

The Co-operative Bank p.l.c.
1 Balloon Street, Manchester, M60 4EP
(Registered in England and Wales under company number 00990937)

4 December 2013

To: Scheme Creditors

Dear Sir/Madam

Amendment Letter to the Explanatory Statement dated 18 November 2013 (the Explanatory Statement)

Save as defined in this Amendment Letter, words and expressions defined in the Explanatory Statement have the same meanings in this Amendment Letter.

THIS AMENDMENT LETTER CONTAINS MATTERS RELATING TO THE SCHEME WHICH MAY AFFECT YOUR RIGHTS AND ENTITLEMENTS. YOU ARE THEREFORE ADVISED TO READ THE CONTENTS OF THIS AMENDMENT LETTER CAREFULLY AND, IF APPROPRIATE, TAKE LEGAL ADVICE AS TO ITS CONTENTS.

1. INTRODUCTION

- (a) On 18 November 2013, The Co-operative Bank p.l.c. (the **Company**) sought directions from the Court in relation to the convening of the Scheme Meeting to enable Scheme Creditors to consider and, if thought fit, approve the Scheme. As set out in the Explanatory Statement, the Scheme forms part of the Liability Management Exercise which is expected to contribute at least £1 billion Common Equity Tier 1 Capital by the end of 2013.
- (b) By the order of Mr Justice Hildyard dated 18 November 2013 (the **Convening Order**), the Company was granted permission to convene a Scheme Meeting of a single class of Noteholders, being the beneficial owners of and/or owners of the ultimate beneficial interest in the Dated Notes, to be held at the Holiday Inn London (Bloomsbury), Coram Street, London WC1N 1HT on 11 December 2013 commencing at 10 a.m. (London time). **Scheme Creditors should note that, as set out in the Notice of Scheme Meeting (as defined in the Modified Explanatory Statement (as defined below)) dated 4 December 2013, the Scheme Meeting for the purposes of considering and, if thought fit, approving the Modified Scheme will take place at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD at 10 a.m. on 16 December 2013 and not at the Holiday Inn London (Bloomsbury) as set out in the Convening Order.**

2. BACKGROUND TO THE AMENDMENTS TO THE EXPLANATORY STATEMENT

- (a) Following the Convening Order, the Notice of Scheme Meeting was notified to the Scheme Creditors in accordance with the Convening Order and the Explanatory Statement was made available to Scheme Creditors on the Scheme Website. Following the notification of the Scheme Creditors and the publication of the Explanatory Statement, certain Noteholders have raised concerns with the Company and its advisers regarding the allocation mechanism for the allocation of Additional New Ordinary Shares under the Additional New Ordinary Shares Offer as described in the Explanatory Statement at pages 49 to 54.
- (b) The concerns were raised by both Noteholders who were members of the LT2 Group and had entered into Lock-up Agreements with the Company to vote in favour of the Scheme, and

Noteholders who were not members of the LT2 Group (and had not entered into Lock-up Agreements with the Company). A summary of the concerns raised by the Noteholders is set out in paragraphs (c) to (f) below.

- (c) The Additional New Ordinary Shares Offer requires Noteholders wishing to participate in the offer to elect to participate in a minimum amount of 50,000 Additional New Ordinary Shares (at a cost of £100,000) and a maximum amount of 62,500,000 Additional New Ordinary Shares. The minimum election amount was included in order for the Company to rely on an exemption from the requirement to publish a prospectus in connection with the Additional New Ordinary Shares Offer. In the event that the aggregate elections of all Subscribing Noteholders as at the Voting Instruction Deadline exceed 62,500,000 Additional New Ordinary Shares, paragraphs 2.29 and 2.30 of Part B (*Overview of the Scheme*) of the Explanatory Statement set out the mechanism to allocate the 62,500,000 Additional New Ordinary Shares amongst the Noteholders who have elected to participate. Subscribing Noteholders can elect to participate in the Additional New Ordinary Shares Offer by submitting a valid Account Holder Letter to the Information Agent by no later than 4.30 p.m. (London time) on 10 December 2013.
- (d) The allocation mechanism includes the First Round Exception (as defined in paragraph 2.30 of Part B (*Overview of the Scheme*) of the Explanatory Statement). The First Round Exception provides that if the aggregate Minimum Elections (being elections equal to 50,000 Additional New Ordinary Shares) exceed 62,500,000 Additional New Ordinary Shares, then the first 1,250 Subscribing Noteholders to elect to participate in the Additional New Ordinary Shares Offer will be allocated 50,000 Additional New Ordinary Shares each (irrespective of the size of their Subscription Amounts). In such circumstances, the first 1,250 Subscribing Noteholders would receive 50,000 Additional New Ordinary Shares irrespective of the size of their Scheme Consideration Calculation Amount (being the aggregate principal amount of Dated Notes plus interest accrued up to and including the Record Date).
- (e) Noteholders holding large amounts of Dated Notes (including some Noteholders with in excess of 5 per cent. of the principal amount outstanding of the Dated Notes) informed the Company that they were concerned that, because of the operation of the First Round Exception in the allocation mechanism, there was a significant risk that they could receive materially less than the allocation of Additional New Ordinary Shares they would have received had the allocation been done on a *pro rata* basis based on the proportion of their Scheme Consideration Calculation Amount to the aggregate Scheme Consideration Calculation Amounts of Noteholders electing to participate in the Additional New Ordinary Shares Offer (and without adjustments to take into account allocations of the Minimum Election of 50,000 Additional New Ordinary Shares in the First Round Exception). Certain Noteholders indicated that such a result, if it materialised, would not meet their commercial expectations as holders of Dated Notes issued by the Company for an equity issue of this nature in these circumstances.
- (f) As set out in the RNS number 1501U dated 28 November 2013, certain members of the LT2 Group and certain other Noteholders (the **Ad Hoc Group**) holding approximately 48 per cent. of the principal amount outstanding of the Dated Notes requested an amendment to the Scheme and the Explanatory Statement to address the concerns highlighted above (the **Modified Scheme Request**).
- (g) Having considered the Modified Scheme Request, and having had due and particular regard to the feedback received from other Noteholders in addition to certain members of the LT2 Group (including the Ad Hoc Group), the Company believes that the amendments to the Scheme and the Explanatory Statement set out in the Modified Scheme Request are reasonable and appropriate and would assist in mitigating the concerns raised by Noteholders.
- (h) The Modified Scheme Request requires certain modifications to the Explanatory Statement and the Scheme as set out in more detail in paragraph 3 below.

3. AMENDMENTS TO THE EXPLANATORY STATEMENT

3.1 Additional New Ordinary Shares Offer

- (a) The Additional New Ordinary Shares Offer will be amended so that:
- (i) the Additional New Ordinary Shares Offer will be an offer of 33,333,334 ordinary shares in the Company with a nominal price per share of £0.05 and a subscription price per share of £3.75 raising, in aggregate, £125,000,002.50; and
 - (ii) Noteholders wishing to participate in the Additional New Ordinary Shares Offer will be entitled to elect to subscribe for between 26,667 (at a cost of £100,001.25) and 33,333,334 Additional New Ordinary Shares.
- (b) The First Round Exception will be amended so that if the aggregate Minimum Elections made by all Subscribing Noteholders exceeds 33,333,334 Additional New Ordinary Shares, the Additional New Ordinary Shares will be allocated to the first 1,249 Subscribing Noteholders (for the avoidance of doubt, irrespective of whether they have elected the Minimum Election or some larger Subscription Amount) who validly elected to subscribe for Additional New Ordinary Shares (the **Early Subscribing Noteholders**), with the remaining 26,251 Additional New Ordinary Shares being allocated amongst all Early Subscribing Noteholders that have elected to subscribe for an amount of Additional New Ordinary Shares in excess of the Minimum Election (the **Unfilled Subscribing Noteholders**) *pro rata* based on the proportion that an Unfilled Subscribing Noteholder's Scheme Consideration Calculation Amount bears to the aggregate Scheme Consideration Calculation Amounts of all Unfilled Subscribing Noteholders subject to a maximum allocation of Additional New Ordinary Shares equal to the Subscription Amount of that Unfilled Subscribing Noteholder. For the avoidance of doubt, an Unfilled Subscribing Noteholder who, through this process, receives its Subscription Amount, will no longer be an Unfilled Subscribing Noteholder and will cease to be allocated further Additional New Ordinary Shares
- (c) Paragraphs 2.22 to 2.30 of Part B (*Overview of the Scheme*) of the Explanatory Statement and the definition of Additional New Ordinary Shares will be amended accordingly. Other than the amendments to the figures described in paragraph 3.1(a) and the amendment described in paragraph 3.1(b) above, the allocation mechanism for the allocation of Additional New Ordinary Shares described in the Explanatory Statement will remain the same.
- (d) A revised illustrative allocation model will be included in Appendix 6 (*Illustrative Additional New Ordinary Shares Allocation Model*) of the Modified Explanatory Statement (as defined below).
- (e) The ordinary shares offered pursuant to the Additional New Ordinary Shares Offer (modified as set out in paragraph 3.1(a) and 3.1(b) above), will represent 13.33 per cent. of the total issued share capital of the Company following completion of the Liability Management Exercise.
- (f) The allocation of Sub-purchasing Shares in the Sub-purchasing Offer will be amended so that if the aggregate minimum allocations exceeds the aggregate number of Sub-purchasing Shares, the obligation to subscribe for Sub-purchasing Shares will be allocated to Sub-purchasers in the order that their Account Holder Letters were received by the Information Agent (Account Holder Letters will be date and time stamped upon receipt by the Information Agent for this purpose).
- (g) Paragraph 2.41 of Part B (*Overview of the Scheme*) of the Explanatory Statement will be amended accordingly.

3.2 Consequential and related amendments

- (a) The number of New Ordinary Shares to be issued as Scheme Consideration will be amended to 141,666,666 ordinary shares in the Company resulting in the New Ordinary Shares Conversion Price being amended to £6.17566631 per share (having also taken into account the amended Record Date as set out in paragraph 3.2(e) below). The definition of New Ordinary Shares and New Ordinary Shares Conversion Price in the Explanatory Statement and the Scheme will be amended accordingly.
- (b) The Company has entered into a new agreement (the **Modified Scheme Purchase Agreement**) with certain Noteholders (the **Modified Scheme Purchasers**) to replace the Purchase Agreement. The Modified Scheme Purchase Agreement provides that the Modified Scheme Purchasers agree to back-stop the purchase of the Additional New Ordinary Shares pursuant to the Additional New Ordinary Shares Offer as set out in the Modified Scheme. Paragraphs 2.31 and 2.32 of Part B (*Overview of the Scheme*) of the Explanatory Statement will be amended accordingly.
- (c) The New Ordinary Shares to be distributed as Scheme Consideration (modified as set out in paragraph 3.2(a) above), will represent 56.67 per cent. of the total issued share capital of the Company following completion of the Liability Management Exercise.
- (d) The Scheme, if implemented, would have resulted in the Noteholders holding 70 per cent. of the total issued share capital of the Company. Following implementation of the Modified Scheme (as defined below), Noteholders will still own 70 per cent. of the total issued share capital of the Company.
- (e) The Expected Timetable of principal events as set out in the Explanatory Statement will be amended as follows:

Event	Expected Time and date in Explanatory Statement	Expected Time and Date in Modified Explanatory Statement
Custody Instruction Deadline	5 p.m. (local time in the place of the relevant Clearing System) on 9 December 2013	5 p.m. (local time in the place of the relevant Clearing System) on 12 December 2013
Record Date	4.30 p.m. on 10 December 2013	4.30 p.m. on 13 December 2013
Voting Instruction Deadline	4.30 p.m. on 10 December 2013	4.30 p.m. on 13 December 2013
Scheme Meeting	10 a.m. on 11 December 2013	10 a.m. on 16 December 2013
Scheme Sanction Hearing	16 December 2013	18 December 2013
Anticipated Scheme Effective Date	17 December 2013	18 December 2013
Anticipated Scheme Settlement Date	18 December 2013	20 December 2013

Full details of the Expected Timetable of Principal Events can be found on pages 16 and 17 of the Modified Explanatory Statement.

- (f) The amendment to the Record Date set out in paragraph 3.2(e) above will result in an additional three days' of interest accruing on each series of Dated Notes for the purposes of the calculation of

entitlements of Noteholders to Scheme Consideration. Accordingly, the Consideration Amount per £1,000 of Scheme Consideration Calculation Amount will be amended so that for every £1,000 of Scheme Consideration Calculation Amount a Scheme Creditor has, it will receive:

- (i) £102.57 of Bank T2 Notes; and
- (ii) £897.43 of New Ordinary Shares.

Paragraph 2.3 of Part C (*Overview of the Liability Management Exercise*) of the Explanatory Statement and clause 14 of the Scheme will be amended accordingly.

- (g) The Modified Scheme Purchasers have agreed to meet certain costs and liabilities of the Company and certain related parties incurred in connection with the application by the Company to the Court on 2 December 2013 to amend the Explanatory Statement from the form published on or around 18 November 2013 and the amendments to the Explanatory Statement made as a result of such application as set out on page 90 of the Modified Explanatory Statement (as defined below).

3.3 Scheme documentation

- (a) The Explanatory Statement (including the Scheme) and the Account Holder Letter will be amended to reflect the amendments described in paragraphs 3.1 and 3.2 above.
- (b) A blackline of changes (including consequential and definitional changes) to the Explanatory Statement, the Scheme and the Account Holder Letter as a result of the amendments described in paragraphs 3.1 and 3.2 above can be found at Schedule 1 to this Amendment Letter.
- (c) The following amended documents are available to Scheme Creditors on the Scheme Website (www.cooperative.coop/bondholders):
 - (i) an amended version of the Explanatory Statement incorporating the amendments set out in the blackline referred to in paragraph 3.3(b) above (the **Modified Explanatory Statement**) including an amended version of the Scheme incorporating the amendments set out in the blackline referred to in paragraph 3.3(b) above (the **Modified Scheme**); and
 - (ii) an amended Account Holder Letter incorporating the amendments set out in the blackline referred to in paragraph 3.3(b) above (the **Modified Account Holder Letter**).

4. Account Holder Letters

- (a) As at 1 p.m. on 29 November 2013:
 - (i) 257 Account Holder Letters had been received by the Company from Scheme Creditors holding an aggregate amount of £61,686,940 of Dated Notes and an aggregate of approximately £64,450,294 of Scheme Claims;
 - (ii) 248 Account Holder Letters from Scheme Creditors holding an aggregate amount of £63,395,861 of Scheme Claims (and approximately £60,000,000 of Dated Notes) contained elections to participate in the Additional New Ordinary Shares Offer;
 - (iii) subscriptions for a total of 61,569,537 Additional New Ordinary Shares have been received and 223 of the 248 Account Holder Letters which included elections to participate in the Additional New Ordinary Shares Offer have contained an election to participate in the Additional New Ordinary Shares Offer equal to the Minimum Election; and

- (iv) 183 of the Account Holder Letters received have been received from Scheme Creditors with a holding of £1,000 or thereabouts in aggregate principal amount outstanding of the Dated Notes.
- (b) Subject to paragraph 4(e) below, all Account Holder Letters delivered pursuant to the terms of the Scheme (whether received before or after the date of the Modified Explanatory Statement) have no force or effect.
- (c) The form of Modified Account Holder Letter will replace the form of Account Holder Letter for the purposes of participating in the Scheme or any part of it.
- (d) **As set out in more detail in the section entitled “Summary of actions to be taken by Scheme Creditors and any person with an interest in the Dated Notes” of the Modified Explanatory Statement, Scheme Creditors are invited to vote at the Scheme Meeting, elect to subscribe for Additional New Ordinary Shares in accordance with the terms of the Additional New Ordinary Shares Offer, elect to participate in the Sub-purchasing Offer in accordance with its terms, vote for or against the appointment of any Nominated Directors (if applicable) and confirm their eligibility to receive Scheme Consideration and, if applicable, Additional New Ordinary Shares by directing their Account Holder to complete and deliver to the Information Agent the Modified Account Holder Letter in the form attached to this Amendment Letter on or before 4.30 p.m. (London time) on 13 December 2013.**
- (e) For the purposes of determining priorities in the First Round Exception (for the purposes of both the Additional New Ordinary Shares Offer and Sub-purchasing Offer (as defined in the Modified Explanatory Statement)), Modified Account Holder Letters delivered by Noteholders on whose behalf Account Holder Letters were delivered to and received by the Information Agent pursuant to the terms of the Scheme (whether received before or after the date of the Modified Explanatory Statement) will be deemed to have been received on the date and at the time that the Account Holder Letter was received.
- (f) The definition of Account Holder Letter will be amended to allow for a different form of account holder letter to be used solely to facilitate the participation by Noteholders who hold their interests in the Dated Notes in Crest in the Modified Scheme.

5. Lock-up Agreements

The Ad Hoc Group and certain other Noteholders together holding approximately 55 per cent. of the principal amount outstanding of the Dated Notes in aggregate (with the principal amount outstanding of the 2016 Notes for the purposes of this calculation notionally converted from Euro into Sterling at the Scheme FX Rate) have entered into lock-up agreements with the Company and Co-operative Group on 1 December 2013 (in a similar form to the lock-up agreements entered into on 4 November 2013 by certain Noteholders) pursuant to which they have agreed, among other things and subject to certain exceptions, to vote their Scheme Claims in favour of the Modified Scheme.

6. Notification of amendments to Scheme Creditors

- (a) This Amendment Letter will be:
 - (i) where email addresses have been provided, sent by e-mail to Scheme Creditors who have submitted Account Holder Letters prior to the date of this Amendment Letter;
 - (ii) made available to Scheme Creditors on the Scheme Website (www.co-operative.coop/bondholders);

- (iii) published via the Regulatory News service operated by the London Stock Exchange; and
 - (iv) delivered to Euroclear and Clearstream, Luxembourg for communication to the Scheme Creditors.
- (b) Copies of this Amendment Letter, the Modified Explanatory Statement (including the Modified Scheme) and the Modified Account Holder Letter are also available to any of the Scheme Creditors on request to the Information Agent by contacting Sunjeeve Patel or Yves Theis at Lucid Issuer Services Limited, Leroy House, 436 Essex Road, London N1 3QP on +44 (0) 20 7704 0880 or by email to co-op@lucid-is.com.

SCHEME CREDITORS ARE ADVISED TO REVIEW THE AMENDMENTS TO THE EXPLANATORY STATEMENT, SCHEME AND ACCOUNT HOLDER LETTER REFERRED TO IN THIS AMENDMENT LETTER CAREFULLY AND, WHEN CONSIDERING WHETHER OR NOT TO VOTE IN FAVOUR OF THE SCHEME AT THE SCHEME MEETING, SHOULD REVIEW AND CONSIDER THE MODIFIED EXPLANATORY STATEMENT, MODIFIED SCHEME AND MODIFIED ACCOUNT HOLDER LETTER.

Yours faithfully



For and on behalf of

The Co-operative Bank p.l.c.

SCHEDULE 1

BLACKLINE OF CHANGES TO EXPLANATORY STATEMENT

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

THIS DOCUMENT COMPRISES AN EXPLANATORY STATEMENT IN COMPLIANCE WITH SECTION 897 OF THE COMPANIES ACT 2006 (the **Explanatory Statement**). It is being sent to persons who are believed to be Scheme Creditors at the date of this Explanatory Statement. If you have assigned, sold, or otherwise transferred, or assign, sell or otherwise transfer, your interests as a Scheme Creditor before the Record Date you must forward this Explanatory Statement and the accompanying documents at once to the person or persons to whom you have assigned, sold or otherwise transferred, or assign, sell or otherwise transfer, your interests as a Scheme Creditor.

If you are in any doubt as to the contents of this Explanatory Statement or the documents that accompany it or what action you should take, you are recommended to seek your own independent financial, legal and tax advice immediately from your financial, legal and/or tax adviser who, if you are taking advice in the United Kingdom, is authorised pursuant to the Financial Services and Markets Act 2000 (**FSMA**) or by an appropriate regulatory body, or from another appropriately authorised independent adviser if you are in a territory outside the United Kingdom.

This Explanatory Statement is accompanied by an Account Holder Letter. It is important that you read the Account Holder Letter carefully for information about the Scheme and that you complete and return it in accordance with the instructions contained in it.

Further copies of this Explanatory Statement can be obtained by contacting the Information Agent at via email to co-op@lucid-is.com or telephone on + 44 20 7704 0880.

Application has been made to the Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for the Bank T2 Notes referred to in this Explanatory Statement to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc. (the **London Stock Exchange**) for the Bank T2 Notes to be admitted to trading on the London Stock Exchange's regulated market. The London Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

A document comprising a prospectus relating to the Company has been prepared in accordance with Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the **Prospectus Directive**), and a copy of that prospectus [together with a related supplementary prospectus](#) (referred to in this Explanatory Statement as the Bank T2 Notes Prospectus) is appended to this Explanatory Statement at Appendix 9 (*Bank T2 Notes Prospectus*).

EXPLANATORY STATEMENT IN RELATION TO A SCHEME OF ARRANGEMENT

under Part 26 of the Companies Act 2006

between

THE CO-OPERATIVE BANK P.L.C.

and the

Scheme Creditors

(as defined in this Explanatory Statement)

DATE: 18 November 2013 [\(as amended on 4 December 2013\)](#)

VOLUME 1 OF 2

The Record Date for the Scheme will be 4.30 p.m. (London time) on ~~10~~¹³ December 2013. The Scheme Meeting for the Scheme Creditors to consider and vote on the Scheme will be held at 10 a.m. (London time) on ~~11~~¹⁶ December 2013. The notice convening the Scheme Meeting is set out in Appendix 4 (*Notice of Scheme Meeting*) of this Explanatory Statement. Instructions about actions to be taken by Scheme Creditors preceding the Scheme Meeting are set out in Appendix 2 (*Instructions and Guidance for Scheme Creditors and any Person with an Interest in the Dated Notes*) and summarised on pages 21 to 27 (*Summary of actions to be taken by Scheme Creditors and any person with an interest in the Dated Notes*) of this Explanatory Statement. **Whether or not you intend to attend the Scheme Meeting, you are requested to ensure that your Account Holder completes, executes and returns the Account Holder Letter which accompanies this Explanatory Statement in accordance with the instructions printed thereon as soon as possible.**

Further important information is set out under the sections entitled *Important Notice* and *Important Securities Law Notice* on pages 5 to 12 (inclusive) of this Explanatory Statement.

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Forward-looking statements

Nothing in this Explanatory Statement shall be deemed to be a forecast, projection or estimate of the future financial performance of the Company and/or any member of the Group except where otherwise specifically stated.

This Explanatory Statement contains statements, estimates, opinions and projections with respect to the Company and certain of its subsidiaries, and certain plans and objectives of the Company and certain of its subsidiaries. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as "anticipate", "target", "expect", "estimate", "intend", "plan", "goal", "believe", "will", "may", "should", "would", "could" or other words of similar import. These statements are based on numerous assumptions and assessments made by the Company and/or any other member of the Group as appropriate in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors which they believe appropriate. Although the Company and/or any other member of the Group, as appropriate, believe that the expectations reflected in such statements are reasonable, no assurance can be given that such expectations will prove to be correct. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. Such forward-looking statements only speak as at ~~the date of this Explanatory Statement~~ 18 November 2013. A number of factors could cause actual results to necessarily differ materially from the results discussed in the forward looking statements, including, but not limited to, future collections being lower than expected, deterioration in general economic conditions, changes in the regulatory environment, fluctuations in interest and exchange rates, the outcome of litigation, government actions and the other factors set out or referred to in Part D (*Risk Factors*) of this Explanatory Statement. It is up to the recipient of this Explanatory Statement to make its own assessment of the validity of such forward-looking statements and assumptions and no liability is accepted by the Company or any other member of the Group in respect of the achievement of such forward-looking statements and assumptions. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Explanatory Statement.

Risk factors

SCHEME CREDITORS' ATTENTION IS DRAWN TO CERTAIN RISKS ASSOCIATED WITH THE LIABILITY MANAGEMENT EXERCISE (TO THE EXTENT RELATING TO THE SCHEME) THAT ARE SET OUT OR REFERRED TO IN PART D (*RISK FACTORS*) OF THIS EXPLANATORY STATEMENT.

Legal, tax and financial advice

Scheme Creditors should not construe the contents of this Explanatory Statement as legal, tax or financial advice.

This Explanatory Statement has been prepared without taking into account the objectives, financial situation or needs of any particular recipient of it, and consequently, the information contained in this Explanatory Statement may not be sufficient or appropriate for the purpose for which a recipient might use it. Any such recipients should conduct their own due diligence and consider the appropriateness of the information in this Explanatory Statement having regard to their own objectives, financial situations and needs. Scheme Creditors are recommended to consult their own professional advisers as to legal, tax, financial or other matters relevant to the action Scheme Creditors should take in relation to the Scheme, or the implications/consequences of those actions.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS^{1, 2}

Noteholders should observe any deadlines set by any institution or settlement system through which they hold interests in the Dated Notes to ensure that any voting instructions given by them are taken into account at the Scheme Meeting. The Company strongly urges each Noteholder to contact its relevant Account Holder or Intermediary as soon as possible to ensure they are aware of this Explanatory Statement and the process and timetable set out in it.

Event	Expected Time and date
Latest time for blocking Dated Notes in the Clearing Systems for the purposes of delivery of Account Holder Letters containing voting instructions for the purposes of the Scheme Meeting (the Custody Instruction Deadline)	5 p.m. (local time in the place of the relevant Clearing System) on 9 <u>12</u> December 2013
Record Date ³	4.30 p.m. on 10 <u>13</u> December 2013
Voting Instruction Deadline – latest time and date for receipt of Account Holder Letters by the Information Agent in order for Noteholders' voting instructions to be taken into account for the purposes of the Scheme Meeting, Noteholders to elect to subscribe for Additional New Ordinary Shares in accordance with the terms of the Additional New Ordinary Shares Offer, Noteholders' confirmations as to their eligibility to receive Scheme Consideration and Additional New Ordinary Shares to be taken into account for the purposes of distribution of the Scheme Consideration and Additional New Ordinary Shares on the Scheme Settlement Date, Noteholders to elect to participate in the Sub-purchasing Offer and (although not a part of the Scheme, but included here for information purposes) Noteholders to vote for or against the appointment of any Nominated Directors (if applicable). ⁴	4.30 p.m. on 10 <u>13</u> December 2013
Scheme Meeting ⁵	10 a.m on 11 <u>16</u> December 2013

¹ Unless otherwise stated, all references to time in this Explanatory Statement are to London time.

² The dates in this timetable and mentioned throughout this Explanatory Statement assume that the Scheme Meeting is not adjourned. It is also possible that the drawing up of the order of the Court sanctioning the Scheme may be delayed if any person appeals the order.

³ All Scheme Claims are determined as at the Record Date. The Company will be entitled to exercise discretion as to whether it recognises any assignment or transfer of Scheme Claims after the Record Date.

⁴ Please see the section entitled Summary of actions to be taken by Scheme Creditors and any person with an interest in the Dated Notes of this Explanatory Statement at page 21 to 27 and Appendix 2 (*Instructions and Guidance for Scheme Creditors and any Person with an Interest in the Dated Notes*). Account Holders are encouraged to obtain whatever information or instructions they may require from Noteholders in sufficient time to enable them to return their valid Account Holder Letters to the Information Agent as soon as possible, having considered this Explanatory Statement carefully. Voting instructions, elections to subscribe for Additional New Ordinary Shares in accordance with the terms of the Additional New Ordinary Shares Offer, elections to participate in the Sub-purchasing Offer and director nominations will not be taken into account in respect of Account Holder Letters received after the Voting Instruction Deadline, being 4.30 p.m. on ~~10~~13 December 2013. Each Noteholder must ensure that an Account Holder Letter valid for the purposes of confirming eligibility to receive Scheme Consideration and, if applicable, Additional New Ordinary Shares is delivered to and received by the Information Agent before the Voting Instruction Deadline in order for it (or, if applicable, its Designated Recipient) to be entitled to receive the Scheme Consideration and, if applicable, Additional New Ordinary Shares to which it is entitled in accordance with the terms of the Scheme (if it is an Eligible Noteholder) on the Scheme Settlement Date. Account Holders requiring any assistance in completing Account Holder Letters should contact the Information Agent using the contact details in the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*). All relevant documentation can be accessed on the Scheme Website at <http://www.co-operative.coop/Bondholders>.

⁵ The Scheme Meeting will commence at the time stated. Noteholders that wish to attend the Scheme Meeting should produce a duplicate copy of the valid Account Holder Letter delivered on its behalf, evidence of corporate authority (in the case of a corporation) (for example,

Preliminary Sections

Scheme Sanction Hearing⁶ ~~16~~18 December 2013

Anticipated Scheme Effective Date ~~17~~18 December 2013

Anticipated Scheme Settlement Date ~~18~~20 December 2013

The Scheme Meeting will be held at the ~~Holiday Inn London (Bloomsbury), Coram Street, London WC1N~~
~~HT~~offices of Allen & Overy LLP, One Bishops Square, London E1 6AD

a valid power of attorney and/or board minutes) and evidence of personal identity (for example, a passport or other picture identification) at the registration desk by no later than one hour before the scheduled time of the Scheme Meeting.

⁶ The Court will be requested to sanction the Scheme. The date for that hearing has not yet been settled, although it is expected to be on or about ~~16~~18 December 2013. If this date changes, the dates of all subsequent steps, including the Scheme Effective Date and Scheme Settlement Date, may be affected. In this event, the date of the hearing will be announced at the Scheme Meeting to the extent then known or otherwise notified to the Noteholders. A notice regarding the date and time of the hearing will be circulated once the hearing has been scheduled.

SUMMARY OF ACTIONS TO BE TAKEN BY SCHEME CREDITORS AND ANY PERSON WITH AN INTEREST IN THE DATED NOTES

Noteholders are invited to vote at the Scheme Meeting, elect to subscribe for Additional New Ordinary Shares in accordance with the terms of the Additional New Ordinary Shares Offer, elect to participate in the Sub-purchasing Offer in accordance with its terms, vote for or against the appointment of any Nominated Directors (if applicable) and confirm their eligibility to receive Scheme Consideration and, if applicable, Additional New Ordinary Shares by directing their Account Holder to complete and deliver to the Information Agent the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*).

Detailed instructions on the actions which Noteholders, Intermediaries and Account Holders should take are set out in this Explanatory Statement and are summarised below.

Scheme Creditors and any persons with an interest in the Dated Notes should read the full instructions set out in Appendix 2 (*Instructions and Guidance for Scheme Creditors and any Person with an Interest in the Dated Notes*).

1. You should read this Explanatory Statement as a whole, in conjunction with the documents that accompany it (including the Account Holder Letter which contains, amongst other things, the voting form relating to the Scheme Meeting and elections relating to the Lock-up Undertakings and eligibility to receive Scheme Consideration and, if applicable, Additional New Ordinary Shares).
2. An Account Holder may complete and submit an Account Holder Letter on behalf of a Noteholder if the Account Holder has the authority to do so.
3. **A valid Account Holder Letter for the purposes of voting, electing to enter into Lock-up Undertakings, electing to subscribe for Additional New Ordinary Shares in accordance with the terms of the Additional New Ordinary Shares Offer, electing to participate in the Sub-purchasing Offer in accordance with its terms, voting for or against the appointment of any Nominated Directors (if applicable) and confirming eligibility to receive Scheme Consideration and, if applicable, Additional New Ordinary Shares can be delivered as one Account Holder Letter, provided that the Account Holder Letter is delivered prior to the Voting Instruction Deadline.**

Actions to be taken in relation to the Scheme for the purposes of voting at the Scheme Meeting

4. If you are a *Noteholder that is not an Account Holder* and wish to vote at the Scheme Meeting, you should direct your Account Holder to complete the appropriate parts of the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*) and deliver the completed Account Holder Letter as soon as possible to the Information Agent and, in any event, so as to be received before the Voting Instruction Deadline, being 4.30 p.m. (London time) on ~~10~~ 13 December 2013.
5. If you are a *Noteholder that is an Account Holder* and wish to vote at the Scheme Meeting in accordance with the terms of the Scheme, you should complete the appropriate parts of the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*) and deliver the completed Account Holder Letter as soon as possible to the Information Agent and, in any event, so as to be received before the Voting Instruction Deadline, being 4.30 p.m. (London time) on ~~10~~ 13 December 2013.
6. Part 2 Section 3 (*Voting*) of the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*) includes elections pursuant to which the Noteholder is able (i) to attend and vote at the Scheme Meeting in person or by a duly appointed representative if a corporation, (ii) to instruct the Chairman as its proxy to cast its vote in accordance with the wishes of that

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- Noteholder or (iii) to appoint another person as its proxy to attend and vote at the Scheme Meeting in person on its behalf.
7. Part 2 Section 2 (*Lock-up*) of the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*) enables a Noteholder to enter into a Lock-up Arrangement by confirming on its behalf its agreement to enter into the Lock-up Undertakings.
 8. In connection with the Account Holder Letter, each Noteholder that wishes to vote at the Scheme Meeting will be required to ensure that its Account Holder instructs the relevant Clearing System in which the Dated Notes which are the subject of the Account Holder Letter are held to block those Dated Notes. This can be effected by giving Custody Instructions to that effect to the relevant Clearing System prior to the Custody Instruction Deadline. As the procedure for blocking Dated Notes may take a considerable period of time, Noteholders should ensure that Custody Instructions are given as early as possible so that the relevant Dated Notes may be blocked prior to the latest time for blocking Dated Notes as set out in the *Expected Timetable of Principal Events* at page 16 of this Explanatory Statement. The procedure for doing this is described in Appendix 2 (*Instructions and Guidance for Scheme Creditors and any Person with an Interest in the Dated Notes*).
 9. **Failure to deliver a valid Account Holder Letter on behalf of a Noteholder by the Voting Instruction Deadline will mean that the voting instructions contained in that Account Holder Letter will be disregarded for the purposes of voting at the Scheme Meeting and the Noteholder will not be entitled to vote at the Scheme Meeting.**
 10. The Scheme requires the approval of a majority in number representing at least 75% in value of the Noteholders present and voting (in person, by a duly authorised representative if a corporation, or by proxy) at the Scheme Meeting to be held at 10 a.m. (London time) on ~~14~~ [16](#) December 2013.
 11. It is important that as many votes as possible are cast at the Scheme Meeting so that the Court may be satisfied that there is a fair and reasonable representation of opinion of Noteholders. You are therefore strongly urged to complete and sign or direct your Account Holder to complete and sign the relevant parts of your Account Holder Letter.
 12. The amount of the Scheme Claims of each Noteholder which submits a valid Account Holder Letter in respect of the Dated Notes will be calculated as at the Record Date based on information confidentially provided to the Company by the Information Agent. This information will be used by the Chairman to determine whether the Scheme is approved at the Scheme Meeting. Accordingly, Noteholders do not need to take any action in respect of confirming the amount of their Scheme Claims other than providing the details requested in the Account Holder Letter.
 13. As the 2016 Notes are denominated in Euro and all the other series of the Dated Notes are denominated in Sterling, the Scheme Claims in respect of the 2016 Notes of each Noteholder which submits a valid Account Holder Letter shall be notionally converted into Sterling at the Scheme FX Rate for the purposes of calculating the value of those Scheme Claims in connection with voting at the Scheme Meeting.
 14. Each of the Common Depositaries and the Trustees has confirmed that it will not exercise any voting rights to which it may be entitled as a Scheme Creditor at the Scheme Meeting.
 15. Completed Account Holder Letters for the purposes of voting at the Scheme Meeting should be delivered to the Information Agent. Account Holder Letters should not in any circumstances be delivered to any of the Common Depositaries, the Trustees, the Company or Co-operative Group or any other person. None of the Common Depositaries, the Trustees, the Company or Co-operative Group and any of their respective affiliates, officers, directors or employees or any other person will be under any duty to give notification of any defects, irregularities or delays in

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any Account Holder Letter, nor will any of such entities or persons incur any liability for failure to give such notification.

16. A Noteholder on whose behalf a valid Account Holder Letter is delivered prior to the Scheme Meeting may still attend and vote for or against the Scheme at the Scheme Meeting.
17. **Completed Account Holder Letters for the purposes of voting should be delivered to the Information Agent so as to be received by the Information Agent as soon as possible and in any event before the Voting Instruction Deadline being 4.30 p.m. (London time) on ~~10~~-13 December 2013.**

Actions to be taken in relation to the Scheme for the purposes of confirming eligibility to receive Scheme Consideration

18. If you are a *Noteholder that is not an Account Holder* and wish to receive the Scheme Consideration to which you are entitled on the Scheme Settlement Date (or, to the extent you are not eligible to receive such Scheme Consideration and, if applicable, Additional New Ordinary Shares and have not appointed a Designated Recipient, in order to receive the net proceeds of the sale of such Scheme Consideration in accordance with the terms of the Scheme and the Distribution Agreement), you should direct your Account Holder to complete the appropriate parts of the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*) and deliver the completed Account Holder Letter as soon as possible to the Information Agent and, in any event, so as to be received before the Voting Instruction Deadline, being 4.30 p.m. (London time) on ~~10~~-13 December 2013.
19. If you are a *Noteholder that is an Account Holder* and wish to receive the Scheme Consideration and, if applicable, Additional New Ordinary Shares to which you are entitled on the Scheme Settlement Date (or, to the extent you are not eligible to receive such Scheme Consideration and, if applicable, Additional New Ordinary Shares and have not appointed a Designated Recipient, in order to receive the net proceeds of the sale of such Scheme Consideration in accordance with the terms of the Scheme and the Distribution Agreement), you should complete Part 4 (*Scheme Consideration, Eligibility and Delivery of the Additional New Ordinary Shares*) of the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*) and deliver the completed Account Holder Letter as soon as possible to the Information Agent and, in any event, so as to be received before the Voting Instruction Deadline, being 4.30 p.m. (London time) on ~~10~~-13 December 2013.
20. Part 4 (*Scheme Consideration, Eligibility and Delivery of the Additional New Ordinary Shares*) of the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*) enables a Noteholder to designate a Designated Recipient to receive the Scheme Consideration and, if applicable, Additional New Ordinary Shares to which that Noteholder will be entitled in accordance with the terms of the Scheme.
21. Part 4 (*Scheme Consideration, Eligibility and Delivery of the Additional New Ordinary Shares*) of the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*) includes an eligibility section in which the Account Holder is required to confirm on behalf of itself and the Noteholder (or, if the Noteholder has appointed a Designated Recipient, its Designated Recipient) certain statements relating to eligibility to receive the relevant Scheme Consideration to which that Noteholder is entitled in accordance with the terms of the Scheme.
22. **Failure to deliver a valid Account Holder Letter on behalf of a Noteholder by the Voting Instruction Deadline will mean that the Noteholder (irrespective of whether it would otherwise be eligible to receive Scheme Consideration and, if applicable, Additional New Ordinary Shares) will not be entitled to receive any Scheme Consideration to which it would be entitled in accordance with the terms of the Scheme on the Scheme Settlement Date but will need to take certain additional steps described in Appendix 2 (*Instructions and Guidance for Scheme Creditors and any Person with an Interest in the Dated Notes*) following**

the occurrence of the Scheme Settlement Date, including, without limitation, the delivery of a valid Account Holder Letter to the Information Agent.

