



The Co-operative Bank p.l.c.

(incorporated with limited liability in England with registered number 990937)

£4,000,000,000

Euro Note Programme

Under this £4,000,000,000 Euro Note Programme (the “Programme”), The Co-operative Bank p.l.c. (the “Bank” or “Issuer”) may from time to time issue Ordinary Notes (“Ordinary Notes”) and Subordinated Notes (“Subordinated Notes” and, together with the Ordinary Notes, the “Notes”) denominated in any currency agreed between the Bank and the relevant Dealer (as defined herein).

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see “Risk Factors”.

Arranger

J.P. Morgan Cazenove

Programme Dealers

Barclays

BNP PARIBAS

Citigroup

Credit Suisse

Deutsche Bank

Goldman Sachs International

HSBC

J.P. Morgan Cazenove

The Royal Bank of Scotland

UBS Investment Bank

On 31 May 1994, the Bank entered into a £400,000,000 Euro Note Programme and issued an Offering Circular on that date describing such Programme and the Notes (as defined above) to be issued thereunder. This Prospectus supersedes all previous Offering Circulars and Prospectuses. Any Notes issued after the date hereof under such Programme, which has been amended and supplemented as at the date hereof as described herein, will be issued subject to the provisions set out herein. This does not affect any Notes issued prior to the date hereof.

Application has been made to the Financial Services Authority (the “FSA”) in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “UK Listing Authority”) for Notes issued under the Programme during the period of 12 months from the date of this Prospectus to be admitted to the official list of the UK Listing Authority (the “Official List”) and to the London Stock Exchange plc (the “London Stock Exchange”) for such Notes to be admitted to trading on the London Stock Exchange’s regulated market.

References in this Prospectus to Notes being **listed** (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange’s regulated market and have been admitted to the Official List. The London Stock Exchange’s regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under “Terms and Conditions of the Notes”) of Notes will be set out in a final terms document (the “Final Terms”) which, with respect to Notes to be listed on the London Stock Exchange will be delivered to the UK Listing Authority and the London Stock Exchange. Copies of Final Terms in relation to Notes to be listed on the London Stock Exchange will also be published on the website of the London Stock Exchange through a regulatory information service.

The Programme provides that Notes may be listed on such other or further stock exchange or stock exchanges as may be agreed between the Bank and the relevant Dealer. The Bank may also issue unlisted Notes.

Each of the Bank and the Programme has been rated A3 (on review for downgrade) by Moody’s Investors Service Ltd. (“Moody’s”) and BBB+ (Rating Watch Negative) by Fitch Ratings Ltd. (“Fitch”). Each of Moody’s and Fitch is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the “CRA Regulation”). As such, each of Moody’s and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority (“ESMA”) on its website in accordance with the CRA Regulation. In general, European regulated investors are restricted from using a rating for regulatory purposes unless such ratings are issued by a credit rating agency established in the European Union and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Series of Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Programme by Moody’s and Fitch. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Please also refer to “Ratings of the Notes” in the Risk Factors section of this Prospectus.

The Notes of each Tranche will either initially be represented by a temporary global Note or, if agreed between the Bank and the relevant Dealer, be represented by a permanent global Note which, in either case, will, if intended to be issued in new global note (“NGN”) form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the tranche to a common safekeeper (the “Common Safekeeper”) for Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking,

société anonyme (“Clearstream, Luxembourg”), and if not intended to be issued in NGN form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to a common depositary for Euroclear and/or Clearstream, Luxembourg and/or except in relation to Notes issued in NGN form any other agreed clearing system and which, in the case of a temporary global Note, will be exchangeable, as specified in the applicable Final Terms, for either a permanent global Note or definitive Notes, in each case upon certification as to non-U.S. beneficial ownership as required by U.S. Treasury regulations. A permanent global Note will be exchangeable for definitive Notes, upon request, all as further described in “Form of the Notes” below.

This Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC as amended by Directive 2010/73/EU (the “Prospectus Directive”).

The Bank accepts responsibility for the information contained in this Prospectus and any applicable Final Terms. To the best of the knowledge and belief of the Bank (which has taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see “Documents Incorporated by Reference” below). This Prospectus shall, save as specified herein, be read and construed on the basis that such documents are so incorporated and form part of this Prospectus.

Neither any Dealer nor the Trustee (as defined below) has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by any Dealer or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Bank in connection with the Programme. Neither any Dealer nor the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Bank in connection with the Programme.

No person is or has been authorised by the Bank to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Bank, any Dealer or the Trustee.

Neither this Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Bank, any Dealer or the Trustee that any recipient of this Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Bank. Neither this Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Bank or any Dealer to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Bank is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Programme Dealers (as specified under “Overview of the Programme” and any additional Dealer appointed under the Programme from time to time by the Bank) and the Trustee expressly do

not undertake to review the financial condition or affairs of the Bank during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

Following the publication of this Prospectus a supplement may be prepared by the Bank and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS PROSPECTUS AND OFFERS OF NOTES GENERALLY

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Bank, the Dealers and the Trustee do not represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Bank, the Dealers or the Trustee which is intended to permit a public offering of any Notes or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material relating to the Programme or Notes issued thereunder may be distributed or published in any jurisdiction except in circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the European Economic Area (the “EEA”) (including the United Kingdom) and Japan, see “Subscription and Sale” below.

This Prospectus has been prepared on a basis that would permit an offer of Notes with a denomination of less than €100,000 (or its equivalent in any other currency) only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus. As a result, any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”) must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer of Notes in that Relevant Member State may only do so in circumstances in which no obligation arises for the Bank or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Bank nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Bank or any Dealer to publish or supplement a prospectus for such offer.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons, see "Subscription and Sale".

PRESENTATION OF INFORMATION

In this Prospectus, all references to:

- the "UK" and "United Kingdom" are to the United Kingdom of Great Britain and Northern Ireland;
- "Sterling", "Pounds" and "£" refer to the currency of the United Kingdom;
- "U.S. dollars", "U.S.\$", "\$" and "U.S. cents" refer to the currency of the United States of America; and
- "euro" and "€" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended from time to time.

Contents

	Page
Risk Factors	7
Documents Incorporated by Reference	34
Overview of the Programme	35
Form of the Notes	39
Form of Final Terms	41
Terms and Conditions of the Notes	48
Use of Proceeds.....	78
Description of the Bank.....	79
Taxation.....	93
Subscription and Sale	96
General Information	99

STABILISATION

In connection with the issue of any Tranche of Notes, one or more relevant Dealers (the “Stabilising Manager(s)”) (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

Risk Factors

In purchasing Notes, investors assume the risk that the Bank may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in the Bank becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Bank may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Bank's control. The Bank has identified in this Prospectus a number of factors which could materially adversely affect its business and ability to make payments due under the Notes.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

FACTORS THAT MAY AFFECT THE BANK'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME

Economic activity in the United Kingdom

The Bank's business activities are dependent on the level of banking, finance and financial services required by its customers. As the Bank currently conducts the majority of its business in the UK, its performance is influenced by the level and cyclical nature of business activity in the UK, which is in turn affected by both domestic and international economic and political events. Adverse developments in the UK economy, such as the recent crisis in the global financial markets, recession, and further deterioration of general economic conditions, particularly in the UK, could cause the Bank's earnings and profitability to decline.

In recent years, the global economy and the global financial system have been experiencing a period of significant turbulence and uncertainty. The very severe dislocation of the financial markets around the world that began in August 2007 and significantly worsened in 2008 has triggered widespread problems at many commercial banks, investment banks, insurance companies, building societies and other financial and related institutions in the UK and around the world. This dislocation has severely impacted general levels of liquidity, the availability of credit and the terms on which credit is available. This crisis in the financial markets led the UK government and other governments to inject liquidity into the financial system and take other forms of action relating to financial institutions aimed at both supporting the sector and providing confidence to the market.

Despite these actions, the volatility and disruptions in the financial markets have continued and recent developments, particularly in the eurozone, in relation to, *inter alia*, the Greek debt crisis, Italy, the Republic of Ireland, Portugal and Spain, and in the United States, have demonstrated that there continue to be significant dislocations and uncertainty. These market dislocations have also been accompanied by recessionary conditions and trends in the UK and many economies around the world. The outlook for the UK economy has also weakened over the last ten months, and prospects for the remainder of 2012 to 2013 are challenging. Uncertainty surrounding the future of the eurozone is increasing the risk of a significant slowdown in economic activity in the UK's principal export markets which would have a corresponding effect on the broader UK economy. Domestically, both public and household spending are being constrained by austerity measures, and the UK economy faces the risk of higher levels of unemployment combined with declines in real disposable incomes. Expectations are that the UK recovery continues to be maintained, but at a modest pace, and the

downside risk of a return to recessionary conditions in 2012 cannot be ruled out. It is therefore expected that UK interest rates will remain at current levels for an extended period. In the meantime, the low interest rate environment and pressure on retail funding costs will continue to exert downward pressure on net interest income across the UK banking sector which in turn has had and may continue to have a material adverse effect on the Bank's business, operating results, financial condition and prospects.

A widespread and severe deterioration in the UK economy may reduce the level of demand for, and supply of, the Bank's products and services, lead to lower asset and other realisations and increased negative fair value adjustments and impairments of investments and other assets and may materially and adversely impact the Bank's operating results, financial condition and prospects.

United Kingdom housing and commercial property markets

One of the Bank's principal activities is mortgage lending in the UK with loans secured against residential property. Residential mortgages constituted approximately 47.9 per cent. of the Bank's assets as at 31 December 2011. There was a significant property and construction portfolio of £4.2 billion on the Bank's corporate lending book as at 31 December 2011.

UK house prices have declined significantly over recent years, reflecting a correction of asset values, triggered by the economic downturn and lower availability of credit. Possible volatility in the current economic climate may lead to further corrections in mortgage valuations with a risk of possible further decreases in house prices and/or increases in default rates. As a result of such a scenario, the Bank's retail portfolios may generate increases in impairment losses which could materially affect its operations, financial condition and prospects.

General volatility in wholesale funding markets

Since the second half of 2007, disruption in the global markets, coupled with the re-pricing of credit risk and the deterioration of the housing markets in the United States and elsewhere, have created difficult conditions in the financial markets. These conditions have resulted in historic volatility, less liquidity or no liquidity, widening of credit spreads and a lack of price transparency in certain markets, both primary and secondary, including with respect to the mortgage-backed securities and covered bond markets. These adverse market conditions have resulted in the failures of a number of financial institutions in the United States and Europe. While central banks and governments around the world have taken coordinated efforts to increase liquidity in the financial markets by taking measures such as increasing the amounts they lend directly to financial institutions, lowering interest rates and significantly increasing temporary reciprocal currency arrangements (or "swap lines") as well as introducing schemes aimed at providing short and long-term funding and/or liquidity, while such market conditions have shown signs of improvement in certain sectors of the global credit markets, it is difficult to predict whether, or to what extent, such market improvement will continue and/or how long the adverse market conditions will continue to exist or whether they will worsen or how long such central bank and government schemes will continue to be available or on what terms. Any worsening of market conditions and the uncertainty as to the continued availability of central bank and government schemes to provide liquidity and/or funding could have a material adverse effect on the Bank's liquidity and funding.

Personal financial services market

Unsecured personal lending constituted approximately £1.5 billion of the Bank's assets as at 31 December 2011. Increasing levels of consumer indebtedness and personal bankruptcies experienced market wide could have an adverse impact on the Bank's financial position and reputation, via increased impairment losses and a reduction in demand for the Bank's products.

The ongoing availability of retail deposit funding is dependent on a variety of factors outside the Bank's control, such as general economic conditions and the confidence of retail depositors. These or other factors could lead to a reduction in the Bank's ability to access retail deposit funding on appropriate terms in the future.

Any loss in consumer confidence in the banking businesses of the Bank could significantly increase the amount of retail deposit withdrawals in a short space of time. Should the Bank experience an unusually high level of withdrawals, this may have an adverse effect on the Bank's business, financial position and results of operations.

Margin compression

The industry has been experiencing pressure on net interest margins. The Bank experienced a reduction in net interest margin in the six months ended 30 June 2012 to 103 basis points (the six months ended 30 June 2011: 135 basis points). The main factors driving the pressure on margin has been the increased cost of retail funding, reflecting the competitive savings market and the progressive re-pricing of long-term wholesale funding. This has been offset by wider spreads on new mortgage pricing, the impact of which has been limited as liabilities continue to re-price faster than the asset side of the balance sheet due to low levels of re-mortgage activity. The Bank does not expect these conditions to abate significantly in the near term and there remains the possibility of further downward pressure on profitability depending on a number of influences, such as the consequences of a more austere economic environment or further competition in both the savings and mortgage markets.

Moody's rating of UK banks and building societies

Moody's consider that, since September 2008, the UK banking system and the UK mutual sector has benefited from extraordinary support provided by both the UK government and the Bank of England and these support assumptions were factored into its debt and deposit ratings. Due to the systemic nature of the crisis, whereby the failure of any bank or building society had implications for the overall system, Moody's increased its assumptions for the probability of the provision of government support for a number of UK institutions during the crisis, including, in the context of this transaction, the Issuer.

In December 2010, Moody's announced that it expected to reduce the level of support incorporated in senior debt ratings over the next one to two years from the date of that announcement. In April 2011, Moody's announced that it would begin its reassessment of the systemic support assumptions that it currently incorporates into debt ratings for UK financial institutions (and, in May 2011, announced that in light of this reassessment the credit ratings of 14 UK financial institutions, including the Issuer, had been placed on review for possible downgrade). Such reassessment focused on the high systemic support assumptions currently incorporated in the senior debt ratings of small to medium-sized UK financial institutions, as well as, on a case-by-case basis, the level of systemic support incorporated in the large, complex financial institutions. Moody's stated that it intended to continue to assume some level of systemic support for senior debt issued by larger financial institutions. On 7 October 2011, Moody's announced the result of its reassessment of the systemic support assumptions in respect of 12 UK financial institutions including the Issuer and announced the downgrade of the deposit rating and senior debt ratings of the Issuer by one notch to A-3 long-term. See also "*Downgrading by Moody's and Fitch as a result of the Bid by the Co-operative Group for the sale of bank branches by the Lloyds Banking Group*".

Rating downgrade and market sentiment with respect to the sector

If the ratings analysis of other agencies that rate the Bank's credit is updated to reflect lower forward-looking assumptions of systemic support in the current economic environment or high assumptions of the risks in the financial sector, or is otherwise modified, it could result in a further downgrade to the outlook or to the credit ratings of UK financial institutions, including the Bank, which could have a material adverse effect on the borrowing costs, liquidity and funding of all UK financial services institutions, including the Bank. See also *"Moody's ratings of UK bank and building societies"* and *"Downgrading by Moody's and Fitch as a result of the Bid by the Co-operative Group for the sale of bank branches by the Lloyds Banking Group"*.

UK sovereign credit rating

Any downgrade of the UK sovereign credit rating or the perception that such a downgrade may occur may severely destabilise the markets and the UK economy and have a material adverse effect on the Bank's operating results, financial condition, prospects as well as on the marketability of the Notes. This might also have an impact on the Bank's own credit ratings, borrowing costs and its ability to fund itself. A UK sovereign downgrade or the perception that such a downgrade may occur would be likely to have a material effect in depressing consumer confidence, restricting the availability, and increasing the cost, of funding for individuals and companies, further depressing economic activity, increasing unemployment, reducing asset prices and consequently increasing the risk of a "double dip" recession. These risks are exacerbated by concerns over the levels of the public debt of, and the weakness of the economies in Italy, the Republic of Ireland, Greece, Portugal and Spain in particular. Further instability within these countries or others within the eurozone might lead to contagion which may have a material adverse effect on the Bank's operating results, financial condition and prospects.

The exact nature and extent of these risks is difficult to predict and protect against in view of (i) the severity of the recent global financial crisis, (ii) difficulties in predicting whether any recovery will be sustained and at what rate, and (iii) the fact that many of the risks related to the business are totally, or in part, outside the control of the Bank.

Risks related to the business of the Bank

As a result of its business activities, the Bank is exposed to a variety of risks, the most significant of which are credit risk, market risk, operational risk and liquidity risk. The Bank is also exposed to other risks. Failure to control these risks could result in material adverse effects on the financial performance and reputation of the Bank. The Bank has implemented risk management methods to mitigate and control borrower and counterparty credit risk, market risk, operational risk and liquidity risk and other risks to which the Bank is exposed, and exposures are rigorously measured and monitored.

Credit risk

Risks arising from changes in customer credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of the businesses of the Bank. Adverse changes in the credit quality of the Bank's borrowers and counterparties or a general deterioration in the economic conditions in the UK, United States and/or globally, could affect the recoverability and value of the assets of the Bank and require an increase in the allowance for its impairment losses on credit exposures and other provisions. The Bank is at risk to spread widening and ultimately defaults on its inter-bank exposures, mitigated through credit assessment, limits and monitoring procedures.

Recent market turmoil and reduction of available credit have contributed to decreasing consumer confidence, increased market volatility and reduced business activity. On-going market developments

may result in a possible increase of commercial and consumer loan delinquencies and may further affect consumer confidence levels, possibly causing adverse changes in payment patterns, which may impact the Bank's charge-offs and provision for credit losses. Demand for commercial and residential property may be weakened as tenants face pressure from reduced domestic and European market activity and the availability of property asset financing remains challenging. These market conditions could materially and adversely affect the Bank's financial condition and results of operations.

The Bank's Credit Risk Management Policies are approved annually by the Board's Risk Committee and specify credit management standards, including country, sector and counterparty limits, along with delegated authorities. There can be no guarantee that such Credit Risk Management Policies will be effective to identify credit risks.

Market risk

The Bank's businesses are inherently subject to risks in financial markets and in the wider economy. Market movements have had and will have an impact on the Bank in a number of key areas. Declines in housing markets over the past four years have negatively impacted the credit performance of real estate related loans and resulted in significant write-downs of asset values by many financial institutions. These write-downs, initially of asset-backed securities but spreading to other securities and loans, have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions.

As a result of these market forces, volatility in basis spreads has increased, which could have an adverse effect on the current market value of the Bank's earnings and investment portfolio. In addition, the UK has recently experienced a period of historically low interest rates. This has adversely impacted net interest margins as a result of floors on liability pricing. Although the Bank is undertaking measures to mitigate and control the effects of these conditions, there can be no guarantees that such controls will insulate the Bank from deteriorating market conditions.

The Bank has implemented risk management policies to mitigate and control the market risks to which it is exposed, and exposures are regularly measured and monitored. The Bank's exposure to market risk is also limited in that it has only a small trading book from which it generates incremental income from proprietary trading within strict risk limits. However, it is difficult to predict changes in economic and market conditions accurately, and the effects that these changes could have on the Bank's financial performance and business operations.

Systemic risk resulting from failures in the banking industry

Within the banking industry, concerns about or a default by one institution could lead to significant liquidity problems, losses or defaults by other institutions. This risk is referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom the Bank interacts on a daily basis, which could have an adverse effect on the Bank's ability to raise new funding and on the Bank's business, results of operations and financial position.

Fair value adjustment risk

Market conditions have resulted, and may continue to do so in the future, in changes to the estimated fair values of financial assets of the Bank. Negative fair value adjustments may have a material adverse effect on the Bank's operating results, financial condition and prospects. Furthermore, on the

merger of the Bank with Britannia Building Society (“Britannia”) in 2009 (the “Merger”), Britannia’s net assets were restated to fair value. The majority of these Merger fair value adjustments unwind back through the income statement over the lives of the associated assets and liabilities. Although over time the impact is broadly neutral, the impact in any one year depends on the assumptions made about expected future arrears, interest rates, redemption rates and maturities. The timing of Merger fair value adjustment unwinds may have a material adverse effect on the Bank’s operating results, financial condition and prospects.

Additional risks related to the Merger

Transformation risks

As a result of the Merger, the Bank expects to increase its revenues and reduce the operating expenses of the combined business. However, there is no assurance that the Bank will be able to achieve the business growth opportunities, costs savings and other benefits it anticipates from the Merger. This may be because the assumptions upon which the Bank assessed the Merger, including the anticipated benefits of the Merger, may prove to be incorrect. Unanticipated delays in the integration of operations may impact the Bank’s assumptions regarding the benefits it expects to derive from the Merger and may delay such benefits. In addition, the Bank may incur greater costs than it has estimated in connection with integration.

If the Bank fails to achieve the business growth, cost-savings and other benefits it anticipates from the Merger, or it incurs greater integration costs than it has estimated, its results of operations, financial condition and/or the price of its securities may be adversely affected.

Integration risks

The Bank is still in a process of transition from the Merger and is continuing to integrate heritage systems and processes. There are risks associated with the integration of two organisations of the size of the Bank and Britannia. Particular areas of risk include: difficulties or unexpected costs relating to the integration of technology platforms, financial and accounting systems, risk management systems and management systems of two organisations; difficulties or unexpected costs in realising synergies from the consolidation of head office and back office functions; higher than expected levels of customer attrition or market share loss arising as a result of the Merger; unexpected losses of key personnel during or following the integration of the two businesses; possible conflict in the culture of the two organisations and decrease in employee morale.

If the implementation of such projects is not delivered on time, and/or the costs of implementation rise significantly and the Bank fails to exploit such projects once implemented, there is a risk that there could both be a delay to the future benefits, and an increased cost for the transformation process which may have an adverse effect on the Bank’s business, financial position and results of operations.

Furthermore, senior management may be required to devote significant time to the process of integrating the businesses which may decrease the time they have to manage the Bank’s ongoing business. If any of these risks should occur, or if there are unexpected delays in the integration process, the anticipated benefits of the merger may be delayed, achieved only in part, or not at all or at greater cost, which could have an adverse affect on the Bank’s results of operations or financial condition.

