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### **The Co-operative Bank plc launches equity capital raising**

Further to its announcement on 24 March 2014, the Co-operative Bank (the "Bank" or the "Company") is today launching a proposed transaction to raise £400 million of CET1 capital through the issue of 200 million New Ordinary Shares by way of a Placing and Open Offer (together with the Bonus Issue, the "Capital Raising").

#### **Highlights of the Capital Raising**

- £400 million to be raised through the issue by the Bank of 200 million New Ordinary Shares at £2.00 per New Ordinary Share, conditional on various conditions being met including Shareholder approval at the General Meeting.
- Four major shareholders have irrevocably committed to take up 31 per cent. of the New Ordinary Shares to be offered in the Placing and Open Offer.
- The Bank's largest single shareholder, the Co-operative Group has irrevocably committed, subject to the satisfaction (or waiver) of certain conditions, to subscribe for New Ordinary Shares under the Placing and Open Offer, to be funded by the sale of some of its existing shareholding, and to vote in favour of the Capital Raising at the General Meeting.
- New Ordinary Shares (other than those the subscription of which has been irrevocably committed) will be placed with institutional investors (subject to clawback) through an accelerated bookbuild at a price of £2.00 per share.
- Shares conditionally placed pursuant to the Placing will be subject to clawback in full by Qualifying Shareholders of the Company who are being offered the opportunity to subscribe for their Open Offer entitlements at £2.00 per New Ordinary Share on the basis of 0.8 New Ordinary Shares for each Existing Ordinary Share.
- Shareholders who do not meet the £100,000 minimum subscription threshold necessary to participate in the Open Offer will be compensated via the Bonus Issue. This is consistent with the Bank's commitment to values and ethics.

We are also announcing today that the Chairman, Richard Pym, intends to step down from his role as Chairman of the Bank by the end of the year. The Board will undertake a full and rigorous process to appoint his replacement in due course. Richard Pym will continue as Chairman with the full support of the Board until he steps down.

**Chief Executive Niall Booker said:** "We have the support of our five largest shareholders for this transaction.

"If successful, the additional capital to be raised through this transaction will enable us to reset our starting capital position for the execution of our business plan to return to our roots as a bank focused on our retail and SME customers with values and ethics at the heart of our business.

“The new management team has already taken significant steps, through the Liability Management Exercise last year to improve the capital position of the Bank. This additional capital will further strengthen the Common Equity Tier 1 ratio.

“The business plan is being implemented and there have been some encouraging early signs. We have started to simplify the business, reduce costs and de-risk the non-core assets, while remaining committed to the values and ethics that continue to set us apart.

“I remain extremely grateful for the continuing support and loyalty of our customers and Shareholders and would like to reassure them that the completion of this capital raising will assist the new management team in the implementation of the business plan that aims to return the Bank to health over time.

“I would like to take this opportunity on behalf of the Board to thank our Chairman Richard Pym for his service to the Bank. Richard has been instrumental in the important governance changes which have been implemented at Board level and his relentless appetite to bring about change and improvement has been an inspiration to us all. I look forward to working with him over the coming months to ensure an orderly transition to his successor and wish him all the best in his future endeavours.”

The Capital Raising will be on the terms and subject to the conditions set out in a circular expected to be published by the Company following closing of the Placing (the “Circular”). The Circular will be available on the Company’s website <http://www.co-operativebank.co.uk/investorrelations/presentationsandprospectuses> following publication.

### **Reasons for the Capital Raising**

Rebuilding this Company is a significant challenge. In December 2013, the Company completed the Liability Management Exercise, without which the Company may have gone into resolution.

However, as a result of the Company’s continuing review into aspects of its operations, assets and liabilities, the Company has identified additional conduct and legal issues which have contributed to the Company’s need to further strengthen its capital position.

Whilst the existence of conduct and legal risks and the uncertainties around separation were identified in the 2013 Prospectus, the financial impact of these items, together with the significant cost and tax consequences of separation from the Co-operative Group, means that the starting capital position of the Company for the four to five year recovery period is weaker than in the plan announced last year. As a result of this weaker capital position, the Company has decided to improve its capital position by raising £400 million of additional CET 1 capital in the form of New Ordinary Shares. CET 1 capital is a form of capital which banks and other financial institutions are required to maintain to help absorb losses in times of financial distress. In the absence of additional CET 1 capital, the Company may fall below the regulatory minimum expected CET 1 ratio of 7 per cent. in the near term. Accordingly, on 24 March 2014, the Company announced that it needed to raise the additional CET 1 capital as soon as practicable.

Since that announcement, the Company has consulted with its largest Shareholders and worked with its advisers to finalise the structure of the Capital Raising. The structure announced today comprises of an issue of New Ordinary Shares and Bonus Shares, conditional on Shareholder approval, to raise £400 million of CET 1 capital. This is in addition to the remaining £263 million of the £333 million 2014 Commitment due from the Co-operative Group on which the Company remains dependent. As described in the 2013 Prospectus, and included in the Company’s Articles of Association, the Company has, for so long as its Ordinary Shares are not admitted to listing on the Official List, committed to adopt policies and procedures to comply with Chapters 10-13 of the Listing Rules to the extent reasonably practicable to act in accordance with the spirit of those rules. For the purposes of Chapter 11 of the Listing Rules, the Cooperative Group would be a related party and,

if the Company were, as a matter of regulatory requirement, subject to Chapter 11 of the Listing Rules, certain aspects of the arrangements with the Co-operative Group relating to the Capital Raising may be considered to be a related party transaction. Accordingly, consistent with the Company's commitment to values and ethics, the Board has decided to obtain the approval of independent Shareholders for the Related Party Transaction pursuant to the resolution at the General Meeting relating to the Related Party Transaction and has obtained an opinion from Moelis & Company in support of the Directors' conclusion that the terms of these arrangements are fair and reasonable so far as Shareholders are concerned.

### **Benefits of the Capital Raising**

The Capital Raising will:

- enable the Company to strengthen its CET 1 position for the benefit of all stakeholders and operate CET 1 ratios which are above the current PRA minimum expectation of 7 per cent., thereby putting the Company on a stronger footing to continue implementing its turnaround plan;
- provide the opportunity for existing Qualifying Shareholders to participate through the Open Offer; and
- provide compensation to Smaller Shareholders, who are not eligible for participation in the Open Offer, through the Bonus Issue.

### **The Placing and Open Offer**

The Placing and Open Offer of 200 million New Ordinary Shares at the Issue Price of £2.00 per New Ordinary Share will raise (approximately) £400 million (£384 million net of expenses). The issue and allotment of New Ordinary Shares pursuant to the Placing and Open Offer is subject to Shareholder approval by the passing of the Resolutions at the General Meeting.

The Placees will be required to conditionally agree to subscribe for the Placing Shares at the Issue Price, subject to clawback in respect of valid applications by Qualifying Shareholders (other than the Co-operative Group, Committed Shareholders and Group Placees) to take up their Open Offer Entitlements at the Issue Price under the Open Offer. The Placing and Open Offer, which is not otherwise underwritten, is expected to raise (approximately) £384 million (net of commissions, costs and expenses).

