

**EXECUTION VERSION**

**2014 COMMITMENT AGREEMENT**

**DATED 4 NOVEMBER 2013**

**THE CO-OPERATIVE BANK P.L.C.**

**and**

**CO-OPERATIVE GROUP LIMITED**

**and**

**CO-OPERATIVE BANKING GROUP LIMITED**

**ALLEN & OVERY**

**Allen & Overy LLP**

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**THIS AGREEMENT** is made on 4 November 2013

**BETWEEN:**

- (1) **THE CO-OPERATIVE BANK P.L.C.** a company incorporated under the laws of England and Wales with registered number 00990937 and whose registered office is at PO Box 101, 1 Balloon Street, Manchester M60 4EP (the **Bank**);
- (2) **CO-OPERATIVE GROUP LIMITED** an industrial and provident society with registered number IP00525R and whose registered office is at 1 Angel Square, Manchester, M60 0AG (**Co-operative Group**); and
- (3) **CO-OPERATIVE BANKING GROUP LIMITED** an industrial and provident society with registered number IP29379R and whose registered office is at 1 Angel Square, Manchester, M60 0AG (**CBG**),

each a **Party**, and together the **Parties**.

**WHEREAS:**

- (A) The Bank is a public company limited by shares.
- (B) As at the date of this Agreement, the Bank is a wholly owned subsidiary of CBG and the Co-operative Group is the Bank's ultimate parent company.
- (C) Further to discussions between the Bank and the PRA, the Bank is required to raise £1.5 billion Common Equity Tier 1 Capital before 31 December 2014, and in addition to the Common Equity Tier 1 Capital to be raised by 31 December 2013 pursuant to the Liability Management Exercise, the Bank is also required to raise a further £333 million of Common Equity Tier 1 Capital during 2014 pursuant to the Recapitalisation Plan (the **2014 Capital Requirement**).
- (D) Further to the 2014 Capital Requirement and pursuant to the Recapitalisation Plan, CBG has agreed to subscribe on the terms and subject to the conditions set out in this Agreement for the Group Shares (as defined in clause 2.1 of this Agreement).

**IT IS AGREED** as follows:

**1. INTERPRETATION**

- 1.1 In this Agreement (including the Schedules to it), unless the context otherwise requires, defined terms have the meaning given to them in Schedule 1.
- 1.2 In this Agreement any reference, express or implied, to an enactment includes:
  - (a) that enactment as amended, extended or applied by or under any other enactment (before, on or after execution of this Agreement);
  - (b) any enactment which that enactment re-enacts (with or without modification); and
  - (c) any subordinate legislation made (before, on or after execution of this Agreement) under that enactment, including (where applicable) that enactment as amended, extended or applied as described in paragraph (a) above, or under any enactment which it re-enacts as described in paragraph (b) above,

and **enactment** includes any rule, regulation or requirement of the UK Listing Authority, London Stock Exchange, the Financial Conduct Authority and any other body or authority acting under the authority of any enactment and any legislation in any jurisdiction.

1.3 In this Agreement:

- (a) references to the singular include the plural and vice versa;
- (b) any reference to a time of day is to London time;
- (c) any reference to £ is to Pound Sterling;
- (d) the words “**include**”, “**includes**” and “**including**” shall be construed, in each case, as if they were followed by the words “without limitation”; and
- (e) references to persons include bodies corporate, unincorporated associations and partnerships.

1.4 Subclauses 1.1 to 1.4 apply unless the contrary intention appears.

1.5 The headings in this Agreement do not affect its interpretation.

## **2. SUBSCRIPTION AND ISSUE OF THE INITIAL GROUP SHARES**

2.1 Subject only to the satisfaction of the Condition set out in clause 3.1 below, the Bank shall, on the Settlement Date, issue to CBG 54,058,442 New Ordinary Shares at the Conversion Price (the **Group Shares**) in consideration for the Undertaking to Pay (as set out in clause 2.2 below and to be discharged in accordance with clause 2.3 below) and CBG agrees to subscribe for the Group Shares subject only to the satisfaction of the Condition set out in clause 3.1 below.

2.2 Subject only to the satisfaction of the Condition set out in clause 3.1 below, CBG hereby irrevocably undertakes to pay in cash the Subscription Amount to the Bank in accordance with clause 2.3 below in consideration for the issue of the Group Shares to CBG by the Bank (the **Undertaking to Pay**). The Parties agree that (i) the Undertaking to Pay constitutes cash consideration for the purposes of section 583(3) of the Companies Act 2006 and (ii) the Group Shares shall be fully paid up (as to their nominal value together with any share premium) upon their issuance, will (subject to any lock-up agreement in place at any time) be freely transferable and fungible with all other Ordinary Shares in the Bank and shall rank *pari passu* in all respects with the ordinary shares then in issue (or to be issued), including the right to receive dividends or other distributions declared, made or paid in respect of Ordinary Shares in the Bank.

