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

PRACTICE STATEMENT LETTER

4 November 2013

To: Scheme Creditors (as defined in paragraph 3 below)

THIS LETTER CONCERNS MATTERS WHICH MAY AFFECT YOUR LEGAL RIGHTS AND ENTITLEMENTS AND YOU MAY THEREFORE WISH TO TAKE APPROPRIATE LEGAL ADVICE ON ITS CONTENTS.

Dear Sir/Madam

Proposed scheme of arrangement in relation to The Co-operative Bank P.L.C. (the **Company**) **under Part 26 of the Companies Act 2006** (the **Scheme**)

PURPOSE OF THIS LETTER

1. This Practice Statement Letter relates to the Scheme and is written pursuant to and in accordance with the procedure and guidance laid down by the High Court of Justice of England and Wales (the **Court**) in its Practice Statement issued on 15 April 2002 (the **Practice Statement**). The purpose of this letter is to inform you of:

   (a) the objective which the Scheme is designed to achieve;

   (b) the Company's intention formally to propose the Scheme with its Noteholders (as defined in paragraph 3 below);

   (c) the Company's intention to apply to the Court to seek an order convening a meeting of the Scheme Creditors of the Company for the purpose of considering and, if thought fit, approving the Scheme; and

   (d) the composition of the meeting of Scheme Creditors that the Company proposes to convene for the purposes of voting on the Scheme.

2. The Company has issued, amongst other securities, the following series of notes (the **Dated Notes**) as set out in the table below. The Dated Notes are unsecured obligations of the Company subordinated to all unsecured unsubordinated obligations of the Company and ranking *pari passu* as between themselves.

Dated Notes	**ISIN**
Floating Rate Callable Step-up Dated Subordinated Notes due 2016	XS0254625998

5.875% Subordinated Callable Notes due 2019	XS0189539942
9.25% Subordinated Notes due 28 April 2021	XS0620315902
Fixed/Floating Rate Subordinated Notes due November 2021	XS0274155984
7.875% Subordinated Notes due 19 December 2022	XS0864253868
5.75% Dated Callable Step-up Subordinated Notes due 2024	XS0188218183
5.875% Subordinated Notes due 2033	XS0145065602

3. The Company is writing to you in your capacity as a holder (directly or indirectly) of any Dated Notes or an interest in any Dated Notes (a **Noteholder** and, together with all other holders of the Dated Notes, the **Noteholders**). As a Noteholder you are also a scheme creditor under the proposed Scheme (a **Scheme Creditor**), and this letter is also addressed to you in that capacity.

4. In the event that you have assigned, sold or otherwise transferred your interests in the Dated Notes or intend to do so, you are requested to forward a copy of this letter to the person or persons to whom you intend to or have assigned, sold or otherwise transferred your interests in the Dated Notes.

5. Capitalised terms not defined in this letter shall have the meanings assigned to them in the CEOM or the 4 November RNS (both terms as defined below).

LIABILITY MANAGEMENT EXERCISE

6. The Scheme is an integral part of a wider liability management exercise (the **Liability Management Exercise**) which is intended to be implemented in order to recapitalise the Company. The Scheme will relate only to the Dated Notes.

7. As set out in more detail in the Company's prospectus dated 4 November 2013 (the **Prospectus**) attaching the consent and exchange offer memorandum dated 4 November 2013 (the **CEOM**) and as summarised in the RNS number 0858S dated 4 November 2013 published by the Company (the **4 November RNS**) (a copy of which is attached to this letter), the Liability Management Exercise will also involve noteholder meetings and shareholder meetings (as applicable) in relation to the following securities:

    (a) the 13% Perpetual Subordinated Bonds (ISIN GB00B3VH4201) issued by the Company (the **13% Bonds**);

    (b) the 5.5555% Perpetual Subordinated Bonds (ISIN GB00B3VMBW45) issued by the Company (the **5.5555% Bonds**); and

    (c) the 9.25% Non-Cumulative Irredeemable Preference Shares (ISIN GB0002224516) issued by the Company (the **Preference Shares**, and together with the Dated Notes, 13% Bonds and 5.5555% Bonds, the **Subordinated Securities**).

    The 13% Bonds, 5.5555% Bonds and the Preference Shares are subordinated to the Dated Notes in the Company's capital structure.

8. The Liability Management Exercise is intended to generate at least £1 billion of common equity tier 1 capital in order for the Company to meet its regulatory capital requirements specified by the Prudential Regulation Authority. The Liability Management Exercise is an integral part of the

comprehensive Recapitalisation Plan described in more detail in the Prospectus and the 4 November RNS.

9. The Liability Management Exercise comprises:

(a) the Scheme between the Noteholders (as Scheme Creditors) and the Company pursuant to which Noteholders will be invited to approve an arrangement and compromise with the Company under which the Company will exchange all outstanding Dated Notes (including those held by Noteholders who do not vote in favour of the Scheme) for a combination of (i) up to 112,500,000 of new ordinary shares in the Company issued at an implied subscription price of approximately £7.77 per share representing in aggregate up to 45 per cent. of the issued ordinary shares of the Company (following the completion of the Liability Management Exercise) and (ii) new 11 per cent. dated tier 2 notes due 2023 to be issued by the Company (the **Bank T2 Notes**) in an aggregate principal amount of up to £100 million;

(b) an exchange offer and consent solicitation in respect of the 13% Bonds, as summarised briefly below:

(i) pursuant to the exchange offer, holders of the 13% Bonds are being invited, at the election of the relevant holder of 13% Bonds, either: (i) to offer to transfer their 13% Bonds to Co-operative Group Limited (**Group**) in exchange for the issue to them of new sterling-denominated 11 per cent. final repayment subordinated notes due 2025 to be issued by Group and guaranteed (on a subordinated basis) by certain subsidiaries of Group (the **Final Repayment Notes**) in an aggregate principal amount of up to £93 million; or (ii) to offer to sell their 13% Bonds to 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 the issue to them of sterling-denominated instalment repayment subordinated notes issued by Group and guaranteed (on a subordinated basis) by certain subsidiaries of Group (the **Instalment Repayment Notes**) in an aggregate principal amount of up to £171,600,000, in each case together with the payment of all accrued and unpaid interest in respect of the 13% Bonds; and

(ii) pursuant to the consent solicitation, a meeting of the holders of the 13% Bonds is being convened in order for those holders to vote on proposed resolutions which, if passed and implemented, would, amongst other things, result in amendments to the terms of the 13% Bonds to enable the Company to mandatorily effect the transfer to Group of all (but not some only) of the 13% Bonds, which are not offered or sold in the exchange offer, either (1) in exchange for Final Repayment Notes, or (2) in return for the cash consideration to be paid over twelve years and represented by the Instalment Repayment Notes, in either case on the same economic terms as those upon which 13% Bonds are exchanged or sold in the exchange offer described in (b)(i) above;

(c) an exchange offer and consent solicitation in respect of the 5.5555% Bonds, as summarised briefly below:

(i) pursuant to the exchange offer, holders of the 5.5555% Bonds are being invited to offer to exchange their 5.5555% Bonds for the issue to them of Bank T2 Notes in an aggregate principal amount of up to £106 million and the payment of all accrued and unpaid interest in respect of the 5.5555% Bonds; and

(ii) pursuant to the consent solicitation, a meeting of the holders of the 5.5555% Bonds is also being convened in order for those holders to vote on a proposed resolution which, if passed and implemented, would, amongst other things, result in amendments to the terms of the 5.5555% Bonds to enable the Company to mandatorily effect the exchange of all (but not some only) of the 5.5555% Bonds, which are not exchanged in the exchange offer, for Bank T2 Notes on the same economic terms as 5.5555% Bonds are exchanged in the exchange offer described in (c)(i) above; and

(d) an exchange offer and consent solicitation in respect of the Preference Shares, as summarised briefly below:

(i) pursuant to the exchange offer, holders of the Preference Shares are being invited, at the election of the relevant holder of Preference Shares, either: (i) to offer to transfer their Preference Shares to Group in exchange for the issue to them by Group of Final Repayment Notes in an aggregate principal amount of up to £36 million; or (ii) to offer to sell their Preference Shares to 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 the issue to them of Instalment Repayment Notes in an aggregate principal amount of up to £66,600,000, in each case effectively together with the payment of all accrued and unpaid dividends in respect of the Preference Shares; and

(ii) pursuant to the consent solicitation, a meeting of the holders of the Preference Shares is being convened in order for those holders to vote on proposed resolutions which, if passed and implemented, would, amongst other things, enable the Company (A) to purchase and cancel any share capital of the Company from time to time, without the need for the further consent of the holders of the Preference Shares; and (B) to mandatorily effect the transfer to Group of all (but not some only) of the Preference Shares, which are not exchanged or sold in the exchange offer, either (1) in exchange for Final Repayment Notes, or (2) in return for the cash consideration to be paid over twelve years and represented by the Instalment Repayment Notes, in either case on the same economic terms as those upon which Preference Shares are exchanged or sold in the exchange offer described in (d)(i) above.

10. The Scheme will also include a right for all Noteholders to elect to subscribe amongst themselves for 62,500,000 of new ordinary shares in the Company for a subscription price of £2 per share, representing in aggregate 25 per cent. of the issued ordinary shares of the Company (following the completion of the Liability Management Exercise) (the **Additional New Ordinary Shares Offer**). Certain Noteholders (the **Purchasers**) have agreed to subscribe for the Additional New Ordinary Shares to the extent that the Noteholders do not elect to subscribe pursuant to the Additional New Ordinary Shares Offer and every Noteholder will have the right to elect to participate in such arrangements by way of sub-purchasing (such participating Noteholders, the **Sub-Purchasers**). Further details of the right to partipate in the Additional New Ordinary Shares Offer and the sub-purchasing (including the allocation of shares and sub-purchasing commitments (as applicable) in connection therewith) and other terms of the Scheme are set out in the CEOM and the 4 November RNS.

