STATEMENT OF SEPARATION PRINCIPLES

4 November 2013

Background

Following the announcement of the recapitalisation plan (the **Recapitalisation Plan**) announced by The Co-operative Group Limited (**Group**) and The Co-operative Bank p.l.c. (**Bank**) on 17 June 2013 (the **17 June Plan**), Group and Bank have been collaborating to ensure that certain arrangements (known as "Project Unity" and the "CFSMS Arrangements") between Group and Bank would be amended ahead of a listing of Bank on the London Stock Exchange.

Those updated arrangements were close to finalisation prior to the announcement on 21 October 2013 by the Group that it was in discussions with bondholders and that many elements of any Recapitalisation Plan would be materially different to those outlined in the 17 June Plan, and of principal concern for this statement of separation principles (the **Separation Principles**), under the terms of the Recapitalisation Plan, Group will only retain a 30 per cent. interest in the Bank.

The parties acknowledge that:

(A) the continuation of the Project Unity and CFSMS Arrangements (each as described above) contemplated for the 17 June Plan would be materially prejudicial to Bank and are required to be addressed through alternative arrangements, and that the resolution of the CFSMS Arrangements in particular is a short term priority for both parties; and

(B) there are certain other on-going arrangements between the parties (a non-exhaustive list of which is set out in Schedule 1) that have not been (nor needed to be) addressed prior to the launch of the 17 June Plan that will require agreement or an understanding to be reached between the parties,

(the **Separation Issues**).

As a result Bank and Group (the **parties**) have agreed the following Separation Principles will govern the future discussions between them on Separation Issues to ensure that, subject to fiduciary duties, the interests of both parties (and of other stakeholders in the respective organisations) are appropriately considered and with a view to documenting agreements to resolve the Separation Issues in a manner consistent with the Separation Principles:

1. The parties shall act in good faith in all discussions regarding the Separation Issues.

2. Until such time as the parties have agreed appropriate alternative arrangements to Project Unity and the CFSMS Arrangements, Group shall continue to provide services and procure the provision of services to Bank on the terms that such services are currently provided to Bank. In particular, the pension administration and to-be agreed IT services that are provided under Project Unity shall continue.

3. The parties will take reasonable steps (i) in respect of costs that are allocated by Group in its sole discretion, to avoid Bank incurring any costs that are incremental to the costs it currently incurs in relation to the arrangements covered by the Separation Issues, and (ii) (without prejudice to (i)) to mitigate costs (whether one-off or on-going) arising for Group or Bank that would otherwise arise from (a) Group being a less than 50% owner of Bank, or (b) steps that Group and Bank agree to take to address Separation Issues (it being acknowledged that the Bank shall be under no obligation to accept the transfer (whether directly or indirectly) of any assets or liabilities (including stranded

assets or liabilities) that are not wholly or predominantly related to the continuing business of the Bank).

The parties agree that, following completion of the Liability Management Exercise (**LME**), an additional mark-up (of no more than 20%) may be charged by Group for services provided under Project Unity but not in respect of the first 12 months in respect of all services. The parties acknowledge the following exceptions will apply to the 12 months general arrangement:

(a) pensions administration services (where the parties agree that the period required for on-going service provision will be a function of the time required to separate the PACE scheme); and

(b) IT services (where the parties agree that any additional mark-up shall not be applied for a period of 24 months after the completion of the LME).

4. Where VAT that would be chargeable on services between Group and Bank can be appropriately mitigated or minimised, future arrangements put in place will include such mitigation/minimisation as one of the key factors to be considered in structuring such arrangements, although the parties acknowledge that other commercial requirements of the parties (such as, for example, controls, regulatory requirements and minimisation of longer term intra-entity complexity) will need to be appropriately balanced against the VAT considerations.

5. Where costs are to be allocated between Bank entities and Group entities, such allocation shall be made on an equitable basis taking into account the circumstances in which such allocation arises.

6. The parties acknowledge that the current underlying basis on which some services provided by Bank to Group and vice versa are influenced by the current group structure and the parties agree that, in addition to items specifically identified in these Separation Principles or as otherwise required by law or regulation, they will discuss and agree appropriate further changes to the change to the existing arrangements to reflect the ownership structure of the Bank as a result of the Recapitalisation Plan. In particular, the parties intend to terminate the CFSMS Arrangements and to replace those arrangements with appropriate arms' length contractual risk arrangements.

