

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

To: The Subordinated Noteholders (as defined in paragraph 1.1 below)

The Ordinary Shareholders (as defined in paragraph 1.2.2 below)

Cc: Lucid Issuer Services Limited ("**Lucid**")

Tankerton Works
12 Argyle Walk
London WC1H 8HA

Computershare Investor Services PLC ("**Computershare**")

Corporation Actions Projects
Bristol BS99 6AH
United Kingdom

Law Debenture Trustees Limited

Fifth Floor
100 Wood Street
London EC2V 7EX

PRACTICE STATEMENT LETTER

14 July 2017

Dear Sirs,

Proposed Schemes of Arrangement in respect of The Co-operative Bank p.l.c.

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

1. WHY ARE WE WRITING TO YOU?

1.1 The Co-operative Bank p.l.c. (the "**Bank**") is the issuer of:

1.1.1 £206,000,000 11% subordinated notes due 2023 (ISIN: GB00BFXW0853) (the "**2023 Notes**", the holders thereof being the "**2023 Noteholders**"); and

1.1.2 £250,000,000 fixed rate reset callable subordinated tier 2 notes due 2025 (ISIN: XS1249403541) (the "**2025 Notes**", the holders thereof being the "**2025 Noteholders**").

In this letter, the 2023 Notes and the 2025 Notes are together referred to as the "**Subordinated Notes**" and the holders of the Subordinated Notes are referred to as the "**Subordinated Noteholders**".

- 1.2 The Bank is proposing that the following schemes of arrangement under Part 26 of the Companies Act 2006 of England and Wales (as amended) (each a "**Scheme**") be implemented:
- 1.2.1 a Scheme (the "**Creditors' Scheme**") between the Bank and the Subordinated Noteholders who are not Retail Noteholders (as defined and further explained at paragraph 2.1 below) (each a "**Non-Retail Noteholder**" or a "**Creditors' Scheme Party**"); and
 - 1.2.2 a Scheme (the "**Members' Scheme**") in respect of the Bank's ordinary shares of nominal value £0.05 each (the "**Ordinary Shares**") between the Bank and the holders of the Ordinary Shares (each an "**Ordinary Shareholder**" or a "**Members' Scheme Party**").
- 1.3 A Scheme Party's entitlements under each of the Schemes will be determined as at the date to be specified in the Schemes, but which is anticipated to be the same date proposed for the Scheme Meetings (the "**Entitlements Record Date**").
- 1.4 **You have been identified as a person who is potentially a:**
- 1.4.1 **Creditors' Scheme Party – in which case your legal rights and entitlements in respect of your holding of Subordinated Notes shall be affected by the Creditors' Scheme if it becomes effective and the Restructuring (as defined in paragraph 4.8 below) is implemented;**
 - 1.4.2 **Members' Scheme Party – in which case your legal rights and entitlements in respect of your holding of Ordinary Shares shall be affected by the Members' Scheme if it becomes effective and the Restructuring is implemented; and/or**
 - 1.4.3 **Retail Noteholder – in which case your legal rights and entitlements in respect of your holding of Subordinated Notes shall not be affected by the Creditors' Scheme or the Members' Scheme, but will otherwise be affected pursuant to the Consent Solicitation process as described in paragraphs 2 and 12 below. Any Subordinated Noteholder who has not been confirmed as a Retail Noteholder by the third business day following the date on which the Creditors' Scheme becomes effective will be deemed to be a Creditors' Scheme Party and accordingly will be subject to the Creditors' Scheme.**
- 1.5 **This letter contains a summary of the terms of the proposed Restructuring and the proposal for implementing it. Accordingly, the terms of this letter are not binding on the Bank, the Subordinated Noteholders, Ordinary Shareholders nor any other party and may be subject to clarification or amendment. The final and binding terms of the Restructuring shall be set out in the Creditors' Scheme, Members' Scheme and Consent Solicitation Memorandum (as defined in paragraph 2.1.1(a)(iii) below).**
- 1.6 *If you assign, sell or otherwise transfer (or have assigned, sold or otherwise transferred) your interests as a Subordinated Noteholder or your interests as an Ordinary Shareholder, or intend to do so, you should forward, subject to compliance*

with applicable laws, a copy of this letter to the person or persons to whom you have assigned, sold or otherwise transferred such interests.

2. ENTITLEMENTS OF RETAIL NOTEHOLDERS IN THE RESTRUCTURING

2.1 The Creditors' Scheme will not apply to Retail Noteholders. For the purposes of the Restructuring, a Retail Noteholder is:

2.1.1 a Subordinated Noteholder who:

- (a) as at 5.00 p.m. on 27 June 2017 (the "**Retail Record Date**"):
 - (i) is an individual person who is not an Accredited Investor or Qualified Investor (as each of those terms is defined in paragraph 6.1.4(b) below);
 - (ii) is the beneficial owner of less than £100,000 in aggregate principal amount of 2023 Notes;
 - (iii) is not a person who is the subject of certain sanctions (as shall be more specifically described in the memorandum setting out the terms of the Consent Solicitation (the "**Consent Solicitation Memorandum**")); and
- (b) as at the Entitlements Record Date continues to meet each of the criteria set out in paragraph (a) above; and
- (c) has validly confirmed its status as a Retail Noteholder in accordance with the procedures set out in the Consent Solicitation Memorandum or who has otherwise been assessed on reasonable enquiry by the Bank to be a Retail Noteholder (by no later than three business days after the Creditors' Scheme has become effective),

a ("**Retail Noteholder**").

2.2 As the minimum denomination of the 2025 Notes is £100,000, all 2025 Noteholders are Non-Retail Noteholders (in respect of their 2025 Notes) and therefore all 2025 Noteholders will be subject to the terms of the Creditors' Scheme.

2.3 Rather than participate in the Scheme, if the Restructuring is implemented, the relevant 2023 Notes of each Retail Noteholder will be cancelled and the rights, obligations and liabilities thereunder released in consideration for a cash payment (the "**Retail Cash Consideration**") of up to £4.50 per £10 in principal amount of 2023 Notes (the "**Maximum Cash Amount**"), plus a sum representing interest accrued and unpaid on the relevant amount of 2023 Notes from 20 June 2017 up to, but excluding, 31 July 2017 (the "**Accrued Cash Interest**").

2.4 The total amount to be paid by way of the Retail Cash Consideration to Retail Noteholders will be capped at £13.5 million (the "**Total Retail Cash Consideration**"). Accordingly, the amount of Retail Cash Consideration paid to the Retail Noteholders will depend on the number of Subordinated Noteholders who are ultimately identified as Retail Noteholders in accordance with the Consent Solicitation. It should be noted

that the Retail Cash Consideration could be considerably less than the Maximum Cash Amount.

2.5 This part of the Restructuring shall be implemented pursuant to the Consent Solicitation (as further described in paragraph 12 below).

2.6 The Bank has purposefully offered to provide the Retail Cash Consideration to the Retail Noteholders in order to offer Retail Noteholders a more attractive proposition in the implementation of the Restructuring than they would otherwise have by participating in the Creditors' Scheme. In particular:

2.6.1 the Retail Cash Consideration provides cash for investors as opposed to the uncertain potential value and return of the equity offered in the Creditors' Scheme;

2.6.2 cash is the most liquid exit consideration. In contrast, the equity to be offered to Creditors' Scheme Parties pursuant to the Creditors' Scheme will not be listed on any stock exchange, will have limited voting rights and may be difficult to sell; and

2.6.3 based on investigations to date, whilst it has not been possible to definitively identify all Retail Noteholders due to the way in which the Subordinated Notes are held the Bank anticipates that the Retail Cash Consideration payable to Retail Noteholders should have a value in excess of the value of the equity to be issued to Creditors' Scheme Parties in accordance with the Creditors' Scheme. However, it should be noted that the Retail Cash Consideration could be considerably less than the Maximum Cash Amount.