11. The Purchasers will, in aggregate, be entitled to a purchase premium of 4 per cent. of the aggregate subscription price for the total amount of the Additional New Ordinary Shares, of which 2 per cent. will be allocated to any Sub-Purchasers in accordance with their allocated sub-purchasing commitments. These purchase premiums are within normal market parameters for purchases and sub-purchasing of this nature.

12. The Purchasers may identify, no later than seven business days prior to the Scheme Meeting (as defined in paragraph 21 below), up to two persons to be nominated as directors at a vote of all the Noteholders. The Company has agreed to notify all Noteholders of such persons at least two business days thereafter and put each proposed nomination (if any) to a separate resolution of the Noteholders. Provided that each nomination is approved by a majority in number, representing at least 75% in value of the Noteholders present and voting in person or by proxy on these separate resolutions, the Company has agreed to procure the appointment as a director of each nominated person as soon as reasonably practicable following the Scheme Meeting (subject to the completion of certain procedural requirements). The vote on these separate resolutions (if any) will take place at the Scheme Meeting but it is independent of the vote in respect of the Scheme. Accordingly, the Scheme may be passed and become effective even if the resolutions to appoint the nominated directors are not passed.

13. Further details of the Liability Management Exercise are set out in the CEOM and the 4 November RNS and the Company recommends that Scheme Creditors carefully review the CEOM and the 4 November RNS in conjunction with this Practice Statement Letter. Additional copies of the CEOM are available on written request to Lucid Issuer Services Limited at co-op@lucid-is.com and/or Lucid Issuer Services Limited, 436 Essex Road, London, N1 3QP, United Kingdom.

14. This Practice Statement Letter relates to the Scheme and therefore relates to the Liability Management Exercise only insofar as the Liability Management Exercise relates to the Dated Notes. It is therefore relevant for Noteholders only in their capacity as Scheme Creditors.

THE OBJECTIVE OF THE SCHEME

15. The objective of the Scheme is to implement the Liability Management Exercise insofar as it relates to the Dated Notes, the reasons for and details of which are set out in the CEOM and the 4 November RNS referred to in paragraph 7 above.

16. The Company believes that there are only two realistic outcomes for the Company following the launch of the Liability Management Exercise, which are either its recapitalisation following successful implementation of the Liability Management Exercise or a failure of the Liability Management Exercise resulting in the Company being subject to a resolution procedure pursuant to one or more of the stabilisation options available to the Bank of England or HM Treasury under the Banking Act 2009. The Company believes that its recapitalisation through the Liability Management Exercise would be substantially more beneficial to Noteholders and holders of the other Subordinated Securities than resolution of the Company.

17. The Company believes that if the Company is resolved and goes into an insolvency proceeding as a result of that resolution, Noteholders and the holders of the other Subordinated Securities would not receive any recovery in respect of their Subordinated Securities in any such insolvency proceedings and would not be entitled to any compensation under the resolution regime arising from their holding of Subordinated Securities. Further, the Company considers that there are fundamental uncertainties as to whether the Company could be successfully resolved such that the Company itself remained a going concern without the active participation of Group and a substantial amount of additional capital.

18. Further details of the Scheme will be set out in the explanatory statement to the Scheme, which will be made available to Scheme Creditors after the Scheme Convening Hearing (provided that the Court gives its permission to convene the Scheme Meeting to vote on the Scheme).

LOCK-UP ARRANGEMENTS

19. In October 2013, the Company entered into confidential discussions with certain Noteholders including the Purchasers in connection with the Liability Management Exercise. As a result of such discussions, as at the date of this Practice Statement Letter, Noteholders which together hold approximately 48 per cent. by value of the principal amount outstanding of the Dated Notes have entered into lock-up agreements with the Company.

20. The Company intends to invite all other Noteholders to enter into or procure the entry into of lock-up agreements or lock-up undertakings (**Lock-Up Arrangements**) in respect of their Dated Notes, pursuant to which, among other things, Noteholders will agree to attend a meeting of Scheme Creditors in person or by proxy and cast all the votes in respect of the Dated Notes subject to the Lock-Up Arrangements in favour of the Scheme.

PROPOSED SCHEME

21. The purpose of this letter is to give notice to the Scheme Creditors that the Company intends to apply to the Court at a court hearing (the **Scheme Convening Hearing**) to be held no earlier than 18 November 2013 for an order giving the Company certain directions in relation to the Scheme including permission to convene a meeting of a single class of Scheme Creditors (the **Scheme Meeting**) for the purpose of considering and, if thought fit, approving the Scheme.

22. The precise date on which the Scheme Convening Hearing will take place will be advised in writing and/or via RNS and published on the Company's website www.co-operative.coop/bondholders (the **LME Website**) to you as soon as it has been finally fixed by the Court.

23. The Company, which is incorporated in England and Wales, considers that the Court has jurisdiction to sanction the Scheme and that the Company has a sufficient connection to England and Wales for the Court to exercise its discretion to sanction the Scheme.

SCHEME CREDITORS WILL BE AFFECTED BY THE SCHEME

24. If and from the date upon which the Scheme becomes effective, all Scheme Creditors (including those who do not vote in favour of the Scheme) will be bound by the terms of the Scheme, along with the Company and various other entities which will be required to undertake to be bound by and/or give effect to the transactions contemplated by the Scheme.

THE SCHEME MEETING AND THE PROPOSED VOTING CLASS

25. Under the provisions of Part 26 of the Companies Act 2006, a scheme of arrangement must be agreed by a majority in number, representing at least 75% in value, of each class of scheme creditors present and voting either in person or by proxy at the relevant class meeting ordered to be summoned by the Court. A scheme of arrangement must then be sanctioned by the Court at a subsequent court hearing and a copy of the order delivered to the Registrar of Companies before it can become effective in accordance with its terms.

26. If the rights of creditors are so different or would be affected so differently by the Scheme as to make it impossible for them to consult together with a view to their common interest, they must be divided into separate classes and a separate meeting must be held for each class of creditor.

27. Under the terms of the Practice Statement it is the responsibility of the Company to formulate the class or classes of creditors for the purpose of convening meetings to consider and, if thought fit, approve the Scheme.

28. The Company has considered the present rights of the Noteholders against the Company, and the rights of the Noteholders as Scheme Creditors under the Scheme and, having received legal advice from Leading Counsel, has concluded that it is appropriate that the Scheme Creditors vote in a single class at the Scheme Meeting.

29. The Company considers that the rights of all the Scheme Creditors, including the rights described in paragraphs 10, 11 and 12 above, are sufficiently similar so as to make it possible for them to consult together with a view to a common interest because:

   (a) as unsecured creditors of the Company, subordinated to all unsecured unsubordinated creditors of the Company, and ranking *pari passu* as between themselves in the Company's capital structure, they have materially the same rights against the Company and, as described in paragraph 17 above, are unlikely to receive any recovery if the Company is subject to a resolution procedure and goes into an insolvency proceeding; and

   (b) if the Scheme becomes effective, those rights will be compromised in materially the same way,

   irrespective of the fact that some Scheme Creditors may hold different series of the Dated Notes.

30. Accordingly, it is proposed that a single meeting of the Scheme Creditors is convened for the purposes of considering and, if the Scheme Creditors think fit, approving the Scheme.

CONDITIONS TO THE EFFECTIVENESS OF THE SCHEME

31. Even if the Scheme Creditors approve the Scheme and the Scheme is sanctioned by the Court, implementation of the Scheme is conditional upon sufficient numbers of holders of all Subordinated Securities participating in the Liability Management Exercise such that, in addition to the exchange of all Dated Notes contemplated by the Scheme, all other Subordinated Securities are exchanged in accordance with the terms of the relevant exchange offers and consent solicitations in respect of the 13% Bonds, 5.5555% Bonds and the Preference Shares. The Scheme is therefore conditional on holders with sufficient holdings of the 13% Bonds, 5.5555% Bonds and/or Preference Shares, participating in the Liability Management Exercise insofar as it relates to the 13% Bonds, 5.5555% Bonds and/or Preference Shares, respectively so that all Subordinated Securities are exchanged pursuant to the Liability Management Exercise.

32. Group has entered into a legally binding and irrevocable commitment to the Company conditional only upon successful completion of the Liability Management Exercise, to contribute £333 million of additional common equity tier 1 capital to the Company in 2014.

SCHEME CREDITOR ISSUES

33. As noted above, the Scheme Convening Hearing is expected to take place on or after 18 November 2013 where the Company will draw any issue raised by Scheme Creditors to the Court's attention. Scheme Creditors have the right to attend in person or through counsel and make representations at the Scheme Convening Hearing, the date of which, as stated above, will be notified to the Scheme Creditors once it is known.

34. This letter is intended to provide Scheme Creditors with sufficient information regarding the Scheme and the Liability Management Exercise insofar as it relates to the Dated Notes so that, should they

wish to raise any issues that relate to the jurisdiction of the Court to sanction the Scheme, or argue that the proposals outlined above for convening the Scheme Meeting are inappropriate, or to raise any other issue in relation to the constitution of the Scheme Meeting or which might otherwise affect the conduct of such Scheme Meetings, they may attend and be represented before the Court at the Scheme Convening Hearing.

35. Scheme Creditors should be aware that the English courts have indicated that issues which may arise as to the constitution of meetings of creditors or which otherwise affect the conduct of those meetings or which affect the jurisdiction of the Court to sanction a scheme of arrangement should be raised at the first court hearing seeking leave to convene the scheme meeting. If they do not do so, it will still be possible for creditors to raise objections on the question of classes (as well as other matters) at a subsequent court hearing to sanction the scheme which, in this case, is anticipated to be held in mid-December 2013. However, in that event, the Court is likely to expect Scheme Creditors to show good reason why they did not object to the constitution of the class of Scheme Creditors or the issues that otherwise affect the conduct of the scheme meeting at an earlier stage.