2.3 Subject to clauses 2.4 and 2.5 below, CBG irrevocably undertakes and agrees that the Undertaking to Pay shall be satisfied by the payment in cash of:

- (a) £20 million by no later than 31 December 2013;
- (b) £50 million by no later than 31 January 2014;
- (c) £100 million by no later than 30 June 2014; and
- (d) £163 million by no later than 31 December 2014,

provided that the aggregate payments made by CBG pursuant to the Undertaking to Pay shall not exceed £333 million.

- 2.4 Co-operative Group, CBG and the Bank acknowledge and agree that:
- (a) the receipt by the Bank of any proceeds of any Loan will discharge the amounts next due under the Undertaking to Pay by an amount equal to the amount of such proceeds received; and
  - (b) the receipt by the Bank of any Enforcement Proceeds will discharge the amounts next due under the Undertaking to Pay in an amount equal to the amount of such Enforcement Proceeds received.

- 2.5 CBG irrevocably undertakes:
- (a) that, following the receipt by CBG of any Net Insurance Sale Proceeds, CBG shall, as soon as practicable, pay an amount equal to Net Insurance Sale Proceeds to the Bank in satisfaction of the Undertaking to Pay (in part or in full as the case may be); and
  - (b) to keep the Bank regularly informed with regard to the progress of the disposal of Co-operative General Insurance, the payment of the Co-operative Life Insurance and Asset Management Deferred Consideration and, if necessary, any alternative measures which the Co-operative Group is taking in order to otherwise satisfy the Undertaking to Pay.

### **3. THE CONDITION**

- 3.1 The obligations of the Parties in respect of the subscription and issue of the Group Shares under clause 2 above and the provisions of clauses 4 to 9 are each conditional only on the satisfaction of the Condition.
- 3.2 If the Condition is not fulfilled on or prior to 31 December, 2013 (or such later date as the Parties may agree), the provisions of this Agreement (other than clause 1, this clause 3.2 and clauses 12 to 16 inclusive) shall automatically cease to have effect (so that no Party shall have any liability under them) except in relation to a previous breach or as otherwise agreed by the Parties in writing.

### **4. LOCK-UP OF GROUP SHARES**

- 4.1 From the date of this Agreement until the occurrence of the Effective Date (whereupon the provisions of clause 13 of the Relationship Agreement shall take effect and the provisions of this clause 4 shall cease to have any effect), CBG undertakes to the Bank that, except as provided below, it will not affect any Disposal of its interest in all or any Ordinary Shares (however designated and whether or not deferred in any way) which are legally or beneficially owned by it (the **Lock-up**).
- 4.2 The Lock-up shall not apply to any of the following:
- (a) any Disposal of Ordinary Shares as contemplated in the Steps Plan;
  - (b) any Disposal of Ordinary Shares pursuant to a scheme of reconstruction under Section 110 of the UK Insolvency Act 1986 in relation to the Bank;
  - (c) any Disposal of Ordinary Shares pursuant to procedure or regime under the Banking Act 2009;
  - (d) any Disposal of Ordinary Shares pursuant to an order from a court of competent jurisdiction or as otherwise required pursuant to any applicable laws; and

- (e) any Disposal of Ordinary Shares (however designated and whether or not deferred in any way) pursuant to an offer by the Bank to purchase its own shares,

provided that,

- (i) any Disposals pursuant to clause 4.2(b), (c), and/or (d) shall be notified in advance to the Bank in writing not less than two Business Days prior to the entry into of any agreement relating to the same; and
- (ii) prior to the making of any Disposal pursuant to clauses 4.2(b), (c), and/or (d), CBG shall have used all reasonable endeavours to procure that the court or regulatory authority ordering the Disposal requires the transferee to execute and deliver to the Bank a deed of adherence in the form set out in Schedule 3 to this Agreement.

4.3 The Lock-up shall not prevent title to or interest in any Group Shares being disposed of by CBG to any other member of the Group, provided that:

- (a) prior to the making of any Disposal pursuant to this clause 4.3 (unless already bound), the transferee shall have agreed to be bound by the restrictions of this clause 4 as if it were the transferor, by the execution and delivery to the Bank of a deed of adherence in the form set out in Schedule 3; and
- (b) the terms of such Disposal include a requirement that, in the event that any such transferee is to cease to be an entity described in this clause 4.3, any such interest in the Group Shares will, prior to such cessation, be transferred to either:
  - (i) the relevant transferring shareholder; or
  - (ii) another permitted transferee of such transferring shareholder who falls within this clause and has executed and delivered to the Bank a deed of adherence in the form set out in Schedule 3,

and shall be held subject to the restrictions of this Agreement to which such transferring shareholder is subject.

