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The Co-operative Bank p.l.c.

13 February 2017

Board Commencing Sale Process and Considering Options to Build Capital

- **Considerable progress in delivering turnaround plan, including the rebuild of a retail banking proposition differentiated by distinctive values and ethics**
- **Bank's customer-led ethical position, attractive product set, multi-channel approach and 4 million customers constitute a strong franchise with significant potential**
- **Lower for longer interest rates and higher than originally anticipated transformation costs are constraining organic capital generation**
- **As previously stated, CET1 ratio of at least 10% as at 31 December 2016 and anticipated to fall and remain below 10% over the medium term; expect to meet Pillar 1 regulatory capital requirements at all times**
- **The Board is commencing a sale process, something always considered a potential outcome of the turnaround plan, alongside considering other options to build capital and meet the longer term capital requirements applicable to all UK banks**

Overview

Since 2013, The Co-operative Bank p.l.c. ("The Co-operative Bank" or the "Bank") has made considerable progress implementing its turnaround plan, with a customer-focused retail bank being rebuilt. The cost base has reduced by over 20% since 2014, well over half of the original non-core portfolio has been sold, critical IT improvements have been delivered, risk management and operational resilience have improved substantially and the major legacy issues of the past, including customer remediation and PPI, have largely been addressed. Importantly, there is clear evidence of strong and sustained customer demand for the Bank's ethically-led UK retail banking proposition, which has 4 million customers.

The Bank has always been clear that, although it meets its Pillar 1 regulatory capital requirements and expects to continue to do so, it needs to build its capital and meet longer term UK bank regulatory capital requirements. Its capacity to do so organically has been constrained by the impact of interest rates that are lower than previously forecast, reducing the Bank's ability to generate income, and by higher than anticipated transformation and conduct remediation costs. The Bank has also needed to consider enhanced regulatory capital requirements expected of all UK banks, including MREL requirements.

As a result, and having concluded its annual planning review, the Board is today commencing a sale process, inviting offers for all of the issued ordinary share capital of the Bank, and is also considering ways to raise equity capital from existing and new capital providers and a potential liability management exercise of its outstanding public debt. The Board has engaged BofA Merrill Lynch and UBS Investment Bank for both of these activities and will continue to engage and consult with the Bank's shareholders.

The sale process and review of the Bank's outstanding liability structure have been discussed in full with the Prudential Regulatory Authority (PRA).

Dennis Holt, Chairman said:

“The Bank has met its Pillar 1 regulatory capital requirements continuously since 2014 and expects to continue to do so. At the same time, since we began work on the Bank’s turnaround, the Board has always been clear that we would need to build capital for the future. We are now commencing a sale process, alongside other options. The Bank’s ethical heritage and customer proposition will be a central consideration in this.”

Liam Coleman, Chief Executive Officer said:

“Since 2013, we have successfully addressed significant legacy issues, reduced the cost base and rebuilt our franchise and customer proposition. The Co-operative Bank delivers an attractive banking proposition that is differentiated by our values and ethics and is highly valued by our 4 million customers. Customers value The Co-operative Bank and our ethical brand is a point of difference that sets us apart in the market.

“While our plan has been impacted by lower for longer interest rates, the costs associated with the sheer scale of the transformation and the legacy issues we faced in 2013, there is considerable potential to build the Bank’s retail franchise further using the strength of the brand, its reputation for strong customer service and distinctive ethical position.”

Sales process

The Board is today announcing a formal sale process of The Co-operative Bank (as defined in the Takeover Code) to solicit proposals for the acquisition of 100% of the share capital of the Bank.

The Takeover Panel has granted a dispensation from the requirements of Rules 2.4(a), 2.4(b) and 2.6(a) of the Code such that interested parties will not be required to be publicly identified as a result of this announcement and will not be subject to the 28 day deadline referred to in Rule 2.6(a), for so long as they are participating. Interested parties should note Rule 21.2 of the Code, which prohibits any form of inducement fee or other offer related arrangement, and that the Bank has not requested any dispensation from this prohibition under Note 2 of Rule 21.2 at this stage.

The Board reserves the right to alter any aspect of the formal sale process or to terminate it at any time and will make further announcements as appropriate.

A differentiated, customer-focused retail bank

Since 2013, considerable progress has been made delivering a more resilient, focused and digitally-enabled bank, differentiated in the market by its values and ethics with strong customer service and a consistently loyal customer base. This has been achieved despite a challenging interest rate environment, increasing overall regulatory capital requirements being applied to all UK banks and without recourse to Government funding and therefore at no cost to the taxpayer. Progress includes:

- A current account proposition, Everyday Rewards, successfully relaunched in 2016, which contributed to a net increase in current and prime account customers. High levels of customer satisfaction have been maintained, evidenced by Net Promoter Scores (NPS) that are consistently in the top five in the UK retail banking market;
- Continued investment in a differentiated brand through renewed TV advertising and campaigning and being recognised as the most improved brand by YouGov. Successfully built on the refreshed Value and Ethics policy relaunched in 2015 which sought greater involvement from customers as well as non-profit organisations. Customer research indicates the Bank is perceived as the UK’s most ethical banking brand, and one of the most trusted;
- Cost base has reduced by over 20% since 2014 and the ongoing cost reduction programme will deliver further savings over the next 12 months. A comprehensive remediation programme has identified and substantially addressed a broad range of historic conduct issues, including PPI;

- Overall IT resilience and stability has improved substantially since 2013, with stronger end-to-end disaster recovery capability. An orderly separation exercise from The Co-operative Group includes the migration of core IT systems to an outsourced platform with IBM. Over the weekend of 11 and 12 February 2017, the Bank migrated its core mainframe system and associated mid-range servers to IBM-managed data centres. This activity is entirely separate from any future plans for the Bank and customers will be kept updated on the progress of this work;
- Successful digital transformation has been delivered including migration of all current account customers to a new digital platform;
- Robust levels of liquidity supported by depositor confidence;
- Significantly de-risked balance sheet with well over half of the original non-core portfolio having been sold in an orderly manner; and
- Enhanced levels of governance across the Bank, including a strongly engaged Board and the ongoing implementation of a risk management framework.