CONTACT DETAILS AND FURTHER INFORMATION

36. Following the Scheme Convening Hearing, provided the Court gives its permission to convene the Scheme Meeting of Scheme Creditors to vote on the Scheme, the Company will notify you in accordance with the direction of the Court, of the time, date and venue of the Scheme Meeting, set out how you may vote at that meeting and provide further details of the terms of the proposed Scheme.

37. Please send any responses to this letter to Allen & Overy LLP, One Bishops Square, London E1 6AD Ref: ITF/TTTW/NNCL.

38. Further details regarding the Scheme and the Scheme Convening Hearing are available on the LME Website. If you are unable to access the LME Website and would like further details sent to you, or if you have any other queries, please contact Lucid Issuer Services Limited at co-op@lucid-is.com.

Yours faithfully,

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The Co-operative Bank P.L.C.

Regulatory Story

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Company	The Co-operative Bank PLC
TIDM	CPBB
Headline	Co-operative Bank Recapitalisation Plan
Released	07:19 04-Nov-2013
Number	0858S07

RNS Number : 0858S
The Co-operative Bank PLC
04 November 2013

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RNS: The Co-operative Group and the Co-operative Bank
Update on The Co-operative Bank's strategic plan and on the Recapitalisation Plan to generate £1.5 billion of Common Equity Tier 1 for the Co-operative Bank to meet the Prudential Regulation Authority's capital requirement

4 November 2013

The Co-operative Group announces Recapitalisation Plan for The Co-operative Bank

- Comprehensive Plan in place to generate the necessary £1.5bn of Common Equity Tier 1 capital in line with regulatory requirement

- Binding commitments from the LT2 Group of investors; support from other institutional investors; backing for Plan from leading retail investor campaigners; wider investor vote now required

- Group to retain 30% of Bank as largest single shareholder; majority of Bank Board to be independent directors

- Values and Ethics to be legally embedded in Bank constitution; to be upheld by a dedicated Board committee

- Total Co-operative Group contribution of £462m, including £129m Group-funded solution targeted at retail investors; LT2 Group to inject £125m of new capital in addition to equitisation of their existing bonds

- Large number of retail investors offered choice of two options: lower annual payment with future capital sum or existing annual payment maintained for 12 years without future capital sum

- Bank turnaround strategy to focus on retail and small and medium sized business customers

On 17 June 2013, The Co-operative Group Limited ("**The Group**") and the Co-operative Bank p.l.c. (the "**Bank**") announced the outcome of the regulatory review of the Bank's capital position which required the Bank to raise £1.5 billion of further Common Equity Tier 1 capital ("**CET1**"). That announcement included an outline of a plan to raise the capital, including by means of a Liability Management Exercise (the "**LME**") involving investors in the Bank's subordinated capital securities.

Having held extensive and constructive discussions with groups of investors in all classes of the subordinated capital securities, The Group and the Bank are today launching a revised Recapitalisation Plan (the "**Plan**") to generate the required level of CET1. This Plan has the support of these groups of investors.

Specifically, an ad hoc group of holders of 48% of the nominal value of the Bank's lower tier 2 capital securities (the "**LT2 Group**") has signed lock-up agreements to vote in favour of the LME.

The Recapitalisation Plan is also supported by Mark Taber and others who have organised an ad hoc steering committee to campaign on behalf of retail investors. The offering to holders of the Bank's Upper Tier 2 perpetual subordinated bonds and Preference Shares reflects the discussions the Bank and The Group have had with that committee.

Discussions have also been held with a group of institutional investors in the Bank's Upper Tier 2 perpetual subordinated bonds, who have indicated their intention to support the Plan.

The Plan has been discussed in full with the Prudential Regulation Authority and the Financial Conduct Authority, the Bank's regulators.

The Plan now needs to be agreed by a significant majority of all holders of subordinated capital securities for the LME to be successful. In addition to the details of the Plan, the Bank is disclosing further detail on its new strategy.

The subordinated capital securities involved in the LME are as follows (together, the "**Existing Securities**"):

Description of the Securities	ISIN	Outstanding Principal Amount
Preference Shares:		
9.25% Non-Cumulative Irredeemable Preference Shares	GB0002224516	£60,000,000
Perpetual Subordinated Bonds:		
13% Perpetual Subordinated Bonds*	GB00B3VH4201	£110,000,000
5.5555% Perpetual Subordinated Bonds*	GB00B3VMBW45	£200,000,000
Dated Notes:		
Floating Rate Callable Step-up Dated Subordinated Notes due 2016	XS0254625998	€34,980,000
5.875% Subordinated Callable Notes due 2019	XS0189539942	£37,775,000
9.25% Subordinated Notes due 28 April 2021	XS0620315902	£275,000,000
Fixed/Floating Rate Subordinated Notes due November 2021	XS0274155984	£8,747,000
7.875% Subordinated Notes due 19 December 2022	XS0864253868	£235,402,000
5.75% Dated Callable Step-up Subordinated Notes due 2024	XS0188218183	£200,000,000
5.875% Subordinated Notes due 2033	XS0145065602	£150,000,000

* Issued by the Bank in replacement of Britannia Building Society permanent interest bearing shares on its merger with Britannia on 1 August 2009

Summary

- The Bank to be provided, through the combination of the below actions, with additional Common Equity Tier 1 capital of £1.5 billion, which will increase the Bank's Common Equity Tier 1 capital ratio for the year end 2013 towards the upper end of previously announced guidance
  - £1,062 million to be generated in 2013 via the LME to holders of the Bank's subordinated capital securities, including the issue of up to £129 million of Group subordinated Note and up to £206 million of new Bank Tier 2 Notes
  - £373 million in Common Equity Tier 1 capital to be contributed in 2014 via The Group's cash contribution of £333 million, and £40 million in Bank interest savings
  - LT2 Group investors underwriting £125m of new Common Equity Tier 1 capital as part of the LME
  - As a result, Bank's Common Equity Tier 1 capital ratio for the end of 2013 to be towards the upper end of the previously announced guidance of "below 9% but above the regulatory minimum requirement"
- The Group to be the largest single shareholder in the Bank following completion of the Plan, with 30% ownership
  - No other single shareholder expected to have more than 9.9% ownership without regulatory approval
- Co-operative Values and Ethics to be legally embedded in Bank's constitution; Values and Ethics committee established as committee of the Board with independent chairman
- LME structured for different classes of bondholders and preference share holders
  - Lower Tier 2 holders to be offered combination of ordinary shares in the Bank, totalling 45% of the Bank's equity and £100 million in new Bank Tier 2 Notes and the opportunity to subscribe for an additional 25% of the Bank's equity for £125 million
  - Holders of 5.5555% perpetual subordinated bonds to be offered up to £106 million in new Bank Tier 2 Notes
  - Holders of 9.25% Preference Shares and 13% perpetual subordinated bonds - including a large number of retail investors - to be offered a choice between two subordinated Group Notes:
    - Final Repayment Notes of up to £129 million- paying a fixed rate of interest at 11% per annum on their principal amount, with the principal repaid at maturity in year 12; or
    - Instalment Repayment Notes - principal of notes repaid (without interest) in 12 equal instalments over 12 years;
- An independent report by Canaccord Genuity as to the fairness of the offer, from a financial value perspective, to holders of the Preference Shares, 13% perpetual subordinated bonds and 5.5555% perpetual subordinated bonds has been commissioned and will be contained in the relevant prospectuses
- LME now requires the support of the holders of all the Existing Securities, who must vote in a substantial majority in its favour. Further details set out in Annex I.
- The Bank believes that, if the LME does not succeed, the only realistic alternative is resolution of the Bank under the UK Banking Act 2009 and believes that if the Bank were to enter into a bank insolvency or administration procedure following resolution, all holders of the Existing Securities would receive no recovery at all
- Timetable for the Plan is set out in Annex III of this announcement
- Prospectuses for subordinated Group Notes and new Bank Tier 2 Notes to be published today
- Bank strategic plan finalised and details published in Annex II of this announcement
  - Bank will be focused on retail and small and medium sized business customers
  - Separate division focused on management of non-core assets; non-core assets will be managed to achieve the most appropriate asset value or targeted for run down and exit
  - Four to five year turnaround plan to reduce the risk in the Bank, secure substantial long-term cost savings and restore core business to growth, building on the strength of the Bank's brand and customer franchise
  - Intention to seek a Premium listing of the Bank in 2014

Euan Sutherland, Group Chief Executive of The Co-operative Group, said:

"Today we have taken a major step forward towards achieving our plan to secure the future of the Bank, putting in place an agreement with a number of our leading investors on a comprehensive Plan that will raise the necessary £1.5 billion of capital. The financial position of the Bank means that all stakeholders will have to make a contribution but in delivering this agreement we have worked hard to balance the distinct needs of all those affected. The Co-operative Group is making a very significant contribution of £462 million. Key investors have also committed to put in new money and exchange their bonds predominantly for equity in the Bank.

"In addition, through the process, The Co-operative Group has made the interests of retail investors a key priority. A significant proportion of the new funds invested by the Group are targeted at those investors. Whilst retail investors will, like all bondholders, suffer a loss in value, we believe these options secure the best possible outcome for them, in the circumstances.

"As a result, we are offering thousands of retail investors a choice between two alternatives: to take an interest-paying Group bond with a lower annual payment but a final capital payment in 12 years' time or, recognising some investors' need for income, the chance to broadly match their current annual payment for the next 12 years without a final capital sum.