Bid by the Co-operative Group for the sale of bank branches by the Lloyds Banking Group

On 14 December 2011, the Co-operative Group, the ultimate parent of the Bank, was named as preferred bidder in the sale of 632 bank branches, 4.8 million customers and 754 ATMs by the Lloyds Banking Group (together and at the date of this Prospectus only, the "Verde Business").

On 19 July 2012, the Co-operative Group announced that it and Lloyds Banking Group agreed non-binding heads of terms for the acquisition of the Verde Business. The description of the Verde Business contained herein represents the business as at the time of agreeing non-binding heads of terms and is subject to change. There can be no certainty that the transaction will be completed or the terms on which it may be concluded. Any transaction will be subject to regulatory approvals from the FSA, the Office of Fair Trading, HM Treasury and the European Commission.

Even if the transaction is completed, there are risks associated with the integration of two organisations of the size of the Co-operative Group and the Verde Business. Particular areas of risk include: difficulties or unexpected costs relating to separate technology platforms, financial and accounting systems, risk management systems and management systems of two organisations; difficulties or unexpected costs in realising synergies from the consolidation of operational functions; higher than expected levels of customer attrition or market share loss arising as a result of the acquisition of the Verde Business; unexpected losses of key personnel during or following the integration of the two businesses; possible conflict in the culture of the two organisations and decrease in employee morale.

If the transaction does not complete on time and the integration of the Verde Business is not delivered on time, and/or the costs of implementation rise significantly and the Co-operative Group fails to exploit the acquisition of the Verde Business once completed, there is a risk that there could both be a delay to the future benefit, and an increased cost for the integration process which may have an adverse effect on the Co-operative Group's business, financial position and results of operations.

Furthermore, senior management of the Co-operative Group may be required to devote significant time to the process of integrating the businesses which may decrease the time they have to manage the Co-operative Group's ongoing business. If any of these risks should occur, or if there are unexpected delays in the integration process, the anticipated benefits of the acquisition of the Verde Business may be delayed, achieved only in part, or not at all or at greater cost, which could have an adverse effect on the Co-operative Group's results of operations or financial condition.

Downgrading by Moody's and Fitch as a result of the Bid by the Co-operative Group for the sale of bank branches by the Lloyds Banking Group

On 16 December 2011, and as a consequence of the announcement that the Co-operative Group was named as a preferred bidder for the Verde Business, Fitch placed the Bank's long and short-term Issuer Default Ratings and Viability Rating on Rating Watch Negative. There is no certainty as to the likelihood, or magnitude, of any Bank downgrade by Fitch or other any other credit rating agencies as a consequence of the progress of the purchase of the Verde Business. Fitch confirmed on 19 July 2012 that the Bank's long and short-term Issuer Default Ratings and Viability Rating on Rating Watch Negative status would be maintained, reflecting the likelihood of a further downgrade by the agency if the planned sale and purchase agreement for the Verde Business acquisition is finalised.

On 31 July 2012, Moody's placed the Bank's long-term and financial strength ratings on review for possible downgrade following the announcement that the Co-operative Group, agreed non-binding terms with Lloyds Banking Group to acquire the Verde Business.

ANY DOWNGRADE COULD HAVE A MATERIAL ADVERSE EFFECT ON THE BORROWING COSTS, LIQUIDITY AND FUNDING OF THE BANK. FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME

Operational risk

The Bank's businesses are dependent on the ability to process a very large number of transactions efficiently and accurately. Operational risk arises from the potential for key systems failures, breaches in internal controls, or from external events resulting in financial loss or reputational damage. Key operational risks include outsourced contracts, compliance (with legal and regulatory requirements), a decline in customer service levels, financial crime, prolonged supplier disruption, payment and information systems failures, and change management.

Operational risks associated with the integration of the businesses related to the Merger are discussed in the section headed "Integration Risks" below.

Operational risk is controlled and mitigated through comprehensive, ongoing risk management practices which include formal internal control procedures, training, and segregation of duties, delegated authorities and contingency planning. However, it is not possible to implement procedures which are fully effective in controlling each of the operational risks.

Notwithstanding anything in this risk factor, this risk factor should not be taken to imply that the Bank will be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the FSA.

Liquidity risk and wholesale funding markets

Liquidity risk arises from the timing of cash flows generated from the Bank's assets, liabilities and off-balance sheet instruments. The business has historically had a much lower reliance on wholesale funding than many of its competitors and this is expected to remain the case.

However any failure by the Bank to anticipate and provide for unforeseen decreases or changes in funding sources, including deterioration in the wholesale funding markets, could have adverse consequences on its ability to meet its obligations under the Notes.

The Bank's profitability or solvency could be adversely affected if access to liquidity and funding is constrained or made more expensive for a sustained period of time. Whilst the Bank expects to have sufficient access to liquidity to meet its funding requirements even in a stressed scenario, under extreme and unforeseen circumstances, a prolonged and severe restriction on the Bank's access to liquidity (including government and central bank facilities and liquidity support) could affect the Bank's ability to meet its financial obligations as they fall due or to fulfil its commitments to lend, and in such extreme circumstances the Bank may not be in a position to continue to operate without additional funding support, which it may be unable to access. These risks can be exacerbated by many enterprise-specific factors, including an over-reliance on a particular source of funding (including, for example, securitisations, covered bonds, foreign markets and short-term and overnight money markets), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters.

In order to continue to meet its funding obligations and to maintain or grow its businesses generally, the Bank relies on customer savings and transmission balances, as well as ongoing access to the global wholesale funding markets and central bank liquidity facilities. The ability of the Bank to access wholesale and retail funding sources on satisfactory economic terms is subject to a variety of

factors, including a number of factors outside of its control, such as liquidity constraints, general market conditions, regulatory requirements, the encouraged or mandated repatriation of deposits by foreign wholesale or central bank depositors and loss of confidence in the UK banking system, any of which could affect the Bank's profitability or, in the longer term under extreme circumstances, its ability to meet its financial obligations as they fall due.

The Bank from time to time avails itself of the Bank of England Sterling Money Market funding facilities. The Bank may face refinancing risk as transactions under these facilities mature. While the Bank expects that the impact of this refinancing risk can be mitigated by a combination of alternative funding and reductions in the Bank's net wholesale funding requirement, there can be no assurance that these mitigation efforts will be successful, which could lead to serious liquidity constraints and adversely impact solvency.

Continued or worsening disruption and volatility in the global financial markets could have a material adverse effect on the Bank's ability to access capital and liquidity on financial terms acceptable to it, if at all. Whilst various governments, including the UK government, have taken substantial measures to ease the crisis in liquidity, there can be no assurance that these measures will succeed in materially improving the liquidity position of major UK banks and building societies, including the Bank, in the long term. In addition, the availability and the terms on which any such measures will continue to be made available to the Bank in the longer term are uncertain. The Bank does not have influence over the policy making behind such measures. Further, there can be no assurance that these conditions will not lead to an increase in the overall concentration risk and cost of funding of the Bank or otherwise adversely affect the Bank.

In 2008, the Bank of England launched its Special Liquidity Scheme which allows banks to swap their high quality mortgage-backed and other securities for UK treasury bills for a defined period. The Bank has used the 2008 Special Liquidity Scheme in common with many banks and building societies, and has used this facility as an efficient way of maintaining a high level of liquidity. By the end of 2011, the Bank had fully repaid all outstanding Special Liquidity Scheme drawings. However, a number of other UK banks and building societies will be seeking to refinance their obligations under the Special Liquidity Scheme and/or the Credit Guarantee Scheme (which the Bank did not utilise) in 2012. Accordingly, this may have an impact on the liquidity of the wholesale funding markets generally and affect the Bank's ability to access wholesale funding arrangements on competitive and satisfactory market terms in order to meet its continuing funding requirements and could have a material impact on its liquidity.

The Bank's liquidity management policies are reviewed and approved annually by the Board Risk Committee and compliance is reviewed against these policies monthly by the Asset and Liability Committee ("ALCO").

Concentration risk

The lending book of the Bank has exposure to a range of clients, assets, industries and geographies which in isolation or combination could result in concentration risk, including in relation to UK residential mortgage lending. For further information on UK residential mortgage lending please refer to "*Risk Factors – United Kingdom housing and commercial property markets*".

Group risk

The Bank is part of the Co-operative Group Limited (the "Co-operative Group"), which contains a diverse range of trading companies whose businesses include amongst other things, financial services, food and non-food retailing, farming, funerals, travel and pharmacy. The Co-operative Group faces risks associated with each of these operating subsidiary activities. For the avoidance of doubt, the Co-

operative Group is not a guarantor of any debt or obligation of the Bank. Nor is the Bank a guarantor of any debt or obligation of the Co-operative Group.

From the beginning of 2012, the Bank and the Co-operative Group trading business came together under a new group executive structure as one element ("Project Unity").

Project Unity is a Co-operative Group programme seeking to maximise the customer and commercial benefits of belonging to the UK's largest consumer co-operative, and the Co-operative Banking Group, of which the Bank is a subsidiary, is a key participant in the project. At the beginning of 2012 a new group senior management structure was announced, reinforcing the common culture, purpose and strategic goals that unite its family of businesses. Project Unity began to roll out in depth in 2011. The Co-operative Banking Group now benefits from the economies of scale arising from a single procurement function, with further efficiency gains to be delivered as more enterprise functions are managed on a group basis.

The Bank governance structure for the regulated financial services entities continues as before and the regulated financial services continue to maintain their own Executive Team, Boards, and Board Committees and operate within the FSA's Approved Persons regime.

If the implementation of Project Unity is not delivered on time, and/or the costs of implementation rise significantly and the Bank fails to realise any benefits from Project Unity once implemented, there is a risk that there could both be a delay to the future benefits, and an increased cost for the transformation process which may have an adverse effect on the Bank's business, financial position and results of operations.

Reputational risk

As part of the Co-operative Group, the established ethical stance of the Bank and the integrity of the Bank's reputation are important factors in attracting and retaining a significant percentage of the Bank's customers. Any adverse perception of the image of any member of the Co-operative Group by its customers, or more widely by its counterparties, shareholders, investors or regulators could have an adverse impact on the capital, earnings and balance sheet of the Bank.

Regulatory compliance and litigation risk

The Bank operates in a legal and regulatory environment that exposes it to potentially significant litigation and regulatory compliance risks. Regulatory compliance risk arises from a failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial services industry. Non-compliance could lead to fines, public reprimands, damage to reputation, enforced suspension of operations or, in extreme cases, withdrawal of authorisations to operate. It is not possible for the Bank to predict what regulatory proceedings may arise in the future.

The Bank may from time to time be involved in various disputes and legal proceedings including litigation and regulatory investigations. Such cases are subject to many uncertainties and their outcome is often difficult to predict. Industry wide regulatory actions in respect of payment protection insurance may expose the Bank to compensatory claims from customers.

In 2011, the British Bankers Association decided not to proceed with its appeal regarding Payment Protection Insurance ("PPI") complaints. The Bank has made provision of £90.0 million (2010: £4.3 million) in its 2011 accounts to cover the cost of redress and administration of PPI complaints, principally in relation to PPI sold with unsecured credit offerings. A further PPI provision of £40.0 million was made in the first six months ended 30 June 2012. These provisions follow legal proceedings brought by the British Bankers Association against the FSA and the Financial Services

Ombudsman (the “Ombudsman”), in which the High Court gave a decision, which became final on 10 May 2011, that intervention by the FSA and the Ombudsman on PPI complaints handling is lawful. The provisions were based on the FSA's policy statement and industry claims experience. Its calculation required significant judgment in determining appropriate assumptions, which include the level of complaints, uphold rates, proactive contact and response rates, and Ombudsman referral rates.

Notwithstanding anything in this risk factor, this risk factor should not be taken to imply that the Bank will be unable to comply with its obligations as a supervised firm regulated by the FSA.

Regulation

The sale of banking and general insurance products by the Bank is regulated by the FSA. The regulatory regime requires the Bank to be compliant across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Bank fails to be compliant with relevant regulations, there is a risk of an adverse impact on the business due to sanctions, fines or other action imposed by the regulatory authorities.

The FSA, and other bodies such as the Ombudsman, could impose further regulations or obligations in relation to current and past dealing with retail customers. As a result, the Bank may incur costs in complying with these regulations or obligations relating to its business, including potential compensation and costs relating to sales advice given to retail customers.

One of the current issues in this area is the Office of Fair Trading (the “OFT”) investigation into unarranged overdraft fees on personal current accounts. This specific issue applies to the Bank, as the Bank is a personal current account provider. In March 2010, the OFT announced that it is not recommending legislative change specific to overdraft fees at the present time, but expects to conduct a review of the personal current account market in 2012. Should the investigation ever expand to include an investigation into fees in general, as opposed to the present focus on overdraft fees, this may then impact upon the Bank.

Credit rating risks

The Bank's borrowing costs and access to the capital markets depend significantly on the Bank's credit ratings. Reduction in the credit ratings of the Bank could significantly increase its borrowing costs, limit its access to the capital markets and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. In turn this could materially adversely affect the Bank's access to liquidity and competitive position, increase its funding costs and, hence, have a material adverse effect on the Bank's business, financial position and results of operations.

If sentiment towards the banks, building societies and/or other financial institutions operating in the UK residential mortgage market (including the Bank) were to further deteriorate, or if the Bank's ratings and/or the ratings of the sector were to be further adversely affected, this may have a materially adverse impact on the Bank. In addition, such change in sentiment or further reduction in ratings could result in an increase in the costs and a reduction in the availability of wholesale market funding across the financial sector which could have a material adverse effect on the liquidity and funding of all UK financial services institutions, including the Bank.

Financial Services Compensation Scheme

The Financial Services and Markets Act 2000 (the “FSMA”) established the Financial Services Compensation Scheme (the “FSCS”), which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. An institution's FSCS levy is linked to its share of the UK deposit market, and therefore its FSCS levy

may have a material impact on its profits. As at the date of this Prospectus, a number of claims against the FSCS have been triggered. Claims on the FSCS are funded by loans from the Bank of England, and until such loans are repaid, increased levies on UK deposit-taking institutions fund interest payments on such loans. As a result of the various claims under the FSCS, the Bank, in common with all regulated UK deposit takers, has recently been subject to significantly increased FSCS levies. In certain circumstances, regulated UK deposit takers may further be required to fund, by way of a further increase in the FSCS levy, the capital repayment to the Bank of England of such loans. There can also be no assurance that there will be no actions taken under the Banking Act 2009 (the “Banking Act”) that may lead to future claims against the FSCS, and concomitant increased FSCS levies payable by the Bank (and other regulated UK deposit takers), which may have a material adverse effect on its results of operations.

While it is anticipated that the substantial majority of claims will be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS may place additional levies on all FSCS participants, which levies may be in significant amounts that may have a material impact on the Bank’s profits. Historically, FSCS levies have tended to increase over time (especially during and in the aftermath of periods of economic crisis), and there can also be no assurance that there will be no actions taken under the Banking Act that may lead to further claims against the FSCS and concomitant increased FSCS levies payable by the Bank. Any such increases in the Bank’s costs and liabilities related to the levy may have a material adverse effect on its results of operations. Further costs and risks to the Bank may also arise from discussions at national and European Union levels around the future design of financial services compensation schemes, including increasing the scope and level of protection and moving to pre-funding of compensation schemes.

As of 3 October 2011, the FSA recommenced work on the FSCS Funding Model Review (the “FFMR”) and published a consultation paper on 25 July 2012 with the deadline for responses being 25 October 2012. The FFMR will concentrate on issues such as the composition of the nine funding classes, the levy thresholds applicable to each and their tariff bases.

As a result of the structural reorganisation and reform of the UK financial regulatory authorities, it is proposed that the FSCS will become the responsibility of one of the successor regulatory authorities to the FSA. It is possible that future policy of the FSCS and future levies on the Bank may differ from those at present, and such reforms could lead the Bank to incur additional costs and liabilities, which may adversely affect its business, financial condition and/or results of operations.

The Bank has provided £25.8 million as at 30 June 2012 (31 December 2011: £25.0 million) for its share of the levies that will be raised by the FSCS including the interest on the loan from the HM Treasury in respect of the levy years 1 April 2011 to 31 March 2012 and 1 April 2012 to 31 March 2013. The provision includes estimates for the interest the FSCS will pay on the loan and of the Bank’s market participation in the relevant years. In this regard, the Bank has made provision for fees for the 31 March 2012 levy year (using an interest rate of 12 month Sterling LIBOR plus 30 basis points) and the 31 March 2013 levy year (using the expected interest rate of 12 month Sterling LIBOR plus 100 basis points). Although the liabilities are considered to be material to the Bank, and they have been recognised, as mentioned, and duly disclosed, the ultimate cost to the industry in respect of increased FSCS levies remains uncertain.

The FSCS announced in March 2012 that it expects an additional capital levy totalling £802 million to be charged to the industry proportionally, in three roughly equal instalments beginning in 2013/2014. In line with regulatory guidance, as at the date of this Prospectus, the Bank has not provided for this additional levy.

Risks relating to impacts of regulatory change

The Bank is subject to laws, regulations, administrative actions and policies affecting financial institutions in the UK. Changes in supervision and regulation in the UK could materially affect the business of the Bank, the products and services offered or the value of its assets. Although the Bank works closely with its regulators and continually monitors the situation, future changes in regulation, fiscal or other policies can be unpredictable and are beyond the control of the Bank.

Future legislative and regulatory changes could force the Bank to comply with certain operational restrictions, take steps to raise further capital, and/or increase the Bank's expenses and/or otherwise adversely affect the Bank's business results, financial condition or prospects, those minimum regulatory requirements may increase in the future and/or the FSA may change the manner in which it applies existing regulatory requirements.

The Bank conducts its business subject to ongoing regulation by the FSA, which oversees the sale of residential mortgages, commercial lending, banking and general insurance products. The regulatory regime requires the Bank to be in compliance across many aspects of activity, including the training, authorisation and supervision of personnel, systems, processes and documentation. If the Bank fails to be compliant with relevant regulations, there is a risk of an adverse impact on its business due to sanctions, fines or other action imposed by the regulatory authorities. This is particularly the case in the current market environment, which is witnessing increased levels of government intervention in the banking, personal finance and real estate sectors. Future changes in regulation, fiscal or other policies are unpredictable and beyond the Bank's control and could materially adversely affect its business or operations.

There are a number of business risks associated with the UK personal finance sector that alone or cumulatively could have a material adverse effect on the Bank's operations. These risks include:

- if the UK were to adopt the euro as its currency. The Bank has incurred costs preparing its business for the potential adoption of the euro, and these costs will continue. Additionally, the adoption of the euro could destabilise the UK's economy, which may have an adverse effect on the Bank's business; and
- the FSA (and, in the future, its successor regulatory bodies) and other bodies such as the Ombudsman, could impose additional regulations on current and past dealings with retail customers. As a result, the Bank may be required to incur costs to apply these regulations to its business.

In July 2009, the UK government issued a White Paper (the "White Paper") which builds on and responds to the previously published Turner Review (March 2009) and the Bank of England Financial Stability Report (June 2009), both of which contained proposals for reform of the structure and regulation of the banking system. Proposals in the White Paper included: enhanced regulatory powers for the FSA; introducing pre-funding for the UK's deposit protection scheme by 2012; requiring banks to develop and maintain detailed plans for winding down (or resolution); and more stringent capital and liquidity requirements for systemically significant firms.

In October 2009, the second Turner Review was published, which developed some issues highlighted for further discussion from the March review. In November 2009, the Financial Services Bill was presented to Parliament and in April 2010 the Financial Services Act (the "FS Act") was passed. The FS Act amends the FSMA to provide the FSA with a new financial stability statutory objective, gives the FSA significant new powers to make rules on remuneration arrangements, short selling, recovery and resolution plans to reduce systemic risks associated with the failure of financial institutions, consumer redress schemes, to gather information relevant to financial stability and extends its enforcement powers.

The UK government announced a range of structural reforms to UK financial regulatory bodies to be implemented with respect to the following matters:

- the existing tripartite regulatory regime in the UK will be abolished;
- the FSA will cease to exist in its current form;
- a new Financial Policy Committee will be established in the Bank of England which will be responsible for macroprudential regulation, or regulation of stability and resilience of the financial system as a whole;
- an independent subsidiary of the Bank of England, the Prudential Regulation Authority, will be established which will be responsible for micro-prudential regulation of financial institutions that manage significant risks on their balance sheets; and
- the Financial Conduct Authority (the “FCA”), previously referred to as the Consumer Protection and Markets Authority, will be established and will have the responsibility for conduct of business and markets regulation. The FCA will also represent the UK’s interests in markets regulation at the new European Securities and Markets Authority.

In June 2010, the UK Government created the Independent Commission on Banking (the “ICB”) to consider and to make recommendations on structural and related non-structural reforms to the UK banking sector to promote, among other things, financial stability and competition. The ICB released its Final Report to the Cabinet Committee on Banking Reform on 12 September 2011, which sets out the ICB’s recommendations on reforms. These recommendations included (amongst other things): (i) that the UK and EEA retail banking services of UK banks or building societies should be placed in a legally distinct, operationally separate and economically independent entity (so called “ring-fencing”); (ii) that a power be introduced for the UK authorities to bail-in debt issued by UK banks and building societies (such as the Bank); (iii) increasing UK banks’ and building societies’ loss-absorbing capacity (including by way of bail-in bonds) to levels higher than those required by the Basel III proposals; (iv) increasing the ranking of insured depositors on a winding-up to rank ahead of all other unsecured creditors; and (v) promoting competition in UK retail banking. The ICB has indicated that the reforms will require an extended implementation period and has recommended that implementation should be completed at the latest by the start of 2019. If implemented, the ICB’s recommendations would have an impact on the manner in which the Bank conducts its business, may affect its ability to satisfy its obligations under the Notes and/or may result in modifications to the terms of the Notes, which may have certain tax implications. The UK Government published a white paper setting out its proposals for taking forward implementation of the ICB’s recommendations on 14 June 2012 and indicated that primary and secondary legislation will be completed by May 2015, with UK banks and building societies required to be compliant by 1 January 2019. Changes to the structure of UK banks and building societies and an increase in the amount of loss-absorbing capital issued by UK banks and building societies may have a material adverse impact on the Bank’s results and financial condition. It is also not possible to predict the detail of the implementation legislation or the ultimate consequences for the Bank.