Qualifying Shareholders have the opportunity to apply for Open Offer Shares at the Issue Price pro rata to their holdings of Existing Ordinary Shares as at 6.00pm on 8 May 2014 on the terms of the Open Offer and on the basis of:

0.8 New Ordinary Shares for each Existing Ordinary Share

The maximum number of New Ordinary Shares which Qualifying Shareholders may take up under the Open Offer is their entitlement on the above basis and the minimum number which may be taken up is 50,000 New Ordinary Shares. No application in excess of a Qualifying Shareholder's Open Offer Entitlement will be met, and any Qualifying Shareholder so applying will be deemed to have applied for their Open Offer Entitlement only. Fractions of Open Offer Shares will not be allotted to Qualifying Shareholders in the Open Offer and fractional entitlements under the Open Offer will be rounded down to the nearest whole number of Open Offer Shares.

For simplicity and prudence, and given the Company's need to raise the additional capital as soon as possible, the Company has determined that the participation threshold should be set at £100,000 to avail itself of an exemption from the requirement for the Company to produce an EU law-compliant prospectus in connection with the Placing and Open Offer.

Consequently, the minimum subscription threshold which may be paid by or on behalf of any person for New Ordinary Shares pursuant to the Open Offer is £100,000. Accordingly, Qualifying Shareholders with fewer than 62,500 Existing Ordinary Shares (which is the number of Existing Ordinary Shares that would entitle them to apply for a number of Open Offer Shares that represent, at the Issue Price, a subscription amount of £100,000) will not be entitled to apply for any Open Offer Shares but will, subject to the terms of the Bonus Issue, be entitled to receive Bonus Shares. Open Offer Shares which have not otherwise been taken up will be issued to Placees at the Issue Price subject to the terms and conditions of the Placing and Open Offer Agreement and the Placing Letter.

Following the final issue of Ordinary Shares pursuant to the Capital Raising, the New Ordinary Shares and the Bonus Shares will, when issued and fully paid up, rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to any future dividends or other distributions made, paid or declared after the date of their issue.

Further information on the Placing and Open Offer and the terms and conditions on which it is to be made, including the procedure for application and payment will be set out in the Circular, and for Qualifying Non-CREST Shareholders only, also on the Application Form.

### **The Bonus Issue**

The result of the £100,000 minimum subscription threshold is that a Shareholder who is not able to participate in the Open Offer, would lose the opportunity to subscribe for the New Ordinary Shares at the Issue Price (because to take up their Open Offer Entitlements would require payment of a subscription amount below the minimum subscription threshold). Accordingly, consistent with its commitment to co-operative values and ethics, the Board is proposing to compensate those Shareholders who do not meet the £100,000 minimum subscription threshold ("**Smaller Shareholders**") for the value of the opportunity they would otherwise lose by issuing a number of ordinary shares, in addition to those to be issued pursuant to the Placing and Open Offer (the "**Bonus Issue**").

The Bonus Shares are intended to reflect the potential value of the opportunity to subscribe for New Ordinary Shares at the Issue Price which the Smaller Shareholders would otherwise have been able to take up pursuant to the Open Offer. This potential value has been determined by the Company by reference to the theoretical ex-entitlement price of the Existing Ordinary Shares and the Issue Price.

The Company proposes that the Bonus Shares will be paid up by the Company out of undistributable reserves. This will require Shareholder approval both to authorise the Directors to capitalise the appropriate amount of reserves and to authorise the Directors to allot such Bonus Shares. Resolutions allowing for the implementation of the Bonus Issue are therefore to be proposed at the General Meeting. The final amount to be capitalised and the number of Bonus Shares can only be determined when all valid confirmations to receive Bonus Shares have been received and processed. The Bonus Issue has no impact on the Company's CET 1 capital.

Further information on the Bonus Issue and the terms and conditions on which it is to be made, including the procedure for confirmation will be set out in the Circular and also on the Bonus Issue Form.

### **Shareholder commitments**

CBG has entered into the CBG Irrevocable Undertaking Letter in favour of the Company and UBS. Under the CBG Irrevocable Undertaking Letter, CBG has irrevocably agreed, subject, amongst other conditions, to the Group Placing achieving a sale price of not less than £3.20 per Existing Ordinary Share (unless waived): (i) to exercise the votes attaching to its Existing Ordinary Shares in favour of the Resolutions to be put to the General Meeting (save with respect to the Resolution regarding the Related Party Transaction, as described

below, in respect of which CBG is precluded from voting), and (ii) subject to the receipt of the proceeds of the Group Placing, to apply and subscribe for at least 39,668,359 Open Offer Shares under its Open Offer Entitlements in the Open Offer (or such other number of Open Offer Shares as are required to enable CBG to take up all of its remaining entitlements to Open Offer Shares following the Group Placing, which will vary depending on the actual price achieved in the Group Placing).

The Group Placees will also enter into irrevocable undertakings with the Company and UBS Investment Bank to apply and subscribe for the Open Offer Shares represented by the Open Offer Entitlements arising from the Group Placing Shares.

The Committed Shareholders have entered into Irrevocable Undertaking Letters in favour of the Company and UBS Investment Bank. Under the Irrevocable Undertaking Letters, each Committed Shareholder has irrevocably and unconditionally agreed: (i) to vote in favour of the Resolutions to be put to the General Meeting and (ii) to apply and subscribe for all of its entitlements to Open Offer Shares in the Open Offer. Each of the Committed Shareholders will receive commissions of 1.5 per cent. of the Issue Price multiplied by the number of New Ordinary Shares which are taken up by such Committed Shareholders pursuant to the irrevocable undertaking to apply to subscribe for Open Offer Shares in the Open Offer.

The aggregate of the number of ordinary shares that are the subject of the undertakings given pursuant to the Irrevocable Undertaking Letters, the CBG Irrevocable Undertaking Letter and the irrevocable undertaking letters entered into by the Group Placees is 122,241,222 Ordinary Shares (representing 48.9% per cent. of the Company's issued Ordinary Shares at the date of this announcement).

### **Group Placing**

UBS Investment Bank, as agent for CBG, will place with institutional investors (including certain Shareholders) Existing Ordinary Shares (the "Group Placing Shares"), on a cum entitlement basis, conditional upon, *inter alia*, Placees being found to purchase the Group Placing Shares at a minimum price of at least £3.20 per Existing Ordinary Share and the Capital Raising becoming unconditional (the "Group Placing"). The Company will not receive any proceeds from the Group Placing and CBG will bear its own costs in relation thereto. Pursuant to its obligations under the CBG Irrevocable Undertaking Letter, the net proceeds of the Group Placing will be used by CBG to subscribe for Open Offer Shares in satisfaction of the Open Offer Entitlements arising from the balance of Existing Ordinary Shares retained by CBG following the Group Placing.