"We have consulted with the campaigners for retail investors and are pleased this Plan has engendered their support.

"On completion of the LME, The Co-operative Group will be the largest single shareholder in the Bank, with a 30% shareholding, and will have significant influence over how the Bank operates. We have enshrined the Values and Ethics that lie at the heart of The Co-operative Group into the new rules that govern the Bank. We have set up a Values and Ethics committee that will be chaired by a senior independent director. The Bank will be what its customers expect of it - a fair, responsible and trusted Bank that delivers great service to retail and small business customers, underpinned by the Values and Ethics of the Co-operative movement.

"Now it is about delivery and ensuring that we build on this Plan. The Co-operative Group's decision to make its significant contribution to the Plan was made balancing our ethical approach to business and our responsibility to the Bank and our other businesses. Our ability to support the financial future and business approach of the Bank was made possible because of our long-term view of the value that will be created in the four to five year transformation plan drawn up by the new management team.

"We are optimistic about the future; there is considerable potential to be realised across the Group and we are now well placed to restore the Co-operative brand to its rightful place at the heart of communities up and down Britain."

Niall Booker, Chief Executive of Co-operative Bank, said:

"Today's announcement marks a major step forward for The Co-operative Bank. We are pleased that, if supported by our bondholders and Preference Share holders, this deal will secure the Bank's recapitalisation. In these difficult circumstances we believe that it is the fairest outcome for our stakeholders, including customers, different classes of bondholders and Preference Share holders, colleagues and The Co-operative Group.

"The Bank is now focused on implementing our business plan which, following the capital raise, begins the process of strengthening the Bank, and returning it to profitability over time. We remain committed to co-operative Values and Ethics, and I am delighted that our future shareholders have agreed we can embed our commitment to Values and Ethics into our constitution. We now have the opportunity to renew our focus on serving the needs of our retail and small business customers. We will strive to make things simpler for our customers, removing unnecessary processes and reducing costs. We will also put greater rigour into our risk management and controls, ensuring our customers are dealt with respectfully, fairly and transparently.

"The Bank has already taken a number of steps to address the challenges it faces. It is clear, however, that there is a significant task ahead; we are only in the very early stages of turning the business around. The legacy issues we are working hard to overcome will continue to have an impact on the Bank for some time.

"With a strengthened management team, and a clear direction, we are confident we will become a stronger Bank, serving our customers in line with the Co-operative Values and Ethics which sit at the heart of why our customers choose to bank with us in the first place."

Richard Pym, Non-Executive Chairman of The Co-operative Bank, said:

"The Board of The Co-operative Bank welcomes the agreement of The Co-operative Group and the bondholders who have already supported this Plan. We believe the prospectuses to be published today set out why the revised Recapitalisation Plan is good for all stakeholders. We believe there are only two realistic outcomes for the Bank following the launch of the LME - either its successful recapitalisation or, if the LME fails, the resolution of the Bank. As a result, we are committed to engaging with bondholders and Preference Share holders over the coming weeks to explain the benefits of the deal in more detail, and would encourage them to support a deal which will provide the foundations for the long-term success of the Bank."

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There will be a presentation for investors at 9.30am on Tuesday 5 November 2013. A live webcast will be available at www.co-operative.coop/bondholders

Disclaimers

This announcement contains or incorporates by reference certain "forward-looking statements" regarding the belief or current expectations of The Group, The Group Board, the Bank or the Bank Board (as applicable) about the Bank's financial condition, results of operations and business and the transactions described in this announcement. Generally, but not always, words such as "may", "could", "should", "will", "expect", "intend", "estimate", "anticipate", "assume", "believe", "plan", "seek", "continue", "target". "goal", "would" or their negative variations or similar expressions identify forward-looking statements. Such forward-looking statements are not guarantees of future performance. Rather, they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of the Group and the Bank and are difficult to predict, that may cause the actual results, performance, achievements or developments of the Bank or the industries in which it operates to differ materially from any future results, performance, achievements or developments expressed or implied from the forward -looking statements. A number of material factors could cause actual results to differ materially from those contemplated by the forward-looking statements. The forward-looking statements contained in this announcement speak only as of the date of this announcement.

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This announcement is an advertisement and not a prospectus. Investors should not make any investment decision regarding any securities referred to in this announcement except on the basis of information contained in prospectuses and exchange offer memorandum in their final form to be published by The Group and the Bank in due course in connection with the Exchange Offer. The Group and the Bank expressly reserve the right to adjust or amend the terms of the LME and the securities.

HSBC Bank plc ("HSBC") has been appointed as a dealer manager and as adviser to the Bank to facilitate the. HSBC is authorised and regulated by the PRA and the FCA and is acting exclusively for the Bank (in its capacity as a dealer manager and adviser) and The Group (in its capacity as a dealer manager) in connection with the LME and will not regard any other person (whether or not a recipient of this announcement) as a client in relation to the LME and will not be responsible to anyone other than the Bank and The Group for providing the protections afforded to its clients or for providing advice in the relation to the LME or any other matter referred to in this announcement.

UBS Limited ("UBS") has been appointed as a dealer manager to facilitate the LME and as adviser to The Group. UBS is authorised and regulated by the PRA and the FCA and is acting exclusively for the Bank (in its capacity as a dealer manager) and The Group (in its capacity as a dealer manager and adviser) in connection with the LME and will not regard any other person (whether or not a recipient of this announcement) as a client in relation to the LME and will not be responsible to anyone other than and The Group for providing the protections afforded to its clients or for providing advice in the relation to the LME or any other matter referred to in this announcement.

Canaccord Genuity Limited, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting as financial adviser to the Bank and is acting for no-one else in connection with the provision of an independent opinion on whether the LME is fair from a financial value perspective to (a) the holders of the 9.25% Preference Shares, (b) the holders of the 5.5555% Bonds and separately (c) the 13% Bonds and will not be responsible to anyone other than the Bank for providing the protections afforded to clients of Canaccord Genuity Limited nor for providing advice in connection with the Exchange Offer or any other matter referred to herein.

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Greenhill & Co. International LLP, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting exclusively as financial adviser to the Bank and no one else in connection with the LME and will not regard any other person as its client in relation to the LME and will not be responsible to anyone other than the Bank for providing the protections afforded to its clients or for giving advice in relation to the LME, the contents of this announcement and the accompanying documents or any other transaction, arrangement or matter referred to herein or therein.

ANNEX I

Further details on the Recapitalisation Plan

1. **Introduction**

On 17 June 2013, following the conclusion of the Bank's review of its capital position and discussions with the Prudential Regulation Authority (the "**PRA**"), it was announced that the Bank required additional aggregate Common Equity Tier 1 Capital of £1.5 billion, of which at least £1,062 million is expected to be contributed pursuant to the Liability Management Exercise in 2013 and, conditional on completion of the Liability Management Exercise, £333 million of Common Equity Core Tier 1 Capital is to be contributed by Banking Group[1]

in 2014 pursuant to the 2014 Commitment (of which £170 million is to be contributed at the latest by 30 June 2014 and the remaining £163 million by 31 December 2014).

2. **Structure of the Liability Management Exercise**

The Liability Management Exercise will generate Common Equity Tier 1 Capital in two ways:

- first, to the extent that the Bank exchanges Dated Notes for New Ordinary Shares and issues Additional New Ordinary Shares in each case 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 Bank; and
- second, to the extent that Existing Securities are exchanged for New Securities at a discount to the Bank'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 Bank will reduce a liability for less than the book value of that liability in the Bank's accounts).

The Liability Management Exercise, which, is being conducted in respect of the Preference Shares, the 13% Bonds, the 5.5555% Bonds and the Dated Notes (each as defined below) (together, the "**Existing Securities**"),consists of the Exchange Offers, the Proposals and the Scheme briefly summarised below.

The "**Exchange Offers**" consist of:

- an invitation to Eligible Holders of the Bank's outstanding 9.25 per cent. Non-Cumulative Irredeemable Preference Shares (ISIN: GB0002224516) (the "**Preference Shares**") and 13 per cent. Perpetual Subordinated Bonds (ISIN: GB00B3VH4201) (the "**13% Bonds**") to either:

  (a) offer to exchange their Preference Shares and 13% Bonds for new 11 per cent. Final Repayment Subordinated Notes due 2025 (the "**Final Repayment Notes**") to be issued by Co-operative Group and guaranteed (on a subordinated basis) by certain subsidiaries of Co-operative Group; or

  (b) offer to sell their Preference Shares and 13% Bonds to Co-operative Group for cash consideration payable in twelve equal instalments over twelve years up to (and including) 2025 and which will be represented by new Instalment Repayment Subordinated Notes (the "**Instalment Repayment Notes**" and, together with the Final Repayment Notes, the "**Group Notes**") to be issued by Co-operative Group and guaranteed (on a subordinated basis) by certain subsidiaries of Co-operative Group; and

- an invitation to Eligible Holders of the Bank's outstanding 5.5555 per cent. Perpetual Subordinated Bonds (ISIN: GB00B3VMBW45) (the "**5.5555% Bonds**") to offer to exchange their 5.5555% Bonds for 11 per cent. Subordinated Notes due 2023 to be issued by the Bank ("**Bank T2 Notes**").