A bank levy was introduced on 1 January 2011. The levy applies to UK banking groups, building societies and the operations of non-UK banks in the UK, but only to the extent that the relevant aggregate liabilities (subject to certain exclusions, including for Tier 1 capital instruments, insured retail deposits and repos secured on sovereign debt) of such institutions amount to £20 billion or more. The UK Government announced in the 2011 Budget that it intends that the bank levy should raise at least £2.5 billion each year. The current rate of the bank levy is 0.088 per cent. As the Bank is currently below the threshold, however, the levy does not apply to the Bank.

From 1 January 2011, an updated FSA remuneration code (the “FSA Remuneration Code”) came into effect which applies to the UK’s largest banks and building societies (including the Bank) and sets

forth certain remuneration principles affecting fixed and variable remuneration of employees of covered institutions. Although the Bank's management does not believe the FSA Remuneration Code has historically affected or presently affects its ability to recruit or retain personnel, there can be no assurance that the aforementioned restrictions will not adversely affect the Bank's business, financial condition or results of operations.

It was also announced in connection with the 2010 UK Government Budget that the UK Government would consult on a remuneration disclosure scheme. The Bank is not aware of any developments with the remuneration disclosure scheme since the original announcement.

At this point it is impossible to predict how and the extent to which the foregoing recently announced changes will impact on the Bank's operations, business results, financial condition or prospects.

Accordingly, there can be no assurance that any changes to the existing regulatory regime arising from the implementation of any of the foregoing matters or any other regulatory changes that may be proposed will not have a material adverse effect on the Bank's operations, business, results, financial condition or prospects.

The Banking Act has conferred substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit taking institutions which are considered to be at risk of failing. The exercise of any of these actions in relation to the Bank could materially adversely affect the value of any Notes.

The Banking Act, which came into effect on 21 February 2009, includes (amongst other things) provision for a special resolution regime (the "SRR") pursuant to which specified UK authorities have extended tools to deal with the failure (or likely failure) of a UK bank or building society (such as the Bank).

The orders which may be made under the Banking Act in respect of relevant deposit-taking institutions relate to share transfer powers (applying to a wide range of securities) and property transfer powers (including powers for partial transfers of property, rights and liabilities), certain ancillary powers (including powers to modify certain contractual arrangements in certain circumstances, including between group companies, and/or disapplication or modification of laws (with possible retrospective effect)) and two new special insolvency procedures (bank insolvency and bank administration) which may be commenced by UK authorities.

In general, the Banking Act requires the UK authorities to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial systems of the UK. It is a condition to the exercise of a stabilisation power under the Banking Act that the FSA must be satisfied that the relevant bank or building society is failing or likely to fail to meet the FSA's threshold conditions for authorisation and that, having regard to timing and other relevant circumstances, it is not reasonably likely that action would be taken that would have enabled such bank or building society to satisfy the threshold conditions. The Banking Act includes provisions related to compensation in respect of transfer instruments and orders made under it.

If an instrument or order were to be made under the Banking Act in respect of the Bank, such instrument or order may (amongst other things) (i) result in a transfer to another issuer via the modified tools described above and/or (ii) affect the Bank's ability to satisfy its obligations under the Notes and/or (iii) result in modifications to the terms of the Notes, which may have certain tax implications. In addition, the Banking Act contains particular powers for provisions to be included in an instrument or order that such instrument or order (and possibly certain related events) be

disregarded in determining whether certain widely defined “default event” provisions have occurred (which default events could include certain events of default under any Notes) and provides for the disapplication or modification of laws (with possible retrospective effect) and/or fiscal consequences in connection with the exercise of powers under the Banking Act.

At present, the UK authorities have not made an instrument or order under the UK Banking Act in respect of the Bank and there has been no indication that it will make any such instrument or order, but there can be no assurance that this will not change and/or that the holders of Notes will not be adversely affected by any such instrument or order if made.

In 2011, the European Commission consulted on Technical Details of a Possible EU Framework for Bank Recovery and Resolution which, if implemented, could:

- require changes to the scope of powers and tools available to the UK authorities under the Banking Act, including by allowing “bail-in” of debt (potentially including the Notes), generally understood as a forced write-off or write-down of debt, most likely with compensation provided in the form of equity in the relevant institution;
- provide the UK authorities with power to intervene in the management, or to require changes to the legal or operational structure, of an affected financial institution, including the Bank, prior to the point at which it is considered to be failing or likely to fail; and/or
- otherwise impact the business of the Bank in ways that may affect its ability to satisfy its obligations under the Notes and/or result in modifications to the terms of the Notes.

Moreover there can be no assurance that amendments may not be made to the Banking Act or other legislation introduced in the UK which would have the effect of amending the SRR described above, and as a result, the position of Noteholders. For example, the European Commission launched a consultation on 6 January 2011 on a comprehensive framework for dealing with failing banks and the Basel Committee on Banking Supervision (the “Basel Committee”) put forward requirements for Tier 1 and Tier 2 capital instruments on 13 January 2011 which may lead to legislation and/or rules being introduced which would require such instruments to be written off (i.e. by way of a reduction in the principal amount outstanding of such instruments to a lesser amount or to zero, as the case may be) or converted into ordinary shares at the point of a bank’s non-viability. The introduction of any such legislation may have an adverse effect on the position of Noteholders. See also “*Impact of Basel Committee reforms on subordinated debt*”.

The following paragraphs set out some of the possible consequences of the exercise of those powers under the SRR.

The SRR may be triggered prior to insolvency of the Bank

The purpose of the stabilising options is to address the situation where all or part of a business of a relevant entity has encountered, or is likely to encounter, financial difficulties, giving rise to wider public interest concerns. Accordingly, the stabilisation options may only be exercised if (a) the FSA is satisfied that a relevant entity (such as the Bank) is failing, or is likely to fail, to satisfy the conditions that a relevant entity must satisfy in order to retain its authorisation to accept deposits, (b) following consultation with the other authorities, the FSA determines that it is not reasonably likely that (ignoring the stabilising options) action will be taken that will enable the relevant entity to satisfy those conditions and (c) the UK authorities consider the exercise of the stabilisation options to be necessary, having regard to certain public interest considerations (such as the stability of the UK financial systems, public confidence in the UK banking system and the protection of depositors). It is therefore possible that one of the stabilisation options could be exercised prior to the point at which any insolvency proceedings with respect to the relevant entity could be initiated.

A partial transfer of the Bank's business may result in a deterioration of its creditworthiness

If the Bank were made subject to the SRR and a partial transfer of its business to another entity were effected, the quality of the assets and the quantum of the liabilities not transferred and remaining with the Bank (which may include the Notes) may result in a deterioration in the creditworthiness of the Bank and, as a result, increase the risk that it may be unable to meet its obligations in respect of the Notes and/or eventually become subject to administration or insolvency proceedings pursuant to the Banking Act. In such circumstances, Noteholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no assurance that Noteholders would thereby recover compensation promptly or equal to any loss actually incurred.

As at the date of this Prospectus, the UK authorities have not made an instrument or order under the Banking Act in respect of the Bank and there has been no indication that they will make any such instrument or order. However, there can be no assurance that this will not change and/or that Noteholders will not be adversely affected by any such order or instrument if made.

Various actions may be taken in relation to the Notes without the consent of the Noteholders

If the Bank were made subject to the SRR, HM Treasury or the Bank of England may exercise extensive share transfer powers (applying to a wide range of securities) and property transfer powers (including powers for partial transfers of property, rights and liabilities) in respect of the Bank. Exercise of these powers could involve taking various actions in relation to any securities issued by the Bank (including the Notes) without the consent of the Noteholders, including (among other things):

- transferring the Notes notwithstanding any restrictions on transfer and free from any trust, liability or encumbrance;
- delisting the Notes;
- converting the Notes into another form or class (the scope of this power is unclear, although it may include, for example, conversion of the Notes into equity securities);
- modifying or disapplying certain terms of the Notes, including disregarding any termination or acceleration rights or events of default under the terms of the Notes which would be triggered by the transfer and certain related events; and/or
- where property is held on trust, removing or altering the terms of such trust.

There can be no assurance that the taking of any such actions would not adversely affect the rights of Noteholders, the price or value of their investment in the Notes and/or the ability of the Bank to satisfy its obligations under the Notes. In such circumstances, Noteholders may have a claim for compensation under one of the compensation schemes existing under, or contemplated by, the Banking Act, but there can be no assurance that Noteholders would thereby recover compensation promptly or equal to any loss actually incurred.

The European Commission has published proposals for a crisis management directive which is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The full scope of the directive and its impact on the Bank is currently unclear but the implementation of the directive or the taking of any action under it could materially affect the value of any Notes.

On 6 June 2012, the European Commission published a legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the “Crisis Management Directive” or “CMD”). The stated aim of the draft

CMD is to provide authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses. The powers provided to authorities in the draft CMD are divided into three categories: (i) preparatory steps and plans to minimise the risks of potential problems (preparation and prevention); (ii) in the event of incipient problems, powers to arrest a firm's deteriorating situation at an early stage so as to avoid insolvency (early intervention); and (iii) if insolvency of a firm presents a concern as regards the general public interest, a clear means to reorganise or wind down the firm in an orderly fashion while preserving its critical functions and limiting to the maximum extent any exposure of taxpayers to losses.

The draft CMD currently contains four resolution tools and powers: (i) sale of business - which enables resolution authorities to direct the sale of the firm or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with the procedural requirements that would otherwise apply; (ii) bridge institution - which enables resolution authorities to transfer of all or part of the business of the firm to a "bridge bank" (a public controlled entity); (iii) asset separation - which enables resolution authorities to transfer impaired or problem assets to an asset management vehicle to allow them to be managed and worked out over time; and (iv) bail-in - which gives resolution authorities the power to write-down the claims of unsecured creditors of a failing institution and to convert debt claims to equity (subject to certain parameters as to which liabilities would be eligible for the bail-in tool).

The draft CMD currently contemplates that it will be implemented in Member States with effect from 1 January 2015, except for the bail in tool, which is to be implemented by 1 January 2018.

The powers currently set out in the draft CMD would impact how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. However, the proposed directive is not in final form and changes may be made to it in the course of the legislative process. In addition, many of the proposals contained in the draft CMD have already been implemented in the Banking Act and it is currently unclear as to what extent, if any, the provisions of the Banking Act may need to change once the draft CMD is implemented. See "*The Banking Act has conferred substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit taking institutions which are considered to be at risk of failing. The exercise of any of these actions in relation to the Bank could materially adversely affect the value of any Notes.*" Accordingly, it is not yet possible to assess the full impact of the draft CMD on the Bank and there can be no assurance that, once it is implemented, the fact of its implementation or the taking of any actions currently contemplated in it would not adversely affect the rights of Noteholders, the price or value of their investment in the Notes and/or the ability of the Bank to satisfy its obligations under the Notes.

The Bank's business performance could be adversely affected if its capital is not managed effectively or as a result of changes to capital adequacy and liquidity requirements

Effective management of the Bank's capital is critical to its ability to operate its businesses, and to grow organically. The Bank is required by the FSA to maintain adequate capital resources. The maintenance of adequate capital is also necessary for the Bank's financial flexibility in the face of continuing turbulence and uncertainty in the global economy. The FSA's liquidity policy statement issued in October 2009 states that UK regulated firms must hold sufficient eligible securities to survive a liquidity stress and that liquidity policy statement, together with the developments described below, has resulted in the Bank holding a greater amount of government securities to ensure that it has adequate liquidity in times of financial stress.

On 16 December 2010, the Basel Committee published the Basel III rules in documents entitled "Basel III: A global regulatory framework for more resilient banks and banking systems" (containing

the reforms relating to capital) (revised in June 2011) and “Basel III: International framework for liquidity risk measurement, standards and monitoring” (containing the reforms relating to liquidity).

The Basel Committee’s package of reforms includes increasing the minimum common equity requirement from 2 per cent. (before the application of regulatory adjustments) to 4.5 per cent. (after the application of stricter regulatory adjustments). The total Tier 1 capital requirement, which includes common equity and other qualifying financial instruments, will increase from 4 per cent. to 6 per cent. The total capital requirement (which comprises Tier 1 capital and Tier 2 capital) remains at 8 per cent. In addition, banks will be required to maintain, in the form of common equity (after the application of deductions), a capital conservation buffer of 2.5 per cent. to withstand future periods of stress, bringing the total common equity requirements to 7 per cent. If there is excess credit growth in any given country resulting in a system-wide build up of risk, a countercyclical buffer within a range of 0 per cent. to 2.5 per cent. of common equity (or possibly other fully loss absorbing capital) is to be applied as an extension of the conservation buffer. In addition, a leverage ratio will be introduced, together with a liquidity coverage ratio and a net stable funding ratio. The liquidity coverage ratio is intended to promote resilience to potential liquidity stress scenarios lasting for a 30-day period. The net stable funding ratio is intended to limit over reliance on short-term wholesale funding and has been developed to provide a sustainable maturity structure of assets and liabilities.

The implementation of the Basel III reforms will begin on 1 January 2013, however the requirements are subject to a series of transitional arrangements and will be phased in over a period of time, to be fully effective by 2019.

A perceived or actual shortage of capital could result in actions or sanctions, which may have a material adverse effect on the Bank’s business, including its operating results, financial condition and prospects. This, in turn, may affect the Bank’s capacity to continue its business operations, pay future distributions or pursue acquisitions or other strategic opportunities, impacting future growth potential. The circumstances which could give rise to shortages of capital and force the Bank to raise additional capital include the following:

- the Bank may experience a depletion of its capital resources through increased costs or liabilities incurred as a result of the crystallisation of any of the other risk factors described elsewhere in this section;
- the Bank may experience an increased demand for capital. The Bank currently meets, and expects to continue to meet, all regulatory capital requirements. However, the FSA could, for example, impose new or revised minimum and buffer capital requirements, apply increasingly stringent stress case scenarios and/or change the manner in which it applies existing regulatory requirements to the Bank;
- the Basel III reforms include increased minimum levels of, and quality standards for, capital, increased risk weighting of assets and the introduction of a minimum leverage ratio and additional capital buffers. The final details of these reforms and the impact on the cost of capital are still to be clarified, and could impact the Bank more severely than currently forecast. For example, the extent to which certain of the Bank’s existing capital instruments will cease to qualify as capital (if at all) under the new Basel III rules is still to be finalised; and/or
- the Bank may also experience pressure to increase its capital ratios as a result of market expectations arising from increased capital levels or targets amongst its peer banks or through the views of rating agencies or investors.

The Bank cannot predict the precise effects of the potential changes that might result from implementation of the reforms on both its own financial performance or the impact on the pricing of

its Notes issued under the Programme. See also “*Impact of Basel Committee reforms on subordinated debt*”.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

If the Bank has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.

An optional redemption feature of Notes is likely to limit their market value. During any period when the Bank may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Bank may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Loss of investment

If, in the case of any particular Tranche of Notes, the relevant Final Terms specify that the Final Redemption Amount of the Notes is other than 100 per cent. of the nominal value of such Notes, there is a risk that any investor may lose the value of their entire investment or part of it.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Bank has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Bank may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Bank converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Bank converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

The Bank's obligations under Subordinated Notes are subordinated

The Bank's obligations under Subordinated Notes will be unsecured and subordinated and will rank junior in priority to claims of Senior Creditors. “Senior Creditors” means creditors of the Bank whose

claims are admitted to proof in the winding up of the Bank and who are unsubordinated creditors of the Bank, and “Subordinated Creditors” means creditors of the Bank (including, without limitation, the Subordinated Noteholders and the Subordinated Couponholders) whose claims against the Bank are, or are expressed to be, subordinated in the event of the winding up of the Bank in any manner to the claims of any unsecured and unsubordinated creditor of the Bank, but excluding those subordinated creditors of the Bank (if any) whose claims rank, or are expressed to rank, junior to the claims of the Subordinated Noteholders and Subordinated Couponholders and/or to the claims of any other creditors of the Bank whose claims rank, or are expressed to rank, *pari passu* with the claims of the Subordinated Noteholders and Subordinated Couponholders or with whose claims the claims of the Subordinated Noteholders and Subordinated Couponholders rank, or are expressed to rank, *pari passu*. Although Subordinated Notes may pay a higher rate of interest than comparable Notes which are not subordinated, there is a real risk that an investor in Subordinated Notes will lose all or some of his investment should the Bank become insolvent.

Impact of Basel Committee reforms on subordinated debt

On 16 December 2010 and on 13 January 2011, the Basel Committee issued its final guidance on the eligibility criteria for Tier 1 and Tier 2 capital instruments as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions (“Basel III”) (see “*The Bank’s business performance could be adversely affected if its capital is not managed effectively or as a result of changes to capital adequacy and liquidity requirements*” above).

In the European Union, Basel III will be reflected by amendments to the Capital Requirements Directive (known as “CRD IV”) and the application of an EU regulation (known as “CRR”) directly in each member state. Drafts of CRD IV and CRR have been released by the European Commission but are not yet published in final form. On 1 August 2012, the FSA issued a statement that following the delay of the Parliament’s plenary vote on the amendments to CRD IV and CRR, it does not appear feasible that the legislation can enter into force in line with the implementation date of 1 January 2013 as included in the original European Commission proposal of July 2011. The FSA also noted that no alternative date has yet been communicated by the EU institutions.

The Basel Committee’s press release dated 13 January 2011 entitled “Minimum requirements to ensure loss absorbency at the point of non-viability” (the “January 2011 press release”) included an additional Basel III requirement (the “Basel III Non-Viability Requirement”) as follows:

“The terms and conditions of all non-common Tier 1 and Tier 2 instruments issued by an internationally active bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of the trigger event unless:

- (a) the governing jurisdiction of the bank has in place laws that (i) require such Tier 1 and Tier 2 instruments to be written off upon such event, or (ii) otherwise require such instruments to fully absorb losses before tax payers are exposed to loss;
- (b) a peer group review confirms that the jurisdiction conforms with clause (a); and
- (c) it is disclosed by the relevant regulator and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under clause (a) in this paragraph.

The trigger event is the earlier of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make

a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority. ”

The January 2011 Press Release states that instruments issued after 1 January 2013 must meet these requirements in order to be recognised as Tier 1 or Tier 2 capital instruments for regulatory capital purposes. The recognition of instruments issued before 1 January 2013 which do not meet these requirements will be phased out from 1 January 2013.

The powers provided to resolution authorities in the draft CMD (See “*The European Commission has published proposals for a crisis management directive which is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The full scope of the directive and its impact on the Bank is currently unclear but the implementation of the directive or the taking of any action under it could materially affect the value of any Notes*” above) include write-down powers to ensure relevant capital instruments (including Tier 2 capital instruments such as the Notes) fully absorb losses at the point of non-viability of the issuing institution. Accordingly, the draft CMD contemplates that resolution authorities will be required to write-down such capital instruments in full on a permanent basis or convert them into common equity tier 1 instruments at the point of non-viability (which common equity tier 1 instruments may also be subject to any application of the bail-in tool) and before any other resolution action is taken (the “CMD Loss Absorption Requirement”).

For the purposes of the CMD Loss Absorption Requirement, the point of non-viability under the draft CMD is the point at which the appropriate resolution authority determines that the institution meets the conditions for resolution or will no longer be viable unless the relevant capital instruments are written down or extraordinary public support is to be provided and without such support the appropriate authority determines that the institution would no longer be viable.

The draft CMD contemplates that it will be implemented in Member States with effect from 1 January 2015.

The draft CMD currently represents the only official proposal for the implementation in the European Economic Areas of the Basel III Non-Viability Requirement.

No official statement has yet been made whether there will be any implementation of the Basel III Non-Viability Requirement in the European Economic Area generally or by any Member State pending implementation of the CMD Loss Absorption Requirement in 2015.

It is currently unclear whether the CMD Loss Absorption Requirement, when implemented, will apply to capital instruments (such as Subordinated Notes) that are already in issue at that time of implementation or whether certain grandfathering rules will apply. If and to the extent that the draft CMD is implemented retrospectively so as to apply to the Subordinated Notes, the Subordinated Notes will be subject to the provisions of the CMD (including the CMD Loss Absorption Requirement). Subordinated Notes may be subject to write-down or conversion to common equity tier 1 instruments upon the occurrence of the relevant trigger event, which may result in Noteholders losing some or all of their investment. The exercise of any such power or any suggestion or anticipation of such exercise could, therefore, materially adversely affect the value of Subordinated Notes.

In addition to the CMD Loss Absorption Requirement, the draft CMD provides resolution authorities with broader powers to implement other resolution measures with respect to distressed banks, which may include (without limitation) the replacement or substitution of the Bank as obligor in respect of debt instruments, modifications to the terms of debt instruments (including altering the maturity and/or the amount of interest payable and/or imposing a temporary suspension on payments) and discontinuing the listing and admission to trading of financial instruments.

The draft CMD is not in final form and changes may be made to it in the course of the legislative process. In addition, as noted above, it is unclear whether the Basel III Non-Viability Requirement could be applied in respect of the Notes ahead of implementation of the CMD. Accordingly, it is not yet possible to assess the full impact of the relevant loss absorption provisions. Once implemented, the fact of applicable loss absorption provisions or the taking of any actions by the European Union and/or the authorities in the UK may implement the package of reforms, including the terms which capital securities are required to have, in a manner that is different from that which is currently envisaged, or may impose more onerous requirements on UK banks. Until fully implemented, the Bank cannot predict the precise effects of the changes that result from any proposed Basel III reforms on both its own financial performance and/or the pricing of the Notes. See also “*Risks relating to the Banking Act 2009*”.

