

The Co-operative Bank plc

Migration of IT Infrastructure

The Co-operative Bank plc (the “Bank”) today announces that it has entered into a contract with IBM to migrate its IT infrastructure from The Co-operative Group into IBM managed data centres and receive a full suite of managed services. This is a significant milestone in the Bank’s turnaround plan and when delivered will enable:

- Improved IT infrastructure and resilience
- significant progress in separating IT from the Co-operative Group
- the foundation for the further development of the Bank’s digital offering

The selection of IBM as a supplier, after an independently reviewed contract process, reflects their experience in the provision of a high availability, managed technology infrastructure consistent with the demands of a leading retail bank.

The Bank will pay IBM £93m to lead and implement the transition of these services to IBM data centres. The Bank has also entered into a 10 year managed service contract at a total cost of £275m and has options to terminate throughout the life of the contract. The contract has productivity savings embedded within it that deliver a total of approximately £40m of savings in later years compared to current run costs. The migration programme will be overseen by an independent third party.

Niall Booker, Chief Executive of The Co-operative Bank, commented: “This is another step in the right direction for the Bank as we look to strengthen our technology platform and build a stronger bank for customers and all our stakeholders”.

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Notes for Investors

In the Prospectus dated 4 November 2013 (the “Prospectus”), the Bank referred to a £500m budget for the re-engineering of the Bank’s IT systems to support the Core business strategy; its cost saving programme and the re-orientation of the Bank’s distribution channels.

In the plan, announced on 16 December 2014 and accepted by the PRA, (the “Revised Plan”) we are now budgeting that this £500m investment cost, over the same period (2014 to 2016), will be c.£180m higher.

Part of this increase is the cost associated with IT infrastructure remediation and separation which will rise from c £200m to c £320m, the main variance being the £93m outlined above.

We are also budgeting for an increase in the strategic investment budget, from c £300m to c £360m, which will be focused on developing our Digital platform and business process outsourcing to achieve the reduced cost base in the Revised Plan. This will maintain our long term Core Bank cost income ratio target of less than 60%.

It is our intention to report on significant additional commitments as they are made. There is no change to the guidance given to investors when the Revised Plan was announced.

Investor enquiries:

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This announcement and any related materials may contain or incorporate by reference certain "forward-looking statements" regarding the belief or current expectations of the Bank about the Bank's financial condition, results of operations and business described in this announcement. Generally, but not always, words such as "aim", "target", "will", "would", "expect", "propose", "intend", "plan", "estimate", "endeavour", "indicate" or their negative variations or similar expressions identify forward-looking statements. Examples of forward-looking statements include, among others, statements regarding the Bank's future financial position, income growth, assets impairment charges and provisions, business strategy, capital, leverage and other regulatory ratios, estimates of profitability, projected levels of growth in the banking and financial markets, projected costs, original and revised commitments and targets in connection with the turn-around plan, deleveraging actions, estimates of capital expenditures and plans and objectives for future operations and other statements that are not historical fact. Such forward-looking statements are not guarantees of future performance. Rather, they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance, achievements or developments of the Bank or the industry in which it operates to differ materially from any future results, performance, achievements or developments expressed or implied from the forward-looking statements.

The principal risks and uncertainties to the ability of the Bank to implement the Plan and to achieve the results set out in the plan were set out in the Bank's Interim Financial Report 2014 and continue to apply to the revised plan. The Bank faces particular challenges including (but not limited to): market conditions persisting; ability to achieve the targeted cost savings; completing the remediation programme; support from third parties in remediating its IT platform; the PRA not exercising its wide-ranging powers in respect of the Bank or the plan; ability to retain customers and deposits; the timing and quantum of impacts to capital from its asset reduction exercise; meeting its planned improvements in net interest margin; a possible further deterioration in the quality of the Bank's asset portfolio; unplanned costs from (for example) conduct risk matters; ability to maintain the Bank's access at an appropriate cost to liquidity and funding and the ability of the Bank to raise further capital assumed in its forecasts.

Many of the risks and uncertainties also relate to factors that are beyond the Bank's ability to control or estimate precisely which include (without limitation) factors such as: UK domestic and global economic and business conditions; the Bank's ability to implement successfully its four to five year business plan to improve its financial, operational performance and capital position; market related risks, including but not limited to, changes in interest rates and exchange rates; changes to law, regulation, accounting standards or taxation, including changes to regulatory capital or liquidity requirements and the Bank's ability to meet those requirements; the ability to access sufficient funding to meet the Bank's liquidity needs including through retail deposits; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or sovereign financial issues; changes to the Bank's credit rating; the effect of competition and the actions of competitors; the impact of potential disruption to the Bank's IT and communications systems; the ability to attract and retain skilled personnel; uncertainties regarding the extent of the Bank's exposure to pensions related liabilities; exposure to increased and ongoing regulatory scrutiny, legal proceedings, regulatory investigations or complaints, including with respect to conduct issues and other factors.

A number of material factors could cause actual results to differ materially from those contemplated by the forward-looking statements. The forward-looking statements contained in this announcement speak only as of the date of this announcement. Except as required by law, neither the Bank nor any of its respective affiliates or representatives undertakes any obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise. Recipients of this announcement should not place any reliance on the forward-looking statements and are advised to make their own independent analysis and determination with respect to the forecast periods.