2.7 **Any Subordinated Noteholder who considers that he or she is a Retail Noteholder or who is unsure as to whether or not he or she is a Retail Noteholder should refer to paragraph 17.3 below and take action accordingly. Only Subordinated Noteholders that have validly confirmed their status as Retail Noteholders or who have otherwise been assessed on reasonable enquiry by the Bank to be a Retail Noteholder (by no later than three business days after the Creditors' Scheme has become effective) will receive the Retail Cash Consideration (which amount shall be subject to the overall cap of £13.5 million) and Accrued Cash Interest. All other Subordinated Noteholders will be deemed to be Non-Retail Noteholders and their holdings of Subordinated Notes will be subject to the Creditors' Scheme.**

3. **THE PURPOSE OF THIS PRACTICE STATEMENT LETTER**

3.1 On 15 April 2002, the High Court of Justice of England and Wales (the "**Court**") issued a practice statement (the "**Practice Statement**") that requires any company proposing to implement a scheme of arrangement under what is now Part 26 of the Companies Act 2006 to notify those affected by it of the following matters: (i) that a scheme is being promoted, (ii) the purpose that the scheme is designed to achieve, (iii) the meetings the company believes are required for the purposes of voting on the scheme and (iv) the constitution of those meetings. This letter (the "**Practice Statement Letter**") is written pursuant to that Practice Statement.

- 3.2 This Practice Statement Letter has been:
- 3.2.1 sent to Lucid for the purposes of distributing it to the Creditors' Scheme Parties via Euroclear Bank S.A./N.V. and Clearstream Banking *société anonyme*; and
 - 3.2.2 announced via the London Stock Exchange where the Subordinated Notes are listed;
 - 3.2.3 mailed to all 2023 Noteholders listed on the register of the 2023 Noteholders maintained by Computershare (at the addresses specified in such register);
 - 3.2.4 mailed to all Ordinary Shareholders who hold Ordinary Shares in certificated form;
 - 3.2.5 sent to Law Debenture Trustees Limited in its capacity as trustee in respect of the 2023 Notes and 2025 Notes; and
 - 3.2.6 made available at www.co-operativebank.co.uk/investorrelations (the "**Website**").
- 3.3 The purpose of this Practice Statement Letter is to inform you of:
- 3.3.1 the Bank's decision to formally propose the Schemes;
 - 3.3.2 the objectives of the proposed Schemes;
 - 3.3.3 the Bank's intention to apply to the Court to seek one or more orders of the Court granting the Bank permission to convene a meeting of the:
 - (a) Creditors' Scheme Parties for the purpose of considering, and if thought fit approving, the Creditors' Scheme (the "**Creditors' Scheme Meeting**"); and
 - (b) Members' Scheme Parties for the purpose of considering, and if thought fit approving, the Members' Scheme (the "**Members' Scheme Meeting**" and, together with the Creditors' Scheme Meeting, the "**Scheme Meetings**");
 - 3.3.4 the intended class composition of each of the Scheme Meetings; and
 - 3.3.5 the next steps and actions required of you, for which see paragraph 17.
- 3.4 **We hereby give notice to the Creditors' Scheme Parties and the Members' Scheme Parties (together, the "Scheme Parties") that the Bank intends to apply to the Royals Courts of Justice, 7 Rolls Building, Fetter Lane, London EC4A 1NL, United Kingdom at a hearing to be held on 27 July 2017 (the "Directions Hearing") for one or more orders granting the Bank permission to convene each of the Scheme Meetings.**

4. THE BACKGROUND TO THE BANK AND THE RESTRUCTURING

- 4.1 The Bank is one of the oldest banks in the UK, with a history that dates back to 1872 as the Loans and Deposit department of Co-operative Wholesale Society Limited. Since then, the Bank has sought to provide an ethical alternative to larger competitors. The Bank's strategy is to become an efficient, financially-sustainable and capital-resilient UK bank focused on retail and small and medium-sized enterprise ("**SME**") customers, differentiated by an ethically-led brand and a customer-centric proposition. As at 31 December 2016, the Bank had approximately 4.0 million customers and operated through a network of 105 branches, four corporate banking centres, four contact centres, 123 ATMs and internet and digital channels. The Bank had total assets of £27,588.3 million as at 31 December 2016 (£29,028.3 million as at 31 December 2015).
- 4.2 In 2013, Moody's Investor Service ("**Moody's**") and Fitch Ratings ("**Fitch**") downgraded the Bank's senior debt ratings from investment grade to sub-investment grade. Later in that year, to meet a £1.5 billion Common Equity Tier 1 ("**CET1**") capital shortfall, Co-operative Group Limited ("**Group**") and the Bank completed a recapitalisation plan which included:
- 4.2.1 the liability management exercise of the Bank and Group to raise approximately £1.2 billion of capital consisting of the transfer of certain preference shares to Co-operative Banking Group Limited ("**CBG**") and the extinguishment of multiple subordinated liabilities, followed by the issue of a single series of subordinated notes, being the 2023 Notes, undertaken as part of a recapitalisation plan originally announced on 17 June 2013 by the Bank and Group to strengthen the Bank's capital base (the "**2013 Liability Management Exercise**");
 - 4.2.2 CET1 capital contributions from CBG; and
 - 4.2.3 interest savings on securities surrendered in the 2013 Liability Management Exercise.
- 4.3 In May 2014, the Bank improved its capital position by successfully raising an additional £400 million of CET1 capital. Subsequently, the Bank implemented a number of turnaround measures, including: (i) significant de-leveraging of its non-core business; (ii) reductions in the Bank's operating cost base; (iii) addressing legacy conduct issues; and (iv) successfully remediating a breach of the Financial Conduct Authority ("**FCA**") threshold conditions (relating to non-compliance in relation to the Bank's IT systems recoverability). In July 2015, it issued the 2025 Notes.
- 4.4 On 26 January 2017, the Bank announced that it expected its CET1 capital ratio (in the absence of any management actions) to fall and remain below 10% over the medium-term and an expectation that it was unlikely to meet its individual capital guidance ("**ICG**"), being the guidance of the Prudential Regulatory Authority ("**PRA**") as to regulatory capital the Bank is expected by the PRA to hold, over the then applicable planning period (to the year ended 31 December 2020).
- 4.5 Subsequently, having concluded its annual planning review and approval of a five-year strategic business plan (the "**Plan**"), on 13 February 2017 the Bank announced

the commencement of a formal sales process ("**FSP**"), to invite offers for all of the Bank's issued ordinary share capital. The announcement of the FSP started an offer period under the Takeover Code. At the same time, the Bank also announced that it was considering, in addition to the FSP, ways of raising equity capital from existing and new capital providers and a potential liability management exercise on its outstanding public debt.

4.6 Since February 2017, there have been significant developments (in particular, lower market expectations for future interest rates than assumed in the Plan) that have affected the Bank's outlook for its business and the prospects of achieving some of the key components of the Plan (or the timing of when they are expected to be achieved). Accordingly, it became necessary to adjust the implementation of the Plan to reflect the Bank's latest assessment of its trading outlook, capital requirements and discussions that the Bank has had with its regulators since the Plan was adopted.