## **5. REPRESENTATIONS, WARRANTIES AND UNDERTAKINGS**

5.1 On the date of this Agreement, the Bank hereby represents, warrants and undertakes to CBG and the Co-operative Group in the terms of the Warranties set out in Part 1 of Schedule 2. The Bank acknowledges that each of CBG and the Co-operative Group is entering into this Agreement in reliance on such representations, warranties and undertakings and each such representation, warranty and undertaking shall not be limited by reference (express or implied) to the terms of any other representation, warranty or undertaking.

5.2 On the date of this Agreement, the Co-operative Group and CBG hereby each represent, warrant and undertake to the Bank in the terms of the Warranties set out in Part 2 of Schedule 2. Each of the Co-operative Group and CBG acknowledges that the Bank is entering into this Agreement in reliance on such representations, warranties and undertakings and each such representation, warranty and undertaking shall not be limited by reference (express or implied) to the terms of any other representation, warranty or undertaking.

5.3 The representations, warranties and undertakings contained in this Agreement shall remain in full force and effect after and notwithstanding completion of the subscription of the Group Shares.

## 6. SUBSCRIPTION DATE

- 6.1 The issuance and the subscription of the Group Shares shall take place immediately following satisfaction of the Condition (the **Subscription Date**).
- 6.2 On the Subscription Date, and if so requested by CBG, the Bank shall deliver to CBG forthwith a share certificate in respect of the Group Shares and the Bank shall forthwith enter the name of CBG in the Bank's register of members in respect of such Group Shares.

## 7. FUNDING OF CBG

- 7.1 The Co-operative Group, CBG and the Bank shall, on the date of this Agreement, enter into the Intra-Group Loan.
- 7.2 The Co-operative Group irrevocably undertakes that it shall, immediately following the Subscription Date, contribute by way of capital contribution (for no consideration) to CBG all New Ordinary Shares received pursuant to the Recapitalisation Plan (as issued in consideration for the surrender of certain of the Bank's subordinated securities and abrogation of certain rights in connection with the Preference Shares pursuant to the Liability Management Exercise (the **Transfer**)) and:
- (a) the Co-operative Group shall, if necessary, execute a stock transfer form in respect of the Transfer and deliver it to CBG, together with the relevant share certificate (if any); and
  - (b) the Bank shall register the Transfer by updating its register of members.

## 8. PAYMENT AND DEFAULT

- 8.1 CBG agrees and undertakes that the Undertaking to Pay shall be discharged by CBG:
- (a) in full without any set-off, counterclaim, deduction or withholding (other than any deduction or withholding for tax required by law); and
  - (b) in accordance with clause 2.3 and, in any event, no later than 31 December 2014.
- 8.2 Co-operative Group and CBG hereby agree that, in the event that there is a breach of the obligations under the Undertaking to Pay:
- (a) Default Interest shall accrue as a separate payment obligation on any outstanding amount of the Undertaking to Pay on a daily basis, from and including the due date for payment;
  - (b) CBG waives all rights that it has in respect of the Group Shares, including rights to dividend, capital and voting;
  - (c) each of Co-operative Group and CBG waives all their respective rights that it may have under the Relationship Agreement without any effect on all obligations that it may be subject to under the Relationship Agreement, which shall survive without change;
  - (d) CBG shall procure the immediate resignation of its nominee director(s) from the board of the Bank appointed pursuant to the Relationship Agreement (the **Nominee Directors(s)**), failing which, the Bank may remove such Nominee Director(s), and CBG shall indemnify the Bank in full against any claim by any such Nominee Director(s) arising from this resignation or removal pursuant to this clause 8.2(d);
  - (e) the Bank may exercise or direct the Security Trustee to exercise any or all of its rights, remedies, powers or discretions under the Finance Documents; and

- (f) CBG shall, at the request of the Bank, transfer all, or some, of the Group Shares with full title guarantee and free from all encumbrances to:
  - (i) a third-party buyer as directed by Bank (a **Third Party Transfer**); or
  - (ii) the Bank for nil consideration.