The "**Proposals**" consist of the convening of separate meetings of the holders of the Preference Shares, 13% Bonds and 5.5555% Bonds to vote on resolutions which, if passed, will, amongst other things, (i) enable the Bank to mandatorily effect the exchange (or transfer to Co-operative Group) of any remaining Preference Shares, 13% Bonds and 5.5555% Bonds (as applicable) on the same economic terms as the terms of the relevant Exchange Offer(s) and (ii) result in the holders agreeing to certain waivers and releases in favour of the Bank, The Group, their respective directors and certain other persons. In addition, the holders of the Preference Shares will be asked to vote on a resolution which, if passed, will enable the Bank to purchase and cancel any share capital of the Bank (which would include Preference Shares) from time-to-time without any further consent of such holders being needed. It is a term of the Exchange Offers that any holder who offers to exchange (or sell to The Group) its Preference Shares, 13% Bonds or 5.5555% Bonds in the Exchange Offers will also vote in favour of the resolutions proposed at the relevant meeting. If such resolutions are passed and implemented by the Bank they will bind all holders of the relevant Existing Securities, including those who did not vote in favour of the Proposals.

The "**Scheme**" is a scheme of arrangement under Part 26 of the Companies Act 2006. Pursuant to the Scheme, the holders of seven series of lower tier 2 subordinated bonds of the Bank (the "**Dated Notes**") will vote on proposals which, if approved by the requisite statutory majorities and sanctioned by the court and if the Scheme becomes unconditional, will result in all of the Dated Notes (plus accrued and unpaid interest on those Dated Notes up to a specified record date) being exchanged for a combination of Bank T2 Notes and new ordinary shares in the Bank ("**New Ordinary Shares**"). The holders of the Dated Notes will also be entitled to subscribe for 62,500,000 additional New Ordinary Shares (the "**Additional New Ordinary Shares**") for an aggregate consideration equal to £125 million, pursuant to, and on the terms of, the Scheme with such subscription being underwritten by certain holders of Dated Notes.

Conditionality of the Liability Management Exercise

The Liability Management Exercise will only be successfully completed if the entire principal amount of all Existing Securities is exchanged pursuant to the Liability Management Exercise.

In order for the entire principal amount of all Existing Securities to be exchanged or sold pursuant to the Liability Management Exercise (i) each of the Proposals in respect of the Preference Shares, 13% Bonds and 5.5555% Bonds must be approved by the Holders thereof at meetings convened for the purposes of voting on such Proposals and the Proposals must be capable of being implemented in accordance with their terms, and (ii) the Scheme must be approved by the Holders of the Dated Notes at the Scheme Meeting and sanctioned by the Court, an office copy of the sanction order must be delivered to the Registrar of Companies at Companies House and the Scheme must become unconditional in accordance with its terms (subject only to satisfaction of the Settlement Condition) (together referred to as the "Settlement Condition").

Early Participation Incentive

Holders of the Preference Shares, 13% Bonds and 5.5555% Bonds are also being given an incentive to participate by **29 November 2013**. If sufficient levels of participation in those securities are achieved by 29 November, the consideration available to such holders in return for their Preference Shares, 13% Bonds and 5.5555% Bonds will, if the LME successfully completes, be higher than if those participation levels are not achieved by that date.

Capital impact of the Liability Management Exercise

The contributions that a successful Liability Management Exercise would provide by the end of 2013 would increase the Bank's Common Equity Tier 1 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 Bank's financial year ending 31 December 2013.

Interest savings

In addition, the Bank 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 Core Tier 1 Capital towards the Recapitalisation Plan, beyond that created as a result of the Liability Management Exercise. The Bank currently estimates that net interest savings should result in allowable Common Equity Core Tier 1 Capital in the region of £40 million during the course of 2014.

3. Summary of the consideration available under the Liability Management Exercise[2]

The following three tables set out, in overview form, the consideration available to holders of Existing Securities in the Liability Management Exercise.

<u>Preference Shares and 13% Bonds</u>

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)		
		Final Repayment Notes[2]	OR[4]	Instalment Repayment Notes[3]	Final Repayment Notes[2]	OR[4]	Instalment Repayment Notes[3]
Preference Shares[5]	GB0002224516	£601	£1,110	£551	£1,060		
13% Bonds	GB00B3VH4201	£844	£1,560	£794	£1,510		

<u>Notes</u>:

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 Preference Shares and 13% Bonds will be exchanged or sold 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 Preference Shares and 13% Bonds will be exchanged or sold at the Late Consideration Amount.

2 New sterling-denominated 11 per cent. Final Repayment Subordinated Notes due 2025 (ISIN: GB00BFXW0630) to be issued by The Group and guaranteed (on a subordinated basis) by certain subsidiaries of the Group.

3 New sterling-denominated Instalment Repayment Subordinated Notes (ISIN: GB00BFXWHQ29) (having their last instalment payment date in 2025) to be issued by The Group and guaranteed (on a subordinated basis) by certain subsidiaries of the Group. The Instalment Repayment Notes represent the instalments of consideration to be received by Holders whose Preference Shares or 13% Bonds are sold to the Group in the Liability Management Exercise.

4 The amounts of Final Repayment Notes and Instalment Repayment Notes specified in the table above are alternative options. A holder will not receive both of these amounts. Holders will be able to elect either the Final Repayment Notes option or the Instalment Repayment Notes option only.

5 The Early Consideration Amount and Late Consideration Amount for the Preference Shares are presented in this table on a "per £1,000 in nominal amount" basis for ease of comparison with the 13% Bonds. Preference Shares can be offered for exchange or sale in any whole multiple of £1 (subject to a minimum of £2 if a holder elects the Final Repayment Notes option (which is the minimum amount required, based on the Late Consideration Amount, in order to receive the minimum denomination of Final Repayment Notes, being £1). There is no minimum offer amount if a holder elects the Instalment Repayment Notes option).

<u>5.5555% Bonds</u>

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)
		Bank T2 Notes[2]	Bank T2 Notes[2]
5.5555% Bonds	GB00B3VMBW45	£530	£480

<u>Notes</u>:

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 Bank.

<u>Dated Notes</u>

Existing Securities	ISIN	Consideration Amount[1, 5] (per £1,000 of Scheme Claim[4])		New Ordinary Shares Conversion Price[5]
		Bank T2 Notes[2]	New Ordinary Shares[3]	
Floating Rate Callable Step-up Dated Subordinated Notes due 2016	XS0254625998	£102.63	£897.37	£7.7718292 per share
5.875% Subordinated Callable Notes due 2019	XS0189539942	£102.63	£897.37	
9.25% Subordinated Notes due 28 April 2021	XS0620315902	£102.63	£897.37	
Fixed/Floating Rate Subordinated Notes due November 2021	XS0274155984	£102.63	£897.37	
7.875% Subordinated Notes due 19 December				

2022	XS0864253868	£102.63	£897.37	
5.75% Dated Callable Step-up Subordinated Notes due 2024	XS0188218183	£102.63	£897.37	
5.875% Subordinated Notes due 2033	XS0145065602	£102.63	£897.37	

Notes:

[1] The number of New Ordinary Shares and principal amount of Bank T2 Notes which a holder of Dated Notes will be eligible to receive in respect of its Scheme Claim 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 Bank.

[3] New Ordinary Shares to be issued by the Bank. If the Liability Management Exercise is successfully completed, the Group's existing equity stake in the Bank will be converted into deferred shares and effectively reduced to nil and a total of 250,000,000 New Ordinary Shares will be issued at that time, of which:

(i) 75,000,000 (representing 30 per cent. of the total) will be issued to the Group in consideration for its fresh injection of capital into the Bank through the Liability Management Exercise and the 2014 Commitment (representing an effective subscription price of £6.16 per share);

(ii) 112,500,000 (representing 45 per cent. of the total) will be issued to holders of the Dated Notes in the Scheme in exchange for their Dated Notes, to be distributed in the Scheme *pro rata* amongst such holders based on their respective Scheme Claims (representing, based on the total value of Scheme Claims and the number of New Ordinary Shares issued in the Scheme to holders of Dated Notes, 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 New Ordinary Shares; and

(iii) 62,500,000 (representing the balance of 25 per cent. of the total) will be available for subscription by holders of Dated Notes pursuant to, and on the terms of, the Scheme for an aggregate consideration equal to £125 million (representing an effective subscription price of £2.00 per share).

[4] A Holder's claim in the Scheme (its "**Scheme Claim**") will be equal to the sum of (i) the aggregate principal amount outstanding of such Holder's Dated Notes and (ii) the accrued and unpaid interest on such Dated Notes up to (and including) the Scheme Record Date (expected to be 10 December 2013), provided that a Holder's Scheme Claim in respect of Floating Rate Callable Step-up Dated Subordinated Notes due 2016 (ISIN: XS0254625998) (which are denominated in euro) shall be the Sterling-Equivalent of such sum, calculated on the basis of an exchange rate of £0.85644 per €1.00.

[5] Since Scheme Claims will include a component of accrued and unpaid interest on the Dated Notes and there is a finite amount of New Ordinary Shares and Bank T2 Notes available in the Scheme, the Consideration Amounts and the New Ordinary Shares Conversion Price in this table are indicative only, pending determination of the floating rate of interest applicable to the interest period commencing 18 November 2013 in respect of the Floating Rate Callable Step-up Dated Subordinated Notes due 2016. For the purpose of the indicative figures above, an assumed 3-month EURIBOR rate of 0.228 per cent. (the rate prevailing as at 30 October 2013) has been applied. The actual rate is expected to be determined on 14 November 2013 and, once determined, the Bank will announce the final Consideration Amounts and New Ordinary Shares Conversion Price via the Regulatory News Service (RNS) operated by the London Stock Exchange. The final Consideration Amounts and New Ordinary Shares Conversion Price are not expected to differ materially from the indicative Consideration Amounts and New Ordinary Shares Conversion Price specified above.

4. 2014 Commitment

Under the Recapitalisation Plan, Co-operative Banking Group Limited (**Banking Group**) has agreed to contribute £333 million of Common Equity Tier 1 Capital during 2014 (the **2014 Commitment**).