4.7 Since May 2017, the Bank has been in negotiations with certain Non-Retail Noteholders who have formed an informal committee (the "**Ad Hoc Committee**") for the purpose of negotiating the terms of a potential financial, corporate and debt restructuring of the Bank. On 26 June 2017, the Bank announced that in light of the advanced nature of the discussions with the Ad Hoc Committee, with a majority of the key commercial aspects of such a transaction having been substantially agreed, the Bank had decided to discontinue the FSP (and the offer period under the Takeover Code accordingly ended).

4.8 On 28 June 2017 the Bank announced its support for an equity capital raise and recapitalisation proposal from the Ad Hoc Committee (the "**Restructuring**"). The agreed terms of the Restructuring are set out in term sheets scheduled to a lock-up agreement dated 28 June 2017 (the "**Lock-Up Agreement**"), which has been entered into between the Bank and, as at the date of this Practice Statement Letter:

4.8.1 Non-Retail Noteholders representing 75% of the aggregate principal amount of the Subordinated Notes, including:

- (a) 56.82% in aggregate principal amount of the 2023 Notes; and
- (b) 90.79% in aggregate principal amount of the 2025 Notes; and

4.8.2 Ordinary Shareholders holding 39.43% in aggregate principal amount of the Ordinary Shares,

(each such Non-Retail Noteholder and Ordinary Shareholder being a "**Consenting Holder**"). Please note that pursuant to the Group Adherence Letter (as defined in paragraph 7.2 below), another Ordinary Shareholder holding 20.16% in aggregate principal amount of the Ordinary Shares, CBG (a subsidiary of Group) will support the terms of the Restructuring on the terms set out in the Group Adherence Letter. Therefore, Ordinary Shareholders holding in total 59.59% of the Ordinary Shares as at the date of this Practice Statement Letter will support the Restructuring.

4.9 Under the terms of the Lock-Up Agreement, each Consenting Holder has agreed, amongst other things, to use best efforts and take such reasonable and necessary actions (that are consistent with the Lock-Up Agreement and the Restructuring) as it

may have available to it in furtherance of the implementation and consummation of the Restructuring. This includes attending, or, where relevant, procuring that its account holder in respect of the Subordinated Notes attends on its behalf, the relevant meetings and votes in favour of the Schemes, the Consent Solicitation and the other shareholder resolutions required in connection with the Restructuring.

- 4.10 The Lock-Up Agreement contains a number of termination provisions. These include if the Bank enters insolvency or resolution proceedings or if the Restructuring is not completed before a "Long Stop Date". The Long Stop Date is currently 18 September 2017 but it may be extended with the agreement of the Bank and Consenting Holders holding more than 50% of the aggregated principal amount of the Subordinated Notes held by the Consenting Holders at the relevant time.
- 4.11 Separate agreements have also been entered into between:
- 4.11.1 the Bank, Group and PACE Trustees Limited (the "**Pensions Trustee**"), as the trustee for Pace, a pension scheme whose principal employer is Group and in which the Bank participates ("**Pace**") (as further explained in paragraph 7 below); and
- 4.11.2 the Bank and Group to support and give effect to aspects of the Restructuring.
- 4.12 As at 6 July 2017, the Bank's senior debt was rated:
- 4.12.1 B- (long-term and on rating watch evolving) and B (short-term on rating watch negative) by Fitch; and
- 4.12.2 Ca (long-term senior unsecured rating on review for upgrade) and NP (short-term) by Moody's.

These ratings continue to be below investment grade and remain under review by both rating agencies.

5. **CONSEQUENCES IF THE RESTRUCTURING IS NOT IMPLEMENTED.**

- 5.1 If the Schemes are not approved by the Scheme Parties and sanctioned by the Court, the Restructuring will not be capable of being implemented. This would have a direct and material adverse effect on the Bank's ability to comply with its regulatory capital and loss-absorbing capacity requirements.
- 5.2 If the Schemes are not approved by the Scheme Parties or sanctioned by the Court or the Restructuring is otherwise not implemented, the Bank would expect to hold urgent discussions with the PRA and the Bank of England. It is not possible to be certain what the outcome of those discussions may be. However, the Bank believes that, if the Restructuring is not successfully implemented, the most likely outcome is that the Ordinary Shares and the Subordinated Notes will be subjected to a mandatory write-down either as a preliminary step to, or in the course of the Bank's entry into, special resolution proceedings under the Banking Act 2009. **In this scenario, the Bank believes that the Ordinary Shareholders will receive no recovery in respect of the Ordinary Shares that they hold and that the Subordinated Noteholders will receive no recovery in respect of the Subordinated Notes that they hold.**

5.3 **Having undertaken an exhaustive process considering both sale and capital raise options, the Bank's board of directors therefore considers that the Restructuring, as it is proposed to be implemented pursuant to the terms of the Schemes and the Consent Solicitation, is the best available option for addressing the capital structure of the Bank and, accordingly, in the best interests of the Bank and its Ordinary Shareholders and Subordinated Noteholders.**

6. **THE TERMS OF THE PROPOSED RESTRUCTURING**

6.1 The Restructuring comprises the following key elements listed below. Each element (save for the incorporation of Holdco) is interconditional such that no one element of the Restructuring may occur without the other elements also occurring:

6.1.1 **The incorporation of Holdco**

- (a) A new company, Balloon Street Holdings Limited, has been incorporated in England and Wales for the purpose of ultimately becoming the sole shareholder of the Bank ("**Holdco**"). It has been necessary to incorporate Holdco as a preliminary step to implement the Restructuring. To assist in this regard, Holdco has been incorporated by certain members of the Ad Hoc Committee (the "**Incorporation Shareholders**") who have contributed £250,107.18 by way of subscription for 451,457 ordinary shares with a nominal value of £0.10 each (the "**Incorporation Shares**").
- (b) Pursuant to the Restructuring, Holdco's share capital will comprise ordinary 'A' shares (the "**A Shares**") and redeemable preferred 'B' shares (the "**B Shares**"). The Incorporation Shares will be re-classified as and/or converted into A Shares and shall represent 5% of the fully diluted total number of A Shares of Holdco as at the closing of the Restructuring (the "**Closing**"). These A Shares will continue to be owned by the Incorporation Shareholders as at the completion of the Restructuring.
- (c) The A Shares will be the shares with the primary economic interest in Holdco and will be made available under the Schemes. The A Shares will: (i) entitle holders (the "**A Shareholders**") to distributions, including, but not limited to, dividends and capital on a winding up of Holdco; (ii) be freely transferable subject to compliance with all applicable legal and regulatory requirements; and (iii) be structured so as to constitute CET1 Capital. The A Shares will not have the power to attend or to vote at general meetings except on a limited basis, including matters affecting their rights as a class and including changes to the articles of association of Holdco. The issue of A Shares will be subject to pre-emption rights.
- (d) A Shareholders who hold in excess of 10% of the A Shares will be entitled under the articles of association of Holdco to acquire B Shares on the basis of one B Share for every 1% of the A Shares held by it (see further paragraph 6.1.6 below). The B Shares will, subject to limited exceptions, carry all of the voting rights at a general meeting,

and the Holdco articles of association will set out certain matters for which approval from holders of B Shares (the "**B Shareholders**") is required. Additionally, B Shareholders will have the right to nominate up to two executive directors to the Holdco Board. B Shareholders will not be entitled to distributions. On a winding up of Holdco, the B Shareholders will only be entitled to a preferred return of the amount of £0.01 per B Share. It is not intended that B Shares will constitute CET1 Capital.