23. Completed Account Holder Letters for the purposes of confirming eligibility to receive Scheme Consideration and, if applicable, Additional New Ordinary Shares should be delivered to the Information Agent. Account Holder Letters should not in any circumstances be delivered to any of the Common Depositaries, the Trustees, the Company or Co-operative Group or any other person. None of the Common Depositaries, the Trustees, the Company or Co-operative Group and any of their respective affiliates, officers, directors or employees or any other person will be under any duty to give notification of any defects, irregularities or delays in any Account Holder Letter, nor will any of such entities or persons incur any liability for failure to give such notification.

Actions to be taken in relation to the Scheme for the purposes of electing to subscribe for the Additional New Ordinary Shares

24. If you are a *Noteholder that is not an Account Holder* and wish to elect to subscribe for Additional New Ordinary Shares pursuant to the terms of the Additional New Ordinary Shares Offer, you should direct your Account Holder to complete the appropriate parts of the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*) and deliver the completed Account Holder Letter as soon as possible to the Information Agent and, in any event, so as to be received before the Voting Instruction Deadline, being 4.30 p.m. (London time) on ~~10~~-13 December 2013.
25. If you are a *Noteholder that is an Account Holder* and wish to elect to subscribe for Additional New Ordinary Shares pursuant to the terms of the Additional New Ordinary Shares Offer, you should complete the appropriate parts of the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*) and deliver the completed Account Holder Letter as soon as possible to the Information Agent and, in any event, so as to be received before the Voting Instruction Deadline, being 4.30 p.m. (London time) on ~~10~~-13 December 2013.
26. Part 3 Section 1 (*Election to Subscribe*) of the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*) enables a Noteholder to elect to subscribe for Additional New Ordinary Shares pursuant to the terms of the Additional New Ordinary Shares Offer. The Additional New Ordinary Shares Offer is described in Part B (*Overview of the Scheme*) of this Explanatory Statement and the procedure for participating in the Additional New Ordinary Shares Offer is described in more detail in Appendix 2 (*Instructions and Guidance for Scheme Creditors and any Person with an Interest in the Dated Notes*).
27. **Any Noteholder wishing to participate in the Additional New Ordinary Shares Offer should note that, in addition to instructing its Account Holder to make the appropriate elections in relation to the Additional New Ordinary Shares Offer in the Account Holder Letter, it must also ensure that its Account Holder confirms on its behalf in the Account Holder Letter that the Noteholder is an Eligible Person or, if it has appointed a Designated Recipient, that the Designated Recipient is an Eligible Person and that the duly completed and valid Account Holder Letter is delivered to and received by the Information Agent before the Voting Instruction Deadline, being 4.30 p.m. (London time) on ~~10~~-13 December 2013. Failure to do so will result in that Noteholder not being entitled to participate in the Additional New Ordinary Shares Offer.**
28. **Failure to deliver a valid Account Holder Letter on behalf of a Noteholder by the Voting Instruction Deadline will mean that any election to subscribe for Additional New Ordinary Shares pursuant to the terms of the Additional New Ordinary Shares Offer in that Account Holder Letter will be disregarded for the purposes of the Additional New Ordinary Shares Offer.**

29. Completed Account Holder Letters for the purposes of electing to subscribe for Additional New Ordinary Shares should be delivered to the Information Agent. Account Holder Letters should not in any circumstances be delivered to any of the Common Depositaries, the Trustees, the Company or Co-operative Group or any other person. None of the Common Depositaries, the Trustees, the Company or Co-operative Group and any of their respective affiliates, officers, directors or employees or any other person will be under any duty to give notification of any defects, irregularities or delays in any Account Holder Letter, nor will any of such entities or persons incur any liability for failure to give such notification.
30. **Completed Account Holder Letters for the purposes of or electing to subscribe for Additional New Ordinary Shares pursuant to the terms of the Additional New Ordinary Shares Offer should be delivered to the Information Agent so as to be received by the Information Agent as soon as possible and in any event before the Voting Instruction Deadline being 4.30 p.m. (London time) on ~~10~~13 December 2013.**

Action to be taken in relation to the Scheme for the purposes of electing to participate in the Sub-purchasing Offer.

31. If you are a *Noteholder that is not an Account Holder* and wish to elect to participate in the Sub-purchasing Offer, you should direct your Account Holder to complete the appropriate parts of the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*) and deliver the completed Account Holder Letter as soon as possible to the Information Agent and, in any event, so as to be received by the Information Agent before the Voting Instruction Deadline, being 4.30 p.m. (London time) on ~~10~~13 December 2013.
32. If you are a *Noteholder that is an Account Holder* and wish to elect to participate in the Sub-purchasing Offer in accordance with the terms of the Scheme, you should complete the appropriate parts of the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*) and deliver the completed Account Holder Letter as soon as possible to the Information Agent and, in any event, so as to be received by the Information Agent before the Voting Instruction Deadline, being 4.30 p.m. (London time) on ~~10~~13 December 2013.
33. Part 3 Section 2 (*Election to Sub-purchase*) of the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*) enables a Noteholder to elect to participate in the Sub-purchasing Offer. The Sub-purchasing Offer is described in Part B (*Overview of the Scheme*) of this Explanatory Statement and the procedure for participating in the Sub-purchasing Offer is described in more detail in Appendix 2 (*Instructions and Guidance for Scheme Creditors and any Person with an Interest in the Dated Notes*).
34. **Any Noteholder wishing to participate in the Sub-purchasing Offer should note that, in addition to instructing its Account Holder to make the appropriate elections in relation to the Sub-purchasing Offer in the Account Holder Letter, it must also ensure that its Account Holder confirms on its behalf in the Account Holder Letter that the Noteholder is an Eligible Person or, if it has appointed a Designated Recipient, that the Designated Recipient is an Eligible Person and that the duly completed and valid Account Holder Letter is delivered to and received by the Information Agent before the Voting Instruction Deadline, being 4.30 p.m. (London time) on ~~10~~13 December 2013. Failure to do so will result in that Noteholder not being entitled to participate in the Sub-purchasing Offer.**
35. **Failure to deliver a valid Account Holder Letter on behalf of a Noteholder by the Voting Instruction Deadline will mean that any election to participate in the Sub-purchasing Offer in that Account Holder Letter will be disregarded for the purposes of the Sub-purchasing Offer.**
36. Completed Account Holder Letters for the purposes of electing to participate in the Sub-purchasing Offer should be delivered to the Information Agent. Account Holder Letters should not in any circumstances be delivered to any of the Common Depositaries, the Trustees, the

Company or Co-operative Group or any other person. None of the Common Depositaries, the Trustees, the Company or Co-operative Group and any of their respective affiliates, officers, directors or employees or any other person will be under any duty to give notification of any defects, irregularities or delays in any Account Holder Letter, nor will any of such entities or persons incur any liability for failure to give such notification.

Action to be taken in relation to the Noteholder resolutions to approve the appointment of any Nominated Directors

37. Although not a term of the Scheme, as described in more detail in Part B Paragraph 6 (*Director Nominations*) of this Explanatory Statement, Noteholders will be entitled to participate in a resolution to approve the appointment of the Nominated Directors to the extent they are nominated by the [Modified Scheme](#) Purchasers and notified to the Noteholders by the Company in advance of the Scheme Meeting.
38. If you are a **Noteholder that is not an Account Holder** and wish to vote for or against the appointment of any Nominated Director (if applicable), you should direct your Account Holder to complete the appropriate parts of the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*) and deliver the completed Account Holder Letter as soon as possible to the Information Agent and, in any event, so as to be received before the Voting Instruction Deadline, being 4.30 p.m. (London time) on ~~10~~[13](#) December 2013.
39. If you are a **Noteholder that is an Account Holder** and wish to vote for or against the appointment of any Nominated Director (if applicable), you should complete the appropriate parts of the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*) and deliver the completed Account Holder Letter as soon as possible to the Information Agent and, in any event, so as to be received before the Voting Instruction Deadline, being 4.30 p.m. (London time) on ~~10~~[13](#) December 2013.
40. Part 5 (*Director Nominations*) of the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*) enables a Noteholder to vote for or against the appointment of any Nominated Director (if applicable). The details of the nomination of directors is described in Part B (*Overview of the Scheme*) of this Explanatory Statement and the procedure for voting for or against the appointment of any Nominated Directors is described in more detail in Appendix 2 (*Instructions and Guidance for Scheme Creditors and any Person with an Interest in the Dated Notes*).
41. **Failure to deliver a valid Account Holder Letter on behalf of a Noteholder by the Voting Instruction Deadline will mean that any vote for or against the appointment of any Nominated Directors will be disregarded for the purposes of determining whether any such appointment has been approved by the requisite majority of Noteholders.**
42. Completed Account Holder Letters for the purposes of voting for or against the appointment of any Nominated Directors should be delivered to the Information Agent. Account Holder Letters should not in any circumstances be delivered to any of the Common Depositaries, the Trustees, the Company or Co-operative Group or any other person. None of the Common Depositaries, the Trustees, the Company or Co-operative Group and any of their respective affiliates, officers, directors or employees or any other person will be under any duty to give notification of any defects, irregularities or delays in any Account Holder Letter, nor will any of such entities or persons incur any liability for failure to give such notification.

Crest

43. [If you are a Noteholder that holds your interests in the Dated Notes in Crest and are not a Crest participant, contact your Crest participant and the Information Agent as soon as possible in connection with participation in the Scheme \(and any part thereof\). Crest participants should contact the Information Agent immediately. In either case, please refer to paragraph 37 of](#)

[Appendix 2 \(Instructions and guidance for Scheme Creditors and any person with an interest in the Dated Notes\)](#) for more details.

- [44.](#) **~~43.~~** If you are in any doubt as to what action you should take in connection with this Explanatory Statement, the proposals contained in it or the documents that accompany it, you are recommended to seek your own independent advice immediately from your legal, financial, tax or other independent adviser authorised under FSMA if you are resident in, have a registered address in, or are a citizen of the United Kingdom, or, if not, from another appropriately authorised independent financial adviser.

The contributions that a successful Liability Management Exercise would provide by the end of 2013 would increase the Company's Common Equity Tier 1 Capital ratio towards the upper end of previously announced guidance, on 29 August 2013, of "below 9 per cent. but above the regulatory minimum requirement" by the end of 2013, including after taking into account the impact of the impairment charges of £496.0 million incurred for the six month period ended 30 June 2013 and potential impairment charges for the remainder of the Company's financial year ending 31 December 2013.

3. The Recapitalisation Plan

The key objective of the Recapitalisation Plan is to strengthen significantly the Company's Common Equity Tier 1 Capital base and to refocus the Company's strategy around its strength in core relationship retail banking providing current accounts, residential mortgages and savings products to retail customers and SMEs. The Liability Management Exercise forms a critical element of the Recapitalisation Plan. The Liability Management Exercise is intended to generate at least £1 billion of the £1.5 billion of Common Equity Tier 1 Capital required by the Company. The Liability Management Exercise will generate Common Equity Tier 1 Capital in two ways:

- first, to the extent that the Company exchanges Dated Notes for New Ordinary Shares and issues Additional New Ordinary Shares pursuant to the Scheme, the amount of such New Ordinary Shares and Additional New Ordinary Shares issued will constitute Common Equity Tier 1 Capital for the Company; and
- second, to the extent that Existing Securities are exchanged or sold for New Securities at a discount to the Company's book value of those Existing Securities (i.e. by imposing a discount on the Existing Securities through the Liability Management Exercise), the amount of that discount will also be recognisable as Common Equity Tier 1 Capital (on the basis that the Company will reduce a liability for less than the book value of that liability in the Company's accounts).

The offers in respect of the Preference Shares and Perpetual Subordinated Bonds are being conducted by way of the Exchange Offers and the Proposals. The offer in respect of the Dated Notes is being conducted by way of the Scheme. The Liability Management Exercise will only be successfully completed if the entire principal amounts of the Existing Securities are exchanged or sold pursuant to the Liability Management Exercise.

The Scheme also provides that ~~62,500,000~~ 33,333,334 ordinary shares will be made available to Noteholders for subscription for an aggregate consideration equal to £125-~~million~~-000,002.50 on the terms of the Additional New Ordinary Shares Offer, as described in Part B (*Overview of the Scheme*) of this Explanatory Statement.

The Exchange Offers, the Proposals and the Scheme are collectively referred to in this Explanatory Statement as the Liability Management Exercise. In addition, as part of the Liability Management Exercise the Preference Shareholders and 13% Bondholders will have the option to either exchange their Existing Securities for Final Repayment Notes or sell their Existing Securities to Co-operative Group for cash consideration payable in instalments (represented by Instalment Repayment Notes). Each Preference Shareholder and 13% Bondholder will have the opportunity to choose whether it would prefer to receive Final Repayment Notes or Instalment Repayment Notes (if the Liability Management Exercise is successfully completed) each to be issued by Co-operative Group pursuant to the Group Notes Prospectus.

In addition, the Company expects that capital created through interest savings on the Existing Securities surrendered in the Liability Management Exercise net of any coupon payments on the New Securities should contribute an additional amount of Common Equity Tier 1 Capital towards the Recapitalisation Plan, beyond that created as a result of the Liability Management Exercise. The Company currently estimates that net interest savings should result in allowable Common Equity Tier 1 Capital in the region of £40 million during the course of 2014.

2014 Commitment

Under the Recapitalisation Plan, CBGL has agreed to contribute £333 million of Common Equity Tier 1 Capital during 2014 (the **2014 Commitment**). On 4 November 2013 (being the date of the launch of the Recapitalisation Plan), CBGL entered into a legally binding and irrevocable undertaking to pay (the **Undertaking to Pay**) in favour of the Company in consideration for the issuance of 54,058,442 New Ordinary Shares immediately prior to the completion of the Liability Management Exercise (the **2014 Commitment Agreement**). CBGL's obligations under the 2014 Commitment and the Undertaking to Pay are conditional only upon the successful completion of the Liability Management Exercise.

As announced on 17 June 2013, CBGL is expecting to satisfy the 2014 Commitment from the net proceeds of the sale by CBGL 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) (**Co-operative Life Insurance and Asset Management**) and the net proceeds of the proposed sale of CIS General Insurance Limited (CIS General Insurance) (together the **Insurance Proceeds**). The sale of Co-operative Life Insurance and Asset Management to The Royal London Mutual Insurance Society Limited (**Royal London**) completed on 31 July 2013. The total consideration for the sale is £219.0 million, of which £39.0 million has already been paid to CBGL in respect of the disposal of Royal London (CIS) Limited. Payment of the remaining £180 million (as deferred consideration) is subject to the approval of the court under a transfer of the life insurance fund of Co-operative Life Insurance Society Ltd (now named RL (CIS) Ltd) into Royal London under Part VII of FSMA. There is no certainty as to timing or outcome of the court process and therefore no certainty as to when the deferred consideration may be received by CBGL or if it will be received at all. In respect of the disposal of CIS General Insurance, the Company has been told that, whilst Co-operative Group is currently in discussions with various interested parties to sell CIS General Insurance, as at ~~the date of this Explanatory Statement~~ [18 November 2013](#), no legally binding agreement to sell CIS General Insurance has been entered into and any such agreement may, when entered into, be subject to various conditions precedent.

To provide support to CBGL's obligations under the Undertaking to Pay should the Insurance Proceeds not materialise or be insufficient to satisfy the Undertaking to Pay, CBGL has entered into an intra-group loan with Co-operative Group and the Company (the **Intra-group Loan**). The Intra-group Loan allows CBGL to draw down sufficient amounts to satisfy the Undertaking to Pay taking into account CBGL's existing cash resources and is intended to be unconditional before 2014 (see paragraph 20.6 "Intra-group Loan" in section 20 (*Additional Information*) at page 461 of the Bank T2 Notes Prospectus). CBGL, under the terms of the Intra-group Loan is obliged to pay any amounts drawn down under that loan to the Company in satisfaction of the Undertaking to Pay.

Co-operative Group has informed the Company that it has appropriate arrangements in place to satisfy the discharge of its obligations under the Intra-group Loan from alternative resources in the event that the Insurance Proceeds are not sufficient to satisfy the amount of the 2014 Commitment or otherwise not received in time to satisfy the PRA's required timing to satisfy the 2014 Commitment. For further details, see the risk factor titled "*The commitment by Banking Group to contribute £333 million of Common Equity Tier 1 Capital during 2014, in addition to being solely conditional upon the successful completion of the Liability Management Exercise, is subject to the ability of Banking Group and/or Co-operative Group to fund the commitment, which is dependent on certain actions, some of which are partially outside the control of Co-operative Group*" in section 2 (*Risk Factors*) at pages 55 to 57 of the Bank T2 Notes Prospectus.

The Liability Management Exercise, the 2014 Commitment and any capital generated from interest savings on the Company's Existing Securities are together referred to in this Explanatory Statement as the Recapitalisation Plan.

~~million~~-000,002.50 in respect of the Additional New Ordinary Shares Offer under the Scheme. The completion of the Liability Management Exercise will, in turn, mean that the Undertaking to Pay will become unconditional and, when taking into account the allowable capital benefits from interest savings on Existing Securities surrendered as a result of the Liability Management Exercise, means the Company will be in a position to satisfy the requirement that the Company raise an additional £1.5 billion of Common Equity Tier 1 Capital by the end of 2014.

Assuming the Liability Management Exercise is completed and therefore at least £1 billion of Common Equity Tier 1 Capital is raised in respect of the Exchange Offers, the Proposals and the Scheme, and £125~~million~~-000,002.50 is in 2013 raised pursuant to the Additional New Ordinary Shares Offer under the Scheme, the Company expects to report, for the end of 2013, a Common Equity Tier 1 Capital ratio towards the upper end of previously announced guidance, on 29 August 2013, of "below 9 per cent. but above the regulatory minimum requirement". Taking into account the benefit of the additional Common Equity Tier 1 Capital to be provided by CBGL to satisfy the 2014 Commitment and a reduction in risk weighted assets, partially offset by expected losses in the Company in 2014, it is currently expected that the Company's Common Equity Tier 1 Capital ratio will remain broadly stable, improving only modestly from this level in the coming years. The Company expects to achieve a leverage ratio above the regulatory minimum by the end of 2014.

5. Consequences of a failure of the Liability Management Exercise

The Liability Management Exercise will only be successfully completed if the entire principal amount of all Existing Securities are exchanged or sold pursuant to the Liability Management Exercise. The Liability Management Exercise cannot succeed unless the Scheme is implemented.

As stated in the June Announcement, Co-operative Group and the Company continue to believe that the Recapitalisation Plan (including in its revised form), of which the Liability Management Exercise forms an integral part, is in the long-term interests of their respective stakeholders and of the Company itself.

Absent the support of sufficient Noteholders to participate in and, where requested, approve the proposals being made in the Scheme, the Scheme and therefore the Liability Management Exercise will fail.

The uncertainty around the implementation of the Recapitalisation Plan constitutes a material uncertainty which casts significant doubt on the Company's ability to continue as a going concern. The Company's Interim Financial Information, therefore, included an emphasis of matter statement as to the Company's ability to continue as a going concern (see note 2 to the Interim Financial Information for further details of the going concern position of the Company contained in part A in section 16 (*Financial Information*) at pages 278 to 396 of the Bank T2 Notes Prospectus).

Given the discretionary nature of the powers available to the Resolution Authorities under the Banking Act, the Company is unable to predict with certainty the precise outcome for Noteholders, if the Scheme and the Liability Management Exercise are not successfully implemented during 2013. However, the Company has no other source available to it to raise the required additional capital. As stated in the Company's Interim Financial Information, if the Liability Management Exercise is not successfully completed, the Company will cease to be a going concern and the Company considers that it is likely to fail to satisfy its threshold conditions for authorisation (within the meaning of Section 55B of FSMA). In such circumstances, the relevant Resolution Authority may then exercise a stabilisation power under the Banking Act. These threshold conditions include a requirement that the PRA is satisfied that the Company, in particular, has appropriate financial and non-financial resources, including that the Company has made appropriate provisions for its liabilities. In addition, the Resolution Authorities may also exercise their powers to resolve the Company even if it remains a going concern.

Part B (Overview of the Scheme)

- 1.11 Accordingly, the Company has concluded that it is appropriate for the Scheme Creditors (i.e. all Noteholders) to vote together as one class at the Scheme Meeting.
- 1.12 The Scheme Meeting for the purpose of considering and, if thought fit, approving the Scheme has been ordered to be convened by the Court.
- 1.13 A notice of the Scheme Meeting to be held on ~~11~~16 December 2013 is set out in Appendix 4 (*Notice of Scheme Meeting*). For the avoidance of doubt and as the Scheme is subject to an order of the Court, the procedure for the Scheme Meeting is as set out in Appendix 2 (*Instructions and Guidance for Scheme Creditors and any Person with an Interest in the Dated Notes*) and not the procedures for convening noteholder meetings as set out in any of the Trust Deeds.

Voting

- 1.14 Noteholders should refer to the detailed instructions in relation to voting at the Scheme Meeting in the section entitled *Summary of actions to be taken by Scheme Creditors and any person with an interest in the Dated Notes* at pages 21 to 27 above and Appendix 2 (*Instructions and Guidance for Scheme Creditors and any Person with an Interest in the Dated Notes*). Each Noteholder will be required to ensure that its Account Holder has completed and submitted to the Information Agent a valid Account Holder Letter so that it is received by the Information Agent before the Voting Instruction Deadline (being 4.30 p.m. (London time) on ~~10~~13 December 2013) in order to vote at the Scheme Meeting. Noteholders may vote at the Scheme Meeting either in person or by proxy
- 1.15 **If a Noteholder has not submitted a valid Account Holder Letter for the purposes of voting to the Information Agent before the Voting Instruction Deadline, that Noteholder will not be entitled to vote at the Scheme Meeting.**

Voting Value

- 1.16 The 2016 Notes are denominated in Euro and the other series of the Dated Notes are denominated in Sterling. As the Noteholders will be voting in a single class, the Scheme Claims in respect of the 2016 Notes and the other series of the Dated Notes must be in a common currency in order to determine whether the Scheme has been approved at the Scheme Meeting by the statutory majorities of Scheme Creditors. Accordingly, the Scheme Claims in respect of the 2016 Notes of each Noteholder which is entitled to vote at the Scheme Meeting shall be notionally converted into Sterling at the Scheme FX Rate for the purposes of calculating the value of those Scheme Claims in connection with voting at the Scheme Meeting.
- 1.17 The Scheme FX Rate was determined by the Company on 30 October 2013 on the basis of the rate appearing on or derived from the Bloomberg service designated as the "FXC" page for the purpose of displaying the rate of exchange between Sterling and Euro as a rate of £0.85644 to €1.
- 1.18 The Scheme FX Rate has been fixed by the Company prior to the date of this Explanatory Statement in order to create transparency in relation to the treatment of the 2016 Notes under the terms of the Scheme and to assist Noteholders in determining what their entitlements to Scheme Consideration and will be if the Scheme is sanctioned by the Court and implemented and whether to elect to participate in the Additional New Ordinary Shares Offer, in particular given the nature of the Additional New Ordinary Shares Offer. The fixing of the Scheme FX Rate prior to the date of this Explanatory Statement is intended to ensure that these determinations are not affected by volatility in the exchange rate between Euro and Sterling.
- 1.19 As described in paragraphs 2.12 to 2.15 below, the Scheme FX Rate is also used for the purposes of determining entitlements to Scheme Consideration and the allocation of Additional New Ordinary Shares pursuant to the terms of the Additional New Ordinary Shares Offer in respect of the 2016 Notes.

(e) if:

- (i) the 5.5555% Bondholders vote against the proposals (to the extent related to the 5.5555% Bonds) contemplated in the relevant Proposed Restructuring Documents at the 5.5555% Bondholders Meeting;
- (ii) the 13% Bondholders vote against the proposals (to the extent related to the 13% Bonds) contemplated in the relevant Proposed Restructuring Documents at the 13% Bondholders Meeting; or
- (iii) the Preference Shareholders vote against the proposals (to the extent related to the Preference Shares) contemplated in the relevant Proposed Restructuring Documents at the Preference Shareholders Meeting.

The form of Lock-up Agreement (but not the Lock-up Undertaking) includes additional rights which permit the Company and the relevant Noteholder to terminate the relevant Lock-up Agreement in certain circumstances.

- 1.28 Any Noteholder that has not entered into a Lock-up Arrangement at the date of this Explanatory Statement and wishes to take steps to do so, may still do so by entering into a Lock-Up Arrangement prior to the Voting Instruction Deadline and performing its obligations thereunder. Any Noteholder wishing to enter into a Lock-up Arrangement should contact the Information Agent for assistance or in respect of any questions that Noteholder has in relation to what steps it needs to take in order to enter into a Lock-up Arrangement.

When will the Scheme be effective?

Scheme Sanction Hearing

- 1.29 Under Part 26 of the Companies Act 2006, a scheme of arrangement becomes effective in accordance with its terms and is binding on the company and creditors subject to it when the order of the Court sanctioning the scheme of arrangement is delivered to the Registrar of Companies. The Company expects that the Scheme Sanction Hearing will take place on or about ~~16~~ 18 December 2013. Once the date of the Scheme Sanction Hearing is confirmed by the Court, the Company will give notice to the Scheme Creditors through the Clearing Systems and on the Scheme Website at <http://www.co-operative.coop/Bondholders>.
- 1.30 At the Scheme Sanction Hearing the Company may consent on behalf of all Scheme Creditors to any modification of the Scheme or any term or condition which the Court may think fit to approve or impose and which would not directly or indirectly have a material adverse effect on the interests of any Scheme Creditor under the Scheme.

The Scheme Effective Date

- 1.31 Pursuant to the Scheme, following:
- (a) approval by a majority in number representing at least 75 per cent. in value of the Scheme Claims of the Scheme Creditors present and voting either in person or by proxy at the Scheme Meeting;
 - (b) the granting by the Court of an order sanctioning the Scheme; and
 - (c) the delivery of the order sanctioning the Scheme to the Registrar of Companies,

the Scheme Effective Date will occur and certain provisions of the Scheme (described below under the headings *Authority to execute documents on behalf of Scheme Creditors* and *Key Elements of the Scheme* at paragraphs 2.5 to 2.7 and 2.47) will become operative.

Issuance of Scheme Consideration and Holding Period arrangements

- 2.16 In order to receive Scheme Consideration to which it is entitled in accordance with the terms of the Scheme, each Noteholder is required to comply with the procedures described in the section entitled *Summary of actions to be taken by Scheme Creditors and any person with an interest in the Dated Notes* at pages 21 to 27 above and Appendix 2 (*Instructions and Guidance for Scheme Creditors and any Person with an Interest in the Dated Notes*) of this Explanatory Statement.
- 2.17 The Company will issue Scheme Consideration on the Scheme Settlement Date to Noteholders which have confirmed that they are Eligible Persons (or have appointed other persons to receive Scheme Consideration on their behalf and confirmed that those other persons are Eligible Persons) (such persons are referred to in the Scheme as Designated Recipients and such Noteholders are referred to in the Scheme as Eligible Noteholders) and on whose behalf valid Account Holder Letters have been delivered to and received by the Information Agent before the Voting Instruction Deadline. As described in paragraph 2.18 below, Eligible Noteholders on whose behalf valid Account Holder Letters have been delivered to and received by the Information Agent before the Voting Instruction Deadline may appoint Alternative Recipients to receive some or all of the Scheme Consideration and (if applicable) the Additional New Ordinary Shares to which they are entitled by complying with the steps described in paragraph 2.18 below.
- 2.18 Any Eligible Noteholder on whose behalf a valid Account Holder Letter has been delivered to and received by the Information Agent before the Voting Instruction Deadline, Sub-purchaser or [Modified Scheme](#) Purchaser may elect for some or all of the Scheme Consideration and (if applicable) the Additional New Ordinary Shares to which it is entitled under the terms of the Scheme and (if applicable) the Additional New Ordinary Shares Offer, the Sub-purchasing Offer or the [Modified Scheme](#) Purchase Agreement to be issued to another person who is an Eligible Person (such person, an **Alternative Recipient**) by notifying the Company of its election and providing to the Company and the Information Agent (i) confirmation that the Alternative Recipient is an Eligible Person and (ii) all details of the Alternative Recipient required by the Company and/or the Information Agent, in each case by no later than the Scheme Effective Date.
- 2.19 The Company may also issue Scheme Consideration on the Scheme Settlement Date to Eligible Noteholders (if any) on whose behalf valid Account Holder Letters have been delivered to and received by the Information Agent between the Voting Instruction Deadline and the Business Day preceding the Scheme Settlement Date (or, to the extent applicable their Designated Recipients), in each case at the sole discretion of the Company.
- 2.20 A trustee (referred to in the Scheme as the Holding Period Trustee) will be appointed on or before the Scheme Settlement Date pursuant to the terms of the Distribution Agreement and the Scheme to hold Scheme Consideration on behalf of:
- (a) Noteholders which have confirmed that they are not Eligible Persons and have not appointed Designated Recipients (such Noteholders are referred to in the Scheme as Ineligible Noteholders) and on whose behalf valid Account Holder Letters have been delivered to and received by the Information Agent before the date of the Voting Instruction Deadline; and
 - (b) Noteholders on whose behalf a valid Account Holder Letter has not been delivered to and received by the Information Agent before the Voting Instruction Deadline, other than any Eligible Noteholder on whose behalf a valid Account Holder Letter has been delivered to and received by the Information Agent between the Voting Instruction Deadline and the Business Day preceding the Scheme Settlement Date and to whom the Company issues Scheme Consideration on the Scheme Settlement Date as described in paragraph 2.19 above (referred to in the Scheme as Unadmitted Noteholders).

- 2.21 The Holding Period Trustee will hold Scheme Consideration on behalf of Ineligible Noteholders and Unadmitted Noteholders on bare trust in accordance with the terms of the Distribution Agreement and the Scheme, as described in paragraphs 3.5 to 3.18 below.

Additional New Ordinary Shares Offer

Overview

- 2.22 The Scheme provides that any Noteholder is entitled to elect to subscribe for Additional New Ordinary Shares in accordance with the terms of the Additional New Ordinary Shares Offer. A Noteholder wishing to elect to participate in the Additional New Ordinary Shares Offer will be entitled to elect to subscribe for between ~~50,000~~ 26,667 (the **Minimum Election**) and ~~62,500,000~~ 33,333,334 Additional New Ordinary Shares, irrespective of the size of the Noteholder's Scheme Claim.
- 2.23 Any Noteholder wishing to subscribe for Additional New Ordinary Shares in the Additional New Ordinary Shares Offer should instruct its Account Holder to make the appropriate elections in the Account Holder Letter delivered on its behalf, as described in *Summary of actions to be taken by Scheme Creditors and any person with an interest in the Dated Notes* at pages 21 to 27 above and Appendix 2 (*Instructions and Guidance for Scheme Creditors and any Person with an Interest in the Dated Notes*).
- 2.24 **In order for a Noteholder to participate in the Additional New Ordinary Shares Offer, a valid Account Holder Letter in respect of that Noteholder must be delivered to and received by the Information Agent before the Voting Instruction Deadline. The Account Holder Letter must include (i) the amount of the Additional New Ordinary Shares for which that Noteholder wishes to subscribe in accordance with the terms of the Additional New Ordinary Shares Offer and (ii) confirmation that the Noteholder is an Eligible Person or, if that Noteholder has appointed a Designated Recipient, the Designated Recipient is an Eligible Person. The delivery and receipt of a valid Account Holder Letter will constitute an irrevocable offer by the relevant Noteholder to subscribe for up to its Subscription Amount, the acceptance of which by the Company will be effected and evidenced by notification of the number of Additional New Ordinary Shares allocated to that Noteholder as described in paragraph 2.27 below.**

Subscribing Noteholder

- 2.25 Any Noteholder which complies with the above requirements will become a **Subscribing Noteholder** and will be entitled to receive Additional New Ordinary Shares in accordance with and subject to the terms of the Additional New Ordinary Shares Offer.
- 2.26 In summary, the allocation of Additional New Ordinary Shares to a Subscribing Noteholder in respect of its election to participate in the Additional New Ordinary Shares Offer will be *pro rata* based on the proportion of its Scheme Consideration Calculation Amount to the aggregate Scheme Consideration Calculation Amounts of all Subscribing Noteholders which have elected to participate in the Additional New Ordinary Shares Offer subject to:
- (a) a minimum allocation for a Subscribing Noteholder of ~~50,000~~ 26,667 Additional New Ordinary Shares; and
 - (b) a maximum allocation of Additional New Ordinary Shares equal to the number of Additional New Ordinary Shares subscribed for by that Noteholder,

provided always that the aggregate number of Additional New Ordinary Shares allocated to all Subscribing Noteholders under the Additional New Ordinary Shares Offer is no greater than ~~62,500,000~~ 33,333,334.

Part B (Overview of the Scheme)

- 2.27 On the date of the Scheme Meeting (or on the immediately following Business Day):
- (a) the Company will undertake the calculation of allocations to Subscribing Noteholders in accordance with the terms of the Additional New Ordinary Shares Offer (a detailed description of the calculation methodology is set out at paragraph 2.30 below); and
 - (b) the Company (or the Information Agent on behalf of the Company) will notify each Subscribing Noteholder of (i) the number of Additional New Ordinary Shares allocated to that Subscribing Noteholder, (ii) the aggregate subscription price for such number of Additional New Ordinary Shares (the **Subscription Price**) and (iii) details of the Subscription Escrow Account into which the Subscription Price must be deposited.
- 2.28 **In order to receive its allocation of Additional New Ordinary Shares, each Subscribing Noteholder must deposit into the Subscription Escrow Account an amount in cleared funds equal to the Subscription Price by no later than two Business Days after the date of the Scheme Meeting. Any Subscribing Noteholder that fails to fund the Subscription Escrow Account in the required amount by the deadline time of 4:30 p.m. (London time) on such date will not be entitled to receive Additional New Ordinary Shares in accordance with the terms of the Additional New Ordinary Shares Offer.**

Allocation among Subscribing Noteholders

- 2.29 The information required to undertake the allocation calculations in respect of the Additional New Ordinary Shares Offer and calculate the Subscription Price for each Subscribing Noteholder will be derived from valid Account Holder Letters received by the Information Agent before the Voting Instruction Deadline. This information will include:
- (a) the number of Subscribing Noteholders;
 - (b) the number of Additional New Ordinary Shares for which each Subscribing Noteholder wishes to subscribe (the **Subscription Amount**);
 - (c) the aggregate Subscription Amounts of all Subscribing Noteholders (the **Total Subscription Amount**);
 - (d) the Scheme Consideration Calculation Amount of each Subscribing Noteholder; and
 - (e) the aggregate Scheme Consideration Calculation Amounts of all Subscribing Noteholders.
- 2.30 This paragraph 2.30 describes the methodology the Company will use to calculate the number of Additional New Ordinary Shares to be allocated to each Subscribing Noteholder. The allocation methodology involves a number of allocation rounds. Noteholders may find the illustrative allocation model set out at Appendix 6 (*Illustrative Additional New Ordinary Shares Allocation Model*) of this Explanatory Statement useful when reviewing this paragraph 2.30. The Company will allocate the Additional New Ordinary Shares among Subscribing Noteholders as follows:
- (a) **First Round Allocation**

Subscribing Noteholders that have made an election equal to the Minimum Election will be allocated a number of Additional New Ordinary Shares equal to the Minimum Election unless the aggregate Minimum Elections made by all Subscribing Noteholders exceeds ~~62,500,000~~ 33,333,334 Additional New Ordinary Shares, in which case the Additional New Ordinary Shares shall be allocated to the first ~~1,250,49~~ 1,250,49 Subscribing Noteholders (for the avoidance of doubt, irrespective of whether they have elected the Minimum Election or some larger Subscription Amount) who validly elected to subscribe for Additional New Ordinary Shares pursuant to the terms of the Additional New

Ordinary Shares Offer (the **First Round Exception** and each such Subscribing Noteholder, the Early Subscribing Noteholder) by delivering a valid Account Holder Letter to the Information Agent such that each receives ~~50,000~~26,667 Additional New Ordinary Shares (Account Holder Letters will be date and time stamped upon receipt by the Information Agent for this purpose). The balance of 26,251 Additional New Ordinary Shares that remains unallocated in the First Round Exception will be allocated amongst all Early Subscribing Noteholders that have elected to subscribe for an amount of Additional New Ordinary Shares in excess of the Minimum Election (the Unfilled Subscribing Noteholders) pro rata based on the proportion that an Unfilled Noteholder's Scheme Consideration Calculation Amount bears to the aggregate Scheme Consideration Calculation Amounts of all Unfilled Subscribing Noteholders subject to a maximum allocation of Additional New Ordinary Shares equal to the number of Additional New Ordinary Shares subscribed for by that Unfilled Subscribing Noteholder. For the avoidance of doubt, an Unfilled Subscribing Noteholder who, through this process, receives its Subscription Amount, will no longer be an Unfilled Subscribing Noteholder and will cease to be allocated further Additional New Ordinary Shares.

Subject to the First Round Exception, the number of Additional New Ordinary Shares that will be available to be allocated in the first round of allocations will be determined by multiplying the Minimum Election by the number of Subscribing Noteholders that have made an election equal to the Minimum Elections (the **Total First Round Allocation**) provided that the Total First Round Allocation shall not exceed ~~62,500,000~~33,333,334 Additional New Ordinary Shares.

