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The Co-operative Bank p.l.c.

26 June 2017

Update on Capital Raise and Sale Process

The Co-operative Bank p.l.c. (the "Bank") confirmed on 19 June 2017 that it is in advanced discussions with a group of existing investors (the "Investors"), which have since continued with a view to a prospective equity capital raise and recapitalisation (the "Proposal").

The Proposal, if implemented, would enable the Bank to meet the longer term capital requirements applicable to all UK banks (thereby meeting the objective the Bank set at the start of the process) and to continue as a stand-alone entity. The Proposal would also safeguard the Bank's values and ethics.

The Bank notes recent media speculation referring to ongoing discussions. The Bank confirms that a majority of the key commercial aspects of the Proposal have been substantially agreed between the Bank and the Investors. Discussions with respect to the separation of The Co-operative Pension Scheme ("Pace") into sections for which Co-operative Group Limited (the "Group") and Bank have respective responsibility are advanced. Discussions are continuing between the parties, including on other key matters, with a view to agreeing the final aspects of the Proposal and a further announcement will be made in due course. It is anticipated that any agreed proposal would be subject to a number of conditions relating to its implementation.

Given the advanced nature of the Proposal, the Board has decided to discontinue the Formal Sale Process under the Takeover Code. The Bank is, therefore, no longer in an "offer period" for the purposes of the Takeover Code and, accordingly, the requirement to make disclosures under Rule 8 of the Takeover Code has now ceased.

The Bank continues to discuss the capital raise options with the Prudential Regulation Authority ("PRA").

Outlook

The Bank's revised PRA Buffer was confirmed by the PRA on 25 June 2017 and, alongside work undertaken as part of the sale and capital raise process, has resulted in an updated view of future capital requirements. The Bank now targets an improved end state Pillar 2a requirement (substantially progressed by the end of 2019) which is lower than the c.9.5% of RWAs previously targeted (which is the Bank's internal assessment and, therefore, subject to the outcome of future supervisory review and evaluation processes). The Bank is targeting sustainable profitability in the medium term (assuming utilisation of a significant amount of deferred tax assets) and is now targeting a mid-single digit RoE in 2021.

These targets are based on updated assumptions underlying the Bank's 2017–2021 strategic plan including:

- The amount of the capital raise;
- Future Pillar 2a and Pillar 2b capital requirements, including the impact of Pace sectionalisation;
- RWAs of c.£5 – 5.5bn in the final years of the plan;
- Market expectations for future interest rates (c.3% reduction in ICG resources over the life of the plan);
- Balance sheet funding assumptions (c.4% reduction in ICG resources over the life of the plan);

- A potential regulatory call (subject to regulatory consent) of securities issued by Calico Finance Number One Limited and subsequent deleveraging of selected assets (together c.6% reduction in ICG resources, more than offset by a projected reduction in total capital (including PRA Buffer) and MREL requirements at the end of the plan);
- Potential for dividend in 2021;
- Updated phasing of project costs; and
- Increase in the costs of the capital raise process.

This announcement contains inside information. The person responsible for arranging the release of this announcement on behalf of the Bank is John Worth, Chief Financial Officer.

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Takeover Code Implications

A copy of this announcement (subject to any restrictions relating to persons resident in restricted jurisdictions) will be available at www.co-operativebank.co.uk/investorrelations/ promptly and in any event by no later than 12 Noon on 27 June 2017. The content of the website referred to in this announcement is not incorporated into and does not form part of this announcement.

Important notice

There is no guarantee that the outstanding issues with respect to the Proposal (or any alternative proposal) will ultimately be agreed or that any conditions relating to any agreed proposal will be subsequently satisfied, such that a recapitalisation is implemented either at all or in a form that will be supported by the Bank, its existing security holders and/or its regulators.

About The Co-operative Bank

The Co-operative Bank p.l.c. provides a full range of banking products and services to almost 4 million retail and small and medium sized enterprises customers. The Bank is committed to values and ethics in line with the principles of the co-operative movement. The Co-operative Bank p.l.c. is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The Co-operative Bank p.l.c. customers are protected by the Financial Services Compensation Scheme in the UK.

No offer of securities

This announcement is not, nor should be construed as, an offer of, or solicitation of an offer to purchase or subscribe for, any securities to any person in any 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.