- (e) Each B Shareholder shall also be entitled to a *pro rata* share of a £25 million payment from Holdco on an "exit" that results in Holdco ceasing to be the Bank's direct or indirect holding company, provided that the value of the Bank on such exit is equal to or greater than 0.4 times the tangible book value of the Bank in Holdco's consolidated financial statements (the "**Exit Premium**"). The entitlement of a B Shareholder to an Exit Premium will vest over time by reference to the number of B Shares then owned. B Shareholders shall have the right to assign their right to any vested portion of their Exit Premium to third parties. The Exit Premium will be structured such that it will not create a liability of the Bank for capital requirements.

6.1.2 **Members' Scheme Parties to exchange their Ordinary Shares in the Bank for 5% of the A Shares in Holdco**

All Members' Scheme Parties will transfer their Ordinary Shares in the Bank to Holdco which shall become the Bank's sole shareholder. In exchange for these Ordinary Shares, Holdco will issue A Shares to the Member Scheme Parties which will, taken together, represent 5% of the fully diluted total number of A Shares of Holdco at Closing. Those A Shares will be allocated amongst Member Scheme Parties as follows:

- (a) 4.75% of the fully diluted total number of A Shares of Holdco will be allocated to the Members' Scheme Parties in proportions equal to the proportional holdings of all Ordinary Shares held by the Members' Scheme Parties; and
- (b) 0.25% of the fully diluted total number of A Shares of Holdco (the "**Early Bird Members' Premium**") will be allocated to Members' Scheme Parties who have signed up to the Lock-Up Agreement or otherwise undertaken in writing to support the implementation of the Restructuring on terms acceptable to the Bank by 28 July 2017 (the "**Early Bird Consenting Members**"). The Early Bird Members' Premium will be allocated to the Early Bird Consenting Members in proportions equal to the proportional holdings of all Ordinary Shares held by Early Bird Consenting Members and, in respect of which, Early Bird Consenting Members have signed up to the Lock-Up Agreement;

6.1.3 **Creditors' Scheme Parties to exchange their Subordinated Notes for 17.4% of A Shares in Holdco**

The Subordinated Notes held by the Creditors' Scheme Parties (the "**Non-Retail Subordinated Notes**"), and their rights to accrued interest thereon up to and excluding 31 July 2017, will be transferred to Holdco at Closing in exchange for Holdco issuing to each Creditors' Scheme Party a *pro-rata* share of A Shares representing 17.4% of the fully diluted total number of A Shares of Holdco at Closing. The Non-Retail Subordinated Notes transferred to Holdco will subsequently be extinguished in exchange for the issue of further equity in the Bank to Holdco, subject to the PRA granting permission therefor under Article 77 of the Capital Requirements Regulation (Regulation (EU) 575/2013) (the "**CRR**"). Article 78(1) of the CRR requires the PRA to grant permission to the Bank where either one of two conditions is met.

6.1.4 **Scheme Parties to be entitled to participate in the Equity Subscription**

- (a) The Scheme Parties will be entitled to subscribe for a *pro rata* share of A Shares representing a total of 67.6% of the fully diluted total number of A Shares in Holdco at Closing (the "**Subscription Shares**") for a total cash consideration of £250 million (the "**Equity Subscription**"). Such Equity Subscription shall be split as follows:
- (i) Creditors' Scheme Parties who are Eligible Investors ("**Qualifying Scheme Creditors**") will be entitled to apply to subscribe for a *pro rata* share of A Shares representing 64.2% of the fully diluted total number of issued A Shares of Holdco at Closing for an aggregate cash consideration of £237.5 million (the "**Creditors' Equity Subscription**"); and
 - (ii) Members' Scheme Parties who are Eligible Investors ("**Qualifying Scheme Members**") will be entitled to apply to subscribe for a *pro rata* share of A Shares representing 3.4% of the fully diluted total number of issued A Shares of Holdco at Closing for an aggregate cash consideration of £12.5 million (the "**Members' Equity Subscription**").
- (b) For these purposes, an "**Eligible Investor**" is anticipated to be:
- (i) an "accredited investor" (as defined in Regulation D of the US Securities Act of 1933) (an "**Accredited Investor**") or a "qualified institutional buyer" (as such term is defined in Rule 144A of the US Securities Act of 1933) ("**QIB**"); or
 - (ii) a "qualified investor" (as defined in the Prospectus Directive (Directive 2003/71/EC) (a "**Qualified Investor**")) who is not a US Person (as such term is defined under Regulation S of the US Securities Act of 1933) and is outside of the United States.

Any Scheme Party that wishes to participate in the Equity Subscription but who is not an Eligible Investor may become an Eligible Investor in

order to so participate. The restriction of the Equity Subscription right to Eligible Investors is necessary to enable the Bank to raise the capital it requires, within the time available and with the resources available to it, in compliance with applicable securities laws.

- (c) The entire net proceeds of the subscriptions under the Equity Subscription for the Subscription Shares, totalling £250 million in aggregate, will be applied by Holdco in subscribing for Ordinary Shares in the Bank.

6.1.5 **Creditors' Scheme Parties to be entitled to participate in the backstop of the Equity Subscriptions**

- (a) On 14 July 2017, certain members of the Ad Hoc Committee (the "**Initial Backstop Providers**") and the Bank entered into the backstop agreement (the "**Backstop Agreement**") pursuant to which the Initial Backstop Providers committed severally, in proportion to their respective entitlements, to subscribe for Subscription Shares that are not subscribed and paid for under the Equity Subscriptions by the Scheme Parties.
- (b) Qualifying Scheme Creditors have the right, in addition to their participation under the Equity Subscription, to commit, by acceding to the Backstop Agreement (the "**Backstop Accession Right**"), to assume on a several basis a share of the obligation under the Backstop Agreement to subscribe for any Subscription Shares not applied and paid for under the Equity Subscriptions, in proportion to their holding of Subordinated Notes (the "**Backstop Commitment**") (any such person so acceding being an "**Additional Backstop Provider**" and all such persons together with the Initial Backstop providers being the "**Backstop Providers**"). The Backstop Commitment of each other Backstop Provider will be adjusted to take account of each new Backstop Commitment. The Backstop Commitment of each Backstop Provider once all Additional Backstop Providers have acceded to the Backstop Arrangements pursuant to the Backstop Accession Right is referred to as the "**Final Backstop Commitment**".
- (c) Any Subscription Shares that are not applied and paid for under the Equity Subscriptions will be acquired and paid for by the Backstop Providers pursuant to the terms of the Backstop Agreement in the proportion of their Final Backstop Commitments.
- (d) In return for entering into the Backstop Arrangements (and therefore bearing the risk of having to fund the full Equity Subscription), each Backstop Provider will be entitled to share *pro rata* (in respect of their proportion of the Final Backstop Commitment) in a premium that is proposed to be settled by Holdco by the issue of, in total, a further 5% of the fully diluted total number of the issued A Shares of Holdco at Closing (the "**Backstop Premium**").

Any Qualifying Scheme Creditor wishing to exercise its Backstop Accession Right should contact PJT Partners using the details provided at paragraph 17.4 below as soon as possible for further details as to how to become an Additional Backstop Provider. The deadline for becoming an Additional Backstop Provider is 4.00 p.m. (London time) on 28 July 2017 by which time you will have needed to demonstrate your ability to fund your Backstop Commitment and satisfied any necessary "know-your-customer" requirements.

