

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

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

Any capitalized terms not otherwise defined herein have the meaning specified in the Shareholders and Members' Scheme Circular (the "Scheme Circular") and available at [http://www.co-operativebank.co.uk/assets/pdf/bank/investorrelations/Shareholder-Members-Circulara-\(e-disclaimer\).pdf](http://www.co-operativebank.co.uk/assets/pdf/bank/investorrelations/Shareholder-Members-Circulara-(e-disclaimer).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 Members' Scheme and the ownership and disposition of the A Shares, as more fully set forth in the Scheme Circular under, Part 14 – 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 a former holder of Ordinary Shares. The discussion below is subject to the limitations, qualifications and assumptions contained in the Scheme Circular under, Part 14 – Taxation, Section 2 – U.S. Taxation. Former holders of Ordinary Shares are encouraged to consult their tax advisor as to the specific tax consequences to them of the Members' 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, holders of the Ordinary Shares received 0.95 A Shares for each Ordinary Share listed on the entitlements register of the Bank at 6 PM (London time) on August 21, 2017. This allocation of A Shares represented approximately 4.75% of the total number of fully diluted A Shares in issue immediately following the Completion Time September 1, 2017. In addition, Early Bird Consenting Members received an additional allocation of 0.25% of fully diluted A Shares as described in the Scheme Circular, and each Qualifying Shareholder was permitted to subscribe for its pro rata share of approximately 3.3785% of the total number of fully diluted A Shares. Following these allocations and the allocations of A Shares pursuant to the Creditors' Scheme, the Scheme Creditors' Equity Subscriptions, and 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 Members' Scheme (including fractional entitlements to such shares) equals the aggregate basis, and include the holding period, of the Ordinary Shares surrendered in exchange therefor.

A U.S. Holder that subscribed for A Shares in the Members' Equity Subscription generally will have a split basis and a split holding period in each A Share it received pursuant to the Members' 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 Ordinary Shares 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 Members' 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 rules governing a U.S. Holder's basis and holding period in transactions such as those that occurred pursuant to the Members' Scheme are complex. U.S. Holders should consult their own tax advisors regarding the impact of the payment of pounds sterling pursuant to the Members' 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, including if the Bank was classified as a passive foreign investment company at any time during the U.S. Holder's holding period in the Notes.

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 Ordinary Shares should generally equal their basis in their Ordinary Shares immediately before the exchange. In addition, in the case of a U.S. Holder that subscribed for A Shares in the

Members' 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 Share Transfer and Members' Equity Subscription is covered by Code Sections 351, 358(a) and (b), 367, 988, 1001, and 1012.

***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 Members' Scheme, see the Scheme Circular, Part 14 – 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 Members' Scheme are urged to consult their tax advisors as to the specific tax consequences to them of the Members' Scheme under applicable tax laws.