On 4 November 2013, Banking Group entered into a legally binding and irrevocable undertaking to pay (the **Undertaking to Pay**) in favour of the Bank 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**). Banking Group'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, Banking Group is expected to satisfy the 2014 Commitment from the net proceeds of the sale by Banking Group 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) (together **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 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 Banking Group in respect of the disposal of Royal London (CIS) Limited. Payment of the remaining consideration of £180 million (as deferred consideration) is subject to the approval of the court under a transfer of the business of The Royal London (CIS) Limited under Part VII of FSMA. In respect of the disposal of CIS General Insurance, the Bank 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 Announcement, 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 the Banking Group's obligations under the Undertaking to Pay should the Insurance Proceeds not materialise or be insufficient to satisfy the Undertaking to Pay, Banking Group has entered into an intra-group loan with The Group and the Bank (the **Intra-group Loan**). The Intra-group Loan allows Banking Group to draw down sufficient amounts to satisfy the Undertaking to Pay, taking into account Banking Group's existing cash resources, and is intended to be unconditional before 2014. Banking Group, under the terms of the Intra-group Loan is obliged to pay any amounts drawn down under that loan in satisfaction of the Undertaking to Pay. The Group has informed the Bank 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.

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

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 Group and the Bank 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 Bank itself. Absent the support of sufficient Holders to participate in and, where requested, approve the proposals being made in the Liability Management Exercise, it will fail.

The uncertainty around the implementation of the Recapitalisation Plan constitutes a material uncertainty which casts significant doubt on the Bank's ability to continue as a going concern. The Bank's interim financial information for the period ended 30 June 2013, therefore, included an emphasis of matter statement as to the Bank's ability to continue as a going concern.

Given the discretionary nature of the powers available to the Bank of England and HM Treasury (the **Resolution Authorities**) under the Banking Act 2009 (the **Banking Act**), the Bank is unable to predict with certainty the precise outcome for Holders, if the Liability

Management Exercise is not successfully implemented during 2013. However, the Bank has no other source available to it to raise the required additional capital. As stated in the Bank's interim financial information for the period ended 30 June 2013, if the Liability Management Exercise is not successfully completed, the Bank will cease to be a going concern and the Bank considers that it is likely to fail to satisfy its threshold conditions for authorisation (within the meaning of Section55B 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 Bank, in particular, has appropriate financial and non-financial resources, including that the Bank has made appropriate provisions for its liabilities. In addition, the Resolution Authorities may also exercise their powers to resolve the Bank even if it remains a going concern.

If the Liability Management Exercise is not successfully implemented on or before 31 December 2013, the Bank therefore considers that the PRA would have a basis for determining that the Bank is failing, or is likely to fail, to satisfy its threshold conditions; that the power of the Resolution Authorities to exercise stabilisation powers under the Banking Act had arisen; and the Bank believes it is likely that the Bank would be subject to a resolution procedure under the Banking Act. The Bank therefore believes that there are only two realistic outcomes for the Bank, which are either its recapitalisation following successful implementation of the Liability Management Exercise or a failure of the Liability Management Exercise resulting in the Bank becoming subject to a resolution procedure under the Banking Act.

6. Dividend and interest payments with respect to the Preference Shares, 13% Bonds and 5.5555% Bonds

The Bank has taken certain decisions with respect to dividends and interest payments on the Preference Shares, 5.5555% Bonds and 13% Bonds in connection with the Liability Management Exercise. These decisions are described briefly below.

Preference Shares

The next instalment of the Preference Share dividend is scheduled to be paid on 30 November 2013.

Under the terms of the Preference Shares, the Bank will not be permitted to pay the dividend in cash, but will instead be required to allot additional Preference Shares to each holder of Preference Shares in lieu of cash payment ("**Additional Preference Shares**"). The Bank expects to allot such Additional Preference Shares on 29 November 2013 (since 30 November is a Saturday). The allotment of additional Preference Shares in lieu of cash will satisfy the Bank's obligations in respect of such dividend instalment and holders of Preference Shares will not be entitled to any cash amount in respect of that dividend.

However, if the Liability Management Exercise successfully completes, the Additional Preference Shares will be transferred to The Group upon completion of the Liability Management Exercise and the holders will receive an amount in cash equal to the cash dividend which the Bank would have paid on 29 November 2013 had it been able to do so under the terms of the Preference Shares.

5.5555% Bonds

The next scheduled interest payment date for the 5.5555% Bonds is 14 December 2013. The Bank intends to defer that interest payment (which it is entitled to do under the terms of the 5.5555% Bonds). If the Liability Management Exercise subsequently successfully completes, the Bank will pay that deferred interest payment to all holders of the 5.5555% Bonds.

13% Bonds

The Bank reconfirms that, as announced on 12 July 2013, upon successful completion of the Liability Management Exercise the Bank will pay, to all holders of the 13% Bonds, the deferred interest payment on the 13% Bonds originally scheduled for 31 July 2013.

7. Further details of the Liability Management Exercise

Details of the Liability Management Exercise can be found in the prospectuses to be published by The Group and the Bank in connection with the Liability Management Exercise, and the Offer Memorandum, which is appended to and forms part of each prospectus and, in respect of the Dated Notes, the explanatory statement and other Scheme documents to be published by the Bank.

A simplified summary of the decisions which holders of the Upper Tier 2 13% and 5.5555% Bonds and the Preference Shares will need to make is appended

ANNEX II

Update on Bank strategic plan

1. Overview

The Bank has finalised its new strategic plan and the key metrics that it expects to target, which have been approved by its Board.

The implementation of this strategy will be subject to a number of risks and, among other things, is dependent on the Bank successfully securing the additional aggregate Common Equity Tier 1 Capital of £1.5 billion required by the Bank through the Recapitalisation Plan.

The Bank's strategy, which involves a four to five year turn-around plan, is to de-risk the Bank by becoming a commercial bank focused on retail and small and medium sized (**SME**) franchise businesses in the UK, built around the Bank's existing brand and franchise strength.

The Bank is differentiated from other banks in the UK market as it is recognised by its customers as being a fair, responsible and trusted bank. The Bank's overarching strategy is to leverage its brand strength and high levels of customer satisfaction to create, over time, an efficient and profitable bank with a reduced overall risk profile, in terms of liquidity capital and day-to-day operations and to reduce its risk weighted assets. This will require the Bank to simplify and focus its Core Business on retail banking and SME customers where the Bank feels it has strong existing market credentials, customer relationships and expertise, whilst achieving significant operational efficiencies.

2. The Bank's strategic plan

The Bank has finalised the shape and structure of its core business and non-core business (the Core Business and Non-core Business respectively).

The Core Business

The Core Business (which as at 30 June 2013 had total segment assets of £30.0 billion and Basel III final rules credit risk weighted assets (**RWAs**) of approximately £6.2 billion) represents lines of activity that are consistent with the Bank's strategy and risk appetite, and includes the core retail, corporate banking business, treasury and certain other businesses. The core retail banking product offering consists of a range of current accounts and money transmission services, lending and savings products, to individuals and households in the UK, while the core corporate banking business provides services to SMEs, with a turnover of less than £25 million. The Bank is targeting a return on equity on its Core Business over a longer term period of low double digit per cent. The Bank currently expects to be in a position to seek controlled Core Business customer lending and deposit growth from 2015.

The Non-core Business

The Non-core Business (which as at 30 June 2013 had segment assets of £14.2 billion and Basel III final rules credit RWAs of approximately £10.0 billion) consists of those asset classes which are not consistent with the Bank's Core Business strategy and are managed to achieve the most appropriate asset value on an individual portfolio basis, or are targeted for run down or exit. Those assets which sit within the Non-core Business contain a significant part of the Bank's impairment risk. This includes the Optimum portfolio (a closed book of predominantly interest only, intermediary and acquired mortgage book assets), Illius (a residential property company) and non-core corporate banking assets (including loans to businesses with turnover greater than £25 million, commercial real estate loans, PFI loans, housing associations loans and renewable energy asset finance). The Bank intends to reduce Non-core Business net loans to less than £11.5bn by 31 December 2014 and to continue deleveraging the Non-core Business thereafter at a slower pace. The Bank will also target the deleveraging of the Non-core Business in such a manner that the anticipated future losses from deleveraging do not materially exceed the capital that is released from the reduction in RWAs, with the overall intention of achieving Non-Core Business deleveraging that does not materially reduce the Common Equity Tier 1 Capital ratio of the Bank as a whole.

Operating costs

Whilst maintaining the Bank's differentiated customer service proposition, the Bank plans to secure substantial long-term cost savings, targeting a cost-to-income ratio for the Core Business of less than 60 per cent. in the longer term through a significant cost savings programme. The Bank will seek to deliver these cost savings through (i) the simplification of the Bank's product offering, allowing for efficiency gains in the Bank's operations and IT functions; (ii) greater levels of self-service through the reorientation of the Bank's distribution model towards digital and other self-service channels; (iii) business process re-engineering (both IT and non-IT enabled) which will reduce middle and back office costs; (iv) delayering of management; and (v) full integration of Britannia within the Bank.

In line with customer demand and developments in the UK retail banking market, the Bank, in partnership with an established digital provider, will seek to significantly enhance its digital and self-service channels to allow its customers to access its products and services when and where they choose. It is expected that over time digital channels will be customers' preferred point of contact. These enhancements are intended to allow the Bank to reduce its call centre and branch footprint whilst maintaining its market-leading levels of customer service. Between 30 June 2013 and the end of 2014, the Bank expects to significantly rationalise its branch network by at least 15 per cent. of its current estate (as at 30 June 2013) of 324 branches and migrate basic transactions onto a predominantly self-service basis, in particular through the digital channel. Similarly, the Bank expects to rationalise its network of corporate banking centres where it can be achieved without undue detriment to customer service, thereby mitigating the risk of attrition. Call centres will primarily support the digital service offering and the branch network will focus on providing face-to-face support to customers, allowing the Bank to maximise the value generated by its high levels of customer service. In the short term, the full integration of Britannia will remove existing duplication in the Bank's branch network, and the Bank also intends to close certain non-profitable branches. Customer needs will also continue to be met through alternative channels including via ATMs and limited service branch offerings in Co-operative Group stores to complement the network.