6.1.6 Certain Scheme Parties to be entitled to receive B Shares in Holdco

- (a) Subject to (b) below, an A Shareholder who: (i) owns at least 10% of the A Shares; (ii) is approved by the PRA as a "controller" of Holdco; and (iii) becomes party to the shareholders agreement or agrees to appropriate confidentiality arrangements entered into between the B Shareholders and Holdco (the "**B Shareholders Agreement**") will be eligible to acquire one B Share for every 1% of the A Shares held by it.
- (b) No person may become a B Shareholder without the approval of the B Shareholders if they are considered by the Holdco Board to be, or to be a controller in, a commercial competitor to the Bank.
- (c) If a B Shareholder decreases the number of A Shares it holds such that it holds more B Shares than its holding of A Shares entitles it to hold, then any excess B Shares shall be redeemed at par by the Bank and cancelled. B Shares may not be transferred.
- (d) If an A Shareholder reduces its holding of A Shares to less than 10% of the issued A Shares, then such A Shareholder may not hold any B Shares and all B Shares it holds shall be redeemed at par by the Bank and cancelled.

6.1.7 The mandatory cancellation of the Subordinated Notes held by the Retail Noteholders for cash of up to £4.50 per £10 in principal amount of 2023 Notes

- (a) In consideration for the mandatory cancellation of the 2023 Notes of the Retail Noteholders, the Bank will pay each Retail Noteholder the Retail Cash Consideration and the Accrued Cash Interest. If the Total Retail Cash Consideration is sufficient to pay the Maximum Cash Amount in respect of all relevant 2023 Notes held by all Retail Noteholders, the amount payable to the Retail Noteholders shall be the Maximum Cash Amount. If the Total Retail Cash Consideration is insufficient to pay the Maximum Cash Amount in respect of all relevant 2023 Notes held by all Retail Noteholders, the amount payable to Retail Noteholders shall be adjusted downwards (as shall be more specifically set out in the Consent Solicitation Memorandum). This part of the Restructuring is to be implemented by way of the Consent Solicitation further described in paragraph 12 below.

- (b) **Any Subordinated Noteholder who considers that he or she is a Retail Noteholder or who is unsure as to whether or not he or she is a Retail Noteholder should refer to paragraph 17.3 below and take action accordingly. Only Subordinated Noteholders that have validly confirmed their status as Retail Noteholders or who have otherwise been assessed on reasonable enquiry by the Bank to be a Retail Noteholder (no later than three business days after the Creditors' Scheme has become effective) will receive the Retail Cash Consideration (which amount shall be subject to the overall cap of £13.5 million) and Accrued Cash Interest in respect of their relevant 2023 Notes. All other Subordinated Noteholders will be deemed to be Non-Retail Noteholders and their holdings of Subordinated Notes will be subject to the Creditors' Scheme.**

7. THE TREATMENT OF GROUP IN THE RESTRUCTURING

- 7.1 As at the date of this Practice Statement Letter, Group is the holder, either directly or indirectly through its wholly owned subsidiary CBG, of:
- 7.1.1 20.16% of the Ordinary Shares of the Bank; and
- 7.1.2 100% of the 9.25% non-cumulative irredeemable preference shares (ISIN: GB0002224516) issued by the Bank (the "**Preference Shares**").
- 7.2 Group, pursuant to a letter between it and the Bank dated 28 June 2017 (the "**Group Adherence Letter**"), has entered into undertakings to support the implementation of the Restructuring, albeit subject to a number of termination provisions.
- 7.3 In respect of its holding of Ordinary Shares, CBG will be treated in the same way as all other Members' Scheme Parties. Accordingly, CBG will be entitled to:
- 7.3.1 vote in the Members' Scheme (and, pursuant to the obligations under the Group Adherence Letter, it is expected to vote in favour of it); and
- 7.3.2 if the Members' Scheme becomes effective and the Restructuring is implemented, CBG will:
- (a) exchange its Ordinary Shares in the Bank for its *pro rata* share of the fully diluted total number of A Shares in Holdco to be issued to the Members' Scheme Parties thereunder (in the same way as all other Ordinary Shareholders); and
- (b) be entitled to participate in the Members' Equity Subscription.
- 7.4 As part of the Restructuring, the Preference Shares held by Group will be cancelled. It is currently envisaged that such cancellation will be effected alongside the Schemes.

The Co-operative Pension Scheme (Pace)

- 7.5 Pace is a "last man standing scheme" (i.e. such that any one participating employer could become solely responsible for funding Pace if all other employers exited Pace (potentially without satisfying their liabilities towards Pace if they become insolvent)).

- 7.6 With a view to addressing the "last man standing" risk for the Bank, the Bank, Group and the Pensions Trustee have agreed to enter into a legally binding agreement which, when implemented on sectionalisation, will effect pensions separation within Pace (the "**Pace Pensions Sectionalisation**"), such that the Bank will become responsible for its own section of Pace only (the "**Bank Section**"), and will no longer have "last man standing" risk for the rest of Pace (or the risk of any other liability to Group's section of Pace, absent the Pensions Regulator's "moral hazard" powers to impose financial support directions and/or contribution notices pursuant to sections 38 to 51 of the Pensions Act 2004).
- 7.7 The Bank has agreed the funding target, cash contribution arrangements and a security arrangement in respect of the Bank Section, which will be put in place via a sectionalisation which is expected to occur in mid 2018. In addition, under the terms of the Pace Pensions Sectionalisation, if the Bank suffers an insolvency event, Pace may be "de-sectioned", such that Pace again operates with all assets and liabilities being held on a non-segregated basis, from which all benefits are payable. If de-sectionalisation takes place, Group would then assume the "last man standing" risk for the whole of Pace.

The Britannia Pension Scheme

- 7.8 The Bank is also the sole substantive sponsor of the Britannia Pension Scheme, and no changes to this position are proposed.

The Relationship Agreement

- 7.9 Pursuant to an agreement made between Group, the Bank and CBG dated 4 November 2013 (the "**Relationship Agreement**"), the parties thereto set out the current and future basis of Group's relationship with Bank given Group's then anticipated indirect shareholding in the Bank (30%).
- 7.10 As CBG's shareholding in the Bank will fall from 20.16% to approximately 1% pursuant to the Restructuring (assuming that Group does not participate in the Equity Subscription), the Relationship Agreement which covers, among other things, the promotion of the Bank's services to members of Group, will fall away and come to a formal end in 2020.

8. THE PURPOSE OF THE RESTRUCTURING

The Bank's strategy aims to build an efficient, financially-sustainable and capital-resilient UK bank focused on retail and SME customers, differentiated by an ethically-led brand and a customer-centric proposition. The primary objective of the Restructuring is to raise additional CET1 capital. The actual amount of CET1 capital generated by the Restructuring will depend on the actual amount of Retail Cash Consideration paid and the actual costs and expenses incurred by the Bank. The Restructuring will enable the Bank to strengthen its CET1 capital position and help the Bank meet its regulatory capital and loss-absorbing capacity requirements in the future by cancelling the Bank's liabilities under the Subordinated Notes and securing an additional £250 million in new equity capital.

9. **THE PURPOSE OF THE PROPOSED CREDITORS' SCHEME**

The primary purpose of the proposed Creditors' Scheme is to provide a mechanism for Creditors' Scheme Parties to grant authority to the Bank and certain other authorised persons to execute on their behalf an agreement and other documents required to implement the Restructuring (respectively, the "**Restructuring Agreement**" and the "**Restructuring Documents**") and accordingly bind them to the terms thereof. The Restructuring Agreement and the actions implemented pursuant to it are part of the Creditors' Scheme.