Any Subscribing Noteholder allocated Additional New Ordinary Shares in an allocation round in an amount that brings their total allocation of Additional New Ordinary Shares to an amount equal to their Subscription Amount shall, for the purpose of the allocation procedure, become an allocated noteholder (an **Allocated Noteholder**). All remaining Subscribing Noteholders that have not been allocated an amount of Additional New Ordinary Shares equal to their Subscription Amount shall, for the purpose of the allocation procedure, be unallocated Subscribing Noteholders (each an **Unallocated Subscribing Noteholder**).

Allocated Noteholders will be ignored for the purpose of determining allocations in all subsequent allocation rounds. Accordingly, the aggregate Scheme Consideration Calculation Amounts of all Allocated Noteholders will be ignored when determining allocations of Additional New Ordinary Shares in subsequent rounds.

For the purposes of determining priorities in the First Round Exception, if a valid Account Holder Letter is delivered to and received by the Information Agent in respect of a Noteholder (which has validly elected to participate in the Additional New Ordinary Shares Offer and/or the Sub-purchasing Offer) on whose behalf an Old Account Holder Letter has, prior to the delivery of that Account Holder Letter, been delivered to and received by the Information Agent (and not revoked), that Account Holder Letter will be deemed to have been received by the Information Agent on the date and at the time that the Old Account Holder Letter was received by the Information Agent.

An illustrative example:

Number of Subscribing Noteholders = 7

Number of Subscribing Noteholders that have made an election equal to the Minimum Election (~~50,000~~26,667 Additional New Ordinary Shares) = 2

Total Subscription Amount = ~~63,100,000~~33,678,334 Additional New Ordinary Shares

Part B (Overview of the Scheme)

Total First Round Allocation = ~~100,000~~ 53,334 Additional New Ordinary Shares

The first allocation round will result in:

- (i) ~~100,000~~ 53,334 Additional New Ordinary Shares being allocated to 2 Subscribing Noteholders.
- (ii) The 2 Subscribing Noteholders referred to immediately above becoming Allocated Noteholders, and the remaining 5 Subscribing Noteholders becoming Unallocated Subscribing Noteholders.
- (iii) The individual aggregate Scheme Consideration Calculation Amounts of all Unallocated Subscribing Noteholders being used to determine the allocation of Additional New Ordinary Shares in the second round allocation.

(b) Second Round Allocation

Immediately following the first round allocation above, and provided that Additional New Ordinary Shares remain to be allocated, the Company will identify the Unallocated Subscribing Noteholder with the lowest Subscription Amount (the **Lowest Bidder** and the **Lowest Subscription Amount**). If the Lowest Subscription Amount is held by more than one Unallocated Subscribing Noteholder, the Lowest Bidder will be the Unallocated Subscribing Noteholder that has the highest Allocation Ratio (as defined below) (rounded down to the nearest whole number).

The Company will divide the Lowest Bidder's Subscription Amount by the Lowest Bidder's Allocation Ratio to determine the number of Additional New Ordinary Shares that will be available to be allocated to all Unallocated Subscribing Noteholders on a *pro rata* basis in the second round of allocations (the **Total Second Round Allocation**).

The allocation ratio (the **Allocation Ratio**) with respect to an Unallocated Subscribing Noteholder will be determined by dividing that Unallocated Subscribing Noteholder's Scheme Consideration Calculation Amount by the aggregate Scheme Consideration Calculation Amounts of all Unallocated Subscribing Noteholders.

Subject to the following paragraph, the Total Second Round Allocation will be allocated to all Unallocated Subscribing Noteholders *pro rata* by multiplying their respective Allocation Ratios by the Total Second Round Allocation (the **Second Round Allocations**) (rounded down to the nearest whole number) provided however that no Unallocated Subscribing Noteholder will be allocated more than its respective Subscription Amount.

If the remaining number of Additional New Ordinary Shares to be allocated in the second round of allocation is less than the Total Second Round Allocation, the remaining Additional New Ordinary Shares will be allocated to all Unallocated Subscribing Noteholders *pro rata* to their respective Second Round Allocations provided however that no Unallocated Subscribing Noteholder will be allocated more than its respective Subscription Amount.

An illustrative example:

Lowest Bidder's Subscription Amount = ~~8,000,000~~ 4,250,000 Additional New Ordinary Shares

Lowest Bidder's Scheme Consideration Calculation Amount = £53,840,410.96

Aggregate Scheme Consideration Calculation Amounts of all Unallocated Subscribing Noteholders = £203,686,937.59~~5.16~~

Lowest Bidder's Allocation Ratio = £53,840,410.96 / £203,686,937.59~~5.16~~ = 0.264329153252796

Total Second Round Allocation = ~~8,000,000~~ 4,250,000 / 0.264329153252796 = ~~30,265,295~~ 16,078,433 Additional New Ordinary Shares

Second Round Allocations = ~~30,265,295~~ 16,078,433 Additional New Ordinary Shares x each Unallocated Subscribing Noteholder's Allocation Ratio subject to a maximum aggregate allocation of Additional New Ordinary Shares equal to the Subscription Amount subscribed for by an Unallocated Subscribing Noteholder.

Part B (Overview of the Scheme)

At the conclusion of the second round of allocation and provided that Additional New Ordinary Shares remain to be allocated to Unallocated Subscribing Noteholders in the subsequent round, the relevant Lowest Bidder(s) in the second round of allocation will become Allocated Noteholders, and will therefore be ignored for the purpose of determining allocations in all subsequent allocation rounds. If, due to rounding, a Subscribing Noteholder has been allocated one share less than its Subscription Amount, that Subscribing Noteholder will be allocated one additional Additional New Ordinary Share provided that there are sufficient unallocated Additional New Ordinary Shares.

(c) Third Allocation Round

The Company will repeat the allocation procedure described immediately above, save that when the Company identifies the Unallocated Subscribing Noteholder with the Lowest Subscription Amount for the purpose of calculating the third round of allocations, the Subscription Amount of the relevant Unallocated Subscribing Noteholder will be adjusted downwards to take into account any Additional New Ordinary Shares allocated to that Unallocated Subscribing Noteholder in earlier allocation rounds for the purpose of determining the number of Additional New Ordinary Shares that will be available to be allocated to all Unallocated Subscribing Noteholders on a *pro rata* basis in the third round of allocations (the **Total Third Round Allocation**).

An illustrative example:

Lowest Bidder's Subscription Amount = ~~11,500,000~~ 6,125,000 Additional New Ordinary Shares

Additional New Ordinary Shares allocated to the Lowest Bidder in earlier allocation rounds = ~~9,020,858~~ 4,792,330

Lowest Bidder's remaining or adjusted Subscription Amount = ~~2,479,142~~ 1,332,670 Additional New Ordinary Shares

Lowest Bidder's Scheme Consideration Calculation Amount = £60,710,842.54

Aggregate Scheme Consideration Calculation Amounts of all Unallocated Subscribing Noteholders = £149,846,584 ~~26,2063~~

Lowest Bidder's Allocation Ratio = £60,710,842.54 / £149,846,584 ~~26,2063~~ = 0.405153 ~~32974~~ 854

Total Third Round Allocation = ~~2,479,142~~ 1,332,670 / 0.405153 ~~32974~~ 854 = ~~6,119,021~~ 3,289,296 Additional New Ordinary Shares

Third Round Allocations = ~~6,119,021~~ 3,289,296 Additional New Ordinary Shares x each Unallocated Subscribing Noteholder's Allocation Ratio subject to a maximum aggregate allocation of Additional New Ordinary Shares equal to the Subscription Amount subscribed for by each Unallocated Subscribing Noteholder.

(d) Subsequent Allocation Rounds

The Company will repeat the allocation procedure described immediately above as many times as is necessary until either:

- (i) all Additional New Ordinary Shares have been allocated to Subscribing Noteholders; or

- (ii) allocations have been made in an amount equal to the Total Subscription Amount, in which case the [Modified Scheme](#) Purchasers or, if applicable, the Sub-purchasers will be required to subscribe for the remaining Additional New Ordinary Shares in accordance with the terms of the [Modified Scheme](#) Purchase Agreement (as discussed in more detail in paragraphs 2.31 and 2.32) and the Sub-purchasing Offer.

In the final allocation round, if, as a result of rounding, there is a balance of unallocated Additional New Ordinary Shares, such balance will be allocated to the Unallocated Subscribing Noteholders in descending order starting with the Unallocated Subscribing Noteholder with the highest Allocation Ratio.

[Modified Scheme](#) Purchasers and the [Modified Scheme](#) Purchase Agreement

- 2.31 On ~~4 November~~ [1 December](#) 2013 the Company entered into an agreement (the [Modified Scheme](#) Purchase Agreement) with certain Noteholders (the [Modified Scheme](#) Purchasers) pursuant to which the [Modified Scheme](#) Purchasers agreed to back-stop the purchase of the Additional New Ordinary Shares Offer (as described in more detail in paragraph 20.9 titled "Purchase Agreement" in section 20 (*Additional Information*) of the Bank T2 Notes Prospectus at pages 462 to 464). The terms of the [Modified Scheme](#) Purchase Agreement provide that the [Modified Scheme](#) Purchasers will subscribe for any Additional New Ordinary Shares that are either (i) unallocated or (ii) not taken up under the Additional New Ordinary Shares Offer because a Subscribing Noteholder or, if applicable, a Sub-purchaser, fails to fund the Subscription Escrow Account with the required amount by the deadline described in paragraph 2.28 above.
- 2.32 The [Modified Scheme](#) Purchasers will, in aggregate, be entitled to a purchase premium of £5,000,000 (being an amount equal to 4 per cent. of the aggregate subscription price for the total amount of the Additional New Ordinary Shares) less any Sub-purchaser Premiums paid to the Sub-purchasers in accordance with the terms of the Sub-purchasing Offer (as described in more detail in paragraphs 2.33 to 2.44 below) (the [Modified Scheme](#) Purchaser Premium). A [Modified Scheme](#) Purchaser's share of the [Modified Scheme](#) Purchaser Premium shall not become payable unless that [Modified Scheme](#) Purchaser has performed all of its obligations under the [Modified Scheme](#) Purchase Agreement.

Sub-purchasers

Overview

- 2.33 Any Noteholder is entitled to participate in a sub-purchasing of the agreement by the [Modified Scheme](#) Purchasers to back-stop the purchase of Additional New Ordinary Shares as set out in the [Modified Scheme](#) Purchase Agreement (the **Sub-purchasing Offer** and each such Noteholder, a **Sub-purchaser**). The Sub-purchasing Offer will be available to all Noteholders who wish to participate (not only a Subscribing Noteholder), including the [Modified Scheme](#) Purchasers (provided that the [Modified Scheme](#) Purchasers are Noteholders at the time the relevant election is made and on the Record Date).
- 2.34 A Noteholder wishing to elect to participate in the Sub-purchasing Offer will be entitled to elect to nominate a commitment under the Sub-purchasing Offer to back-stop the purchase of between (and including) ~~50,000~~ [26,667](#) and ~~62,500,000~~ [33,333,334](#) Additional New Ordinary Shares.
- 2.35 Any Noteholder wishing to participate in the Sub-purchasing Offer should instruct its Account Holder to make the appropriate elections in the Account Holder Letter delivered on its behalf, as described in *Summary of actions to be taken by Scheme Creditors and any Person with an Interest in the Dated Notes* at pages 21 to 27 above and Appendix 2 (*Instructions and Guidance for Scheme Creditors and any Person with an Interest in the Dated Notes*).

- 2.36 In order for a Noteholder to participate in the Sub-purchasing Offer, a valid Account Holder Letter in respect of that Noteholder must be delivered to and received by the Information Agent before the Voting Instruction Deadline. The Account Holder Letter must include (i) the maximum commitment that Noteholder is prepared to sub-purchase on a several basis in accordance with the terms of the Sub-purchasing Offer and (ii) confirmation that the Noteholder is an Eligible Person or, if that Noteholder has appointed a Designated Recipient, the Designated Recipient is an Eligible Person. The delivery and receipt of a valid Account Holder Letter will constitute an irrevocable offer by the relevant Noteholder to subscribe for up to the maximum commitment elected, the acceptance of which will be effected and evidenced by notification of the Sub-purchasing Commitment (as defined in paragraph 2.38 below) by the Company to the relevant Sub-purchaser.

Sub-purchaser

- 2.37 Any Noteholder which complies with the above requirements will become a Sub-purchaser and will be obliged to subscribe for Additional New Ordinary Shares in the circumstances and in accordance with the terms set out below.

Allocation of Sub-purchasing Commitments among Sub-purchasers

- 2.38 The methodology for allocating commitments among Sub-purchasers (the **Sub-purchasing Commitments**) will depend on the aggregate amount of Sub-purchasing Commitments nominated by all Sub-purchasers.
- 2.39 If the aggregate amount of Sub-purchasing Commitments nominated by all Sub-purchasers is less than ~~62,500,000~~ 33,333,334 Additional New Ordinary Shares, the Sub-purchasing Commitment of a Sub-purchaser will be equal to that Sub-purchaser's maximum nominated commitment.
- 2.40 If the aggregate amount of the Sub-purchasing Commitments nominated by all Sub-purchasers is greater than ~~62,500,000~~ 33,333,334 Additional New Ordinary Shares, the allocation of Sub-purchasing Commitment to a Sub-purchaser will be *pro rata* based on the proportion of its Scheme Consideration Calculation Amount to the aggregate Scheme Consideration Calculation Amount of all Noteholders who have elected to participate in the Sub-purchasing Offer subject to:
- (a) a minimum Sub-purchasing Commitment of ~~50,000~~ 26,667 Additional New Ordinary Shares; and
 - (b) a maximum Sub-purchasing Commitment equal to the maximum commitment elected for by that Noteholder,

provided always that the aggregate amount of all Sub-purchasing Commitments allocated to all the Sub-purchasers is no greater than ~~62,500,000~~ 33,333,334 Additional New Ordinary Shares. In this regard, the allocation procedure for allocating Sub-purchasing Commitments will be substantially similar to the allocation procedure for the Additional New Ordinary Share Offer described in paragraphs 2.22 to 2.30 above save for references to 'Subscribing Noteholders' should be read as 'Sub-purchasers'.

- 2.41 To the extent that the number of Additional New Ordinary Shares subscribed for by the Subscribing Noteholders is less than ~~62,500,000~~ 33,333,334 (such difference being the **Sub-purchasing Shares**), the number of Sub-purchasing Shares allocated to a Sub-purchaser will be equal to that Sub-purchaser's *pro-rata* share of the Sub-purchasing Shares based on the proportion that its Sub-purchasing Commitment bears to the aggregate Sub-purchasing Commitments of all Sub-purchasers but provided that the amount to be so allocated to a Sub-purchaser will be subject to a minimum of ~~50,000 Additional New Ordinary Shares~~ 26,667 Additional New Ordinary Shares and provided that, if the aggregate minimum allocations exceeds the aggregate number of Sub-purchasing Shares, the obligation to subscribe for Sub-purchasing Shares will be allocated to Sub-purchasers in the order that their Account Holder Letters were received by the Information

Agent (Account Holder Letters will be date and time stamped upon receipt by the Information Agent for this purpose).

- 2.42 On the date of the Scheme Meeting (or on the immediately following Business Day):
- (a) the Company will undertake the calculation of allocations of commitment to Sub-purchasers in accordance with the terms of the Sub-purchasing Offer; and
 - (b) the Company (or the Information Agent on behalf of the Company) will notify each Sub-purchaser of:
 - (i) its allocated Sub-purchasing Commitment;
 - (ii) the amount, if any, by which the number of Additional New Ordinary Shares subscribed for by Subscribing Noteholders in the Additional New Ordinary Shares Offer is less than ~~62,500,000~~33,333,334; and
 - (iii) the number of Additional New Ordinary Shares (if any) allocated to that Sub-purchaser in accordance with the terms of the Sub-purchasing Offer, the aggregate subscription price for such number of Additional New Ordinary Shares (the **Sub-purchase Amount**) and details of the Subscription Escrow Account into which the Sub-purchase Amount must be deposited.
- 2.43 If a Sub-purchaser fails to deposit an amount in cleared funds equal to the Sub-purchase Amount in the Subscription Escrow Account by no later than 4.30pm London time on the date falling two Business Days after the date of the Scheme Meeting in accordance with the terms of the Sub-purchasing Offer as set out above, the entitlement of that Sub-purchaser to the relevant Additional New Ordinary Shares on the date of the Scheme Settlement Date and to any Sub-purchaser Premium to which that Sub-purchaser would otherwise have been entitled (in respect of its entire Sub-purchasing Commitment) as described below will lapse and the Modified Scheme Purchasers will be required to subscribe for those Additional New Ordinary Shares in accordance with the terms of the Modified Scheme Purchase Agreement.
- 2.44 Each Sub-purchaser will be entitled to receive a purchase premium equal to 2 per cent. of its Sub-purchasing Commitment (the **Sub-purchaser Premium**), provided that it has performed all of its obligations in relation to the Sub-purchasing Offer including any requirement to fund the Subscription Escrow Account in accordance with any notice received by it as described in 2.42(b)(iii) above.

Subscription Escrow Account

- 2.45 The Subscription Escrow Account will be an interest bearing sterling cash account with the Subscription Escrow Bank in the name of Lucid Issuer Services Limited. Monies credited to the Subscription Escrow Account will be held to the order of all Subscribing Noteholders, Sub-purchasers and Modified Scheme Purchasers who fund into the Subscription Escrow Account in accordance with the terms of the Additional New Ordinary Shares Offer, the Sub-purchasing Offer and the ~~Purchase Agreement, the Sub-purchasing Offer and the~~ Modified Scheme Purchase Agreement, as the case may be.
- 2.46 The monies standing to the credit of the Subscription Escrow Account will be held on trust for the Subscribers on terms that they will be paid to the Company on the satisfaction of the Scheme Settlement Condition. In the event that the Scheme Settlement Condition is not satisfied on the Scheme Settlement Condition Testing Date or the Scheme Settlement Date does not occur by the Longstop Date, all monies deposited with the Subscription Escrow Bank will be returned to the Subscriber who provided it together with any accrued interest thereon.

Part B (Overview of the Scheme)

- (iv) the Company shall issue the Additional New Ordinary Shares in accordance with the terms of the Scheme;
 - (v) the Company shall pay the Sub-purchaser Premium and the [Modified Scheme Purchaser Premium](#) in accordance with the terms of the Scheme; and
 - (vi) the Company shall execute the Deed of Waiver and Release on behalf of each Scheme Creditor pursuant to the authority granted under the Scheme.
- (e) On and from the Scheme Settlement Date (but subject to the other provisions of the Scheme), each Scheme Creditor will be entitled to the rights and benefits accruing to that Scheme Creditor under the Scheme and each of the New Transaction Documents (to the extent they are a party) and all of the existing rights and benefits of the Scheme Creditors in respect of the Scheme Claims shall be subject and limited to the compromises and arrangements provided by the Scheme, including without limitation the transfer and cancellation of the Dated Notes on the Scheme Settlement Date, the issuance of the Scheme Consideration and the Additional New Ordinary Shares and the releases and waivers under the Deed of Waiver and Release as described in this Part B (*Overview of the Scheme*).
- (f) As described in paragraph 1.37 above, if the Scheme Settlement Date does not occur on or before the Longstop Date, the Scheme shall lapse and the transfer and cancellation of the Dated Notes, the payment or issuance of the Scheme Consideration and the issuance of the Additional Ordinary Shares as contemplated in the Scheme will not occur and the Scheme and the Liability Management Exercise will not be implemented
- (g) In order to receive any Scheme Consideration and, if applicable, Additional New Ordinary Shares to which it is entitled in accordance with the terms of the Scheme on the Scheme Settlement Date, each Noteholder is required to comply with certain procedures described in Appendix 2 (*Instructions and Guidance for Scheme Creditors and any Person with an Interest in the Dated Notes*). Failure by a Noteholder to comply with such procedures before the relevant deadlines will mean that any entitlement of that Noteholder to Additional New Ordinary Shares will lapse in accordance with the terms of the Additional New Ordinary Shares Offer and the Scheme Consideration to which it is entitled in accordance with the terms of the Scheme will be delivered to the Holding Period Trustee on the Scheme Settlement Date in accordance with the arrangements described in Section 3 of Appendix 2 (*Instructions and Guidance for Scheme Creditors and any Person with an Interest in the Dated Notes*) and the description of the Distribution Agreement in paragraphs 3.5 to 3.18 below. Any such Noteholder will be required to take certain additional steps described in Appendix 2 (*Instructions and Guidance for Scheme Creditors and any Person with an Interest in the Dated Notes*) in order to receive such Scheme Consideration following the Scheme Settlement Date.

3. MECHANICAL SCHEME DOCUMENTS

- 3.1 The mechanics of the Scheme described in paragraph 2 above refer to certain documents which are described below.

Directions to the Clearing Systems

- 3.2 On the Scheme Settlement Date, the Company will issue directions for itself and/or on behalf of each Scheme Creditor pursuant to the authority granted under the Scheme to each relevant Clearing System in accordance with the rules and procedures of that Clearing System to:
- (a) debit from the custody account of each Account Holder all the interests in the Dated Notes held by that Account Holder; and

Part B (Overview of the Scheme)

- (d) any Liability of the Company to the Trustees in relation to or in connection with or in any way arising out of the Dated Notes, save to the extent such Liability comprises a Scheme Claim.

In addition, nothing in the Deed of Waiver and Release releases, waives or discharges any Liability of any person under the New Transaction Documents or the Restructuring Documents.

- 4.3 The form of the Deed of Waiver and Release is scheduled to the Scheme at schedule 1 and the forms of the Restructuring Documents were published on the Scheme Website on or around 4 November 2013.

5. THIRD PARTY INVOLVEMENT

- 5.1 As set out above, the Scheme will require certain third parties (referred to as the Undertaking Transaction Parties) to perform actions in accordance with the terms of the Scheme.

- 5.2 The Undertaking Transaction Parties have each:

- (a) agreed, or are expected to agree prior to the Scheme Sanction Hearing, to appear by counsel on the petition to sanction the Scheme and to undertake to the Court; and/or
- (b) executed, or are expected to execute prior to the Scheme Sanction Hearing, a deed of undertaking in favour of the Court and the Company pursuant to which they undertake and agree:

amongst other matters, to perform those actions which they are required to perform in accordance with the terms of the Scheme and, where necessary, be bound by the terms of the Scheme as sanctioned by the Court.

- 5.3 The undertakings granted or to be granted by each of the Undertaking Transaction Parties differ slightly in order to reflect their differing roles in the implementation of the Scheme.

6. DIRECTOR NOMINATIONS

- 6.1 Although not a term of the Scheme, pursuant to the terms of the Relationship Agreement, the terms of which are described in pages 455 to 457 of the Bank T2 Notes Prospectus, the Company has agreed to procure the appointment of up to two directors of the Company to be nominated by the [Modified Scheme](#) Purchasers subject to the approval of such nominations by the Noteholders by a separate vote to take place immediately following the vote in respect of the Scheme at the Scheme Meeting.

- 6.2 The [Modified Scheme](#) Purchasers may identify in writing to the Company, no later than 7 Business Days prior to the Scheme Meeting, up to two persons to be nominated as directors of the Company (the **Nominated Directors**) at a vote of all the Noteholders. The written notice identifying the Nominated Directors will contain reasonable details of the identity (including name, occupation, residential address and date of birth), credentials and experience of each Nominated Director. The Company has agreed to notify the Noteholders of the nominations at least 2 Business Days thereafter by the issue of an announcement through the Clearing Systems and on the Scheme Website at <http://www.co-operative.coop/Bondholders> and will propose each nomination (if any) to a separate resolution of the Noteholders. The notice sent by the Company to the Noteholders will be in the form set out in Appendix 5 (*Notice of Director Nomination Resolution*) of this Explanatory Statement and will include the information about the nominees provided by the [Modified Scheme](#) Purchaser.

- 6.3 Provided that a nomination is approved by a majority in number representing at least 75 per cent. in value of the Noteholders present and voting in person or by proxy at the Scheme Meeting, the Company agrees to procure the appointment of the relevant Nominated Director who has been

2.2 5.5555% Bonds

The following table summarises the consideration that 5.5555% Bondholders will be eligible to receive if their 5.5555% Bonds are exchanged pursuant to the Liability Management Exercise:

Offer in respect of the 5.5555% Bonds

Existing Securities	ISIN	Early Consideration Amount ¹ (per £1,000 nominal of Existing Securities)				Late Consideration Amount ¹ (per £1,000 nominal of Existing Securities)			
		Exchange Notes ²	Offer	Bank	T2	Exchange Notes ²	Offer	Bank	T2
5.5555% Bonds	GB00B3VMBW45		£530				£480		

Notes:

- 1 If the Early Participation Threshold is achieved by the Early Participation Deadline (4.30 p.m. (London time) on 29 November 2013) and the Liability Management Exercise successfully completes, all 5.5555% Bonds will be exchanged at the Early Consideration Amount. If the Early Participation Threshold is not achieved by the Early Participation Deadline and the Liability Management Exercise successfully completes, all 5.5555% Bonds will be exchanged at the Late Consideration Amount.
- 2 New sterling-denominated 11 per cent. Subordinated Notes due 2023 (ISIN: GB00BFXW0853) to be issued by the Company.

2.3 Dated Notes

The following table summarises the Scheme Consideration that Noteholders will be eligible to receive pursuant to the terms of the Scheme:

Scheme in respect of the Dated Notes

Existing Securities	ISIN	Consideration Amount ¹ (per £1,000 of Scheme Consideration Calculation Amount)		New Ordinary Shares Conversion Price ⁵
		Bank T2 Notes ²	New Ordinary Shares ³	
2016 Notes	XS0254625998	£102.63 £102.57	£897.37 £897.43	£ 7.7718276 <u>6.17566631</u> per share
2019 Notes	XS0189539942	£102.63 £102.57	£897.37 £897.43	
April 2021 Notes	XS0620315902	£102.63 £102.57	£897.37 £897.43	
November 2021 Notes	XS0274155984	£102.63 £102.57	£897.37 £897.43	
2022 Notes	XS0864253868	£102.63 £102.57	£897.37 £897.43	
2024 Notes	XS0188218183	£102.63 £102.57	£897.37 £897.43	
2023 Notes	XS0145065602	£102.63 £102.57	£897.37 £897.43	

Part C (Overview of the Liability Management Exercise)

Notes:

- 1 The number of New Ordinary Shares and principal amount of Bank T2 Notes which a Noteholder will be eligible to receive in respect of its Scheme Consideration Calculation Amount will be the same irrespective of whether or not the Early Participation Threshold is achieved by the Early Participation Deadline.
- 2 New sterling-denominated 11 per cent. Subordinated Notes due 2023 (ISIN: GB00BFXW0853) to be issued by the Company.
- 3 New Ordinary Shares to be issued by the Company. If the Liability Management Exercise is successfully completed, Co-operative Group's existing equity stake in the Company will be converted into deferred shares and effectively reduced to nil and a total of 250,000,000 ordinary shares in the Company will be issued at that time, of which:
 - (i) 75,000,000 (representing 30 per cent. of the total) will be issued to Co-operative Group in consideration for its fresh injection of capital into the Company through the Liability Management Exercise and the 2014 Commitment (representing an effective subscription price of £6.16 per share);
 - (ii) ~~112,500,000~~ 141,666,666 (representing ~~45~~ approximately 56.67 per cent. of the total) will be issued to Noteholders in the Scheme in exchange for the Dated Notes, to be distributed in the Scheme pro rata amongst the Noteholders based on their respective Scheme Consideration Calculation Amounts (representing, based on the total value of Scheme Consideration Calculation Amounts and the number of New Ordinary Shares issued in the Scheme to Noteholders, an implied subscription price equal to the New Ordinary Shares Conversion Price). The New Ordinary Shares referred to in the table above are these ~~112,500,000~~ 141,666,666 New Ordinary Shares; and
 - (iii) ~~62,500,000~~ 33,333,334 (representing the balance of ~~25~~ approximately 13.33 per cent. of the total) will be available for subscription by Noteholders pursuant to, and on the terms of, the Additional New Ordinary Shares Offer for an aggregate consideration equal to £125 ~~million~~ ,000,002.50 (representing an effective subscription price of ~~£2.00~~ £3.75 per share).

The Scheme also provides that ~~62,500,000~~ 33,333,334 Additional New Ordinary Shares will be made available to Noteholders for subscription for an aggregate consideration equal to £125 ~~million~~ ,000,002.50, all pursuant to, and on the terms of, the Scheme, as set out in Part B (*Overview of the Scheme*) of this Explanatory Statement.

3. PREFERENCE SHARES OFFER

3.1 Preference Shareholders are being offered a choice of two options:

- (a) to offer to transfer their Preference Shares to Co-operative Group in exchange for Final Repayment Notes; or
- (b) to offer to sell their Preference Shares to Co-operative Group in consideration for a cash amount which will be paid in twelve equal instalments over twelve years up to (and including) 2025, and which will be represented by Instalment Repayment Notes.

3.2 Final Repayment Notes

The Final Repayment Notes will pay a fixed rate of interest of 11 per cent. per year on their principal amount, and interest will be paid annually in arrear on each anniversary of the issue date of the Final Repayment Notes up to (and including) the twelfth anniversary. Co-operative Group will be obliged to repay the principal amount of the Final Repayment Notes in full on the twelfth anniversary of their issue date.

3.3 Instalment Repayment Notes

The Instalment Repayment Notes will not bear interest. However, the principal amount of such Instalment Repayment Notes (representing instalments of the cash purchase price for the Preference Shares) will be repaid in twelve equal instalments over twelve years. Those payments will be made on each anniversary of the issue date of the Instalment Repayment Notes, with the final payment falling on the twelfth anniversary of that issue date. If the Early Participation Threshold is achieved by the Early Participation Deadline, the principal amount of Instalment Repayment Notes which a Preference Shareholder will receive upon the sale of its Preference

Part D (Risk Factors)

Liability Management Exercise (of which the Scheme forms an integral part) and the potential failure of the Liability Management Exercise including those referred to in paragraph 1.1 above are set out at pages 41 to 51 of the Bank T2 Notes Prospectus under the section headed "*Risks Relating to the Liability Management Exercise*" in section 2 (*Risk Factors*) of the Bank T2 Notes Prospectus.

2. If the conditions precedent to the effectiveness of the transactions contemplated by the Scheme are not satisfied, the Scheme may not be completed

- 2.1 The transactions contemplated by the Scheme will not become effective unless all the conditions precedent to the transactions contemplated by the Scheme are satisfied in accordance with the terms of the Scheme, including without limitation the Scheme Settlement Condition (as more fully described in paragraphs 1.33 and 1.34 of Part B (*Overview of the Scheme*)). If this does not occur, it will not be possible to complete the transactions contemplated by the Scheme. In this regard, Scheme Creditors are referred to the paragraph entitled "*Failure of Holders to participate in the Liability Management Exercise*" on page 43 of the Bank T2 Notes Prospectus in section 2 (*Risk Factors*) of the Bank T2 Notes Prospectus.

3. Effectiveness of the Scheme requires the approval of Scheme Creditors

- 3.1 In order for the Scheme to be approved by the Scheme Creditors, at the Scheme Meeting more than 50 per cent. in number representing not less than 75 per cent. in value of those Scheme Creditors present and voting at that Scheme Meeting must vote in favour. If the requisite majority of Scheme Creditors do not vote in favour of the Scheme at the Scheme Meeting, the Scheme will not become effective and the transactions contemplated by the Scheme will not be implemented. As at ~~the date of the Explanatory Statement~~ [18 November 2013](#) certain Scheme Creditors have given an undertaking to vote in favour of the Scheme, however such undertakings will cease to be binding in certain circumstances as set out under the terms of the Lock-Up Arrangements.
- 3.2 Even if the Scheme is approved at the Scheme Meeting, it is possible for a person with an interest in the Scheme (whether a Scheme Creditor or otherwise) to object to the Scheme and to attend or be represented at the Scheme Sanction Hearing in order to make representations that the Scheme should not be approved and to appeal against the granting of the order sanctioning the Scheme. Therefore, it is possible that objections will be made at or before the Scheme Sanction Hearing or that an appeal will be made against the granting of the order sanctioning the Scheme by the Court and that any such objections or appeal will delay or possibly prevent the implementation of the transactions contemplated by the Scheme.
- 3.3 In order for the Scheme to become effective under English law, it must receive the sanction of the Court and the order sanctioning the Scheme must be delivered to the Registrar of Companies. The Court will not sanction the Scheme unless it is satisfied that the class of Scheme Creditors has been properly constituted and, as a matter of discretion, the Court considers that it is proper to sanction the Scheme. There can be no assurance that the Court will sanction the Scheme. If the Court does not sanction the Scheme, or approves it subject to conditions or amendments which (i) the Company and other relevant parties deem unacceptable or (ii) would have (directly or indirectly) a material adverse effect on the interests of any Scheme Creditors and such conditions or amendments are not approved by the Scheme Creditors, the Scheme will not become effective and the transactions contemplated by the Scheme will not be implemented.

RISKS RELATING TO THE SCHEME, INCLUDING THOSE RELATING TO THE COMPANY'S BUSINESS, THE SCHEME CONSIDERATION AND THE ADDITIONAL NEW ORDINARY SHARES

If the Scheme is implemented in accordance with its terms, Scheme Creditors will receive Scheme Consideration (subject to the terms of the Scheme (please see the Scheme and the description of the Scheme in Part B (Overview of the Scheme) of this Explanatory Statement for further details)) comprising New Ordinary Shares of the Company and Bank T2 Notes issued by the Company. Scheme Creditors may also elect to subscribe for Additional New Ordinary Shares in accordance with the terms of the Additional New Ordinary Shares Offer.

An investment in any or all of the Scheme Consideration or any Additional New Ordinary Shares (whether effected by way of the Scheme or otherwise) has risks and Scheme Creditors should carefully review and consider the risks set out or referred to in paragraph 4 below in respect of the Company and the Bank T2 Notes, and paragraph 5 below in respect of the New Ordinary Shares and the Additional New Ordinary Shares before making a decision in respect of the Scheme. [Scheme Creditors' attention is also drawn to the risk factors at pages 7 to 8 of the Supplementary Prospectus.](#)

The Bank T2 Notes Prospectus cross-referred to in this section can be found at Appendix 9 of this Explanatory Statement.

1. The Company and the Bank T2 Notes

- 1.1 Scheme Creditors should carefully consider the factors and risks associated with any investment in the Bank T2 Notes, the Company's business and the financial services industry in the United Kingdom (the **UK**) in which the Company operates, together with all the other information contained in the Bank T2 Notes Prospectus and all of the information incorporated by reference into the Bank T2 Notes Prospectus, including, in particular, the risks and uncertainties described below. Scheme Creditors should note that the risks relating to the Company, the financial services industry in the UK and the Bank T2 Notes summarised in section 1 of the Bank T2 Notes Prospectus – (*Summary of the Notes*) are risks that the Company believes to be the most essential to an assessment by a Scheme Creditor of whether to consider an investment in the Bank T2 Notes. However, as the risks which the Company faces relate to events and depend on circumstances that may or may not occur in the future, Scheme Creditors should consider not only the information on key risks summarised in section 1 of the Bank T2 Notes Prospectus headed "*Summary of the Notes*" but also, among other things, the risks and uncertainties described and/or referred to in paragraphs 4.2 and 4.3 below.
- 1.2 Section 2 (*Risk Factors*) of the Bank T2 Notes Prospectus describes the risk factors which are considered by the Company to be material to the Company and an investment in the Bank T2 Notes. However, these risk factors should not be regarded as a complete and exhaustive statement or explanation of all potential risks and uncertainties which Scheme Creditors may face when making an investment in the Bank T2 Notes and should be used as guidance only. There may be other risks and uncertainties which are currently not known to the Company or which the Company currently does not consider to be material. Should any of the risks described below, or any other risks or uncertainties, occur, this could, individually or cumulatively, have a material adverse effect on the Company's business, results of operation, financial condition or prospects which in turn would be likely to cause the price of the Bank T2 Notes to decline and, as a result, an investor in the Bank T2 Notes could lose some or all of its investment. Scheme Creditors should consider carefully whether an investment in the Bank T2 Notes is suitable for them in the light of the information contained in the Bank T2 Notes Prospectus and their personal circumstances.
- 1.3 Scheme Creditors are referred to the section entitled "*Risks relating to the Bank and its Business*" on page 51 of the Bank T2 Notes Prospectus and the section entitled "*Risks related to the features of the Notes*" on page 91 of the Bank T2 Notes Prospectus in which, without prejudice to

Part E (Information on the Company and Additional Information relating to the Scheme)

- 3.4 The issued and fully paid share capital of the Company as at ~~the date of publication of this Explanatory Statement~~ 18 November 2013 is as follows:

	<u>Number</u>	<u>Amount</u>
Existing Ordinary Shares of £0.05 each	8,200,000,000	£410,000,000
Preference Shares of £1.00 each	60,000,000	£60,000,000

- 3.5 If:

- (a) the Liability Management Exercise is successfully completed;
- (b) there are no further issues of ordinary shares of the Company prior to completion of the Liability Management Exercise; and
- (c) there are no other issues of preference shares of the Company prior to completion of the Liability Management Exercise, save for any Preference Shares issued in respect of the scheduled dividend payment due on 30 November 2013,

the Existing Ordinary Shares in the Company will be converted into deferred shares and effectively reduced to nil and a total of 250,000,000 ordinary shares of the Company will be issued at that time, such that the issued and fully paid up share capital of the Company immediately following completion of the Liability Management Exercise will be as follows:

	<u>Number</u>	<u>Amount</u>
Number of ordinary shares of the Company of £0.05 each	250,000,000	£12,500,000
Preference Shares of the Company of £1.00 each	63,700,000	£63,700,000

- 3.6 Upon the successful completion of the Liability Management Exercise:

- (a) the Noteholders (and, if applicable, in accordance with the terms of the Additional New Ordinary Shares Offer, the Modified Scheme Purchasers) will acquire in total 175,000,000 ordinary shares of the Company;
- (b) Co-operative Group (through CBGL) will control in total 75,000,000 ordinary shares of the Company (representing 30 per cent. of the total); and
- (c) Co-operative Group will control in total 63,700,000 preference shares.

- 3.7 There will be no differences between the voting rights enjoyed by Co-operative Group (through CBGL) and those enjoyed by any other holder of ordinary shares of the Company.