The expected implementation of a bail-in tool under the CMD as of 1 January 2018 could affect the Ordinary Notes issued by the Bank

A bail-in tool (which comprises a general power for resolution authorities to write-down the claims of certain unsecured creditors (which may include holders of Ordinary Notes) of a failing institution or to convert such debt claims to equity, which may itself be subject to write-down) is expected to be implemented under the CMD as of 1 January 2018. The bail-in tool can be used to recapitalise an institution that is failing or about to fail, allowing authorities to restructure it through the resolution process and restore its viability after reorganisation and restructuring. If the CMD is implemented in its current form, such bail-in tool could be used to impose losses on holders of Ordinary Notes where the relevant notes mature after 1 January 2018. This may result in holders of Ordinary Notes losing some or all of their investment. The exercise of any such power or any suggestion or anticipation of such exercise could, therefore, materially adversely affect the value of the Ordinary Notes (including retrospectively, if and to the extent the draft CMD is implemented retrospectively so as to apply to the Ordinary Notes). However, the draft CMD is not in final form and changes may be made to it in the course of the legislative process. Until fully implemented, the Bank cannot predict the precise effects of the bail-in tool and its use in relation to the Ordinary Notes.

Risks related to Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

The conditions of the Notes contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Noteholders and without regard to the individual interests of particular Noteholders.

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders and without regard to the interests of particular Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Bank, in the circumstances described in Conditions 16 and 18 of the conditions of the Notes.

The Notes may be subject to withholding taxes in circumstances where the Bank is not obliged to make gross-up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Notes.

Withholding under the European Monetary Union

If the UK joins the European Monetary Union prior to the maturity of the Notes, there is no assurance that this would not adversely affect investors in the Notes. It is possible that prior to the maturity of the Notes the UK may become a participating Member State and that the euro may become the lawful currency of the UK. In that event (i) all amounts payable in respect of any Notes denominated in Sterling may become payable in euro, (ii) the law may allow or require such Notes to be redenominated into euro and additional measures to be taken in respect of such Notes, and (iii) there may no longer be available published or displayed rates for deposits in Sterling used to determine the rates of interest on such Notes or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the Notes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "EU Savings Directive"), Member States are required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or certain limited types of entity established in that other Member State. However, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35%. The transitional period is to terminate at the end of the first fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-European Union countries and territories (including Switzerland) have adopted similar measures in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

U.S. Foreign Account Tax Compliance Withholding

Sections 1471 through 1474 (inclusive) of the U.S. Internal Revenue Code ("FATCA") impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments by any non-U.S. financial institution (a foreign financial institution, or "FFI" (as defined by FATCA)) that (i) does not become a "Participating FFI" by entering into an agreement with the U.S. Internal Revenue Service ("IRS") to provide certain information on its account holders or (ii) is not otherwise exempt from or in deemed-compliance with FATCA. The new withholding regime will be phased in beginning in 2014 for payments received from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined) no earlier than 2017.

After consultation with a number of potential partner countries, the United States has recently released a model intergovernmental agreement ("model IGA") to facilitate the implementation of FATCA. Pursuant to FATCA and the model IGA, an FFI in a signatory country could be treated as a deemed-

compliant FFI, an exempt FFI or a "Reporting FFI" not subject to FATCA withholding on any payments it receives and, with respect to payments it makes from sources within the United States, would not be required to withhold. It is not yet certain whether a Reporting FFI would be required to withhold on foreign passthru payments that it makes. A Reporting FFI would, however, be required to report certain information on its account holders to its home government. On 12 September 2012, the United States and the UK entered into an agreement (the "US-UK IGA") based largely on the model IGA.

The Issuer expects to be treated as a deemed-compliant FFI or as a Reporting FFI pursuant to the US-UK IGA and does not anticipate being obliged to withhold any amounts under FATCA from payments it makes. There can be no assurance, however, that the Issuer will be treated as a deemed-compliant FFI or as a Reporting FFI or that it would not be required to withhold under FATCA or pursuant to the US-UK IGA. Accordingly, the Issuer and financial institutions through which payments on the Notes are made may be required to withhold amounts under FATCA if (a) any FFI through or to which payment on such Notes is made is not a Participating FFI, a Reporting FFI, or otherwise exempt from or in deemed-compliance with FATCA or (b) an investor (other than an exempt investor) does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States Account". This withholding would apply to (i) any Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued after 31 December 2012 or are materially modified after that date and (ii) any Notes characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Notes are issued before 1 January 2013 and additional Notes of the same series are issued on or after that date, the additional Notes may not be treated as exempt from FATCA withholding, which may have negative consequences to any existing Notes, including a negative impact on market price.

If an amount in respect of FATCA withholding were to be deducted or withheld from interest, principal or other payments on the Notes, neither the Issuer nor any paying agent nor any other person would, pursuant to the conditions of the Notes, be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS or as a result of the US-UK IGA, receive less interest or principal than expected. If any FATCA withholding is imposed, a beneficial owner of Notes that is not a foreign financial institution generally will be entitled to a refund of any amounts withheld by filing a U.S. federal income tax return, which may entail a significant administrative burden. A beneficial owner of Notes that is a foreign financial institution will be able to obtain a refund only to the extent an applicable income tax treaty with the United States entitles it to an exemption from, or reduced rate of, tax on the payment that was subject to withholding under FATCA.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on proposed regulations, official guidance and the model IGA, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their own tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Notes.

The value of the Notes could be adversely affected by a change in English Law or administrative practice.

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

Investors who purchase Notes in denominations that are an integral multiple of the Specified Denomination may be adversely affected if definitive Notes are subsequently required to be issued.

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes.

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.

The Bank will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The value of Fixed Rate Notes may be adversely affected by movements in market interest rates.

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

Credit ratings assigned to the Bank or any Notes may not reflect all the risks associated with an investment in those Notes.

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (as amended) (the “CRA Regulation”) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (“ESMA”) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

Documents Incorporated by Reference

The following documents, which have been published and filed with the FSA, shall be incorporated in, and form part of, this Prospectus:

- (i) the auditor's report and audited consolidated and non-consolidated annual financial statements of the Bank for the financial years ended 31 December 2011 and 31 December 2010;
- (ii) the interim consolidated financial statements of the Bank on pages 33 – 39 of the Interim Financial Report for the 26 weeks ended 30 June 2012;
- (iii) the section entitled "Terms and Conditions" on pages 20 – 39 of the Base Prospectus dated 14 May 2003 prepared by the Bank in relation to the Programme;
- (iv) the section entitled "Terms and Conditions" on pages 30 – 51 of the Base Prospectus dated 14 July 2006 prepared by the Bank in relation to the Programme;
- (v) the section entitled "Terms and Conditions" on pages 37 – 60 of the Base Prospectus dated 31 March 2010 prepared by the Bank in relation to the Programme; and
- (vi) the section entitled "Terms and Conditions" on pages 47 to 71 of the Base Prospectus dated 5 April 2011 prepared by the Bank in relation to the Programme.

Following the publication of this Prospectus a supplement may be prepared by the Bank and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Any statement contained in this Prospectus or in a document incorporated by reference herein shall be deemed to be modified or superseded to the extent that a statement contained in any such supplement modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Bank will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the oral or written request of such person, a copy of any or all of the documents incorporated by reference in this Prospectus unless such documents have been modified or superseded as specified above. Written or telephone requests for such documents should be directed to the Bank at its registered office set out at the end of this Prospectus. In addition, such documents will be available from the specified office of the Agent set out at the end of this Prospectus.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Prospectus.

Any website and its contents which is referred to in this Prospectus does not form part of this Prospectus.

The Bank will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Prospectus or publish a new Prospectus for use in connection with any subsequent issue of Notes.

Overview of the Programme

The following Overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms.

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

Words and expressions specified as capitalised terms in “Form of the Notes” and defined in “Terms and Conditions of the Notes” below shall have the same meanings in this Overview.

Issuer: The Co-operative Bank p.l.c.

Risk Factors: There are certain factors that may affect the Bank’s ability to fulfil its obligations under Notes issued under the Programme. These are set out under the section headed “Risk Factors”. They include risks related to economic activity in the UK, risks related to the business of the Bank and risks related to the terms and conditions of the Notes. In addition, there are risks associated with the merger (the “Merger”) with Britannia Building Society including operational risks around the integration of the two businesses and certain market and credit risks associated with the assumption of Britannia Building Society assets and liabilities.

In this Prospectus, references to the “Bank” are to the Co-operative Bank p.l.c. either subsequent to the Merger or prior to the Merger, depending on the context and references to “Britannia” are to the retail residential businesses of the Bank transferred from Britannia Building Society and references to “Britannia Building Society” are to Britannia Building Society prior to the Merger.

Description: Euro Note Programme

Arranger: J.P. Morgan Securities plc

Programme Dealers: Barclays Bank PLC
BNP Paribas
Citigroup Global Markets Limited
Credit Suisse Securities (Europe) Limited
Deutsche Bank AG, London Branch
Goldman Sachs International
HSBC Bank plc
J.P. Morgan Securities plc
The Royal Bank of Scotland plc
UBS Limited

Trustee: The Law Debenture Trust Corporation p.l.c.

Agent:	The Bank of New York Mellon, London Branch
Programme Size:	Up to £4,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement) outstanding at any time. The Bank may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Legal and regulatory requirements:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see “Subscription and Sale” below).
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Euro, Sterling and U.S. dollars and subject to any applicable legal or regulatory restrictions, any other currency as may be agreed between the Bank and the relevant Dealer.
Maturities:	Such maturities as may be agreed between the Bank and the relevant Dealer and as indicated in the applicable Final Terms, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Bank or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid basis only and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer form, which may be in new global note (“NGN”) form, as described in “Form of the Notes” below.
Fixed Rate Notes:	Interest on Fixed Rate Notes will be payable on such date or dates as may be agreed between the Bank and the relevant Dealer (as indicated in the applicable Final Terms) and on redemption. Interest will be calculated on the basis of such Day Count Fraction as may be agreed between the Bank and the relevant Dealer.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: <ul style="list-style-type: none"> (i) on the same basis as the floating rate under a notional interest-rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the Bank and the relevant Dealer, (in each case as indicated in the applicable Final Terms). The Margin (if any) relating to such floating rate will be agreed

between the Bank and the relevant Dealer for each issue of Floating Rate Notes.

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest Periods for Floating Rate Notes:

Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Bank and the relevant Dealer, will be payable on such Interest Payment Dates and will be calculated on the basis of such Day Count Fraction as may be agreed between the Bank and the relevant Dealer.

Interest shall be payable in respect of such period or periods as the Bank and the relevant Dealer may agree (as indicated in the applicable Final Terms).

Change of Interest Basis or Redemption/Payment Basis:

Notes may be converted from one Interest Basis or Redemption/Payment Basis to another if so provided in the applicable Final Terms.

Zero Coupon Notes:

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Redemption:

The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Bank and/or the Noteholders upon giving not less than 15 nor more than 30 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Final Terms) to the Noteholders or, as the case may be, the Bank on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Final Terms.

No redemption of Subordinated Notes for taxation reasons or otherwise at the option of the Bank, or purchase of Subordinated Notes by the Bank, may be made without the prior consent of the FSA.

Denomination of Notes:

Notes will be issued in such denominations as may be agreed between the Bank and the relevant Dealer and as indicated in the applicable Final Terms save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency.

The minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

Taxation:

All payments in respect of the Notes will be made without deduction for or on account of any withholding taxes imposed by the Tax Jurisdiction (as defined in Condition 8), subject as provided in Condition 8. In the event that any such deduction is made, the Bank will, save in the circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.

Negative Pledge:

The Ordinary Notes will contain a negative pledge provision as

described in Condition 4.

Cross Default:	The Ordinary Notes will contain a cross-default provision relating to Indebtedness as defined and further described in Condition 10.
Status of the Ordinary Notes:	The Ordinary Notes will constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 4 and to applicable statutory provisions, unsecured obligations of the Bank and will rank <i>pari passu</i> among themselves and (subject as aforesaid) equally with all other unsecured and unsubordinated obligations of the Bank from time to time outstanding.
Status of the Subordinated Notes:	The Subordinated Notes will constitute subordinated and unsecured obligations of the Bank and will rank <i>pari passu</i> among themselves. In the event of the winding up of the Bank, the claims of the holders of Subordinated Notes pursuant thereto will be subordinated to the claims of Senior Creditors (as defined in Condition 3) in the manner and to the extent provided in the Trust Deed.
Rating:	The Programme has been rated A3 (on review for downgrade) by Moody's Investors Service Ltd. and BBB+ (Rating Watch Negative) by Fitch Ratings Ltd.. Each of Moody's and Fitch is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the "CRA Regulation"). As such, each of Moody's and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Listing and Admission to Trading:	Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading listed on the London Stock Exchange's regulated market.
Governing Law:	The Trust Deed and the Notes are governed by, and shall be construed in accordance with, English law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the UK) and Japan. In connection with the offering and sale of a particular Tranche of Notes additional or alternative restrictions may be imposed which will be set out in the applicable Final Terms. See "Subscription and Sale" below.
United States Selling Restrictions:	Regulation S, Category 2; TEFRA C or D or TEFRA not applicable, as specified in the applicable Final Terms.

Form of the Notes

Each Tranche of Notes will be in bearer form and will either be initially represented by a temporary global Note (without interest coupons or talons) or, if agreed between the Bank and the relevant Dealer, be represented by a permanent global Note (without interest coupons or talons) which, unless otherwise agreed between the Bank and the relevant Dealer, will (i) if the global Notes are intended to be issued in NGN form, as stated in the applicable Final Terms, be delivered on or prior to the original issue date of the Tranche to the Common Safekeeper for Clearstream, Luxembourg and Euroclear; and (ii) if the global Notes are not intended to be issued in NGN form, be delivered to a common depositary for Clearstream, Luxembourg and Euroclear. Any reference in this section “Form of the Notes” to Clearstream, Luxembourg and/or Euroclear shall, whenever the context so permits, except in relation to Notes issued in NGN form, be deemed to include a reference to any additional or alternative clearing system approved by the Bank, the relevant Dealer, the Agent and the Trustee.

If the Global Notes are stated in the applicable Final Terms to be issued in NGN form, the Global Notes will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. Depositing the Global Notes with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Whilst any Note is represented by a temporary global Note, payments of principal and interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the temporary global Note if the temporary global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owner of such Note is not a U.S. person or a person who has purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Clearstream, Luxembourg and/or Euroclear and Clearstream, Luxembourg and/or Euroclear, as applicable, has given a like certification (based on the certifications it/they has/have received) to the Agent.

On and after the date (the “Exchange Date”) which is the later of (i) 40 days after the date on which a temporary global Note is issued and (ii) 40 days after the completion of the distribution of the relevant Tranche, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant lead manager (in the case of a syndicated issue) (the “Distribution Compliance Period”), interests in the temporary global Note will be exchangeable (free of charge) upon a request as described therein either for interests in a permanent global Note (without interest coupons or talons) of the same Series or for security printed definitive Notes of the same Series with, where applicable, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Final Terms) in each case against certification of beneficial ownership as described above unless such certification has already been given as described above. The holder of a temporary global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of an interest in the temporary global Note for an interest in a permanent global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a permanent global Note will be made through Clearstream, Luxembourg and/or Euroclear (against presentation or (as the case may be) surrender of the permanent global Note if the permanent global Note is not intended to be issued in NGN form) without any requirement for certification.

The applicable Final Terms will specify that a permanent global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes in bearer form with, where applicable, interest coupons and talons attached either (i) save in respect of Notes for which the applicable Final Terms permit trading in the Clearing Systems in Tradeable Amounts which are not a Specified Denomination, upon not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such permanent global Note) to the Agent as described therein or (ii) only upon the occurrence of an Exchange Event. For these purposes, "Exchange Event" means that the Bank has been notified that either Euroclear or Clearstream, Luxembourg has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no alternative clearing system satisfactory to the Trustee is available. The Bank will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such permanent global Note) or the Trustee may give notice to the Agent requesting exchange. Any such exchange shall occur not later than 60 days after the date of receipt of the first relevant notice by the Agent.

Global Notes and definitive Notes will be issued pursuant to the Agency Agreement.

The following legend will appear on all global Notes and definitive Notes which have an original maturity of more than one year and on all interest coupons and talons relating to such Notes, unless otherwise agreed between the Bank and the relevant Dealer:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Notes or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of Notes or interest coupons.

Notes which are represented by a global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined under "Terms and Conditions of the Notes"), the Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes at a point after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single series, which shall not be prior to the expiry of the Distribution Compliance Period applicable to the Notes of such Tranche.

Form of Final Terms

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[Date]

The Co-operative Bank p.l.c.

[Title of relevant Series of Notes (specifying type of Notes)]

issued pursuant to the £4,000,000,000 Euro Note Programme

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the Prospectus dated 12 October 2012 [as supplemented by the supplement[s] dated [date[s]]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the “Prospectus”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus. Full information on the Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. The Prospectus has been published on the website of the London Stock Exchange through a regulatory information service.

[Prospective investors should note that these Final Terms do not constitute “final terms” within the meaning of the Prospectus Directive.] [Include for unlisted notes with a minimum denomination of EUR100,000 (or its equivalent).]

[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the Prospectus dated [original date] [as supplemented by the supplement[s] dated [date[s]]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the “Prospectus”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Prospectus dated [current date] [as supplemented by the supplement[s] dated [date[s]]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the “Prospectus”), including the Conditions incorporated by reference in the Prospectus. Full information on the Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus dated [current date]. The Prospectus has been published on the website of the London Stock Exchange through a regulatory information service.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs.]

- | | | |
|----|--|---|
| 1. | Issuer: | The Co-operative Bank p.l.c. |
| 2. | (i) Series Number: | [] |
| | (ii) Tranche Number: | [] |
| | [(iii) Date on which the Notes will be consolidated and form a | The Notes will be consolidated and form a single Series with [] on [the Issue Date/exchange of the |

- single Series: Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 24 below, [] [Not Applicable]
3. Specified Currency or Currencies: []
 4. Aggregate Nominal Amount: []
 - (i) Series: []
 - (ii) Tranche: []
 5. Issue Price of Tranche: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from []]
 6. (i) Specified Denominations: []
 - (ii) Calculation Amount: []
 7. (i) Issue Date [and Interest Commencement Date]: []
 - (ii) Interest Commencement Date: []
 8. Maturity Date: []
 9. Interest Basis: [[] per cent. Fixed Rate] [Reference Rate] +/- [[] per cent. Floating Rate] [Zero Coupon]
 10. Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [100] per cent. of their nominal amount.
 11. Change of Interest Basis: [] / [Not applicable]
 12. Put/Call Options: [Investor Put] [Issuer call]
 13. Status of the Notes: [Ordinary/Subordinated]
 14. Date board approval for issuance of Notes obtained: []

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. Fixed Rate Note Provisions: [Applicable/Not Applicable]
 - (i) Rate[(s)] of Interest: [] per cent. per annum payable in arrear on each Interest Payment Date
 - (ii) Interest Payment Date(s): [] in each year up to and including the Maturity Date []
 - (iii) Fixed Coupon Amount(s): [] per Calculation Amount
 - (iv) Broken Amount(s): [[] per Calculation Amount payable on the Interest Payment Date falling [in/on] []] [Not Applicable]
 - (v) Day Count Fraction: [Actual/Actual (ICMA)] [30/360]

- (vi) Determination Date(s): in each year / [Not Applicable]
16. Floating Rate Note Provisions: [Applicable/Not Applicable]
- (i) Specified Period(s)/Specified Interest Payment Dates: []
- (ii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
- (iii) Additional Business Centre(s): []
- (iv) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (v) Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent): []
- (vi) Screen Rate Determination:
- Reference Rate and Relevant Financial Centre: Reference Rate [] month
 Relevant Financial Centre: [London/Brussels/[]]
 - Interest Determination Date(s): []
 - Relevant Screen Page: []
- (vii) ISDA Determination:
- Floating Rate Option: []
 - Designated Maturity: []
 - Reset Date: []
- (viii) Margin(s): [+/-] [] per cent. per annum
- (ix) Minimum Rate of Interest: [] per cent. per annum
- (x) Maximum Rate of Interest: [] per cent. per annum
- (xi) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual]
 [Actual/365 (Fixed)]
 [Actual/365 (sterling)]
 [Actual/360]
 [30/360] [360/360] [Bond Basis]
 [30E/360] [Eurobond basis]
 30E/360 (ISDA)]
17. Zero Coupon Note Provisions: [Applicable/Not Applicable]

- (i) Accrual Yield: [] per cent. per annum
- (ii) Reference Price: []
- (iii) Day Count Fraction in relation to Early Redemption Amounts: [30/360]
[Actual/360]
[Actual/365]

PROVISIONS RELATING TO REDEMPTION

- 18. Notice periods for Condition 7(b) Minimum period: [] days
Maximum period: [] days
- 19. Issuer Call: [Applicable/Not Applicable]
 - (i) Optional Redemption Date(s): []
 - (ii) Optional Redemption Amount(s): [[] per Calculation Amount[Spens Amount][Make-Whole Amount]]
 - (iii) Reference Bond: [[]/FA Selected Bond/Not Applicable]
 - (iv) Quotation Time: []
 - (v) Redemption Margin: [[] per cent./Not Applicable]
 - (vi) If redeemable in part:
 - (a) Minimum Redemption Amount: []
 - (b) Maximum Redemption Amount: []
 - (vii) Notice periods: Minimum period: [] days
Maximum period: [] days
- 20. Investor Put: [Applicable/Not Applicable]
 - (i) Optional Redemption Date(s): []
 - (ii) Optional Redemption Amount(s): [] per Calculation Amount
 - (iii) Notice periods: Minimum period: [] days
Maximum period: [] days
- 21. Regulatory Event Redemption:
 - (i) Notice period for Condition 7(d): Minimum period: [] days
Maximum period: [] days
 - (ii) Regulatory Event Redemption Amount: [] per Calculation Amount
- 22. Final Redemption Amount: [] per Calculation Amount
- 23. Early Redemption Amount(s) payable on redemption for taxation reasons or [] per Calculation Amount

on event of default:

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]]
25. New Global Note: [Yes] / [No]
26. Additional Financial Centre(s): [Not Applicable/[]]
27. Talons for future Coupons to be attached to Definitive Notes: [Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No.]