If CBG sells any Existing Shares pursuant to the Group Placing, CBG has committed that it will remain the beneficial owner of the Group Placing Shares at the time of the General Meeting and is, therefore, able to procure the exercise of the voting rights attached to the Group Placing Shares in order to fulfil its obligation to vote in favour of the resolutions at the General Meeting (other than the resolution regarding the Related Party Transaction, in respect of which it is precluded from voting) contained in the CBG Irrevocable Undertaking Letter, as described above.

### **Outlook**

There is a significant task ahead to turn the Company around. However, the management team believes the turnaround plan will deliver a sustainable improvement in performance over time. Although the completion of the Liability Management Exercise improved the Company's capital position, as announced on 24 March 2014, additional capital is required leading to this announcement of the Capital Raising.

The Board is still considering listing the Company on the Official List, but the timing of this listing remains uncertain as a result of a number of factors, including the conclusions of the ongoing regulatory reviews. The Board will be establishing an Initial Public Offering Committee in accordance with the Shareholder Rights

Agreement which will assess the feasibility of the Company listing its Ordinary Shares on the Official List and make recommendations to the Board with regard to the timing of such a listing.

The Company's strategy is to serve the needs of individuals and SMEs where it has heritage and strong customer relationships. The Company is focused on becoming a smaller more efficient bank distinguished by values and ethics.

Looking forward, the short to medium-term outlook for the Company remains challenging. The Company is dependent on the macroeconomic environment and competitive landscape in which it operates, as well as the effective execution of the objectives that underpin the strategy such as continued deleveraging of Non-core assets, re-pricing, investment in IT and strong cost management. The Company also needs to attract and retain appropriately skilled people. In parallel, the regulatory and other investigations announced in 2013 and 2014 are likely to subject the Company to greater scrutiny from regulators and the media, which could cause reputational damage, significant customer and deposit attrition and potentially distract management and take resources away from the implementation of the strategy.

### **The Placing and Open Offer Agreement**

The Company and UBS Investment Bank entered into the Placing and Open Offer Agreement on the date of this announcement. Pursuant to the Placing and Open Offer Agreement, UBS Investment Bank has been appointed as the sole bookrunner and placing agent in respect of the Placing. UBS Investment Bank has agreed, as agent for the Company, to use all reasonable endeavours to procure Placees for the Placing Shares at the Issue Price, on the basis that the obligations of the Placees to subscribe for New Ordinary Shares shall be conditional upon the relevant New Ordinary Shares not being subscribed for by Qualifying Shareholders (other than the Co-operative Group, the Committed Shareholders and the Group Placees) pursuant to the Open Offer. The Company has given certain representations, warranties and undertakings to UBS Investment Bank and has given an indemnity to UBS Investment Bank on customary terms.

The obligations of UBS Investment Bank under the Placing and Open Offer Agreement are subject to customary conditions and UBS Investment Bank may, in its absolute discretion and upon such terms as it thinks fit, waive any of these conditions. In addition, UBS Investment Bank has the right to terminate the Placing and Open Offer Agreement, exercisable in customary circumstances, as well as in certain circumstances as a result of which the Group Placing is no longer capable of becoming unconditional (save with respect to any condition relating to the Placing and Open Offer Agreement) or is terminated, in each case before the Unconditional Time. In such circumstances, UBS Investment Bank shall not terminate the Placing and Open Offer agreement prior to the expiry of three business days and shall discuss with the Company (in good faith) whether UBS Investment Bank believes that additional Placees can be found to subscribe the New Ordinary Shares that would otherwise have been subscribed by CBG and the Group Placees.

### **Related Party Transaction**

In connection with the Capital Raising, the Company has agreed certain arrangements with the Co-operative Group which, if the Company was, as a matter of regulatory requirement, subject to Chapter 11 of the Listing Rules, may be considered to constitute a related party transaction, including the Shareholder Rights Agreement described below. These arrangements include:

- the release by the Company of CBG from the lock up provisions in the Relationship Agreement for the purpose of the Group Placing, as well as bringing forward the expiry of the lock up to 30 September 2014 (unless the Relationship Agreement has terminated sooner) provided that CBG applies any sale proceeds in paying any amounts outstanding under the 2014 Commitment and the grant by the Co-operative Group for its consent to the Company undertaking the Capital Raising;

- the grant to the Co-operative Group of certain rights relating to assistance to be provided by the Company for the purpose of future disposals of Ordinary Shares held by CBG;
- the grant by the Company pursuant to the Variation and Director Appointment Deed, of a separate right to the Co-operative Group to nominate, remove and replace, for so long as the Co-operative Group directly or indirectly controls 15 per cent. or more of the voting rights exercisable at general meetings of the Company, one Director (which right takes effect when the percentage voting rights controlled directly or indirectly by the Co-operative Group fall below 20 per cent. so that when the Co-operative Group directly or indirectly controls the exercise of between 15 per cent. and 20 per cent. of such voting rights, it would be entitled to nominate one Director);
- a commitment in the Shareholder Rights Agreement to establish a committee of the Board to consider, on a quarterly basis, the feasibility and timing of a listing of the Company's Ordinary Shares on the Official List and make recommendations to the Board;
- assistance in connection with the implementation of the Group Placing including the grant of an indemnity to UBS Investment Bank relating to the use by UBS Investment Bank of the Circular and related marketing materials, and the grant by the Company to the Co-operative Group of a waiver from the lock-up provisions contained in the Relationship Agreement in each case for the purpose of the Group Placing; and
- the amendment of the Relationship Agreement with reference to certain other rights granted by the Company to the Committed Shareholders and the Co-operative Group pursuant to the Shareholder Rights Agreement referred to below and the Variation and Director Appointment Deed.

As would be required by Chapter 11 of the Listing Rules, CBG will abstain, and has undertaken to take all reasonable steps to ensure that its associates will abstain, from voting on the Resolution to be put to a General Meeting of the Company in respect of the Related Party Transaction.

### **Shareholder Rights Agreement**

The Company has entered into the Shareholder Rights Agreement with the Committed Shareholders, the Co-operative Group and CBG on the date of this announcement. Pursuant to the Shareholder Rights Agreement, the Company has, conditional on completion of the Capital Raising, granted certain rights to the Committed Shareholders and the Co-operative Group. These rights are in addition to those contained in the Relationship Agreement, entered into in connection with the Company's recapitalisation and Liability Management Exercise in 2013, and made between the Company, the Co-operative Group and CBG, under which certain rights to nominate Directors to the Board were also granted to certain former bondholders.

Two of the Company's largest Shareholders are funds managed by Silver Point and Perry Capital. Under the Shareholder Rights Agreement, the Company has granted each of Silver Point and Perry Capital the right to nominate a Director for appointment to the Board for so long as Silver Point or Perry Capital, as the case may be, directly or indirectly controls 5 per cent. or more of the voting rights exercisable at general meetings of the Company. Such rights are not transferable, save that if either Silver Point or Perry Capital ceases to so control those voting rights, then its right to nominate a Director is deemed automatically transferred to the Committed Shareholder with the next largest aggregate beneficial shareholding in the Company provided that such other Committed Shareholder itself directly or indirectly controls 5 per cent. or more of such voting

rights. Such Directors may be appointed to the Board's audit, remuneration, risk and nomination committees (subject to certain requirements set out in the Circular), but such Director may not be appointed to the audit committee or the remuneration committee unless he is independent (as determined by the Board by reference to the UK Corporate Governance Code).