- 3.8 For a description of the measures in place to ensure that the voting rights exercised over the Company by Co-operative Group and its affiliates (including CBGL) are not abused, see paragraph 20.3 entitled "*Relationship Agreement*" in section 20 entitled "*Additional Information*" on pages 455 to 457 of the Bank T2 Notes Prospectus.

- 3.9 Save as disclosed in the Bank T2 Notes Prospectus,

- (a) no share or loan capital of the Company or any of its subsidiaries has within the period covered by the historical financial information set out in this Bank T2 Notes Prospectus (other than intra-group issues by wholly owned subsidiaries or pursuant to the offer) been issued or been agreed to be issued fully or partly paid, either for cash or for a consideration other than cash and no such issue is now proposed;

referred to in the Relationship Agreement, Co-operative Group has the right to nominate up to two persons to be members of the Board for so long as certain circumstances continue to exist. As at ~~the date of this Explanatory Statement~~ [18 November 2013](#), Co-operative Group's nominated directors are Euan Angus Sutherland and Bennett Lyle Edward Reid and they are intended to constitute as such under the articles of association of the Company.

- (h) Euan Angus Sutherland is the chief executive of Co-operative Group and a director of CBGL. Bennett Lyle Edward Reid is a director of Co-operative Group Holdings (2011) Limited and Co-operative Group. Euan and Bennett are nominee directors of Co-operative Group and are intended to constitute nominee directors for the purposes of the articles of association of the Company, which will be proposed for approval at a general meeting of the Company to be held on 15 November 2013, and as referred to in the Relationship Agreement. Under the terms of the Relationship Agreement, Co-operative Group acknowledges that its nominee director(s) shall not be able to vote at board meetings of the Company on any matter where there is a conflict of interests or potential conflict of interests between the Company or any of its subsidiaries (on the one hand) and Co-operative Group or any of its subsidiaries (excluding the Company and its subsidiaries) (on the other hand). Save as disclosed in this paragraph (h), none of the directors has any potential conflict of interest between their duties to the Company and their private interests and/or their duties to third parties.
- (i) None of the Directors has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business which was effected by the Company or any of its subsidiaries during the current or immediately preceding financial year, or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.
- (j) None of the Directors has or had a beneficial interest in any contract to which the Company or any of its subsidiaries was a party during the current or immediately preceding financial year.
- (k) Except as disclosed below, no Director was selected to act in such capacity pursuant to any arrangement or understanding with any shareholder, customer, supplier or any other person having a business connection with the Company or any of its subsidiaries.
- (l) Apart from the Liability Management Exercise, the result of which, if successful, will reduce CBGL's shareholding of the issued ordinary shares in the Company to approximately 30 per cent., the Company and the Directors are not aware of any arrangement the operation of which may at a subsequent date result in a change in control of the Company.
- (m) None of the directors of the Company has any direct interest in the share capital of the Company, nor any non-beneficial interest in the share capital of the Company.
- (n) None of the directors of the Company has any material interest (whether as a director, member, creditor or otherwise) in the Scheme, except as disclosed in ~~(p)~~ below. Save as disclosed in this section 5 (*Material interests of Directors and Trustees*), the effect of the Scheme on interests of the directors of the Company will not be different from the effect on like interests of other persons.
- (o) On the Scheme Settlement Date, the directors of the Company will receive the benefit of releases granted under the terms of the Deed of Waiver and Release.
- (p) [The Modified Scheme Purchasers have agreed to meet certain costs and liabilities of the Company and certain related parties incurred in connection with an application by the Company to the Court on 2 December 2013 to amend this Explanatory Statement from](#)

[the form published on or around 18 November 2013 and the amendments to this Explanatory Statement made as a result of such application.](#)

- (q) ~~(p)~~ Pursuant to the 2014 Commitment Agreement, the Company and Co-operative Group have agreed to waive each and every claim which they may have against the Directors 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 Company and/or the circumstances which gave rise to the requirement for a recapitalisation of the Company (provided that this does not preclude any such persons from enforcing any rights under any of the transaction documentation entered into in connection with the Recapitalisation Plan). For further details on the 2014 Commitment Agreement see subsection 20.4 entitled "2014 Commitment Agreement" in section 20 entitled "Additional Information" on pages 457 to 460 of the Bank T2 Notes Prospectus.
- (r) ~~(q)~~ Some of the directors of the Company are also directors of a number of other companies within the Group, as set out in the table referred to in paragraph 4.1(b) above including Co-operative Group that are directly involved in the Scheme.

5.2 Director confirmations

Save as disclosed below, as at ~~the date of this Explanatory Statement~~ 18 November 2013, none of the Directors has at any time within at least the past five years:

- (a) save as disclosed in this Part E, been a director or partner of any companies or partnerships; or
- (b) had any convictions in relation to fraudulent offences (whether spent or unspent); or
- (c) been adjudged bankrupt or entered into an individual voluntary arrangement; or
- (d) been a director of any company at the time of, or within 12 months preceding, any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors; or
- (e) been a partner in a partnership at the time of, or within 12 months preceding, any compulsory liquidation, administration or partnership voluntary arrangement of such partnership; or
- (f) had his assets form the subject of any receivership or been a partner of a partnership at the time of, or within 12 months preceding, any assets thereof being the subject of a receivership; or
- (g) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including any designated professional body); or
- (h) ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

5.3 Richard Graeme Barclay Hardie was a non-executive director of Dunfermline Building Society from September 2008 to March 2009. A sale process was conducted by the Bank of England in March 2009 under the Special Resolution Regime provisions of the Banking Act. Richard was brought in by Dunfermline Building Society to assist with the challenges it was facing at the time.

5.4 Richard Pym has been Chairman of Northern Rock (Asset Management) plc since January 2010. Northern Rock plc was nationalised and taken into Government ownership in February 2008 and was then restructured into two legal entities on 31 December 2009 – Northern Rock plc and

Northern Rock (Asset Management) plc. Richard was appointed Chief Executive of Bradford & Bingley in August 2008 and was appointed Chairman in November 2008. On 29 September 2008, all of Bradford & Bingley's retail branches and its savings accounts were transferred to Abbey, and subsequently rebranded Santander. The remainder of the business, including the mortgage books of Bradford & Bingley and specialist lending arm Mortgage Express were nationalised and taken into public ownership by the Government. Since July 2010 Richard has been Chairman of UK Asset Resolution Limited which was established to facilitate the orderly management of the closed mortgage books of both Bradford & Bingley plc and Northern Rock (Asset Management) plc to maximise value for taxpayers.

5.5 Trustee

- (a) The Law Debenture Trust Corporation p.l.c. (in its capacity as the trustee for each series of the Dated Notes) has a material interest in the Scheme by reason of being a Scheme Creditor. Law Debenture Trustees Limited will act as the Bank T2 Notes Trustee upon issuance of the Bank T2 Notes on the Scheme Settlement Date pursuant to the terms of the Bank T2 Notes Trust Deed.
- (b) Save as disclosed in this section 5 (*Material interests of Directors and Trustees*), the effect of the proposed Scheme on interests of the Trustees described in this section 5 (*Material interests of Directors and Trustees*) will not be different from the effect on like interests of other persons.
- (c) On the Scheme Settlement Date, The Law Debenture Trust Corporation p.l.c. (in its capacity as trustee for each series of the Dated Notes) will receive the benefit of releases granted under the terms of the Deed of Waiver and Release.

6. MATERIAL CONTRACTS

- 6.1 Scheme Creditors are referred to paragraph 20 entitled "*Material Contracts*" in section 20 "*Additional Information*" on pages 441 to 464 of the Bank T2 Notes Prospectus, which includes a summary of each contract that has been entered into (other than in the ordinary course of business) by the Company or any of its subsidiaries, which are material to the Company.

7. MATERIAL LITIGATION

- 7.1 Scheme Creditors are referred to paragraph 21 entitled "*Litigation and Arbitration*" in section 20 "*Additional Information*" on pages 464 to 467 of the Bank T2 Notes Prospectus, which sets out the governmental, legal or arbitration proceedings which may have or have had in the 12 months prior to the date of this Explanatory Statement a significant effect on the financial position or profitability of the Company and/or the Company and its subsidiaries. [Scheme Creditors are also referred to pages 8 and 9 of the Supplementary Prospectus.](#)

8. COSTS IN RELATION TO THE SCHEME

The Company has agreed to meet [certain of](#) the costs, charges, expenses and disbursements reasonably incurred by the Information Agent, the Common Depositaries, the Trustees and the LT2 Group in connection with the negotiation, preparation and implementation of the Scheme.

PART F

TAXATION

In view of the number of different jurisdictions where tax laws may apply to Scheme Creditors, this Explanatory Statement does not, save as set out or cross-referred to below in respect of certain United Kingdom taxation matters, discuss the tax consequences for Scheme Creditors arising from the exchange of their Dated Notes in the Scheme, the receipt or transfer of New Ordinary Shares and/or Bank T2 Notes or the receipt of Additional New Ordinary Shares.

The information regarding United Kingdom taxation set out or cross-referred to below is intended as a general summary of certain United Kingdom tax considerations and does not purport to be a complete analysis of all potential UK tax consequences for Scheme Creditors arising from the exchange of their Dated Notes in the Scheme. It is based on current UK tax law and what is understood to be the published practice of HM Revenue & Customs (HMRC) as at ~~the date of this Explanatory Statement~~ [18 November 2013](#), both of which are subject to change, possibly with retrospective effect. The information cross-referred to below is intended to apply only to:

- (a) in the case of paragraph 1 below, Scheme Creditors who are resident in the UK for UK tax purposes, who hold their Dated Notes as investments (other than under an individual savings account) and who are the beneficial owners of their Dated Notes;*
- (b) in the case of paragraph 2 below, holders of the Bank T2 Notes who (unless the position of non-UK resident shareholders is expressly referred to in the part of the Bank T2 Notes Prospectus referred to in paragraph 2) are resident in the UK for UK tax purposes, who hold their Bank T2 Notes as investments (other than under an individual savings account) and who are the beneficial owners of their Bank T2 Notes and any interest paid on them*
- (c) in the case of paragraph 3 below, holders of the New Ordinary Shares and Additional New Ordinary Shares who (unless the position of non-UK resident shareholders is expressly referred to therein, are resident in the UK for UK tax purposes, who hold their New Ordinary Shares and Additional New Ordinary Shares as investments (other than under an individual savings account) and who are the beneficial owners of their New Ordinary Shares and Additional New Ordinary Shares and any dividends paid on them;*

The statements set out or cross-referred to in paragraphs 1, 2 or 3 below may not apply to certain classes of Scheme Creditors such as dealers in securities. The information set out or cross-referred to in paragraphs 1, 2 or 3 below is not exhaustive, nor is it tailored to any specific investor.

The information set out or cross-referred to in paragraphs 1, 2 or 3 below does not constitute tax advice. Scheme Creditors who are in any doubt as to their tax position regarding the exchange of their Dated Notes pursuant to the Scheme are urged to consult their own professional advisers regarding the possible tax consequences under the laws of the jurisdictions that apply to them.

Scheme Creditors are liable for their own taxes and have no recourse to the Company, the Dealer Managers, the Information Agent, the Registrars or any other entity or person named in this Explanatory Statement with respect to taxes arising in connection with the Scheme.

1. LIABILITY MANAGEMENT EXERCISE

Scheme Creditors are referred to the section entitled "Dated Notes" in Section I "Taxation Considerations" on pages C-158 to C-162 of the Offer Memorandum (which is appended to the Bank T2 Notes Prospectus) which discusses, in respect of certain United Kingdom tax matters, certain tax consequences for Scheme Creditors arising from the exchange of their Dated Notes in the Scheme.

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Schedule

1. Form of Deed of Waiver and Release.....	121 122
2. Form of Distribution Agreement.....	132 133

2024 Notes Noteholder means a person who is the beneficial owner of and/or the owner of the ultimate economic interest in any of the Dated Notes representing the 2024 Notes as at the Record Date, whose interests in the 2024 Notes are held through records maintained in book entry form by a Clearing System.

2033 Notes means the 5.875% subordinated notes due 2033 with ISIN: XS0145065602 originally issued by Britannia Building Society and assumed by the Company upon its acquisition of Britannia Building Society on 1 August 2009.

2033 Notes Noteholder means a person who is the beneficial owner of and/or the owner of the ultimate economic interest in any of the Dated Notes representing the 2033 Notes as at the Record Date, whose interests in the 2033 Notes are held through records maintained in book entry form by a Clearing System.

Account Holder means any person recorded directly in the records of a Clearing System as holding an interest in any Dated Notes in an account with the relevant Clearing System either for its own account or on behalf of its client.

Account Holder Letter means the account holder letter substantially in the form set out in appendix 3 of the Explanatory Statement or such other account holder letter (or similar document or series of documents) as the Company considers appropriate to assist with and/or facilitate the participation by Noteholders who hold their interests in the Dated Notes through Crest, in the Scheme.

Additional New Ordinary Shares means ~~62,500,000~~33,333,334 ordinary shares to be issued by the Company for an aggregate consideration equal to £~~125,000,000~~125,000,002.50 pursuant to the terms of the Additional New Ordinary Shares Offer.

Additional New Ordinary Shares Offer means the offer by the Company to the Noteholders to elect to subscribe for the Additional New Ordinary Shares on the terms described in paragraphs 2.22 to 2.30 of part B (*Overview of the Scheme*) of the Explanatory Statement.

Allowed Proceeding means any Proceeding by a Scheme Creditor to enforce its rights under this Scheme where any person fails to perform its obligations under this Scheme.

Alternative Recipient has the meaning given to that term in Clause 35.

April 2021 Notes means the 9.25% subordinated notes due April 2021 with ISIN: XS0620315902 issued by the Company.

April 2021 Notes Noteholder means a person who is the beneficial owner of and/or the owner of the ultimate economic interest in any of the Dated Notes representing the April 2021 Notes as at the Record Date, whose interests in the April 2021 Notes are held through records maintained in book entry form by a Clearing System.

Bank T2 Notes means a principal amount equal to £100,000,000 of the 11 per cent. subordinated notes due 2023 (ISIN: GB00BFXW0853) to be issued by the Company pursuant to Clause 17, the terms of which are described in detail in the Bank T2 Notes Prospectus.

Bank T2 Notes and New Ordinary Shares Registrar Agreement means the agreement between the Company and Computershare Investor Services PLC dated on or about the Scheme Settlement Date in relation to the provision of paying agency and registrar services.

Bank T2 Notes Paying Agent means Computershare Investor Services PLC in its capacity as paying agent for the Bank T2 Notes.

Bank T2 Notes Prospectus means the debt prospectus relating to the Bank T2 Notes ~~set out in appendix 9 of~~ dated 4 November 2013, together with the Supplementary Prospectus, both of which are appended to the Explanatory Statement ~~in appendix 9.~~

Bank T2 Notes Registrar means Computershare Investor Services PLC in its capacity as registrar for the Bank T2 Notes.

Bank T2 Notes Trust Deed means the trust deed between the Company and the Bank T2 Notes Trustee relating to the Bank T2 Notes.

Bank T2 Notes Trustee means Law Debenture Trustees Limited in its capacity as trustee for the Bank T2 Notes.

Business Day means a day (other than a Saturday or Sunday) on which banks are open for general business in London and which is a Target Day.

Clearing Systems means Clearstream, Luxembourg and Euroclear.

Clearstream, Luxembourg means Clearstream Banking, *société anonyme*.

Common Depositaries means Bank of New York Mellon, London Branch and Citibank Europe PLC as the common depositaries for Clearstream, Luxembourg and Euroclear with whom the Global Notes have been deposited.

Companies Act means the Companies Act 2006.

Company means The Co-operative Bank p.l.c.

Company Custody Account means one or more custody accounts in the Clearing Systems held on behalf of the Company.

Co-operative Group means The Co-operative Group Limited, an industrial and provident society incorporated in England with registered number IP525R.

Court means the High Court of Justice of England and Wales.

Dated Notes means the 2016 Notes, the 2019 Notes, the April 2021 Notes, the November 2021 Notes, the 2022 Notes, the 2024 Notes and the 2033 Notes.

Deed of Waiver and Release means the deed of waiver and release substantially in the form set out in Schedule 1.

Designated Recipient means any person appointed under a valid Account Holder Letter delivered to and received by the Information Agent on behalf of a Noteholder to receive the Scheme Consideration to which that Noteholder is entitled pursuant to the terms of this Scheme, provided that such person is an Eligible Person.

Distribution Agreement means the distribution agreement substantially in the form set out in Schedule 2.

Distribution Instruction Certificate has the meaning given to that term in the Distribution Agreement.

Eligible Noteholder means a Noteholder on whose behalf a valid Account Holder Letter has been delivered to and received by the Information Agent before the end of the Holding Period which

includes a confirmation that such Noteholder (or, if such Noteholder has appointed a Designated Recipient, its Designated Recipient) is an Eligible Person.

Eligible Person means a person in relation to whom the offer to, issue to or subscription by such person in respect of any New Ordinary Shares, Bank T2 Notes (and, if applicable, Additional New Ordinary Shares):

- (a) would not be unlawful or prohibited under the laws of any applicable jurisdiction; and
- (b) would not, or would not be likely to, result in the Company being required to comply with any filing, registration, disclosure or other onerous requirement in any jurisdiction where that person is a citizen or subject to the laws of or in which that person is domiciled or resident.

Euroclear means Euroclear Bank S.A./N.V. as operator of the Euroclear clearing system.

Explanatory Statement means the explanatory statement dated 18 November 2013 ([as amended on 4 December 2013](#)) of the Company circulated to the Scheme Creditors in connection with this Scheme pursuant to section 897 of the Companies Act.

Global Notes has the meaning given to that term in Recital (C).

Holding Period means the period of 36 months following the Scheme Settlement Date.

Holding Period Trustee means Lucid Issuer Services Limited.

Ineligible Noteholder means a Noteholder on whose behalf a valid Account Holder Letter has been delivered to and received by the Information Agent before the end of the Holding Period which includes a confirmation that such Noteholder is not an Eligible Person and has not appointed a Designated Recipient.

Information Agent means Lucid Issuer Services Limited.

Liability or **Liabilities** means any debt, liability or obligation of a person whether it is present, future, prospective or contingent, whether or not it is fixed or undetermined, whether or not it involves the payment of money or performance of an act or obligation and whether it arises at common law, in equity or by statute, in England and Wales or any other jurisdiction, or in any manner whatsoever.

Liability Management Exercise means the liability management exercise of the Company, the terms of which are described in Part B (*Overview of the Liability Management Exercise*) of the Explanatory Statement.

Lock-up Agreement means an agreement between the Company and a Noteholder, pursuant to which that Noteholder has agreed, among other things and subject to certain conditions, to vote its Scheme Claim in favour of this Scheme.

Lock-up Arrangement means a Lock-up Agreement or a Lock-up Undertaking.

Lock-up Undertaking means an undertaking by an Account Holder given on behalf of a Noteholder in favour of the Company pursuant to a valid Account Holder Letter delivered to and received by the Information Agent on behalf of that Noteholder, pursuant to which that Noteholder has agreed, among other things and subject to certain conditions, to vote its Scheme Claim in favour of this Scheme.

London Stock Exchange means the London Stock Exchange Group plc.

Longstop Date means 31 December 2013.

Modified Scheme Purchase Agreement means the agreement between the Company and the Modified Scheme Purchasers dated on or about 1 December 2013 pursuant to which the Modified Scheme Purchasers have agreed to purchase Additional New Ordinary Shares on the terms set out therein.

Modified Scheme Purchaser Premium means the premium described in paragraph 2.32 of part B (*Overview of the Scheme*) of the Explanatory Statement.

Modified Scheme Purchasers means the persons listed in column 1 of schedule 3 to the Modified Scheme Purchase Agreement, in their capacities as modified scheme purchasers pursuant to the terms of the Modified Scheme Purchase Agreement.

New Administrative Parties means the Bank T2 Notes Trustee, the Bank T2 Notes Registrar, the Bank T2 Notes Paying Agent and the New Ordinary Shares Registrar.

New Ordinary Shares means ~~112,500,000~~ 141,666,666 ordinary shares to be issued by the Company pursuant to Clause 17.

New Ordinary Shares Conversion Price means £~~7.7718276~~ 6.17566631.

New Ordinary Shares Registrar means Computershare Investor Services PLC as registrar for the New Ordinary Shares and the Additional New Ordinary Shares.

New Transaction Documents means the Bank T2 Notes Trust Deed and the Bank T2 Notes and New Ordinary Shares Registrar Agreement.

Noteholders means the 2016 Notes Noteholders, the 2019 Notes Noteholders, the April 2021 Notes Noteholders, the November 2021 Notes Noteholders, the 2022 Notes Noteholders, the 2024 Notes Noteholders and the 2033 Notes Noteholders.

November 2021 Notes means the fixed/floating rate subordinated notes due November 2021 with ISIN: XS0274155984 issued by the Company.

November 2021 Notes Noteholder means a person who is the beneficial owner of and/or the owner of the ultimate economic interest in any of the Dated Notes representing the November 2021 Notes as at the Record Date, whose interests in the November 2021 Notes are held through records maintained in book entry form by a Clearing System.

Offer Memorandum means the consent and exchange offer memorandum appended to the Bank T2 Notes Prospectus ~~-(including any amendments thereto under the Supplementary Prospectus).~~

Preference Shareholders means the holders of the Preference Shares.

Preference Shareholders Meeting means the meeting of the Preference Shareholders convened in connection with the Liability Management Exercise (including any adjournment of such meeting).

Preference Shares means the 9.25% non-cumulative irredeemable preference shares with ISIN: GB0002224516 issued by the Company.

Preference Shares Exchange Offer means the offer to exchange the Preference Shares in accordance with the terms of the Liability Management Exercise.

Proceeding means any process, suit, action, legal or other proceeding including without limitation any arbitration, mediation, alternative dispute resolution, judicial review, adjudication, demand, execution, distraint, restraint, forfeiture, re-entry, seizure, lien, enforcement of judgment or enforcement of any security.

Prohibited Proceedings means any Proceeding against the Company or its property in any jurisdiction whatsoever other than an Allowed Proceeding.

Proposal has the meaning given to that term in the Offer Memorandum.

~~**Purchase Agreement** means the agreement between the Company and the Purchasers dated on or about 4 November 2013 pursuant to which the Purchasers have agreed to purchase Additional New Ordinary Shares on the terms set out therein.~~

~~**Purchaser Premium** means the premium described in paragraph 2.32 of part B (Overview of the Scheme) of the Explanatory Statement.~~

~~**Purchasers** means the persons listed in column 1 of schedule 3 to the Purchase Agreement and the persons numbered 5 to 43 (inclusive) in part 1 of appendix 1 to the Deed of Waiver and Release, in their capacities as purchasers pursuant to the terms of the Purchase Agreement.~~

Record Date means 4.30 p.m. (London time) on ~~10~~¹³ December 2013.

Registrar of Companies means the Registrar of Companies of England and Wales.

Released Parties has the meaning given to that term in the Deed of Waiver and Release.

Sale Instruction Certificate has the meaning given to that term in the Distribution Agreement.

Scheme means this scheme of arrangement in respect of the Company under Part 26 of the Companies Act in its present form or with or subject to any modification, addition or condition approved or imposed by the Court or approved in accordance with the terms of this Scheme.

Scheme Claim means any claim in respect of any Liability of the Company to any person arising out of an interest in the Dated Notes, arising on or before the Record Date or which may arise after the Record Date as a result of an obligation or Liability of the Company incurred or as a result of an event occurring or an act done on or before the Record Date (including, for the avoidance of doubt, any interest accruing on, or accretions arising in respect of, such claims before or after the Record Date), excluding any Liability of the Company to the Trustees under the Trust Deeds other than in respect of the covenants to repay principal and interest on the Dated Notes pursuant to the Trust Deeds.

Scheme Consideration means the New Ordinary Shares and the Bank T2 Notes.

Scheme Consideration Calculation Amount means, with respect to a Noteholder, the aggregate of (i) the aggregate principal amount outstanding of the Dated Notes (other than 2016 Notes) and accrued but unpaid interest thereon up to (and including) the Record Date held by that Noteholder (if any) and (ii) the Sterling-Equivalent principal amount outstanding of the 2016 Notes and accrued but unpaid interest thereon up to (and including) the Record Date held by that Noteholder (if any), in each case as at the Record Date.

Scheme Creditor means the Common Depositaries, the Trustees (solely in their capacities as the beneficiaries of the covenants to repay principal and interest on the Dated Notes pursuant to the Trust Deeds) and the Noteholders.

Scheme Effective Date means the date on which an office copy of the order of the Court sanctioning this Scheme under Section 899 of the Companies Act has been delivered to the Registrar of Companies.

Scheme FX Rate means the rate of exchange between Sterling and Euro appearing on or derived from the Bloomberg service designated as the “FXC” page for the purpose of displaying that rate of exchange, as determined by the Company on 30 October 2013, being £0.85644 to €1.

Scheme Meeting means the meeting of the Scheme Creditors to vote on this Scheme convened pursuant to an order of the Court (and any adjournment of such meeting).

Scheme Sanction Hearing means the hearing of the Court at which the Court sanctioned this Scheme pursuant to the order of the Court under Section 899 of the Companies Act.

Scheme Settlement Condition means the condition described in Clause 5.

Scheme Settlement Condition Testing Date means the latest to occur of:

- (a) the Scheme Effective Date; and
- (b) the date on which the resolutions proposed at each of the Preference Shareholders Meeting, the 5.5555% Bondholders Meeting and the 13% Bondholders Meeting and the general meeting of the Company referred to in Clause 5 have been voted on and each such meeting has been concluded.

Scheme Settlement Date means the date on which the Scheme Consideration and the Additional New Ordinary Shares are issued.

Selling Agent means TFS Derivatives Limited and Tradition (UK) Limited.

Sterling-Equivalent means, with respect to any principal amount outstanding and/or amount of accrued but unpaid interest in respect of the 2016 Notes, the amount of such principal amount outstanding and/or amount of accrued but unpaid interest in Euro notionally converted into Sterling at the Scheme FX Rate.

Subscribing Noteholder means a Noteholder who elects to participate in the Additional New Ordinary Shares Offer.

Subscription Escrow Account means the interest bearing Sterling cash escrow account with the Subscription Escrow Bank in the name of Lucid Issuer Services Limited to hold subscription monies in accordance with the terms of the Additional New Ordinary Shares Offer, the Sub-purchasing Offer and the [Modified Scheme](#) Purchase Agreement.

Subscription Escrow Bank means BNP Paribas, London branch.

Sub-purchasers means the Noteholders which elect to participate in the Sub-purchasing Offer.

Sub-purchaser Premium means the premium described in paragraph 2.44 of part B (*Overview of the Scheme*) of the Explanatory Statement.

Sub-purchasing Offer means the entitlement of Noteholders to participate in the sub-purchasing of the agreement by the [Modified Scheme](#) Purchasers to back-stop the purchase of Additional New

Ordinary Shares as set out in the [Modified Scheme](#) Purchase Agreement, as described in paragraphs 2.33 to 2.44 of part B (*Overview of the Scheme*) of the Explanatory Statement.

[Supplementary Prospectus means the supplementary prospectus relating to the Bank T2 Notes dated 4 December 2013 which is appended to the Explanatory Statement in appendix 9.](#)

Target Day means a day on which the Trans European Automated Real-Time Gross Settlement Express Transfer payment system is open for settlement of payments in Euro.

Trustees means The Law Debenture Trust Corporation p.l.c. in its capacity as trustee for each of the Dated Notes.

Trust Deeds mean the trust deeds relating to the Dated Notes.

Unadmitted Noteholder means a Noteholder on whose behalf a valid Account Holder Letter has not been delivered to and received by the Information Agent before the Voting Instruction Deadline, other than any Eligible Noteholder on whose behalf a valid Account Holder Letter has been delivered to and received by the Information Agent between the Voting Instruction Deadline and the Business Day preceding the Scheme Settlement Date and in relation to whom the Company exercises its discretion to issue Scheme Consideration on the Scheme Settlement Date in accordance with Clauses 17(a)(ii) and 17(b)(ii).

Undertaking Transaction Parties means the Trustees, the Common Depositaries, the Holding Period Trustee, the Information Agent, the Selling Agent, the [Modified Scheme](#) Purchasers, Co-operative Group and the New Administrative Parties.

Voting Instruction Deadline means 4.30 p.m. (London time) on ~~10~~[13](#) December 2013.

1.2 In this Scheme, unless the context otherwise requires or otherwise expressly provides for:

- (a) references to Recitals, Clauses, Subclauses and Schedules are references to recitals, parts, clauses, subclauses and schedules of this Scheme;
- (b) references to a person include a reference to an individual, firm, partnership, company, corporation, unincorporated body of persons or any state or state agency;
- (c) references to a statute, statutory provision or regulatory rule or guidance include references to the same as subsequently modified, amended or re-enacted from time to time;
- (d) unless the context otherwise requires, references to an agreement, deed or document shall be deemed also to refer to such agreement, deed or document as amended, supplemented, restated, verified, replaced and/or novated (in whole or in part) from time to time and to any agreement, deed or document executed pursuant thereto;
- (e) the singular includes the plural and *vice versa* and words importing one gender shall include all genders;
- (f) references to “including” shall be construed as references to “including without limitation” and “include”, “includes” and “included” shall be construed accordingly;
- (g) headings to Recitals, Clauses, Subclauses and Schedules are for ease of reference only and shall not affect the interpretation of this Scheme;

- (b) the Deed of Waiver and Release
- (c) the Distribution Agreement; and
- (d) any and all other documents that the Company reasonably considers necessary or desirable to give effect to the terms of this Scheme,

on the Scheme Settlement Date (in respect of the documents referred to in Subclauses (a) and (b) above) and on any day from (and including) the Scheme Effective Date (in respect of the documents referred to in Subclauses (c) and (d) above) for the purposes of giving effect to the terms of this Scheme. The authority granted under this Clause 13 shall be treated, for all purposes whatsoever and without limitation, as having been granted by deed.

Entitlements of Noteholders to Scheme Consideration

14. Subject to Clauses 18 to 32 of this Scheme, each Noteholder shall be entitled to receive Scheme Consideration pursuant to Clause 17 on the following basis.

(a) **New Ordinary Shares**

Each Noteholder shall be entitled to receive a number of New Ordinary Shares equal to:

$$\frac{(N \times 0.8973743)}{C}$$

Where:

N equals the Scheme Consideration Calculation Amount for that Noteholder

C equals the New Ordinary Shares Conversion Price

(b) **Bank T2 Notes**

Each Noteholder shall be entitled to receive a principal amount of Bank T2 Notes equal to:

$$N \times 0.1026357$$

Where:

N equals the Scheme Consideration Calculation Amount for that Noteholder

Fractional Entitlements

15. If the number of New Ordinary Shares resulting from any calculation made in accordance with Clause 14(a) is not a whole number, that number shall be rounded down to the nearest whole number and the relevant Noteholder shall have no entitlement to any resulting fractional amount.
16. If the principal amount of Bank T2 Notes resulting from any calculation made in accordance with Clause 14(b) is not an integral multiple of £10, that amount shall be rounded down to the nearest integral multiple of £10 and the relevant Noteholder shall have no entitlement to any resulting fractional amount.

Scheme Consideration

- (b) any interest, dividends, distributions (or any other rights or benefits) or other payments received by the Holding Period Trustee in respect of such Scheme Consideration,

(in each case net of any applicable taxes (including, without limitation, any withholding taxes)) to the Company in accordance with the terms of the Distribution Agreement and this Scheme.

- 32. The Holding Period Trustee will agree under the terms of the Distribution Agreement not to exercise any voting, conversion or other rights attaching to any Scheme Consideration which it is holding on the trusts referred to above.

Additional New Ordinary Shares Offer

- 33. On the Scheme Settlement Date, subject to the terms of the Additional New Ordinary Shares Offer the Company shall issue the Additional New Ordinary Shares on the following basis:

- (a) the Company shall issue to each Subscribing Noteholder which has performed all its obligations in relation to the Additional New Ordinary Shares Offer (or, to the extent applicable, its Designated Recipient and/or its Alternative Recipient) the number of Additional New Ordinary Shares which that Subscribing Noteholder has been allocated in accordance with the terms of the Additional New Ordinary Shares Offer;
- (b) the Company shall issue to each Sub-purchaser which has performed all its obligations and complied with all applicable conditions in relation to the Sub-purchasing Offer (or, to the extent applicable, its Designated Recipient and/or its Alternative Recipient) the number of Additional New Ordinary Shares which that Sub-purchaser has been allocated in accordance with the terms of the Sub-purchasing Offer; and
- (c) the Company shall issue to each [Modified Scheme](#) Purchaser (or, to the extent applicable, its Designated Recipient and/or its Alternative Recipient) the number of Additional New Ordinary Shares which that [Modified Scheme](#) Purchaser has been allocated in accordance with the terms of the [Modified Scheme](#) Purchase Agreement.

- 34. On the Scheme Settlement Date, subject to the terms of the Additional New Ordinary Shares Offer the Company shall pay:

- (a) to [or at the direction of](#) each Sub-purchaser which has performed all its obligations in relation to the Sub-purchasing Offer, the proportion of the Sub-purchaser Premium to which that Sub-purchaser is entitled in accordance with the terms of the Sub-purchasing Offer; and
- (b) to [or at the direction of](#) each [Modified Scheme](#) Purchaser which has performed all its obligations under the [Modified Scheme](#) Purchase Agreement, the proportion of the [Modified Scheme](#) Purchaser Premium to which that [Modified Scheme](#) Purchaser is entitled in accordance with the terms of the [Modified Scheme](#) Purchase Agreement.

Alternative Recipients

- 35. Any Eligible Noteholder on whose behalf a valid Account Holder Letter has been delivered to and received by the Information Agent before the Voting Instruction Deadline, Sub-purchaser or [Modified Scheme](#) Purchaser may elect for some or all of the Scheme Consideration and (if applicable) the Additional New Ordinary Shares to which it is entitled under the terms of the Scheme and (if applicable) the Additional New Ordinary Shares Offer, the Sub-purchasing Offer or the [Modified Scheme](#) Purchase Agreement to be issued to another person who is an Eligible Person (such person, an **Alternative Recipient**) by:

- (a) notifying the Company of its election; and

- (b) providing to the Company and the Information Agent (i) confirmation that the Alternative Recipient is an Eligible Person and (ii) all details of the Alternative Recipient required by the Company and/or the Information Agent,

in each case by no later than the Scheme Effective Date.

Implementation of Arrangements

- 36. If the Company reasonably considers it necessary or desirable to execute any document or documents to give effect to the terms of this Scheme on behalf of any of the Scheme Creditors on any day from (and including) the Scheme Effective Date to (and including) the Scheme Settlement Date, the Company shall execute such document or documents on behalf of the relevant Scheme Creditor pursuant to the authority granted under Clause 13.
- 37. On the Scheme Effective Date, or as soon as reasonably practicable thereafter, the Company (for itself and on behalf of each Scheme Creditor pursuant to the authority granted under Clause 13), the Holding Period Trustee, the Information Agent and the Selling Agent shall execute the Distribution Agreement and perform their obligations thereunder.
- 38. On the Scheme Settlement Date, the following steps shall happen and those steps shall take effect in the order set out below:
 - (a) the Company for itself and/or on behalf of each relevant Scheme Creditor pursuant to the authority granted under Clause 13 shall issue the directions described in Clause 8 and execute any document in connection with the actions described in Clauses 8 and 9;
 - (b) the Company shall procure the cancellation of the Dated Notes in accordance with Clause 9;
 - (c) the Company shall issue the Scheme Consideration in accordance with Clause 17;
 - (d) the Company shall issue the Additional New Ordinary Shares in accordance with Clause 33;
 - (e) the Company shall pay the Sub-purchaser Premium and the [Modified Scheme](#) Purchaser Premium in accordance with Clause 34; and
 - (f) the Company shall execute the Deed of Waiver and Release on behalf of each Scheme Creditor pursuant to the authority granted under Clause 13.
- 39. The issuance of the Scheme Consideration and the Additional New Ordinary Shares, the payment of the Sub-purchaser Premium and the [Modified Scheme](#) Purchaser Premium and the performance of its other obligations under this Scheme will discharge the Company's obligation to the Scheme Creditors under this Scheme.
- 40. On and from the Scheme Settlement Date (but subject to the other provisions of this Scheme) each Scheme Creditor shall be entitled to the rights and benefits accruing to that Scheme Creditor under this Scheme and each of the New Transaction Documents (to the extent they are a party) and all of the existing rights and benefits of the Scheme Creditors in respect of the Scheme Claims shall be subject and limited to the compromises and arrangements provided by this Scheme.

Record Date

- 41. All Scheme Claims shall be determined as at the Record Date.

Part G (The Scheme)

23. Canyon Value Realization Fund, L.P.
24. Mariner LDC
25. Caspian Select Credit Master Fund, Ltd.
26. Caspian Solitude Master Fund, L.P.
27. Caspian HLSC1, LLC
28. Super Caspian Cayman Fund Limited
29. Caspian SC Holdings, L.P.
30. GoldenTree Master Fund II, Ltd.
31. GoldenTree ~~Entrust~~EnTrust Master Fund SPC, on ~~Behalf~~behalf of and ~~Account~~ for the account of Segregated Portfolio I
32. GN3 SIP L.P.
33. GoldenTree Master Fund, ~~LTD~~Ltd.
34. Knighthead Master Fund, LP
35. LMA SPC for and on behalf of MAP84 Segregated Portfolio
36. MatlinPatterson Fund (IV) Hedge Master Account L.P.
37. Monarch Master Funding 2 (Luxembourg) S.à r.l.
38. Silver Point Capital Offshore Master Fund, L.P.
39. Silver Point Capital Fund, L.P.
40. Stone Lion Portfolio L.P.
41. Permal Stone Lion Fund Ltd.
42. Taconic Master Fund 1.5 LP
43. Taconic Opportunity Master Fund LP
44. Archview Investment Group LP
45. Aurelius Capital Management, LP
46. Beach Point Capital Management LP
47. Canyon Capital Advisors LLC
48. Caspian Capital LP
49. GoldenTree Asset Management LP
50. Knighthead Capital Management LLC

- 51. MatlinPatterson Global Advisers LLC
- 52. Monarch Alternative Capital LP
- 53. Silver Point Capital, L.P.
- 54. Stone Lion Capital Partners L.P.
- 55. Taconic Capital Advisors LP.
- 56. CSS, LLC
- 57. GoldenTree EnTrust Distressed Debt Master Fund LP
- 58. GoldenTree EnTrust Distressed Debt Fund LP
- 59. GoldenTree SG Partners LP
- 60. Perry Partners International Master Inc
- 61. Perry Partners LP
- 62. Perry Capital, LLC
- 63. Absolute Return Income Master Fund LP
- 64. Serengeti Opportunities MM L.P.
- 65. Serengeti Lycaon MM LP
- 66. Rapax OC Master Fund LTD
- 67. Serengeti Asset Management
- 68. Silver Point Luxembourg Platform S.à r.l.
- 69. Strategic Value Master Fund, Ltd.
- 70. Strategic Value Special Situations Master Fund II, LP
- 71. Strategic Value Partners LLC
- 72. Fortelus Special Situations Master Fund Ltd
- 73. P Fortelus Ltd
- 74. Indaba Capital Fund, L.P.
- 75. BSMEH LLC
- 76. BLAFH LLC
- 77. ARKS LLC
- 78. EZTM LLC

79. HATHB LLC

80. DJM3 LLC

81. JHNEW LLC

82. MAMBS LLC

83. MWE LLC

84. SL Portfolio Investments LLC

85. Fortelus Capital Management LLP

Appendix 1 (Definitions and Interpretation)

Date, whose interests in the 2024 Notes are held through records maintained in book entry form by a Clearing System.