[THIRD PARTY INFORMATION]

[] has been extracted from []. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By: _____
Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange’s regulated market and, the Official List of the UK Listing Authority with effect from [].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange’s regulated market and, the Official List of the UK Listing Authority with effect from [].] [Not Applicable.]
- (ii) Estimate of total expenses related to admission to trading: []

2. RATINGS

Ratings: [The Notes to be issued [have been]/[are expected to be]] rated [] by [].

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Bank and its affiliates in the ordinary course of business.

4. YIELD (Fixed Rate Notes only)

Indication of yield: []
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

5. OPERATIONAL INFORMATION

- (i) ISIN: []
- (ii) Common Code: []
- (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s): [Not Applicable/[]]
- (iv) Names and addresses of additional Paying Agent(s) (if any): []

6. TEFRA RULES

U.S. Selling Restrictions:

[Reg. S Compliance Category [1/2/3]; TEFRA
D/TEFRA C/TEFRA not applicable]]

Terms and Conditions of the Notes

This Note is one of a series of Notes issued by The Co-operative Bank p.l.c. (the “Bank”) constituted by a Trust Deed (as modified and/or supplemented and/or restated from time to time and most recently by a Tenth Supplemental Trust Deed dated 12 October 2012, the “Trust Deed”), dated 31 May 1994 made between the Bank and The Law Debenture Trust Corporation p.l.c. (the “Trustee”, which expression shall include any successor as Trustee). References herein to the “Notes” shall be references to the Notes of this Series (as defined below) and shall mean (i) in relation to any Notes represented by a global Note, units of the lowest Specified Denomination in the Specified Currency, (ii) definitive Notes issued in exchange (or part exchange) for a global Note and (iii) any global Note. The Notes and the Coupons (as defined below) also have the benefit of an Amended and Restated Agency Agreement (as further modified and/or supplemented and/or restated from time to time, the “Agency Agreement”) dated 12 October 2012 and made between the Bank, The Bank of New York Mellon, as issuing and principal paying agent and agent bank (the “Agent”, which expression shall include any successor agent specified in the applicable Final Terms), the other paying agents named therein (together with the Agent, the “Paying Agents”, which expression shall include any additional or successor paying agents) and the Trustee.

The Final Terms applicable to this Note (or the relevant provisions thereof) is attached hereto or incorporated herein and supplements these Terms and Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify these Terms and Conditions for the purposes of this Note.

References herein to the “applicable Final Terms” are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof) attached hereto or incorporated herein.

Interest bearing definitive Notes have interest coupons (“Coupons”) and, in the case of Notes which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons (“Talons”) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons.

The Trustee acts for the benefit of the holders of the Notes (the “Noteholders”, which expression shall, in relation to any Notes represented by a global Note, be construed as provided below) and the holders of the Coupons (the “Couponholders”, which expression shall, unless the context otherwise requires, include the holders of the Talons), all in accordance with the provisions of the Trust Deed.

As used herein, “Tranche” means Notes which are identical in all respects (including as to listing and admission to trading) and “Series” means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The following statements include summaries of, and are subject to, the detailed provisions of the Trust Deed and the applicable Final Terms. Copies of the Trust Deed, the Agency Agreement and the Final Terms applicable to this Note are available for viewing at, and copies may be obtained from, the registered office of the Trustee, being at 28 July 2008 at Fifth Floor, 100 Wood Street, London EC2V 7EX and at the specified office of each of the Paying Agents. If the Notes are to be admitted to trading on the regulated market of the London Stock Exchange, the applicable Final Terms will be published on the website of the London Stock Exchange through a regulatory information service. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are binding on them.

Words and expressions defined in the Trust Deed or the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of any inconsistency between the Agency Agreement and the Trust Deed, the Trust Deed will prevail and, in the event of any inconsistency between the Agency Agreement or the Trust Deed and the applicable Final Terms, the applicable Final Terms will prevail.

In the Conditions, **euro** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Communities as amended from time to time.

1. Form, Denomination and Title

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the currency (the Specified Currency) and the denomination (the Specified Denomination(s)) specified in the applicable Final Terms. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination. In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

So long as the Notes are represented by a temporary global Note or a permanent global Note and the relevant clearing system(s) so permit, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) provided hereon and integral multiples of the Tradeable Amount in excess thereof provided in the relevant Final Terms.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms. This Note is an Ordinary Note or a Subordinated Note, as indicated in the applicable Final Terms.

Notes in definitive form are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in these Terms and Conditions are not applicable.

Subject as set out below, title to the Notes and Coupons will pass by delivery. The Bank, the Trustee, the Replacement Agent (as defined in the Agency Agreement) and any Paying Agent will (except as otherwise required by law) deem and treat the bearer of any Note or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a global Note held on behalf of Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) and/or Euroclear Bank S.A./N.V. (“Euroclear”) each person who is for the time being shown in the records of Clearstream, Luxembourg or of Euroclear as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Clearstream, Luxembourg or Euroclear as to the nominal amount of Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by

the Bank, the Trustee and any Paying Agent as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such Notes, for which purpose the bearer of the relevant global Note shall be treated by the Bank, the Trustee and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant global Note and the Trust Deed (and the expressions “Noteholder” and “holder of Notes” and related expressions shall be construed accordingly). Notes which are represented by a global Note will be transferable only in accordance with the rules and procedures for the time being of Clearstream, Luxembourg or of Euroclear, as the case may be.

References to Clearstream, Luxembourg and/or Euroclear shall, whenever the context so permits, except in relation to Notes in NGN form, be deemed to include a reference to any additional or alternative clearing system approved by the Bank, the Agent and the Trustee and specified in Part B of the applicable Final Terms.

2. Status of the Ordinary Notes

The Ordinary Notes and the relative Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4 and to any applicable statutory provisions) unsecured obligations of the Bank and rank *pari passu* among themselves and (subject as aforesaid) equally with all other unsecured and unsubordinated obligations of the Bank from time to time outstanding.

3. Status and Subordination of Subordinated Notes

(i) Status

The Subordinated Notes and the relative Coupons are unsecured and, in accordance with paragraph (ii) below, subordinated obligations of the Bank and rank *pari passu* without any preference among themselves.

(ii) Subordination

Claims against the Bank in respect of the principal of and interest on the Subordinated Notes will be subordinated, in the event of the winding up of the Bank, to the claims of Senior Creditors (as defined below) in that amounts in respect of such principal and interest shall be due and payable by the Bank in such winding up only if and to the extent that the Bank could make payment thereof rateably with the claims of other Subordinated Creditors (as defined below) and still be solvent immediately thereafter. For this purpose, the Bank shall be considered to be solvent if (1) it is able to pay its debts as they fall due and (2) its Assets (as defined below) exceed its Liabilities (as defined below) to Senior Creditors.

A report in writing as to the solvency of the Bank by its liquidator shall, unless the contrary is proved, be treated and accepted by the Bank, the Trustee and the holders of the Subordinated Notes (the “Subordinated Noteholders”) and the relative Coupons (the “Subordinated Coupons”, and “Subordinated Couponholders”) will be construed accordingly) as correct and sufficient evidence thereof.

In this paragraph (ii):

“Assets” means the total amount of the non-consolidated gross assets of the Bank and “Liabilities” means the total amount of the non-consolidated gross liabilities of the Bank, in each case as shown by the latest published audited balance sheet of the Bank, but adjusted for

contingencies and subsequent events in such manner as the above-mentioned liquidator may determine.

“Senior Creditors” means creditors of the Bank whose claims are admitted to proof in the winding up of the Bank and who are unsubordinated creditors of the Bank, and “Subordinated Creditors” means creditors of the Bank (including, without limitation, the Subordinated Noteholders and the Subordinated Couponholders) whose claims against the Bank are, or are expressed to be, subordinated in the event of the winding up of the Bank in any manner to the claims of any unsecured and unsubordinated creditor of the Bank, but excluding those subordinated creditors of the Bank (if any) whose claims rank, or are expressed to rank, junior to the claims of the Subordinated Noteholders and Subordinated Couponholders and/or to the claims of any other creditors of the Bank whose claims rank, or are expressed to rank, *pari passu* with the claims of the Subordinated Noteholders and Subordinated Couponholders or with whose claims the claims of the Subordinated Noteholders and Subordinated Couponholders rank, or are expressed to rank, *pari passu*.

(iii) Set-Off

Subject to applicable law, neither any Subordinated Noteholder or Subordinated Couponholder nor the Trustee may exercise or claim any right of set-off in respect of any amount owed to it by the Bank arising under or in connection with the Subordinated Notes or Subordinated Coupons and each Subordinated Noteholder and Subordinated Couponholder shall, by virtue of his subscription, purchase or holding of any Subordinated Note or Subordinated Coupon, be deemed to have waived all such rights of set-off.

4. Negative Pledge

So long as any of the Ordinary Notes remains outstanding (as defined in the Trust Deed), the Bank will not, and will procure that none of its Subsidiaries (as defined in the Trust Deed) shall, create or permit to be outstanding, any Encumbrance (other than a Permitted Encumbrance) upon the whole or any part of its undertaking or assets, present or future, to secure any Relevant Liability without at the same time according to the Ordinary Notes and the relative Coupons either the same security as is granted to or is outstanding in respect of such Relevant Liability or such other security as the Trustee shall, in its absolute discretion, deem not materially less beneficial to the holders of the Ordinary Notes or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the holders of the Ordinary Notes.

“Encumbrance” means any mortgage, pledge, lien (other than any lien arising by operation of law), charge, assignment by way of security or hypothecation (other than any encumbrance arising out of any title retention provision contained in any contract for the sale or purchase of goods entered into in the ordinary course of business);

“Permitted Encumbrance” means an Encumbrance over the whole or any part of the Bank’s or any of its Subsidiary’s present or future assets or undertakings, for the purpose of obtaining funding through secured loans and structured finance transactions (howsoever described) (including, but not limited to, the issuance of covered bonds (howsoever described)) pursuant to the relevant contractual arrangements or under the provisions of any legislations or regulations applicable thereto for the time being in force in England and Wales;

“Relevant Liability” means any payment obligation of the Bank under any Relevant Indebtedness of the Bank or under any guarantee or indemnity given by the Bank in respect of any Relevant Indebtedness of any other person; and

“Relevant Indebtedness” means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures or other similar securities which (i) have an initial stated maturity of not less than one year, (ii) are, or are capable of being, quoted, listed or ordinarily traded on any stock exchange or other securities market and (iii) are either in bearer form or, if not in bearer form, more than 50 per cent. of the principal amount of which is initially offered (with the consent of the Bank) outside the UK.

5. Interest

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date so specified if that does not fall on an Interest Payment Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in these Terms and Conditions, “Fixed Interest Period” means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note ; or
- (B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case,

multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

“Day Count Fraction” means, in respect of the calculation of an amount of interest in accordance with this Condition 5(a):

- (i) if “Actual/Actual (ICMA)” is specified in the applicable Final Terms:
 - (A) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the

Interest Commencement Date) to (but excluding) the relevant payment date (the “Accrual Period”) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(B) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(1) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(2) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(ii) if “30/360” is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Terms and Conditions:

“Determination Period” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

“sub-unit” means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, means one cent.

(b) Interest on Floating Rate Notes

(i) Interest Payment Dates

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

(B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an “Interest Payment Date”) which falls the number of months

or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In these Terms and Conditions "Interest Period" means, the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention is specified in the applicable Final Terms and (x) i there is no numerically corresponding day on the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (1) in any case where Specified Periods are specified in accordance with Condition 5(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (A) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or
- (2) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (3) (the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (4) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Terms and Conditions, "Business Day" means a day which is both:

- (A) a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the applicable Final Terms; and
- (B) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars shall be Sydney) or (2) in relation to any sum

payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the “TARGET2 System”) is open.

(ii) **Rate of Interest**

The Rate of Interest payable from time to time in respect of the Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

(iii) **ISDA Determination for Floating Rate Notes**

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this sub-paragraph (iii), “ISDA Rate” for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent or other person specified in the applicable Final Terms under an interest rate swap transaction if the Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of Notes (the “ISDA Definitions”) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purposes of this sub-paragraph (iii), “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity”, “Eurozone” and “Reset Date” have the meanings given to those terms in the ISDA Definitions.

(iv) **Screen Rate Determination for Floating Rate Notes**

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- (B) the arithmetic mean (rounded if necessary to the fourth decimal place, with 0.00005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (Relevant Financial Centre Time) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the

purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

If the Relevant Screen Page is not available or the offered quotation or quotations are unavailable the Agent shall request each of the Reference Banks (as defined below) to provide the Agent with its offered quotation (expressed as a percentage rate per annum) for deposits in the Specified Currency for the relevant Interest Period at approximately 11:00 a.m. Relevant Financial Centre Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fourth decimal place with 0.00005 being rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent.

If on any Interest Determination Date one only or none of the Reference Banks provides the Agent with such offered quotations as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent determines as being the arithmetic mean (rounded if necessary to the fourth decimal place, with 0.00005 being rounded upwards) of the rates, as communicated to (and at the request of) the Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately 11:00 a.m. Relevant Financial Centre Time on the relevant Interest Determination Date, deposits in the Specified Currency for the relevant Interest Period by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Eurozone inter-bank market (if the Reference Rate is EURIBOR) or the inter-bank market of the Relevant Financial Centre (if any other Reference Rate is used, plus or minus (as appropriate) the Margin (if any) or, if fewer than two of the Reference Banks provide the Agent with such offered rates, the offered rate for deposits in the Specified Currency for the relevant Interest Period, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for the relevant Interest Period, at which, at approximately 11:00 a.m. Relevant Financial Centre Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Bank suitable for such purpose) informs the Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Eurozone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any), provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

“EURIBOR” means the eurozone inter-bank offered rate.

“LIBOR” means the London inter-bank offered rate.

“Reference Banks” means those banks whose offered rates were used to determine such quotation when such quotation last appeared on the Relevant Screen Page.

“Reference Rate” shall mean (i) LIBOR or (ii) EURIBOR, in each case for the relevant period, as specified in the applicable Final Terms .

(v) **Minimum Rate of Interest and/or Maximum Rate of Interest**

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraphs (ii), (iii) and (iv) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraphs (ii), (iii) and (iv) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(vi) **Determination of Rate of Interest and Calculation of Interest Amounts**

The Agent will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent will calculate the amount of interest (the “Interest Amount”) payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note; or
- (B) in the case of Floating Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

“Day Count Fraction” means, in respect of the calculation of an amount of interest for any Interest Period:

- (i) if “Actual/Actual (ISDA)” or “Actual/Actual” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

- (iii) if “Actual/365 (Sterling)” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (vi) if “30E/360” or “Eurobond Basis” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30; and

- (vii) if “30E/360 (ISDA)” is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30.

(vii) **Notification of Rate of Interest and Interest Amount**

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Bank, the Trustee and any stock exchange on which the relevant Floating Rate Notes are for the time being listed and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth London Business Day (as defined below) thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 15. For the purposes of this paragraph, the expression “London Business Day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(viii) **Determination or Calculation by Trustee**

If for any reason at any time after the Issue Date the Agent defaults in its obligation to determine the Rate of Interest or the Agent defaults in its obligation to calculate any Interest Amount in accordance with sub-paragraphs (ii), (iii) or (iv) above, as the case may be, and, in each case, (vi) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent.

(ix) **Certificates to be Final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this paragraph (b), whether by the Agent or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Bank, the Agent, the Trustee, the other Paying Agents and all Noteholders and Couponholders and (in the absence as aforesaid) no liability to the Bank, the Noteholders, or the Couponholders shall attach to the Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(c) **Accrual of Interest**

Each Note (or, in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the due date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue as provided in the Trust Deed.

6. Payments

(a) **Method of Payment**

Subject as provided below:

- (i) payments in a Specified Currency other than euro will be made at the option of the bearer either by transfer to an account in the relevant Specified Currency maintained by the payee with, or by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars, shall be Sydney); and
- (ii) payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "Code") or otherwise imposed pursuant to Sections 1471 through 1474 (inclusive) of the Code, any regulations or agreements

thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

(b) Presentation of Notes and Coupons

Payments of principal in respect of definitive Notes (if issued) will (subject as provided below) be made in the manner provided in paragraph (a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)). Payments under paragraph (a) above made, at the option of the bearer of the Note or Coupon, by cheque shall be mailed or delivered to an address outside the United States furnished by such bearer. Subject to any applicable laws and regulations, such payments made by transfer will be made in immediately available funds to an account maintained by the payee with a bank located outside the United States. Subject as provided below, no payment in respect of any definitive Note or Coupon will be made upon presentation and surrender of such definitive Note or Coupon at any office or agency of the Bank or any Paying Agent in the United States, nor will any such payment be made by transfer to an account, or by mail to an address, in the United States.

Fixed Rate Notes in definitive form (other than Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 9) or, if later, five years from the date on which such Coupon would otherwise have become due but in no event thereafter.

Upon any Fixed Rate Note in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note or Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "Long Maturity Note" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment

Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Note.

Payments of principal and interest (if any) in respect of Notes represented by any global Note will (subject as provided below) be made in the manner specified above in relation to definitive Notes or otherwise in the manner specified in the relevant global Note, where applicable, against presentation or surrender, as the case may be, of such global Note at the specified office of any Paying Agent outside the United States, subject as provided below. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made on such global Note either by such Paying Agent or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

The holder of a global Note (or, as provided in the Trust Deed, the Trustee) shall be the only person entitled to receive payments in respect of Notes represented by such global Note and the Bank will be discharged by payment to, or to the order of, the holder of such global Note (or the Trustee, as the case may be) in respect of each amount so paid. Each of the persons shown in the records of Clearstream, Luxembourg or Euroclear as the beneficial holder of a particular nominal amount of Notes represented by such global Note must look solely to Clearstream, Luxembourg or Euroclear, as the case may be, for his share of each payment so made by the Bank to, or to the order of, the holder of such global Note (or the Trustee, as the case may be). No person other than the holder of such global Note (or the Trustee, as the case may be) shall have any claim against the Bank in respect of any payments due on that global Note.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8.

Notwithstanding the foregoing, if any amount of principal and/or interest in respect of Notes is payable in U.S. dollars, such U.S. dollar payments of principal and interest in respect of the Notes will be made at the specified office of a Paying Agent in the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia, its territories, its possessions and other areas subject to its jurisdiction)) if:

- (i) the Bank has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Notes in the manner provided above when due;
- (ii) payment in U.S. dollars of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Bank, adverse tax consequences to the Bank.

(c) Payment Day

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to any further interest or other payment in

respect of such delay. For these purposes, "Payment Day" means any day which (subject to Condition 9) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (A) in the case of Notes in definitive form only, the relevant place of presentation; and
 - (B) any Additional Financial Centre specified in the applicable Final Terms; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars shall be Sydney) or (2) in relation to any sum payable in euro, a day on which TARGET2 System is open.

(d) Interpretation of Principal and Interest

Any reference in these Terms and Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 8 or pursuant to any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed;
- (ii) the Final Redemption Amount of the Notes;
- (iii) the Early Redemption Amount of the Notes;
- (iv) the Optional Redemption Amount(s) (if any) of the Notes;
- (v) the Regulatory Redemption Amount of the Subordinated Notes;
- (vi) in relation to Zero Coupon Notes, the Amortised Face Amount; and
- (vii) any premium and any other amounts (other than interest) which may be payable by the Bank under or in respect of the Notes.

Any reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8 or pursuant to any undertakings given in addition thereto or in substitution therefore pursuant to the Trust Deed.

7. Redemption and Purchase

(a) At Maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Bank at its Final Redemption Amount specified in the applicable Final

Terms in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

(b) Redemption for Tax Reasons

Subject to Condition 7(f) the Notes may (subject, in the case of the Subordinated Notes, to Condition 7(j)) be redeemed at the option of the Bank in whole, but not in part, at any time (in the case of Notes other than Floating Rate Notes) or on any Interest Payment Date (in the case of Floating Rate Notes), on giving not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms to the Trustee and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if the Bank satisfies the Trustee immediately before the giving of the aforementioned notice that:

- (i) on the occasion of the next payment due under the Notes, the Bank has or will become obliged either to pay additional amounts as provided or referred to in Condition 8 or to account to any taxing authority in the country in which the Bank is incorporated for any amount (other than tax withheld or deducted from interest payable on such Notes) in respect of such payment in each case as a result of any change in, or amendment to, the laws or regulations of the Tax Jurisdiction (as defined in Condition 8) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of such Subordinated Notes;
- (ii) in the case of Subordinated Notes only, interest payments under or with respect to the Notes are no longer (partly or fully) deductible for UK corporation tax purposes as a result of any change in, or amendment to, the laws or regulations of the Tax Jurisdiction (as defined in Condition 8) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date of such Subordinated Notes; and
- (iii) in the case of (i) and (ii), such obligation cannot be avoided by the Bank taking reasonable measures available to it and (in the case of Subordinated Notes only and to the extent required by applicable law or regulations) the circumstance that entitles the Bank to exercise this right of redemption was not (in the opinion of the Bank) reasonably foreseeable at the relevant Issue Date,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Bank would be obliged to pay such additional amounts or make a payment in respect of which it would be obliged to account to any taxing authority as aforesaid were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 7(b), the Bank shall deliver to the Trustee to make available at its specified office to the Noteholders (i) a certificate signed by two Directors of the Bank stating that the Bank is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Bank so to redeem have occurred, and (ii) an opinion of independent legal advisers of recognised standing to the effect either that such a circumstance does exist or that, upon a change in or amendment to the laws (including any regulations thereunder) or in the interpretation or administration thereof, of the Tax Jurisdiction which at the date of such certificate is proposed to be made and in the opinion of such independent legal advisers and the Bank (based on such opinion) is reasonably expected to become effective on or prior to the date when the relevant payment in respect of such Notes would otherwise be made, becoming so effective, such circumstances would exist. The Trustee shall be entitled to accept the certificate as sufficient

evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders and the Couponholders.

