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The Co-operative Bank p.l.c.

28 June 2017

Agreement on the Terms of a Capital Raising Plan to Secure the Long Term Future of the UK's Leading Ethical Bank

- Approximately £700m of additional CET1 capital to be raised in total, positioning the Bank to meet regulatory capital requirements in full in the medium term
- Key Bank stakeholders support the recapitalisation and the Prudential Regulation Authority (the "PRA") accepts the plan
- Proposal from a group of existing Tier 2 noteholders to provide backstop commitment for a new equity raise of £250m
- Recapitalisation of Tier 2 bonds to generate £443m of CET1 capital, including separate cash offer to certain retail holders. Committed support from 47% of Tier 2 noteholders and 52% of shareholders
- Bank and Co-operative Group have agreed principles with Pace Trustees Limited to separate their respective sections of The Co-operative Pension Scheme (Pace) including the principles for determining the allocation of assets and liabilities

The Co-operative Bank p.l.c. (the "Bank") confirmed on 26 June 2017 that it was in advanced discussions with a group of existing investors on a prospective equity capital raise and recapitalisation and that discussions were continuing with respect to the separation of The Co-operative Pension Scheme (Pace) ("Pace").

The Bank confirms that those discussions have now concluded and that it is pleased to support an equity capital raise and recapitalisation proposal (the "Proposal") from an ad hoc committee of existing Tier 2 noteholders (the "AHC"). The Bank also confirms that it and Co-operative Group Limited (the "Group") have agreed principles with Pace Trustees Limited to separate their respective sections of Pace.

The Board believes that the Proposal will enable the Bank to thrive as a stand-alone entity, with values and ethics and strong customer service continuing at the heart of its business. The Board, therefore, has given its approval to the Proposal and the Bank has entered into an agreement (the "Lock-Up Agreement") whereby the AHC and the Bank have committed, subject to certain conditions, to take certain steps to implement the Proposal.

The Board further believes the Proposal will position the Bank to be able to access the public debt markets and thereby meet enhanced regulatory capital and MREL requirements.

The Proposal

New Equity

Under the Proposal, the qualifying institutional holders of the Bank's £206m 11.0% Fixed Rate Notes due December 2023 (the "2023 Notes") and the £250m 8.5% Fixed Rate Notes due July 2025 (the "2025 Notes", and together with the 2023 Notes, the "Notes") and the Bank's existing qualifying shareholders will be invited to participate in a £250m equity raise in exchange for an ownership stake of 67.6% of the pro forma ordinary shares (the "A Shares") outstanding in a new holding company of the Bank ("Holdco"). Backstop fees and equity subscribed for as part of the initial capitalisation of Holdco on incorporation represent 10% of the pro forma A Shares, of which 5% will be available to all Tier 2 noteholders who provide backstop commitments. Participation in the equity raise is expected to be subject to certain qualifying conditions, including securities laws certifications.

Recapitalisation

In parallel, the Proposal provides that a recapitalisation (the "Recapitalisation") will involve the cancellation of the Notes and is expected to result in the following:

- Retail noteholders of the 2023 Notes ("Retail Noteholders") (individual persons with a holding of an aggregate principal amount of £100,000 or less and to be further defined at the time of launch) as of 27 June 2017 are expected to receive cash, at a level equivalent to up to 45% of the nominal value of their 2023 Notes and subject to an overall cap of £13.5m on the aggregate cash amount to be paid to Retail Noteholders and potential downward adjustment to the cash amount to be paid to Retail Noteholders if such a cap is reached.
- Other holders of the Notes ("Noteholders") who are not Retail Noteholders will receive A Shares equivalent to 17.4% of the pro forma A Shares outstanding in Holdco in aggregate and to be allocated among such Noteholders pro rata to their holdings in the Notes.
- Based on a total conversion of approximately £426m of Notes and an assumed principal amount held by Retail Noteholders of approximately £30m, the Recapitalisation will be used to generate at least £443m of Common Equity Tier 1 ("CET1") capital.
- Existing shareholders of the Bank will also exchange their shares in the Bank for A Shares in Holdco equivalent in aggregate to 5% of the pro forma A Shares outstanding in Holdco.