2033 Notes means the 5.875% subordinated notes due 2033 with ISIN XS0145065602 originally issued by Britannia Building Society and assumed by the Company upon its acquisition of Britannia Building Society on 1 August 2009.

2033 Notes Noteholder means a person who is the beneficial owner of and/or the owner of the ultimate economic interest in any of the Dated Notes representing the 2033 Notes as at the Record Date, whose interests in the 2033 Notes are held through records maintained in book entry form by a Clearing System.

5.5555% Bondholders means the holders of the 5.5555% Bonds.

5.5555% Bondholders Meeting means the meeting of the 5.5555% Bondholders convened in connection with the Liability Management Exercise (including any adjournment of such meeting).

5.5555% Bonds means the 5.5555% perpetual subordinated bonds with ISIN GB00B3VMBW45 issued by the Company in replacement of Britannia Building Society permanent interest bearing shares upon the Company's acquisition of Britannia Building Society on 1 August 2009.

Account Holder means any person recorded directly in the records of a Clearing System as holding an interest in any Dated Notes in an account with the relevant Clearing System either for its own account or on behalf of its client.

Account Holder Letter means the account holder letter substantially in the form set out in Appendix 3 (*Form of Account Holder Letter*) of this Explanatory Statement or such other account holder letter (or similar document or series of documents) as the Company considers appropriate to assist with and/or facilitate the participation by Noteholders who hold their interests in the Dated Notes through Crest, in the Scheme.

Actual Treatment has the meaning given to that term in paragraph 4 of Appendix 7 (*Resolution Analysis*) of this Explanatory Statement.

Additional New Ordinary Shares means ~~62,500,000~~ 33,333,334 ordinary shares to be issued by the Company for an aggregate consideration equal to £125,000,000 2.50 pursuant to the terms of the Additional New Ordinary Shares Offer.

Additional New Ordinary Shares Offer means the offer by the Company to the Noteholders to elect to subscribe for the Additional New Ordinary Shares on the terms described in paragraphs 2.22 to 2.30 of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Adviser Released Party means has the meaning given to that term in the Deed of Waiver and Release.

Additional Preference Shares has the meaning given to that term in paragraph 3.7 of Part C (*Overview of the Liability Management Exercise*) of this Explanatory Statement.

Allocated Noteholder has the meaning given to that term in paragraph 2.30(a) of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Allocation Ratio has the meaning given to that term in paragraph 2.30(b) of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Alternative Recipient has the meaning given to that term in paragraph 2.18 of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Appendix 1 (Definitions and Interpretation)

April 2021 Notes means the 9.25% subordinated notes due April 2021 with ISIN XS0620315902 issued by the Company.

April 2021 Notes Noteholder means a person who is the beneficial owner of and/or the owner of the ultimate economic interest in any of the Dated Notes representing the April 2021 Notes as at the Record Date, whose interests in the April 2021 Notes are held through records maintained in book entry form by a Clearing System.

Banking Act has the meaning given to that term in the Letter from the Chairman of the Company in preliminary section 2 of this Explanatory Statement.

Bank T2 Notes means a principal amount equal to £100,000,000 of the 11 per cent. subordinated notes due 2023 (ISIN: GB00BFXW0853) to be issued by the Company, the terms of which are described in detail in the Bank T2 Notes Prospectus.

Bank T2 Notes and New Ordinary Shares Registrar Agreement means the agreement between the Company and Computershare Investor Services PLC dated on or about the Scheme Settlement Date in relation to the provision of paying agency and registrar services.

Bank T2 Notes Paying Agent means Computershare Investor Services PLC in its capacity as paying agent for the Bank T2 Notes.

Bank T2 Notes Prospectus means the debt prospectus relating to the Bank T2 Notes [dated 4 November 2013, together with the Supplementary Prospectus, both of which are](#) appended to this Explanatory Statement in Appendix 9.

Bank T2 Notes Registrar means Computershare Investor Services PLC in its capacity as registrar for the Bank T2 Notes.

Bank T2 Notes Trust Deed means the trust deed between the Company and the Bank T2 Notes Trustee relating to the Bank T2 Notes.

Bank T2 Notes Trustee means Law Debenture Trustees Limited in its capacity as trustee for the Bank T2 Notes.

Business Day means a day (other than a Saturday or Sunday) on which banks are open for general business in London and which is a Target Day.

CBGL means Co-operative Banking Group Limited.

Chairman means the chairman appointed for the purposes of the Scheme Meeting.

City Code has the meaning given to that term on page 11 (*Important Securities Law Notice*) of this Explanatory Statement.

Clearing Systems means Clearstream, Luxembourg and Euroclear.

Clearstream, Luxembourg means Clearstream Banking, *société anonyme*.

Code means the UK Corporate Governance Code.

Common Equity Tier 1 has the meaning ascribed thereto (or to any equivalent term) at such time in CRD IV.

Common Equity Tier 1 Capital means capital meeting the definition of Common Equity Tier 1.

Designated Recipient means any person appointed under a valid Account Holder Letter delivered to and received by the Information Agent on behalf of a Noteholder to receive the Scheme Consideration to which that Noteholder is entitled pursuant to the terms of the Scheme, provided that such person is an Eligible Person.

Directors means the executive and non-executive directors of the Company and **Director** means any one of them.

Disclosure and Transparency Rules means the disclosure and transparency rules made by the FCA under Part VI of the FSMA.

Distribution Agreement means the distribution agreement substantially in the form set out in schedule 3 to the Scheme.

Distribution Instruction Certificate has the meaning given to that term in the Distribution Agreement.

Early Consideration Amount has the meaning given to that term in the Offer Memorandum.

Early Participation Deadline has the meaning given to that term in paragraph 1.4(a) of Part C (*Overview of the Liability Management Exercise*) of this Explanatory Statement.

Early Participation Threshold has the meaning given to that term in the Offer Memorandum.

Early Subscribing Noteholders has the meaning give to that term in paragraph 2.30 of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Eligible 5.5555% Bondholder means a 5.5555% Bondholder that is eligible to participate in the Liability Management Exercise, or the relevant component part thereof, in accordance with the Offer Restrictions.

Eligible 13% Bondholder means a 13% Bondholder that is eligible to participate in the Liability Management Exercise, or the relevant component part thereof, in accordance with the Offer Restrictions.

Eligible Noteholder means a Noteholder on whose behalf a valid Account Holder Letter has been delivered to and received by the Information Agent before the end of the Holding Period which includes a confirmation that such Noteholder (or, if such Noteholder has appointed a Designated Recipient, its Designated Recipient) is an Eligible Person.

Eligible Person means a person in relation to whom the offer to, issue to or subscription by such person in respect of any New Ordinary Shares, Bank T2 Notes (and, if applicable, Additional New Ordinary Shares):

- (a) would not be unlawful or prohibited under the laws of any applicable jurisdiction; and
- (b) would not, or would not be likely to, result in the Company being required to comply with any filing, registration, disclosure or other onerous requirement in any jurisdiction where that person is a citizen or subject to the laws of or in which that person is domiciled or resident.

Eligible Preference Shareholder means a Preference Shareholder that is eligible to participate in the Liability Management Exercise, or the relevant component part thereof, in accordance with the Offer Restrictions.

Euroclear means Euroclear Bank S.A./N.V. as operator of the Euroclear clearing system.

Lock-up Arrangement means a Lock-up Agreement or a Lock-up Undertaking.

Lock-up Undertaking means an undertaking by an Account Holder given on behalf of a Noteholder in favour of the Company pursuant to a valid Account Holder Letter delivered to and received by the Information Agent on behalf of that Noteholder, pursuant to which that Noteholder agrees, among other things and subject to certain conditions, to vote its Scheme Claim in favour of the Scheme.

London Stock Exchange has the meaning given to that term on page 1 of this Explanatory Statement.

Longstop Date means 31 December 2013.

Lowest Bidder has the meaning given to that term in paragraph 2.30(b) of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Lowest Subscription Amount has the meaning given to that term in paragraph 2.30 (b) of Part B (*Overview of the Scheme*) of this Explanatory Statement.

LT2 Group has the meaning given to that term in the Letter from the Chairman of the Company in preliminary section 2 of this Explanatory Statement.

Minimum Election has the meaning given to that term in paragraph 2.22 of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Model Code means the code published as an annex to the Listing Rules in the FCA handbook which imposes restrictions (beyond those required by law) on the dealing of listed securities by certain of a company's directors, officers and employees.

Modified Scheme Purchase Agreement means the agreement between the Company and the Modified Scheme Purchasers dated on or about 1 December 2013 pursuant to which the Modified Scheme Purchasers have agreed to purchase Additional New Ordinary Shares on the terms set out therein.

Modified Scheme Purchaser Premium means the premium described in paragraph 2.32 of part B (*Overview of the Scheme*) of the Explanatory Statement.

Modified Scheme Purchasers means the persons listed in column 1 of schedule 3 to the Modified Scheme Purchase Agreement, in their capacities as modified scheme purchasers pursuant to the terms of the Modified Scheme Purchase Agreement.

New Administrative Parties means the Bank T2 Notes Trustee, the Bank T2 Notes Registrar, the Bank T2 Notes Paying Agent and the New Ordinary Shares Registrar.

New Ordinary Shares means ~~112,500,000~~ 141,666,666 ordinary shares to be issued by the Company pursuant to the terms of the Scheme.

New Ordinary Shares Conversion Price means £~~7.7718276~~6.17566631.

New Ordinary Shares Registrar means Computershare Investor Services PLC as registrar for the New Ordinary Shares and the Additional New Ordinary Shares.

New Securities means the New Ordinary Shares, the Bank T2 Notes, the Instalment Repayment Notes, the Final Repayment Notes and the Exchange Offer Bank T2 Notes.

New Transaction Documents means the Bank T2 Notes Trust Deed and the Bank T2 Notes and New Ordinary Shares Registrar Agreement.

Nominated Directors has the meaning given to that term in paragraph 6.2 of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Noteholders means the 2016 Notes Noteholders, the 2019 Notes Noteholders, the April 2021 Notes Noteholders, the November 2021 Notes Noteholders, the 2022 Notes Noteholders, the 2024 Notes Noteholders and the 2033 Notes Noteholders.

Note Event of Default means an event of default under and as defined in the terms and conditions of any series of Dated Notes.

November 2021 Notes means the fixed/floating rate subordinated notes due November 2021 with ISIN XS0274155984 issued by the Company.

November 2021 Notes Noteholder means a person who is the beneficial owner of and/or the owner of the ultimate economic interest in any of the Dated Notes representing the November 2021 Notes as at the Record Date, whose interests in the November 2021 Notes are held through records maintained in book entry form by a Clearing System.

Offer Memorandum means the consent and exchange offer memorandum appended to the Bank T2 Notes Prospectus [\(including any amendments thereto under the Supplementary Prospectus\)](#).

Offer Restrictions means the offer restrictions set out in section F of the Offer Memorandum (in respect of the Exchange Offers).

Official List means the Official List maintained by the FCA.

Old Account Holder Letter means [a valid account holder letter for the purposes of the version of this Explanatory Statement which was uploaded to the Scheme Website on or around 18 November 2013 prior to the amendments on 4 December 2013, which includes a valid election to participate in the Additional New Ordinary Shares Offer and/or the Sub-purchasing Offer \(as each such term was defined in that version of this Explanatory Statement\)](#).

PACE means The Co-operative Pension Scheme.

Perpetual Subordinated Bonds has the meaning given to that term in paragraph 1.1(a) of Part C (*Overview of the Liability Management Exercise*) of this Explanatory Statement.

Potential Note Event of Default means any event which may become (with the passage of time, the giving of notice, the making of any determination of any combination thereof) a Note Event of Default.

PRA means the Prudential Regulation Authority.

PRD means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC

Preference Shareholders means the holders of the Preference Shares.

Preference Shareholders Meeting means the meeting of the Preference Shareholders convened in connection with the Liability Management Exercise (including any adjournment of such meeting).

Preference Shares means the 9.25% non-cumulative irredeemable preference shares issued by the Company with ISIN GB002224516.

Preference Shares Exchange Offer means the offer to exchange the Preference Shares in accordance with the terms of the Liability Management Exercise.

Proposal or **Proposals** has the meaning given to that term in the Offer Memorandum.

Proposed Bail in Power has the meaning given to that term in paragraph 8 of Appendix 7 (*Resolution Analysis*).

Proposed Restructuring means the restructuring of the company described and provided for in the Proposed Restructuring Documents.

Proposed Restructuring Documents means ~~the Offer Memorandum, this Explanatory Statement (including the Scheme), the Group Notes Prospectus, the Bank T2 Notes Prospectus,~~ the practice statement letter from the Company to the Scheme Creditors relating to the Scheme dated 4 November 2013, the articles of association of the Company proposed to be adopted at a general meeting of the Company as contemplated in section 20 of the Bank T2 Notes Prospectus, the ~~Purchase Agreement~~, the Relationship Agreement, ~~the 2014 Commitment Agreement~~, the RNS issued by the Company in connection with the Liability Management Exercise on 4 November 2013 and the forms of the intra-group loan agreement between the Company, Co-operative Group and CBGL, the security agreement relating thereto, the co-existence principles between the Company and Co-operative Group, the statement of separation principles between Company and Co-operative Group and the pension liability undertaking, in each case published on the Scheme Website on or around 4 November 2013, and the Offer Memorandum, this Explanatory Statement (including the Scheme), the Group Notes Prospectus, the Bank T2 Notes Prospectus and the Modified Scheme Purchase Agreement.

Prospectus Directive has the meaning given to that term on page 1 of this Explanatory Statement.

Prospectus Rules means the prospectus rules of the FCA made under Part VI of the FSMA relating to offers of securities to the public and admission of securities to trading on a regulated market.

PRR means Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance.

~~**Purchasers** means the persons listed in column 1 of schedule 3 to the Purchase Agreement and the persons numbered 5 to 43 (inclusive) in part 1 of appendix 1 to the Deed of Waiver and Release, in their capacities as purchasers pursuant to the terms of the Purchase Agreement.~~

~~**Purchase Agreement** means the agreement between the Company and the Purchasers dated on or about 4 November 2013 pursuant to which the Purchasers have agreed to purchase Additional New Ordinary Shares on the terms set out therein.~~

~~**Purchaser Premium** has the meaning given to that term in paragraph 2.32 of Part B (Overview of the Scheme) of this Explanatory Statement.~~

Recapitalisation Plan means the Liability Management Exercise, the 2014 Commitment and any capital generated from interest savings on the Company's Existing Securities.

Record Date means 4.30 p.m. (London time) on ~~10~~ 13 December 2013.

Registrar of Companies means the Registrar of Companies of England and Wales.

Registrars means Computershare Investor Services PLC (in respect of the Preference Shares) and Equiniti Limited (in respect of each series of Perpetual Subordinated Bonds).

Scheme Sanction Hearing means the hearing of the Court for the purpose of sanctioning the Scheme pursuant to the order of the Court under Section 899 of the Companies Act.

Scheme Settlement Condition means the condition described in clause 5 of the Scheme.

Scheme Settlement Condition Testing Date means the latest to occur of:

- (a) the Scheme Effective Date; and
- (b) the date on which the resolutions proposed at each of the Preference Shareholders Meeting, the 5.5555% Bondholders Meeting and the 13% Bondholders Meeting and the general meeting of the Company referred to in paragraph 1.35(b) of Part B (*Overview of the Scheme*) have been voted and each such meeting has been concluded.

Scheme Settlement Date means the date on which the Scheme Consideration and the Additional New Ordinary Shares are issued as described in the Scheme.

Scheme Website means <http://www.co-operative.coop/Bondholders>.

SDRT has the meaning given to that term in paragraph 3.3 of Part F (*Taxation*) of this Explanatory Statement.

SEC has the meaning given to that term on page 10 (*Important Securities Law Notice*) of this Explanatory Statement.

Second Round Allocations has the meaning given to that term in paragraph 2.30(b) of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Section 19 Power has the meaning given to that term in paragraph 8 of Appendix 7 (*Resolution Analysis*) of this Explanatory Statement.

Securities Act has the meaning given to that term on page 10 of this Explanatory Statement.

Selling Agent means TFS Derivatives Limited and Tradition (UK) Limited.

Senior Bonds has the meaning given to that term in paragraph 8 of Appendix 7 (*Resolution Analysis*) of this Explanatory Statement.

Senior Manager has the meaning given to that term in the Bank T2 Notes Prospectus.

Settlement Condition has the meaning given to that term in paragraph 1.3(b) in Part C (*Overview of the Liability Management Exercise*) of this Explanatory Statement.

Settlement Date has the meaning given to that term in the Offer Memorandum

Sterling-Equivalent means, with respect to any principal amount outstanding and/or amount of accrued but unpaid interest in respect of the 2016 Notes, the amount of such principal amount outstanding and/or amount of accrued but unpaid interest in Euro notionally converted into Sterling at the Scheme FX Rate.

Statement of Separation Principles means the execution version of the statement of separation principles between the Company and Co-operative Group.

Subscriber means a Subscribing Noteholder, a Sub-purchaser or a [Modified Scheme](#) Purchaser, as applicable.

Subscribing Noteholder means a Noteholder which elects to participate in the Additional New Ordinary Shares Offer.

Subscription Amount has the meaning given to that term in paragraph 2.29(b) of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Subscription Escrow Bank means BNP Paribas, London branch.

Subscription Escrow Account means the escrow account to be opened with the Subscription Escrow Bank to hold subscription monies for the Additional New Ordinary Shares Offer.

Subscription Price has the meaning given to that term in paragraph 2.27(b) of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Sub-purchase Amount has the meaning given to that term in paragraph 2.42(b)(iii) of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Sub-purchaser means the Noteholders which elect to participate in the Sub-purchasing Offer.

Sub-purchasing Commitment has the meaning given to that term in paragraph 2.38 of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Sub-purchasing Offer has the meaning given to that term in paragraph 2.33 of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Sub-purchaser Premium has the meaning given to that term in paragraph 2.44 of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Sub-purchasing Shares has the meaning given to that term in paragraph 2.41 of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Supplementary Prospectus means the [supplementary prospectus relating to the Bank T2 Notes dated 4 December 2013 which is appended to this Explanatory Statement in Appendix 9.](#)

Takeover Panel has the meaning given to that term in page 11 (*Important Securities law Notice*) of this Explanatory Statement.

Target Day means a day on which the Trans European Automated Real-Time Gross Settlement Express Transfer payment system is open for settlement of payments in euro.

Total First Round Allocation has the meaning given to that term in paragraph 2.30(a) of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Total Second Round Allocation has the meaning given to that term in paragraph 2.30(b) of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Total Subscription Amount has the meaning given to that term in paragraph 2.29(c) of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Total Third Round Allocation has the meaning given to that term in paragraph 2.30(c) of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Treasury Briefing has the meaning given to that term in paragraph 8 of Appendix 7 (*Resolution Analysis*) of this Explanatory Statement.

Trustees means The Law Debenture Trust Corporation p.l.c. in its capacity as trustee for each series of the Dated Notes.

Trust Deeds mean the trust deeds relating to the Dated Notes.

Appendix 1 (Definitions and Interpretation)

UK has the meaning given to that term in paragraph 4.1 of Part D (*Risk Factors*) of this Explanatory Statement.

Unadmitted Noteholder means a Noteholder on whose behalf a valid Account Holder Letter has not been delivered to and received by the Information Agent before the Voting Instruction Deadline other than any Eligible Noteholder on whose behalf a valid Account Holder Letter has been delivered to and received by the Information Agent between the Voting Instruction Deadline and the Business Day preceding the Scheme Settlement Date and in relation to whom the Company exercises its discretion to issue Scheme Consideration on the Scheme Settlement Date in accordance with the terms of the Scheme.

Unallocated Subscribing Noteholder has the meaning given to that term in paragraph 2.30(a) of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Undertaking to Pay has the meaning given to that term in paragraph 3 of Part A (*Background to and reasons for the Recapitalisation Plan*) of this Explanatory Statement.

Undertaking Transaction Parties means the Trustees, the Common Depositaries, the Holding Period Trustee, the Information Agent, the Selling Agent, the [Modified Scheme](#) Purchasers, Co-operative Group and the New Administrative Parties.

[Unfilled Subscribing Noteholders](#) has the meaning give to that term in paragraph 2.30 of Part B (*Overview of the Scheme*) of this Explanatory Statement.

Voting Instruction Deadline means 4.30 p.m. (London time) on ~~10~~[13](#) December 2013.

APPENDIX 2

INSTRUCTIONS AND GUIDANCE FOR SCHEME CREDITORS AND ANY PERSON WITH AN INTEREST IN THE DATED NOTES

THIS APPENDIX SETS OUT INSTRUCTIONS AND GUIDANCE FOR VOTING AT THE SCHEME MEETING AND PARTICIPATING IN THE ADDITIONAL NEW ORDINARY SHARES OFFER AND PROCEDURES TO RECEIVE SCHEME CONSIDERATION IN ACCORDANCE WITH THE TERMS OF THE SCHEME AND CERTAIN ADDITIONAL MATTERS. ALL SCHEME CREDITORS AND ANY PERSON WITH AN INTEREST IN THE DATED NOTES ARE REQUESTED TO READ:

- (1) THE GENERAL GUIDANCE IN SECTION 1 OF THIS APPENDIX;**
- (2) THE GUIDANCE ON VOTING AT THE SCHEME MEETING IN SECTION 2 OF THIS APPENDIX;**
- (3) THE GUIDANCE ON THE DISTRIBUTION OF SCHEME CONSIDERATION IN SECTION 3 OF THIS APPENDIX;**
- (4) THE GUIDANCE ON PARTICIPATING IN THE ADDITIONAL NEW ORDINARY SHARES OFFER AND THE SUB-PURCHASING OFFER IN SECTION 4 OF THIS APPENDIX; AND**
- (5) THE GUIDANCE ON VOTING FOR OR AGAINST THE APPOINTMENT OF ANY NOMINATED DIRECTORS (IF APPLICABLE).**

SECTION 1 – GENERAL GUIDANCE

SCHEME MEETING

1. Before the Scheme can become effective and binding on the Company and the Scheme Creditors, a resolution to approve it must be passed by the Scheme Creditors by the requisite majority required by section 899 of the Companies Act 2006. The requisite majority is a majority in number representing at least 75% in value of the Scheme Creditors who, being so entitled, are present in person, by a duly authorised representative if a corporation, or by proxy and vote at the Scheme Meeting. The Scheme Meeting has been ordered by the Court to be summoned to take place on ~~14~~16 December 2013 at 10 a.m. (London time).
2. Formal notice of the Scheme Meeting is set out in Appendix 4 (*Notice of Scheme Meeting*) of this Explanatory Statement.
3. If the Scheme Creditors do not approve the Scheme at the Scheme Meeting, then the Company will not be able to implement the Scheme and the Liability Management Exercise.
4. The relevant Scheme Creditors for the purposes of voting on the Scheme at the Scheme Meeting are the Noteholders. Each of the Common Depositaries and the Trustees has confirmed that it will not exercise any voting rights to which it may be entitled as a Scheme Creditor at the Scheme Meeting.

DEADLINE FOR VOTING AT THE SCHEME MEETING

5. Voting will take place at the Scheme Meeting by Noteholders appearing in person, by a duly authorised representative or by proxy as explained in more detail in section 2 (*Voting*) below.

VOTING

6. As explained in more detail in section 2 (*Voting*) below, each Noteholder must ensure that its Account Holder completes and submits to the Information Agent a valid Account Holder Letter in order to vote at the Scheme Meeting. **Account Holder Letters for the purpose of voting must be submitted to the Information Agent before the Voting Instruction Deadline, being 4.30 p.m. (London time) on ~~10~~13 December 2013.**
7. A valid Account Holder Letter for the purposes of voting means an Account Holder Letter which has been signed by an Account Holder duly authorised by a Noteholder and in respect of which Part 2 Section 3 (*Voting*) of the Account Holder Letter has been completed, including all confirmations required to be given by the Account Holder.
8. **Failure to deliver a valid Account Holder Letter on behalf of a Noteholder by the Voting Instruction Deadline will mean that the voting instructions contained in that Account Holder Letter will be disregarded for the purposes of voting at the Scheme Meeting and the relevant Noteholder will not be entitled to vote at the Scheme Meeting.**
9. Notwithstanding any other provision of this Explanatory Statement, the Chairman will be entitled, at the sole discretion of the Chairman, to permit a Noteholder in respect of which a completed Account Holder Letter has not been delivered prior to the Voting Instruction Deadline to vote at the Scheme Meeting if the Chairman considers that the relevant Noteholder has produced sufficient proof that it is a Scheme Creditor.

ASSESSMENT OF SCHEME CLAIMS FOR VOTING PURPOSES

10. The amount of the Scheme Claims of each Noteholder which submits a valid Account Holder Letter in respect of the Dated Notes will be calculated as at the Record Date based on information confidentially provided to the Company by the Information Agent. This information will be used by the Chairman to determine whether the Scheme is approved at the Scheme Meeting. Accordingly, Noteholders do not need to take any action in respect of confirming the amount of their Scheme Claims other than providing the details requested in the Account Holder Letter.
11. As the 2016 Notes are denominated in Euro and the other series of the Dated Notes are denominated in Sterling, the Scheme Claims in respect of the 2016 Notes of each Noteholder which submits a valid Account Holder Letter shall be notionally converted from Euro into Sterling at the Scheme FX Rate for the purposes of calculating the value of those Scheme Claims in connection with voting at the Scheme Meeting.
12. Only those Noteholders which are Scheme Creditors as at the Record Date, being 4.30 p.m. (London time) on ~~10~~13 December 2013, are entitled to attend and vote, either in person, by a duly authorised representative if a corporation, or by proxy at the Scheme Meeting.
13. The assessment of Scheme Claims for voting purposes shall be carried out by the Chairman. The Chairman may, for voting purposes only, reject a Scheme Claim in whole or in part if he/she considers that it does not constitute a fair and reasonable assessment of the relevant sums owed to the relevant Noteholder by the Company or if the relevant Noteholder has not complied with the voting procedures described in this Explanatory Statement. If a Scheme Claim is unascertained, contingent or disputed (in part) but the Chairman is able to place a minimum value on that Scheme Claim, he/she may admit the Scheme Claim for voting purposes at that value. If a Scheme Claim is disputed in its entirety, or the Chairman is otherwise unable to place a minimum value on it, that Scheme Claim may be valued at £1 for voting purposes.
14. The Chairman will report to the Court, at the Scheme Sanction Hearing (which it is anticipated will take place on ~~16~~18 December 2013), his/her decision to reject Scheme Claims (if any), with details of those Scheme Claims and the reasons for rejection.

15. The admission and valuation of any Scheme Claim for voting purposes does not (in itself) constitute an admission of the existence or value of the Scheme Claim and will not bind the Company or the Noteholders concerned.

TRANSFERS / ASSIGNMENTS AFTER THE RECORD DATE

16. Under the Scheme, the Company is under no obligation to recognise any assignment or transfer of any Scheme Claim after the Record Date, provided that where the Company has received from the relevant parties in writing notice of such assignment or transfer, the Company may, in its absolute discretion and subject to such evidence as it may reasonably require, agree to recognise such assignment or transfer for the purposes of the Scheme. Any assignee or transferee of a Scheme Claim recognised under the Scheme at the discretion of the Company shall be bound by the terms of the Scheme and be a Scheme Creditor for the purposes of the Scheme.

DISTRIBUTION OF SCHEME CONSIDERATION

17. In order to receive the Scheme Consideration to which it is entitled in accordance with the terms of the Scheme (or, to the extent it is not eligible to receive such Scheme Consideration and does not appoint a Designated Recipient, in order to receive the net proceeds of the sale of such Scheme Consideration in accordance with the terms of the Scheme and the Distribution Agreement), each Noteholder must ensure that its Account Holder completes and delivers to the Information Agent a valid Account Holder Letter.
18. A valid Account Holder Letter for the purposes of confirming eligibility to receive Scheme Consideration means an Account Holder Letter which has been signed by an Account Holder duly authorised by a Noteholder and in respect of which Part 4 (*Scheme Consideration, Eligibility and Delivery of the Additional New Ordinary Shares*) has been completed, including all confirmations required to be given by the Account Holder for and on behalf of the relevant Noteholder.
19. Account Holder Letters for the purpose of confirming eligibility to receive Scheme Consideration must be delivered to the Information Agent so as to be received by the Information Agent before the Voting Instruction Deadline, being 4.30 p.m. (London time) on ~~10~~13 December 2013, in order for the relevant Noteholder to be entitled (if it is an Eligible Noteholder) to receive Scheme Consideration on the Scheme Settlement Date.
20. If a valid Account Holder Letter for the purposes of confirming eligibility to receive Scheme Consideration is delivered to and received by the Information Agent between the Voting Instruction Deadline and the Business Day preceding the Scheme Settlement Date, provided that the Information Agent can establish to its satisfaction that the Noteholder on whose behalf such Account Holder Letter was submitted was, at the Record Date, the Noteholder in respect of the Dated Notes specified in the relevant Account Holder Letter, the Noteholder (or, if it has appointed a Designated Recipient, its Designated Recipient) may receive the Scheme Consideration to which that Noteholder is entitled at the sole discretion of the Company on the Scheme Settlement Date.
21. **Failure to deliver a valid Account Holder Letter on behalf of a Noteholder before the Voting Instruction Deadline will mean that the Noteholder (irrespective of whether it would otherwise be eligible to receive Scheme Consideration) will not receive any Scheme Consideration to which it would be entitled in accordance with the terms of the Scheme on the Scheme Settlement Date.**
22. If a Noteholder is not entitled to receive Scheme Consideration on the Scheme Settlement Date (for example, because a valid Account Holder Letter has not been delivered to and received by the Information Agent in respect of that Noteholder before the Voting Instruction Deadline and that Noteholder is an Unadmitted Noteholder), the relevant Scheme Consideration will be

30. **Failure to deliver a valid Account Holder Letter containing the relevant elections in relation to the Additional New Ordinary Shares Offer and confirming that the relevant Noteholder is an Eligible Person or, if it has appointed a Designated Recipient, that the Designated Recipient is an Eligible Person by the Voting Instruction Deadline will mean that the relevant Noteholder will not be entitled to participate in the Additional New Ordinary Shares Offer.**
31. In order to receive its entitlement to Additional New Ordinary Shares pursuant to the terms of the Additional New Ordinary Shares Offer, a Subscribing Noteholder must ensure that it has deposited in the Subscription Escrow Account in cleared funds an amount equal to the Subscription Price for nominal amount of Additional New Ordinary Shares to which it is entitled in accordance with the terms of the Additional New Ordinary Shares Offer by no later than two Business Days after the date of the Scheme Meeting.
32. **Failure to ensure compliance with the requirements in paragraph 31 above will result in the entitlement of the relevant Subscribing Noteholder lapsing in accordance with the terms of the Additional New Ordinary Shares Offer and that Subscribing Noteholder will not be entitled to any Additional New Ordinary Shares.**

SUB-PURCHASING OFFER

33. In order to participate in the Sub-purchasing Offer, a valid Account Holder Letter with the appropriate elections made must be delivered to the Information Agent so as to be received by the Information Agent by no later than the Voting Instruction Deadline.
34. **Failure to deliver a valid Account Holder Letter containing the relevant elections in relation to the Sub-purchasing Offer and confirming that the relevant Noteholder is an Eligible Person or, if it has appointed a Designated Recipient, that the Designated Recipient is an Eligible Person by the Voting Instruction Deadline will mean that the relevant Noteholder will not be entitled to participate in the Sub-purchasing Offer.**
35. In order to receive the Sub-purchase Premium payable to it in respect of any Sub-purchasing Commitment allocated to it, a Sub-purchaser must ensure that it has deposited in the Subscription Escrow Account in cleared funds an amount equal to the amount of its Sub-purchasing Commitment required to be funded as notified to it by the Company (or an agent acting on behalf of the Company) on the date of the Scheme Meeting by no later than two Business Days after the date of the Scheme Meeting.
36. **Failure to ensure compliance with the requirements in paragraph 35 above will result in the commitment of the relevant Sub-purchaser lapsing and that Sub-purchaser will not be entitled to any Sub-purchaser Premium in accordance with the terms of the Sub-purchasing Offer.**
37. If you hold your interests in the Dated Notes in Crest and are not a Crest participant, contact your Crest participant and the Information Agent as soon as possible in connection with participation in the Scheme (and any part thereof). Crest participants should contact the Information Agent immediately. The form of Account Holder Letter to be used by Noteholders holding their interests in the Dated Notes through Crest is not the form of Account Holder Letter attached at Appendix 3 (*Form of Account Holder Letter*) to this Explanatory Statement. The relevant form of Account Holder Letter will be provided by the Information Agent on request. Notwithstanding the different form of Account Holder Letter, the instructions and guidance set out in this Appendix 2 (*Instructions and guidance for Scheme Creditors and any persons with an interest in the Dated Notes*) apply to a Noteholder irrespective of the fact they might hold their interests in the Dated Notes in Crest.

SECTION 2: VOTING

GENERAL

38. ~~37.~~ Each Scheme Creditor that is a Noteholder should immediately contact its Account Holder (through any Intermediaries, if appropriate) to ensure that a valid Account Holder Letter in respect of its Scheme Claim is delivered to and received by the Information Agent.
39. ~~38.~~ It will be the responsibility of Account Holders to obtain from the Noteholders (through any Intermediaries, if applicable) on whose behalf they are acting in accordance with the procedures established between them, whatever information or instructions they may require to identify in an Account Holder Letter the relevant Noteholder and to provide the information, instructions, confirmations and representations required to be given by the Account Holder Letter for and on behalf of the relevant Noteholder. To assist this process, each Noteholder is strongly encouraged to contact its Account Holder (through any Intermediaries, if appropriate) to enable that Account Holder to complete an Account Holder Letter and deliver such Account Holder Letter to the Information Agent before the Voting Instruction Deadline.
40. ~~39.~~ Before the Voting Instruction Deadline, each Noteholder that wishes to vote at the Scheme Meeting and in respect of which an Account Holder Letter is completed will be required to ensure that its Account Holder has instructed the relevant Clearing System in which the Dated Notes which are the subject of the Account Holder Letter are held to block those interests in the Dated Notes, by giving Custody Instructions to that effect to the relevant Clearing System. The procedure for doing this is described further below.
41. ~~40.~~ If a person is in any doubt as to whether or not it is a Noteholder, such person should contact the Information Agent using the contact details in the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*).
42. ~~41.~~ Noteholders may also wish to refer to the diagrams set out in the section entitled *Are you a Scheme Creditor or a person with an interest in the Dated Notes?* at pages 21 to 27 above to see the relationship between Noteholders, Intermediaries and Account Holders.

Appointment of the Information Agent

43. ~~42.~~ The Information Agent has been appointed to facilitate communications with Noteholders. The Information Agent's remuneration and expenses, and all costs incurred by it on behalf of the Company, shall be met by the Company.

LOCK-UP UNDERTAKINGS

44. ~~43.~~ As described in Part B (*Overview of the Scheme*) of this Explanatory Statement, a Noteholder may enter into a Lock-up Arrangement by entering into either a Lock-up Agreement or instructing its Account Holder in the Account Holder Letter to elect to enter into Lock-up Undertakings on its behalf.
45. ~~44.~~ If a Noteholder wishes to enter into Lock-up Undertakings, it should instruct its Account Holder to confirm to the Company, Co-operative Group and the Information Agent that the Noteholder has authorised the Account Holder to enter into Lock-up Undertakings on its behalf by making the appropriate elections in the Account Holder Letter.

VOTING AT THE SCHEME MEETING

46. ~~45.~~ In order to vote at the Scheme Meeting, each Noteholder (through any Intermediaries, if applicable) should instruct its Account Holder to complete and sign an Account Holder Letter as

described below and deliver the completed and signed Account Holder Letter to the Information Agent on behalf of the Company before the Voting Instruction Deadline.