Notes redeemed pursuant to this Condition 7(b) will be redeemed at their Early Redemption Amount referred to in paragraph (f) below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

(c) Redemption at the Option of the Bank (Issuer Call)

If Issuer Call is specified as being applicable in the applicable Final Terms, the Bank may (subject, in the case of the Subordinated Notes, to Condition 7(j)), having given not less than the minimum period nor more than the maximum period of notice specified in applicable Final Terms to the Noteholders in accordance with Condition 15 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms.

If Spens Amount is specified in the applicable Final Terms as the Optional Redemption Amount, the Optional Redemption Amount shall be equal to the higher of (i) 100 per cent. of the principal amount outstanding of the Notes to be redeemed or (ii) the principal amount outstanding of the Notes to be redeemed multiplied by the price, as reported to the Bank and the Trustee by the Financial Adviser, at which the Gross Redemption Yield on such Notes on the Reference Date is equal to the Gross Redemption Yield (determined by reference to the middle market price) at the Quotation Time specified in the applicable Final Terms on the Reference Date of the Reference Bond, plus the Redemption Margin, all as determined by the Financial Adviser.

If Make-Whole Amount is specified in the applicable Final Terms as the Optional Redemption Amount, the Optional Redemption Amount shall be an amount calculated by the Agent equal to the higher of (i) 100 per cent. of the principal amount outstanding of the Notes to be redeemed or (ii) the sum of the present values of the principal amount outstanding of the Notes to be redeemed and the Remaining Term Interest on such Note (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on an annual basis at the Reference Bond Rate, plus the Redemption Margin.

In this Condition 7(c):

“FA Selected Bond” means a government security or securities selected by the Financial Adviser as having an actual or interpolated maturity comparable with the remaining term of the Notes that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the same currency as the Notes and of a comparable maturity to the remaining term of the Notes.

“Financial Adviser” means a financial adviser selected by the Bank after consultation with the Trustee.

“Gross Redemption Yield” means, with respect to a security, the gross redemption yield on such security, expressed as a percentage and calculated by the Financial Adviser on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for

Calculating Gilt Prices from Yields”, page 4, Section One: Price/Yield Formulae “Conventional Gilts”; Double dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published 8 June 1998, as amended or updated from time to time) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) or on such other basis as the Trustee may approve.

“Redemption Margin” shall be as set out in the applicable Final Terms.

“Reference Bond” shall be as set out in the applicable Final Terms or the FA Selected Bond.

“Reference Bond Price” means, with respect to any date of redemption, (A) the arithmetic average of the Reference Government Bond Dealer Quotations for such date of redemption, after excluding the highest and lowest such Reference Government Bond Dealer Quotations, or (B) if the Agent obtains fewer than four such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations.

“Reference Bond Rate” means, with respect to any date of redemption, the rate per annum equal to the annual or semi-annual yield (as the case may be) to maturity or interpolated yield to maturity (on the relevant day count basis) of the Reference Bond, assuming a price for the Reference Bond (expressed as a percentage of its nominal amount) equal to the Reference Bond Price for such date of redemption.

“Reference Date” will be set out in the relevant notice of redemption.

“Reference Government Bond Dealer” means each of five banks selected by the Bank, or their affiliates, which are (A) primary government securities dealers, and their respective successors, or (B) market makers in pricing corporate bond issues.

“Reference Government Bond Dealer Quotations” means, with respect to each Reference Government Bond Dealer and any date for redemption, the arithmetic average, as determined by the Agent, of the bid and offered prices for the Reference Bond (expressed in each case as a percentage of its nominal amount) at the Quotation Time specified in the applicable Final Terms on the Reference Date quoted in writing to the Agent by such Reference Government Bond Dealer.

“Remaining Term Interest” means, with respect to any Note, the aggregate amount of scheduled payment(s) of interest on such Note for the remaining term of such Note determined on the basis of the rate of interest applicable to such Note from and including the date on which such Note is to be redeemed by the Bank pursuant to this Condition 7(c).

All notifications, opinions, determinations, certifications, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7(c) by the Agent, shall (in the absence of negligence, wilful default or bad faith) be binding on the Bank, the Agent and the Trustee, the Paying Agents and all Noteholders and Couponholders.

In the case of a partial redemption of Notes, the Notes to be redeemed (“Redeemed Notes”) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), in the case of Redeemed Notes represented by a global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the “Selection Date”). In the case of Redeemed Notes represented by definitive Notes, a list of the certificate numbers of such Redeemed Notes will

be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant global Note will be permitted during the period from and including the Selection Date to and including the date fixed for redemption pursuant to this paragraph (c) and notice to that effect shall be given by the Bank to the Noteholders in accordance with Condition 15 at least five days prior to the Selection Date.

(d) Regulatory Event Redemption of Subordinated Notes

Subject to Condition 7(j) below, if at any time after the Issue Date of any Series of Subordinated Notes, the Bank determines (after consultation with the Relevant Authority) that as a result of a change in English law or Applicable Banking Regulations or any change in the official application or interpretation thereof (including as a result of the implementation or applicability in the United Kingdom on or after the Issue Date) such Subordinated Notes are fully excluded from Tier 2 Capital (other than as a result of any applicable limitation on the amount of such capital) for the purposes of (1) the capital adequacy requirements of the Relevant Authority or (2) any regulation, directive or other binding rules, standards or decisions adopted by the institutions of the European Union (a “Regulatory Event”), the Issuer may redeem such Subordinated Notes, in whole but not in part, at the Regulatory Event Redemption Amount specified in the applicable Final Terms, together with any accrued but unpaid interest to the date fixed for redemption, provided that (to the extent required by applicable law or regulation):

- (i) the Issuer has given not less than the minimum period nor more than the maximum period of notice to the Trustee, the Agent and the Noteholders of the Subordinated Notes (such notice being irrevocable) specifying the date fixed for such redemption; and
- (ii) the circumstance that entitles the Bank to exercise this right of redemption of the relevant Subordinated Notes was not (in the opinion of the Bank) reasonably foreseeable at the relevant Issue Date.

Upon the expiry of such notice period, the Bank shall be bound to redeem the Subordinated Notes accordingly.

In this Condition 7(d):

“Applicable Banking Regulations” means at any time the laws, regulations, requirements, guidelines and policies relating to capital adequacy then in effect in the United Kingdom including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the Relevant Authority (whether or not such requirements, guidelines or policies have the force of law as applicable to the Bank).

“Relevant Authority” means the Financial Services Authority or other governmental authority in the United Kingdom (or other country in which the Issuer is then domiciled) having the responsibility of making such decisions.

“Tier 2 Capital” has the meaning given to it by (i) the Relevant Authority from time to time or (ii) any regulation, directive or other binding rules, standards or decisions adopted by the institutions of the European Union from time to time, as applicable.

(e) Redemption at the Option of the Noteholders (Investor Put)

The provisions of this paragraph 7(e) are inapplicable to Subordinated Notes.

If Investor Put is specified as being applicable in the applicable Final Terms, upon the holder of any Note giving to the Bank in accordance with Condition 15 not less than the minimum period nor more than the maximum period of notice specified in applicable Final Terms, the Bank will, upon the expiry of such notice, redeem in whole (but not in part) such Note on the Optional Redemption Date and at the Optional Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of this Note the holder of this Note must deliver at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period a duly signed and completed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a “Put Notice”) and in which the holder must specify a bank account (or, if payment is to be made by cheque, an address) to which payment is to be made under this Condition accompanied by, if this Note is in definitive form, this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control.

If this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time.

(f) Early Redemption Amounts

For the purpose of paragraph (b) above and Conditions 10 and 11, the Notes will be redeemed at the Early Redemption Amount calculated as follows:

- (i) in the case of Notes (other than Subordinated Notes) with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof; or
- (ii) in the case of Subordinated Notes redeemed pursuant to Condition 7(b)(ii), at the Final Redemption Amount, the Spens Amount or the Make-Whole Amount as specified in the applicable Final Terms; or
- (iii) in the case of Notes (other than Zero Coupon Notes) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Notes are denominated, at the amount specified in the applicable Final Terms or, if no such amount or manner is so specified in the Final Terms, at their nominal amount; or
- (iv) in the case of Zero Coupon Notes, at an amount (the “Amortised Face Amount”) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

Where:

“*RP*” means the Reference Price; and

“*AY*” means the Accrual Yield; and

“*y*” is Day Count Fraction specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

(g) Purchases

The Bank or any of its subsidiaries may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith and provided further that, in the case of Subordinated Notes, the Bank has obtained the prior consent of the Relevant Authority (as defined in Condition 7)) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Bank, surrendered to any Paying Agent for cancellation.

(h) Cancellation

All Notes which are redeemed will, subject to paragraph (g) above, forthwith be cancelled (together with all unmatured Coupons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to paragraph (g) above (together with all unmatured Coupons cancelled therewith) shall be forwarded to the Agent and cannot be reissued or resold.

(i) Late Payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to paragraph (a), (b), (c) or (d) above or upon its becoming due and repayable as provided in Condition 10 or 11 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in paragraph (f)(iv) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

- (ii) five days after the date on which the full amount of the moneys payable has been received by the Agent and notice to that effect has been given to the Noteholder either in accordance with Condition 15 or individually.

(j) Restriction on Early Redemption of Subordinated Notes

Notwithstanding any other provision in this Condition 7, the Bank may only redeem Subordinated Notes prior to their Maturity Date if the Bank has obtained the Relevant Authority's prior consent or non-objection (as (and to the extent) required by applicable law and regulation) to the redemption of the relevant Subordinated Notes in question.

8. Taxation

All payments of principal and interest in respect of the Notes and Coupons by the Bank will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of the Tax Jurisdiction (as defined below), unless such withholding or deduction is required by law. In such event, the Bank will (save as may be provided in the applicable Final Terms) pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (i) the Noteholder or Couponholder of which is liable for such taxes or duties in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of such Note or Coupon; or
- (ii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day; or
- (iii) presented for payment in the United Kingdom; or
- (iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (v) presented for payment by or on behalf of a Noteholder or Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

- (a) "Tax Jurisdiction" means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax; and
- (b) the "Relevant Date" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 15.

9. Prescription

The Notes and Coupons will become void unless claims in respect of principal and/or interest are made within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 8) therefor.

There shall be no prescription period for Talons but there shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 6(b) or any Talon which would be void pursuant to Condition 6(b).

10. Events of Default and Enforcement relating to Ordinary Notes

If any one or more of the following events (each an “Event of Default”) shall have occurred and be continuing namely:

- (i) default is made in the payment in the Specified Currency of any principal or interest due on the Ordinary Notes or any of them on the due date and such default continues in the case of principal for a period of 7 days and in the case of interest for a period of 15 days; or
- (ii) default is made by the Bank in the performance or observance of any obligation, condition or provision under the Ordinary Notes (other than any obligation for the payment of any amount due in respect of any of the Ordinary Notes) or the Trust Deed and (but only in a case where the Trustee considers such default to be capable of being remedied) such default shall not be remedied to the Trustee’s satisfaction within 30 days (or such longer period as the Trustee may permit) of first written notification from the Trustee to the Bank requiring such default to be remedied; or
- (iii) any Indebtedness of the Bank or any of its Principal Subsidiaries (being Indebtedness having an outstanding aggregate principal amount in excess of £10,000,000 or its equivalent in any other currency) becomes prematurely repayable as a result of a default in respect of the terms thereof, or the Bank or any of its Principal Subsidiaries defaults in the repayment of any Indebtedness (being Indebtedness having an outstanding aggregate principal amount in excess of £10,000,000 or its equivalent in any other currency) at the maturity thereof or at the expiration of any applicable grace period therefor as originally provided, or, in the case of Indebtedness (being Indebtedness having an outstanding aggregate principal amount in excess of £10,000,000 or its equivalent in any other currency) due on demand, the Bank or any of its Principal Subsidiaries defaults in the payment of such Indebtedness on demand or at the expiration of any applicable grace period therefor as originally provided, or any guarantee or indemnity in respect of any Indebtedness (being Indebtedness having an outstanding aggregate principal amount in excess of £10,000,000 or its equivalent in any other currency) of others given by the Bank or any of its Principal Subsidiaries is not honoured when due and called upon or upon the expiration of any applicable grace period therefor as originally provided; or
- (iv) an order is made or an effective resolution is passed for the winding-up or dissolution (a) of the Bank, except for the purposes of or pursuant to a consolidation, amalgamation, merger or reconstruction the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of Noteholders or the substitution of a Holding Company or a Successor in Business (each as defined in the Trust Deed) pursuant to Condition 18, or (b) of any Principal Subsidiary,

except for the purposes of or pursuant to a consolidation, amalgamation, merger or reconstruction the terms of which have previously been approved in writing by the Trustee or by an Extraordinary Resolution of Noteholders or for the purposes of the solvent winding-up of such Principal Subsidiary where the assets of such Principal Subsidiary attributable directly or indirectly to the Bank are distributed to any one or more of the Bank and its other subsidiaries; or

- (v) the Bank or any of its Principal Subsidiaries (a) stops payment (within the meaning of any applicable bankruptcy law) or (b) (otherwise than for the purposes of such a consolidation, amalgamation, merger or reconstruction as is referred to in paragraph (iv) above) ceases or through an official action of the Board of Directors or other governing entity of the Bank or any of its Principal Subsidiaries (as the case may be) threatens to cease to carry on business or a substantial part of its business or (c) is unable to pay its debts as and when they fall due; or
- (vi) an administrative or other receiver or an administrator or other similar official is appointed in relation to the Bank or any Principal Subsidiary or in relation to the whole or a material part of the assets of any of them, or an encumbrancer takes possession of the whole or a material part of the assets of any of them, or a distress or execution or other process is levied or enforced upon or sued out against the whole or a material part of the assets of any of them, and, in any of the foregoing cases, is not discharged within 30 days,

then the Trustee at its discretion may, and if so requested in writing by holders of Ordinary Notes holding at least one-fifth in nominal amount of the Ordinary Notes then outstanding or if so directed by an Extraordinary Resolution of the holders of the Ordinary Notes shall (subject in each case to being indemnified to its satisfaction), (provided that, except in the case of the happening of the event mentioned in paragraph (i) above, the Trustee shall have certified that, in its opinion, such event is materially prejudicial to the interests of the holders of the Ordinary Notes) give notice to the Bank that the Ordinary Notes are, and they shall thereby become, immediately due and repayable at their Early Redemption Amount (as described in Condition 7(f)) together with accrued interest as provided in the Trust Deed.

At any time after the Ordinary Notes become due and repayable and have not been repaid, the Trustee may at its discretion and without further notice take such proceedings against the Bank as it may think fit to enforce the obligations of the Bank under the Trust Deed and the Ordinary Notes and the relative Coupons, but it shall not be bound to take any such proceedings or any other action unless (i) it shall have been so directed by an Extraordinary Resolution of the holders of the Ordinary Notes or so requested in writing by holders of at least one-fifth in nominal amount of the Ordinary Notes outstanding and (ii) it shall have been indemnified to its satisfaction. No holder of an Ordinary Note, or of a Coupon appertaining thereto, shall be entitled to proceed directly against the Bank unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure is continuing.

For the purpose of paragraph (iii) above, (a) "Indebtedness" means any moneys borrowed and bonds, debentures, notes or other instruments of indebtedness or any other loan indebtedness, and (b) any Indebtedness which is in a currency other than Sterling shall be translated into Sterling at the "spot" rate for the sale of Sterling against the purchase of the relevant currency as quoted by the Agent on the day in London on which such default occurs (or, if for any reason such a rate is not available on that day, on the immediately preceding day on which such a rate was quoted by the Agent) or, if the Agent does not so quote the spot rate for the

sale of sterling against the purchase of the relevant currency, as quoted by a London clearing bank selected by the Trustee.

“Principal Subsidiary” means any subsidiary of the Bank, at least 50 per cent. of the issued share capital of which is owned directly or indirectly by the Bank, whose total assets as shown by the audited non-consolidated accounts (or, where the subsidiary in question itself prepares consolidated accounts, whose consolidated total assets as shown by the audited consolidated accounts) of such subsidiary used for the purposes of the preparation of the latest audited consolidated accounts of the Bank are at least ten per cent. of the consolidated total assets of the Bank and its subsidiaries attributable to the Bank as shown by such latest audited consolidated accounts, provided that, in relation to the consolidated total assets of the Bank and its subsidiaries, “attributable to the Bank” means such consolidated total assets after deducting amounts attributable directly or indirectly, assuming there are no liabilities to be deducted, to outside interests in the subsidiaries of the Bank. A report by the Auditors (as defined in the Trust Deed) that in their opinion a subsidiary of the Bank is or is not or was or was not at a specified date or during a specified period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

11. Events of Default and Enforcement relating to Subordinated Notes

- (a) If default is made in the payment of any principal or interest due on the Subordinated Notes or any of them on the due date and such default continues in the case of principal for a period of 7 days and in the case of interest for a period of 15 days the Trustee may, subject as provided below, at its discretion and without further notice, institute proceedings for the winding-up of the Bank, but may take no other action in respect of such default.
- (b) If, otherwise than for the purposes of a reconstruction or amalgamation on terms previously approved in writing by the Trustee, an order is made or an effective resolution is passed for winding-up the Bank, the Trustee may, and if so requested in writing by the holders of at least one-fifth in nominal amount of the Subordinated Notes then outstanding or if so directed by an Extraordinary Resolution of the holders of the Subordinated Notes shall (subject in each case to being indemnified to its satisfaction), give notice to the Bank that the Subordinated Notes are, and they shall thereby become, immediately due and repayable at their Early Redemption Amount (as described in Condition 7(f), together with accrued interest as provided in the Trust Deed.
- (c) The Trustee shall not be bound to take the action referred to in paragraph (a) above unless (a) it shall have been so directed by an Extraordinary Resolution of the holders of the Subordinated Notes or so requested in writing by the holders of at least one-fifth in nominal amount of the Subordinated Notes outstanding and (b) it shall have been indemnified to its satisfaction.
- (d) No remedy against the Bank, other than the institution of proceedings by the Trustee for the winding-up of the Bank, shall be available to the Trustee or the holders of the Subordinated Notes or the relative Couponholders for the recovery of amounts owing in respect of the Subordinated Notes or the relative Coupons as aforesaid and no holder of a Subordinated Note, or of a Coupon appertaining thereto shall be entitled to institute proceedings for the winding-up of the Bank or to prove in such winding-up, except that if the Trustee, having become bound so to proceed, fails to do so or fails to prove in such winding-up, in each case within a reasonable time and such failure shall be continuing, any such holder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise) himself either institute proceedings for the winding-up of the Bank or prove in such winding-up.

12. Replacement of Notes, Coupons and Talons

Should any Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Replacement Agent, or any other place approved by the Trustee of which notice shall have been published in accordance with Condition 15, upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Bank may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

13. Agent and Paying Agents

The names of the initial Agent and the other initial Paying Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

The Bank is, with the prior written approval of the Trustee, entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (i) so long as the Notes are listed on any stock exchange, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange (or any other relevant authority);
- (ii) there will at all times be a Paying Agent with a specified office in a city approved by the Trustee in Europe;
- (iii) there will at all times be an Agent; and
- (iv) the Issuer will ensure that it maintains a Paying Agent in a European Union Member State (if any) that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Bank shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in the final paragraph of Condition 6(b). Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 15.

In acting under the Agency Agreement, the Paying Agents will act solely as agents of the Bank and, in certain circumstances specified therein, of the Trustee, and will not assume any obligations or relationships of agency or trust to or with the Noteholders and the Couponholders, except that (without affecting the obligations of the Bank to the Noteholders and the Couponholders to repay the Notes and to pay interest thereon) funds received by the Paying Agents for the payment of any sums due in respect of the Notes shall be held by them on behalf of the Noteholders and the Couponholders until the expiry of the relevant period of prescription under Condition 9. The Agency Agreement contains provisions for the indemnification of the Paying Agents and for their relief from responsibility in certain circumstances, and entitles any of them to enter into business transactions with the Bank without being liable to account to the Trustee, the Noteholders or the Couponholders for any resulting profit.

14. Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 9. Each Talon shall, for the purposes of these Terms and Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

15. Notices

All notices regarding the Notes shall be valid if published in a leading English language daily newspaper of general circulation in London. It is expected that such publication will be made in the *Financial Times* or another daily newspaper in London approved by the Trustee or, if this is not possible, in another English language daily newspaper approved by the Trustee with general circulation in Europe. The Bank shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange (or other relevant authority) on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of publication or, if published more than once or if required to be published in more than one newspaper, on the date of the first publication in all the required newspapers.

Until such time as any definitive Notes are issued, there may, so long as the global Note(s) is or are held in its or their entirety on behalf of Clearstream, Luxembourg and Euroclear, be substituted for such publication in such newspaper the delivery of the relevant notice to Clearstream, Luxembourg and Euroclear for communication by them to the holders of the Notes provided that, for so long as the Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by that stock exchange (or that relevant authority). Any such notice shall be deemed to have been given to the holders of the Notes on such day as is specified in the applicable Final Terms after the day on which the said notice was given to Clearstream, Luxembourg and Euroclear.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Agent. Whilst any of the Notes are represented by a global Note, such notice may be given by any holder of a Note to the Agent via Clearstream, Luxembourg and/or Euroclear, as the case may be, in such manner as the Agent and Clearstream, Luxembourg and/or Euroclear, as the case may be, may approve for this purpose.