8.3 In respect of any transfer pursuant to clause 8.2(f) above, the Bank shall:

- (a) use reasonable endeavours (acting in good faith) to ensure that any Third Party Transfer is on terms as close to arms' length as possible, and use any amount received from the relevant third party to reduce any amount outstanding to the Bank from CBG;
- (b) where the Bank determines to require the transfer of Group Shares to it pursuant to clause 8.2(f)(ii), the Bank may require the transfer of:
  - (i) such proportion of the Group Shares as is equal to the outstanding amount of the Undertaking to Pay plus any Default Interest (at the time of the relevant breach of the obligation under the Undertaking to Pay) as a proportion of the Subscription Amount and the Undertaking to Pay plus any Default Interest shall, following such transfer, be discharged in its entirety; or
  - (ii) such other number of Group Shares as the Bank shall specify (the **Specified Shares**), provided that the Specified Shares shall have a value no greater than the aggregate of the amount outstanding under the Undertaking to Pay and any Default Interest, and shall reduce such amount by the lower of:
    - (A) the fair market value of the Group Shares so transferred to the Bank; and
    - (B) where the Group Shares are retained or cancelled by the Bank, the aggregate amount that a third party (or third parties, as the case may be) pay to the Bank in consideration (including any deferred consideration) for the issuance by the Bank of such number of ordinary shares in the Bank as is equal to the number of Group Shares transferred pursuant to clause 8.2(f)(ii), whether or not such shares are issued at a discount to their fair market value and provided that such ordinary shares are issued on or before the six month anniversary of the transfer of such Group Shares to the Bank pursuant to clause 8.2(f)(ii),

provided further that if such lower amount exceeds the Undertaking to Pay, the Bank shall account to CBG for the difference.

8.4 No failure by the Bank to exercise, or delay in exercising, any right or remedy provided by law or under this Agreement shall impair such right or remedy, operate or be construed as a waiver or variation of it, constitute an affirmation of this Agreement, or preclude the exercise of such right or remedy at any subsequent time and no single or partial exercise of any such right or remedy shall preclude any further or other exercise of it or the exercise of any other remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law. For the avoidance of doubt, in no event shall the obligations of CBG under the Undertaking to Pay be limited to the Group Shares issued to CBG under this agreement, or any monies received by the Bank pursuant to the exercise of its rights under clause 8.3, and the Bank shall have all such rights and shall be permitted to take any steps required for the purpose of obtaining payment in full from CBG pursuant to the Undertaking to Pay.



- 8.5 Where Group Shares are transferred under clause 8.2(f), the Parties acknowledge and confirm that, subject to the waiver of rights in accordance with clause of this Agreement, the Relationship Agreement shall continue to apply in accordance with its terms.
- 8.6 CBG hereby irrevocably appoints each member of the board of the Bank, from time to time, as its attorney (each an **Attorney**), with full authority on its behalf and in its name or otherwise and as security for the performance by CBG of its obligations under clause 8.2(e) the discharge of the Undertaking to Pay, to approve, sign, execute, deliver and complete (as a deed or otherwise) all such agreements, instruments, deeds, papers, resolutions, authorisations and documents and do all such acts and things which may be required, in each case should CBG fail to comply with any of its obligations under clause 8.2(e) (the **Power of Attorney**).
- 8.7 CBG hereby declares that the Power of Attorney is conclusive and binding and hereby undertakes at all times hereafter to ratify and confirm whatsoever the Attorney shall lawfully do or cause to be done by virtue of the Power of Attorney.
- 8.8 CBG irrevocably and unconditionally undertakes at all times to indemnify and keep indemnified each Attorney against all or any actions, proceedings, claims, costs, expenses and liabilities whatsoever arising from the exercise or purported exercise of the powers conferred or purported to be conferred by the Power of Attorney.
- 8.9 The Power of Attorney shall expire at midnight (London time) on the date that the Undertaking to Pay has been satisfied in full.
- 8.10 If any payment under this Agreement is scheduled to be made on a day which is not a Business Day, then the payment must be made on the following Business Day (if it is in the same calendar month) or the preceding Business Day (if it is not).

## **9. OBLIGATIONS OF CBG IN RELATION TO THE LIABILITY MANAGEMENT EXERCISE**

Co-operative Group and CBG each hereby agrees to pass all shareholder and other necessary resolutions, and to do all such things and take all actions as may be reasonably required in order to give effect to the Recapitalisation Plan, including the Scheme and the Liability Management Exercise, which shall include, but shall not be limited to, the passing of all resolutions in its capacity as shareholder of the Bank required pursuant to the Steps Plan and authorising Bank to issue New Ordinary Shares in connection with the Scheme which shall include, for the avoidance of doubt, a waiver of all pre-emption rights that it may have in relation to any such issue of shares.

## **10. ASSIGNMENT**

The benefit of this Agreement may not be assigned or transferred (whether by way of security or otherwise) in whole or in part by CBG or the Co-operative Group without the prior written consent of the Bank.

## **11. COMPLIANCE WITH AGREEMENT AND ARTICLES OF ASSOCIATION**

The Co-operative Group undertakes to the Bank that it will exercise all powers and rights available to it as a shareholder in CBG in order to give effect to the provisions of this Agreement and shall ensure that CBG complies with its obligations under this Agreement.