PROCEDURE FOR BLOCKING NOTES HELD IN A CLEARING SYSTEM

47. ~~46.~~ Each Account Holder should ensure that Euroclear and/or Clearstream, Luxembourg (as the case may be) has/have received irrevocable instructions (with which it has/they have complied) to block the Dated Notes which are the subject of an Account Holder Letter. Each Noteholder procuring the submission of an Account Holder Letter by its Account Holder should instruct its Account Holder to confirm that (and the Account Holder should ensure that) the Account Holder Letter cross references the relevant Custody Instruction Reference Number. Failure to include a valid Custody Instruction Reference Number in an Account Holder Letter delivered on behalf of a Noteholder to the Information Agent will invalidate that Account Holder Letter and the voting instructions contained in that Account Holder Letter will be disregarded for the purposes of voting at the Scheme Meeting and the relevant Noteholder will not be entitled to vote at the Scheme Meeting.
48. ~~47.~~ Notes held in Euroclear or Clearstream, Luxembourg should be blocked in accordance with the procedures of the relevant Clearing System and the deadlines required by that Clearing System. It is the responsibility of Account Holders to ensure that they comply with any particular deadlines imposed by the Information Agent and the relevant Clearing System for blocking the Dated Notes.
49. ~~48.~~ **Custody Instructions in respect of any Dated Notes held in Euroclear which are the subject of an Account Holder Letter should be given to Euroclear in accordance with the deadlines specified by Euroclear and its standard practices.** Euroclear will assign a Custody Instruction Reference Number in respect of each Custody Instruction and, as noted in paragraph ~~46-47~~ above, the Custody Instruction Reference Number must be cross referenced in the Account Holder Letter relating to the Dated Notes in respect of which the Custody Instruction Reference Number has been obtained. An Account Holder Letter will not be valid if it does not contain the relevant Custody Instruction Reference Number(s). This will enable the Information Agent to verify the blocking of the Dated Notes in accordance with paragraph ~~50-51~~ below.
50. ~~49.~~ **Custody Instructions in respect of any Dated Notes held in Clearstream, Luxembourg which are the subject of an Account Holder Letter should be given to Clearstream, Luxembourg in accordance with the deadlines specified by Clearstream, Luxembourg and its standard practices.** Clearstream, Luxembourg will assign a Custody Instruction Reference Number in respect of each Custody Instruction and, as noted in paragraph ~~46-47~~ above, the Custody Instruction Reference Number must be cross referenced in the Account Holder Letter relating to the Dated Notes in respect of which the Custody Instruction Reference Number has been obtained. An Account Holder Letter will not be valid if it does not contain the relevant Custody Instruction Reference Number(s). This will enable the Information Agent to verify the blocking of the Dated Notes in accordance with paragraph ~~50-51~~ below.
51. ~~50.~~ The Information Agent will request the Clearing Systems to confirm to its satisfaction that the relevant Dated Notes have been blocked with effect from or before the date of receipt by the Information Agent of an Account Holder Letter. In the event that a Clearing System fails to do so, the Information Agent may reject that Account Holder Letter. In order to give the requested confirmation for the purpose of voting, the Clearing Systems will need to have received the Custody Instructions no later than 5 p.m. (local time in the place of the relevant Clearing System) on ~~9-12~~ December 2013, being the day before the Voting Instruction Deadline.
52. ~~51.~~ The Information Agent will use all reasonable endeavours to assist Noteholders to complete their Account Holder Letters validly, should it receive any Account Holder Letters which are not valid. However, failure to deliver a valid Account Holder Letter on behalf of a Noteholder to the Information Agent in the manner and within the deadlines referred to above will mean that the voting instructions contained in such Account Holder Letter will be disregarded for the purposes

of voting at the Scheme Meeting and the relevant Noteholder will not be entitled to vote at the Scheme Meeting.

53. ~~52.~~ None of the Company, Co-operative Group, the Information Agent or any other person will be responsible for any loss or liability incurred by a Noteholder as a result of any determination by the Information Agent that an Account Holder Letter contains an error or is incomplete, even if this is subsequently shown not to have been the case.

COMPLETING THE ACCOUNT HOLDER LETTER FOR THE PURPOSES OF VOTING

54. ~~53.~~ Each Noteholder will need to give its Account Holder information and instructions as to voting and certain other matters.

55. ~~54.~~ In summary each Noteholder may elect:

- (a) to attend and vote at the Scheme Meeting in person or by a duly authorised representative if a corporation; or
- (b) to instruct the Chairman as its proxy to cast its vote in accordance with the wishes of that Noteholder; or
- (c) to appoint someone else as its proxy to attend and vote at the Scheme Meeting in person on its behalf,

in each case, by ensuring that such election is recorded in the Account Holder Letter delivered on its behalf and that the voting intention section of the Account Holder Letter is completed.

56. ~~55.~~ Each Noteholder which has not entered into a Lock-up Agreement prior to the submission of its Account Holder Letter may also elect to enter into Lock-up Undertakings as described in paragraphs ~~43~~ 44 and ~~44~~ 45 above.

57. ~~56.~~ Each Noteholder is recommended to appoint a proxy (either the Chairman or someone else of its choice who would be willing to attend the Scheme Meeting) in any event, even if that Noteholder intends to attend and vote in person or by a duly authorised representative, if a corporation, in case such Noteholder is unable to do so for some reason. If a Noteholder appoints a proxy and then decides to attend and vote at the Scheme Meeting in person or by a duly authorised representative, if a corporation, that Noteholder will be entitled to do so.

58. ~~57.~~ Each Noteholder which submits, delivers or procures the delivery of an Account Holder Letter will be required to make (or authorise its Account Holder to make on its behalf) the representations, warranties and undertakings to the Company, Co-operative Group and the Information Agent set out in paragraph 1 of schedule 1 to the Account Holder Letter.

59. ~~58.~~ Any Noteholder that is unable to give any of the representations, warranties and undertakings referred to in paragraph ~~57~~ 58 above should contact the Information Agent directly as soon as possible, as there may be additional procedures involved in respect of that Noteholder's participation in the Scheme. A valid Account Holder Letter for the purposes of confirming eligibility to receive Scheme Consideration means an Account Holder Letter which has been signed by an Account Holder duly authorised by a Noteholder and in respect of which Part 4 (*Scheme Consideration, Eligibility and Delivery of the Additional New Ordinary Shares*) has been completed, including all confirmations required to be given by the Account Holder.

60. ~~59.~~ Each Noteholder should also ensure that the following is included in the Account Holder Letter delivered on its behalf:

- (a) its identity;

- (b) details of the Dated Notes which are the subject of the Account Holder Letter, including the ISIN number(s), the principal amount of the Dated Notes held at the relevant Clearing System(s), the identity of the relevant Clearing System(s), the account number of the Account Holder in the relevant Clearing System(s) and the Custody Instruction Reference Number(s);
- (c) the appropriate confirmations to be given by the Account Holder; and
- (d) its voting instructions.

DELIVERY OF ACCOUNT HOLDER LETTERS FOR THE PURPOSES OF VOTING

- 61. ~~60.~~ Account Holder Letters for the purposes of voting at the Scheme Meeting should be delivered by Account Holders as soon as possible to the Information Agent and, in any event, before the Voting Instruction Deadline, being 4.30 p.m. (London time) on ~~10~~ 13 December 2013.
- 62. ~~61.~~ Each Noteholder should note that, unless a valid Account Holder Letter is delivered on its behalf to the Information Agent before the Voting Instruction Deadline, the voting instructions contained in that Account Holder Letter will be disregarded for the purposes of voting at the Scheme Meeting and the Noteholder will not be entitled to vote at the Scheme Meeting.
- 63. ~~62.~~ Any Account Holder Letter delivered will be irrevocable from and after the Voting Instruction Deadline unless and until the Scheme is not approved by the requisite majorities at the Scheme Meeting or the Scheme is withdrawn.
- 64. ~~63.~~ By delivering an Account Holder Letter to the Information Agent, the Account Holder: (i) confirms to the Company, Co-operative Group and the Information Agent that Custody Instructions in respect of the Dated Notes which are the subject of that Account Holder Letter have been issued to the relevant Clearing System with effect from or before the Voting Instruction Deadline in accordance with the normal procedures of such Clearing System and after taking into account the deadlines imposed by such Clearing System; (ii) instructs the relevant Clearing System to transmit to the Information Agent (for onward transmission to the Company and Co-operative Group) the information contained within the Custody Instructions; and (iii) gives the other confirmations required by the Account Holder Letter in favour of the Company, Co-operative Group and the Information Agent.

ATTENDING THE SCHEME MEETING

- 65. ~~64.~~ The Scheme Meeting will take place at 10 a.m. on ~~11~~ 16 December 2013 at the ~~Holiday Inn London (Bloomsbury), Coram Street, London WC1N 1HT~~ offices of Allen & Overy LLP, One Bishops Square, London E1 6AD.
- 66. ~~65.~~ If a Noteholder wishes to attend the Scheme Meeting, it should produce a duplicate copy of the Account Holder Letter delivered on its behalf, evidence of corporate authority (in the case of a corporation) (for example, a valid power of attorney and/or board minutes) and evidence of personal identity (for example, a passport or other picture identification) at the registration desk no later than one hour before the scheduled time of the Scheme Meeting.
- 67. ~~66.~~ Any proxy attending the Scheme Meeting on behalf of a Noteholder should produce a duplicate copy of the Account Holder Letter in which he/she is named as proxy. Where this copy can be matched against one of the copies provided by the relevant Account Holder to the Information Agent on behalf of the Company, that Noteholder's proxy will be admitted to the Scheme Meeting upon providing evidence of his/her personal identity (for example, a passport or other picture identification). Where the Account Holder Letter cannot be produced by the person purporting to have been appointed by a Noteholder as its proxy, that person will need to provide evidence of his/her personal identity (for example, a passport or other picture identification) and, provided that the evidenced identity conforms with the details in the relevant copy of the Account

Holder Letter provided by the relevant Account Holder to the Information Agent on behalf of the Company, that person will be admitted to the Scheme Meeting.

68. ~~67.~~ If a Noteholder appoints the Chairman as its proxy, there is no need for the Chairman to take the Account Holder Letter to the Scheme Meeting.

SECTION 3: DISTRIBUTION OF SCHEME CONSIDERATION

GENERAL

69. ~~68.~~ Each Scheme Creditor that is a Noteholder should immediately contact its Account Holder (through any Intermediaries, if appropriate) to ensure that a valid Account Holder Letter in respect of its Scheme Claim is delivered to and received by the Information Agent.
70. ~~69.~~ If a person is in any doubt as to whether or not it is a Noteholder, such person should contact the Information Agent using the contact details in the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*).
71. ~~70.~~ Noteholders may also wish to refer to the diagrams set out in the section entitled *Are you a Scheme Creditor or a person with an interest in the Dated Notes?* at pages 21 to 27 above to see the relationship between Noteholders, Intermediaries and Account Holders.
72. ~~71.~~ It will be the responsibility of Account Holders to obtain from the Noteholders (through any Intermediaries, if applicable) on whose behalf they are acting in accordance with the procedures established between them, whatever information or instructions they may require to identify in an Account Holder Letter the relevant Noteholder and to provide the information, instructions and confirmations required by the Account Holder Letter. To assist this process, each Noteholder is strongly encouraged to contact its Account Holder (through any Intermediaries, if appropriate) to enable that Account Holder to complete the relevant sections of an Account Holder Letter and deliver such Account Holder Letter to the Information Agent before the Voting Instruction Deadline.
73. ~~72.~~ Each Noteholder will be required to ensure that its Account Holder has instructed the relevant Clearing System in which the Dated Notes which are the subject of the Account Holder Letter are held to block those interests in the Dated Notes, by giving Custody Instructions to that effect to the relevant Clearing System. The procedure for doing this is the same as the procedure described in paragraphs ~~46-47~~ to ~~52-53~~ above.
74. ~~73.~~ The Information Agent will use all reasonable endeavours to assist Noteholders to complete their Account Holder Letters validly, should it receive any Account Holder Letters which are not valid. However, failure to deliver a valid Account Holder Letter on behalf of a Noteholder to the Information Agent in the manner and within the deadlines referred to above will mean that the relevant Noteholder will not be entitled to receive the Scheme Consideration to which the Noteholder is entitled on the Scheme Settlement Date (in respect of an Eligible Noteholder) or the net proceeds of the sale of the Scheme Consideration to which a Noteholder is entitled as soon as reasonably practicable after the Scheme Settlement Date in accordance with the terms of the Scheme (in respect of an Ineligible Noteholder). Any such Noteholder will be required to take the additional steps described in paragraphs ~~80-81~~ to ~~91-92~~ below.
75. ~~74.~~ None of the Company, Co-operative Group, the Information Agent or any other person will be responsible for any loss or liability incurred by a Noteholder as a result of any determination by the Information Agent that an Account Holder Letter contains an error or is incomplete, even if this is subsequently shown not to have been the case.

COMPLETING THE ACCOUNT HOLDER LETTER FOR THE PURPOSES OF CONFIRMING ELIGIBILITY TO RECEIVE SCHEME CONSIDERATION

76. ~~75.~~ Each Noteholder will need to give its Account Holder information and instructions as to its eligibility to receive Scheme Consideration under applicable securities and other laws.
77. ~~76.~~ In summary each Noteholder may elect:

- (a) to receive the Scheme Consideration to which it is entitled in accordance with the terms of the Scheme, in which case it must instruct its Account Holder to confirm on its behalf that it is an Eligible Person;
- (b) for a Designated Recipient to receive the Scheme Consideration to which that Noteholder is entitled in accordance with the terms of the Scheme, in which case it must instruct its Account Holder to confirm on its behalf that its Designated Recipient is an Eligible Person; or
- (c) for the Scheme Consideration to which that Noteholder is entitled to be sold pursuant to the terms of the Distribution Agreement as soon as reasonably practicable and for the net proceeds of the sale of that Scheme Consideration to be paid to that Noteholder, in which case it must instruct its Account Holder to confirm on its behalf that it is not an Eligible Person and it must not appoint a Designated Recipient,

in each case, by ensuring that such election is recorded in the Account Holder Letter delivered on its behalf and that the details of its Designated Recipient, if applicable, are included in the Account Holder Letter.

78. ~~77.~~ Each Noteholder which submits, delivers or procures the delivery of an Account Holder Letter will be required to make (or authorise its Account Holder to make on its behalf) the representations, warranties and undertakings to the Company, Co-operative Group and the Information Agent set out in paragraph 2 of schedule 1 to the Account Holder Letter.

79. ~~78.~~ Any Noteholder that is unable to give any of the representations, warranties and undertakings referred to in paragraph ~~77-78~~ 78 above should contact the Information Agent directly as soon as possible, as there may be additional procedures involved in respect of that Noteholder's participation in the Scheme.

80. ~~79.~~ Each Noteholder should also ensure that the following is included in the Account Holder Letter delivered on its behalf:

- (a) its identity;
- (b) details of the Dated Notes which are the subject of the Account Holder Letter, including the ISIN number(s), the principal amount of the Dated Notes held at the relevant Clearing System(s), the identity of the relevant Clearing System(s), the account number of the Account Holder in the relevant Clearing System(s) and the Custody Instruction Reference Number(s);
- (c) the appropriate confirmations to be given by the Account Holder; and
- (d) its elections in respect of the distribution of Scheme Consideration.

DISTRIBUTION OF SCHEME CONSIDERATION

81. ~~80.~~ In order to receive the Scheme Consideration to which a Noteholder is entitled, a Noteholder must have complied with the procedures set out in this Appendix 2 (*Instructions and Guidance for Scheme Creditors and any Person with an Interest in the Dated Notes*).

Eligible Noteholders

82. ~~81.~~ Any Noteholder in respect of which:

- (a) a valid Account Holder Letter is completed and delivered by its Account Holder to the Information Agent; and

- (b) its Account Holder has confirmed on its behalf in the Account Holder Letter that (a) the Noteholder is an Eligible Person or (b) if the Noteholder has appointed a Designated Recipient, the Designated Recipient is an Eligible Person,

will be an Eligible Noteholder for the purposes of the Scheme.

83. ~~82.~~ Each Eligible Noteholder (or, to the extent applicable, its Designated Recipient and/or its Alternative Recipient) will receive the Scheme Consideration to which it is entitled in accordance with the terms of the Scheme:

- (a) on the Scheme Settlement Date if a valid Account Holder Letter in respect of that Eligible Noteholder is delivered to and received by the Information Agent before the Voting Instruction Deadline;
- (b) on the Scheme Settlement Date if a valid Account Holder Letter in respect of that Eligible Noteholder is delivered to and received by the Information Agent between the Voting Instruction Deadline and the Business Day preceding the Scheme Settlement Date and the Company exercises its discretion to issue the relevant Scheme Consideration to that Eligible Noteholder; or
- (c) as soon as reasonably practicable after the date on which the Information Agent delivers a Distribution Instruction Certificate relating to that Eligible Noteholder to the Holding Period Trustee (which, in accordance with the terms of the Distribution Agreement must be no later than 10 Business Days following the date on which a valid Account Holder Letter in respect of that Eligible Noteholder has been delivered to and received by the Information Agent (provided that the Information Agent shall be under no obligation to deliver an Instruction Certificate to the Holding Period Trustee prior to the Scheme Settlement Date)), if a valid Account Holder in respect of that Eligible Noteholder is delivered between the Voting Instruction Deadline and the Holding Period (i.e. during the 36 month period from the Scheme Settlement Date).

84. ~~83.~~ Any Scheme Consideration to which an Eligible Noteholder is entitled to receive on the Scheme Settlement Date under the terms of the Scheme will be delivered on the Scheme Settlement Date to the account of the Account Holder in the Clearing Systems in which the Account Holder holds the Dated Notes on behalf of that Eligible Noteholder (or, if that Eligible Noteholder is an Account Holder, the account of that Eligible Noteholder in the Clearing Systems in which that Eligible Noteholder holds its Dated Notes), irrespective of whether such Scheme Consideration is to be delivered to that Eligible Noteholder or, if applicable, the Designated Recipient appointed by that Eligible Noteholder.

Ineligible Noteholders

85. ~~84.~~ Any Noteholder in respect of which:

- (a) a valid Account Holder Letter is completed and delivered by its Account Holder to the Information Agent; and
- (b) its Account Holder has confirmed on its behalf in the Account Holder Letter that the Noteholder is not an Eligible Person and it has not appointed a Designated Recipient,

will be an Ineligible Noteholder for the purposes of the Scheme.

86. ~~85.~~ An Ineligible Noteholder will not receive the Scheme Consideration to which it would otherwise be entitled to in accordance with the terms of the Scheme if it were an Eligible Noteholder. Instead, such Scheme Consideration held by the Holding Period Trustee on trust for the Ineligible Noteholders shall be sold by the Selling Agent in accordance with the terms of the Distribution Agreement and the Scheme.

87. ~~86.~~As described in more detail in paragraphs 3.5 to 3.18 of Part B (*Overview of the Scheme*) of this Explanatory Statement, the Holding Period Trustee shall sell or procure the sale of any such Scheme Consideration and distribute the net proceeds of such sale to the Ineligible Noteholder.
88. ~~87.~~If the Holding Period Trustee is holding any Scheme Consideration on behalf of any Ineligible Noteholders which has not been sold by the end of the Holding Period and the Holding Period Trustee (or the Selling Agent on behalf of the Holding Period Trustee) is not able, after having used reasonable efforts and having consulted with the Company, to sell any such Scheme Consideration within three months of the end of the Holding Period, the Holding Period Trustee shall transfer by way of gift on behalf of such Ineligible Noteholders such Scheme Consideration to Carers Trust (registered charity number 1145181) or to any other registered charity selected by the Company in writing for this purpose.

Unadmitted Noteholders

89. ~~88.~~Any Noteholder in respect of which a valid Account Holder Letter is not completed and delivered by its Account Holder Letter to the Information Agent before the Voting Instruction Deadline (other than any Eligible Noteholder on whose behalf a valid Account Holder Letter has been delivered to and received by the Information Agent between the Voting Instruction Deadline and the Business Day preceding the Scheme Settlement Date and in relation to whom the Company exercises its discretion to issue Scheme Consideration on the Scheme Settlement Date in accordance with the terms of the Scheme) will be an Unadmitted Noteholder for the purposes of the Scheme.
90. ~~89.~~Each Unadmitted Noteholder will not receive the Scheme Consideration to which it is entitled in accordance with the terms of the Scheme on the Scheme Settlement Date. Such Scheme Consideration shall be delivered to the Holding Period Trustee on the Scheme Settlement Date, which will hold such Scheme Consideration on trust for that Unadmitted Noteholder.
91. ~~90.~~An Unadmitted Noteholder that subsequently arranges for a valid Account Holder Letter to be delivered to the Information Agent before the end of the Holding Period shall become either an Eligible Noteholder or an Ineligible Noteholder.
92. ~~91.~~If, at the end of the Holding Period, the Holding Period Trustee is holding any Scheme Consideration on behalf of any Unadmitted Noteholders, as soon as reasonably practicable after the end of the Holding Period the Holding Period Trustee shall instruct the Selling Agent to sell all such Scheme Consideration and to distribute the net proceeds to the Company in accordance with the terms of the Distribution Agreement, provided that, to the extent that the Holding Period Trustee (or the Selling Agent on behalf of the Holding Period Trustee) is not able, after having used reasonable efforts and having consulted with the Company, to sell any such Scheme Consideration following the expiry end of the Holding Period, the Holding Period Trustee shall transfer by way of gift on behalf of such Unadmitted Noteholders such Scheme Consideration to Carers Trust (registered charity number 1145181) or to any other registered charity selected by the Company in writing for this purpose.

DELIVERY OF ACCOUNT HOLDER LETTERS FOR THE PURPOSES OF CONFIRMING ELIGIBILITY TO RECEIVE SCHEME CONSIDERATION

93. ~~92.~~Account Holder Letters for the purposes of confirming eligibility to receive Scheme Consideration should be delivered by Account Holders as soon as possible to the Information Agent and, in any event, before the Voting Instruction Deadline, being 4.30 p.m. on ~~10~~-13 December 2013.
94. ~~93.~~**Failure by a Noteholder to deliver a valid Account Holder Letter to the Information Agent before the Voting Instruction Deadline will mean that Noteholder will not be entitled to receive the Scheme Consideration to which it is entitled in accordance with the terms of the Scheme on the Scheme Settlement Date and, if that Noteholder has not complied with**

the relevant procedures prior to the end of the Holding Period, such Scheme Consideration will be sold and the net proceeds of such sale will be distributed to the Company (or, if the Holding Period Trustee is unable to sell such Scheme Consideration as described in paragraph 3.15 of Part B (*Overview of the Scheme*), a charity selected by the Company) and that Noteholder shall have no entitlement to those net proceeds or any rights or claims against the Company, the Holding Period Trustee, the Selling Agent or any other person in respect thereof.

95. ~~94.~~ Any Account Holder Letter delivered will be irrevocable from and after the Voting Instruction Deadline unless and until the Scheme is not sanctioned by the Court at the Scheme Sanction Hearing or the Scheme is withdrawn.

96. ~~95.~~ By delivering an Account Holder Letter to the Information Agent, the Account Holder: (i) confirms to the Company, Co-operative Group and the Information Agent that Custody Instructions in respect of the Dated Notes which are the subject of that Account Holder Letter have been issued to the relevant Clearing System with effect from or before the Scheme Sanction Hearing in accordance with the normal procedures of such Clearing System and after taking into account the deadlines imposed by such Clearing System (or, in respect of an Account Holder Letter delivered on behalf of an Unadmitted Noteholder during the Holding Period, the Dated Notes which are the subject of that Account Holder Letter were held by that Noteholder as at the Record Date and continued to be so held until the transfer and cancellation of those Dated Notes in accordance with the terms of the Scheme on the Scheme Settlement Date); (ii) instructs the relevant Clearing System to transmit to the Information Agent (for onward transmission to the Company and Co-operative Group) the information contained within the Custody Instructions; and (iii) gives the other confirmations required by the Account Holder Letter in favour of the Company, Co-operative Group and the Information Agent.

SECTION 4: PARTICIPATING IN THE ADDITIONAL NEW ORDINARY SHARES OFFER AND THE SUB-PURCHASING OFFER

GENERAL

97. ~~96.~~ Each Scheme Creditor that is a Noteholder should immediately contact its Account Holder (through any Intermediaries, if appropriate) to ensure that a valid Account Holder Letter in respect of its Scheme Claim is delivered to and received by the Information Agent.
98. ~~97.~~ If a person is in any doubt as to whether or not it is a Noteholder, such person should contact the Information Agent using the contact details in the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*).
99. ~~98.~~ Noteholders may also wish to refer to the diagrams set out in the section entitled *Are you a Scheme Creditor or a person with an interest in the Dated Notes?* at pages 21 to 27 above to see the relationship between Noteholders, Intermediaries and Account Holders.
100. ~~99.~~ As described in Part B (*Overview of the Scheme*), any Noteholder may participate in the Additional New Ordinary Shares Offer and/or the Sub-purchasing Offer by instructing its Account Holder to make the appropriate elections in its Account Holder Letter and confirming on its behalf that the Noteholder is an Eligible Person or, if it has appointed a Designated Recipient, that the Designated Recipient is an Eligible Person and delivering a valid Account Holder Letter containing those confirmations to the Information Agent before the Voting Instruction Deadline.

COMPLETING THE ACCOUNT HOLDER LETTER FOR THE PURPOSES OF PARTICIPATING IN THE ADDITIONAL NEW ORDINARY SHARES OFFER

101. ~~100.~~ Each Noteholder may elect:
- (a) in respect of the Additional New Ordinary Shares Offer, to subscribe for a minimum number of ~~50,000~~ 26,667 Additional New Ordinary Shares and a maximum number of ~~62,500,000~~ 33,333,334 Additional New Ordinary Shares; and
 - (b) in respect of the Sub-purchasing Offer, to nominate a minimum commitment to back-stop the purchase of between ~~50,000~~ 26,667 Additional New Ordinary Shares and ~~62,500,000~~ 33,333,334 Additional New Ordinary Shares,

in each case, by ensuring that such election is recorded in the Account Holder Letter delivered on its behalf (by completing part 3 (*Additional New Ordinary Shares Offer*)) and, in addition, that part 4 (*Scheme Consideration, Eligibility and Delivery of the Additional New Ordinary Shares*) of the Account Holder Letter is completed.

DELIVERY OF ACCOUNT HOLDER LETTERS FOR PARTICIPATING IN THE ADDITIONAL NEW ORDINARY SHARES OFFER AND/OR THE SUB-PURCHASING OFFER

102. ~~101.~~ Account Holder Letters for the purposes of electing to subscribe for Additional New Ordinary Shares in accordance with the terms of the Additional New Ordinary Shares Offer or electing to nominate a commitment for the Sub-purchasing Offer should be delivered by Account Holders as soon as possible to the Information Agent and, in any event, before the Voting Instruction Deadline, being 4.30 p.m. on ~~10~~ 13 December 2013.
103. ~~102.~~ Each Noteholder should note that, unless a valid Account Holder Letter is delivered on its behalf to the Information Agent containing the requisite elections and confirmations that the Noteholder (or, if it has appointed a Designated Recipient, its Designated Recipient) is an Eligible Person before the Voting Instruction Deadline, the elections contained in that Account Holder Letter in relation to the Additional New Ordinary Shares Offer and/or the Sub-purchasing Offer

(as the case may be) will be disregarded and that Noteholder will not be entitled to participate in the Additional New Ordinary Shares Offer or the Sub-purchasing Offer.

104. ~~103.~~ Any Account Holder Letter delivered will be irrevocable from and after the Voting Instruction Deadline unless and until the Scheme is not approved by the requisite majorities at the Scheme Meeting or the Scheme is withdrawn.

105. ~~104.~~ By delivering an Account Holder Letter to the Information Agent, the Account Holder: (i) confirms to the Company, Co-operative Group and the Information Agent that Custody Instructions in respect of the Dated Notes which are the subject of that Account Holder Letter have been issued to the relevant Clearing System with effect from or before the Voting Instruction Deadline in accordance with the normal procedures of such Clearing System and after taking into account the deadlines imposed by such Clearing System; (ii) instructs the relevant Clearing System to transmit to the Information Agent (for onward transmission to the Company and Co-operative Group) the information contained within the Custody Instructions; and (iii) gives the other confirmations required by the Account Holder Letter in favour of the Company, Co-operative Group and the Information Agent.

SECTION 5: VOTING FOR OR AGAINST THE APPOINTMENT OF ANY NOMINATED DIRECTORS (IF APPLICABLE)

GENERAL

106. ~~105.~~ Each Scheme Creditor that is a Noteholder should immediately contact its Account Holder (through any Intermediaries, if appropriate) to ensure that a valid Account Holder Letter in respect of its Scheme Claim is delivered to and received by the Information Agent.
107. ~~106.~~ If a person is in any doubt as to whether or not it is a Noteholder, such person should contact the Information Agent using the contact details in the Account Holder Letter set out in Appendix 3 (*Form of Account Holder Letter*).
108. ~~107.~~ Noteholders may also wish to refer to the diagrams set out in the section entitled *Are you a Scheme Creditor or a Person with an Interest in the Dated Notes?* at pages 21 to 27 above to see the relationship between Noteholders, Intermediaries and Account Holders.
109. ~~108.~~ As described in paragraph 6 of Part B (*Overview of the Scheme*) of the Explanatory Statement, any Noteholder may vote for or against any Nominated Directors which are nominated by the Purchasers by instructing its Account Holder to make the appropriate elections in its Account Holder Letter and delivering a valid Account Holder Letter containing those confirmations to the Information Agent before the Voting Instruction Deadline.

COMPLETING THE ACCOUNT HOLDER LETTER FOR THE PURPOSES OF VOTING FOR OR AGAINST ANY NOMINATED DIRECTORS (IF APPLICABLE)

110. ~~109.~~ Each Noteholder may elect to vote for or against the appointment of either or both Nominated Directors at the Scheme Meeting, if any such Nominated Directors are nominated by the Modified Scheme Purchasers, as described in paragraph 6 of Part B (*Overview of the Scheme*) of the Explanatory Statement, in each case, by ensuring that such election is recorded in the Account Holder Letter delivered on its behalf by completing part 5 (*Director Nominations*) of the Account Holder Letter.

DELIVERY OF ACCOUNT HOLDER LETTERS FOR THE PURPOSES OF VOTING FOR OR AGAINST ANY NOMINATED DIRECTORS (IF APPLICABLE)

111. ~~110.~~ Account Holder Letters for the purposes of voting for or against any Nominated Directors, if any such Nominated Directors are nominated by the Modified Scheme Purchasers, should be delivered by Account Holders as soon as possible to the Information Agent and, in any event, so as to be received before the Voting Instruction Deadline, being 4.30 p.m. on ~~10-13~~ December 2013.
112. ~~111.~~ Each Noteholder should note that, unless a valid Account Holder Letter is delivered on its behalf to the Information Agent containing the requisite elections and confirmations, the votes of that Noteholder will be disregarded for the purposes of approving any Nominated Directors.
113. ~~112.~~ Any Account Holder Letter delivered will be irrevocable from and after the Voting Instruction Deadline unless and until the Scheme is not approved by the requisite majorities at the Scheme Meeting or the Scheme is withdrawn.
114. ~~113.~~ By delivering an Account Holder Letter to the Information Agent, the Account Holder: (i) confirms to the Company, Co-operative Group and the Information Agent that Custody Instructions in respect of the Dated Notes which are the subject of that Account Holder Letter have been issued to the relevant Clearing System with effect from or before the Voting Instruction Deadline in accordance with the normal procedures of such Clearing System and after taking into account the deadlines imposed by such Clearing System; (ii) instructs the relevant

no later than 4.30 p.m. (London time) on ~~40~~¹³ December 2013 (the **Voting Instruction Deadline**). Account Holder Letters received after the Voting Instruction Deadline will not constitute valid voting instructions for the purposes of the Scheme. The Dated Notes identified in this Account Holder Letter must be blocked by no later than the Business Day preceeding the Voting Instruction Deadline.

IN ORDER TO ELECT TO PARTICIPATE IN THE ADDITIONAL NEW ORDINARY SHARES SUBSCRIPTION AND/OR THE SUB-PURCHASING OFFER

Part 3 of this Account Holder Letter: In order to elect to subscribe for any Additional New Ordinary Shares or participate in the Sub-purchasing Offer in accordance with the Scheme, Part 3 Section 1 (*Election to Subscribe*) (in respect of the Additional New Ordinary Shares Offer) and/or Part 3 Section 2 (*Election to Sub-purchase*) (in respect of the Sub-purchasing Offer in respect of the Additional New Ordinary Shares Offer) of this Account Holder Letter must be delivered by post, facsimile or email to the Information Agent using the contact details set out below and must be received by the Information Agent by no later than the Voting Instruction Deadline. Such delivery will constitute an irrevocable offer by the relevant Noteholder to subscribe for Additional New Ordinary Shares pursuant to the Additional New Ordinary Shares Offer (if Part 3 Section 1 (*Election to Subscribe*) is completed) and/or the Sub-purchasing Offer (if Part 3 Section 2 (*Election to Sub-purchase*) is completed)..

If Part 3 Section 1 (*Election to Subscribe*) and/or Part 3 Section 2 (*Election to Sub-purchase*) are completed, Part 4 (*Scheme Consideration, Eligibility And Delivery Of The Additional New Ordinary Shares*) must also be completed so as to confirm that the Account Holder and Noteholder (or if the Noteholder has appointed a Designated Recipient, its Designated Recipient), are Eligible Persons.

IN ORDER TO RECEIVE SCHEME CONSIDERATION AND ADDITIONAL NEW ORDINARY SHARES

Part 4 of this Account Holder Letter: In order to receive Scheme Consideration and (if applicable) Additional New Ordinary Shares pursuant to the terms of the Scheme on the Scheme Settlement Date, and to participate in the Sub-purchasing Offer, Part 4 (*Scheme Consideration, Eligibility And Delivery Of The Additional New Ordinary Shares*) of this Account Holder Letter must be delivered by post, facsimile or email to the Information Agent using the contact details set out below and must be received by the Information Agent by no later than the Voting Instruction Deadline.

IN ORDER TO VOTE FOR OR AGAINST THE APPOINTMENT OF THE NOMINATED DIRECTORS

Part 5 of this Account Holder Letter: In order to vote for or against the appointment of one or both of the Nominated Directors, Part 5 (*Director Nominations*) must be delivered by post, facsimile or email to the Information Agent by no later than the Voting Instruction Deadline.

IN ALL CASES PART 6 OF THIS ACCOUNT HOLDER LETTER SHOULD BE COMPLETED.

Part 6 of this Account Holder Letter: In order to be valid, this Account Holder Letter must be signed by the Account Holder.

A separate Account Holder Letter must be completed in respect of each separate beneficial holding of/interest in the Dated Notes.

Capitalised terms used in this Account Holder Letter but not defined in it have the same meaning as given to them in the explanatory statement relating to the Scheme [dated 18 November 2013 \(as amended on 4 December 2013\)](#) (the **Explanatory Statement**), subject to any amendments or modifications made by the Court.

You are strongly advised to read the Explanatory Statement and the Scheme and, in particular, Appendix 2 (*Instructions and guidance for Scheme Creditors and any person with an interest in the Dated Notes*) to the Explanatory Statement, before you complete the Account Holder Letter. Appendix 2 (*Instructions and guidance for Scheme Creditors and any person with an interest in the Dated Notes*) to the Explanatory Statement contains detailed information on the various options contained in this Account Holder Letter. All relevant documentation can be found at the Scheme Website www.co-operative.coop/Bondholders.

This Account Holder Letter and any non-contractual obligations arising out of or in relation to this Account Holder Letter shall be governed by, and interpreted in accordance with, English law.

FOR ASSISTANCE CONTACT THE INFORMATION AGENT:

Lucid Issuer Services Limited

Leroy House
436 Essex Road
London
N1 3QP

Attention: Sunjeeve Patel / ~~David Shilson~~ / Yves Theis

Telephone: +44 20 7704 0880
Email: co-op@lucid-is.com
Facsimile: +44 20 7067 9098

PART 1: NOTEHOLDER AND HOLDING DETAILS

SECTION 1: NOTEHOLDER DETAILS

If you are not the Noteholder (that is, the person that is the beneficial owner of and/or the holder of the ultimate economic interest in the relevant Dated Notes, held in global form through the Clearing Systems with a claim in respect of any amount outstanding under the Dated Notes as at the Record Date (being 4.30 p.m. (London time) on ~~40~~¹³ December 2013) (unless the Company, in its sole discretion, elects to recognise a transfer of Dated Notes after the Record Date)), please identify the Noteholder on whose behalf you are submitting this Account Holder Letter. If such Noteholder does not wish to provide details of its identity, please identify a person with full legal right and authority to act on behalf of that Noteholder as its representative.

To be completed for all Noteholders:

Full Name of Noteholder _____

Country¹ _____

E-mail Address _____

Telephone Number (with
country code) _____

Passport Number² _____

To be completed if the Noteholder is an institution:

Jurisdiction of
Incorporation of
Noteholder _____

Name of Authorised
Employee of Noteholder _____

Department _____

Passport Number³ _____

To be completed if the Noteholder is an investment fund, managed account, discretionary account or similar over which a manager, adviser or general partner has discretionary authority:

Name of Investment
Manager / Investment
Adviser / General Partner _____

¹ If the Noteholder is an institution, enter the country in which its registered office is located. If the Noteholder is an individual, enter the country in which the individual's home address is located. If a country other than the United Kingdom is entered, the Noteholder should refer to the section(s) entitled "Restrictions" in the Explanatory Statement.

² Required if attending the Scheme Meeting in person or by a duly authorised representative, if a corporation.

³ Required if attending the Scheme Meeting in person by a duly authorised representative.

PART 3: ADDITIONAL NEW ORDINARY SHARES OFFER

SECTION 1: ELECTION TO SUBSCRIBE

To participate in the Additional New Ordinary Shares Offer, this Part 3 Section 1 (*Election to Subscribe*) must be delivered to the Information Agent no later than the Voting Instruction Deadline. If you do not wish to participate in the Additional New Ordinary Shares Offer, please leave this Part 3 Section 1 (*Election to Subscribe*) blank.

The Account Holder named in Part 6 (*Execution of Account Holder Letter by Account Holder*) for itself hereby confirms to the Company, the Co-operative Group and the Information Agent that, in relation to the Dated Notes identified in Part 1 Section 2 (*Holding Details*) of this Account Holder Letter, the Account Holder has authority to make the elections and/or give the confirmations set out in Part 3 Section 1 (*Election to Subscribe*) below on behalf of the Noteholder. (select "yes" or "no" as appropriate).

Yes ☐

No ☐

Noteholders who wish to elect for Additional New Ordinary Shares pursuant to the Additional New Ordinary Shares Offer (described in Part B paragraphs 2.22 to 2.30 of the Explanatory Statement) and who procure that their Account Holder completes and returns this Part 3 Section 1 (*Election to Subscribe*) of the Account Holder Letter will be allotted Additional New Ordinary Shares in accordance with the terms of the Scheme on the Scheme Settlement Date.

Noteholders wishing to elect to subscribe for all or any of the Additional New Ordinary Shares pursuant to the Additional New Ordinary Shares Offer should ensure that an Account Holder Letter including a duly completed Part 3 Section 1 (*Election to Subscribe*) is received by the Information Agent no later than the Voting Instruction Deadline, after which time any election received will not be valid.