Further, pursuant to the Shareholder Rights Agreement, the Company has agreed to establish a sub-committee of the Board, comprised of four Directors (being one appointed pursuant to each of the Relationship Agreement and the Shareholder Rights Agreement, one executive Director and one independent non-executive Director who is not a Director appointed pursuant to the Relationship Agreement or the Shareholder Rights Agreement), who will assess the feasibility of the Company listing its Ordinary Shares on the Official List and make recommendations to the Board with regards to the timing of such a listing. Any of the Committed Shareholders and the Co-operative Group, who together hold 25 per cent. or more of the Company's issued Ordinary Share capital, will have the right, not to be exercised before 30 September 2014, to require the Company to assist in the launch of a secondary offering of Ordinary Shares, provided the exercising Shareholders have committed to sell Ordinary Shares valued at not less than £100 million. All fees and costs in relation to the secondary offering must be pre-approved and will be paid out of the proceeds of the secondary offering by the selling Shareholders participating in any such offering.

Further details of the Shareholder Rights Agreement will be set out in the Circular.

### **Conditionality**

The posting of the Circular relating to the Open Offer is subject to the successful completion of the Placing.

The Placing and Open Offer and Bonus Issue are each conditional upon:

- (a) the passing of the Resolutions at the General Meeting;
- (b) the Placing and Open Offer Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms; and
- (c) the Group Placing not being incapable of becoming unconditional (save with respect to any condition relating to the Placing and Open Offer Agreement) and not having been terminated.

Accordingly, if any of these conditions are not satisfied or waived, the Capital Raising will not proceed and any applications made by Qualifying Shareholders or confirmations received from Smaller Shareholders will lapse. In such circumstances, any application monies will be returned (at the applicant's sole risk), without payment of interest, within 14 days.

The Bonus Issue is also conditional upon: (i) the passing of the Resolutions at the General Meeting (including in respect of the Bonus Issue), and (ii) Placing and Open Offer becoming unconditional. If any of these conditions are not satisfied, the Bonus Shares will not be issued by the Company to the Smaller Shareholders.

### **Effect of the Placing and Open Offer**

Upon completion of the Placing and Open Offer, the New Ordinary Shares and the maximum number of Bonus Shares will represent 44.9 per cent. of the Enlarged Share Capital and the Existing Ordinary Shares will represent 55.1 per cent. of the Enlarged Share Capital. Following the issue of the New Ordinary Shares to be allotted pursuant to the Placing and Open Offer and on the basis that the maximum number of Bonus Shares is allotted pursuant to the Bonus Issue, Qualifying Shareholders who take up their full entitlements in respect of the Open Offer will suffer dilution of 0.8 per cent. to their existing interests in the Company as a result of the Bonus Issue (assuming the Group Placing is completed at £3.20 per share). Qualifying Shareholders who take up their full entitlements in respect of the Open Offer will suffer no dilution in the event that no Bonus Shares are issued. Qualifying Shareholders who do not take up any of their entitlements in respect of the Open Offer

will suffer a dilution of 44.9 per cent. to their existing interests in the Company (on the basis that the maximum number of Bonus Shares is allotted pursuant to the Bonus Issue).

### **General Meeting**

The Capital Raising is conditional upon the approval of the Resolutions by the Shareholders (and in the case of the Resolution in respect of the Related Party Transaction, by Shareholders other than CBG) at the General Meeting, which will be held in due course. In summary, the Resolutions are:

- an ordinary resolution generally authorising the Directors to allot New Ordinary Shares and Bonus Shares for the purposes of the Capital Raising in accordance with section 551 of the Companies Act;
- a special resolution disapplying pre-emption rights under section 561 of the Companies Act in respect of the allotment of New Ordinary Shares pursuant to the Placing and Open Offer;
- an ordinary resolution of independent Shareholders to approve the Related Party Transaction;
- a special resolution to vary the application of the Articles of Association of the Company solely for this purpose, to permit the Bonus Shares required for the Bonus Issue to be allotted and issued to validly confirming Smaller Shareholders only and to disapply pre-emption rights under section 561 of the Companies Act in respect of the allotment of Bonus Shares required for the Bonus Issue; and
- an ordinary resolution authorising the Directors to capitalise undistributable reserves for the purpose of paying up the Ordinary Shares required for the Bonus Issue.

The Board intends to exercise the authority to allot New Ordinary Shares for the purpose granted by the above resolutions to allot New Ordinary Shares for the purposes of the proposed Placing and Open Offer and Bonus Shares for the purposes of the proposed Bonus Issue. The authority will lapse on 30 September 2014.

### **Consequences of the Placing not succeeding or Resolutions not being passed**

If the Placing is not successful or the Resolutions are not passed, the Company will not be able to proceed with the Capital Raising. In such circumstances, the Company would seek alternative means to address the Company's proximity to its minimum regulatory capital requirements and would hold urgent discussions with the Prudential Regulatory Authority. If the Capital Raising cannot proceed, it is not possible to predict how the PRA will react. There is a risk that the PRA may exercise any of its wide-ranging powers over the Company, including imposing a resolution procedure under the Banking Act. The PRA has noted that its continuing forbearance depends on the PRA's assessment that there continues to be a reasonable likelihood that the Company's plan to maintain a target 7 per cent. CET 1 ratio will be successful (including successful completion of the Capital Raising by the end of May 2014).

### **Risk Factors**

Any person considering making an investment decision based on this announcement or otherwise before the publication of the Circular is directed to the risk factors associated with the Capital Raising set out in Appendix I of this announcement and to the risks relating to the Company and its business ("Company and Business Risks") available on the Company's website at:

<http://www.co-operativebank.co.uk/investorrelations/presentationsandprospectuses>

Except to the extent expressly set out in the Company and Business Risks, neither the content of the Company's website or any other website (including the Co-operative Group's website), nor the content of any website accessible from hyperlinks on the Company's website (including the Co-operative Group's website) or any other website, is incorporated into, or forms part of, the Company and Business Risks.