10. **THE PURPOSE OF THE PROPOSED MEMBERS' SCHEME**

The primary purpose of the proposed Members' Scheme is to provide a mechanism for Members' Scheme Parties to grant authority to the Bank and certain other authorised persons to execute on their behalf the Restructuring Agreement and other Restructuring Documents and accordingly bind them to the terms thereof. The Restructuring Agreement and the actions implemented pursuant to it are part of the Members' Scheme.

11. **THE RESTRUCTURING AGREEMENT**

11.1 The Restructuring Agreement will be made between the Bank, the Creditors' Scheme Parties, the Members' Scheme Parties and such other persons whose cooperation is required to implement the Restructuring, including Group and Holdco.

11.2 With respect to the Creditors' Scheme Parties, the Restructuring Agreement will include the steps pursuant to which:

11.2.1 their Subordinated Notes will be exchanged for 'A' Shares in Holdco as described in paragraph 6.1.3;

11.2.2 subscribing Qualifying Scheme Creditors who validly participate in the Creditors' Equity Subscription will be issued with the Subscription Shares pursuant to the Creditors' Equity Subscription described in paragraph 6.1.4(a)(i); and

11.2.3 Backstop Providers who are Eligible Investors will be issued with the Subscription Shares allocated to them in accordance with any Backstop Commitment (if applicable).

11.3 With respect to the Members' Scheme Parties, the Restructuring Agreement will include the steps pursuant to which:

11.3.1 their Ordinary Shares will be exchanged for A Shares in Holdco as described in paragraph 6.1.2; and

11.3.2 subscribing Qualifying Scheme Members who validly participate in the Members' Equity Subscription will be issued with the Subscription Shares pursuant to the Members' Equity Subscription as described in paragraph 6.1.4(a)(ii).

12. THE CONSENT SOLICITATION

- 12.1 In order to implement the Restructuring in respect of the relevant 2023 Notes held by the Retail Noteholders (the "**Retail Notes**"), the terms and conditions of the 2023 Notes will need to be amended in order to insert a mandatory cancellation provision. This provision shall provide that the Retail Notes will be cancelled and the rights, liabilities and obligations thereunder released in consideration for the payment of the Retail Cash Consideration to the Retail Noteholders in respect of their Retail Notes (the "**Mandatory Cancellation**"). It should be noted that the Bank will require the consent of the PRA to cancel the 2023 Notes and the 2025 Notes pursuant to the Restructuring.
- 12.2 A consent solicitation process will be conducted concurrently with the Creditors' Scheme by inviting the 2023 Noteholders to vote at a meeting currently expected to be held on the same date as the Scheme Meetings (the "**2023 Noteholder Meeting**") to consider a number of extraordinary resolutions (the "**2023 Noteholder Extraordinary Resolutions**") which will include, amongst other things, a resolution to amend the terms and conditions of the 2023 Notes to provide for the Mandatory Cancellation (the "**Consent Solicitation**").
- 12.3 The 2023 Noteholder Extraordinary Resolutions will be passed if the relevant meeting is quorate and if a majority consisting of not less than three quarters of the 2023 Noteholders vote in favour of the 2023 Noteholder Extraordinary Resolutions. It is a condition to the implementation of the 2023 Noteholder Extraordinary Resolutions, if passed, that the quorum required for, and the requisite majority of votes cast at the 2023 Noteholder Meeting are satisfied by 2023 Noteholders that meet certain eligibility criteria (including that any US person must be an accredited investor or qualified institutional buyer) as shall be set out in the Consent Solicitation Memorandum.
- 12.4 **Any Subordinated Noteholder who considers that he or she is a Retail Noteholder or who is unsure as to whether or not he or she is a Retail Noteholder should refer to paragraph 17.3 below and take action accordingly. Only Subordinated Noteholders that have validly confirmed their status as Retail Noteholders or who have otherwise been assessed on reasonable enquiry by the Bank to be a Retail Noteholder (no later than three business days after the Creditors' Scheme has become effective) will receive the Retail Cash Consideration (which amount shall be subject to the overall cap of £13.5 million) and Accrued Cash Interest. All other Subordinated Noteholders will be deemed to be Non-Retail Noteholders and their holdings of Subordinated Notes will be subject to the Creditors' Scheme.**

13. CLASS OF CREDITORS' SCHEME PARTIES

- 13.1 In order for a scheme of arrangement pursuant to Part 26 of the Companies Act 2006 to be approved, more than 50% in number representing not less than 75% in value of creditors (or members, in respect of a scheme of members) who vote at the meeting convened to consider and vote upon the scheme must vote in favour of the scheme. However, where the creditors (or members, as applicable) have rights which are so dissimilar from each other as to make it impossible for them to consult together with a

view to their common interest, then they must be split into separate classes and a separate scheme meeting must be held for each class.

13.2 The Bank has considered the present rights of each of the Creditors' Scheme Parties under the Subordinated Notes and the way in which those rights will be affected under the Creditors' Scheme and, having taken into account the previous decisions of the Court, has concluded that the Creditors' Scheme Parties should constitute a single class for the purposes of the Scheme.

13.3 The Bank considers that the rights of the Creditors' Scheme Parties are the same, or not so dissimilar as to make it impossible for them to consult together with a view to their common interest because:

13.3.1 the 2023 Notes and 2025 Notes have substantially similar contractual terms. The Bank does however, note the following points of commercial difference between the 2023 Notes and the 2025 Notes:

- (a) the 2023 Notes mature in 2023, whereas the 2025 Notes mature in 2025;
- (b) the 2023 Notes accrue interest at 11% quarterly, whereas the 2025 Notes accrue interest at 8.5% annually until 1 July 2020 and thereafter at what is called a "Reset Interest Rate" to be determined 2 business days prior to 1 July 2020; and
- (c) the 2023 Notes have a minimum denomination of £10, whereas the 2025 Notes have a minimum denomination of £100,000;

The Bank does not believe that these differences are sufficient to make it impossible for the 2023 Noteholders to consult together with the 2025 Noteholders, noting in particular that if the Restructuring is not implemented, the Bank believes that the most likely outcome is that all Creditors' Scheme Parties would receive no recovery at all in respect of their 2023 Notes and/or their 2025 Notes.

13.3.2 each Creditors' Scheme Party's claims against the Bank in respect of the Subordinated Notes are subordinated to the same level and unsecured;

13.3.3 each Creditors' Scheme Party will have the right to receive A Shares in Holdco in exchange for its Subordinated Notes on the same terms;

13.3.4 each Creditors' Scheme Party that is an Eligible Investor will have the right to elect to subscribe for further A Shares in Holdco on the same terms. The Bank does not believe that the limitation to Eligible Investors constitutes them a different class, since the limitation is based on the inherent characteristics of the Creditors' Scheme Party and is required in order to enable the Bank to raise the capital it requires, within the time available and with the resources available to it, in compliance with applicable securities laws;

13.3.5 each Creditors' Scheme Party that is an Eligible Investor is entitled to exercise the Backstop Accession Right on the same terms and share in the Backstop Premium;