16. Meetings of Noteholders, Modification and Waiver

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons or certain provisions of the Trust Deed. Such a meeting may be convened by the Bank or by Noteholders holding not less than 10 per cent. in nominal amount of the Notes of any Series for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing

Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes or Coupons) or certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Couponholders.

The Trust Deed provides that the Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification (subject to certain exceptions as provided in the Trust Deed) of, or to any waiver or authorisation of any breach or proposed breach of, any of these Terms and Conditions or any of the provisions of the Trust Deed, or may determine that any condition, event or act which, but for such determination, would constitute an Event of Default, shall not be treated as such which in any such case, in the opinion of the Trustee, is not materially prejudicial to the interests of the Noteholders or to any modification of any of these Terms and Conditions or any of the provisions of the Trust Deed which is of a formal, minor or technical nature or which is made to correct a manifest error. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 15. No modification to the provisions of Condition 3(ii) shall be effected without the prior consent of the Relevant Authority (as defined in Condition 7).

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, but without limitation, any modification, waiver, authorisation or substitution), the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Bank or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

17. Further Issues

The Bank shall be at liberty from time to time without the consent of the Noteholders or Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single series with the outstanding Notes.

18. Substitution

The Trustee may, without the consent of the Noteholders or the Couponholders, agree with the Bank to the substitution in place of the Bank (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Coupons and the Trust Deed of the

Holding Company, a Successor in Business (each as defined in the Trust Deed) or any Subsidiary of the Bank, subject to (a) in the case of a substitution of any Subsidiary of the Bank, the Notes being unconditionally and irrevocably guaranteed by the Bank and so that, in the case of Subordinated Notes, the obligations of the Bank under such guarantee shall be subordinated on a basis considered by the Trustee to be equivalent to that in respect of the Bank's obligations in respect of the Notes and the Coupons, (b) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution, (c) in the case of Subordinated Notes, (i) the obligations of such Holding Company or Successor in Business or (ii) in the case of substitution of a Subsidiary of the Bank, the obligations of the Bank under its guarantee, being subordinated on a basis considered by the Trustee to be equivalent to that in respect of the Bank's obligations as principal debtor in respect of the Notes, and Coupons, and (d) certain other conditions set out in the Trust Deed being complied with. No such substitution shall be effected in relation to any series of Subordinated Notes without the prior consent of the Relevant Authority (as defined in Condition 7).

19. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances including provisions relieving it from instituting proceedings to enforce repayment unless indemnified to its satisfaction.

20. Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21. Governing Law

The Trust Deed, the Agency Agreement, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Agency Agreement, the Notes and the Coupons are governed by, and shall be construed in accordance with, English law.

Use of Proceeds

The net proceeds from each issue of Notes will be applied by the Bank for its general corporate purposes and, with regard to subordinated notes, to strengthen the Bank's capital position.

If, in respect of an issue of Notes which are derivative securities for the purposes of Article 15 of Commission Regulation No 809/2004 implementing the Prospectus Directive, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

Description of the Bank

History and Development

The Bank's origins date back to 1872, originally being formed as the Banking Department of the Co-operative Wholesale Society Limited ("CWS"), which changed its name on 3 December 2007 to Co-operative Group Limited following the merger with United Co-operatives on 29 July 2007 (the "Co-operative Group").

In October 1970, the Co-operative Bank Limited was incorporated and, following the passing of the Co-operative Bank Act 1971, the business formerly carried on by the Banking Department of the Co-operative Group was transferred to and vested in the Bank in July 1971. This was followed, in June 1973, by the transfer of the business of the banking department of the former Scottish Co-operative Wholesale Society to the Bank.

The Bank obtained clearing bank status in 1975 and was granted recognised status by the Bank of England under the terms of the Banking Act 1979. In 1981, the Bank re-registered under the Companies Act 1980 as a public company and was re-registered on 10 January 1993 with its present name. On 19 June 2002, the Co-operative Group transferred its entire shareholding in the Bank to Co-operative Financial Services Limited (now named the Co-operative Banking Group Limited), a newly incorporated Industrial and Provident Society. The ultimate parent organisation remains the Co-operative Group.

The Co-operative Group is the UK's largest mutual business, owned not by private shareholders but by over six million consumers. The Co-operative Group operates a range of businesses in food (it is the UK's fifth biggest food retailer, and one of the UK's leading convenience store operators) and non-food retailing, farming, funerals, travel, and pharmacy. It also provides buying, marketing, distribution and other services for the co-operative movement.

The Co-operative Group operates 5,000 retail trading outlets, employs more than 102,000 people and has an annual turnover of more than £13.3 billion.

Co-operative Banking Group Limited is incorporated under the Industrial and Provident Societies Acts of 1965 to 2003 and is also the parent of the Bank's primary sister organisations – Co-operative Insurance Society Limited ("CIS") and CIS General Insurance Limited ("CISGIL").

With effect from 15 January 2006, the Executive Management of the Boards of the Co-operative Banking Group Limited, CIS, CISGIL and the Co-operative Bank have been reorganised under a single Executive Management Framework. At this date all the Directors of the Co-operative Banking Group Limited Board were appointed to the Bank Board ensuring a common understanding of objectives.

The Bank's registered office, which is also its Head Office, is situated at 1 Balloon Street, Manchester M60 4EP, telephone number: +44 (0)161 832 3456, fax number: +44 (0)161 829 4475. The registered number of the Bank is 990937.

Merger with Britannia Building Society

On 21 January 2009, the boards of Britannia Building Society and Co-operative Banking Group Limited jointly announced their proposal to merge (the "Merger"). On 29 April 2009, Britannia Building Society shareholding and borrowing members voted in favour of the Merger. The Merger became effective on 1 August 2009 through a transfer of the business, assets and liabilities of the

Britannia Building Society to the Bank under section 97 of the Building Societies Act 1986 and Britannia Building Society ceased to exist as a legal entity.

Prior to the Merger, Britannia Building Society was the United Kingdom's second largest building society in terms of total consolidated assets. At the date of this Prospectus, the retail residential lending and savings franchise transferred from Britannia Building Society (the "Britannia Businesses") and the pre-Merger businesses of the Bank (the "Co-operative Bank Businesses"), continue to trade as separate businesses under the "Britannia", "Co-operative Bank" and "Smile" brand names respectively.

Responsible Finance

In 2011, The Co-operative Group launched its ethical plan, with the aim of being the one of the UK's leading socially responsible businesses. Responsible finance is a key focal area of the ethical plan, part of which is the Bank's ethical policy.

The Bank is the only UK bank to have a customer-led ethical policy, reflecting ethical concerns about the provision of financial services to certain activities and sectors.

Since the ethical plan was originally launched in 1992¹, the Bank has declined over £1 billion of funding from business activities that are in breach of its ethical policy.

Business and Principal Activities

The Bank is an established UK settlement bank with a diversified range of retail banking activities, substantially servicing UK customers. It has an established presence in its chosen segments of the U.K. market and has a continuing programme centred upon mutuality to differentiate itself from the competition and to improve customer loyalty, through its member owned, customer led and ethically guided principles.

The Bank, as part of Co-operative Banking Group Limited, has goals centred on a "Balanced Score card" under the categories of "Financial", "Customer", "People", "Process" and "Risk". These categories capture performance in areas such as profit, liquidity, customer advocacy, efficiency and colleague engagement.

The Co-operative Bank's operating result and profit before taxation

	2011 £m	2010 £m	Change £m	Change %
Income	817.6	821.8	(4.2)	(1)%
Operating costs - steady state	(548.2)	(555.5)	7.3	1%
Operating costs - strategic initiatives	(13.4)	(26.0)	12.6	48%
Impairment losses	(114.9)	(95.8)	(19.1)	(20)%
Operating result	141.1	144.5	(3.4)	(2)%
Significant items	(53.3)	(55.5)	2.2	4%
PPI provision	(90.0)	(4.3)	(85.7)	
Share of post tax profits/(losses) from joint	0.2	0.7	(0.5)	(71)%

¹ Source: 2010 Sustainability Report:

http://www.co-operative.coop/Corporate/sustainability/2011/downloads/Sustainability_Report_2010.pdf.

Statements and figures have been subject to third party independent assurance as described on pages 124 and 125 of the Sustainability Report.

ventures				
Financial services compensation scheme levies	(14.5)	(11.5)	(3.0)	(26)%
Profit before tax, distributions and fair value amortisation	(16.5)	73.9	(90.4)	(122)%
Fair value amortisation	86.3	(14.2)	100.5	708%
Profit before taxation and distributions	69.8	59.7	10.1	17%
Membership dividend	(15.6)	(10.8)	(4.8)	44%
Profit before taxation	54.2	48.9	5.3	11%

Balance Sheet

	2011	2010
	Total	Total
	£m	£m
Loans and advances to customers	34,132	35,144
Investments	13,274	9,033
Other assets	1,550	1,403
Total Assets	48,956	45,581
Amounts owed to customers	36,553	34,303
Wholesale liabilities	3,303	2,939
Debt securities in issue	4,165	4,212
Other liabilities	1,403	1,078
Minority interest	33	32
Other borrowed funds	1,259	975
Equity	2,240	2,042
Total Liabilities & Equity	48,956	45,581

Funding

The Bank is predominantly customer funded, with £36.6 billion of customer deposits (Retail and Corporate and Business Banking deposits). The loan to deposit ratio at 31 December 2011 stood at 93.9%, strengthening by 8.6% on the position as at 2010 (102.5%) year end. The customer funding position is supplemented by wholesale funding which enables the Bank to diversify its funding base. Wholesale funding represents £8.7 billion of total funding.

Capital

The Bank's capital position remains strong with a core tier one ratio at 31 December 2011 of 9.6%, unchanged from 31 December 2010: 9.6%. A provision of £90.0 million was made in the Bank's 2011 accounts to cover the cost of redress and administration of PPI complaints, principally in relation to PPI sold with unsecured credit offerings.

In 2011, the capital position was supported through surplus capital previously held within the Co-operative Banking Group Limited, and through the exchange and issuance of lower tier two subordinated debt. As a consequence, the Bank's total capital ratio improved from 14.0% at 31 December 2010 to 14.7% as at 31 December 2011. A further PPI provision of £40.0 million was made in the first six months ended 30 June 2012.

Rigorous stress testing is undertaken to ensure that regulatory capital levels can be adequately maintained under severe stress scenarios. The Bank's capital planning activity incorporates the transitional impact of Basel III and the ICB report.

The Bank's primary operating segments

The Bank consists of two primary operating segments – Retail and Corporate and Business Banking.

Retail Banking

The Retail Banking offers a range of financial products and services to individuals, households and small businesses throughout the UK, trading as The Co-operative Bank, Britannia and Smile.

Retail savings and current accounts

The Bank has just over 4.8 million retail banking customers, and operates a range of current accounts and savings products. The Bank had £27.8 billion personal customer deposit balances as at 31 December 2011. These balances are held in a mixture of instant access, notice accounts and fixed rate deposits as well as current accounts. The Bank distributes its retail products through over 342 branches and call centres across the UK and via the internet.

Residential Mortgage Lending

The Bank offers variable, fixed and tracker mortgages. As at 31 December 2011 the residential mortgage portfolio of the Bank predominantly comprises prime mortgages (66 %), with a broad geographical spread. The portfolio is well seasoned with stable Loan to Values ("LTV").

As at 31 December 2011, the Bank had £23.7 billion of gross advances, before fair value adjustments, secured on residential property. At 31 December 2011, the total provision held against residential loans was £9.0 million.

As at 31 December 2011, the total residential mortgage portfolio comprised:

<i>Mortgage Type</i>	<i>Amount</i>	<i>Percentage. of Book</i>
Prime	£15.7 billion	66.4 per cent.
Non Conforming	£2.9 billion	12.2 per cent.
Self Certificated	£2.2 billion	9.2 per cent.
Buy to Let	£2.9 billion	12.2 per cent.
Total	£23.7 billion	

Geographical analysis of residential mortgages

	2011	2010
London & South East	40 per cent.	40 per cent.
Northern England	21 per cent.	22 per cent.
Midlands and East Anglia	21 per cent.	21 per cent.
Wales and South West	12 per cent.	12 per cent.
Other	6 per cent.	5 per cent.

Loan to Value (indexed) of Residential Mortgage Portfolio

	2011	2010
LTV < 50 per cent.	26.1 per cent.	27.3 per cent.
LTV 50-60 per cent.	10.7 per cent.	10.6 per cent.
LTV 60-70 per cent.	13.0 per cent.	12.3 per cent.
LTV 70-80 per cent.	15.3 per cent.	15.0 per cent.
LTV 80-90 per cent.	14.7 per cent.	14.7 per cent.
LTV 90-100 per cent.	9.9 per cent.	10.2 per cent.
LTV > 100 per cent.	10.4 per cent.	9.8 per cent.

Basis of indexation: Halifax quarterly non-seasonally adjusted house price index

Residential mortgage asset quality has been maintained in 2011, with the Bank's level of mortgage delinquencies (arrears balance greater than or equal to 2.5% of total balance) standing at 1.18% as at 31 December 2011.

Prime residential mortgage lending (66% of the total residential mortgage portfolio) loans which are three months or more in arrears as a proportion of the total book stood at 0.49% as at 31 December 2011.

Personal Unsecured Loans

The Bank's book comprises mostly fixed rate lending to Bank customers (personal loans) and non-bank customers (direct loans). Risk based pricing is utilised. The Bank's unsecured lending book was £0.8 billion as at 31 December 2011.

Credit Cards

The Bank's credit card book was £0.6 billion as at 31 December 2011. Credit card growth is focused on customer retention and targeted growth opportunities.

Smile

In October 1999, the Bank launched Smile, the UK's first full Internet bank. Smile currently has approximately 360,000 customers as at 31 December 2011, of which a high proportion are relationship customers. Smile offers services including current accounts, unsecured loans, credit cards, mortgages, savings products and insurance either directly or through other Co-operative companies.

Retail performance

Retail impairment in 2011 was 45.4 per cent. better than at 31 December 2010. Key drivers include declining unsecured credit card balances and improvements in arrears collection rates. Mortgage quality has been maintained with continued low rates of impairment.

The strength of the Retail customer proposition continues to be recognised by a range of awards. In 2012, the Co-operative Bank was successful in multiple categories at the Moneywise Customer Service Awards and The Card & Payment Awards, recognising consumers banking propositions

across both the Bank and the wider Co-operative Group. The Co-operative Bank's credibility amongst customers and commentators alike was underscored by a third successive year of being shortlisted for "Best Financial Services Provider" at the 2012 Which? Awards.

Platform

Platform is one of the leading intermediary-only lenders in the UK residential mortgage market. Launched in February 2003, the company was created from the merger of Platform Home Loans and Verso, both subsidiaries of the Britannia Building Society. It is focused on prime and buy-to-let intermediary lending. In 2012, the Platform portfolio of £1.75 billion (as at 30 June 2012) has been moved from Corporate and Business Banking to the Retail Business.

Corporate and Business Banking

Commercial Lending

The Bank has a diversified portfolio of commercial lending totalling £9.0 billion of drawn balances as at the end of December 2011 (compared to £8.7 billion as at the end of December 2010), with £11.1 billion of gross exposure. The majority of the commercial lending is property based, to low risk customers with tangible net assets and/or very high quality tenant covenants.

Most of the commercial lending book is comprised of bilateral facilities, underpinning the relationship based model. The portfolio has a reasonably well spread maturity profile which provides a good longer term earnings stream. A centralised underwriting process provides strong control and governance. The portfolio consists of loans to the following industries:

Commercial lending portfolio by sector as at 31 December 2011

Sector	Total Exposure (£m)	% Total Exposure	Default Exposure (£m)	% Default Exposure to Total Exposure
Education/ Public Sector	325	2.9%	0	0.0%
Services	1,021	9.2%	30	2.9%
Housing Associations	1,133	10.3%	0	0.0%
PFI	1,276	11.5%	0	0.0%
Property and Construction				
Commercial Investment	3,679	33.3%	563	15.3%
Residential Investment	594	5.4%	155	26.1%
Commercial Development	287	2.6%	11	3.8%
Residential Development	121	1.1%	4	3.3%
Renewable Energy/ Utilities	536	4.8%	11	2.1%
Other	2,081	18.8%	148	7.1%
Total	11,053	100.0%	921	8.3%

Corporate and Business Banking performance

As at 31 December 2011, 10.2% of the Corporate lending portfolio was in default (compared to 7.6% as at 31 December 2010). Of the 10.2% of loans in default, 100% are recognised as impaired. The majority of impaired balances are covered by provisions, protected via credit fair value adjustments, or secured by collateral.

Corporate and Business Banking impairment losses rose from £31.4 million in the year ended 31 December 2010 to £87.4 million in the year ended 31 December 2011.

Savings and Current Accounts

The Bank had £7.6 billion corporate customer deposit balances as at 31 December 2011, including deposit notes. These balances are held in a mixture of instant access, notice accounts and fixed rate deposits as well as current accounts.

Optimum

Optimum has been established to provide commercial focus on the specialist mortgage portfolio and the delivery of broader loss mitigation strategies across the Bank. The business unit was created following the merger and is a closed book as part of Corporate and Business Banking. The book at 31 December 2011 stood at £7.7 billion, a reduction of 5.5% from 31 December 2010.

Treasury and Wholesale Lending

The core responsibilities for the Bank's treasury department (the "Treasury") are to ensure a strong and stable liquidity base, provide diverse sources of wholesale funding to the bank, manage market risk within risk appetite and deliver a strong financial performance on the investment portfolio.

Wholesale Funding

The Bank aims to achieve a diversified mix of wholesale funding by currency, investor category and maturity to prevent dependence on any particular funding sector. The Bank has a variety of programmes in place so it can meet its short term and long term funding needs, including:

- Covered Bond Programme
- Euro Medium Term Note Programme
- Euro Commercial Paper Programme

The Bank continued to access the wholesale markets in 2011 and 2012. The Bank issued sterling covered bonds in November 2011, "Silk Road Finance" residential mortgage backed securities in July 2011 and July 2012, and lower tier two subordinated debt in April 2011. Together, these issues raised over £2 billion in new funding.

Liquidity Management

The Bank's Individual Liquidity Adequacy Assessment ("ILAA") documents how liquidity risk is identified, measured, monitored and managed; process and procedures in place and governance to mitigate the risk. In particular the ILAA covers:

- Liquidity Risk Appetite
- Adequate systems and controls
- Stress testing
- Contingency planning
- Maintaining a liquid asset buffer
- Liquidity risk appetite is defined as the board approved survival period under stress scenarios.

The Bank's liquidity management framework is designed in line with FSA BIPRU regulations and industry guidelines, including Institute of International Finance ("IIF") and Bank for International Settlements ("BIS") recommendations, and is being developed in response to emerging FSA requirements.

The Bank manages liquidity risk by applying:

- a systematic control process embedded in the Bank's operations;
- controlled end-to-end liquidity management with:
 - net outflows monitored to ensure they are within FSA limits;
 - maintenance of a well diversified deposit base;
 - management of stocks: high quality primary liquidity including cash, and secondary liquidity including certificates of deposit;
 - target strategic ratios; and
 - stress testing.

The strategic measures set by ALCO and monitored monthly are:

- Wholesale borrowing ratio – monitoring the amount of whole borrowing versus total liabilities
- Liquid Asset Ratio – amount of total assets that are liquid assets
- Customer loan / deposit ratio – amount of customer loans funded by customer deposits

Day-to-day cash flow (tactical liquidity) is managed by Treasury within guidelines laid down by ALCO and in accordance with the standards established for all banks by banking regulators.

The Bank has a high proportion of retail assets funded by retail deposits, ensuring there is no over reliance on wholesale funding. There are customer funding and wholesale funding ratios as described above which are set in line with the Board approved strategic plan. The Bank's structural liquidity risk management is therefore retail based and is dependent on behavioural analysis of both customer demand and deposit and loan drawdown profiles by product category based on experience. The behaviour of retail products is reviewed by ALCO and in addition the Bank has maturity mismatch limits to control the exposure to longer term mismatches.

The Bank's liquidity position is monitored on a daily basis and reported to ALCO each month. Marketable assets are maintained as a liquidity pool against potential outflows. The liquidity pool consists of high quality debt securities, such as government-issued debt and cash deposited at the Bank of England. As at 31 December 2011, the liquid asset ratio was 15.5%.

European Exposures

As at 31 December 2011, the Bank has no sovereign exposure to 'peripheral' eurozone area countries (Portugal, Ireland, Italy, Greece and Spain), and no exposure to Greek financial institutions or any other Greek counterparties.