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This announcement does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for any shares or any other securities nor shall it (or any part of it) or the fact of its distribution, form the basis of, or be relied on in connection with, any contract therefor. The availability of the transactions described herein and the distribution of this announcement in certain jurisdictions may be restricted by law and persons into whose possession any document or other information referred to herein comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

In particular, this announcement does not constitute an offer for sale of, or a solicitation to purchase or subscribe for, any securities in the United States. No securities of the Bank have been, or will be, registered under the US Securities Act of 1933, as amended (the "Securities Act"), and securities of the Bank may not be offered or sold in the United States absent an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

This announcement and any related materials may contain or incorporate by reference certain "forward-looking statements" regarding the belief or current expectations of the Bank about the Bank's financial condition, results of operations and business described in this announcement. Generally, but not always, words such as "aim", "target", "will", "would", "expect", "propose", "intend", "plan" or their negative variations or similar expressions identify forward-looking statements. Examples of forward-looking statements include, among others, statements regarding the Bank's future financial position, income growth, assets impairment charges and provisions, business strategy, capital, leverage and other regulatory ratios, payment or dividends, projected levels of growth in the banking and financial markets, projected costs, original and revised commitments and targets in connection with the turn-around plan, deleveraging actions, estimates of capital expenditures and plans and objectives for future operations and other statements that are not historical fact. Such forward-looking statements are not guarantees of future performance. Rather, they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance, achievements or developments of the Bank or the industry in which it operates to differ materially from any future results, performance, achievements or developments expressed or implied from the forward-looking statements. The ability of the Bank to implement its strategic plan and to achieve the results set out in the plan entails particular challenges including (but are not limited to): ability to achieve the targeted cost savings; ability to retain customers and deposits; the timing and quantum of impacts to capital from its asset reduction exercise; meeting its planned improvements in net interest margin; a possible further deterioration in the quality of the Bank's asset portfolio; unplanned costs from (for example) conduct risk matters; ability to maintain the Bank's access at an appropriate cost to liquidity and funding and the ability of the Bank to raise further capital assumed in its forecasts. Many of the risks and uncertainties also relate to factors that are beyond the Bank's ability to control or estimate precisely which include (without limitation) factors such as: UK domestic and global economic and business conditions; the Bank's ability to implement successfully its four to five year business plan to improve its financial, operational performance and capital position; market related risks, including but not limited to, changes in interest rates and exchange rates; changes to law, regulation, accounting standards or taxation, including changes to regulatory capital or liquidity requirements and the Bank's ability to meet those requirements; the ability to access sufficient funding to meet the Bank's liquidity needs including through retail deposits; instability in the global financial markets, including Eurozone instability and the impact of any sovereign credit rating downgrade or sovereign financial issues; changes to the Bank's credit rating; the effect of competition and the actions of competitors; the impact of potential disruption to the Bank's IT and communications systems; the ability to attract and retain skilled personnel; uncertainties regarding the extent of the Bank's exposure to pensions related liabilities; exposure to increased and ongoing regulatory scrutiny, legal proceedings, regulatory investigations or complaints, including with respect to conduct issues and other factors.

A number of material factors could cause actual results to differ materially from those contemplated by the forward-looking statements. The forward-looking statements contained in this announcement speak only as of the date of this announcement. Except as required by law, the Bank undertakes no obligation to revise the forward-looking statements to reflect any change in the Bank's expectations with regard thereto or any subsequent events or circumstances. Recipients of this announcement should not place any reliance on the forward-looking statements and are advised to make their own independent analysis and determination with respect to the forecast periods.

Neither the Bank nor any of its respective affiliates or representatives undertakes any obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent legally required. Recipients of this announcement should not place any reliance on the forward looking statements and are advised to make their own independent analysis and determination with respect to the forecast periods.

UBS Limited has been appointed by the Bank as financial adviser and placing agent for the purposes of the Placing and Open Offer. UBS Limited is authorised and regulated by the PRA and the FCA and is acting exclusively for the Bank in connection with the Capital Raising and will not regard any other person (whether or not a recipient of this announcement or a holder of the Bank's securities) as a client in relation to the capital raising and will not be responsible to anyone other than the Bank for providing the protections afforded to its clients or for providing advice in relation to the Capital Raising or any other matter referred to in this announcement.

This announcement has been issued by and is the sole responsibility of the Bank. UBS Limited does not accept any responsibility whatsoever for, or makes any representation or warranty, express or implied, as to the contents of this announcement or for any other statement made or purported to be made by it, or on its behalf, in connection with the Bank or the Capital Raising and nothing in this announcement may be relied upon as a promise or representation in this respect, whether or not in the past or future. Subject to applicable law, UBS Limited accordingly disclaims all and any responsibility or liability, whether arising in tort, contract or otherwise, which it might otherwise have in respect of this announcement or any such statement.

## APPENDIX I

### RISKS RELATING TO THE CAPITAL RAISING

In addition to the following risk factors, Shareholders and other prospective investors should carefully consider the factors and risks associated with the Company's business and the financial services industry in the United Kingdom in which the Company operates (the "Company and Business Risks") which are on the Company's website at: <http://www.co-operativebank.co.uk/investorrelations/presentationsandprospectuses>, and will be set out in the Circular.

This section describes the risk factors which are considered by the Company to be material to the Capital Raising and the decision to make an investment in the Company. However, these risk factors should not be regarded as a complete and exhaustive statement or explanation of all potential risks and uncertainties which Shareholders and other prospective investors may face when making a decision with respect to any investment in respect of New Ordinary Shares and should be used as guidance only. There may be other risks and uncertainties which are currently not known to the Company or which the Company currently does not consider to be material. Should any of the risks described below, or any other risks or uncertainties occur, this could, individually or cumulatively, have a material adverse effect on the Company's business, operating results, financial condition and/or prospects, including its ability to meet regulatory threshold conditions which, in turn, would be likely to cause the price of the New Ordinary Shares to decline and, as a result, a Shareholder or other prospective investor could lose some or all of its investment. Shareholders should consider carefully whether or not participating in any part of the Placing and Open Offer is suitable for them in the light of the information contained in this Circular and their personal circumstances.

#### ***Risks of the Capital Raising not being successfully implemented or of the funds raised by the Capital Raising not adequately increasing the Common Equity Tier 1 ratio***

The principal risks to the successful implementation of the Capital Raising are the risks of:

- (a) failure of (i) Qualifying Shareholders to participate in the Open Offer or to perform their obligations thereunder, or (ii) the Placees to perform their obligations under the Placing Letters, so that the full £400 million is not raised. The Placing and Open Offer is not being underwritten;
- (b) failure of any Shareholder that has entered into an irrevocable undertaking to take up their Open Offer Entitlements under the Open Offer to fulfil its obligations thereunder, or such irrevocable undertaking terminating in accordance with its terms; and
- (c) the Resolutions not being passed.

In the event of the Capital Raising being unsuccessful, the Company would take prompt action to try to address the Company's proximity to its minimum regulatory requirements for CET 1, including holding urgent discussions with the PRA. Failure to raise funds through the Capital Raising could have a material adverse effect on the Company's regulatory capital position. Similarly, even where the full £400 million is raised by way of this Capital Raising, if the funds raised by the Capital Raising are not sufficient to raise the Company's CET 1 ratio sufficiently (for example because additional unanticipated costs are incurred), this could also have a material adverse effect on the Company's regulatory position. These situations would impact upon the actions management are able to take to implement the business plan and risk the PRA exercising its wide-ranging powers over the Company. These could include the PRA's power to impose a resolution procedure. The PRA has noted that one of the factors that it is taking into account in its assessment as to whether the conditions for it being able to exercise its stabilisation powers, under the Banking Act are met, is the likelihood of the Company being able to meet the 7 per cent. CET 1 ratio including the ability of the Company to successfully execute an equity capital raise by the end of May 2014. In the event that Authorities exercise their powers under the Banking Act or there is market speculation regarding the occurrence of such an event, it is highly probable that the Company would be materially adversely affected. The Company considers that, while the Liability Management Exercise removed an element of the uncertainty around the going concern status of the Company, the Company now faces significant challenges in executing its business plan, not least the requirement for

additional CET 1 capital, which is being sought through the Capital Raising. The Directors believe that if the Company were to be resolved and go into an insolvency procedure as a result of resolution, Shareholders would receive no recovery in respect of their shares (see the risk factor entitled *“Risk that the Company may become subject to a resolution procedure under the Banking Act”* within the Company and Business Risks for further information).