## 12. MUTUAL WAIVER OF CLAIMS

With effect from the Subscription Date and to the fullest extent permitted by law, Bank (for itself and for the Bank Related Parties) and Co-operative Group (for itself and each other Group Related Party), waive each and every claim which they may have against the other in relation to or in connection with or in any way arising out of the preparation, negotiation or implementation of the Liability Management Exercise or the recapitalisation of the Bank and/or the circumstances which gave rise to the requirement for a recapitalisation of the Bank. For the avoidance of doubt, none of the parties referred to in this clause shall be prohibited or restricted by this clause from enforcing any rights under any of the transaction documentation entered into in connection with the Recapitalisation Plan.

## 13. IRREVOCABLE VOTING AGREEMENT

In connection with a notice of extraordinary general meeting sent to the shareholders of the Bank on or around 4 November 2013 (the **Notice**) convening an extraordinary general meeting of the Bank, to be held on or around 15 November 2013 (the **EGM**), each of Co-operative Group and CBG irrevocably undertake and agree:

- (a) to vote in favour of each and every resolution to be proposed at the EGM in respect of all the ordinary shares in Bank they each hold as at the date of the EGM, including resolution (1) contained in the Notice, adopting the new Articles of Association of the Bank in the agreed form; and
- (b) to do to everything reasonably practicable to procure the adoption of the new Articles of Association of the Bank in the agreed form.

## 14. NOTICES

14.1 Any notice or other communication to be given under this Agreement must be in writing and must be delivered or sent by post or airmail (with a copy to be sent by email) to the party to whom it is to be given as follows:

- (a) to the Bank at:  
PO Box 101, 1 Balloon Street, Manchester, M60 4EP  
Marked for the attention of: the Company Secretary  
Email: [To be notified]
- (b) to the Co-operative Group at:  
1 Angel Square, Manchester, M60 0AG  
Marked for the attention of: the Company Secretary  
Email: [To be notified]
- (c) to CBG at:  
1 Angel Square, Manchester, M60 0AG  
Marked for the attention of: the Company Secretary

Email: [To be notified]

or at any such other address of which it shall have given notice for this purpose to the other parties under this clause 12. Any notice or other document sent by post or airmail shall be sent by prepaid first class recorded delivery post (if within the United Kingdom) or by prepaid airmail (if elsewhere) and a scanned copy of such notice or other document shall be sent on the same date that it is sent by post or airmail to the email address notified

- 14.2 Any notice or other communication shall be deemed to have been given:
- (a) if delivered, at the time of delivery; or
  - (b) if posted, at 10.00 a.m. on the second Business Day after it was put into post if sent within the United Kingdom, or at 10.00 am (local time at the place of destination) on the fifth Business Day after it was put into the post, if sent by airmail.
- 14.3 In proving the serving of a notice or document, it shall be sufficient to prove that delivery was made or that the envelope containing the notice or document was properly addressed and posted (either by prepaid first class recorded delivery post or by prepaid airmail, as the case may be) or that the email was properly addressed and sent, as the case may be.
- 14.4 This clause 12 shall not apply in relation to the service of any claim form, notice, order, judgment or other document relating to or in connection with any proceedings, suit or action arising out of or in connection with this Agreement.

## **15. GENERAL**

- 15.1 This Agreement and the documents referred to in it contain the whole agreement between the parties relating to the arrangements contemplated by it and supersede all previous agreements between the Parties relating to these arrangements
- 15.2 Each Party shall pay the costs and expenses incurred by it in connection with the entering into of this Agreement and of all other documents referred to in it
- 15.3 This Agreement may be executed in any number of counterparts all of which, taken together, shall constitute one and the same Agreement and any party (including any duly authorised representative of a Party) may enter into this Agreement by executing a counterpart. Facsimile signatures shall be valid and binding to the same extent as the original signatures.
- 15.4 Except as provided in clause 15.5 below, a person who is not a party to this Agreement may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999.
- 15.5 Any Bank Related Party or Group Related Party may, in its own right, enforce its rights under clause 12 subject to, and in accordance with, the terms of this Agreement and the Contracts (Rights of Third Parties) Act 1999.
- 15.6 The provisions contained in each clause and sub-clause of this Agreement shall be enforceable independently of each of the others and their validity shall not be affected if any of the others are invalid.

## **16. GOVERNING LAW AND JURISDICTION**

- 16.1 This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by English law.

16.2 The English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with this Agreement (including a dispute relating to any non-contractual obligations arising out of or in connection with this Agreement) and the parties submit to the exclusive jurisdiction of the English courts.

**IN WITNESS WHEREOF** this Agreement has been executed by the Parties (or their duly authorised representatives) as a deed and delivered on the date which first appears on page 1.