2016 annual results

As previously guided, and as indicated by the reduction in the Bank's CET1 ratio over the course of 2016, the Bank expects to report a loss for the year ending 31 December 2016. This loss is expected to be significant, albeit less than the loss reported for the year ending 31 December 2015. The expected loss is driven largely by continued high remediation and strategic project costs (including charges associated with the mortgage outsourcing programme), reflecting the transformation required to address the historical underinvestment in systems and processes. Conduct and legal risk charges have reduced significantly over the course of the year, and lower operating costs, reduced losses on asset sales and a gain on the sale of the Visa Europe share have more than offset the reduction in net interest income and increase in the fair value amortisation associated with the merger with the Britannia Building Society.

Figures in this announcement are preliminary and unaudited and will be updated as part of the Bank's 2016 full year results in March.

This announcement contains inside information. The person responsible for arranging the release of this announcement on behalf of the Bank is John Worth, Chief Financial Officer.

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Takeover Code Implications

This announcement is not an announcement of a firm intention to make an offer under Rule 2.7 of the Takeover Code.

A copy of this announcement (subject to any restrictions relating to persons resident in restricted jurisdictions) will be available at www.co-operativebank.co.uk/investorrelations/ promptly and in any event by no later than 12 Noon on 14 February 2017. The content of the website referred to in this announcement is not incorporated into and does not form part of this announcement.

As a result of this announcement, an "offer period" has commenced in respect of The Co-operative Bank in accordance with the rules of the Takeover Code and the dealing disclosure requirements listed below will apply.

There can be no certainty that any offer will be made for the Company, or even proposed, or as to the level of any proposal or offer that may be made nor that the Company will pursue, or successfully implement, an equity raise and/or a liability management exercise of its outstanding public debt.

About The Co-operative Bank

The Co-operative Bank p.l.c. provides a full range of banking products and services to almost 4 million retail and Small and Medium Sized Enterprises customers. The Bank is committed to values and ethics in line with the principles of the co-operative movement. The Co-operative Bank p.l.c. is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The Co-operative Bank p.l.c. customers are protected by the Financial Services Compensation Scheme in the UK.

Relevant Securities in Issue

The Co-operative Bank p.l.c. confirms that it has 451,456,510 Ordinary Shares of 5 pence each in issue at the close of business on 10 February 2017 with ISIN code GB00BDW0BX87.

No offer of securities

This announcement is not, nor should be construed as, an offer of, or solicitation of an offer to purchase or subscribe for, any securities to any person in any jurisdiction. In particular, this announcement does not constitute an offer for sale of, or a solicitation to purchase or subscribe for, any securities in the United States. No securities of the Bank have been, or will be, registered under the US Securities Act of 1933, as amended (the "Securities Act"), and securities of the Bank may not be offered or sold in the United States absent an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

Forward-looking statements

This announcement, including information included or incorporated by reference in this announcement, may contain certain "forward looking statements" regarding the financial or capital position, business strategy or plans for future operations of the Bank. All statements other than statements of historical fact included in any document may be forward looking statements. Forward looking statements also often use words such as "believe", "expect", "estimate", "intend", "anticipate" and words of a similar meaning. By their nature, forward looking statements involve risk and uncertainty that could cause actual results to differ materially from those suggested by them. Much of the risk and uncertainty relates to factors that are beyond the Bank's abilities to control or estimate precisely, such as future market conditions and the behaviours of other market participants, and therefore undue reliance should not be placed on such statements which speak only as at the date of this announcement. The Bank does not assume any obligation to, and do not intend to, revise or update these forward looking statements, except as required pursuant to applicable law.

Each of Merrill Lynch International and UBS Limited is authorised by the PRA and regulated in the United Kingdom by the PRA and the Financial Conduct Authority ("FCA"). Merrill Lynch International and UBS Limited are acting exclusively for the Bank and no one else in connection with the sale process and potential capital raise and liability management exercise (the "Activities"), and will not regard any other person as their respective clients in relation to the Activities and will not be responsible to anyone other than the Bank for providing the protections afforded to their respective clients nor for providing advice in relation to the Activities, the contents of this announcement or any transaction, arrangement or other matter referred to herein.

Disclosure requirements of the Takeover Code

Under Rule 8.3(a) of the Takeover Code, any person who is interested in 1 per cent. or more of any class of relevant securities of an offeree company or of any securities exchange offer (being any offer other than an offer in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the Offer Period and, if later, following the announcement in which any securities exchange offer is first identified.

An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3:30 pm on the 10th business day following the commencement of the Offer Period and, if appropriate, by no later than 3:30 pm on the 10th business day following the announcement in which any securities exchange offer is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offer prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Takeover Code, any person who is, or becomes, interested in 1 per cent. or more of any class of relevant securities of the offeree company or of any securities exchange offer must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any

securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3:30 pm on the business day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Panel's website at www.thetakeoverpanel.org.uk, including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.