***Risk that the Company may become subject to a resolution procedure under the Banking Act***

In light of the crisis in the financial markets, the Banking Act (the **“Banking Act”**) received Royal Assent in February 2009 and certain provisions, including those relating to the special resolution regime (the **“SRR”**), came into force at that time.

The Banking Act empowers the Authorities, where a bank is failing (or likely to fail) the threshold conditions for its authorisation (which includes, amongst other things, the conducting of its business in a prudent manner, which is assessed by reference to its financial and non-financial resources), to impose the SRR on relevant entities. The SRR consists of three stabilisation options (which are designed to address a distressed bank which is failing or is likely to fail to meet the threshold conditions and which cannot be addressed through normal regulatory action or market-based solutions), a bank insolvency procedure and a bank administration procedure, which may be commenced by the Authorities.

The stabilisation options provide for:

- the transfer of all or part of the failing bank’s business (its shares or property, i.e. assets and liabilities) to a third-party private sector purchaser. In this case, the Company may be transferred as a single entity (together with all of its property, including its subsidiaries) or it may be split into a “good bank” and a “bad bank” (the latter of which would most likely be placed into administration). In either circumstance it is likely that the pre-resolution shares in the Company will have no value and it is unlikely that Shareholders would receive compensation in accordance with the No Creditor Worse Off (NCWO) principle, which requires that no creditor should be worse off in a resolution than that creditor would be on insolvency proceedings (assuming no resolution of the Bank had occurred);
- the transfer of all or part of the failing bank’s business to a “bridge bank” established and wholly owned and controlled by the Bank of England (this is likely to be a temporary option pending a future sale). The business of the Company may be split into a “good bank” and a “bad bank” (the latter of which would most likely be placed into administration) with the assets of the “good bank” being transferred to the bridge bank for continued operation of the business. Note that, were this to be applied to the Company, it is likely that the pre-resolution shares in the Company would have no value. It is unlikely that the Shareholders would receive compensation in accordance with the NCWO principle; or
- temporary public ownership (nationalisation) of the failing bank or its UK-incorporated holding company. In the case of the Company, this would be achieved by a share transfer order which would transfer the shares from Shareholders to a nominee of HM Treasury, such as a company wholly owned and controlled by HM Treasury. It is unlikely that the Shareholders would receive compensation in accordance with the NCWO principle. The option to transfer a failing bank to temporary public sector ownership is understood to be the option of last resort.

In addition to the above stabilisation options, the Banking Act has been amended so as to provide for the introduction of a bail-in option (exercisable by the Bank of England), which is intended to impose losses in a failing bank on its creditors. This is achieved by transferring some or all of the securities of a failing bank to a bank administrator and for certain provisions to be made in relation to such securities, including, in particular, for the liabilities of the bank associated with such securities to be cancelled, modified or changed in form (for example, by converting or replacing the relevant instrument). The Banking Act provides that certain types of liability will be excluded from bail-in, but shares in the Company will not qualify as “excluded liabilities” for these purposes. In addition, the NCWO principle will apply in the case of an exercise of the bail-in powers but, in these circumstances, it is unlikely that the pre-resolution Shares in the Company would have any value or

that Shareholders would receive compensation in accordance with the NCWO principle. The date on which the amendments to the Banking Act, which provide for bail-in, will take full effect has not yet been announced. HM Treasury is currently (as of May 2014) consulting on secondary legislation to implement the bail-in tool.

In each case, wide ancillary powers arise under the Banking Act and are exercisable by the Authorities, including powers to modify contractual arrangements in certain circumstances and powers for HM Treasury to disapply or modify laws (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively. Use of any such powers in the case of a resolution could adversely impact the Shareholders' rights and interests in the Company.

In addition, in April 2014, the European Parliament adopted a near final text of the EU Bank Recovery and Resolution Directive (the "**BRRD**"). The text adopted reflects the endorsement of an agreed Council position and thus in effect represents near final legislation (subject to any jurist linguist minor corrections and revisions prior to publication in the Official Journal). The BRRD establishes an EU-wide framework for the recovery and resolution of credit institutions and investment firms. Among other things, it requires the introduction of a package of minimum early intervention and resolution-related tools and powers for relevant authorities. The resolution tools and powers referred to in the BRRD include certain tools and powers which overlap in part with those available under the Banking Act (as amended by the Financial Services (Banking Reform) Act 2013), for example the BRRD includes a provision for authorities to ensure mandatory writedown of capital instruments at the point of non-viability of the relevant institution which is similar to the bail-in option under the Banking Act. The BRRD bail-in provisions will apply as of 1 January 2016 to all newly issued and outstanding debt. The BRRD requires Member States to adopt national implementation measures by 31 December 2014 and to apply them from 1 January 2015, (except in relation to bail-in, in relation to which Member States have until 1 January 2016, at the latest, to apply their national implementing measures).

Given that the Authorities' exercise of powers arising under the Banking Act is discretionary, the Company is unable to predict with certainty the precise outcome for Qualifying Shareholders if the Capital Raising is not successfully implemented.

The PRA has noted that one of the factors that it is taking into account in its assessment as to whether the conditions for it being able to exercise its stabilisation powers under the Banking Act are met in relation to the Company is the likelihood of the Company being able to meet the 7 per cent. CET 1 ratio. Therefore, if the Capital Raising is not able to raise the additional capital needed by the Company, and the Company is unable to raise such capital through other means, there is a risk that the PRA could consider it has a basis for determining that the Company is failing, or is likely to fail, to satisfy these threshold conditions; that the ability of the Authorities to exercise stabilisation powers under the Banking Act had been triggered, and that the Company could be subject to a resolution procedure under the Banking Act. The Company believes that if the Company were to be dissolved and go into an insolvency procedure as a part of a resolution, Shareholders would receive no recovery in respect of their shares.

***The Directors may apply the proceeds of the Placing and Open Offer to uses that Shareholders may not agree with or in ways that do not increase the Company's profits or assist the Company's share value***

The Directors will have considerable discretion in the application of the net proceeds of the Placing and Open Offer received by the Company and potential investors must rely on the judgement of the Directors regarding the application of such proceeds. The net proceeds may be used for corporate purposes that do not increase the Company's profitability or increase the Company's share price. Furthermore, they may be placed in investments that fail to produce income or that lose value.