Any allotment of Additional New Ordinary Shares is subject to the eligibility confirmation being provided in Part 4 Section 2 (*Eligibility Confirmation*) in respect of the Noteholder or its Designated Recipient (as applicable) at the same time as this Part 3 (*Additional New Ordinary Shares Offer*) of the Account Holder Letter is delivered to the Information Agent.

Election in respect of Additional New Ordinary Shares

Election of Additional New Ordinary Shares is subject to a minimum number of ~~50,000~~26,667 and a maximum number of ~~62,500,000~~33,333,334 Additional New Ordinary Shares. Insert maximum number of Additional New Ordinary Shares elected below.

.....Additional New Ordinary Shares with a subscription price of £~~2.00~~3.75 each
(insert number of New Ordinary Shares)

Irrespective of the number of Additional New Ordinary Shares elected for above, allotment of Additional New Ordinary Shares will be determined in accordance with Part B paragraphs 2.22 to 2.30 of the Explanatory Statement. To the extent that the number of Additional New Ordinary Shares allocated is less than the number elected for above, the consideration payable for the Additional New Ordinary Shares will be adjusted accordingly.

Allocation Payments for Additional New Ordinary Shares

The delivery and receipt of a valid Account Holder Letter with this Part 3 Section 1 (*Election to Subscribe*) duly completed constitutes an irrevocable offer to the Company by the relevant Noteholder to subscribe for up to the maximum number of Additional New Ordinary Shares indicated above. The acceptance of this

SECTION 2: ELECTION TO SUB-PURCHASE

To participate in the Sub-purchasing Offer, this Part 3 Section 2 (*Election to Sub-purchase*) must be received by the Information Agent no later than the Voting Instruction Deadline. If you do not wish to participate in the Sub-purchasing Offer, please leave this Part 3 Section 2 (*Election to Sub-purchase*) blank.

The Account Holder named below in Part 6 for itself hereby confirms to the Company, the Co-operative Group and the Information Agent that, in relation to the Dated Notes identified in Part 1 Section 2 (*Holding Details*) of this Account Holder Letter, the Account Holder has authority to make the elections and/or give the confirmations set out in this Part 3 Section 2 (*Election to Sub-purchase*) below on behalf of the Noteholder (select "yes" or "no" as appropriate for each item).

Yes ☐

No ☐

Noteholders who wish to elect to participate in the Sub-purchasing Offer (described in Part B paragraphs 2.33 to 2.46 of the Explanatory Statement) and who procure that their Account Holder completes and returns this Part 3 Section 2 (*Election to Sub-purchase*) of the Account Holder Letter will be allocated a Sub-purchasing Commitment in accordance with the terms of the Scheme.

Noteholders wishing to elect to participate in the Sub-purchasing Offer should ensure that (i) an Account Holder Letter including a duly completed Part 3 Section 2 (*Election to Sub-purchase*) is received by the Information Agent no later than the Voting Instruction Deadline, after which time any election received will not be valid.

Any participation in the Sub-purchasing Offer is subject to the eligibility confirmation being provided in Part 4 Section 2 (*Eligibility Confirmation*) in respect of the Noteholder or its Designated Recipient (as applicable) at the same time this Part 3 Section 2 (*Election to Sub-purchase*) of the Account Holder Letter is delivered to the Information Agent.

Election in respect of the Sub-purchase of the Additional New Ordinary Shares Offer

Election to participate in the Sub-purchase of the Additional New Ordinary Shares Offer is subject to a commitment to purchase a minimum number of ~~50,000~~26,667 and a maximum number of ~~62,500,000~~33,333,334 Additional New Ordinary Shares. Insert maximum nominated Sub-purchasing Commitment below.

.....Additional New Ordinary Shares with a subscription price of £~~2.00~~3.75 each
(insert number of Additional New Ordinary Shares)

Irrespective of the above, allotment of the Sub-purchasing Commitment to purchase Additional New Ordinary Shares in accordance with the Sub-purchasing Offer will be determined as set out in Part B paragraphs 2.33 to 2.46 of the Explanatory Statement. The delivery and receipt of a valid Account Holder Letter with this Part 3 Section 2 (*Election to Sub-purchase*) duly completed constitutes an irrevocable offer to the Company by the relevant Noteholder to subscribe for up to the maximum commitment elected above. The acceptance of this offer will be effected and evidenced by the Company to the relevant Sub-purchaser by notification of the Sub-purchasing Commitment on or around the date of the Scheme Meeting.

Allocation Payments for Sub-purchase of Additional New Ordinary Shares Offer

The Company (or the Information Agent on behalf of the Company) will notify each Sub-purchaser of its Sub-purchasing Commitment and the amount by which the number of Additional New Ordinary Shares

subscribed for by the Noteholders in the Additional New Ordinary Shares Offer is less than ~~62,500,000~~[33,333,334](#) (if any) and the amount of Additional New Ordinary Shares required to be purchased by that Noteholder pursuant to its Sub-purchasing Commitment on the date of the Scheme Meeting.

If this Part 3 Section 2 has been completed, Part 4 must now also be completed.

PART 5: DIRECTOR NOMINATIONS

The Account Holder named in Part 6 (*Execution of Account Holder Letter by Account Holder*) below for itself hereby confirms to the Company, the Co-operative Group and the Information Agent that, in relation to the Dated Notes identified in Part 1 Section 2 (*Holding Details*) of this Account Holder Letter, the Account Holder has authority to make the elections and/or give the confirmations set out in this Part 5 (*Director Nominations*) below on behalf of the Noteholder. (select "yes" or "no" as appropriate for each item).

Yes ☐

No ☐

As described in Part B paragraph 6 of the Explanatory Statement, the Company may publish a notice no later than 5 Business Days before the Scheme Meeting setting out details of two directors nominated by the [Modified Scheme](#) Purchasers (the **Nominated Directors**). The appointment of such Nominated Directors is subject to Noteholder approval as described in paragraph 6.3 of Part B of the Explanatory Statement. Noteholders who wish to vote for or against the appointment of one or both of the Nominated Directors should procure that their Account Holder completes and returns this Part 5 (*Director Nominations*) of the Account Holder Letter before the Voting Instruction Deadline. Alternatively, Noteholders may attend the Scheme Meeting to vote for or against the nomination of one or both of the Nominated Directors.

A. Attendance at the Director Appointment Meeting

The Noteholder wishes:

Tick only ONE of the boxes below.

☐

to appoint the Chairman as its proxy to attend and vote on its behalf on the appointment of the Nominated Directors at the Scheme Meeting (*please now only complete paragraph B (Appointment of proxy and voting instructions to proxy) below*).

☐

to appoint a proxy (other than the Chairman) to attend and vote on its behalf on the appointment of the Nominated Directors at the Scheme Meeting (*please now only complete paragraph B (Appointment of proxy and voting instructions to proxy) below*).

☐

to attend and vote on the appointment of the Nominated Directors at the Scheme Meeting in person or by a duly authorised representative, if a corporation (*please now complete only paragraph C (Indication of voting intention) below*).

B. Appointment of proxy and voting instructions to proxy

The Noteholder wishes to appoint (and the Account Holder is hereby authorised to appoint on its behalf):

Tick only ONE of the boxes below.

☐

Chairman; or (tick box if appropriate)

☐

the following individual (tick box if appropriate and fill in the details immediately below)

(Name):

(Address):

(Passport number):

Before returning this Account Holder Letter or either part of this Account Holder Letter, please make certain that you have provided all the information requested.

Acceptance of Part 2 (*Voting and Lock-up*) of this Account Holder Letter by the Information Agent is subject to receipt by the Information Agent by no later than the Voting Instruction Deadline of valid Custody Instruction Reference Numbers in respect of the Dated Notes which are the subject of this Account Holder Letter. Custody Instructions must be delivered to Euroclear or Clearstream, Luxembourg, as the case may be, in respect of the Dated Notes identified in Part 1 Section 2 (*Holding Details*) of this Account Holder Letter as being held in one of those Clearing Systems prior to the Custody Instruction Deadline. Information in this Account Holder Letter must be consistent with such Custody Instructions and in the event of any ambiguity, the Custody Instructions shall take precedence.

Acceptance of Part 4 (*Scheme Consideration, Eligibility And Delivery Of The Additional New Ordinary Shares*) of this Account Holder Letter by the Information Agent or the Holding Period Trustee (as applicable) is subject to receipt by the Information Agent or the Holding Period Trustee (as applicable) of evidence satisfactory to it that the Noteholder held the Dated Notes to which Part 4 (*Scheme Consideration, Eligibility And Delivery Of The Additional New Ordinary Shares*) of this Account Holder Letter relates on the Record Date and that the Noteholder did not transfer the Dated Notes between the Record Date and the Scheme Settlement Date unless the Company, in its sole discretion, elected to recognise a transfer of Dated Notes after the Record Date. ⁵

The Account Holder may complete and submit this Account Holder Letter or either part of this Account Holder Letter on behalf of the Noteholder if the Account Holder has authority to do so.

Facsimile or pdf copies of this Account Holder Letter will be accepted and originals are not required.

⁵ For the purposes of determining priorities in the First Round Exception, if a valid Account Holder Letter is delivered to and received by the Information Agent in respect of a Noteholder (which has validly elected to participate in the Additional New Ordinary Shares Offer and/or the Sub-purchasing Offer) on whose behalf an Old Account Holder Letter has, prior to the delivery of that Account Holder Letter, been delivered to and received by the Information Agent (and not revoked), that Account Holder Letter will be deemed to have been received by the Information Agent on the date and at the time that the Old Account Holder Letter was received by the Information Agent.

SCHEDULE 1

REPRESENTATIONS, WARRANTIES AND UNDERTAKINGS

1. Voting Representations, Warranties and Undertakings

Each Noteholder which submits, delivers or procures the delivery of an Account Holder Letter represents, warrants and undertakes to the Company, the Co-operative Group and the Information Agent that:

- (a) it is lawful to seek voting instructions from that Noteholder in respect of the Scheme;
- (b) it is assuming all of the risks inherent in that Noteholder participating in the Scheme and has undertaken all the appropriate analysis of the implications of participating in the Scheme for that Noteholder without relying on the Company, the Co-operative Group, the Dealer Managers or the Information Agent (other than any representations or warranties given in favour of that Noteholder by the Company or the Co-operative Group (as the case may be) under any of the Bank T2 Notes Prospectus and Group Notes Prospectus and ~~this~~the Explanatory Statement and, if applicable, a Lock-up Agreement to which that Noteholder is a party);
- (c) the Dated Notes which are the subject of the Account Holder Letter are, at the time of delivery of such Account Holder Letter held by it (directly or indirectly) or on its behalf at Euroclear or Clearstream, Luxembourg (and that Noteholder will use all reasonable endeavours to ensure that those Dated Notes will continue to be so held up to and including the Scheme Settlement Date (prior to their transfer in accordance with the terms of the Scheme));
- (d) by instructing the relevant Clearing System, it will be deemed to have authorised the relevant Clearing System to provide details concerning its identity, the Dated Notes which are the subject of the Account Holder Letter delivered on its behalf and its applicable account details to the Company and the Information Agent and their respective legal and financial advisers at the time the Account Holder Letter is submitted;
- (e) neither the Information Agent nor the Dealer Managers nor any of their Affiliates, directors, officers or employees has made any recommendation to that Noteholder as to whether, or how, to vote in relation to the Scheme, and that it has made its own decision with regard to voting based on any legal, tax or financial advice that it has deemed necessary to seek;
- (f) all authority conferred or agreed to be conferred pursuant to these representations, warranties and undertakings shall be binding on the successors and assigns of that Noteholder (in the case of a corporation or institution) or the successors, assigns, heirs, executors, trustees in bankruptcy and legal representatives of that Noteholder (in the case of a natural person) and shall not be affected by, and shall survive, the insolvency, bankruptcy, dissolution, death or incapacity (as the case may be) of that Noteholder; and
- (g) no information has been provided to it by the Company, the Co-operative Group, the Dealer Managers, the Information Agent or any of their respective Affiliates, directors, officers, advisers or employees with regard to the tax consequences to that Noteholder arising from voting in favour of the Scheme, and that it is solely liable for any taxes or similar payments imposed on it under the laws of any applicable jurisdiction as a result of voting in favour of the Scheme, and that it will not and does not have any right of recourse (whether by way of reimbursement, indemnity or otherwise) against the Company, the Co-operative Group, the Dealer Managers, the Information Agent or any of their Affiliates, directors, officers, advisers or employees in respect of such taxes or similar payments.

2. Eligibility

APPENDIX 4

NOTICE OF SCHEME MEETING

IN THE HIGH COURT OF JUSTICE
2013
CHANCERY DIVISION
COMPANIES COURT

No. 7830 of

IN THE MATTER OF THE CO-OPERATIVE BANK P.L.C.

and

IN THE MATTER OF THE COMPANIES ACT 2006

€34,980,000 Floating Rate Callable Step-up Dated Subordinated Notes due 2016 (ISIN: XS0254625998)

£37,775,000 5.875% Subordinated Callable Notes due 2019 (ISIN: XS0189539942)

£275,000,000 9.25% Subordinated Notes due April 2021 (ISIN: XS0620315902)

£8,747,000 Fixed/Floating Rate Subordinated Notes due November 2021 (ISIN: XS0274155984)

£235,402,000 7.875% Subordinated Notes due 2022 (ISIN: XS0864253868)

£200,000,000 5.75% Dated Callable Step-up Subordinated Notes due 2024 (ISIN: XS0188218183)

and

£150,000,000 5.875% Subordinated Notes due 2033 (ISIN: XS0145065602)

issued by the Company (together, the **Dated Notes**)

NOTICE IS HEREBY GIVEN that, by an order dated [4 December 2013 \(varying an order made 18 November 2013-\)](#) made in the above matter, the High Court of England and Wales (the **Court**) has directed that a meeting (the **Scheme Meeting**) be convened of the Scheme Creditors (as such term is defined in the scheme of arrangement hereinafter referred to) of The Co-operative Bank p.l.c. (the **Company**) for the purposes of considering and, if thought fit, approving (with or without modification, addition or condition approved or imposed by the Court and/or agreed by the Company) a scheme of arrangement proposed to be made between the Company and the Scheme Creditors ([as amended on 4 December 2013](#), the **Scheme**).

The Scheme Meeting will be held at the ~~Holiday Inn London (Bloomsbury), Coram Street, London WC1N 1HT on 11~~ [offices of Allen & Overy LLP, One Bishops Square, London E1 6AD on 16](#) December 2013 commencing at 10 a.m. (London time). All Scheme Creditors are requested to attend at such place and time either in person, by a duly authorised representative if a corporation, or by proxy.

A copy of the Scheme and a copy of the statement required to be furnished pursuant to section 897 of the Companies Act 2006 ([as amended on 4 December 2013](#), the **Explanatory Statement**) are incorporated in the document of which this notice forms part.

Scheme Creditors may vote in person or by a duly authorised representative if a corporation, at the Scheme Meeting or they may appoint another person, whether a Scheme Creditor or not, as their proxy to attend and vote in their place. Scheme Creditors may appoint proxies to vote at the Scheme Meeting by filling out section 3 (*Voting*) of the Account Holder Letter (as defined in the Explanatory Statement). If a Scheme Creditor is a corporation, it must appoint an authorised representative or proxy to vote on its

Appendix 4 (Notice of Scheme Meeting)

behalf at the Scheme Meeting by filling out section 3 (*Voting*) of the Account Holder Letter in order to be entitled to vote at the Scheme Meeting.

To avoid double counting, each of the trustees and the common depositaries for the Dated Notes has confirmed in writing that it will not exercise any voting rights to which it may be entitled as a Scheme Creditor.

Each Scheme Creditor or its proxy will be required to register its attendance at the Scheme Meeting prior to the commencement of the Scheme Meeting. Registration will commence at 8.30 a.m. (London time) on the date of the Scheme Meeting and each Scheme Creditor and proxy must be registered no later than one hour prior to the commencement of the meeting. Each Scheme Creditor that is not a proxy must bring to the Scheme Meeting a copy of the relevant Account Holder Letter, evidence of corporate authority (in the case of a corporation) (for example, a valid power of attorney and/or board minutes) and evidence of personal identity (for example, a passport or other picture identification). Each proxy must bring to the Scheme Meeting a copy of the Account Holder Letter authorising him or her to act as proxy on behalf of the Scheme Creditor and evidence of personal identity (for example, a passport or other picture identification).

In order to vote on the Scheme and attend the Scheme Meeting (in person, by a duly authorised representative if a corporation, or by proxy), Scheme Creditors must ensure that an Account Holder Letter is completed, delivered to and received by the Information Agent (as defined in the Explanatory Statement) (marked for the attention of Sunjeev Patel / ~~David Shilson~~ / Yves Theis) in accordance with the instructions set out in the Account Holder Letter before 4.30 p.m. (London time) on ~~10~~-13 December 2013. A copy of the form of Account Holder Letter may be downloaded from <http://www.co-operative.coop/Bondholders> (the **Scheme Website**).

The Scheme, the Explanatory Statement and the Account Holder Letter ~~are~~ [will be available to download from the Scheme Website during the course of the afternoon on 4 December 2013 and thereafter. A letter from the Company dated 4 December 2013 explaining the amendments to the Scheme, the Explanatory Statement and the Account Holder Letter from the versions uploaded to the Scheme Website on or around 18 November 2013 \(the **Amendment Letter**\) is being sent to Scheme Creditors via the Clearing Systems \(as defined in the Explanatory Statement\) on the date of this notice and is also](#) available to download from the Scheme Website. If a hard copy is required, please send your request to the Information Agent (marked for the attention of Sunjeev Patel / ~~David Shilson~~ / Yves Theis). By the order referred to above, the Court has appointed Niall Booker or, failing him, Alistair Asher or, failing him, Mark Sterling or another partner of Allen & Overy LLP to act as chairman of the Scheme Meeting and has directed the chairman to report the result of the Scheme Meeting to the Court.

[Any Scheme Creditor on whose behalf a valid account holder letter for the purposes of the version of the Explanatory Statement which was uploaded to the Scheme Website on or around 18 November 2013 which includes a valid election to participate in the Additional New Ordinary Shares Offer and/or the Sub-purchasing Offer \(as each such term was defined in that version of this Explanatory Statement\) \(any such account holder letter, an **Old Account Holder Letter**\) has been delivered to and received by the Information Agent on or before the date of this notice should read carefully the changes to the Additional New Ordinary Shares Offer \(as defined in the Explanatory Statement\) described in the Amendment Letter \(including the blackline of changed pages to the Explanatory Statement from the version uploaded to the Scheme Website on or around 18 November 2013.](#)

[Any Old Account Holder Letter delivered to the Information Agent will have no effect. However, if a valid Account Holder Letter is delivered to and received by the Information Agent before 4.30 pm \(London time\) on 13 December 2013 in respect of a Scheme Creditor on whose behalf an Old Account Holder Letter has, prior to the delivery of that Account Holder Letter, been delivered to and received by the Information Agent \(and not revoked\), that Account Holder Letter will be deemed to have been received by the Information Agent on the date and at the time that the Old Account Holder Letter was received by the Information Agent.](#)

The Scheme will be subject to the subsequent approval of the Court.

Appendix 4 (Notice of Scheme Meeting)

For further information in this regard, please contact the Information Agent using the following contact details:

Lucid Issuer Services Limited
Leroy House
436 Essex Road
London
N1 3QP
Attention: Sunjeeve Patel / ~~David Shilson~~ / Yves Theis
Telephone: +44 20 7704 0880
Email: co-op@lucid-is.com
Facsimile: +44 20 7067 9098

Dated ~~18 November~~ 4 December 2013

The Co-operative Bank p.l.c.

APPENDIX 5

NOTICE OF DIRECTOR NOMINATION RESOLUTION

THE CO-OPERATIVE BANK P.L.C. (REGISTERED NUMBER 990937)

€34,980,000 Floating Rate Callable Step-up Dated Subordinated Notes due 2016 (ISIN: XS0254625998)

£37,775,000 5.875% Subordinated Callable Notes due 2019 (ISIN: XS0189539942)

£275,000,000 9.25% Subordinated Notes due April 2021 (ISIN: XS0620315902)

£8,747,000 Fixed/Floating Rate Subordinated Notes due November 2021 (ISIN: XS0274155984)

£235,402,000 7.875% Subordinated Notes due 2022 (ISIN: XS0864253868)

£200,000,000 5.75% Dated Callable Step-up Subordinated Notes due 2024 (ISIN: XS0188218183) and

£150,000,000 5.875% Subordinated Notes due 2033 (ISIN: XS0145065602)

issued by The Co-operative Bank p.l.c. (the **Company**)

Reference is made to the notice dated ~~18 November~~ 4 December 2013 (the **Scheme Meeting Convening Notice**) of the convening of a meeting of a single class of Scheme Creditors that has been ordered by the Court for the purposes of considering and, if thought fit, approving the scheme of arrangement proposed to be made between the Company and the Scheme Creditors referred to in the Scheme Meeting Convening Notice (the **Scheme**). Capitalised terms used in this notice have the meanings given to those terms in the Explanatory Statement (as defined in the Scheme Meeting Convening Notice).

NOTICE IS HEREBY GIVEN THAT, at the Scheme Meeting, although not a term of the Scheme, the Scheme Creditors may be asked to consider and, if thought fit, approve the nomination for appointment to the board of up to two persons (the **Nominated Directors**). In the event that the Modified Scheme Purchasers notify the Company of a person or persons to be designated as the Nominated Directors at least 7 Business Days prior to the Scheme Meeting the Company will notify the Noteholders of the Nominated Directors no later than 5 Business Days prior to the Scheme Meeting by the issue of an announcement to each Noteholder through the relevant Clearing System and on the Scheme Website at <http://www.cooperative.coop/Bondholders>.

The Company has agreed to procure the appointment of each Nominated Director, if its appointment is approved by a separate resolution of the Noteholders. A majority in number representing at least 75 per cent. in value of the Noteholders present and voting in person or by proxy will be required to approve the appointment of each Nominated Director. If a Nominated Director or Nominated Directors are notified in accordance with the preceding paragraph the vote on these separate resolutions will take place at the Scheme Meeting following and independently of the vote in respect of the Scheme.

Noteholders are requested to refer to pages 62 to 63 of the Explanatory Statement for more information and instructions on how to vote on the resolutions or to contact the Information Agent on the contact details in the Scheme Meeting Convening Notice.

The Scheme may be approved by the requisite majorities of Scheme Creditors at the Scheme Meeting and be sanctioned by the Court at the Scheme Sanction Hearing and become effective in accordance with its terms, irrespective of whether either resolution to appoint the Nominated Directors is passed.

Dated ~~18 November~~ 4 December 2013

The Co-operative Bank p.l.c.

APPENDIX 6

ILLUSTRATIVE ADDITIONAL NEW ORDINARY SHARES ALLOCATION MODEL

The information set out in this Appendix is illustrative only and is being provided by way of an example to assist Noteholders when reviewing the descriptions of the calculation methodology to be used to allocate the Additional New Ordinary Shares to Subscribing Noteholders as set out in paragraph 2.30 of Part B of this Explanatory Statement.

The illustrative allocation model set out below has been prepared on the basis of the following assumptions:

- (a) Seven (7) Noteholders wish to participate in the Additional New Ordinary Shares Offer i.e there are seven (7) Subscribing Noteholders.
- (b) Two (2) Subscribing Noteholders (Subscribing Noteholders #2 and #4) have made the Minimum Election (~~50,000~~ 26,667 Additional New Ordinary Shares).
- (c) The Subscription Amounts for the remaining five (5) Subscribing Noteholders range from ~~8,000,000~~ 4,250,000 (Subscribing Noteholder #6) to ~~21,500,000~~ 11,500,000 Additional New Ordinary Shares (Subscribing Noteholder #5).
- (d) The Total Subscription Amount is ~~63,100,000~~ 33,678,334 Additional New Ordinary Shares i.e. the Additional New Ordinary Shares Offer is oversubscribed.
- (e) The Scheme Consideration Calculation Amounts of the Subscribing Noteholders range from £2,002,520.55 (Subscribing Noteholder #4) to £75,279,696.13 (Subscribing Noteholder #3).
- (f) The aggregate Scheme Consideration Calculation Amounts of all Subscribing Noteholders is £210,892, ~~323~~ 66,9336.

Appendix 6 (Illustrative Additional New Ordinary Shares Allocation Model)

Additional New Ordinary Shares		33,333,334						
Subscribing Noteholder	1	2	3	4	5	6	7	Total
Nominal								
Face Value	€10,000,000	£5,000,000	£75,000,000	£2,000,000	£5,000,000	£50,000,000	£60,000,000	
Face Value (£)	£8,564,400	£5,000,000	£75,000,000	£2,000,000	£5,000,000	£50,000,000	£60,000,000	£205,564,400
Scheme Consideration Calculation Amount	£8,569,618.10	£5,202,808.22	£75,279,696.13	£2,002,520.55	£5,286,369.86	£53,840,410.96	£60,710,842.54	£210,892,266.36
Subscription for Shares								
Subscription Amount	4,250,000	26,667	7,500,000	26,667	11,500,000	4,250,000	6,125,000	33,678,334
Round #1 Allocation								
Min. Election?	NO	YES	NO	YES	NO	NO	NO	
Total First Round Allocation	0	26,667	0	26,667	0	0	0	53,334
Unallocated Subscription Amount	4,250,000	0	7,500,000	0	11,500,000	4,250,000	6,125,000	33,625,000
Remaining Additional New Ordinary Shares								33,280,000
Round #2 Allocation								
Remaining Subscription Amount	4,250,000	0	7,500,000	0	11,500,000	4,250,000	6,125,000	33,625,000
Scheme Consideration Calculation Amount	£8,569,618.10	£0.00	£75,279,696.13	£0.00	£5,286,369.86	£53,840,410.96	£60,710,842.54	£203,686,937.59
Allocation Ratio	0.042	0.000	0.370	0.000	0.026	0.264	0.298	
Multiple Lowest Bidders?	1	0	0	0	0	1	0	YES
Total Second Round Allocation	16,078,433	16,078,433	16,078,433	16,078,433	16,078,433	16,078,433	16,078,433	
Pro-forma Share Allocation	676,459	0	5,942,352	0	417,290	4,250,000	4,792,330	16,078,431
Shares Allocated	676,459	0	5,942,352	0	417,290	4,250,000	4,792,330	16,078,431
Excess to Pro-forma Share Allocation	0	0	0	0	0	0	0	0
Unallocated Subscription Amount	3,573,541	0	1,557,648	0	11,082,710	0	1,332,670	17,546,569
Remaining Additional New Ordinary Shares								17,201,569
Round #3 Allocation								
Remaining Subscription Amount	3,573,541	0	1,557,648	0	11,082,710	0	1,332,670	17,546,569
Scheme Consideration Calculation Amount	£8,569,618.10	£0.00	£75,279,696.13	£0.00	£5,286,369.86	£0.00	£60,710,842.54	£149,846,526.63
Allocation Ratio	0.057	0.000	0.502	0.000	0.035	0.000	0.405	
Multiple Lowest Bidders?	0	0	0	0	0	0	1	NO
Total Third Round Allocation	3,289,296	3,289,296	3,289,296	3,289,296	3,289,296	3,289,296	3,289,296	
Pro-forma Share Allocation	188,112	0	1,652,472	0	116,041	0	1,332,670	3,289,295
Shares Allocated	188,112	0	1,557,648	0	116,041	0	1,332,670	3,194,471
Excess to Pro-forma Share Allocation	0	0	94,824	0	0	0	0	94,824
Unallocated Subscription Amount	3,385,429	0	0	0	10,966,669	0	0	14,352,098
Remaining Additional New Ordinary Shares								14,007,098
Round #4 Allocation								
Remaining Subscription Amount	3,385,429	0	0	0	10,966,669	0	0	14,352,098
Scheme Consideration Calculation Amount	£8,569,618.10	£0.00	£0.00	£0.00	£5,286,369.86	£0.00	£0.00	£13,855,987.96
Allocation Ratio	0.618	0.000	0.000	0.000	0.382	0.000	0.000	
Multiple Lowest Bidders?	1	0	0	0	0	0	0	NO
Total Fourth Round Allocation	5,473,810	5,473,810	5,473,810	5,473,810	5,473,810	5,473,810	5,473,810	
Pro-forma Share Allocation	3,385,429	0	0	0	2,088,381	0	0	5,473,810
Shares Allocated	3,385,429	0	0	0	2,088,381	0	0	5,473,810
Excess to Pro-forma Share Allocation	0	0	0	0	0	0	0	0
Unallocated Subscription Amount	0	0	0	0	8,878,288	0	0	8,878,288
Remaining Additional New Ordinary Shares								8,533,288
Round #5 Allocation								
Remaining Subscription Amount	0	0	0	0	8,878,288	0	0	8,878,288
Scheme Consideration Calculation Amount	£0.00	£0.00	£0.00	£0.00	£5,286,369.86	£0.00	£0.00	£5,286,369.86
Allocation Ratio	0.000	0.000	0.000	0.000	1.000	0.000	0.000	
Multiple Lowest Bidders?	0	0	0	0	1	0	0	NO
Total Fifth Round Allocation	8,533,288	8,533,288	8,533,288	8,533,288	8,533,288	8,533,288	8,533,288	
Pro-forma Share Allocation	0	0	0	0	8,533,288	0	0	8,533,288
Shares Allocated	0	0	0	0	8,533,288	0	0	8,533,288
Excess to Pro-forma Share Allocation	0	0	0	0	0	0	0	0
Unallocated Subscription Amount	0	0	0	0	345,000	0	0	345,000
Remaining Additional New Ordinary Shares								0
Total Additional New Ordinary Shares Issued								
Total Allocation Amount	4,250,000	26,667	7,500,000	26,667	11,155,000	4,250,000	6,125,000	33,333,334
Subscription Price	£15,937,500.00	£100,001.25	£28,125,000.00	£100,001.25	£41,831,250.00	£15,937,500.00	£22,968,750.00	£125,000,002.50

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

THIS DOCUMENT COMPRISES AN EXPLANATORY STATEMENT IN COMPLIANCE WITH SECTION 897 OF THE COMPANIES ACT 2006 (the **Explanatory Statement**). It is being sent to persons who are believed to be Scheme Creditors at the date of this Explanatory Statement. If you have assigned, sold, or otherwise transferred, or assign, sell or otherwise transfer, your interests as a Scheme Creditor before the Record Date you must forward this Explanatory Statement and the accompanying documents at once to the person or persons to whom you have assigned, sold or otherwise transferred, or assign, sell or otherwise transfer, your interests as a Scheme Creditor.

If you are in any doubt as to the contents of this Explanatory Statement or the documents that accompany it or what action you should take, you are recommended to seek your own independent financial, legal and tax advice immediately from your financial, legal and/or tax adviser who, if you are taking advice in the United Kingdom, is authorised pursuant to the Financial Services and Markets Act 2000 (**FSMA**) or by an appropriate regulatory body, or from another appropriately authorised independent adviser if you are in a territory outside the United Kingdom.

This Explanatory Statement is accompanied by an Account Holder Letter. It is important that you read the Account Holder Letter carefully for information about the Scheme and that you complete and return it in accordance with the instructions contained in it.

Further copies of this Explanatory Statement can be obtained by contacting the Information Agent at via email to co-op@lucid-is.com or telephone on + 44 20 7704 0880.

Application has been made to the Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for the Bank T2 Notes referred to in this Explanatory Statement to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc. (the **London Stock Exchange**) for the Bank T2 Notes to be admitted to trading on the London Stock Exchange's regulated market. The London Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

A document comprising a prospectus relating to the Company has been prepared in accordance with Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the **Prospectus Directive**), and a copy of that prospectus (referred to in this Explanatory Statement as the Bank T2 Notes Prospectus) is appended to this Explanatory Statement at Appendix 9 (*Bank T2 Notes Prospectus*).

EXPLANATORY STATEMENT IN RELATION TO A SCHEME OF ARRANGEMENT

under Part 26 of the Companies Act 2006

between

THE CO-OPERATIVE BANK P.L.C.

and the

Scheme Creditors

(as defined in this Explanatory Statement)

DATE: 18 November 2013 [\(as amended on 4 December 2013\)](#)

VOLUME 2 OF 2

IMPORTANT NOTICE

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APPENDIX 9

BANK T2 NOTES PROSPECTUS

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PROSPECTUS DATED 4 NOVEMBER 2013

PART (B)

SUPPLEMENTARY PROSPECTUS DATED 4 DECEMBER 2013

SCHEDULE 2
MODIFIED ACCOUNT HOLDER LETTER

FORM OF ACCOUNT HOLDER LETTER

For use by Account Holders in Euroclear and Clearstream, Luxembourg in respect of

€34,980,000 Floating Rate Callable Step-up Dated Subordinated Notes due 2016 (ISIN: XS0254625998)
(the **2016 Notes**)

£37,775,000 5.875% Subordinated Callable Notes due 2019 (ISIN: XS0189539942) (the **2019 Notes**)

£275,000,000 9.25% Subordinated Notes due April 2021 (ISIN: XS0620315902) (the **April 2021 Notes**)

£8,747,000 Fixed/Floating Rate Subordinated Notes due November 2021 (ISIN: XS0274155984)
(the **November 2021 Notes**)

£235,402,000 7.875% Subordinated Notes due 2022 (ISIN: XS0864253868) (the **2022 Notes**)

£200,000,000 5.75% Dated Callable Step-up Subordinated Notes due 2024 (ISIN: XS0188218183)
(the **2024 Notes**)

and

£150,000,000 5.875% Subordinated Notes due 2033 (ISIN: XS0145065602) (the **2033 Notes**)

issued by

THE CO-OPERATIVE BANK P.L.C.
(the **Company**)

in relation to

The Company's scheme of arrangement under
Part 26 of the Companies Act 2006 (the **Scheme**)

The Scheme will, if implemented, materially affect certain creditors of the Company, including the holders of the 2016 Notes, the 2019 Notes, the April 2021 Notes, the November 2021 Notes, the 2022 Notes, the 2024 Notes and the 2033 Notes (together, the Dated Notes).

Persons who are account holders with Euroclear and Clearstream, Luxembourg (together, **Account Holders**) must use this Account Holder Letter to register details of their interests in the Dated Notes and to make certain elections in relation to the voting in respect of the Scheme.

DEADLINE FOR RECEIPT OF BLOCKING INSTRUCTIONS AND ACCOUNT HOLDER LETTER

THIS ACCOUNT HOLDER LETTER HAS 6 PARTS.

IN ALL CASES PART 1 OF THIS ACCOUNT HOLDER LETTER MUST BE COMPLETED AND, IN ADDITION:

IN ORDER TO VOTE AND/OR LOCK-UP

Part 2 of this Account Holder Letter: In order to vote and/or lock-up in respect of the Scheme, Part 2 (*Voting and Lock-up*) of this Account Holder Letter must be delivered by post, facsimile or email to the Information Agent using the contact details set out below and must be received by the Information Agent by

no later than 4.30 p.m. (London time) on 13 December 2013 (the **Voting Instruction Deadline**). Account Holder Letters received after the Voting Instruction Deadline will not constitute valid voting instructions for the purposes of the Scheme. The Dated Notes identified in this Account Holder Letter must be blocked by no later than the Business Day preceeding the Voting Instruction Deadline.

IN ORDER TO ELECT TO PARTICIPATE IN THE ADDITIONAL NEW ORDINARY SHARES SUBSCRIPTION AND/OR THE SUB-PURCHASING OFFER

Part 3 of this Account Holder Letter: In order to elect to subscribe for any Additional New Ordinary Shares or participate in the Sub-purchasing Offer in accordance with the Scheme, Part 3 Section 1 (*Election to Subscribe*) (in respect of the Additional New Ordinary Shares Offer) and/or Part 3 Section 2 (*Election to Sub-purchase*) (in respect of the Sub-purchasing Offer in respect of the Additional New Ordinary Shares Offer) of this Account Holder Letter must be delivered by post, facsimile or email to the Information Agent using the contact details set out below and must be received by the Information Agent by no later than the Voting Instruction Deadline. Such delivery will constitute an irrevocable offer by the relevant Noteholder to subscribe for Additional New Ordinary Shares pursuant to the Additional New Ordinary Shares Offer (if Part 3 Section 1 (*Election to Subscribe*) is completed) and/or the Sub-purchasing Offer (if Part 3 Section 2 (*Election to Sub-purchase*) is completed)..

If Part 3 Section 1 (*Election to Subscribe*) and/or Part 3 Section 2 (*Election to Sub-purchase*) are completed, Part 4 (*Scheme Consideration, Eligibility And Delivery Of The Additional New Ordinary Shares*) must also be completed so as to confirm that the Account Holder and Noteholder (or if the Noteholder has appointed a Designated Recipient, its Designated Recipient), are Eligible Persons.

IN ORDER TO RECEIVE SCHEME CONSIDERATION AND ADDITIONAL NEW ORDINARY SHARES

Part 4 of this Account Holder Letter: In order to receive Scheme Consideration and (if applicable) Additional New Ordinary Shares pursuant to the terms of the Scheme on the Scheme Settlement Date, and to participate in the Sub-purchasing Offer, Part 4 (*Scheme Consideration, Eligibility And Delivery Of The Additional New Ordinary Shares*) of this Account Holder Letter must be delivered by post, facsimile or email to the Information Agent using the contact details set out below and must be received by the Information Agent by no later than the Voting Instruction Deadline.

IN ORDER TO VOTE FOR OR AGAINST THE APPOINTMENT OF THE NOMINATED DIRECTORS

Part 5 of this Account Holder Letter: In order to vote for or against the appointment of one or both of the Nominated Directors, Part 5 (*Director Nominations*) must be delivered by post, facsimile or email to the Information Agent by no later than the Voting Instruction Deadline.

IN ALL CASES PART 6 OF THIS ACCOUNT HOLDER LETTER SHOULD BE COMPLETED.

Part 6 of this Account Holder Letter: In order to be valid, this Account Holder Letter must be signed by the Account Holder.

A separate Account Holder Letter must be completed in respect of each separate beneficial holding of/interest in the Dated Notes.