## SCHEDULE 1

### INTERPRETATION

1. In this agreement:

**Articles of Association** means the memorandum of association and the articles of association of the Bank as subsequently amended from time to time;

**Bank LT2 Prospectus** means the prospectus to be published on or around the date of this Agreement in respect of the 10.5 per cent. subordinated notes due 2023 pursuant to the Recapitalisation Plan;

**Bank Related Party** means each subsidiary and subsidiary undertaking of Bank together with all directors and employees of each such subsidiary and subsidiary undertaking of Bank;

**Board** means the directors of the Bank;

**Business Day** means a day (other than a Saturday or Sunday) on which banks are generally open in London for normal business;

**Capital Rules** means the applicable rules of the Supervisory Authority (as amended or replaced from time to time) and any other rules or regulations relating to the capital to be held by the Bank from time to time;

**Co-operative General Insurance** means CIS General Insurance Limited;

**Co-operative Life Insurance and Asset Management Deferred Consideration** means the £180 million contingent deferred consideration from the Co-operative Life Insurance and Asset Management Sale;

**Co-operative Life Insurance and Asset Management Sale** means the sale of Royal London (CIS) Limited (formerly known as Co-operative Insurance Society Limited) and Royal London Asset Management (CIS) Limited (formerly known as The Co-operative Asset Management Limited);

**City Code** means the City Code on Takeovers and Mergers;

**Common Equity Tier 1 Capital** at any time, has the meaning ascribed thereto (or to any equivalent term) at such time in the Capital Rules;

**Condition** means the Scheme having been implemented in accordance with its terms (including the completion of the subscription of an additional £125 million of New Ordinary Shares by holders of LT2 Notes in accordance with the terms of the Scheme) and each of the Exchange Offers having become unconditional in accordance with their respective terms;

**Conversion Price** means an effective subscription price of £6.16 per New Ordinary Share in respect of the 2014 Commitment calculated in the manner described in the Offering Memorandum;

**Default Interest** means interest at a rate of 9 per cent. per annum, calculated on the basis of the actual number of days elapsed and a year of 360 days;

**Disposal** means the offer, sale, contract to sell, grant or sale of options over, purchase of any option or contract to sell, transfer, charge, pledge, grant of any right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any Ordinary Shares (including, for the avoidance of

doubt, the legal and/or beneficial interest of such Group Shares) or any securities convertible into or exercisable or exchangeable for Ordinary Shares or the entry into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares, whether any such transaction described above is to be settled by delivery of Ordinary Shares or such other securities, in cash or otherwise or any other disposal or agreement to dispose of any Ordinary Shares or any announcement or other publication of the intention to do any of the foregoing, or any direction to do the same, and "**dispose**" shall be construed accordingly;

**Effective Date** means the date on which the Exchange Offer becomes unconditional and the date upon which provisions of the Relationship Agreement commence;

**Enforcement Proceeds** has the meaning given to it in the Intra-Group Loan;

**Exchange Offers** means exchange offers by the Bank and the Co-operative Group (as applicable) holders of the Bank's Preference Shares and Perpetual Securities for certain new securities to be issued by Bank and the Co-operative Group (as applicable);

**Group** means the Co-operative Group and any person which is from time to time a subsidiary or subsidiary undertaking of the Co-operative Group, a parent undertaking of the Co-operative Group and any other subsidiary or subsidiary undertaking of the parent undertaking (other than the Bank and its subsidiaries and subsidiary undertakings);

**Group Related Party** means the Group and all directors and employees of each member of the Group;

**Group Shares** has the meaning given to it in clause 2.1;

**Intra-Group Loan** means the intercompany loan agreement between Co-operative Group as lender and Security Trustee, CBG as borrower and the Bank dated on or about the date of this Agreement;

**Finance Documents** means the Intra-Group Loan and the Security Agreement;

**Liability Management Exercise** means the Exchange Offers and Scheme which form part of the Recapitalisation Plan of the Bank;

**Loan** has the meaning given to it in the Intra-Group Loan;

**Lock-up** has the meaning given to it in clause 4.1;

**London Stock Exchange** means London Stock Exchange plc;

**LT2 Notes** means the following lower tier 2 bonds issued by the Bank: Floating Rate Callable Step-up Dated Subordinated Notes due 2016 (ISIN: XS0254625998); 5.875% Subordinated Callable Notes due 2019 (ISIN: XS0189539942); 9.25% Subordinated Notes due 28 April 2021 (ISIN: XS0620315902); Fixed/Floating Rate Subordinated Notes due November 2021 (ISIN: XS0274155984); 7.875% Subordinated Notes due 19 December 2022 (ISIN: XS0864253868); 5.75% Dated Callable Step-up Subordinated Notes due 2024 (ISIN: XS0188218183); and 5.875% Subordinated Notes due 2033 (ISIN: XS0145065602);

**Net Insurance Sale Proceeds** has the meaning given to it in the Intra-Group Loan;

**New Ordinary Shares** means the ordinary shares of £0.05 each in the capital of the Bank to be issued in connection with the Scheme;