- 13.3.6 each Creditors' Scheme Party will have the same right to receive B Shares in Holdco (if they hold the required number of A Shares and are otherwise eligible). The Bank does not believe that Creditors' Scheme Parties who will hold, from Closing, sufficient A Shares to entitle them to B Shares should be in a different class from other Creditors' Scheme Parties, because it is open to any Creditors' Scheme Party to:
- (a) prior to the implementation of the Restructuring:
 - (i) acquire more Subordinated Notes;
 - (ii) subscribe for more A Shares pursuant to the Creditors' Equity Subscription (if they are an Eligible Investor); and/or
 - (iii) become an Additional Backstop Provider pursuant to the Backstop Arrangements (if they are an Eligible Investor),each of which would entitle the Creditors' Scheme Party to receive more A Shares of Holdco pursuant to the Restructuring and potentially qualify to receive the B Shares in Holdco; and/or
 - (b) after the implementation of the Restructuring acquire more A Shares in order to potentially qualify to receive the B Shares;
- 13.3.7 whilst certain Creditors' Scheme Parties are also Members' Scheme Parties ("**Cross Parties**"), their rights as Creditors' Scheme Parties in the Creditors' Scheme are not changed by their status as Members' Scheme Parties in the Members' Scheme. Accordingly, from a class perspective, Creditors' Scheme Parties who are Cross Parties are able to consult together with Creditors' Scheme Parties who are not Cross Parties as their rights in that capacity are exactly the same;
- 13.3.8 whilst the Ad Hoc Committee will receive the Incorporation Shares, which shall ultimately become 5% of the A Shares of Holdco, and other Creditors' Scheme Parties will not, we note that the Incorporation Shares were issued prior to the launch of the Schemes as a necessary preliminary step to facilitate the implementation the Restructuring and were subscribed and paid for by the Ad Hoc Committee. The Ad Hoc Committee have undertaken considerable work in relation to the Restructuring and will also backstop the failure of any Additional Backstop Provider to backstop its Backstop Commitment, thereby providing greater certainty that the Equity Subscription, a key part of the Restructuring, will be fully funded;
- 13.3.9 as referred to above, certain parties have entered into a Lock-Up Agreement by which they have agreed to support the Restructuring, including by casting votes in favour of it at the Scheme Meetings. The Bank does not consider that the Lock-Up Agreement affects the class analysis since its terms do not affect the way in which such parties would have voted – they have merely confirmed to the Bank in advance that they intend to cast their votes in this way; and

13.3.10 the Bank has agreed to pay the reasonable professional fees of the Ad Hoc Committee's advisers and a contribution towards the costs and expenses of Group's advisers. This is common practice in circumstances where a company wishes to have a fully informed and constructive dialogue with its stakeholders. The Bank does not consider that this has influenced how any member of the Ad Hoc Committee or CBG would vote. They have agreed to support the Restructuring in its present form as a result of detailed commercial negotiation.

13.4 Accordingly, it is proposed that one meeting of the Creditors' Scheme Parties be convened for the purposes of considering and, if the Creditors' Scheme Parties think fit, approving the Creditors' Scheme. Therefore, in order for the Creditors' Scheme to become effective, it must be approved by a majority in number representing not less than 75% in value of all of the Creditors' Scheme Parties who vote (either in person or by proxy) at the Creditors' Scheme Meeting.

14. CLASS OF MEMBERS' SCHEME PARTIES

14.1 The Bank has considered the present rights of each of the Members' Scheme Parties in respect of the Ordinary Shares and the way in which those rights will be affected under the Members' Scheme and, having taken into account the previous decisions of the Court, has concluded that the Members' Scheme Parties constitute a single class for the purposes of the Members' Scheme.

14.2 The Bank considers that the rights of the Members' Scheme Parties are the same, or not so dissimilar as to make it impossible for them to consult together with a view to their common interest because:

14.2.1 they each hold Ordinary Shares which entitle them to the same rights as against the Bank;

14.2.2 if the Restructuring is not implemented, the Bank believes that the most likely outcome is that all Members' Scheme Parties would receive no recovery at all in respect of their Ordinary Shares;

14.2.3 each Members' Scheme Party will have the right to receive A Shares in Holdco in exchange for its Ordinary Shares on the same terms;

14.2.4 each Members' Scheme Party that is an Eligible Investor will have the right to elect to subscribe further A Shares in Holdco on the same terms;

14.2.5 each Members' Scheme Party will have the same right to receive B Shares in Holdco (if they hold the required number of A Shares and are otherwise eligible). It should be noted, however, that:

(a) all A Shares issued to Member Scheme Parties in exchange for the Ordinary Shares will, taken together, only represent 5% of the fully diluted total number of A Shares of Holdco at Closing;

(b) Member Scheme Parties who are Eligible Investors are only entitled to apply for their *pro rata* share of A Shares representing a total of 3.4% of the fully diluted total number of issued A Shares of Holdco; but

- (c) that an entitlement to B Shares can only arise where an A Shareholder holds at least 10% of the A Shares.

Accordingly, a Member Scheme Party will not qualify to receive B Shares on the basis of its capacity as a Member Scheme Party alone. It will also need to be a Creditors' Scheme Party. In this regard please refer to paragraphs 13.3.6, 13.3.7 and 14.2.6;

- 14.2.6 whilst certain Members' Scheme Parties are Cross Parties, their rights as Members' Scheme Parties in the Members' Scheme are not changed by their status as Creditors' Scheme Parties in the Creditors' Scheme. Accordingly, from a class perspective, Members' Scheme Parties who are Cross Parties are able to consult together with Members' Scheme Parties who are not Cross Parties as their rights and obligations in that capacity are exactly the same;
- 14.2.7 whilst CBG and Group will enter into ancillary arrangements pursuant to the Restructuring (in particular in respect of the cancellation of the Preference Shares and the treatment of Pace), CBG, in its capacity as a Members' Scheme Party will have the same rights and obligations as all other Members' Scheme Parties;
- 14.2.8 whilst the Ad Hoc Committee will receive the Incorporation Shares, which shall ultimately become 5% of the fully diluted total number of A Shares of Holdco, and other Creditors' Scheme Parties will not, we note that the Incorporation Shares were issued prior to the launch of the Schemes as a necessary preliminary step to facilitate the implementation the Restructuring and were subscribed and paid for by the Ad Hoc Committee. The Ad Hoc Committee have undertaken considerable work in relation to the Restructuring and will also backstop the failure of any Additional Backstop Provider to backstop its Backstop Commitment, thereby providing greater certainty that the Equity Subscription, a key part of the Restructuring, will be fully funded;
- 14.2.9 whilst Members' Scheme Parties who are Early Bird Consenting Members will be entitled to share pro rata in the Early Bird Members' Premium (and Members' Scheme Parties who are not Early Bird Consenting Members will not), the Bank is of the view that this does not give rise to a class issue. First, the option to share in the Early Bird Members' Premium is available to all Members' Scheme Parties who choose to become party to the Lock up Agreement by 28 July 2017. Second, the Early Bird Members' Premium is not of a size that, in the Bank's view, makes it impossible for the Early Bird Consenting Members and the other Members' Scheme Parties to consult together with a view to their common interest;
- 14.2.10 as referred to above, certain parties have entered into a Lock-Up Agreement (and Group has entered into the Group Adherence Letter) by which those parties have agreed to support the Restructuring, including by casting votes in favour of it at the Scheme Meetings. The Bank does not consider that the Lock-Up Agreement or the Group Adherence Letter affects the class analysis since their respective terms do not affect the way in which such parties would have voted. They have merely confirmed to the Bank in advance that they intend to cast their votes in this way; and

14.2.11 again, as referred to above, the Bank has agreed to pay the reasonable professional fees of the Ad Hoc Committee's advisers and a contribution towards the costs and expenses of Group's advisers. This is common practice in circumstances where a company wishes to have a fully informed and constructive dialogue with its stakeholders. The Bank does not consider that this has influenced how any member of the Ad Hoc Committee or CBG would vote. They have agreed to support the Restructuring in its present form as a result of detailed commercial negotiation.