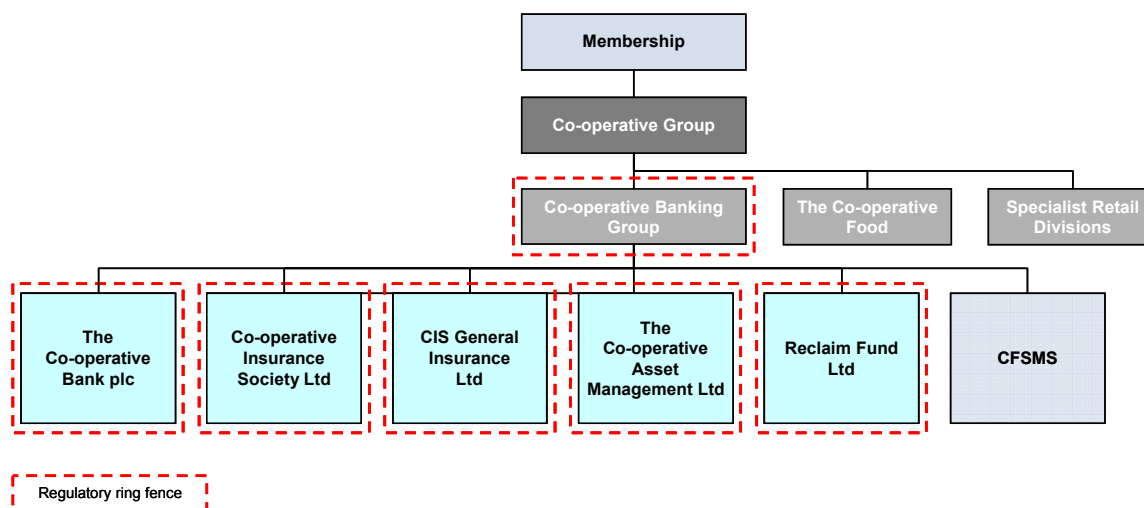
The majority of underlying exposure to higher risk eurozone counterparties is comprised of money market lending and short dated bonds scheduled to run-off. As at 31 December 2011, the Bank's exposure to European Financial Institutions is detailed in the following table:

Country	Total exposure £m		
	2011	2010	Change
Austria	40	40	0
Belgium	20	187	(167)
Denmark	8	6	2
Finland	0	25	(25)
France	315	812	(497)
Germany	166	396	(230)
Ireland	30	132	(102)
Italy	0	412	(412)
Netherlands	251	10	241
Portugal	34	34	0
Spain	145	484	(339)
Sweden	28	0	28
Switzerland	233	84	149
	<hr/> 1,270	<hr/> 2,622	<hr/> (1,352)

	£m	£m	Change
Short term exposure (<12 month residual maturity)*	746	2,123	(1,377)
Term exposure (>12 month residual maturity)*	873	878	(5)
Exposure via senior debt securities*	713	945	(233)
Exposure via other products*	906	2,056	(1,150)

* Exposure to financial institutions before the application of credit risk mitigation.

Summary Group Structure



Through its subsidiary, Co-operative Commercial Ltd, the Bank owns 27 % of the equity of Unity Trust Bank Plc (“UTB”). UTB provides retail banking services, principally to trade unions and social economy sector organisations. In accordance with UK accounting practice, the financial results of UTB are consolidated within the statutory accounts of the Bank.

Directors

At the date of this Prospectus, the Directors and the Secretary of the Bank, their businesses addresses, their functions in the Bank and their principal outside activities (if any) of significance to the Bank were as follows:

Name	Business Address	Function within the Bank	Principal outside activity (if any) of significance to the Bank
Barry Tootell	CIS Building, Miller Street, Manchester M60 0AL	Acting Chief Executive	Acting Chief Executive Co-operative Banking Group Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited, Deputy Chief Executive Co-operative Group Limited.
James Mack	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Acting Chief Financial Officer	Acting Chief Financial Officer Co-operative Banking Group Limited and Co-operative Insurance Society Limited.
Paul Flowers	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non-Executive Director and Chair	Deputy Chair of Co-operative Group Limited. Non-Executive Director and Chair of Co-operative Banking Group Limited and, Co-operative Insurance Society Limited. Member of the Co-operative Group North Regional Board.
Anne Margaret Gunther	Governance Department, 5th Floor New Century House, Corporation Street, Manchester M60 4ES	Non Executive Director	Non Executive Director Co-operative Banking Group Limited and Co-operative Insurance Society Limited, Chair of Warwick Business School

Name	Business Address	Function within the Bank	Principal outside activity (if any) of significance to the Bank
Duncan Bowdler	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non Executive Director	Trade Liaison Manager, Co-operative Group Ltd. Non-Executive Director of Co-operative Group Limited, Co-operative Banking Group Limited and Co-operative Insurance Society Limited. Member of the Co-operative Group North West and North Midlands Regional Board.
David Wyndham Davies	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non Executive Director, Deputy Chair and Senior Independent Director	Non-Executive Director and Deputy Chair of Co-operative Banking Group Limited, Co-operative Insurance Society Limited and CIS General Insurance Limited. Chair of Sunlife Assurance Company of Canada (UK) and Nortel Network Pension Scheme in the UK. Non-Executive Director of Interglobal Insurance Company Ltd.
Peter Harvey	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non Executive Director	Non-Executive Director of Co-operative Banking Group Limited, Co-operative Insurance Society Limited. Non-Executive Director of Marshalls Holdings Limited. Consultant to Berwin Leighton Paisner LLP.
Merlyn Vivienne Lowther	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non Executive Director	Non-Executive Director of Co-operative Banking Group Limited and Co-operative Insurance Society Limited, Non-Executive Director of Schroders plc.
Peter Marks	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non Executive Director	Chief Executive, Co-operative Group Ltd. Non-Executive Director of Co-operative Banking Group Limited and Co-operative Insurance Society Limited.
Robert Newton	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non Executive Director	Non-Executive Director of Co-operative Banking Group Limited, Co-operative Insurance Society Limited, CIS General Insurance Limited and Reclaim Fund Limited. Chair of Silentair Group Limited and Non-Executive Director of UIA Limited.
Ben Reid	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non Executive Director	Chief Executive, Midcounties Co-operative. Non-Executive Director of Co-operative Group Ltd, Co-operative Banking Group Limited and Co-operative Insurance Society Limited. Chair of Walsall Hospitals NHS Trust.
Leonard Adrian Wardle	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non Executive Director	Chairman of Co-operative Group Ltd. Non-Executive Director of Co-operative Banking Group Limited and Co-operative Insurance Society Limited. Member of the South East Regional Board. Director of Communicate Mutuality Ltd.
Martyn James Wates	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Non Executive Director	Deputy Chief Executive, Co-operative Group Ltd. Non-Executive Director of Co-operative Banking Group Limited and Co-operative Insurance Society Limited.
Moira Lees	Governance Department, 5th Floor New Century House, Corporation Street, Manchester, M60 4ES	Company Secretary	Secretary Co-operative Group Limited, Co-operative Banking Group Limited, Co-operative Insurance Society Limited, CIS General Insurance Limited.

There are no other potential conflicts of interest between the duties to the Bank of its Directors and its Secretary and their private interests or other duties.

Recent Developments

The Co-operative Group is a financial institution

On 30 March 2012, the Co-operative Group was informed by the FSA that it is a financial institution as defined in the glossary in the FSA's Handbook of Rules and Guidance.

Project Verde

On 19 July 2012, the Co-operative Group announced that it and Lloyds Banking Group ("LBG") agreed non-binding heads of terms for the acquisition of the Verde Business.

The Board of the Co-operative Group has agreed to proceed on the basis of non-binding heads of terms with LBG in relation to the acquisition of the Verde Business. The move by the Co-operative Group would create a High Street bank with almost 1,000 branches.

The Co-operative Group and LBG are now working towards agreeing definitive, binding documentation, subject to the satisfactory completion of further due diligence and Board approvals. Completion of the transaction is expected before the end of November 2013 and will be conditional on, among other things, regulatory approvals from the FSA, HM Treasury and the European Commission.

The prospects from the acquisition of the Verde Business, and current account market growth should be of considerable benefit to the financial strength of the Bank and the product range and services offered to customers.

The Bank is continuing to progress its transformation plan. However, while pursuing Project Verde, progress has been managed down and spend reduced in those areas where Project Verde could impact the Bank's plans, to minimise the risk of redundant investment. The Bank will continue to review the transformation plan until the conclusion of the process leading to signing a sale and purchase agreement.

The Co-operative Insurance Society Limited

On 15 July 2011, Co-operative Banking Group Limited announced the outcomes from a strategic review into its life and savings business. One of the outcomes included the entrance into exclusive talks with Royal London Mutual Insurance Society Limited to sell the life insurance subsidiary, The Co-operative Insurance Society Limited, including £15 billion of assets in its Long Term Business Fund and The Co-operative Asset Management which manages the fund. Any transaction will be subject to regulatory approval.

Interim Financial Report as of 30 June 2012

The Co-operative Bank's interim financial report for the period 1 January to 30 June 2012 was released on 23 August 2012.

The Co-operative Bank's operating result and profit before taxation for the six months to 30 June 2012:

	H1 2012	H2 2011	H1 2011
	£m	£m	£m
Income	385	383	435

Operating costs	(282)	(282)	(280)
Impairment losses	(92)	(69)	(46)
Operating result	11	33	109
-Core	84	28	106
-Non Core	(73)	5	3
Significant items	(19)	(26)	(28)
Costs relating to Project Verde	(20)	-	-
Group recharges	(10)	-	-
PPI Provision	(40)	-	(90)
Other	-	(9)	(6)
Fair value amortisation	20	70	17
Profit/(loss) before taxation & distributions	(59)	68	2

The financial performance in the first six months of 2012 is a reflection of the challenging economic conditions. The operating result of £11.3 million (2011 H1: £108.6 million) reflects continuing strain within the UK corporate sector where an increase in impairments has been witnessed, alongside a reduction in income due to the continued low base rate environment and increasingly higher costs of funding. Impairment losses in H1 2012 were £91.9 million (2011 H1: £46.1 million) principally from corporate and business banking.

The loss before taxation of £58.6m reflects the reduction in operating profits, additional provisions for PPI mis-selling of £40.0 million (2011: £90 million), and higher non-operating charges partly as a result of the acquisition of the Verde Business by The Co-operative Group from Lloyds Banking Group described above.

The Bank's core tier one ratio remains steady, at 9.6% (December 2011: 9.6%). The total capital ratio was 14.8% (2011: 14.7%) The loan to deposit ratio was 101% at the end of June (December 2011: 94%), reflecting our policy of keeping the ratio broadly in balance.

Retail Business

The Retail Banking operating results for the six months to June 2012 was £32.0 million (2011 H1: £57.8 million), reflecting a fall in interest income caused by the higher cost of attracting and retaining retail deposits in a low interest rate environment.

Retail mortgage quality has been maintained with continued low rates of impairment, and late arrears (>2.5% of balance) on only 0.29% of accounts (December 2011: 0.30%).

Corporate and Business Banking

From early 2012, the Corporate and Business Banking has been managed through two business units. The 'Core' business unit represents lines of business that are consistent with the Bank's strategy and risk appetite. 'Non-Core' lines of business include sectors not congruent with the Bank's current strategy, are managed for value and targeted for run down or exit, and contain the majority of impairment risk. The challenging UK economic environment continued to impact corporate performance in 2012, with £75.9 million impairment losses to the half year, 30 June 2012, predominantly in the Non-Core portfolio (£58.4 million).

Strategic options are being reviewed to improve the profitability and capital consumption of the non-core portfolio. Any viable solutions are likely to be medium term in nature and, in the short term, very active and close management of the impairment and profitability position is being undertaken.

The legacy Optimum portfolio, a £7.5 billion (as at 30 June 2012) closed portfolio of intermediary and acquired mortgage assets continued to witness steady improvement in delinquency performance. Late arrears in the portfolio (>2.5% of balance) were 3.12% of account (December 2011: 3.59%).

Taxation

UK Taxation

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes. It is based on the Bank's understanding of current law and Her Majesty's Revenue & Customs (HMRC) practice. The comments do not deal with other United Kingdom taxation aspects of acquiring, holding or disposing of the Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. Prospective Noteholders should be aware that the particular terms of issue of any series of Notes as specified in the relevant Final Terms may affect the tax treatment of that and other series of Notes. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Bank) to whom special rules may apply. The United Kingdom treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future sometimes with retrospective effect. Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes, even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

1. The Bank will be entitled to make payments of interest without withholding or deduction on account of UK income tax on Notes which have a maturity of less than a year from the date of issue and which are not issued under arrangements the effect of which is to render such Notes part of a borrowing with a total term of more than 364 days. HMRC issued a consultation document on 27 March 2012 entitled "Possible changes to income tax rules on interest", in which the UK Government has invited views on repealing this exemption from the obligation to withhold or deduct for or on account of UK income tax.
2. The Bank, provided that it continues to be a bank within the meaning of section 991 of the Income Tax Act 2007 (the "Act"), and provided that the interest on the Notes is paid in the ordinary course of its business within the meaning of section 878 of the Act, is entitled to make payments of interest without withholding or deduction for or on account of UK income tax. In accordance with the published practice of HMRC, such payments will be accepted as being made by the Bank in the ordinary course of its business unless either:
 - (i) the borrowing in question conforms to any of the definitions of tier 1, 2 or 3 capital adopted by the FSA whether or not it actually counts towards tier 1, 2 or 3 capital for regulatory purposes; or
 - (ii) the characteristics of the transaction giving rise to the interest are primarily attributable to an intention to avoid UK tax.
3. Payments of interest on the Notes may be made without deduction or withholding on account of UK income tax provided that the Notes are and continue to be listed on a "recognised stock

exchange” within the meaning of section 1005 of the Act. The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the UK Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of UK tax whether or not the Bank carries on a banking business in the UK and whether or not interest is paid in the ordinary course of its business.

4. Interest on the Notes may also be paid without withholding or deduction on account of UK tax where interest on the Notes is paid to a company and, at the time the payment is made, the Bank reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to UK corporation tax as regards the payment of interest; provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid after deduction of tax.
5. In all cases falling outside the exemptions described above in 1, 2, 3 and 4, interest on the Notes may fall to be paid under deduction of UK income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available following a direction from HMRC pursuant to the provisions of any applicable double taxation treaty or any other exemption which may apply.
6. Noteholders should note that where any interest on Notes is paid to them (or to any person acting on their behalf) by the Issuer or any person in the UK acting on behalf of the Issuer (a “paying agent”), or is received by any person in the UK acting on behalf of the relevant Noteholder (other than solely by clearing or arranging the clearing of a cheque) (a “collecting agent”), then the Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HMRC details of the payment and certain details relating to the Noteholder (including the Noteholder’s name and address). This is the case whether or not the interest has been paid subject to withholding or deduction for or on account of UK Income and whether or not the Noteholder is resident in the UK for UK taxation purposes. HMRC also has power, in certain circumstances, to obtain information from any person in the UK who pays amounts payable on the redemption of Notes which are “deeply discounted securities” for the purposes of the Income Tax (Trading and Other Income) Act 2005 to or receives such amounts for the benefit of another person, although in this regard HMRC published guidance for the year 2012/2013 indicates that HMRC will not exercise its power to obtain information in respect of amounts payable on the redemption of deeply discounted securities where such amounts are paid on or before 5 April 2013. Such information may include the name and address of the beneficial owner of the amount payable on redemption. Any information obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.
7. Where interest has been paid under deduction of UK income tax, Noteholders who are not resident in the UK may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.
8. Notes may be issued at an issue price of less than 100 per cent of their principal amount. Any discount element on any such Notes should not be subject to any UK withholding tax, but may be subject to reporting requirements as outlined in paragraph 6 above and in “EU Savings Directive” below.

Where Notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to UK withholding tax, and to reporting requirements as outlined in paragraph 6 above and “EU Savings Directive” below.

9. The references to "interest" above mean "interest" as understood in UK tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.
10. The above description of the UK withholding tax position assumes that there will be no substitution of an issuer pursuant to Condition 18 of the Notes or otherwise and does not consider the tax consequences of any substitution.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “EU Savings Directive”), Member States are required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such person for, an individual resident in that other Member State or certain limited types of entity established in that other Member State. However, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35%. The transitional period is to terminate at the end of the first fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-European Union countries and territories including Switzerland have adopted similar measures in relation to payments made by a person within its jurisdiction to, or collected by such person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

Subscription and Sale

The Programme Dealers have, in an amended and restated dealer agreement dated 12 October 2012 as supplemented and/or further amended and restated from time to time (the “Dealer Agreement”), agreed with the Bank a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under “Form of the Notes” and “Terms and Conditions of the Notes” above. In the Dealer Agreement, the Bank has agreed to reimburse the Programme Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Notes under the Programme. The Bank may also agree to issue Notes to persons other than the Programme Dealers (“Issue Dealers”) on, and subject to, the terms of the Dealer Agreement. References in this Prospectus to relevant Dealer shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 (as amended) and Treasury regulations thereunder. The applicable Final Terms will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

Each Programme Dealer has represented and agreed and each further Programme Dealer or Issue Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer, or in the case of an issue of Notes on a syndicated basis, the relevant lead manager of all Notes of the Tranche of which such Notes are a part within the United States or to, or for the account or benefit of, U.S. persons and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with an available exemption from the registration under the Securities Act.

Public Offer Selling Restrictions under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Programme Dealer has represented and agreed, and each further Programme Dealer or Issue Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has

not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Bank for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Bank or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State;

the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant Member State), and includes any relevant implementing measure in such Relevant Member State;

the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

United Kingdom

Each Programme Dealer has represented and agreed and each further Programme Dealer or Issue Dealer appointed under the Programme will be required to represent and agree that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the UK.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “FIEA”) and each Programme Dealer has represented and agreed, and each further Programme Dealer or Issue Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to

others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

General

Each Programme Dealer has agreed and each further Programme Dealer or Issue Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission which is (to be best of its knowledge and belief) required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Bank nor any other Dealer shall have any responsibility therefor.

Neither the Bank nor any Dealer represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

General Information

Admission of Notes to the Official List of the UK Listing Authority

It is expected that each Tranche of Notes which is to be admitted for listing to the Official List and to trading on the London Stock Exchange's regulated market will be admitted separately as and when issued, subject only to the issue of a temporary global Note initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market. The listing of the Programme in respect of Notes is expected to be granted on or about 8 October 2012.

Authorisation

The establishment, updates and increase of the Programme and the issue of Notes under the Programme have been duly authorised by resolutions of the Board of Directors of the Bank dated 29 March 1994, 20 June 1995, 13 April 2004, 6 July 2004, 1 April 2008, 10 March 2010 and 23 November 2011.

Documents Available

For the period of 12 months from the date of this Prospectus and for so long as the Programme remains in effect or any Notes remain outstanding, copies of the following documents will, when published, be available from the registered office of the Bank and from the specified office of the Agent set out at the end of this Prospectus:

- (i) the Memorandum and Articles of Association of the Bank;
- (ii) the audited consolidated and non-consolidated annual financial statements of the Bank for the financial years ended 31 December 2010 and 31 December 2011 together with the reports of the auditors thereon;
- (iii) the interim consolidated financial statements of the Bank for the 26 weeks ended 30 June 2012;
- (iv) the Agency Agreement, the Trust Deed and the Schedule of Forms containing the forms of the temporary and permanent global Notes, the definitive Notes, the Coupons and the Talons from time to time issuable under the Programme;
- (v) a copy of this Prospectus;
- (vi) a copy of the 2010 Sustainability Report published by The Co-operative Group Limited;
- (vii) any future offering circulars, prospectuses, information memoranda, supplements and Final Terms to this Prospectus and any other documents incorporated herein or therein by reference; and
- (viii) in the case of a syndicated issue of Notes admitted to trading on the London Stock Exchange's regulated market, the syndication agreement (or equivalent document).

Clearing Systems

The Notes have been accepted for clearance through Clearstream, Luxembourg and Euroclear which are the entities in charge of keeping the records. The appropriate common code and ISIN for each Tranche of Notes allocated by Clearstream, Luxembourg and Euroclear will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for determining price

The price and the amount of Notes to be issued under the Programme will be determined by the Bank and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

There has been no significant change in the financial or trading position of the Bank and its subsidiaries taken as a whole since 30 June 2012 and there has been no material adverse change in the financial position or prospects of the Bank and its subsidiaries taken as a whole since 31 December 2011.

Litigation

Save as disclosed in the third paragraph on page 16 under "*Risk Factors – Regulatory Compliance and Litigation Risk*", neither the Bank nor any of its Subsidiaries is or has been involved in any legal, governmental or arbitration proceedings, during the twelve months preceding the date of this Prospectus which may have or have in such period had a significant effect on the financial position or profitability of the Bank and its subsidiaries taken as a whole nor so far as the Bank is aware are any such proceedings pending or threatened.

Auditors

The auditors of the Bank are KPMG Audit Plc, Chartered Accountants and Registered Auditors ("KPMG"), who have audited the Bank's accounts, without qualification, for the financial periods ending, 31 December 2010 and 31 December 2011.

Post-Issuance Information

Save as set out in the Final Terms, the Bank does not intend to provide any post-issuance information in relation to any issue of Notes.

Dealers transacting with the Bank

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions within and may perform other services for the Bank and its affiliates in the ordinary course of business.

THE BANK

The Co-operative Bank p.l.c.
1 Balloon Street
Manchester M60 4EP

TRUSTEE

The Law Debenture Trust Corporation p.l.c.
Fifth Floor
100 Wood Street
London EC2V 7EX

AGENT

The Bank of New York Mellon
One Canada Square
London E14 5AL

PAYING AGENT

The Bank of New York Mellon (Luxembourg) S.A.
Vertigo Building – Polaris
2-4 rue Eugène Ruppert
L-2453
Luxembourg

ARRANGER

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP

PROGRAMME DEALERS

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB

BNP Paribas
10 Harewood Avenue
London NW1 6AA

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
London E14 5LB

Credit Suisse Securities (Europe) Limited
One Cabot Square
London E14 4QJ

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB

Goldman Sachs International
Peterborough Court
133 Fleet Street
London EC4A 2BB

HSBC Bank plc
8 Canada Square
London E14 5HQ

J.P. Morgan Securities plc
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Canary Wharf
London E14 5JP

The Royal Bank of Scotland plc
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London EC2M 3UR

UBS Limited
1 Finsbury Avenue
London EC2M 2PP

LEGAL ADVISERS

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London E1 6AD

*To the Programme Dealers and the
Trustee*

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ

AUDITORS TO THE BANK

KPMG Audit Plc
St. James' Square
Manchester M2 6DS