New Holdco

As part of the implementation of the Proposal, shareholders who hold 10% or more of the A Shares in Holdco and who satisfy certain other eligibility conditions (including having been approved by the PRA as a "controller" of the Bank through their proposed holding of B Shares) will be entitled to subscribe for B Shares in Holdco, for nominal consideration, in proportion to their holding of A Shares. The B Shares will carry voting rights and will also benefit from certain governance, notification and approval rights with respect to the new Holdco group but will have no rights to distributions, other than on exit in an amount of £25m in aggregate, subject to achieving a minimum valuation threshold. The A Shares will have rights to participate in distributions. The A Shares will not carry voting rights other than if there are no B Shares in issue and in other limited circumstances. Further details relating to Holdco and the governance structure of the Holdco group will be available in mid-July.

Upon implementation of the Proposal, the New Equity (£250m) and the Recapitalisation (at least £443m) will generate approximately £700m of CET1 capital, before expenses, for the Bank.

Dennis Holt, Chairman said:

"The Board is pleased to confirm this proposal for a recapitalisation which will mean that The Co-operative Bank can continue as a viable stand-alone entity, with values and ethics at its heart. It is a great outcome for our customers. Our investors share our commitment to building our distinctive ethical franchise and see strong future growth potential for The Co-operative Bank."

A spokesperson on behalf of the AHC said:

“We have supported the turnaround of The Co-operative Bank since 2013 and this further investment will provide the Bank with the capital needed to realise its potential as the UK’s leading ethical bank.”

The Recapitalisation has been discussed and will continue to be discussed with the PRA, which supports the efforts of the Bank to build greater financial resilience.

Implementation of the Proposal

The Recapitalisation will be implemented by way of a creditors' scheme of arrangement for the institutional holders of the 2023 Notes and all holders of the 2025 Notes and, in respect of the 2023 Notes, a concurrent and inter-conditional consent solicitation. A shareholders' scheme of arrangement will also be necessary in order for Holdco to become Bank's new holding company. To become effective, each scheme of arrangement would require, amongst other things, the approval by a majority in number of the class members of each relevant class, representing 75% in value of the class that are present and voting at the relevant court meeting, and the sanction of the court. The consent solicitation would require approval by 75% of Noteholders in aggregate principal amount of the 2023 Notes voting at a quorate meeting (the quorum being Noteholders of the 2023 Notes holding at least two-thirds of the aggregate principal amount of such Notes, and one-third at any adjourned meeting). A separate shareholders' meeting of the Bank will also be required to pass certain resolutions to facilitate the implementation of the Proposal.

Under the Lock-Up Agreement, the AHC have undertaken to vote in favour of the schemes of arrangement, the consent solicitation and the shareholder resolutions subject to certain conditions being satisfied or waived, including satisfactory completion of limited confirmatory due diligence, final investment committee approvals, and applicable regulatory consents and approvals.

As at the date of this announcement, the AHC represent 47% of the Notes and 32% of the Bank's ordinary shares.

The Group, with a current shareholding in the Bank of approximately 20%, has confirmed that it is supportive of the Proposal and intends to vote in favour. Following implementation of the Proposal, Group's pro forma shareholding will be approximately 1% of the A Shares. As a result, some formal arrangements including the right of Group to nominate a Director to the Bank Board will end immediately on completion. In addition, the promotion of Bank services to members of Group will naturally fall away and come to a formal end in 2020. Implementation of the Proposal and, in particular, the Pace sectionalisation will represent a further important milestone towards the completion of the separation of Bank from Group that began in 2013. The Co-operative Bank name, brand and commitment to co-operative values, set out in its Ethical Policy, will continue unaffected.

Further details of the Proposal are expected to be made available in mid-July and will be published on the Bank’s website. Noteholders and shareholders are encouraged to contact BofA Merrill Lynch, UBS Investment Bank or Houlihan Lokey, which are acting for the Bank, or PJT Partners, which is acting for the AHC, with any questions that they may have on the process. Retail Noteholders should seek their own financial advice, where appropriate. The Bank is seeking to complete the equity capital raising and Recapitalisation by the beginning of September 2017.

The PRA has accepted the plan. Implementation of the Proposal remains subject to certain regulatory approvals by the PRA and other parties, including permissions relating to the issuance and exchange of capital instruments and the determination of any change in control applications. Implementation of the Proposal is also subject to a number of other conditions, including: the approval of requisite majorities of Noteholders and shareholders; the sanction of the court to the schemes of arrangement; and entry into binding Heads of Terms relating to the separation of Pace. Accordingly, there can be no certainty that the Proposal will be approved or implemented. If the Proposal is not implemented, and consequently the Bank's Plan is not able to be delivered, as set out in the Bank's 2016 Annual Report and Accounts, the Bank's regulators have the discretion to exercise one or more of various powers over the Bank.