14.3 Accordingly, it is proposed that one meeting of the Members' Scheme Parties be convened for the purposes of considering and, if the Members' Scheme Parties think fit, approving the Members' Scheme. Therefore, in order for the Members' Scheme to become effective, it must be approved by a majority in number representing not less than 75% in value of the Members' Scheme Parties who vote (either in person or by proxy) at the Members' Scheme Meeting.

IMPORTANT: If any person has any comments or concerns as to the proposed constitution of either Scheme Meeting, or any other issues which they consider should be raised with the Court, they should in the first instance contact Lucid or Computershare (as applicable) as set out in paragraphs 17.6 or 17.7 below.

15. DIRECTIONS HEARING

15.1 The Directions Hearing is currently scheduled to be held on 27 July 2017. The Bank will draw any issue raised by any Scheme Party or Retail Noteholder to the Court's attention. Scheme Parties and Retail Noteholders shall have the right to attend, in person or through counsel, and make representations at the Directions Hearing.

15.2 This Practice Statement Letter is intended to provide Scheme Parties and Retail Noteholders with sufficient information regarding the Schemes and the Restructuring such that, should they wish to raise issues that relate to the jurisdiction of the Court to allow the Bank to convene the Scheme Meetings to vote on the Schemes, or argue that the proposals outlined above for convening the Scheme Meetings are inappropriate, or to raise any other issue in relation to the constitution of the Scheme Meetings or which might otherwise affect the conduct of the Scheme Meetings, they may attend and be represented before the Court at the Directions Hearing.

15.3 The Scheme Parties and the Retail Noteholders should be aware that the English courts have indicated that issues which may arise as to the constitution of meetings of creditors or which otherwise affect the conduct of those meetings or which affect the jurisdiction of the Court to sanction a scheme of arrangement ("**Scheme Issues**") should be raised at the Directions Hearing. If they do not raise such issues, while Scheme Parties and/or Retail Noteholders will still be able to appear and raise objections at the Sanction Hearing (as defined in paragraph 15.4 below), the Court would expect those Scheme Parties and/or Retail Noteholders to show good reason why they did not previously raise any Scheme Issues or jurisdictional issues in respect of the proposals for convening the Scheme Meetings. Scheme Parties and Retail Noteholders should therefore raise any Scheme Issues they wish to bring to the Court's attention at the Directions Hearing.

- 15.4 If the Court orders the Scheme Meetings to be convened at the Directions Hearing, then the Scheme Parties and Retail Noteholders will have the opportunity to raise objections to the Schemes at a second and final Court hearing in respect of the Schemes (the "**Sanction Hearing**") at which the court will decide whether to exercise its discretion to sanction the Schemes (assuming that each Scheme is approved at the relevant Scheme Meeting by the requisite majorities). The Sanction Hearing is currently scheduled to be held on 24 August 2017.

16. **WEBSITE**

The Website (www.co-operativebank.co.uk/investorrelations) will provide information about the Schemes and the Consent Solicitation. Scheme Parties and Retail Noteholders may download documents relating to the Schemes and the Consent Solicitation from the Website once they have satisfied certain eligibility criteria online.

17. **NEXT STEPS**

- 17.1 Scheme Parties and Retail Noteholders are advised that the Lock-Up Agreement (together with the schedules thereto setting out the principal terms of the Restructuring), is available at the Website.

- 17.2 If permission to convene the Scheme Meetings is granted by the Court at the Directions Hearing, the notices convening the Scheme Meetings (the "**Scheme Notices**") will be published in the same way as this Practice Statement Letter was published (as described in paragraph 3.2 above). Notices convening the 2023 Noteholder Meeting (together with the Scheme Notices, the "**Notices**") shall be published in accordance with the Terms and Conditions of the 2023 Notes. The Notices confirm the date, time and place of the Scheme Meetings and the 2023 Noteholder Meeting and will explain how Scheme Parties and Retail Noteholders will be able to obtain copies of the documentation in respect of each of the Schemes and the Consent Solicitation and the next steps to be taken. If you wish to obtain a paper copy of the Notices, the Lock-Up Agreement or any other documentation to be circulated pursuant to the Schemes or the Consent Solicitation, you should contact the relevant person referenced in paragraph 17.6 or 17.7 below.

17.3 **If you believe that you are, or are unsure as to whether or not you are, a Retail Noteholder:**

- 17.3.1 **you should as soon as possible as a preliminary step, identify yourself as a potential Retail Noteholder by submitting the following information via www.lucid-is.com/co-op:**

- (a) **your name;**
- (b) **if applicable, the name of the account holder through whom you hold your 2023 Notes;**
- (c) **details of the total principal amount of 2023 Notes which you held as at 27 June 2017; and**
- (d) **your email address, residential address and telephone number;**

- 17.3.2 **you must comply with the additional procedures that shall be set out in, the Consent Solicitation Memorandum to be issued on or around 28 July 2017.**

IMPORTANT: A SUBORDINATED NOTEHOLDER CAN ONLY BE CONFIRMED AS A RETAIL NOTEHOLDER AND QUALIFY FOR THE RETAIL CASH CONSIDERATION AND ACCRUED CASH INTEREST IN RESPECT OF ITS RELEVANT 2023 NOTES IF HE OR SHE COMPLIES WITH THE ADDITIONAL PROCEDURES AS SHALL BE SET OUT IN THE CONSENT SOLICITATION MEMORANDUM AS DESCRIBED IN PARAGRAPH 17.3.2 (OR IS OTHERWISE DETERMINED BY THE BANK TO BE A RETAIL NOTEHOLDER). THE PROVISION OF INFORMATION TO LUCID IN ACCORDANCE WITH PARAGRAPH 17.3.1 WILL NOT BE ENOUGH.

- 17.4 **If you are an Ordinary Shareholder of the Bank and wish to be eligible to receive the Early Bird Consent Premium, you must accede as a party to the Lock-Up Agreement by no later than 28 July 2017. A copy of the Lock-up Agreement (and the form of accession) is available at www.co-operativebank.co.uk/investorrelations.**
- 17.5 If you are a Qualifying Scheme Creditor and wish to exercise your Backstop Accession Right please contact PJT Partners, using the details below, as soon as possible for further details as to how to become an Additional Backstop Provider. Please note that the deadline for becoming an Additional Backstop Provider is 4.00 p.m. on 28 July 2017 by which time you will have needed to demonstrate your ability to fund your Backstop Commitment and satisfied any necessary "know-your-customer" requirements.

PJT Partners
1 Curzon Street
London W1J 5HD

Attention of: Martin Gudgeon / Michael Wilcox

Email: Gudgeon@pjtpartners.com / Wilcox@pjtpartners.com

- 17.6 If you are a Non-Retail Noteholder and have any procedural questions in relation to the Creditors' Scheme, please contact Lucid using the contact details below:

Lucid Issuer Services Limited
Tankerton Works
12 Argyle Walk
London WC1H 8HA

Attention of: Sunjeeve Patel / David Shilson

Email: co-op@lucid-is.com

- 17.7 If you are a Retail Noteholder or an Ordinary Shareholder and have any procedural questions in relation to the Members' Scheme and/or Consent Solicitation, please contact Computershare using the contact details below:

Corporation Actions Projects
Bristol BS99 6AH
United Kingdom

Helpline: 0370 889 3293

Email: co-op@computershare.co.uk

Yours faithfully

A handwritten signature in black ink, appearing to read "H. Coleman".

For and on behalf of

THE CO-OPERATIVE BANK P.L.C.