IT plan to support the Core Business

As result of historical underinvestment (among other factors), a number of the Bank's IT systems now, or will soon, require their hardware and operating systems to be updated and improved. The Bank has undertaken a review of its overall IT requirements and has agreed a new IT development plan which is to be executed in four phases (remediation, digital catch-up, simplification and strategic optimisation) and has been designed to meet the requirements of the Core Business strategy of the Bank. The primary focus for 2014 and 2015 will be remediation of the existing system issues to ensure the Bank can meet its on-going commitments to regulators and customers and the creation of an IT platform which allows the Bank to provide new digital channel applications to enable appropriate online products, specifically web-based and mobile banking and functionality for its customers.

The execution of the Bank's turnaround plan will result in significant costs being incurred over the next three financial years, and the Bank has currently budgeted in the region of £500m in connection with the re-engineering of the Bank's IT platform to support the Core Business strategy of the Bank, its cost saving programme, and the reorientation of the Bank's distribution channels. Within this amount, total investment spend on transformation, including IT remediation, digital catch-up and other IT initiatives in the next three years of approximately £400 million to £450 million is currently budgeted, of which approximately 40 to 45 per cent. is currently expected to be capitalised.

3. Current Trading

Consistent with the statements made by the Bank in its unaudited interim results for the period ended 30 June 2013, which were announced on 29 August 2013, the short term outlook for the Bank continues to be challenging.

Monthly revenue and cost trends since 30 June 2013 have remained consistent with those observed in the first half of the year. The average monthly level of impairment charges in July and August has fallen as compared to average monthly levels for the first half of the year. In the period from 30 June 2013 to 30 September 2013, the Bank raised £1.5 billion of secured wholesale funding and £0.6 billion of Non-core Assets (consisting of Non-core Business loans) were deleveraged, through a combination of asset sales, run-off and managed payments, net of drawdowns. As at 30 September 2013, the encumbrance ratio was 29.8 per cent.

The Bank's capital position has not materially changed since 30 June 2013 and the Bank remains dependent on the successful completion of the Liability Management Exercise.

4. Outlook

Whilst the Bank has already taken a number of actions to try to address the challenges it faces, it is clear that it is in the early stages of turning itself around and that the legacy issues will continue to have an impact on the Bank for some time. As such, the Directors continue to believe that the Bank will not be profitable in 2013 and 2014 and can give no assurance that the Bank will generate a profit for some years thereafter.

Assuming the Liability Management Exercise is completed and therefore £1,062 million of Common Equity Tier 1 Capital is raised in respect of the Exchange Offers, Proposals and the Scheme, and £125 million is raised in 2013 pursuant to the Additional New Ordinary Shares Offer under the Scheme, the Bank expects to report, for the end of 2013, a Common Equity Tier 1 Capital ratio towards the upper end of guidance, previously announced on 29 August 2013, of "below 9% but above the regulatory minimum requirement". Taking into account the benefit of the additional Common Equity Tier 1 capital to be provided by Banking Group to satisfy the 2014 Commitment and a reduction in RWAs, partially offset by expected losses in the Bank in 2014, it is currently expected that the Bank's Common Equity Tier 1 Capital ratio will remain broadly stable, improving only modestly from this level in the coming years. The Bank expects to achieve a leverage ratio above the regulatory minimum by the end of 2014.

ANNEX III

Expected timetable for the Liability Management Exercise

The times and dates referred to below are indicative only and are subject to the right of the Bank and/or The Group to extend, re-open, amend and/or terminate the Exchange Offers or any of them at any time and the right of the Bank (if required or permitted by the Court) to amend and/or withdraw the Scheme at any time. Accordingly, the actual timetable may differ significantly from the expected timetable set out below.

If any of the below times and/or dates change, the revised time(s) and/or date(s) will be announced by the Bank and/or The Group as soon as reasonably practicable.

Scheme Events	Dates and Times (all times are London time)	*Offer Events*
Announcement of the Scheme Scheme announced. Practice statement letter sent to Scheme Creditors.	**4 November 2013**	**Announcement of the Exchange Offers** Exchange Offers announced. Prospectuses published. Offer period commences. Eligible Holders of Preference Shares, 13% Bonds or 5.5555% Bonds can offer to exchange or sell their Existing Securities and/or vote in respect of the Proposals.
Announcement of Consideration Amounts in the Scheme Announcement of the final Consideration Amounts and New Ordinary Shares Conversion Price.	**On or around 14 November 2013**	
Scheme Convening Hearing Initial Court hearing for leave to convene the Scheme Meeting	**18 November 2013**	
Explanatory Statement and Scheme Documents available Explanatory Statement and Scheme Documents available to Scheme Creditors	**19 November 2013**	
	4.30 p.m. on 29 November 2013	**Early Participation Deadline** The deadline by which the Early Participation Threshold must be achieved in order for Preference Shares, 13% Bonds and 5.5555% Bonds to be exchanged or sold on the basis of the Early Consideration Amounts for such Existing Securities.
	4.30 p.m. on 6 December 2013	**Expiration Deadline** Deadline for receipt of all Exchange Instructions from Eligible Holders in respect of Preference Shares, 13% Bonds and 5.5555% Bonds.
Voting Instructions Deadline Deadline for receipt of all Account Holder Letters containing voting instructions in order for Holders to vote on the Scheme and elections to subscribe for Additional New Ordinary Shares pursuant to the Additional New Ordinary Shares Offer in the Scheme.	**4.30 p.m. on 10 December 2013**	
Scheme Record Date Only those Holders who are Scheme Creditors as at the Scheme Record Date are entitled to attend and vote at the Scheme Meeting (unless the Bank, in its sole discretion, elects to recognise, for the purposes of the Scheme, a transfer of Dated Notes after the Scheme Record Date such that the transferee becomes a Scheme Creditor)	**10 December 2013**	
Scheme Meeting Meeting of the Scheme Creditors to vote on the Scheme The Bank will request the Court to convene the Scheme Meeting on 11 December 2013	**11 December 2013**	**Meetings** Meetings of the Holders of the Preference Shares, 13% Bonds and 5.5555% Bonds held to consider the Extraordinary Resolutions pursuant to the Proposals. 1.00 p.m. in respect of the Preference Shares 2.00 p.m. in respect of the 13% Bonds 3.00 p.m. in respect of the 5.5555% Bonds
	11 December 2013	**Offer Record Date** The record date for the purposes of ceasing trading in the Preference Shares, 13% Bonds and 5.5555% Bonds, and for determining entitlement to receive the relevant Group Notes, Bank T2 Notes, Accrued Dividends, Accrued Interest and other amounts payable under the terms of the

		Liability Management Exercise (if successfully completed).
Results Announcement	**12 December 2013**	**Results Announcement**
Announcement of the results of the Liability Management Exercise		Announcement of the results of the Liability Management Exercise
Scheme Sanction Hearing	**16 December 2013**	
Second Court hearing for sanction of the Scheme by the Court. The Bank will announce as soon as reasonably practicable after the Scheme Sanction Hearing whether or not the Scheme is sanctioned.		
Filing of sanction order	**The date of the Scheme Sanction Hearing or the following business day**	
Sanction order (if granted) delivered to the Registrar of Companies. Scheme becomes effective in accordance with its terms		
Settlement Date / Scheme Settlement Date	**18 December 2013**	**Settlement Date / Scheme Settlement Date**
Expected settlement of the Scheme (subject to satisfaction of the Settlement Condition), including issue and delivery of New Ordinary Shares, Bank T2 Notes and Additional New Ordinary Shares.		Expected settlement of the Offers (subject to satisfaction of the Settlement Condition), including issue and delivery of Bank T2 Notes and Group Notes and payment of Accrued Dividends, Accrued Interest and other relevant amounts.

The above timetable may be impacted in certain respects if any of the Meetings in respect of the Preference Shares, the 13% Bonds and the 5.5555% Bonds are required to be adjourned. If the timetable is changed for any reason, the Bank will prepare and publish a supplement to the Bank T2 Prospectus and/or The Group will prepare and publish a supplement to the Group Notes Prospectus, as appropriate.

If any of the Meetings are required to be adjourned, the Bank currently expects that the adjourned meeting(s) would be held on or around 27 December 2013 and the settlement date for the Offers and the Scheme will be postponed to on or around 31 December 2013. In such event, the Bank will announce the new dates via the Regulatory News Service (RNS) operated by the London Stock Exchange.

Unless stated otherwise or required by order of the Court, announcements in relation to the Liability Management Exercise will be made: (i) by the issue of a press release to a Notifying News Service; (ii) by the delivery of notices to Euroclear and Clearstream, Luxembourg for communication to Direct Participants; (iii) via the Regulatory News Service (RNS) operated by the London Stock Exchange; and (iv) as otherwise required by the rules of the London Stock Exchange. Copies of all announcements, notices and press releases can also be obtained from the Exchange Agent and Information Agent.

Holders are advised to check with any custodian, broker or other intermediary through which they hold their Existing Securities when such intermediary needs to receive instructions from a Holder in order for such Holder to participate in the Liability Management Exercise.

APPENDIX:

Key messages for holders of the 9.25% Preference Shares

How do I know if I own Preference Shares?

- You will either have a share certificate (if you own the Preference Shares directly) or, if you have invested through a broker, your account statements should reference the Co-operative Bank 9.25% Non-Cumulative Irredeemable Preference Shares. Their ISIN number is GB0002224516

What decisions do I need to take?