**Ordinary Shares** means the ordinary shares in the Bank from time to time;

**Perpetual Securities** means the £100 million 13% perpetual subordinated note and the £200 million 5.555% perpetual subordinated notes issued by the Bank;

**PRA** means the Prudential Regulation Authority in the United Kingdom;

**Preference Shares** means the £60 million 9.25% non-cumulative irredeemable preference shares;

**Recapitalisation Plan** means the recapitalisation plan including the Liability Management Exercise, full details of which are to be announced by the Bank and the Co-operative Group on or around the date of this Agreement;

**Registrar** means Computershare Investor Services PLC;

**Relationship Agreement** means the executed relationship agreement between the Parties dated on or before the date of this Agreement;

**Rules** means the rules of the Co-operative Group or CBG (as each are amended from time to time) as the context requires;

**Scheme** means the scheme of arrangement to be implemented in respect of the LT2 Notes under part 26 of the Companies Act 2006;

**Security Agreement** has the meaning given to it in the Intra-Group Loan;

**Security Trustee** means Co-operative Group in its capacity as such under the Intra-Group Loan and the Security Agreement;

**Settlement Date** has the meaning given to it in the Bank LT2 Prospectus;

**Steps Plan** means the steps plan setting out the planned steps of the Recapitalisation Plan;

**Subscription Amount** means £333 million;

**Subscription Date** has the meaning given to it in clause 6.1;

**Third Party Transfer** has the meaning given to it in clause 8.2(e); and

**Warranties** means the warranties set out in clause 4 and Schedule 2 and a **Warranty** means any one of them.

## **SCHEDULE 2**

### **WARRANTIES**

#### **PART 1**

#### **BANK WARRANTIES**

##### **Corporate organisation and business**

1. The Bank is a company with limited liability, duly incorporated and validly existing as a public limited company under the laws of England and Wales, with full power and authority under its Articles of Association and otherwise to enter into and perform its obligations pursuant to this Agreement and any other agreement to be entered into by it in connection with the issuance of the Group Shares.
2. Neither the execution (and in the case of a deed, delivery) by the Bank of this Agreement nor the performance by the Bank of any of its obligations under this Agreement will violate or conflict with:
  - (a) a provision in the Articles of Association; or
  - (b) an order or judgement of a court, tribunal or governmental or regulatory body (of the United Kingdom or elsewhere) which is binding on the Bank.



## PART 2

### CO-OPERATIVE GROUP AND CBG WARRANTIES

#### Co-operative Group Warranties

1. The Co-operative Group is an industrial and provident society with limited liability duly incorporated and validly existing under the laws of England and has the corporate power to own its own property and assets and to carry on its business as it is now being conducted.
2. The Co-operative Group has corporate power to enter into the obligations contained in this Agreement and the Intra-Group Loan and has taken all necessary action to authorise the execution and delivery of this Agreement and the Intra-Group Loan and the performance hereof and thereof.
3. Neither the execution (and in the case of a deed, delivery) by the Co-operative Group of this Agreement or the Intra-Group Loan nor the performance by the Co-operative Group of any of its obligations under this Agreement or the Intra-Group Loan will violate or conflict with:
  - (a) a provision in the Rules of the Co-operative Group;
  - (b) a provision in an agreement or instrument which is binding on the Co-operative Group; or
  - (c) an order or judgement of a court, tribunal or governmental or regulatory body (of the United Kingdom or elsewhere) which is binding on the Co-operative Group.
4. The Co-operative Group and CBG together are the legal and beneficial owners of the entire issued Ordinary Shares as at the date of this Agreement and, otherwise than as contemplated as part of the Liability Management Exercise:
  - (a) there has been no agreement or arrangement entered into (whether conditional or not) which requires the present or future creation, allotment, issue, sale, transfer, redemption or repayment of any share or loan capital of the Bank or grants or requires the grant to any person of the right to all for the creation, allotment, issue, sale, transfer, redemption or repayment of any share or loan capital of the Bank; and
  - (b) no person has claimed any right to call for the creation, allotment, issue, sale, transfer, redemption or repayment of any share or loan capital in the Bank.

#### CBG Warranties

5. CBG is an industrial and provident society with limited liability duly incorporated and validly existing under the laws of England and has the corporate power to own its own property and assets and to carry on its business as it is now being conducted.
6. CBG has corporate power to enter into the obligations contained in this Agreement and the Intra-Group Loan and has taken all necessary action to authorise the execution and delivery of this Agreement and the Intra-Group Loan and the performance hereof and thereof.
7. The Co-operative Group and CBG together are the legal and beneficial owners of the entire issued Ordinary Shares as at the date of this Agreement and, otherwise than as contemplated as part of the Liability Management Exercise:
  - (a) there has been no agreement or arrangement entered into (whether conditional or not) which requires the present or future creation, allotment, issue, sale, transfer, redemption or

repayment of any share or loan capital of the Bank or grants or requires the grant to any person of the right to all for the creation, allotment, issue, sale, transfer, redemption or repayment of any share or loan capital of the Bank; and

(b) no person has claimed any right to call for the creation, allotment, issue, sale, transfer, redemption or repayment of any share or loan capital in the Bank.