***Shareholders may experience dilution of existing ownership of Ordinary Shares***

Shareholders may experience dilution in their ownership and voting interests pursuant to the Capital Raising whether or not Qualifying Shareholders take up their Open Offer Entitlements. If Qualifying Shareholders do take up the offer of New Ordinary Shares under the Open Offer, and assuming the maximum number of Bonus Shares is issued (based on the Group Placing price being £3.20 per Existing Ordinary Share), their proportionate

ownership and voting interests in the Company's issued Ordinary Share capital would be diluted by 0.8 per cent. and the percentage that their Ordinary Shares represent of the Enlarged Share Capital would be reduced accordingly. Qualifying Shareholders who take up their full entitlements in respect of the Open Offer will suffer no dilution in the event that no Bonus Shares are issued. Qualifying Shareholders who do not take up any of their entitlements in respect of the Open Offer will suffer a dilution of approximately 44.9 per cent. to their existing interests in the Company (assuming that the maximum number of Bonus Shares are allotted pursuant to the Bonus Issue). Shareholders in the Excluded Territories will not be able to participate in the Open Offer (subject to certain limited exceptions) and Bonus Issue Excluded Territories Shareholders will not be able to receive Bonus Shares.

***The ability to participate in the Open Offer will not be available to any person with a registered address in the US (subject to limited exceptions) or any of the other Excluded Territories, and as a result Shareholders may experience dilution of ownership in the Company***

The ability to participate in the Open Offer will not be available to any person with a registered address in, or who is resident or located in, the US (subject to limited exceptions) or any of the other Excluded Territories and possibly other overseas jurisdictions, unless an exemption is available. Subject to certain exemptions, shareholders with a registered address in any of the Excluded Territories or any other such overseas jurisdictions may, therefore, be unable to take up their entitlement to subscribe for their Open Offer Entitlement pursuant to the Open Offer and will not receive the economic benefit of such entitlements. The proportionate economic and voting interests of such Shareholders would, therefore, be diluted.

***No dividends to be paid in respect of the Ordinary Shares in the near future***

The Directors intend to focus on and prioritise returning the Company to health in the future. The Company is in the early stages of being turned around and may continue to be impacted by legacy issues for some time and, as such, the Directors do not expect the Company to pay dividends in the near future. In any event, the Company has agreed with the PRA not to make any dividend payments until further notice without the prior consent of the PRA. See the risk factor entitled "*High operating costs, credit impairment, higher than expected conduct provisions and one-off costs have significantly impacted the Company's profitability. The Company expects that it will not be profitable in 2014 or 2015*" for further information.

Further, should the Company fail to meet its cumulative capital buffer requirement as a consequence of a failure of the Capital Raising, there will likely be restrictions on the dividends payable by the Company in respect of Ordinary Shares in any event.

The Company can give no assurance that it will pay any dividends in the future, nor, if a dividend is paid, what the amount of such dividend will be.

***Investors may not be able to realise returns on their investment in New Ordinary Shares***

The New Ordinary Shares are not listed on the Official List, nor are they admitted to the London Stock Exchange. They are, therefore, expected to be illiquid as there are a limited number of Shareholders and there is no public market for the New Ordinary Shares. No assurance can be given that a liquid market in the shares will ever develop. Consequently, Qualifying Shareholders who acquire New Ordinary Shares may not be able to realise their investment in the Shares.

***The ability of Overseas Shareholders to bring actions or enforce judgments against the Company or the Directors may be limited***

The ability of an Overseas Shareholder to bring an action against the Company may be limited under the relevant laws. The Company is a public limited company incorporated in England. The rights of holders of Ordinary Shares are governed by the laws of England and Wales and by the Articles of Association of the Company. These rights differ from the rights of shareholders in typical US corporations and some other non-UK corporations. In particular, the laws of England and Wales significantly limits the circumstances under which

shareholders of companies may bring derivative actions. Under such laws, generally only a company can be the proper claimant in proceedings in respect of wrongful acts committed against it. In addition, it may be difficult for an Overseas Shareholder to prevail in a claim against the Company under, or to enforce liabilities predicated upon, non-UK securities laws.

An Overseas Shareholder may not be able to enforce a judgment against some or all of the Directors. It may not be possible for an Overseas Shareholder to effect service of process upon the Directors and executive officers within the Overseas Shareholder's country of residence or to enforce against the Directors and executive officers judgments of courts of the Overseas Shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that an Overseas Shareholder will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the UK against the Directors or executive officers who are residents of the UK or countries other than those in which judgment is made. In addition, English or other courts may not impose civil liabilities on the Directors or executive officers in any original action based solely on foreign securities laws brought against the Company or the Directors in a court of competent jurisdiction in England or other countries.

***Failure to comply with the procedures of the Capital Raising may result in Shareholders being unable to attend or vote at the General Meeting, or successfully participate in the Open Offer or to receive Bonus Shares. Shareholders are responsible for complying with all of the procedures for participating in the Capital Raising, which will be set out in the relevant paragraphs the Circular***

There are certain restrictions imposed on the participants in the Capital Raising (including that no subscription of less than £100,000 is permitted under the Open Offer). In addition, Shareholders will be deemed to make a number of acknowledgements, representations, warranties and undertakings on submission of an Application Form, Bonus Issue Form or CREST acceptance. Failure to comply with such restrictions or any such acknowledgements, representations, warranties and undertakings could result in various adverse consequences for the relevant Shareholder.

***Shareholders outside the UK may be subject to exchange rate risk***

The New Ordinary Shares are, and any dividends to be paid in respect of them will be, denominated in pounds sterling. A holding of New Ordinary Shares by an investor whose principal currency is not sterling exposes that investor to foreign currency exchange rate risk. Any depreciation of sterling in relation to such foreign currency will reduce the value of the investment in the New Ordinary Shares or any dividends in foreign currency terms, and any appreciation of sterling will increase the value in foreign currency terms.

Government and monetary authorities may impose (as some have done in the past) exchange rate controls that could adversely affect an applicable exchange rate.

## APPENDIX II

### DEFINITIONS

<b>"2013 Prospectus"</b>	the prospectus dated 4 November 2013 of the Company in relation to the issue of 11 per cent. subordinated notes due 2023 as supplemented on 4 December 2013;
<b>"2014 Commitment"</b>	the contractual commitment by CBG to commit £333 million of CET 1 capital by the end of 2014 as part of the Recapitalisation Plan;
<b>"Application Form"</b>	the personalised application form on the basis of which Qualifying Non-CREST Shareholders may apply for New Ordinary Shares under the Open Offer;
<b>"Board"</b>	the board of directors from time to time of the Company (or a duly appointed committee of the Board);
<b>"Bonus Issue"</b>	the issue of Bonus Shares to Smaller Shareholders;
<b>"Bonus Issue Form"</b>	the personalised form on the basis of which Smaller Shareholders may confirm their eligibility to receive Bonus Shares under the Bonus Issue;
<b>"CBG"</b>	Co-operative Banking Group Limited;
<b>"CBG Irrevocable Undertaking Letter"</b>	a letter from CBG to the Company and UBS, pursuant to which CBG gives irrevocable undertakings: (i) to vote in favour of the Resolutions (save with respect to the Resolution regarding the Related Party Transaction) and (ii) subject to the receipt of the proceeds of the Group Placing, to apply and subscribe for at least 39,668,359 Open Offer Shares under its Open Offer Entitlements in the Open Offer;
<b>"Circular Date"</b>	the date on which the Circular is posted to Qualifying Shareholders;
<b>"Co-operative Group"</b>	Co-operative Group Limited or the Co-operative Group Limited and its subsidiary undertakings, as the context requires;
<b>"Committed Shareholders"</b>	Silver Point, Perry Capital, Invesco Asset Management Limited and York Capital Management Europe (UK) Advisors, LLP, each of whom have delivered an Irrevocable Undertaking Letter to the Company and UBS on or before the date of the Circular;
<b>"Excluded Territories"</b>	Australia, Canada, Hong Kong, Japan, New Zealand, South Africa, Switzerland and the United States and any other jurisdiction where the extension or availability of the Placing and Open Offer would breach any applicable law or regulation, and "Excluded Territory" shall mean any of them;
<b>"Excluded Territories"</b>	Shareholders with a registered address, or who are resident or located, in an Excluded Territory on the Circular Date or the Record Date, as the context