7. No deliberate action will be taken by either party that would allow a third party to terminate a contract under which both Bank and Group are the recipients of supplies or services. Negotiations with third party providers will be held in good faith and the parties shall keep each other informed of the status of all discussions.

8. Actions to be taken in relation to Separation Issues will have appropriate regard to the stated intention to seek a premium listing for Bank on the London Stock Exchange within 12 months of completion of the LME, and seek to avoid the need to renegotiate the resolution of Separation Issues in light of such listing.

9. In agreeing the basis of the alternative arrangements to be put in place for the CFSMS Arrangements, the parties shall have regard, among other things, to: minimising the need for future shared employees / services between Bank and Group in the longer term; the capital implications for Bank; the existing transitional services arrangements with Royal London; the future transitional services requirements for CISGL; the solvency of CFSMS; the risk to third party contracts; and the allocation of / protection from historic liabilities.

10. The parties intend that, other than in relation to pensions administration and to-be identified IT services, Project Unity will be unwound as soon as practicable with the aim that:

(a) the services other than pensions administration services under the Professional Services Master Services Agreement, dated 14 February 2013, shall be migrated back to Bank prior to completion of the LME; and

(b) the parties shall seek to determine which IT services currently provided under the IT Services Agreement, dated 5 July 2012, shall continue to be provided to the Bank for the period referred to in paragraph 3 above.

11. Subject to applicable regulatory requirements, the provisions in Schedule 2 will govern the future discussions between Bank and Group in determining the pricing for Financial Services (as such term is defined in the Relationship Agreement between Bank and Group dated as of the date hereof) to be provided by Bank to Group during the term of the Relationship Agreement.

12. The parties shall form a Separation Principles working group, with appropriate senior executive representation from both Bank and Group, which shall have the responsibility for addressing the Separation Issues and shall establish working practices and protocols, including reporting processes, timetable, key milestones and other project management arrangements that are appropriate for a separation project of this nature. The working group shall, at all times, have regard to these Separation Principles when discussing and seeking to resolve the Separation Issues.

13. If the parties are unable to reach agreement on any of the Separation Issues within a reasonable timeframe (having regard, where appropriate, to the timetable for completion of the LME and the Recapitalisation Plan), then they will refer the matter to their respective chief executive officers for resolution. If no resolution of a dispute described above can be achieved by the chief executive officers, then they will refer the matter to their respective chairmen for resolution. If no resolution of a dispute described above can be achieved by the chairmen, then the parties will refer the matter to a mediator chosen by both Group and Bank.

Acknowledged:

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The Co-operative Group Limited

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The Co-operative Bank p.l.c.

SCHEDULE 1

ON-GOING ARRANGEMENTS

1. Pensions / PACE
2. Membership and membership reward
3. Distribution arrangements
4. ATM
5. Banking relationship; including cash pool
6. Reclaim Fund
7. Sharing of personal data
8. Allocation of costs
9. Allocation of liabilities

SCHEDULE 2

PRICING FOR FINANCIAL SERVICES

Financial Services (Other than Foreign Exchange Flow Business and Money Market Transactions)

1. Current pricing in effect as at the date hereof shall continue for 12 months.

2. For transactions other than "cash-in" transactions, from 4 November 2014 Group shall have the option of either:

   a) current pricing terms adjusted to account for changes in the consumer price index (as determined by the Bank of England) ("**CPI**"); or

   b) arm's length commercial rate (as may be reasonably agreed by the parties) minus 10%.

3. For "cash in" transactions pricing will be the simple average of (i) current pricing terms adjusted to account for changes in CPI, and (i) arm's length commercial rate (as may be reasonably agreed by the parties) minus 10%.

4. Bank may terminate any contract with Group incorporating these pricing terms after 5 years if the contract is uneconomical for Bank (acting reasonably).

Foreign Exchange Flow Business

5. For all new foreign exchange flow business pricing shall be at a 10% gross discount to Bank's margin on foreign exchange flow.

6. In respect of Financial Services which in total account for less than 25% of the total Financial Services provided by Bank to Group, Bank may refuse business where it may be unprofitable for the bank in its reasonable commercial judgement.

7. The discount in paragraph 5 will be agreed on a deal-by-deal basis and embedded in the execution price.

Money Market Instruments:

8. Bank will provide money market services consistent with the basis on which services are provided to third party customers and depositors.