Capitalised terms used in this Account Holder Letter but not defined in it have the same meaning as given to them in the explanatory statement relating to the Scheme dated 18 November 2013 (as amended on 4 December 2013) (the **Explanatory Statement**), subject to any amendments or modifications made by the Court.

You are strongly advised to read the Explanatory Statement and the Scheme and, in particular, Appendix 2 (*Instructions and guidance for Scheme Creditors and any person with an interest in the Dated Notes*) to the Explanatory Statement, before you complete the Account Holder Letter. Appendix 2 (*Instructions and guidance for Scheme Creditors and any person with an interest in the Dated Notes*) to the Explanatory Statement contains detailed information on the various options contained in this Account Holder Letter. All relevant documentation can be found at the Scheme Website www.co-operative.coop/Bondholders.

This Account Holder Letter and any non-contractual obligations arising out of or in relation to this Account Holder Letter shall be governed by, and interpreted in accordance with, English law.

FOR ASSISTANCE CONTACT THE INFORMATION AGENT:

Lucid Issuer Services Limited

Leroy House
436 Essex Road
London
N1 3QP

Attention: Sunjeeve Patel / Yves Theis

Telephone: +44 20 7704 0880
Email: co-op@lucid-is.com
Facsimile: +44 20 7067 9098

PART 1: NOTEHOLDER AND HOLDING DETAILS

SECTION 1: NOTEHOLDER DETAILS

If you are not the Noteholder (that is, the person that is the beneficial owner of and/or the holder of the ultimate economic interest in the relevant Dated Notes, held in global form through the Clearing Systems with a claim in respect of any amount outstanding under the Dated Notes as at the Record Date (being 4.30 p.m. (London time) on 13 December 2013) (unless the Company, in its sole discretion, elects to recognise a transfer of Dated Notes after the Record Date)), please identify the Noteholder on whose behalf you are submitting this Account Holder Letter. If such Noteholder does not wish to provide details of its identity, please identify a person with full legal right and authority to act on behalf of that Noteholder as its representative.

To be completed for all Noteholders:

Full Name of Noteholder _____

Country¹ _____

E-mail Address _____

Telephone Number (with country code) _____

Passport Number² _____

To be completed if the Noteholder is an institution:

Jurisdiction of
Incorporation of
Noteholder _____

Name of Authorised
Employee of Noteholder _____

Department _____

Passport Number³ _____

To be completed if the Noteholder is an investment fund, managed account, discretionary account or similar over which a manager, adviser or general partner has discretionary authority:

Name of Investment
Manager / Investment
Adviser / General Partner _____

¹ If the Noteholder is an institution, enter the country in which its registered office is located. If the Noteholder is an individual, enter the country in which the individual's home address is located. If a country other than the United Kingdom is entered, the Noteholder should refer to the section(s) entitled "Restrictions" in the Explanatory Statement.

² Required if attending the Scheme Meeting in person or by a duly authorised representative, if a corporation.

³ Required if attending the Scheme Meeting in person by a duly authorised representative.

SECTION 2: HOLDING DETAILS

If this Account Holder Letter is delivered before the Voting Instruction Deadline, the Account Holder on behalf of the relevant Noteholder holds the following Dated Notes to which this Account Holder Letter relates, which have been "blocked" through delivery of Custody Instructions to the relevant Clearing System, the Custody Instruction Reference Number(s) in relation to which is/are identified below.

If this Account Holder Letter is delivered after the Voting Instruction Deadline but before the Scheme Settlement Date, the Account Holder on behalf of the relevant Noteholder held the following Dated Notes to which this Account Holder Letter relates on the Record Date, continues to hold those Dated Notes and those Dated Notes have been "blocked" through delivery of Custody Instructions to the relevant Clearing System, the Custody Instruction Reference Number(s) in relation to which is/are identified below.

If this Account Holder Letter is delivered after the Scheme Settlement Date, the Account Holder on behalf of the relevant Noteholder held the following Notes to which this Account Holder Letter relates, on the Record Date and the relevant Noteholder has not transferred its Dated Notes between the Record Date and the Scheme Settlement Date.

ISIN	Amount blocked at Clearing System	Clearing System	Clearing System Account number	Custody Instruction Reference Number ⁴

⁴ Corresponding to your blocking instruction.

PART 2: VOTING AND LOCK-UP

SECTION 1: ACCOUNT HOLDER CONFIRMATIONS

The Account Holder named below in Part 6 (*Execution of Account Holder Letter by Account Holder*) for itself hereby confirms to the Company, the Co-operative Group and the Information Agent as follows (select "yes" or "no" as appropriate for each item):

- A: That all authority conferred or agreed to be conferred pursuant to this Account Holder Letter and every obligation of the Account Holder under this Account Holder Letter (including any elections made in this Account Holder Letter) shall be binding upon the successors and assigns of the Account Holder (in the case of a corporation or institution) or the successors, assigns, heirs, executors, administrators, trustees in bankruptcy and legal representatives of the Account Holder (in the case of a natural person) and shall not be affected by, and shall survive, the insolvency, bankruptcy, dissolution, death or incapacity (as the case may be) of the Account Holder and that all of the information in this Account Holder Letter is complete and accurate.

☐ Yes

☐ No

- B. That the Account Holder has irrevocably instructed Euroclear and/or Clearstream, Luxembourg, as the case may be, pursuant to Custody Instructions to block the Dated Notes identified in Part 1 Section 2 (*Holding Details*) of this Account Holder Letter on or before the date that this Account Holder Letter is delivered to the Information Agent and that a Custody Instruction Reference Number for each such Custody Instruction appears in this Account Holder Letter under "Custody Instruction Reference Number" in Part 1 Section 2 (*Holding Details*) of the Account Holder Letter.

☐ Yes

☐ No

- C. That, in relation to the Dated Notes identified in Part 1 Section 2 (*Holding Details*) of this Account Holder Letter, the Account Holder has authority to (i) give the voting instructions set out in Part 2 Section 3 (*Voting*) of this Account Holder Letter and to nominate the person named in Part 2 Section 3 (*Voting*) of this Account Holder Letter (if applicable) to attend and speak at the Scheme Meeting, and (ii) make the elections and/or give the confirmations set out in Part 2 Section 2 (*Lock-up*) below on behalf of the Noteholder.

☐ Yes

☐ No

An Account Holder who is unable to confirm "yes" in respect of paragraphs A to C above should contact the Information Agent using the contact details set out in this Account Holder Letter for assistance.

By delivering this Account Holder Letter to the Information Agent, the Account Holder confirms that the Noteholder agrees that both it and the Noteholder shall be deemed to have made the representations, warranties and undertakings set out in paragraph 1 of Schedule 1 (*Representations, Warranties and Undertakings*) to this Account Holder Letter in favour of the Company, the Co-operative Group and the Information Agent as at the date on which this Account Holder Letter is delivered to the Information Agent.

SECTION 2: LOCK-UP

The Account Holder named below in Part 6 (*Execution of Account Holder Letter by Account Holder*) hereby confirms to the Company, the Co-operative Group and the Information Agent that the Noteholder agrees that the Noteholder shall be deemed to have made the representations, warranties and undertakings set out in paragraphs (a) and (b) and the undertakings set out in paragraphs (c), (e) and (f) of this Part 2 Section 2 (*Lock-up*) below (select "yes" or "no" as appropriate):

☐ Yes

☐ No

- (a) The Noteholder which submits, delivers or procures the submission and/or delivery of an Account Holder Letter represents and warrants to the Company, the Co-operative Group and the Information Agent that:
- (i) it is legally entitled and able to control the exercise and the casting of votes in relation to its Dated Notes in order to comply with the undertakings set out in paragraph (b) below; and
 - (ii) it has all requisite power, authority and legal capacity to give and carry out the transactions contemplated by, and to perform its obligations under, the undertakings set out in paragraph (b) below.
- (b) The Noteholder undertakes in favour of the Company that it will (or, as applicable, will procure that a duly authorised representative, proxy or nominee will):
- (i) attend the Scheme Meeting by proxy or in person and exercise and cast all of its votes in respect of its Dated Notes (as set out in Part 1 Section 2 (*Holding Details*) (its **Locked-up Notes**)) in favour of the Scheme and any amendment or modification to the Scheme or adjournment to the Scheme Meeting, provided that they are proposed by the Company and that the terms of the Scheme as amended or modified are and remain consistent in all material respects with the terms of the Scheme without such amendments or modifications and are consistent with and do not include any additional material terms which are likely to adversely affect or conflict with the terms of the Proposed Restructuring or its implementation;
 - (ii) except where Subclause b(i) applies, exercise and cast all of its votes in respect of its Locked-up Notes against any amendment or modification to the Scheme or any proposal to adjourn the Scheme Meeting;
 - (iii) not commence or request or instruct that any Trustee or any other person commence proceedings against the Company or take any other action in connection with any Note Event of Default or Potential Note Event of Default arising as a result of an application for or the making of the Scheme or the Proposed Restructuring;
 - (iv) not commence, take, support or actively assist (or request, instruct or procure that any other person commence, take, support, or actively assist) any judicial, arbitration, regulatory proceedings or any other action inconsistent with the terms of the undertakings set out in this paragraph (b) or the Scheme, that would reasonably be expected to impede, prevent or frustrate the implementation of the Scheme or the Proposed Restructuring;
 - (v) promptly notify the Company, by sending an additional Account Holder Letter (with Part 2 Section 2 (*Lock-up*) duly completed to provide the undertakings set out in paragraph (b) of

Part 2 Section 2 (*Lock-up*) of that Account Holder Letter) to the Company and/or the Information Agent, of any change (whether an increase or decrease) to the aggregate principal amount of its Dated Notes and upon actual receipt of a request in writing from the Company (or an agent acting on its behalf) provide such other information in relation to any Scheme Claim (to the extent such information cannot be obtained from this Account Holder Letter or any additional Account Holder Letter delivered by or on behalf of the Noteholder) as the Company (or an agent acting on its behalf) may reasonably require in order to enable it to calculate any Scheme Consideration; and

- (vi) promptly provide to the Company (or an agent acting on its behalf), upon actual receipt of a request in writing from the Company (or an agent acting on its behalf), written confirmation of the aggregate principal amount of its Locked-up Notes.
- (c) From the date of this Account Holder Letter until the date on which the undertakings set out in paragraph (b) above are terminated in accordance with paragraph (d) below, the Account Holder named below hereby confirms to the Company, the Co-operative Group and the Information Agent that the Noteholder undertakes not to sell, transfer, assign or otherwise dispose of its interest in all or any part of its Locked-up Notes to any person unless that person has entered into a Lock-Up Arrangement with the Company.
- (d) Subject to paragraph (e) below, the undertakings set out in paragraph (b) above will terminate immediately upon the occurrence of any of the following events:
 - (i) at a Scheme Meeting at which a vote takes place, the Scheme is not approved by the requisite majorities of the Scheme Creditors specified in section 899(1) of the Companies Act;
 - (ii) on the earlier of the Scheme Settlement Date and the Longstop Date;
 - (iii) the Company gives the Noteholder or any other Noteholder written notice of an intention either:
 - (A) not to proceed with the Scheme; or
 - (B) to proceed with a proposed scheme of arrangement on terms which are different to the Scheme in any material respect;
 - (iv) the Noteholder sells, transfers, assigns or otherwise disposes of all of its Locked-up Notes in the manner permitted by paragraph (c) above; and
 - (v) if:
 - (A) the 5.5555% Bondholders vote against the proposals (to the extent related to the 5.5555% Bonds) contemplated in the relevant Proposed Restructuring Documents at the 5.5555% Bondholders Meeting;
 - (B) the 13% Bondholders vote against the proposals (to the extent related to the 13% Bonds) contemplated in the relevant Proposed Restructuring Documents at the 13% Bondholders Meeting; or
 - (C) the Preference Shareholders vote against the proposals (to the extent related to the Preference Shares) contemplated in the relevant Proposed Restructuring Documents at the Preference Shareholders Meeting.

- (e) The Account Holder named below confirms that the Noteholder agrees and acknowledges to the Company that damages are not an adequate remedy for a breach of any of the undertakings set out in paragraph (b) and (c) above by it and specific performance and/or relief to compel performance are appropriate remedies for any such breach and any such remedies shall not be exclusive but shall be cumulative and in addition to any other remedies available to the Company.
- (f) No undertaking set out in paragraph (b) above will prevent the Noteholder from buying Dated Notes (including Dated Notes which are not subject to a Lock-Up Arrangement) provided that the Account Holder named below confirms that the Noteholder undertakes to the Company that it will deliver an additional Account Holder Letter which will include the undertakings set out in paragraph (b) above in respect of such Dated Notes unless and to the extent that such Dated Notes are (i) held in custody for a third party; or (ii) (unless and to the extent that the Noteholder agrees otherwise) held or otherwise acquired by one or more of the Noteholder's proprietary trading desks when acting as a market maker.

SECTION 3: VOTING

A. Attendance at the Scheme Meeting

The Noteholder wishes:

Tick only ONE of the boxes below.

☐

to appoint the Chairman as its proxy to attend and vote on its behalf at the Scheme Meeting *(please now only complete paragraph B (Appointment of proxy and voting instructions to proxy) below)*.

☐

to appoint a proxy (other than the Chairman) to attend and vote on its behalf at the Scheme Meeting *(please now only complete paragraph B (Appointment of proxy and voting instructions to proxy) below)*.

☐

to attend and vote at the Scheme Meeting in person or by a duly authorised representative, if a corporation *(please now complete only paragraph C (Indication of voting intention) below)*.

Section 3 (Voting) is continued on the next page.

B. Appointment of proxy and voting instructions to proxy

The Noteholder wishes to appoint (and the Account Holder is hereby authorised to appoint on its behalf):

Tick only ONE of the boxes below.

☐

Chairman; or (tick box if appropriate)

☐

the following individual (tick box if appropriate and fill in the details immediately below)

(Name):

(Address):

(Passport number):

or failing him:

(Name):

("Alternate 1")

(Address):

(Passport number):

or failing Alternate 1:

the Chairman

as its proxy and wishes its proxy to vote:

Tick only ONE of the boxes below.

☐

FOR the Scheme

☐

AGAINST the Scheme

C. Indication of voting intention

The Noteholder wishes to vote (and the Account Holder is hereby authorised to vote on its behalf) at the Scheme Meeting as follows. The Noteholder understands that this expression of intention is not binding and that it may vote as it sees fit at the Scheme Meeting (provided the authorised representative of a Noteholder wishing to attend the Scheme Meeting must bring his or her passport to the Scheme Meeting)

Tick only ONE of the boxes below.

☐

FOR the Scheme

☐

AGAINST the Scheme

PART 3: ADDITIONAL NEW ORDINARY SHARES OFFER

SECTION 1: ELECTION TO SUBSCRIBE

To participate in the Additional New Ordinary Shares Offer, this Part 3 Section 1 (*Election to Subscribe*) must be delivered to the Information Agent no later than the Voting Instruction Deadline. If you do not wish to participate in the Additional New Ordinary Shares Offer, please leave this Part 3 Section 1 (*Election to Subscribe*) blank.

The Account Holder named in Part 6 (*Execution of Account Holder Letter by Account Holder*) for itself hereby confirms to the Company, the Co-operative Group and the Information Agent that, in relation to the Dated Notes identified in Part 1 Section 2 (*Holding Details*) of this Account Holder Letter, the Account Holder has authority to make the elections and/or give the confirmations set out in Part 3 Section 1 (*Election to Subscribe*) below on behalf of the Noteholder. (select "yes" or "no" as appropriate).

Yes ☐

No ☐

Noteholders who wish to elect for Additional New Ordinary Shares pursuant to the Additional New Ordinary Shares Offer (described in Part B paragraphs 2.22 to 2.30 of the Explanatory Statement) and who procure that their Account Holder completes and returns this Part 3 Section 1 (*Election to Subscribe*) of the Account Holder Letter will be allotted Additional New Ordinary Shares in accordance with the terms of the Scheme on the Scheme Settlement Date.

Noteholders wishing to elect to subscribe for all or any of the Additional New Ordinary Shares pursuant to the Additional New Ordinary Shares Offer should ensure that an Account Holder Letter including a duly completed Part 3 Section 1 (*Election to Subscribe*) is received by the Information Agent no later than the Voting Instruction Deadline, after which time any election received will not be valid.

Any allotment of Additional New Ordinary Shares is subject to the eligibility confirmation being provided in Part 4 Section 2 (*Eligibility Confirmation*) in respect of the Noteholder or its Designated Recipient (as applicable) at the same time as this Part 3 (*Additional New Ordinary Shares Offer*) of the Account Holder Letter is delivered to the Information Agent.

Election in respect of Additional New Ordinary Shares

Election of Additional New Ordinary Shares is subject to a minimum number of 26,667 and a maximum number of 33,333,334 Additional New Ordinary Shares. Insert maximum number of Additional New Ordinary Shares elected below.

.....Additional New Ordinary Shares with a subscription price of £3.75 each (insert number of New Ordinary Shares)

Irrespective of the number of Additional New Ordinary Shares elected for above, allotment of Additional New Ordinary Shares will be determined in accordance with Part B paragraphs 2.22 to 2.30 of the Explanatory Statement. To the extent that the number of Additional New Ordinary Shares allocated is less than the number elected for above, the consideration payable for the Additional New Ordinary Shares will be adjusted accordingly.

Allocation Payments for Additional New Ordinary Shares

The delivery and receipt of a valid Account Holder Letter with this Part 3 Section 1 (*Election to Subscribe*) duly completed constitutes an irrevocable offer to the Company by the relevant Noteholder to subscribe for

up to the maximum number of Additional New Ordinary Shares indicated above. The acceptance of this offer will be effected and evidenced by notification by the Company to the relevant Noteholder of the relevant Noteholder's allocation of Additional New Ordinary Shares in accordance with the terms of the Scheme.

The allocation of Additional New Ordinary Shares, the amount to be paid in respect of such allocation and instructions as to payments to be made to the Company in respect of any Additional New Ordinary Shares issued to a Noteholder or its Designated Recipient shall be notified to the Noteholder by the Company or the Information Agent on the date of the Scheme Meeting.

If this Part 3 Section 1 (*Election to Subscribe*) had been completed, Part 4 (*Scheme Consideration, Eligibility and Delivery of The Additional New Ordinary Shares*) must also be completed.

SECTION 2: ELECTION TO SUB-PURCHASE

To participate in the Sub-purchasing Offer, this Part 3 Section 2 (*Election to Sub-purchase*) must be received by the Information Agent no later than the Voting Instruction Deadline. If you do not wish to participate in the Sub-purchasing Offer, please leave this Part 3 Section 2 (*Election to Sub-purchase*) blank.

The Account Holder named below in Part 6 for itself hereby confirms to the Company, the Co-operative Group and the Information Agent that, in relation to the Dated Notes identified in Part 1 Section 2 (*Holding Details*) of this Account Holder Letter, the Account Holder has authority to make the elections and/or give the confirmations set out in this Part 3 Section 2 (*Election to Sub-purchase*) below on behalf of the Noteholder (select "yes" or "no" as appropriate for each item).

Yes ☐

No ☐

Noteholders who wish to elect to participate in the Sub-purchasing Offer (described in Part B paragraphs 2.33 to 2.46 of the Explanatory Statement) and who procure that their Account Holder completes and returns this Part 3 Section 2 (*Election to Sub-purchase*) of the Account Holder Letter will be allocated a Sub-purchasing Commitment in accordance with the terms of the Scheme.

Noteholders wishing to elect to participate in the Sub-purchasing Offer should ensure that (i) an Account Holder Letter including a duly completed Part 3 Section 2 (*Election to Sub-purchase*) is received by the Information Agent no later than the Voting Instruction Deadline, after which time any election received will not be valid.

Any participation in the Sub-purchasing Offer is subject to the eligibility confirmation being provided in Part 4 Section 2 (*Eligibility Confirmation*) in respect of the Noteholder or its Designated Recipient (as applicable) at the same time this Part 3 Section 2 (*Election to Sub-purchase*) of the Account Holder Letter is delivered to the Information Agent.

Election in respect of the Sub-purchase of the Additional New Ordinary Shares Offer

Election to participate in the Sub-purchase of the Additional New Ordinary Shares Offer is subject to a commitment to purchase a minimum number of 26,667 and a maximum number of 33,333,334 Additional New Ordinary Shares. Insert maximum nominated Sub-purchasing Commitment below.

.....Additional New Ordinary Shares with a subscription price of £3.75 each (insert number of Additional New Ordinary Shares)

Irrespective of the above, allotment of the Sub-purchasing Commitment to purchase Additional New Ordinary Shares in accordance with the Sub-purchasing Offer will be determined as set out in Part B paragraphs 2.33 to 2.46 of the Explanatory Statement. The delivery and receipt of a valid Account Holder Letter with this Part 3 Section 2 (*Election to Sub-purchase*) duly completed constitutes an irrevocable offer to the Company by the relevant Noteholder to subscribe for up to the maximum commitment elected above. The acceptance of this offer will be effected and evidenced by the Company to the relevant Sub-purchaser by notification of the Sub-purchasing Commitment on or around the date of the Scheme Meeting.

Allocation Payments for Sub-purchase of Additional New Ordinary Shares Offer

The Company (or the Information Agent on behalf of the Company) will notify each Sub-purchaser of its Sub-purchasing Commitment and the amount by which the number of Additional New Ordinary Shares

subscribed for by the Noteholders in the Additional New Ordinary Shares Offer is less than 33,333,334 (if any) and the amount of Additional New Ordinary Shares required to be purchased by that Noteholder pursuant to its Sub-purchasing Commitment on the date of the Scheme Meeting.

If this Part 3 Section 2 has been completed, Part 4 must now also be completed.

**PART 4: SCHEME CONSIDERATION, ELIGIBILITY AND DELIVERY OF THE ADDITIONAL
NEW ORDINARY SHARES**

**IN ORDER TO RECEIVE SCHEME CONSIDERATION AND ADDITIONAL NEW ORDINARY
SHARES IN ACCORDANCE WITH THE TERMS OF THE SCHEME ON THE SCHEME
SETTLEMENT DATE AND IN ORDER TO PARTICIPATE IN THE SUB-PURCHASING OFFER
THIS PART OF THE ACCOUNT HOLDER LETTER MUST BE DELIVERED BY POST,
FACSIMILE OR EMAIL TO THE INFORMATION AGENT USING THE CONTACT DETAILS
SET OUT ABOVE AND MUST BE RECEIVED BY THE INFORMATION AGENT BY NO LATER
THAN THE VOTING INSTRUCTION DEADLINE.**

SECTION 1: ELIGIBILITY AND DESIGNATED RECIPIENT

Requirement to complete Part 4 Section 2 (*Eligibility Confirmation*)

To be eligible to receive the Scheme Consideration, any Additional New Ordinary Shares pursuant to the Scheme, and to be eligible to participate in the Sub-purchasing Offer the Account Holder for itself and on behalf of the Noteholder (or, if the Noteholder has appointed a Designated Recipient, its Designated Recipient) must provide confirmation to the Company, the Co-operative Group, the Information Agent and the Holding Period Trustee that it and the Noteholder (or, if the Noteholder has appointed a Designated Recipient, its Designated Recipient) is an Eligible Person by confirming that it and the Noteholder (or, if the Noteholder has appointed a Designated Recipient, its Designated Recipient) is an “Eligible Person” in Part 4 Section 2 (*Eligibility Confirmation*) below.

Option to appoint Designated Recipient

If the Noteholder is unable to provide the confirmation in Part 4 Section 2 (*Eligibility Confirmation*) referred to above itself it may nominate a Designated Recipient that is an Eligible Person in order that the Scheme Consideration and/or the Additional New Ordinary Shares can be distributed to that Designated Recipient on behalf of the Noteholder **provided that** the account number of the Account Holder in respect of both the Noteholder **and** the Designated Recipient must be the same as that specified by the Account Holder in Part 6 (*Execution of Account Holder Letter by Account Holder*) below. The details of the Designated Recipient, if applicable, must be completed below.

Is the Noteholder unable to provide the confirmation in Part 4 Section 2 (*Eligibility Confirmation*) below and does it wish to nominate a Designated Recipient?

☐

No (Please now only complete Section 2)

☐

Yes (Please provide details below)

DESIGNATED RECIPIENT

Designated Recipient's Name

Jurisdiction of incorporation _____

Address of Designated Recipient

City _____

State _____

Postal Code _____

Country _____

Contact Name: _____

Telephone no. of Designated Recipient

(with country code)

E-mail of Designated Recipient

SECTION 2: ELIGIBILITY CONFIRMATION

This Part 4 Section 2 (*Eligibility Confirmation*) of this Account Holder Letter should be completed in all cases. If the Account Holder fails to tick one of the boxes below the Noteholder will be deemed an Unadmitted Noteholder and will not receive Scheme Consideration or any Additional New Ordinary Shares to which it would otherwise be entitled under the terms of the Scheme on the Scheme Settlement Date or participate in the Sub-purchasing Offer. For more details please see paragraphs 2.17, 2.24 and 2.36 of Part B (*Overview of the Scheme*) of the Explanatory Statement.

The Account Holder for itself confirms to the Company, Co-operative Group, the Information Agent and the Holding Period Trustee as follows (select “yes” or “no” as appropriate for each item):

- A. That all authority conferred or agreed to be conferred pursuant to this part of the Account Holder Letter and every obligation of the Account Holder under this part of the Account Holder Letter shall be binding upon the successors and assigns of the Account Holder (in the case of a corporation or institution) or the successors, assigns, heirs, executors, administrators, trustees in bankruptcy and legal representatives of the Account Holder (in the case of a natural person) and shall not be affected by, and shall survive, the insolvency, bankruptcy, dissolution, death or incapacity (as the case may be) of the Account Holder and that all of the information in this part of the Account Holder Letter is complete and accurate.

☐ Yes

☐ No

- B. That it has authority to (i) give the confirmation set out in this Part 4 Section 2 (*Eligibility Confirmation*) for itself and for the Noteholder (or, if the Noteholder has appointed a Designated Recipient, its Designated Recipient), (ii) identify the person who is to be the Designated Recipient of the Scheme Consideration and the Additional New Ordinary Shares (if applicable) and (iii) give, on behalf of the Noteholder or its Designated Recipient (as applicable), the confirmation and request set out in Part 4 Section 3 (*Delivery of Bank T2 Notes, New Ordinary Shares and The Additional New Ordinary Shares*).

☐ Yes

☐ No

An Account Holder who is unable to confirm “yes” in respect of paragraphs A and B above should contact the Information Agent or the Holding Period Trustee (as appropriate) using the contact details set out in this Account Holder Letter for assistance.

By ticking the box below marked “Yes”, the Account Holder confirms that it and the Noteholder (or, if the Noteholder has appointed a Designated Recipient, its Designated Recipient) confirm, agree and represent or are deemed to have confirmed, agreed or represented the statements set out in paragraph 2 of Schedule 1 (*Representations, Warranties and Undertakings*) to this Account Holder Letter with or in favour of the Company, the Co-operative Group, the Information Agent and the Holding Period Trustee as at the date on

which this Account Holder Letter is received by the Information Agent or the Holding Period Trustee (as applicable), on the Voting Instruction Deadline (to the extent not already passed), on the Scheme Settlement Date (to the extent not already passed) and, to the extent the Scheme Settlement Date has already occurred, the date on which the Holding Period Trustee transfers the relevant Scheme Consideration to the Noteholder.

If the Account Holder is unable to give the confirmation referred to in the paragraph above, it may only tick the box below marked “No” below and should contact the Information Agent or the Holding Period Trustee using the contact details set out in this Account Holder Letter for assistance.

Eligible Person

☐

Yes

☐

No

SECTION 3: DELIVERY OF BANK T2 NOTES, NEW ORDINARY SHARES AND ADDITIONAL NEW ORDINARY SHARES

The Account Holder named below in Part 6 (*Execution of Account Holder Letter by Account Holder*) of this Account Holder Letter confirms, acknowledges and agrees to the Company, Information Agent and Holding Period Trustee that, subject to the eligibility confirmation set out in Part 4 Section 2 (*Eligibility Confirmation*) above having been provided, any Bank T2 Notes, New Ordinary Shares and Additional New Ordinary Shares to be delivered to the Account Holder (on behalf of the Noteholder or its Designated Recipient) as Scheme Consideration or in connection with the Additional New Ordinary Shares Offer or any Sub-purchase Commitment and any Sub-purchaser Premium payable to the Noteholder in connection with the Sub-purchasing Offer shall be delivered to the clearing system account referred to in Part 6 (*Execution of Account Holder Letter by Account Holder*) of this Account Holder Letter.

PART 5: DIRECTOR NOMINATIONS

The Account Holder named in Part 6 (*Execution of Account Holder Letter by Account Holder*) below for itself hereby confirms to the Company, the Co-operative Group and the Information Agent that, in relation to the Dated Notes identified in Part 1 Section 2 (*Holding Details*) of this Account Holder Letter, the Account Holder has authority to make the elections and/or give the confirmations set out in this Part 5 (*Director Nominations*) below on behalf of the Noteholder. (select "yes" or "no" as appropriate for each item).

Yes

☐

No

☐

As described in Part B paragraph 6 of the Explanatory Statement, the Company may publish a notice no later than 5 Business Days before the Scheme Meeting setting out details of two directors nominated by the Modified Scheme Purchasers (the **Nominated Directors**). The appointment of such Nominated Directors is subject to Noteholder approval as described in paragraph 6.3 of Part B of the Explanatory Statement. Noteholders who wish to vote for or against the appointment of one or both of the Nominated Directors should procure that their Account Holder completes and returns this Part 5 (*Director Nominations*) of the Account Holder Letter before the Voting Instruction Deadline. Alternatively, Noteholders may attend the Scheme Meeting to vote for or against the nomination of one or both of the Nominated Directors.

A. Attendance at the Director Appointment Meeting

The Noteholder wishes:

Tick only ONE of the boxes below.

☐

to appoint the Chairman as its proxy to attend and vote on its behalf on the appointment of the Nominated Directors at the Scheme Meeting (*please now only complete paragraph B (Appointment of proxy and voting instructions to proxy) below*).

☐

to appoint a proxy (other than the Chairman) to attend and vote on its behalf on the appointment of the Nominated Directors at the Scheme Meeting (*please now only complete paragraph B (Appointment of proxy and voting instructions to proxy) below*).

☐

to attend and vote on the appointment of the Nominated Directors at the Scheme Meeting in person or by a duly authorised representative, if a corporation (*please now complete only paragraph C (Indication of voting intention) below*).

B. Appointment of proxy and voting instructions to proxy

The Noteholder wishes to appoint (and the Account Holder is hereby authorised to appoint on its behalf):

Tick only ONE of the boxes below.

☐

Chairman; or (tick box if appropriate)

☐

the following individual (tick box if appropriate and fill in the details immediately below)

(Name):

(Address):

(Passport number):

or failing him:

(Name):

("Alternate 1")

(Address):

(Passport number):

or failing Alternate 1:

the Chairman

as its proxy and wishes its proxy to vote:

Nominee Director 1

Tick only ONE of the boxes below.

☐

FOR the appointment of Nominee Director 1

☐

AGAINST the appointment of Nominee Director 1

Nominee Director 2

Tick only ONE of the boxes below.

☐

FOR the appointment of Nominee Director 2

☐

AGAINST the appointment of Nominee Director 2

C. Indication of voting intention

The Noteholder wishes to vote as follows. The Noteholder understands that this expression of intention is not binding and that it may vote as it sees fit at the Scheme Meeting.

Nominee Director 1

Tick only ONE of the boxes below.

☐

FOR the appointment of Nominee Director 1

☐

AGAINST the appointment of Nominee Director 1

Nominee Director 2

Tick only ONE of the boxes below.

☐

FOR the appointment of Nominee Director 2

☐

AGAINST the appointment of Nominee Director 2

Please note: If you do not tick any box you will be deemed not to have attended the Scheme Meeting for the purposes of voting on the appointment of the Nominated Directors.

PART 6: EXECUTION OF ACCOUNT HOLDER LETTER BY ACCOUNT HOLDER

Full name of Euroclear or
Clearstream Account Holder

Account Number of Account
Holder or Participant at
Clearing System

Authorised Employee of
Account Holder

(print name)

Department

Telephone no. of Authorised
Employee (with country
code)

E-mail of Authorised
Employee

Authorised Employee
Signature

(sign)

Date

Before returning this Account Holder Letter, please make certain that you have provided all the information requested.

By signing above, the Account Holder confirms that it has obtained all necessary consents, authorisations, approvals and/or permissions required to be obtained by it under the laws and regulations applicable to it in any jurisdiction in order to sign this Account Holder Letter on behalf of the Noteholder.

Before returning this Account Holder Letter or either part of this Account Holder Letter, please make certain that you have provided all the information requested.

Acceptance of Part 2 (*Voting and Lock-up*) of this Account Holder Letter by the Information Agent is subject to receipt by the Information Agent by no later than the Voting Instruction Deadline of valid Custody Instruction Reference Numbers in respect of the Dated Notes which are the subject of this Account Holder Letter. Custody Instructions must be delivered to Euroclear or Clearstream, Luxembourg, as the case may be, in respect of the Dated Notes identified in Part 1 Section 2 (*Holding Details*) of this Account Holder Letter as being held in one of those Clearing Systems prior to the Custody Instruction Deadline. Information in this Account Holder Letter must be consistent with such Custody Instructions and in the event of any ambiguity, the Custody Instructions shall take precedence.

Acceptance of Part 4 (*Scheme Consideration, Eligibility And Delivery Of The Additional New Ordinary Shares*) of this Account Holder Letter by the Information Agent or the Holding Period Trustee (as applicable) is subject to receipt by the Information Agent or the Holding Period Trustee (as applicable) of evidence satisfactory to it that the Noteholder held the Dated Notes to which Part 4 (*Scheme Consideration, Eligibility And Delivery Of The Additional New Ordinary Shares*) of this Account Holder Letter relates on the Record Date and that the Noteholder did not transfer the Dated Notes between the Record Date and the Scheme Settlement Date unless the Company, in its sole discretion, elected to recognise a transfer of Dated Notes after the Record Date.⁵

The Account Holder may complete and submit this Account Holder Letter or either part of this Account Holder Letter on behalf of the Noteholder if the Account Holder has authority to do so.

Facsimile or pdf copies of this Account Holder Letter will be accepted and originals are not required.

⁵ For the purposes of determining priorities in the First Round Exception, if a valid Account Holder Letter is delivered to and received by the Information Agent in respect of a Noteholder (which has validly elected to participate in the Additional New Ordinary Shares Offer and/or the Sub-purchasing Offer) on whose behalf an Old Account Holder Letter has, prior to the delivery of that Account Holder Letter, been delivered to and received by the Information Agent (and not revoked), that Account Holder Letter will be deemed to have been received by the Information Agent on the date and at the time that the Old Account Holder Letter was received by the Information Agent.

SCHEDULE 1

REPRESENTATIONS, WARRANTIES AND UNDERTAKINGS

1. Voting Representations, Warranties and Undertakings

Each Noteholder which submits, delivers or procures the delivery of an Account Holder Letter represents, warrants and undertakes to the Company, the Co-operative Group and the Information Agent that:

- (a) it is lawful to seek voting instructions from that Noteholder in respect of the Scheme;
- (b) it is assuming all of the risks inherent in that Noteholder participating in the Scheme and has undertaken all the appropriate analysis of the implications of participating in the Scheme for that Noteholder without relying on the Company, the Co-operative Group, the Dealer Managers or the Information Agent (other than any representations or warranties given in favour of that Noteholder by the Company or the Co-operative Group (as the case may be) under any of the Bank T2 Notes Prospectus and Group Notes Prospectus and the Explanatory Statement and, if applicable, a Lock-up Agreement to which that Noteholder is a party);
- (c) the Dated Notes which are the subject of the Account Holder Letter are, at the time of delivery of such Account Holder Letter held by it (directly or indirectly) or on its behalf at Euroclear or Clearstream, Luxembourg (and that Noteholder will use all reasonable endeavours to ensure that those Dated Notes will continue to be so held up to and including the Scheme Settlement Date (prior to their transfer in accordance with the terms of the Scheme));
- (d) by instructing the relevant Clearing System, it will be deemed to have authorised the relevant Clearing System to provide details concerning its identity, the Dated Notes which are the subject of the Account Holder Letter delivered on its behalf and its applicable account details to the Company and the Information Agent and their respective legal and financial advisers at the time the Account Holder Letter is submitted;
- (e) neither the Information Agent nor the Dealer Managers nor any of their Affiliates, directors, officers or employees has made any recommendation to that Noteholder as to whether, or how, to vote in relation to the Scheme, and that it has made its own decision with regard to voting based on any legal, tax or financial advice that it has deemed necessary to seek;
- (f) all authority conferred or agreed to be conferred pursuant to these representations, warranties and undertakings shall be binding on the successors and assigns of that Noteholder (in the case of a corporation or institution) or the successors, assigns, heirs, executors, trustees in bankruptcy and legal representatives of that Noteholder (in the case of a natural person) and shall not be affected by, and shall survive, the insolvency, bankruptcy, dissolution, death or incapacity (as the case may be) of that Noteholder; and
- (g) no information has been provided to it by the Company, the Co-operative Group, the Dealer Managers, the Information Agent or any of their respective Affiliates, directors, officers, advisers or employees with regard to the tax consequences to that Noteholder arising from voting in favour of the Scheme, and that it is solely liable for any taxes or similar payments imposed on it under the laws of any applicable jurisdiction as a result of voting in favour of the Scheme, and that it will not and does not have any right of recourse (whether by way of reimbursement, indemnity or otherwise) against the Company, the Co-operative Group, the Dealer Managers, the Information Agent or any of their Affiliates, directors, officers, advisers or employees in respect of such taxes or similar payments.

2. Eligibility

- (a) The Account Holder and Noteholder (or, if the Noteholder has appointed a Designated Recipient, its Designated Recipient) each confirm, agree and represent with or in favour of the Company, the Co-operative Group, the Information Agent and the Holding Period Trustee that the offer to, issue to or subscription by it in respect of any New Ordinary Shares, Bank T2 Notes (and, if applicable, Additional New Ordinary Shares):
 - (i) would not be unlawful or prohibited under the laws or regulations of any applicable jurisdiction; and
 - (ii) would not, or would not be likely to result in the Company being required to comply with any filing, registration, disclosure or other onerous requirement in any jurisdiction where that person is a citizen or subject to the laws of or in which that person is domiciled or resident.