Shares and Subordinated Notes would exchange their securities for A Shares and would be given the opportunity to subscribe for additional A Shares, as part of a restructuring and recapitalization of the Bank.

On September 1, 2017, Scheme Creditors received A Shares in exchange for Subordinated Notes. Approximately 17.4% of the total number of fully diluted A Shares in issue immediately following the Completion Time September 1, 2017 were allocated based on the pro rata share of each Scheme Creditor, based on the Scheme Claim of the Scheme Creditor as a fraction of all Scheme Claims of all Scheme Creditors. Each Qualifying Scheme Creditor also received the opportunity to subscribe for its pro rata share of approximately 64.1915% of the total number of fully diluted A Shares. Following these allocations and the allocations of A Shares pursuant to the Share Transfer and Members' Equity Subscription, the Backstop Premium and Incorporation Share allocations, the total issued share capital of Holdco comprised 9,029,130,200 A Shares and 65 B Shares.

***Question 15: Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis.***

It is likely that (i) the Share Transfer, (ii) the Notes Exchange, and (iii) the Equity Subscriptions, should be treated as a single transaction in which the Scheme Shareholders and Subordinated Noteholders (excluding the Retail Noteholders) each contributed property to Holdco in exchange for the A Shares.

Under the treatment just described, the U.S. Holders' aggregate basis and holding period of the A Shares received in the Creditors' Scheme (including fractional entitlements to such shares) equals the aggregate basis, and include the holding period, of the Subordinated Notes surrendered in exchange therefor.

A U.S. Holder that subscribed for A Shares in the Scheme Creditors' Equity Subscription generally will have a split basis and a split holding period in each A Share it received pursuant to the Creditors' Scheme for purposes of determining long-term or short-term capital gain or loss. A segment of each share generally should have a basis and holding period determined by reference to the U.S. Holder's basis and holding period in its Subordinated Notes exchanged for A Shares, as discussed above. In addition, a segment of each share generally should have a basis and holding period determined by reference to the exchange of pounds sterling for A Shares, as discussed below. To the extent such U.S. Holder subscribed for A Shares in exchange for pounds sterling pursuant to the Scheme Creditors' Equity Subscription, the U.S. Holder may recognize foreign currency gain or loss with respect to those pounds sterling as of the time the pounds sterling are treated as exchanged for A Shares, in which case the basis in a segment of each A Share that is determined by reference to the exchange of pounds sterling for A Shares generally should reflect the USD value of the pounds sterling as of such time, and such segment generally should have a holding period which began on the day after the U.S. Holder is treated as acquiring such A Shares.

The U.S. federal income tax consequences described above assume that the a U.S. Holder held its Subordinated Notes without market discount for U.S. federal income tax purposes. A U.S. Holder that exchanged Subordinated Notes with accrued market discount would generally be required to recognize such accrued market discount (to the extent not previously taken into account in income) to the extent of total gain or loss realized by such U.S. Holder as a result of the Notes Exchange (regardless of whether that gain or loss would otherwise be recognized). A U.S. Holder's basis in its A Shares would be increased by the amount of such recognized gain, or decreased by the amount of such recognized loss.

The rules governing a U.S. Holder's basis and holding period in transactions such as those that occurred pursuant to the Creditors' Scheme are complex. U.S. Holders should consult their own tax advisors regarding the impact of the payment of pounds sterling pursuant to the Scheme Creditors' Equity Subscription on U.S. Holders' basis and holding period in the A Shares, as well as the possibility of recognizing foreign currency gain or loss and other potential U.S. federal income tax ramifications.

A U.S. Holder will recognize gain or loss upon the sale of fractional entitlements to A Shares in an amount equal to the difference between the USD value of the amount realized upon the sale and the U.S. Holder's tax basis in such fractional shares.

***Question 16: Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates.***

As described above, it is likely that U.S. Holders' basis in their A Shares received in exchange for Subordinated Notes should generally equal their basis in their Subordinated Notes immediately before the exchange. In addition, in the case of a U.S. Holder that subscribed for A Shares in the Scheme Creditors' Equity Subscription, a portion of the holder's basis in its A Shares should be determined by reference to the exchange of pounds sterling for A Shares.

***Question 17: List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based.***

Among other relevant provisions, the Notes Exchange and Scheme Creditors' Equity Subscription is covered by Code Sections 351, 358(a) and (b), 367, 988, 1001, 1012 and 1276.

***Question 18: Can any resulting loss be recognized?***

No, except to the extent of fractional entitlements sold as part of the Share Transfer, as described above, and in certain cases foreign currency loss.

***Question 19: Provide any other information necessary to implement the adjustment such as the reportable tax year.***

For a U.S. Holder with a taxable year that is the calendar year, the reportable year is 2017.

For a more detailed description of the U.S. federal income tax consequences of the Creditors' Scheme, see the Scheme Circular, Part 13 – Taxation, Section 2 – U.S. Taxation. As noted above, the information provided herein is not intended as tax advice. U.S. Holders receiving A Shares and B Shares pursuant to the Creditors' Scheme are urged to consult their tax advisors as to the specific tax consequences to them of the Creditors' Scheme under applicable tax laws.