- You need to decide whether you wish to participate in the *Exchange Offer* for the Preference Shares. By participating in the *Exchange Offer*, you will vote in favour of a *Proposal* that will enable Co-operative Group to acquire mandatorily all Preference Shares. If the *Proposal* is approved, and the *Liability Management Exercise* is successful, what you will receive in return for your Preference Shares is explained below
- If you choose not to participate in the *Exchange Offer* you are free to vote against the *Proposal* if you wish. However, if the *Proposal* is approved and implemented, Co-operative Group will mandatorily acquire your Preference Shares on the same economic terms as if you had participated in the *Exchange Offer*.

Do I have to participate?

- You do not have to participate. However, you are strongly encouraged to do so. If the *Liability Management Exercise* does not succeed, the Co-operative Bank believes that it would be subject to a formal 'resolution' procedure under the UK Banking Act 2009. The Co-operative Bank believes that success of the *Liability Management Exercise* will be substantially more beneficial to holders of Preference Shares than resolution of the Co-operative Bank

Do I have a choice of what I receive if I do decide to participate in the Exchange Offer?

- Yes. If you decide to participate in the *Exchange Offer*, you must choose what to receive in return for your Preference Shares. You have two alternatives. You must choose between them:
  - If you wish to preserve your level of income from the Preference Shares for the next twelve years you may choose the *Instalment Repayment Notes*. If, for example, you own £1,000 of Preference Shares, then by choosing the *Instalment Repayment Notes* option you would only receive £92.50* each year (payable in one yearly instalment) up to 2025. **You will not be entitled to any further payments after 2025**
  - If you wish to preserve some of your capital instead, you may choose the *Final Repayment Notes*. These pay interest at 11% each year, but you will receive less *Final Repayment Notes* than you currently have Preference Shares. If, for example, you own £1,000 of Preference Shares, then you would receive £601* of *Final Repayment Notes*. You would receive £66.11* of interest each year (payable in one yearly instalment) up to 2025, plus repayment of the £601* capital in 2025. **You will not be entitled to any further payments after 2025**

* *Please note that these amounts will be approximately 8% lower if not enough holders of Preference Shares, 13% Bonds and 5.5555% Bonds participate by 29 November 2013*

Who is responsible for making payments on the Instalment Repayment Notes and Final Repayment Notes?

- Co-operative Group will be responsible for making these payments

When do I have to take action?

- If you wish to participate in the *Exchange Offer*, you should do so by **29 November 2013** at the latest. Whilst it is possible to participate up to 6 December 2013, the terms of the *Exchange Offer* are more favourable for all holders of Preference Shares if enough investors participate by the earlier date

How do I participate?

- If you have a share certificate, you will receive a letter enclosing the relevant forms to complete and return. If you have invested through a broker, please contact your broker

What next?

- Please read carefully the Co-operative Group Prospectus which will be released shortly. It contains detailed information on the *Exchange Offer* and the *Proposal* to help you make your decision
- We expect to announce the results of the *Liability Management Exercise* on 12 December 2013

Key messages for holders of the 13% Perpetual Subordinated Bonds

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How do I know if I own 13% Bonds?

- You will either have a bond certificate (if you own the 13% Bonds directly) or, if you have invested through a broker, your account statements should reference the Co-operative Bank 13% Perpetual Subordinated Bonds. Their ISIN number is GB00B3VH4201

What decisions do I need to take?

- You need to decide whether you wish to participate in the *Exchange Offer* for the 13% Bonds. By participating in the *Exchange Offer*, you will vote in favour of a *Proposal* that will enable Co-operative Group to acquire mandatorily all 13% Bonds. If the *Proposal* is approved, and the *Liability Management Exercise* is successful, what you will receive in return for your 13% Bonds is explained below
- If you choose not to participate in the *Exchange Offer* you are free to vote against the *Proposal* if you wish. However, if the *Proposal* is approved and implemented, Co-operative Group will mandatorily acquire your 13% Bonds on the same economic terms as if you had participated in the *Exchange Offer*.

Do I have to participate?

- You do not have to participate. However, you are strongly encouraged to do so. If the *Liability Management Exercise* does not succeed, the Co-operative Bank believes that it would be subject to a formal 'resolution' procedure under the UK Banking Act 2009. The Co-operative Bank believes that success of the *Liability Management Exercise* will be substantially more beneficial to holders of 13% Bonds than resolution of the Co-operative Bank

Do I have a choice of what I receive if I do decide to participate in the Exchange Offer?

- Yes. If you decide to participate in the *Exchange Offer*, you must choose what to receive in return for your 13% Bonds. You have two alternatives. You must choose between them:
  - If you wish to preserve your level of income from the 13% Bonds for the next twelve years you may choose the *Instalment Repayment Notes*. If, for example, you own £1,000 of 13% Bonds, then by choosing the *Instalment Repayment Notes* option you would only receive £130* each year (payable in one yearly instalment) up to 2025. **You will not be entitled to any further payments after 2025**
  - If you wish to preserve some of your capital instead, you may choose the *Final Repayment Notes*. These pay interest at 11% each year, but you will receive less *Final Repayment Notes* than you currently have 13% Bonds. If, for example, you own £1,000 of 13% Bonds, then you would receive £844* of *Final Repayment Notes*. You would receive £92.84* of interest each year (payable in one yearly instalment) up to 2025, plus repayment of the £844* capital in 2025. **You will not be entitled to any further payments after 2025**

* *Please note that these amounts will be approximately 6% lower if not enough holders of Preference Shares, 13% Bonds and 5.5555% Bonds participate by 29 November 2013*

Who is responsible for making payments on the Instalment Repayment Notes and Final Repayment Notes?

- Co-operative Group will be responsible for making these payments

When do I have to take action?

- If you wish to participate in the *Exchange Offer*, you should do so by **29 November 2013** at the latest. Whilst it is possible to participate up to 6 December 2013, the terms of the *Exchange Offer* are more favourable for all holders of 13% Bonds if enough investors participate by the earlier date

How do I participate?

- If you have a bond certificate, you will receive a letter enclosing the relevant forms to complete and return. If you have invested through a broker, please contact your broker

What next?

- Please read carefully the Co-operative Group Prospectus which will be released shortly. It contains detailed information on the *Exchange Offer* and the *Proposal* to help you make your decision
- We expect to announce the results of the *Liability Management Exercise* on 12 December 2013

Key messages for holders of the 5.5555% Perpetual Subordinated Bonds

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How do I know if I own 5.5555% Bonds?

- You will either have a bond certificate (if you own the 5.5555% Bonds directly) or, if you have invested through a broker, your account statements should reference the Co-operative Bank 5.5555% Perpetual Subordinated Bonds. Their ISIN number is GB00B3VMBW45

What decisions do I need to take?

- You need to decide whether you wish to participate in the *Exchange Offer* for the 5.5555% Bonds. By participating in the *Exchange Offer*, you will vote in favour of a *Proposal* that will enable the Co-operative Bank to exchange mandatorily all 5.5555% Bonds. If the *Proposal* is approved, and the *Liability Management Exercise* is successful, what you will receive in return for your 5.5555% Bonds is explained below
- If you choose not to participate in the *Exchange Offer* you are free to vote against the *Proposal* if you wish. However, if the *Proposal* is approved and implemented, the Co-operative Bank will mandatorily exchange your 5.5555% Bonds on the same economic terms as if you had participated in the *Exchange Offer*.

Do I have to participate?

- You do not have to participate. However, you are strongly encouraged to do so. If the *Liability Management Exercise* does not succeed, the Co-operative Bank believes that it would be subject to a formal 'resolution' procedure under the UK Banking Act 2009. The Co-operative Bank believes that success of the *Liability Management Exercise* will be substantially more beneficial to holders of 5.5555% Bonds than resolution of the Co-operative Bank

Do I have a choice of what I receive if I do decide to participate in the Exchange Offer?

- No. If you decide to participate in the *Exchange Offer*, you will receive *Bank T2 Notes* in exchange for your 5.5555% Bonds. If, for example, you own £1,000 of 5.5555% Bonds, then you will receive £530* of *Bank T2 Notes*. You will receive £58.28* of interest each year (payable in four instalments of £14.57 every three months) up to 2023, plus repayment of the £530* capital in 2023. **You will not be entitled to any further payments after 2023**

** Please note that these amounts will be approximately 9% lower if not enough holders of Preference Shares, 13% Bonds and 5.5555% Bonds participate by 29 November 2013*

Who is responsible for making payments on the Bank T2 Notes?

- The Co-operative Bank will be responsible for making these payments

When do I have to take action?

- If you wish to participate in the *Exchange Offer*, you should do so by **29 November 2013** at the latest. Whilst it is possible to participate up to 6 December 2013, the terms of the *Exchange Offer* are more favourable for all holders of 5.5555% Bonds if enough investors participate by the earlier date

How do I participate?

- If you have a bond certificate, you will receive a letter enclosing the relevant forms to complete and return. If you have invested through a broker, please contact your broker

What next?

- Please read carefully the Co-operative Bank Prospectus which will be released shortly. It contains detailed information on the *Exchange Offer* and the *Proposal* to help you make your decision
- We expect to announce the results of the *Liability Management Exercise* on 12 December 2013

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[1] The Banking Group is the immediate corporate parent of the Bank and includes in its subsidiaries also the other financial institutions within The Group. It is itself a wholly owned subsidiary of The Group.

[2] A simplified summary of the decisions which holders of the Upper Tier 2 13% and 5.5555% Bonds and the Preference Shares will need to make is appended.

This information is provided by RNS
The company news service from the London Stock Exchange

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Regulatory