<b>"Shareholders"</b>	requires;
<b>"Existing Ordinary Shares"</b>	the 250,000,000 Ordinary Shares in issue as at the Record Date;
<b>"FCA"</b>	the Financial Conduct Authority;
<b>"FSMA"</b>	the Financial Services and Markets Act 2000, as amended;
<b>"General Meeting"</b>	the general meeting of the Company scheduled to take place on 27 May 2014 in connection with the Capital Raising;
<b>"Group Placers"</b>	means the persons who conditionally agree to acquire Existing Ordinary Shares "cum" applicable Open Offer Entitlements from CBG pursuant to the Group Placing and who irrevocably and unconditionally agree to apply and subscribe for the maximum number of Open Offer Shares pursuant to their respective Open Offer Entitlements acquired pursuant to the Group Placing;
<b>"Group Placing"</b>	the placing of Existing Ordinary Shares held by CBG on a cum entitlement basis with institutional investors (including Shareholders);
<b>"Group Placing Shares"</b>	the Existing Ordinary Shares that UBS Investment Bank, as agent for CBG, has placed pursuant to the Group Placing;
<b>"Irrevocable Undertaking Letters"</b>	a letter to be sent by the Committed Shareholders to the Company and UBS on or before the date of this Circular, under which the relevant Committed Shareholder gives irrevocable undertakings (i) to vote in favour of the Resolutions and (ii) to apply and subscribe for all of its entitlements to Open Offer Shares under the Open Offer;
<b>"Issue Price"</b>	means £2.00 per New Ordinary Share;
<b>"Liability Management Exercise"</b>	the liability management exercise of the Company and the Co-operative Group announced on 13 November 2013 to raise £1.2 billion of capital in 2013, consisting of the transfer of certain preference shares and the extinguishment of multiple subordinated liabilities, followed by the recognition of a single tranche of subordinated debt, undertaken as part of the Recapitalisation Plan;
<b>"Listing Rules"</b>	the listing rules of the FCA relating to admission to the Official List made in accordance with section 73A(2) of FSMA;
<b>"Moelis &amp; Company"</b>	Moelis & Company UK LLP;
<b>"New Ordinary Shares"</b>	means the 200 million new Ordinary Shares to be allotted and issued by the Company pursuant to the Placing and Open Offer;
<b>"Official List"</b>	the Official List maintained by the Financial Conduct Authority;
<b>"Open Offer"</b>	the conditional invitation to Qualifying Shareholders to apply to subscribe for 200 million New Ordinary Shares on the terms and conditions set out in the Circular and, in the case of Qualifying Non-CREST Shareholders only, also in the Application Form;
<b>"Open Offer Entitlement"</b>	the <i>pro rata</i> entitlement of Qualifying Shareholders to subscribe for 0.8 New

	Ordinary Shares for each Existing Ordinary Share held on the Record Date;
<b>"Open Offer Shares"</b>	the New Ordinary Shares offered to Qualifying Shareholders pursuant to the Open Offer;
<b>"Ordinary Share"</b>	an ordinary share of £0.05 each in the capital of the Company;
<b>"Perry Capital"</b>	Perry Capital UK LLP;
<b>"Placees"</b>	the persons procured by UBS Investment Bank who conditionally agree to subscribe for Placing Shares not taken up under the Open Offer by Qualifying Shareholders (other than the Co-operative Group, the Committed Shareholders and Group Placees), on the terms of the Placing Letter;
<b>"Placing"</b>	the conditional placing by UBS Investment Bank, as agent for and on behalf of the Company, of Placing Shares at the Issue Price on the terms and subject to the conditions in the Placing and Open Offer Agreement and the Placing Letter;
<b>"Placing Letter"</b>	a letter sent by UBS to, and executed by, Placees, evidencing such Placees' commitments to subscribe for Placing Shares on such terms and conditions as set out therein and at the Issue Price and on the basis that the obligations of the Placees to subscribe for such Placing Shares shall be conditional on the relevant Placing Shares not being subscribed for by Qualifying Shareholders (other than the Co-operative Group, the Committed Shareholders and Group Placees) pursuant to the Open Offer;
<b>"Placing and Open Offer"</b>	means the Placing and the Open Offer collectively;
<b>"Placing Shares"</b>	77,758,778 New Ordinary Shares (being all of the New Ordinary Shares other than those to be allotted and issued to CBG, the Committed Shareholders and Group Placees upon taking up their Open Offer Entitlements pursuant to the CBG Irrevocable Undertaking Letter, the Irrevocable Undertaking Letters or irrevocable undertaking entered into by the Group Placees with UBS);
<b>"PRA"</b>	Prudential Regulation Authority;
<b>"Qualifying Non-CREST Shareholders"</b>	Qualifying Shareholders holding Ordinary Shares in certificated form;
<b>"Qualifying Shareholders"</b>	holders of Existing Ordinary Shares on the shareholder register of the Company on the Record Date (except for, subject to limited exceptions, Excluded Territories Shareholders);
<b>"Recapitalisation Plan"</b>	the recapitalisation plan originally announced on 17 June 2013 by the Company and the Co-operative Group to strengthen the Company's capital base;
<b>"Record Date"</b>	6.00 p.m. on 8 May 2014
<b>"Relationship Agreement"</b>	the agreement between the Company, the Co-operative Group and CBG, dated 4 November 2013, which regulates the basis for the ongoing relationship between the parties thereto;
<b>"Resolutions"</b>	the resolutions to be proposed at the General Meeting to be set out in the

	Circular;
<b>"Shareholder"</b>	a holder of an Ordinary Share;
<b>"Silver Point"</b>	SP Coop Investment, Ltd. (Cayman);
<b>"SME"</b>	small and medium-sized enterprises;
<b>"UBS Investment Bank" or "UBS"</b>	UBS Limited;
<b>"Unconditional Time"</b>	means 7.00 a.m. on the first Business Day following the date of the General Meeting;
<b>"Variation and Director Appointment Deed"</b>	a deed of variation and director appointment entered into between CBG, the Company and the Co-operative Group Limited on 9 May 2014;