8. Neither the execution (and in the case of a deed, delivery) by CBG of this Agreement or the Intra-Group Loan nor the performance by CBG of any of its obligations under this Agreement or the Intra-Group Loan will violate or conflict with:

(a) a provision in the Rules of CBG;

(b) a provision in an agreement or instrument which is binding on CBG; or

(c) an order or judgement of a court, tribunal or governmental or regulatory body (of the United Kingdom or elsewhere) which is binding on CBG.

9. CBG is not unable to, nor has it admitted an inability to, pay its debts as they fall due, nor has it suspended making any payment on any of its debts.

10. The value of the assets of CBG is not less than its liabilities (taking into account contingent and prospective liabilities).

### SCHEDULE 3

#### DEED OF ADHERENCE

This **Deed of Adherence** is made on [●] by [covenantor] of [address] (the **Covenantor**) in favour of the Co-operative Bank plc a company incorporated under the laws of England and Wales with registered number 00990937 and whose registered office is at PO Box 101, 1 Balloon Street, Manchester M60 4EP (the **Bank**) and is supplemental to the provisions of clause 4 to the 2014 Commitment Agreement dated 4 November 2013 (the **2014 Commitment Agreement**) and made between the Bank, the Co-operative Group and CBG.

Now this Deed witnesses as follows:

1. The Covenantor hereby confirms that it has been supplied with a copy of the Subscription Agreement and hereby covenants with the Bank and the other Parties to observe, perform and be bound by all the terms contained in Clause 4 of the 2014 Commitment Agreement.
2. The Covenantor hereby represents, warrants and undertakes to the Bank that:
  - (a) it is a company with limited liability duly incorporated and validly existing under the laws of England and has the corporate power to own its own property and assets and to carry on its business as it is now being conducted;
  - (b) it has corporate power to enter into the obligations contained in the 2014 Commitment Agreement and has taken all necessary action to authorise the execution and delivery of the 2014 Commitment Agreement and the performance hereof and thereof; and
  - (c) neither the execution (and in the case of a deed, delivery) by the Covenantor of the 2014 Commitment Agreement nor the performance by the Covenantor of any of its obligations under this Agreement will violate or conflict with:
    - (i) a provision in the memorandum or articles of association of the Covenantor;
    - (ii) a provision in an agreement or instrument which is binding on the Covenantor;
    - (iii) an order or judgement of a court, tribunal or governmental or regulatory body (of the United Kingdom or elsewhere) which is binding on the Covenantor.
3. Terms defined in this Deed but not otherwise defined, shall have the meaning given to them in the 2014 Commitment Agreement.
4. For the purposes of clause 12 of the 2014 Commitment Agreement, the address for the Covenantor shall be:

Address: [●]

Fax Number: [●]

For the attention of: [●]

Email: [●]
5. This Deed (including non-contractual disputes or claims) shall be governed by and construed in accordance with English law.

**In witness** whereof this Deed has been executed by the parties as a deed on the date stated at the beginning of this Deed.

**EXECUTED** as a **DEED** by )  
 )  
for and on behalf of )  
**[COVENANTOR]** ) .....

in the presence of:

Name  
Address  
Position

**EXECUTED** as a **DEED** by )  
for and on behalf of )  
**THE CO-OPERATIVE BANK P.L.C.** ) .....

in the presence of:

Name  
Address  
Position

**EXECUTED** as a **DEED** by affixing the )  
common seal of the )  
**CO-OPERATIVE BANKING GROUP** )  
**LIMITED** in the presence of: ) .....

Authorised signatory

Name  
Address  
Position

**EXECUTED** as a **DEED** by affixing the )  
common seal of the )  
**CO-OPERATIVE GROUP LIMITED** in the )  
presence of: )  
 )

Authorised signatory

Name  
Address  
Position

**EXECUTION PAGES**

**SIGNED as a DEED by** )  
**THE CO-OPERATIVE BANK P.L.C.** acting by ) .....  
its attorney )

in the presence of:

Witness's Signature:  
.....  
Name:  
.....  
Address:  
.....

**SIGNED as a DEED by** )  
**CO-OPERATIVE BANKING GROUP** ) .....  
**LIMITED** acting by its attorney )

in the presence of:

Witness's Signature:  
.....  
Name:  
.....  
Address:  
.....

**SIGNED as a DEED by** )  
**CO-OPERATIVE GROUP LIMITED** acting by ) .....  
its attorney )

in the presence of:

.....  
Witness's Signature:  
.....  
Name:  
.....  
Address:  
.....