Pace

The Group, Pace Trustees Limited and the Bank have agreed principles to sectionalise Pace into two legally separate Bank and Group sections within Pace, with c.21% of the assets and liabilities of Pace allocated to the Bank section, and with the removal of the Bank's obligation to support the pension liabilities of the Group section. Agreement has been reached as to the recovery plan for the Bank section and the related deficit recovery contributions. It is proposed that this will be £100m over 10 years, with £12.5m per year from 2018 for the first five years and £7.5m per year for years six to ten thereafter. This recovery plan will be reviewed at each triennial valuation date in accordance with statutory funding obligations. The Bank will also provide initial collateral of £216m from the point of sectionalisation. An obligation on the Group to support the pension liabilities of the Bank section could arise in limited circumstances. The Bank would expect a reduction in its Pillar 2a pension risk add-on relating to Pace, once the separation completes (expected in 2018).

The separation of Pace is conditional on implementation of the Proposal and clearance from The Pensions Regulator.

Other

BofA Merrill Lynch, UBS Investment Bank and Houlihan Lokey are acting for the Bank and PJT Partners is acting for the AHC on the Proposal.

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.

Investor enquiries:

Jonathan Berger, Head of Investor Relations: +44 (0) 7595 567 502

Media enquiries:

Lesley McPherson, Director of Communications: +44 (0) 7725 903 270

Tony Langham, Lansons: +44 (0) 7979 692 287

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. eligible customers are protected by the Financial Services Compensation Scheme in the UK, in accordance with its terms.

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.

Forward-looking statements

This announcement, including information included or incorporated by reference in this announcement, contains certain forward looking statements with respect to the business, strategy and plans of the Bank (including its 2017-2021 Strategic Plan or the "Plan") and its current targets, goals and expectations relating to its future financial condition and performance, developments and/or prospects. By their nature, forward looking statements involve risk and uncertainty because they are based on current plans, estimates, targets, projections, views and assumptions and are subject to significant inherent risks, uncertainties and other factors both external and internal relating to the Bank's Plan, strategy or operations, which may result in the Bank being unable to achieve the current targets, predictions, expectations and other anticipated outcomes expressed or implied by these forward-looking statements. In addition, certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. Accordingly, undue reliance should not be placed on forward-looking statements. There are a large number of important factors which could adversely affect the Bank's operating results and financial condition, the Bank's ability to implement its Plan and cause the Bank to miss its targets or affect the accuracy of these forward-looking statements. These include risks and uncertainties summarised in the "Principal Risks and Uncertainties" section of the Bank's Annual Report and Accounts for the Financial Year ended December 2016, in particular the risks and uncertainties summarised under the sections titled "Background and the Bank's Plan" and "Anticipated Regulatory Capital Requirements". The Bank does not assume any obligation to, and does not intend to, revise or update these forward looking statements, except as required pursuant to applicable law.

Each of Merrill Lynch International and UBS Limited is authorised by the PRA and regulated in the United Kingdom by the PRA and the Financial Conduct Authority ("FCA"). Merrill Lynch International and UBS Limited are acting exclusively for the Bank and no one else in connection with the former sale process and potential capital raise and recapitalisation (the "Activities"), and will not regard any other person as their respective clients in relation to the Activities and will not be responsible to anyone other than the Bank for providing the protections afforded to their respective clients nor for providing advice in relation to the Activities, the contents of this announcement or any transaction, arrangement or other matter referred to herein. Houlihan Lokey EMEA, LLP is authorised and regulated in the United Kingdom by the FCA. Houlihan Lokey EMEA, LLP is acting for the Bank and no one else in connection with the potential capital raise and recapitalisation (the "Actions"), and will not regard any other person as its clients in relation to the Actions and will not be responsible to anyone other than the Bank for providing the protections afforded to its clients nor for providing advice in relation to the Actions, the contents of this announcement or any transaction, arrangement or other matter referred to herein. PJT Partners (UK) Limited is authorised and regulated in the United Kingdom by the FCA and is acting for the AHC and no one else in connection with the recapitalisation and will not regard any other person as its clients in relation to the recapitalisation and will not be responsible to anyone other than the AHC for providing the protections afforded to its clients nor for providing advice in relation to the recapitalisation, the contents of this announcement or any transaction, arrangement or other matter referred to herein.